ADVANCED ACCOUNTING

A Practical Manual of Advanced Accounting for Indian Students, Accountants, Book-keepers and Businessmen.

BY

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PREFACE TO THE TWELFTH EDITION

The ever-increasing demand for this work has necessitated the publication of this fresh edition.

The present increase in price is greatly regretted, but is the inevitable result of continuous enhancement in labour and material costs, and is also due to the lack of sufficient paper quota as would help printing of a much larger number of copies at one time so as to reduce the production cost per unit.

As in the compilation of a voluminous work of this nature some mistakes are likely to have been overlooked, I shall deem it a favour if my readers point me out any discrepancies they may come across.

Bombay, 31st December 1947. JAMSHED R. BATLIBOI.

PREFACE TO THE NINTH EDITION

The growing demand for this Work having necessitated the issue of a New Edition, the occasion has been fully utilised in re-arranging and considerably enlarging and improving the entire work.

Chapters on Accounts of Indian Joint-Stock Companies and Indian Insurance Companies have been re-written so as to embody the recent Enactments relating thereto. Chapters on Capital and Revenue Expenditure, Goodwill in Accounts, Factory Organization, Holding Companies, Partnership Accounts, Joint-ventures, Double Account System and Cost Accounting have all been considerably elaborated and brought on a line with the present-day requirements of all the important Examinations in Advanced Accounting.

With a view to render the work as self-explanatory as possible, every conceivable point likely to occasion doubt or difficulty to the reader has been explained by means of a fully-worked illustration. There are thus 208 illustrative problems in all accommodated herein, and the student who is out to reap the fullest benefit from a study of this text-book is earnestly urged to solve these himself independently, after carefully going over the solutions once.

The Examination Questions set at the end of each Chapter have been most carefully selected, and it is only by a systematic course of training in the solution of these problems that a serious student may expect to attain any degree of efficiency in this practical subject. It is in order to help the student in this direction that my "Typical Problems in Advanced Accounting" has been written, so that, by a comparison of his own answers with the corresponding solutions as embodied in that work, he may find out for himself how far he has progressed.

I have no doubt that a close study of this volume will assist the Indian student not only to a fuller understanding of this vast and useful subject as would enable him to satisfy the needs of Examinations, but would also help him to successfully confront any problem in Accounting in the practical business-world beyond the class-room.

I take this opportunity of expressing my grateful thanks to all who have helped me in the preparation of this voluminous work.

I have to crave indulgence on the part of my readers for any
may have inadvertently escaped notice, and shall feel obliged if

is drawn to such discrepancies as may be found, so that the same may be rectified in a subsequent Edition.

Lastly, if this Work helps any student to a proper understanding of the principles of Accounting or in the passing of any Examinations in Advanced Accounting, I shall feel my efforts to have been amply rewarded.

Bombay, 31st July 1941. JAMSHED R. BATLIBOI.

PREFACE TO THE FIRST EDITION

The object of the present work is to provide the Indian student with a manual, the study of which will assist him in attaining the high standard of knowledge required for the Examinations of the Institute of Chartered Accountants, the Society of Incorporated Accountants and Auditors, the Bombay University for the Bachelor of Commerce Degree and the London Chamber of Commerce.

There has been a demand in India for a work of this nature written on practical lines, and if my thirteen years of continuous experience in Professional Accountancy work (inclusive of four years in London) is a sufficient practical training, I trust I have established a *prima facie* excuse for the presentation of this book which contains more of practice than of theory.

The order and method of treatment follow the plan adopted by me with conspicuous success in lecturing during the past nine years to large classes of businessmen and accountancy students at an Institution claiming an enrolment of over 200 students a year. During that period, being in absolute charge of the senior classes on Higher Accounting and Auditing, I have gained an intimate knowledge of the special difficulties and requirements of such students, and I have not unreasonable confidence that the knowledge and experience thus acquired will be valuable to the readers of the present work.

Those doubts and difficulties which experience has shown to be very troublesome to the examination candidate have been specially kept in view, and an earnest endeavour has been made to deal with them in as simple, concise and practical a manner as possible. Every intricate problem, likely to occasion trouble or doubt to the advanced student, has been explained by means of a fully worked example.

Although the work is intended primarily for students, it is hoped that it will be welcomed by all businessmen who may wish to have an insight into the principles and practice of Accounting.

As in the working of so many illustrations I cannot hope to be free from errors, I shall deem it a favour to be informed of any inaccuracies that may have escaped notice. I would also invite readers, who may be uncertain as to the treatment of any matter dealt with, to communicate with me for an explanation on that point.

Esplanade Road, Fort, JAMSHED R. BATLIBOI.
Bombay, 6th March 1916.

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PREFACE

The increasing labour conflicts and the growing indiscipline and disregard of obligations on the part of our workers with the consequent daily deteriorating employer-employee relationships in our industries and services amply justify the necessity for an analytical study of the vital problem of Labour Discipline. It can hardly be denied that for the smooth and economic functioning of any industrial enterprise, sound disciplinary behaviour on the part of its entire working force is inevitably essential, as discipline and efficiency are closely inter-linked.

There is no doubt that the present widespread labour upheaval is due mainly to the tremendous hardships and economic maladjustments resulting from the after-effects of the war. Besides, the unprecedented rise in the cost of living, which has still remained uncompensated to a very large extent despite an all-round increase in wages, dearness allowance and bonuses, also accounts for the existing spirit of discontent and unrest.

There are other factors, however, which have served to aggravate the situation. The total neglect by a large majority of employers to provide for the welfare and well-being of their workers and lift them to a better standard of living, as also an utter disregard on the part of management to seek for prompt and peaceful solution to the grievances of those in their charge coupled with a persistent refusal to satisfy their legitimate needs and aspirations have left behind them age-long feelings of bitterness, distrust, resentment and animosity which are hard to eradicate. Our employers of labour, barring a few commendable exceptions, have yet to appreciate the potent facts that the management of industry is essentially a management of human beings, and that a square deal with those who toil and sweat for them is always not only sound morality, but good business.

The persistent undesirable attitude on the part of some of our labour leaders in constantly instigating their men to ask for higher wages and reduced hours without any regard to the economic condition of the industry in question, and in inciting them to stop work on most unreasonable and unjustifiable grounds is yet another regrettable factor which not only retards production by vitiating discipline and co-operative efforts, but entails untold losses and sufferings on that very class of people whose interests they are supposed to safeguard. What we really need is a band of selfless leaders with unquestionable front-rank ability and integrity of purpose who would rise superior to all personal and party ends, and who can organise, guide and control our labour unions and tackle all labour problems with a judicious and balanced approach as would contribute towards an uninterrupted progress of our country through a better stabilisation of our industries.

The following pages have, therefore, been devoted to a discussion of how far wise and capable leadership when linked with a knowledge of human psychology, and a more humanised administration by the introduction of desirable incentives and amenities, better working and environmental conditions and methods of work will prove helpful towards an orderly adjustment of the numerous problems affecting labour, in order to engender a co-operative and balanced behaviour in those through whose hands all manufacturing activities must pass.

Bombay, 6th February 1947.

JAMSHED R. BATLIBOI.

WORKS ORGANISATION, MANAGEMENT AND COST CONTROL

The growing complexity of modern industrial activities resulting from incessant developments in machinery and productive methods has made the tasks of management increasingly difficult. The problems of transit, business combines and labour organisations are daily becoming more complex. The ever-widening competition coupled with constant demands for higher wages and better labour conditions have considerably affected the margins of profit. With the advent of Trade Unions, the management is no longer free to deal with the problems of wages, working conditions and methods of labour control as in the past. In order to understand the operations and technique of industry from a wider standpoint, there is an increasing need for the application of well-directed energy and greater knowledge of economics and finance than was requisite a generation ago. It is evident, therefore, that the old rule-of-thumb methods will no longer suffice. Very soon, our trade rivals will be launching vast programmes of mass production and distribution, and *flood our markets with cheap, attractive and serviceable goods; and unless* we improve our works equipment, productive methods, management and labour efficiency, the prospects of a successful industrial expansion in our country hardly seem to be very promising.

The problems of organisation and management, no doubt, vary in every business, but there have evolved, as a result of long experience, certain fundamental principles for the effective administration and control of factories which can be applied to every concern with requisite modifications. The present work is, therefore, designed to place before the management and the student of industry a sufficiently detailed outline of a series of broad principles that current thought and practice have proved to be basic to the successful functioning of every industrial enterprise.

An internal organisation of a factory is intended to ensure individual and collective efficiency whereby its every integral section would function in the shortest time, with the least effort, at the smallest cost and in the greatest harmony. Its main object must, therefore, be to provide a close co-ordination and proper inter-locking of all the activities of the business, viz., the productive, non-productive, commercial and financial. Its true success can only be measured from the following achievements:—

(a) Improvement in productive methods as would bring down costs to their minimum;

(b) Best utilisation of the productive skill of the workers;

(c) Complete elimination of waste in every direction;

(d) Successful marketability of the products; and finally,

(e) The creation and maintenance of most cordial employer-employee relations.

In these days of intensive struggle for superiority, a study of the subjects which have only a direct bearing on the manufacturing technique of a particular industry, as at present obtains in our technological and engineering colleges, and a bare knowledge of its technical routine and processes, however sound, must fail to give us men with real executive ability who can deal intelligently with the complex problems of economic plant lay-out, production planning, effective and smooth control of labour and the successful marketing of the products. Our works managers should be trained to understand the monetary values of workshop operations as would enable them to utilise comparative statistical data of shop performances to economic advantage. It is only when these executives have understood the fundamental economic principles on which the true value of an industry can be based and measured that they will make valuable contributions to its direction, control and commercial success.

The problems of works administration and management have now been reduced to a science and can be learnt like any other subject. It is essential, therefore, that Industrial Economics, Works Organisation, Industrial Psychology, Cost Accounting, Statistics and Industrial Labour Welfare should be included as compulsory subjects in the curricula for the training of all those who aspire to key positions in industry. A University Degree in Industrial Management will serve not only to stimulate the study and application of economic principles and methods of economic analysis to the special field of industry, but will also attract a better type of talented young men, with educational attainments to take to industrial pursuits in much larger numbers than hitherto. It is only then that Industrial Management will command the dignity and respect accorded to the recognised professions.

The application of Human Psychology to industry must result in the performance of work with ease, rapidity and a higher level of efficiency. There is an enormous scope for the modernising of our productive methods and the cheapening of production by the use of Industrial Psychology. An exhaustive study of Industrial Fatigue will help us determine the causes which lend apathy and inattention to work and impair efficiency. A proper utilisation of the results from a research in this direction will not only immensely benefit the employer, but also the employee by giving him greater energy to enjoy healthy recreation and leaving him full of vigour to commence each day's work. It is sure to retard the worker's early deterioration, and in the end vitally affect the problem of national physique. An introduction of Vocational Tests for all employees in industry will give us the right men on the right jobs. Time and Motion Studies will help in determining most equitable wage-rates and tend to a more judicious selection and distribution of jobs, machines and men. They will also set up dependable standards of performance of each job, process or function, and will serve to determine the underlying reasons for variations between the planned and actual accomplishment. A study into the causes of Industrial Accidents and Industrial Diseases will bring these under reasonable control and will serve to prevent high industrial mortality.

The harmonious and effective co-ordination of the human and mechanical forces must call for great power of leadership and specialised training in Human Psychology. Insufficient attention has so far been paid to the training of our managers and supervisors to ensure effective and sympathetic handling of men. Very little has been done to create in them the proper mental outlook and attitude which their position demands. In fact, appointments to important executive and sub-executive positions are based more on favouritism than real merit. Psychological study alone will bring those in management to appreciate the fact that co-ordination and control can most peacefully be achieved when linked with sincerity, goodwill and a spirit of conciliation. Harsh, hasty and arbitrary methods must now give place to tolerance, sympathy and equal justice to all. Low wages, long hours, insanitary working conditions and insecurity of employment must go for ever. Equal chances for training and promotion should be open to all loyal and willing workers, and the legitimate grievances of the employees must be looked into and remedied without undue delay. Scientific researches and the use of most up-to-date plant, equipment and operative processes must fail in their objective, if such efforts are not backed up by men who have been trained to organise, lead and control, and who are capable of utilising successfully the human and mechanical elements to a logical issue.

True and prompt Costs are problems of most vital interest to our manufacturers today, and the main object of every organisation must always be to keep down costs. The fact that sound costing is closely inter-linked with any ideal system of factory organisation yet remains to be accepted at its full value by our manufacturers. An organisation, however sound it may be in other sections, will fail in its objects if it does not comprise a suitable system of costing. On the other hand, it is impossible to introduce a reliable and easily workable costing system in a business whose productive and non-productive functions are not scientifically organised and closely co-ordinated.

Scientific Costing and close Cost Control, although most dominant factors in revealing to the management any inefficiencies in machinery, methods or implements, or leakages and waste of material, time or expense, seem to have been either totally ignored or introduced and worked in a loose and desultory fashion. The need for introduction of efficient systems of cost-finding is pressing and immediate, and the time has come when our works executives will either have to adapt their methods of organisation and production to meet the new situation, or retire from the field. Our works managers and sub-executives must be prevailed upon to abandon their disinclination to perceive any value in a suitable system of costing, and to cease their strong reluctance to the substitution of precise knowledge for the rough-and-ready methods and guess-work which have largely characterised their performances in the past.

Those in factory management must also be conversant with the elements of Statistics and Statistical Methods in connection with production, so as to be able to fully understand the true significance of the vital facts as disclosed to them by the statistical reports or charts submitted by the different sections of the factory and draw the right conclusions therefrom. The immense importance of a sound knowledge of this subject can be gauged from the fact that activities relating to planning, budgeting, movement and efficiency of machines, movement of material, employment, movement and efficiency of labour, production control, expense control, survey of factory orders, departmental progress, publicity, sales efforts, and many more matters are usually expressed in shape of statistical reports, charts or graphs, without which it is not possible for the administrative heads to keep themselves in constant touch with the realities of the organisation as a whole.

No scheme of works organisation would be complete without the introduction of suitable Welfare Measures within and without the factory. The bare economic truth which needs to be kept in mind is that low wages and low standard of living can but only result in low productivity. It is to be regretted that our industrialists have lost sight of the dominant fact that the workpeople are our essential wealth-producers, and any measures that would tend to their moral, mental and social upliftment must bear national significance. Barring a few laudable exceptions, they have yet to realise what devastating effects bad working conditions, absolute negation of amenities and incentives, insanitary housing and mal-nutrition have on the worker's health and efficiency. There can be little doubt that a certain degree of human sympathy, if bestowed on our workers, will serve to inspire a corporate spirit amongst all engaged in factory work, and will bring contentment and better health for the workers and increased returns for the employers.

We can ill afford to ignore that our masses have awakened to a full sense of the disabilities and indignities they have suffered in the past, and it is high time our progressive employers and industrial leaders bestirred themselves to repair the obvious wrongs and make good the omissions by formulating policies for the all-round betterment and well-being of those who toil and sweat for them. It will equally be in the interest of national prosperity, if our labour leaders, while securing for the workers a higher standard of living and seeking to redress their genuine grievances, infused in them a spirit of service and discipline, and refrained from wrongfully instigating them to strike work on most flimsy and indefensible grounds. Welfare work when linked with general education and vocational training and guidance must further result in an expansion of our productive capacity, which in its turn will find employment for a larger number of workers and improve their general outlook on life.

Sales and Publicity problems must claim the same attention and study like the other functional activities of industry, for products are made to be sold. As a result of intensive world-wide competition, scientific salesmanship and advertising have been brought to a high degree of efficiency and have assumed a status and standing equal to any other branches of business. This is yet another direction which opens up vast opportunities to our young men in search for most useful and lucrative occupations.

Sections of this book, which had already appeared in the columns of the "Commerce" in a series of articles under the caption of "Some Aspects of Industrial Efficiency", have all been reproduced here. It is a matter of great satisfaction to find that my two articles on "Industrial Psychology" and the one on "The Problem of Factory Discipline" have been reprinted by the Government of India (Labour Department) for free distribution to all Central Government Undertakings.

While no list of principles can be complete and final, a serious attempt has been made to embody as much [illegible] as possible to make this a comprehensive and useful treatise. If this work helps a single industrialist to a proper understanding of the principles underlying good management, or stimulates the student of industry to an intensive study of the vast specialised literature on the subjects covered herein, I shall consider my efforts to have been amply rewarded.

It is a pleasing duty to express my indebtedness and thanks to all who have helped me in the preparation of this work.

23rd November 1945.
National Insurance Building,
Hornby Road, Bombay.

JAMSHED R. BATLIBOI.

ADVANCED ACCOUNTING

CHAPTER I.

FUNDAMENTALS OF DOUBLE-ENTRY.

Account-keeping.—Account-keeping may be defined as the science as well as the art of recording business transactions under appropriate accounts.

The Objects of Account-keeping are:

(*a*) to record the financial effect of each business transaction; and

(*b*) to record the combined effect of all such transactions of a given period so that the net result of the trading as well as the accurate financial position of the trader may be promptly ascertained.

The Essentials of a Proper Record are:

(1) The record must be of facts only and accurate in every detail.

(2) The entries must be so clear that the exact nature of each transaction may be readily perceived at any future date.

(3) The books should be so arranged that the total result of all the transactions or a series of transactions, within a given period, may be easily determined.

(4) The system of account-keeping must be such that the amount of labour involved may not be out of proportion to the results obtained.

What Every Business Transaction means.—Every financial transaction involves a transfer of money or its equivalent from one person to another. It must necessarily, therefore, require two parties for its performance, and may mean, either the receipt of a benefit in shape of cash, goods or service, or the imparting of such benefit. In order, therefore, to clearly indicate whether any particular transaction has resulted in the receipt of a benefit or the giving of a benefit, it has been found necessary to divide each account into two sections. One section (the left-hand side) of each account is thus utilized for the recording of transactions in respect of which benefit has been received by that account, and the other section (the right-hand side) for recording transactions in respect of which benefit has been imparted by that account. In this way, the total benefit received and imparted by each account may be readily perceived by looking at both the sides of that account, and the ultimate position of that account as to whether the benefits it has received are in excess of the benefits it has parted with or *vice versa*, may be easily ascertained by adding up each side and striking a balance.

Factors Common to Every Business.—For a clear understanding of the double-entry system, it is necessary first to bear in mind that the following factors are common to almost every business, viz.:—

(1) That the trader has to enter into business dealings with a number of persons or firms.

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

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

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

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

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

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

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

We now proceed to examine the rules of Debit and Credit which govern the exact nature of each class of accounts and the writing up of these under the Double-Entry System.

Personal Accounts.—Personal Accounts record a trader's dealings with persons or firms. A separate account is opened for each such person or firm and by recording therein particulars of all transactions in cash, goods, etc., as may have taken place between the dealer and the person, the former can readily ascertain at any time the amount owing to or by that person to him.

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

A *Debit Balance* on a Personal Account would indicate that the person in question has received more benefit than he has imparted to the trader and that he owes the trader the amount of the balance.

A *Credit Balance* on a Personal Account would serve to indicate the reverse position, viz., that the person has imparted more benefit than he has received from the trader, and, as a result, the latter owes him the amount of the balance.

Dr. NAME OF PERSON OR FIRM. Cr.

Date.	Particulars of benefits received by the person.	Amount. Rs.	a	p.	Date.	Particulars of benefits imparted by the person.	Amount. Rs.	a.	p.

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

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

A *Debit Balance* on an Asset or Real Account on any date would mean the value of the particular asset in hand on that date.

NOTE.—*In practice, there cannot be a credit balance on a Real Account, except when the asset in question has been finally disposed of at a profit.*

DR. NAME OF ASSET. CR.

Date.	Particulars of incomings.	Amount. Rs.	a	p.	Date.	Particulars of outgoings.	Amount. Rs.	a.	p.

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

A *Debit Balance* on a Nominal Account would mean that the expense or loss under that particular head has exceeded the income or gain from that head and would then represent a loss.

A *Credit Balance,* on the other hand, would mean that the income or gain from a particular head has exceeded the expense or loss under that head and would represent a gain.

DR. NAME OF EXPENSE OR INCOME. CR.

Date.	Particulars of amounts expended or lost.	Amount. Rs.	a.	p.	Date.	Particulars of amounts gained.	Amount. Rs.	a.	p.

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

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

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

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

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

Two-fold Effect of Every Business Transaction.—Another important point that needs to be stressed, at this stage, is that every business transaction has a two-fold effect and that it affects two accounts in opposite directions, and if a complete record were to be made of each such transaction, it would be necessary to debit one account and credit another account. Thus, the record of every individual transaction at once creates a debit and a credit. It is this recording of the two-fold effect of every transaction that has given rise to the term "Double-Entry". In order to decide which account is to be debited and which credited for the purpose of recording any particular transaction, the first important point is to see which classes of accounts are affected by that transaction.

SPECIMEN TRANSACTIONS.

The following illustrative transactions will serve to emphasise the two-fold effect of each business dealing and also as to how the double effect of every business transaction is reflected by one account being debited and another account being credited.

1. *Bought Goods worth Rs. 500 for cash from X.*

This is a cash purchase, and the accounts concerned are both Asset Accounts—the Goods Account and the Cash Account. As Goods have come in, Goods Account will have to be debited, and as Cash has gone out, Cash Account will have to be credited. There is no need to open X's Account inasmuch as X has paid cash at the time of purchase and is not therefore our creditor.

2. *Sold Goods to Y for Cash Rs. 400.*

In this case, it is a cash sale, and as Y has paid us cash, the accounts affected are the Goods Account and the Cash Account, both Asset Accounts. A complete record of the transaction would therefore be made by debiting the Cash Account (as cash has come in) and crediting the Goods Account (as goods have gone out).

3. *Bought Goods from B on credit for Rs. 600.*

This is a credit purchase, and the two accounts affected are the Goods Account (Asset Account) and B's Account (Personal Account). As goods have come in, Goods Account will have to be debited, and since B has become our creditor, his account will have to be credited. Thus, the two-fold effect of this transaction is brought into record.

4. *Sold Goods on credit to A for Rs. 700.*

This transaction affects A's Account and the Goods Account. Now, as A is indebted to us as a result of this sale, his account must be debited, and as goods have gone out, Goods Account will have to be credited. A complete record of this transaction is thus made by debiting A's Account and crediting Goods Account.

5. *Bought Office Furniture from B on credit for Rs. 1,000.*

This is not a purchase of goods, and the account affected, therefore, is not Purchase Account, but Furniture Account. As this is a credit purchase, B becomes our creditor and his account will have to be credited, and as furniture has come in, Office Furniture Account will have to be debited.

6. *Bought Office Furniture from B for Cash Rs. 1,000.*

This is a cash purchase of Office Furniture. Evidently, therefore, the accounts affected are Office Furniture Account and Cash Account. To record this transaction, Office Furniture Account will be debited and Cash Account credited. The account of B need not be credited at all in this case, for as he has been paid in cash at the time of purchase, he does not become our creditor.

7. *Sold old Office Furniture to C for Cash Rs.* 100.

The two accounts concerned here are the Office Furniture Account and the Cash Account—both Asset Accounts. As cash has come in, Cash Account will be debited, and as Office Furniture has gone out, Office Furniture Account will have to be credited. C's Account need not be debited inasmuch as he has paid for this purchase in cash.

8. *Received from A Rs.* 400 *on account.*

The two accounts affected here are the Cash Account and A's Account. As cash has come in, Cash Account will be debited, and as A has imparted the benefit by paying the amount, his account will be credited.

9. *Paid X Rs.* 300 *on account.*

The two accounts concerned here are X's Account and Cash Account. As we have imparted benefit to X by payment, X's Account will be debited, and as cash has been parted with, Cash Account will be credited.

10. *Paid Rs.* 500 *into Bank from Office Cash.*

The two accounts affected in this case are the Bank Account and the Cash Account. As the Bank has received the benefit, Bank Account will be debited, and as cash has gone out, Cash Account will be credited.

11. *Paid Office Rent to Landlord, Rs.* 150.

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

NOTE.—It is important to bear in mind in this case that although the landlord has received benefit from us in the shape of cash paid to him, this benefit does not devolve upon him any liability to return us a corresponding sum in cash or kind, and therefore, his personal account should not be debited. The amount paid was for office rent. Therefore, Office Rent Account should be debited and not Landlord's. The point to be understood is that when a payment is made on account of any service rendered, the debit should be given to that particular service account and not the personal account of the payee. Thus, if salaries are paid to the staff, Office Salaries Account would be debited and not the personal accounts of the staff members. Similarly, if an amount is paid for advertising or for commission or by way of printing charges, the account to be debited would be Advertisement Account, or Commission Account or Printing and Stationery Account and not the account of the payee.

It is only when an amount is paid by us and the recipient has to return a similar benefit in cash or kind on a future occasion that he becomes indebted to us and his Personal Account will have to be debited. In the same manner, if we receive benefit from any person in shape of cash or kind and if that benefit has to be returned by us on a subsequent occasion, the Personal Account of the party imparting the benefit will have to be credited in order to indicate the fact that such party is our creditor. On our returning a similar benefit in future, the Personal Account of the party concerned will be debited and closed to signify the fact that we have settled our account with him.

12. *Paid Cash for Office Stationery, Rs.* 15.

The two accounts concerned in this case are the Cash Account and Office Stationery Account. As stationery has come in, Office Stationery Account will be debited, and as cash has gone out, Cash Account will be credited.

13. *Purchased Office Stationery on credit from Vasi & Co., Rs.* 50.

This again is a purchase of office stationery and not of goods. Therefore, the account to be debited will be the Office Stationery Account. As this has been a credit purchase, the corresponding credit will have to be given to the Personal Account of Vasi & Co.

14. *Received Interest on Investments, Rs.* 200.

The accounts affected here are Cash and Interest. As cash has come in, Cash Account will be debited, and as interest represents a source of income, Interest Account will be credited.

15. *Paid Salary to Office Staff, Rs.* 150.

As a result of this transaction, the accounts affected are Salaries Account and Cash Account. As salaries represent an expense, Salaries Account will be debited, and as cash has gone out, Cash Account will be credited. It would of course be wrong to debit the personal accounts of the staff members who receive such salary, as no indebtedness has arisen on their part to refund this benefit on a future occasion. The payment made is for service rendered and, therefore, the account to be debited should be the account representing the nature of the service, viz., Salaries Account.

Advantages of Double-Entry.—The advantages of Double-Entry may be summed up as under:

1. It brings into record both the aspects of every transaction,—the personal as well as the impersonal.

2. It provides most reliable information, from day to day, as to the amounts owing to and by the trader.

3. It facilitates reference to the details of any account, if information is needed regarding any set or series of transactions.

4. It enables the arithmetical accuracy of the books to be tested by means of a Trial Balance.

5. It affords an easy comparison of the purchases, sales and the opening and closing stocks of any one period with similar items of the previous period, and thus helps the trader to find out whether his business has been progressing or retrograding.

6. By the preparation of a Trading Account, the trader can find out how far the anticipated gross profit has been realized.

7. By the raising of Nominal Accounts for the several heads of expenditure and the various sources of income, a Profit and Loss Account can be prepared at the end of each trading period, so that the trader may see for himself whether his business during any given period has resulted in a net gain or loss and how such gain or loss has arisen.

8. A comparison of the amounts expended under various heads with similar items of the preceding period helps to trace the causes of fluctuations in net trading results, as also serves to indicate in what direction there has been extravagance, if any.

9. It helps towards the ready ascertainment of the trader's financial position by the preparation of a Balance Sheet wherein are grouped in a classified form all the assets, liabilities and the capital of the proprietor, at periodical intervals.

10. It prevents fraud by rendering any alteration in accounts more difficult, and facilitates discovery of irregularities, if any exist.

BOOKS OF ACCOUNTS OR FINANCIAL BOOKS.

Ordinarily, books of accounts may be divided into two classes :—

(a) Principal Books, namely, Ledgers.

(b) Subsidiary Books or Books of original Entry, such as Cash Book, Purchases Book, Sales Book, Journal, Bill Books, etc.

Subsidiary Records.—Business transactions are not entered straightway in their respective accounts, but are at first passed through some Subsidiary Records and are then transferred to their appropriate accounts in a book called the Ledger. Formerly, Journal was the only Book of Original Entry in which all the transactions were first entered irrespective of their nature and in the order in which they occurred. But this naturally entailed a separate debit being given to the receiving account and a credit to the giving account, in order to bring into record the two-fold aspect of every individual business transaction. Experience soon showed, however, that if transactions of a similar nature were entered together in a separate Journal, a considerable saving of clerical labour would be brought about by obviating this necessity of individual debit and credit being given to two separate accounts for the complete record of every business dealing. Thus, the various Subsidiary Records soon found their place in accounting. These Subsidiary Records are also known as Books of Original Entry, as transactions are entered there in the first instance in order that they may be subsequently transferred to their respective accounts in the Ledger.

They are also called Subsidiary Journals, because whereas formerly all the transactions were passed through the one book called the Journal, modern book-keeping has sub-divided this one Journal into separate Journals, each for recording transactions of one particular type or nature, in order to obviate unnecessary clerical labour.

The usual Subsidiary Records as are at present employed in a commercial firm, are :

(1) *Cash Book* to record cash receipts and payments, and discounts received and allowed.

(2) *Purchases Book* or *Invoice Book* or *Bought Book* for recording credit purchases.

(3) *Sales Book* or *Day Book* or *Sold Book* for recording credit sales.

(4) *Purchases Returns Book* or *Returns Outwards Book* for recording goods returned by us.

(5) *Sales Returns Book* or *Returns Inwards Book* to record goods returned to us.

(6) *Bills Receivable Book* to keep a record of bills receivable.

(7) *Bills Payable Book* to keep a record of bills payable.

(8) *Journal.*

The original Journal still forms one of the subsidiary records, but its use is restricted to the recording of transactions of an extraordinary nature which do not fall within any of the above sub-divisions.

Advantages of Subsidiary Records.—1. By recording transactions of any one class, such as Credit Purchases, Credit Sales, Cash Transactions, Bill Transactions, or Goods Returns through separate Subsidiary Journals, a considerable *saving of clerical labour in postings* is effected. Thus, if every credit purchase were entered in the Journal (as it used to be formerly), the posting of each such entry would be to the debit of Purchases Account and to the credit of the Personal Account of the supplier concerned. Now, by adopting the Purchases Journal for the record of all credit purchases, almost half the labour in postings is saved, and this is due to the fact that whereas each Personal Account of the supplier would still have to be individually credited, the corresponding debit to the Purchases Account need only be given in shape of periodical total of this book. Similarly, by entering all Credit Sales in a separate subsidiary Journal called the Sales Journal or the Sales Book, the individual credit to the Sales Account would be avoided, inasmuch as whereas the Personal Account of each customer concerned would be individually debited with its respective sale amount from the Sales Book, the corresponding credit would be given to the Sales Account, not with each individual amount, but with the periodical total of the Sales Book.

2. By the use of separate Journals for the record of transactions of each particular type, the clerical work involved can be divided amongst the several members of the office staff and a speedy record of day-to-day transactions is thus rendered practicable in a large business.

3. By grouping together transactions of a similar nature in a separate book, the future reference to any particular item is considerably facilitated.

CASH BOOK.

The object of this book is to keep a record of all receipts and payments of money. Cash Books with different rulings are used in different concerns having regard to the nature of the business and the manner in which the cash is dealt with.

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

As only cash transactions are recorded in this book in the order in which they occur and as the record takes the shape of a Ledger Account—the receipts being entered on the debit side and the payments on the credit side—it is not necessary to have a Cash Account in the Ledger. Thus, the Cash Book in reality fulfils the functions of a Book of Original Entry as also of a Ledger Account.

Cash Discount.—Cash Discount may be defined as an allowance made by the receiver of Cash to the payer for prompt payment. In view of the fact that Cash Discount is always allowed or received when the payment is made, it is necessary to record this fact at the same place where the cash transaction is recorded. In order to enable this to be done, the Cash Book is usually provided with two additional columns, one on each side, the debit column being used for recording Discount allowed on receipt of Cash, and the credit column for recording Discount received at the time of payment.

Different Forms of Cash Book.—With a view to prevention of fraud, it is always desirable to bank all the receipts forthwith and make all payments by cheques. In a majority of concerns, however, a large floating balance of cash is left in office, and payments are made either by cheques or cash as found convenient.

There are three distinct types of Cash Book, and each business would naturally have its Cash Book ruled in a manner as would suit its own requirements. Thus, the Cash Book may be ruled so as to possess—

(1) Cash and Discount columns only on either side; or

(2) Cash, Bank and Discount columns on either side; or

(3) Bank and Discount columns only on either side.

The various methods of recording cash transactions can easily be seen by carefully following the record of the entries given below. A careful study of these distinct forms of Cash Books will, no doubt, clear up any doubt or difficulty the student may have in the writing up of this most important Book of Original Entry.

ILLUSTRATION 1.

Enter the following transactions in a Cash Book without Bank Columns:—

1941

March 1 Balance of Cash in hand Rs. 2,000 and in Bank of India Ltd. Rs. 10,000.
" 2 Received cash from D. Chetty Rs. 2,000 and allowed him discount Rs. 60.
" 3 Paid into Bank of India Rs. 3,500.
" 4 Paid to S. Govind & Co., by cheque Rs. 520 in full settlement of their account for Rs. 550.
" 5 Received for Cash Sales cash Rs. 75 and cheque Rs. 100.
" 6 Paid into Bank of India Rs. 620.
" 8 Paid for cash purchases by cheque Rs. 845.
" 9 Paid Bill Payable No. 8 by cheque Rs. 1,200.
" 11 Paid by cheque to V. Valji Rs. 525 in full settlement of Rs. 540.
" 12 Drew for office use Rs. 500.
" 13 Paid cash for advertisements Rs. 45.
" 14 Discounted Bill Receivable No. 7 of Rs. 2,500 with Bank of India, the Bank crediting Current Account with Rs. 2,400.
" 16 Paid cash for electric charges Rs. 42.
" 17 Drew a cheque of Rs. 200 for personal use.
" 19 Paid February Salaries to Staff by cheque Rs. 750.
" 21 Paid by cheque for Office Safe Rs. 275.
" 23 Received from C. Parekh & Co., Rs. 875 in full settlement of their account for Rs. 900.
" 25 Paid into Bank of India Rs. 1,000.
" 26 Paid cash for freight Rs. 55.
" 29 Paid rent for February by cheque Rs. 175.
" 31 Received a cheque of Rs. 460 from Samuel & Co., in full settlement of their account for Rs. 480.

CASH BOOK WITH CASH AND DISCOUNT COLUMNS.

Dr. | Cr.

Date.	Particulars.	Receipt No.	Ledger Folio.	Dis-count.	Cash.	Date.	Particulars.	Voucher No.	Ledger Folio.	Dis-count	Cash.
				Rs.	Rs.					Rs.	Rs.
1911 Mar. 1	To Balance brought forward ...				2,000	1941 Mar. 3	By Bank of India, Ltd. Paid into Bank				3,500
,, 2	,, D Chetty Received on Account ...			60	2,000	,, 4	,, S. Govind & Co. Cheque in full settlement ...			30	520
,, 4	,, Bank of India, Ltd. ... ... Cheque No.—to S. Govind & Co.				520	,, 6	,, Bank of India, Ltd. Paid into Bank				620
,, 5	,, Cash Sale Account For cash sales				175	,, 8	,, Cash Purchase Account ... For cash purchases				845
,, 8	,, Bank of India, Ltd. Cheque No.—for purchases ...				845	,, 9	,, Bill Payable Account Met B/P. No.—				1,200
,, 9	,, Bank of India, Ltd. Cheque No.—for B/P. No. 8 ...				1,200	,, 11	,, V. Valji Cheque in full settlement ...			15	525
,, 11	,, Bank of India, Ltd. Cheque No.—or V. Valji ...				525	,, 13	,, Advertisement Account For six insertions in "Shorts" *Daily Mail*				45
,, 12	,, Bank of India, Ltd. Drew for Office use Cheque No.—				500	,, 14	,, Bank of India, Ltd. For B/R. No. 7 discounted ...				2,400
,, 14	,, Bills Receivable Account Bill No. 7 Discounted ...			100	2,400	,, 15	,, Electric Charges Account Electric charges for February				42
,, 17	,, Bank of India, Ltd. Cheque No.—for personal use				200	,, 17	,, Drawings Account Drawn for personal use ...				200
,, 19	,, Bank of India, Ltd. Cheque No.—for salaries ...				750	,, 19	,, Salaries Account To Staff for February ...				750
,, 21	,, Bank of India, Ltd. Cheque No.—for Office Safe ...				275	,, 21	,, Office Furniture Account Purchased Safe for Office use				275
,, 23	,, C. Parekh & Co. Received in full settlement ...			25	875	,, 25	,, Bank of India, Ltd. Paid into Bank				1,000
,, 29	,, Bank of India, Ltd. Cheque No.—for rent ...				175	,, 26	,, Freight Account Paid Freight on goods ...				55
,, 31	,, Samuel & Co. Received cheque in full settlement			20	460	,, 29	,, Rent Account Rent for February				175
						,, 31	,, Balance carried forward ...				748
			Rs.	205	12,900				Rs.	45	12,900
1941 April 1	To Balance b/d.				748						

DR. THE BANK OF INDIA, LTD., ACCOUNT. CR.

Date.	Particulars.	Cash Book Folio	Amount.	Date.	Particulars.	Cash Book Folio	Amount.
1941			Rs.	1941			Rs.
Mar. 1	To Balance b/d.		10,000	Mar. 4	By Cash		520
„ 3	„ Cash		3,500	„ 8	„ do.		845
„ 6	„ do.		620	„ 9	„ do.		1,200
„ 14	„ do.		2,400	„ 11	„ do.		525
„ 25	„ do.		1,000	„ 12	„ do.		500
				„ 17	„ do.		200
				„ 19	„ do.		750
				„ 21	„ do.		275
				„ 29	„ do.		175
				„ 31	„ Balance c/d.		12,530
		Rs.	17,520			Rs.	17,520
1941 April 1	To Balance b/d.		12,530				

The student must study carefully how, under the above form of Cash Book, each time that a payment is made by cheque, four distinct steps have to be taken to record the transaction. In the first place, two entries have to be made in the Cash Book, viz., one on the receipts side to record the fact of the amount having been received from the Bank, and the other on the payments side to record the fact that the payment has been made on some account. Then, again, both these entries will have to be posted, viz., one to the credit of the Bank Account and the other to the debit of the Account in respect of which the payment has been made. This would necessitate the opening of a Bank Account in the Ledger.

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

Postings of Cash Transactions.—All the items on the debit side of the Cash Book are posted to the credit, and those on the credit side are posted to the debit of the various Ledger Accounts affected.

Postings of Discount Columns.—The total of the Discount Column on the debit side of the Cash Book represents discounts allowed by us, and being our loss, is debited to Discount Account in the Ledger. The total of the credit Discount Column is our gain as it represents discounts received by us, and is, therefore, credited to Discount Account.

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

ON 2.

Dr. CASH BOOK WITH CASH, BANK AND DISCOUNT COLUMNS. Cr.

Date.	Particulars.	Receipt No.	Ledger Folio.	Dis-count.	Cash.	Bank.	Date.	Particulars.	Voucher No.	Ledger Folio.	Dis-count.	Cash.	Bank.
				Rs.	Rs.	Rs.					Rs.	Rs.	Rs.
1941 Mar. 1	To Balance brought forward ...				2,000	10,000	1941 Mar. 3	By Bank of India, Ltd. Paid into Bank		C		3,500	
„ 2	„ D. Chetty Received on account ...			60	2,000		„ 4	„ S. Govind & Co. Cheque in full settlement ..			30		520
„ 3	„ Cash Paid into Bank		C			3,500	„ 6	„ Bank of India, Ltd. Paid into Bank		C		620	
„ 5	„ Cash Sales Received for Cash Sales ...				175		„ 8	„ Cash Purchases For Cash Purchases ...					845
„ 6	„ Cash Paid into Bank		C			620	„ 9	„ Bills Payable A/c. Met B/P No. 8					1,200
„ 12	„ Bank of India, Ltd. ... ... Drew for Office use		C		500		„ 11	„ V. Valji Cheque in full settlement ...			15		525
„ 14	„ Bills Receivable Account B/R No. 7 discounted ...			100		2,400	„ 12	„ Cash Drew for Office use ...		C			500
„ 23	„ C. Parekh & Co. Received in full settlement...			25	875		„ 13	„ Advertisement A/c. ... For 3 insertions in "Shorts" *Daily Mail* ...				45	
„ 25	„ Cash Paid into Bank		C			1,000	„ 16	„ Electric Charges A/c. Electric charges for February				42	
„ 31	„ Samuel & Co. Received in full settlement...			20	460		„ 17	„ Drawings A/c. For personal use					200
							„ 19	„ Salaries A/c. To Staff for February ...					750
							„ 21	„ Office Furniture A/c. Purchased Safe for Office use					275
							„ 25	„ Bank of India, Ltd. Paid into Bank		C		1,000	
							„ 26	„ Freight A/c. Freight on goods				55	
							„ 29	„ Rent A/c. Rent for February					175
							„ 31	„ Balance carried forward ...				748	12,530
			Rs.	205	6,010	17,520				Rs.	45	6,010	17,520
1941 April 1	To Balance b/d.				748	12,530							

NOTE.—The items on the debit and credit sides against which the letter "C" appears in the Ledger Folio Column relate to transactions between Office Cash and Bank which need not be posted. Where the Cash Book is provided with Bank Columns, it is not necessary to open a Bank Account in the Ledger, as the Bank Columns serve that purpose. The letter "C" indicates that the contra [illegible] of the Cash Book.

Cash Book with Cash and Bank Columns.—The same transactions, as given in Illustration 1, when entered in a Cash Book with Cash and Bank Columns, will appear as shown on the preceding page.

How to write up the Cash Book with Cash and Bank Columns.—When a Cash Book possessing Bank Columns is in use, every time that a payment is made by cheque, the entry is made direct into the Bank Column on the credit side of the Cash Book, and it will then be necessary only to post the amount to the debit of the account in respect of which the payment is made. There is no further entry needed on the receipts side of the Cash Book in this case, and consequently, no further posting.

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

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

Whenever it is desired to ascertain what Bank Balance there is on any particular date, all that is necessary to do is to take the totals of the Bank Columns on the debit and credit sides of the Cash Book and to strike the balance. It is thus clear that these Bank Columns serve the same purpose as a Bank Account in the Ledger and therefore no Bank Account need now be opened in the Ledger. The balance of Cash in Office would be ascertained by adding up the Cash Columns and striking the balance.

Cash Book with Bank Columns only.—A common practice in any well-organized business is to pay intact all cash received into the Bank, and to make all payments by cheques. In a business of any magnitude, this method has been found to be safer and more expedient. In such a case, it is not necessary to have Cash Columns at all in the Cash Book. The Cash Book then need only have Bank and Discount Columns on either side.

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

When payments are made, the date and particulars are entered in their appropriate columns, and the amounts are entered in the Bank Column on the payments side. Since all payments are made by cheques, the Bank Account needs to be credited with these amounts, and this is brought about by entering them in the Bank Column on the credit side. The double-entry of the payments side of the Cash Book would then be completed by posting each amount to the debit of the account concerned. As to the Discount Columns, these would be entered up and posted in just the same manner as already explained.

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

ILLUSTRATION 3.

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

Feb.	1	Opened Bank Account with Rs. 5,000.
"	4	Purchased goods for cash Rs. 1,500.
"	8	Sold goods to T. Tilak & Co., for cash Rs. 1,200.
"	12	Received cheque from W. Wagle Rs. 378 in full settlement of Rs. 400.
"	14	Paid to H. Hamid & Co., Rs. 325 and was allowed discount Rs 15.
"	15	Received commission from K. Kanga Rs. 221.
"	16	Paid Travelling Expenses to J. Jivaraj Rs. 35.
"	20	Received for cash sales Rs. 225.
"	22	Paid to S. Shivji for Office Furniture Rs. 175.
"	25	Paid Electric Charges Rs. 25 for January.
"	27	Paid for Office Rent Rs. 75 for the month of January.
"	28	Drew cheque for personal use Rs. 200.
"	29	Received from I. Ishwar Rs. 225 and allowed him discount Rs. 25.
"	"	Drew cheque for Petty Cash Rs. 150.
"	"	Drew cheque for February Salaries Rs. 375.
"	"	Paid to N. Nathalal Rs. 450 in full satisfaction of Rs. 485.

(The working of the above illustration appears on the next page.)

Distinction between Trade Discount and Cash Discount.—*Trade Discount* is an allowance made by wholesale dealers to retailers off the Catalogue or Invoice Price. This allowance is made between buyers and sellers engaged in the same class of trade. The object of Trade Discount being allowed by the wholesale dealer to the retailer is to enable the latter to sell the goods at the price mentioned in the Catalogue or Price List issued by the wholesale trader. The Trade Discount would enable the dealer to meet all the necessary business expenses and yet leave him a margin of profit on his selling the goods at the Catalogue Price. The amount of Trade Discount allowed varies considerably according to different trades and even on different articles in the same trade.

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

Cash Discount is an allowance in addition to the Trade Discount made ..y the seller to the purchaser, provided the latter settles his account promptly ..r within a specified time, known as the "Period of Credit". This allowance .. the prompt payment of accounts may be either receivable or payable. It ..received by the trader when he pays his account promptly or within the ..riod of Credit, and is allowed by him to his own customers in consideration the prompt settlement of amounts due to him.

CASH BOOK WITH DISCOUNT AND BANK COLUMNS.

R.

Date.	Particulars.	Ledger Folio.	Discount.	Bank.	Date.	Particulars.	Ledger Folio.	Discount.	Bank.
			Rs.	Rs.				Rs.	Rs.
1940 Feb. 1	To Capital Account. Paid into Bank ...	...		5,000	1940 Feb. 4	By Purchase Account. For goods purchased by Cheque No.—			1,500
„ 8	„ Sales Account. Received for Cash Sales	...		1,200	„ 14	„ H. Hamid & Co. Paid on account by Cheque No.—	...	15	325
„ 12	„ W. Wagle. Received in full settlement	...	22	378	„ 16	„ Travelling Expenses. Paid to J. Jivraj by Cheque No.—	...		35
„ 15	„ Commission Account. Received from K. Kanga	...		221	„ 22	„ Furniture Account. Paid to S. Shivji by Cheque No.—	...		175
„ 20	„ Sales Account. Received for Cash Sales	...		225	„ 25	„ Electric Charges Account. Paid January Bill by Cheque No.—	...		25
„ 29	„ I. Ishwar. Received on Account ...	...	25	225	„ 27	„ Office Rent Account. For January by Cheque No.—	...		75
					„ 28	„ Drawings Account. For personal use by Cheque No.—	...		200
					„ 29	„ Petty Cash Account. Drew for Petty Cash by Cheque No.—			150
					„ 29	„ Salaries Account. Paid for February by Cheque No —	...		375
					„ 29	„ N. Nathalal. Paid in full satisfaction by Cheque No — ...	...	35	450
					„ 29	„ Balance c/d.	...		3,939
			Rs. 47	7,249				Rs. 50	7,249
1941 Mar. 1	To balance b/d.	...		3,939					

PETTY CASH.

In a business where all receipts are banked and all payments are made by cheques, it becomes necessary to maintain a certain amount of cash in office to make numerous small payments on account of expenses which have to be made in the course of each day. Besides, as these payments are of frequent occurrence and individually of small amounts, it would seem undesirable to burden the main Cash Book with entries in respect of such small and sundry items. It thus seems expedient even when the Cash Book is provided with Cash Columns to maintain a separate book termed the Petty Cash Book to record petty disbursements by way of Cartage, Cooly Hire, Clearing, Postages, Telegrams, Stationery, General Expenses, etc.

COLUMNAR PETTY CASH BOOK.

The best method of recording Petty Cash payments is to enter them in a Petty Cash Book maintained in a columnar form, i.e. with a separate column for each usual head of expenditure and a column for the total. The advantage of a Columnar Petty Cash Book is that it saves an enormous amount of unnecessary labour resulting from posting each item of petty payment separately in the Ledger. This book is also known as Analytical Petty Cash Book as the various payments get automatically analysed on being entered in their respective columns.

The Petty Cash Book is written just like the Cash Book, the amounts received by the Petty Cashier being entered on the debit side and the payments on the credit side. While entering the payments, the amounts are shown in the columns to which they relate as also in the total column. Every item of expenditure is shown in detail and is supported by a proper voucher. These vouchers are numbered *seriatim* and their corresponding numbers are shown against the respective entries. The excess of the debit side over the credit on any date would represent the unspent balance of petty cash with the Petty Cashier.

By the use of this form of Petty Cash Book, the postings need not be made individually, but with the periodical total of each head of expenditure as shown by its corresponding column.

IMPREST SYSTEM OF PETTY CASH.

The best method of maintaining petty cash is known as the Imprest System. Under this method, an amount estimated as necessary for the possible needs of the business to meet petty expenses for the week or the month is drawn by a cheque and handed over to the petty cashier. At the end of the fixed period or earlier when the petty cashier comes to the end of his resources, the Petty Cash Book after being totalled and balanced is presented by the petty cashier to the cashier for a fresh cheque. The cashier after satisfying himself as to the correctness of the record, issues a cheque *for the exact amount expended*. The amount of this cheque together with the unspent balance will restore in the hands of the petty cashier the original sum with which he was started. This is called the Imprest System of Petty Cash.

The main advantage of this system lies in the fact that the cashier being responsible for drawing a cheque for the exact sum representing the total disbursements for a given period must necessarily examine the Petty Cash Book to make sure that the amount is correctly arrived at. Besides, the fact that at each periodical interval the Petty Cash Book has to be produced to the cashier for his inspection will in itself act as a healthy check on the petty cashier. Thus a combination of the Imprest System of Petty Cash and the Analytical Petty Cash Book would help to regularise and facilitate the double-entry record of innumerable small and sundry disbursements.

Record of Petty Cash Account.—All cheques as are issued by the cashier to the petty cashier are debited to the Petty Cash Account from the Cash Book, in the first instance. At periodical intervals, the analysis of the petty expenses as indicated by the analytical columns of the Petty Cash Book is journalised, each nominal account concerned being debited with its respective total and the Petty Cash Account being credited with the total petty payments during the period. The result is that after such journalising, the balance as shown by the Petty Cash Account in the Ledger, at any periodical interval, must necessarily agree with the unspent balance of Petty Cash with the petty cashier as indicated by the Petty Cash Book on that same date.

ILLUSTRATION 4.

Enter the following transactions in a Petty Cash Book with analytical columns. The petty cashier is started with an imprest amount of Rs. 100 on 1st January and is refunded the total amount of his disbursements at the end of the month:—

1938

Jan. 2 1 anna stamps Rs. 5.
„ 5 For window cleaning Rs. 2-8.
„ „ Wages to office cleaner Rs. 10.
„ 6 2 bundles of red tape Re. 0-8.
„ 8 Fares to office clerks Rs. 12-8.
„ 10 6 dozen envelopes and letter-papers Rs. 1-8.
„ „ Printing Charges and letter-papers Rs. 2-0.
„ 12 1 Box paper fasteners Re. 0-6.
„ 13 Taxi-fare to manager Rs. 1-4.
„ 15 Telegram to Dawson & Co., Delhi, Rs. 1-12.
„ 17 Cartage and cooly on 4 cases Tea Re. 0-14.
„ 18 1 bottle ink Re. 0-12.
„ 20 Paid J. Patel & Co., Rs. 4-8.
„ 24 Paid for "shorts" in *Evening News* Rs. 11-8.
„ 26 Sent registered notice to landlord Re. 0-4.
„ 29 Polishing Office Table Rs. 1-8.
„ 30 Advertisement in *Times of India* Rs. 20-12.
„ 31 Railway Fare—manager to Poona Rs. 12-8.

(*The working of the above illustration appears on page 19.*)

PURCHASES BOOK.

This book is kept with the object of recording credit purchases of goods for resale. Each Inward Invoice, after it has been checked as to calculations and also as to the quantity, quality and price of the goods received, is numbered consecutively and then entered in the Purchases Book as shown on the next page.

It is deemed unnecessary by many concerns to copy the whole of the Invoices in this book, and consequently, only a reference to the particular number of the Invoice is given in each case, the Invoice itself being properly filed in consecutive order for facility of reference.

Date.		Name.	Inward Invoice No.	Ledger Folio.	Rs.	a.	p.
1938 March	5	Red & Co.	21	5	1,700	0	0
„	10	Charles & Co.	22	15	875	0	0
„	17	E. Carson	23	2	245	0	0
„	25	F. Smith	24	29	1,200	0	0
				L. F. 200 Rs.	4,020	0	0

Postings.—Each Personal Account is credited with its respective amoun and the monthly total of this book is debited to Purchases Account in th Ledger.

Note.—While recording this book, it must be noted that only *credi purchases of goods that have been bought for the purpose of resale* are entere therein. Any other credit purchase would be passed through the Journal

SALES BOOK.

The object of this book is to record credit sales. The rulings of this Boo are identical with those of the Purchases Book. An Outward Invoice is mad out for each credit sale and checked as to quantity, quality and price of th goods before the latter are sent out to the customer. The Carbon Copy o the Press Copy of the Invoice remains with the firm and the original is poste to the purchaser. Entries are then made from these copies of Outwar Invoices into the Day Book or Sales Book, as shown below.

The date of the sale, the name of the purchaser and the total of eac Invoice need only be entered, and the folio of the carbon copy book or pres copy book be given for reference as to the details.

Date.		Name.	Outward Invoice No.	Ledger Folio.	Rs.	a.	p
1938 July	1	H. Long	45	7	2 500	0	0
„	3	J. Jones	46	1	1,750	0	0
„	17	E. Grey	47	5	500	0	0
„	20	W. Thomas	48	3	420	0	0
				L. F. 240 Rs.	5,170	0	0

Postings.—Each Personal Account is debited with its respective amoun and the monthly total of the book is credited to Sales Account in the Ledge

Note.—Care must be taken to see that *only credit sales of the goods i which we deal* are recorded through this book. Any other credit sale woul be passed through the Journal.

Sales Book for Alternate Days.—In a fairly extensive business, th number of sale transactions effected from day to day would assume larg proportions and in order that the financial records appertaining to such sale and the accounts of the customers concerned may be kept up to date, it woul become necessary to have two Sales Journals, one to be used on ever

ANALYTICAL PETTY CASH BOOK.

Amount received Rs.	Date.	Particulars.	Voucher No.	Total Amount expended Rs. a. p.	Cartage & Cooly hire. Rs. a. p.	Postage & Telegrams. Rs. a. p.	Office expenses. Rs. a. p.	Travelling expenses & fares. Rs. a. p.	Printing & Stationery. Rs. a. p.	Advertisements. Rs. a. p.	L.F.	Ledger Accounts. Rs. a. p.
	1938											
100	Jan. 1	To Cheque received										
	„ 2	By one anna stamps		5 0 0		5 0 0						
	„ 5	„ Window cleaning		2 8 0			2 8 0					
	„ 5	„ Wages to office cleaner ...		10 0 0			10 0 0					
	„ 6	„ Bundle of red tape		0 8 0					0 8 0			
	„ 8	„ Fares to office clerks ...		12 8 0				12 8 0				
	„ 10	„ Envelopes & letter papers ...		1 8 0					1 8 0			
	„ 10	„ Printing charges		2 0 0					2 0 0			
	„ 12	„ Paper fasteners		0 6 0					0 6 0			
	„ 13	„ Taxi-fare to Manager ...		1 4 0				1 4 0				
	„ 15	„ Telegram to Delhi		1 12 0		1 12 0						
	„ 17	„ Cartage and Cooly hire ...		0 14 0	0 14 0							
	„ 18	„ Bottle of ink		0 12 0					0 12 0			
	„ 20	„ J. Patel & Co.		4 8 0								4 8 0
	„ 24	„ "Shorts" in *Evening News* ...		11 8 0						11 8 0		
	„ 26	„ Registered Notice to Landlord		0 4 0		0 4 0						
	„ 29	„ Polishing office table ...		1 8 0			1 8 0					
	„ 30	„ Advertisement in *Times* ...		20 12 0						20 12 0		
	„ 31	„ Manager's Railway-fare to Poona		12 8 0				12 8 0				
				90 0 0	0 14 0	7 0 0	14 0 0	26 4 0	5 2 0	32 4 0		4 8 0
		„ Balance c/d.		10 0 0								
Rs. 100			Rs.	100 0 0								
10	Feb. 1	To Balance b/d.										
90	„ 1	„ Cheque received										

alternate day. In this manner, whereas Sales Journal No. 1 may be used by the Outward Invoice clerk on Mondays, Wednesdays and Fridays for the purpose of entering up of the Credit Sales of the days in question, Sales Journal No. 2 may be simultaneously used by the Ledger-keeper on those days for the purpose of posting the entries to the respective Ledger Accounts. Similarly, when the Outward Invoice clerk is busy entering the Sales Journal No. 2 on Tuesdays, Thursdays and Saturdays, the Ledger-keeper would keep himself busy on these days with the posting of the sales as recorded in Sales Journal No. 1. The division of work would thus serve to maintain an up-to-date record of the numerous sale transactions.

PURCHASES RETURNS BOOK.

This book records Returns Outwards, that is, returns of goods bought. A *Debit Note* is made out with a carbon duplicate and sent to the party to whom the goods are returned. Entries are then made in the Purchases Returns Book from the Debit Note Book giving a reference to the number of each Debit Note as follows:—

Date.		Name.	Debit Note No.	Ledger Folio.	Rs.	a.	p.
1938 March	8	Red & Co.	12	21	125	0	0
„	27	F. Smith	13	24	300	0	0
				L. F. 210 Rs.	425	0	0

Postings.—Each individual Personal Account is debited with its respective amount and the monthly total of the book is credited to Returns Outwards Account in the Ledger.

SALES RETURNS BOOK.

Returns Inwards, that is, returns of goods sold by us, are recorded in this book. On receipt of the goods, *Credit Notes* with carbon duplicates are made out and sent to those customers who have returned us the goods. Entries are then made from the Credit Note Book into the Sales Returns Book as follows:—

Date.		Name	Credit Note No.	Ledger Folio	Rs.	a.	p.
1938 June	7	P. Adarji	29	9	250	0	0
„	15	A. Sethna	30	12	175	0	0
„	29	C Thompson	31	15	220	0	0
				L F. 220 Rs.	645	0	0

Postings.—Each Personal Account gets the individual credit and the Returns Inwards Account gets the debit with the monthly total of the book.

BILLS RECEIVABLE BOOK.

The purpose of this book is to keep a detailed record of all the Bills Receivable received by a trader, and to afford a convenient medium for posting Bills Receivable transactions.

A Bill Receivable is one in respect of which the trader is entitled to receive money at some specific date as shown on the face of the bill.

As each Bill Receivable is received, the necessary particulars connected with it, such as the names of the drawer and the acceptor, the date of the bill, the amount, the due date, etc., are entered in the Bills Receivable Book, as illustrated on the next page.

Postings.—The Account of the person, from whom each bill is received, is credited with the amount of that bill and the monthly total amount of bills received is debited to Bills Receivable Account in the Ledger.

BILLS PAYABLE BOOK.

This book is kept to record full details of all Bills Payable accepted by a trader, and to afford a convenient medium for posting Bills Payable transactions.

A Bill Payable is one which has been accepted by a person and the amount of which he is under obligation to pay at some definite future time.

On accepting a Bill Payable, full particulars of the same are recorded in the Bills Payable Book, as shown on the next page.

Postings.—The Account of each person whose bill has been accepted is debited individually with the amount of the bill and the monthly total amount of the bills accepted is credited to Bills Payable Account.

It must be noted that the same Bill is a Bill Receivable to one party and a Bill Payable to the other party. The person who is to receive money on it calls it his Bill Receivable, whereas the person who is liable to pay money for it knows it as his Bill Payable. As Bills of Exchange represent money or money's worth, they belong to the class of Real Accounts.

BILLS RECEIVABLE ACCOUNT.

The Bills Receivable Account is the account of an asset, and the balance of this account, if any, would always be a debit balance. The debit balance on the Bills Receivable Account on any date would represent Bills Receivable unmatured and on hand. The Account will close when all the Bills are finally dealt with.

BILLS PAYABLE ACCOUNT.

The periodical total of the Bills Payable Book is credited to this Account. On each Bill Payable being met, the Bills Payable Account is debited from the Cash Book. The Bills Payable Account, representing as it does the liability of the trader in respect of the bills accepted by him, will always show a credit balance, if any. The credit balance of this account on any one particular date must agree with the total amount worth of Bills Payable unmatured as ascertained from the Bills Payable Book.

JOURNAL.

The use of the Journal is very much restricted in modern accounting, and through this book are now passed only such transactions as cannot be conveniently recorded in any of the other books of Prime Entry.

BILLS RECEIVABLE BOOK.

No. of B.R.	Date when Received.	From whom Received.	Name of Acceptor.	Where payable.	Date of Bill.	Term.	Due Date.	Ledger Folio	Amount. Rs.	a.	p.	C. B. Folio.	How disposed of.
	1938												
1	May 10	H. Smith	W. Smith	Bombay	May 9	1 month	June 12	7	600	0	0	20	Received cash.
2	" 25	W. Thomas	C. Ricardo	Calcutta	" 21	2 months	July 24	3	800	0	0	47	Discounted.
3	" 31	J. Jones	F. Gilbert	Madras	" 28	3 "	Aug. 31	1	450	0	0		
								Rs.	1,850	0	0		

BILLS PAYABLE BOOK.

No. of Bill.	Date of Acceptance	By whom drawn or on whose a/c. accepted	To whom payable.	Where payable.	Date of Bill.	Term.	Due Date.	Ledger Folio.	Amount. Rs.	a.	p.	C. B. Folio.	How disposed of.
	1938												
1	March 5	P. Damodar	A. Child	Bombay	March 4	2 months	May 7	25	1,200	0	0	15	Paid by cheque.
2	" 28	K. Cowasji	D. Donald	"	" 27	4 "	July 30	45	1,500	0	0	45	" " "
								Rs.	2,700	0	0		

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

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

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

Amounts which are entered in the debit column are posted to the debit of the accounts concerned and those entered in the credit column are posted to the credit.

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

LEDGER.

We now come to consider the all-important book known as the Ledger. It must be clear by now that every transaction, after first being recorded in a book of Original Entry, finds its subsequent destination in the Ledger. It is in this book that we get in a properly arranged, classified and condensed form all the necessary information regarding the working of our business.

The different classes into which Ledger Accounts are divided have already been explained in the previous pages. Every Ledger Account is divided into two sides. The left-hand side is known as the *Debit Side* and the right-hand side as the *Credit Side*. If the debit side of any Account in the Ledger is heavier than its credit side, the Account is said to have a *Debit Balance* to the extent of such difference. If the credit side of any Account is heavier than its debit, the difference is called a *Credit Balance*.

A *Debit Balance* of any Account may represent either an *asset* or an *expense*. If such balance relates to a Personal Account or a Real Account, it is an asset; if it relates to a Nominal Account it is an expense or a loss.

A *Credit Balance* of any Account represents either a *liability* or a *gain*. If such balance relates to a Personal Account, it is a liability; if it relates to a Nominal Account, it is a gain.

The capital introduced by a trader in his business is credited to his **Capital Account.** The amounts withdrawn by him out of his business for his personal use, from time to time, are debited to a separate account called the **Drawings Account.** As these drawings go to reduce the original capital as brought in, the debit balance of the Drawings Account is transferred to the debit of the Capital Account at the time of balancing.

Proper Grouping of Ledger Accounts.—In order that the desired information may be secured from the Ledger without any fumbling and delay, it is essential that these various accounts be arranged and grouped together in some intelligent manner. Thus, the accounts of customers should be opened in one section of the Ledger, and similarly, the accounts of the suppliers. The asset accounts should also be grouped together, and the nominal accounts should form a different section of the Ledger.

Sub-division of the Ledger.—In a small concern, it would not be difficult to accommodate the whole of the transactions of the business in one Ledger. When, however, the transactions become voluminous, the Ledger will have to be sub-divided and the sub-division may take the following shape. Thus, there may be :—

(a) *A Customers' Ledger* or Sales Ledger to accommodate the accounts of customers only ;

(b) A *Suppliers' Ledger* or Purchases Ledger to contain accounts of suppliers of goods ; and

(c) An *Impersonal Ledger* or a Nominal or General Ledger which would include all accounts other than those of customers and suppliers.

Sometimes, there is also maintained a *Private Ledger* in which would be embodied accounts of a private nature, such as accounts of loans borrowed, Capital Account, Drawings Account, etc., and this Ledger would be kept and written up by the proprietor.

Where the business assumes still larger proportions, one Customers' Ledger may not suffice, and it may then be found necessary to further sub-divide the Customers' Ledger either alphabetically, topographically or departmentally. Thus, there might be one Sales Ledger containing accounts of customers whose names begin with A to M, and another one for names commencing from N to Z. Similarly, the Sales Ledger may be sub-divided to contain accounts of customers of different districts or localities, or the sub-division may take the shape of a separate Sales Ledger for each department of the business. The sub-division of the Bought Ledger may also be done on similar lines, if need be. The classification of Ledger Accounts as also the sub-division of Ledgers will always have to be done with due regard to the nature and requirements of the business.

BANK RECONCILIATION STATEMENT.

The Bank Pass Book, which is the banker's record of the transactions between the bank and the customer, should be checked at frequent intervals with the items in the Bank Columns of the Cash Book or the Bank Account in the Ledger, with a view to see that the balance as shown by the Pass Book, at any particular date, agrees with the Bank balance as shown by our books.

All the moneys paid in by the customer in the bank on current account as also the sums paid thereout by the banker are entered up in a Pass Book which is kept and written up by the banker and sent to the depositor for verification as and when the latter demands it. Since the Bank Pass Book records the amounts paid into the Bank and the amounts withdrawn thereform, the balance on any one date as indicated by this book must be the same as the balance shown by the Bank Columns of the Cash Book of the current depositor, on that same date. It seldom happens, however, in practice that the Bank Pass Book balance agrees with the Bank balance as shown by the Cash Book on any one particular date. This is due to the following reasons:—

1. Cheques may have been drawn in payment of accounts due and credited in the Bank Column of the Cash Book, but the same may not appear in the Pass Book owing to their not having been presented to the Bank for payment upto the date on which the two balances are compared.

2. Up-country cheques may have been paid into the Bank and debited in the Bank Column of the Cash Book, but the same may not have been credited in the Pass Book on account of the fact that they may not have been cleared.

3. Credit for interest on Current Account may have been given in the Pass Book, but no corresponding entry may have been made in the Cash Book.

4. Debits might have been given in the Pass Book in respect of Bank Charges, Commission or Interest on overdraft but the same may not have been entered in the Cash Book.

5. Dishonoured Bills or cheques may have been debited in the Pass Book, but the same may not have been given effect to in our books.

6. A discrepancy between the two balances may also arise due to an error or omission of an entry either on the part of the customer or the banker.

A **Reconciliation Statement** is therefore prepared at periodical intervals with a view to indicate the items which cause such disagreement between the balances as per the Bank Columns of the Cash Book and the Bank Pass Book on any given date. It is prepared after all the items in the Pass Book are ticked off with the entries in the Cash Book Bank Columns. A list is then made of such items as are found not ticked either in the Cash Book or the Pass Book. The unticked items in the Cash Book will represent cheques paid in but not credited in the Pass Book, or cheques issued but not presented for payment. The unticked items in the Pass Book will relate to the credits given, if any, for interest on Current Account or the debits in respect of Bank Charges and Commission or dishonoured cheques or bills.

If the balance as shown by the Bank Pass Book is used as the starting point, the cheques not presented for payment should be deducted therefrom inasmuch as they would reduce the Bank Balance, and the cheques not cleared and credited should be added thereto as they would serve to increase the Bank Balance. When this is done, the Bank Pass Book Balance will be brought on a line with the record as appearing in the Bank Columns of the Cash Book. In the case of a Bank Overdraft, the cheques issued but not cashed should be added thereto as they would increase the overdraft, and those paid in but not cleared should be deducted therefrom as they would decrease such overdraft.

Where the Bank Balance as per the Cash Book is taken as the starting point, the process of adjustments would be just the reverse of the above.

It needs to be pointed out, that subject to any errors or omission of any entries in the Cash Book in respect of Bank Interest or Bank Charges, the

Bank Balance as per the Cash Book Bank Columns always indicates the correct position, and it is in order to ensure this that a Bank Reconciliation Statement is prepared.

The following illustrations will serve to explain how Bank Reconciliation Statements are prepared.

ILLUSTRATION 5.

From the following particulars, prepare a Bank Reconciliation Statement as at 31st December 1937:—

Balance as per Pass Book is Rs. 6,245-10-9. Cheques issued but not presented were R. Wright & Co., Rs. 459-2-6; S. Sorabji & Sons, Rs. 596-5-3; and Banarasidas Bros., Rs. 957-10-0. Cheques deposited but not cleared until after the close of the year were Johnson & Co., Rs. 506-5-9 and Hassam Bros., Rs. 913-4-7. Our bankers had wrongly debited our Account with Rs. 225 which error was rectified by them at our instance on January 4th following.

BANK RECONCILIATION STATEMENT as at 31st December 1937.

	Rs.	a.	p.	Rs.	a.	p.
Balance as per Pass Book				6,245	10	9
Less Cheques issued but not presented—						
R. Wright & Co.	459	2	6			
S. Sorabji & Co.	596	5	3			
Banarsidas Bros.	957	10	0			
				2,013	1	9
				4,232	9	0
Add Cheques deposited but not cleared—						
Johnson & Co.	506	5	9			
Hassam Bros.	913	4	7			
				1,419	10	4
				5,652	3	4
Add Amount wrongly debited by Bank				225	0	4
Balance as per Cash Book = Rs.				5,877	3	4

ILLUSTRATION 6.

On 31st December 1937 my Cash Book showed a Bank Balance of Rs. 3,700. I had paid in cheques amounting to Rs. 750 on 29th December, of which I find Rs. 250 have been credited in the Pass Book under date 2nd January 1938. I had issued cheques amounting to Rs. 1,000 before 31st December, of which I find Rs. 300 have been debited in the Pass Book after 1st January. I find a debit of Rs. 10 in respect of charges in the Pass Book, which I have adjusted in the Cash Book as on 31st December. There is a credit of Rs. 45 for interest in the Pass Book which remains to be adjusted. I find a debit in the Pass Book on 2nd January in respect of a cheque paid in by me on 31st December and which has been dishonoured. Prepare a Reconciliation Statement as at 31st December 1937.

BANK RECONCILIATION STATEMENT as at 31st December 1937.

	Rs.	Rs.
Bank Balance as per Cash Book		3,700
Less Cheques paid in but not credited by the Bank		250
		3,450
Add Cheques issued but not presented	300	
„ Interest credited by Bank but not adjusted in our books	45	
		345
Balance as per Pass Book = Rs.		3,795

ILLUSTRATION 7.

My Pass Book Account No. 1 shows a Bank Overdraft of Rs. 35,900 to my account on 31st August 1937. On going through the Pass Book I find the following:—

Out of cheques amounting to Rs. 8,700 drawn by me on 26th August, I find cheques amounting to Rs. 5,300 only are cashed upto 31st August. Rs. 15,800 paid in by me are wrongly credited to my Account No. 2. Interest and Bank Charges amounting to Rs. 2,400 debited to my account have not been entered in my books. Out of Rs. 22,600 paid in by me in cash and by cheques on 31st August, cheques amounting to Rs. 9,500 are credited to my account on 3rd September 1937. A cheque of Rs. 1,800 credited in the Pass Book on 28th August being dishonoured is debited to my account on 1st September. Bankers have credited my account with Rs. 3,200 for interest collected by them on my Securities but the same has not been entered in my books. A payment of Rs. 500 from Account No. 2 has been wrongly debited by the Bankers to this Account. Prepare a Reconciliation Statement as at 31st August 1937 of Bank Account No. 1.

BANK RECONCILIATION STATEMENT as at 31st August 1937.

	Rs.	Rs.
Overdraft as per Bank Pass Book		35,900
Add Cheques drawn but not cashed before 31st August	3,400	
" Interest on Securities collected and credited by the Bankers but not entered in the Cash Book	3,200	
		6,600
		42,500
Deduct Amount deposited but wrongly credited to Account No. 2 ...	15,800	
Interest and Bank Charges debited by the Bank but not accounted for in the Cash Book	2,400	
Cheques paid in but not credited by the Bank before 31st August ...	9,500	
Amount paid from Account No. 2 wrongly debited to this Account ...	500	
		28,200
Bank Overdraft as per Cash Book = Rs.		14,300

ILLUSTRATION 8.

From the following particulars, ascertain the Bank Balance as would appear in the Pass Book of A as at 31st December 1937:—

1. The Bank Overdraft as per Cash Book on 31st December 1937 was Rs. 6,000.
2. Interest on Overdraft for six months ending 31st December 1937, Rs. 200 is debited in the Pass Book.
3. Bank charges for the above period also debited in the Pass Book, amount to Rs. 50.
4. Cheques issued, but not cashed, prior to 31st December 1937 amounted to Rs. 1,500.
5. Cheques paid into Bank, but not cleared and credited before 31st December 1937, were for Rs. 2,500.
6. Interest on Investments collected by the Bankers and credited in the Pass Book amounted to Rs. 1,800.

BANK RECONCILIATION STATEMENT as at 31st December 1937.

	Rs.	Rs.
Bank Overdraft as per Cash Book		6,000
Add Interest on Overdraft debited in the Pass Book	200	
" Bank Charges debited in the Pass Book	50	
" Cheques paid into Bank, but not yet collected	2,500	
		2,750
		8,750
Less Cheques issued but not cashed	1,500	
" Interest on Investments credited by Bank but not adjusted in the Cash Book	1,800	
		3,300
Bank Overdraft as per Pass Book = Rs.		5,450

ILLUSTRATION 9.

Set out below are the extracts from the Cash Book (Bank Columns only) and Bank Pass Book of C. Das. Prepare a Reconciliation Statement as at 31st December 1937:—

DR. CASH BOOK (Bank Columns). CR.

Date.	Particulars.	Amount. Rs.	a.	Date.	Particulars.	Amount. Rs.	a.
1937				1937			
Dec. 1	To Balance	3,900	0	Dec. 3	By Wages	1,200	0
" 4	" A. Roy	700	0	" 5	" Petty Cash ...	10	0
" 7	" S. Valji	760	0	" 6	" Interest on Loan ..	20	0
" 9	" B. Jones	250	0	" 8	" Drawings ...	300	0
" 11	" Interest on Securities	400	0	" 11	" Bank Charges ...	0	4
" 28	" Patel & Sons ...	120	0	" 14	" Motilal & Sons ...	700	0
" 29	" C. White	600	0	" 27	" Pestonji & Co. ...	90	0
" 30	" A. Karmally ...	2,200	0	" 31	" Salaries	180	0
" 31	" Mehta Bros. ...	300	0	" "	" A Gupta	730	0
				" "	" Balance c/d. ...	5,999	12
	Rs.	9,230	0		Rs.	9,230	0
1938 Jan. 1	To Balance b/d. ...	5,999	12				

BANK PASS BOOK.

DR. (C. Das with National Bank of India.) CR.

Date.	Particulars.	Amount. Rs.	a.	Date.	Particulars.	Amount. Rs.	a.
1938				1937			
Jan. 1	To A. Gupta	730	0	Dec. 31	By Balance	3,599	12
" 3	" Commission on Calcutta Draft ...	0	6	1938 Jan. 1	" Patel & Sons ...	120	0
" "	" Telephone Co. ...	400	0	" 3	" C. White	600	0
" 4	" S. Bomanji ...	225	0	" 4	" V. Sen & Co. Ltd. ...	320	0
" 5	" Pestonjee & Co. ..	90	0	" 5	" Cash	400	0
" 6	" Commission on Delhi Cheque ...	1	6	" 6	" A. Karmally ...	2,200	0
				" 6	" Mehta Bros. ...	300	0

BANK RECONCILIATION STATEMENT as at 31st December 1937.

	Rs.	Rs. a.
(*a*) Bank Balance as per Cash Book		5,999 12
Less Cheques paid into Bank in December but credited in January :—		
Patel & Sons	120	
C. White	600	
A. Karmally	2,200	
Mehta Bros.	300	
		3,220 0
		2,779 12
Add Cheques issued in December but cashed in January :—		
A. Gupta	730	
Pestonjee & Co.	90	
		820 0
Balance as per Pass Book = Rs.		3,599 12

The same problem may also be worked starting with the Pass Book Balance thus:—

BANK RECONCILIATION STATEMENT as at 31st December 1937.

		Rs.	Rs. a.
(b)	Balance as per Pass Book		3,599 12
	Add Cheques paid into Bank in December but credited in January :—		
	Patel & Sons	120	
	C. White	600	
	A. Karmally	2,200	
	Mehta Bros.	300	
			3,220 0
			6,819 12
	Less Cheques issued in December but cashed in January :—		
	A. Gupta	730	
	Pestonjee & Co.	90	
			820 0
	Balance as per Cash Book =	Rs.	5,999 12

NOTE.—In a problem like the one above, where the cheques not presented for payment and those not cleared are not specifically stated, the same can be ascertained by scrutinising the entries in the Bank Pass Book immediately subsequent to the date upto which the Reconciliation Statement is prepared.

ILLUSTRATION 10.

On 31st December 1940, the Bank Balance as per my Cash Book stood at Rs. 10,800. On examining the Bank Current Account No. 1, transactions with the corresponding Pass Book, I find the following:—

1. That a cheque for Rs. 400 drawn on No. 2 Account has been wrongly debited to No. 1 Account by the Bankers;
2. That a cheque for Rs. 500 paid in No. 2 Account has been wrongly credited to No. 1 Account;
3. That a cheque for Rs. 300 paid in No. 1 Account stands wrongly credited to No. 2 Account;
4. That a dishonoured cheque for Rs. 200 relating to No. 1 Account, the entry in respect of which had been passed through the Cash Book, stands wrongly charged to No. 2 Account;
5. That cheques for Rs. 1,200 paid in on 29th December 1940 stand credited in the Pass Book on 3rd January 1941;
6. That out of cheques amounting in all to Rs. 2,750 drawn and issued on 28th December 1940, only cheques worth Rs. 1,100 have been cashed before 31st December 1940;
7. That Bank Charges amounting to Rs. 30 and Bank Interest amounting to Rs. 125 appearing in the Pass Book are not yet recorded in the Cash Book.

You are required to prepare a Bank Reconciliation Statement as at 31st December 1940, from the above information.

BANK RECONCILIATION STATEMENT as at 31st December 1940.

	Rs.	Rs.
Bank Balance No. 1 Account as per Cash Book		10,800
Less Cheque drawn on No. 2 Account wrongly debited in Pass Book ...	400	
Cheque paid in but wrongly credited in No. 2 Account	300	
Cheques paid in but credited on 3rd January 1941	1,200	
Bank Charges	30	
		1,930
		8,870
Add Cheque paid in No. 2 Account wrongly credited in Pass Book ...	500	
Dishonoured Cheque wrongly entered in No. 2 Account	200	
Cheques issued but cashed subsequent to 31st December 1940 ...	1,650	
Bank Interest	125	
		2,475
Balance as per Pass Book =	Rs.	11,345

ILLUSTRATION 11.

From the following entries in the Bank Columns of the Cash Book of Patel & Sons and the corresponding Bank Pass Book, you are required to prepare a Bank Reconciliation Statement, as at 31st December 1940 :—

BANK COLUMNS OF CASH BOOK.

Date	Particulars	Rs.	Date	Particulars	Rs.
1940			1940		
Dec. 1	To Balance b/d. ...	1,400	Dec. 5	By Panday & Sons ...	200
" 3	" Sen & Co. ...	245	" 18	" Garlick & Co.	300
" 7	" Rajaram & Sons ...	150	" 20	" Bhulabhai & Co. ...	425
" 12	" Smith Bros. ...	375	" 24	" Charles & Co. ...	320
" 17	" Chinoy & Co. ...	400	" 30	" Rent of Premises ...	875
" 20	" Interest on Investments	530	" 31	" Office Salaries ...	1,750
" 25	" Issac & Sons ...	1,470	" "	" Workshop Wages ...	2,250
" 30	" Usuf Bros. ...	2,400	" "	" Legal Charges ...	250
" 31	" Black & White ...	1,800	" "	" Drawings	600
" "	" Balaram & Co. ...	1,450	" "	" Interest on Loan ...	500
" "	" Current Account Interest	350	" "	" Bank Charges ...	50
			" "	" Balance c/d. ...	3,050
	Rs.	10,570		Rs.	10,570
1941					
Jan. 1	To Balance b/d.	3,050			

PATEL & SONS, in Account with the Bank of India, Ltd.

Date	Particulars	Rs.	Date	Particulars	Rs.
1941			1941		
Jan. 1	To Balance (Overdraft) ...	3,025	Jan. 3	By Issac & Sons	1,470
" 3	" Garlick & Co. ...	300	" 4	" Smithson & Co. ...	740
" "	" Perry & Co. ...	575	" 5	" Usuf Bros.	2,400
" "	" Bhulabhai & Co. ...	425	" 6	" Sultan Bros.	900
" "	" Charles & Co. ...	320	" 7	" Black & White ...	1,800
" 4	" Murray Bros.	700	" "	" Balaram & Co. ...	1,450
" 6	" B. Cowasji	180			

BANK RECONCILIATION STATEMENT as at 31st December 1940.

	Rs.	Rs.
Balance as per Cash Book (Bank Columns)		3,050
Add Cheques issued but cashed subsequent to 31st December :—		
	300	
	425	
	320	
		1,045
		4,095
Cheques paid in before 31st December but credited subsequently :—		
	1,470	
	2,400	
	1,800	
	1,450	
		7,120
Less Balance as above		4,095
Bank Overdraft as per Pass Book = Rs.		3,025

The same illustration can be worked as under :—

BANK RECONCILIATION STATEMENT as at 31st December 1940.

	Rs.	Rs.
Bank Overdraft as per Pass Book		3,025
Add Cheques issued but not cashed before 31st December		1,045
		4,070
Cheques paid in before 31st December but cleared subsequently :—		
	1,470	
	2,400	
	1,800	
	1,450	
		7,120
Less Bank Overdraft as above		4,070
Bank Balance as Per Cash Book = Rs.		3,050

TRIAL BALANCE.

The fundamental principle of Double Entry is that *for every debit there must be a corresponding credit.* Now, in course of posting the entries from the various Subsidiary Records into the Ledger, if it is seen that for every debit entry that is given to an account or for every series of debits given to several accounts, there is a credit or a series of credits of an equal amount given to some other accounts and *vice versa,* then it follows that the sum total of the debit entries should equal the sum total of the credit entries. It is important to note, in this connection, that although by the use of the Subsidiary Journals, the work of posting the entries into the Ledger is reduced practically by half, the above basic principle of Double Entry is fully maintained inasmuch as the debits and credits are equalised in the aggregate.

When, therefore, all the transactions for a particular period have been duly entered in the books and properly posted, the book-keeper will need *to try* whether he has correctly transferred all the entries from the Original Records into the Ledger. With this object in view, he will prepare a *Trial Balance,* i.e., a list of Balances debit or credit standing in the books at any given date. A Trial Balance may thus be defined as a statement of debit and credit balances extracted from the Ledger with a view to test the arithmetical accuracy of the books. It thus forms a connecting link between the Ledger Accounts and the Final Accounts.

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

1. That both the aspects of each transaction have been recorded, and
2. That the books are arithmetically accurate.

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

How to prepare a Trial Balance.—A Trial Balance is usually prepared on loose sheets ruled in a form similar to that of the Journal, i.e., with debit and credit money columns. The debit and credit sides of each Ledger Account would be totalled up as at the date of the Trial Balance in order to ascertain whether there is any balance, and, if so, whether such balance is a debit or a credit balance. The balance of each such account would then be entered in the Trial Balance The date column is used for entering the folio or page of the Ledger on which the account appears. All debit balances are entered in the debit (left-hand) column and the credit balances in the credit (right-hand) column. If the books are arithmetically accurate, the total of the debit balances must agree with that of the credit balances.

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

SPECIMEN TRIAL BALANCE as at 31st March 1941.

	L.F.	Rs.	Rs
R. Row's Capital Account			1,50,000
Land and Buildings Account		55,000	
Plant and Machinery Account		85,000	
Furniture and Fixtures Account		2,500	
Motor Vans Account		15,750	
Bills Receivable Account		4,000	
Bills Payable Account			5,000
Factory Wages		12,200	
Salaries to Staff		4,500	
Rent and Taxes		1,700	
Lighting and Power		900	
Coal and Fuel		600	
Trade Expenses		575	
Commission			2,700
Duty and Clearing Charges		1 260	
Stock, on 1st April 1940		50,450	
Purchases		96,000	
Sales			1,65,000
Returns Inwards		1,800	
Returns Outwards			2,100
Bank Charges		125	
Travelling Expenses		3,750	
Advertising		2,115	
Repairs to Plant		1,070	
Loan from Multani Bros			25,000
Interest on Loan		960	
Cash at Bank		6,400	
Cash on hand		300	
Petty Cash Balance		75	
R. Row's Drawings		6,000	
Sundry Debtors		85,420	
Sundry Creditors			88,650
	Rs	4,38,450	4,38,450

A Trial Balance is not a Conclusive Proof of Accuracy :—

A Trial Balance is, however, not a conclusive proof as to the absolute accuracy of the books. The Trial Balance may agree and yet there may be some errors in the books remaining undisclosed.

A Trial Balance will not disclose the following Errors :—

(1) *Omission of an entry in the Original Book.* If an entry has not been made in a subsidiary book, both the debit and credit of that transaction would be omitted and the agreement of the Trial Balance will not be affected.

(2) *A wrong entry in the Original Book.* If a credit sale of Rs. 50 is wrongly entered in the Day Book as Rs. 15, such an error will not be revealed by the Trial Balance.

(3) *Posting an item to wrong Account.* If Smith's Account has been debited instead of Green's, the Trial Balance will not detect such an error.

(4) *Compensating Errors.* These are errors arising from the over-debits or under-debits of Accounts being neutralised by the over-credits or under-credits to the same extent of some other Accounts. It is very seldom that such errors of equal amounts arise on the debit as well as on the credit sides of the Ledger Accounts. For instance, an underposting of Rs. 20 to the debit of a Ledger Account would compensate for the underposting of Rs. 15 on the credit of another Account and an omission of a credit posting of Rs. 5 to a third Account and will not, therefore, prevent the arithmetical balancing of the Trial Balance.

(5) *Errors of Principle.* As such errors arise from the debiting or crediting of wrong heads of accounts as would be inconsistent with the fundamental principles of double-entry, they will not affect the agreement of the Trial Balance.

A Trial Balance will disclose the following classes of Errors :—

(1) An item omitted to be posted from a Book of Original Entry into the Ledger.

(2) An item posted on the wrong side of a Ledger Account.

(3) A wrong amount posted to the proper Account.

(4) An item in the Book of Original Entry posted twice into the Ledger.

(5) Any errors in additions or balancing of Ledger Accounts, unless they are of a compensating nature.

(6) Omission of a balance of an account in the Trial Balance.

Steps to discover Errors in Trial Balance.—Where a Trial Balance disagrees and the difference is of an appreciably large amount as would materially affect the final accounts, it would never be safe to allow errors to remain undetected. Even where the difference is of a small amount, it may be the outcome of several grave errors of a compensating nature, and it would follow therefore that all possible efforts must be expended to localise the cause of the difference before preparation of the final accounts.

Assuming that the Trial Balance disagrees, the following hints as to the steps to be taken to localise errors are sure to prove helpful :—

1. Re-check the totals of the Trial Balance including the lists of Debtors and Creditors and ascertain the exact amount of the difference.

2. See that the inclusion of Cash or Bank Balance is not omitted.

3. It should be seen that the opening balances have been correctly brought forward in the current year's books.

4. Halve the amount of the difference to see if there is any balance of the same amount in the Trial Balance. It may be that a balance is entered in the wrong column of the Trial Balance, thus causing a difference of double the amount.

5. If the difference is of a large amount, it would not be a bad plan to compare the Trial Balance with that of the previous year, in order to

ascertain whether the figures under the different heads of accounts are very near the same as those of the previous year, and whether their balances fall on the same side of the Trial Balance.

6. Very often, the amount of the difference will indicate the nature of the errors. If the difference is in round sum, it is probable that the mistake has been made in castings or in carry forwards. If it is in rupees, annas and pies, it is very likely an error or errors in posting or in extracting balances.

7. The question as to on which side the difference falls will also help towards the localising of the errors. For instance, if the debits exceed the credits, the receipts side of the Cash Book and the credits from the Journals should be gone through for unposted items. If the difference is the other way about, the payments side of the Cash Book and the debits from the Journals should be scanned for unposted items. It may be that an amount exactly equalling the difference has been left off unposted.

8. If the difference happens to be of an amount which constantly recurs in the books, all the postings of this amount may be checked to advantage.

9. Glance through the Subsidiary Records to trace unposted items and check the carry forwards, at the same time scrutinising badly written and indistinct figures.

10. Check the postings of the periodical totals of the Subsidiary Books into the Ledger.

11. Check the extraction of balances of the Personal and Impersonal Accounts and their transfer into the Trial Balance to see that the amounts are entered in the right columns.

12. The Journal should be scanned to see that the total debits and credits of each entry tally.

13. The totals of the Sales, the Purchases and other Subsidiary Books should next be checked.

14. If all these tests fail to localise the difference, a full re-check of the postings and the additions of Ledger Accounts would be necessitated. It would, however, be advisable to re-check the postings and additions of the Impersonal Accounts first before resorting to the Personal Accounts.

15. If the Ledgers are self-balancing, the work would be restricted to checking the balances, postings and casts of only such Ledger or Ledgers whose Trial Balances do not agree.

It may be pointed out that the above steps indicate a general outline of procedure as has been proved by experience to be most helpful, and need not necessarily be followed in regular order in each case. Those acquainted with the books must know best the weak spots of their work and it must be left to them to formulate the plan of action. The location of clerical errors sometimes proves to be a most difficult task, but at the same time it is not impossible of performance provided the search is conducted intelligently and assiduously.

The Trial Balance having been agreed, the preparation of the Final Accounts may be proceeded with.

ERRORS AND THEIR RECTIFICATION.

Errors may be divided into three main classes, viz. (1) Errors of Omission, (2) Errors of Commission, and (3) Errors of Principle.

(1) **Errors of Omission** may include the omission to enter Invoices in the Purchases Book or to enter Sales in the Sales Book, omission to enter Cash received or paid in the Cash Book or omission of a posting.

Errors of Omission should be rectified by entering up the original entry left out or by posting the item or items omitted to be posted.

(2) **Errors of Commission** consist of incorrect Postings, Calculations and Castings.

Among the usual Errors of Commission may be enumerated the following:—

The addition of two or more amounts in the inner column of a subsidiary book wrongly extended to the outer column.

The posting of wrong Amounts.

The posting of figures to wrong Accounts.

The posting of items to wrong sides of Accounts.

The wrong castings of the pages of any subsidiary book.

The wrong castings of Ledger Accounts.

The carrying forward of a wrong amount from the bottom of one page to the top of the next page.

The carrying forward of a wrong balance of a Ledger Account from one page to another.

(3) **Errors of Principle** may involve an incorrect allocation of expenditure as between Capital and Revenue, the valuation of assets upon an incorrect basis, an inadequate provision in respect of doubtful debts or depreciation, or omission of adjustments in respect of outstanding liabilities, prepaid expenses, income accrued or income received in advance, etc.

Any such errors having been ascertained, their correction will demand attention. The rectification of errors should never be done by erasing the entries already made, and, as seldom as possible, by striking them out with the pen. It will always be desirable to rectify the errors by means of compensating Journal entries. For instance, if an item has been debited to A instead of to B, a compensating Journal entry "B Dr. to A" will put the matter right. Again, if Repairs Account has been wrongly debited with Rs. 900 for a new oil engine bought, the necessary rectifying entry would be "Machinery Account Dr. to Repairs".

As Errors of Principle would vitally affect the correctness of the periodical Accounts, it would be necessary to see that no such errors are allowed to remain undetected and unrectified.

SUSPENSE ACCOUNT OR DIFFERENCE IN BOOKS ACCOUNT.

As errors arising from any of the above diverse causes need to be located and corrected immediately they are detected, the student must carefully study the varied Rectifying Journal Entries which have to be passed for the purpose. No rigid rules can be laid down as to how the correcting entries should be passed, but the main object must necessarily be to rectify the wrong position resulting from the existence of the errors, and to do that in a simple and effective manner without unduly disturbing the record already made.

Experience has shown that the difference in the Trial Balance ordinarily arises from any one or more of the following reasons, and it is in this direction, therefore, that efforts for the search for errors should be made:—

1. Error in bringing forward proper balances from the previous year's books.
2. Illegible figures in writing up books of account.
3. Errors in additions and carrying forwards.
4. Omission of Cash Balance or Bank Balance from the Trial Balance.
5. Bank Overdraft being placed in the wrong column.
6. Omission of any balance in the List of Debtors or Creditors.
7. Balance on Personal or Nominal Account being placed in the wrong column in the Trial Balance.
8. Items of the nature of Bad Debt, Return of Goods, Allowance or Discount entered in Personal Accounts in the Ledger without their passing through any Subsidiary Record.
9. Omission of any periodical total of the Purchases, Sales, Returns or Bill Books being posted in the Ledger.
10. Omission or mis-posting of Discount Column Totals of the Cash Book.
11. Omission of any balance from the Nominal Ledger.
12. Omission of balances from the Private Ledger, if any.
13. Errors arising from careless alignment of figures.
14. Posting of entries to wrong side of accounts.
15. Confusion or reversal of figures in postings or carrying forwards, e.g., Rs. 4-15-0 taken as Rs. 15-4-0 or Rs. 12-6-0 taken as Rs. 0-12-6.

It would thus be clear from the above what varied types of errors usually serve to cause disagreement in a Trial Balance, and inasmuch as these errors, if left undetected, would affect the proper presentation of correct Profit or Loss, or Assets and Liabilities at the end of any trading period, the book-keeper who allowed such disagreement to pass without any serious attempt at locating them would be incurring grave risks.

It would follow, therefore, that all possible attempts should be made to discover these errors and see to the proper agreement of the Trial Balance, before proceeding with the preparation of the Final Accounts. If, however, the preparation of these accounts cannot be delayed, the only proper and reasonable course would be to transfer the difference to an account styled "Suspense Account" or "Difference in Books Account", and not to close it by transfer to Profit and Loss Account, but to include it in the Balance Sheet so that the same may be carried forward in the subsequent year's books and duly adjusted on any of these errors being discovered.

In view of the difficulties generally experienced by students in passing Rectifying Entries, additional Illustrations of a more complicated nature have been inserted herein, fully explaining the working of the Suspense Account after the difference in the Trial Balance has been transferred thereto. The passing of appropriate Correcting Entries calls for a thorough understanding of the principles of Double Entry, and the student would, therefore, be well advised to try and understand the exact significance and effect of every such entry.

It need hardly be stated that there are innumerable other errors, such as omission of entries or wrong entries in the Subsidiary Records, debits or credits to wrong heads of accounts, etc., which though not affecting the agreement of the Trial Balance, will also call for rectification. It should be noted, however, that whereas the "Difference in Books Account" or the "Suspense Account" will deal merely with errors as would affect the arithmetical accuracy of the working of Double Entry, the other errors would be rectified by means of ordinary Journal Entries.

The following several illustrations will further help to explain how to pass Rectifying Errors.

ILLUSTRATION 12.

The undermentioned errors were discovered in the books of D. Sorabji, Provision Merchant, affecting the year 1937. What adjustments would be necessary to rectify these errors?

(1) An amount of Rs. 200 received from J. Cowasji on 31st December 1937, had been entered in the Cash Book on 1st January 1938.

(2) The addition of the Returns Outwards Book for December had been cast Rs. 100 short.

(3) The purchase of an Office Table costing Rs. 600 had been passed through the Invoice Book.

(4) Rs. 525 paid for wages to workmen for making Show Cases had been charged to Wages Account.

(5) A Purchase of Rs. 37-9-0 entered in the Invoice Book was credited to the creditor's account as Rs. 30-7-9.

(6) A Bill Receivable for Rs. 170 received from A. Bejonji had been dishonoured on maturity and was posted to the debit of "Allowances" Account.

(7) Rs. 750 paid for the purchase of a Motor Cycle for one of the partners had been charged to "Miscellaneous Expenses" Account.

(8) Goods amounting to Rs. 150 had been returned from a customer and were taken into stock, but no entry in respect thereof was made in the books.

(9) A Sale of Rs. 200 to Sen was wrongly credited to his account.

(10) The Sales Returns Book for November was over-cast by Rs. 75.

Solution.

(1) The entry of Rs. 200 on the debit side of the Cash Book on 1st January 1938, and its corresponding posting will be cancelled. A fresh entry would then be made under 31st December 1937, in the Cash Book, and the Cash Balance of that date would be increased to a like extent.

(2) The total of Returns Outwards Book for December will be brought to its correct figure, and Rs. 100 more would be posted to "Returns Outwards" Account.

(5) A further amount of Rs. 7-1-3 would be posted to the credit of the particular personal account.

(9) Sen's Account would be debited with Rs. 400 being double the amount of wrong credit.

(10) The November total of Sales Returns Book will be altered to the correct figure, and as the "Sales Returns" Account stands over-debited, Rs. 75 would be entered on the credit side of this Account giving reference to the error in casting.

The corrective Journal Entries for the remaining errors would be as follows:—

		L. F.	Rs.	Rs.
(3)	Furniture & Fittings Account ... ... Dr. To Purchases Account (Being the cost of Office Table bought charged to Purchases Account in error).		600	600
(4)	Furniture & Fittings Account ... ... Dr. To Wages Account (Being the Wages incurred in making Show Cases wrongly charged to the latter Account).		525	525

		L. F.	Rs.	Rs.
(6)	A. Bejonji ... ... Dr. To Allowances Account (Being dishonour of a Bill received from A. Bejonji debited to Allowances Account in error).		170	170
(7)	Partner's Current Account ... ... Dr. To Miscellaneous Expenses Account (Being the cost of Motor Cycle bought for a partner charged to the latter account in error).		750	750
(8)	Returns Inwards Account ... ... Dr. To Personal Account of the Customer (Being the goods returned by a customer omitted to be entered by oversight).		150	150

ILLUSTRATION 13.

Pass Journal Entries necessary to rectify the following errors:—

1. An amount of Rs. 200 withdrawn by the proprietor for his personal use has been debited to Trade Expenses Account.

2. A purchase of goods from T. Nathan amounting to Rs. 300 has been wrongly entered through the Sales Book.

3. A credit sale of Rs. 100 to C. Jairam has been wrongly passed through the Purchases Book.

4. Rs. 50 received from Shaw & Co. have been credited to Shah & Co.

5. Rs. 175 paid on account of salary to the cashier C. Govind stand debited to his personal account.

6. A contractor's bill for extension of premises amounting to Rs. 2,750 has been debited to Building Repairs Account.

7. On 24th June, goods of the value of Rs. 250 were returned by A. Ramrao and were taken into stock, but the returns were entered in the books under dated 3rd July, i.e., after the expiration of the financial year on 30th June.

8. A Bill of Rs. 125 for old Office Furniture sold to D. Jivaji was entered in the Day Book.

9. The periodical total of the Sales Book was cast short by Rs. 100.

10. An amount of Rs. 80 received on account of Interest was credited to Commission Account.

11. An amount of Rs. 105 paid for wages is posted twice to the debit of Wages Account.

		L. F.	Rs.	Rs.
1	Drawings Account ... ... Dr. To Trade Expenses (For the amount withdrawn for personal use wrongly charged to the latter account).		200	200
2 (a)	Sales Account ... ... Dr. To T. Nathan (Being the cancellation of the entry passed through the Sales Book).		300	300
(b)	Purchases Account ... ... Dr. To T. Nathan (To record the credit purchase from the latter).		300	300
3 (a)	C. Jairam ... ... Dr. To Purchase Account (Being the cancellation of the entry passed through the Purchases Book).		100	100

		L.F.	Rs.	Rs.
(b)	C. Jairam ... ... Dr. To Sales Account (Being the entry to record the credit sale).		100	100
4	Shah & Co. ... ... Dr. To Shaw & Co. (Being the rectification of a wrong credit given to the former account).		50	50
5	Salaries Account ... ... Dr. To C. Govind (Being the adjustment of Salary wrongly debited to the Personal Account of the Cashier).		175	175
6	Building Account ... ... Dr. To Buildings Repairs Account (Being the adjustment of amount wrongly debited to the latter account).		2,750	2,750
7	Returns Inwards Account ... ... Dr. To A. Ramrao (Being the entry necessary to record the Returns Inwards within the financial period).		250	250

NOTE.—The entry recording the above returns made under date 3rd July will have to be cancelled by passing a reverse entry under that same date debiting A. Ramrao and crediting Returns Inwards Account.

		L.F.	Rs.	Rs.
8	Sales Account ... ... Dr. To Office Furniture Account (Being the sale of old Office Furniture wrongly passed through the Sales Book).		125	125

9. The rectification of this error does not need any Journal Entry. Rs. 100 will have to be added to the addition of the Sales Book and a corresponding amount will have to be added to the credit of the Sales Account in the Ledger.

		L.F.	Rs.	Rs.
10	Commission Account ... ... Dr. To Interest Account (Being the adjustment of amount wrongly credited to the former account).		80	80

11. No Journal Entry is needed to adjust the error. One item of Rs. 105 will have to be ruled out from the debit side of the Wages Account in the Ledger. Another way of rectifying this error will be to credit the Wages Account with Rs. 105 to offset the excess debit.

ILLUSTRATION 14.

The book-keeper of a trading concern, having failed to agree the Trial Balance, opened a Suspense Account and entered the difference in the Trial Balance therein. The following errors were then subsequently discovered:—

(a) A cheque for Rs. 75 received from Jones & Co. having been dishonoured was wrongly debited to Allowances Account.

(b) The Discount Column of the Cash Book representing Discounts allowed to customers for the month of December was over-added by Rs. 30.

(c) The total of the Purchases Book for December was under-cast by Rs. 100.

(d) An item of Rs. 50 representing Return Inwards from P. Basu & Co. was omitted to be credited to their account from the Returns Inwards Book.

(e) The credit side of R. Roy's Account in the Ledger had been over-cast by Rs. 10.

(f) A sale of old Furniture amounting to Rs. 75 had been credited to Sales Account.

(g) A Bill Receivable accepted by S. Sampat & Co. for Rs. 200, which had been sent to the bankers for collection, having been dishonoured and returned by the Bank had been debited to Bills Receivable Account.

(h) A balance of Rs. 150, owing by B. Jijibhoy a customer, had been omitted from the list of Sundry Debtors.

You are required to ascertain the total amount of Difference in the Trial Balance, show the Suspense Account as opened by the book-keeper and the subsequent Adjusting Entries made therein. You are further required to explain how the rectification of the above errors would affect the profit already disclosed by the accounts.

RECTIFICATION ENTRIES.—The following Journal Entries would be necessary to rectify the errors:—

		L.F.	Rs.	Rs.
(a)	Jones & Co. ... ... Dr.		75	
	To Allowances Account			75
	(Being the adjustment of the amount wrongly debited to the latter account).			
(b)	Suspense Account ... ... Dr.		30	
	To Discount Account			30
	(Being the entry to cancel the excess debit on the Discount Account).			
(c)	Purchases Account ... ... Dr.		100	
	To Suspense Account			100
	(Being the adjustment of short debit on the former account).			
(d)	Suspense Account ... ... Dr.		50	
	To P. Basu & Co.			50
	(Being the adjustment of the credit omitted to be given to the latter account).			
(e)	R. Roy's Account ... ... Dr.		10	
	To Suspense Account			10
	(Being the adjustment of the excess credit on R. Roy's Account).			
(f)	Sales Account ... ... Dr.		75	
	To Furniture and Fixtures Account			75
	(Being the wrong credit to former account adjusted).			
(g)	S. Sampat & Co ... ... Dr.		200	
	To Bills Receivable account			200
	(Being the adjustment of wrong debit given to Bills Receivable Account).			
(h)	Sundry Debtors ... ... Dr.		150	
	To Suspense Account			150
	(Being the inclusion of the amount owing by a customer in the list of Sundry Debtors).			

EFFECT OF RECTIFICATION ENTRIES ON THE NET PROFIT.

As a result of the above Rectification Entries, the Net Profit will be increased by credits to Allowances Account for Rs. 75, and Discount Account for Rs. 30, whereas it will be decreased by debits to Purchases Account Rs. 100, and Sales Account Rs. 75. The question of provision for doubtful debt owing by S. Sampat & Co. due to dishonour of his acceptance need also be kept in view.

The Difference in Trial Balance will be made up as follows:—

		Dr. Rs.	Cr. Rs.
(a)	Will not affect agreement of Trial Balance		
(b)	Will result in excess debit	30	
(c)	Will result in short debit, i.e. (excess credit)		100
(d)	Will result in short credit, i e. (excess debit)	50	
(e)	Will result in excess credit		10
(f)	Will not affect agreement of Trial Balance	...	...
(g)	Do. Do.	...	...
(h)	Will result in short debit, i.e. (excess credit)		150
		80	260
	Amount debited to Suspense Account to agree the Trial Balance ...	180	
	Rs.	260	260

SUSPENSE ACCOUNT.

	Rs.		Rs.
To Amount of Difference in Trial Balance	180	By Purchases Account	100
" Discount Account	30	" Roy's Account	10
" P. Basu & Co.	50	" Sundry Debtors	150
Rs.	260	Rs.	260

ILLUSTRATION 15.

The Difference in Trial Balance having been transferred to a Suspense Account opened for the purpose, you are required to pass the Rectifying Journal Entries on the following errors being subsequently discovered, show how the Difference in Books arises, and open the Suspense Account:—

(1) Returns of Goods valued at Rs. 45 from Jehangir & Sons were wrongly entered in the Sales Day Book.

(2) A credit sale of Rs. 60 to B. Bapat was credited to his personal account from the Sales Day Book.

(3) A Bill Receivable for Rs. 225 received from Hiralal & Co. was posted to their credit as for Rs. 522.

(4) The total of a page in the Returns Outwards Book for November was carried forward as Rs. 350 instead of Rs. 305.

(5) The December total of the Returns Outwards Book was under-cast by Rs. 100.

(6) A return of goods on 26th December of Rs. 55 from Walter Bros. was omitted to be entered in the Returns Inwards Book, although the goods were taken into stock.

(7) A purchase of goods for Rs. 475 from Gupta & Sons was made on 25th December, but the goods were in transit and not received till the 7th January following.

(8) A credit sale of Rs. 175 was posted from the Sales Book to the debit of Lalji & Sons as Rs. 157.

(9) The total of the Sales Day Book for the month of September was over-added by Rs. 1,000.

(10) A Cash Sale of Rs. 90 to Souza & Co. was credited to their personal account in the Ledger.

(11) The cost of Rs. 375 for the purchase of a typewriter was debited to Trade Expenses Account.

(12) An item of Rs. 125 relating to Expenses Prepaid Account was omitted to be brought forward from the previous year's books.

(13) Discount of Rs. 20 was duly credited to R. Row & Co.'s Account, but was omitted to be entered in the Discount Column of the Cash Book.

(14) A credit sale of old Plant amounting to Rs. 340 was passed through the Sales Day Book.

(15) A credit purchase of goods valued at Rs. 155 from Wagle & Co. was credited to their account as Rs. 15-5-0.

(16) An item of Rs. 30 in respect of Sales Return, instead of being credited to the customer from the Returns Inwards Book, had been wrongly entered in the Sales Book and posted therefrom wrongly to the customer's credit.

RECTIFYING ENTRIES.—

		L.F.	Rs.	Rs.
(1)	Returns Inwards Account ... ... Dr. Sales Account ... ... „ To Jehangir & Sons (Being adjustment of omission of debit to Returns Inwards Account and wrong credit to Sales Account).		45 45	90
(2)	B. Bapat ... ... Dr. To Suspense Account (Being rectification of wrong credit to him instead of debit).		120	120
(3)	Hiralal & Co. ... ... Dr. To Suspense Account (Being adjustment of an excess credit).		297	297
(4)	Returns Outwards Account ... ... Dr. To Suspense Account (Being adjustment of an excess credit).		45	45
(5)	Suspense Account ... ... Dr. To Returns Outwards Account (Being adjustment of an under-credit).		100	100
(6)	Returns Inwards Account ... ... Dr. To Walter Bros. (Being entry omitted through oversight now passed).		55	55
(7)	Goods-in-transit ... ... Dr. To Gupta & Sons (Being a purchase unentered now brought into record).		475	475
(8)	Lalji & Sons ... ... Dr. To Suspense Account (Being correction of a short debit).		18	18
(9)	Sales Account ... ... Dr. To Suspense Account (Being correction of an over-credit).		1,000	1,000
(10)	Souza & Co. ... ... Dr. To Cash Sales Account (Being rectification of a credit to wrong account).		90	90
(11)	Office Furniture and Fixtures Account To Trade Expenses Account ... ... Dr. (Being rectification of a debit to wrong account).		375	375
(12)	Pre-paid Expenses Account To Suspense Account ... ... Dr. (Being omission of Pre-paid Expense item of last year now brought in).		125	125

		L. F.	Rs.	Rs.
(13)	Discount Account ... ... Dr.		20	
	To Suspense Account			20
	(Being omission of a debit on Discount Account now rectified).			
(14)	Sales Account ... ... Dr.		340	
	To Old Plant Account			340
	(Being debit to wrong account rectified).			
(15)	Suspense Account ... ... Dr.		139-11	
	To Wagle & Co.			139-11
	(Being correction of an under-credit).			
(16)	Returns Inwards Account ... ... Dr.		30	
	Sales Account ... ... „		30	
	To Suspense Account			60
	(Being correction of omission of debit to Returns Inwards Account and a wrong credit to Sales Account).			

The Difference in Trial Balance arises as under:—

		Dr. Rs. a. p.	Cr. Rs.
(1)	Does not affect agreement of Trial Balance		
(2)	Over-credit		120
(3)	Excess credit		297
(4)	Excess credit		45
(5)	Short credit, i.e. Excess debit	100 0 0	
(6)	Does not affect agreement of Trial Balance		
(7)	Do. Do.		
(8)	Short debit, i e. Excess credit		18
(9)	Over-credit		1,000
(10)	Does not affect agreement of Trial Balance		
(11)	Do. Do.		
(12)	Short debit, i.e. Excess Credit		125
(13)	Do. Do.		20
(14)	Does not affect agreement of Trial Balance		
(15)	Under-credit, i,e. Excess debit	139 11 0	
(16)	Omission of a debit, i.e.		
	Excess credit		30
	Excess credit		30
		239 11 0	1,685
	Difference in Trial Balance put to Suspense Account ...	1,445 5 0	
	Rs.	1,685 0 0	1,685

SUSPENSE ACCOUNT.

	Rs. a. p.		Rs. a. p.
To Difference in Trial Balance ..	1,445 5 0	By B. Bapat	120 0 0
„ Returns Outwards ...	100 0 0	„ Hiralal & Co.	297 0 0
„ Wagle & Co. ...	139 11 0	„ Returns Outwards	45 0 0
		„ Lalji & Sons	18 0 0
		„ Sales Account	1,000 0 0
		„ Pre-paid Expenses Account ...	125 0 0
		„ Discount Account	20 0 0
		„ Returns Inwards	30 0 0
		„ Sales Account	30 0 0
Rs.	1,685 0 0	Rs.	1,685 0 0

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. Explain briefly the true significance of the term "Double Entry" and enumerate the advantages attaching to the system.

2. Explain why Subsidiary Records are essential in a proper system of book-keeping and why they are called Subsidiary Journals.

3. What purpose does the Journal serve in modern book-keeping?

4. How does Cash Discount differ from Trade Discount?

5. Mention the different types of Cash Books used in business and explain in detail how they differ one from the other.

6. What is a Bank Reconciliation Statement, and how is it prepared? Submit a *pro-forma* example of same.

7. Explain fully what you understand by the Imprest System of Petty Cash.

8. What purpose does a Columnar Petty Cash Book serve?

9. Is Trial Balance a complete guarantee as to the accuracy of the Books of Accounts?

10. What steps would you take to discover errors in case of disagreement of a Trial Balance?

11. Explain the different classes of errors that usually arise in account-keeping and how they should be rectified.

12. Give three examples of Errors of Principle and Compensating Errors.

BANK RECONCILIATION.

13. From the following particulars, prepare a Bank Reconciliation Statement showing the Balance as per Bank Pass Book on 31st December 1931:—

The following cheques were paid into the firm's Current Account in December 1931, but were credited by the Bank in January 1932: A. Das, Rs. 250; B. Gupta, Rs. 300; and C. Roy, Rs. 240.

The following cheques were issued by the firm in December 1931 but were cashed in January 1932: M. Blue, Rs. 300; N. White, Rs. 500; and C. Black, Rs. 300.

A cheque for Rs. 100 which was received from a customer was entered in the Bank Column of the Cash Book in December 1931, but the same was paid into Bank in January 1932. The Pass Book shows a credit of Rs. 250 for interest and a debit of Rs. 50 for Bank charges. The Bank Balance as per Cash Book was Rs. 18,000 on 31st December 1931. (*Balance as per Pass Book Rs.* 18,410) **1**

14. On 31st March 1932, your Bank Pass Book showed a balance of Rs. 6,000 to your credit. Before that date, you had issued cheques amounting to Rs. 1,500, of which cheques amounting to Rs. 900 have so far been presented for payment. A cheque of Rs. 800 paid by you into the Bank on 29th March is not yet credited in the Pass Book. You had also received a cheque for Rs. 160, which although entered by you in the bank Column of the Cash Book, was omitted to be paid into the Bank. On 31st March, a cheque of Rs. 250 received by you was paid into the Bank but the same was omitted to be entered in the Cash Book. There was a credit of Rs. 85 for interest on Current Account and a debit of Rs. 10 for Bank charges. Draw up a Reconciliation Statement showing adjustments between your Cash Book and the Bank Pass Book. **2**

(*Balance as per Cash Book Rs.* 6,035.)

15. On 31st March 1941, the Bank Balance of P. Basu appeared at Rs. 3,425 as per the Bank Columns of the Cash Book. On reconciling this with the Pass Book, the following facts were ascertained:—

(*a*) That out of the cheques for Rs 1,200 issued by him on 25th March, cheques worth Rs. 400 were presented to the Bankers before 31st March, and those worth Rs. 600 were presented on the 10th April. The other cheques were not so far cashed.

(b) That a Bill Receivable for Rs. 700 was realised by the Bankers on 27th March, but no corresponding entry was passed in the Cash Book.

(c) That out of the up-country cheques for Rs. 1,800 paid in on the 28th March, one cheque for Rs. 700 was not yet credited by the bankers.

(d) That debits in respect of Bank Charges amounting to Rs. 32-8-0 and credits in respect of Bank Interest for Rs. 140, and Dividends realised Rs. 900 were not passed through the Cash Book.

(e) A wrong debit of Rs. 225 relating to some other account appeared in the Pass Book.

You are asked to ascertain the Bank Balance as shown by the Bank Pass Book on 31st March 1941.

16. Set out below are the extracts from the Cash Book (Bank Columns only) and Bank Pass Book of J. Bull. Prepare a Reconciliation Statement as at 31st December 1937.

CASH BOOK

1937		£	s.	d.	1937		£	s.	d.
Dec. 1	To Balance	458	2	6	Dec. 2	By Wages	48	0	0
„ 4	„ J. Smith & Co. ...	51	10	8	„ 4	„ Petty Cash ...	10	0	0
„ 7	„ Brown Bros. ...	104	8	6	„ 9	„ Self (Private) ...	100	0	0
„ 9	„ Geo. White & Son ...	44	18	4	„ 14	„ J Tucker... ..	284	2	9
„ 11	„ Buller & Co. ...	124	2	4	„ 16	„ Wages	51	0	0
„ 29	„ Plumer & Co. ...	98	0	2	„ 20	„ Cheque Book ...	0	4	2
„ 30	„ P. Methuen ...	208	16	4	„ 30	„ Chermside & Co. ...	41	0	10
„ 31	„ Cronje & Co. ...	84	14	9	„ 31	„ Salaries	35	0	0
					„ „	„ Wages	49	0	0
					„ „	„ Hunter & Co. ...	101	4	8
					„ „	„ Balance c/d. ..	455	1	2
	£	1,174	13	7		£	1,174	13	7
1937 Dec. 31	To Balance b/d. ...	455	1	2					

BANK PASS BOOK

J. BULL in account with the Blankshire Bank.

1938		£	s.	d.	1937		£	s.	d.
Jan. 1	To Self	50	0	0	Dec. 31	By Balance ...	205	15	5
„ „	„ Comm. on Scotch draft (Plumer & Co.)	0	0	6	1938				
„ 2	„ Hunter & Co. ...	101	4	8	Jan. 1	„ Plumer & Co. ..	98	0	2
„ „	„ P. Carew	48	1	0	„ „	„ Cronje & Co. ...	84	14	9
„ 3	„ Comm. on Scotch draft (J. Dundonald)	0	0	3	„ 3	„ J. Dundonald ...	49	14	9
					„ 4	„ P. Methuen ...	208	16	4
„ „	„ Unpaid draft (Cronje & Co.)	84	14	9	„ 6	„ J. Smith & Co. ...	48	13	6
„ „	„ Chermside & Co. ...	41	0	10					
„ 7	„ Wages	52	0	0					

(Balance as per Cash Book £455 1s. 2d.) *(London Chamber of Commerce.)* 4

17. On 30th September 1935, my Cash Book showed a Bank Overdraft of Rs. 49,350. On going through the Bank Pass Book for reconciling the balance, I find the following:—

Out of cheques drawn on 26th September 1935, those for Rs. 3,700 were cashed by the Bankers on 2nd October 1935 and a crossed cheque for Rs. 750 given to Abdul was returned by him and a bearer one was issued to him in lieu on 1st October 1935.

Cash and cheques amounting to Rs. 3,400 were deposited in Bank on 29th September 1935, but cheques worth Rs. 1,300 were cleared by the Bank on 1st October 1935 and one cheque for Rs. 250 was returned by them as dishonoured on the latter date.

According to my standing orders, the bankers have on 30th September 1935 paid Rs. 320 as interest to my creditors, paid quarterly premium on my policy amounting to Rs. 160, and have paid a second call of Rs. 600 on shares held by me and lodged with the bankers for safe custody. They have also received Rs. 150 as dividend on my shares and recovered an Insurance Claim of Rs. 800, their charges and commission on the above being Rs. 15. On receipt of information of the above transactions, I have passed necessary entries in my Cash Book on 1st October 1935.

My bankers seem to have given me a wrong credit for Rs. 500 paid in by me in No. 2 Account and a wrong debit in respect of a cheque for Rs. 300 drawn against my No. 2 Account.

Prepare a Reconciliation Statement as at 30th September 1935. 5

(*Overdraft as per Bank Pass Book Rs.* 46,395.)

18. On 31st October 1935, my Pass Book No. 1 showed an overdraft of Rs. 9,500. Out of cheques of Rs. 4,500 paid in on 28th October, Rs. 2,000 appear to have been credited in the Pass Book under date 3rd November. I had issued cheques in October amounting in all to Rs. 8,000, of which I find that Rs. 3,500 worth have been cashed in that same month, a cheque of Rs. 2,500 has been cashed on 2nd November and the rest have not been presented at all. My bankers have given me a wrong credit in No. 2 Account in respect of a cheque of Rs. 1,000 paid into No. 1 Account by me. Rs. 500 for interest on overdraft charged in the Pass Book on 1st November have been entered in my Cash Book as on 31st October. My Pass Book shows a credit of Rs. 600 to my Account, being interest on my Securities collected direct by my bankers.

Prepare a Reconciliation Statement as at 31st October 1935. 6

(*Overdraft as per Cash Book Rs.* 12,100.)

19. On 25th June 1935, I had an overdraft of Rs. 7,915 as shown by my Cash Book, Bank Columns. Cheques amounting to Rs. 1,000 had been paid in by me on 24th June, but of these only Rs. 750 were credited in the Pass Book. I had also issued cheques amounting to Rs. 2,500 of which Rs. 2,000 worth only seem to have been presented. There is a debit in my Pass Book of Rs. 75 for interest. I also find that a cheque for Rs. 60 which I had debited to Bank Account in my Books has been omitted to be banked.

An entry of Rs. 300 of a payment by a customer direct into the Bank appears in the Pass Book.

Prepare a Reconciliation Statement. 7

(*Overdraft as per Bank Pass Book Rs.* 7,500.)

RECTIFICATION OF ERRORS.

20. How would you rectify the following errors discovered after the preparation of the Trial Balance?

(1) An amount of Rs. 15 representing Cash Discount allowed by P. Atmaram on payment of his account stands debited to his account in the Ledger, but is not shown in the Discount Column against the payment entry in the Cash Book.

(2) An item of Rs. 750 paid for the purchase of a Gas Engine has been debited to Cash Purchases Account from the Cash Book.

(3) An item of Rs. 200 for purchase of Office Furniture has been wrongly passed through the Purchases Book.

(4) An amount of Rs. 105-15-0 for a credit sale to C. Gupta although correctly entered in the Sales Book has been wrongly posted as Rs. 115-5-0.

(5) A credit purchase of goods amounting to Rs. 125 from P. Benjamin & Co. has been omitted to be passed through the Invoice Book, but the payment made subsequently stands debited to an account opened in their name.

(6) A credit sale of Rs. 75 to C. Green duly entered in the Sales Book has been credited to C. Green's account.

(7) A credit purchase of goods for Rs. 9-6-0 from A. Arthur correctly entered in the Invoice Book has been wrongly posted as Rs. 6-9-0 to the credit of A. Arthur's account. 8

21. How would the following errors in the books of a business affect the accounts of the same? Show corrective Journal Entries.

£	s.	d.	
35	9	6	for goods sold, posted to the debit of charges.
93	2	11	cash posted to the credit of W. Jones, a partner, instead of to W. Jones, a customer.
15	3	6	posted to charges for the purchase of a safe.
1	5	6	posted to debit of stationery, instead of to W. Smith in payment of his account.
19	13	6	for wages to workmen for erecting the firm's new machinery, charged to Wages Account.
45	0	0	cost of repairing roof of a shed, charged to Buildings Account.

(*Chartered Accountants.*) 9

22. The books of a private firm having been posted up to 31st December 1937, how would you correct the following errors which were subsequently found therein? viz.:—

(1) An amount of £200, received from G. Thompson on 1st January 1938 had been entered in the Cash Book as having been received on 31st December 1937.

(2) £15, paid for the purchase of a sporting gun for one of the partners, had been charged to General Expenses Account.

(3) An addition in the Returns (Inwards) Day Book had been cast 10*s.* short.

(4) 15*s.* appearing in the Discount Column on the credit side of the Cash Book, had not been posted to a personal account.

(5) The analysis of Petty Cash for one month had been omitted, the following being the items, viz.: Wages cheque overdrawn 19*s.* 9*d.*; Postages and Telegrams, £12 10*s.*, General Expenses £24 13*s.* 4*d.*, Stationery, etc., £3 10*s.*

(6) A cheque for £20, drawn for Petty Cash and handed to the cashier, had not been posted to Petty Cash Account in the Ledger.

(7) A cheque for £5 had been handed to A. Johnson in exchange for his for a like amount. The latter had been duly paid into the Bank, but returned dishonoured. The only entry in the Cash Book is the payment to Johnson.

Prepare Journal entries for the adjustments where necessary.

(*Chartered Accountants.*) 10

23. The books of Messrs. Wm. Jones & Co. were balanced on 31st December 1933 and a Profit and Loss Account and Balance Sheet prepared. The Profit for the year, as shown by these accounts amounted to £2,481 6*s.* 4*d.* The following mistakes had been made by the book-keeper during the year:—(*a*) A gas engine costing £450 had been debited to "Purchases Account" instead of to "Machinery and Plant Account". (*b*) An amount of £15 12*s.* 8*d.*, received as a final dividend in the estate of G. Smith the Balance of whose account had, in a previous year, been written off as a bad debt, was standing to the credit of a newly opened account under the same name, and was included amongst the "Sundry Creditors" in the Balance Sheet. (*c*) A cheque amounting to £10 4*s.* 8*d.*, which had been returned dishonoured, was posted to the debit of "Allowances Account" instead of the account of A. Brown, from whom it was received. (*d*) Goods amounting to £52 1*s.* 4*d.* had been returned by R. Robinson on 30th December 1933 and were taken into stock, but the entries recording the return were not passed through the firm's books until 4th January 1934. What adjustments would be necessary to rectify these errors, and how would they affect the abovementioned profit?

(*London Chamber of Commerce.*) 11

24. In taking out a Trial Balance, a book-keeper finds that he is out Rs. 41-10-8 excess debit. Being desirous of closing his books, he places the difference to a newly opened Suspense Account which is carried forward. In the next period he discovers that

(*a*) a Credit item of Rs. 83-9-11 has been debited to a Personal Account as Rs. 38-11-9; (*b*) a sum of Rs. 62-10-0 written off Fixtures as depreciation has not been posted to Depreciation Account; (*c*) Rs. 1,000 paid for Furniture purchased had been charged to the ordinary Purchase Account; (*d*) a discount of Rs. 15-4-6 allowed to a customer has been credited to him as Rs. 14-5-6; (*e*) the total of the Inward Returns has been added Rupee One short; and (*f*) an item of Sale for Rs. 68 was posted as Rs. 86 in the Sales Account.

Give the correcting entries, and prepare the Suspense Account. State also the ultimate effect of these correcting entries on the Profit and Loss Account. 12

25. Point out the inaccuracies in the following Journal, giving your reasons and make the necessary entries to correct the errors:—

	L.F.	Rs.	a.	p	Rs.	a.	p.
Messrs. Mahomedally & Co., Ahmedabad ... ... Dr.		935	7	6			
To Sales					935	7	6
(Being the price of 20 tons of Portland Cement "Hand Brand" at Rs 52 per ton, Free on Rail, Ahmedabad, *less* the amount of Railway Freight paid by them).							
Railway Freight Account ... ... Dr.		104	8	6			
To Messrs. Mahomedally & Co., Ahmedabad					104	8	6
(Being the amount of Railway freight paid by them on the above).							
Sundries ... ... Dr.							
John Brown		600	0	0			
Travelling Expenses		354	8	6			
To John Brown's Advance Account					954	8	6
(Being the amount of Mr. John Brown's salary for the month of December deducted by him from the amount advanced to him and the amount of his travelling expenses as per account rendered by him).							
Investments Account ... ... Dr.		8,066	13	1			
To Jamnadas Parbhudas					8,066	13	1
(Being the cost of 3½ per cent Government Paper of the face value of Rs. 10,000 bought through him at 80 per cent ex div. Accrued interest to date of purchase Rs. 58-5-4, *less* income-tax Rs. 1-8-3 and Rs. 10 for brokerage).							

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26. On scrutinising the books of a Business House, the accountant of which had agreed the Trial Balance, the following errors were detected:—

(*a*) An Invoice received from Abdul Rehman for Rs. 550 was entered in the books as for Rs. 55 only. (*b*) A bill of Rs. 225 for old Furniture of the Business sold to Chanduram was entered in the Day Book. (*c*) Bill received from Jaywant for repairs done to Machinery Rs. 150 and three table fans supplied for Rs. 290, was entered in the Invoice Book. (*d*) Rs. 1,500 paid for repairs done to the Building were debited to Building Account. (*e*) Rs. 900 paid for Rent were debited to Landlord's Account and Rs. 275 paid to Dhanram against our acceptance were debited to Shantaram's Account. (*f*) Goods sold to Hirji worth Rs. 10, were debited to his account as Rs. 100. From Cash Book it was found that discount of Rs. 40 allowed by John was not posted to his account and an amount of Rs. 25 for interest on Bank Overdraft was credited to Interest Account.

Pass the necessary Journal Entries to rectify the above mistakes 14

27. In closing the books of Robert Sawyer you find the undermentioned. How would you deal with these transactions when preparing the annual accounts for the year ended 31st December 1934? (1) Fire Insurance Premium, £50, paid on 30th June 1934, covering the twelve months to 30th June 1935. (2) Salaries £125 accrued to A, B and C, but not yet drawn by them (3) R. Robinson paid £100 in advance in full settlement for work which was being executed for him under a contract. The cost of the work completed up to 31st December 1934 amounted to £39 when it was estimated that half the contract had been completed (4) Patents Account showed a debit balance of £557 7*s*. This

amount consisted of Patent Rights, 6 years to run, purchased for £550 and renewal fees for the year 1934, £7 7s. (5) Three years ago Robert Sawyer bought a milling machine for £200 and depreciation at the rate of 10 per cent upon the diminishing balance has been written off each year. The same machine, however, can now be bought for £120 owing to improvement in the manufacture. (*London Chamber of Commerce.*) 15

28. A Trial Balance, at a given stock-taking, shows that the books are arithmetically accurate. The book-keeper has, however, by inadvertence or through ignorance made the following postings:—

(*a*) A Bill for £85 received from a customer has been credited to Machinery and Plant Account. (*b*) Discounts of £54 allowed to customers have been debited to Reserve Account. (*c*) Repairs to engine and boiler, £130, and the cost of a new boiler £850, have been charged against Machinery and Plant. (*d*) A sum of £500 for a three years' advertisement has been carried to Printing and Advertising.

What errors of fact or principle has the book-keeper committed? How would you propose to remedy them, and what will be their effect if unremedied?

(*Incorporated Accountants.*) 16

29. The undermentioned errors were made by the counting house staff in the books of Messrs. Black and Brown during the year ended December 31, 1934. How would you adjust these errors, and how would they affect the Annual Accounts for that year? (*a*) On June 30, a builder's charge for the erection of a small shed, amounting to £198, was analysed in the Purchases Journal under the head of "Repairs" and posted to that account. (*b*) On July 1, a cheque for £18 2s. 4d. received from James Smith was dishonoured and posted to "Allowances Account". (*c*) On August 12, the total of the previous month's wages was debited to "Manufacturing Wages Account". During the month some new machinery had been put down, and the firm's own men had spent time thereon amounting to £141. (*d*) On December 28, goods to the value of £64 were returned by Francis White and taken into stock, but not entered in the books until 2nd January 1935.

(*Royal Society of Arts.*) 17

ANALYTICAL PETTY CASH BOOK.

30. From the undermentioned particulars, write out Petty Cash Book on the Imprest System and in analytical form, and explain the Double-Entry of this Book:—

On 1st January, a cheque was drawn for Rs. 75 for Petty Cash. On 2nd January, stamps value Rs. 22-8 were bought, and carriage on goods sold was paid to the G.I.P. Railway Co. Rs. 5-10; paper and ink were purchased for Rs. 3-9, and carriage on goods Rs. 1-2 was paid to C.P. & Co.; Rs. 11-4 was paid for cleaning. On 3rd January, Rs. 1-5 was paid in gratuities and annas 6 for string. On 4th January, Office Staff had tea at a cost of Rs. 4-8, and carriage was paid to B.B. & C.I. Railway Rs. 3-7. On 5th January, a telegram was sent at a cost of Rs. 5-4 and on 6th January, sundry stationery was bought at a total cost of Rs. 10-9. 7th January was a Sunday.

Close the Petty Cash Book, bring down the balance and show how the further imprest cheque received will appear. 18

CHAPTER II.

TRADING, MANUFACTURING AND PROFIT AND LOSS ACCOUNTS AND BALANCE SHEET.

Next Step after Agreement of Trial Balance.—The next step after the greement of the Trial Balance is the preparation of the Trading and Profit and Loss Account and the Balance Sheet. The debit balances of a Trial Balance would represent either Assets or Losses, and the credit balances either Liabilities or Gains.

All Losses and Gains would be grouped together under one Account called the Trading and Profit and Loss Account which would serve to show the resultant profit or loss made in the trade.

All Assets and Liabilities would be collected under a separate statement called the Balance Sheet, from which would be ascertained the exact financial position of the concern as at the date of balancing.

In ascertaining whether any particular item should appear in the Profit and Loss Account or Balance Sheet, the following very simple rules shall be applied:—

(1) If the debit balance of any account is recoverable, it is an asset and will appear in the Balance Sheet; if it is not recoverable, it represents an expense or a loss and will find its place in the Profit and Loss Account.

(2) If the credit balance of any account is payable, it is a liability and will appear in the Balance Sheet; if it is not payable, it is a gain and will be shown in the Profit and Loss Account.

TRADING ACCOUNT.

The Profit and Loss Account of a trading concern is usually divided into two sections. The first section is termed the Trading Account which is so framed as to show the *gross profit*. The gross profit as shown by the Trading Account is transferred to the second section which is the Profit and Loss Account proper.

Gross Profit is the difference between the cost of the goods that hav been sold and the proceeds of their sale, without any deduction in respec of the expenses of distribution and general establishment charges. In th Trading Account, therefore, it is necessary to include all items of charg *directly* affecting the cost of the goods sold. It is equally necessary to s that the form of the account once adopted should be adhered to, so that t gross profits for periods may be arrived at on a uniform basis for the purpo of comparison, etc. By the ascertainment of gross profit, the proprietor enabled to see what percentage of profit he has earned on the buying a selling of goods. A careful comparison of such percentage and also of different items of the Trading Account, with those of previous periods, disclose the weak and strong points of his business, and at the same ti give him a fund of valuable information that will greatly guide him a the fixing of his future selling prices and also afford him a check to a cer extent upon the cost of materials and labour.

The following items usually appear on the debit and credit sides of rading Account:—

On the debit side—

1. Stock on hand at the commencement of the period.

2. Total Purchases made during the period, *less* value of Returns Outwards.

3. Direct Charges, i.e., such expenses as add directly to the cost of the goods purchased, such as Freight, Duty, Clearing Charges, Dock Dues, Carriage Inwards and Cartage.

On the credit side—

1. Total Sales made during the period, *less* the value of Returns Inwards.

2. Stock on hand at the end of the period.

The excess of the credit total over the debit is called the *Gross Profit,* i.e., the excess realised on the sales over the purchase price of the goods sold, and is transferred to the Profit and Loss Account.

The Trading Account of a Trader will appear as follows:—

FORM OF TRADING ACCOUNT.

	Rs.		Rs.
To Stock at commencement ...		By Sales *less* Returns ...	
„ Purchases *less* Returns ...		„ Stock at end ...	
„ Freight, Duty, etc. ...			
„ Carriage Inwards ...			
„ Gross Profit transferred to Profit and Loss Account ...			
Rs.		Rs.	

Advantages of Trading Account.—The advantages of a Trading Account may be summed up as under:—

1. It shows the *gross result* arising from the buying and selling of goods.

2. It enables a comparison to be made of the purchases, sales and stock of one period with similar items of the preceding period, and thus helps to detect the weak spots of the business.

3. It provides means for the ascertainment of the ratio of gross profit to the turnover, in order to find out how far the anticipated results have been achieved.

4. It affords a check on the percentages which the direct expenses bear to the gross profit.

Comparative Scrutiny of Trading Account Figures.—A comparative scrutiny of the various figures embodied in the Trading Account with similar figures of the previous period would help those in management to maintain a firm grip on the details of the business and would equally enable them to draw conclusions which might prove of inestimable value. In any case, such a comparison would inform them of the following points:—

1. Whether there has been any increase or decrease in the ratio of gross profit to turnover, and if so, how such variation can be accounted for. If the results disclose a steady decrease in the ratio of the gross profit from period to period, it would signify an undesirable state of affairs and would naturally call for urgent and drastic remedies.

2. To what extent the stock has been fluctuating and whether such stock is maintained within legitimate limits.

3. Whether the buying has been judicious.

4. How far the sales are on the increase or otherwise.

5. Whether there has been any theft or leakage of goods.

Percentage of Gross Profit on Turnover or Output.—The percentages of gross and net profits on the total turnover each year may be ascertained thus:

$$\text{Turnover} : 100 :: \text{Gross Profit} = \frac{\text{Gross Profit} \times 100}{\text{Turnover}}$$

$$\text{Turnover} : 100 :: \text{Net Profit} = \frac{\text{Net Profit} \times 100}{\text{Turnover}}$$

The term "Turnover" is used by Trading Concerns to represent their Net Sales, e.g., Sales *less* Returns Inwards, whereas the term "Output" is used by Manufacturing Concerns to represent the quantity of products manufactured during any stated period. It is also used by coal and other mines and quarries to indicate the quantity of material extracted during any particular period.

There are concerns which, far from being satisfied by a mere comparison of the percentage of gross and net profits on the turnover of each year with similar percentages earned in the preceding year or years, extend this principle of comparative results to each and every item of the Trading Account. In order to enable this to be done, an additional column on either side of the Trading Account is inserted, and the percentage that each item bears to the sales is set out against it. Further additional columns may be added on either side to show similar percentages of one or more preceding years as desired. Hardly any trading business can be imagined where the management may not benefit by such a comparative scrutiny of figures. In a manufacturing concern, however, where so many diverse factors enter into the cost of production and where there are constant fluctuations in the price of material, labour, etc., the enormous advantage of Percentage Trading and Manufacturing Accounts would be still more felt. This principle of comparative results may also be usefully extended to the Profit and Loss Account, in order to ascertain how the various expenses of administration and distribution are effected by the volume of the sales.

COMPARATIVE TRADING ACCOUNT.

	1938	1939	1940	Rs.		1938	1939	1940	Rs.
To Stock at commencement ..				7,500	By Sales *less* Returns ...			100%	30,000
" *Purchases ... *less* Returns ...			47%	15,600	" Stock at close				9,000
" Carriage Inwards			1.33%	400					
" Duty & Clearing			5%	1,500					
" Gross Profit transferred to Profit and Loss Account ...			46 67%	14,000					
Rs.			100%	39,000	Rs.			100%	39,000

* NOTE.—The percentage against Purchases is on Cost of Goods Sold, i.e., Opening Stock + Purchases — Closing Stock.

Increase in Percentage of Gross Profit.—Any one or more of the following causes may account for an abnormal increase in the ratio of gross profit to the turnover :—

(*a*) The stock might have been over-valued due to a different basis of valuation having been adopted or due to errors in inventories.

(*b*) The purchase price during the period having remained constant, the sale price may have been enhanced; or the sale price having remained constant, the purchases may have been effected at cheaper rates.

(*c*) Goods may have been taken in stock, but the corresponding purchase invoices may not have been entered.

(*d*) Goods entered as sold but not delivered may have been inadvertently included in stock.

(*e*) Some sales may have been entered twice.

Decrease in Percentage of Gross Profit.—An unusual decrease in the ratio of gross profit may be accounted for by one or more of the following reasons :—

(*a*) Stock may have been under-valued.

(*b*) Whereas the sale price of the goods dealt in may have remained the same as in the previous year, the purchase price may have gone up; or the sale price having gone down, the purchase price may have remained the same.

(*c*) There might have been pilferings of stock.

(*d*) Some purchases might have been entered twice.

(*e*) Goods entered as bought may not have been received, and thus not included in stock.

(*f*) Some sales money may have been misappropriated and the sales not accounted for.

(*g*) Goods sold and actually delivered may not have been entered in the Sales Book due to inadvertence.

The following points need to be most carefully noted :—

Purchases.—This item should include cash as also credit purchases of all goods bought for re-sale during the trading period. The gross purchases will appear in the inner column, and the net amount after deduction of Returns Outwards in the outer column of the Trading Account. It is incorrect to show Returns Outwards on the credit side of the Trading Account.

It should be seen that all goods entered in the Purchases Book and remaining unsold are included in the Closing Stock.

Sometimes, invoices are received in advance of goods, and if the corresponding goods have not arrived before the close of the trading period, neither should such Invoices be entered in the Purchases Book nor should the goods be taken in Closing Stock. Where, however, the goods purchased are in course of transit, it is necessary to bring these into account by debiting Goods-in-Transit Account and crediting the Supplier's Account. The former account will appear as an asset in the Balance Sheet and the latter account will represent the liability incurred.

A point of equal importance is to see that all goods received and included in the stock are duly entered up in the Purchases Book.

In a manufacturing concern, the item Purchases would represent raw materials purchased for the purposes of manufacture, and partly finished products or finished goods, if purchased.

Purchases of goods by the trader for his personal use should be charged to his Drawings Account.

Purchases relating to Plant, Fixtures and other assets not for re-sale should be debited to the asset account in question.

Purchases of Stationery or Advertising Matter should be debited *to their* relative accounts.

Goods received on consignment should not be entered in the Purchases Book, but should be specifically treated as explained in the Consignment Chapter.

Sales.—This item should include all cash and credit sales of *goods effected* during the period. The gross sales should appear in the inner *column*, and the net figure after deduction of Returns Inwards in the outer *column* on the credit side of the Trading Account. It is incorrect to show Returns Inwards on the debit side of the Trading Account.

In regard to the entries in the Sales Book a few days before the close of the financial period, it should be seen that the corresponding goods have been taken out of the bulk and delivered. In any case, goods entered as sold should not be treated as forming part of the Closing Stock.

Amount realised on the sale of an asset should be credited to the asset account in question and not the Sales Account.

Goods sold by the trader as a consignee should not be included in the sales, but should be credited to the Consignor's Account, as explained in the Consignment Chapter.

Goods sent out on Sale or Return, i.e., on approval, should be treated as Sales only when approved by the Customers. (*See* Chapter on Sale or Return.)

Goods sold on Hire Purchase or Instalment System would *need to* be specifically treated. (*See* Chapter on Hire Purchase.)

Freight.—Freight inwards, i.e., freight paid on goods bought is included in the Trading Account; Freight outwards. i.e., paid on goods sold is shown in the Profit and Loss Account.

Freight paid on the purchase of Plant, Machinery, Furniture or any other fixed asset should be charged to such asset account, as it would add to the purchase price of the asset in question.

Carriage.—Carriage inwards appears in the Trading Account and Carriage outwards in the Profit and Loss Account. In working out exercises, when the item Carriage appears in the Trial Balance, and it is not specifically mentioned to be inward or outward, it may safely be assumed to be *inward* and may be debited to Trading Account.

Carriage or Cartage Inwards paid on the purchase of Plant, Fixtures, Office Furniture or any other asset not for re-sale should be debited to such asset account, and not to Carriage or Cartage Account.

Discounts.—Trade Discounts on purchases or sales must be *deducted* from purchases or sales in preparing the Trading Account, whilst Cash Discounts must appear in the Profit and Loss Account. It is always advisable to show the items of Discount allowed and Discount received separately on the debit and credit sides of the Profit and Loss Account, in order that the loss as well as the gain, under this head, may be distinctly seen.

Duty and Dock Charges.—If these *relate* to purchases, they appear in the Trading Account. If paid on the acquisition of a fixed asset, they should be charged to the asset account in question.

Packing Materials and Charges.—When goods have been packed in a special way to comply with order, or when special packing is required before the goods can be considered ready for sale, these would be charged to Trading Account. In all other ordinary cases, these should go in the Profit and Loss Account.

Consumable Stores.—This item occurs in manufacturing concerns and needs a little explanation. Consumable Stores Account is debited with purchases of engine-oil, cotton-waste, tallow and any other stores as would be consumed in the course of manufacturing. From time to time, as these stores are consumed, Journal entries are passed debiting Stores Consumed Account and crediting Consumable Stores Account. At the time of balancing, the debit balance of the latter account would mean the stock of these stores on hand, and would, therefore, appear in the Balance Sheet, and Stores Consumed Account would be closed by transfer to the Trading Account or preferably to the Manufacturing Account, if one is prepared.

Closing Stock.—The item of closing stock does not appear in the books and is therefore not included in the Trial Balance. In order, however, to ascertain the true results of trading at the end of any financial period, the trader has to take stock of the goods unsold and bring it into account after valuing it properly. The entry for so doing is to debit "Stock-in-trade Account" and credit the Trading Account.

It should be clearly understood that only the goods remaining unsold at the end of the financial period and which are *the property of the trader* should be treated as closing stock. Thus, goods received by him to be sold on consignment or on sale or return do not form part of his closing stock.

Stock of Stationery or Advertising Matter, if any, should not be mixed up with the Stock-in-trade but should be shown separately as an asset under its distinct heading. Further, such stock should be valued on a most conservative basis, and only that portion of the stock as is serviceable should be brought into value.

MANUFACTURING ACCOUNT.

A Manufacturing Account is prepared in a manufacturing business quite distinct from the Trading Account in order that whereas the Manufacturing Account may serve to indicate the results of the Manufacturing Department, the Trading Account may help to reflect the results achieved by the Selling Department.

As to what items should appear on the debit and credit sides of the Manufacturing Account would depend upon the information that is sought to be obtained therefrom. With some manufacturers, a Manufacturing Account is drawn up solely for the purpose of arriving at the actual *Cost of Production* of the goods manufactured during a given period. With others, a Manufacturing Account is prepared with the object of finding out what profit, if any, has been made by the Manufacturing Department. In any case, where separate Manufacturing and Trading Accounts are prepared, whereas the Manufacturing Account would deal with raw materials, partly manufactured goods and manufacturing expenses, the Trading Account would necessarily deal with Finished Goods only.

Combined Trading and Manufacturing Account.—There are small manufacturing businesses which prepare a combined Manufacturing and Trading Account. Such an account would naturally include all items dealing with the manufacturing costs and the sales, but will fail to indicate the actual profit made by the Manufacturing Department as distinct from the trading results. The resultant gross profit as ascertained by this combined account would thus include the profit made from manufacturing as also the gross profit on sales.

For examination purposes, where separate Manufacturing and Trading Accounts are not required, the student would do well to prepare a combined account. On the debit side of this account would be shown the Opening Stock of Raw Materials, Work-in-Progress and Manufactured Goods, Purchases of Raw Materials and Direct Charges thereon, as also all the Factory Expenses. Against these would be set off the Sales and the Closing Stock of Raw Materials, Work-in-Progress and Manufactured Goods, on the credit side. The difference would then represent the Gross Profit on Sales including the manufacturing profit.

COMBINED MANUFACTURING AND TRADING ACCOUNT.

	Rs.	Rs.		Rs.	Rs.
To Stock at commencement:—			By Sales	......	
Manufactured Goods	......		*Less* Returns	......	......
Work-in-Progress	......		„ Stock at end:—		
Raw Materials	......	......	Manufactured Goods	......	
„ Purchase of Raw Materials	......		Work-in-Progress	......	
Less Returns	......	......	Raw Materials	......	......
„ Carriage Inwards		......			
„ Wages		......			
„ Factory Lighting		......			
„ Motive Power		......			
„ Factory Rent and Taxes		......			
„ Factory Insurance		......			
„ Coal and Coke		......			
„ Water		......			
„ Oil and Tallow		......			
„ Belting		......			
„ Sundry Manufacturing Expenses		......			
„ Repairs to Factory Building		......			
„ Repairs to Plant		......			
„ Depreciation on Factory Building		......			
„ Depreciation on Plant		......			
„ *Gross Profit including Profit on Manufacture transferred to Profit and Loss Account*		......			
	Rs.	......		Rs.	......

Manufacturing Account showing Cost of Production.—Where the Manufacturing Account is compiled with a view to ascertain the actual manufacturing cost of the articles produced, there would appear on the debit side, the Opening Stock of Raw Materials and Goods-in-Process of Manufacture, Purchases of Raw Materials and Carriage or Cartage thereon, Manufacturing Wages and all other expenses relating to the factory. Against these would be set off, on the credit side, the Closing Stock of Raw Materials and Goods-in-Process of Manufacture at actual cost. The account would then show neither profit nor loss, and the balance representing the actual cost of production of the Finished Goods, would be transferred to the Trading Account.

The Trading Account, in this case, would stand charged with the cost of the Finished Goods ascertained as above. On the debit side of this account, there would also appear the Opening Stock of Finished Goods, the outside Purchases of Finished Goods, if any, and the direct charges thereon. On the credit side would be shown the Sales and the Closing Stock of Finished Goods. The difference between the two sides of Trading Account, in this case, would indicate the gross profit inclusive of the profit, if any, made by the Manufacturing Department.

Where the Manufacturing Account is prepared with the object of showing the Cost of Production, the Gross Profit as disclosed by the Trading Account would include manufacturing profit as also the gross profit on sales.

MANUFACTURING ACCOUNT.

(Showing Cost of Production).

	Rs.	Rs.		Rs.	Rs.
To Stock at commencement :—			By Stock at end :—		
Raw Materials	......		Raw Materials	......	
Partly Manufactured Goods	......	......	Partly Manufactured Goods	......	......
" Purchase of Raw Materials	......		" *Cost of Production during the period transferred to Trading Account*		......
Less Returns	......	......			
" Carriage Inwards on Raw Materials		......			
" Direct Wages (Productive)		......			
" Factory Expenses :—					
Rent and Taxes	......				
Lighting and Heating	......				
Motive Power	......				
Coal and Coke	......				
Factory Insurance	......				
Indirect Wages (Non-productive)	......				
Repairs to Plant and Factory Building	......				
Depreciation on Plant	......				
Depreciation on Factory Building	......	......			
	Rs.	......		Rs.	......

TRADING ACCOUNT.

(Showing Gross Profit inclusive of Profit on Production).

	Rs.	Rs.		Rs.	Rs.
To Stock of Finished Products at Commencement		......	By Sales	......	
" *Cost of Production transferred from Manufacturing Account*		......	*Less* Returns	......	......
" Purchase of Finished Products	......		" Stock at end :—		
Less Returns	......		Finished Products		......
" Carriage Inwards thereon		......			
" Gross Profit transferred to Profit and Loss Account		......			
	Rs.	......		Rs.	......

Manufacturing Account showing Manufacturing Profit.—In a large manufacturing concern where so many varied factors enter into the cost of production of the articles manufactured, it is highly desirable that the proprietors should be able to see for themselves as to what profit is made by their Manufacturing Department apart from the profit earned by the Sales Department. This is necessary in order to ascertain whether the Manufacturing Department has justified its existence, for, it need hardly be mentioned that it would be no use continuing with this department if it is found that the goods cannot be produced at a profit, i.e., at anything less than their current trade price. The current price, in this case, would mean the price at which similar articles can be bought from other manufacturers.

When a Manufacturing Account is prepared with a view to find out profit or loss on manufacturing, all the items on the debit side of this Account would be shown in just the same manner as described in the immediate preceding illustration. On the credit side also will be shown the Closing Stock of Raw Materials and Work-in-Progress (the same as in the previous case). In this case, however, instead of the difference between the two sides being shown as a balance representing the Cost of Production of Finished Goods, the Finished Products during the year would be *valued at the Current Trade Price* and the amount thus arrived at will be debited to the Trading Account and credited to the Manufacturing Account. The Manufacturing Account will now serve to indicate the profit or loss on manufacturing, and the difference on this account will be transferred to the Profit and Loss Account. This will close the Manufacturing Account.

The Trading Account, in this case will stand charged with the Trading Price of the Finished Products for the purpose of sale. The result thus indicated by the Trading Account, after the other usual debits and credits are given, would signify the true gross profit made by the Trading Department.

Where the Manufacturing Account is prepared with the object of showing the profit made on Manufacturing, the Gross Profit as disclosed by the Trading Account would indicate the gross profit on sales.

MANUFACTURING ACCOUNT.

(Showing Profit on Manufacturing)

	Rs.	Rs.		Rs.	Rs.
To Stock at commencement:—			*By Stock at end:—*		
Raw Materials	......		Raw Materials	......	
Partly Manufactured Goods	......	......	Partly Manufactured Goods	......	......
,, Purchase of Raw Materials	......		,, *Trade Price of Finished Products transferred to Trading Account*		......
Less Returns	......	......			
,, Carriage Inwards on Raw Materials		......			
,, Direct Wages (Productive)		......			
,, Factory Expenses:		......			
Rent and Taxes	......				
Lighting and Heating	......				
Motive Power	......				
Coal and Coke	......				
Factory Insurance	......				
Indirect Wages (Non-productive)	......				
Repairs to Plant and Factory Building	......				
Depreciation on Plant	......				
,, on Factory Building	......	......			
Gross Profit on Manufacturing transferred to Profit and Loss Account		......			
Rs.		......	Rs.		......

TRADING ACCOUNT.
(Showing Gross Profit on Sales).

	Rs.	Rs.		Rs	Rs.
To Stock of Finished Products at commencement		......	By Sales	.. ...	
,, *Manufacturing Account*:— *Transfer of Trade Price of Finished Products*		......	*Less* Returns	......	......
,, Purchase of Finished Products	.....		,, Stock at end:—		
Less Returns	.....	......	Finished Products		... ..
,, Carriage Inwards thereon		......			
,, Gross Profit on Sales transferred to Profit and Loss Account		.. ...			
Rs.		.. ...	Rs.		......

Raw Materials and Stores.—In a manufacturing concern, this item would denote purchases of raw materials and stores and will appear on the debit of the Manufacturing Account. Freight, Carriage or Cartage and Dock Charges, if any, on the purchase of raw materials must also be shown in the Manufacturing Account.

As raw materials and stores are held by a manufacturing concern not for the purpose of re-sale in their original condition, but to be utilised in the process of manufacture, the basis of valuation usually adopted is the cost price. The cost price for this purpose would be the net invoice price *plus* freight, duty, carriage inwards, etc. Under ordinary circumstance, even if the market price has fallen below cost, the value of raw materials and stores in stock need not be brought down to that level. When, however, the fall in market price is appreciably heavy so as to affect the selling price of the manufactured products, it would be desirable to value these at market price.

Materials Consumed.—This item generally appears on the debit of the Manufacturing Account. It is arrived at by taking the figure of opening stock of raw materials, adding thereto the purchases during the period and deducting from the total the closing stock of raw materials.

Productive Wages.—In the absence of any information to the contrary, the item of Wages (in a manufacturing concern) would always mean manufacturing wages and would find its place in the Manufacturing Account. In case of a trading concern, the item would appear in the Profit and Loss Account.

Wages, if any, due to the end of the financial period and not paid should be brought into account as an outstanding liability.

Wages paid to workmen who may have been employed in manufacturing loose tools or plant, or on erection of plant, or in making extensions to works premises, are allowed to be capitalised and should be charged to the asset account in question.

Non-Productive Wages are the wages of shop cleaners, repairers, night watchmen, carmen, store-keepers, etc. Such wages are debited to the Manufacturing Account under the sub-head Factory Expenses.

Work-in-Progress.—In a manufacturing concern, the item 'Work-in-Progress' would mean goods in process of manufacture, whereas in case of a contractor the same expression would mean work partly executed but not completed. Where a separate Manufacturing Account is prepared, Work-in-Progress at commencement will appear on the debit, and that at the end of the financial period will appear on the credit side of the Manufacturing Account. Great care should be taken in valuing Work-in-Progress. The basis of valuation considered as sound and correct and the one that is generally followed in practice is the cost of raw materials and direct wages *plus* a reasonable proportion of works oncost, i.e., manufacturing expenses.

Finished Products.—The basis for the valuation of Finished Products should be the actual Factory Cost as in case of partly finished goods. It is always sound and prudent not to add any percentage in respect of office oncost. An important point to be borne in mind while valuing finished and partly finished products is that if the actual cost of these exceeds their market price, the market price should be the basis of valuation and not the cost price.

Where a Manufacturing Account is prepared quite distinct from the Trading Account, the opening and closing stocks of Finished Products will appear on the debit and credit sides of the Trading Account and not in the Manufacturing Account, as the latter account is supposed to deal with Raw Materials and work in process of manufacture, and the Trading Account with Finished Products.

Royalties.—In a manufacturing concern, this item would signify amounts paid to the patentees for the right to use their patents in connection with manufacturing processes. In a publishing business, the same item would mean amounts paid to authors for the right to print, publish and sell their works. In a mining business, this item signifies amounts paid to the lessor by the lessee of a mine for the right to work the mine.

Where a separate Manufacturing or Working Account is prepared, this item would be charged to such an account, but in the absence of such an account, the amount would appear as a debit in the Trading Account.

Manufacturing Expenses or Factory Charges.—Under this head are generally included all the various expenses which have a direct bearing on the running of the factory or works, such as Factory Rent, Factory Insurance, Motive Power, Engine-room Stores, Non-productive Wages, Factory Lighting, Repairs of Plant, Depreciation on Plant, etc.

Where a separate Manufacturing Account is prepared, all such expenses will be charged thereto, otherwise they will be charged to the Trading Account.

WORKING ACCOUNTS.

There are industrial and other undertakings of productive as well as non-productive type, the peculiar nature of whose business necessitates the preparation of a statement styled "Working Account" to enable them to ascertain their periodical gross profit. In industrial enterprises such as newspapers, mines, plantations, etc., this Working Account takes the place of a Manufacturing Account, whereas in non-productive concerns such as hotels, etc., it closely resembles a Trading Account. The student would, however, do well to carefully study the following few specimens of Working Accounts so as to enable him to form an intelligent idea of how a Working Account differs from a Trading or a Manufacturing Account.

WORKING ACCOUNT OF NEWSPAPERS.

	Rs.	Rs.		Rs.	Rs.
To Materials Consumed:—			By Sales:—		
Paper	......		Cash	......	
Ink	......		Through Agents	......	
Sundry Stores	......	......	Subscribers	......	......
,, Wages:—			,, Advertisements:—		
Compositors	......		Shorts	......	
Machining	......	......	Under Contracts	......	
,, Salaries:—			Casual	......	......
Editors	......		,, Job Printing		......
Reporters	......				
Proof Readers	......		,, Sale of Waste Paper & Materials		......
Works Staff	......	......			
,, Amounts paid to Contributors		......			
,, News Agency Telegrams		......			
,, Rent and Lighting		......			
,, Insurance of Works		......			
,, Fuel and Motive Power		......			
,, Repairs and Replacement		......			
,, Depreciation of Machinery, Types Stereos, etc.		......			
,, Balance being Gross Profit carried to Profit and Loss Account		......			
Rs.		......	Rs.		......

WORKING ACCOUNT OF QUARRIES.

	Rs.	Rs.		Rs.	Rs.
To Stock at commencement		......	By Sales	......	
,, Wages:—			*Less* Returns & Allowances	......	......
Quarry	......		,, Stock at end		......
Transport	......				
Sawing, etc.	......				
Masons	......	......			
,, Royalties		......			
,, Tools and General Stores		......			
,, Coal, Oil, etc.		......			
,, Sand and Water		......			
,, Cartage and Horsekeep		......			
,, Motive Power		......			
,, Upkeep of Motor Vans		......			
,, Repairs to Plant		......			
,, ,, to Motor Vans, etc.		......			
,, Depreciation		......			
,, General Charges		......			
,, Gross Profit carried to Profit and Loss Account		......			
Rs.		......	Rs.		......

WORKING ACCOUNT OF PLANTATIONS.

	Rs.	Rs.		Rs.
To Plantation Wages :—			By Sale Proceeds of Produce	......
Planting	......			
Manufacturing	......			
General Cutting	......	......		
„ Planting & Manufacturing Expenses		......		
„ Plantation Salaries		......		
„ Labour Expenses :—				
For Recruiting Labour	......			
Passage Money	......			
Hospital expenses	......			
Loss Advances to Workmen	....	......		
„ Transport Expenses		......		
„ Motor and Stable Expenses		......		
„ Loss of Live Stock		......		
„ Commission on crop to Managers		......		
„ Commission on Sale of Crops		......		
„ Repairs and Replacements		......		
„ Depreciation :—				
Building, etc.	......			
Plant	......			
Loose Tools	......			
Motor Vans, etc.	......			
Launches and Barges	......	......		
„ Balance being Gross Profit carried to Profit & Loss A/c.		......		
Rs.		......	Rs.	......

WORKING ACCOUNT OF HOTELS.

	Rs.	Rs.		Rs.
To Consumption of :—			By Apartments	......
Meat, Fish and Poultry	......		„ Meals to Customers	......
Groceries and Provisions	......		„ Casual Meals	......
Wines and Spirits	......		„ Attendance and Bath	......
Cigars and Cigarettes	......		„ Sales and Provisions	......
General Stores	......	......	„ Wines and Spirits	......
„ Wages and Salaries		......	„ Cigars and Cigarettes	......
„ Printing, Stationery and Periodicals		......	„ Bar Receipts	......
„ Licence and Telephone		......	„ Billiard Room Receipts	......
„ Laundry Expenses		......	„ Garage Receipts	......
„ Gas, Electricity and Fuel		......		
„ Liveries		......		
„ Rent and Insurance		......		
„ Motor and Garage Expenses		......		
„ General Expenses		......		
„ Repairs and Maintenance		......		
„ Depreciation on :—				
Premises	......			
Furniture and Fittings	......			
Glass and China	......			
Cutlery and Plate	......			
Bed and Table Linen	......			
Motors and Vehicles	......			
Electric Installation	......	......		
„ Balance being Gross Profit carried to Profit & Loss A/c.		......		
Rs.		......	Rs.	......

WORKING ACCOUNT OF CINEMA THEATRES.

	Rs.	Rs.		Rs.	Rs.
To Purchase of Films		......	By Takings	.. ...	
,, Rent of Films		.. ..	*Less* Entertainment Tax	.. ...	
,, Orchestra Expenses		......			......
,, Theatre Staff Salaries		......	,, Sale of Films		......
,, Staff Liveries		......	,, Hire of Films		.... .
,, Advertising		......	,, Advertising Receipts		.. ...
,, Electric Current		......			
,, Theatre Rent and Insurance		......			
,, Sundry Working Expenses		.. ...			
,, Repairs and Renewals		......			
,, Depreciation:—					
Films	.....				
Operating Machines	.. ...				
Electric Installation	......				
Sitting Accommodation	......				
		......			
,, Balance being Gross Profit carried to Profit and Loss Account		......			
Rs.		...	Rs		......

WORKING ACCOUNT OF AN ELECTRIC LIGHT & POWER COMPANY.
(Electricity Supply Branch.)

	Rs.	Rs.		Rs.	Rs.
To Distribution of Electricity:—			By Sale of Current per Meter	.. ...	
Cost of Energy purchased in Bulk		......	*Less* Discount for prompt payment of Energy bills	......	
Repairs and Maintenance—					......
Salaries and Wages	......				
Materials	......		,, Sale of Current under Contract	.. ...	
Other Expenses	. ...	......	*Less* Discount for prompt payment of Energy bills	......	
Sundries		......			.. ...
,, Sales Service:—			,, Sale of Current to Transportation Branch		.. ...
Consumers and Service Dept.—			,, Sales Service:—		
Salaries and Wages	......		Hire of Meters, etc., and Reconnection Fees	.. ...	
Propaganda and Development Work, etc.	......	... ..	Showroom Sales	......	
,, Maintenance of Meters	......				.. ...
Installation & Sales Expenses	......		,, Sundry Receipts		.. ...
Showroom Purchases	......	.. ...	,, Rent Receivable:—		
,, Public Lighting:—			Officer's Quarters and other premises let at rental	.. ...	
Attendance & Maintenance—			*Less* Repairs, Rents, Rates, Taxes, etc.	......	
Salaries and Wages	......				... ..
Materials	......				
Other Expenses	......	.. ...			
,, Rent, Rates and Taxes		......			
,, Management (Salaries)		......			
,, Retirement Gratuities to ex-Employees		......			
,, Administration Charges:— Postage, Cablegrams, Stationery, Upkeep of Office and General Miscellaneous		.. ...			
,, Legal Expenses		......			
,, Insurance		......			
,, Bad Debts	......				
Less Recoveries	......	......			
,, Depreciation		......			
,, Gross Profit carried to Revenue Account		......			
Rs.		......	Rs		

WORKING ACCOUNT OF AN ELECTRIC LIGHT & POWER COMPANY.—(Contd.)

(Transportation Branch — Trams and Omnibuses.)

	Rs.	Rs.		Rs.	Rs.
To Power Expenses (cost of Current from Electricity Supply Branch)		......	By Traffic Receipts		......
" Traffic Salaries and Wages		......	" Advertising Receipts	......	
" Traffic and other Running Expenses		......	*Less* Cost of Plates, Printing, Canvassing Agents' Commission, etc.	......	......
" Repairs and Maintenance:—			" Sundry Receipts		......
Salaries and Wages	......		" Rent Receivable—Officers' and Employees' Quarters let at rental	......	
Materials	......		*Less* Repairs, Rents, Rates, Taxes, etc.	......	......
Other Expenses	......	......			
" Track Rents		......			
" Rent, Rates and Taxes		......			
" Management (Salaries)		......			
" Retirement Gratuities to ex-Employees		......			
" Administration Charges:— Postage, Cablegrams, Stationery, Printing, Upkeep of Office, General Miscellaneous, etc.		......			
" Legal Expenses		......			
" Insurance		......			
" Depreciation of Rolling Stock, etc.		......			
		......			
" Gross Profit carried to Revenue Account		......			
Rs.		......	Rs.		......

WORKING ACCOUNT OF A SHIPPING COMPANY.

Dr.	Rs.	Rs.		Rs.	Cr. Rs.
To Navigation Expenses:— Coal, Oil and Water, Towage, Pilotage, etc.	...	......	By Passage Money ...	...	......
" Hire of Chartered Steamers	...	......	" Freight, Charters and Miscellaneous Services ...	..	......
" Pay of Officers and Crew ...	..	......	" Government Contract for Postal Services ...	...	......
" Provisions of Passengers, Officers and Crew ...	..	......	" Miscellaneous Receipts	...	......
" Suez Canal Dues ...	...	......			
" Marine Dues, Customs, etc.	...	......			
" Ships' Repairs, Stores and General Maintenance Charges ...	...	......			
" Insurance Charges and General Average Claims ...	...	......			
" Brokerage, Agency Fees, etc.					
" Miscellaneous Expenses ...	...	......			
" Damages, Claims, and Law Charges...		......			
" Expenses of Steamers laid up	...	......			
" Quarantine Charges ...	...	......			
" Underwriters' Commission	...	......			
" Depreciation of Fleet, etc.	...	......			
" Gross Profit (transferred to Revenue Account)	...	......			
Rs.		......	Rs.		......

MATTERS PRIOR TO PREPARATION OF FINAL ACCOUNTS.

After the Trial Balance has been agreed and prior to preparing the Trading and Profit and Loss Account, the following important matters will have to be dealt with and adjusted :—

1. The value of Stock on hand and Work-in-Progress at the end of the financial period will have to be properly ascertained.
2. All Bad Debts must be written off.
3. A proper provision should be made in respect of Doubtful Debts.
4. A fair amount should be written off by way of Depreciation on assets, such as plant, machinery, furniture, fittings, etc.
5. All Outstanding Liabilities should be brought into account.
6. Any Payments made in Advance should be properly apportioned.
7. Any Accrued Income, relating to the period and not received, should be brought into account.
8. Any income received in advance will have to be adjusted.
9. Provision should be made for Discounts to be allowed to Debtors and those to be received from the Creditors.
10. Interest on Capital and Drawings, if the same is to be calculated, should be adjusted.

All these various adjustments will have to be made by means of Journal entries.

VALUATION OF STOCK-IN-TRADE.

As the figure of Closing Stock would materially affect the trading results, it becomes necessary to see that the greatest possible care and trouble are taken to include this item at a fair and correct value. For this reason, inventories of unsold goods on hand at the close of each trading period should be most carefully prepared under the strict supervision of some responsible person. All quantities as entered on the Stock Sheets and the rates should be re-checked by some competent and reliable persons. Even the extensions and calculations made by one set of clerks should be checked by some other independent assistants.

The basis of valuation generally adopted is the actual cost price. If, however, any part of the stock is damaged or shop-soiled or has become obsolete or unsaleable, due allowance will have to be made for such depreciation in value. Unsold stock should never be valued at selling price, if that price exceeds the cost price. If the goods unsold are valued at selling price, the result would be to anticipate a profit upon them which may or may not be realised. In other words, the profit on goods should only be brought into account when they are actually sold and delivered. If, however, the market price is less than the cost price, then a loss has evidently been incurred, since the goods can only be sold at a loss, and under such a circumstance, they should be valued at the market price.

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

The following principles may be laid down as sound in determining the value of the stock of unsold goods on hand, viz.:—

1. Profit on goods is deemed to have been earned only when the goods are actually sold;
2. No profit should be anticipated and taken credit for until it is earned;
3. If there is any chance of a loss likely to arise, the same must immediately be provided for; and in view of the above rules, it follows that
4. The stock of unsold goods should always be valued at cost price or market price, whichever is the lower.

An exception to the above general rule in regard to stock valuation is to be found in the case of Wine and Timber Trades where the stocks appreciate in value from year to year due to their maturing in quality. In such a circumstance, it is permissible to add a reasonable percentage to the original cost at periodical intervals to cover the burden in respect of interest on the portion of capital thus locked up. In no case, however, should such value exceed the then market value of similar class of goods.

An important point in connection with stock valuation is that the *basis of valuation* adopted from year to year *must be consistent* in order to afford material for reliable comparisons of trading results.

FINAL ADJUSTMENTS.

Entry for bringing Closing Stock into Account.—After the value of the Closing Stock has been ascertained, a Journal entry will be passed debiting Stock Account and crediting the Trading Account. The debit balance of Stock Account will appear as an asset in the Balance Sheet.

Bad Debts.—Debts that are definitely irrecoverable are called Bad Debts, and being losses, must be written off as such. The entry to write off Bad Debts is to debit Bad Debts Account and to credit the Personal Accounts of the Debtors who are unable to pay. Bad Debts Account will be transferred to Profit and Loss Account.

Provision for Doubtful Debts.—Even after all bad debts have been written off, there might be a number of other overdue accounts the recovery of which may be more or less doubtful. The provision for loss on account of such doubtful debts must be made by debiting Profit and Loss Account and crediting Reserve for Doubtful Debts Account with an estimated amount of such loss or with a certain percentage of the total debtors. The credit balance of Reserve for Doubtful Debts Account is shown in the Balance Sheet by way of deduction from the item Sundry Debtors.

Depreciation.—Depreciation is the loss arising through the decline in value of certain assets, such as Building, Plant, Machinery, Fixtures, etc., on account of their being utilised in any business. Such loss is the natural outcome of the use of those assets for profit-earning purposes, and if the accounts of any concern are to be prepared on a sound basis, it is necessary that it should be provided for before arriving at the figure of net profit or loss made in the business. The estimated amount of such loss is brought into account by debiting Depreciation Account and crediting the account of the particular asset that has depreciated. The Depreciation Account is closed by Profit and Loss Account, and the asset is shown in the Balance Sheet less the amount of the depreciation written off. The question of Depreciation has been fully dealt with in a subsequent Chapter.

The general principle that is observed in this connection is that all assets of a wasting nature should be written down in the books to their scrap value by the time they become useless for the purposes of the business. This is done by estimating the probable "life" of each asset and also the amount that would be realised on sale of that asset at the end of the period. The difference between the original cost and the estimated realisable value is then written off over the period during which it is anticipated the asset will be utilised in the business. In some cases, such as leaseholds, there is no realisable value, and the total cost has to be written off during the period of the lease.

Outstanding Liabilities.—At the time of periodical balancing, there are always several items of expenses, such as rent, salaries, wages, advertisement, etc., that belong to the period under review and have accrued due, but have not been paid, and do not therefore appear in the accounts. All such outstanding expenses must be brought into account by debiting the appropriate Nominal Accounts and crediting Outstanding Creditors' Account. The latter account will appear as a liability in the Balance Sheet, and will be carried forward in the next year's books. At the commencement of the next period, a reverse entry will be passed, debiting Outstanding Creditors' Account and crediting the various Nominal Accounts, the effect of which entry will be to close the Outstanding Creditors' Account.

Payments made in Advance.—There are, however, several items of expenses that are usually paid for in advance, such as fire insurance, telephone charges, rates and taxes, etc., and at the time of balancing it happens that the whole of the period to be covered by the amount already spent has not yet expired. The proportion of the amount paid which relates to the unexpired period has, therefore, to be carried forward to the next year. This is done by debiting an Expenses Prepaid Account and crediting the particular Nominal Accounts with the proportionate amounts to be carried forward. Expenses Prepaid Account being a debit balance will appear as an asset in the Balance Sheet, and will be carried forward in the next year's books. At the commencement of the next period, the Expenses Prepaid Account will be closed by means of a reverse Journal entry debiting the various Nominal Accounts and crediting Expenses Prepaid Account.

Advertisements are sometimes paid for two or three years in advance under a contract, and in such a case, it should be seen that while preparing the Profit and Loss Account of any given period, only the proportionate amount representing that period is brought into account and the unexpired balance is carried forward as above.

Accrued Income.—It may happen that income such as interest or dividend on investments held by the firm, or rent from a sub-tenant, or commission, may have accrued due but may not have been received at the time of balancing. Such items of accrued income belonging to the period must be brought into account by debiting Outstanding Debtors' Account and crediting the particular Nominal Accounts. Outstanding Debtors' Account will appear as an asset in the Balance Sheet, and will be carried forward in the next year's books. At the commencement of the next period, a reverse Journal entry will be passed, debiting the particular Nominal Accounts and crediting the Outstanding Debtors' Account, thus closing the latter account.

Income received in Advance.—Just as prepaid expenses are apportioned, it is also necessary to apportion any income received in advance, and only bring into the Profit and Loss Account the portion of such income as appertains to the current year, the balance being carried forward. The usual items that come under this head are Premium received from an Apprentice. Advertisement or Subscription Receipts by a newspaper, Fire Premium received by an Insurance Company, etc. The adjustment is made by means of a Journal entry debiting the particular Nominal Account with the portion of income to be carried forward and crediting an account styled Prepaid Income Account. The latter account is shown on the liabilities side of the Balance Sheet.

Provision for Discounts on Debtors' and Creditors' Balances.—The Debtors' Balances as taken out at the date of closing may be subject to cash discounts to be allowed by the firm. If so, this loss must be provided for by debiting Discount Account and crediting Reserve for Discount on Debtors with the estimated amount of such loss. The Reserve for Discount on Debtors will be shown by way of deduction from Sundry Debtors in the Balance Sheet. Similarly, the Creditors' Balances may be subject to Cash Discounts to be received by the firm. In such a case, the likely gain of such discounts may be brought into account by debiting Reserve for Discount on Creditors and crediting Discount Account. Reserve for Discount on Creditors will appear as a deduction from Sundry Creditors in the Balance Sheet. The Reserve for Discount on Debtors and the Reserve for Discount on Creditors are carried forward in next year's books and are then closed by transfer to Discount Account.

Interest on Capital.—Interest at a normal rate per cent is sometimes calculated on the trader's capital and charged to the business, for the purpose of ascertaining what extra profits are derived from the undertaking, over and above the usual rate of interest which the capital employed therein would have earned, if invested in gilt-edged securities. The entry for adjusting Interest on Capital is to debit the Interest Account and credit the Capital Account with the amount of interest as calculated on the Capital.

Interest on Drawings.—As the business is charged on the one hand with interest on the Capital employed therein, it should also be given the benefit of interest on the sums withdrawn by the proprietor on his personal account. This is done by calculating the same rate of interest on the various sums withdrawn from the dates of their withdrawal to the date of balancing, and with the total amount of interest thus arrived at, the Capital Account is debited and the Interest Account is credited.

RESERVE FOR DOUBTFUL DEBTS ACCOUNT.

The treatment of Reserve for Doubtful Debts and Bad Debts Accounts usually causes a great deal of confusion in the minds of students and some further explanation thereon is, therefore, thought necessary.

As each Bad Debt occurs, it is debited, in the first instance, to Bad Debts Account and this account representing a loss is transferred to Profit and Loss Account at balancing time. Where, however, there is a Reserve for Doubtful Debts Account already existing in the books, Bad Debts Account is not closed by Profit and Loss Account, but is transferred to Reserve for Doubtful Debts Account. If the total of the Bad Debts Account exceeds the credit balance of Reserve for Doubtful Debts Account, the difference should be transferred to Profit and Loss Account by means of a Journal entry, debiting Profit and Loss Account and crediting Reserve for Doubtful Debts

Account. The fresh percentage in respect of Reserve for Doubtful Debts for the following period should then be ascertained and the necessary amount should be debited to Profit and Loss Account and credited to Reserve for Doubtful Debts Account. Should, however, the credit balance of Reserve be greater than the amount of the Bad Debts, the difference will go to reduce the amount to be debited to Profit and Loss Account in respect of the fresh Reserve.

The following illustration will serve to further elucidate the working of these accounts.

ILLUSTRATION 16.

The Reserve for Doubtful Debts Account shows a credit balance of Rs. 1,750 on 1st January 1936. The Bad Debts during the year 1936 amount to Rs. 1,300. The Debtors at 31st December 1936 are Rs. 30,000 and a 5% Reserve for Doubtful Debts is required to be maintained. The Bad Debts in 1937 amount to Rs. 1,800. On 31st December 1937, the Debtors are Rs. 32,500 and a 5% Reserve for Doubtful Debts is required to be kept. The Bad Debts in 1938 amount to Rs. 400. On 31st December 1938, the Debtors are Rs. 15,000 and a 5% Reserve for Doubtful Debts is to be maintained. Show the working of Reserve for Doubtful Debts Account in the Ledger and also how this item will appear in the Profit and Loss Account and the Balance Sheet, each of these three years.

RESERVE FOR DOUBTFUL DEBTS ACCOUNT.

1936		Rs.	1936		Rs.
Dec. 31	To Bad Debts Account ...	1,300	Jan. 1	By Balance b/fd. ..	1,750
	" Balance carried down ...	1,500	Dec. 31	" Profit and Loss Account	1,050
	Rs.	2,800		Rs.	2,800

1937		Rs.	1937		Rs.
Dec. 31	To Bad Debts Account ..	1,800	Jan. 1	By Balance brought down ...	1,500
	" Balance carried down ...	1,625	Dec. 31	" Profit and Loss Account	1,925
	Rs.	3,425		Rs.	3,425

1938		Rs.	1938		Rs.
Dec. 31	To Bad Debts Account ...	400	Jan. 1	By Balance brought down ...	1,625
	" Profit and Loss Account	475			
	" Balance carried down ...	750			
	Rs.	1,625		Rs.	1,625
			1939		
			Jan. 1	" Balance brought down ...	750

PROFIT & LOSS ACCOUNT 1936—(Debit Side)

	Rs.	Rs.
To Bad Debts	1,300	
" Doubtful Debts Reserve 5% on Rs. 30,000	1,500	
	2,800	
Less Old Reserve	1,750	
		1,050

PROFIT & LOSS ACCOUNT 1937. (Debit Side)

	Rs.	Rs.
To Bad Debts	1,800	
„ Doubtful Debts Reserve 5% on Rs. 32,500	1,625	
	3,425	
Less Old Reserve	1,500	
		1,925

PROFIT & LOSS ACCOUNT 1938. (Credit Side)

	Rs.	Rs.	Rs.
By Reserve for Doubtful Debts Account:—			
Old Reserve		1,625	
Less Bad Debts	400		
„ 5% Reserve on Rs. 15,000	750		
		1,150	
			475

BALANCE SHEET—31st DECEMBER 1936.
Assets side.

	Rs.	Rs.
Sundry Debtors	30,000	
Less 5 per cent Reserve for Doubtful Debts	1,500	
		28,500

BALANCE SHEET—31st DECEMBER 1937.
Assets side.

	Rs.	Rs.
Sundry Debtors	32,500	
Less 5 per cent Reserve for Doubtful Debts	1,625	
		30,875

BALANCE SHEET—31st DECEMBER 1938.
Assets side.

	Rs.	Rs.
Sundry Debtors	15,000	
Less 5 per cent Reserve for Doubtful Debts	750	
		14,250

Reserve for Discount on Debtors.—The Reserve for Discount on Debtors must always be calculated on the good debtors, i.e., on the amount of debtors *minus* the Reserve for Doubtful Debts.

ILLUSTRATION 17.

The Sundry Debtors on 31st December are Rs. 25,000. Create a Reserve of 5% for Doubtful Debts and also a 5% Reserve for Discount.

BALANCE SHEET
Assets side.

	Rs.	a.	p.	Rs.	a.	p.
Sundry Debtors	25,000	0	0			
Less 5 per cent Doubtful Debts Reserve	1,250	0	0			
	23,750	0	0			
Less 5 per cent Reserve for Discount	1,187	8	0			
				22,562	8	0

ILLUSTRATION 18.

On 1st January 1934, the Reserve for Discounts on Creditors had a debit balance of Rs. 500 brought over from the previous year. During the year 1934, the Discounts actually received from Creditors amounted to Rs. 400. The creditors' total balances amounted to Rs. 30,000 on 31st December 1934, and you are required to maintain a $2\frac{1}{2}\%$ Reserve for Discounts on Creditors. Show the necessary Ledger Account and also as to how the item will appear in the Profit & Loss Account.

RESERVE FOR DISCOUNTS ON CREDITORS ACCOUNT.

1934		Rs.	1934		Rs.
Jan. 1	To Balance b/fd. ...	500	Dec. 31	By Discounts received transferred ...	400
Dec. 31	„ Profit and Loss Account	650	„ „	„ Balance c/d. ..	750
	Rs.	1,150		Rs.	1,150
1935					
Jan. 1	To Balance b/d. ...	750			

PROFIT & LOSS ACCOUNT—(Credit Side).

	Rs	Rs.
By Discounts received	400	
„ Reserve for Discounts on Creditors (New)	750	
	1,150	
Less Balance on Old Reserve for Discounts on Creditors	500	
		650

ADJUSTING AND CLOSING ENTRIES.

The Journal entries necessary to adjust the various accounts for the purpose of making provision for depreciation, reserve for doubtful debts and discounts, apportioning the payments in advance and bringing the outstanding liabilities into account, etc., as already explained above, are known as **Adjusting Entries.** Journal entries are also necessary to close all the Nominal Accounts in the Ledger by transferring them into the Trading and Profit and Loss Account, and to close the Profit and Loss Account by transferring the net profit or loss to the Capital Account. These entries are known as **Closing Entries.**

The usual Adjusting Entries may be summarised as follows :—

For writing off Bad Debts :—

Bad Debts Account .. .. .. Dr.
To Personal Accounts of the debtors who have failed.

For making Provision for Doubtful Debts :—

Profit and Loss Account .. .. .. Dr.
To Reserve for Doubtful Debts.

For making Provision for Discount on Debtors :—

Discount Account .. .. .. Dr.
To Reserve for Discount on Debtors.

For making Provision for Discount on Creditors :—

Reserve for Discount on Creditors .. .. .. Dr.
To Discount Account.

For providing for Depreciation on any Asset :—
Depreciation Account . .. . Dr.
To the particular Asset Account.

For bringing Outstanding Liabilities into Account :—
The particular Nominal Accounts .. .. .. Dr.
To Outstanding Creditors' Account.
(representing the expenses owing and not paid)

For adjusting Payments made in Advance :—
Prepaid Expenses Account .. .. .. Dr.
To the particular Nominal Accounts.
(in respect of which the pre-payments have been made)

For adjusting Income received in Advance :—
The particular Nominal Accounts. .. .. .. Dr.
To Prepaid Income Account.

For bringing any Accrued Income into Account :—
Outstanding Debtors' Account or Accrued Income Account Dr.
To the particular Nominal Accounts.
(in respect of which the income has accrued)

For adjusting Interest on Capital :—
Interest Account .. .. .. Dr.
To Capital Account.

For adjusting Interest on Drawings :—
Capital Account or Drawings Account .. .. Dr.
To Interest Account.

For bringing the Closing Stock into Account :—
Stock Account .. .. Dr.
To Trading Account.
(This stock will appear as an Asset in the Balance Sheet).

ILLUSTRATION 19.

Before preparing the Final Accounts as at 31st December, the following adjustments were found necessary :—

(1) Rent for November and December, at Rs. 100 per month had accrued due but was not paid.

(2) The annual Fire Premium Rs. 240 had been paid upto 31st March next.

(3) December Wages amounting to Rs. 1,200 and Salaries Rs. 500 were paid in January next.

(4) Rs. 400 paid against an order for printing stood debited to "Printing and Stationery" Account, but the printing matter had not been received by the firm.

(5) Rs. 3,000 had been paid for two years' advertisement contract, of which one year has so far expired.

(6) Rs. 275 had accrued due by way of Interest on Government Securities.

(7) The Debtors' Balances stood at Rs. 23,000. The actual Bad Debts to be written off amount to Rs. 700, and a provision for Doubtful Debts is to be made at 5% on Sundry Debtors.

The following Adjusting Entries would be necessary:—

		L.F.	Rs	Rs.
(1)	Rent Account ... ... Dr. To Outstanding Creditors' Account (Being Rent for two months accrued due).		200	200
(2)	Expenses Prepaid Account ... ... Dr. To Fire Premium Account (Being Fire Premium for 3 months paid in advance).		60	60
(3)	Wages Account ... ... Dr. Salaries Account ... ... „ To Outstanding Creditors' Account (Being Wages and Salaries for December due but not paid).		1,200 500	1,700
(4)	Advance to Printers' Account ... ... Dr. To Printing and Stationery (Being amount paid for printing matter not yet delivered).		400	400
(5)	Expenses Prepaid Account ... ... Dr. To Advertisement Account (Being advertising charges paid in advance for one year).		1,500	1,500
(6)	Outstanding Interest Account ... ... Dr. To Interest Account (Being interest on Government Securities accrued due).		275	275
(7)	Bad Debts Account ... ... Dr. To particular Personal Accounts (Being actual Bad Debts written off).		700	700
(8)	Profit and Loss Account ... ... Dr. To Reserve for Doubtful Debts Account (Being provision made for Doubtful Debts at 5% on Rs. 22,300).		1,115	1,115

The usual Closing Entries are as follows:—

For transferring Opening Stock, Purchases, Wages, Carriage Inwards, etc., to Trading Account:—

Trading Account .. .. .. Dr.
To Stock Account
„ Purchases Account
„ Wages Account
„ Carriage Inwards Account.

(The effect of this entry will be to close Stock, Purchases, Wages and such other Accounts as are transferred to Trading Account.)

For transferring Sales to the Trading Account:—

Sales Account .. .. .. Dr.
To Trading Account.

(This entry will close the Sales Account.)

For transferring all the Expenses or Losses to the Profit and Loss Account:—

Profit and Loss Account .. .. .. Dr.
To each of the various Nominal Accounts which represent expenses or losses.

(This entry closes all the expenses accounts.)

For transferring all the items of Gain to the Profit and Loss Account:—

Various Nominal Accounts .. .. .. Dr.
(representing different sources of gain)
To Profit and Loss Account.
(This entry closes all the remaining Nominal Accounts.)

For transferring Net Gain to the Capital Account:—

Profit and Loss Account .. .. Dr.
To Capital Account.
(This entry closes the Profit and Loss Account.)

For transferring Net Loss (if any) to the Capital Account:—

Capital Account .. .. Dr.
To Profit and Loss Account.

For transferring the Proprietor's Drawings to his Capital Account:—

Capital Account .. .. Dr.
To Drawings Account.
(This entry closes the Drawings Account.)

IMPORTANT POINTS IN WORKING OF PROBLEMS.

Freight, Carriage Inwards, Dock Dues, Duty and Clearing Charges form an additional cost of the goods purchased and should always be shown in the Trading Account.

Trade Discount.—As a rule, Trade Discount is not found in the Trial Balance inasmuch as it is usually deducted from the Invoice amount, and the purchase or sale entry is made of the net amount only. If, however, such an item appears in the Trial Balance, the same should be shown in the Trading Account as a deduction from Purchases or Sales, as the case may be. Thus, a credit balance of Trade Discount would be deducted from the item Purchases on the debit side of the Trading Account and *vice versa*.

Depreciation of Assets.—The rate of Depreciation on Assets must be calculated with due regard to the period covered by the Final Accounts. Thus, if 5% Depreciation per annum is required to be written off Furniture worth Rs. 2,000, and if the Accounts are for six months, Rs. 50 only should be charged to Profit and Loss Account.

Interest on Loan.—Where the Trial Balance contains an item of Loan carrying a certain rate of interest, and the item Interest does not appear in the Trial Balance, the same must be provided for, even if there is no mention about it in the adjustments.

If only half-year's interest appears in the Trial Balance and the Accounts cover a period of one year, the other half-year's interest must be provided for.

Bad Debts not included in Trial Balance.—As a rule, the item Bad Debts appears in the Trial Balance. Occasionally, however, a certain amount is required to be written off as Bad Debts by way of adjustment. It must be noted, that in this case, the amount of Sundry Debtors to be shown in the Balance Sheet would be reduced by the amount of Bad Debts.

Where a Reserve for Doubtful Debts is also required to be provided by way of a percentage on the Debtors, the same must be calculated on the *net amount* left after deducting the Bad Debts.

Depreciation already written off in the Trial Balance.—If the item of Depreciation figures in the Trial Balance, it means that the corresponding amount has already been deducted from the asset in question. In this case, the asset must not be shown in the Balance Sheet *less* Depreciation, but must appear at the same figure at which it stands in the Trial Balance. If, however, it is desired to show the asset *less* Depreciation, the depreciation amount must first be added to the asset figure and then shown again by way of deduction.

Closing Stock in the Trial Balance.—Ordinarily, the Closing Stock figure is given outside the Trial Balance by way of an adjustment, in which case, it has to be shown on the credit side of the Trading Account and also as an Asset in the Balance Sheet. When a Trial Balance includes the figure of Closing Stock and that of the gross profit, it means that the Trading Account has already been prepared, and the Closing Stock, under such circumstance, would then only appear as an asset in the Balance Sheet.

Loose Tools.—Sometimes the Opening Stock of Loose Tools is found in the Trial Balance and the value of Loose Tools at the end of the financial period is given in the adjustments. In this case, the difference between the Opening and Closing Stock may be treated as Depreciation on Tools and should be charged off as such. Alternatively, these Opening and Closing Stock figures may be dealt with in the same manner as Stock of Goods, and may be shown on the debit and credit sides of the Trading or Manufacturing Account.

Stores Consumed.—Sometimes, a Trial Balance includes this item and it will then appear in the Trading or Manufacturing Account. A Stores Account is debited with all consumable stores purchased, and no entries are made in respect of such stores issued to and consumed by the works. At the end of the financial period, the Stock of such Stores on hand is actually counted and valued at cost and debited to Stock of Stores Account and credited to the Stores Account. The difference between the debit and credit sides of the Stores Account will now represent the value of Stores Consumed. In this case, the same Trial Balance will include the figure of Stock of Stores, which must appear straight in the Balance Sheet.

Manufacturing Expenses or Charges should always appear in the Manufacturing Account. Where no separate Manufacturing Account is prepared, the item will appear in the Trading Account.

Depreciation on Additions to Assets.—This should ordinarily be ignored unless the dates on which such additions to assets were made are given, in which case, depreciation for the proportionate period should be calculated.

PROFIT AND LOSS ACCOUNT.

The function of the Profit and Loss Account is to enable the trader to ascertain the *Net Profit* or *Net Loss* resulting from business transactions during a given period.

The Gross Profit as shown by the Trading Account would be transferred to the credit of the Profit and Loss Account. On the credit side of the Profit and Loss Account would also be shown other items of miscellaneous income such as Interest, Commission, Discount, Dividend, Profit on Exchange, Rents received, etc. On the debit side would be set out all the expenses incidental to the carrying on of the business, such as Office Rent, Salaries, Insurance, Advertising, Printing and such other expenses or losses as may have arisen in course of earning the above income.

In constructing the Profit and Loss Account, the points to be borne in mind are:—

1. That only such items of income and expenses as properly belong to the business are included on both sides of the account.

2. That the items included appertain to the trading period under review.

3. That each item of income or expenditure is shown under its appropriate head.

4. That there is a proper grouping and classification of items.

5. That the whole Account is constructed upon a consistent basis from year to year so as to admit of useful comparisons.

THE FOLLOWING POINTS ARE WORTH NOTING

Salaries.—It is desirable to show Office Staff Salaries separately from Salaries to Travellers. Salaries drawn by the proprietor of the business or the partners must also be separately shown.

Salaries and Wages.—Where both these are grouped into one account, the wages may be deemed to be non-productive and will be shown in the Profit and Loss Account.

Income-tax.—Income-tax paid by the trader should be treated as a personal expense, and should be charged to his Drawings Account and not to the Profit and Loss Account.

Life Premium.—Premium paid on the trader's Life Policy must be treated as a personal expense and charged to his Drawings Account.

Discounts Receivable and Payable.—It is preferable to show Discounts Receivable as a gain separately from Discounts Payable which is a loss, rather than strike a balance and show the net discounts on one side of the Profit and Loss Account.

Interest or Commission Receivable and Payable.—These should similarly be shown on the credit and debit sides of the Profit and Loss Account at their respective figures.

Interest on Trader's Capital.—If any interest is paid on the Proprietor's or Partner's Capital, the same should be distinguished from other Trade Interest.

Stationery and Advertising Matter.—If any part of the stationery or advertising matter is treated as stock, the same should be valued on a very conservative and cautious basis. Besides, such stock should be clearly distinguished from the Stock-in-trade.

Apprentice Premium.—Premium received from apprentice should be distributed over the period of apprenticeship, and the amount attributable to each year should be brought into credit of the Profit and Loss Account.

Loss or Gain on Sale of an Asset.—Any loss or gain on sale of an asset must be clearly specified so as not to be mistaken from any trading loss or gain.

Form of Profit and Loss Account.—The precise form that the Profit and Loss Account should take must of necessity vary with the nature of the business and the quantity and quality of the information the proprietors of the business would seek to obtain from the account. But, in any case, it is essential that the account be so drawn up as to disclose the fullest information at a glance, as also to enable an easy comparison to be made of the various expenses and the sources of income with similar items of the previous year's records.

PROFIT & LOSS ACCOUNT, For the Year ended ....

	Rs.	Rs.		Rs.
To *Selling & Distribution Expenses* :—			By Gross Profit, brought over from Trading Account ..	.. ..
Warehouse and Store Rent	......		,, Cash Discount earned ..	......
Packing Charges	......		,, Income from Investments ..	......
Export Charges	......		,, Interest on money deposited ...	......
Cost of Samples	......		,, ,, ,, renewal of Bills ...	......
Cost of Catalogues	......		,, Income from any other Source ..	... ..
Advertising	......			
Travellers' Salaries, Expenses and Commission	......			
Salesmen's Salaries, Expenses and Commission	......			
Bad Debts	......			
Upkeep of Motor Lorries or Vans	......			
		......		
,, *Management Expenses* :—				
Office Salaries and Wages	......			
,, Rent and Taxes	......			
,, Lighting and Insurance	......			
,, Car upkeep	......			
Printing and Stationery	......			
Telephone Charges	......			
Postage, Telegrams, etc.	......			
Legal Expenses	......			
Directors' Fees and Expenses	......			
Managing Agents' Remuneration and Commission	......			
Audit Fees	......			
Office General Expenses	......			
		......		
,, *Financial Expenses* :—				
Cash Discounts allowed	......			
Cost of Discounting bills	......			
Interest on Capital	......			
Interest on Borrowed Capital	......			
Loss in Exchange	......			
Discount on Issue of Debentures	......			
Preliminary Expenses written off	......			
		.. ...		
,, *Maintenance and Depreciation* :—				
Repairs and Renewals	......			
Depreciation of Assets	......			
		......		
,, Net Profit		......		
Rs.		......	Rs.	......

The grouping and classification of the expenses and the income as suggested on the preceding page has been found in practice to be of considerable advantage as it conveys most valuable information in a readily comprehensible manner, and may be adopted by any concern with such modifications as may be necessary to meet the particular requirements of the business.

BALANCE SHEET.

In view of the fact that the Assets and Liabilities change from day to day as a result of business transactions, the trader must necessarily feel anxious to find out what his true financial position is at the end of each trading period. In the first place, he would like to know whether the net profit as is disclosed by the Profit and Loss Account is correctly arrived at, for, if so, his Capital at the end of the period must necessarily increase by that amount. He is equally anxious to see for himself as to how such Capital is made up, i.e., what the component Assets and Liabilities of the business are. In order, therefore, to obtain this information at the end of the trading period, he has to set out his several Assets and Liabilities as at that date in the shape of a statement, and this statement is called the Balance Sheet.

A Balance Sheet may, therefore, be defined as a statement prepared with a view to measure the exact financial position of a business on a certain fixed date. It is prepared from the Trial Balance, after all the balances on Nominal Accounts are transferred to the Trading and Profit and Loss Account and the corresponding Accounts in the Ledger are closed. The balances now left in the Trial Balance and remaining open in the Ledger represent either Personal Accounts or Real Accounts. In other words, they represent either Assets or Liabilities existing at the date of the financial close.

All such Assets and Liabilities are set out in the Balance Sheet in a classified form. On the right-hand side are shown the various Assets or possessions of the business, and on the left-hand side, the various Liabilities, i.e., the amounts owing by the business. The excess of Assets over Liabilities represents the then Capital of the owner. This figure of Capital must tally with the closing balance of the Capital Account in the Ledger after the net profit or loss has been transferred thereto.

Assets.—A trader's property and possessions as also the debts owing to him are known as assets.

Liabilities.—The debts owing by a trader to other persons are known as liabilities.

Capital is the excess of a trader's assets over his liabilities.

Deficiency is the excess of a trader's liabilities over his assets.

Fixed Assets are those which are acquired and intended to be retained permanently for the purpose of carrying on a business, such as land, buildings, plant and machinery, etc.

Floating Assets or Circulating Assets are such assets as are acquired either for the purpose of resale or held temporarily in course of a business for their subsequent conversion into money, such as stock-in-trade, book debts, bills receivable, cash at bank, cash in hand, etc. The question as to whether a particular asset is a fixed or a floating asset would depend on the nature of the business. Thus, machinery would be a fixed asset in a manufacturing concern, whereas it would be a floating asset to a machinery dealer. Land and buildings would be a fixed asset to a trader or a manufacturer who has acquired same for trade purposes, but the same would be a floating asset to a Land and Building Co., whose business is to buy and sell landed estates. Office furniture in any concern would be its fixed asset, whilst furniture belonging to a dealer in furniture would be a floating asset. Horses would be the floating asset of a horse dealer, but would be the fixed asset of an agricultural concern. The main stand-point for distinguishing a fixed asset from a floating asset is whether it has been acquired for resale or for the purpose of permanent equipment.

Liquid Assets are those which are represented by cash or those that can easily be converted into money, such as cash in hand, cash at bank, gilt-edged securities, and bills receivable.

Wasting Assets are such assets as are consumed through being worked, such as mines, quarries, cemeteries, etc. The term Wasting Assets is also used to denote such assets as are liable to depreciate on account of their use in the business, such as plant and machinery. It is also used in connection with some assets whose value reduces co-extensively with lapse of time, such as leases, patents, etc.

Fictitious Assets are such assets as are not represented by any tangible possession or property, such as preliminary expenses, expenses prepaid, debit balance of profit and loss account and even goodwill sometimes.

Fixed Capital of a business consists of its fixed assets.

Floating or Circulating Capital of a business is represented by its floating assets.

Working Capital means the capital available for the working of a business after its fixed assets have been acquired.

Capital Expenditure.—When an amount has been expended and the expenditure results in the acquisition of an asset or in an addition to the value of any existing asset, such an expenditure is styled Capital Expenditure and will take its place in the Balance Sheet.

Revenue Expenditure.—All ordinary expenses incurred in the course of running a business, such as salaries, wages, printing and stationery, advertisement, rent, postages, telegrams, etc., as well as any expenses incurred in keeping the existing assets in proper repairs and maintaining them in their original state of efficiency, and which do not result in an addition to the value of existing assets, would be classed as Revenue Expenditure and would find their place in the Revenue Account, i.e., the Profit and Loss Account.

Deferred Revenue Expenditure.—Any expenditure which is primarily of a revenue nature, but the benefits derived from which are not exhausted during the current period, would be carried forward and treated as an asset to the extent of the unexpired benefit. Such carrying forward is, no doubt, permissible, provided it is not continued for such a length of time as to affect the profits of the years which it cannot be considered to have benefited. The most frequently occurring examples of Deferred Revenue Expenditure are preliminary expenses, alterations to machinery or plant, special repairs and advertising.

Balance Sheet and Profit and Loss Account are Inter-dependent.—As the balance of Profit and Loss Account is transferred to the Capital Account, and as the closing balance on the Capital Account is shown in the Balance Sheet, it is clear that the Balance Sheet shows the position inclusive of the profit or loss made during the trading period.

The chief object of every Balance Sheet should be to disclose all the information necessary to enable one to form a true estimate of the financial position of the business as a going concern. As the true financial position of any undertaking is reflected by its assets and liabilities as indicated by the Balance Sheet prepared on any one particular date, it follows that these assets and liabilities should be most carefully valued for this purpose. Any over-valuation of assets or under-valuation or omission of liabilities would result in unduly inflating the profits. Similarly, any under-valuation or omission of assets or over-valuation of liabilities would tend to unnecessarily decrease the profits. Even the balance of Profit and Loss Account included in the Balance Sheet should be correctly arrived at. It must be further understood that inasmuch as the figure of net profit or net loss as shown by the Profit and Loss Account ultimately finds its place in the Balance Sheet, both these Statements of Final Accounts are closely inter-dependent on each other. It follows, therefore, that if any item of expense or income is omitted or is over or under-stated, it will not only affect the accuracy of the Net Profit or loss but will equally affect the correctness of the Balance Sheet. For a correct presentation of the true financial condition of a business, it is equally necessary to see that all Assets and Liabilities are fully and accurately set out. It is further important to see that these Assets and Liabilities are properly grouped and classified under appropriate headings, and that no material fact is suppressed or is presented in a manner as would create a false impression as to the state of affairs in the mind of any one reading the Balance Sheet.

Valuation of Fixed and Floating Assets.—A Balance Sheet is not drawn up with a view to show what the capital of the concern would be worth if the assets were realised and the liabilities paid off, but rather to show how the capital stands invested at the end of each financial period. The values in the Balance Sheet are, therefore, not break-up values, but are ascertained on the assumption that the business is not to be wound up in the near future but will continue to run its normal course.

As *Fixed Assets* are acquired not for resale but by way of permanent equipment to serve as a medium to enable the business being carried on, they should not be valued on the basis of the price they would realise if sold. The true basis of valuation for such assets would be their original cost, their probable "life", i.e., the estimated period of usefulness to the business, and the likely break-up value. The difference between the original cost and the probable break-up value would represent the loss suffered by the business account of the use of such assets, and would have, therefore, to be equitably distributed over the estimated life of such assets. In other words, each fixed asset would be shown in the Balance Sheet at its original cost *minus* such accumulated depreciation or deterioration in value it may have undergone upto the date of the Balance Sheet.

Floating Assets, on the other hand, are held for resale with a view to profit or for immediate conversion into cash, and are, therefore, valued at the cost or the current market price whichever is lower at the date of the Balance Sheet. But both the fixed and floating assets should be valued on the basis of a going concern.

Form of Balance Sheet.—There is no hard and fast rule as to the order in which the assets and liabilities of a sole trader or a partnership firm should be stated in the Balance Sheet. One method is to place the most easily realisable asset first and then follow it up by assets which are less easily realisable, so that the asset most difficult of realisation will be shown last. As against this order of the assets, the liabilities will be shown in the order in which they are payable, the most pressing liability being placed first. The Balance Sheet will then appear as under:—

BALANCE SHEET

Liabilities	Rs.	*Assets*	Rs.
Bills Payable		Cash in Office	
Creditors for Loans		Cash at Bank	
Creditors on Open Accounts		Investments	
Outstanding Liabilities for Expenses		Sundry Debtors	
Capital		*Less* Reserve for Doubtful Debts	
		Bills Receivable	
		Stock-in-trade	
		Loose Tools	
		Less Depreciation	
		Fixtures and Fittings	
		Less Depreciation	
		Plant and Machinery	
		Less Depreciation	
		Factory Building	
		Less Depreciation	
		Goodwill	
Rs.		Rs.	

The other method is to marshal the assets and liabilities in exactly the reverse order to the above, so that the fixed and permanent assets and liabilities appear first and will be followed by floating assets and liabilities. The latter arrangement now seems to be followed by almost all concerns except Banks and Financial Houses which prefer to show the liquid and floating assets first and follow them up with the fixed assets. It should be noted that while preparing the Balance Sheet of a Limited Company, it is this order of assets and liabilities that is required to be rigidly observed by the prescribed form of Balance Sheet under the Indian Companies Act.

HEADING OF ACCOUNTS.

The student should carefully study the method of dating the Final Accounts, which is an important point. The Trading and Profit & Loss Account, being a summary of the transactions relating to trading during a given period, should always be headed this way—

TRADING AND PROFIT & LOSS ACCOUNT

for the year ended...........

On the other hand, a Balance Sheet, being a list of balances outstanding on the books of a trader on a particular date, should be headed this wise—

BALANCE SHEET

as at...........

The name of the trader must always appear at the head of the Final Accounts.

HOW TO SET OUT ASSETS AND LIABILITIES.

We will now proceed to discuss the important points in connection with the several Assets and Liabilities that usually find their place in a trader's Balance Sheet.

Cash at Bank.—This item would represent the Bank Balance as shown by the Bank Columns of the Cash Book. If this balance differs from the Bank Balance as per the Pass Book, a Reconciliation Statement would have to be prepared to verify its correctness.

Investments.—Ordinarily, these will appear at cost price, and temporary fluctuations in value need not be brought into account. If, however, the market value shows a tendency towards a permanent fall, it would be advisable to provide for such depreciation in the value of the investments. In any case, the basis of valuation, cost or market price, should be clearly indicated on the Balance Sheet. When the market value of the investments is lower than the cost price and the investments are shown at cost, it is desirable to append a note in the Balance Sheet stating what the then market value was.

Any provision made in regard to the loss in value of investments should be shown by way of deduction from the book value of the investments.

If the investments consist of gilt-edged securities as also stocks and shares, the value of each of these should be separately shown under distinct sub-heads.

Accrued interest, if any due, on these investments upto the period covered by the account should be calculated and brought into account.

Sundry Debtors.—This item always means the sum total of the amounts owing from the Trade Debtors, i.e., the Customers. If there are any Debtors for Loans granted by the trader, such Loan Debtors should be distinguished from the Trade Debtors. All debts known to be bad and irrecoverable must be written off. The provision, if any, made for Doubtful Debts as also for Discounts on Debtors should be shown by way of deduction from the book value of the debtors in order that the estimated realisable value of this asset may appear in the outer column.

Bills Receivable.—This item will represent Bills Receivable not matured at the date of the Balance Sheet. If there is any overdue bill, the same would be reversed to the personal account of the acceptor concerned, and a provision in regard to such doubtful debt should be made, if necessary.

Stock-in-Trade.—This item should be very carefully valued and any over-valuation should be guarded against. The basis accepted as sound and correct is cost or market price, whichever be the lower at the date of the Balance Sheet. Cost price would necessarily include the Invoice Price *plus* Duty, Freight, Carriage Inwards, etc. The basis of valuation should be indicated on the Balance Sheet. Proper allowance should be made while valuing unsaleable or damaged stock.

Patents, Copyrights, Trade Marks, etc.—These and similar assets should be valued on most conservative basis. The whole cost of Patents or Copyrights should be written off within the period of their probable life, but if any of these are obsolete and cannot be utilised or if the products prove to be unsaleable, the values of such Patents, Copyrights, etc., should be ignored for the purpose of Balance Sheet valuation. In other words, these assets should not appear in the Balance Sheet at anything beyond their utility values to the concern in question.

Furniture and Fixtures.—These should be brought in the Balance Sheet at the original cost *less* a reasonable amount in respect of depreciation.

Loose Tools.—These are generally re-valued at the end of each year and the difference between the book value and the valuation figure is written off as depreciation.

Plant and Machinery.—This item must be shown at its original cost in the inner column, and the provision in regard to depreciation should appear by way of deduction from the cost. It is not a desirable method to show the asset at the cost price on the assets side, and the provision in respect of depreciation on the liabilities side. The advantage of showing the depreciation amount by way of deduction from the original cost lies in the fact that the present utility value of the asset can be seen at a glance. Once the entire cost of equipment and installation under this head is debited to this account, it should be seen that only purchases of additional plant and amounts expended on improvements resulting in enhancement of the revenue-earning capacity of the existing plant are subsequently capitalised. All other amounts expended by way of renewals, replacements or repairs to maintain the plant in its original efficiency will be charged off to revenue.

Freehold Land and Building.—It is desirable to distinguish between Freehold and Leasehold Property. The asset should be shown at the original cost *less* a reasonable percentage in respect of depreciation on building. Freehold land, as a rule, does not depreciate. If the value of such asset has appreciated, it is not desirable to bring up the book value to its present market price and thus take credit for an unrealised profit.

Leasehold Land and Building.—The original cost as also any additions to such asset should be written off during the period of the lease, so that by the time the lease expires, its book value also may be reduced to zero. Repairs should be charged off to Revenue Account of the year in which they are made.

Liabilities.—The amount owing to suppliers of goods at the end of the financial period is usually shown under the heading of Trade Creditors or Creditors on Open Accounts. Bills Payable, Creditors for Loans borrowed, Bank Overdraft and Outstanding Liabilities for Expenses should each be shown under its distinct heading. Creditors holding any securities from the trader must be separately shown with a statement of the securities pledged or assets mortgaged.

Capital.—The difference between the total of the assets and the total of the liabilities at the date of the Balance Sheet will represent the Capital of the trader as at that date. This item will have to be shown in details as under:—

	Rs.	Rs.	Rs.
Capital at the commencement of the period		......	
Add further amount brought in		......	
„ Interest on the Capital		......	
„ Net Profit		......	
		......	
Less Withdrawals	......		
„ Interest on withdrawals	......		
		......	
			......
		Rs.	......

CALCULATION OF COMMISSION.

The calculation of Commission to Manager presents some difficulty to students when the payment is based on a percentage of the trading profits *after* the deduction of the actual amount of commission payable. In such a case, the percentage of commission and the figure of trading profits prior to charging commission having been given, the working will be as under:—

ILLUSTRATION 20.

X, the manager of Sharp and Slow, is to receive 10% on the net profits of the business left *after the deduction* of his commission. The profit *prior to deduction* of commission amounted to Rs. 33,000. What commission does X stand to get?

		Rs.
Assume that the Commission X gets is	=	10
and the profits left after deduction of such commission are	=	100
Then the profits prior to commission should be	=	110

Thus, the Commission in this case works out at one-eleventh of the profits, and on Rs. 33,000, it will be Rs. 3,000.

ILLUSTRATION 21.

After passing the necessary closing and adjusting entries, prepare Trading and Profit & Loss Account for the year, and Balance Sheet as at 31st December 1940 from the following Trial Balance of a Manufacturer.

TRIAL BALANCE.

	Rs. a. p.	Rs. a. p.
Capital Account		2,03,000 0 0
Drawings Account	15,000 0 0	
Freehold Land and Premises	90,000 0 0	
Plant and Machinery	40,000 0 0	
Loose Tools	3,000 0 0	
Bills Receivable	3,000 0 0	
Stock	10,000 0 0	
Materials Purchased	51,000 0 0	
Wages	20,000 0 0	
Carriage Inwards	1,000 0 0	
Carriage Outwards	500 0 0	
Coal and Coke	5,000 0 0	
Salaries	5,000 0 0	
Rent, Rates and Taxes	2,800 0 0	
Discounts and Allowances	1,500 0 0	
Bills Payable		3,800 0 0
National Bank	25,000 0 0	
Cash in hand	400 0 0	
Sundry Debtors	45,000 0 0	
Sundry Creditors		40,000 0 0
Repairs and Replacements	1,800 0 0	
Purchases Returns		2,650 0 0
Works Extensions Account	7,500 0 0	
Bad Debts	1,200 0 0	
Advertisements	500 0 0	
Goods Sold		1,15,000 0 0
Sales Returns	2,000 0 0	
Gas and Water	200 0 0	
Oil, Grease and Waste	600 0 0	
Furniture and Fixtures	1,200 0 0	
General Expenses	800 0 0	
Printing and Stationery	450 0 0	
Rs.	3,64,450 0 0	3,64,450 0 0

Write depreciation off Plant and Machinery at 5%, off Loose Tools at 15% and Furniture at 5%. The Stock on hand on 31st December 1940 amounted to Rs. 60,000. Provide 2½% for Discount on Sundry Debtors and 5% for Doubtful Debts. Rs. 1,500 were due for wages and Rs. 450 for salaries for the month of December 1940. The last bill of Rs. 400 for taxes was for the half-year ending 31st March 1941.

JOURNAL ENTRIES.

	L.F.	Rs. a. p.	Rs. a. p.
Depreciation Account ... ... Dr.		2,510 0 0	
To Plant and Machinery			2,000 0 0
„ Furniture and Fixtures			60 0 0
„ Loose Tools			450 0 0
(Being 5 per cent Depreciation on Plant, Machinery, Furniture and Fixtures and 15 per cent on Loose Tools written off).			
Profit and Loss Account ... ... Dr.		2,250 0 0	
To Reserve for Doubtful Debts			2,250 0 0
(Being 5 per cent Provision for Doubtful Debts on Sundry Debtors).			

JOURNAL ENTRIES.—(*Contd.*)

	L.F.	Rs. a. p.	Rs. a. p.
Discount and Allowances ... ... Dr.		1,068 12 0	
To Reserve for Discounts			1,068 12 0
(Being 2½ per cent Provision for Discounts on Debtors).			
Wages Account ... ... Dr.		1,500 0 0	
Salaries Account ... ... "		450 0 0	
To Outstanding Creditors			1,950 0 0
(Being the outstanding liability in respect of Wages and Salaries brought into account).			
Expenses Prepaid ... ... Dr.		200 0 0	
To Rent, Rates and Taxes			200 0 0
(Being the amount of Prepaid Taxes carried forward).			
Trading Account ... ... Dr.		1,21,300 0 0	
To Stock-in-trade			40,000 0 0
" Materials Purchased			51,000 0 0
" Returns Inwards			2,000 0 0
" Wages			21,500 0 0
" Coal and Coke			5,000 0 0
" Carriage Inwards			1,000 0 0
" Oil, Grease and Waste			600 0 0
" Gas and Water			200 0 0
(Being the transfer of the above items to Trading Account).			
Sales ... ... Dr.		1,15,000 0 0	
Returns Outwards ... ... "		2,650 0 0	
To Trading Account			1,17,650 0 0
(Being the transfer of the above items to Trading Account).			
Stock-in-trade ... ... Dr.		60,000 0 0	
To Trading Account			60,000 0 0
(Being the incorporation of Closing Stock).			
Profit and Loss Account ... ... Dr.		18,378 12 0	
To Salaries			5,450 0 0
" Rent, Rates and Taxes			2,600 0 0
" Repairs and Replacements			1,800 0 0
" General Expenses			800 0 0
" Carriage Outwards			500 0 0
" Advertisements			500 0 0
" Printing and Stationery			450 0 0
" Discounts and Allowances			2,568 12 0
" Bad Debts			1,200 0 0
" Depreciation			2,510 0 0
(Being the transfer of above items to Profit and Loss Account).			
Profit and Loss Account ... ... Dr.		35,721 4 0	
To Capital Account			35,721 4 0
(Being the transfer of Net Profit).			

TRADING AND PROFIT & LOSS ACCOUNT.

For the year ended 31st December 1940.

Dr. **Cr.**

Date	Particulars	Rs. a. p.	Rs. a. p.	Date	Particulars	Rs. a. p.	Rs. a. p.
1940 Jan. 1	To Stock-in-Trade at commencement ...		40,000 0 0	1940 Dec. 31	By Sales ...	1,15,000 0 0	
Dec. 31	„ Materials Purchased ...	51,000 0 0			*Less* Returns ...	2,000 0 0	1,13,000 0 0
	Less Returns ...	2,650 0 0	48,350 0 0	„ „	„ Stock-in-trade at end ...		60,000 0 0
„ „	„ Wages ...		21,500 0 0				
„ „	„ Coal and Coke ...		5,000 0 0				
„ „	„ Carriage Inwards ...		1,000 0 0				
„ „	„ Oil, Grease and Waste ...		600 0 0				
„ „	„ Gas and Water ...		200 0 0				
„ „	„ Gross Profit carried down		56,350 0 0				
		Rs.	1,73,000 0 0			Rs.	1,73,000 0 0
1940 Dec. 31	To Salaries ...		5,450 0 0	1910 Dec. 31	By Gross Profit brought down ...		56,350 0 0
„ „	„ Rent, Rates and Taxes ...		2,600 0 0				
„ „	„ Repairs and Replacements ...		1,800 0 0				
„ „	„ General Expenses ...		800 0 0				
„ „	„ Carriage Outwards ...		500 0 0				
„ „	„ Advertisements ...		500 0 0				
„ „	„ Printing and Stationery		450 0 0				
„ „	„ Discounts and Allowances		2,568 12 0				
„ „	„ Bad Debts ...		1,200 0 0				
„ „	„ Reserve for Doubtful Debts ...		2,250 0 0				
„ „	„ Depreciation:—						
	Plant and Machinery 5%	2,000 0 0					
	Furniture and Fixtures 5% ...	60 0 0					
	Loose Tools 15% ...	450 0 0	2,510 0 0				
„ „	„ Net Profit during the year transferred to Capital Account ...		35,721 4 0				
		Rs.	56,350 0 0			Rs.	56,350 0 0

BALANCE SHEET OF........, as at 31st December 1940.

Dr. | Cr.

Liabilities	Rs. a. p.	Rs. a. p.
Sundry Creditors:—		
For Bills Payable	3,800 0 0	
On Open Accounts	40,000 0 0	
Outstanding for Wages and Salaries ..	1,950 0 0	45,750 0 0
Capital Account:—		
Balance on 1st January 1940 ...	2,03,000 0 0	
Add Profits during the year ...	35,721 4 0	
	2,38,721 4 0	
Less Drawings during the year ...	15,000 0 0	2,23,721 4 0
Rs.		2,69,471 4 0

Assets	Rs. a. p.	Rs. a. p.
Cash:—		
At the National Bank	25,000 0 0	
In Office	400 0 0	25,400 0 0
Bills Receivable		3,000 0 0
Sundry Debtors	45,000 0 0	
Less Reserve for Doubtful Debts ..	2,250 0 0	
	42,750 0 0	
Less Reserve for Discounts ...	1,068 12 0	41,681 4 0
Stock in-trade		60,000 0 0
Furniture and Fixtures	1,200 0 0	
Less Depreciation at 5%	60 0 0	1,140 0 0
Loose Tools	3,000 0 0	
Less Depreciation at 15% ..	450 0 0	2,550 0 0
Plant and Machinery	40,000 0 0	
Less Depreciation at 5% ..	2,000 0 0	38,000 0 0
Freehold Land and Premises ...	90,000 0 0	
Add Extensions made during the year	7,500 0 0	97,500 0 0
Expenses Prepaid		200 0 0
Rs.		2,69,471 4 0

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. What adjustments are usually necessary at balancing time?

2. What is Depreciation? Why should it be always provided for and charged against profits?

3. Why should Interest on Capital be brought into account before the ascertainment of net profits?

4. What is a Balance Sheet? Discuss fully the order in which the assets, liabilities and capital should be set out therein.

5. What adjusting entries would you pass in regard to the following:

(*a*) Outstanding Liabilities, (*b*) Prepaid Expenses, (*c*) Accrued Income, (*d*) Income received in advance, (*e*) Reserve for Doubtful Debts, and (*f*) Depreciation?

6. Explain the working of the Reserve for Doubtful Debts Account and the Reserve for Discounts on Debtors Account.

7. Why should Reserve for Discounts on Creditors be provided for? Explain fully the working of this account.

8. How should Stock-in-trade be valued and adjusted at the end of each financial period?

9. How should Work-in-Progress be valued and dealt with?

10. What are Closing Entries? Give a list of the usual Closing Entries.

11. Explain fully the statement that the Balance Sheet and the Profit and Loss Account are inter-dependent on each other.

12. What is the basis on which the Fixed and Floating Assets should be valued?

13. Define Fixed, Floating, Fictitious, Liquid and Wasting Assets, and give two examples of each.

14. What is a Trading Account and what purpose does it serve?

15. What items are usually embodied in a Profit and Loss Account?

16. What are Consumable Stores, and how is the figure of Stores Consumed arrived at?

17. How should the following items be dealt with in Final Accounts: (*a*) Freight, (*b*) Duty, (*c*) Carriage, (*d*) Cartage, (*e*) Royalties, (*f*) Manufacturing Expenses, (*g*) Productive Wages, and (*h*) Packing Materials?

18. What is the object of a Manufacturing Account and what items usually appear on the debit and credit sides thereof?

19. Explain how a Manufacturing Account differs from a Trading Account.

20. What is a Working Account, and how does it differ from a Manufacturing Account?

21. How should the following items be dealt with in Final Accounts: (*a*) Raw Materials, (*b*) Finished Products, and (*c*) Non-productive Wages?

22. Mention the points that would call for enquiry:

(*a*) Where the percentage of gross profit as shown by the Trading Account is less than anticipated; and

(*b*) Where such a percentage is more than justifiable.

RESERVE FOR DOUBTFUL DEBTS AND DISCOUNTS.

23. Show the Ledger Entries to describe the following:—

(*a*) 1905 January 1st, Bad Debts Reserve of £860 standing in the books. (*b*) 1905 December 31st. Total of Bad Debts Account £1,000. (*c*) 1905 December 31st, Adjust the Reserve Account so that it may show a Reserve of 7½ per cent on the Book Debts which are £15,000. (*d*) Assuming that business has been continued for another twelve months, i.e., upto 31st December 1906, the Bad Debts are then £1,100. Adjust the Reserve so that it may show a reserve of 7½ per cent on the amount of Book Debts which are then found to be £12,674. (*National Union of Teachers.*) 19

24. On 1st January 1912, the Reserve for Doubtful Debts shows a credit balance of £900. During the year, the Bad Debts amount to £700. The Debtors at 31st December 1912 are £24,000 and 5% Reserve for Doubtful Debts is required to be maintained. The Bad Debts during the year 1913 amount to £1,350. On 31st December 1913, the Debtors are £25,000 and a 5% Reserve for Doubtful Debts is to be kept. In 1914, the Bad Debts are £300 and the Debtors at the end of the year amount to £10,000 on which a 5% Reserve for Doubtful Debts and a 5% Reserve for Discounts are to be kept.

Show the Ledger Accounts and show also how these items will appear in the Profit & Loss Account and Balance Sheet of each of these three years. 20

25. The Sundry Debtors at 31st December 1931 were Rs. 40,000 and you are required to make a 5% Reserve for Doubtful Debts and also a 5% Reserve for Discounts. The actual Bad Debts during the year 1932 amounted to Rs. 1,600 and the discount allowed was Rs. 1,700. The Debtors at the close of the year 1932 were Rs. 50,000 and Reserve for Doubtful Debts and Reserve for Discounts are required to be maintained at 5%. Give Journal entries and show how the transactions would be shown in the Ledger Accounts, the Profit & Loss Account and the Balance Sheet. 21

26. On 1st January 1930, the Reserve for Discounts on Creditors was Rs. 1,200. The Discounts earned during the year amounted to Rs. 1,040. The Creditors at 31st December 1930 were Rs. 50,000 and a new Reserve of 2½% is required. Show the Journal, Ledger, Profit and Loss and Balance Sheet entries relating to Discount. 22

FINAL ADJUSTMENTS.

27. Upon the closing of a firm's books for the year ending 31st May 1907, the following payments are found to have been made beyond the date of the balance:—

Telephone Rent, £10 per year, expiring 31st October 1907;
Rates, £60 per annum, paid to 30th June 1907;
Railway Season Ticket, £12 for half-year ending 30th September 1907.

The following Invoices rendered have not been dealt with in the books:—
Royal Insurance Company Premium, £10-10 per year ending 31st March 1908.
Rent, £150 per annum, payable in advance, 31st March 1907.

The respective accounts before making any adjustments stand as follows:—

		£	s.	d.
Rent, Rates and Insurance	(Dr.)	198	15	0
Travelling	"	36	0	0
Telephone Rent and Charges	"	12	10	0

You are required to make out adjustment entries in the Journal and to show the remaining balance in each account. (*Incorporated Accountants.*) 23

28. Pass the necessary Entries to make the following adjustments as at 31st December 1925:—

(1) Depreciation at 5% on Office Furniture valued at Rs. 2,000; at 10% on Plant and Machinery worth Rs. 10,000; at 2½% on Buildings worth Rs. 50,000.
(2) The Reserve for Doubtful Debts is to be brought upto Rs. 6,000, the balance on the Reserve Account from previous year being Rs 4,800. The Bad Debts during the year were Rs. 3,840.
(3) Unexpired Insurance as on the date of the Balance Sheet amounted to Rs. 380.
(4) The last payment for the Annual Telephone Rent, Rs. 300, extended upto 30th April 1926.
(5) Interest at 6% to be allowed on the Capital which was Rs. 70,000.
(6) The following Outstanding Liabilities for expenses have to be provided for, viz., Wages Rs. 600, Salaries Rs. 350 and Trade Expenses Rs. 150.
(7) Make Reserves for Discounts on Debtors and Creditors at the rate of 2½%. The Debtors and Creditors at the end were Rs. 36,000 and Rs. 24,000 respectively.
24

FINAL ACCOUNTS OF A SOLE TRADER.

29. From the following Trial Balance as at 1st January 1908, prepare Manufacturing Account, Profit and Loss Account and Balance Sheet:—

	£	£
Purchases (Materials)	16,000	
Discount (Balance)	1,300	
Wages (Productive)	6,500	
Sales	....	30,000
Salaries	2,000	
Travelling Expenses	500	
Carriage	275	
Insurance	150	
Commission	325	
Rent and Rates	500	
Cash in Hand	25	
Cash at Bank	2,725	
Stable Expenses	195	
Repairs	105	
Sundry Expenses	55	
Mortgage and Interest to date	....	3.050
Mortgage Interest	150	
Buildings	4,000	
Machinery	1,500	
Horses and Carts	500	
Stock on hand, 1st January 1907	5,750	
Capital,	....	10,655
Sundry Debtors and Creditors	3,250	2,100
£	45,805	45,805

Make provision for Rent and Rates unexpired, £30; Depreciation on Buildings at 2½ per cent per annum, Machinery at 5 per cent, Horses and Carts at 7½ per cent; Bad Debts £150; Liability for Insurance £20; Discount on Sundry Debtors and Creditors at 2½ per cent. Stock on hand 1st January 1908, £6.075.

(Incorporated Accountants.) 25

(Gross Profit, £7,550; Net Profit, £1,892-10s.; Balance Sheet Total, £17,665.)

30. The following Trial Balance was extracted from the books of W. Patterson on 31st March 1911:—

	£ s. d.	£ s. d.
Cash in hand	160 1 2	
Cash due to Bank		1,317 13 3
Salaries	350 0 0	
Wages	1,759 10 6	
Withdrawals	532 16 1	
Rent and Rates	278 10 4	
Purchases and Returns	32,889 14 4	1,266 14 4
Carriage	891 18 5	
Discount	272 6 3	
Bank Charges	104 4 10	
Difference in Exchange		233 17 5
Bad Debts	37 18 2	
Loans	250 0 0	
Plant and Machinery 31-3-10	796 10 0	
Fixtures and Fittings, 31-3-10	110 0 0	
Horses, Carts and Gear, 31-3-10	95 0 0	
Capital W. P., 31-3-10		6,314 2 8
Debtors	6,148 16 1	
Creditors		4,696 9 9
Stock-in-trade	5,379 18 3	
Interest on Loans		12 10 0
General Expenses	765 0 0	
Sales and Returns	776 10 0	37,757 7 0
£	51,598 14 5	51,598 14 5

You are required to draw up a Trading Account, Profit and Loss Account and Balance Sheet. Depreciation at the rate of 10 per cent has to be written off Plant and Machinery, Fixtures and Fittings, Horses, Carts and Gear, and 5 per cent interest charged on Capital. Rent and Rates (annual) are paid to June 30th, 1911. The Stock on March 31st, 1911 was £6,127 10s. 8d. *(Incorporated Accountants.)* 26

(Gross Profit, £3,454-0s.-6d.; Net Profit, £1,546-3s.-9d.; Balance Sheet Total, £13,657-7s.-6d.)

31. The following are the balances extracted from the books of N. Abdulla, as on 31st December 1931:—

	Rs.		Rs.
Capital Account	90,000	Bad Debts Reserve (1st January 1931)	3,240
Drawings	7,600	Taxes and Insurance	1,300
Purchases	89,470	Discount Account (Cr.)	190
Purchases Returns	4,240	Bills Receivable	1,240
Sales	1,49,840	Sundry Debtors	62,970
Sales Returns	2,820	Sundry Creditors	16,980
Stock (1st January 1931)	11,460	Cash at Bank	12,400
Salaries and Wages	6,280	Cash in Hand	2,210
Buildings	25,000	Office Furniture	3,500
Freight and Clearing Charges	16,940	Travellers' Salaries & Commission	9,870
Carriage Inwards	2,310	Additions to Buildings	7,000
Office Expenses	1,340	Rent Recovered	2,100
Printing and Stationery	660		
Postage and Telegrams	820		
Bad Debts	1,400		

You are required to pass the necessary Adjusting and Closing Entries and to prepare Trading and Profit and Loss Account for the year ended 31st December 1931 and a Balance Sheet as on that date, after making the following adjustments.

1. Depreciate Buildings by 2½% and Office Furniture by 5%.
2. Reserve for Bad Debts to be made upto Rs. 4,000.
3. Salaries outstanding for December 1931, Rs. 570.
4. Rent recoverable Rs. 200.
5. 5% Interest to be charged on Capital.
6. The value of stock on 31st December 1931 was Rs. 14,290.
7. The unexpired insurance amounted to Rs. 240.

(Gross Profit, Rs. 45,370; Net Profit, Rs. 19,800; Balance Sheet Total, Rs. 1,24,250.)

32. The following is the Trial Balance of R. Rustomji as at 30th June 1931. You are asked to pass the necessary Adjusting and Closing Entries and to prepare the Trading and Profit and Loss Account and Balance Sheet as at that date.

	Dr. Rs.	Cr. Rs.
R. Rustomji's Capital Account		1,08,090
Stock on 1st July 1930	46,800	
Sales and Sales Returns	8,600	2,89,600
Purchases and Purchases Returns	2,43,100	5,800
Freight and Carriage	18,600	
Rent and Taxes	5,700	
Salaries and Wages	9,300	
Sundry Debtors	24,000	
„ Creditors		14,800
Bank Loan at 6 per cent		20,000
Bank Interest	900	
Printing and Advertising	14,600	
Income from Investments		250
Cash at Bank	8,200	
Discounts Receivable		3,690
Investments	5,000	
Furniture and Fittings	1,800	
Discounts Payable	7,340	
General Expenses	3,610	
Audit Fees	500	
Insurance	800	
Travelling Expenses	2,130	
Postage and Telegrams	870	
Cash in Hand	380	
Deposit with M. Maneckji at 5 per cent	30,000	
Drawings Account	10,000	
Rs.	4,42,230	4,42,230

Stock on 30th June 1931 was Rs. 78,600. 50% of Printing and Advertising is to be carried forward as a charge in the following year. Depreciate Furniture and Fittings by 10 per cent. Create 5 per cent Reserve on Debtors. Reserve 2 per cent for Discount on Debtors and Creditors. Insurance prepaid amounts to Rs. 200, Salaries outstanding Rs. 500 and Carriage outstanding Rs. 100. Charge full year's interest on deposit with M. Maneckji.

(*Gross Profit, Rs.* 56,800 ; *Net Profit, Rs.* 21,650 ; *Total of Balance Sheet, Rs.* 1,55,144.)

33. On 31st March 1932, the following Trial Balance of R. Ramrao was taken out. Pass the Adjusting and Closing Entries and prepare Final Accounts for the year, after making the following adjustments:—

(*a*) Depreciation—5 per cent off Plant and Machinery and 10 per cent off Fixtures and Fittings.
(*b*) Reserve for Bad Debts 2½ per cent on Sundry Debtors.
(*c*) Reserve for March Rent, Rs. 150.
(*d*) Insurance unexpired on 31st March 1932, Rs. 70.
(*e*) Outstanding Wages and Salaries Rs. 800 and Rs. 350 respectively.
(*f*) Stock on 31st March 1932, Rs. 16,580.

TRIAL BALANCE.

Debits.	Rs.	Credits.	Rs.
Plant and Machinery	55,000	R. Ramrao's Capital Account	93,230
Fixtures and Fittings	1,720	Sales	1,26,177
Factory Fuel and Power	542	Sundry Creditors	22,680
Office Salaries	3,745	Purchases Returns	3,172
Lighting (Factory)	392	Bills Payable	6,422
Travelling Expenses	925		
Carriage on Sales	960		
Cash at Bank	2,245		
Cash in Hand	68		
Sundry Debtors	47,800		
Purchases	83,290		
Manufacturing Wages	9,915		
Rent and Taxes	1,765		
Office Expenses	2,778		
Carriage on Purchases	897		
Discount	422		
Drawings Account	6,820		
Stock on 1st April 1931	21,725		
Manufacturing Expenses	2,680		
Sales Returns	7,422		
Insurance	570		
Rs.	2,51,681	Rs.	2,51,681

(*Gross Profit, Rs.* 18,266 ; *Net Profit, Rs.* 3,054 ; *Balance Sheet Total, Rs.* 1,19,866.)

34. From the following balances extracted from the books of J. Jehangir on 30th June 1931, prepare Final Accounts after making entries in regard to the following adjustments and the closing of accounts.

	Rs.		Rs.
Stock on 1st July 1930	96,000	Returns Inwards	1,000
Wages	28,000	Sundry Debtors	35,000
Salaries	4,000	Office Expenses	5,000
Railway Charges, etc. on Purchases	5,000	Income Tax	500
Purchases	1,20,000	Drawings	6,500
Interest on Overdraft	200	J. Jehangir's Capital	50,000
Bills Receivable	6,000	Bills Payable	5,000
Rent	2,000	The Consolidated Bank Loan (Cr.)	4,000
Plant & Machinery	20,000	Sales	2,50,000
Travelling Expenses	5,000	Reserve for Bad Debts	5,000
Repairs to Plant	1,600	Discount on Purchases	4,000
Cash in Hand	200	Sundry Creditors	23,300
Cash at Bank	1,800	Returns Outwards	1,500
Building	5,000		

Stock on 30th June 1931 was Rs. 35,000. Write off Rs. 3,000 Bad Debts and maintain a Reserve of 5% on Debtors. Depreciate Plant and Machinery by 10%. Allow interest on Capital at 5% per annum. Wages and Salaries are unpaid to the extent of Rs. 1,500 and Rs. 450. Rent at Rs. 200 per month for the last two months is unpaid.

(*Gross Profit*, *Rs.* 39,000; *Net Profit*, *Rs.* 16,250; *Balance Sheet Total*, *Rs.* 96,400.)

35. Prepare Trading and Profit and Loss Account and Balance Sheet as on 30th September 1931 from the following balances:—

	Rs.		Rs.
A. Arthur's Capital Account ..	1,19,400	Stock on 1st October 1930 ..	89,680
A. Arthur's Drawings Account	10,550	Salaries and Wages	11,000
Bills Receivable	9,500	Travelling Expenses	1,880
Plant and Machinery ..	28,800	Insurance (including Premium of Rs. 300 per annum paid upto 31st March 1932) ..	400
Sundry Debtors (including B. Madan for dishonoured bill Rs. 1,000)	62,000	Cash	530
Loan Account (Cr.) at 6% ..	20,000	Bank	18,970
Wages—Manufacturing ..	40,970	Repairs and Renewals ..	3,370
Returns Inwards	2,780	Interest and Discount (Dr.) ..	5,870
Purchases	2,56,590	Bad Debts	3,620
Sales	3,56,430	Sundry Creditors	59,630
Commission Received ..	5,640	Fixtures and Fittings ..	8,970
Rent and Taxes	5,620		

Stock on hand on 30th September 1931 was Rs. 1,28,960.

Write off half of B. Madan's dishonoured bill.

Create a Reserve of 5% on Sundry Debtors.

Charge 5% Interest on Capital.

Manufacturing Wages include Rs. 1,200 for erection of new machinery purchased last year.

Depreciate Plant and Machinery by 5% and Fixtures and Fittings by 10% per annum.

Commission earned but not received amounts to Rs. 600.

Interest on Loan for the last two months is not paid.

(*Gross Profit*, *Rs.* 96,570; *Net Profit*, *Rs.* 59,118; *Balance Sheet Total*, *Rs.* 2,53,768.)

36. From the following balances of M. Maneeklal, prepare Trading and Profit and Loss Account and Balance Sheet as at 31st December 1931:—

	Rs.		Rs.
Capital Account	20,500	Cash in Hand	55
Creditors—Trade	15,000	Drawings	2,500
„ Expenses ..	3,400	Purchases	85,500
Rent Received	300	Carriage Inwards	750
Purchases Returns	2,000	Wages—Manufacturing ..	11,500
Sales	1,44,800	Power	4,500
Bad Debts Reserve, 1st January 1931	300	Rent and Insurance	9,950
Advertising Development ..	4,000	Salaries and General Wages ..	17,200
Goodwill	2,500	Discount Received	900
Plant and Machinery ..	10,000	General Charges	4,300
Travellers' Samples	1,350	Sales Returns	300
Stock on 1st January 1931 ..	16,000	Travellers' Commission ..	1,445
Debtors	7,300	„ Salaries	4,550
Cash at Bank	1,000	Discounts allowed	2,500

The Closing Stock was Rs. 11,500, but there has been a loss by fire on December 20th 1931, to the extent of Rs. 10,000, not covered by Insurance. Depreciate Plant and Machinery by 10% and Travellers' Samples by 33 1/3%. Increase the Bad Debts Reserve to Rs. 1,000. Write 50% off Advertising Development Account. Annual Premium on Insurance expiring 1st March 1932 was Rs. 600.

(*Gross Profit*, *Rs.* 49,750; *Net Loss*, *Rs.* 3,045; *Balance Sheet Total*, *Rs.* 33,355.)

37. From the following Trial Balance at 30th June 1911, prepare a Trading Account, Profit and Loss Account and Balance Sheet, after carrying out the instructions at the foot of the account:—

	£ s. d.	£ s. d.
T. Williams, Capital		24,503 19 0
Do. Drawings	750 0 0	
Sales		76,793 18 10
Purchases	57,520 15 0	
General Expenses	2,511 11 9	
Mill and Warehouse	11,000 0 0	
Stock, 30-6-10	21,218 9 1	
Coal and Power	2,242 2 4	
Rates	315 4 4	
Wages	7,206 12 2	
Debtors and Creditors	6,287 16 10	2,511 12 8
Discounts	2,441 10 6	897 14 0
Bad Debts Reserve		50 18 10
Commission	317 1 4	
Horse Expenses	199 16 7	
Bills Payable		3,854 0 7
Cash in Hand	84 13 11	
A. B. Bank		1,255 1 3
Income Tax	283 16 3	
Oil	71 12 11	
Allowances	31 17 8	
Machinery, 30-6-10	3,906 0 0	
" Additions	311 11 6	
Loans, A. Jones		2,126 18 10
" W. Jackson		3,006 8 2
" T. Robinson		1,700 0 0
£	116,700 12 2	116,700 12 2

The Stock on 30th June 1911 was £23,339 11s. 0d. After creating a Bad Debts Reserve of 5 per cent on Debtors, allow discount of 2½ per cent on Debtors and Creditors; provide for Depreciation of Machinery, not including additions, at the rate of 10 per cent per annum; allow 5 per cent Interest on Loans and Capital (ignoring Interest on Drawings); allow for bonus to Jones and Jackson of 7½ per cent each on the net profit falling to Williams. *(Incorporated Accountants.)* 27

(Gross Profit, £11,873-18s.-4d.; Net Profit, £3,950-0s.-1d.; Balance Sheet Total, £44,075-6s.-9d.)

38. From the following Trial Balance, extracted from the books of Rakhaldas Ramji, prepare a Trading and Profit and Loss Account for the year ended 30th September 1925, and a Balance Sheet as on that date:—

	Dr. Rs.	Cr. Rs.
R. R.'s Capital Account		90,000
R. R.'s Drawings Account	6,480	
Land and Buildings	25,000	
Plant and Machinery	14,270	
Furniture and Fixtures	1,250	
Carriage (Inwards)	4,370	
Wages (Manufacturing)	21,470	
Salaries	4,670	
Bad Debts Reserve (as on 1st October 1924)		2,470
Sales		91,230
" Returns	1,760	
Bank Charges	140	
Coal, Gas and Water	720	
Rates and Taxes	840	
Discounts Account (balance)		120
Purchases	42,160	
" Returns		8,460

	Dr. Rs.	Cr. Rs.
Bills Receivable	1,270	
Trade Expenses	1,990	
Sundry Debtors	37,800	
" Creditors		12,170
Stock (1st October 1924)	26,430	
Apprentice Premium (paid by an apprentice in factory)		500
Fire Insurance	490	
Cash at Bank	13,000	
Cash in Hand	850	
Rs.	2,04,950	2,04,950

Charge Depreciation on Land and Buildings Account at 2½%, on Plant and Machinery Account at 10%, and on Furniture and Fixtures Account at 10%. Make a reserve of 5% on the Sundry Debtors for Bad Debts. Carry forward the following unexpired amounts:—

	Rs.
(1) Fire Insurance	125
(2) Rates and Taxes	240
(3) Apprentice Premium	400

Charge 5% Interest on Capital but not on Drawings. The value of Stock as on 30th September 1925 was agreed at Rs 29,390. (*Note.*—No Journal Entries for adjustments are required). 28

(*Gross Profit, Rs.* 32,180 ; *Net Profit, Rs.* 18,538 ; *Balance Sheet Total, Rs.* 1,19,128.)

39. From the following Trial Balance taken from the books of R. Mehta on 31st December 1925, prepare Manufacturing and Profit and Loss Account for the year and Balance Sheet as at that date:—

	Dr. Rs.	Cr. Rs.
Capital Account		87,940
Opening Stock	85,600	
Discounts		350
Advertising	4,700	
Goodwill	9,500	
Bad Debts Reserve		1,800
Bills Payable		1,200
Wages	7,500	
Duty and Clearing Charges	1,200	
Factory Rent	1,600	
Carriage Inwards	3,300	
Returns Inwards	4,500	
Salaries	15,000	
Interest		400
Plant and Machinery	20,000	
Sales		3,60,000
Gas and Water	700	
Returns Outwards		1,900
Office Rent	1,500	
Purchases	2,62,700	
Bills Receivable	2,000	
Cash at Bank	6,660	
Cash in Hand	25	
Office Furniture	2,500	
Sundry Creditors		8,450
Taxes	300	
Printing and Stationery	475	
Sundry Debtors	18,000	
Drawings Account	12,500	
General Expenses	1,360	
Insurance	420	
Rs.	4,62,040	4,62,040

distributed over the estimated life of such assets. In other words, each fixed asset would be shown in the Balance Sheet at its original cost *minus* such accumulated depreciation or deterioration in value it may have undergone upto the date of the Balance Sheet.

Floating Assets, on the other hand, are held for resale with a view to profit or for immediate conversion into cash, and are, therefore, valued at the cost or the current market price whichever is lower at the date of the Balance Sheet. But both the fixed and floating assets should be valued on the basis of a going concern.

Form of Balance Sheet.—There is no hard and fast rule as to the order in which the assets and liabilities of a sole trader or a partnership firm should be stated in the Balance Sheet. One method is to place the most easily realisable asset first and then follow it up by assets which are less easily realisable, so that the asset most difficult of realisation will be shown last. As against this order of the assets, the liabilities will be shown in the order in which they are payable, the most pressing liability being placed first. The Balance Sheet will then appear as under:—

BALANCE SHEET

Liabilities	Rs.	*Assets*	Rs.
Bills Payable		Cash in Office	
Creditors for Loans		Cash at Bank	
Creditors on Open Accounts		Investments	
Outstanding Liabilities for Expenses		Sundry Debtors	
Capital		*Less* Reserve for Doubtful Debts	
		Bills Receivable	
		Stock-in-trade	
		Loose Tools	
		Less Depreciation	
		Fixtures and Fittings	
		Less Depreciation	
		Plant and Machinery	
		Less Depreciation	
		Factory Building	
		Less Depreciation	
		Goodwill	
Rs.		Rs.	

The other method is to marshal the assets and liabilities in exactly the reverse order to the above, so that the fixed and permanent assets and liabilities appear first and will be followed by floating assets and liabilities. The latter arrangement now seems to be followed by almost all concerns except Banks and Financial Houses which prefer to show the liquid and floating assets first and follow them up with the fixed assets. It should be noted that while preparing the Balance Sheet of a Limited Company, it is this order of assets and liabilities that is required to be rigidly observed by the prescribed form of Balance Sheet under the Indian Companies Act.

HEADING OF ACCOUNTS.

The student should carefully study the method of dating the Final Accounts, which is an important point. The Trading and Profit & Loss Account, being a summary of the transactions relating to trading during a given period, should always be headed this way—

TRADING AND PROFIT & LOSS ACCOUNT

for the year ended............

On the other hand, a Balance Sheet, being a list of balances outstanding on the books of a trader on a particular date, should be headed this wise—

BALANCE SHEET

as at............

The name of the trader must always appear at the head of the Final Accounts.

HOW TO SET OUT ASSETS AND LIABILITIES.

We will now proceed to discuss the important points in connection with the several Assets and Liabilities that usually find their place in a trader's Balance Sheet.

Cash at Bank.—This item would represent the Bank Balance as shown by the Bank Columns of the Cash Book. If this balance differs from the Bank Balance as per the Pass Book, a Reconciliation Statement would have to be prepared to verify its correctness.

Investments.—Ordinarily, these will appear at cost price, and temporary fluctuations in value need not be brought into account. If, however, the market value shows a tendency towards a permanent fall, it would be advisable to provide for such depreciation in the value of the investments. In any case, the basis of valuation, cost or market price, should be clearly indicated on the Balance Sheet. When the market value of the investments is lower than the cost price and the investments are shown at cost, it is desirable to append a note in the Balance Sheet stating what the then market value was.

Any provision made in regard to the loss in value of investments should be shown by way of deduction from the book value of the investments.

If the investments consist of gilt-edged securities as also stocks and shares, the value of each of these should be separately shown under distinct sub-heads.

Accrued interest, if any due, on these investments upto the period covered by the account should be calculated and brought into account.

Sundry Debtors.—This item always means the sum total of the amounts owing from the Trade Debtors, i.e., the Customers. If there are any Debtors for Loans granted by the trader, such Loan Debtors should be distinguished from the Trade Debtors. All debts known to be bad and irrecoverable must be written off. The provision, if any, made for Doubtful Debts as also for Discounts on Debtors should be shown by way of deduction from the book value of the debtors in order that the estimated realisable value of this asset may appear in the outer column.

Bills Receivable.—This item will represent Bills Receivable not matured at the date of the Balance Sheet. If there is any overdue bill, the same would be reversed to the personal account of the acceptor concerned, and a provision in regard to such doubtful debt should be made, if necessary.

Stock-in-Trade.—This item should be very carefully valued and any over-valuation should be guarded against. The basis accepted as sound and correct is cost or market price, whichever be the lower at the date of the Balance Sheet. Cost price would necessarily include the Invoice Price *plus* Duty, Freight, Carriage Inwards, etc. The basis of valuation should be indicated on the Balance Sheet. Proper allowance should be made while valuing unsaleable or damaged stock.

Patents, Copyrights, Trade Marks, etc.—These and similar assets should be valued on most conservative basis. The whole cost of Patents or Copyrights should be written off within the period of their probable life, but if any of these are obsolete and cannot be utilised or if the products prove to be unsaleable, the values of such Patents, Copyrights, etc., should be ignored for the purpose of Balance Sheet valuation. In other words, these assets should not appear in the Balance Sheet at anything beyond their utility values to the concern in question.

Furniture and Fixtures.—These should be brought in the Balance Sheet at the original cost *less* a reasonable amount in respect of depreciation.

Loose Tools.—These are generally re-valued at the end of each year and the difference between the book value and the valuation figure is written off as depreciation.

Plant and Machinery.—This item must be shown at its original cost in the inner column, and the provision in regard to depreciation should appear by way of deduction from the cost. It is not a desirable method to show the asset at the cost price on the assets side, and the provision in respect of depreciation on the liabilities side. The advantage of showing the depreciation amount by way of deduction from the original cost lies in the fact that the present utility value of the asset can be seen at a glance. Once the entire cost of equipment and installation under this head is debited to this account, it should be seen that only purchases of additional plant and amounts expended on improvements resulting in enhancement of the revenue-earning capacity of the existing plant are subsequently capitalised. All other amounts expended by way of renewals, replacements or repairs to maintain the plant in its original efficiency will be charged off to revenue.

Freehold Land and Building.—It is desirable to distinguish between Freehold and Leasehold Property. The asset should be shown at the original cost *less* a reasonable percentage in respect of depreciation on building. Freehold land, as a rule, does not depreciate. If the value of such asset has appreciated, it is not desirable to bring up the book value to its present market price and thus take credit for an unrealised profit.

Leasehold Land and Building.—The original cost as also any additions to such asset should be written off during the period of the lease, so that by the time the lease expires, its book value also may be reduced to zero. Repairs should be charged off to Revenue Account of the year in which they are made.

Liabilities.—The amount owing to suppliers of goods at the end of the financial period is usually shown under the heading of Trade Creditors or Creditors on Open Accounts. Bills Payable, Creditors for Loans borrowed, Bank Overdraft and Outstanding Liabilities for Expenses should each be shown under its distinct heading. Creditors holding any securities from the trader must be separately shown with a statement of the securities pledged or assets mortgaged.

Capital.—The difference between the total of the assets and the total of the liabilities at the date of the Balance Sheet will represent the Capital of the trader as at that date. This item will have to be shown in details as under:—

	Rs.	Rs.	Rs.
Capital at the commencement of the period		......	
Add further amount brought in		......	
„ Interest on the Capital		......	
„ Net Profit		......	
		......	
Less Withdrawals	......		
„ Interest on withdrawals	......		
		......	
			......
		Rs.	......

CALCULATION OF COMMISSION.

The calculation of Commission to Manager presents some difficulty to students when the payment is based on a percentage of the trading profits *after* the deduction of the actual amount of commission payable. In such a case, the percentage of commission and the figure of trading profits prior to charging commission having been given, the working will be as under:—

ILLUSTRATION 20.

X, the manager of Sharp and Slow, is to receive 10% on the net *profits of the* business left *after the deduction* of his commission. The profit *prior to deduction* of commission amounted to Rs. 33,000. What commission does X stand to get?

		Rs.
Assume that the Commission X gets is	=	10
and the profits left after deduction of such commission are	=	100
Then the profits prior to commission should be	=	110

Thus, the Commission in this case works out at one-eleventh of the profits, and on Rs. 33,000, it will be Rs. 3,000.

ILLUSTRATION 21.

After passing the necessary closing and adjusting entries, prepare Trading and Profit & Loss Account for the year, and Balance Sheet as at 31st December 1940 from the following Trial Balance of a Manufacturer.

TRIAL BALANCE.

	Rs. a. p.	Rs. a. p.
Capital Account		2,03,000 0 0
Drawings Account	15,000 0 0	
Freehold Land and Premises	90,000 0 0	
Plant and Machinery	40,000 0 0	
Loose Tools	3,000 0 0	
Bills Receivable	3,000 0 0	
Stock	40,000 0 0	
Materials Purchased	51,000 0 0	
Wages	20,000 0 0	
Carriage Inwards	1,000 0 0	
Carriage Outwards	500 0 0	
Coal and Coke	5,000 0 0	
Salaries	5,000 0 0	
Rent, Rates and Taxes	2,800 0 0	
Discounts and Allowances	1,500 0 0	
Bills Payable		3,800 0 0
National Bank	25,000 0 0	
Cash in hand	400 0 0	
Sundry Debtors	45,000 0 0	
Sundry Creditors		40,000 0 0
Repairs and Replacements	1,800 0 0	
Purchases Returns		2,650 0 0
Works Extensions Account	7,500 0 0	
Bad Debts	1,200 0 0	
Advertisements	500 0 0	
Goods Sold		1,15,000 0 0
Sales Returns	2,000 0 0	
Gas and Water	200 0 0	
Oil, Grease and Waste	600 0 0	
Furniture and Fixtures	1,200 0 0	
General Expenses	800 0 0	
Printing and Stationery	450 0 0	
Rs.	3,64,450 0 0	3,64,450 0 0

Write depreciation off Plant and Machinery at 5%, off Loose Tools at 15% and Furniture at 5%. The Stock on hand on 31st December 1940 amounted to Rs. 60,000. Provide 2½% for Discount on Sundry Debtors and 5% for Doubtful Debts. Rs. 1,500 were due for wages and Rs. 450 for salaries for the month of December 1940. The last bill of Rs. 400 for taxes was for the half-year ending 31st March 1941.

JOURNAL ENTRIES.

	L.F.	Rs. a. p.	Rs. a. p.
Depreciation Account ... ... Dr.		2,510 0 0	
To Plant and Machinery			2,000 0 0
" Furniture and Fixtures			60 0 0
" Loose Tools			450 0 0
(Being 5 per cent Depreciation on Plant, Machinery, Furniture and Fixtures and 15 per cent on Loose Tools written off).			
Profit and Loss Account ... ... Dr.		2,250 0 0	
To Reserve for Doubtful Debts			2,250 0 0
(Being 5 per cent Provision for Doubtful Debts on Sundry Debtors).			

JOURNAL ENTRIES.—(*Contd.*)

	L.F.	Rs. a. p.	Rs. a. p.
Discount and Allowances ... ... Dr.		1,068 12 0	
To Reserve for Discounts			1,068 12 0
(Being 2½ per cent Provision for Discounts on Debtors).			
Wages Account ... ... Dr.		1,500 0 0	
Salaries Account ... ... „		450 0 0	
To Outstanding Creditors			1,950 0 0
(Being the outstanding liability in respect of Wages and Salaries brought into account).			
Expenses Prepaid ... ... Dr.		200 0 0	
To Rent, Rates and Taxes			200 0 0
(Being the amount of Prepaid Taxes carried forward).			
Trading Account ... ... Dr.		1,21,300 0 0	
To Stock-in-trade			40,000 0 0
„ Materials Purchased			51,000 0 0
„ Returns Inwards			2,000 0 0
„ Wages			21,500 0 0
„ Coal and Coke			5,000 0 0
„ Carriage Inwards			1,000 0 0
„ Oil, Grease and Waste			600 0 0
„ Gas and Water			200 0 0
(Being the transfer of the above items to Trading Account).			
Sales ... ... Dr.		1,15,000 0 0	
Returns Outwards ... ... „		2,650 0 0	
To Trading Account			1,17,650 0 0
(Being the transfer of the above items to Trading Account).			
Stock-in-trade ... ... Dr.		60,000 0 0	
To Trading Account			60,000 0 0
(Being the incorporation of Closing Stock).			
Profit and Loss Account ... ... Dr.		18,378 12 0	
To Salaries			5,450 0 0
„ Rent, Rates and Taxes			2,600 0 0
„ Repairs and Replacements			1,800 0 0
„ General Expenses			800 0 0
„ Carriage Outwards			500 0 0
„ Advertisements			500 0 0
„ Printing and Stationery			450 0 0
„ Discounts and Allowances			2,568 12 0
„ Bad Debts			1,200 0 0
„ Depreciation			2,510 0 0
(Being the transfer of above items to Profit and Loss Account).			
Profit and Loss Account ... ... Dr.		35,721 4 0	
To Capital Account			35,721 4 0
(Being the transfer of Net Profit).			

TRADING AND PROFIT & LOSS ACCOUNT.

For the year ended 31st December 1940.

Dr. Cr.

Date	Particulars	Rs. a. p.	Rs. a. p.	Date	Particulars	Rs. a. p.	Rs. a. p.
1940 Jan. 1	To Stock-in-Trade at commencement ...		40,000 0 0	1940 Dec. 31	By Sales ...	1,15,000 0 0	
Dec. 31	" Materials Purchased ...	51,000 0 0			*Less* Returns ...	2,000 0 0	1,13,000 0 0
	Less Returns ...	2,650 0 0	48,350 0 0	" "	" Stock-in-trade at end ...		60,000 0 0
" "	" Wages ...		21,500 0 0				
" "	" Coal and Coke ...		5,000 0 0				
" "	" Carriage Inwards ...		1,000 0 0				
" "	" Oil, Grease and Waste ...		600 0 0				
" "	" Gas and Water ...		200 0 0				
" "	" Gross Profit carried down		56,350 0 0				
		Rs.	1,73,000 0 0			Rs.	1,73,000 0 0
1940 Dec. 31	To Salaries ...		5,450 0 0	1940 Dec. 31	By Gross Profit brought down ...		56,350 0 0
" "	" Rent, Rates and Taxes ...		2,600 0 0				
" "	" Repairs and Replacements ...		1,800 0 0				
" "	" General Expenses ...		800 0 0				
" "	" Carriage Outwards ...		500 0 0				
" "	" Advertisements ...		500 0 0				
" "	" Printing and Stationery		450 0 0				
" "	" Discounts and Allowances		2,568 12 0				
" "	" Bad Debts ...		1,200 0 0				
" "	" Reserve for Doubtful Debts ...		2,250 0 0				
" "	" Depreciation :—						
	Plant and Machinery 5%	2,000 0 0					
	Furniture and Fixtures 5% ...	60 0 0					
	Loose Tools 15% ...	450 0 0	2,510 0 0				
" "	" Net Profit during the year transferred to Capital Account ...		35,721 4 0				
		Rs.	56,350 0 0			Rs.	56,350 0 0

BALANCE SHEET OF........, as at 31st December 1940.

Dr.

Liabilities	Rs.	a.	p.	Rs.	a.	p.
Sundry Creditors:—						
For Bills Payable	3,800	0	0			
On Open Accounts	40,000	0	0			
Outstanding for Wages and Salaries ...	1,950	0	0	45,750	0	0
Capital Account:—						
Balance on 1st January 1940 ...	2,03,000	0	0			
Add Profits during the year ...	35,721	4	0			
	2,38,721	4	0			
Less Drawings during the year ...	15,000	0	0	2,23,721	4	0
Rs.				2,69,471	4	0

Cr.

Assets	Rs.	a.	p.	Rs.	a.	p.
Cash:—						
At the National Bank	25,000	0	0			
In Office	400	0	0	25,400	0	0
Bills Receivable				3,000	0	0
Sundry Debtors	45,000	0	0			
Less Reserve for Doubtful Debts ...	2,250	0	0			
	42,750	0	0			
Less Reserve for Discounts ...	1,068	12	0	41,681	4	0
Stock-in-trade				60,000	0	0
Furniture and Fixtures	1,200	0	0			
Less Depreciation at 5%	60	0	0	1,140	0	0
Loose Tools	3,000	0	0			
Less Depreciation at 15% ...	450	0	0	2,550	0	0
Plant and Machinery	40,000	0	0			
Less Depreciation at 5% ...	2,000	0	0	38,000	0	0
Freehold Land and Premises ...	90,000	0	0			
Add Extensions made during the year	7,500	0	0	97,500	0	0
Expenses Prepaid				200	0	0
Rs.				2,69,471	4	0

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. What adjustments are usually necessary at balancing time?

2. What is Depreciation? Why should it be always provided for and charged against profits?

3. Why should Interest on Capital be brought into account before the ascertainment of net profits?

4. What is a Balance Sheet? Discuss fully the order in which the assets, liabilities and capital should be set out therein.

5. What adjusting entries would you pass in regard to the following:

(a) Outstanding Liabilities, (b) Prepaid Expenses, (c) Accrued Income, (d) Income received in advance, (e) Reserve for Doubtful Debts, and (f) Depreciation?

6. Explain the working of the Reserve for Doubtful Debts Account and the Reserve for Discounts on Debtors Account.

7. Why should Reserve for Discounts on Creditors be provided for? Explain fully the working of this account.

8. How should Stock-in-trade be valued and adjusted at the end of each financial period?

9. How should Work-in-Progress be valued and dealt with?

10. What are Closing Entries? Give a list of the usual Closing Entries.

11. Explain fully the statement that the Balance Sheet and the Profit and Loss Account are inter-dependent on each other.

12. What is the basis on which the Fixed and Floating Assets should be valued?

13. Define Fixed, Floating, Fictitious, Liquid and Wasting Assets, and give two examples of each.

14. What is a Trading Account and what purpose does it serve?

15. What items are usually embodied in a Profit and Loss Account?

16. What are Consumable Stores, and how is the figure of Stores Consumed arrived at?

17. How should the following items be dealt with in Final Accounts: (a) Freight, (b) Duty, (c) Carriage, (d) Cartage, (e) Royalties, (f) Manufacturing Expenses, (g) Productive Wages, and (h) Packing Materials?

18. What is the object of a Manufacturing Account and what items usually appear on the debit and credit sides thereof?

19. Explain how a Manufacturing Account differs from a Trading Account.

20. What is a Working Account, and how does it differ from a Manufacturing Account?

21. How should the following items be dealt with in Final Accounts: (a) Raw Materials, (b) Finished Products, and (c) Non-productive Wages?

22. Mention the points that would call for enquiry:

(a) Where the percentage of gross profit as shown by the Trading Account is less than anticipated; and

(b) Where such a percentage is more than justifiable.

RESERVE FOR DOUBTFUL DEBTS AND DISCOUNTS.

23. Show the Ledger Entries to describe the following:—

(a) 1905 January 1st, Bad Debts Reserve of £860 standing in the books. (b) 1905 December 31st, Total of Bad Debts Account £1,000. (c) 1905 December 31st, Adjust the Reserve Account so that it may show a Reserve of 7½ per cent on the Book Debts which are £15,000. (d) Assuming that business has been continued for another twelve months, i.e., upto 31st December 1906, the Bad Debts are then £1,100. Adjust the Reserve so that it may show a reserve of 7½ per cent on the amount of Book Debts which are then found to be £12,674. (*National Union of Teachers.*) 19

24. On 1st January 1912, the Reserve for Doubtful Debts shows a credit balance of £900. During the year, the Bad Debts amount to £700. The Debtors at 31st December 1912 are £24,000 and 5% Reserve for Doubtful Debts is required to be maintained. The Bad Debts during the year 1913 amount to £1,350. On 31st December 1913, the Debtors are £25,000 and a 5% Reserve for Doubtful Debts is to be kept. In 1914, the Bad Debts are £300 and the Debtors at the end of the year amount to £10,000 on which a 5% Reserve for Doubtful Debts and a 5% Reserve for Discounts are to be kept.

Show the Ledger Accounts and show also how these items will appear in the Profit & Loss Account and Balance Sheet of each of these three years. 20

25. The Sundry Debtors at 31st December 1931 were Rs. 40,000 and you are required to make a 5% Reserve for Doubtful Debts and also a 5% Reserve for Discounts. The actual Bad Debts during the year 1932 amounted to Rs. 1,600 and the discount allowed was Rs. 1,700. The Debtors at the close of the year 1932 were Rs. 50,000 and Reserve for Doubtful Debts and Reserve for Discounts are required to be maintained at 5%. Give Journal entries and show how the transactions would be shown in the Ledger Accounts, the Profit & Loss Account and the Balance Sheet. 21

26. On 1st January 1930, the Reserve for Discounts on Creditors was Rs. 1,200. The Discounts earned during the year amounted to Rs. 1.040. The Creditors at 31st December 1930 were Rs. 50,000 and a new Reserve of 2½% is required. Show the Journal, Ledger, Profit and Loss and Balance Sheet entries relating to Discount. 22

FINAL ADJUSTMENTS.

27. Upon the closing of a firm's books for the year ending 31st May 1907, the following payments are found to have been made beyond the date of the balance:—

Telephone Rent, £10 per year, expiring 31st October 1907;
Rates, £60 per annum, paid to 30th June 1907;
Railway Season Ticket, £12 for half-year ending 30th September 1907.

The following Invoices rendered have not been dealt with in the books:—
Royal Insurance Company Premium, £10-10 per year ending 31st March 1908.
Rent, £150 per annum, payable in advance, 31st March 1907.

The respective accounts before making any adjustments stand as follows:—

		£	s.	d.
Rent, Rates and Insurance	(Dr.)	198	15	0
Travelling	„	36	0	0
Telephone Rent and Charges	„	12	10	0

You are required to make out adjustment entries in the Journal and to show the remaining balance in each account. (*Incorporated Accountants.*) 23

28. Pass the necessary Entries to make the following adjustments as at 31st December 1925:—

(1) Depreciation at 5% on Office Furniture valued at Rs. 2,000; at 10% on Plant and Machinery worth Rs. 10,000; at 2½% on Buildings worth Rs. 50,000.
(2) The Reserve for Doubtful Debts is to be brought upto Rs. 6,000, the balance on the Reserve Account from previous year being Rs. 4,800. The Bad Debts during the year were Rs. 3,840.
(3) Unexpired Insurance as on the date of the Balance Sheet amounted to Rs. 380.
(4) The last payment for the Annual Telephone Rent, Rs. 300, extended upto 30th April 1926.
(5) Interest at 6% to be allowed on the Capital which was Rs. 70,000.
(6) The following Outstanding Liabilities for expenses have to be provided for, viz., Wages Rs. 600, Salaries Rs. 350 and Trade Expenses Rs. 150.
(7) Make Reserves for Discounts on Debtors and Creditors at the rate of 2½%. The Debtors and Creditors at the end were Rs. 36,000 and Rs. 24,000 respectively. 24

FINAL ACCOUNTS OF A SOLE TRADER.

29. From the following Trial Balance as at 1st January 1908, prepare Manufacturing Account, Profit and Loss Account and Balance Sheet:—

	£	£
Purchases (Materials)	16,000	
Discount (Balance)	1,300	
Wages (Productive)	6,500	
Sales	....	30,000
Salaries	2,000	
Travelling Expenses	500	
Carriage	275	
Insurance	150	
Commission	325	
Rent and Rates	500	
Cash in Hand	25	
Cash at Bank	2,725	
Stable Expenses	195	
Repairs	105	
Sundry Expenses	55	
Mortgage and Interest to date	....	3.050
Mortgage Interest	150	
Buildings	4,000	
Machinery	1,500	
Horses and Carts	500	
Stock on hand, 1st January 1907	5,750	
Capital,	....	10,655
Sundry Debtors and Creditors	3,250	2,100
	£ 45,805	45,805

Make provision for Rent and Rates unexpired, £30; Depreciation on Buildings at 2½ per cent per annum, Machinery at 5 per cent, Horses and Carts at 7½ per cent; Bad Debts £150; Liability for Insurance £20; Discount on Sundry Debtors and Creditors at 2½ per cent. Stock on hand 1st January 1908, £6.075.

(Incorporated Accountants.) 25

(Gross Profit, £7,550; Net Profit, £1,892-10s.; Balance Sheet Total, £17,665.)

30. The following Trial Balance was extracted from the books of W. Patterson on 31st March 1911:—

	£ s. d.	£ s. d.
Cash in hand	160 1 2	
Cash due to Bank		1,317 13 3
Salaries	350 0 0	
Wages	1,759 10 6	
Withdrawals	532 16 1	
Rent and Rates	278 10 4	
Purchases and Returns	32,889 14 4	1,266 14 4
Carriage	891 18 5	
Discount	272 6 3	
Bank Charges	104 4 10	
Difference in Exchange		233 17 5
Bad Debts	37 18 2	
Loans	250 0 0	
Plant and Machinery 31-3-10	796 10 0	
Fixtures and Fittings, 31-3-10	110 0 0	
Horses, Carts and Gear, 31-3-10	95 0 0	
Capital W. P., 31-3-10		6,314 2 8
Debtors	6,148 16 1	
Creditors		4,696 9 9
Stock-in-trade	5,379 18 3	
Interest on Loans		12 10 0
General Expenses	765 0 0	
Sales and Returns	776 10 0	37,757 7 0
	£ 51,598 14 5	51,598 14 5

You are required to draw up a Trading Account, Profit and Loss Account and Balance Sheet. Depreciation at the rate of 10 per cent has to be written off Plant and Machinery, Fixtures and Fittings, Horses, Carts and Gear, and 5 per cent interest charged on Capital. Rent and Rates (annual) are paid to June 30th, 1911. The Stock on March 31st, 1911 was £6,127 10s. 8d. *(Incorporated Accountants.)* 26

(Gross Profit, £3,454-0s.-6d.; Net Profit, £1,546-3s.-9d.; Balance Sheet Total, £13,657-7s.-6d.)

31. The following are the balances extracted from the books of N. Abdulla, as on 31st December 1931:—

	Rs.		Rs.
Capital Account	90,000	Bad Debts Reserve (1st January 1931)	3,240
Drawings	7,600	Taxes and Insurance	1,300
Purchases	89,470	Discount Account (Cr.)	190
Purchases Returns	4,240	Bills Receivable	1,240
Sales	1,49,840	Sundry Debtors	62,970
Sales Returns	2,820	Sundry Creditors	16,980
Stock (1st January 1931)	11,460	Cash at Bank	12,400
Salaries and Wages	6,280	Cash in Hand	2,210
Buildings	25,000	Office Furniture	3,500
Freight and Clearing Charges	16,940	Travellers' Salaries & Commission	9,870
Carriage Inwards	2,310	Additions to Buildings	7,000
Office Expenses	1,340	Rent Recovered	2,100
Printing and Stationery	660		
Postage and Telegrams	820		
Bad Debts	1,400		

You are required to pass the necessary Adjusting and Closing Entries and to prepare Trading and Profit and Loss Account for the year ended 31st December 1931 and a Balance Sheet as on that date, after making the following adjustments.

1. Depreciate Buildings by 2½% and Office Furniture by 5%.
2. Reserve for Bad Debts to be made upto Rs. 4,000.
3. Salaries outstanding for December 1931, Rs. 570.
4. Rent recoverable Rs. 200.
5. 5% Interest to be charged on Capital.
6. The value of stock on 31st December 1931 was Rs. 14,290.
7. The unexpired insurance amounted to Rs. 240.

(Gross Profit, Rs. 45,370; Net Profit, Rs. 19,800; Balance Sheet Total, Rs. 1,24,250.)

32. The following is the Trial Balance of R. Rustomji as at 30th June 1931. You are asked to pass the necessary Adjusting and Closing Entries and to prepare the Trading and Profit and Loss Account and Balance Sheet as at that date.

	Dr. Rs.	Cr. Rs.
R. Rustomji's Capital Account		1,08,090
Stock on 1st July 1930	46,800	
Sales and Sales Returns	8,600	2,89,600
Purchases and Purchases Returns	2,43,100	5,800
Freight and Carriage	18,600	
Rent and Taxes	5,700	
Salaries and Wages	9,300	
Sundry Debtors	24,000	
" Creditors		14,800
Bank Loan at 6 per cent		20,000
Bank Interest	900	
Printing and Advertising	14,600	
Income from Investments		250
Cash at Bank	8,200	
Discounts Receivable		3,690
Investments	5,000	
Furniture and Fittings	1,800	
Discounts Payable	7,340	
General Expenses	3,610	
Audit Fees	500	
Insurance	800	
Travelling Expenses	2,130	
Postage and Telegrams	870	
Cash in Hand	380	
Deposit with M. Maneckji at 5 per cent	30,000	
Drawings Account	10,000	
Rs.	4,42,230	4,42,230

Stock on 30th June 1931 was Rs. 78,600. 50% of Printing and Advertising is to be carried forward as a charge in the following year. Depreciate Furniture and Fittings by 10 per cent. Create 5 per cent Reserve on Debtors. Reserve 2 per cent for Discount on Debtors and Creditors. Insurance prepaid amounts to Rs. 200, Salaries outstanding Rs. 500 and Carriage outstanding Rs. 100. Charge full year's interest on deposit with M. Maneckji.

(*Gross Profit, Rs.* 56,800 ; *Net Profit, Rs.* 21,650 ; *Total of Balance Sheet, Rs.* 1,55,144.)

33. On 31st March 1932, the following Trial Balance of R. Ramrao was taken out. Pass the Adjusting and Closing Entries and prepare Final Accounts for the year, after making the following adjustments:—

(a) Depreciation—5 per cent off Plant and Machinery and 10 per cent off Fixtures and Fittings.
(b) Reserve for Bad Debts 2½ per cent on Sundry Debtors.
(c) Reserve for March Rent, Rs. 150.
(d) Insurance unexpired on 31st March 1932, Rs. 70.
(e) Outstanding Wages and Salaries Rs. 800 and Rs. 350 respectively.
(f) Stock on 31st March 1932, Rs. 16,580.

TRIAL BALANCE.

Debits.	Rs.	Credits.	Rs.
Plant and Machinery ..	55,000	R. Ramrao's Capital Account ..	93,230
Fixtures and Fittings ..	1,720	Sales	1,26,177
Factory Fuel and Power ..	542	Sundry Creditors	22,680
Office Salaries	3,745	Purchases Returns	3,172
Lighting (Factory) ..	392	Bills Payable	6,422
Travelling Expenses ...	925		
Carriage on Sales	960		
Cash at Bank	2,245		
Cash in Hand	68		
Sundry Debtors	47,800		
Purchases	83,290		
Manufacturing Wages ..	9,915		
Rent and Taxes	1,765		
Office Expenses	2,778		
Carriage on Purchases ..	897		
Discount	422		
Drawings Account ..	6,820		
Stock on 1st April 1931 ..	21,725		
Manufacturing Expenses ..	2,680		
Sales Returns	7,422		
Insurance	570		
Rs.	2,51,681	Rs.	2,51,681

(*Gross Profit, Rs.* 18,266 ; *Net Profit, Rs.* 3,054 ; *Balance Sheet Total, Rs.* 1,19,866.)

34. From the following balances extracted from the books of J. Jehangir on 30th June 1931, prepare Final Accounts after making entries in regard to the following adjustments and the closing of accounts.

	Rs.		Rs.
Stock on 1st July 1930 ..	96,000	Returns Inwards	1,000
Wages	28,000	Sundry Debtors	35,000
Salaries	4,000	Office Expenses	5,000
Railway Charges, etc. on Purchases	5,000	Income Tax	500
Purchases	1,20,000	Drawings	6,500
Interest on Overdraft ..	200	J. Jehangir's Capital ..	50,000
Bills Receivable	6,000	Bills Payable	5,000
Rent	2,000	The Consolidated Bank Loan (Cr.)	4,000
Plant & Machinery ..	20,000	Sales	2,50,000
Travelling Expenses	5,000	Reserve for Bad Debts ..	5,000
Repairs to Plant	1,600	Discount on Purchases ..	4,000
Cash in Hand	200	Sundry Creditors	23,300
Cash at Bank	1,800	Returns Outwards	1,500
Building	5,000		

Stock on 30th June 1931 was Rs. 35,000. Write off Rs. 3,000 Bad Debts and maintain a Reserve of 5% on Debtors. Depreciate Plant and Machinery by 10%. Allow interest on Capital at 5% per annum. Wages and Salaries are unpaid to the extent of Rs. 1,500 and Rs. 450. Rent at Rs. 200 per month for the last two months is unpaid.

(*Gross Profit*, Rs. 39,000; *Net Profit*, Rs. 16,250; *Balance Sheet Total*, Rs. 96,400.)

35. Prepare Trading and Profit and Loss Account and Balance Sheet as on 30th September 1931 from the following balances:—

	Rs.		Rs.
A. Arthur's Capital Account ..	1,19,400	Stock on 1st October 1930 ..	89,680
A. Arthur's Drawings Account	10,550	Salaries and Wages	11,000
Bills Receivable	9,500	Travelling Expenses	1,880
Plant and Machinery ..	28,800	Insurance (including Premium of Rs. 300 per annum paid upto 31st March 1932) ..	400
Sundry Debtors (including B. Madan for dishonoured bill Rs. 1,000)	62,000	Cash	530
Loan Account (Cr.) at 6% ..	20,000	Bank	18,970
Wages—Manufacturing ..	40,970	Repairs and Renewals ..	3,370
Returns Inwards	2,780	Interest and Discount (Dr.) ..	5,870
Purchases	2,56,590	Bad Debts	3,620
Sales	3,56,430	Sundry Creditors	59,630
Commission Received ..	5,640	Fixtures and Fittings ..	8,970
Rent and Taxes	5,620		

Stock on hand on 30th September 1931 was Rs. 1,28,960.

Write off half of B. Madan's dishonoured bill.

Create a Reserve of 5% on Sundry Debtors.

Charge 5% Interest on Capital.

Manufacturing Wages include Rs. 1,200 for erection of new machinery purchased last year.

Depreciate Plant and Machinery by 5% and Fixtures and Fittings by 10% per annum.

Commission earned but not received amounts to Rs. 600.

Interest on Loan for the last two months is not paid.

(*Gross Profit*, Rs. 96,570; *Net Profit*, Rs. 59,118; *Balance Sheet Total*, Rs. 2,53,768.)

36. From the following balances of M. Maneckial, prepare Trading and Profit and Loss Account and Balance Sheet as at 31st December 1931:—

	Rs.		Rs.
Capital Account	20,500	Cash in Hand	55
Creditors—Trade	15,000	Drawings	2,500
" Expenses ..	3,400	Purchases	85,500
Rent Received	300	Carriage Inwards	750
Purchases Returns	2,000	Wages—Manufacturing ..	11,500
Sales	1,44,800	Power	4,500
Bad Debts Reserve, 1st January 1931	300	Rent and Insurance	9,950
Advertising Development ..	4,000	Salaries and General Wages ..	17,200
Goodwill	2,500	Discount Received	900
Plant and Machinery ..	10,000	General Charges	4,300
Travellers' Samples	1,350	Sales Returns	300
Stock on 1st January 1931 ..	16,000	Travellers' Commission ..	1,445
Debtors	7,300	" Salaries	4,550
Cash at Bank	1,000	Discounts allowed	2,500

The Closing Stock was Rs. 11,500, but there has been a loss by fire on December 20th 1931, to the extent of Rs. 10,000, not covered by Insurance. Depreciate Plant and Machinery by 10% and Travellers' Samples by 33 1/3%. Increase the Bad Debts Reserve to Rs. 1,000. Write 50% off Advertising Development Account. Annual Premium on Insurance expiring 1st March 1932 was Rs. 600.

(*Gross Profit*, Rs. 49,750; *Net Loss*, Rs. 3,045; *Balance Sheet Total*, Rs. 33,355.)

37. From the following Trial Balance at 30th June 1911, prepare a Trading Account, Profit and Loss Account and Balance Sheet, after carrying out the instructions at the foot of the account:—

	£ s. d.	£ s. d.
T. Williams, Capital		24,503 19 0
Do. Drawings	750 0 0	
Sales		76,793 18 10
Purchases	57,520 15 0	
General Expenses	2,511 11 9	
Mill and Warehouse	11,000 0 0	
Stock, 30-6-10	21,218 9 1	
Coal and Power	2,242 2 4	
Rates	315 4 4	
Wages	7,206 12 2	
Debtors and Creditors	6,287 16 10	2,511 12 8
Discounts	2,441 10 6	897 14 0
Bad Debts Reserve		50 18 10
Commission	317 1 4	
Horse Expenses	199 16 7	
Bills Payable		3,854 0 7
Cash in Hand	84 13 11	
A. B. Bank		1,255 1 3
Income Tax	283 16 3	
Oil	71 12 11	
Allowances	31 17 8	
Machinery, 30-6-10	3,906 0 0	
" Additions	311 11 6	
Loans, A. Jones		2,126 18 10
" W. Jackson		3,006 8 2
" T. Robinson		1,700 0 0
£	116,700 12 2	116,700 12 2

The Stock on 30th June 1911 was £23,339 11s. 0d. After creating a Bad Debts Reserve of 5 per cent on Debtors, allow discount of 2½ per cent on Debtors and Creditors; provide for Depreciation of Machinery, not including additions, at the rate of 10 per cent per annum; allow 5 per cent Interest on Loans and Capital (ignoring Interest on Drawings); allow for bonus to Jones and Jackson of 7½ per cent each on the net profit falling to Williams. (*Incorporated Accountants*) 27

(*Gross Profit*, £11,873-18s.-4d.; *Net Profit*, £3,950-0s.-1d.; *Balance Sheet Total*, £44,075-6s.-9d.)

38. From the following Trial Balance, extracted from the books of Rakhaldas Ramji, prepare a Trading and Profit and Loss Account for the year ended 30th September 1925, and a Balance Sheet as on that date:—

	Dr. Rs.	Cr. Rs.
R. R.'s Capital Account		90,000
R. R.'s Drawings Account	6,480	
Land and Buildings	25,000	
Plant and Machinery	14,270	
Furniture and Fixtures	1,250	
Carriage (Inwards)	4,370	
Wages (Manufacturing)	21,470	
Salaries	4,670	
Bad Debts Reserve (as on 1st October 1924)		2,470
Sales		91,230
" Returns	1,760	
Bank Charges	140	
Coal, Gas and Water	720	
Rates and Taxes	840	
Discounts Account (balance)		120
Purchases	42,160	
" Returns		8,460

	Dr. Rs.	Cr. Rs.
Bills Receivable	1,270	
Trade Expenses	1,990	
Sundry Debtors	37,800	
" Creditors		12,170
Stock (1st October 1924)	26,430	
Apprentice Premium (paid by an apprentice in factory)		500
Fire Insurance	490	
Cash at Bank	13,000	
Cash in Hand	850	
Rs.	2,04,950	2,04,950

Charge Depreciation on Land and Buildings Account at 2½%, on Plant and Machinery Account at 10%, and on Furniture and Fixtures Account at 10%. Make a reserve of 5% on the Sundry Debtors for Bad Debts. Carry forward the following unexpired amounts:—

	Rs.
(1) Fire Insurance	125
(2) Rates and Taxes	240
(3) Apprentice Premium	400

Charge 5% Interest on Capital but not on Drawings. The value of Stock as on 30th September 1925 was agreed at Rs. 29,390. (*Note.*—No Journal Entries for adjustments are required). 28

(Gross Profit, Rs. 32,180 ; *Net Profit, Rs.* 18,538 ; *Balance Sheet Total, Rs.* 1,19,128.)

39. From the following Trial Balance taken from the books of R. Mehta on 31st December 1925, prepare Manufacturing and Profit and Loss Account for the year and Balance Sheet as at that date:—

	Dr. Rs.	Cr. Rs.
Capital Account		87,940
Opening Stock	85,600	
Discounts		350
Advertising	4,700	
Goodwill	9,500	
Bad Debts Reserve		1,800
Bills Payable		1,200
Wages	7,500	
Duty and Clearing Charges	1,200	
Factory Rent	1,600	
Carriage Inwards	3,300	
Returns Inwards	4,500	
Salaries	15,000	
Interest		400
Plant and Machinery	20,000	
Sales		3,60,000
Gas and Water	700	
Returns Outwards		1,900
Office Rent	1,500	
Purchases	2,62,700	
Bills Receivable	2,000	
Cash at Bank	6,660	
Cash in Hand	25	
Office Furniture	2,500	
Sundry Creditors		8,450
Taxes	300	
Printing and Stationery	475	
Sundry Debtors	18,000	
Drawings Account	12,500	
General Expenses	1,360	
Insurance	420	
Rs.	4,62,040	4,62,040

The Closing Stock was valued at Rs. 39,800. The following adjustments are required:—Rs. 250 owing for premises sub-let, but not received. Increase the Reserve for Bad Debts to Rs. 2,500. Depreciate Plant and Furniture at 5%. 29

(*Gross Profit, Rs.* 34,600; *Net Profit, Rs.* 10,020; *Balance Sheet Total, Rs.* 95,110.)

40. From the following Trial Balance of A. Adamji, prepare Trading and Profit and Loss Account (after passing the requisite Adjusting and Closing Entries), for the year ended 31st December 1931 and a Balance Sheet as on that date:—

TRIAL BALANCE.

Debits.	Rs.	Credits.	Rs.
Plant and Machinery ..	19,720	A. Adamji's Capital Account ..	80,000
Manufacturing Wages ..	34,965	Sundry Creditors	54,160
Salaries	15,965	Bank Loan	10,000
Fixtures and Fittings ..	9,480	Purchases Returns	1,140
Carriage Inwards	1,980	Sales	2,46,850
„ Outwards	2,150	Reserve for Bad and Doubtful Debts	2,000
Freehold Works	25,000		
Manufacturing Expenses ..	9,455		
Insurance and Taxes ..	4,175		
Goodwill	30,000		
General Expenses	8,142		
Factory Fuel & Power ..	1,276		
Sundry Debtors	78,140		
Lighting—Factory	986		
Stable Expenses for distribution	2,473		
Stock, 1st January 1931 ..	34,170		
Horses and Carts	5,165		
Purchases	97,165		
Sales Returns	3,170		
Discount	928		
Bad Debts	1,485		
Interest and Bank Charges ..	475		
Cash at Bank	7,540		
Cash in Hand	145		
Rs.	3,94,150	Rs.	3,94,150

Adjustments:—

1. Stock on 31st December 1931 was Rs. 29,630.
2. Depreciation—Plant and Machinery, 10 per cent; Fixtures and Fittings, 5 per cent; Horses and Carts, Rs. 1,000.
3. Bring Reserve for Bad and Doubtful Debts to 5 per cent.
4. Unexpired Insurance Rs. 300 and Taxes Rs. 190.
5. A commission of one per cent on the Gross Profit to be provided for Works Manager.
6. A commission of 5 per cent on Net Profit (after charging the Works Manager's commission) to be credited to the General Manager.

(*Gross Profit, Rs.* 94,453; *Net Profit, Rs.* 50,209-14-0; *Balance Sheet Total, Rs.* 1,97,957.)

CHAPTER III.

CAPITAL AND REVENUE—INCOME & EXPENDITURE AND RECEIPTS & PAYMENTS ACCOUNTS.

DISTINCTION BETWEEN CAPITAL AND REVENUE.

The distinction between Capital and Revenue Expenditure most vitally affects the fundamentals of accounting and it is highly essential, therefore, that the proper adjustment of these items must receive close and careful attention at the time of preparation of Final Accounts. In view of the fact that while constructing the Final Accounts all revenue items would have to be included in the Revenue Account, i.e., the Profit & Loss Account, and all items of Capital Expenditure will form part of the Balance Sheet, this distinction would need to be most rigidly observed inasmuch as any incorrect adjustment or allocation in this behalf would falsify the final results as disclosed by both the Profit & Loss Account and the Balance Sheet.

Capital may be defined as wealth or property set aside to be utilised for the production of more wealth, and the extra wealth thus produced is commercially known as Revenue or Profit.

Now, since the object of employing Capital in a business is to earn profit, it is very essential that the owner of the Capital must ascertain from time to time how far this object is being achieved. The Capital as originally introduced must naturally get merged into the various assets employed in the conduct of the business, and if any profit has accrued in the process, the property or assets representing the Capital at the end must be more valuable than the property or assets at the beginning. On the other hand, if the business transactions have resulted in a loss, the Capital as originally brought in would shrink in value to that extent.

The bare knowledge that the employment of a definite amount of Capital, during a given period, has resulted in a certain profit or loss is not sufficient. The owner of the Capital would naturally like to know how such profit or loss has arisen, and it is in the ascertainment of such profit or loss that the real necessity for distinguishing between Capital and Revenue arises. Again, all assets employed in a business are subject to a diminution in value, in a greater or lesser degree, as a result of such employment, and, it goes without saying that true profit earned during any particular period cannot be arrived at unless Capital lost in this manner is duly provided for out of the Revenue. This makes it still more essential to discriminate strictly between Capital and Revenue items.

The student should, therefore, have a clear insight into the principles that govern the proper allocation of expenditure between Capital and Revenue so that he may know which items should appear in the Balance Sheet and which items should find their place in the Profit & Loss Account. Any incorrect allocation between the two would vitally affect the whole of the financial results, and both the Profit & Loss Account and Balance Sheet would be inaccurate and misleading. For instance, it would be fundamentally wrong to charge repairs and renewals to Plant and Machinery Account, to debit additions to Building, Plant or Fixtures to Repairs Account, to debit Purchases Account with the amount expended on Office Furniture, or to credit the amount realised on the sale of any fixed assets to Sales Account

CAPITAL EXPENDITURE.

All expenditure which results in the acquisition of permanent assets which are intended to be continually used in the business for the purpose of earning revenue is Capital Expenditure. Further, any amount expended which tends to extend or improve existing assets, so as to enhance the revenue-earning capacity by increasing production or reducing cost of production may rightly be treated as Capital Expenditure. Thus, the cost of Land, Building, Plant, Tools, Fixtures and similar assets acquired by any concern by way of permanent equipment, so that with the help of these the business may be carried on, would be treated as Capital Expenditure.

REVENUE EXPENDITURE.

All establishment and other expenses incurred in the conduct and administration of the business come under the heading of Revenue Expenditure. Further, all expenses incurred by way of repairs, replacements and renewals of existing assets, which do not in any way add to their earning capacity but simply serve to maintain the original equipment in an efficient working order, are properly chargeable to revenue. Thus, office salaries, rent, taxes, insurance, advertising and other expenses incidental to the carrying on of a business, as also amounts expended on repairs to assets forming part of permanent equipment would be treated as items of Revenue Expenditure.

ITEMS CHARGEABLE TO REVENUE.

The following items are usually chargeable to Revenue:—

1. All expenses incurred in the ordinary conduct and administration of the business, such as Rent, Salaries, Wages, Insurance, Advertising, etc.
2. Expenses incurred by way of repairs, renewals and replacements for the purpose of maintaining the existing permanent assets of the business, such as Works Building, Plant, Machinery, Tools, Fixtures, etc., in a state of original working efficiency.
3. Cost of goods bought for re-sale.
4. Cost of Raw Materials and Stores acquired for consumption in the course of manufacturing.
5. Wages paid for manufacture of products for sale.
6. All other amounts expended in the manufacturing and distribution of the products handled.
7. Loss arising from wear and tear and obsolescence of assets utilised in business.
8. Annual amount to be written off the Lease.
9. Interest on Loans borrowed for business.
10. Loss arising from sale of Fixed Assets.
11. Annual fees paid for renewal of patents.
12. Maintenance of Office Car or Motor Van including replacement of Tyres, Tubes, Wheels, etc.
13. Maintenance of Electric Lights and Fans.
14. Book values of assets discarded or totally damaged or destroyed by fire or other reasons.

ITEMS CHARGEABLE TO CAPITAL.

The following items are usually chargeable to Capital:—

1. Cost of Goodwill.
2. Cost of Freehold Land and Buildings.
3. Cost of Lease acquired.
4. Cost of Plant, Machinery, Tools and Fixtures acquired for equipment.
5. Cost of Trade Marks, Patents, Copyrights, Patterns and Designs.
6. Cost of Office Car, Motor Van or Lorry.
7. Cost of installation of Lights and Fans.
8. Cost of any other asset acquired by way of equipment.
9. Expenses on erection of Plant and Machinery.
10. Actual additions and extensions to existing assets.
11. Structural improvements or alterations to existing assets whereby their revenue-earning capacity is increased.
12. Development Expenses in case of Mines and Plantations.
13. Administration Expenses in industrial enterprises incurred during the period of construction and equipment.
14. Cost of experimenting when the same results ultimately in acquisition of a patent.

EXCEPTIONS TO THE GENERAL RULES.

The following are exceptions to the above general rules:—

Legal Costs and Architect's Fees.—These are, as a rule, revenue charges; but Legal Charges and Stamp Duty paid for conveyancing on acquisition of a property, and Architect's Fees paid for supervising construction of a property can be capitalised, as they form an additional cost of the asset acquired.

Brokerage and Stamp Duty.—Normally, these are revenue items; but brokerage paid on acquisition of a property or on purchase of shares, stocks or other securities, as also the stamp duty involved thereon can be treated as an additional cost of the purchase and capitalised.

Parliamentary Expenses.—Parliamentary Expenses incurred in promoting Bills for granting licences to Railways, Tramway Companies, Gas Works, Electric Lighting Companies and such other concerns, are capitalised under Special Acts.

Productive Wages.—This is a revenue charge; but in a manufacturing business where the firm's own men are employed in making extension to the factory building, or in erecting plant or manufacturing tools for own requirements, the wages paid for such purposes would be capitalised.

Repairs.—Repairs and renewals are normally treated as items of revenue expenditure; but if an old property has just been acquired in a dilapidated state, and an amount is expended to put it into a tenantable condition, the same can rightly be added to the cost of the asset. Similarly, if an old machine is purchased and a sum is spent by way of repairs and replacements to put it in running order and thus render it revenue-earning, the same can fairly be treated as an additional cost of the machine.

Advertising.—Ordinarily, amounts expended on advertising own factory products or other goods dealt in, with a view to enhance the sales, are chargeable to revenue. But where a newspaper concern expends abnormally heavy amounts on advertising in the beginning of its career, or where a manufacturing concern advertises largely its patented products at the initial stages of the business, this may have the effect of creating a future goodwill and may be capitalised.

Interest.—Although, ordinarily, a revenue charge, interest paid on subscribed capital, by public utility concerns during construction of works, is allowed to be capitalised by statute, under certain terms and conditions.

Freight and Carriage.—This is a revenue charge ; but freight or carriage paid on newly acquired plant or similar fixed asset will form additional cost of the asset in question and will be capitalised.

Development Expenses.—In concerns like Collieries, Mines, Tea, Rubber and other Plantations, all expenses incurred during the period of development and upto the time they begin to earn are charged to Capital.

Preliminary or Formation Expenses.—These are initial expenses incurred in connection with the formation of a public company and the obtaining of the share capital. These expenses, although revenue in their nature, are allowed to be capitalised and can be shown as an asset in the Balance Sheet, under the Indian as well as the English Companies Acts. There is nothing, however, to prevent their being written off against profits over a period of years, and it would be sound and prudent to do so, provided there are sufficient profits to write these off.

Underwriting Commission and Brokerage on Shares.—These items are equally of a revenue nature as above, but are allowed to be capitalised and can be shown in a Company Balance Sheet as an asset, under the Indian and the English Companies Act.

Cost of Issue of Debentures, or Discount on Issue of Debentures.—This item represents expenses or loss arising at the time of issue of Debentures by a Public Company, and although revenue by nature, it is allowed to be temporarily capitalised and apportioned equally over the number of years for which the Debentures are to run.

Additions to Leasehold.—Addition to a Leasehold Building is a capital expenditure and can be debited to Leasehold Account. But the cost of the original Lease as also the cost of additions thereto must be charged off to revenue equitably over the period covered by the Leasehold.

Expenses relating to Patents.—All expenses relating to experimenting and subsequent acquisition of Patents including the Patent Agent's Fees are allowed to be capitalised, but fee paid for Renewal of Patents is a revenue charge.

DEFERRED REVENUE EXPENDITURE.

Where heavy expenditure of a revenue nature is incurred, the benefit of which is likely to extend beyond the year in which it takes place, it is customary and legitimate to allow such an expenditure to be temporarily capitalised and to be spread equally over the number of years for which it is anticipated the benefit would be enjoyed by the business. It need hardly be stated, however, that as to within what number of years the whole amount should be written off, will depend on the circumstances attaching to each particular case. Items such as *Preliminary Expenses, Brokerage on Shares* and *Cost of Issue of Debentures* or *Discount on Issue of Debentures* as explained above, may well be classed under this head. Further instances of Deferred Revenue Expenditure items are:

(a) *Cost of Removal of Business* to a more convenient locality.

(b) *Cost of Removal of Works* and the incidental expenses incurred in connection with the *dismantling, removing* and *re-erection* of plant and machinery.

(c) *Exceptional Repairs* of a non-recurring nature by way of overhauling of the entire plant or a section thereof.

(d) *Advertising* payment made under a contract extending over a term of years, or an abnormally heavy amount expended on advertisement in any one year in order to popularise a new product.

In all such cases, inasmuch as the benefit to be derived from the amount expended would last for a number of years to come, it is deemed sound and equitable that each of these years concerned be burdened with a proportionate share of such expense, and not that the whole amount be charged off to the revenue account of the very year in which it had been so expended.

DEVELOPMENT EXPENSES.

As each business is started with a view to earn income in a specific direction, it is but necessary that all expenditure incurred upto the stage at which the business may be said to be sufficiently equipped to earn should be capitalised. But once the income has begun to be earned, a most careful distinction will have to be drawn between Capital and Revenue Expenditure. Thus, in Tea, Rubber and other Plantation undertakings as also in Mining concerns, all expenditure incurred during the period of development and upto the time that they reach the profit-earning stage is treated as Capital Expenditure. After that, only such expenditure as would add to the earning capacity of the undertaking as originally equipped, by the acquisition of an additional asset or improvement of an existing asset, would be treated as Capital Expenditure. Similarly, on the flotation of a new manufacturing concern, all revenue expenses incurred upto the time that such concern is able to commence working can be capitalised and added to the cost of construction of works.

STRUCTURAL ALTERATIONS.

Where structural alterations are made on a property to satisfy local bye-laws, but which do not in any way add to the revenue-earning capacity of the asset in question, or where alterations have to be made on an existing asset so as to put it in proper repairs, the amount spent should be charged to revenue. Thus, if additional emergency exits have to be constructed in a theatre under the rules of local authorities, or if necessary alterations have to be made on a roof to prevent leakage of rain water, the cost should be charged to revenue. But where alterations are done to any existing plant whereby its efficiency or capacity is increased, such cost may fairly be capitalised. Further, if as a result of alterations done on a building, the latter is made to produce more rent, the expenses involved can be treated as Capital Expenditure. Similarly, if a theatre or cinema hall is re-furnished or structural alterations are done thereto whereby its attractiveness and comfort are considerably added to, so as to result in additional revenue, the amount expended will be treated as Capital Expenditure; but if the expenditure is by way of re-painting and putting the property in thorough repairs, the same must be charged off to revenue, although an abnormal amount spent in this manner may be treated as a Deferred Revenue Expenditure item and spread over a reasonable number of years.

There are occasions when an amount expended cannot wholly be treated as either Capital or Revenue Expenditure, but will have to be most carefully apportioned between Capital and Revenue. So nearly do certain items approach the border line where the two classes of expenditure may be said to merge into each other, that even experts are frequently in disagreement as to their proper allocation. A glaring instance of this may be taken as that of extensions, alterations and improvements to business premises or plant. In a case of this nature, it would not be sound or prudent on the one hand to treat the whole amount expended as Capital Expenditure, inasmuch as the original value or the earning capacity of the asset in question may not have increased to a like extent. On the other hand, it would not be fair to burden the Revenue with the whole of the amount expended, in face of the fact that a portion of such expenditure may have resulted in adding to the capital value of the asset by enhancing its earning capacity. To the extent, therefore, to which such expenditure represents any structural alteration or improvement therein, so as to add to its original state of efficiency for the purpose of earning more income, the same would be capitalised, and to the extent to which the expenditure serves to restore the original working condition of the asset, the same must be charged to revenue.

The main point for guidance seems to be to examine carefully as to what effect the expenditure will have on the value of the fixed assets of the business. Does the amount expended actually increase the value of those assets, so that they are capable of earning for the business a larger amount of profit than before ? And is there any reasonable likelihood of such increased profit being maintained in the future ? If the answer to these questions is in the affirmative, then such expenditure may be treated as Capital Expenditure. If the expenditure merely places the earning power of the business on the same footing as it had originally obtained by reinstating worn out or exhausted assets, then the expenditure must be charged against Revenue.

In so dissecting the expenditure, it has always been regarded as sound and desirable to err on the safe side by charging a proportionately larger sum to revenue than would be justified from the results, in order that the asset account concerned may not be shown in the books at anything more than its real value. A good illustration on this point may be quoted. Some extensive alterations were done recently to a Cinema Building. Apart from important structural alterations, the entire property was put in thorough repairs, and the interior of the theatre including the sitting accommodation was absolutely re-furnished and made more attractive and comfortable. This resulted immediately in a substantial increase in revenue. A careful analysis of the total sum expended elicited the fact that only 16% of the total expenditure related to repairs and re-painting, and that 84% represented improvements to building and cost of re-furnishing. It was then decided to treat 20% of the entire expenditure as a revenue charge and capitalise 80%. The book value of the old assets abandoned had naturally to be written off, but as this sum as also the 20% to be charged to revenue amounted to an abnormally heavy burden on the Profit & Loss Account, the same was distributed over a period of three years.

REPLACEMENT OF OLD WORKS BY NEW.

Occasionally, old works have to be pulled down and re-instated by new works of greater earning capacity, or the existing plant has to be discarded due to new inventions and replaced by one more costly and efficient. Such a circumstance would call for a careful adjustment between capital and revenue, and the important point to be decided is "should the loss represented by the book values of the assets discarded be considered as part of the cost of new equipment and capitalised ?" Take the case of a Railway Station originally costing Rs. 1,00,000 having now to be replaced by a new and larger one costing Rs. 2,25,000. The question that arises is, 'what proportion of the Rs. 2,25,000 should be charged as Capital Expenditure ?' In such a case, the one method usually followed is to capitalise the entire *present cost* of new equipment, and to charge off to revenue the book value of the old asset *plus* the cost of dismantling, *less* the proceeds from the sale of old materials and the value of the old materials utilised in new construction. A more conservative method would be to charge off to revenue the *present cost of replacement* and to capitalise only the *actual betterment.*

Assume, further, that a Tramway Company converts its horse traction into an electric traction, and an enormous amount of loss is sustained due to the horses and the old rolling stock having had to be disposed of at considerable sacrifice. Would it be sound and proper to capitalise such a loss by treating it as forming part of the cost of new equipment ?

Opinion on this matter unfortunately is divided, but it may safely be said that although the legality of such a procedure may not be questioned, it can never be said to be a sound policy to follow from the view point of finance. In fact, it is never sound to permanently capitalise an amount which is not represented by any tangible asset. But the amount of loss arising from the old assets having had to be discarded, being abnormally heavy, need not necessarily be charged off to revenue in one year, but may be distributed over a reasonable period of years. Where such a replacement does not result in any increase in the revenue-earning capacity of the business, the whole of the cost of renewal may be treated as a revenue charge, and may be spread equitably over the number of years for which it is estimated the benefit of such replacement will be felt.

GENERAL BROAD RULES.

In general, the following broad rules can safely be laid down :—

(*a*) Capital Expenditure is visible and is represented by an asset or improvement in the value of an asset and serves to increase the profit-earning capacity of the undertaking, whereas Revenue Expenditure simply maintains an existing asset but does not increase profits.

(*b*) It is not sound to capitalise permanently an expenditure that is not represented by any asset.

(*c*) When an asset is replaced by one more efficient and costly than the original, the capital value of the old asset remaining in the books must be written off, and the cost of the new asset must be capitalised. A still better method to follow, under such a circumstance, would be to estimate the present cost of replacing the old asset exactly as it stood, and to charge this amount to Revenue, after deducting therefrom the amount realised on sale of old materials. The balance of the amount expended, representing as it would the actual cost of additions or extensions, should then be capitalised.

(*d*) Any abnormal loss resulting from the replacement of obsolete plant or other equipment by one more up-to-date and efficient need not necessarily be charged off to revenue in the year in which such replacement has taken place, but may be spread over a reasonable number of years.

(*e*) Heavy expenditure of a revenue nature, the benefit of which is likely to extend beyond the year in which it takes place, may be temporarily capitalised by such amount being charged off to Revenue proportionately over the number of years likely to enjoy the benefit of such expenditure.

ILLUSTRATION 22.

The Modern Industries removed their Works to a more suitable premises:—

(*a*) A sum of Rs. 4,750 was expended on dismantling, removing and re-installing Plant, Machinery and Fixtures.

(b) The removal of Stock from the old Works to the new one cost Rs. 500.

(c) Plant and Machinery which stood in the books at Rs. 75,000 included a machine at a book value of Rs. 1,700. This being obsolete was sold off at Rs. 450, and was replaced by a new machine which cost Rs. 2,400.

(*d*) The freight and cartage on the new machine amounted to Rs. 150 and the erection charges cost Rs. 275.

(e) The Fixtures and Furniture appeared in the books at Rs. 7,500. Of these some portion of the book value of Rs. 1,500 was discarded and sold off at Rs. 600 and new Furniture of the value of Rs. 1,200 was acquired.

(*f*) A sum of Rs. 1,100 was spent on painting the new factory.

State which item of expenditure would be charged to Capital and which to Revenue.

Solution.

(*a*) Rs. 4,750 expended on removing and re-installing Plant and Fixtures will have to be treated as Revenue Expenditure. In view of the fact, however, that the benefit to be derived from the removal will last for a number of years to come and in view also of the fact that the expense is of a non-recurring nature, there can be no objection to its being treated as a Deferred Revenue Expenditure item and spread over a term of years, say from three to five years, and a proportionate amount charged each year to Revenue.

(b) The expenses incurred in removal of stock may also be dealt with in the same manner as above.

(c) The difference between the book value of the machine sold, viz., Rs. 1,700 and the amount realised on sale, viz., Rs. 450 will have to be charged off to Revenue as Depreciation. Rs. 2,400, the cost of new machine, will have to be capitalised.

(*d*) Rs. 150 expended on Freight and Cartage and Rs. 275 on erection of the new machine can be debited to Plant and Machinery Account and thus capitalised.

(*e*) In this case also, the difference of Rs. 900 between the book value of the Furniture discarded and the amount realised therefrom will be written off to Revenue Account and the cost of the new Furniture will be capitalised.

(*f*) The sum expended in painting the factory cannot be treated as capital expenditure, but will have to be charged off to Revenue. It may, however, be distributed over a period of three years in order that the Revenue Account of any one year may not be burdened with a heavy expenditure of a non-recurring nature.

ILLUSTRATION 23.

State clearly how you would deal with the following in the books of a Theatrical Company:—

(*a*) Amount expended on equipping the theatre with sitting accommodation, decoration, carpets, gas and electrical fittings, Rs. 15,750.

(b) Purchase of Organ, Piano and other musical instruments for the theatre, Rs. 3,350.

(c) Amount expended in providing Uniforms of Staff, Rs. 650.

(d) After three years, the Organ which had originally cost Rs. 1,500 and which had been depreciated by 10% each year was sold for Rs. 750 and was replaced by a more up-to-date one costing Rs. 1,800.
(e) Under orders of the local authorities, alterations had to be made in the location of some of the exits which cost Rs. 250.
(f) Due to a leakage of rain water through the roof, the wall-paper got damaged and repairs had to be done to the roof as also the wall-paper, the whole costing Rs. 750.

Solution.

(a) The whole of the amount expended on equipping the theatre with sitting accommodation, decoration, carpets, gas and electric fittings will be capitalised.

(b) The cost of Organ, Piano and other musical instruments will be capitalised.

(c) The amount expended on Uniforms of Staff will be capitalised.

(d) The difference between the book value of the Organ, Rs. 1,050 and the amount realised from sale, viz., Rs. 750 will have to be charged off to Revenue and the whole cost of the new Organ will be capitalised.

(e) The necessary alterations made in the location of Exits under orders from local authorities would not in any way add to the capital value of the theatre and the cost thus incurred cannot therefore be capitalised. The amount expended will have, therefore, to be written off to Revenue.

(f) The amount expended on repairs to the roof and wall-paper must be charged off to Revenue.

FIXED, FLOATING OR CIRCULATING CAPITAL.

Capital is spoken of as **Fixed** and **Floating** or **Circulating** according to its nature. To the extent to which it consists of assets which are intended to be held by way of permanent equipment for the purpose of being employed in the production of revenue it is fixed, and the assets representing such fixed capital are termed **Fixed Assets.** Thus, the fixed assets of a manufacturer would be land, factory building, fixtures, plant, machinery, loose tools and patents. **Circulating Capital,** on the other hand, is represented by that which has been acquired for resale or is constantly changing, or is capable of constantly changing its nature, such as stock-in-trade, stock in course of production, cash, book debts, bills receivable, etc.

But what is a fixed asset in one business may be a floating asset in another, and the proper classification of assets must, therefore, depend upon the nature of the particular business. Thus, land would be a fixed asset to a manufacturing concern, whereas to an estate or land company whose business is to deal in land, and whose income is thus derived from the purchase and sale of land, it becomes a floating asset. Whereas machinery would be a fixed asset to a manufacturer who has acquired it to equip his factory, to a machinery dealer, the same would represent his stock-in-trade and would, therefore, be a floating asset. Motor Vans of a Dairy Company are its fixed assets, while to a firm dealing in motors, the same would be floating assets. Horses belonging to a Tramway Company are fixed assets, while they would be floating assets to a horse dealer.

The following are further instances of Fixed Assets:—

In a **Railway Company,** the Fixed Capital Expenditure will consist of land, stations and other structural works, permanent way, engines, wagons, carriages and other rolling stock and the cost of promoting any Special Act.

In an **Electric Lighting Company,** the Fixed Capital Expenditure will consist of land and buildings, plant, mains (including cost of laying), transformers, motors, electrical instruments and meters, cost of licence and cost of promoting Special Act, if any.

In a **Gas Company**, capital expenditure will be represented by land and buildings, plant and machinery, storage works and other structures, mains and service pipes (including cost of laying), meters and cost of licence and promoting Special Act, if any.

In a **Rubber Company**, expenditure in connection with lands and buildings, machinery and other permanent works, development expenditure incurred on the preparation and planting up of fresh areas and that incurred in connection with the upkeep and maintenance of planted areas which have not yet reached maturity, will be treated as Fixed Capital Expenditure.

In a **Colliery Company**, the Fixed Capital Expenditure will consist of land and buildings, underground and overhead plant and machinery, wagons, cost of driving tunnels and sinking shafts and all other development expenses.

In a **Hotel Company**, the Fixed Capital would be represented by premises, furniture and fittings, glass and crockery, cutlery and plate, bed and table linen and kitchen utensils.

VALUATION OF FIXED AND FLOATING ASSETS.

As Fixed Assets are held not with a view to resale but are acquired by way of permanent equipment to enable the concern to earn profits for a period of years by their use, they are valued at *original cost less an estimated amount of deterioration* such assets are deemed to have undergone in each period owing to the use made thereof. On the other hand, as Floating Assets are produced or acquired by a concern in the course of its business and are held with a view to resale or immediate realisation into cash, they should always be valued on the basis of either cost or market price whichever is lower at the date of the Balance Sheet.

In other words, whereas fixed or permanent assets are unaffected by market fluctuations and are always valued on the standpoint of their utility to the concern owning them, the values of floating or circulating assets are always modified by market fluctuations for the reason that, as it is the intention of the concern to convert these assets into cash, they should not be assessed in the Balance Sheet at more than they are likely to realise, even though they may have cost more.

The further necessity of clearly distinguishing between Fixed and Floating Assets is still more felt in the case of Companies which are obliged to present their periodical accounts under the Double Account System whereby Fixed Assets and Liabilities are shown in quite a different statement to the one in which the Floating Assets and Liabilities appear.

PERIODICAL STATEMENTS OF ACCOUNTS.

A discussion of Capital and Revenue naturally leads us to a consideration of the varied final statements prepared by concerns of different nature, such as Revenue Account, Income and Expenditure Account, Receipts and Payments Account, and Receipts and Expenditure on Capital Account. These terms are, no doubt, frequently very loosely employed in commercial circles, but it is necessary that the student should have a clear understanding of what each such statement means and in what particular respects one differs from the other.

Revenue Account.—This is another term for Profit & Loss Account and is used by Insurance Companies and undertakings such as Railways, Gas, Water and Electric Light Companies, etc., which have to submit their periodical accounts in forms as fixed by the several statutes.

Receipts and Payments Account.—A Receipts and Payments Account is a summary of actual cash receipts and payments extracted from the Cash Book covering a particular period. All cash received and paid during the period, whether on account of capital or revenue, would be included in this account. The receipts are entered on the debit side and the payments on the credit. Athletic and sports clubs, charitable institutions, etc., where the object of the enterprise is of supplying a want and not that of profit-making, generally present periodical accounts in this form to their members and subscribers. The account commences with the opening balance of cash and similarly closes with the balance of cash at the end of the period. As it is a mere summary of cash transactions, it does not include any income or expense outstanding and naturally fails to reveal the actual income or expenditure of the period it covers.

Income and Expenditure Account.—This is a Revenue Account prepared by non-trading concerns, such as educational institutions, hospitals, libraries, etc., and includes all income earned during a given period (whether actually received or not), and all expenditure incurred for the purpose of earning such income (whether actually paid or not). This account serves exactly the same purpose as the Profit & Loss Account in a trading concern. The income in this case will be set out on the credit and the expenditure on the debit side. It will naturally include revenue items only and will serve to indicate either the excess of income over the expenditure during the period, or *vice versa*. As this account takes the place of a Profit & Loss Account, it presupposes the books having been maintained on Double Entry principles and must always be accompanied by its relative Balance Sheet.

Important Points of Distinction between Receipts & Payments and Income & Expenditure Accounts.—The main points of distinction between a Receipts and Payments Account and an Income and Expenditure Account may be summarised as under:—

Receipts and Payments Account.	*Income and Expenditure Account.*
1. Is a summarised statement of cash transactions of a particular period.	1. Takes the place of a Profit and Loss Account in non-trading concerns.
2. Must necessarily commence with the opening balance of cash brought over from the preceding period, if any.	2. Does not commence with any balance.
3. Restricts itself to cash transactions only and does not take any account of outstanding income or expenses.	3. Includes all income whether received or accrued and all expenses whether paid or outstanding.
4. Makes no distinction between capital and revenue receipts or payments, and includes both capital and revenue items.	4. Includes revenue items only.
5. Receipts are shown on the debit side and the payments on the credit.	5. Income is shown on the credit side and the expenses on the debit.

6. Does not necessarily include items relating to the period it covers, and may include receipts or payments appertaining to preceding of succeeding period.	6. Must bring into account only income or expense belonging to the period under review.
7. Difference between the two sides would represent balance of cash at the close.	7. Difference between the two sides would mean either excess of income over expenditure, or *vice versa.*
8. Need not necessarily be accompanied by a Balance Sheet.	8. Must always be accompanied by its relative Balance Sheet.

Conversion of a Receipts & Payments Account into an Income & Expenditure Account.—The steps necessary to convert a Receipts and Payments Account into an Income and Expenditure Account will be as under:—

1. Exclude the opening and closing Cash or Bank Balances.
2. Eliminate all the items of capital receipts and payments.
3. Exclude income of the previous period or any income received in advance.
4. Provide for accrued income, i.e., income earned during the period and not received.
5. Exclude expenditure either of the preceding period or the succeeding period.
6. Provide for expenditure due and not paid.
7. Bring into account items such as bad debts, depreciation, etc., as would affect the net income.

The statement thus prepared will embody only revenue items of a particular period and will serve to indicate the excess of income over expenditure or the excess of expenditure over income of that period.

ILLUSTRATION 24.

From the following Receipts and Payments Account of a Charitable Institution and the further information supplied, prepare an Income and Expenditure Account for the year ended 31st December 1940:—

RECEIPTS AND PAYMENTS ACCOUNT.

1940		Rs.	Rs.	1940		Rs.	Rs.
Jan. 1	To Balance:—			Dec. 31	By Charities ...		14,500
	Cash on Deposit	5,000			„ Staff Salaries ..		2,600
	„ on Current Account	2,400			„ Rent and Taxes ...		1,200
	Cash in Office	300			„ Printing and Stationery		300
			7,700		„ Postage ...		100
Dec. 31	„ Donations ...		8,000		„ Advertisements ...		250
	„ Subscriptions ..		4,000		„ Purchase of Furniture ...		750
	„ Endowment Fund Receipts		15,000		„ Investments 5% Rs. 15,000 Tax Free Loan at par		15,000
	„ Legacies ...		6,000		„ Advance against contract for Extension of Premises ...		5,000
	„ Interest on Investments ...		9,500		„ Balance:—	Rs.	
	„ Interest on Deposits ...		150		Cash on Deposit	8,000	
	„ Sale of Old Furniture ...		75		„ on Current Account	2,000	
					Cash in Office	725	
							10,725
	Rs.		50,425		Rs.		50,425

It was decided to treat one-half of the total amount received on account of Legacies and Donations as Income. Rs. 200 were owing for Rent, Rs. 300 for Staff Salaries and Rs. 50 for Advertisements at the end of the financial year. Interest on Investments Rs. 500 had accrued but was not received.

Solution.

INCOME AND EXPENDITURE ACCOUNT.

For the year ended 31st *December* 1940.

Expenditure	Rs	Income	Rs.
To Charities ...	14,500	By Donations ...	4,000
„ Staff Salaries ...	2,900	„ Subscriptions ...	4,000
„ Rent and Taxes ...	1,400	„ Legacies ...	3,000
„ Printing and Stationery ...	300	„ Interest on Investments ...	10,000
„ Postage ...	100	„ Interest on Deposits ...	150
„ Advertisements ...	300		
„ Excess of Income over Expenditure	1,650		
Rs.	21,150	Rs.	21,150

NOTE.—The student will note that items of Capital Receipts and Capital Expenditure have been *omitted* and that *outstanding Income and Expenses* have been *brought into* account.

ILLUSTRATION 25.

From the following particulars, which relate to a Commercial and Literary Society, prepare a Receipts and Payments Account, an Income and Expenditure Account and a Balance Sheet as at 31st December 1939.

BALANCE SHEET as at 31st December 1938.

	Rs.		Rs.
Outstanding Creditors ...	425	Cash at Bank ...	3,000
Capital Fund :—		Government Securities ...	10,000
Excess of Income over Expenditure	15,575	Accrued Interest ...	125
		Outstanding Subscriptions ...	400
		Library Books ...	1,000
		Furniture and Fittings ...	1,475
Rs.	16 000	Rs.	16,000

The transactions for the year 1939 were :—Received from Subscriptions Rs. 2,500; Proceeds received from entertainment and lectures Rs. 1,000; Received from Interest on Securities Rs. 475; Entrance fees received Rs. 500; Sale proceeds of old chairs Rs. 75.

Paid for Rent Rs. 600; for Printing, Rs. 150; for Advertising, Rs. 200; for Petty Disbursements, Rs. 55; and for Purchase of Government Securities, Rs. 2,500.

Paid for Outstanding Creditors, Rs. 425; for Furniture, Rs. 400; for Library Books, Rs. 300; for Cost of Entertainments, Rs. 750.

On 31st December 1939, the following Liabilities were outstanding: for Printing, Rs. 75 and for Rent, Rs. 100.

There were also outstandings on account of Interest on Securities, Rs. 150 and Subscriptions, Rs. 325.

Solution.

RECEIPTS AND PAYMENTS ACCOUNT.

For the year ending 31st December 1939.

Receipts	Rs.	Payments	Rs.	Rs.
To Balance of Cash on 1st January 1939 ...	3,000	By Capital Expenditure :—		
„ Subscriptions received ...	2,500	Government Securities ...	2,500	
„ Proceeds from Entertainments and Lectures ...	1,000	Furniture ...	400	
„ Entrance Fees ...	500	Library Books ..	300	
„ Interest on Securities ...	475			3,200
„ Sale Proceeds of Old Chairs ...	75	„ Outstanding Creditors		425
		„ Expenses Paid :—		
		Rent ...	600	
		Printing ...	150	
		Petty Disbursements ...	55	
		Advertising ...	200	
		Cost of Entertainments ...	750	
				1,755
		„ Balance of Cash on 31-12-1939		2,170
Rs.	7,550	Rs.		7,550

INCOME AND EXPENDITURE ACCOUNT.

For the year ending 31st December 1939.

Expenditure	Rs.	Rs	Income	Rs.
To Expenses :—			By Subscriptions	2,425
Rent ...	700		„ Entrance Fees	500
Printing ...	225		„ Proceeds from Entertainments and Lectures	1,000
Advertising ...	200		„ Interest on Securities ..	500
Cost of Entertainments ...	750			
Petty Disbursements ...	55			
		1,930		
„ Excess of Income over Expenditure		2,495		
Rs.		4,425	Rs.	4,425

BALANCE SHEET as at 31st December 1939.

Liabilities	Rs.	Rs.	Assets	Rs.
Outstanding Creditors :—			Cash	2,170
For Rent ...	100		Government Securities	12,500
„ Printing ...	75		Accrued Interest	150
		175	Outstanding Subscriptions ...	325
Capital Fund :—			Library Books	1,300
Balance from last year ...	15,575		Furniture and Fittings	1,800
Add Excess of Income over Expenditure this year ...	2,495			
		18,070		
Rs		18,245	Rs.	18,245

ILLUSTRATION 26.

The Balance Sheet of a Public Library showed as follows on 1st July 1931:—

LIABILITIES	Rs.	ASSETS	Rs.	Rs.
Outstanding Creditors for Expenses ...	700	Cash at Bank		4,000
Creditors on Open Accounts ..	4,300	Sundry Debtors:—		
Capital Fund:—		For Subscriptions outstanding ...	1,000	
Accumulated Excess of Income over Expenditure	70,000	For use of Lecture Hall	400	
				1,400
		Investments in 5% Government Loan		6,000
		Library Books		20,000
		Furniture and Fittings		3,500
		Building		40,000
		Prepaid Insurance		100
Rs.	75,000	Rs.		75,000

The Cash transactions for the year ending 30th June 1932, were as follows:—

	Rs.		Rs.
To Bank Balance on 1st July 1931 ...	4,000	By Payments to Creditors on Open Account ...	4,300
„ Entrance Fees ...	1,200	„ Additions to Library Books ...	1,400
„ Subscriptions ..	12,500	„ Electric Lighting and Power ...	300
„ Proceeds from Lectures and Entertainments ..	4,500	„ Municipal Taxes ...	1,100
„ Rent received from use of Hall ...	1,500	„ Repairs to Building ...	800
„ Interest on Investments ...	200	„ Insurance ...	350
„ Sale of old Newspapers ...	450	„ Electric Installation Expenses ...	2,000
„ Sale of old Furniture ...	100	„ Payment to outstanding Creditors of last year ...	700
		„ Printing and Stationery ...	500
		„ Sundry Expenses ...	250
		„ Postage ...	420
		„ Subscriptions to Periodicals ...	1,400
		„ Cost of Investments bought ...	3,000
		„ Salaries ...	3,600
		„ Balance at Bank, 30-6-1932 ...	4,330
Rs.	24,450	Rs.	24,450

Insurance was prepaid to the extent of Rs. 75 and Subscriptions outstanding amounted to Rs. 1,800. Rs. 250 were owing for use of Lecture Hall and Rs. 300 for Interest on Investments had accrued due. There were Creditors outstanding for New Steel Shelves acquired during the year amounting to Rs. 1,750. There were also owing for Salaries Rs. 500 and Stationery Rs. 75. Entrance Fees are to be capitalised.

You are required to prepare an Income and Expenditure Account and a Balance Sheet for the year ended 30th June 1932, after providing 2% Depreciation on Building, 5% on Electric Installation and Furniture and Fittings, and 10% on Library Books; such Depreciation to be calculated on the opening balance of the Assets in question.

Solution.

INCOME AND EXPENDITURE ACCOUNT.

For the year ended 30th June 1932.

Expenditure		Rs.	Income	Rs.
To Salaries ...		4,100	By Subscriptions ..	13,300
„ Subscriptions to Periodicals ...		1,400	„ Proceeds from Lectures, etc. ..	4,500
„ Municipal Taxes ...		1,100	„ Rent from use of Lecture Hall ...	1,350
„ Repairs to Building ...		800	„ Interest on Investments ..	500
„ Printing and Stationery ...		575	„ Sale of old Newspapers ...	450
„ Postage ...		420		
„ Insurance ...		375		
„ Electric Lighting and Power ..		300		
„ Sundry Expenses ...		250		
„ Depreciation :—	Rs.			
Library Books	2,000			
Building	800			
Furniture, etc.	175			
		2,975		
„ Excess of Income over Expenditure		7,805		
Rs.		20,100	Rs.	20,100

BALANCE SHEET as at 30th June 1932.

Liabilities & Capital Fund		Rs.	Assets	Rs.	Rs.
Outstanding Creditors ..		1,750	Building	40,000	
Liability for Expenses ...		575	*Less* Depreciation at 2%	800	
Capital Fund :—	Rs.				39,200
As per last Balance Sheet	70,000		Furniture, Fittings, etc.	3,500	
Add Entrance Fees	1,200		Additions during the year	3,750	
„ Excess of Income over Expenditure	7,805			7,250	
		79,005	*Less* Sale of old Furniture 100		
			„ Depreciation 175		
				275	
					6,975
			Library Books	20,000	
			Additions during the year	1,400	
				21,400	
			Less Depreciation	2,000	
					19,400
			Investments at Cost ..		9,000
			Subscriptions outstanding ..		1,800
			Interest accrued due ..		300
			Rent „ „ ...		250
			Prepaid Insurance ...		75
			Cash at Bank ...		4,330
Rs.		81,330	Rs.		81,330

ILLUSTRATION 27.

The following is the Receipts and Payments Statement of the Bengal Sports Club, for the year ended 31st December 1931 :—

		Rs.			Rs.
To Balance, 1-1-1931	...	2,400	By Secretary's Salary	...	3,600
„ Entrance Fees	...	500	„ Upkeep of Grounds	...	2,100 (c)
„ Subscriptions	...	8,700(a)	„ Wages of Grounds-men	...	2,400(d)
„ Proceeds of Concerts	..	1,500	„ Ground Rent	...	150
„ Interest on Investments	...	500(b)	„ Printing and Postage	...	200
			„ Sundry Repairs	...	175
			„ Balance, 31-12-1931	...	4,975
	Rs.	13,600		Rs.	13,600

(a) This item includes Subscriptions outstanding brought over from previous year, Rs. 500.

(b) This amount includes Rs. 100 in respect of interest accrued in the preceding period.

(c) This item includes Rs. 300 applicable to the previous year.

(d) This item includes Rs. 150 applicable to the previous year.

Other Ledger Balances at the commencement of the financial period were:—Capital Fund Rs. 40,100; Income and Expenditure Account Credit Balance brought forward Rs. 8,900; Club Premises and Grounds (as per valuation) Rs. 30,000; Investments Rs. 10,000; Sports Materials Rs. 2,450; Furniture and Fixtures Rs. 4,000.

From the above particulars, prepare a Balance Sheet at the commencement of the period, an Income and Expenditure Account for the period and a Balance Sheet as at the close of the period.

Entrance Fees are to be capitalised. The outstanding Liabilities on 31st December 1931 were:—Wages Rs. 200 and Printing Rs. 100. Interest accrued and outstanding on Investments was Rs. 120. Depreciate Club Premises by 2%, Furniture by 5% and Sports Equipment by 33 1/3%.

Solution.

THE BENGAL SPORTS CLUB.
BALANCE SHEET as at 1st January 1931.

		Rs.			Rs.
Capital Fund ...	...	40,100	Cash Balance ...	...	2,400
Income and Expenditure Account:—			Club Premises ...	...	30,000
Credit Balance brought forward	...	8,900	Investments ...	...	10,000
Outstanding Creditors for Expenses	...	450	Furniture and Fixtures ...	...	4,000
			Outstanding Interest ...	...	100
			Outstanding Subscription	...	500
			Sports Equipment	..	2,450
	Rs.	49,450		Rs.	49,450

INCOME AND EXPENDITURE ACCOUNT.
For the year ended 31st December 1931.

Expenditure			Rs. a. p.	Income		Rs. a. p.
To Secretary's Salary		...	3,600 0 0	By Subscriptions	...	8,200 0 0
„ Wages of Grounds-men		...	2,450 0 0	„ Proceeds of Concerts	...	1,500 0 0
„ Upkeep of Grounds		...	1,800 0 0	„ Interest on Investments	...	520 0 0
„ Printing and Postage		...	300 0 0			
„ Sundry Repairs		...	175 0 0			
„ Ground Rent		...	150 0 0			
„ Depreciation:—	Rs. a. p.					
Sports Equipment	816 10 8					
Premises, etc.	600 0 0					
Furniture, etc.	200 0 0					
			1,616 10 8			
„ Excess of Income over Expenditure		...	128 5 4			
		Rs.	10,220 0 0		Rs.	10,220 0 0

THE BENGAL SPORTS CLUB.
BALANCE SHEET as at 31st December 1931.

Liabilities & Capital Fund		Rs. a. p.	Assets		Rs. a. p.
Outstanding for Expenses ..		300 0 0	Premises, Grounds, etc. as per last Balance Sheet	Rs. 30,000	
Capital Fund as per last Balance Sheet	Rs. a. p 40,100 0 0		*Less* Depreciation	600	29,400 0 0
Add Entrance Fees	500 0 0	40,600 0 0	Furniture and Fixtures as per last Balance Sheet	4,000	
Income and Expenditure Account:—			*Less* Depreciation	200	3,800 0 0
Credit Balance as per last Balance Sheet	8,900 0 0		Sports Equipment as per last Balance Sheet	2,450 0 0	
Add Excess of Income over Expenditure this year	128 5 4	9,028 5 4	*Less* Depreciation	816 10 8	1,633 5 4
			Investments as per last Balance Sheet ...		10,000 0 0
			Interest Outstanding ...		120 0 0
			Cash Balance ...		4,975 0 0
Rs.		49,928 5 4	Rs.		49,928 5 4

Capital Receipts represent any additional Capital brought in, or amounts received by way of loans, deposits or the sale proceeds of any fixed assets.

Revenue Receipts embrace income derived from sales, interest, discounts, commission, etc.

Receipts & Expenditure on Capital Account.—This is the statutory term for the Capital Account Statement which companies adopting the Double Account System have to publish. On the right-hand side of this statement appear the receipts on account of shares, stock, debentures and other fixed loans, and on the left-hand side appear the cost of construction and other items of fixed capital expenditure.

Trading Capital is represented by the amount made up of fixed and floating assets.

Working Capital is the amount left for working the business with, after the purchase price of the necessary fixed assets has been paid.

Watered Capital is represented by the issue of additional Capital without any extra payment in cash, such as bonus shares.

Capitalised Profits are profits which are retained and sunk in the purchase of additional assets, instead of being distributed or withdrawn from the business.

Wasting Assets are those assets of a fixed nature which become valueless through effluxion of time, such as Leases, Patents, or those which decline in value through wear and tear, such as Plant and Machinery, or those that become exhausted or consumed through being worked, such as mines, quarries, cemeteries, etc.

Fictitious Assets are those items which although not representing any tangible value and which cannot be realised, appear on the assets side of a Balance Sheet, such as Brokerage on Shares and Preliminary Expenses not written off, debit balance on Profit and Loss Account, unexpired Insurance or Taxes, etc.

Liquid Assets are those which are readily convertible into cash, and are thus immediately available for meeting liabilities. These are Cash, Bills Receivable, Gilt-edged Securities, etc.

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

CAPITAL & REVENUE.

1. Define (*a*) Capital Expenditure, and (*b*) Revenue Expenditure, and give six examples of each.

2. Explain fully why a strict distinction between Capital and Revenue Expenditure is necessary in accounting.

3. Give six instances of items usually chargeable to Revenue allowed to be capitalised under certain conditions.

4. How should Development Expenses incurred in Tea and Rubber Plantations and in Mining concerns be dealt with?

5. What are 'Structural Alterations', and how should they be treated in accounts?

6. What do you understand by Deferred Revenue Expenditure? Give three examples of the same.

7. What circumstances would call for an amount expended being apportioned between capital and revenue? What should be the main point of guidance under such a circumstance?

8. Where any doubt exists as to the proper allocation of expenditure between Capital and Revenue, what would be the safe method to follow?

9. What are the two distinct methods followed in the allocation between Capital and Revenue Expenditure, when old assets have to be abandoned and have to be replaced by new and more costly ones?

10. State what in your opinion is the best method of dealing with an abnormally heavy loss arising from replacement of obsolete plant or other equipment.

11. How would you deal with an amount expended with a view to advertise a new product?

12. State whether the following are Fixed or Floating Assets: (*a*) Horses, (*b*) Land, (*c*) Building, (*d*) Motor Vans, (*e*) Plant and Machinery, (*f*) Furniture, (*g*) Goodwill, and (*h*) Patents.

13. Explain fully the distinction between a Receipts and Payments Account and an Income and Expenditure Account.

14. Given a Receipts and Payments Account of a particular period, what steps would you take to construct therefrom an Income and Expenditure Account?

15. Define Watered Capital, Capitalised Profits and Working Capital.

✓16. Explain how you would deal with the following:—

(*a*) A second-hand machine was bought for Rs. 750, but further Rs. 275 had to be spent thereon in order to bring it into working condition.

(*b*) A Railway Station which had originally cost Rs. 75,000 and the present book value of which was Rs. 30,000 had to be demolished and a new one had to be built in its place costing Rs. 1,50,000. The cost of labour and material has gone up by 20% since the old station was built.

(*c*) Factory Plant and Machinery had to be removed to a more commodious building and the expenditure thus involved was analysed as under:—

	Rs.
Cost of Dismantling the Machinery	8,400
Cost of Removal of Plant, Machinery, Fixtures, etc. ..	2,500
Cost of re-erecting the Machines	12,500
Book value of machines discarded	15,000
Cost of new Plant and Machinery acquired	24,500
	Rs. 62,900

17. Discuss the items herein and state your reasons as to why you would regard each item as either a capital or a revenue charge:—

(a) A firm acquired a premises for Rs. 1,10,000 and spent Rs. 7,500 on re-painting it.

(b) Later on, heavy wooden partitions were put up in the same building which resulted in enhancing the rents realisable.

(c) A sum of Rs. 15,000 was expended by a large factory in overhauling its entire Machinery which resulted in adding three years to its working life.

(d) A Cinema Company spent Rs. 12,000 in improving its sitting accommodation and Rs 2,000 in re-painting and re-decorating. The book value of the old fixtures discarded was Rs. 3,000 but the latter realised Rs. 500 on sale.

18. Would you consider the following as a Revenue or a Capital Charge? State your reasons in each case.

(a) Cost of conveyancing in connection with a newly acquired property.

(b) Expenses incurred on developing a new area for rubber plantation

(c) Heavy legal expenses incurred by a Newspaper Company to defend a libel suit.

(d) Labour and material expended by a Factory in manufacturing part of its own Loose Tools.

19. State clearly how you would deal with each of the following items:—

(a) Cost of experimenting on a chemical product which did not result in a success

(b) Cost incurred in acquiring a Patent.

(c) Amount expended on the roof of a new Theatrical Structure to stop leakages.

(d) Cost of new Emergency Exits erected in a Cinema Hall to meet with local bye-laws.

(e) Cost of new Staff Liveries in the same concern.

(f) Cost incurred in replacing an old Church Organ.

INCOME AND EXPENDITURE ACCOUNT.

20. From the particulars given below, prepare an Income and Expenditure Account and a Balance Sheet of the Cosmopolitan Gymkhana for the year ended 31st December, 1930:—

Receipts.		Rs.	*Payments.*		Rs.
Life Members' Fees		4,000	Land & Building		24,500
Donations		25,000	Tournament Expenses ..		1,100
Entrance Fees		5,000	Furniture		1,500
Tournament Fund		1,500	Purchase of Sports Materials ..		1,200
Revenue Receipts.	Rs		*Revenue Payments.*	Rs.	
Subscriptions ..	2,200		Salaries	1,200	
Bar Receipts ..	1,300		Printing & Stationery ..	125	
Interest on Securities ..	300		Telephone	200	
Cricket Fees	500		Gardening	130	
Tennis Fees	450		Cricket	250	
Billiard Fees	300		Insurance	120	
Sundries	275		Tennis	400	
		5,325	Billiards	480	
			Sundries	100	
			Bar Expenses including purchases	1,500	
					4,505
			Investments		6,000
			Bank Current Account Balance ..		1,800
			Cash in Hand		220
		Rs. 40,825			Rs. 40,825

Subscription Fees outstanding for the year 1930 and unpaid amounted to Rs. 450; included in the receipts is an amount of Rs. 125 representing Subscriptions for 1931 received in advance. Salaries unpaid for 1930 amounted to Rs. 175 and Insurance Prepaid to Rs. 30. One half of the Entrance Fees received is to be credited to Revenue, and Donations and Life Members' Fees are to be capitalised. Interest accrued and not received amounted to Rs. 120. Sports Materials are valued at Rs. 750 and the Bar Stock at Rs. 400 at the end of the year. Depreciate Furniture by 5% and Land and Building by 2½%. 31

(Excess of Income over Expenditure, Rs. 2,882-8-0; Balance Sheet Total, Rs. 35,082-8-0.)

21. The following particulars relate to the Blank Sports Club:—

INCOME AND EXPENDITURE ACCOUNT.

For the year ended 31st December 1931.

	Rs.		Rs.
To Secretary's Salary	1,500	By Entrance Fees	10,500
„ Printing & Stationery ..	2,200	„ Subscriptions	15,600
„ Advertising	1,600	„ Rents Receivable	4,000
„ Audit Fees	500		
„ Fire Insurance	1,000		
„ Depreciation on Sports Equipment	9,000		
„ Balance—Excess of Income over Expenditure ..	14,300		
Rs.	30,100	Rs.	30,100

RECEIPTS AND PAYMENTS ACCOUNT.

For the year ended 31st December 1931.

	Rs.		Rs.
To Balance, 1st January	4,200	By Secretary's Salary	1,000
„ Entrance Fees 1930	1,000	„ Printing & Stationery ..	2,600
„ do. 1931	10,000	„ Advertising	1,600
„ Subscriptions 1930	600	„ Fire Insurance	1,200
„ do. 1931	15,000	„ Investments Purchased ..	20,000
„ do. 1932	400	„ Balance, 31st December ..	7,800
„ Rents Received	3,000		
Rs.	34,200	Rs.	34,200

The Assets on 1st January 1930 included Club Grounds and Pavilion Rs. 44,000, Sports Equipment Rs. 25,000 and Furniture and Fixtures Rs. 4,000. Prepare the Opening and Closing Balance Sheets. 32

(Balance Sheet Total on 1-1-31, Rs. 78,800; Balance Sheet Total on 31-12-31, Rs. 94,100.)

22. From the following Receipts and Payments Account of a Charitable Institution, and the subjoined information, prepare a General Income and Expenditure Account for the year ended 31st December 1934:—

RECEIPTS AND PAYMENTS ACCOUNT.

1934		Rs.	Rs.	1934		Rs.	Rs.
Jan. 1	To Balance:—			Dec. 31	By Payments to Pensioners		12,650
	Cash on Deposit	5,000			„ Rent, three quarters		750
	Cash on Current Account	1,160			„ Office Expenses & Salaries		2,750
	Cash in Hand	70			„ Collector's Commission		370
			6,230		„ Printing Year Book, etc.		260
Dec. 31	„ Donations and Subscriptions		12,720		„ Postage		180
	„ Legacies		4,000		„ Gratuities from Special Fund		1,430
	„ Special Fund Donations		1,700		„ Investment of Rs 5,000 in 3% Government Loan		3,000
	„ Interest on Investments		1,350		„ Balance:—	Rs.	
	„ Interest on Deposit		240		Cash on Deposit	4,000	
					Cash on Current A/c.	730	
					Cash in Hand	120	
							4,850
	Rs.		26,240		Rs.		26,240

The Committee of Management resolve that one-half of legacies received shall be treated as income, the remainder being Capital, and that the "Special Fund" should be separated from the "General Funds". A quarter's rent was unpaid at 31-12-1934. Sundry persons owed Rs. 150 for Advertisements in the Year Book. Interest on Investments Rs. 300 had accrued due but was not received. 33

(*Excess of Expenditure over Income, Rs.* 450.)

23. From the following particulars compile the accounts for the year ending 31st December 1910, to be submitted to the Annual Meeting of the Members of a Golf Club:—

		£	s.
1.	Entrance Fees and Subscriptions, received on account of 1909 (these were estimated at £9 9s.)	10	10
2.	Subscriptions received on account, 1910	1,050	0
3.	Entrance Fees received on account, 1910	73	10
4.	Entrance Fees and Subscriptions received on account of 1911	52	10
5.	Locker Rents received for 1910	35	0
6.	Green Fees received for 1910	120	0
7.	Expenses, including rent, for 1910 (of these £800 have been paid)	900	0
8.	Liabilities of 1909, paid in 1910 (these were estimated at £70)	60	0
9.	Subscriptions owing for 1910, £21 taken as	12	12
10.	Stock (House Account) 1910	150	0
11.	Capital Expenditure, including Lease, 1909	1,000	0
12.	Capital Expenditure in 1910	200	0
13.	Capital Expenditure written off	250	0
14.	Profit on House Account including refreshments, after providing for the staff	50	0
15.	Cash in hand	124	18
16.	Renewals paid in 1910	91	3
17.	Interest paid in 1910	20	0
18.	Loan on Security of the Lease	500	0
19.	Surplus from 1909 Account	494	0
20.	Fee to Treasurer's Clerk for 1910 not paid	20	0

(*Chartered Accountants.*) 34

(*Excess of Income over Expenditure,* £71-0-0; *Balance Sheet Total,* £1,237-10-0.)

24. The following is the Statement of Assets and Liabilities of the International Library as at 30-6-1924:—

Liabilities.	Rs.	*Assets.*	Rs.	Rs.
Outstanding for Expenses ..	650	Cash		3,200
Capital Fund:—		Furniture		4,850
Accumulated Excess of Income over Expenditure ..	44,350	Debtors:—		
		Subscriptions outstanding	750	
		For use of Lecture Hall	350	
				1,100
		Books Account		16,850
		Investments		5,000
		Building		14,000
Rs.	45,000	Rs.		45,000

The following were the Cash Transactions for the year:—

	Rs.		Rs.
To Balance	3,200	By Salaries	2,400
„ Entrance Fees	2,600	„ Municipal Taxes	700
„ Subscriptions	8,500	„ Insurance on Building ..	500
„ Received on Sale of old Furniture	600	„ Additions to Library ..	1,250
„ Received on Sale of old Newspapers	60	„ Outstanding Creditors of last year paid	650
„ Rent of Library Hall ..	1,040	„ Repairs	250
„ Proceeds from Lectures and Entertainments ..	3,000	„ Electric Installation Expenses	4,500
		„ Printing & Stationery ..	400
		„ Postages	50
		„ Sundry Expenses ..	150
		„ Balance	8,150
Rs.	19,000	Rs.	19,000

It was ascertained that Rs. 1,100 was outstanding by way of Subscriptions and Rs. 375 for use of Library Hall. Insurance on Building was prepaid to the extent of Rs. 175. There were Creditors outstanding for expenses to the extent of Rs. 800.

You are required to prepare an Income and Expenditure Account and a Balance Sheet as at 30-6-1925 after providing for Depreciation on Building @ 2½ per cent and writing down Investments by 5 per cent, and Library Books by 10 per cent. 35

(*Excess of Income over Expenditure, Rs.* 8,215; *Balance Sheet Total, Rs.* 53,365-0-0.)

25. The under-noted Receipts and Payments Account of the Bombay Athletic Society is for the year ended 31st October 1925. Other Ledger balances of the Society on that date are:—

Capital Account (Donations, etc.) Rs. 30,250; Club House and Grounds (as per valuation), Rs. 20,000; Investments at cost, Rs. 9,620; Furniture and Fixtures, Rs. 3,200; and Income and Expenditure Account (Cr. balance brought forward), Rs. 2,965.

RECEIPTS AND PAYMENTS ACCOUNT.

For the year ended 31st October 1925.

	Rs.		Rs.
To Balance, 1st November 1924 ..	745	By Upkeep of Grounds ..	4,750 (*a*)
„ Subscriptions	6,800	„ Wages of Grounds-men ..	4,680
„ Entrance Fees	260	„ Ground Rent	105
„ Interest on Investments ..	420	„ Printing & Stationery ..	465 (*b*)
„ Proceeds of Lectures, Concerts, etc.	2,590	„ Postages & Petties ..	95
		„ Balance c/d.	720
Rs.	10,815	Rs.	10,815
„ Balance b/d.	720		

(*a*) This item includes Rs. 250 applicable to the previous year.

(*b*) This item includes Rs. 100 applicable to the previous year.

Entrance Fees are to be capitalised. The outstanding items at 31-10-1925 are:— Printing and Stationery, Rs. 80; The Social Literary Association owed Rs. 105 for the use of the Society's Hall. Charge 10% for Depreciation on Furniture, etc. Construct the Income and Expenditure Account for the year and Balance Sheet as at 31-10-1925. 36

(*Excess of Expenditure over Income, Rs.* 230; *Balance Sheet Total, Rs.* 33,325.)

26. From the following particulars, prepare Receipts and Payments Account, Income and Expenditure Account and Balance Sheet of the Bombay Golf Club for the year ended 30th June 1925. The Club's Articles of Association provide that half of each original member's subscription, and the entrance fees of other members are to be capitalised, and half of any surplus of Revenue is to be placed to a Reserve Fund.

Receipts for the year.—Subscription from 140 original members at Rs. 50; 200 additional members' Entrance Fees at Rs. 10; and Subscriptions at Rs. 50. Interest on Fixed Deposit Rs. 180. Sales of provisions and liquors Rs. 6,380. Half year's grazing rent to 31st December 1924 at Rs. 450 per annum. Loan Rs. 9,000 at 4 per cent.

Payments for the year.—Club Manager's Salary Rs. 2,500; Greenkeeper's Wages Rs. 1,500; Rent Rs. 5,500; Interest on Loan Rs. 360; Cost of Annual Dinner Rs. 1,000; Sundry Expenses Rs. 535; Taxes and Insurance Rs. 730; Servants' Wages Rs. 585; Fuel, Lighting and Cleaning Rs. 515; Liquors and Provisions purchases Rs. 8,735; Furniture purchased Rs. 600; Furnishings purchased Rs. 200; Repairs Rs. 125; Printing and Stationery Rs. 390; A, builder (Club Premises Account) Rs. 2,750; B, joiner (Club Premises A/c.) Rs. 5,225; C, architect (Club Premises A/c.) Rs. 1,200; D, painter (Club Premises A/c.) Rs. 525.

On 30th June 1925, cash in hand was Rs. 5,260; cash on Fixed Deposit at 6% Rs. 3,000 (balance from last year); Stock of Liquors and Provisions Rs. 2,870.

Rent Rs. 500; Servants' Wages Rs. 15; Greenkeeper's Wages Rs. 300; Rs. 265 for Liquors purchased and Plumber's Bill (Club Premises A/c.) Rs. 1,300 have not been paid. Subscriptions of 10 original members have not been received.

Charge Depreciation on the total cost of Club Premises at 3 per cent, on Furniture at 5% and on Furnishings at 15 per cent. 37

(*Receipts and Payments Account Total, Rs.* 38,235; *Excess of Income over Expenditure, Rs.* 685; *Balance Sheet Total, Rs.* 23,265.)

27. Given below is the Receipts and Payments Account of the Indian Gymkhana for the period ending 31st December 1920:—

		Rs.			Rs.
To Donation Account being donations received		50,000	By Buildings		40,000
„ Reserve Fund, being life members' fees and entrance fees received		4,000	„ Expenses incurred on Quadrangular Matches ..		900
„ Quadrangular Match Fund, being amounts received for meeting expenses of the specific Matches ..		10,000	„ Furniture		2,100
„ Revenue Receipts:—	Rs.		„ Revenue Payments:—	Rs.	
Subscription fees (including Rs. 100 for 1921) ..	3,200		Salaries ..	1,800	
Lockers Rent ..	100		Cricket ..	600	
Interest on Securities	100		Tennis ..	540	
Cricket ..	400		Insurance (paid upto the year ending 30th Sep. 1921) ..	360	
Sundries ..	50		Gardening ..	170	
Tennis ..	350		Printing, etc. ..	30	
Billiards ..	200		Telephone ..	250	
		4,400	Sundries ..	150	3,900
			„ Investments (at cost) ..		18,000
			„ Balance		3,500
	Rs.	68,400		Rs.	68,400

Subscription Fees Outstanding for the year 1920, Rs. 300; Salaries unpaid for December 1920, Rs. 170.

Prepare from the details given above an Income and Expenditure Account of the Gymkhana for the period ended 31-12-1920, and the Balance Sheet as on that date.

(G. D. A.) 38

(*Excess of Income over Expenditure, Rs.* 800; *Balance Sheet Total, Rs.* 64,170.)

CHAPTER IV

BILLS OF EXCHANGE, PROMISSORY NOTES AND CHEQUES.

Bill of Exchange.—A Bill of Exchange is an unconditional order in writing signed by the maker, directing a certain person to pay on demand, or at a fixed or determinable future time, a certain sum of money to or to the order of a certain person or to bearer.

The maker of a bill of exchange is called the **Drawer**; the person who is directed to pay is called the **Drawee**; the person to whom the money is to be paid is called the **Payee.**

A Drawee of a bill of exchange is not liable on it until he has accepted it. After the drawee of a bill has signed his assent across the face of the bill and delivered the same, he is called the **Acceptor,** and the bill itself is called the **Acceptance.**

An acceptance, however, may be general or qualified. If the acceptor simply signs his name across the face of the bill with or without the name of the bank where payment will be made, the acceptance is general; but if he adds a remark to the effect that payment will be made only upon a certain condition being fulfilled or that only a part of the sum named will be paid, or that payment will be made at a certain place or time only, the acceptance is qualified. A **General Acceptance** is, therefore, one which assents to the order of the drawer without any qualification. A **Qualified Acceptance** on the other hand, varies in express terms the effect of the bill as drawn; and the holder of a bill may refuse a qualified acceptance and treat the bill as dishonoured by non-acceptance.

An Acceptance may be qualified in five different ways, as follows:—

1. *Conditional.*—"Accepted subject to delivery of Bills of Lading".
2. *Partial.*—A bill drawn for Rs. 300 "accepted for Rs. 100 only".
3. *Local.*—"Accepted payable at the Central Bank of India only".
4. *Qualified as to time.*—A bill drawn at two months, "accepted payable at three months".
5. *An acceptance by some of the drawees, not all.*—A bill drawn on A., B. and C. accepted by A. and B. only.

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

Cheque.—A Cheque is a written order drawn by a customer of a bank, requiring his banker to pay on demand a specified sum of money to the person named therein or to bearer.

A Bill of Exchange, Promissory Note, or Cheque is called a **Negotiable Instrument** as it is a document which by endorsement and delivery or by mere delivery passes the full title to the benefit of the instrument to the transferee.

When a promissory note, bill of exchange, or cheque is transferred to any person, so as to constitute that person the holder thereof, the instrument is said to be negotiated. A **Bill to Bearer** can be negotiated by delivery only. A **Bill to Order** can be negotiated by endorsement and delivery. When the maker or holder of a negotiable instrument signs his name, for the purpose of negotiation, on the back thereof, he is said to **endorse** the same and is called the **Endorser.** If the endorser signs his name only, the endorsement is said to be **In Bank,** and if he adds a direction to pay the amount mentioned in the instrument to or to the order of a specified person, the endorsement is said to be **In Full.** or a **Special Endorsement,** as "Pay to A. or order—Jones", and the person so specified is called the **Endorsee** of the instrument.

A **Restrictive Endorsement** prohibits the further negotiation of the bill, or stipulates that it shall be dealt with only in the manner directed in the endorsement, as "Pay to A. only—Jones", or "Pay to A. for the Account of B.—Jones".

An **Endorsement Sans Recours** (without recourse) is used where a person endorses a bill as an agent, but expressly relieves himself from liability as an endorser to all subsequent endorsees, as "Pay A. or order Sans Recours—Jones".

A **Facultative Endorsement** is where the endorser waives some right to which he is entitled, as "Pay A. or order, Notice of Dishonour waived—Jones".

A Promissory Note can also be negotiated in just the same way as a bill of exchange.

Referee in Case of Need is a person to whom the holder of a bill may resort in case of dishonour by non-acceptance or non-payment by the drawee. The name of such referee may be inserted in the bill by the drawer or any endorser. The usual form is: "In case of need apply to A., B. & Co.—Jones".

Liability of Maker, Drawer and Acceptor.—The maker of a promissory note or cheque, the drawer of a bill of exchange until acceptance, and the acceptor are respectively liable thereon as principal debtors, and the other parties thereto are liable thereon as sureties for the maker, drawer or acceptor, as the case may be.

Liability of Endorser.—The endorser is bound to every subsequent holder, in case of dishonour by the drawee, acceptor or maker, to compensate such holder for any loss or damage caused to him by such dishonour, provided due notice of dishonour has been given to such endorser.

The **Holder** of a bill is one who receives and retains possession of the bill.

Holder in Due Course means any person who, for consideration, became the possessor of a promissory note, bill of exchange or cheque, before the amount mentioned therein became payable, and without having sufficient cause to believe that any defect existed in the title of the person from whom he derived his title. The duty of the holder of a bill is to present it for payment at the place where it is payable and on the date on which the payment is due; otherwise, the drawer and endorsers are released from liability.

The **Maturity** of a promissory note or bill of exchange is the date at which it falls due.

Days of Grace.—Every promissory note or bill of exchange which is not expressed to be payable on demand, at sight or on presentment, is at maturity on the third day after the day on which it is expressed to be payable.

Time of Payment.—Bills drawn "on demand" and "at sight" are payable upon presentation to the drawee or acceptor. As to the bills drawn "after date", the period begins to run from the date of the bill. When a bill is drawn "after sight", the term of the bill begins to run from the date of "sighting", i.e., when presented for acceptance. In such a case, the date must be stated in the acceptance in order to fix the maturity of the bill.

Calculation of Time of Payment.—Where a bill is payable at a fixed period after date or after sight, the time of payment is determined by excluding the day from which the time is to begin to run and by including the day of payment. Thus a bill drawn on 5th March at 2 months after date would mature on the 8th of May.

Signature in Representative Capacity.—When a person signs a bill in a representative capacity, either as drawer, acceptor or endorser, he must clearly specify such representative capacity on his signature, as otherwise, he would become personally liable on such bill.

Thus, a person representing a firm should sign,

"Per pro. C. P. Row & Co.,
Lal Mohan".

In a Limited Company, the signature will take the following form:—

"For and on behalf of Indian Patents, Ltd.,
R. Gupta,
Director."

Inland Bill.—A promissory note, or bill of exchange, or cheque, drawn in British India, and made payable in, or drawn upon any person resident in British India, is called an Inland Bill.

Foreign Bill.—Any such instrument not so drawn or made payable, is called a Foreign Bill.

Usance is the customary time at which Foreign Bills are made payable in a particular country. For instance, the usance between London and Bombay is thirty days after sight.

Dishonour by Non-Acceptance.—A bill of exchange is said to be dishonoured by non-acceptance when the drawee makes default in acceptance upon being duly required to accept the bill.

Dishonour by Non-Payment.—A promissory note, bill of exchange or cheque is said to be dishonoured by non-payment, when the maker of the note, acceptor of the bill, or the drawee of the cheque, makes default in payment, upon being duly required to pay the same.

Notice of Dishonour.—When a bill of exchange is dishonoured by non-acceptance or non-payment, or when a promissory note or cheque is dishonoured by non-payment, the holder thereof must give notice that the instrument has been so dishonoured to all other parties whom he seeks to hold liable thereon.

When a drawee of a bill refuses to accept the same, or, having accepted it, refuses to honour it by paying the amount when due, the holder of the bill hands it to a notary public, who again presents the bill for acceptance or payment, and, in case of meeting with another refusal, he notes the non-acceptance or non-payment by writing on a slip of paper the answer given to his demand, which he attaches to the bill. This is called **Noting a Bill.**

A formal declaration by a notary public that he had presented a dishonoured foreign bill of exchange, either for acceptance or for payment, that his demand was answered as set forth in his certificate, and that he formally protests against the drawee's refusal to accept or to pay, as the case may be, is called a **Protest** and the act is called **Protesting a Bill.** Inland Bills do not require to be protested. A Foreign Bill must be protested after it has been noted for dishonour, in order to retain the liability of the drawer and endorsers.

Acceptance for Honour Supra Protest is where a bill having been protested for dishonour by non-acceptance, any person not being a party already liable thereon, with the consent of the holder, accepts it for the honour of any of the parties concerned.

Payment for Honour Supra Protest is where a bill has been protested for non-payment, and any person intervenes and pays it for the honour of any party liable thereon, or for the honour of the person for whose account the bill is drawn.

Bank Draft is a bill of exchange drawn by a banker on one of his agents or correspondents.

Accommodation Bill.—A bill which is drawn, accepted or endorsed without receiving value in exchange for it, but simply to oblige a party, and assist him to obtain money by negotiating it, is known as an **Accommodation Bill.**

Bearer or Order Cheque.—A cheque may be drawn payable to bearer or order. A **Bearer Cheque** is paid by the bank to the person presenting it. An **Order Cheque** must be endorsed by the person in whose favour it is drawn before it will be paid by the banker.

A cheque may be negotiated just like a bill of exchange and may pass through several hands with or without endorsement, as the case may be, before it is presented for payment.

A **Crossed Cheque** is one that has two parallel lines drawn across the face of it, generally with the words "& Co." between the lines. A banker will not give cash in exchange for a crossed cheque to anyone but to another banker; but a customer paying the same in his current account will get credit for the amount of the cheque. The object of crossing a cheque is to prevent anyone, having fraudulently obtained possession of it, cashing it over the bank's counter.

A cheque crossed with or without the words "& Co." between the two lines is said to be **Crossed Generally**; if the name of any particular bank is inserted between the lines, the cheque is said to be **Crossed Specially** and it must then be presented for payment through the bank thus specially named.

When a cheque bears the words **Not Negotiable** across the face of it, it means that the holder of such a cheque has no better title to it than the person from whom he received it had. Thus, if we gave cash or sold goods in exchange for a **Not Negotiable Cheque** which had been stolen, we might have to make good the loss to the person from whom the cheque was stolen.

The following are illustrations of **General Crossings** :—

	& Co.	*Under Hundred Rupees.*	*Not Negotiable.*	*Not Negotiable.* *& Co.*	*Not Negotiable.* *Under Hundred Rupees.*	*A/c. Payee only.*

The following are illustrations of **Special Crossings** :—

Central Bank of India, Ltd.	*Not Negotiable.* *Central Bank of India, Ltd.*	*Central Bank of India, Ltd.* *Under Hundred Rupees.*	*Central Bank of India, Ltd.* *A/c. Payee only.*

Dishonoured Cheques.—When a person draws a cheque in excess of the amount deposited by him with his banker on current account, without previously arranging for an overdraft, the banker will ordinarily refuse payment, and the cheque would be said to be dishonoured. The cheque would be returned to the payee with a slip indicating the reason for such refusal in any one of the following ways :—

R/D = Refer to Drawer
N/S = Not sufficient funds
I/F = Insufficient funds
N/A = No assets
N/E = No effects

The payment of a cheque is sometimes refused and the cheque is returned by the bankers for other reasons indicated on a slip as under :—

"Effects not cleared" = The proceeds of cheques or bills paid in by the drawer have not been collected and credited to drawer's account.

"Payment stopped" = Notice to stop payment has been received from the drawer.

"Endorsement irregular" = The endorsement by the payee on the back of the cheque is not properly made.

FORMS OF BILLS OF EXCHANGE.

(1)

Stamp.

Bombay, 5th October, 1937.

Rs. 500.

Three months after date pay to me or my order the sum of Five Hundred Rupees for value received.

J. RUSTOMJI

To Messrs. Hormusji & Co.,
Bombay.

accepted
Payable at the
Central Bank
of India, Ltd.
Hormusji & Co.

In this case, J. Rustomji is the drawer and also the payee. Hormusji & Co., are the drawees and have become acceptors on accepting the bill. The acceptance is *general* in this case.

(2)

Stamp.

Bombay, 17th September, 1937.

Rs. 750.

Two months after date pay to Smith & Co., or order the sum of Rupees Seven Hundred and Fifty for value received.

J. RUSTOMJI

To Messrs. Green & Co.,
Bombay.

accepted
Payable at the
Bank of India
Ltd. only.
Green & Co.

In this case, J. Rustomji is the drawer, Smith & Co., are the payees and Green & Co., the drawees and acceptors. The acceptance is *qualified* as to place.

(3)

Stamp.

Bombay, 10th July, 1938.

Rs. 1,000.

On demand pay to me or my order the sum of Rupees One Thousand for value received.

J. RUSTOMJI

To Messrs. Dawood & Co.,
Bombay.

accepted
Dawood & Co.

The above is another instance of *general* acceptance.

Foreign bills are usually made in sets of three and each bill is transmitted separately and at a different time. When one of the bills is paid, the other two become void.

SPECIMEN OF A SET OF FOREIGN BILLS OF EXCHANGE.

(1)

Stamp.

Bombay, 15th January, 1938.

£600.

Three months after sight, pay this First of Exchange (second and third of the same tenor and date unpaid), to the order of Messrs. John Jones & Co., the sum of Six Hundred Pounds sterling for value received, which place to account as advised.

P. SORABJI

To Messrs. Jackson & Co.,
London.

(2)

Bombay, 15th January, 1938.

£600.

Three months after sight, pay this Second of Exchange (first and third of the same tenor and date unpaid), to the order of Messrs. John Jones & Co., the sum of Six Hundred Pounds sterling for value received, which place to account as advised.

P. SORABJI

To Messrs. Jackson & Co.,
London.

(3)

Bombay, 15th January, 1938.

£600.

Three months after sight, pay this Third of Exchange (first and second of the same tenor and date unpaid), to the order of Messrs. John Jones & Co., the sum of Six Hundred Pounds sterling for value received, which place to account as advised.

P. SORABJI

To Messrs. Jackson & Co.,
London.

FORMS OF PROMISSORY NOTES.

(1)

Stamp.

Bombay, 15th February, 1938.

Rs. 50.

One month after date I promise to pay Messrs. Turner & Co. or order, the sum of Rupees Fifty for value received.

JOHN JONES

(2)

Stamp.

Bombay, 1st January, 1938.

Rs. 300.

Three months after date we promise to pay B. Brown or order, the sum of Rupees Three Hundred for value received.

JOHN JONES
B. COWASJI

This is called a *Joint Promissory Note* and both the signers are liable on it jointly.

(3)

Stamp.

Bombay, 15th November, 1938.

Rs. 300.

Six months after date we jointly and severally promise to pay B. Brown or order the sum of Rupees Three Hundred for value received.

JOHN JONES
B. COWASJI

This is called a *Joint and Several Promissory Note,* and therefore the makers are liable either jointly or separately for the payment of the amount when it falls due.

Advantages of Bills of Exchange.—The advantages of a Bill of Exchange may briefly be summarised as under:

1. As it is a written and signed acknowledgment of debt, it affords conclusive proof of indebtedness, and there can hardly be any defence to an action at Law on a debt due on a Bill of Exchange.
2. As it fixes the date of payment, the creditor knows when to expect his money, and the debtor also knows when he will be called upon to pay.
3. The debtor thus enjoys his full period of credit, as he can never be called upon to pay the amount of the bill before the due date.
4. The creditor need not necessarily lock up his money till the due date of the Bill, as the latter can be turned into cash by being discounted.
5. It is a negotiable instrument and can be transferred from hand to hand in settlement of debts between persons and firms in the same or different countries.
6. It affords an easy means of transmitting money from one place to another.
7. It enables traders to help each other financially by lending their names on accommodation bills.

Bills Receivable and Payable.—As a Bill of Exchange is an order drawn by a creditor on a debtor, it will be a Bill Receivable to the drawer and a Bill Payable to the acceptor. As a Promissory Note is a promise drawn by a debtor in favour of a creditor, it will be a Bill Payable to the maker and a Bill Receivable to the creditor. The forms of Bills Receivable Book and Bills Payable Book have already been given and explained on previous pages. It now remains to show the entries necessary to record the various phases of the bills.

BILLS RECEIVABLE ENTRIES.

On receiving a Bill Receivable duly accepted, entries are made in the Bills Receivable Book with full details of the Bill. From this book, the Personal Account of the party from whom each bill is received is credited and the monthly total of the Bills Receivable Book is debited to Bills Receivable Account.

The holder of a Bill Receivable may deal with it in any one of the following ways:—

1. **He may retain it till the due date.**

On the Bill being met by the acceptor on the due date, an entry will be passed through the debit side of the Cash Book from where Bills Receivable Account would be credited.

2. **He may negotiate it to a creditor in payment of debt.**

This will need a Journal entry debiting the Creditor's Account and crediting Bills Receivable Account.

3. **He may discount it before the due date.**

On discounting a Bill Receivable, an entry will be made on the debit side of the Cash Book, showing the cash received in the cash or bank column, discount allowed in the discount column, and the total amount will be credited to Bills Receivable Account.

4. **He may send it to his bankers for collection.**

When a Bill Receivable is sent to a Bank for collection, an entry should be passed through the Journal debiting an Account styled "Bank Account for Collection of Bills" and crediting Bills Receivable Account. On the Bill being collected, the amount will be credited in the Pass Book by our Bankers, in which case, an entry will have to be passed debiting Bank Account (Current Account) and crediting "Bank Account for Collection of Bills". The Debit Balance on the latter Account will always represent the amount of Bills lying with Bankers for collection.

NOTE.—Debiting Bank Current Account with the amount of a Bill Receivable at the time it is sent to the Bankers for collection would be quite incorrect inasmuch as the Bankers never give credit to their customers for such amounts until the Bills are collected by them on the due dates. Besides, such debits to the Bank Account will wrongly inflate the Bank Current Account Balance.

ENTRIES ON DISHONOUR OF BILLS RECEIVABLE.

1. When a Bill Receivable, that has been retained by the holder till the due date, is dishonoured by the acceptor on presentment for payment, the Journal entry in the books of the holder would be to debit the Acceptor's Account and credit Bills Receivable Account.

2. When a Bill Receivable has been negotiated to a creditor, and the creditor notifies us as to the dishonour of the bill by the acceptor, the entry would be to debit the Acceptor's Account and credit the Creditor's Account. If an immediate payment is made to the creditor, the credit would be to Bank Account.

3. When a Bill Receivable already discounted is dishonoured, the entry would be to debit the Acceptor's Account and credit Bank or Cash Account.

4. On dishonour of a Bill Receivable that had been sent to the Bankers for collection, the entry would be to debit the Acceptor's Account and credit "Bank Account for Collection of Bills".

In each case, a note as to the dishonour will have to be made in the Bills Receivable Book against the original entry of the bill, in the "How disposed of" column.

It needs to be pointed out that the whole object of the entry on dishonour of a Bill Receivable is to re-adjust the personal account of the acceptor to its former position prior to acceptance. Of course, the acceptor's account would need to be further debited with Notarial Charges as would result from such dishonour. *The acceptor's account would thus stand to be debited in every case of dishonour.* As to the corresponding credit to be given, the same would depend on circumstances as under:—

(*a*) If the Bill Receivable is not negotiated but is retained till the due date, Bills Receivable Account would be credited, thus nullifying the debit previously given when the Bill was received duly accepted.

(*b*) In case the Bill was discounted with Bankers, the latter would naturally look to us for payment, and the credit would, therefore, be given to Bank Account on the payment being made to them.

(*c*) If the Bill was negotiated to a creditor in satisfaction of our debt to him, the creditor would have to be paid off by us, and the credit would naturally be to Bank Account.

(*d*) In case the Bill had been sent to our bankers for collection, the credit would be to the Bank Account for Collection of Bills.

ENTRIES ON RENEWAL OF BILLS.

It happens sometimes that the acceptor of a Bill finds himself unable to meet his acceptance on the due date. Under such a circumstance, rather than allow such a bill to mature and then dishonour it on presentation, he would approach the drawer of the bill before the due date and request him to cancel the original bill and draw on him another one for an extended period. The acceptor in this case, would, of course, have to pay interest for the extension of time. Thus, the cancellation of a Bill already in circulation and before maturity in return for another Bill for an extended period is called Renewal of the Bill. Sometimes, the acceptor pays a part of the amount of the Bill in cash and requests for a new Bill to be drawn on him for the balance plus interest. In case of Renewal of a Bill, before passing an entry in respect of the new Bill and the part cash received, if any, it is necessary to pass an entry cancelling the original bill by means of a Journal entry.

The entries necessary in case of renewal of a Bill Receivable would be as follows:—

1. Debit the Acceptor's Account and credit the Bills Receivable Account with the amount of the old bill through the Journal. This entry will cancel the old bill.

2. Debit the Acceptor's Account with the amount of the interest charged and credit the Interest Account through the Journal.

3. Debit Bills Receivable Account and credit the Acceptor's Account with the amount of the new bill. This entry will be passed through the Bills Receivable Book in the ordinary way.

4. If the interest is paid for in cash, the entry will be made in the Cash Book from where the Acceptor's Account would be credited. A note as to the renewal of the old bill will be made in the "How disposed of" column of the Bills Receivable Book against the original entry of the old bill.

BILLS PAYABLE ENTRIES.

When a bill is accepted by a trader, full particulars thereof are recorded in the Bills Payable Book. Each item in this book is debited to the account of the creditor whose bill has been accepted, and the total amount of the bills accepted during each month is credited to Bills Payable Account.

Payment.—On payment of a Bill Payable on due date, the entry will be made on the credit side of the Cash Book from where the Bills Payable Account would be debited.

Dishonour.—When a Bill Payable is dishonoured, a Journal entry will be passed debiting the Bills Payable Account and crediting the person on whose account it was accepted. A note as to the dishonour will have to be made in the Bills Payable Book against the original entry of the bill, in the "How disposed of" column.

Renewal.—When a Bill Payable is renewed, a Journal entry will be passed cancelling the original bill by debiting Bills Payable Account and crediting the Creditor's Account. A note as to renewal would also be made in the Bills Payable Book against the entry of the original bill. The new acceptance would be passed through the Bills Payable Book and posted in the Ledger as any other Bill Payable. The interest payable will be debited to Interest Account and credited to the Acceptor's Account, and will be included in the amount of the new Bill, if not paid in cash.

Retiring a Bill under Discount.—"Retiring a Bill under Discount" means either receiving payment of a Bill Receivable or making payment on account of a Bill Payable before maturity. When a Bill Receivable is retired under discount, the entry will be:—

Bank .. .. Dr.
Discount .. .. Dr.
To Bills Receivable Account.

When a Bill Payable is retired under discount, the entry will be:—

Bills Payable Account .. Dr.
To Bank
„ Discount

SPECIMEN BILL TRANSACTIONS.

1. Received from Brown his own acceptance at 2 months for Rs. 600 and Smith's acceptance to him for Rs. 400.

		L.F.	Rs.	Rs.
Bills Receivable Account	Dr.		1,000	
To Brown				1,000

2. Discounted Brown's acceptance for Rs. 585.

		L.F.	Rs.	Rs.
Bank	Dr.		585	
Discount	„		15	
To Bills Receivable Account				600

3. Gave Jones (in settlement of account) Smith's acceptance as above.

		L.F.	Rs.	Rs.
Jones	Dr.		400	
To Bills Receivable Account				400

4. Smith's acceptance received from Brown, returned dishonoured. Jones paid noting expenses Rs. 5.

		L.F.	Rs.	Rs.
Brown	Dr.		405	
To Jones				405

5. Brown's acceptance returned dishonoured by Bank, Notarial charges paid by Bank Rs. 5.

		L.F.	Rs.	Rs.
Brown	Dr.		605	
To Bank				605

6. Received from White his Promissory Note at 21 days for Rs. 500.

		L.F.	Rs.	Rs.
Bills Receivable Account	Dr.		500	
To White				500

7. Endorsed over the above Promissory Note to Green & Co., in payment of our acceptance due to-day.

		L.F.	Rs.	Rs.
Bills Payable Account	Dr.		500	
To Bills Receivable Account				500

8. White's Promissory Note dishonoured, Green & Co. paying Notarial charges Rs. 5.

		L.F.	Rs.	Rs.
White	Dr.		505	
To Green & Co. or Bank				505

9. Bell gave his acceptance at 2 months for Rs. 850.

		L.F.	Rs.	Rs.
Bills Receivable Account	Dr.		850	
To Bell				850

10. Renewed Bell's acceptance for further 1 month, charging him Rs. 20 for interest and including the same in the new Bill.

		L.F.	Rs.	Rs.
Bell	Dr.		850	
To Bills Receivable Account (to cancel the old Bill).				850
Bell	Dr.		20	
To Interest				20
Bills Receivable Account	Dr.		870	
To Bell (for the amount of the new Bill).				870

11. Accepted Morton's draft at 1 month for Rs. 350.

		L.F.	Rs.	Rs.
Morton	Dr.		350	
To Bills Payable Account				350

12. Renewed our acceptance in favour of Morton, including Rs. 10 for interest.

	L.F.	Rs.	Rs.
Bills Payable Account ... ... Dr.		350	
To Morton			350
(to cancel old acceptance).			
Interest ... ... Dr.		10	
To Morton			10
Morton ... ... Dr.		360	
To Bills Payable Account			360
(for the new acceptance).			

13. Gave Grey a Promissory Note at 3 months for Rs. 900.

	L.F.	Rs.	Rs.
Grey ... ... Dr.		900	
To Bills Payable Account			900

14. Retired Promissory Note in favour of Grey Rs. 25 being received as rebate.

	L.F.	Rs.	Rs.
Bills Payable Account ... ... Dr.		900	
To Bank			875
„ Discount			25

15. Received Sen & Co.'s acceptance for Rs. 100 from S. Sircar.

	L.F.	Rs.	Rs.
Bills Receivable Account ... ... Dr.		100	
To S. Sircar			100
(Being the acceptance of Sen & Co., received from S. Sircar).			

16. P. Das handed us a Promissory Note for Rs. 80.

	L.F.	Rs.	Rs.
Bills Receivable Account ... ... Dr.		80	
To P. Das			80
(Being the Promissory Note received from P. Das).			

17. Accepted draft drawn on us at 3 months after date for Rs. 500 by Rustom & Co., in favour of Sorab & Sons.

	L.F.	Rs.	Rs.
Rustom & Co. ... ... Dr.		500	
To Bills Payable Account			500
(Being the acceptance of the draft drawn upon us at three months' date)			

18. Row & Co.'s Promissory Note for Rs. 125 was duly taken up this day.

	L.F.	Rs.	Rs.
Bank ... ... Dr.		125	
To Bills Receivable Account			125
(Being the amount received in discharge of Row & Co.'s Promissory Note).			

19. Our Promissory Note for Rs. 100 to Souza & Co. was redeemed today.

	L F.	Rs.	Rs.
Bills Payable Account ... ... Dr.		100	
To Bank			100
(Being the payment made in discharge of our Promissory Note).			

20. Krishna & Co. forward us Smith's acceptance to them for Rs. 425, payable at Chartered Bank.

	L.F.	Rs.	Rs.
Bills Receivable Account ... ... Dr.		425	
To Krishna & Co.			425
(Being the acceptance of Smith received from Krishna & Co).			

21. Returned duly accepted P. Kanoba's Draft on us for Rs. 700 in favour of Birdy & Co.

	L.F.	Rs.	Rs.
P. Kanoba ... ... Dr.		700	
To Bills Payable Account			700
(Being our acceptance given to P. Kanoba's Draft).			

ILLUSTRATION 28.

Chinoy & Co., Merchants, receive on the dates given below, the following Bills, drawn by them and accepted respectively by A. Roy, B. Bose, C. Sampat, and Sorab & Co.

A. Roy, 1st January 1937, Rs. 1,125 one month, payable at Central Bank.

B. Bose, 13th January 1937, Rs. 4,200 three months, payable at Bank of India.

C. Sampat, 2nd February 1937, Rs. 5,535 three months, payable at Tata Bank.

Sorab & Co., 12th March 1937, Rs. 15,000 six months, payable at Bank of Bombay.

Roy's Bill was duly met.

Bose's Bill was discounted at 5% and was duly met.

Sampat's Bill was dishonoured, but he paid Rs. 3,000 on account on 6th May 1937, and accepted a new Bill for the balance with interest at 5% at three months, which was duly paid.

Sorab & Co.'s Bill was an Accommodation Bill, the proceeds on discount to be equally divided between Chinoy & Co. and Sorab & Co., Discount 2½%. This was duly met, each party finding half.

Roy, Bose and Sampat were debtors for the amount of their respective Bills at the dates of acceptance.

Draw up form of Bills Receivable Book. Open Ledger Accounts. Write up and post Bills Receivable Book, Cash Book, and Journal to complete the transactions.

Solution.

JOURNAL ENTRIES.

			L.F.	Rs. a. p.	Rs. a. p.
1937 Mar. 12	Sorab & Co. ... ... To Discount Account (Being their share of discount on accommodation Bill).	Dr.		93 12 0	93 12 0
May 5	C. Sampat ... ... To Bills Receivable Account (Being the amount of dishonoured Bill transferred to his personal account).	Dr.		5,535 0 0	5,535 0 0
„ 6	C. Sampat ... ... To Interest (Being three months' interest charged to him on the new Bill).	Dr.		31 11 0	31 11 0

A. ROY.

1937		Rs. a. p.	1937		Rs. a. p.
Jan. 1	To Balance ..	1,125 0 0	Jan. 1	By Bills Receivable ..	1,125 0 0

B. BOSE.

1937		Rs. a. p.	1937		Rs. a. p.
Jan. 13	To Balance ...	4,200 0 0	Jan. 13	By Bills Receivable ...	4,200 0 0

C. SAMPAT.

1937		Rs. a. p	1937		Rs. a. p.
Feb 2	To Balance ...	5,535 0 0	Feb. 2	By Bills Receivable ..	5,535 0 0
May 5	„ Bills Receivable ...	5,535 0 0	May 6	„ Cash ...	3,000 0 0
„ 6	„ Interest ..	31 11 0		„ Bills Receivable ..	2,566 11 0
	Rs.	11,101 11 0		Rs.	11,101 11 0

SORAB & CO.

1937		Rs. a. p.	1937		Rs. a. p.
Mar. 12	To Cash ...	7,406 4 0	Mar. 12	By Bills Receivable ..	15,000 0 0
„ 12	„ Discount ..	93 12 0			
Sept. 15	„ Cash ...	7,500 0 0			
	Rs.	15,000 0 0		Rs.	15,000 0 0

BILLS RECEIVABLE ACCOUNT.

1937		Rs. a. p.	1937		Rs. a. p.
Sept. 15	To Sundries ...	28,426 11 0	Jan. 13	By Cash—Bose ...	4,147 8 0
			„ „	„ Discount ...	52 8 0
			Feb. 4	„ Cash—Roy ..	1,125 0 0
			Mar. 12	„ „ —S. & Co. ...	14,812 8 0
			„ „	„ Discount ..	187 8 0
			May 5	„ C. Sampat ..	5,535 0 0
			Aug. 9	„ Cash—Sampat ...	2,566 11 0
	Rs.	28,426 11 0		Rs.	28,426 11 0

BILLS RECEIVABLE BOOK.

No. of Bills	Date received.	From whom received.	Drawer.	Acceptor.	Where Payable.	Date of Bill.	Term.	Due Date.	Ledger Folio.	Amount. Rs. a. p.	How disposed of.
	1937					1937		1937			
1	Jan. 1	A. Roy ...	Selves	A. Roy ...	Central Bank ...	Jan. 1	1 month.	Feb. 4	5	1,125 0 0	Bill met.
2	" 13	B. Bose ...	"	B. Bose ...	Bank of India ...	" 13	3 months.	Apr. 16	7	4,200 0 0	Discounted.
3	Feb. 2	C. Sampat ...	"	C. Sampat ...	Tata Bank ...	Feb. 2	3 "	May 5	10	5,535 0 0	Dishonoured.
4	Mar. 12	Sorab & Co. ...	"	Sorab & Co. ...	Bombay Bank ...	Mar. 12	6 "	Sept. 15	15	15,000 0 0	Bill met.
5	May 6	C. Sampat ...	"	C. Sampat ...	Tata Bank ...	May 6	3 "	Aug. 9	10	2,566 11 0	" "
									Rs.	28,426 11 0	

CASH BOOK.

Date.	Particulars.	Discount.	Cash.	Date.	Particulars.	Discount.	Cash.
1937		Rs. a. p.	Rs. a. p.	1937		Rs. a. p.	Rs. a. p.
Jan. 13	To B/R A/c. (B. Bose) ...	52 8 0	4,147 8 0	Mar. 12	By Sorab & Co. ...		7,406 4 0
Feb. 4	" B/R A/c. (A. Roy) ...		1,125 0 0	Sept. 15	" Do. ...		7,500 0 0
Mar. 12	" B/R A/c. (Sorab & Co.) ..	187 8 0	14,812 8 0	" "	" Balance c/d. ...		10,745 7 0
May 6	" C. Sampat ...		3,000 0 0				
Aug. 9	" B/R A/c. (C. Sampat) ...		2,566 11 0				
	Rs.	240 0 0	25,651 11 0		Rs.		25,651 11 0
1937 Sept. 16	To Balance b/d.		10,745 7 0				

DISCOUNT ACCOUNT.

	Rs. a. p.	1937		Rs. a. p.
To Sundries ...	240 0 0	Mar. 12	By Sorab & Co. ...	93 12 0

INTEREST ACCOUNT.

	Rs. a. p.	1937		Rs. a. p.
		May 6	By C. Sampat ...	31 11 0

ILLUSTRATION 29.

A Bill for Rs. 600 is drawn by Bhogilal & Co. on C. Narandas and accepted by the latter payable at the Central Bank of India. Show what entries would be passed in the books of Bhogilal & Co. under each of the following circumstances:—

1. If they retained the Bill till the due date and then realised it on maturity;
2. If they discounted it with their bankers for Rs. 580;
3. If they endorsed it over to their creditors Cox & Co. in settlement of their debt;
4. If they sent the same to their bankers for collection.

Solution.

ENTRIES IN BHOGILAL & CO.'S BOOKS.

			L.F.	Rs.	Rs.
1.	Bank Account	Dr.		600	
	To Bills Receivable Account				600
	(Being the amount of the Bill realised on maturity).				
2.	Bank Account	Dr.		580	
	Discount Account	"		20	
	To Bills Receivable Account				600
	(Being the amount realised on discounting the Bill).				
3.	Cox & Co.	Dr.		600	
	To Bills Receivable Account				600
	(Being the endorsement made in favour of Cox & Co. in full settlement of our debt).				
4.	(*a*) At the time of sending the Bill Receivable to Bank for collection:—				
	Bank for collection of Bills Account	Dr.		600	
	To Bills Receivable Account				600
	(Being the transfer of the Bill made to our Bankers for collection).				
	(*b*) On receipt of information from Bankers as to the collection of the Bill on the due date:—				
	Bank Account (Current Account)	Dr.		600	
	To Bank for collection of Bills Account				600

ILLUSTRATION 30.

State what further entries would be passed in the books of Bhogilal & Co. under each of the above circumstances, if the Bill was dishonoured on the due date.

Solution.

ENTRIES IN BHOGILAL & CO.'S BOOKS

		L.F.	Rs.	Rs.
1.	C. Narandas ... ... Dr. To Bills Receivable Account (Being the dishonour of the acceptance given to us by the former).		600	600
2	C. Narandas ... ... Dr. To Bank (Being the payment made by us to our Bankers on dishonour of the Bill after the same had been discounted by us).		600	600
3.	C. Narandas ... ... Dr. To Cox & Co. (Being the dishonour of the Bill after it had been endorsed in favour of our creditors).		600	600

NOTE.—If Cox & Co. insist on being paid immediately and on a payment being made to them, the entry would be:—

		L.F.	Rs.	Rs.
	C. Narandas ... ... Dr. To Bank		600	600
4.	C. Narandas ... ... Dr. To Bank for collection of Bills Account (Being the entry for the dishonour of the Bill after the same had been sent to Bankers for collection).		600	600

ILLUSTRATION 31.

P draws a Bill for Rs. 400 on Q. Q accepts it and duly returns it to P. P endorses it over to R and R endorses it to S. The latter discounts it receiving Rs. 390 in cash. The Bill is then dishonoured on due date, the noting charges incurred by the bankers amounting to Rs. 10. Pass the necessary Journal Entries in the books of all the parties concerned, assuming that the Bill is taken by P on dishonour.

Solution.

ENTRIES IN P's BOOKS.

	L.F.	Rs.	Rs.
Bills Receivable Account ... ... Dr. To Q (Being the acceptance received from him).		400	400
R ... ... Dr. To Bills Receivable Account (Being the endorsement made in favour of R).		400	400
Q ... ... Dr. To Bank (Being the amount paid with Noting Charges on dishonour of the Bill by Q).		410	410

ENTRIES IN Q's BOOKS.

	L.F.	Rs.	Rs.
P ... ... Dr.		400	
To Bills Payable Account			400
(Being the acceptance given to P).			
Bills Payable Account ... ... Dr.		400	
Notarial Charges ... ... "		10	
To P			410
(Being the entry for the dishonour of our acceptance to P).			

ENTRIES IN R's BOOKS.

	L.F.	Rs.	Rs.
Bills Receivable Account ... ... Dr.		400	
To P			400
(Being the entry for receiving a Bill endorsed in our favour from P).			
S ... ... Dr.		400	
To Bills Receivable Account			400
(Being the endorsement of the Bill in favour of S).			

ENTRIES IN THE BOOKS OF S.

	L.F.	Rs.	Rs.
Bills Receivable Account ... ... Dr.		400	
To R			400
(Being the entry for receiving a Bill endorsed in our favour by R).			
Bank ... ... Dr.		390	
Discount ... ... "		10	
To Bills Receivable Account			400
(Being the entry for discounting the Bill with the Bankers).			

NOTE.—No further entry need be passed in the books of S. as the bankers have been paid by P.

ILLUSTRATION 32.

Jayaram having accepted a Bill for Rs. 500 is unable to meet the same. Before the due date, he requests Gangaram to receive Rs. 320 in cash (Rs. 20 being for interest) and to draw on him a new bill for Rs. 200 for a further period of three months, and cancel the old bill which is shortly to become due. Gangaram agrees to this proposal. Pass entries in the books of both the parties to the transactions.

Solution.

The transactions would be recorded as follows:—

ENTRIES IN THE BOOKS OF GANGARAM.

		L.F.	Rs.	Rs.
Jayaram	Dr.		500	
To Bills Receivable Account				500
(For cancellation of the old Bill).				
Bank	Dr.		320	
To Jayaram				300
,, Interest Account				20
(Being the amount received from Jayaram including interest).				
Bills Receivable Account	Dr.		200	
To Jayaram				200
(Being the amount of new Bill accepted by him).				

ENTRIES IN THE BOOKS OF JAYARAM.

		L.F.	Rs.	Rs.
Bills Payable Account	Dr.		500	
To Gangaram				500
(Being the cancellation of the old Bill).				
Gangaram	Dr.		300	
Interest Account	,,		20	
To Bank				320
(Being the cash paid in part payment of the old Bill including Rs. 20 for interest).				
Gangaram	Dr.		200	
To Bills Payable Account				200
(Being the amount of the fresh acceptance).				

ILLUSTRATION 33.

For the mutual accommodation of X and Y, X draws a Bill on Y for Rs. 800. Y accepts the Bill and returns it to X. X discounts the same with his bankers and receives Rs. 780. The proceeds are shared equally between X and Y. On the due date, X remits his proportion to Y who meets the Bill. Pass the necessary entries in the books of X and Y.

ENTRIES IN X's BOOKS.

			L.F.	Rs.	Rs.
1.	Bills Receivable	Dr.		800	
	To Y				800
2.	Bank	Dr.		780	
	Discount	,,		20	
	To Bills Receivable				800
3.	Y	Dr.		400	
	To Cash				390
	,, Discount				10
4.	Y	Dr.		400	
	To Cash				400

ENTRIES IN Y's BOOKS.

			L.F.	Rs.	Rs.
1.	X	Dr.		800	
	To Bills Payable				800
2.	Cash	Dr.		390	
	Discount	,,		10	
	To X				400
3.	Cash	Dr.		400	
	To X				400
4.	Bills Payable	Dr.		800	
	To Bank				800

ILLUSTRATION 34.

Roy, for the mutual accommodation of himself and Romer, draws upon the latter a bill at 3 months' date for Rs. 800 dated 1st January. The Bill is discounted by Roy at 5 per cent, and half the proceeds are remitted to Romer.

Romer, at the same time, draws a bill at 3 months on Roy for Rs. 400. After securing Roy's acceptance, the Bill is discounted at 6% by Romer, who remits half the proceeds to Roy. Romer becomes bankrupt on 31st March, and 4 annas in the Rupee is received on 15th May as first and final dividend from his estate.

Write up Journal and Ledger Entries in the books of the parties.

Solution.

ROY'S BOOKS (Journal Entries).

			L.F.	Rs.	Rs.
Jan. 1	Bills Receivable Account	Dr.		800	
	To Romer				800
	(Being the amount of the Bill accepted by Romer).				
,, ,,	Bank Account	Dr.		790	
	Discount ,, ...	,,		10	
	To Bills Receivable Account				800
	(Being the amount received on discounting the Bill).				
,, ,,	Romer	Dr.		400	
	To Bank Account				395
	,, Discount ,,				5
	(Being our remittance of half the proceeds to Romer).				
,, ,,	Romer	Dr.		400	
	To Bills Payable Account				400
	(Being our acceptance of Romer's Bill).				
,, ,,	Bank Account	Dr.		197	
	Discount ,, ...	,,		3	
	To Romer				200
	(Being the receipt of half share of proceeds from Romer).				
April 4	Romer	Dr.		800	
	To Bank Account				800
	(Being the amount paid to Bank on dishonour of the Bill by Romer).				
,, ,,	Bills Payable Account	Dr.		400	
	To Bank				400
	(Being the payment of our acceptance at maturity).				

ROY'S BOOKS (Journal Entries)—Contd.

			L.F.	Rs.	Rs.
May 15	Bank	Dr.		150	
	To Romer				150
	(Being the receipt of a dividend of 4 annas in the Rupee in full satisfaction of our claim against Romer for Rs. 600).				
" "	Bad Debts Account	Dr.		450	
	To Romer				450
	(Being the balance on Romer's Account irrecoverable now written off as bad debt).				

ROMER'S ACCOUNT (In Roy's Books).

		Rs.			Rs.
Jan. 1	To Bank Account ..	395	Jan. 1	By Bills Receivable Account	600
	" Discount ..	5		" Bank Account ...	197
	" Bills Payable Account ..	400		" Discount ...	3
April 4	" Bank Account ..	800		" Bank ...	150
			May 15	" Bad Debts ...	450
	Rs.	1,600		Rs.	1,600

ROMER'S BOOKS (Journal Entries).

			L.F	Rs.	Rs.
Jan. 1	Roy	Dr.		800	
	To Bills Payable Account				800
	(Being our acceptance of Roy's Bill).				
" "	Bank Account	Dr.		395	
	Discount Account...	"		5	
	To Roy				400
	(Being the receipt of half share of proceeds from Roy)				
" "	Bills Receivable Account	Dr.		400	
	To Roy				400
	(Being the acceptance of our Bill by Roy).				
" "	Bank Account	Dr.		394	
	Discount Account...	"		6	
	To Bills Receivable Account				400
	(Being the amount received on discounting the Bill)				
" "	Roy	Dr.		200	
	To Bank Account				197
	" Discount Account				3
	(Being the remittance of half the proceeds to Roy).				
April 4	Bills Payable Account	Dr.		800	
	To Roy				800
	(Being the dishonour of the Bill on becoming bankrupt).				
May 15	Roy	Dr.		150	
	To Bank				150
	(Being the payment of a dividend of 4 annas in the Rupee in full satisfaction of Roy's claim for Rs. 600).				

ROY'S ACCOUNT (In Romer's Books).

		Rs.			Rs.
Jan. 1	To Bills Payable Account ...	800	Jan. 1	By Bank Account ...	395
" "	" Bank ...	197	" "	" Discount ...	5
" "	" Discount ...	3	" "	" Bills Receivable Account	400
" "	" Bank ...	150	April 4	" Bills Payable Account ...	800
May 15	" Balance c/d. ...	450			
	Rs.	1,600		Rs.	1,600
			May 15	By Balance b/d. ...	450

NOTE.—The above balance representing a liability will be transferred to the Statement of Affairs of Romer prepared for the purpose of Bankruptcy proceedings.

DOCUMENTARY BILLS.

Documentary Bills are Bills of Exchange which are accompanied by various documents, such as bill of lading, dock warrant, delivery order, policy of insurance and invoice. These bills are largely dealt with by bankers who make advances upon them.

The following is a specimen of a Documentary Bill in ordinary use :—

Stamp.

Calcutta, 25th January, 1938.

Exchange for Rs. 5,000.

Two months after sight of this First of Exchange (second and third of the same tenor and date unpaid) pay to us or our order the sum of Rupees Five Thousand, value received against J. & Co. = 30 cases of Goods per S.S. "Hindustan", and place to account as advised. Shipping documents attached to be surrendered on acceptance.

BANERJI & SON.

To Jones & Co.,
London.

The above bill will be endorsed in favour of the Bank with whom the same is discounted. When a banker advances against shipments, he sends the bill abroad with the bills of lading attached for payment. When the documents are given up against acceptance, the banker has then to rely upon the acceptor, regarding whom he should have satisfactory information.

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. How does a Bill of Exchange differ from a Promissory Note?
2. Give examples of a Joint Promissory Note and a Joint and Several Promissory Note.

Before maturity of the first bill, P requests Q to assist him in taking it up by advancing him Rs. 1,000 in cash and drawing a third bill on him for a like amount at 3 months date from the due date of the first bill, plus interest at 5% per annum. Q does the needful and discounts the new bill at 5%.

Just before the maturity of the second bill for Rs. 4,000, P again requests Q to assist him to the extent of Rs. 2,500. In order to help P, Q arranges with P to draw on him (Q) two Bills for Rs. 1,000 and Rs. 1,500 at 2 months and 3 months respectively from the due date of the second bill. Q duly accepts these two bills and delivers them to P, who discounts them at 5%. He then duly meets the bill for Rs. 4,000. Q also meets his two acceptances on maturity. On 30th May, P becomes bankrupt leaving his third bill unpaid and nothing was recovered from his estate in respect of the claim.

Make the necessary Journal and Ledger Entries in the books of both the parties to record the above transactions. 45

21. On 1st October 1931, X drew a Bill on Y for Rs. 500 and Y drew a Bill on X for a similar amount, both the bills being for a term of 3 months. Both bills were discounted at the bank at 6 per cent. On the due date Y met his bill. X, however, notified Y of his inability to meet the bill, and Y, therefore, had to take it up. X paid Y Rs. 200 on 3rd January 1932 and accepted another Bill drawn on him by Y at two months date for Rs. 305, including interest. This acceptance having been met by X on the due date, pass Journal entries in the books of both the parties. 46

22. What is an Accommodation Bill? A is a merchant who has transactions with B in Accommodation Bills. Give the entries in the books of B which you would make *in respect of the following transactions:—*

On 1st January —, A draws on B at 3 months for £500, and discounts the acceptance with the London and County Bank, Ltd., receiving £495 in cash of which he hands £247-10-0 to B. On 31st March, in order to provide funds to meet this bill, B draws on A for £550 at three months, and discounts the acceptance with Brown, Janson & Co., receiving £545 in cash, of which he hands £22-10-0 to A. On the 29th June, A is made a bankrupt. *(Chartered Accountants.)* 47

23. Jones, for the mutual and temporary accommodation of himself and Brown, draws upon the latter a bill of exchange at three months for £600 dated 1st January —. Jones discounts this bill immediately at his Bankers, the rate of discount being 5 per cent, and hands half the proceeds to Brown. Brown, for a similar purpose, and at the same time, draws a bill at three months on Jones at £300. (This he discounts at his Bankers at 5 per cent and hands half the proceeds to Jones. Brown becomes a bankrupt on 31st March —, and a first and final dividend of 5*s*. in the £ is paid on his estate on 30th June —. Write up Brown's Account in Jone's books. Assume, in each case, that one-half of the charge for discounting the bill is chargeable to Brown and one-half to Jones. *(London Chamber of Commerce.)* 48

24. On 1st January —, A owes B £6,000 for which B receives two acceptances from A, one for £2,000 payable in two months, the other for £4,000 payable in four months, in each case from 1st January. B duly discounts both these acceptances with his bankers on 3rd January, at 4 per cent. Before the first bill becomes due, A requests B to assist him in taking it up by providing him with £1,000 in cash, and drawing a third bill on A for that amount at three months from the due date of the first bill plus interest at 5 per cent per annum; B agrees to his proposal and advances the money, discounting the bill with his bankers at 4 per cent. A week before the second bill for £4,000 falls due, A again asks B to assist him to the extent of £2,500. B, however, is not in a position to do this, as his bankers will not discount any more of A's acceptances, and he arranges with A to draw on him (B) two bills for £1,131-16-8 and £1,408-3-4 at two months and three months respectively from the due date of the £4,000 bill. B duly accepts these two bills and remits them to A, who discounts them with his bankers at 4 per cent and assisted by the proceeds, duly meets the £4,000 bill. B also meets his two bills on maturity. On 7th June, A becomes bankrupt, leaving his third bill unpaid. Make the entries in B's books. *(London Chamber of Commerce.)* 49

25. X draws a bill for Rs. 1,500 and Y accepts the same for the mutual accommodation of both of them to the extent of X 2/3 and Y 1/3. X discounts the same for Rs. 1,410 and remits 1/3rd of the proceeds to Y. Before the due date, Y draws another bill for Rs. 2,100 on X in order to provide funds to meet the first bill. The second bill is discounted for Rs. 2,040 with the help of which the first bill is met and Rs. 360 are [illegible] to X. Before the due date of the second bill, X becomes bankrupt and Y [illegible] a dividend of 8 annas in the rupee in full satisfaction.

Pass the necessary entries in the books of X and Y respectively. 50

26. Before the due date of the bill for Rs. 300,

(a) X, the acceptor, approaches us and pays Rs. 100 in cash and asks us to draw on him another bill for Rs. 215, Rs. 15 being for interest, and we agree to it.

(b) X pays us Rs. 25 for interest and we draw another bill for the full amount which he accepts.

(c) X pays us Rs. 115 and accepts another bill for Rs. 200.

(d) X pays us Rs. 100 in cash and endorses over to us a bill of his for Rs. 75 and we draw on him a fresh bill for the balance *plus* Rs. 20 for interest.

Pass the necessary Journal entries to record the above transactions. 51

27. Q accepts a three months bill drawn on him for Rs. 1,000 dated the 1st April 1937. On 1st May, P discounts it at 5%. On 15th June, Q not being able to meet the bill offers P Rs. 450, and asks him to draw on him another bill for three months for the balance *plus* interest at 5%. P agrees to this arrangement, but before the second bill becomes due, Q becomes bankrupt.

Pass entries in P's books. 52

28. A bill at 4 months' date for Rs. 659, due on 24th January 1936 was accepted by D and W. A few days before it matured, they found that they could not meet it and wrote to the drawers E and C, requesting them to renew the bill for three months, adding interest at 5 per cent and Rs. 5 for stamp and expenses. The drawers expressed their willingness to do so conditionally upon D and W lodging security with them for the amount of the renewed bill. D and W offered as security the following five customers' bills:

(1) H. G. B. & Co.'s bill Rs. 210 due 14th February 1936.

(2) N. & Co.'s bill Rs. 173 due 26th February 1936.

(3) J. H. & Co.'s bill Rs. 90 due 25th March 1936.

(4) G. B. & Co.'s bill Rs. 83 due 19th April 1936.

(5) S. W. & Co's bill Rs. 113 due 26th April 1936.

Each of the above five bills was discounted by E and C with their bankers, and D and W's renewed bill was paid into the bank one month after its acceptance. Bills 1, 2 and 4 were duly honoured. Bill 3 was dishonoured and returned to E and C, who drew a cheque for its amount, *plus* Rs. 10 noting expenses. D and W being called upon made good this amount ten days later. Bill 5 reached maturity the same day as D and W's renewed bill, and both were dishonoured.

Show B/R Account and D and W's Account in E and C's Ledger. 53

29. On 1st January 1937, A drew and B accepted a bill at 3 months for £1,000. On 4th January A discounted the bill at 6% and remitted half the proceeds to B. On 1st February 1937, B drew and A accepted a bill at 3 months for £400. On 4th February, B discounted the bill at 6% and remitted half the proceeds to A. A and B agreed to share the discounts equally.

At maturity A met his acceptance, but B failed to meet his, and recourse was had to A; A drew and B accepted a new bill at 3 months for the amount of the original bill *plus* interest at 5% per annum.

On 1st July 1937, B became bankrupt. A first and final dividend of 10*s*. in the £ was paid by his Trustee in Bankruptcy on 31st October 1937. B obtained his discharge on 5th December 1937, and agreed to pay A the unsatisfied balance of his account; this was paid on 10th February 1938.

Write up B's account in A's books and state how you would advise A to treat the balance on the account when preparing his Balance Sheet as on 31st December 1937.

Make calculations in months. (*Chartered Accountants.*) 54

CHAPTER V.

SYSTEM OF SELF-BALANCING LEDGERS.

The agreement of the books of a financial concern is a matter of the very utmost importance. Anything short of an absolute balance provides a possibility of the existence of serious discrepancies, and though a small difference probably consists of an unimportant oversight, it may conceal several grave errors. The important part, therefore, which a Trial Balance plays in the preparation of final accounts may thus be realized.

In the case of a small business, where all the accounts can easily be accommodated in a single Ledger, if the presence of a clerical error is detected by the disagreement of the Trial Balance, it will not be a very difficult matter to spot the mistake, as all the transactions of the period under consideration can be run through in a short time. In the case of a large business, however, where there are several Ledgers in use, the search for an error or errors, whose existence would be indicated by the disagreement of the one Trial Balance as prepared from them all, would involve an immense amount of labour and time before the same could be located. It is in order to facilitate the location of clerical errors, at the time of balancing in case of a large business involving the use of several Ledgers, that the system of Self-Balancing Ledgers has been devised.

The system of Self-Balancing Ledgers consists in so arranging each Ledger, as to contain within itself all the materials of a complete Trial Balance, so that a Trial Balance can be prepared from each Ledger separately without the help of any other Ledger. In order to make each Ledger self-balancing, an extra account called "General Ledger Adjustment Account" has to be opened at the end of each of the Trade Ledgers. In a similar way, an extra Adjustment Account for each of the Trade Ledgers, will have to be opened at the end of the General Ledger. The postings to these Adjustment Accounts in each Ledger would be of the contra entries to those that already appear elsewhere in the same Ledger. These contra postings would, no doubt, be made in monthly totals in order to save unnecessary labour. For the purpose of enabling these contra postings to be done in totals, it would be necessary to have the original records so ruled as to have a separate column for items that go in each particular Ledger, or to have a separate set of original records for each Ledger. There being contra entries to those that appear elsewhere in the same Ledger, it is natural that a Trial Balance can now be prepared from each Ledger separately. The search of errors would thus be brought within very narrow limits, for, in case of disagreement of the Trial Balance of any particular Ledger, it would be necessary to re-check only such transactions as are posted in that Ledger.

For the purpose of illustration, let it be assumed that there are three Ledgers in a business, viz., a Bought Ledger (containing all the Trade Creditors' Accounts), a Sold Ledger containing all the Trade Debtors' Accounts) and a General Ledger (containing all the other Accounts), and it is proposed to keep them on the Self-balancing System.

To start with, a General Ledger Adjustment Account must be opened in the Bought Ledger and also in the Sold Ledger. At the same time, at the end of the General Ledger, a Bought Ledger Adjustment Account and a Sold Ledger Adjustment Account will have to be opened. The only thing that now remains to be done is to complete the double entry of each Ledger by taking the monthly total of each original record and passing therewith a reverse entry to those that have already been posted in that Ledger under the ordinary principles of Double Entry.

In order to clear up any doubts or difficulties that the reader may have in thoroughly understanding the application of the principles of Self-balancing, it has been thought necessary to take each Trade Ledger separately and show, step by step, how the same is worked under this System.

SELF-BALANCING OF THE BOUGHT LEDGER.

Credit Purchases.—From the Invoice Book, the original Double Entry would be to credit the individual Personal Account in the Bought Ledger and debit the monthly total to Purchases Account in the General Ledger. Thus, so far as credit purchases are concerned, it is the Bought Ledger that has got the credits and the General Ledger, the corresponding debit; and both these Ledgers would be *self-balanced if a reverse entry was passed to* the same extent on the debit in the Bought Ledger and on the credit in the General Ledger. An extra double entry will, therefore, be passed with the same total of the Invoice Book, debiting the General Ledger Adjustment Account in the Bought Ledger and crediting the Bought Ledger Adjustment Account in the General Ledger.

Payments to Creditors.—The original Double Entry in regard to payments to creditors and the discounts allowed by them would be to the debit *of the individual Personal Account in the Bought Ledger and to the credit* of the Cash or Bank Account and Discount Account in the General Ledger. It would be well to note here that Cash or Bank Account being an asset account and the Discount Account being a nominal account relate to the General Ledger. So far as payments to the creditors are concerned, therefore, it is the Bought Ledger that has got the debits and the General Ledger, the corresponding credits. Now, if a reverse entry were passed with the total amount of payments made to the creditors and the discounts allowed by them in the course of a month, both the Ledgers would self-balance. But, as the credit side of a Cash Book includes also payments other than to creditors on personal accounts, it would be necessary to have a special column on the credit side headed "Bought Ledger Accounts" and place therein the amount of cash and discount each time a payment is made to a creditor, over and above entering the same in the Cash or Bank and Discount columns as usual. The monthly total of this extra column will now represent the total amount of payments made to creditors in the course of a month, and it is with this total that an extra double entry will be passed, debiting the Bought Ledger Adjustment Account in the General Ledger and crediting the General Ledger Adjustment Account in the Bought Ledger.

Bills Payable.—The ordinary Double Entry in regard to the Bills Payable accepted by us would be to debit the individual Personal Account in the Bought Ledger and to credit the monthly total of the Bills Payable Book to Bills Payable Account in the General Ledger. Thus, in regard to these transactions, it is the Bought Ledger that has got the debits and the General Ledger, the corresponding credit. A reverse entry with the same total, therefore, debiting the Bought Ledger Adjustment Account in the General

Ledger and crediting the General Ledger Adjustment Account in the Bought Ledger will self-balance both these Ledgers, so far as Bills Payable are concerned.

Returns Outwards.—With regard to Returns Outwards, the usual Double Entry would be to debit the individual Personal Account in the Bought Ledger and credit the monthly total of the Returns Outwards Book to the Returns Outwards Account in the General Ledger. A reverse entry with the same total, therefore, debiting the Bought Ledger Adjustment Account in the General Ledger and crediting the General Ledger Adjustment Account in the Bought Ledger will self-balance both these Ledgers, so far as Returns Outwards are concerned.

Allowances from Suppliers.—The original Entries recording allowances granted by creditors in respect of short weight or measure, defect in goods, etc., would be passed through the Journal debiting the particular Supplier's Account in the Bought Ledger and crediting Allowances Account in the General Ledger. For self-balancing purposes, therefore, the Bought Ledger would want a credit and the General Ledger a debit. Thus, the self-balancing entry with the periodical total of such allowances would be to debit the Bought Ledger Adjustment Account in the General Ledger and to credit the General Ledger Adjustment Account in the Bought Ledger.

Trial Balance of the Bought Ledger.—As the Double Entry of every item that has appeared in this Ledger has been completed by the passing of the above adjustments entries, a Trial Balance of the Bought Ledger itself can now be prepared independently of the other Ledgers. The balances of the various Personal Accounts as extracted from this Ledger would be naturally on the credit, but the General Ledger Adjustment Account appearing in this Ledger would show a corresponding debit balance.

ILLUSTRATION 35.

The following illustration will further explain how the extra Adjustment Accounts for the self-balancing of the Bought Ledger will appear when all the Adjustment Entries as above described have been passed.

The Adjustment Account at the end of the Bought Ledger will appear as under:—

GENERAL LEDGER ADJUSTMENT ACCOUNT

1941		Rs.	1941		Rs.
Jan. 1	To Balance b/fd.— Total of Balances on Suppliers' Accounts as at the commencement of the month ...	12,500	Jan. 31	By Cash Payments ...	5,600
" 31	" Credit Purchases ...	7,200	" "	" Discounts ...	400
			" "	" Returns Outwards ...	300
			" "	" Allowances ...	75
			" "	" Bills Payable ...	2,000
			" "	" Balance c/d.— Total of Balances on Suppliers' Accounts at the end of the month ...	11,325
	Rs.	19,700		Rs.	19,700
1941 Feb. 1	To Balance b/d. ...	11,325			

In the General Ledger, the following Adjustment Account will appear in respect of the Bought Ledger:—

BOUGHT LEDGER ADJUSTMENT ACCOUNT

1941		Rs.	1941		Rs.
Jan. 31	To Cash Payments ..	5,600	Jan. 1	By Balance b/fd. ...	12,500
" "	" Discounts ...	400	" 31	" Credit Purchases ..	7,200
" "	" Returns Outwards ...	300			
" "	" Allowances ...	75			
" "	" Bills Payable ..	2,000			
" "	" Balance c/d. ..	11,325			
	Rs.	19,700		Rs.	19,700
			1941 Feb. 1	By Balance b/d. ...	11,325

The Debit balance at any date as shown by the General Ledger Adjustment Account opened at the end of the Bought Ledger will be equal to the total of the balances on the Creditors' Accounts extracted from the Bought Ledger on the same date. The reason is that all the items which have been posted in detail on the several Personal Accounts in the Bought Ledger bear their contra postings in total on the General Ledger Adjustment Account opened in the same Ledger. This will help towards the completion of a separate Trial Balance from the Bought Ledger alone.

It should further be noted that the Bought Ledger Adjustment Account opened at the end of the General Ledger contains the same figures as appear in the General Ledger Adjustment Account, but on the opposite sides, and must, therefore, necessarily show the same closing contra balance, from time to time, as is shown by the General Ledger Adjustment Account in the Bought Ledger. In fact, both these accounts are exact counter-parts of each other. The Bought Ledger Adjustment Account will help to self-balance the General Ledger so far as the postings from the Bought Ledger are concerned inasmuch as this extra adjustment Account bears contra entries in respect of transactions with suppliers of goods which already appear elsewhere in the same Ledger.

It need hardly be pointed out that both the above accounts result from the extra Entries passed at the end of each month for self-balancing purposes from the totals of the Subsidiary Records concerned. Where there are several Bought Ledgers, each such Ledger will have a General Ledger Adjustment Account therein, and there will be a separate Bought Ledger Adjustment Account for each such Ledger, at the end of the General Ledger.

One more fact which needs to be emphasised is that the Bought Ledger Adjustment Account represents the sum total of the whole of the transactions with the suppliers of goods for a particular period, as it contains in a summarised form and on the same sides all the entries which have been posted in detail in the Bought Ledger.

SELF-BALANCING OF THE SOLD LEDGER.

The Sold Ledger may be made self-balancing in the same manner as above described by passing an extra reverse entry in the Adjustment Account with the total of each of the subsidiary records from which postings have been made in that Ledger.

Credit Sales.—From the Day Book, the various debits would go to the Customers' Accounts in the Sold Ledger, and the total of the monthly sales would be credited to the Sales Account in the General Ledger. In order to make these two Ledgers self-balancing, an extra entry has to be passed with the same total of the Day Book, debiting the Sold Ledger Adjustment Account in the General Ledger and crediting the General Ledger Adjustment Account in the Sold Ledger.

Cash Received from Customers.—The cash received from customers and the discounts allowed to them are entered in the ordinary way on the debit side of the Cash Book in the Cash or Bank and Discount columns and posted therefrom to the credit of the Customers' Accounts in the Sold Ledger. As Cash or Bank and Discount Accounts relate to the General Ledger, it is the latter Ledger that has got the debits and the Sold Ledger the credits, in regard to the transactions. The reverse entry to this would naturally be to debit the General Ledger Adjustment Account in the Sold Ledger and credit the Sold Ledger Adjustment Account in the General Ledger with the monthly total of cash received from customers and the discounts allowed to them.

In order to arrive at this total to be posted to the Adjustment Accounts, a separate column will have to be opened on the debit side of the Cash Book headed "Sold Ledger Accounts", and every time cash is received from a customer and discount is allowed to him, over and above showing the same in the Cash or Bank and Discount columns as usual, the total of cash and discount will also have to be placed in this particular column.

Bills Receivable.—With regard to Bills Receivable, the account of each individual customer is credited in the Sold Ledger with the amount of the bill he has accepted, and the corresponding debit is given to Bills Receivable Account in the General Ledger with the monthly total of the Bills Receivable Book. The reverse entry to this would be to debit the General Ledger Adjustment Account in the Sold Ledger and credit the Sold Ledger Adjustment Account in the General Ledger with the same total.

Returns Inwards.—Each customer is credited in the Sold Ledger with the amount of goods returned, and the monthly total of the Returns Inwards Book is debited to Returns Inwards Account in the General Ledger. The reverse entry to this would be to debit the General Ledger Adjustment Account in the Sold Ledger and credit the Sold Ledger Adjustment Account in the General Ledger.

Bad Debts.—As each Bad Debt occurs, the account of the customer who has failed is credited in the Sold Ledger and Bad Debts Account is debited in the General Ledger. With the monthly total of the Bad Debts Account as ascertained from the General Ledger, a reverse entry would be passed debiting the General Ledger Adjustment Account in the Sold Ledger and crediting the Sold Ledger Adjustment Account in the General Ledger.

Dishonour of Bills.—In regard to the total amount of Bills Receivable as may have been dishonoured each month, an extra adjustment entry will have to be passed debiting the Debtors' Ledger Adjustment Account (in the General Ledger) and crediting the General Ledger Adjustment Account in the Debtors' Ledger. This entry will serve to counter-balance the debits given to customers' accounts in the Debtors' Ledger and the credits given to the Bills Receivable Account in the General Ledger, in respect of Bills Receivable dishonoured during the month.

Allowances to Customers.—The allowances, if any, granted to customers would be passed through the Journal debiting Allowances Account in the General Ledger and crediting the particular customer's account in the Sold Ledger. The self-balancing entry with the monthly total of such allowances would be to debit the General Ledger Adjustment Account in the Sold Ledger and credit the Sold Ledger Adjustment Account in the General Ledger.

Trial Balance of the Sold Ledger.—A Sold Ledger Trial Balance can now be prepared without the help of any other Ledger, and this would not have been possible had it not been for the various contra entries that have been passed, as shown above. The several Personal Accounts, will no doubt, show debit balances, but the General Ledger Adjustment Account as opened therein will show a credit balance to the corresponding extent and thus serve to complete the Trial Balance of the Sold Ledger.

ILLUSTRATION 36.

The extra Adjustment Accounts opened for the self-balancing of the Sold Ledger will appear thus:—

GENERAL LEDGER ADJUSTMENT ACCOUNT.

(As opened at the end of the Sold Ledger).

1941		Rs.	1941		Rs.
Jan. 31	To Cash Received ...	16,400	Jan. 1	By Balance b/fd.— Total of Debtors' Balances from Sold Ledger ...	21,500
" "	" Discounts ...	500	" 31	" Credit Sales ...	15,800
" "	" Returns Inwards ...	700	" "	" Dishonoured Bills ...	1,000
" "	" Allowances ..	450			
" "	" Bills Receivable ...	2,500			
" "	" Bad Debts ...	600			
" "	" Balance c/d. ...	17,150			
	Rs.	38,300		Rs.	38,300
			1941 Feb. 1	By Balance b/d. ...	17,150

SOLD LEDGER ADJUSTMENT ACCOUNT.

(As opened at the end of the General Ledger).

1941		Rs.	1941		Rs.
Jan. 1	To Balance b/fd.— Total of Debtors' Balances from Sold Ledger ...	21,500	Jan. 31	By Cash Received ...	16,400
" 31	" Credit Sales ...	15,800	" "	" Discounts ...	500
" "	" Dishonoured Bills ...	1,000	" "	" Returns Inwards ...	700
			" "	" Allowances ...	450
			" "	" Bills Receivable ...	2,500
			" "	" Bad Debts ...	600
			" "	" Balance c/d. ...	17,150
	Rs.	38,300		Rs.	38,300
1941 Feb. 1	To Balance b/d. ...	17,150			

From the above, it is clear that the General Ledger Adjustment Account in the Sold Ledger and the Sold Ledger Adjustment Account in the General Ledgers are exact counter-parts of each other and that they contain the same figures and the same balances, but on the opposite sides. The General Ledger Adjustment Account *in the Sold Ledger* helps to self-balance the Sold Ledger, as it contains contra postings in totals of all the items which have been posted in detail in the Sold Ledger. The Sold Ledger Adjustment Account in the General Ledger serves to self-balance the latter Ledger so far as the postings of the transactions with customers are concerned, as it contains contra-postings in totals of those which are already appearing elsewhere in the same Ledger. Besides, the Sold Ledger Adjustment Account in the General Ledger represents in a summarised form the sum total of all the transactions with customers during a particular period, which transactions have been originally posted in detail on the various Personal Accounts in the Sold Ledger.

SELF-BALANCING OF THE GENERAL LEDGER.

The Self-balancing of the General Ledger will not need any further adjustment entries, inasmuch as every time that an adjustment entry is made with the total of any subsidiary record to self-balance a set of transactions in any Trade Ledger, the contra entry is made in the corresponding Trade Ledger Adjustment Account opened in the General Ledger. The Bought Ledger Adjustment Account and the Sold Ledger Adjustment Account which appear in the General Ledger will now take the place of Debtors' and Creditors' Accounts in a summarised form and thus serve to complete the Trial Balance of the General Ledger. The debit balance of the Debtors' Ledger Adjustment Account in the General Ledger must always correspond with the credit balance of the General Ledger Adjustment Account appearing in the Debtors' Ledger. Similarly, the credit balance of the Creditors' Ledger Adjustment Account in the General Ledger will always agree with the debit balance of the General Ledger Adjustment Account in the Creditors' Ledger.

It need hardly be pointed out that in regard to the numerous other transactions, which do not relate either to customers' or suppliers' accounts, no extra adjustment entry will be necessary for self-balancing purposes inasmuch as both the original debit as well as the credit in respect of each such transaction would have found their place in the General Ledger. Taking the case of payment of staff salaries, we find that the Salaries Account and the Cash Account or the Bank Account both relate to the General Ledger. Let us take the case of cash received on account of a Bill Receivable. Here also, we find that the Cash Account and the Bills Receivable Account both belong to the General Ledger, and the original debit as well as the credit in respect of this transaction having appeared in the same Ledger, no self-balancing entry would be called for. Instances can thus be multiplied, and a little thought will make it clear to the reader, that it is only in case of such transactions in respect of which the original debit or credit may have gone in any one of the Trade or Personal Ledgers and the corresponding credit or debit in the General Ledger, that contra entries to self-balance both those Ledgers would be needed.

Another point which needs to be mentioned here is that the debit balance as shown by the Debtors' Ledger Adjustment Account on any particular date must necessarily tally with the total of the Customers' Ledger balances as extracted on that same date. Similarly, the credit balance appearing on the Creditor's Ledger Adjustment Account on any one date must necessarily tally with the total amount of the List of Creditors obtained from the Creditors' Ledger, as at the same date. In other words, the Debtors' Ledger Adjustment Account and the Creditors' Ledger Adjustment Account in the General Ledger always represent summarised accounts of the Debtors and Creditors respectively.

Arrangement of Ledger Accounts.—For the purpose of proper working of the System of Self-balancing, it is important to bear in mind that in the Debtors' Ledger or Ledgers will be opened only the accounts of our *Trade Customers*, and in the Creditors' Ledger or Ledgers will appear the accounts of our *Trade Creditors* only. Thus, for instance, if office stationery is bought on credit from Damodar, such an entry, will go through the Journal, and the Stationery Account as also Damodar's Account will both be opened in the General Ledger. Again, if some old factory plant is sold on credit, the entry will be passed through the Journal, and the purchaser not being our ordinary Trade Customer, his account will be opened in the General Ledger.

The Ledgers including the accounts of customers are variously known as either Customers' Ledgers, Debtors' Ledgers, Sold Ledgers or Sales Ledgers. Those including the accounts of Trade Creditors are styled either Creditors' Ledgers, Suppliers' Ledgers, Bought Ledgers or Purchases Ledgers. The Ledger wherein are found all the remaining accounts is variously styled as General Ledger, Nominal Ledger or Impersonal Ledger.

Buying & Selling Transactions with same Party.—Where transactions in buying and selling take place with the same party, as it does happen sometimes, it is necessary for the purpose of self-balancing that two separate accounts of the party should be opened, one in the Debtors' Ledger to record our sales to him, and the other in the Creditors' Ledger to record our purchases from him. At periodical intervals, however, on our settling account with the party, it would be necessary to transfer the balance of one account into the other. Usually, the smaller account is transferred to the larger. Thus either the Bought Ledger Account Balance may be transferred to the Sold Ledger Account or the Sold Ledger Account Balance to the Bought Ledger Account. Such transfers would be made through the Journal, and the question of passing contra adjustment entries for self-balancing purposes should not then be over-looked. In a business where such transfers are of frequent occurrence, a separate Transfer Journal is maintained to facilitate periodical postings to the Adjustment Accounts.

Transfer from one Trade Ledger to another.—When a transfer is made from one Trade Ledger into any other Trade Ledger, two extra adjustment entries would be needed. Thus, if the credit balance of Rs. 50 on Smith's Account in the Creditors' Ledger is transferred to his account (or to any other account as per his instructions), in the Debtors' Ledger, the extra adjustment entries needed would be as follows:—

		L.F.	Rs.	Rs.
(1)	Creditors' Ledger Adjustment Account ... ... Dr. (in the General Ledger) To General Ledger Adjustment Account (in the Creditors' Ledger)		50	50
(2)	General Ledger Adjustment Account ... ... Dr. (in the Debtors' Ledger) To Debtors' Ledger Adjustment Account (in the General Ledger)		50	50

Again, if a debit balance of Rs. 100 on A's Account in the Sold Ledger is transferred to his account in the Bought Ledger, the two adjustment entries would be as follows:—

			L.F.	Rs.	Rs.
(1)	General Ledger Adjustment Account ... ... (in the Sold Ledger)	Dr.		100	
	To Sold Ledger Adjustment Account (in the General Ledger)				100
(2)	Bought Ledger Adjustment Account ... ... (in the General Ledger)	Dr.		100	
	To General Ledger Adjustment Account (in the Bought Ledger)				100

These two entries, in both the above cases, will serve not only to self-balance the Bought and Sold Ledgers, but will also adjust the Bought and Sold Ledger Adjustment Accounts in the General Ledger. The important point to note is that these accounts reflect in a summarised form the total position of the Creditors and the Debtors, as detailed in the Creditors' and the Debtors' Ledgers respectively. It follows, therefore, that whenever any self-balancing entry is made in any of the Personal Ledgers, the contra posting thereof must be made in the Adjustment Account representing that Ledger in the General Ledger.

Rulings of Subsidiary Books.—Where there are several Bought and Sold Ledgers in use, the Purchases and Sales Books, Bill Books, Returns Books, Cash Book and Journal will have to be so ruled as to have extra columns for items that are posted therefrom to each particular Ledger. Where, however, the number of Personal Ledgers is very large, separate Subsidiary Books will be required for each Ledger in order to prevent the numerous rulings rendering the books too cumbersome to be conveniently handled.

In practice, it has been found necessary to have an extra column for each Trade Ledger (Debtors' as well as Creditors') on both the sides of the Cash Book. Ordinarily, moneys are always received from Debtors and, therefore, all such entries from the Receipts Side of the Cash Book will be credited to the Personal Accounts concerned in the Sold Ledger. Similarly, moneys are usually paid by the trader to his Creditors, and the postings in this behalf would fall to the debit of the respective accounts in the Creditors' Ledger. It is very seldom that any moneys are received from Creditors or cash is paid to Debtors. But, it happens sometimes that a Creditor has been overpaid by us and he returns to us the excess. In a like manner, when a customer has overpaid us, we may have to refund him the excess. Thus it is that we do sometimes receive money from our Creditors and may have to pay sometimes to our Debtors. Such transactions are, no doubt, very rare, but unless the Cash Book is provided with columns for such contingencies, the self-balancing of the Ledgers cannot be done.

Private Ledger.—In some businesses, a Private Ledger provided with a lock and key and written up by a confidential clerk is maintained. Such a Ledger would contain, in some cases, the Capital and Drawings Accounts of the trader, whereas in other cases, it would also embody accounts relating to loans borrowed and the accounts of fixed assets, such as Building, Plant, Furniture, etc. Under such a circumstance, the Private Ledger would be treated as a part of the General Ledger, and for the self-balancing of the General Ledger, it would only be necessary for the clerk in charge of the Private Ledger to supply the General Ledger-keeper with the periodical net ultimate total balance of the accounts appearing therein. The General Ledger-keeper would then need to open in his Ledger an account in the name of "Private Ledger" and enter therein the periodical balance-figure as received from the Private Ledger-keeper, on the proper side of this account according to whether it is a debit or a credit balance with the words "To Transfer or By Transfer from the Private Ledger". This will help to self-balance the General Ledger, without any secret information relating to the accounts in the Private Ledger leaking out.

ADVANTAGES OF SELF-BALANCING LEDGERS.

Apart from its helping towards a speedy detection of errors in case of disagreement of a Trial Balance, and thus greatly facilitating the preparation of Final Accounts, soon after the completion of the financial period, in a large business, the System of Self-Balancing Ledgers has also other advantages as follows :—

(1) It fixes the responsibility of each Ledger-keeper as to the balancing of the Ledger or Ledgers under his charge;

(2) Coupled with a sound system of internal check, it helps to prevent or detect fraud on the part of those in charge of any of the Trade Ledgers; and

(3) It helps considerably towards the preparation of interim accounts whenever required without having recourse to the extraction of balances from the Personal Ledgers.

ILLUSTRATION 37.

From the following particulars as extracted from the books of Messrs. Wadia & Co., who keep a Debtors' Ledger, a Creditors' Ledger and a General Ledger on the Self-balancing System, show how the various Adjustment Accounts will appear in each of the Ledgers, together with the necessary Journal entries in respect of the same.

	Rs.
Debtors' Balance (1-1-1938)	45,750
Creditors' " "	54,900
Transactions for the month of January :—	
Credit Purchases	20,500
Credit Sales	22,700
Returns Inwards	400
" Outwards	600
Cash received from Customers	25,500
Discount allowed to Customers	450
Cash paid to Creditors	30,700
Discount received from Creditors	670
Acceptances received from Debtors ..	8,500
Creditors' Bills accepted ..	12,000
B/R returned dishonoured ..	1,200
Bills Payable dishonoured ..	3,000
Bad Debts written off	2,500
Sundry Charges debited to Customers	345
Allowances from Creditors	275

Solution.

JOURNAL ENTRIES FOR SELF-BALANCING CREDITORS' LEDGER.

1938			L. F.	Dr. Rs.	Cr. Rs.
Jan. 31	General Ledger Adjustment Account ... ... To Creditors' Ledger Adjustment Account (For opening Balances on 1st January 1938).	Dr.	C. L. G. L.	54,900	54,900
	General Ledger Adjustment Account ... ... To Creditors' Ledger Adjustment Account (Total Credit Purchases for the month as per Purchase Book).	Dr.	C. L. G. L.	20,500	20,500
	Creditors' Ledger Adjustment Account ... ... To General Ledger Adjustment Account (Returns Outwards for the month as per Returns Outwards Book).	Dr.	G. L. C. L.	600	600
	Creditors' Ledger Adjustment Account ... ... To General Ledger Adjustment Account (Cash paid to and Discount earned from Creditors as per special column of Cash Book).	Dr.	G. L. C. L.	31,370	31,370
	Creditors' Ledger Adjustment Account ... ... To General Ledger Adjustment Account (Total Bills accepted for the month).	Dr.	G. L. C. L.	12,000	12,000
	General Ledger Adjustment Account ... ... To Creditors' Ledger Adjustment Account (Total Bills Payable returned dishonoured).	Dr.	C. L. G. L.	3,000	3,000
	Creditors' Ledger Adjustment Account ... ... To General Ledger Adjustment Account (Allowances received from Creditors).	Dr.	G. L. C. L.	275	275

JOURNAL ENTRIES FOR SELF-BALANCING DEBTORS' LEDGER.

1938			L. F.	Dr. Rs.	Cr. Rs.
Jan. 31	Debtors' Ledger Adjustment Account ... ... To General Ledger Adjustment Account (Opening Debtors' Balances).	Dr.	G. L. D. L.	45,750	45,750
	Debtors' Ledger Adjustment Account ... ... To General Ledger Adjustment Account (Total Credit Sales for the month as per Sales Book).	Dr.	G. L. D. L.	22,700	22,700
	General Ledger Adjustment Account ... ... To Debtors' Ledger Adjustment Account (Returns Inwards for the month as per Returns Inwards Book.)	Dr.	D. L. G. L.	400	400
	General Ledger Adjustment Account ... ... To Debtors' Ledger Adjustment Account (Cash received from and Discount allowed to Customers as per special column of Cash Book)	Dr.	D. L. G. L.	25,950	25,950
	General Ledger Adjustment Account ... ... To Debtors' Ledger Adjustment Account (Total Bills Receivable for the month).	Dr.	D. L. G. L.	8,500	8,500
	Debtors' Ledger Adjustment Account ... ... To General Ledger Adjustment Account (Bills Receivable returned dishonoured).	Dr.	G. L. D. L.	1,200	1,200

JOURNAL ENTRIES FOR SELF-BALANCING DEBTORS' LEDGER.—*Contd.*

			L.F.	Rs.	Rs.
1918 Jan. 31	General Ledger Adjustment Account	Dr.	D.L.	2,500	
	To Debtors' Ledger Adjustment Account		G.L.		2,500
	(Bad Debts written off).				
	Debtors' Ledger Adjustment Account	Dr.	G.L.	345	
	To General Ledger Adjustment Account		D.L.		345
	(Sundry Charges debited to Customers)				

NOTE.—There will be no further Journal entries to self-balance the General Ledger, as the series of entries passed as above will, apart from self-balancing the Debtors' and Creditors' Ledgers, help also to enable a separate Trial Balance to be prepared from the General Ledger.

IN THE CREDITORS' LEDGER.

GENERAL LEDGER ADJUSTMENT ACCOUNT.

	Rs.		Rs.
To Creditors' Ledger Adjustment Account as under :—		By Creditors' Ledger Adjustment Account as under :—	
,, Opening Balances ...	54,900	,, Returns Outwards ...	600
,, Purchases ...	20,500	,, Cash and Discount ...	31,370
,, Bills Payable dishonoured ..	3,000	,, Bills Payable ...	12,000
		,, Allowances ...	275
		,, Balance c/d. ...	34,155
Rs.	78,400	Rs.	78,400
To Balance b/d. ...	34,155		

IN THE DEBTORS' LEDGER.

GENERAL LEDGER ADJUSTMENT ACCOUNT.

	Rs.		Rs.
To Debtors' Ledger Adjustment Account as under :—		By Debtors' Ledger Adjustment Account as under :—	
,, Returns Inwards ...	400	,, Opening Balances ...	45,750
,, Cash and Discount ...	25,950	,, Sales ...	22,700
,, Bills Receivable ...	8,500	,, Bills Receivable dishonoured ...	1,200
,, Bad Debts ...	2,500	,, Sundry Charges ...	345
,, Balance c/d. ..	32,645		
Rs.	69,995	Rs.	69,995
		By Balance b/d. ...	32,645

IN THE GENERAL LEDGER.

CREDITORS' LEDGER ADJUSTMENT ACCOUNT.

	Rs.		Rs.
To General Ledger Adjustment Account as under :—		By General Ledger Adjustment Account as under :—	
,, Returns Outwards ...	600	,, Opening Balances ...	54,900
,, Cash and Discount ...	31,370	,, Purchases ...	20,500
,, Bills Payable ...	12,000	,, Bills Payable dishonoured ...	3,000
,, Allowances ...	275		
,, Balance c/d. ...	34,155		
Rs.	78,400	Rs.	78,400
		By Balance b/d. ...	34,155

DEBTORS' LEDGER ADJUSTMENT ACCOUNT.

	Rs.		Rs.
To General Ledger Adjustment Account as under :—		By General Ledger Adjustment Account as under :—	
" Opening Balances ..	45,750	" Returns Inwards ...	400
" Sales ...	22,700	" Cash and Discount ...	25,950
" Bills Receivable dishonoured ...	1,200	" Bills Receivable ..	8,500
" Sundry Charges ..	345	" Bad Debts ..	2,500
		" Balance c/d ..	32,645
Rs.	69,995	Rs	69,995
To Balance b/d. ..	32,645		

ILLUSTRATION 38.

In a business where the system of Self-balancing of Ledgers is adopted, there are two Bought Ledgers, viz. (1) Inland, and (2) Foreign; three Sold Ledgers, viz (1) Local, (2) Provincial, and (3) Foreign; and one General Ledger. Give *pro forma* rulings of the Cash Book, Sales Book, Purchases Book, Bills Receivable Book, Bills Payable Book and the Journal suitable for that business.

Solution.

SALES BOOK.

Date.	Particulars.	Outward Invoice No.	L. F.	Total.	Sold Ledgers.		
					Local.	Provincial.	Foreign

PURCHASES BOOK.

Date.	Particulars	Inward Invoice No.	L. F.	Total	Bought Ledgers	
					Inland	Foreign.

BILLS RECEIVABLE BOOK.

No. of Bill.	Date when Received.	From whom Received.	Drawer.	Acceptor.	Date of Bill.	Where Payable.	Term.	Due Date.	L. F.	C. B. F.	Amount of Bill.	Debtors' Ledgers.			Remarks.
												Local.	Provincial.	Foreign.	

BILLS PAYABLE BOOK.

No. of Bills.	Date of Bill.	To whom given.	Drawer.	Payee.	Payable at.	Term.	Due Date.	L. F.	C. B. F.	Amount of Bill.	Creditors' Ledgers.		Remarks.
											Inland.	Foreign.	

CASH BOOK (Receipts Side).

Date.	Particulars.	L.F.	Discount.	Cash.	Bank.	Sold Ledgers.			Bought Ledgers.	
						Local.	Provincial.	Foreign.	Inland.	Foreign.

CASH BOOK (Payments Side).

Date.	Particulars.	L.F.	Discount.	Cash.	Bank.	Bought Ledgers.		Sold Ledgers.		
						Inland.	Foreign.	Local.	Provincial.	Foreign.

JOURNAL.

Date.	Particulars.	L.F.	Dr.	Cr.	Sold Ledgers.						Bought Ledgers.			
					Local.		Provincial.		Foreign.		Inland.		Foreign.	
					Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.

NOTE.—It should be noted that where the original debit as well as the credit regarding any entry both relate to accounts which belong to the General Ledger, no additional self-balancing entry would be needed, and, therefore, there will be no extension of their corresponding figures in the additional columns provided.

CONSTRUCTION OF TOTAL ACCOUNTS.

Not infrequently, the Ledgers are not kept on the self-balancing system, and yet it is desired to check the accuracy of any one of the Trade Ledgers separately. Under this circumstance, it would be necessary to construct a Total Debtors' Account or a Total Creditors' Account, as the case may be, from such materials as may be available.

Total Debtors' Account.—Thus, if it is desired to balance the Debtors' Ledger separately, the following will be the procedure to construct the Total Debtors' Account:—

The *items on the debit* of this Account are arrived at as follows:—

1. The Opening Balance is the total of the Debtors' Ledger Balances at the commencement of the current period.
2. Sales are obtained from the Day Book.
3. Dishonoured Bills are ascertained from the entries in the Journal, or from the Bills Receivable Book.

The *items on the credit* of this Account are obtained as follows:—

1. Cash received from Debtors—from the special Debtors' Ledger Column provided on the debit side of the Cash Book, or from the analysis of the debit side of the Cash Book.
2. Discount—from the Discount column on the debit side of the Cash Book.
3. Bills Receivable—from the Bills Receivable Book.
4. Returns and Allowances—from the Returns Inwards Book.
5. Bad Debts—from the total of the Bad Debts Account in the Nominal Ledger.

Transfers to and from other Ledgers may be ascertained from the Journal.

Total Debtors' Account.

	Rs.		Rs.
To Balance at commencement of the current period	..	By Cash received—as per special column or analysis of Cash Book	..
„ Sales—as per Day Book	..	„ Discount allowed—as per Discount Column in Cash Book	..
„ Dishonoured Bills as per Bills Receivable Book or Journal	..	„ Bills Receivable—as per Bills Receivable Book	..
„ Transfers from other Ledgers	..	„ Returns—as per Returns Inwards Book	..
		„ Bad Debts—as per Bad Debts Account	..
		„ Transfers to other Ledgers	..
		„ Balance at close of the current period carried down	..
	Rs. ..		Rs. ..
To Balance b/d.			

The debit balance of the Total Debtors' Account thus constructed, on any given date, should agree with the total debit balances as extracted from the Debtors' Ledger at that date.

Total Creditors' Account.—The sources of the entries in this Account are as follows:—

On the credit side:—

1. The Opening Balance is the total of the Creditors' Ledger Balances at the commencement of the current period.

2. Purchases are obtained from the Purchases Book.

3. Dishonoured Bills are ascertained from the Journal entries, or from the Bills Payable Book.

On the debit side:—

1. Cash paid to Creditors—from the additional column provided on the credit side of the Cash Book or from the analysis of the credit side of the Cash Book.

2. Discount—from the Discount column on the credit side of the Cash Book.

3. Bills Payable—from the Bills Payable Book.

4. Returns—from the Returns Outwards Book.

Transfers to and from other Ledgers are ascertained from the Journal.

Total Creditors' Account.

	Rs.		Rs.
To Cash paid—as per special column or analysis of Cash Book	..	By Balance at commencement of any given period	..
" Discount earned—as per Discount column	..	" Purchases—as per Bought Book	..
" Bills Payable—as per Bills Payable Book	..	" Bills dishonoured—as per Bills Payable Book or Journal	..
" Returns—as per Returns Outwards Book	..	" Transfers from other Ledgers	..
" Transfers to other Ledgers	..		
" Balance at close of the period carried down	..		
Rs.	..	Rs.	..
		By Balance b/d.	

The credit balance of the Total Creditors' Account thus constructed, on any particular date, must agree with the total credit balances as extracted from the Creditors' Ledger at that date.

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. What is the object of Self-Balancing Ledgers?

2. Explain briefly how to self-balance a Sales Ledger.

3. What do you understand by a Total Debtors' Account?

4. How does a Total Creditors' Account differ from a Creditors' Ledger Adjustment Account opened in the General Ledger?

5. Explain clearly why it becomes necessary to have extra columns in the Subsidiary Records where the system of Self-balancing is in use.

6. Give *pro forma* Journal Entries for the Adjustment Account opened to self-balance the Creditors' Ledger.

7. Give Journal Entries necessary for self-balancing the Customers' Ledger.

8. Give a specimen General Ledger Adjustment Account as it would be found in the Purchase Ledger.

9. Explain clearly how you would deal with a transfer entry from one Personal Ledger to another.

10. Assuming that there are a few credit balances in the Debtors' Ledger and a few debit balances in the Creditors' Ledger, would it affect in any way the self-balancing of these Ledgers?

11. Give suitable rulings for the Sales Journal of a wholesale business comprising three departments, viz.:—"Mantles", "Dress Materials" and "Felts". There are two Sales Ledgers in use, viz.:—"Town" and "Country", and each Ledger is kept upon the self-balancing principle. (*London Chamber of Commerce.*) **55**

12. John Carside keeps his "Sales Ledger" upon the "self-balancing" principle. Prepare the necessary "Adjustment Account" as on 31st January 1910.

		£
January 1.	Total debtors' debit balances at this date were ..	12,542
	Total goods sold to customers for the month ..	21,658
	Total goods returned by customers for the month ..	942
	Total cash received from customers for the month ..	15,621
	Total discount allowed to customers for the month ..	968
	Total acceptances received from customers during the month	3,471
	Total acceptances dishonoured by customers during the month	542

(*Royal Society of Arts.*) **56**

13. What do you understand by the "Sectional" System of balancing Ledgers?

In the business of X, Y, Z & Co., the following books are in use:—1 "Bought" Ledger, 2 "Sold" Ledgers ("Town" and "Country"), 1 "Private and Nominal" Ledger, 1 "Bank" Cash Book, 1 Petty Cash Book, 2 Sales Books ("Town" and "Country"), 1 Purchases Book, and 1 Journal. Explain briefly what alterations, if any, it would be necessary to effect in these books in order to introduce the "Sectional" System of Balancing. (*London Chamber of Commerce.*) **57**

14. The undermentioned particulars have been extracted from the books of Messrs. James Ogden & Co., who keep only one Sales Ledger. You are required to prepare the relative "Sales Ledger" and "General Ledger" Adjustment Accounts, as on December 31st:—

			£	s.	d.
June	30	Debtors' Balances	28,394	12	6
Dec.	31	Transactions for the half-year to date:—			
		Sales to Debtors	58,421	10	8
		Returns from Debtors	691	12	0
		Cash received from Debtors	41,344	8	6
		Discount allowed to Debtors	1,504	9	3
		Acceptances received from debtors	4,210	1	2
		Acceptances returned dishonoured	550	0	0
		Bad Debts written off	942	10	0
		Sundry charges debited to debtors	29	4	6

(Chartered Accountants.) 58

15. A Firm has three Ledgers in use, viz., a Debtors' Ledger, a Creditors' Ledger, and a Nominal Ledger, which are all kept on the Sectional System of Balancing. From the following transactions, prepare the Adjustment Accounts as they would appear in each of these Ledgers.

1917			£
Jan.	1	Balance of Sundry Debtors	16,000
		" Sundry Creditors	18,500
"	31	Credit Purchases	4,500
		Credit Sales	9,800
		Paid to Creditors	9,875
		Discount allowed by them	325
		Received cash from Debtors	7,800
		Allowed them Discount	200
		Accepted Bills Payable	1,500
		Received Bills Receivable	3,000
		Returns Inwards	875
		" Outwards	600
		Allowances to Debtors	275
		" from Creditors	150
		Bad Debts	450
		Bills Receivable dishonoured	375

59

16. A business uses three Ledgers, viz., Bought Ledger, Sold Ledger and Nominal Ledger on the Self-balancing System. Show the Trial Balance of each of these Ledgers with imaginary figures. 60

17. Prepare Bought and Sales Ledger Adjustment Accounts from the following particulars:—

1915				£	s.	d.
Jan.	1	Balances on Bought Ledger	(Dr.)	87	14	3
		" "	(Cr.)	1,194	2	7
		Balances on Sales Ledger	(Dr.)	1,462	1	9
		" "	(Cr.)	24	18	6
Dec.	31	Purchases		6,518	18	11
		Purchases Returns		256	11	2
		Sales		8,749	0	8
		Sales Returns		117	12	0
		Cash received from Customers		7,621	2	4
		Discounts allowed thereon		282	7	5
		Cash paid to suppliers		5,843	15	0
		Discounts received thereon		166	4	8
		Transfers from Bought to Sales Ledger		76	5	0
		Bills Receivable		412	17	6
		Bills Payable		225	10	0
		Bought Ledger Balances	(Dr.)	77	1	8
		" "	(Cr.)	1,134	3	1
		Sales Ledger Balances	(Dr.)	1,718	14	11
		" "	(Cr.)	42	15	3

(Chartered Accountants.) 61

18. On 1st January, the assets and liabilities of L and M who are equal partners Capital and Profits were:—

Stock, Rs. 27,500; Cash, Rs. 17,250; Plant and Machinery, Rs. 25,500; Debtors, Rs. 26,450 and Creditors, Rs. 17,200. The Debtors and Creditors were as follows:—

Debtors.	Rs.	*Creditors.*	Rs.
A	5,740	G	2,360
B	2,060	H	3,500
C	4,950	I	2,720
D	3,690	J	3,140
E	5,730	K	2,850
F	4,280	O	2,630

The following were their transactions for the month of January:—

Sales.	Rs.	Cash Received. Rs.	Discount Allowed. Rs.
A	2,760	5,460	280
B	3,650	1,960	100
C	1,980	4,660	290
D	4,570	3,510	180
E	5,840	5,450	280
F	3,430	4,070	210

Purchases.		Cash Paid.	Discount Received.
G	2,740	2,250	110
H	2,980	3,330	170
I	2,370	2,590	130
J	1,960	2,990	150
K	1,890	2,710	140
O	2,850	2,500	130

	Rs.
Sundry Expenses	2,630
Drawings—L	350
,, —M	350
Salaries	750
Wages	1,250

The Ledgers used were Sales Ledger, Purchases Ledger, and General Ledger. Record the above transactions in their proper Ledgers and extract Trial Balances, assuming that the Ledgers are kept on the Self-balancing system. 62

CHAPTER VI.

CONSIGNMENTS AND JOINT VENTURES.

It occasionally happens that a merchant, not finding a ready sale for his goods at his own place of business, is desirous of seeking a good market elsewhere. Having ascertained where his goods are likely to be in demand, he employs a person doing business there to act as his agent and sell his goods on commission. As such goods. though shipped or **consigned** to the agent, are still owned by the person who sent them, they cannot be treated as ordinary sales. It is obvious. therefore, that such **Consignments** will require special treatment in accounts.

The person who sends goods to be sold by another for him is called the **Consignor**; and the person to whom the goods are sent for sale is termed the **Consignee**. To the consignor, the shipment would be known as an **Outward Consignment**, whereas to the consignee. it would be known as an **Inward Consignment.**

DIFFERENCE BETWEEN A CONSIGNMENT AND A SALE.

A **Consignment** may be defined as a shipment of goods by a trader to an agent for sale on commission. on the sole risk and account of the former.

The difference between a consignment and a sale is as follows:—

In case of a sale, the legal title to the goods as also the risk attaching to them pass immediately to the purchaser. In case of a consignment, the legal ownership in the goods and the risk attaching thereto do not pass to the consignee who acts as a mere agent, but remain vested in the principal, i.e., the consignor. Thus, when goods are sold, the relationship arising between the purchaser and the seller is that of a debtor and a creditor, whereas when goods are sent by way of consignment, the relationship arising between the consignor and the consignee is that of a principal and an agent.

USUAL PROCEDURE IN CASE OF CONSIGNMENTS.

The consignor despatches a quantity of goods on his own account and risk to his agent abroad for the purpose of finding fresh markets. Along with the goods, a *pro forma* Invoice is forwarded by the consignor to the consignee, giving a description of the goods consigned and stating their cost or minimum sale price. The Consignee is instructed to sell these goods at as high a price as possible, and in order to induce him to do so, a commission at so much per cent is offered to him on the amount of sale proceeds. The consignee is, however, not supposed to sell the goods below the price shown in the *pro forma* Invoice without previous reference to the consignor. In addition to an ordinary selling commission, there is a further remuneration known as **Del Credere** commission which is sometimes paid to him, in return for which the consignee undertakes to bear any loss that might arise from the insolvency of the purchasers of consignment goods.

All necessary expenses in regard to dock dues, unloading. storage and insurance of goods are defrayed by the consignee on account of the consignor, and are deducted by him from the sale proceeds while settling account with the consignor.

From time to time, the consignee renders to the consignor a statement known as an **Account Sales** which sets out particulars of goods sold, the gross proceeds realised, the expenses incurred by the consignee including his commission, and the net proceeds.

Usually, the consignee arranges for the consignor to draw a bill on him for a certain sum by way of an advance against the consignment, which on the one hand would serve as a security against the goods lying with the consignee, and on the other, help the consignor financially, as he can realise the bill by discounting it.

ENTRIES IN THE BOOKS OF THE CONSIGNOR.

The record of Outward Consignments would be made in the books of the Consignor as follows :—

1. A separate Consignment Account will have to be opened for each shipment in order to ascertain what profit or loss has been made on each such consignment.

2. On the goods being shipped, the particular Consignment Account is debited with the invoice value of the goods and an account called "Goods sent out on Consignment" is credited.

3. The Consignment Account is also debited with the expenses the consignor has incurred by way of freight, insurance, etc., Cash or Party being credited.

4. On receipt of a bank draft or an acceptance from the consignee as an advance on consignment, Bank Account or Bills Receivable Account is debited and the Consignee's Account is credited with the amount of the draft.

5. When the consignment is realised, the agent forwards an Account Sales to the consignor, showing the gross proceeds realised and the net proceeds after deducting his commission and the expenses he may have incurred thereon. On receipt of such Account Sales, the Consignee's Account is debited with the amount of the *gross proceeds* and the Consignment Account is credited. At the same time, the Consignment Account is debited and the Consignee's Account is credited with the amount of the expenses and commission deducted by the consignee.

6. The balance of the Consignment Account will now show the profit or loss on consignment and will therefore be transferred to the Profit & Loss Account.

7. The Consignee's Account will now represent the amount owing by him, and will be closed on his sending a Bill Receivable or a Draft settlement of his account.

8. The "Goods sent out on Consignment Account" will be transferred to the credit of the Trading Account at the time of balancing.

9. If at the time of balancing, the consignment is partly realised, the balance of unsold portion will be treated as Stock on hand, and will be debited to Stock on Consignment Account and credited to Consignment Account at cost price. The Consignment Account will then show the profit or loss on the realised portion and will be closed by Profit and Loss Account. When it is desired not to take credit for any profit until the entire consignment has been realised, the debit balance of the Consignment Account will be shown as an asset in the Balance Sheet,

10. If at the time of balancing, no sale has been made of the consignment, then the debit balance of the latter account will be shown as an asset in the Balance Sheet. If any loss is anticipated, the same should be provided for by means of a reserve.

11. In valuing any unsold balance of Consignment Stock, the basis of valuation must be the cost price or market price, whichever is the lower. In ascertaining the cost price of any unsold portion, the proportionate charges *incurred by the Consignor* must be added to the invoice price of the goods. It is not desirable, however, to unduly inflate the value of such stock by burdening it with the proportionate expenses *incurred by the Consignee.*

Where Consignments are charged at Pro-forma Invoice Price.—When goods are charged to the Consignment Account at *Pro-forma* Invoice price including a percentage above cost, the effect of such a procedure would be to take credit in the books for profit before it is realised, and as the credit in this respect will be given to Goods sent out on Consignment Account which is closed by transfer to the Trading Account, the gross profit for trading would be unduly inflated. Besides, if the Consignment Account stands debited with anything beyond the actual cost of the goods and the expenses, it will fail in its object of signifying the true profit or loss made thereon. Evidently, therefore, some adjusting entries will be needed at each balancing time, in order to set right the excess debit on the Consignment Account and the corresponding excess credit on the Goods sent out on Consignment Account.

The following adjustments would, therefore, be made at the end of each financial period before the ascertainment of profit or loss on any consignment:—

(*a*) *Where the goods relating to any consignment have been sold out in entirety,* the adjusting entry would be:

Goods sent on Consignment Account .. .. .. Dr.

To the particular Consignment Account

This will be with the amount of the difference between the *Pro-forma Price* at which the consignment had been invoiced and the actual cost of such consignment. This entry will at once set right the existing excess debit on the Consignment Account as also the excess credit on the Goods sent on Consignment Account.

(*b*) *Where a part of the consignment is sold and there is a balance of stock on hand,* the best method that can be followed will be as under:—

(1) In the first instance, a reversing entry will have to be passed, as above, with the amount of the difference between the *Pro-forma* Invoice value and the actual cost price of the *whole* of the particular consignment. This will serve to bring the accounts concerned at their original cost level.

(2) The entry for the unsold stock should then be made at the *Pro-forma* Invoice price, debiting Consignment Stock Account and crediting the Consignment Account in question.

(3) A further adjusting entry would be needed debiting the particular Consignment Account and crediting an account styled Consignment Stock Suspense Account with the amount of the excess as represented by the difference between the *Pro-forma* price and the actual cost of the Closing Stock.

(4) The debit balance on Consignment Stock Account would be shown in the Balance Sheet *minus* the credit balance on Consignment Stock Suspense Account.

(c) *Where there have been no sales on account of any particular consignment*, the excess included in the first entry at *Pro-forma* Invoice price will be adjusted by the reversing entry, as above explained, to be passed at the end of the financial period.

The whole object of these adjusting entries will be to see that each Consignment Account signifies its true profit, and that the Trading Account serves to indicate the actual trading profit other than that made on the consignments.

Where there are several consignments, the profit or loss on each consignment will be transferred to an account styled Profit or Loss on Consignment Account, and the aggregate result as shown on this account will be ultimately transferred to the Profit & Loss Account.

ENTRIES IN THE BOOKS OF THE CONSIGNEE.

As the Consignee is not liable for the value of the goods consigned to him, but simply holds them in trust for the time being, no entry need be passed by him in the financial books on receipt of the goods until the sales take place. It will, however, be necessary for him to maintain a book styled Consignment Inwards Register and record therein full particulars of each consignment as and when received.

The Consignee will take the following steps to record transactions relating to Inward Consignments:—

(1) On receipt of the goods together with a *Pro-forma* Invoice from the consignor, a record will be made in a book called "Consignment Inwards Book", by way of a note, but no entry will be made in any financial book.

(2) If he has accepted a bill drawn on him by the consignor for a part of the consignment value, he will debit the Consignor's Account and credit Bills Payable Account.

(3) On his incurring any expenses on account of the consignment, he will debit the Consignor's Account and credit Cash or Party.

(4) On sales being effected, he will debit Cash or Party and credit the Consignor's Account.

(5) For his brokerage or commission, he will debit the Consignor's Account and credit his Commission Account.

(6) The Consignor's Account will now show the balance of amount owing to him, and the same will be closed when the money is remitted.

The Consignee does not make any entry in his books regarding any Consignment Stock lying with him, nor does he show it in his Balance Sheet, as it is not his property.

ILLUSTRATION 39.

On 14th January, 1940, Sorabji & Co., Bombay, consigned 95 bags of sugar to Pall & Co., Calcutta, invoiced at Rs. 90 per bag and paid Rs. 140 for Insurance, Freight, etc. On 16th January 1940, they drew on Pall & Co. for Rs. 5,000 as advance against this consignment. On March 3rd, the following Account Sales was received from Pall & Co., with their cheque for Rs. 6,517-8-0.

Account Sales of 95 bags of sugar received per S.S. "Sumatra" on 19th January 1940, from Sorabji & Co. of Bombay to be sold on commission:—

1940			Rs. a p.
Feb. 28	Gross Proceeds from Sales:—		
	95 bags of sugar at Rs. 125 each		11,875 0 0
	Less Charges:—	Rs. a. p.	
	Duty and Clearing	80 0 0	
	Storage	40 0 0	
	Commission at 2% on Gross Sales	237 8 0	
			357 8 0
	Balance due to Sorabji & Co.		11,517 8 0
	Less amount of draft accepted on 19th January		5,000 0 0
	Balance sent by cheque ... ... Rs.		6,517 8 0

E. & O.E.
Calcutta.

Pall & Co.
Consignees.

Show the entries necessary in relation to these transactions and the Ledger Accounts in the books of the Consignors as well as the Consignees.

Solution.

CONSIGNORS' BOOKS.
JOURNAL ENTRIES.

1940		L.F.	Rs. a. p.	Rs. a. p.
Jan. 14	Consignment to Calcutta ... ... Dr. To Goods sent out on Consignment (Being value of 95 bags of sugar at Rs. 90 each sent to Messrs. Pall & Co., Calcutta, to be sold on our account at 2% commission).		8,550 0 0	8,550 0 0
	Consignment to Calcutta ... ... Dr. To Bank (Being payment of Freight and Insurance on account of the above consignment).		140 0 0	140 0 0
Jan. 21	Bills Receivable Account ... ... Dr. To Pall & Co. (Consignees) (Being acceptance received from them as an advance against the consignment).		5,000 0 0	5,000 0 0
Mar. 3	Pall & Co. (Consignees) ... ... Dr. To Consignment Account (For the gross proceeds of the consignment as per the Account Sales).		11,875 0 0	11,875 0 0
	Consignment to Calcutta ... ... Dr. To Pall & Co. (Consignees) (Being expenses and commission deducted by the consignees as per Account Sales).		357 8 0	357 8 0
	Bank ... ... Dr. To Pall & Co. (Consignees) (Cheque received from them for balance due to us).		6,517 8 0	6,517 8 0
	Consignment to Calcutta ... ... Dr. To Profit and Loss Account (Being transfer of profit on consignment to Profit and Loss Account).		2,827 8 0	2,827 8 0

CONSIGNMENT TO CALCUTTA ACCOUNT.

Date	Particulars	Rs. a. p.	Date	Particulars	Rs. a. p.
1940 Jan. 14	To Goods sent out on Consignment ...	8,550 0 0	1940 Mar. 3	By Pall & Co. ...	11,875 0 0
" "	" Bank ...	140 0 0			
Mar. 3	" Pall & Co. ...	357 8 0			
" "	" Profit & Loss Account ...	2,827 8 0			
	Rs.	11,875 0 0		Rs.	11,875 0 0

PALL & CO. (CONSIGNEES).

Date	Particulars	Rs. a. p.	Date	Particulars	Rs. a. p.
1940 Mar. 3	To Consignment Account ...	11,875 0 0	1940 Jan. 21	By Bills Receivable ...	5,000 0 0
			Mar. 3	" Consignment Account ...	357 8 0
			" "	" Bank ...	6,517 8 0
	Rs.	11,875 0 0		Rs.	11,875 0 0

CONSIGNEE'S BOOKS.
JOURNAL ENTRIES.

Date	Particulars	L.F.	Rs. a. p.	Rs. a. p.
1940 Jan. 19	Sorabji & Co. (Consignors) ... ... Dr.		5,000 0 0	
	To Bills Payable			5,000 0 0
	(Being draft from Sorabji & Co., accepted against their consignment).			
	Sorabji & Co. ... ... Dr.		120 0 0	
	To Bank			120 0 0
	(Being duty and storage paid on Sorabji & Co.'s consignment).			
Feb. 28	Bank ... ... Dr.		11,875 0 0	
	To Sorabji & Co.			11,875 0 0
	(Being the proceeds of the sale of 95 bags of sugar at Rs. 125 per bag).			
	Sorabji & Co. ... ... Dr.		237 8 0	
	To Commission			237 8 0
	(Being our Commission at 2% on gross proceeds on consignment as arranged).			
	Sorabji & Co. ... ... Dr.		6,517 8 0	
	To Bank			6,517 8 0
	(Being remittance of balance due to them).			

SORABJI & CO. (CONSIGNORS).

Date	Particulars	Rs. a. p.	Date	Particulars	Rs. a. p.
1940 Jan. 19	To Bills Payable Account	5,000 0 0	1940 Feb. 28	By Bank ...	11,875 0 0
" "	" Bank ...	120 0 0			
Feb. 28	" Commission ..	237 8 0			
" "	" Bank ...	6,517 8 0			
	Rs.	11,875 0 0		Rs.	11,875 0 0

ILLUSTRATION 40.

On 10th June 1937, Modi & Co. of Bombay consigned 100 cases of Red Wine to Vasi Bros. of Ceylon. The cost of the consignment amounted to Rs. 7,500 but the goods were charged at *pro forma* Invoice price so as to show a profit of 25% on sales. On the same date, the consignors paid Rs. 600 for freight and insurance. On 1st July, the consignees paid Rs. 1,000 for Import Duty, Rs. 200 for Dock Dues, and remitted a Bank Draft for Rs. 4,000 as an advance against the consignment. On 15th July, they sold 80 cases for Rs. 10,500. Vasi Bros. are entitled to a commission of 5% on gross proceeds of sales as their remuneration. Show the entries in the books of the Consignors and the Consignees, assuming that the consignees have remitted the Balance owing by them by sight draft.

IN THE BOOKS OF THE CONSIGNORS.

JOURNAL ENTRIES.

	L.F.	Rs.	Rs.
Consignment of Red Wine ... ... Dr. To Goods sent on Consignment (Being the value of Consignment at *pro forma* Invoice price).		10,000	10,000
Consignment of Red Wine ... ... Dr. To Bank (Being payment of Freight and Insurance on account of the consignment).		600	600
Bank Account ... ... Dr. To Vasi Bros. (Being advance against Consignment received from them).		4,000	4,000
Vasi Bros. ... ... Dr. To Consignment of Red Wine (Being gross proceeds of sales of 80 cases as per their Account Sales).		10,500	10,500
Consignment of Red Wine ... ... Dr. To Vasi Bros. (Being the amount expended by them on freight and insurance).		1,200	1,200
Consignment of Red Wine ... ... Dr. To Vasi Bros. (Being their 5% Commission on gross proceeds).		525	525
Goods sent on Consignment Account ... ... Dr. To Consignment of Red Wine (Being 25% on sale price originally added to the Invoice Cost of the whole Consignment now written back).		2,500	2,500
Stock on Consignment Account ... ... Dr. To Consignment of Red Wine (Being the value of unsold stock brought in at *pro forma* Invoice price).		2,000	2,000
Consignment of Red Wine ... ... Dr. To Consignment Stock Suspense Account (Being the excess value of closing stock of Consignment now adjusted).		500	500
Bank ... ... Dr. To Vasi Bros. (Being the remittance of balance from them).		4,775	4,775

CONSIGNMENT OF RED WINE TO CEYLON ACCOUNT.

	Rs.		Rs.
To Goods sent on Consignment ..	10,000	By Vasi Bros.—Gross proceeds of Sales ...	10,500
,, Bank—Freight & Insurance ...	600	,, Stock on Consignment Account ...	2,000
,, Vasi Bros.—Duty & Dock dues ...	1,200	,, Goods on Consignment Account ...	2,500
,, Vasi Bros.—5% Commission ...	525		
,, Consignment Suspense Account ...	500		
,, Profit transferred to Profit or Loss on Consignment Account ...	2,175		
Rs.	15,000	Rs.	15,000

GOODS SENT ON CONSIGNMENT ACCOUNT.

	Rs.		Rs.
To Consignment Account ...	2,500	By Consignment Account ...	10,000
,, Trading Account—Transfer ...	7,500		
Rs.	10,000	Rs.	10,000

VASI BROS. CEYLON (CONSIGNEES) ACCOUNT.

	Rs.		Rs.
To Consignment Account—Gross proceeds of Sales ...	10,500	By Bank—remittance ...	4,000
		,, Consignment Account—Duty and Dock dues ...	1,200
		,, Consignment Account—5% Commission ...	525
		,, Bank ...	4,775
Rs.	10,500	Rs.	10,500

STOCK ON CONSIGNMENT ACCOUNT.

	Rs.		Rs.
To Consignment Account ..	2,000	By Balance c/d. ...	2,000
To Balance b/d. Rs.	2,000		

CONSIGNMENT STOCK SUSPENSE ACCOUNT.

	Rs.		Rs.
To Balance c/d. ...	500	By Consignment Account ...	500
		By Balance b/d. Rs.	500

NOTE.—The Stock of Consignment will appear in the Balance Sheet at Rs. 1,500, i.e., Rs. 2,000 *minus* the credit balance of Rs. 500 on Consignment Stock Suspense Account. At the commencement of the succeeding period, the Stock on Consignment Account will be closed by transfer to Consignment Account at Rs. 2,000. The credit balance on Consignment Stock Suspense Account will remain there during the whole of the succeeding period, at the end of which it will automatically adjust the excess debit included in the first item on Consignment Account as a result of the opening stock having been valued at *pro forma* invoice price.

IN THE BOOKS OF THE CONSIGNEES.

JOURNAL ENTRIES.

	L.F.	Rs.	Rs.
Modi & Co. (Consignors) ... ... Dr. To Bank (Being the amount of Bank Draft remitted as advance against Consignment).		4,000	4,000
Modi & Co. (Consignors) ... ... Dr. To Bank (For Duty and Dock Charges paid on account of the Consignment).		1,200	1,200
Bank ... ... Dr. To Modi & Co. (Consignors) (Being the Proceeds of Sale of 80 cases).		10,500	10,500
Modi & Co. (Consignors) ... ... Dr. To Commission (Being 5% Commission on Gross Sale Proceeds).		525	525
Modi & Co. (Consignors) ... ... Dr. To Bank (Being the remittance of the balance due to them).		4,775	4,775

MODI & CO. (CONSIGNORS).

	Rs.		Rs.
To Bank—Advances ...	4,000	By Bank—Sale proceeds ...	10,500
" Bank—Duty and freight ...	1,200		
" Commission ...	525		
" Bank—Balance remitted ...	4,775		
Rs.	10,500	Rs.	10,500

JOINT VENTURES.

A joint venture is practically a partnership between two or more persons confined to a particular venture or piece of business. The venture may take the shape of a joint consignment of goods, a speculation in shares, an underwriting of shares or debentures of a new undertaking, or any other similar form of enterprise.

Where the buying and selling on account of joint venture is managed by one of the parties, all the transactions are recorded at the place of business. The amount contributed by each party is credited to his personal account. A Joint Venture Account is opened and debited with the cost of the goods purchased and all the expenses relating to the venture. The same is credited with the sale proceeds and closing stock, the difference representing profit or loss on the venture. The share of profit or loss of each party is credited or debited to his personal account and final remittance to or from each party will close all the personal accounts.

Where a separate set of books is maintained and a Joint Bank Account is opened, the record of transactions does not differ in any way from ordinary partnership transactions. Each partner's Capital is credited with his respective contribution, and the profit or loss arising from the venture is divided in agreed proportions.

Where the transactions are effected by different parties to the venture, no separate set of books is maintained, and no Joint Banking Account is opened. Each party would then record into his own books the transactions that he has entered into on account of the joint venture. On completion of the venture, each party would render an account of the transactions effected by him to enable a Joint Venture Account to be prepared by all the parties in their respective books. On the final result being ascertained, each party will debit or credit the Joint Venture Account in his own books with his own share of the profit or loss and transfer the same to his Profit & Loss Account. The share of profit or loss belonging to the other parties to the venture will be credited or debited to their respective personal accounts. The balance on the personal accounts of the other parties will then indicate their relative position with each other.

ILLUSTRATION 41.

Sirdar & Sons bought goods of the value of Rs. 7,500 and consigned them to Thacker & Co., to be sold by them on a joint venture, profits being divided in two-thirds and one-third. They also paid Rs. 550 for freight and insurance and cartage, and drew on Thacker & Co. for Rs. 3,000 on account. The Bill was discounted by Sirdar & Sons for Rs. 2,900. Thacker & Co. paid Rs. 300 for Dock Dues, Storage Rent, etc. The sales realised Rs. 12,500 and the Sales Expenses, Rs. 250, were defrayed by Thacker & Co. The latter forwarded a sight draft for the balance due to Sirdar & Sons, after charging their sales commission at 5% on the gross proceeds.

Write up the accounts in the books of both the parties. No interest need be brought into account.

Solution.

IN THE BOOKS OF SIRDAR & SONS.

JOINT ACCOUNT WITH THACKER & CO.

		Rs.	a.	p.		Rs.	a.	p.
To Bank—Cost of Goods ...		7,500	0	0	By Thacker & Co.—Sale proceeds	12,500	0	0
„ „ Freight, Insurance, etc.		550	0	0				
„ „ Discount on Bill Receivable ..		100	0	0				
„ Thacker & Co.:—	Rs.							
Dock Dues and Storage Rent ...	300							
Sale Expenses ...	250							
Commission ...	625							
		1,175	0	0				
„ Profit and Loss Account—$\frac{2}{3}$rds share ..		2,116	10	8				
„ Thacker & Co.—$\frac{1}{3}$rd share ...		1,058	5	4				
Rs.		12,500	0	0	Rs.	12,500	0	0

THACKER & CO.

	Rs.	a.	p.			Rs.	a.	p.
To Joint Account—Sale proceeds	12,500	0	0	By Bills Receivable Account ...		3,000	0	0
				„ Joint Account:—	Rs.			
				Dock Dues and Storage Rent ...	300			
				Sales Expenses ...	250			
				Commission ...	625			
						1,175	0	0
				„ Joint Account—$\frac{1}{3}$rd share ..		1,058	5	4
				„ Bank—Sight Draft ..		7,266	10	8
Rs.	12,500	0	0	Rs.		12,500	0	0

IN THE BOOKS OF THACKER & CO.
JOINT ACCOUNT WITH SIRDAR & SONS.

		Rs. a. p.		Rs. a. p.
To Sirdar & Sons :—			By Bank—Sale proceeds ...	12,500 0 0
Cost of Goods ...		7,500 0 0		
Freight, Insurance, etc. ...		550 0 0		
Discount on Bills Receivable...		100 0 0		
„ Bank :—	Rs.			
Dock Dues and Storage Rent	300			
Sales Expenses	250			
		550 0 0		
„ Commission ...		625 0 0		
„ Profit and Loss Account— ⅓rd share ...		1,058 5 4		
„ Sirdar & Sons—⅔rds share ...		2,116 10 8		
Rs.		12,500 0 0	Rs.	12,500 0 0

SIRDAR & SONS.

	Rs. a. p		Rs. a. p
To Bills Payable Account ...	3,000 0 0	By Joint Account— Cost of Goods ...	7,500 0 0
„ Bank—Sight Draft ...	7,266 10 8	„ Joint Account :— Freight, Insurance, etc. ...	550 0 0
		„ Discount of Bills Receivable ..	100 0 0
		„ Joint Account—⅔rds share ...	2,116 10 8
Rs.	10,266 10 8	Rs.	10,266 10 8

ILLUSTRATION 42.

J. Jones, A. Armstrong and B. Black enter into a joint venture to divide profits equally. They bought goods from C. Smart & Co. for Rs. 12,500 and from J. Jones for Rs. 2,500. Jones contributed Rs. 3,000, Armstrong Rs. 4,000 and Black Rs. 9,000 which amounts were banked in a Joint Account. They settled their account with Smart & Co. by cheque and paid for carriage and other expenses Rs. 750. They sold goods for cash Rs. 6,500 and to Smith & Son on credit for Rs. 14,000, who accepted, a draft for the amount. The acceptance was cashed and realised Rs. 13,700. J. Jones was allowed 5% commission on sales for effecting the transactions.

Pass Journal Entries and open the necessary accounts, assuming that final settlement between the parties was made by cheques.

Solution.

JOURNAL ENTRIES.

	L.F.	Rs.	Rs.
Joint Account ... ... Dr.		15,000	
To C. Smart & Co.			12,500
„ J. Jones' Capital Account			2,500
(Being the cost of credit purchase of the goods).			
Bank Account ... ... Dr.		16,000	
To J. Jones' Capital Account			3,000
„ A. Armstrong's Capital Account			4,000
„ B. Black's „ „			9,000
(Being the amount of Capital contributed by partners).			
C. Smart & Co. ... ... Dr.		12,500	
To Bank			12,500
(Being the payment to C. Smart on account).			

JOURNAL ENTRIES.—(*Contd.*)

	L.F.	Rs.	Rs.
Joint Account ... ... Dr.		750	
To Bank			750
(Being the payment of carriage and other expenses).			
Bank Account ... ... Dr.		6,500	
Smith & Son ... ... "		14,000	
To Joint Account			20,500
(Being the amount of cash and credit sale proceeds).			
Bills Receivable Account ... ... Dr.		14,000	
To Smith & Son			14,000
(Being the acceptance of our Bill by Smith & Son).			
Bank Account ... ... Dr.		13,700	
Discount ... ... "		300	
To Bills Receivable Account			14,000
(Being the amount realised on discounting the Bill).			
Joint Account ... ... Dr.		300	
To Discount			300
(Being the transfer of discount to Joint A/c.)			
Joint Account ... ... Dr.		1,025	
To J. Jones' Capital Account			1,025
(Being 5% commission on sales payable to J. Jones as agreed, credited to his account).			
Joint Account ... ... Dr.		3,425	
To J. Jones' Capital Account			1,141-10-8
" A. Armstrong's Capital Account			1,141-10-8
" B. Black's " "			1,141-10-8
(Being the transfer of profits on joint venture to parties' Capital Accounts in their profit-sharing proportions).			
J. Jones' Capital Account ... ... Dr.		7,666-10-8	
A. Armstrong's Capital Account ... ... "		5,141-10-8	
B. Black's " " ... ... "		10,141-10-8	
To Bank			22,950
(Being the withdrawal by partners of the amounts standing to their respective Capital Accounts).			

JOINT ACCOUNT.

	Rs.		Rs.
To C. Smart & Co.—Cost of goods ...	12,500	By Bank—Sale proceeds ...	6,500
" J. Jones—Cost of goods ...	2,500	" Smith & Son—Sale proceeds ...	14,000
" Bank—Carriage, etc. ...	750		
" Discount ...	300		
" J. Jones' Capital Account—5% Commission on Sales ...	1,025		
" Profits transferred :— Rs. a. p.			
J. Jones ⅓rd share 1,141 10 8			
A. Armstrong ⅓rd share 1,141 10 8			
B. Black ⅓rd share 1,141 10 8	3,425		
Rs.	20,500	Rs.	20,500

BANK ACCOUNT.

	Rs.	a.	p.		Rs.	a.	p.
To J. Jones' Capital Account ...	3,000	0	0	By C. Smart ...	12,500	0	0
„ A. Armstrong's Capital Account ...	4,000	0	0	„ Joint Account Expenses ...	750	0	0
„ B. Black's Capital Account ..	9,000	0	0	„ J. Jones' Capital Account ...	7,666	10	8
„ Joint Account ...	6,500	0	0	„ A. Armstrong's Capital Account ...	5,141	10	8
„ Bills Receivable Account ..	31,700	0	0	„ B. Black's Capital Account ...	10,141	10	8
Rs.	36,200	0	0	Rs.	36,200	0	0

J. JONES' CAPITAL ACCOUNT.

	Rs.	a.	p.		Rs.	a.	p.
To Bank ...	7,666	10	8	By Joint Account—Goods ...	2,500	0	0
				„ „ „ —Commission	1,025	0	0
				„ „ „ —⅓rd share of profit ..	1,141	10	8
				„ Bank ...	3,000	0	0
Rs.	7,666	10	8	Rs.	7,666	10	8

A. ARMSTRONG'S CAPITAL ACCOUNT.

	Rs.	a.	p.		Rs.	a.	p.
To Bank ...	5,141	10	8	By Bank ...	4,000	0	0
				„ Joint Account—⅓rd share of profit ...	1,141	10	8
Rs.	5,141	10	8	Rs.	5,141	10	8

B. BLACK'S ACCOUNT.

	Rs.	a.	p.		Rs.	a.	p.
To Bank ...	10,141	10	8	By Bank ...	9,000	0	0
				„ Joint Account—⅓rd share of profit ..	1,141	10	8
Rs.	10,141	10	8	Rs.	10,141	10	8

ILLUSTRATION 43.

X and Y entered into a speculative venture of underwriting the subscription at par of the entire share capital of the Copper Mines, Ltd., consisting of 10,000 shares of Rs. 10 each and to pay all expenses up to allotment. The profits were to be shared by them in proportions of 3/5ths and 2/5ths. The consideration in return for this guarantee was 1,200 other shares of Rs. 10 each fully paid to be issued to them. X provided the funds for Registration Fees Rs. 1,200; Advertising Rs. 1,100; printing and distribution of Prospectuses Rs. 750; and other printing and stationery Rs. 200. Y contributed towards payment of Office Rent Rs. 300; Legal Charges Rs. 1,375; Clerical Staff Rs. 900; and other petty disbursements Rs. 175. The prospectuses were issued and the applications fell short of the full issue by 1,500 shares. X took these over on joint account and paid for the same in full. They received the 1,200 fully paid shares as underwriting commission. They sold their entire holding at Rs. 12-8 less 8 annas per share for brokerage. The net proceeds were received by X for 1,500 shares and Y for 1,200 shares. Write out the necessary accounts in the books of both the parties, showing the final adjustment.

Solution.

IN X's LEDGER.

Y's ACCOUNT.

	Rs.		Rs.
To Joint Account—Sale proceeds of 1,200 shares ...	14,400	By Joint Account—Office Rent ..	300
		„ „ „ —Legal Charges ...	1,375
		„ „ „ —Clerical Staff ...	900
		„ „ „ —Petty Payments ...	175
		„ „ „ —2/5ths share of profit ...	4,560
		„ Bank ..	7,090
Rs.	14,400	Rs.	14,400

JOINT ACCOUNT WITH Y.

	Rs.		Rs.
To Bank—Registration Fees ...	1,200	By Bank—Sale proceeds of 1,500 Shares at Rs. 12-8 each *less* As. 8 brokerage ...	18,000
„ „ Advertising ...	1,100	„ Y's Account—Sale proceeds of 1,200 Shares at Rs. 12-8 each *less* As. 8 brokerage ...	14,400
„ „ Printing and Distribution of Prospectus ...	750		
„ „ Printing and Stationery ...	200		
„ Y's Account—Office Rent ...	300		
„ „ „ —Legal Charges ...	1,375		
„ „ „ —Clerical Staff ...	900		
„ „ „ —Petty Payments ...	175		
„ Bank—Cost of 1,500 shares of Rs. 10 fully paid ...	15,000		
„ Profit and Loss Account—3/5ths share ...	6,840		
„ Y's Account—2/5ths share ...	4,560		
Rs.	32,400	Rs.	32,400

IN Y's LEDGER.

JOINT ACCOUNT WITH X.

	Rs.		Rs.
To Bank—Office Rent ...	300	By Bank Account—Sale proceeds of 1,200 Shares at Rs. 12-8 each *less* As. 8 brokerage ...	14,400
„ „ —Legal Charges ..	1,375	„ X's Account—Sale proceeds of 1,500 Shares at Rs. 12-8 per share *less* As. 8 brokerage ...	18,000
„ „ —Clerical Staff ...	900		
„ „ —Petty Payments ...	175		
„ X's Account—Registration Fees ..	1,200		
„ „ „ —Advertisement Charges	1,100		
„ „ „ —Printing of Prospectus	750		
„ „ „ —Printing and Stationery	200		
„ „ „ —Cost of 1,500 Shares of Rs. 10 each fully paid up. ...	15,000		
„ Profit and Loss Account—2/5ths share	4,560		
„ X's Account—3/5ths share ..	6,840		
Rs.	32,400	Rs.	32,400

X's ACCOUNT.

	Rs.		Rs.
To Joint Account—Sale proceeds of 1,500 shares ...	18,000	By Joint Account—Registration Fees	1,200
„ Bank ...	7,090	„ „ „ —Advertising Charges	1,100
		„ „ „ —Printing and Distribution of Prospectus ...	750
		„ „ „ —Printing and Stationery ...	200
		„ „ „ —Cost of 1,500 shares	15,000
		„ „ „ —3/5ths share of profit	6,840
Rs.	25,090	Rs.	25,090

ACCOUNT CURRENT.

As **Accounts Current** usually arise in course of consignment and joint-venture dealings, some explanation thereon seems to be necessary.

Definition.—An Account Current is a statement, in debit and credit form, recording the transactions between two parties during a particular period, interest usually being calculated on each item at an agreed rate and included in the account. It is usually rendered by (1) one dealer to another, or (2) by a banker to his client, or (3) by an agent to his principal, or (4) by a consignee to his consignor.

Methods of Calculating Interest.—The following are the various methods of calculating Interest in Accounts Current:—

(1) *By Tables.* Interest is calculated by Tables, on each item separately, from the due date of each transaction to the end of period of the account. The Interest Columns on both sides of the account are then added and the balance is carried out into the Principal Column.

(2) *By Products.* This system consists in multiplying each amount by the number of days it has to run for interest, each such product being placed in the Product Column against the item. The Product Columns are then balanced and the interest on the balance of the product is extended into the account. The interest is ascertained by the following formula:—

$$\text{Interest} = \frac{\textit{Balance of Products} \times \textit{Rate}}{365 \times 100}$$

(3) *By Interest Numbers.* This method represents a slight variation of the Product Method and is sometimes called the English Method, although it is also extensively used on the Continent. It consists in dividing each product by 100, and the resulting figure is placed against each item in the column headed Interest Numbers. The Number Columns are then balanced, and the Interest on the balance of numbers is extended into the account. In this case, the Interest is ascertained by the following formula:—

$$\text{Interest} = \frac{\textit{Balance of Numbers} \times \textit{Rate}}{365}$$

How an Account Current is headed.—An Account Current is really a copy of the Ledger Account of the opposite party in the books of the person rendering such account. The person rendering the account is the one who is last named at the head of the Account. Thus, "P. Pavri in Account Current with C. Donald" would mean that the latter is rendering the account to P. Pavri from the transactions as recorded in his (C. Donald's) books.

In calculating days for the purpose of interest, it is usual to calculate one end day and not both. The day on which the transaction took place is generally ignored. Where, however, the Account Current commences with an opening balance, the opening date will have to be counted as it would represent the balance that existed on the previous day. When goods are sold under an arrangement that payment shall be due on a certain subsequent date, the number of days must be calculated from the latter date and not the date of the transaction.

ILLUSTRATION 44.

The following transactions took place between R. Vinayak and P. Basu from 1st January to 30th June 1932:—

1932		Rs.	1932		Rs.
Jan. 1	Sold goods to P. Basu ..	1,120	Apl. 11	Cash paid to P. Basu ..	1,000
„ 10	Received his acceptance at 2 months for ..	500	„ 30	Goods sold to P. Basu, due end of May ..	1,200
Feb. 15	Cash received from P. Basu ..	600	May 11	Bought goods from P. Basu ..	750
Mar. 2	Bought goods of P. Basu	2,750	„ 31	Sold goods to P. Basu, due 10th June ..	1,100
„ 3	Accepted P. Basu's draft at 1 month for ..	1,000	June 15	Bought goods from P. Basu ..	1,500

You are required to make out an Account Current to be rendered by R. Vinayak as at 30th June 1932, taking Interest into account at 5% per annum, and showing the actual working under each of the usual three methods.

(The working of the above illustration appears on pp. 186-187.)

AVERAGE DUE DATE.

A method of payment that has generally found favour with businessmen in settling accounts is the Average Due Date method, and the student would do well to study it.

Average Due Date means an equated date on which a payment may be made in one single amount in place of several amounts due for payment on different dates.

The following is the method of ascertaining the average due date:—

(1) Take the first due date of the transactions as the starting point.

(2) Calculate the number of days from the starting point to the due date of each transaction.

(3) Multiply the amount of each transaction by its number of days from the starting point.

(4) Divide the total of the products by the total amount of the transactions.

(5) The result will be the number of days of the average due date from the starting point.

ILLUSTRATION 45.

A trader, having accepted the following several Bills falling due on different dates, now desires to have these Bills cancelled and to accept a new Bill for the whole amount payable on the average due date. You are required to find that date.

The Bills are—

1.	March	1	Rs. 400	due	May	4th.
2.	„	10	„ 300	„	June	13th.
3.	April	5	„ 200	„	June	8th.
4.	„	20	„ 375	„	May	23rd.
5.	May	10	„ 500	„	July	13th,

(The Solution is on page 188.)

Solution.

FIRST METHOD.—Interest is here calculated on each item separately, from the date of each transaction to the end of period of account.

P. BASU in Account Current with R. VINAYAK.

Date.	Particulars.	Days.	Interest.	Amount.	Date.	Particulars.	Days.	Interest.	Amount.
1932			Rs. a. p.	Rs. a. p.	1932			Rs. a. p.	Rs. a. p.
Jan. 1	To Goods ...	181	27 12 4	1,120 0 0	Jan. 10	By Bill Receivable due Mar. 13	109	7 7 5	500 0 0
Mar. 3	" Bills Payable due April 6 ...	85	11 10 3	1,000 0 0	Feb. 15	" Cash ...	136	11 2 10	600 0 0
Apr. 11	" Cash ...	80	10 15 4	1,000 0 0	Mar. 2	" Goods ...	120	45 3 3	2,750 0 0
" 30	" Goods due May 31 ...	30	4 14 11	1,200 0 0	May 11	" Goods ...	50	5 2 2	750 0 0
May 31	" Goods due June 31 ...	20	3 0 2	1,100 0 0	June 15	" Goods ...	15	3 1 4	1,500 0 0
June 30	" Interest ...			58 5 0	" 30	" Interest ...			72 1 0
" 30	" Balance c/d. ...			693 12 0					
		Rs.	58 5 0	6,172 1 0			Rs.	72 1 0	6,172 1 0
					June 30	By Balance b/d. ...			693 12 0

SECOND METHOD.—Interest is here calculated on Balance of Products.

P. BASU in Account Current with R. VINAYAK.

Date.	Particulars.	Amount.	Days.	Products.	Date.	Particulars.	Amount.	Days.	Products.
1932		Rs. a. p.			1932		Rs. a. p.		
Jan. 1	To Goods ...	1,120 0 0	181	2,02,720	Jan. 10	By Bill Receivable due Mar. 13	500 0 0	109	54,500
Mar. 3	" Bills Payable due April 6 ...	1,000 0 0	85	85,000	Feb. 15	" Cash ...	600 0 0	136	81,600
Apr. 11	" Cash ...	1,000 0 0	80	80,000	Mar. 2	" Goods ...	2,750 0 0	120	3,30,000
" 30	" Goods due May 31 ...	1,200 0 0	30	36,000	" 11	" " ...	750 0 0	50	37,500
May 31	" " " June 10 ...	1,100 0 0	20	22,000	June 15	" " ...	1,500 0 0	15	22,500
June 30	" Balance of Products ..			1,00,380	" 30	" Interest on balance of Products $\frac{1,00,380 \times 5}{365 \times 100}$ or $\frac{1,00,380 \times 10}{73,000}$	13 12 0		
" 30	" Balance c/d. ...	693 12 0							
	Rs.	6,113 12 0		5,26,100		Rs.	6,113 12 0		5,26,100
					June 30	By Balance b/d. ...	693 12 0		

THIRD METHOD.—Interest is here calculated on the method known as the "English Method". It is only a slight variation of the Product Method consisting in dividing each product by 100, the resulting figures being styled Interest Numbers.

P. BASU in Account Current with R. VINAYAK.

Date.	Particulars.	Amount.	Days.	Interest Numbers.	Date.	Particulars.	Amount.	Days.	Interest Numbers.
1932		Rs. a. p.			1932		Rs. a. p.		
Jan. 1	To Goods ...	1,120 0 0	181	2,027	Jan. 10	By Bill Receivable due March 13	500 0 0	109	545
Mar. 3	„ Bill Payable due April 6 ...	1,000 0 0	85	850	Feb. 15	„ Cash ...	600 0 0	136	816
Apr. 11	„ Cash ...	1,000 0 0	80	800	Mar. 2	„ Goods ...	2,750 0 0	120	3,300
„ 30	„ Goods due May 31 ...	1,200 0 0	30	360	„ 11	„ „ ...	750 0 0	50	375
May 31	„ „ „ June 10 ...	1,100 0 0	20	220	June 15	„ „ ...	1,500 0 0	15	225
June 30	„ Balance of Numbers ...			1,004	„ 30	„ Interest on balance of Numbers $\frac{1,004\times5}{365}$ or $\frac{1,004\times10}{730}$ ...	13 12 0		
„ 30	„ Balance c/d. ...	693 12 0							
	Rs.	6,113 12 0		5,261		Rs.	6,113 12 0		5,261
					June 30	By Balance b/d. ...	693 12 0		

Solution.

The starting point is 4th May.

The number of days of each transaction from the starting point is as under:—

1.	4th May to	4th May	=	0
2.	4th May to	13th June	=	40
3.	4th May to	8th June	=	35
4.	4th May to	23rd May	=	19
5.	4th May to	13th July	=	70

400	×	0	=	0		
300	×	40	=	12,000		
200	×	35	=	7,000		
375	×	19	=	7,125		
500	×	70	=	35,000		
1,775			)	61,125	=	34 days

∴ the average due date is = *7th June.*

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. How would you distinguish a Sale from a Consignment?
2. What is an Account Sales, and what entries are passed on receipt of the same?
3. What entries are usually passed on the debit and credit sides of a Consignment Account?
4. How would you deal with a Consignment Account at balancing time when no sales have been effected?
5. How would you deal with a Consignment Account when a part of the goods remain unsold at the close of the financial period?
6. Explain the system of invoicing Consignment Goods at *pro forma* prices, and what effect such a procedure will have on the final accounts.
7. What are the usual entries passed by a Consignee?
8. What entry would be passed by the Consignee as also the Consignor in regard to any advance against Consignment?
9. Explain briefly the necessary adjustments at the close of the period when Consignments are invoiced at *pro forma* prices.
10. Prepare an Account Sales rendered by John Paul of Rangoon to Haji Ahmed & Co. of Bombay, in regard to a Consignment of 100 cases of Indian Toys.
11. What is a Joint Venture, and how does it differ from a Consignment?
12. Explain the different methods employed to record Joint Venture transactions.
13. When there are three parties to a Joint Venture, how would each party record the transactions relating thereto?
14. What is an Account Current and how is it generally headed?
15. Explain the method of calculating interest on the Product System.
16. What is an Average Due Date and what purpose does it serve?
17. How would a Consignee deal with any unsold stock of Consignment Inwards?

CONSIGNMENT ACCOUNTS.

18. J. Moss & Co. of London consign goods to the cost amount of £1,500 to their agent, J. Solomon, Hongkong, on which they pay freight, insurance and charges £55, drawing on him at 90 days for £1,300. They discount the bill at Lloyd's Bank, being charged £15 therefor. They receive A/S of the consignment for £1,729, *less* agent's Commission, etc., £71, and a draft on the Bank of Hongkong for the balance. Make the entries in the books of Moss & Co. *(London Chamber of Commerce.)* **63**

(Profit on Consignment, £174.)

19. Messrs. Jones & Co. of Leeds, holding goods which cost them £1,800 consigned them to Messrs. Mirsinghi & Co., Calcutta, on 17th March 1911, and rendered a *pro forma* invoice for £2,000. They paid for freight £60 and for insurance £10, and drew on Messrs. Mirsinghi & Co. at three months' sight for £1,000 against the shipment, selling the bill to the Bank of Bengal, Calcutta. A Commission of 2½% and an additional 1% *del credere* Commission are payable on sales. Messrs. Mirsinghi accepted the bill on May 1st and obtained the goods, half of which they sold for £1,100 gross on May 15th and the remainder on November 1st for £1,500 gross. In the first case, the charges for landing and storage amounted to £20, and in the latter to £35. In each case they deducted commission and remitted drafts at three months' sight for the balance. Make out Account Sales (ignoring interest) for the two transactions, and write up the accounts as they would appear in the books of the Consignors. 64

(*Profit on Consignment*, £584.)

20. Charles Richardson & Co. of London, send upon consignment to William Robinson & Co. of Alexandria, on 1st February 1910, for sale on their account, 74 cases of Bradford goods invoiced *pro forma* at £100 per case. A commission of 2½% is payable on sales. Charles Richardson & Co. pay Freight £35, Insurance £12 and draw on William Robinson & Co. a two months' bill at sight for £1,000. William Robinson & Co. pay Landing Charges £7, Insurance and Freight £20, and accept the bill on February 21st and obtain delivery of goods. They sell 30 cases at £120 each, 24 cases at £125 each, and 20 cases at £130 each. Make out an Account Sales and enter up the Consignment Accounts in Charles Richardson & Co.'s and in William Robinson & Co.'s books.

(*Incorporated Accountants.*) 65
(*Profit on Consignment*, £1,496.)

21. What is an "Account Sales"? In what particulars (if any) does it differ from a "Consignment Account"? On 15th October 1909, Delmaine Bros. of London shipped to Donnison & Sons, of Port Elizabeth, 60 cases of mixed Sheffield goods. These goods were invoiced *pro forma* at £32 10*s*. per case. The London payments in connection with this consignment were:—Insurance £10 12*s*.; Freight £54 12*s*.; Sundry Charges £3 15*s*. The payments made by Donnison & Sons in South Africa were:—Storage £16 12*s*.; Landing Charges £6 10*s*.; Insurance £2 11*s*. On 15th December, Donnison & Sons sold 30 cases of goods at £45 per case, on 17th December 25 cases at £50 per case, and on 19th December the balance of the consignment at £51 per case. All the above sales were effected for prompt cash. A Commission is payable to Donnison & Sons of 2% on all sales *plus* 1½% *del credere* Commission. On 1st November, Delmaine Bros. drew a bill on Donnison & Sons for £1,000 which was duly accepted. Prepare an "Account Sales" showing the result of the above consignment, and show the transactions in Delmaine Bros.' books. (*London Chamber of Commerce.*) 66

(*Profit on Consignment*, £710-9-6.)

22. Show how the above transactions would appear in the Ledger of the Consignees. 67

(*Credit Balance on Consignor's Account*, £1,729-8-6.)

23. Show how the following transactions should appear in the books of Richard Random & Sons. They shipped goods to Paul Gold, their agent at Cape Town, on 1st September 1904, and sent therewith a *pro forma* invoice for £578 (goods £500, freight £60 and insurance £18). On 28th October, Paul Gold sent home an A/S from which it appeared that a portion of the goods had realised £460; and deducting expenses £10, and commission £25, he enclosed a draft at 3 months for the balance. The stock unsold amounted at invoice price, *plus* expenses to £280. On November 2nd he sent home another A/S which showed that the balance of the consignment had realised £320, which, *less* £8 expenses and £10 commission, he remitted by a 3 months' draft.

(*Royal Society of Arts.*) 68
(*Profit on Consignment*, £149.)

24. Goods are invoiced by P to his Agent in Rangoon at selling price. The Agent reports sales made and collection of book debts by him by monthly advice. He receives 5% on cash collected, plus an allowance for expenses at the rate of Rs. 2,000 per annum. During the half year ending 30th June 1926, goods were invoiced to the Agent at a value of Rs. 4,03,000. Such goods cost P Rs. 2,75,000 *plus* freight and charges thereon, Rs. 38,700. During the same period, sales were made by the Agent amounting to Rs. 3,42,000. Debts collected were Rs. 2,88,000, and discounts were allowed amounting to Rs. 2,000. The Agent remitted to P Rs. 2,80,000.

Included in the shipments to the Agent was a consignment partly damaged by sea transit. A claim on the Underwriters was settled for Rs. 6,200, which together with the proceeds of sale by the Agent, Rs. 8,300, exceeded the value invoiced by Rs. 300.

At 30th June 1926, the unsold Stock in the hands of the Agent represents an invoice cost to P of Rs. 41,000.

Prepare, in the books of P, Accounts showing the results of these transactions for the half-year ending 30th June 1926.

(*Profit on Consignment, Rs.* 63,870.) 69

25. On October 2nd, 1927, a Cigarette Manufacturing Company forwarded to its Indian Representative, one million cigarettes, 5,00,000 each in packets of ten and fifty. The cigarettes cost 14*s.* 6*d.* and 13*s.* 6*d.* per thousand respectively, and they are to be sold, as far as possible, under bond, at the best possible price.

The following statements were received from the Indian Representative at the end of the year:—

(1) CASH.

	Rs. a.		Rs. a.
To Sundry Debtors (for Sales in Bond) ..	6,800 0	By Advertising, Salary, Office Expenses & Landing Charges	1,030 0
„ Cash Sales (for Sales Duty paid) ..	1,020 0	„ Duty on Cigarettes cleared ..	690 0
		„ Draft on London at 60 days, £300 ..	4,056 8
		„ Balance ..	2,043 8
Rs.	7,820 0	Rs.	7,820 0

(2) STOCK.

		10's		50's
Received ..		5,00,000		5,00,000
Sales under Bond	3,00,000		2,75,000	
Cleared for Cash Sales and free distribution	29,000		40,000	
		3,29,000		3,15,000
Stock in Bond ..		1,71,000		1,85,000
Cleared Stock in hand ..		5,000		5,000

4,000 of the ten packing and 15,000 of the fifty, have been distributed free for advertising purposes.

In the books of the Company, the only entry in connection with the above transactions is a credit to the Indian Representative's Account of £300, the amount of the draft sent by him, as referred to in Statement (1). The Indian Representative is entitled to a Commission of $1\frac{1}{4}\%$ on all sales, with $\frac{3}{4}\%$ *del credere* Commission, to be paid by cheque from London. The rupee to be taken at 1/6*d.*

You are asked to prepare the Accounts embodying the above transactions in the books of the Company in London, showing the amount which would be treated as profit to 31st December 1927. All expenses and freight, with the exception of duty on cleared stock, are to be written off as incurred. 70

(*Profit on Consignment,* £5-9-6.)

26. A Cloth Mill in Bombay sends regular consignments of cloth to Messrs. Billimoria and Company of Cawnpore, who are agents for selling the cloth at the risk of the Bombay Mill.

Record the following transactions in the Ledger Accounts showing the profit made on the Cawnpore Consignment and the balance due by the Agents, after allowing them Commission at the rate of 3 pies per every lb. of cloth sold by them:—

Total quantity of cloth consigned 2,56,000 lbs. at cost which amounted to 11 annas per lb.

Total quantity of cloth sold 1,92,000 lbs. at 15 annas a lb.
Total Remittances by the Agents Rs. 1,55,000.
Railway freight paid by the Agents Rs. 16,000.
The balance of cloth to be valued at cost price *plus* the Railway freight.

Would it make any difference in the Mill's ultimate profit, if the cloth were consigned at 12 annas a lb. instead of at 11 annas a lb. (Stock being taken at the same price as above stated) ?

(Profit on Consignment, Rs. 33,000.) 71

JOINT VENTURE ACCOUNTS.

27. A obtained a concession to work a Tramway for 14 years. He sold it to a Syndicate for £5,000, put in £1,000 as Capital, and was appointed Manager at £500 per annum.

B patented a new motor (rights for 10 years), which was taken over and for which he was credited by the Syndicate with £2,000. He was appointed Engineer at £400 per annum.

C brought in the rest of the capital required, £45,000. The Permanent Way cost £25,000 and the Plant and Rolling Stock £12,000.

It was agreed to write off 10% of the former each year, and to reckon the life of the latter at 10 years.

After providing for repairs and renewals, but excluding the salaries of the manager and engineer *(which were paid), and all depreciation,* the profits for the first seven years averaged £8,000 a year, of the balance of which C was entitled to three-fourths and A & B to the remainder in equal shares.

Draw up a balanced Statement showing the position of the Capital Accounts at the end of the seven years, assuming no debits for drawings and no credits for interest.

(Incorporated Accountants.) 72

(Total Net Profit, £19,900.)

28. Jones in London and Robinson in Quebec entered into a Joint Adventure in Timber, and the following transactions took place:—

1914.

June 1 Robinson bought Timber for Cash £2,000.

„ 1 Robinson paid freight and shipping charges thereon £130.

„ 1 Robinson drew upon Jones for £1,600 at two months after date.

„ 1 Robinson discounted the above Bill, receiving therefor £1,585.

„ 15 The Timber arrived in Liverpool, and Jones paid dock dues, landing charges, etc., thereon £25.

„ 20 Jones sold one-third of the Timber for £850.

„ 30 Jones sold another third of the Timber for £900.

July 15 Jones sold the remaining third of the Timber for £800. Payment in each case was made by a bill at one month.

Aug. 4 Jones met Robinson's Bill for £1,600.

„ 20 The three bills received by Jones having been duly met, Jones remits to Robinson a cheque in settlement.

Draw up a Profit and Loss Account of the Joint Adventure, dividing the Profit equally between the parties. Charge Jones with the discount on the Bill drawn upon him by Robinson. Make out Accounts of Robinson and Jones, showing the final settlement between them. *(Chartered Accountants.)* 73

(Total Net Profits, £380.)

29. A and B enter into a Joint Adventure to ship goods abroad. A sends goods to the value of £1,000, pays freight £100, and sundry expenses £150. These transactions take place on 1st January 1912. B sends goods valued at £750 on February 1st and pays freight and insurance £80 and sundry expenses £50. B advances to A on March 1st £450 on account of the venture. A receives Account Sales and remittance of net proceeds for the whole of the goods amounting to £2,500 on 1st April. Final settlement between A and B is made on 30th April 1912. Show these transactions of the venture calculating interest at 5% per annum in months.

(Total Net Profits, £348-11-8.) 74

30. L and Company in Liverpool ship goods to B and Company of Bombay invoiced on 1st October 1922 at £1,000, which includes freight and insurance £200. Their arrangements are:—

(a) B and Company are to sell goods at the best possible price and to reimburse themselves their charges including 5 per cent commission on sale price.

(b) Remittances to be made by T. T.

(c) L and Company are to be allowed 6 per cent interest from date of invoice until date of remittance.

(d) Profits or Losses as disclosed by the Liverpool books are to be divided equally between the two parties.

The goods arrive on 25th November 1922 and B and Company pay Duty Rs. 1,250; Landing, Clearing, and Godown charges Rs. 650; and Sundries Rs. 150. The goods were sold on 28th February 1923 for Rs. 19,000 and remittance made on 14th March 1923 by T. T. at 1/4½. Show the Ledger accounts in Liverpool and Bombay and prepare the final debit or credit note to close the matter. Also prepare the A/S to be sent to Liverpool.

(*B.Com.*)

(*Total Net Profit, £72-10-0.*) 75

31. A and B doing business separately as building contractors, undertake jointly to build a building for a newly started Joint Stock Company, for a contract price of Rs. 1,00,000, payable as to Rs. 80,000 by instalments in cash and Rs. 20,000 fully paid shares of the new Company. A Banking Account is opened in their joint names, A paying in Rs. 25,000 and B Rs. 15,000. They are to share profit or loss in the proportion of 2/3 and 1/3 respectively. Their transactions were as follows:—

	Rs.
Paid wages	30,000
Bought materials	70,000
Materials supplied by A from his stock	5,000
Materials supplied by B from his stock	4,000
Architects' fees paid by A	2,000

The contract was completed and the price duly received.

The Joint Venture was closed by A taking up all the shares of the Company at an agreed valuation of Rs. 16,000, and B taking up the Stock of materials at an agreed valuation of Rs. 3,000.

Prepare the Joint Venture Account showing the profit or loss, and the accounts of A and B showing the final distribution of cash.

(*B.Com.*)

(*Total Net Loss, Rs. 12,000.*) 76

32. X and Y, two manufacturers, agree to lease and work a quarry for a period of five years from 1st January 1926. Under the terms of the lease they are liable for a royalty of annas two per ton extracted, with a minimum rent of Rs. 1,500 per annum and have the right to recoup shortworkings during the period of the lease.

The following are the transactions for the year ending 31st December 1926:—

	Rs.
X—	
Paid rent to 30th September 1926	1,125
Paid water rate to 31st March 1927	150
Paid insurance to 31st December 1926	205
Paid into Bank as Capital, 1st January 1926	1,000
Y—	
Paid into Bank as Capital, 1st January 1926	500
Paid for materials	5,000
Paid for wages	10,000

The following sums were drawn on joint Banking account during the year:—

	Rs.
Sundry Expenses	981
Petrol, oil, etc.	450

On 31st December 1926, the following sums were outstanding for:—

Materials	290
Wages	190

X supplied machinery valued at Rs. 1,000, and Y supplied a Motor Lorry valued at Rs. 5,000. It was agreed that these should be treated as part of the capital introduced by X and Y respectively, and that the machinery and lorry would be taken back by each at the expiration of the period of five years at the values of Rs. 100 and Rs. 500 respectively. Allow 5 per cent interest on Capital.

At 31st December 1926, it was found that the total output of 8,000 tons had been taken over by X and Y in the proportions of 1|7th and 6|7ths, respectively.

Prepare (1) "Joint Venture with Y" account in X's books; (2) "Joint Venture with X" account in Y's books; (3) "Joint Venture Revenue" account; and (4) Balance Sheet as at 31st December 1926.

(*Total of Balance Sheet, Rs.* 8,855.) 77

33. A and B enter into Partnership as from 1st January 1926, for the purpose of dealing in property. They agree to divide profits thus—6% per annum interest on capital, and the balance to A three-fifths, and to B two-fifths.

Their property transactions are as follows:—

(*a*) Purchase of Office Buildings for Rs. 1,60,000 on 1st January 1926. A pays the deposit of Rs. 16,000 and on completion of purchase (on 28th February 1926), brings in Rs. 80,000 cash, of which he borrows Rs. 30,000 from his bankers. B brings in Rs. 20,000 cash, and A and B borrow jointly from their bankers Rs. 44,000. The property is sold on 30th June 1926 for Rs. 1,83,000. Upon completion of sale on that date, A withdraws Rs. 35,000 and repays his bankers. While held by A and B, the property has yielded a surplus of rents over outgoings of Rs. 8,600.

(*b*) Purchase of partly completed building for Rs. 70,000 on 30th June 1926. The purchase price is found by A, as to Rs. 40,000 and by B, as to Rs. 30,000. A and B arrange for completion of the building at a contract cost of Rs. 84,000. At 30th November 1926, they have paid Rs. 65,000 under this contract. On 30th November 1926, A and B sell the building as it stands, the purchasers taking over all liabilities under the building contract. The sale price is Rs. 1,53,000, of which 10% is paid on 30th November 1926, and the balance in 1927.
Bank charges for the year are Rs. 190.

Prepare Accounts in respect of the partnership transactions of A and B for the year ending 31st December 1926. 78

(*Total Net Profit, Rs.* 42,400; *Balance Sheet Total, Rs.* 2,00,410.)

34. The following are the cash transactions on Joint Account of Dayabhoy and Ghelabhoy for the year ended 31st December 1920:—

	Rs.		Rs.
To Balance in hand, 1st Jan. 1920	5,000	By Ground Rent:—	
„ Rent Received:—		To December 31, 1919 ..	750
Arrears to 31st Dec. 1919 ..	7,500	„ September 30, 1920 ..	2,250
On account of current year	28,500	„ Sundry Expenses:—	
„ Sundry Dividends received ..	11,750	Due to 31st Dec. 1919 ..	700
„ Proceeds of sale of Rs. 10,000		On account of current year	2,550
3½% Government Loan ..	7,850	„ Dayabhoy—cash paid to him	22,500
„ Expenses received from		„ Ghelabhoy—cash paid to him	20,000
tenants:—		„ Balance in hand, 31st Decem-	
Due to 31st Dec. 1919 ..	750	ber 1920 ..	14,650
On account of current year	2,050		
Rs.	63,400	Rs.	63,400

The properties are perpetual leaseholds, and stood in the books on 31st December 1919, and on 31st December 1920, at their cost price, Rs. 3,50,000. The 3½% Government Loan stood in the Books on 31st December 1919 at Rs. 9,500.

The investments on hand at 31st December 1920 were valued at Rs. 2,20,000 as against their book value on 31st December 1919 of Rs. 2,35,000.

There was due by tenants on 31st December 1920 rent Rs. 6,250, and on account of expenses (recoverable) Rs. 600, whilst there was ground rent payable Rs. 750 and outstanding expenses Rs. 800.

Disregard questions of Income-tax and Interest; and, assuming equal Capital and share of Profits on 31st December 1919, prepare:—

(*a*) Balance Sheet as on 31st December 1919; (*b*) Profit and Loss Account for the year ended 31st December 1920; and (*c*) Balance Sheet as on 31st December 1920. 79

(*Total Net Profit, Rs.* 26,150; *Balance Sheet Total, Rs.* 5,91,500.)

35. A in Bangalore enters into a Joint Adventure with B in Bombay to ship cotton bales to C in Japan. A sends cotton to the value of Rs. 30,000, pays railway freight, etc., Rs. 1,500 and sundry expenses Rs. 1,575. B sends goods valued at Rs. 20,750 and pays freight and insurance Rs. 1,200, dock dues Rs. 200, customs charges Rs. 500 and other sundry expenses Rs. 500. A advances to B Rs. 6,000 on account of the venture. B receives Account Sales and remittance of net proceeds from C in Japan for the whole of the goods amounting to Rs. 80,000. Show how these transactions would appear in the books of A and B respectively.

(Total Net Profit, Rs. 23,775.) 80

ACCOUNT CURRENT.

36. From the following particulars make up an Account Current to be rendered by B. Bamji to J. Jones as at 30th June 1927. Interest at 5 per cent per annum to be calculated on each item separately:—

1927		Rs.	1927		Rs.
Jan. 1	Balance owing by Jones to Bamji ..	340	Apr. 10	Cash received from Jones	200
„ 5	Cash received from Jones ..	200	„ 20	Goods sold to Jones ..	350
„ 20	Bought Goods from Jones	150	May 1	Goods sold to Jones ..	240
Feb. 5	Cash received from Jones ..	20	„ 10	Cash received from Jones	75
„ 25	Goods sold to Jones ..	108	„ 31	Goods sold to Jones ..	156
Mar. 3	Cash paid to Jones ..	100	June 10	Cash received from Jones ..	125
„ 31	Goods sold to Jones ..	420	„ 20	Goods sold to Jones ..	40

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37. What is an Account Current, and in what way does it differ from an Account Sales? The following is a copy of the account of the Red River Trading Company, New Orleans, in the Ledger of John Blank & Co., London, so far as it relates to their actual dealings for the three months ended 31st March 1912. Draw up the Account Current in proper form, as rendered by John Blank & Co. on that date. Show interest at 5% per annum, calculated monthly.

RED RIVER TRADING COMPANY.

1912		£	s.	d.	1912		£	s.	d.
Jan. 1	To Balance b/d. ..	549	10	0	Jan. 31	By Account Sales—cotton ..	1,439	6	8
	„ Cash—Sight Draft ..	150	0	0		„ „ „ ..	118	3	4
„ 31	„ „ „ ..	200	0	0	Feb. 29	„ Cash—Sight Draft	450	0	0
	„ Acceptance—3 months ..	500	0	0					
Feb. 29	„ Goods ..	445	15	0					
Mar. 31	„ „ ..	110	5	0					

(Chartered Accountants.) 82

38. R. Craven opens a Bank Account on 1st January 1910, with the Rosedale Banking Company and deposits on that date £1,000. He pays in as follows: January 20th, £500; March 20th, £600; May 20th, £700; and he draws out on February 20th, £1,200; on April 20th, £1,000; and on June 20th, £500. Calculate the Bank Interest, counting 5 per cent on customer's debit balances and 2 per cent on credit balances, and close the account on 30th June. *(Incorporated Accountants.)* 83

39. Work out question No. 36 on the Product System. 84

AVERAGE DUE DATE.

40. A merchant has purchased goods on different dates and has accepted the 'llowing bills:—June 15th Rs. 2,500, due August 18th; July 10th Rs. 700, due September 3th; July 20th Rs. 800, due October 23rd; August 4th Rs. 1,000, due November 7th.

He wishes to accept a bill for the full amount payable on the average due date, ich you are required to determine. 85

(Average Due Date, 17th September.)

41. What is an Average Due Date, and how is it ascertained?

A merchant has purchased goods, the due dates for the payments of which are 'ows:—

March	5th,	£300, due April	8th.
April	15th,	£200, due May	18th.
May	10th,	£275, due June	13th.
June	5th,	£400, due July	8th.

He wishes to give a bill for the total amount due, the bill to be drawn on the average due date. Ascertain this date. 86

(Average Due Date, 31st May.)

42. A purchases goods from B as follows:—

July	1	£465.
Aug.	15	£325.
Sept.	8	£260.

The payment in each case was to be made by a bill payable two months from the date of invoice, but A arranged for payment to be made by one bill, payable two months after the average date. What is the average date? 87

(Average Due Date, 1st August.)

CHAPTER VII.

PARTNERSHIP ACCOUNTS.

The accounts explained in the previous pages were those of a sole trader doing business on his own. The expansion of business might necessitate a combination of money, skill, energy and experience, and thus, two or more persons may join hands with a view to carry on a business together and share the profits derived therefrom. This is known as a partnership.

Definition.—The Indian Partnership Act, 1932, defines a Partnership as "the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all."

Persons who have entered into partnership with one another are called individually "partners" and collectively "a firm" and the name under which their business is carried on is called the "firm name."

From the above definition it is clear that the following are the essentials which must exist in order to constitute a partnership, viz.:—

(1) There must be an agreement between all the persons concerned;

(2) There must be a *business*; and for this purpose, the word "business" would include any trade, profession or occupation;

(3) It must be carried on by some or all of the partners for the benefit of all of them; and that

(4) It must be carried on for the purpose of earning profits which would be divided amongst the partners.

Rules for determining Existence of Partnership.—Sharing of Profits, although an important element in every partnership, is by no means a conclusive evidence to make the person in receipt of such a share a partner in the business. In determining whether a person is or is not a partner in a firm, regard shall be had to the real relation between the parties, as shown by all relevant facts taken together.

The sharing of profits or of gross returns arising from property by persons holding a joint or common interest in that property does not of itself make such persons partners.

The receipt by a person of a share of the profits of a business, or of a payment contingent upon the earning of profits or varying with the profits earned by a business, does not of itself make him a partner with the persons carrying on the business;

and, in particular, the receipt of such share

(a) by a lender of money to persons engaged in any business,

(b) by a servant or agent as remuneration,

(c) by the widow or child of a deceased partner, as annuity, or

(d) by a previous owner of the business, as consideration for the sale of the goodwill or share thereof,

does not of itself make the receiver a partner with the persons carrying on the business.

General Duties of Partners.—Partners are bound to carry on the business of the firm to the greatest common advantage, to be just and faithful to each other, and to render true accounts and full information of all things affecting the firm to any partner or his legal representative.

Determination of Rights and Duties of Partners.—The mutual rights and duties of the partners of a firm may be determined by contract between the partners, and such contract may be express or may be implied by a course of dealing.

Such contract may be varied by consent of all the partners, and such consent may be express or may be implied by a course of dealing.

General Conduct of the Business.—Subject to any agreement between the partners—

(*a*) every partner has a right to take part in the conduct of the business;

(*b*) every partner is bound to attend diligently to his duties in the conduct of the business;

(*c*) any difference arising as to ordinary matters connected with the business may be decided by a majority of the partners, but no change may be made *in the nature of the business without the* consent of all the partners; and

(*d*) every partner has a right to have access to and to inspect and copy any of the books of the firm.

Mutual Rights and Liabilities of Partners.—Subject to any agreement between the partners—

(*a*) a partner is not entitled to receive remuneration for taking part in the conduct of the business;

(*b*) all partners are entitled to share equally in the profits earned, and shall contribute equally to the losses sustained by the firm;

(*c*) where a partner is entitled to interest on the capital subscribed by him, such interest shall be payable only out of profits;

(*d*) a partner making, for the purposes of the business, any payment or advance beyond the amount of capital he has agreed to subscribe, is entitled to interest thereon at the rate of six per cent per annum;

(*e*) the firm shall indemnify a partner in respect of payments made and liabilities incurred by him

(*i*) in the ordinary and proper conduct of the business, and

(*ii*) in doing such act, in an emergency, for the purpose of protecting the firm from loss, as would be done by a person of ordinary prudence, in his own case, under similar circumstances; and

(*f*) a partner shall indemnify the firm for any loss caused to it by his wilful neglect in the conduct of the business of the firm.

Under the **English Act**, the rate of interest payable to a partner advancing money to the firm is 5 per cent, *in the absence of any agreement to the contrary.*

Property of the Firm—Subject to any agreement between the partners, the property of the firm includes all property and rights and interest in property originally brought into the firm, or acquired by purchase or otherwise, in the course of the business of the firm, and includes also the goodwill of the business.

Unless the contrary intention appears, property and rights and interest in property acquired with money belonging to the firm are deemed to have been acquired for the firm.

The property of the firm shall be held and used by the partners exclusively for the purposes of the business.

Personal Profits earned by Partners—If a partner derives any profit for himself from any transaction of the firm, or from the use of the property or business connection of the firm or the firm name, he shall account for that profit and pay it to the firm.

If a partner carries on any business of the same nature as and competing with that of the firm, he shall account for and pay to the firm all profits made by him in that business.

Partnership Agreement—A partnership is naturally the result of mutual agreement, and consequently, the various rights and interests of the partners in the partnership concern, as also the obligations of the partners to each other arise from and are to be determined by the partnership agreement. The agreement may be by word of mouth, in writing, by deed, or may be implied from the conduct of the parties. It is always desirable, however, that a partnership agreement be put into writing embodying in clear and precise language the various terms and conditions as to the relationship of the partners to each other and also the internal working of the firm. Such an agreement, or any portion thereof, can be varied from time to time, either by express agreement or by tacit consent of all the partners. It must be noted, however, that although the partners may by agreement restrict the rights or liabilities of any one or more of their number, to the outside world, every partner is the unlimited agent of the firm and his other partners so as to bind the firm in matters within the scope of the partnership business, and every partner is liable to an unlimited extent for all the debts and liabilities of the firm incurred in the usual course of the business while he is a partner.

Extent to which a Partner can bind the Firm.—Ordinarily, partnerships are assumed to be based on the mutual trust and confidence of each partner in the skill, knowledge and integrity of every other partner. As between the partners and the outside world, each partner is the unlimited agent of every other partner in all matters connected with the partnership business and which are not beyond the scope of the partnership, irrespective of any private arrangements that may exist among the partners. It must be clearly understood, however, that a partner's implied authority to bind his firm is limited to acts which are necessary for carrying on the partnership business and which are not in any way outside the scope of the partnership. An admission or representation made by any partner concerning the partnership affairs and in the ordinary course of the business, is evidence against the firm. Notice to any partner who usually acts in the partnership business of any matter relating to partnership affairs operates as notice to the firm, except in the case of a fraud on the firm, committed by or with the consent of that partner.

Implied Authority of a Partner.—In the absence of any usage in the kind of business in question or the custom of the firm, it may be assumed that every partner in a trading business has an implied authority to do the following acts on behalf of his firm:—

1. Buy goods on account of the firm.
2. Sell any of the partnership goods.
3. Receive payments of debts due to the firm and give valid receipts.
4. Draw cheques, and draw, accept and endorse Bills of Exchange and Promissory Notes in the name of the firm.
5. Borrow moneys on the credit of the firm with or without pledging the firm's goods.
6. Engage servants for the partnership business.

In the absence of any usage or custom of trade to the contrary, the implied authority of a partner does not empower him to—

(*a*) submit a dispute relating to the business of the firm to arbitration,
(*b*) open a banking account on behalf of the firm in his own name,
(*c*) compromise or relinquish any claim or portion of a claim by the firm,
(*d*) withdraw a suit or proceeding filed on behalf of the firm,
(*e*) admit any liability in a suit or proceeding against the firm,
(*f*) acquire immovable property on behalf of the firm,
(*g*) transfer immovable property belonging to the firm, or
(*h*) enter into partnership on behalf of the firm.

Extension or Restriction of Partners' Implied Authority.—The partners in a firm may, by agreement between themselves, extend or restrict the implied authority of any partner. Notwithstanding any such restriction, any act done by a partner on behalf of the firm which falls within his implied authority binds the firm, unless the person with whom he is dealing knows of the restriction or does not know or believe that partner to be a partner.

Liability of a Partner.—Every partner is liable, jointly with all the other partners and also severally, for all acts of the firm done while he is a partner.

It is important to note that whereas the liability of a partner under the Indian Partnership Act is joint and several irrespective of whether the liability relates to contracts or torts, the **English Act** makes the partners liable jointly for contractual liabilities and jointly and severally for liabilities for torts.

Liability of an Incoming Partner.—A person who is admitted as a partner into an existing firm does not thereby become liable to the creditors of the firm for anything done before he became a partner. But, if a person on being admitted into partnership takes over the debts already incurred, by an agreement with the existing creditors of the firm, he will be held liable jointly with his co-partners for such debts.

Liability of a Retiring Partner.—A partner who retires from a firm does not thereby cease to be liable for partnership debts or obligations incurred before his retirement; but a retiring partner may be discharged from any existing liabilities by an agreement to that effect between himself and the members of the firm as newly constituted and the creditors, and this agreement may be either express or inferred from the course of dealing between the creditors and the firm as newly constituted. In any case, the existing creditors of the firm must be a party to any agreement relieving the retiring partner from debts and obligations incurred during the time that he was a partner.

Liability of Estate of Deceased Partner.—Where under a contract between the partners the firm is not dissolved by the death of a partner, the estate of a deceased partner is not liable for any act of the firm done after his death.

Right of Outgoing Partner to share Subsequent Profits.—Where any member of a firm has died or otherwise ceased to be a partner, and the surviving or continuing partners carry on the business of the firm with the property of the firm without any final settlement of accounts as between them and the outgoing partner or his estate, then, in the absence of a contract to the contrary, the outgoing partner or his estate is entitled at the option of himself or his representatives to such share of the profits made since he ceased to be a partner as may be attributable to the use of his share of the property of the firm, or to interest at the rate of six per cent per annum on the amount of his share in the property of the firm.

Under the English Act, the rate of interest is 5 per cent.

Introduction of a New Partner.—Subject to contract between the partners, no person shall be introduced as a partner into a firm without the consent of all the existing partners.

A person who is introduced as a partner into a firm does not thereby become liable for any act of the firm done before he became a partner.

Expulsion of a Partner.—A partner may not be expelled from a firm by any majority of the partners, save in the exercise in good faith of powers conferred by contract between the partners.

Retirement of a Partner.—A partner may retire in any of the following ways:—

(*a*) With the consent of all the other partners;

(*b*) In accordance with an express agreement by the partners; or

(*c*) Where the partnership is at will, by giving notice in writing to all the other partners of his intention to retire.

Principal Clauses in Partnership Agreement—Among other things, a Partnership Agreement must necessarily contain provisions upon the following matters:—

1. The name of the firm and the nature of the partnership business.
2. The commencement and duration of the partnership.
3. The amount to be contributed by each partner as his capital.
4. The extent to which each partner is to be allowed to withdraw sums in anticipation of profits.
5. How the profits or losses are to be divided.
6. If any interest is to be allowed on the capital of each partner and the rate per cent.
7. The rate of interest, if any, to be charged on the drawings.
8. If any partner is to be allowed any salary.
9. How further capital, if necessary, is to be introduced.
10. Provision in regard to amounts to be brought in by any of the partners by way of loans and the interest thereon.
11. For all partnership transactions to be duly recorded in a proper set of books to be kept at the place of business and such books to be open to inspection of every partner or his representative.

12. That the accounts of the firm be prepared annually and after being duly audited by professional auditors, the firm's Balance Sheet be signed by all the partners as evidence of their acceptance.

13. The basis on which to determine the amount payable to a retiring partner or the representative of a deceased partner in respect of capital and accrued profits since the last accounts.

14. The basis of valuation of the goodwill of the firm, if any, as also the other assets, for the above purpose.

15. Clauses as to the rights and duties of each partner.

16. Clauses in regard to restrictions, if any, to be placed on the authority of any one or more of the partners to bind the firm in matters relating to the partnership business.

17. How any capital loss arising from the insolvency of any of the partners is to be borne.

18. An arbitration clause, for matters in dispute to be determined by submission to an arbitrator.

Capital of Partners.—There is no implied obligation in law that partners must bring capital in equal or in any stated proportions, and the matter rests absolutely with the partners to decide. It is even not necessary that every partner must contribute something towards the firm's capital, and instances may be found where a partner is admitted into a firm without his introducing anything by way of capital. The capital of a partnership firm as originally determined by agreement may be increased from time to time by further contributions and by undrawn profits, or may be decreased by withdrawals and losses, or the proportions of capital as originally determined may be altered, by the mutual consent of all the partners. Such consent need not be expressed in writing but may be tacit and proved from the conduct of the parties. Further, the capital to be contributed by each partner need not necessarily consist of cash payment, but may be satisfied by the introduction of assets other than cash, such as Stock-in-trade, Fixtures, Plant, etc., by mutual agreement.

Drawings of Partners—The Partnership Deed generally includes a clause allowing each partner to withdraw a certain amount at each periodical interval in anticipation of his share of profits. Such withdrawals are debited to a separate Drawings Account of each partner. Whether such drawings are chargeable with interest, is again a matter of arrangement between the partners. In many cases, whereas the capitals bear interest, the drawings are not chargeable with such interest, and the student would do well never to calculate interest on drawings while working out a problem unless he has been asked specially to do so.

Sharing of Profits and Losses—The proportions in which profits or losses arising from the business are to be divided will depend upon the agreement between the partners. In the absence of any such agreement, even where the capitals are in unequal amounts, the partners will be deemed by law to be equal sharers in profits or losses on the ground that the Court cannot be expected to enter into questions of partners' merits. It may be that a partner contributing a very small portion towards the firm's capital may bring into the business special skill which cannot be measured in terms of money, and by virtue of this attribute he stands to share as much out of the profits as another partner who has contributed a much larger sum in the shape of capital, but who is not possessed of the requisite skill. Again, one partner may be taking an active part in the conduct of the business, and the others may not be. It is evidently, therefore, left for the partners themselves to decide as to what would be the most equitable mode of sharing profits or losses. Where the partnership deed provides for the profits being shared in a particular manner and there is no mention of how the losses should be borne, the assumption is that these should be borne in the same proportions. Further, it is quite legal and competent for the partners to arrange for the profits to be divided in certain proportions and the losses to be borne in quite other proportions. It is equally competent for the partners to agree to exempt one or more of them from bearing any losses. The share of profit applicable to each partner would be debited to the Profit and Loss Account and credited to his Capital Account. If there is a loss, the same would be adjusted by debiting each partner's Capital Account with his respective share and crediting the Profit and Loss Account.

Interest on Capital—Where the capitals are contributed in certain proportions and the sharing of profits or losses is not in proportion to capitals, interest on the capital of each partner is generally calculated at an agreed rate per cent, and is considered as a charge on the Profit and Loss Account, before the ascertainment of net profits. It must be remembered, however, that no such interest on his capital can be claimed by any partner as a matter of right, in the absence of an agreement to that effect. Where the capitals are unequal, but the profits are shared equally, the partner with larger amount of capital would otherwise be at a disadvantage and the one with smaller capital would benefit at the expense of his co-partners; again, where the capitals are equal, but the profits are shared in unequal proportions, the partner taking the largest share of profits would otherwise get an undue benefit over the others and the adjustment in regard to interest on capital will tend to lessen the inequality. It is thus clear that the allowance of interest to each partner on his respective capital will tend to balance the accounts equitably between the partners *inter se* or, in any case, serve to compensate the partner with larger capital contribution. Even where the profits are shared in the same proportions as the capitals, it is usual and desirable that interest on capital be brought into account in order to enable the partners to see what profit they realised from the business over and above the interest they would have earned if the same capital were invested in gilt-edged securities. Interest on Capital is debited to Profit and Loss Account and credited to Capital Account of the partner concerned. Where, however, the capitals are agreed to be fixed, such interest will be credited to the Current Account of each partner.

Interest on Drawings—Where the partnership agreement provides for the allowance of interest at a certain rate per cent, on the capitals of the partners, it does not necessarily follow that such interest should be calculated on the drawings. If it is desired that interest should also be charged on the drawings, there should be a distinct mention to that effect in the agreement. Where the capitals and the sharing of profits are equal and the drawings are in unequal sums, interest is usually charged on the drawings by mutual arrangement in order that the accounts of the partners may be equitably adjusted *inter se*. As has been said above, the question of interest on capital and drawings is purely a matter of agreement between the partners, and the partnership accounts will have to be prepared with due regard to the terms and conditions of such an agreement, if there exists any.

Partners' Salaries.—It frequently happens that one of the partners may be devoting his entire time to the business whereas the others may not, and under such a circumstance, it is usual to allow the former an agreed salary before the ascertainment of the net profit. The practice of allowing salary usually obtains in a firm where there are junior partners with hardly any capital contribution who take a very small share of the profits and yet who devote the whole of their time and energy to the business. When such salaries are drawn out in cash from month to month, they should be charged to Partners' Salaries Account. Where, however, lump sums are withdrawn at irregular intervals on account of salaries, these would be debited to the Drawings Account of the partner concerned and an adjustment would have to be made at the end of each financial period, debiting Partners' Salaries Account and crediting the Capital Account of the partner with the annual amount of salary due to him.

Loan by a Partner.—Any advances by a partner by way of loan will carry 6 per cent interest by implication **(in England 5%)**, unless otherwise agreed upon; and this is irrespective of the fact whether the capitals bear any interest or not. But the partners by mutual consent may agree to allow a higher or lower rate of interest on such loan, in which case such agreement will hold good. A partner can claim a repayment of his loan, in the absence of any agreement to the contrary, although he cannot ask for a refund of his capital. In case of a dissolution, such loan by a partner would rank to be repaid in priority to the refund of capitals, but after the claims of all outside creditors are satisfied in full. Loan by a partner must be credited to a separate account from his Capital Account and must be distinctly stated in the Balance Sheet.

Fixed and Floating Capitals.—A separate Capital Account is opened in the name of each partner and is credited with the amount of capital contributed by him on the formation of the partnership and with further amounts, if any, brought in subsequently as additional capital. There is also a separate Drawings Account in the name of each partner, and this account is debited with the respective partner's drawings from time to time. At the end of each financial period, the debit balance on the Drawings Account representing the total withdrawals by each partner is transferred to the debit of his Capital Account, and the Drawings Account is thus closed. The adjustments in regard to Interest on *Capital* (if any allowed) and the share of profits are credited to the Capital Account of each partner. On the other hand, adjustments in regard to Interest on Drawings (if any agreed upon), and the share of loss, if there be any, are made on the debit of each partner's Capital Account. As a result of these adjustments, the Capital Account of each partner at the end of the year would be made up of the capital as it stood at the beginning of the year, *plus* interest and share of profits, and *less* drawings. The Capital Account is closed by balance at the end of each financial period, and will represent the partners' capital at the beginning of the new period. The balances on Capital Accounts, under such a circumstance, will naturally fluctuate from year to year, and this is how the partners' accounts are ordinarily dealt with, unless there is a definite provision in the Partnership Agreement that the capitals shall be maintained at fixed quantities.

Where it is stated in the Partnership Deed that the Partners' Capitals shall be fixed and shall be maintained at the same figures during the partnership, the Capital Account of each partner would be credited with *only the* actual contribution to capital. No adjustment will then be made on *the*

Capital Accounts, and the balance on each such account will remain at the same figure from year to year, representing the original capital contribution. In this case, instead of the Drawings Account, there will be a separate Current Account of each partner, and the withdrawals by each partner would be charged to this account. The adjustments at the end of each financial year in regard to Interest on Capital and Drawings (as may be arranged) and share of profit or loss will all be made on the Current Accounts of the partners. The Current Account of each partner will then be closed by balance, and will be shown quite distinct from the Capital Accounts on the Balance Sheet. A credit balance on such Current Account left after all the above adjustments would mean that the partner has not withdrawn the whole of the profits and the interest on his capital due to him, and he may draw this balance any time he chooses. A debit balance, on the other hand, would signify that the partner has overdrawn his share of profits and interest to the extent of such balance and he may be required either to refund this excess withdrawal or make good this debit balance by reducing his future drawings.

Where the Capitals are agreed to be fixed quantities, the balance on the Current Account of each Partner must be shown as a separate item in the Balance Sheet. If such an account shows a debit balance, it will fall on the assets side of the Balance Sheet and, if it shows a credit balance, it will appear as a liability.

ILLUSTRATION 46.

A and B are partners sharing profits in proportions of 7|10ths and 3|10ths with Capitals of Rs. 15,000 and Rs. 10,000 respectively. 5% interest was agreed to be calculated on the Capital of each partner and B is to be allowed an annual salary of Rs. 2,400 which has not been withdrawn. During the year 1931 A withdrew Rs. 1,200 and B Rs. 2,000 in anticipation of profits. The profits for the year prior to calculation of interest on Capital, but after charging B's salary, amounted to Rs. 8,000. A provision of 7½% on this amount is to be made in respect of commission to the Manager. Show the partners' accounts, (a) Where the Capitals are fluctuating quantities, (b) where the Capitals are fixed quantities; and (c) the Account showing the allocation of profits.

Solution.

(a) Where the Capitals are fluctuating.

A's CAPITAL ACCOUNT.

1931		Rs.	1931		Rs.
Dec. 31	To Drawings Account —Transfer ...	1,200	Jan. 1	By Balance b/fd ..	15,000
" "	" Balance c/d. ...	18,855	Dec. 31	" Interest ...	750
			" "	" Profit and Loss Appropriation Account ...	4,305
	Rs.	20,055		Rs.	20,055
			1932 Jan. 1	" Balance b/d. ...	18,855

A's DRAWINGS ACCOUNT.

1931		Rs.	1931		Rs.
Dec. 31	To Bank ...	1,200	Dec. 31	By Capital Account— Transfer ...	1,200
	Rs.	1,200		Rs.	1,200

B's CAPITAL ACCOUNT.

			Rs.				Rs.
1931 Dec. 31	To Drawings Account—Transfer	...	2,000	1931 Jan. 1	By Balance b/fd.	...	10,000
" "	" Balance c/d.	...	12,745	Dec. 31	" Salary	...	2,400
				" "	" Interest	...	500
				" "	" Profit and Loss Appropriation Account	...	1,845
		Rs.	14,745			Rs.	14,745
				1932 Jan. 1	" Balance b/d.	...	12,745

B's DRAWINGS ACCOUNT.

			Rs.				Rs.
1931 Dec. 31	To Bank	...	2,000	1931 Dec. 31	By Capital Account—Transfer	...	2,000
		Rs.	2,000			Rs.	2,000

(b) Where the Capitals are fixed.

A's CAPITAL ACCOUNT.

			Rs.				Rs.
1931 Dec. 31	To Balance c/d.	...	15,000	1931 Jan. 1	By Balance b/fd.	...	15,000
		Rs.	15,000			Rs.	15,000
				1932 Jan. 1	By Balance b/d.	...	15,000

A's CURRENT ACCOUNT.

			Rs.				Rs.
1931 Dec. 31	To Bank	...	1,200	1931 Dec. 31	By Interest on Capital	...	750
" "	" Balance c/d.	...	3,855	" "	" Profit and Loss Appropriation Account	...	4,305
		Rs.	5,055			Rs.	5,055
				1932 Jan. 1	By Balance b/d.	...	3,855

B's CAPITAL ACCOUNT.

			Rs.				Rs.
1931 Dec. 31	To Balance c/d.	...	10,000	1931 Jan. 1	By Balance b/fd.	...	10,000
		Rs.	10,000			Rs.	10,000
				1932 Jan. 1	By Balance b/d.	...	10,000

B's CURRENT ACCOUNT.

1931		Rs.	1931		Rs.
Dec. 31	To Bank ...	2,000	Dec. 31	By Salary ...	2,400
	„ Balance c/d. ...	2,745	„ „	„ Interest on Capital ..	500
			„ „	„ Profit and Loss Appropriation Account ...	1,845
	Rs.	4,745		Rs.	4,745
			1932		
			Jan. 1	By Balance b/d. ...	2,745

(c)

PROFIT AND LOSS APPROPRIATION ACCOUNT.

1931		Rs.	1941		Rs.
Dec. 31	To 7½% Commission—Manager ...	600	Dec. 31	By Profit and Loss Account—Transfer ...	8,000
	„ Interest:— Rs.				
	On A's Capital 750				
	On B's Capital 500	1,250			
	„ Net Profits transferred to Partners' Capital Accounts:— Rs.				
	A 7/10ths 4,305				
	B 3/10ths 1,845	6,150			
	Rs.	8,000		Rs.	8,000

Record of Partnership Transactions—The record of partnership transactions does not call for any special methods of book-keeping, and consequently, the system of double entry as explained in the previous pages will be presumed to be utilized to keep Partnership Accounts. In so keeping the books, all that is necessary to see is that they should be kept in as simple a form as possible, having regard to the particular nature and requirements of the business, so that the annual Profit and Loss Account and Balance Sheet can be easily made out therefrom and the position of the firm as also that of each of its partners may be readily ascertained.

The following illustrations will serve to show the working of the Partnership Accounts in their various phases:—

ILLUSTRATION 47.

A, B and C are partners with Capitals of Rs. 40,000, Rs. 15,000 and Rs. 5,000 respectively and share profits and losses equally. The net profit for the year 1931, before charging interest on Capital amounted to Rs. 27,000. Show the amount of each partner's gain from the firm, (a) if no interest is calculated on the Capital, and (b) where 5% interest on Capital is brought into account, before adjustment of profits.

Solution.

(a) The profits, prior to calculation of interest on Capital, will be divided as under:—

A 1/3rd of Rs. 27,000 = Rs. 9,000.
B 1/3rd of Rs. 27,000 = Rs. 9,000.
C 1/3rd of Rs. 27,000 = Rs. 9,000.

(b) Where Interest on Capital is calculated prior to division of profits, the Profit and Loss Account will appear thus:—

PROFIT AND LOSS ACCOUNT.

	Rs.	Rs.		Rs.
To Interest on:—			By Balance b/fd. ...	27,000
A's Capital Account	2,000			
B's " "	750			
C's " "	250			
		3,000		
" Net Profit transferred to Partners' Capital Accounts:—	Rs.			
A 1/3	8,000			
B 1/3	8,000			
C 1/3	8,000			
		24,000		
	Rs.	27,000	Rs.	27,000

Therefore, after calculation of Interest on Capital, the profits earned by each partner will be as follows:—

	Interest	*and*	*Profits.*		
	Rs.		Rs.		Rs.
A	2,000	"	8,000	=	10,000
B	750	"	8,000	=	8,750
C	250	"	8,000	=	8,250

NOTE.—From the above, it is clear that where the Capitals are unequal and the profits are shared equally, it is desirable to calculate a reasonable rate of interest on the capital of each partner before the ascertainment of distributable profits, in order that the partners with larger Capitals may be duly compensated.

ILLUSTRATION 48.

A, B and C are partners with Capitals of Rs. 20,000 each and share profits in proportions of $\frac{1}{2}$, $\frac{3}{8}$ and $\frac{1}{8}$. The net profit for the year 1931, before calculating Interest on Capital amounted to Rs. 27,000. Show the amount of each partner's gain from the firm, (*a*) if Interest on Capital is ignored, and (*b*) if 5% Interest on Capital is to be calculated before adjustment of profits.

Solution.

(*a*) The profits, prior to calculation of Interest on Capital, will be divided as under:—

			Rs.		Rs.
A	$\frac{1}{2}$	of	27,000	=	13,500
B	$\frac{3}{8}$	of	27,000	=	10,125
C	$\frac{1}{8}$	of	27,000	=	3,375

(*b*) Where Interest on Capital is calculated before division of profits, the Profit and Loss Account will appear thus:—

PROFIT AND LOSS ACCOUNT.

	Rs.	Rs.		Rs.
To Interest on:—			By Balance b/fd. ...	27,000
A's Capital	1,000			
B's "	1,000			
C's "	1,000			
		3,000		
" Net Profit transferred to Partners' Capital Accounts:—	Rs.			
A 1/2	12,000			
B 3/8	9,000			
C 1/8	3,000			
		24,000		
	Rs.	27,000	Rs.	27,000

Therefore, after calculation of Interest on Capital, the profits earned by each partner will be as follows:—

	Interest	and	Profits.		
	Rs.		Rs.		Rs.
A	1,000	"	12,000	=	13,000
B	1,000	"	9,000	=	10,000
C	1,000	"	3,000	=	4,000

NOTE.—From the above, it will be seen that where the Capitals contributed by the partners are equal but the profits are shared in unequal proportions, it is desirable to bring into account Interest on Capital at a certain rate per cent prior to division of profits, in order that the partner taking the least share of profits may at least be compensated equally along with the other partners by way of interest on his Capital, so that the inequality in the division of profits may be least felt.

ILLUSTRATION 49.

P having commenced business on 1st January 1930 with a Capital of Rs. 10,000 admits Q into partnership with a Capital of Rs. 8,000 on 1st May 1930. P and Q then take over R as a partner on 1st August 1930 with a Capital of Rs. 5,000. On 1st November P, Q and R contribute by way of further Capital Rs. 1,000, Rs. 2,000 and Rs. 3,000 respectively. The profits for the year ended 31st December 1930 amounted to Rs. 6,630 and are agreed to be shared in proportions of Capitals. Show the division of profits at the end of the year.

Solution.

P	Rs.	Q	Rs.	R	Rs.
10,000 × 12 =	1,20,000	8,000 × 8 =	64,000	5,000 × 5 =	25,000
1,000 × 2 =	2,000	2,000 × 2 =	4,000	3,000 × 2 =	6,000
Rs.	1,22,000	Rs.	68,000	Rs.	31,000

∴ The proportions are 122 : 68 : 31.

∴ P takes Rs. 3,660; Q Rs. 2,040 and R Rs. 930 of the net profits.

ILLUSTRATION 50.

The Capital Accounts of X, Y and Z stood at Rs. 20,000, Rs. 15,000 and Rs. 10,000 respectively after the necessary adjustments in respect of the Drawings and the Net Profits for the year ended 31st December 1930. It was subsequently ascertained that 5% Interest on Capital and on the Drawings of each partner had been omitted. The drawings of the partners had been X Rs. 2,000, Y Rs. 1,500 and Z Rs. 1,200 and the Interest on these amounted to Rs. 40, Rs. 30 and Rs. 15 respectively. The profits for the year as already adjusted amounted to Rs. 10,000. The partners share profits in proportions of 2|5ths, 2|5ths and 1|5th. Give the adjusted Capital Accounts of the partners together with the Journal Entries necessary for such adjustments.

Solution.

The opening Capitals of partners, for the purpose of calculating interest thereon, are ascertained as under:—

		X	Y	Z
		Rs.	Rs.	Rs.
Capitals at the end of the year	..	20,000	15,000	10,000
Add Drawings during the year	..	2,000	1,500	1,200
		22,000	16,500	11,200
Less Profit	..	4,000	4,000	2,000
Capital at the beginning of the year	..	18,000	12,500	9,200

JOURNAL ENTRIES.

	L.F.	Rs.	Rs.
Profit and Loss Adjustment Account ... ... Dr.		1,985	
To X's Capital Account			900
„ Y's „ „			625
„ Z's „ „			460
(Being the adjusting entry for interest on partners' Capitals not taken into account in the Profit and Loss Account).			
X's Capital Account ... ... Dr.		40	
Y's „ „ ... ... „		30	
Z's „ „ ... ... „		15	
To Profit and Loss Adjustment Account			85
(Being the adjusting entry for interest on partners' drawings not accounted for in the Profit and Loss Account).			
X's Capital Account ... ... Dr.		760	
Y's „ „ ... ... „		760	
Z's „ „ ... ... „		380	
To Profit and Loss Adjustment Account			1,900
(Being the loss on the above adjustments transferred to partners' Capital Accounts in their profit-sharing proportions).			

X's CAPITAL ACCOUNT.

		Rs.			Rs.
1930 Dec. 31	To Profit and Loss Adjustment Account—Interest on Drawings ...	40	1930 Dec. 31	By Balance b/fd. ...	20,000
„	„ Profit and Loss Adjustment Account—Loss on adjustments, 2/5ths share	760		„ Profit and Loss Adjustment Account—Interest on Capital ...	900
„	„ Balance c/d. ..	20,100			
	Rs.	20,900		Rs.	20,900
			1931 Jan. 1	By Balance b/d. ...	20,100

Y's CAPITAL ACCOUNT.

		Rs.			Rs.
1930 Dec. 31	To Profit and Loss Adjustment Account—Interest on Drawings ...	30	1930 Dec. 31	By Balance b/fd. ...	15,000
„	„ Profit and Loss Adjustment Account—Loss on adjustments, 2/5ths share ...	760		„ Profit and Loss Adjustment Account—Interest on Capital ...	625
„	„ Balance c/d. ...	14,835			
	Rs.	15,625		Rs.	15,625
			1931 Jan. 1	By Balance b/d. ...	14,835

Z's CAPITAL ACCOUNT.

		Rs.			Rs.
1930 Dec. 31	To Profit and Loss Adjustment Account—Interest on Drawings ...	15	1930 Dec. 31	By Balance b/fd. ...	10,000
"	" Profit and Loss Adjustment Account—Loss on adjustment, 1/5th share	380		" Profit and Loss Adjustment Account—Interest on Capital ..	460
"	" Balance c/d. ..	10,065			
	Rs.	10,460		Rs.	10,460
			1931 Jan. 1	By Balance b/d. ...	10,065

ILLUSTRATION 51.

From the following Trial Balance, prepare the necessary final accounts for the year ended 31st December 1940.

	Dr. Rs.	Cr. Rs.
Land and Buildings ...	26,000	
Sundry Debtors ...	40,500	
Sundry Creditors ...		45,000
Plant and Machinery ...	20,000	
Purchases—Raw Materials (*Less* Returns) ..	35,000	
Sales—(*Less* Returns) ...		1,23,400
Finished Stock, 1st Jan. 1940 ...	18,000	
Raw Materials, 1st Jan. 1940 ...	3,500	
Work in Process, 1st Jan. 1940 ...	2,000	
Wages ...	27,000	
Factory Rent and Taxes ..	2,500	
Salaries of Works Managers ...	5,600	
Royalties ...	1,200	
Advertising ...	3,000	
Office Rent and Insurance ..	4,800	
Printing and Stationery ...	1,000	
Office Expenses ...	5,800	
Carriage Inwards ...	1,100	
Carriage Outwards ...	600	
Discounts allowed ..	1,400	
Discounts received ...		1,100
Bad Debts ...	750	
Reserve for Doubtful Debts ...		1,000
Factory Expenses ...	3,400	
Patent Rights ...	2,000	
X's Capital Account ...		16,000
Y's Capital Account ...		25,000
X's Drawings ...	3,600	
Y's Drawings ...	2,500	
X's Loan Account ..		4,000
Cash at Bank ...	4,000	
Cash in Hand ...	250	
Rs.	2,15,500	2,15,500

The Stock on 31st December was as follows:—

	Rs.
Raw Materials	4,000
Work-in-Process	4,500
Finished Goods	28,000

The outstanding expenses were—Factory Rent Rs. 250, Wages Rs. 600 and Office Salaries Rs. 3,000. Write off Rs. 500 as Bad Debts and provide 5% Reserve for Doubtful Debts and 5% provision for Discounts. Depreciate Buildings by 2%, Plant by 7½% and Patents by 10%. X and Y are entitled to salaries of Rs. 2,400 and Rs. 1,800 per annum. 5% Interest is to be calculated on Capital. The profits were shared in proportions of 3|5ths and 2|5ths.

Solution.

TRADING ACCOUNT.

For the year ended 31st December 1940.

	Rs.	Rs.		Rs.	Rs.
To Stock, 1-1-40 :—			By Sales (*Less* Returns) ...		1,23,400
Finished Stock ...	18,000		,, Closing Stock, 31st December 1940 :—		
Work-in-Process ...	2,000		Finished Stock ...	28,000	
Raw Materials ...	3,500		Work-in-Process ...	4,500	
		23,500	Raw Materials ...	4,000	
,, Purchases (*Less* Returns) ...		35,000			36,500
,, Carriage Inwards ...		1,100			
,, Wages ...		27,600			
,, Salaries of Works Managers ...		5,600			
,, Factory Expenses ...		3,400			
,, Factory Rent and Taxes ...		2,750			
,, Royalties ...		1,200			
,, Gross Profit transferred to Profit and Loss Account ...		59,750			
Rs.		1,59,900	Rs.		1,59,900

PROFIT AND LOSS ACCOUNT.

For the year ended 31st December 1940.

	Rs.	Rs.		Rs.
To Office Expenses ...		8,800	By Gross Profit transferred from the Trading Account ...	59,750
,, Office Rent & Insurance ...		4,800	,, Discounts ...	1,100
,, Advertising ...		3,000		
,, Printing & Stationery ...		1,000		
,, Carriage Outwards ...		600		
,, Partners' Salaries ...		4,200		
,, Discounts ...		3,300	Dis allowed 1400	
,, Bad Debts ...	1,250		Prov. for Dis 1900	
Add New Reserve ...	2,000			
	3,250		B. Debts at two places so combine	
Less Old Reserve	1,000			
		2,250		
,, Interest on Capital ...		2,050		
,, Depreciation :—				
Buildings 2% ...	520			
Plant 7½% ...	1,500			
Patents 10% ...	200			
		2,220		
,, Net Profit transferred to Capital Accounts :—				
A 3/5ths ...	17,178			
B 2/5ths ...	11,452			
		28,630		
Rs.		60,850	Rs.	60,850

BALANCE SHEET OF X AND Y.

For the year ended 31st December 1940.

Liabilities		Rs.	Rs.	*Assets*	Rs.	Rs.
Sundry Creditors:—				Cash:—		
On Open Accounts ...		45,000		In hand ...	250	
Outstanding for Expenses		3,850		At Bank ...	4,000	
			48,850			4,250
X's Loan Account			4,000	Sundry Debtors ..	40,000	
X's Capital Account:—	Rs.			*Less* 5% Reserve for Doubtful Debts ...	2,000	
Balance on 1-1-40 ...		16,000			38,000	
Add Salary ...	2,400			*Less* 5% Reserve for Discounts	1,900	
,, Interest ...	800					36,100
,, Profit ...	17,178	20,378		Stock:—		
		36,378		Finished Goods ...	28,000	
Less Drawings ...		3,600		Work-in-Process ..	4,500	
			32,778	Raw Materials ..	4,000	
Y's Capital Account:—						36,500
Balance on 1-1-40 ...		25,000		Patents ...	2,000	
Add Salary ...	1,800			*Less* 10% Depreciation ...	200	
,, Interest ...	1,250					1,800
,, Profit ...	11,452	14,502		Plant & Machinery ...	20,000	
		39,502		*Less* 7½% Depreciation ...	1,500	18,500
Less Drawings ...		2,500		Land & Buildings ...	26,000	
			37,002	*Less* 2% Depreciation ...	520	25,480
		Rs.	1,22,630		Rs.	1,22,630

Goodwill on Admission of a Partner.—When a sole trader who has been carrying on a successful business for some time, or an existing partnership firm admits a new partner either for introduction of additional capital or influence and the consequent extension of business, or for the purpose of bringing exceptional skill or fresh energy into the business, the new-comer is required to pay some premium to compensate the existing owner or owners of the business for the surrender of a part of the profits which he or they had been hitherto enjoying in full. Such compensation or 'premium' paid by an incoming partner on taking a share in an established firm is called "Goodwill" and is quite distinct from any amount that he may have agreed to bring in as capital. Goodwill may thus be looked upon as a compensation paid by a new-comer in an established business to the existing proprietors thereof for their past efforts and the risk of capital they underwent to bring the business in its present stage of reputation and profit-earning capacity, and in return for their agreeing to forego a share of future profits for his benefit. It must clearly be understood, however, that goodwill only attaches itself to a business which has been yielding super-profits (i.e. more than average profits returned by other businesses in the same line of trade) in the past and where there is a reasonable likelihood of equally profitable conditions being maintained in the future. In fact, it is a payment made by the new-comer in the hope and the chance that the benefit arising from the reputation and connections already formed will continue in the future, and that whereas he would be taking a share in the profits from a ready-made business for which the old proprietors laboured in the past, he would save himself the risk of capital and the trouble and anxiety he would have had to undergo if he were to start a new business on his own.

Goodwill is always a partnership property and it goes with the business. Evidently, therefore, the sum received on account of goodwill from a new-comer would belong to the existing partners in their profit-sharing proportions, and it would be credited to their respective Capital Accounts. Whether the amount received by way of goodwill should be withdrawn by the old partners or whether the same be retained in the business as additional working capital is a matter of agreement between the existing proprietors and the new-comer. It is important to note that once a new partner enters a firm, he acquires by virtue of his position two rights: (*a*) the right to share in the assets of the partnership; and (b) the right to participate in the division of the profits. Thus, once a person is admitted into partnership, he becomes entitled to share in all profits and gains arising from the date of his entry irrespective of whether such profits accrue from the trade or from an amount realised on the sale of an asset in excess of its book value or from the sale of an asset which does not so far appear in the books, unless such new-comer is precluded from taking a share arising from any particular source by express agreement. Thus, if after the admission of a partner, the goodwill of a firm is realised, the new-comer along with the other partners will be entitled to claim his share thereof, unless it can be shown that under an express arrangement he was not to share in such profits; and, it will be no answer for this purpose to say that he paid nothing for his share of goodwill at the time he entered the partnership. If it is desired that he should have no interest in the firm's goodwill, it is perfectly competent for all the partners to make an agreement upon the admission of a partner that the latter should have no interest in the firm's goodwill.

Different Methods of dealing with Goodwill.—The method of treating Goodwill in the books of accounts at the time of admission of a new partner varies considerably.

(1) Occasionally, it is not brought into the partnership books at all, but is paid by separate cheques to the old partners by the new-comer, and is treated as a matter outside the business.

(2) In some cases, it is recorded as received in the books of the firm, but is drawn out immediately in cash by the old partners in their profit-sharing proportions.

(3) In other cases, the amount received is entered in the firm's books and is retained in the business as additional capital, after the old partners' Capital Accounts have been duly credited with their legitimate shares.

(4) Sometimes, the Goodwill amount is not brought in cash by the new-comer, but a Goodwill Account is raised (opened) and the Capital Accounts of the old partners are credited with their respective shares.

It may be mentioned, however, that it is to the advantage of the newly admitted partner to see that the amount paid by him for Goodwill is brought into record in the firm's books. It is equally advantageous to arrange that this amount be allowed to remain in the firm in proportionate credits to the old partners' Capital Accounts so as to leave so much more working capital in the business.

But once Goodwill is brought into record for a definite purpose, viz. for adjusting the Capital Accounts of the existing partners before the admission of a new partner, it is not necessary nor is it desirable that Goodwill Account should be allowed to remain in the firm's books. It can once more be treated as an unrecorded asset, and written back to the Capital Accounts of the partners. In so writing back the Goodwill Account, it should be debited to the Capital Accounts of all the partners including the new-comer in their new profit-sharing proportions, for it will be in these proportions that the partners will share the future profits including the profit arising from the sale of Goodwill.

ADJUSTMENT OF ACCOUNTS ON ADMISSION OF A PARTNER

The following illustrations will serve to indicate the various features of Goodwill as arise in partnerships and its treatment in accounts:—

When the Incoming Partner brings Goodwill in Cash.

ILLUSTRATION 52.

The Balance Sheet of Messrs P, Q and R on 31st August 1940 showed as follows:—

Liabilities	Rs.	*Assets*	Rs.
Creditors ...	5,850	Cash in Hand ...	100
Capital Accounts:—		Cash at Bank ...	1,500
P ...	8,400	Debtors ...	2,500
Q ...	6,800	Stock ...	4,000
R ...	4,800	Fixtures ...	250
		Machinery ...	7,500
		Land and Buildings ..	10,000
Rs.	25,850	Rs.	25,850

The profits were shared by P, Q and R in proportions of 3/5, 1/5 and 1/5, respectively. They admit S into partnership who is to bring Rs. 6,000 as Goodwill (which sum is to remain in the firm) and Rs. 6,000, as his Capital. Future profits are to be divided in proportion to the Capitals as adjusted Show the Capital and Goodwill Accounts as they would stand in the Ledger Show also the Balance Sheet of the new firm and the proportions in which the partners will share future profits.

Solution.

P's CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance carried down ...	12,000	By Balance b/fd. ..	8,400
		" 3/5ths share of Goodwill ...	3,600
Rs.	12,000	Rs.	12,000
		By Balance brought down ...	12,000

Q's CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance carried down ...	8,000	By Balance b/fd. ...	6,800
		" 1/5th share of Goodwill ..	1,200
Rs.	8,000	Rs.	8,000
		By Balance brought down ...	8,000

R's CAPITAL ACCOUNT

	Rs.		Rs.
To Balance carried down ...	6,000	By Balance b/fd. ..	4,800
		,, 1/5th share of Goodwill ..	1,200
Rs.	6,000	Rs.	6,000
		By Balance brought down ...	6,000

S's CAPITAL ACCOUNT.

	Rs.		Rs.
		By Bank ..	6,000

GOODWILL ACCOUNT.

	Rs.		Rs.
To P's Capital Account:— 3/5ths share ...	3,600	By Bank ..	6,000
,, Q's Capital Account:— 1/5th share ...	1,200		
,, R's Capital Account:— 1/5th share ...	1,200		
Rs.	6,000	Rs.	6,000

New share of Profits: P = 3/8ths; Q = 1/4th; R = 3/16ths; and S = 3/16ths.

BALANCE SHEET OF THE NEW FIRM.

Liabilities	Rs.	*Assets*	Rs.
Creditors ...	5,850	Cash in Hand ...	100
Capital Accounts:—		Cash at Bank ...	13,500
P ...	12,000	Debtors ..	2,500
Q ...	8,000	Stock ...	4,000
R ...	6,000	Fixtures ...	250
S ...	6,000	Machinery ...	7,500
		Land and Buildings ...	10,000
Rs.	37,850	Rs.	37,850

NOTE.—It would be clear from the above that the sum of Rs. 6,000 brought in by S as Goodwill is credited to Goodwill Account in the first instance from where it is transferred to the Capital Accounts of P, Q and R (the old proprietors) in the same proportions in which they were sharing profits or losses. If the amount of goodwill has to remain in the business, as in this illustration, the Capital Account of each of the old partners will increase to the extent of his share thereof. In the absence of any such stipulation, the old partners are entitled to withdraw the goodwill amount credited to their Capital Accounts.

ILLUSTRATION 53.

The Balance Sheet of A who had been carrying on business as a sole trader for the last several years showed as follows on 31st December 1940 :—

Liabilities	Rs.	*Assets*	Rs.
Creditors ...	27,000	Cash at Bank ..	2,500
A's Capital ...	30,000	Debtors ...	20,000
		Bills Receivable ...	3,000
		Stock-in-trade ...	30,000
		Office Furniture ...	1,500
Rs.	57,000	Rs.	57,000

On 1st January 1941, he admitted B into partnership on the terms that B should take a fifth share in the future profits and that he should bring in proportionate capital. It was also agreed that A's Capital Account should be raised to Rs. 40,000 as he had created a Goodwill by bringing his business in a state of established reputation. Show the opening Balance Sheet of the new firm on the above arrangement being carried out.

Solution.

BALANCE SHEET OF THE NEW FIRM.

Liabilities	Rs.	*Assets*	Rs.
Sundry Creditors ...	27,000	Cash at Bank ...	12,500
A's Capital Account ...	40,000	Debtors ..	20,000
B's " " ...	10,000	Bills Receivable ..	3,000
		Stock-in-trade ...	30,000
		Office Furniture ...	1,500
		Goodwill ..	10,000
Rs.	77,000	Rs.	77,000

NOTE.—The Goodwill of A's business which was hitherto unrecorded is now brought into record as arranged with B, and A has been given full credit in respect thereof. The corresponding asset under the heading of Goodwill Account now appears on the assets side of the Balance Sheet. If the new firm decides to wipe off Goodwill Account from their books, the same may be brought about by debiting the Capital Accounts of A and B in proportions of 4 and 1 and crediting the Goodwill Account.

ILLUSTRATION 54.

F and G with capitals of Rs. 7,500 and Rs. 10,000 respectively agree to admit H into partnership as from 1st June 1940, upon the terms that H should bring in Rs. 8,000, of which Rs. 3,000 is to be regarded as a premium, and that he is to be given a fourth share in the future profits. Draft the Journal Entries assuming that H brings in the necessary amount and that the Goodwill amount after being brought into record is withdrawn by the partners entitled thereto. Show also the Capital Accounts of the partners and the Goodwill Account. State the future profit-sharing proportions of F, G and H.

Solution.

JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
Bank Account	Dr.		8,000	
To H's Capital Account				5,000
„ Goods Account				3,000
(Being the receipt of Capital and Goodwill amounts from H).				
Goodwill Account	Dr.		3,000	
To F's Capital Account				1,500
„ G's Capital Account				1,500
(Being the allocation of Goodwill amount between the old partners).				
F's Capital Account	Dr.		1,500	
G's Capital Account	„		1,500	
To Bank Account				3,000
(Being the withdrawal by the old partners of their share of Goodwill).				

F's CAPITAL ACCOUNT.

	Rs.		Rs.
To Bank ..	1,500	By Balance b/fd. ...	7,500
„ Balance c/d. ...	7,500	„ Goodwill Account—Half share ...	1,500
Rs.	9,000	Rs.	9,000
		By Balance b/d. ...	7,500

G's CAPITAL ACCOUNT.

	Rs.		Rs.
To Bank ..	1,500	By Balance b/fd. ...	10,000
„ Balance c/d. ...	10,000	„ Goodwill Account—Half share ...	1,500
Rs.	11,500	Rs.	11,500
		By Balance b/d. ..	10,000

H's CAPITAL ACCOUNT.

	Rs.		Rs.
		By Bank ...	5,000

GOODWILL ACCOUNT.

	Rs.		Rs.
To F's Capital Account—transfer ...	1,500	By Bank ...	3,000
„ C's Capital Account—transfer ...	1,500		
Rs.	3,000	Rs	3,000

As H is to get one-fourth share of the profits, the remaining three-fourths will have to be shared by the original partners in their former proportions. Therefore, the new proportions will be:—

F $\frac{1}{2}$ of $\frac{3}{4}$ths = 3|8ths, G $\frac{1}{2}$ of $\frac{3}{4}$ths = 3|8ths and H 2|8ths.

F 3|8, G 3|8, H 2|8.

NOTES.—(*a*) The amount received for goodwill has been credited to F and G in equal shares, as in the absence of any agreement to the contrary, the partners are deemed to be equal sharers in profits.

(*b*) As the amount credited in respect of goodwill to each of the old partners on his Capital Account has been withdrawn by him as per arrangement, the original capital remains the same. The advantage, however, is that the fact as to the amount having been paid in as goodwill and subsequently withdrawn by the old partners is brought into record.

Profit and Loss Adjustment Account.—It may be that during the continuance of the partnership business, usual percentages of depreciation may have been provided on the fixed assets before arriving at the periodical net results, and the stock-in-trade and the other floating assets may have been valued on some basis as mutually agreed upon by the partners, but fluctuations in value of Investments may have been ignored, or the provision in respect of Doubtful Debts or depreciation may not be adequate, or that appreciation in the value of assets like land and building may not have been brought into record so far. Now that an outsider is to be admitted into partnership, it becomes necessary to see that all the firm's assets are brought in at their true values on the date of such admission, in order that neither the existing partners nor the new-comer may be put to any disadvantage. For this purpose, the book values of the firm's assets would be scrutinised by the old partners as also the incoming partner with a view to ascertain if any re-adjustment in values is necessary. Whatever adjustments are then mutually determined upon as equitable, are given effect to in the books of the old firm in order that the assets may be transferred in the new firm's books at their agreed values. Any such depreciation or appreciation in the book values of assets is brought about by means of an account called Profit and Loss Adjustment Account. This account would be debited and the account of the asset concerned would be credited when the book value of any asset has to be decreased, whereas in case of increase in the value of any asset, such asset account would be debited and the Profit and Loss Adjustment Account would be credited. The Profit and Loss Adjustment Account will be closed by transfer to the Capital Accounts of the old partners in their profit-sharing proportions.

ILLUSTRATION 55.

The following was the Balance Sheet of D, E and F on 1st June 1926:—

BALANCE SHEET.

Liabilities	Rs.	*Assets*	Rs.
Creditors on Open Accounts ...	1,100	Cash ...	200
Creditors for Loan ..	2,000	Debtors ...	3,600
Capital Accounts:—		Stock ...	3,800
D ...	5,600	Furniture ...	800
E ...	4,200	Building Account ...	6,500
F ...	2,000		
Rs.	14,900	Rs.	14,900

They agreed to take H into partnership and give him a fourth share in the profits on the following terms:

(1) That H should bring Rs. 3,000 for Goodwill and Rs. 5,000 as Capital.
(2) That the Goodwill amount should not be left in the business.
(3) That Stock and Furniture be depreciated by 10%.
(4) That a Reserve of 5% on Debtors be created for Doubtful Debts.
(5) That the value of the Building having appreciated, the Building Account should be raised to Rs. 9,000.

Give the entries necessary to give effect to the above arrangement, the Capital and Goodwill Accounts, and show the opening Balance Sheet of the firm as newly constituted.

Solution.

JOURNAL ENTRIES.

Particulars		L.F.	Rs.	Rs.
Profit and Loss Adjustment Account	Dr.		640	
To Stock				380
„ Furniture				80
„ Reserve for Doubtful Debts				180
(Being the amounts written off Stock and Furniture and provision made for Doubtful Debts as per the agreement dated —).				
Building Account	Dr.		2,500	
To Profit and Loss Adjustment Account				2,500
(Being the appreciation in the value of Building brought into account as per the agreement dated —).				
Profit and Loss Adjustment Account	Dr.		1,860	
To D's Capital Account				620
„ E's „ „				620
„ F's „ „				620
(Being transfer of credit balance of Profit and Loss Adjustment Account to the original partners' Capital Accounts in equal shares).				
Bank	Dr.		8,000	
To Goodwill Account				3,000
„ H's Capital Account				5,000
(Being receipt of Capital and Goodwill amount from H).				
Goodwill Account	Dr.		3,000	
To D's Capital Account				1,000
„ E's „ „				1,000
„ F's „ „				1,000
(Being allocation of Goodwill amount among the old partners in equal shares).				
D's Capital Account	Dr.		1,000	
E's „ „	„		1,000	
F's „ „	„		1,000	
To Bank				3,000
(Being withdrawal by the old partners of the share of Goodwill).				

D's CAPITAL ACCOUNT.

	Rs.		Rs.
To Bank ...	1,000	By Balance b/d. ...	5,600
„ Balance carried down ...	6,220	„ 1/3rd share of Goodwill ...	1,000
		„ Profit and Loss Adjustment Account ...	620
Rs.	7,220	Rs.	7,220
		By Balance brought down ...	6,220

E's CAPITAL ACCOUNT.

		Rs.			Rs.
To Bank	...	1,000	By Balance b/fd.	..	4,200
,, Balance carried down	...	4,820	,, 1/3rd share of Goodwill	...	1,000
			,, Profit and Loss Adjustment Account	...	620
	Rs.	5,820		Rs.	5,820
			By Balance brought down	...	4,820

F's CAPITAL ACCOUNT.

		Rs.			Rs.
To Bank	..	1,000	By Balance b/fd.	...	2,000
,, Balance carried down	..	2,620	,, 1/3rd share of Goodwill	...	1,000
			,, Profit and Loss Adjustment Account	...	620
	Rs.	3,620		Rs.	3,620
			By Balance brought down	...	2,620

H's CAPITAL ACCOUNT.

		Rs.			Rs.
			By Bank	...	5,000

GOODWILL ACCOUNT.

		Rs.			Rs.
To D's Capital Account	...	1,000	By Bank	...	3,000
,, E's [illegible] do.	..	1,000			
,, F's [illegible]	..	1,000			
	Rs.	3,000		Rs	3,000

BALANCE SHEET OF THE NEW FIRM.

		Rs.	Assets		Rs.	Rs.
[illegible]	..	1,100	Cash at Bank	...		5,000
[illegible]	..	2,000	Debtors	...	3,600	
			Less Reserve	...	180	
[illegible]	..	[illegible]				3,420
[illegible]	...	[illegible]	Stock	...	..	3,420
[illegible]	..	[illegible]	Furniture	...	...	770
[illegible]	..	5,000	H. [illegible] Account	..	...	[illegible]
	Rs.	[illegible]			Rs.	21,[illegible]

When the Incoming Partner does not bring Goodwill in Cash.

Very often, the incoming partner is not in a position to bring anything in cash for goodwill, and under the circumstance, it becomes desirable to value the goodwill of the firm and record this asset in the firm's books before the admission of the new partner. This is done by debiting Goodwill Account and crediting the Capital Account of each of the old partners in the proportion in which he was sharing profits or losses. The Goodwill Account may then appear as an asset in the firm's Balance Sheet, year after year, at its original figure. When, however, a Goodwill Account is raised in the firm's books for any specific purpose, such as admission of a new partner, or death or retirement of a partner, it is not necessary that it should be allowed to stand there for an indefinite period. Usually, on such a purpose being fulfilled, it is written back to the Capital Accounts of the members of the newly constituted firm in the proportions in which they have agreed to share future profits.

ILLUSTRATION 56.

The Balance Sheet of the firm of A, B and C who are sharing profits and losses equally, showed as under:—

Liabilities	Rs.	*Assets*	Rs.
Creditors ...	1,500	Cash at Bank ...	2,400
Capital Accounts:—		Debtors ..	6,000
A ...	9,000	Stock ...	2,800
B ...	8,000	Horses and Carts ...	500
C ...	5,700	Freehold ...	12,500
Rs.	24,200	Rs.	24,200

They admit D into partnership on his bringing Rs. 6,000, as Capital. D being unable to bring in anything for Goodwill, it is agreed that the Goodwill of the firm be valued at Rs. 4,800 and a goodwill account be raised in the firm's books.

On the conditions being carried out, the Balance Sheet of the new firm will stand as follows:—

Liabilities	Rs.	*Assets*	Rs.
Creditors ...	1,500	Cash at Bank ...	8,400
Capital Accounts:—		Debtors ...	6,000
A ...	10,600	Stock ...	2,800
B ...	9,600	Horses and Carts ...	500
C ...	7,300	Freehold ..	12,500
D ...	6,000	Goodwill ..	4,800
Rs.	35,000	Rs.	35,000

ILLUSTRATION 57.

A and B shared profits in proportions of 3 and 2 and had Capitals of Rs. 20,000 and Rs. 15,000 respectively. They agree to admit C into partnership as from 1st January 1940 on the following terms in return for a third share in future profits: (*a*) That C should bring in Rs. 20,000 as Capital; (*b*) That, as C is unable to bring his share of Goodwill in cash, the Goodwill of the firm be valued at Rs. 15,000 and a Goodwill Account be raised in the firm's books. Set out the Journal Entries required, the Capital Accounts of the partners and the Goodwill Account. State the future profit-sharing proportions of the partners.

Solution.

JOURNAL ENTRIES.

		L. F.	Rs.	Rs.
Bank Account	Dr.		20,000	
To C's Capital Account				20,000
(Being the amount brought in by C as his capital).				
Goodwill Account	Dr.		15,000	
To A's Capital Account				9,000
„ B's Capital Account				6,000
(Being the Goodwill raised in the firm's books and the corresponding credit to the old partners in their profit-sharing proportions).				

A's CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance c/d. ...	29,000	By Balance b/fd. ...	20,000
		„ Goodwill Account (3/5ths share) ...	9,000
Rs.	29,000	Rs.	29,000
		By Balance b/d. ...	29,000

B's CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance c/d. ..	21,000	By Balance b/fd. ...	15,000
		„ Goodwill Account (2/5ths share) ...	6,000
Rs.	21,000	Rs.	21,000
		By Balance b/d. ...	21,000

C's CAPITAL ACCOUNT.

	Rs.		Rs.
		By Bank ...	20,000

GOODWILL ACCOUNT.

	Rs.		Rs.
To A's Capital Account ...	9,000	By Balance c/d. ...	15,000
„ B's Capital Account ...	6,000		
Rs.	15,000	Rs.	15,000
To Balance b/d ...	15,000		

A will get $3/5 \times 2/3 = 6/15$, B will get $2/5 \times 2/3 = 4/15$, and C will get $1/3 = 5/15$.

NOTE.—It will be noted in this case, that the incoming partner not having brought in his share of Goodwill in cash, it has become necessary to adjust the old partners' Capital Accounts by debiting a Goodwill Account in the books of the firm and crediting the old partners' Capital Accounts with their respective profit-sharing proportions thereof.

ILLUSTRATION 58.

Following up the above illustration, we will now assume that the partners decide to treat the Goodwill again as an unrecorded Asset by wiping off the Goodwill Account from their books. The entry necessary to bring this about will be to debit the Capital Account of each of the partners in his new profit-sharing proportion and credit the Goodwill Account. After this step has been taken, the Capital and Goodwill Accounts will appear as under:—

A's CAPITAL ACCOUNT.

	Rs.		Rs.
To Goodwill Account— 6/15ths share ...	6,000	By Balance b/fd. ...	20,000
,, Balance c/d. ...	23,000	,, Goodwill Account— 3/5ths share ...	9,000
Rs.	29,000	Rs.	29,000
		By Balance b/d. ...	23,000

B's CAPITAL ACCOUNT.

	Rs.		Rs.
To Goodwill Account— 4/15ths share ...	4,000	By Balance b/fd. ...	15,000
,, Balance c/d. ...	17,000	,, Goodwill Account— 2/5ths share ...	6,000
Rs.	21,000	Rs.	21,000
		By Balance b/d. ...	17,000

C's CAPITAL ACCOUNT.

	Rs.		Rs.
To Goodwill Account— 5/15ths share ...	5,000	By Bank ...	20,000
,, Balance c/d. ...	15,000		
Rs.	20,000	Rs.	20,000
		By Balance b/d. ...	15,000

GOODWILL ACCOUNT.

	Rs.		Rs.
To A's Capital Account ...	9,000	By A's Capital Account ...	6,000
,, B's Capital Account ...	6,000	,, B's ,, ,, ...	4,000
		,, C's ,, ,, ...	5,000
Rs.	15,000	Rs.	15,000

NOTE.—From the above, it will be clear that A benefits to the extent of Rs. 3,000 and B to the extent of Rs. 2,000, whereas C's Capital Account gets a debit of Rs. 5,000. If C had brought in his 1/3rd share of Goodwill, namely Rs. 5,000 in cash, Bank

Account would have been debited and the Capital Accounts of A and B would have been credited with Rs. 3,000 and Rs. 2,000 respectively, i.e., in the proportions of 3 and 2. The only difference in this case is that instead of Bank Account being debited, it is C's Capital that gets the debit as he failed to bring in his proportionate amount of Goodwill. The ultimate position of the old proprietors is thus just the same as in a case where the new-comer brings his share of Goodwill in cash. Goodwill Account having been written off, Goodwill again becomes a silent asset, and whenever any occasion arises in future to value Goodwill, the same will be credited to the partners in their profit-sharing proportions.

ILLUSTRATION 59.

The following is the Balance Sheet of the firm of A and B on 31st December 1940. They share profits in three-fifths and two-fifths respectively:—

		Rs.			Rs.
Creditors	...	62,000	Cash at Bank	...	5,000
Capital Accounts:—	Rs.		Land and Building	...	25,000
A	35,000		Plant and Machinery	...	35,000
B	35,000		Furniture and Fixtures	...	1,500
		70,000	Stock	...	20,500
			Debtors	...	45,000
	Rs.	1,32,000		Rs.	1,32,000

They take C into partnership on 1st January 1941, the terms being that he shall pay Rs. 5,000 as his share of the Goodwill, the amount to be retained in the business, and that he shall bring in Rs. 15,000 as Capital for a fourth share in the future profits. For the purpose of C's admission, the firm's assets were agreed to be re-valued as under:—Land and Building to be taken at Rs. 30,000; Plant and Fixtures to be reduced by 10% and a provision of 5% on debtors is to be made for Doubtful Debts. The Stock is to be taken at a value of Rs. 25,000. The excess of Capital Accounts of A and B over their due proportions of the sharing of profits in the new firm is to be transferred to their respective Loan Accounts. Set out the necessary Journal Entries, the Profit and Loss Adjustment Account, the opening Balance Sheet of the new firm and the Capital Accounts of the partners.

Solution.

JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
	Profit and Loss Adjustment Account ... ... Dr.		5,900	
	To Plant and Machinery			3,500
	„ Furniture and Fixtures			150
	„ Reserve for Doubtful Debts			2,250
	(Being the entry for writing down the values of assets adjusted).			
	Land and Buildings Account ... ... Dr.		5,000	
	Stock Account ... ... „		4,500	
	To Profit and Loss Adjustment Account			9,500
	(Being the amount of appreciation in values of the above assets adjusted).			
	Profit and Loss Adjustment Account ... ... Dr.		3,600	
	To A's Capital Account			2,160
	„ B's Capital Account			1,440
	(Being the Profit on adjustments transferred to partners' Capital Accounts in their profit-sharing proportions).			
	Bank Account ... ... Dr.		20,000	
	To C's Capital Account			15,000
	„ Goodwill Account			5,000
	(Being the amount of Capital and Goodwill brought in by C).			

JOURNAL ENTRIES—(*Contd.*)

		L. F.	Rs.	Rs.
Goodwill Account	Dr.		5,000	
To A's Capital Account				3,000
" B's Capital Account				2,000
(Being the allocation of Goodwill amount between the old partners)				
A's Capital Account	Dr.		13,160	
To A's Loan Account				13,160
(Being the amount of excess Capital transferred to his Loan Account as per agreement).				
B's Capital Account	Dr.		20,440	
To B's Loan Account				20,440
(Being the amount of excess Capital transferred to his Loan Account as per agreement).				

PROFIT & LOSS ADJUSTMENT ACCOUNT.

		Rs.		Rs.
To Plant & Machinery ..		3,500	By Land and Building ...	5,000
" Furniture & Fixtures ...		150	" Stock ...	4,500
" Reserve for Doubtful Debts ...		2,250		
" Transfer of profit to Capital Accounts:—	Rs.			
A 3/5ths	2,160			
B 2/5ths	1,440			
		3,600		
Rs.		9,500	Rs.	9,500

A's CAPITAL ACCOUNT.

	Rs.		Rs.
To A's Loan Account transfer ...	13,160	By Balance b/fd. ...	35,000
" Balance c/d. ...	27,000	" Profit & Loss Adjustment Account	2,160
		" Goodwill, 3/5ths share ...	3,000
Rs.	40,160	Rs.	40,160
		By Balance b/d. ...	27,000

B's CAPITAL ACCOUNT.

	Rs.		Rs.
To B's Loan Account transfer ..	20,440	By Balance b/fd. ...	35,000
" Balance c/d. ..	18,000	" Profit & Loss Adjustment Account	1,440
		" Goodwill, 2/5ths share ...	2,000
Rs.	38,440	Rs.	38,440
		By Balance b/d. ...	18,000

C's CAPITAL ACCOUNT.

		Rs.			Rs.
To Balance c/d.	...	15,000	By Bank	...	15,000
	Rs.	15,000		Rs.	15,000
			By Balance b/d.	...	15,000

BALANCE SHEET OF A, B AND C.

As at 1st January 1941.

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Sundry creditors	...	62,000	Cash at Bank	...	25,000
Loan Accounts—			Sundry Debtors	45,000	
A	13,160		*Less* Reserve for Doubtful Debts	2,250	
B	20,440				
		33,600			42,750
Capital Accounts:—			Stock	...	25,000
A	27,000		Furniture and Fixtures	...	1,350
B	18,000		Plant and Machinery	...	31,500
C	15,000		Land and Buildings	..	30,000
		60,000			
	Rs.	1,55 600		Rs.	1,55,600

NOTE.—The new profit-sharing proportions, in this case, will be:—

A $\frac{3}{5} \times \frac{3}{4} = \frac{9}{20}$; B $\frac{2}{5} \times \frac{3}{4} = \frac{6}{20}$ and C $\frac{1}{4} = \frac{5}{20}$.

ILLUSTRATION 60.

A and B sharing profits in proportions of three-fourths and one-fourth showed the following as their Balance Sheet on 31st December:—

	Rs.	Rs.			Rs.
Creditors	...	37,500	Cash at Bank	...	22,500
General Reserve	...	4,000	Bills Receivable	...	3,000
Capital Accounts:—			Debtors	...	16,000
A	30,000		Stock	...	20,000
B	16,000		Office Furniture	...	1,000
		46,000	Land and Buildings	...	25,000
	Rs.	87,500		Rs.	87,500

They admit C into partnership on 1st January 1932, on the following terms:—

(1) That C pays Rs. 10,000 as his Capital for a fifth share in the future profits.

(2) That a Goodwill Account be raised in the books of the new firm at a value of Rs. 20,000.

(3) That Stock and Fixtures be reduced by 10% and a 5% Reserve for Doubtful Debts be created on Debtors.

(4) That the value of Land and Buildings be appreciated by 20%.

(5) That the Capital Accounts of all the partners be re-adjusted on the basis of their profit-sharing arrangements and any additional amount be temporarily credited to their Current Accounts and be immediately withdrawn by them.

Set out the Journal Entries, the Profit & Loss Adjustment Account, the Capital Accounts of the partners, the Goodwill Account and the opening Balance Sheet of the new firm.

Solution.

JOURNAL ENTRIES.

Particulars	L. F.	Rs.	Rs.
Goodwill Account ... ... Dr.		20,000	
To A's Capital Account			15,000
" B's " "			5,000
(Being the Goodwill raised in the firm's books and its Distribution between the old partners).			
Profit & Loss Adjustment Account ... ... Dr.		2,900	
To Stock			2,000
" Office Furniture			100
" Reserve for Doubtful Debts			800
(Being the adjustment for writing down the values of assets).			
Land & Buildings Account ... ... Dr.		5,000	
To Profit & Loss Adjustment Account			5,000
(Being the adjustment of appreciation in the value of Land and Buildings).			
General Reserve Account ... ... Dr.		4,000	
To Profit & Loss Adjustment Account			4,000
(Being the transfer of Reserve to Profit & Loss Adjustment Account).			
Profit & Loss Adjustment Account ... ... Dr.		6,100	
To A's Capital Account			4,575
" B's " "			1,525
(Being the transfer of Profit arising from adjustments to Partners' Capital Accounts in their profit-sharing proportions).			
Bank ... ... Dr.		10,000	
To C's Capital Account			10,000
(Being the amount brought in by C as his Capital).			
A's Capital Account ... ... Dr.		19,575	
To A's Current Account			19,575
(Being the transfer of excess of Capital over profit-sharing proportion to his Current Account).			
B's Capital Account ... ... Dr.		12,525	
To B's Current Account			12,525
(Being the transfer of excess of Capital over his profit-sharing proportion to his Current Account).			
A's Current Account ... ... Dr.		19,575	
B's " " ... ... "		12,525	
To Bank			32,100
(Being the amount withdrawn by partners from their Current Account).			

PROFIT & LOSS ADJUSTMENT ACCOUNT.

Particulars	Rs.	Rs.	Particulars	Rs.
To Stock ...		2,000	By Land and Buildings ...	5,000
" Office Furniture ...		100	" General Reserve ...	4,000
" Reserve for Doubtful Debts ...		800		
" Transfer of profit to Capital Accounts—				
A $\frac{3}{4}$ths	4,575			
B $\frac{1}{4}$th	1,525			
		6,100		
Rs.		9,000	Rs	9,000

A's CAPITAL ACCOUNT.

	Rs.		Rs.
To A's Current Account—Transfer ..	19,575	By Balance b/fd. ...	30,000
„ Balance c/d. ...	30,000	„ Goodwill Account— $\frac{3}{4}$ths share ...	15,000
		„ Profit & Loss Adjustment Account	4,575
Rs.	49,575	Rs.	49,575
		By Balance b/d. ...	30,000

B's CAPITAL ACCOUNT.

	Rs.		Rs.
To B's Current Account—Transfer ...	12,525	By Balance b/fd. ..	16,000
„ Balance c/d. ...	10,000	„ Goodwill Account— $\frac{1}{4}$th share ...	5,000
		„ Profit & Loss Adjustment Account	1,525
Rs.	22,525	Rs.	22,525
		By Balance b/d. ...	10,000

C's CAPITAL ACCOUNT.

	Rs.		Rs.
		By Bank Account ...	10,000

GOODWILL ACCOUNT.

	Rs.		Rs.
To A's Capital Account ..	15,000	By Balance c/d. ...	20,000
„ B's „ „ ..	5,000		
Rs.	20,000	Rs	20,000
To Balance b/d. ..	20,000		

BALANCE SHEET OF A, B AND C.

As at 1st January 1932

Liabilities	Rs.	Rs.	*Assets*	Rs	Rs.
Sundry Creditors ..		37,500	Cash at Bank ...		400
Capital Accounts :—			Bills Receivable ..		3,000
A	30,000		Sundry Debtors	16,000	
B	10,000		*Less* Reserve for Doubtful		
C	10,000		Debts at 5%	800	
		50,000			15,200
			Stock ..		18,000
			Office Furniture ...		900
			Land & Building ...		30,000
			Goodwill ...		20,000
Rs.		87,500	Rs.		87,500

NOTES.—(*a*) From the above Balance Sheet, it is clear that the Capitals of the partners now bear the same proportions as their profit-sharing arrangements.

(*b*) It must further be noted that the General Reserve of Rs. 4,000 in the books of A and B which represented undistributed profits is adjusted on their Capital Accounts through the Profit & Loss Adjustment Account, for, if this is not done before C's admission, C would claim his share therein.

(*c*) If the partners decide to wipe off the Goodwill Account from their books, they may do so by crediting Goodwill Account and debiting each partner's Capital Account in his new profit-sharing proportion.

Guarantee of Assets and Liabilities by Old Firm.—Sometimes, the valuation of the assets and liabilities of the old firm may be required by the new-comer to be guaranteed by the existing partners, in order that he may be protected against any loss that may subsequently arise due to over-valuation of any assets or under-valuation or omission of any liability. Where such a guarantee is given, the new partner will not have to bear any loss arising on this head, but the same will be charged to the Capital Accounts of the old partners in their former proportions.

Guarantee of Minimum Share to New-Comer.—Occasionally, a junior partner is offered a small percentage of the net profits, but at the same time, a minimum amount is guaranteed by the other partners as his share out of the profits each year. In such a circumstance, the amount thus guaranteed to the junior partner will be a first charge on the net profits, after which the other partners will share the balance in their proportions as agreed *inter se*. Where such a guarantee is given by one of the senior partners, the allocation of the net profits will be first made amongst all the partners in their agreed proportions, and if the share falling to the junior partner falls short of the amount guaranteed, such deficit would be made good by debiting the Capital Account of the senior partner (the guarantor) and crediting the Capital Account of the junior partner with the amount of the deficit. Where the Capitals of the partners are fixed, the Current Account of the partner guaranteeing would be debited and the Current Account of the junior partner would be credited with the necessary sum.

Adjustment of Profits on Work-in-Progress.—It may be that the firm may have large orders in hand, part of which remain to be executed, or there may be profitable contracts already undertaken and the existing partners are unwilling to give benefit of such transactions to the new-comer. Where there is any such agreement whereby the profits on certain accounts are reserved for the old partners, care will have to be taken to see that such items of gain are not merged in the general Profit and Loss Account but are transferred to the Capital Accounts of the old proprietors in their former profit-sharing proportions. In order to compensate the old partners in respect of profitable transactions on hand and to avoid keeping separate accounts of these, a method usually followed is for the new-comer to agree to a fixed amount being credited to the old partners in certain stated shares out of the first year's profits prior to distribution thereof amongst all the partners in the agreed proportions.

ILLUSTRATION 61.

A and B have been carrying on business in partnership since 1925, with Capitals of Rs. 30,000 and Rs. 10,000 respectively and sharing profits in the same proportions. The net profits for the years 1928, 1929 and 1930 were Rs. 25,000, Rs. 30,000 and Rs. 35,000 respectively. It is agreed that from 1st January 1931, B is to have 2/5ths share in the future profits and for that purpose he should pay a Goodwill for the further proportion of profits, such Goodwill to be valued on the basis of two years' purchase calculated on the average of the past three years' profits. The Capital Accounts of the partners are to be adjusted in accordance with the new profit-sharing arrangements, A being allowed to withdraw any additional amount standing to his Capital Account. Pass Journal Entries to record the above arrangement, assuming that B has brought in the necessary sum. Show also the Capital Accounts of the partners.

JOURNAL ENTRIES.

		L.F.	Rs.	
Bank Account	Dr.		15,000	
To Goodwill Account				9,000
„ B's Capital Account				6,000
(Being the amount brought in by B in respect of Goodwill for additional share in profits, and further capital in proportion to the new profit-sharing arrangement)				
Goodwill Account	Dr.		9,000	
To A's Capital Account				9,000
(Being the transfer of Goodwill to A's Capital Account as a premium for his loss of 3/20ths share in the future profits as per the arrangement).				
A's Capital Account...	Dr.		15,000	
To Bank				15,000
(Being the withdrawal of his Capital in excess of his profit-sharing proportion).				

A's CAPITAL ACCOUNT.

	Rs.		Rs.
To Bank ...	15,000	By Balance b/fd. ...	30,000
„ Balance c/d. ...	24,000	Goodwill Account ...	9,000
Rs.	39,000	Rs.	39,000
		By Balance b/d. ...	24,000

B's CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance c/d. ...	16,000	By Balance b/fd. ...	10,000
		„ Bank ...	6,000
Rs.	16,000	Rs.	16,000
		By Balance b/d. ...	16,000

NOTES—The value of Goodwill will be ascertained as under:—

		Rs.
Profits for 1928	.. ..	25,000
do. 1929	.. ..	30,000
do. 1930	.. ..	35,000
	3)	90,000

30,000 × 2 = Rs. 60,000

The additional share of B is ascertained as under:—

$\frac{2}{5} - \frac{1}{4} = \frac{3}{20}$; $\frac{3}{20} \times 60{,}000 =$ Rs. 9,000 to be brought in by B for Goodwill.

The adjustment of B's Capital:

1|4 share : 2|5 share : : Rs. 10,000 Capital : Rs. 16,000 Capital.

B has to bring Rs. 6,000 as additional Capital.

ADJUSTMENT ON RETIREMENT OF A PARTNER.

On the retirement or death of a partner, his share of Goodwill will have to be valued in accordance with the terms of the partnership deed, and in the absence of such a provision in the agreement, the partners will have to come to a mutual understanding as to the amount to be credited to the outgoing partner in respect of his share of Goodwill. The retiring partner will then be paid out his Capital, the share of Goodwill he is entitled to and the share of profits due to him that may have accrued since the last Balance Sheet to the date of his retirement. In case of a deceased partner, the amount ascertained as due and payable to his estate, will be handed over to his legal representatives. For the purpose of ascertaining the fair amount due to the outgoing partner in respect of his share of the firm's assets, it sometimes becomes necessary to adjust the book values of the assets in order to bring them on a line with their then true values. The necessary adjustments, if any, thus agreed upon between the partners, will be made through the Profit and Loss Adjustment Account as already explained, and the result of such adjustments as shown by this account will be credited or debited to all the partners' Capital Accounts in their respective profit-sharing proportions.

In order to avoid disputes and the consequent litigation which are so commonly experienced between the surviving partners and the representatives of the deceased partner, it is highly desirable that the Partnership Deed must be most carefully drafted and must include clauses clearly defining the manner in which the amount due to a deceased partner's estate is to be ascertained and how the accounts of the partners *inter se* are to be adjusted under such a circumstance. Such an agreement must indicate the procedure to be adopted in regard to the following matters:—

1. The basis of arriving at the deceased partner's share of profits from the date of the last Balance Sheet to the date of his death;

2. Whether the Capital of the deceased partner is to be taken at the balance standing on his Capital Account at the date of death, or whether the assets of the firm are to be revalued for the purpose of adjusting the deceased partner's Capital;

3. The basis of ascertaining the value of Goodwill in order that the Capital Account of the deceased partner may be credited with his proportionate share thereof; and

4. The mode of payment of the deceased partner's share.

Where any such procedure is laid down in the partnership agreement, the same will have to be rigidly followed in ascertaining the ultimate amount payable by the surviving partners to the legal representatives of the deceased partner.

In order not to cripple the financial resources of the firm, an arrangement is sometimes made with the retiring partner or the representatives of the deceased partner, whereby the amount ascertained as due and payable is agreed to be spread over a number of years, interest at an agreed rate being paid on the balance outstanding from year to year. In such a case, the ultimate balance as adjusted on the Capital Account of the retiring or deceased partner should be transferred to a separate Loan Account in the name of the retiring partner or the representatives of the deceased partner, as the case may be. The Capital Account of the retiring or the deceased partner will thus be closed.

ILLUSTRATION 62.

The Capitals of E, F and G, who were sharing profits 4|7ths, 2|7ths and 1|7th respectively, on 31st December 1940 stood at Rs. 6,000, Rs. 5,000 and Rs. 4,500 respectively, on which date G retires from the firm. The Goodwill of the firm has been valued at Rs 3,500 and it is desired to raise a Goodwill Account in the firm's books.

The Capital and Goodwill Accounts will show thus:—

E's CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance carried down ..	8,000	By Balance b/fd. ...	6,000
		„ 4/7ths share of Goodwill ...	2,000
Rs.	8,000	Rs.	8,000
		By Balance brought down ...	8,000

F's CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance carried down ...	6,000	By Balance b/fd. ...	5,000
		„ 2/7ths share of Goodwill ..	1,000
Rs.	6,000	Rs.	6,000
		By Balance brought down ...	6,000

G's CAPITAL ACCOUNT.

	Rs.		Rs.
To Bank ...	5,000	By Balance b/fd. ..	4,500
		„ 1/7th share of Goodwill ...	500
Rs.	5,000	Rs.	5,000

GOODWILL ACCOUNT.

	Rs.		Rs.
To E's Capital Account ...	2,000	By Balance carried down ...	3,500
„ F's „ „ ...	1,000		
„ G's „ „ ...	500		
Rs.	3,500	Rs.	3,500
To Balance b/d.	3,500		

NOTE.—If desired, the Goodwill Account may now be written back to the Capital Accounts of E and F in the proportions of 2|3rds and 1|3rd, and thus closed.

ILLUSTRATION 63.

If it is not desired to raise a Goodwill Account at its full value in the firm's books, the working would appear as follows :—

GOODWILL ACCOUNT.

		Rs. a. p.			Rs. a. p.
To G's Capital Account	...	500 0 0	By E's Capital Account	...	333 5 4
			„ F's „ „	...	166 10 8
	Rs.	500 0 0		Rs.	500 0 0

E's CAPITAL ACCOUNT.

		Rs. a. p.			Rs. a. p.
To 2/3rds of G's share of Goodwill written back	...	333 5 4	By Balance b/fd.	...	6,000 0 0
„ Balance c/d.	...	5,666 10 8			
	Rs.	6,000 0 0		Rs.	6,000 0 0
			By Balance b/d.	...	5,666 10 8

F's CAPITAL ACCOUNT.

		Rs. a. p.			Rs. a. p.
To 1/3rd of G's share of Goodwill written back	...	166 10 8	By Balance b/fd.	...	5,000 0 0
„ Balance c/d.	...	4,833 5 4			
	Rs.	5,000 0 0		Rs.	5,000 0 0
			By Balance b/d.	...	4,833 5 4

G's CAPITAL ACCOUNT.

		Rs.			Rs.
To Bank	...	5,000	By Balance b/fd.	...	4,500
			„ 1/7th share in Goodwill	...	500
	Rs.	5,000		Rs.	5,000

NOTE.—When it is not desired to raise a Goodwill Account at its full value, as shown above, Goodwill Account would be debited only with the amount payable to the retiring partner and the latter's Capital Account would be credited with same. The debit balance on Goodwill Account would then immediately be written back to the Capital Accounts of the remaining partners in the proportions in which they now share the profits. A still shorter method to bring about the same result would be to credit the outgoing partner's Capital Account with his share of the Goodwill and debit the same to the remaining partner's Capital Accounts in the same proportions in which they would share future profits or losses among themselves.

ILLUSTRATION 64.

The Capitals of E, F and G, who were sharing profits 4|7ths, 2|7ths and 1|7th were Rs. 6,000, Rs. 5,000 and Rs. 4,500 respectively on 31st December 1922, on which date G retires from the firm. It was agreed that in case of retirement of a partner, the Goodwill of the firm would be valued on the average of the last three years' profits and the payment of the retiring partner's share of Goodwill and Capital to be made by annual instalments of Rs. 2,000 each, interest at 5% being calculated on the unpaid balance. The first instalment was paid on 31st December 1923. The profits for the years 1920, 1921 and 1922 were Rs. 4,300, Rs. 3,800 and Rs. 2,400.

Show the working of G's Loan Account until the amount due to him has been paid off.

Solution.

G's LOAN ACCOUNT.

		Rs.	a	p.			Rs.	a.	p.
1923					1923				
Dec. 31	To Bank ...	2,000	0	0	Jan. 1	By G's Capital Account Balance transferred	4,500	0	0
	„ Balance c/d. ...	3,250	0	0	„	„ 1/7th share in Goodwill ..	500	0	0
					Dec. 31	„ Interest ...	250	0	0
	Rs.	5,250	0	0		Rs.	5,250	0	0
1924					1924				
Dec. 31	To Bank ..	2,000	0	0	Jan. 1	By Balance b/d. ..	3,250	0	0
„	„ Balance c/d. ...	1,412	8	0	Dec. 31	„ Interest ..	162	8	0
	Rs.	3,412	8	0		Rs.	3,412	8	0
1925					1925				
Dec. 31	To Bank ..	1,483	2	0	Jan. 1	By Balance b/d. ..	1,412	8	0
					Dec. 31	„ Interest ..	70	10	0
	Rs.	1,483	2	0		Rs.	1,483	2	0

ILLUSTRATION 65.

C, D and E were partners, sharing profits in the proportions of one-half, one-third and one-sixth respectively. The Balance Sheet of the firm on 31st December, 1940 was as follows:—

		Rs.		Rs.	Rs.
Sundry Creditors ...		19,000	Cash at Bank		2,500
Bills Payable ...		5,000	Debtors	16,000	
Reserve Fund ...		12,000	*Less* Reserve	500	
Capital Accounts:—	Rs.				15,500
C	40,000		Stock ...		25,000
D	30,000		Motor Vans ...		8,000
E	25,000		Plant & Machinery ...		35,000
		95,000	Factory Building ...		45,000
Rs.		1,31,000	Rs.		1,31,000

D retires on that date subject to the following adjustments:—

(1) The Goodwill of the firm to be valued at Rs. 18,000;
(2) Plant to be depreciated by 10% and Motor Vans by 15%;
(3) Stock to be appreciated by 20% and Building by 10%; and
(4) The Reserve for Doubtful Debts to be increased by Rs. 1,950.

Pass the Journal Entries, give the Capital Accounts of the partners, the Profit and Loss Adjustment Account, the Goodwill Account and prepare the Balance Sheet of the continuing partners, as at 1st January 1941.

Solution.

JOURNAL ENTRIES.

	L. F.	Rs.	Rs.
Reserve Fund Account ... ... Dr.		4,000	
To D's Capital Account			4,000
(Being the share of Reserve Fund credited to the outgoing partner)			
Goodwill Account ... ... Dr.		6,000	
To D's Capital Account			6,000
(Being the proportionate value of Goodwill credited to the outgoing partner).			
C's Capital Account ... ... Dr.		4,500	
E's „ „ ... ... „		1,500	
To Goodwill Account			6,000
(Being the entry for wiping off the debit balance on Goodwill Account).			
Profit & Loss Adjustment Account ... ... Dr.		6,650	
To Plant & Machinery			3,500
„ Motor Vans			1,200
„ Reserve For Doubtful Debts Account			1,950
(Being the entry for writing down values of the above assets as agreed).			
Stock Account ... ... Dr.		5 000	
Factory Buildings ... ... „		4,500	
To Profit & Loss Adjustment Account			9,500
(Being the amount of appreciation in the values of the above assets).			
Profit & Loss Adjustment Account ... ... Dr.		2,850	
To C's Capital Account			1,425
„ D's „ „			950
„ E's „ „			475
(Being the transfer of profit on adjustments).			
D's Capital Account ... ... Dr.		40,950	
To D's Loan Account			40,950
(Being the transfer of Capital to his Loan Account).			

PROFIT & LOSS ADJUSTMENT ACCOUNT.

		Rs.		Rs.
To Plant & Machinery Account ...		3,500	By Stock Account ...	5,000
„ Motor Vans ...		1,200	„ Factory Buildings ...	4,500
„ Reserve for Doubtful Debts Account ...		1,950		
„ Profit transferred to partners' Capital Account :—	Rs.			
C 1/2	1,425			
D 1/3	950			
E 1/6	475			
		2,850		
Rs.		9,500	Rs.	9,500

C's CAPITAL ACCOUNT.

	Rs.		Rs.
To Goodwill Account ..	4,500	By Balance b/fd. ...	40,000
„ Balance c/d. ..	36,925	„ Profit & Loss Adjustment Account, ½ share ...	1,425
Rs.	41,425	Rs.	41,425
		By Balance b/d. ...	36,925

E's CAPITAL ACCOUNT.

	Rs.		Rs.
To Goodwill Account ...	1,500	By Balance b/fd. ...	25,000
„ Balance c/d. ..	23,975	„ Profit & Loss Adjustment Account, 1/6th share ..	475
Rs.	25,475	Rs.	25,475
		By Balance b/d. ...	23,975

D's CAPITAL ACCOUNT.

		Rs.			Rs.
1940 Dec. 31	To Balance transferred to D's Loan Account ...	40,950	1940 Dec. 31	By Balance b/fd. ...	30,000
				„ Reserve Fund Account .	4,000
				„ Goodwill Account ...	6,000
				„ Profit & Loss Adjustment Account ..	950
	Rs.	40,950		Rs.	40,950

GOODWILL ACCOUNT.

		Rs.			Rs.
1940 Dec. 31	To D's Capital Account ...	6,000	1940 Dec. 31	By C's Capital Account—transfer ...	4,500
				„ E's Capital Account—transfer ...	1,500
	Rs.	6,000		Rs.	6,000

BALANCE SHEET OF C and E.

As at 1st January 1941.

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Sundry Creditors ...		19,000	Cash at Bank ...		2,500
Bills Payable ...		5,000	Sundry Debtors	16,000	
Reserve Fund ...		8,000	*Less* Reserve for Doubtful Debts	2,450	
D's Loan Account ...		40,950			13,550
Capital Accounts:—			Stock ...		30,000
C	36,925		Motor Vans ..		6,800
E	23,975		Plant & Machinery ...		31,500
		60,900	Factory Buildings ..		49,500
Rs.		1,33,850	Rs.		1,33,850

NOTES.—(*a*) As the Reserve Fund represents divisible profits held over, it is necessary to see that the outgoing partner's Capital Account is credited with his proportionate share thereof, although the problem may be absolutely silent thereon.

(*b*) In this case, the Goodwill Account need be debited only with the amount necessary to credit the outgoing partner with. The object here is to see that the outgoing partner gets his legitimate share of Goodwill, and once this is done, the debit balance on Goodwill Account should no more be allowed to stand in the books, as it represents only a fractional value of Goodwill, but should be transferred to the Capital Accounts of the continuing partners in their new profit-sharing proportions.

ILLUSTRATION 66.

X, Y and Z are in partnership sharing profits in proportions of 3|7ths, 3|7ths and 1|7th respectively. On 31st December 1930, Y retires and the Balance Sheet of the firm on that date was as follows:—

BALANCE SHEET OF X, Y AND Z.

As at 31st December 1930.

	Rs.	Rs.		Rs.
Sundry Creditors ...		6,000	Bills Receivable ..	4,000
Current Accounts:—			Sundry Debtors ...	20,000
X	3,000		Goodwill ...	5,000
Y	3,500		Stock ...	14,000
Z	2,000		Fixtures ...	1,500
		8,500	Cash at Bank ...	2,000
Capital Accounts:—				
X	10,000			
Y	12,000			
Z	10,000			
		32,000		
Rs.		46,500	Rs.	46,500

The partnership deed provided that, in the event of a partner retiring, the Assets and Liabilities except Goodwill were to be taken as per the last Balance Sheet. Goodwill was to be valued at twice the average annual profits calculated on the basis of the five years immediately preceding the retirement. The profits were 1926, Rs. 4,010; 1927, Rs. 6,000; 1928, Rs. 8,000; 1929, Rs. 10,000; 1930, Rs. 5,000. You are to ascertain the amount payable to Y on retirement and to transfer the same to a Loan Account in his name, working the problem on the assumption that (*a*) the continuing partners decide to maintain Goodwill Account at its full value, (*b*) that they decide to leave Goodwill Account at its original value, and (*c*) that they decide to wipe off Goodwill Account from their books, showing Journal Entries and the adjusted Balance Sheet under each circumstance.

Solution.

The value of the Goodwill is ascertained as under:—

		Rs.
Profits	1926	4,010
,,	1927	6,000
,,	1928	8,000
,,	1929	10,000
,,	1930	5,000
		5)33,010
		Rs. 6,602 × 2 = Rs. 13,204

The book value of Goodwill will, therefore, have to be increased by Rs. 8,204.

(a) JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
Goodwill Account	Dr.		8,204	
To X's Current Account				3,516
" Y's " "				3,516
" Z's " "				1,172
(Being the appreciation in the value of Goodwill credited to partners' Current Accounts).				
Y's Current Account	Dr.		7,016	
To Y's Capital Account				7,016
(Being the transfer of balance on Current Account to Capital Account).				
Y's Capital Account	Dr.		19,016	
To Y's Loan Account				19,016
(Being the transfer of Capital to Loan Account).				

(b) If the continuing partners decide to leave the Goodwill Account at its original value, the following further entry will have to be passed:

		L. F.	Rs.	Rs.
X's Current Account	Dr.		6,153	
Z's " "	"		2,051	
To Goodwill Account				8,204
(Being the adjustment entry to bring down the value of Goodwill to its original figure).				

(c) If the continuing partners decide to write off the Goodwill Account from their books, the following entry will have to be passed:

		L.F.	Rs.	Rs.
X's Current Account	Dr.		9,903	
Z's " "	"		3,301	
To Goodwill Account				13,204
(Being the amount of Goodwill wiped off from the books).				

(a) BALANCE SHEET OF X and Z.

As at 31st December 1930.

(Where the Goodwill Account is maintained at its full value.)

Liabilities		Rs.	*Assets*	Rs.
Sundry Creditors ...		6,000	Cash at Bank ...	2,000
Y's Loan Account ...		19,016	Bills Receivable ..	4,000
Current Accounts:—	Rs.		Sundry Debtors ...	20,000
X	6,516		Stock ..	14,000
Z	3,172		Fixtures ...	1,500
		9,688	Goodwill ...	13,204
Capital Accounts:—				
X	10,000			
Z	10,000			
		20,000		
	Rs.	54,704	Rs.	54,704

(b) BALANCE SHEET OF X and Z.

As at 31st December 1930.

(Where the Goodwill Account is left unadjusted.)

Liabilities		Rs.	*Assets*		Rs.
Sundry Creditors ...		6,000	Cash at Bank ..		2,000
Y's Loan Account ..		19,016	Bills Receivable ..		4,000
Current Accounts:—	Rs.		Sundry Debtors ..		20,000
X	363		Stock ...		14,000
Z	1,121		Fixtures ...		1,500
		1,484	Goodwill ...		5,000
Capital Accounts:—					
X	10,000				
Z	10,000				
		20,000			
	Rs.	46,500		Rs.	46,500

(c) BALANCE SHEET OF X and Z.

As at 31st December 1930.

(Where the Goodwill Account is wiped off from the books.)

		Rs.			Rs.
Sundry Creditors ...		6,000	Cash at Bank ...		2,000
Y's Loan Account ...		19,016	Bills Receivable ..		4,000
Capital Accounts:—	Rs.		Sundry Debtors ..		20,000
X	10,000		Stock ..		14,000
Z	10,000		Fixtures ...		1,500
		20,000	Current Accounts:—	Rs.	
			X	3,387	
			Z	129	
					3,516
	Rs.	45,016		Rs.	45,016

NOTES—(1) In the first case, as the Goodwill Account already appears in the firm's books at Rs. 5,000 and as the value of Goodwill is ascertained to be Rs. 13,204 at the time of retirement of one of the partners in terms of the partnership deed, an adjusting entry has become necessary only in respect of the additional amount of Rs. 8,204.

(2) As it is apparent on the face of the Balance Sheet that the Capitals are fixed quantities, the necessary adjustments have been made on the Current Accounts of the partners.

ADJUSTMENT OF ACCOUNTS ON THE DEATH OF A PARTNER.

It is invariably provided in the deed as to how the accounts are to be adjusted in case of death of one of the partners.

Experience has shown, that in majority of businesses, a great deal of inconvenience is entailed, and the progress of the trade arrested, by being compelled to take stock on the date of the decease of a partner, in order to ascertain the proportionate share of profits accruing to the estate of the deceased partner. Besides, the question of depreciation of assets, the basis of valuation of the stock and such other matters will always be bones of contention between the surviving partners and the representatives of the deceased partner. In order to avoid all this, it is desirable that the manner in which the profits for the period elapsing since the last-signed balance sheet and the date of the decease are to be computed must be laid down in the agreement in most clear and definite terms. The amount payable in respect of the share of a deceased partner is generally agreed to be spread over a number of years, in order that the business may not be overburdened with an immediate payment.

Some such clause as the following is therefore often inserted in the deed:

"In the event of the death of any one of the partners during the continuance of the partnership term, his share of the profits for the current year is to be calculated according to the amount of his share of profits for the last preceding financial year of the business and the proportion calculated between the last preceding year and the day of his death; but he is to be debited with all drawings made by him since the commencement of the current year. The share of the deceased in the goodwill of the firm will be equal to his share of profits of the two last completed financial years of the business. The capital of such deceased partner as well as his accrued share of profits and goodwill bear 5% interest from the date of death to the date of payment to his executors, administrators or assigns. The whole amount due to the deceased shall be paid off in three yearly instalments, the first of such instalments to be paid within three months from the date of death."

ILLUSTRATION 67.

A, B and C are partners sharing profits 2|5ths, 2|5ths and 1|5th respectively and their Balance Sheet on 31st December 1926, showed as follows:—

		Rs.		Rs.
Creditors ...		29,000	Cash at Bank ...	4,000
Capital Accounts:—	Rs.		Debtors ...	30,000
A	30,000		Stock ...	45,000
B	20,000		Plant & Fixtures ...	20,000
C	20,000			
		70,000		
	Rs.	99,000	Rs.	99,000

C dies on 1st September 1927, and the deed provides that the estate of the deceased shall be entitled to a share of the profits up to the date of death based on the profits of the previous year, together with a share in respect of Goodwill to be calculated on the basis of two years' purchase of the average net profits of the previous three years. The net profits for the years 1924, 1925 and 1926 were Rs. 20,000, Rs. 22,000 and Rs. 18,000 respectively. C had withdrawn Rs. 1,500 from the date of the last Balance Sheet to the date of his death and 6% Interest was agreed to be credited on the Capital of each partner. The whole amount due to the deceased as at 1st September 1927, was to be temporarily credited to his Loan Account opened in the name of the Executors.

Solution.

The value of Goodwill and C's Share of Profit are ascertained as under:—

	Rs.
Profits 1924 ..	20,000
„ 1925 ..	22,000
„ 1926 ..	18,000
	3) 60,000

Rs. 20,000 × 2 = 40,000

∴ C's Share of Goodwill will be 1|5th of 40,000 = Rs. 8,000.

		Rs.
Profit for 1926	=	18,000
„ „ 8 months	=	12,000
1|5th share thereof	=	2,400

C's CAPITAL ACCOUNT.

1927		Rs.	1927		Rs.
Sept. 1	To Drawings Account —transfer ..	1,500	Jan. 1	By Balance b/fd. ...	20,000
"	" Balance transferred to Loan Account of the Executors ...	29,700	Sept. 1	" Profit & Loss Account	2,400
			"	" Goodwill Account ...	8,000
			"	" Interest " ...	800
	Rs.	31,200		Rs.	31,200

THE EXECUTORS OF C (DECEASED) LOAN ACCOUNT.

		Rs.	1927		Rs.
			Sept. 1	By Balance transferred from C's Capital Account	29,700

ILLUSTRATION 68.

Following up the above illustration, assuming that it was agreed between the surviving partners and the Executors of the deceased that the amount due to the latter be paid to them within 3 years by six-monthly instalments of Rs. 5,500 each, interest at 6 per cent being calculated on the balance owing with half-yearly rests, the account of the Executors will appear as under:—

THE EXECUTORS OF C (DECEASED) LOAN ACCOUNT.

		Rs.	a.	p.			Rs.	a.	p.
1928					1927				
Feb. 29	To Bank ...	5,500	0	0	Sept. 1	By Balance ...	29,700	0	0
" "	" Balance c/d. ...	25,091	0	0	1928 Feb. 29	" Interest ...	891	0	0
	Rs.	30,591	0	0		Rs.	30,591	0	0
1928					1928				
Aug. 31	To Bank ...	5,500	0	0	Mar. 1	By Balance b/d. ...	25,091	0	0
" "	" Balance c/d. ...	20,343	11	8	Aug. 31	" Interest ...	752	11	8
	Rs.	25,843	11	8		Rs.	25,843	11	8
1929					1928				
Feb. 28	To Bank ...	5,500	0	0	Sept. 1	By Balance b/d. ...	20,343	11	8
" "	" Balance c/d. ...	15,454	0	8	1929 Feb. 28	" Interest ...	610	5	0
	Rs.	20,954	0	8		Rs.	20,954	0	8
1929					1929				
Aug. 31	To Bank ...	5,500	0	0	Mar 1	By Balance b/d. ...	15,454	0	8
" "	" Balance c/d. ...	10,417	10	7	Aug. 31	" Interest ...	463	9	11
	Rs.	15,917	10	7		Rs.	15,917	10	7
1930					1929				
Feb. 28	To Bank ...	5,500	0	0	Sept. 1	By Balance b/d. ...	10,417	10	7
" "	" Balance c/d. ...	5,230	3	1	1930 Feb. 28	" Interest ...	312	8	6
	Rs.	10,730	3	1		Rs.	10,730	3	1
1930					1930				
Aug. 31	To Bank ...	5,387	1	7	Mar. 1	By Balance b/d. ...	5,230	3	1
					Aug. 31	" Interest ...	156	14	6
	Rs.	5,387	1	7		Rs.	5,387	1	7

ILLUSTRATION 69.

E, F and G are in partnership sharing profits equally. E dies on 31st March 1931, and the partnership deed provided *inter alia* that—

(1) The share of a deceased partner's Capital Account shall be taken at the balance on his Capital Account as at the date of the last financial close, *less* the withdrawals, if any, made to the date of death.

(2) That his share of profit to the date of death shall be calculated on the basis of the average of the three preceding years.

(3) That the Goodwill of the firm shall be taken at one year's purchase based on the average profits of the preceding five years.

(4) That the Firm's Freehold Property shall be taken at an independent valuation.

The firm's last Balance Sheet was as under:—

BALANCE SHEET OF E, F AND G.

As at 31st December 1930.

		Rs.		Rs.
Creditors ...		18,900	Cash at Office ..	500
Capital Accounts:—	Rs.		„ at Bank ..	4,500
E ...	30,000		Debtors ..	10,000
F ...	20,000		Stock ...	15,000
G ...	20,000		Freehold Property ...	40,000
		70,000	Goodwill ..	18,900
	Rs.	88,900	Rs.	88,900

Freehold property was valued at Rs 58,000.

The profits for the five years ended 31st December 1930 were:—

	Rs.
1926	11,500
1927	14,000
1928	9,000
1929	8,000
1930	10,000

Pass the Journal Entries and show E's Capital Account and the Balance Sheet of the surviving partners. Show also how the Balance Sheet will appear if the Goodwill Account is wiped off from the books of the firm.

Solution.

The value of Goodwill is ascertained as under:—

	Rs.
Profits 1926	11,500
„ 1927	14,000
„ 1928	9,000
„ 1929	8,000
„ 1930	10,000
	5) 52,500
	10,500

∴ Goodwill had depreciated in value by Rs. 8,400.

E's Share of Profit:—

	Rs.
Profits for 1928	9,000
„ 1929	8,000
„ 1930	10,000
	3) 27,000

Average profit for one year	=	Rs. 9,000
∴ Profit for 3 months	=	„ 2,250
1/3rd share thereof	=	„ 750

JOURNAL ENTRIES.

		L.F.	Rs	Rs.
	Profit and Loss Appropriation Account ... ... Dr.		750	
	To E's Capital Account			750
	(Being the adjustment of profits due to E as per agreement).			
	E's Capital Account ... ... Dr.		2,800	
	F's " " ... ... "		2,800	
	G's " " ... ... "		2,800	
	To Goodwill Account			8,400
	(Being the adjustment of depreciation in Goodwill).			
	Freehold Property Account ... ... Dr.		18,000	
	To E's Capital Account			6,000
	" F's " "			6,000
	" G's " "			6,000
	(Being the amount of appreciation in the value of Freehold Property credited to all the partners' Capital Accounts).			
	E's Capital Account ... ... Dr.		33,950	
	To the Executors of E (deceased)			33,950
	(Being the transfer of Capital to the latter Account).			

E's CAPITAL ACCOUNT.

		Rs.			Rs.
1931 Mar. 31	To Goodwill Account ...	2,800	1930 Dec. 31	By Balance b/fd. ...	30,000
	" Balance transferred to the Executors of E (deceased) ...	33,950	1931 Mar. 31	" Profit & Loss Appropriation Account ...	750
				" Freehold property ...	6,000
	Rs.	36,750		Rs.	36,750

THE EXECUTORS OF E (DECEASED) LOAN ACCOUNT.

		Rs.			Rs.
			1931 Mar. 31	By Balance transferred from E's Capital Account ...	33,950

BALANCE SHEET OF F AND G.

As at 31st March 1931.

(Where the Goodwill Account is maintained at its present value).

Liabilities		Rs.	*Assets*		Rs.
Sundry Creditors ...		18,900	Cash :—	Rs.	
Loan Account of the Executors of E (deceased) ...		33,950	At Office	500	
Capital Accounts :—	Rs.		" Bank	4,500	
F ...	23,200				5,000
G ...	23,200		Sundry Debtors ...		10,000
		46,400	Stock ...		15,000
			Freehold Property ...		58,000
			Goodwill ...		10,500
			Profit & Loss Appropriation Account :— Share of the deceased Partner ...		750
Rs.		99,250	Rs.		99,250

BALANCE SHEET OF F AND G

As at 31st March 1931.

(Where the Goodwill Account is wiped off from the firm's books).

Liabilities		Rs.	*Assets*		Rs.
Sundry Creditors ...		18,900	Cash :—	Rs.	
Loan Account of the Executors of E (deceased) ...		33,950	At Office	500	
Capital Accounts :—	Rs.		,, Bank	4,500	
F ...	17,950				5,000
G ...	17,950		Sundry Debtors ..		10,000
		35,900	Stock ...		15,000
			Freehold Property ...		58,000
			Profit & Loss Appropriation Account :— Share of the deceased Partner ...		750
Rs.		88,750	Rs.		88,750

NOTES—(*a*) As the item of Goodwill already appears in the firm's Balance Sheet at Rs. 18,900, it seems that the firm must have paid for Goodwill on acquiring a running business. Now on ascertainment of the value of Goodwill on the death of one of the *partners as laid down in the partnership deed, it is found to be worth Rs. 10,500 only.* This depreciation of Rs. 8,400 in the value of Goodwill is, therefore, adjusted in the Capital Accounts of the partners equally as they are equal sharers in the profits.

(*b*) If the surviving partners decide to eliminate Goodwill Account from their books, the entry necessary to give effect to this will be to debit the Capital Account of each surviving partner in his new profit-sharing proportion and credit the Goodwill Account.

AMALGAMATION OF PARTNERSHIPS.

Not infrequently, two or more partnership firms carrying on similar businesses amalgamate the same with a view to avoid competition or to secure greater efficiency and economy. The amalgamation may be agreed upon on the basis of the Balance Sheet of each firm as it stands at one particular date, or a revaluation of the assets and liabilities of each firm may be agreed upon for the purpose of incorporating the figures in the new firm.

When such an amalgamation takes place, the final adjustments in the accounts of each firm will be made on the basis of the values at which the various liabilities and assets are taken over by the newly constituted firm. All such adjustments would be made through a Profit and Loss *Adjustment* Account which, in its turn, would be closed by transfer to the Capital Accounts of the partners in their profit-sharing proportions. Each partner's Capital Account would then show the Capital he has to introduce in the new firm. A Balance Sheet can then be prepared amalgamating the whole of the Assets and Liabilities of the firms taken over, so as to indicate the opening position of the new firm.

ILLUSTRATION 70.

X and Y amalgamate their businesses on 1st January 1932, their Balance Sheets being as follows:—

BALANCE SHEET OF X.

	Rs.		Rs.
Creditors ...	25,000	Cash at Bank ..	2,500
Loan from Mrs. X ..	7,500	Debtors ...	20,000
Capital ...	35,000	Stock ...	15,000
		Furniture and Fixtures ...	2,000
		Plant ...	28,000
Rs.	67,500	Rs.	67,500

BALANCE SHEET OF Y.

	Rs.		Rs.	Rs.
Creditors ..	40,000	Stock		25,000
Capital ...	23,000	Debtors	25,000	
		Less Reserve	1,000	
				24,000
		Bills Receivable ...		2,000
		Plant ...		12,000
Rs.	63,000	Rs.		63,000

The following adjustments were agreed upon:—

(*a*) The Goodwill of X and Y was agreed at Rs. 7,500 and Rs. 5,000 respectively; (b) The Plant of X was to be depreciated by 10% and that of Y was to be taken at book value; (c) 5% Reserve for Doubtful Debts was to be created on Debtors of both the parties; (*d*) X's stock was to be appreciated by 15% and Y's to be depreciated by 5%; (*e*) X's Fixtures were taken over at Rs. 2,300 and the creditors of each were brought in less 5% Reserve for Discounts; (*f*) the private liability of X and the Bills Receivable of Y were not brought in; (*g*) Y is to be credited with Rs. 3,000 for Patent Rights which he possesses and which are to be deemed as partnership property; (*h*) X brought in his Bank balance and Y was to bring in the necessary amount in cash in order to equal his Capital to that of X.

Pass Journal Entries recording the Assets and Liabilities brought in and prepare the opening Balance Sheet of the amalgamated firm.

Solution.

JOURNAL ENTRIES.

	L.F.	Rs.	Rs.
Bank Account ... ... Dr.		2,500	
Sundry Debtors Account ... ... „		20,000	
Stock ... ... „		17,250	
Furniture & Fixtures ... ... „		2,300	
Plant ... ... „		25,200	
Reserve for Discount on Creditors ... ... „		1,250	
Goodwill ... ... „		7,500	
To Sundry Creditors			25,000
„ Reserve for Doubtful Debts			1,000
„ X's Capital Account			50,000
(Being the values of Assets and Liabilities brought in by X as per agreement).			
Bank Account ... ... Dr.		20,500	
Sundry Debtors ... ... „		25,000	
Stock ... ... „		23,750	
Patents ... ... „		3,000	
Plant ... ... „		12,000	
Reserve for Discount on Creditors ... ... „		2,000	
Goodwill ... ... „		5,000	
To Sundry Creditors			40,000
„ Reserve for Doubtful Debts			1,250
„ Y's Capital			50,000
(Being the values of Assets and Liabilities brought in by Y as per agreement).			

BALANCE SHEET OF X AND Y.

As at 1st January 1932.

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Sundry Creditors	65,000		Cash at Bank		23,000
Less Reserve for Discount			Sundry Debtors	45,000	
on Creditors	3,250		*Less* Reserve for Doubtful		
		61,750	Debts	2,250	
					42,750
Capital Accounts :—			Stock ...		41,000
X	50,000		Patents ...		3,000
Y	50,000		Furniture & Fixtures ...		2,300
		1,00,000	Plant ...		37,200
			Goodwill ...		12,500
	Rs.	1,61,750		Rs.	1,61,750

ILLUSTRATION 71.

The respective Balance Sheets of A & B and C & D at the date of amalgamation are as follows :—

A AND B

Liabilities		Rs.	*Assets*	Rs.
Sundry Creditors ...		21,500	Cash at Bank ...	3,000
Capitals :—	Rs.		Sundry Debtors ...	20,000
A	25,000		Stock ...	30,000
B	15,000		Investments ...	8,000
		40,000	Office Fixtures ...	500
	Rs.	61,500	Rs.	61,500

C AND D.

Liabilities		Rs.	*Assets*	Rs.	Rs.
Sundry Creditors ...		21,000	Cash at Bank ...		1,000
Reserve Fund		11,500	Book Debts	25,000	
Capitals :—	Rs.		*Less* Reserve	500	
C	19,000				24,500
D	11,000		Stock ...		20,000
		30,000	Trade Fixtures ...		1,000
			Leasehold Premises ...		12,000
			Goodwill ...		4,000
	Rs.	62,500		Rs.	62,500

It was agreed that the Balance Sheet of A and B should be adjusted as follows before amalgamation :—

(a) That Rs. 400 be reserved for Doubtful Debts;
(b) That the Stock and Fixtures be depreciated by 10%;
(c) That investments be taken over at Rs. 10,000;
(d) That Rs. 300 be reserved for Discounts on Creditors.

The following adjustments were agreed upon in C and D's Balance Sheet :—

(a) That Book Debts, Stock, and Trade Fixtures be taken over at book figures;
(b) That the Leasehold and Goodwill be valued at Rs. 18,000 and Rs. 6,000 respectively.

The Capitals of A, B, C and D, in the new firm were fixed at Rs. 25,000, Rs. 15,000, Rs. 30,000, and Rs. 20,000 respectively.

(1) Pass Journal Entries, (*a*) in the books of A and B, and (*b*) in the books of C and D, to give effect to the above arrangements;

(2) Show the Balance Sheet of each firm as adjusted; and

(3) Prepare the Balance Sheet of the new firm as amalgamated.

Solution.

JOURNAL ENTRIES IN THE BOOKS OF A AND B.

		L.F.	Rs.	Rs.
	Profit and Loss Adjustment Account ... ... Dr.		3,450	
	To Reserve for Doubtful Debts			400
	„ Stock			3,000
	„ Fixtures			50
	(Being the adjustment in the values of the assets as arranged).			
	Investments ... ... Dr.		2,000	
	Reserve for Discount on Creditors ... ... „		300	
	To Profit and Loss Adjustment Account			2,300
	(Being the appreciation of Investments and Reserve for Discount on Creditors provided for as agreed).			
	A's Capital Account ... ... Dr.		575	
	B's „ „ ... ... „		575	
	To Profit and Loss Adjustment Account			1,150
	(Being the loss resulting from revaluation adjusted between the partners).			
	Bank Account ... ... Dr.		1,150	
	To A's Capital Account			575
	„ B's „ „			575
	(Being the amounts brought in by A and B to bring up their Capital to agreed figures).			

JOURNAL ENTRIES IN THE BOOKS OF C AND D.

		L.F.	Rs.	Rs.
	Leasehold Premises ... ... Dr.		6,000	
	Goodwill ... ... „		2,000	
	To Profit and Loss Adjustment Account			8,000
	(Being the values of Lease and Goodwill adjusted).			
	Profit and Loss Adjustment Account ... ... Dr.		8,000	
	To C's Capital Account			4,000
	„ D's „ „			4,000
	(Being the gain on revaluation transferred).			
	Reserve Fund ... ... Dr.		11,500	
	To C's Capital Account			5,750
	„ D's „ „			5,750
	(Being the transfer of Reserve Fund).			
	Bank Account ... ... Dr.		1,250	
	To C's Capital Account			1,250
	(Being the amount brought in by C to make up his capital of Rs. 30,000 as agreed).			
	D's Capital Account ... ... Dr.		750	
	To Bank Account			750
	(Being the amount withdrawn by him to bring down his capital to Rs. 20,000 as agreed).			

BALANCE SHEET OF A AND B AS ADJUSTED.

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Sundry Creditors ...	21,500		Cash at Bank ...		4,150
Less Reserve for Discount ...	300		Investments ...		10,000
		21,200	Sundry Debtors ...	20,000	
Capitals :—			*Less* Reserve ...	400	
A ...	25,000				19,600
B ...	15,000		Stock ...		27,000
		40,000	Fixtures ...		450
Rs.		61,200	Rs.		61,200

BALANCE SHEET OF C AND D AS ADJUSTED.

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Sundry Creditors ...		21,000	Cash at Bank ...		1,500
Capitals :—			Sundry Debtors ...	25,000	
C ...	30,000		*Less* Reserve ...	500	
D ...	20,000				24,500
		50,000	Stock ...		20,000
			Fixtures ...		1,000
			Leasehold Premises ...		18,000
			Goodwill ...		6,000
Rs.		71,000	Rs.		71,000

BALANCE SHEET OF THE NEW FIRM.

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Sundry Creditors ...	42,500				
Less Reserve for Discount ...	300		Cash at Bank ...		5,650
		42,200	Investments ...		10,000
			Sundry Debtors ...	45,000	
Capitals :—			*Less* Reserve ...	900	
A ...	25,000				44,100
B ...	15,000		Stock ...		47,000
C ...	30,000		Fixtures ...		1,450
D ...	20,000		Leasehold Premises ...		18,000
		90,000	Goodwill ...		6,000
Rs.		1,32,200	Rs.		1,32,200

ADJUSTMENTS ON PURCHASE OF BUSINESS BY A PARTNER.

Very often, one of the partners agrees to take over the entire business, either on the basis of the Balance Sheet as already prepared or subject to readjustment in the values of some of the assets and liabilities and agreeing to pay for goodwill to the old firm as may be mutually agreed upon.

In the first case, the Capital Account of the partner taking over the business would be debited with the book values of the assets taken over, the respective Asset Accounts being credited. In regard to the liabilities taken over, the respective Liability Accounts would be debited and the purchasing partner's Capital Account would be credited.

If any re-adjustment in the values of some of the assets or liabilities is agreed upon, such adjustments would be debited or credited to a Profit and Loss Adjustment Account, which in its turn would be closed by the Capital Accounts of all the partners (including the purchasing partner) in their profit-sharing proportions. After such adjustment, the accounts of the various assets and liabilities would be transferred to the Capital Account of the purchasing partner, as indicated above.

On the goodwill of the firm being valued, the Goodwill Account would be debited and the Capital Account of each of the partners would be credited with his respective profit-sharing proportion. The purchasing partner's Capital Account would then be debited with the total value of the goodwill of the firm and Goodwill Account would be credited.

On the purchasing partner bringing in cash to pay off the other partners, Bank Account would be debited and his Capital Account would be credited. The Capital Account of each outgoing partner who is paid off would then be debited and Bank Account credited. All accounts of the firm would thus be closed.

ILLUSTRATION 72.

The Balance Sheet of Messrs. J, B and R on 31st December 1926 showed as follows:—

Liabilities		Rs.	*Assets*	Rs.	Rs.
Trade Creditors ...		14,000	Freehold Property ...		30,000
Capital Accounts:—	Rs.		Plant ...		10,000
J ...	25,150		Furniture and Fixtures ...		1,000
B ...	20,000		Stock-in-trade ...		18,000
R ...	17,000		Sundry Debtors	12,500	
		62,150	*Less* Reserve for Doubtful Debts	200	
					12,300
			Cash:—		
			At Bank ...	4,800	
			In Hand ...	50	
					4,850
Rs.		76,150	Rs.		76,150

B agrees to take over the business, J and R retiring. All the Assets and Liabilities are to be taken over at the book figures, but the Goodwill of the firm is to be valued at Rs. 15,000 and B had to bring in sufficient Cash to pay off J and R. The partners used to share profits in the proportion of 2|5, 2|5 and 1|5.

Show the Journal Entries necessary to give effect to this and the Capital Accounts of J, B and R.

Solution.

JOURNAL ENTRIES.

	L.F.	Rs.	Rs.
Goodwill Account ... ... Dr.		15,000	
To J's Capital Account			6,000
,, B's ,, ,,			6,000
,, R's ,, ,,			3,000
(Being the Goodwill raised in the firm's books and its distribution amongst the partners).			
B's Capital Account ... ... Dr.		91,350	
To Freehold Property			30,000
,, Plant			10,000
,, Furniture and Fixtures			1,000
,, Stock-in-trade			18,000
,, Sundry debtors			12,500
,, Cash at Bank			4,800
,, Cash in Hand			50
,, Goodwill Account			15,000
(Being the Assets of the firm (including Goodwill) taken over by B).			
Trade Creditors ... ... Dr.		14,000	
Reserve for Doubtful Debts Account ... ... ,,		200	
To B's Capital Account			14,200
(Being the Liabilities of the firm taken over by B).			
Bank ... ... Dr.		51,150	
To B's Capital Account			51,150
(Being Cash brought in by B).			
J's Capital Account ... ... Dr.		31,150	
R's ,, ,, ,,		20,000	
To Bank			51,150
(Being the balances to the Capital Accounts of J and R paid off).			

J's CAPITAL ACCOUNT.

	Rs.		Rs.
To Bank ...	31,150	By Balance b/fd. ..	25,150
		,, 2/5ths share of Goodwill ..	6,000
Rs.	31,150	Rs.	31,150

B's CAPITAL ACCOUNT.

	Rs.		Rs.
To Sundry Assets taken over ...	91,350	By Balance b/fd. ...	20,000
		,, 2/5ths share of Goodwill ...	6,000
		,, Sundry Liabilities ..	14,200
		,, Bank ...	51,150
Rs.	91,350	Rs.	91,350

R's CAPITAL ACCOUNT.

		Rs.			Rs.
To Bank	...	20,000	By Balance b/fd.	...	17,000
			„ 1/5th share of Goodwill	..	3,000
	Rs.	20,000		Rs.	20,000

ILLUSTRATION 73.

The Balance Sheet of Messrs. J, B and R showed as follows:—

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Trade Creditors ...		14,000	Freehold Property ...		30,000
Capital Accounts:—	Rs.		Plant ...		10,000
J ...	25,150		Furniture and Fixtures ...		1,000
B ...	20,000		Stock-in-trade ..		18,000
R ...	17,000		Sundry Debtors ...	12,500	
		62,150	*Less* Reserve ...	200	
					12,300
			Cash at Bank ...	4,800	
			„ in Hand ...	50	
					4,850
Rs.		76,150	Rs.		76,150

B agrees to take over the business, J and R retiring on the following terms:—

(1) That the Goodwill of the firm be valued at Rs. 15,000;

(2) „ Plant, Stock and Fixtures be reduced by 7½%;

(3) „ Freehold Property be appreciated by Rs. 2,000;

(4) „ the Reserve for Doubtful Debts be brought upto Rs. 500;

(5) „ 2½% be reserved for Discount on Creditors;

(6) „ Outstanding Liabilities owing and amounting to Rs. 750 be provided for.

B has to bring in sufficient cash to pay off J and R. The partners used to share profits in the proportion of 2|5, 2|5 and 1|5.

Show the necessary Journal Entries, Profit and Loss Adjustment Account and the Capital Accounts.

Solution.

JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
	Profit and Loss Adjustment Account ... ... Dr.		3,225	
	To Plant			750
	„ Furniture and Fixtures			75
	„ Stock-in-trade			1,350
	„ Reserve for Doubtful Debts			300
	„ Outstanding Liabilities			750
	(Being amounts written off various Assets).			
	Reserve for Discount on Creditors ... ... Dr.		350	
	Freehold Property ... ... „		2,000	
	To Profit and Loss Adjustment Account			2,350
	(Being the Discount on credit balances and the appreciation in the value of property provided for).			

JOURNAL ENTRIES—(*Contd.*)

	L.F.	Rs.	Rs.
J's Capital Account ... ... Dr.		350	
B's " " ... ... "		350	
R's " " ... ... "		175	
To Profit and Loss Adjustment Account			875
(Being transfer of debit balance of Profit and Loss Adjustment Account to the Capital Accounts).			
Goodwill Account ... ... Dr.		15,000	
To J's Capital Account			6,000
" B's " "			6,000
" R's " "			3,000
(Being Goodwill raised in the firm's books and its distribution among the partners).			
B's Capital Account ... ... Dr.		91,525	
To Freehold Property			32,000
" Plant			9,250
" Furniture and Fixtures			925
" Stock-in-trade			16,650
" Sundry Debtors			12,500
" Cash at Bank			4,800
" Cash in Hand			50
" Goodwill			15,000
" Reserve for Discount on Creditors			350
(Being the Sundry Assets taken over by B).			
Trade Creditors ... ... Dr.		14,000	
Reserve for Doubtful Debts Account ... ... "		500	
Outstanding Liabilities ... ... "		750	
To B's Capital Account			15,250
(Being the Liabilities taken over by B).			
Bank ... ... Dr.		50,625	
To B's Capital Account			50,625
(Being Cash brought in by B).			
J's Capital Account ... ... Dr.		30,800	
R's " " ... ... "		19,825	
To Bank			50,625
(Being the balances to the Capital Accounts of J and R paid off).			

PROFIT AND LOSS ADJUSTMENT ACCOUNT.

	Rs.		Rs.
To Plant ...	750	By Freehold Property ...	2,000
" Furniture and Fixtures ...	75	" Reserve for Discount on Creditors	350
" Stock-in-trade ...	1,350	" Capital Accounts :— (transfer)	
" Reserve for Doubtful Debts ...	300	J ..	350
" Outstanding Liabilities ...	750	B ...	350
		R ...	175
Rs.	3,225	Rs.	3,225

J's Capital Account.

		Rs.			Rs.
To Profit and Loss Adjustment Account (transfer)	...	350	By Balance b/fd.	...	25,150
„ Bank	..	30,800	„ 2/5ths share of Goodwill	..	6,000
	Rs.	31,150		Rs.	31,150

B's Capital Account.

		Rs.			Rs.
To Profit and Loss Adjustment Account (transfer)	...	350	By Balance b/fd.	..	20,000
„ Sundry Assets	..	91,525	„ 2/5ths share of Goodwill	...	6,000
			„ Sundry Liabilities	..	15,250
			„ Bank	...	50,625
	Rs.	91,875		Rs.	91,875

R's Capital Account.

		Rs.			Rs.
To Profit and Loss Adjustment Account (transfer)	..	175	By Balance b/fd.	...	17,000
„ Bank	..	19,825	„ 1/5th share of Goodwill	...	3,000
	Rs.	20,000		Rs.	20,000

JOINT SURVIVORSHIP POLICY.

With a view to obtain the necessary funds to pay out a deceased partner's share of the Capital, accrued profits and Goodwill, partners often take up a joint survivorship policy, so that the firm's cash resources may not be crippled in case of the death of any one of them.

1. The method that is usually followed is to debit the premiums paid to Profit and Loss Account thus treating it as a business expense. This cannot be said to be a correct method to follow, as it tends to obscure the true profit or loss resulting from the business, for the premium paid on a Joint Policy of the partners cannot in principle be treated as an expense necessarily incurred in the course of the conduct of the business. Besides, if the annual premium is charged off to revenue each year, there will be no indication on the Balance Sheet as to the existence of an asset which belongs to the firm.

2. The other method followed in this connection is to allow the premiums paid as a debit on an account styled Joint Survivorship Assurance Account or Joint Life Policy Account and to show the accumulated debit, year after year, as an asset in the Balance Sheet. This method deserves to be equally deprecated inasmuch as the asset under the heading of Joint Life Policy Account will appear in the Balance Sheet, year after year, at more than its then surrender value, i.e., its present worth at each balancing period.

3. The best method that can be applied in this connection is as follows:

(a) Allow the annual premium paid to accumulate on Joint Life Policy Account which will be shown as an asset in the Balance Sheet at its surrender value, from year to year.

(b) At each balancing period, debit Profit and Loss Appropriation Account and credit Joint Life Policy Reserve Account with the amount of the annual premium, in order to maintain the working capital of the firm unaffected.

(c) In order to bring down the Joint Policy Account to its surrender value, debit the Joint Life Policy Reserve Account and credit the Joint Life Policy Account with the difference between the debit balance on the latter account and the then surrender value of the policy at the end of each financial year.

(d) The Joint Life Policy Account balance will then appear on the assets side and the Joint Life Policy Reserve Account on the liabilities side, at the same figure.

(e) On the death of one of the partners, the policy amount would be realised, and this will be credited in the first instance to Joint Life Policy Account, from where the ultimate balance will be transferred to the Capital Accounts of the partners in their profit-sharing proportions, *in the absence of any agreement to the contrary.*

(f) The existing balance on the Joint Life Policy Reserve Account will be wiped off by transfer to Joint Life Policy Account.

ILLUSTRATION 74.

The firm of X, Y and Z took out a Joint Survivorship Policy on 5th January 1933, for Rs. 20,000 in order to provide a fund for repayment of a deceased partner's share. The last annual premium of Rs. 500 was paid on 5th January 1936, and Y died on 10th February 1936. Assume that the surrender value of the policy was as follows:—In 1933 = nil; in 1934 = Rs. 125, and in 1935 = Rs. 225. The policy amount was realised in full on the death of Y and you are required to show the entries relating to the policy, all these years, and the final adjustment on the death of Y, following the best method desirable. The partners shared profits in the proportion of ½, ¼ and ¼, and the books were closed on 31st December each year.

Solution.

ENTRIES IN 1933.

		L.F.	Rs.	Rs.
1933 Jan. 5	Joint Life Policy Account ... ... Dr. To Bank (Being the payment of premium).		500	500
Dec. 31	Profit and Loss Appropriation Account ... ... Dr. To Joint Life Policy Reserve Account (Being the provision for premium made out of divisible profits).		500	500
" "	Joint Life Policy Reserve Account ... ... Dr. To Joint Life Policy Account (Being the entry to bring down the latter account to its surrender value).		500	500

ENTRIES IN 1934.

		L.F.	Rs.	Rs.
1934 Jan. 5	Joint Life Policy Account ... ... Dr. To Bank (Being the payment of premium).		500	500
Dec. 31	Profit and Loss Appropriation Account ... ... Dr. To Joint Life Policy Reserve Account (Being the provision for premium made out of divisible profits).		500	500
" "	Joint Life Policy Reserve Account ... ... Dr. To Joint Life Policy Account (Being the entry to bring down the latter account to its surrender value).		375	375

ENTRIES IN 1935.

		L.F.	Rs.	Rs.
1935 Jan. 5	Joint Life Policy Account ... ... Dr. To Bank (Being the payment of premium).		500	500
Dec. 31	Profit and Loss Appropriation Account ... Dr. To Joint Life Policy Reserve Account (Being the provision for premium made out of divisible profits).		500	500
" "	Joint Life Policy Reserve Account ... ... Dr. To Joint Life Policy Account (Being the entry to bring down the latter account to its surrender value).		400	400

ENTRIES IN 1936.

		L.F.	Rs.	Rs.
1936 Jan. 5	Joint Life Policy Account ... ... Dr. To Bank (Being the payment of premium).		500	500
	Bank Account ... ... Dr. To Joint Life Policy Account (Being the policy amount realised on death of Y).		20,000	20,000
	Joint Life Policy Reserve Account ... ... Dr. To Joint Life Policy Account (Being the entry to close the former account).		225	225
	Joint Life Policy Account ... ... Dr. To X's Capital Account " Y's " " " Z's " " (Being the balance on Joint Life Policy Account now transferred to the Capital Accounts of the Partners in their profit-sharing proportions).		19,500	 9,750 4,875 4,875

JOINT LIFE POLICY ACCOUNT.

Date	Particulars	Rs.	Date	Particulars	Rs.
1933 Jan. 5	To Bank ..	500	1933 Dec. 31	By Joint Life Policy Reserve —Transfer ...	500
1934 Jan. 5	To Bank ...	500	1934 Dec. 31	By Joint Life Policy Reserve —Transfer ..	375
				„ Balance c/d. ...	125
	Rs.	500		Rs.	500
1935 Jan. 1	To Balance b/d. ..	125	1935 Dec. 31	By Joint Life Policy Reserve —Transfer ...	400
„ 5	„ Bank ...	500		„ Balance c/d. ..	225
	Rs.	625		Rs.	625
1936 Jan. 1	To Balance b/d. ...	225	1936 Feb. 10	By Joint Life Policy Reserve Account—Transfer ...	225
„ 5	„ Bank ...	500		„ Bank ...	20,000
Feb.	„ X's Capital Account ..	9,750			
	„ Y's „ „ ...	4,875			
	„ Z's „ „ ...	4,875			
	Rs.	20,225		Rs.	20,225

JOINT LIFE POLICY RESERVE ACCOUNT.

Date	Particulars	Rs.	Date	Particulars	Rs.
1933 Dec. 31	To Joint Life Policy Account —Transfer ...	500	1933 Dec. 31	By Profit & Loss Appropriation Account	500
1934 Dec. 31	To Joint Life Policy Account —Transfer ...	375	1934 Dec. 31	By Profit & Loss Appropriation Account	500
	„ Balance c/d. ...	125			
	Rs.	500		Rs.	500
1935 Dec. 31	To Joint Life Policy Account —Transfer ..	400	1935 Jan 1	By Balance b/d. ...	125
	„ Balance c/d. ...	225	Dec. 31	„ Profit & Loss Appropriation Account	500
	Rs.	625		Rs.	625
1936 Feb. 10	To Joint Life Policy Account —Transfer ..	225	1936 Jan. 1	By Balance b/d. ...	225

The Joint Life Policy item will appear in the Balance Sheet, each year, as under:—

BALANCE SHEET.

As at 31st December 1933.

(Liabilities Side).	Rs.	*(Assets Side).*	Rs.
Joint Life Policy Reserve ..	Nil.	Joint Life Policy ...	Nil.

BALANCE SHEET.

As at 31st December 1934.

(*Liabilities Side*).	Rs.	(*Assets Side*).	Rs.
Joint Life Policy Reserve ...	125	Joint Life Policy ..	125

BALANCE SHEET.

As at 31st December 1935.

(*Liabilities Side*).	Rs.	(*Assets Side*).	Rs.
Joint Life Policy Reserve ..	225	Joint Life Policy ..	225

NOTE.—The advantages accruing from the above method are:—

(1) The payment of the annual premium is provided for prior to division of profits so that the working capital is not affected;

(2) The premium is not charged to the Profit and Loss Account as a business expense;

(3) The annual Balance Sheet discloses the existence of a Joint Survivorship Policy; and

(4) The asset represented by the Joint Policy is stated in the Balance Sheet, year after year, at its then surrender value.

ILLUSTRATION 75.

A, B and C are partners, sharing profits in the proportions of 4/7, 2/7 and 1/7 respectively. For the purpose of providing ready cash for paying out a portion of deceased partner's share in respect of Capital and Goodwill, a joint-assurance policy had been effected for Rs. 7,000, and the annual premium of Rs. 250 paid thereon was written off as an expense each year.

It was agreed that in case of death of a partner, his share of the profits accrued to the date of death was to be calculated on the basis of the average profits of the two preceding years. For the purpose of adjusting the deceased partner's share, the Goodwill was to be valued on the basis of the profits of the last three financial years.

B died on 30th April 1927. His capital on 31st December 1926 stood at Rs. 15,000 and he had drawn Rs. 500 during the last four months. The firm's profits for the years 1924, 1925 and 1926 were Rs. 7,000, Rs. 10,500 and Rs. 14,000 respectively.

Show the amount payable by the firm to the executors of the deceased.

Solution.

B's CAPITAL ACCOUNT.

	Rs.	a.	p		Rs.	a.	p.
To Drawings Account:— Transfer ..	500	0	0	By Balance b/fd. ...	15,000	0	0
				,, Profit to date of death ..	1,166	10	8
,, Balance transferred to Executors of B's Account ...	26,666	10	8	,, Goodwill ..	9,000	0	0
				,, Joint Policy, 2/7ths share ..	2,000	0	0
Rs.	27,166	10	8	Rs.	27,166	10	8

ILLUSTRATION 76.

The Firm of Ram Gopal & Co. was made up of :—

	Capital Rs.	*Share of Profits.*
Ramchandra	20,000	Three-fifths
Gopal	10,000	One-fifth.
Krishna	10,000	One-fifth.

The Partnership Deed provided :—

(*a*) That interest at 5% was to be allowed on partners' Capitals.

(*b*) That a policy of Rs. 15,000 was to be taken out on the joint lives of the partners.

(c) That upon the death of a partner, the deceased partner's goodwill was to be valued at an amount equal to one year's purchase of the average of the net profits for three years immediately preceding the date of death, such profits to be computed after charging all expenses, including the assurance premium.

Ramchandra died on 2nd January 1924, his drawings for the previous year amounting to Rs. 4,200. The trading results of the last three years ending 31st December 1923 were: Profit, Rs. 8,750; Loss, Rs. 2,250; and Profit, Rs. 6,000. The annual premium of Rs. 750 was debited to each year's Profit and Loss Account.

Prepare an account showing the amount payable to the representatives of Ramchandra as on the date of death.

Solution.

THE EXECUTORS OF RAMCHANDRA (DECEASED).

	Rs.	a.	p.		Rs.		Rs.	a.	p.
To Drawings Account during 1923 ...	4,200	0	0	By Capital Account—Balance transferred ...			20,000	0	0
„ Balance c/d. ..	33,566	10	8	„ Interest on Capital for the year 1923 ...			1,000	0	0
				„ Profits for the year 1923 —3/5ths share ...			3,600	0	0
				„ Goodwill Account :—	Rs.				
				Profit 1921	8,750				
				„ 1923	6,000				
					14,750				
				Loss 1922	2,250				
					12,500				
				Average Profit ...			4,166	10	8
				„ Policy Account—3/5ths share ...			9,000	0	0
Rs.	37,766	10	8	Rs.			37,766	10	8
				By Balance b/d. ..			33,566	10	8

NOTE.—It may be pointed out that it is not desirable to charge the premium on joint life policy to the Profit and Loss Account as it cannot be said to be a business expense. Besides, if this were done, the Profit and Loss Account will fail to indicate the actual profit made in the business.

Adjustments on Valuation of an Unrecorded Asset.—The ascertainment of the value of any Asset that may have been unrecorded in the Partnership Books would present some difficulty when there have been several changes in the constitution of the firm from time to time, and the following interesting problem will serve to indicate as to how the accounts of the partners *inter se* should be adjusted under such a circumstance.

ILLUSTRATION 77.

P, Q, R, S and T entered into partnership on 1st October 1916. As a firm, they had an insurable interest in A, who was not a member of the firm. They accordingly insured A's life for Rs. 30 000 at an annual premium of Rs. 1,000 which is debited each year to the Profit and Loss Account, and, despite changes in the firm from time to time, the value of the policy was never brought into the firm's accounts.

The profits were shared as follows:—

P	Q	R	S	T
40%	25%	20%	10%	5%

On 1st October 1919, they took U into partnership, and the profits were then divided as follows:—

P	Q	R	S	T	U
35%	22%	18%	12%	8%	5%

On 1st October 1920, they admitted Z into partnership with the following division of profits:—

P	Q	R	S	T	U	Z
33%	21%	17%	11%	7%	6%	5%

The partnership deed provides that in the event of the death of a partner, his interest shall be deemed to continue until 30th September following.

On 15th March 1922, S dies and his interest in the firm ceases on 30th September 1922.

On 1st October 1922, a fresh partnership was formed with the following proportions:—

P	Q	R	T	U	Z	Y
30%	20%	16%	12%	10%	7%	5%

The surrender value of the policy on A's life was ascertained as follows:—

	Rs.
At the end of the first partnership	1,000
At the end of the second partnership	1,500
On 30th September 1922	2,000

You are required to ascertain:—

(a) How the share of S in the Surrender Value is determined;

(b) How the amount payable to S in this respect is to be borne by the other partners; and

(c) In what proportions the continuing partners will benefit from the policy moneys, on the death of A.

Solution.

(a) The share of S in the surrender value of the Policy can be determined by bringing into account at each dissolution of the partnership the amount of the surrender value, by debiting the same to the new Partners' Accounts in the proportion in which they agree to share profits after dissolution and by crediting it to the old Partners' Accounts in the proportion in which they shared profits prior to dissolution.

The following table shows the debit and credit given to each Partner's Account at each dissolution of the partnership:—

	1st Partnership. Dr.	1st Partnership. Cr.	2nd Partnership. Dr.	2nd Partnership. Cr.	3rd Partnership. Dr.	3rd Partnership. Cr.	4th Partnership. Dr.	4th Partnership. Cr.
P		400	350	525	495	660	600	
Q		250	220	330	315	420	400	
R		200	180	270	255	340	320	
S		100	120	180	165	220		
T		50	80	120	105	140	240	
U			50	75	90	120	200	
Z					75	100	140	
Y							100	

After charging 5% Interest on Capital (disregarding Interest on Drawings or Salary), write up the Capital Account of each partner at the end of each of the above periods. 90

(*Balances on 31st December 1919:—P's Capital Account*, Rs. 49,690-15-4; *Q's Capital Account*, Rs. 29,769-0-8.)

28. After including the profits for the year ended 31st December, and dealing with drawings, the Capital Accounts of A, B and C stood at Rs. 40,000, Rs. 30,000 and Rs. 20,000 respectively.

Subsequently they ascertained that interest on Capital at 5 per cent and interest on drawings had been omitted, the latter sums being A, Rs. 250; B, Rs. 180; and C, Rs. 100. The profits for the year in arriving at the above figures of Capital amounted to Rs. 60,000 and their drawings had been: A, Rs. 10,000; B, Rs. 7,500; and C, Rs. 4,500. They shared profits and losses as to A, one-half; B, one-third; and C, one-sixth. Give the necessary entries rectifying the above omissions. 91

PERIODICAL ACCOUNTS.

29. In the firm of Hard and Easy at 1st January 1910, Henry Hard had Capital £10,500 and Thomas Easy £7,100 and the profits are divisible rateably with Capital as it stands at the end of each year, after deduction of drawings during the year, no interest being charged either upon capital or drawings. The stock at 1st January 1910, was £9,400 and at 31st December 1910, £8,600. The firm owns the freehold premises which are valued at £8,000 and which are subject to a mortgage of £3,500, and £500 is invested in Consols at 80. The remaining balances at 31st December 1910, are as follows, and you are required to prepare a Profit & Loss Account and Balance Sheet after providing a reserve of 1% on book debts, depreciating fixtures and fittings 5%, machinery 5% and writing Consols down to 78.

	£		£
Fixtures and Fittings	830	Machinery and Plant	2,000
Wages	8,000	Purchases	116,800
Sales	136,000	Discounts (balance) Dr. ..	1,400
Rates and Taxes	160	Mortgage Interest	148
Bank Charges	213	Sundry Creditors	9,900
Bank Overdraft	4,500	Mr. Hard (Drawings)	3,500
Interest on Consols	11	Mr. Easy („)	2,100
Cash in hand	20	Repairs and Replacements ..	280
Salaries	1,250	Travelling Expenses	950
Electricity	152	Bills Receivable	2,300
Sundry Debtors	15,650	Bills Payable	2,162
Bad Debts	120		

(*Incorporated Accountants.*) 92

(*Gross Profit*, £10,600; *Net Profit*, £5,630; *Balance Sheet Total*, £37,692.)

30. Messrs. Lion and Unicorn are in partnership as chemical manufacturers. Profits or Losses are divided equally. Under the deed of partnership, the following adjustments are necessary before division of profits:—

5% Interest is allowed on Partners' Capitals; 10% Depreciation is to be written off Plant Account and Barges Account; 5% provision is to be made for Bad and Doubtful Debts.

On December 31st, 1900, the Ledger Balances of the firm were as follows:—

	£		£
Purchases Account	63,000	Sundry Creditors	3,860
Barges Account	3,250	Insurance	265
Repairs and Replacements ..	3,205	Bad Debts	341
Freight and Marine Insurance ..	312	„ „ Reserve Account (Jan. 1st, 1900) .. .	385
Allowances from Creditors ..	2,420	Advertising	982
Coal	4,404	Advertising Suspense Account ..	5,800
Gas and Water	302	Cottage Rents Received ..	117
Machinery and Plant Account ..	25,000	Cash in hand	325
Wages	6,221	R. Lion, Capital Account ..	59,400
Land and Buildings Account ..	13,840	„ Drawings Account (including Interest) ..	4,250
Salaries	858	P. Unicorn, Capital Account ..	30,000
Sundry Debtors	7,940	„ Drawings Account (including Interest) ..	2,050
Sales	74,441		
Cash at Bank	2,185		
Stock (January 1st, 1900) ..	25,220		
Rent, Rates and Taxes	873		

Stock was taken as on December 31st, 1900, and was agreed at £30,342. It was also agreed to write off half the Advertising Suspense Account and to transfer to Buildings Account £3,000 from Purchases Account and £250 from Wages Account representing cost of materials and labour spent upon new buildings erected during the year. Prepare Trading and Profit and Loss Account for the year ended December 31st, 1900, and a Balance Sheet as on that day.

(London Chamber of Commerce.) 93

(Gross Profit, £8,574; Net Loss, £5,620; Balance Sheet Total, £85,810.)

31. Messrs. Slander and Backbite own a small newspaper. Profits and losses are equally divided. Before the division of profit the following adjustments are necessary:—10 per cent Depreciation is to be written off Plant Account; 20 per cent off Type Account and 10 per cent off Horses and Carts Account; 5 per cent provision is to be made for Bad and Doubtful Debts. Six months' Interest at 5 per cent is due upon the Bank Overdraft, and has not yet been passed through the books. Stock as on 31st December 1901, was valued at £381. No interest is allowed upon Partners' Capital Accounts, Backbite's smaller capital being compensated for by the fact that he gives more time to the business than his partner. Ledger Balances on 31st December 1901 were:—

	£		£
Expenses of Branch Office ..	129	Audit Fee	52
Insurance Account	34	Law Charges	124
Rates, Taxes and Gas	50	Bad Debts	142
Postage Account	182	Freehold Printing Works ..	4,950
Carriage	264	Additions to Freehold Premises during the year ..	150
Bad Debts Reserve (1st Jan. 1901)	430	Plant and Machinery	4,400
Sales and Subscriptions (Newspaper Dept.)	4,852	Type	2,900
Sales (Jobbing Dept.)	848	Stock, 1st Jan. 1901	342
Advertisements A/c. (Receipts)	5,540	S. S.'s Capital Account	9,864
Compositors' Wages	2,035	S. S.'s Drawings Account ..	1,040
Reporters' Salaries	798	D. B.'s Capital Account	7,540
Paper Purchases	2,220	D. B.'s Drawings Account ..	952
Office Salaries	748	Trade Creditors	862
Trade and Incidental Expenses ..	82	Advertisements paid in advance	750
Cost of Literary contributions ..	898	Horses and Carts	194
Commission paid	152	Sundry Debtors	8,440
Stable Expenses	121	Cash in hand	457
Ink Purchases	88	Bank Overdraft	1,500
Machine and Engine Room Exps.	242		

Prepare final accounts. 94

(London Chamber of Commerce.)

(Gross Profit, £4,734; Net Profit, £1,849-2-0; Balance Sheet Total, £20,410-12-0.)

32. The following are the Ledger Balances of Messrs. Jones, Smithson & Co., Brewers and Wine and Spirit Merchants, on 30th June 1914.

Prepare Trading and Profit and Loss Account for the year to June 30th, 1914, and Balance Sheet as on that date. The Stock on 30th June 1914, at cost, amounted to £3,000.

Adjust the Accounts by deducting depreciation from the following assets, thus:—

Plant and Machinery	7½%
Bottles	33%
Cases and Sundries	5%
Horses	10%
Carts and Harness	5%
Motor Lorries	20%
Casks	2½%

LEDGER BALANCES ON 30th JUNE 1914

	£		£
A. Jones—Capital	36,000	Rates, Taxes and Licences ..	700
W. Smithson—Capital	23,000	Freehold and Leasehold Houses	38,000
Freehold Brewery	30,000	Bank Loan	10,000
Plant and Machinery	3,000	Depositors	13,000
Bottles	1,350	Travelling	900
Cases	650	Horse-keep	250
Horses	560	Reserve Account	5,705
Carts and Harness	530	Motor Expenses	80
Sales—Beer	54,960	Motor Lorries	900
„ —Wines and Spirits ..	5,600	Interest on Loans, Dr.	1,350
„ —Sundry	1,630	Interest on Loans, Cr.	675
Purchases	28,000	Casks	2,000
Duty—Beer	8,000	Stock, 1st July 1913	5,690
„ —Wines and Spirits ..	1,100	Balance at Bank	5,980
Wages	2,500	Rents received	1,250
Salaries	950	Rents paid	1,500
Sundry Creditors	5,250	Repairs to Brewery	200
Sundry Debtors	21,000	Repairs to Houses	500
Sundry Expenses	1,380		

(Chartered Accountants.) 95

(Gross Profit, £19,900; Net Profit, £12,999-10-0; Balance Sheet Total, £105,954-10-0.)

33. A. F. Walters and J. B. Smith are in partnership as pipe manufacturers, the former taking 2/3rds and the latter 1/3rd of profits. They also rent and work a retail shop. The shop manager sends in weekly returns of all transactions, and these are duly incorporated in the books of the head office. Prepare Trading Account showing the working results of the shop; also Trading and P. & L. Accounts and B/S for the year ended 28th February 1906. Stocks at Factory £3,105 and at shop £470. The goods supplied by the factory to the shop were priced out at £4,199 cost price. Adjustments:—(*a*) Interest on Capital at 5 per cent; (*b*) Reserves for Rent, Rates, etc. Account (factory) for rent accrued due 28th February £78; Ditto Shop, 2 months' rent due to 28th February (the annual rent being £360); Audit fee £36; (*c*) Manager is entitled to commission at 2 per cent on the gross profit realised by the shop; (*d*) Plant and Machinery to be depreciated at 10 per cent; Fixtures and Fittings at 5%; (*e*) Provision for Bad and Doubtful Debts at 2½%.

Dr. Balances:—	£		£
Plant and Machinery	3,280	Bills Receivable	2,000
Fixtures and Fittings (Factory)	620	Salaries of Manager and Shop Assistant ..	266
Purchases	11,780	A. F. Walker's Drawings ..	1,212
Manufacturing Wages ..	6,433	J. B. Smith's Drawings	606
Manufacturing Expenses ..	891	Cash at Bank	2,512
Rent, Rates and Insce. (factory)	360	Cash at Shop	50
Rent, Rates and Insce. (shop) ..	423	Cash at Factory	7
Stock, 1st Mar. 1905 (factory) ..	3,828		
Stock, 1st Mar. 1905 (shop) ..	747		
Cash Purchases (shop) ..	62	Cr. Balances:—	
Traveller's Commission (factory)	152		
Office Salaries (factory) ..	280	A. F. Walker's Capital Account ..	6,200
Office Expenses, postage, etc. (factory)	395	J. B. Smith's Capital Account ..	3,500
		Sales (factory)	19,353
Law Expenses and Audit Fee (factory)	41	Sales (shop)	7,538
		Sundry Creditors	2,428
Bad Debts (factory)	8	Discount (factory)	282
Sundry Debtors	2,520	Reserve for Bad Debts as on 1st March 1905	74
Furniture, Fixtures and Fittings (shop)	980	Bills Payable	78

(London Chamber of Commerce.) 96

(Gross Profit, £6,725; Net Profit, £3,966; Balance Sheet Total, £15,073.)

34. A, B and C were the owners of a patent medicine, sharing profits equally. A died on 31st December 1910, leaving two children; he made B & C his Executors and Trustees. His Will and the Partnership deed provided that the business should be

continued and the children maintained and educated till the year 1915 when they both came of age. They were then to receive their father's share and capital in the business less any sums paid out during their minority. You are instructed to draw up a Balance Sheet as at the end of 1914 showing the position, and also a Profit & Loss Account for that year. The material figures for the latter are as follows:—

	£
Sales and Commission earned	102,000
Warehouse Wages	5,100
Salaries	14,200
Commission paid	3,400
Travelling Expenses	1,890
Miscellaneous Expenses	1,020
Rent of Warehouse	780
Advertising	18,700
Purchase of Materials	26,390
Stock at commencement of year	8,900
Stock at end	8,200

The Capital Accounts of the partners are £10,000 each, and the liabilities on 31st December 1914 were £12,300 on Bills and £33,800 to Sundry Creditors. The firm had a lease of the offices valued at £1,050, Book Debts £56,500, Bills Receivable £14,800 and Cash at Bank £7,100.

B and C had invested the whole of A's share of the profits since his death, and this Investment Account stood at £45,300 at the above date. They had paid the maintenance and other charges amounting to £11,270 which had been debited to an account called Accumulation of Income Account.

B and C were both entitled to draw a special remuneration of £3,500 each year against the profits.

Draw up an account showing what the children will receive assuming that all adjustments have been made in the books up to 1st January 1914.

(*Incorporated Accountants.*) 97

(*Gross Profit,* £69,810 ; *Net Profit,* £22,820 ; *Balance Sheet Total,* £132,950.)

35. Lyon and Lamb, manufacturers, are in partnership, sharing profits equally after providing for interest at 7 per cent per annum on their capitals and drawings. The Trial Balance of the firm at 30th June 1926, is as follows:—

		Rs.	Rs.
Capital Accounts, 1st July 1925:—			
Lyon			40,000
Lamb			30,000
Current Accounts:—			
Lyon, Drawings		2,000	
Lamb, Drawings		1,500	
Freehold Property:—	Rs.		
Business Premises	30,000		
"Lyon Chambers"	18,000		
		48,000	
6 per cent Mortgage Loan			20,000
Premium for lease of Premises for Manufacturing purposes, 3 years from 1st of March 1926		1,500	
Machinery and Plant		12,000	
Motor Lorries		2,500	
Fixtures and Fittings		4,000	
Stock, 1st July 1925		15,220	
Work-in-Progress, 1st July 1925		5,470	
Bank		3,450	
Government Bonds, 4½ per cent Rs. 1,000; 5 per cent Rs. 2,000		3,000	
Debtors and Creditors		18,543	11,346
Reserve for Doubtful Debts			400
Purchases and Sales (*Less* Returns)		88,456	1,52,964
Manufacturing Wages and Expenses		25,765	
Carriage inwards		456	
Carriage outwards		2,565	

TRIAL BALANCE—(*Contd.*)

	Rs.	Rs.
Interest on Mortgage to 31st March 1926	600	
Rent of Leasehold	500	
Discounts allowed and received	950	1,400
Rates and Taxes	600	
Advertising	6,000	
Salaries	10,923	
Bad Debts	640	
Rent from "Lyon Chambers"		1,500
Insurance on Freehold Property	400	
Interest on Government Bonds		145
General Expenses	2,000	
Motor Lorries upkeep	500	
Repairs to "Lyon Chambers"	217	
Rs.	2,57,755	2,57,755

Stock as at 30th June 1926, Rs. 17,533; Work-in-Progress, Rs. 3,200.

The following adjustments have to be made:—

(1) Premium on lease to be written down to amount unexpired.

(2) Reserve for Doubtful Debts to be written up to Rs. 800.

(3) Depreciation—Machinery and Plant 10 per cent; Motor Lorries 15 per cent; Fixtures and Fittings, 5 per cent.

(4) Insurance Premium unexpired, Rs. 40.

(5) Partners' interest on drawings: Lyon, Rs. 64; Lamb Rs. 48.

(6) Partners' interest on capital.

(7) Accrued interest on mortgage.

Prepare the partnership Trading, Profit & Loss and Appropriation Accounts for the year ended, and Balance Sheet as at 30th June 1926. (*B. Com.*) 98

(*Gross Profit*, Rs. 38,330; *Net Profit*, Rs. 8,132; *Balance Sheet Total*, Rs. 1,11,066.)

ADMISSION OF A PARTNER.

136. The following is the Balance Sheet on 31st March 1914, of Mr. O. P. prepared for his own use and in the accustomed way:—

Liabilities	£	*Assets*	£
Creditors	3,000	Cash	500
O. P. Capital	13,500	Debtors	4,000
		Stock	5,000
		Fixtures and Fittings	750
		Freehold Premises	6,000
		Investment	250
	£ 16,500		£ 16,500

He decides to admit a partner and it is arranged that the partner shall join on the basis of the above Balance Sheet, subject to the following modifications:—

5% to come off the Debtors.
Stock to be taken at £4,500.
Fixtures and Fittings to be taken at £500.
Freehold Premises to be taken at £7,000.

Cash and Investment not to be taken over by the partnership. Make the necessary Journal Entr[illegible] show the Balance Sheet giving effect to the above modifications. 99

[illegible] C we. (*Chartered Accountants.*) (*Balance Sheet Total, £15,800.*)

[illegible] a Capital £10,000 commenced business as a Manufacturer [illegible] to December 31st, 1904 made the following profits:—

1900	
1901	20 per cent
1902	[illegible]r Doubtful
1903	[illegible]
1904	10,600

of which he drew during the period £16,250. He arranged a partnership with H. Brown on the following terms from January 1st, 1905:—

To sell Brown one-half share of the business, Brown to invest cash equal to Jones' capital at December 1904, and in addition to pay for one-half share of the goodwill of the business on the basis of three times the average profits for the last five years. Prepare a statement showing what sum of money Brown must invest, and make the necessary entries in the books of the new firm.

(Incorporated Accountants.) 100

(Brown should bring £10,845 for Goodwill, and £29,900 as Capital).

38. The following is the Balance Sheet of H. Perkins and F. Shepherd, trading as Perkins, Shepherd & Co, on 31st December 1912, profits being divided three-fifths to H. Perkins and two-fifths to F. Shepherd:—

Liabilities	£	*Assets*	£
H. Perkins, Capital Account ..	7,000	Debtors	4 400
F. Shepherd, " " ..	4 000	Buildings	3,000
Sundry Creditors	3,000	Plant	5,000
		Bank	1,600
	£ 14,000		£ 14,000

They agree to admit a new partner, L. Brooke, on 1st January 1913, and the following arrangements are made:—

(*a*) Goodwill to be created, amounting to £3,500, to be credited to Perkins and Shepherd in the same proportions as they divide profits.

(*b*) The buildings and plant are independently valued at £3,500 and £6,000 respectively, the increased values to be similarly credited to Perkins and Shepherd.

(*c*) L. Brooke to bring in £4,000 cash as his Capital.

(*d*) All partners to be credited with 5% interest per annum on Capital, and to be charged 5% per annum interest on Drawings, which amount for each partner to £30 a month, drawn at the end of the month.

(*e*) Profits to be divided in the proportion of Perkins 5, Shepherd 3 and Brooke 2. The Profits to 30th June 1913, before allowing interest, were £1,800.

Prepare the partners' Balance Sheet and Capital Accounts as on 30th June 1913.

(Incorporated Accountants.) 101

(Capitals on 30th June, 1913:—
Perkins £10,720-18-9, Shepherd £6,359-16-3, and Brooke £4,179-5-0;)
(Balance Sheet Total, £24,260.)

39. W. Lone and T. Stanley are trading as partners in the firm of Lone, Stanley & Co., profits being shared as follows:—W. Lone 2/3rds and T Stanley 1/3rd. The following is the Balance Sheet of the firm on 31st December 1908:—

[illegible]	£	*Assets*	£
W. Lone, C[illegible] ..	2,000	Cash	200
T. Stanle[illegible]	1 800	Sundry Assets	27,600
Sundry C[illegible]	24,000		
	£ 27,800		£ 27,800

On 1st January 1909, they admit M. Maxwell as a partner, on the following terms:— (*a*) Profits are to be divided as to 3/6ths to W. Lone, 2/6ths to T. Stanley, and 1/6th to M. Maxwell. (*b*) M. Maxwell to bring £1,000 as his capital. (*c*) A Goodwill Account is to be raised for £1,800, the sum to be credited to the old partners. (*d*) W. Lone is at thdraw £400 of his capital on 1st January 1909. (e) M. Maxwell to have a 00 per annum out of profits, (f) Interest to be allowed on partners' Capital the rate of 5 per cent per annum. No interest on ordinary drawings to be .ccount. Each partner is at liberty to draw £40 a month in anticipation of Interthe case of M Maxwell the £40 is in anticipation of profits and salary). ..sume that all transactions mentioned above have been carried out. The profits for the year ended 31st December 1909, before making any allowance for M Maxwell's salary or for interest on partners' capital, amounted to £2,510. Show the partners' Capital Accounts as on 31st December 1909. *(Lancashire and Cheshire Institute.)* 102

(Capital Balances on 31st December 1909:—
W. Lone, £3,360; *T. Stanley,* £2,640; *M. Maxwell,* £1,270.)

40. The following is the Balance Sheet of Messrs. Long and Short on 31st December 1908:—

Liabilities	£	*Assets*	£
Trade Creditors	2,875	Cash in hand	12
Reserve Fund	2,000	Freehold Land and Buildings ..	8,000
Mr. Long, Loan Account ..	2,500	Plant and Machinery	6,000
Midland Bank	1,387	Stock-in-trade	5,400
Mr. Long, Capital Account ..	14,300	Book Debts	11,050
Mr. Short, „ „ ..	7,100	Investment on account of Reserve	
Profit and Loss Account ..	1,800	Fund	1,500
	£ 31,962		£ 31,962

They made a profit of £3,800 to 31st December 1909 before charging interest on Capital at 5 per cent, net profits being divisible into Long seven-tenths and Short three-tenths At the latter date it is decided to admit Mr. Thin into partnership upon the conditions that he pays £2,000 for a fifth share of goodwill (which he acquires in equal proportions, from the partners who withdraw the cash for same) and contributes £5,000 as his share of Capital. In 1910 the profits were £4,200. Prepare the Capital Account of each partner at 31st December 1910 and raise a Goodwill Account as it will appear in the books. *(Incorporated Accountants.)* 103

(Capital Balances on 31st December 1910:—
Long, £22,065-6-0; *Short,* £10,384-14-0; *Thin,* £5,750.)

41. A and B are equal partners, and on 30th June 1908, their Balance Sheet stood as follows:—

Liabilities	£	*Assets*	£
Sundry Creditors	5,000	Stock-in-trade	3,500
Bank Overdraft	1,500	Sundry Debtors	6,100
A's Capital Account ..	2,100	Fixtures and Fittings	250
B's „ „	1,600	Cash in hand	50
		Investments	300
	£ 10,200		£ 10,200

It is arranged that C shall be taken into partnership, and as a result of the negotiations, it is agreed (as between A and B only) to make the following adjustments in the above Balance Sheet:—

(a) To write off Bad Debts amounting to £1,500

(b) To write down the Fixtures and Fittings to £100,

(c) To depreciate the Stock-in-trade by 15 per cent

(d) To write off Loss upon Investments by 25 per cent.

(e) To create a Goodwill of £1,000.

C then introduces £1,000 as his third share of the capital, to which amount it has been agreed that that of the other partners shall be adjusted. State what entries will be necessary to carry out these transactions and prepare an amended Balance Sheet of the firm immediately after C has become a partner. *(Incorporated Accountants.)* 104

(Balance Sheet Total, £9,500.)

42. A and B are partners in A and B's Coal Stores, and they sl[illegible] losses equally. On 31st December 1907, they had Capital in the business—[illegible] B, £2,600. The assets and liabilities of the firm, as on that date, stood at t[illegible] 20 per cent figures in the books:—Office Furniture and Fittings, £320; Coal Trucks, £[illegible] Doubtful Creditors, £848; Cash at Bank, £1,166; Carts, Plant and Horses, £476; B/P, – Sundry Debtors, £3,720; Cash in hand, £18; and Stock of Coal, etc., £570. They agree to take into partnership C, a coal agent, as from 1st January 1908 on the following terms:—Profits and Losses to be shared—A, 2|5ths, B 2|5ths, and C 1|5th. C was to bring into partnership "Book Debts" amounting to £560 (*less* a Reserve for Bad Debts of 5 per cent), and the Goodwill of his connection, valued at £310; while his Capital in the new firm was to be £1,000, the balance of which he was to pay in cash on signing the Articles of Partnership on 1st January 1908. It was further agreed between A. B and C that the following adjustments should be made in the figures as shown on A and B's Balance Sheet on 31st December 1907:—The Coal Trucks were to be taken at £1,000 and the Carts, Plant and Horses at £550, as the result of an independent valuation; a Bad Debt Reserve of $7\frac{1}{2}$ per cent was to be deducted from outstanding Debtors; the Goodwill of the old firm (A and B) was to be taken at £455; and A was to be paid out of from the Bank Balance such a sum as would make his Capital equal to B's. The Agreement was carried out. (*a*) Make Journal Entries necessary to complete the above adjustments; and (*b*) draw up a Balance Sheet showing the position of the new firm as on 1st January 1908.

(*Royal Society of Arts.*) 105

(*Capitals after adjustments:—*
A £2,760 and B £2,760; Balance Sheet Total, £8,020.)

43. On 1st January 1921, Abraham and Bhagwanji who were trading in partnership sharing 7|12ths and 5|12ths respectively, take in Cooverji giving him 1|6th share. Over and above his Capital, Cooverji brings in Rs. 96,000 as his Goodwill for the 1|6th share which he has acquired 1|24th from Abraham and 1|8th from Bhagwanji The Cash brought in by Cooverji as his Capital as well as for his share in Goodwill is credited in one separate account in his personal name. On 31st December 1921, their Trial Balance stood as follows:—

	Rs.		Rs.
Machinery	6,00,000	Abraham's Capital	3,36,000
Furniture	40,000	Bhagwanji's Capital	2,40,000
Stock	1,20,000	Cooverji's Account (Personal) ..	2,24,000
Debtors	2,00,000	Creditors	48,000
Abraham's Drawings	32,000	Current Year's Profit	2,32,000
Bhagwanji's Drawings	52,000		
Cooverji's Drawings	8,000		
Cash on hand	28,000		
Rs.	10,80,000	Rs.	10,80,000

Interest on drawings is to be ignored but interest on Capital Accounts is to be allowed at 5% per annum after the necessary adjustments therein as regards the Goodwill cash brought in by Cooverji. Prepare the Balance Sheet of the Firm as on 31st December 1921, showing full details in the Capital Accounts of the three partners. (*G.D.A.*) 106

(*Capital Account Balances on 31st December, 1921:—*
Abraham Rs 4,50,000, *Bhagwanji* Rs. 3,31,600, *and Cooverji Rs.* 1,58,400;
Balance Sheet Total, Rs. 9,88,000)

44. Keshav, Pendharkar and Chapekar have been working in partnership sharing profits in proportions of 3|5, 1|5 and 1|5.

On 31st March 1925, their Balance Sheet showed as follows:—

Liabilities		Rs	*Assets*	Rs.	Rs
Creditors		5,000	Cash		2,000
Capitals:— ..	Rs.		Sundry Debtors ..	5,000	
Keshav	15,000		*Less* Reserve ..	500	
Pendharkar ..	7,500				4,500
Chapekar	7,500		Stock		20,000
		30,000	Fixtures and Fittings ..		1,000
			Lease		7,500
	Rs.	35,000		Rs.	35,000

thd... it A in partnership on condition that he should take a fourth share in th... and contribute proportionate capital. He is also required to bring in his share of Goodwill. On a subsequent date, the entire concern is sold Int... pays Rs. 20,000 for Goodwill.

Show the Capital Account of Keshav, Pendharkar, Chapekar and A, firstly on the assumption that A brings the Goodwill amount in Cash, and secondly on the assumption that he does not bring Goodwill in Cash.

(*Capital Balances payable to Partners on sale to Y*:— 107
Keshav Rs. 25,800, *Pendharkar* Rs. 11,100, *Chapekar* Rs. 11,100, *and A* Rs. 16,000.)

RETIREMENT OR DEATH OF A PARTNER.

45. Smith and Robinson carried on business in partnership. On 31st December 1913, they dissolved the partnership and Smith retired.

Their Balance Sheet at that date was as follows:—

Liabilities	£	*Assets*	£
Sundry Creditors and Reserves	10,000	Freehold Land and Buildings ..	5,000
Bills Payable	5,000	Fixed Plant and Machinery ..	12,000
Loan on Mortgage of Freehold Property, contra ..	3,000	Loose Plant and Tools ..	4,000
Smith—Capital Account ..	21,000	Patterns and Models ..	2,000
Robinson—Capital Account ..	14,000	Stock-in-trade	15,000
		Sundry Debtors and Reserves ..	11,000
		Bills Receivable	2,500
		Cash in Hand	300
		Cash at Bank	1,200
	£ 53,000		£ 53,000

Profits and losses were shared in the proportions of Smith two-thirds, and Robinson one-third.

Robinson agreed to take over the business on the following terms:—

The Freehold Land and Buildings were to be taken over by Smith at the amount stated in the Balance Sheet, subject to the Mortgage, and Robinson was to rent the premises on a repairing lease at £250 per annum.

Revaluations were to be made which resulted as follows:—

Fixed Plant and Machinery, £10,000; Loose Plant and Tools, £4,400; Patterns and Models, £1,800; and Stock-in-trade, £12,000.

Smith agreed to allow the amount due to him (*less* £300 which was to be paid to him in cash) to remain as a loan to Robinson at 5 per cent interest.

Make out Robinson's Balance Sheet, after the transactions have been completed.

(*Chartered Accountants.*) 108

(*Robinson's Capital after adjustments*, £12,400;
Smith's Loan Account Balance, £15,500; *Balance Sheet Total*, £42,900.)

46. A, B and C carry on business in partnership. C wishes to retire from the firm. A and B agree to carry on the business, taking over the Assets at a valuation as agreed by the three partners, and discharging the Liabilities of the firm. The following is the position of the firm as on 30th September 1907, the date of dissolution:—

	£		£
Sundry Creditors	18,900	Plant	4,000
Loans	7,000	Fixtures	500
Capital Accounts:—		Stock-in-trade	250
A	3,000	Furniture	10,000
B	4,000	Sundry Debtors	18,000
C	1,000	Bills Receivable	4,000
Profit and Loss Account ..	3,000	Cash in Hand	50
		Cash at Bank	100
	£ 36,900		£ 36,900

The agreed values of the assets are as follows:—

Plant £3,050; Fixtures £350; Furniture £150; Stock-in-trade *less* 20 per cent discount; Sundry Debts (*less* Discounts and Bad Debts) £15,000; Provision for Doubtful Bills, £1,000.

1. Prepare Balance Sheet showing the position of the new firm of A and B on taking over the business.

2. Also the Capital Accounts and Balance Sheet of A, B and C after the above valuation and dissolution adjustments have been made. The profits and losses are divisible on the basis of capital originally contributed.

(*Incorporated Accountants.*) 109

(*Capital Balances after adjustments:— A £1,425, and B £1,900; Amount payable to C £475; Balance Sheet Total, £29,700.*)

47. The partners in the firm of A and B agree to dissolve on 31st December 1908 and the Balance Sheet stated at that date was as follows:—

Liabilities	£	*Assets*	£
Trade Creditors	10,000	Stock-in-trade	11,500
Union Bank	500	Warehouse and Office Fixtures, Fittings, etc.	400
Bills Payable	2,300	*Book Debts*	*17,100*
A—Capital	*10,700*	Bills Receivable £2,800 under Discount	
B "	3,500	Goodwill	1,000
Profit and Loss Account ..	3,000		
	£ 30,000		£ 30,000

Profits are divisible in the proportions of A 4/7, B 3/7; 5 per cent interest being allowed on capital and no interest charged on drawings, which were upon the basis of £500 per annum each. A is to retain the business premises, and undertakes to discharge all liabilities and to take over assets with liberty to B to carry on business elsewhere; B is to take 1/4th of the stock in part payment of his capital, and to leave in the business for one year a sum of £500 as a guarantee against any bad debts or liabilities on bills under discount, and to receive or pay any balance in cash, any amount received being derived from book debts.

Prepare A's Balance Sheet showing position after the dissolution and the completion of these transactions. (*Incorporated Accountants.*) 110

(*A's Capital after adjustments, £12,540; Amount payable to B, £1,285; Balance Sheet Total, £27,125.*)

48. The following was the Balance Sheet of a firm upon dissolution of partnership, A retiring and B continuing the business. The Partners' shares as to Capital and Profits were A, three-fourths, and B, one-fourth.

Liabilities	£	*Assets*	£
Capital—A	9,000	Freehold	12,000
" B	3,000	Debtors	3,000
Loan from A	2,000	Cash	1,000
Creditors	1,800	Stock	1,000
Reserve	1,200		
	£ 17,000		£ 17,000

A agreed to buy the Freehold for £10,000.

The Stock was taken over by B at 10% discount.

The Debtors realised 86% of their value.

The costs of the liquidation exclusive of the above deficiencies were £470.

What did each Partner receive? Show Cash Account, Liquidation Account and the Partners' Accounts. (*Chartered Accountants.*) 111

(*A brings in Cash £342-10; B receives, £1,652-10.*)

49. A and B carried on business as Pottery Manufacturers at Hanley, under the style of A, B & Co. They dissolved partnership on 31st March 1909, A retiring from the

business and B continuing to carry it on under the same style and purchasing A's share therein at the amount shown as his Capital at 31st March 1909, after a proper revaluation of the Assets.

The Firm's Balance Sheet at 31st December 1908, was as follows:—

Liabilities	£	Assets	£
Sundry Creditors	5,000	Land and Buildings ..	10,000
Bills Payable	1,500	Plant and Machinery ..	6,000
Mortgage on Land and Building at 4 per cent	7,500	Loose Tools and Plant ..	3,000
A—Capital	14,500	Stock-in-trade	9,000
B— "	9,500	Sundry Debtors after providing for Bad Debts and Discounts	7,500
		Bills Receivable	1,000
		Cash in Hand and at Bank ..	1,500
	£ 38,000		£ 38,000

Profits and Losses both of Capital and Revenue were divided in the proportions of, A two-thirds, and B, one-third.

The revaluations at 31st March resulted as follows:—Land and Buildings, £9,100; Plant and Machinery, £5,600; Loose Plant and Tools, £3,500; Stock-in-trade, £8,000. The other assets at that date were agreed as follows:—Sundry Debtors (after providing for Bad Debts and Discount) £8,500; Bills Receivable, £600; Cash in hand and at Bank, £2,000.

The Liabilities were:—Loan on Mortgage at 4%, £7,500 (interest paid to 31st December 1908); Bills Payable £1,000; Sundry Creditors, £3,500.

Make out the necessary adjustment accounts and Balance Sheet at 31st March 1909.
(*Chartered Accountants.*) 112

(*Amount payable to A, £15,316-13-4; B's Capital after adjustments, £9,908-6-8; Balance Sheet Total, £37,300.*)

50. Black and White have been in business together for three years ending 31st December 1910, at which date they agree to dissolve partnership. Black takes over the business and agrees to pay White £1,800 for his share of the Goodwill. Black has drawn out £500 each year, and White £650 each year. Black's Capital at the start was £3,000 and White's £4,000. The profits of each year were £1,000, £1,200 and £1,350 respectively. There was no deed of partnership and no arrangement as to interest on Capital. Draft Capital Accounts (in White's show the amount he will receive on going out) and Profit & Loss Account in Black and White's books, and Goodwill Account in Black's books.
(*National Union of Teachers.*) 113

(*Amount payable to White by Black, £5,625.*)

51. The Balance Sheet of A, B and C on 31st December 1920, that is, the date of A's retirement, was as follows:—

Liabilities		Rs.	Assets	Rs.
Creditors		25,000	Leasehold	30,000
Capitals:—	Rs.		Stock	80,000
A	60,000		Debtors	20,000
B	40,000		Cash	5,000
C	10,000			
		1,10,000		
		Rs. 1,35,000		Rs. 1,35,000

Under the terms of the Partnership Deed A was to receive, for the year succeeding his retirement, one-half of the share of profits which he was receiving at the date of retirement, for leaving his capital in the business as a loan.

On 1st January, 1921, D was admitted a partner and paid into the firm Rs. 30,000 of which Rs. 10,000 was for goodwill to be retained in the firm.

D was to receive one-fourth share of the net profits remaining after charging A's proportion as stated above, and B and C were to share the remainder in the same relative proportions as before. The Profit of 1921 was Rs. 40,000 before charging 5% Interest on A's Loan and on the partners' Capital Accounts.

Prepare a statement showing the division of profits for 1921. Also state the respective shares of B, C and D in the profits for the year 1922. 114

(Share of Profits:—
B Rs. 10,312-8, *C Rs.* 10,312-8, *and D Rs.* 6,875; *B* 3|8*ths, C* 3|8*ths, and D* 2|8*ths.)*

52. Hope and Horne, equal partners as Manufacturers' Agents dissolved partnership on 30th September 1923. By the Deed of Dissolution each partner took over certain agencies and had to account to the other for any commission received by him but due to the partnership. Certain disputes having arisen, you were, on 1st March 1924, instructed to examine the books of Hope and of Horne and found as follows:—

Hope had received in Commission on account of the late firm Rs. 1,550, and Horne had similarly received Rs. 300. Hope had paid Rs. 275 for Rent, Rates, etc., due by the late firm and had received Rs. 295 for goods from certain debtors of the firm, and Horne had paid Rs. 472 to certain creditors of the firm. The Stock in hand included in the September Balance Sheet had been valued at Rs. 950 of which Hope took Rs. 220, and Horne Rs. 730. Hope had paid Rs. 500 to Horne on account. Draw up a final account of settlement. 115

(Balance due to Horne by Hope, Rs. 116.)

53. The Balance Sheet of Arthur, Baldwin and Curtis who were sharing profits in proportions to their Capitals stood as follows on 31st December 1924:—

Liabilities		Rs.	*Assets*		Rs.
Sundry Creditors	..	6,900	Cash at Bank ..	..	5,500
Capital Accounts:—	Rs.			Rs.	
Arthur ..	.. 20,000		Sundry Debtors ..	5,000	
Baldwin ..	.. 15,000		Less Reserve ..	100	
Curtis ..	.. 10,000				4,900
		45,000	Stock	..	8,000
			Plant and Machinery	..	8,500
			Factory Land and Building	..	25,000
		Rs. 51,900			Rs. 51,900

Mr. Baldwin retires and the following re-adjustments of the Assets and Liabilities have been agreed upon before the ascertainment of the amount payable by the firm to Mr. Baldwin:—

(1) That Stock be depreciated by 6 per cent.

(2) That the Reserve for Doubtful Debts be brought up to 5 per cent on Debtors.

(3) That the Factory Land and Buildings be appreciated by 20 per cent.

(4) That a provision of Rs. 770 be made in respect of outstanding Legal Charges.

(5) That the Goodwill of the entire firm be fixed at Rs. 10,800 and Mr. Baldwin's share of the same be adjusted into the accounts of Arthur and Curtis who are going to share in future in the proportions of five-eighths and three-eighths respectively (no Goodwill account raised).

(6) That the entire Capital of the firm, as newly constituted, be fixed at Rs. 28,000 between Arthur and Curtis in the proportions of five-eighths and three-eighths, after passing entries in their accounts for Goodwill (i.e., actual cash to be paid off to, or to be brought in by the continuing partners as the case may be).

Pass Journal entries necessary to give effect to the above arrangements and prepare the Balance Sheet of Arthur and Curtis, transferring Baldwin's share of Capital and Goodwill to a separate Loan Account in his name. (G.D.A.) 116

(Baldwin's Loan Account, Rs. 19,800; *Capital Balances after adjustments:—*
Arthur Rs. 17,500, *and Curtis Rs.* 10,500; *Balance Sheet Total,* Rs. 55,470.)

54. X, Y and Z carry on a business in partnership sharing profits and losses in the proportions of their Capitals. Their Balance Sheet on 31st March 1925 was as follows:—

Liabilities		Rs.	Assets		Rs.
Bills Payable		5,000	Cash in Hand		250
Creditors		15,000	Cash at Bank		5,000
Loan		20,000	Bills Receivable		3,000
Capitals :—	Rs.			Rs.	
X	30,000		Debtors	35,500	
Y	20,000		*Less* Reserve for Doubtful Debts	5,000	
Z	10,000				30,500
		60,000	Stock		20,750
			Furniture		2,500
			Plant and Machinery		38,000
	Rs.	1,00,000		Rs.	1,00,000

On 1st April 1925, Y retires from the business and his share is ascertained on the following re-valuation of the assets:—Stock to be taken at Rs. 26,750 and the Reserve for Doubtful Debts is to be maintained at Rs. 2,000. The amount of Goodwill of Y's share is agreed upon at Rs. 10,000. X and Z pay out Y bringing in the necessary amount of cash required to do so in the proportions of their capitals.

They then admit A on the basis of the adjusted Balance Sheet. A is to take a 5th share in the profits and bring in proportionate amount of Capital. Valuation of Goodwill, for the purpose of the amount to be brought in by A, was the same as at the time of Y's retirement.

Show the Balance Sheet as adjusted on Y's retirement and show the amount A will have to bring in as Capital and Goodwill. 117

(*Capital Balances after adjustments*:—
X *Rs.* 48,000 and Z *Rs.* 16,000; *A will have to bring Rs.* 6,000 *as Goodwill and Rs.* 16,000 *as Capital; Balance Sheet Total, Rs.* 1,04,000.)

55. X, Y and Z were in partnership under a contract which expired on 30th June 1925. They were unable to come to terms for a renewal of the contract, and agreed to dissolve the partnership as on that date. The business was put up for sale as a going concern by private tender among the partners. X and Y made a joint offer and became the purchasers at the price of Rs. 1,40,000. By the conditions of sale, the purchasers took over the whole Assets and Liabilities of the firm. The amount due to the retiring partner was to be paid as to one-third in cash and as to two-thirds in equal instalments by bills at three and six months from 1st July 1925 with interest, at 6% per annum.

The books of the firm were kept by Single Entry, and after examination and adjustment, the following figures were brought out as at 30th June 1925:—

Factory Buildings, Rs. 35,000; Machinery and Plant, Rs. 70,000; Designs and Cards, Rs. 10,000; Sundry Debtors Rs. 85,000; Bills Receivable, Rs. 10,000; Cash, Rs. 9,000; X's Drawings, Rs. 4,500; Y's Drawings, Rs. 3,500; Z's Drawings, Rs. 2,750 and Sundry Creditors, Rs. 76,000.

The Capital of the partners, as shown by the Balance Sheet of 30th June 1924, was respectively, X Rs. 72,000, Y Rs. 47,000 and Z Rs. 32,000. The Stock on hand at 30th June 1925 amounted to Rs. 20,000.

Under the Partnership Deed, partners were entitled to interest on Capital at the rate of 6% p.a. and to the following salaries:—

X Rs. 5,000, Y Rs. 4,000 and Z Rs. 3,000 and these are to be allowed for. Profit and Loss was shared in the proportions of X 5|10ths, Y 3|10ths and Z 2|10ths.

Prepare (1) Statement showing the amount divisible among the partners on the year's working; (2) Balance Sheet at 30th June 1925, giving effect to the sale; and (3) Statement of Z's Account, showing the settlement with him. 118

(*Net Profits*:—X *Rs.* 845, Y *Rs.* 507, *and* Z *Rs.* 338; *Balances on Capital Accounts after adjustments*:—X *Rs.* 66,165, Y *Rs.* 43,927 *and* Z *Rs.* 9,970; *Balance Sheet Total, Rs.* 1,40,448-9-6.)

56. Jamshedji, Sultanbhoy and Cowasji were in partnership sharing profits in the proportions of five, four and three. The Balance Sheet of the firm, as on 31st December 1927, was as follows:—

Liabilities	Rs.	*Assets*	Rs.
Capital Accounts :—		Goodwill	20,000
Jamshedji	67,965	Fixtures	4,100
Sultanbhoy	47,560	Stock	78,650
Cowasji	30,585	Sundry Debtors	46,750
Sundry Creditors	20,845	Cash	17,455
Rs.	1,66,955	Rs.	1,66,955

On account of his ill health, Jamshedji gave notice that he wished to retire. The partners entered into a Dissolution Agreement as on 31st December 1927, the terms of which were as follows :—

(*a*) The Profit and Loss Account for the year ended 31st December 1927, which showed a net profit of Rs. 24,000, was to be re-opened. Sultanbhoy was to be credited with Rs. 2,000 as bonus, in consideration of the extra work which had devolved upon him during the year. The profit-sharing basis was to be revised as from 1st January, 1927, as follows :—

Jamshedji 3, Sultanbhoy 4, Cowasji 4.

(*b*) Goodwill was to be taken at two years' purchase of average profits of the five preceding years. The Fixtures were to be revalued by an independent valuer. A reserve of 2% was to be made for doubtful debts, and the remaining assets were to be taken at their book values.

The valuations arising out of the above agreement were—Goodwill Rs. 28,400; Fixtures Rs. 5,490.

Sultanbhoy and Cowasji agreed, as between themselves, to continue the business, sharing profits in the ratio of 4 : 3, and decided to write off Goodwill, to retain the fixtures on the books at the revised value, and to increase the Reserve for Doubtful Debts to 6%.

Give Journal Entries necessary to give effect to the above arrangements, and prepare the Balance Sheet of the remaining partners immediately following the retirement of Jamshedji. 119

(*Balances on Capital Accounts after adjustments :—*
Sultanbhoy Rs. 35,482-13-8 *and Cowasji Rs.* 22,832-2-4 ;
Jamshedji's Loan Account Rs. 66,380 ; *Balance Sheet Total, Rs.* 1,45,540.)

57. The Balance Sheet of M, N and O who are sharing profits and losses in the proportions of 1|2, 1|3 and 1|6 respectively, was as follows on 30th June 1925 :—

Liabilities	Rs.	Rs.	*Assets*	Rs.
Bills Payable		6,400	Cash in Hand	150
Sundry Creditors		12,500	Cash at Bank	25,500
Capitals :—	Rs.		Bills Receivable	5,400
M	40,000		Book Debts	17,800
N	25,000		Stock	22,300
O	20,000		Furniture	3,500
		85,000	Plant and Machinery ..	9,750
Profit and Loss Account ..		4,500	Buildings	24,000
	Rs.	1,08,400	Rs.	1,08,400

M retires from the business from 1st July 1925 and his share in the firm is to be ascertained on a re-valuation of the assets as follows :—Stock, Rs. 20,000 ; Furniture, Rs. 3,000 ; Plant and Machinery, Rs. 9,000 ; Buildings, Rs. 20,000 and Rs. 850 are to be provided for Doubtful Debts.

The Goodwill of the firm is agreed to be valued at Rs. 6,000.

M is to be paid Rs. 11,050 in cash on retirement and the balance in 3 equal yearly instalments with interest at 5 per cent per annum.

Show the necessary accounts required to give effect to the above, the Balance Sheet of the continuing partners and the account of M till it is finally closed. 120

(*Balances on Capital Accounts after adjustments :—*
N Rs. 21,700 *and O Rs.* 18,350 ; *M's Loan Account Rs.* 41,050 ;
Balance Sheet Total, Rs. 1,00,000.)

58. Brown and Smith are partners. The Partnership Deed provides *inter alia* :—

(1) That the Accounts be balanced on 31st December in each year.

(2) That the profits be divided as follows :—Brown one-half, Smith one-third, and carried to a Reserve Account one-sixth.

(3) That in the event of the death of a partner, his executors be entitled to be paid out :

(*a*) The capital to his credit at date of death.

(*b*) His proportion of Reserve at date of last Balance Sheet.

(*c*) His proportion of profits to date of death based on the average profits of the last three completed years.

(*d*) By way of Goodwill his proportion of the total profits for the three preceding years.

On 31st December 1909, the Ledger Balances were :—

	£	£
Brown's Capital		9,000
Smith's Capital		6,000
Reserve		3,000
Creditors		3,000
Bills Receivable	2 000	
Investments	5,000	
Cash	14,000	
£	21,000	21,000

The profits for the three years were :—1907, £4,200 ; 1908, £3,900 and 1909, £4,500.

Smith dies on 1st May 1910.

Show the account as between the Firm and Smith's Executors as on 1st May, 1910.

(*Chartered Accountants.*) 121

(*Balance on Smith's Executors' Account, £12,800.*)

59. A, B and C were partners. Their partnership deed provided that they were to share profits thus :—A 26%, B 34% and C 40% ; and that if a partner died, his Capital should remain in business for a stated period at a fixed rate of interest, but that the deceased partner's share should be credited with an amount for Goodwill, based upon one and a half year's average profits, for the five years prior to his death, but be subject to a deduction of 5% from the book debts. C died, and the profits of the firm for the five years were agreed at £1,600, £2,800, £2,400, £3,600 and £2,000 respectively, and the book debts at £12,000.

Prepare a statement showing the amount of Goodwill to be credited to C's account, and give the Journal Entries in the firm's books necessary to carry out the transactions.

(*Chartered Accountants.*) 122

(*C's Share of Goodwill, £1,248*).

60. In the partnership agreement between L, M and O, who were sharing profits $\frac{1}{2}$, $\frac{1}{4}$ and $\frac{1}{4}$, the Goodwill was to be valued on the death of any partner on the basis of such partner's share of 2 years' profits calculated on the average of 5 years' profits immediately preceding the year of death less 10 per cent. The firm's profits were Rs. 15,000 in 1920, Rs. 25,000 in 1921, Rs. 40,000 in 1922 and loss of Rs. 5,000 in 1923 and Rs. 2,000 in 1924. The deceased partner's share of profits for the period of his lifetime in the year of death was to be based on the average of the profits of the previous three years *plus* 10 per cent.

L died on 31st May 1925. His Capital Account showed a credit of Rs. 10,000 on 1st January 1925 and he had drawn Rs. 1,500 since that date.

Show the amount of Goodwill and the share of profits payable to him. 123

(*Amount payable to L's Executors, Rs. 24,160-13-4.*)

61. Vasant and Madhav entered into partnership on 1st January 1914, the former introducing a capital of Rs. 60,000 and the latter of Rs. 20,000. They effect a policy of insurance for Rs. 25,000 upon their joint lives in order to enable the survivor in case

21,130
21,498
21,142
63,825
6,??? 69,825

23215
69,825 x 2 77,647-500
÷3 = 46,550

of the death of one, to pay out in cash, part of the other's interest. The net profits, before charging interest on capital as at the beginning of each year, at 5 per cent per annum and on drawings (averaged at 2 per cent per annum), were as follows:—

Year.		Net Profit. Rs. a. p.	Vasant's drawings. Rs. a. p.	Madhav's drawings Rs. a. p.
1914	..	25,000 0 0	6,000 0 0	3,000 0 0
1915	..	26,100 0 0	6,600 0 0	3,300 0 0
1916	..	26,547 8 0	7,000 0 0	3,500 0 0

77,647-8

Profits to Vasant 2|3rds and to Madhav 1|3rd. The premium of insurance, which is Rs. 2,000, is charged as a business expense.

On 31st March 1917 Vasant died. According to the terms of the partnership deed his executors are entitled to receive his share of the capital as it stood on 31st December 1916, *plus* his three months' share of profit calculated upon the previous year's rate of profits and share of goodwill which is reckoned at 2|3rds of the previous three years' profits after adjusting interest on capital and drawings but without deducting the premium paid on the insurance policy.

Make up Vasant's account including these adjustments and showing the amount for which Madhav shall have to account to his executors. (G. D. A.) 124

(*Vasant's Capital A/c. Balance, Rs.* 93,215-13-4; *Amount payable to his Executors, Rs* 1,45,340-10-2.)

62. A and B entered into partnership on 1st January 1907, for a term of five years, each investing Rs. 7,500 and agreeing to share equally. Shortly after the termination of the partnership A died, and the accounts taken at 1st January 1912 showed as follows:

	Rs.		Rs
A's Drawings	8,938	A's Capital	7,500
B's Drawings	3,472	B's Capital	7,500
Stock	8,750	Sundry Creditors	4,058
Plant	3,750	Profit and Loss Account ..	22,115
Furniture	1,250		
Cash	566		
Mortgages	2,500		
Bills Receivable	2,000		
Accounts Receivable	9,947		
	Rs. 41,173		Rs. 41,173

The surviving partner took over Stock, Plant and Furniture, at the values stated, continued the business under his own name, acting as agent of the Firm in realising the remaining assets. On 1st January 1913, he reported to his late partner's executors that he had collected Rs. 6,500 of the Accounts Receivable, Rs. 1,250 of the Bills Receivable, and had received Rs. 93-12-0 interest on Mortgages. His expenses had been Rs. 125 for salaries, Rs. 275 for lawyer's and accountant's charges, and sundry expenses Rs. 50. He had made allowances to Customers, amounting to Rs. 340, and had discharged the whole of the liabilities to Sundry Creditors by payments amounting to Rs. 3,853.

Prepare accounts showing the position of the Capital Accounts as at 1st January 1913 and a Balance Sheet as on the same date. Deal only with the figures set out. (G. D. A.) 125

(*B's Capital Account after adjustments, Rs.* 1,089-14; *Balance due to Executors of A, Rs.* 9,373-14; *Balance Sheet Total, Rs.* 10,463-12-0.)

63. Under the terms of a partnership deed between Ardeshir and Burjor, the surviving partner is to pay the estate of the deceased partner one-third share of the profits for seven years. Interest to be paid at the rate of 5 per cent per annum on any balance of that share remaining unpaid six months after the date of each Balance Sheet of the business, the accounts of which are to be made up half-yearly.

The deceased partner's estate is also to receive interest at 5 per cent on the amount standing on the credit of his Capital Account at the date of the death.

Ardeshir died in December 1916, and Rs. 12,000 was the amount standing to his credit.

The profits of the business for the six half-years ending 31st December 1919 were stated as follows:—

To June 1917 Rs. 18,000; December 1917 Rs. 24,000; June 1918 Rs. 27,000; December 1918 Rs. 33,000; June 1919 Rs. 27,000; December 1919 Rs. 21,000.

Burjor paid over the share of Ardeshir's profits up to December 1918, but up to June 1920 nothing further has been received from him in respect of the 1919 profits or in respect of Rs. 12,000 and Interest.

The representatives of Ardeshir agree to accept his share in the future four years' profits on the basis of the average profits of the preceding three years; this is, provided the balance thus ascertained is paid off in cash subject to a rebate of Rs. 10,000.

Prepare a full account, showing the amount due from Burjor, who has fixed June 30th, 1920, as the date of settlement. 126

(*Balance due to Executors, Rs.* 87,391-10-8.)

64. Messrs. Ramrao, Jagdeorao and Dalpatram carry on a business in partnership sharing profits and losses in proportions of 7|16, 5|16 and 1|4. The Balance Sheet of the firm on 31st December 1924 was as follows:—

Liabilities		Rs.	*Assets*	Rs.
Bills Payable		2,350	Cash in Hand	250
Creditors		5,450	Cash at Bank	580
Loans		14,200	Bills Receivable	1,850
Capitals:—	Rs.		Stock-in-trade	9,570
Ramrao	22,750		Debtors	20,250
Jagdeorao	15,250		Furniture	2,100
Dalpatram	12,000		Plant and Machinery	6,800
		50,000	Leasehold Building	30,600
		Rs. 72,000		Rs. 72,000

Profits for the year ended 31st December 1924 were Rs. 12,000. Mr. Dalpatram dies on 30th April 1925. The Partnership Deed provides that Goodwill of the Business is to be calculated on the basis of 3 times the average profits of the past 5 years. Profits for the previous years were as follows:—

Year	Rs.	Year	Rs.
1920	28,600	1922	20,000
1921	27,400	1923	17,000

It is agreed between the surviving partners and the Executor of the deceased partner that the share of profits of the deceased from 1st January 1925 till his death may be ascertained on the basis of the last year's profits. The Executor agrees to receive the amount due to the deceased at Rs. 4,750 on settlement (i.e., the date of death), and the balance with interest at 9% in 4 six-monthly instalments.

Show the amount due to the deceased partner's estate and also show the Executor's Account till the full amount due is paid to him with interest. 127

(*Amount due to the deceased partner's Estate, Rs.* 28,750.)

AMALGAMATION OF FIRMS.

65. Mr. A. Bath and Mr. B. Wells carry on separate businesses of a similar nature, and agree to terms of partnership on the basis of amalgamation. The following is a statement of their respective positions:—

BATH

Liabilities	£	*Assets*	£
Sundry Creditors	1,180	Stock	4,200
Mrs. Bath Loan at 4 per cent	2,000	Book Debts	8,050
A. Bath, Capital	9,820	Trade Fixtures	150
		Cash in Bank	580
		Cash in Hand	20
	£ 13,000		£ 13,000

WELLS

Liabilities	£	*Assets*	£
Creditors	800	Stock-in-trade	1,800
Union Bank	1,500	Book Debts	6,400
Mortgage on Leasehold	1,000	Trade Fixtures	200
B. Wells, Capital	7,280	Life Policy Premium paid	180
		Leasehold of Premises	2,000
	£ 10,580		£ 10,580

It is agreed that each partner shall bring into the partnership £10,000 in cash or its equivalent, business being carried on in Well's premises, of which it is agreed that the lease shall be treated in account as worth £3,500. The trade fixtures of Mr. Bath are sold out and produce £70, the loss being borne by the partnership; and it is agreed that all private liabilities and assets are to disappear from the partnership books. After necessary adjustments, prepare the Partnership Balance Sheet.

(*Incorporated Accountants.*) 128

(*Current Account Balances:—*
Bath £1,180 *and Wells* £60; *Balance Sheet Total,* £24,220.)

66. Ellis and Brown are partners, sharing profits equally, in a business similar to that carried on by Smith. In order to avoid competition, they decided to amalgamate the two businesses by taking over the Assets and Liabilities of Smith, and admitting him into partnership with them as from 31st December 1914. The Balance Sheet at that date of each business was as follows:—

ELLIS AND BROWN

Liabilities	£	*Assets*	£
Ellis—Capital	6,000	Cash at Bank	2,500
Brown—Capital	4,500	Debtors	8,600
Creditors	3,700	Stock	3,100
	£ 14,200		£ 14,200

SMITH

Liabilities	£	*Assets*	£
Creditors	7,500	Cash at Bank	1,350
Bills Payable	2,650	Debtors	5,500
		Stock	2,000
		Smith—Capital overdrawn	1,300
	£ 10,150		£ 10,150

The new partnership was to be carried on as Ellis, Brown and Smith, and it was agreed between all the parties that the Book Debts and Stock of the business of Ellis and Brown were to be reduced by 10% to cover Bad Debts and old Stock for the purposes of the amalgamation, and that Smith was to be credited with such a sum for Goodwill as would make his Capital in the new Business equal to one-third of the joint Capital of Ellis and Brown therein. Prepare the Balance Sheet of Ellis, Brown and Smith after giving effect to these arrangements. *(Chartered Accountants.)* 129

(Capital Account Balances:—
Ellis £5,415, Brown £3,915, and Smith £3,110;
Balance Sheet Total, £26,290.)

67. The respective Balance Sheets of C and D at the date of amalgamation are as follows:—

C

Liabilities	£	*Assets*	£
Capital	18,000	Cash	130
Sundry Creditors	8,220	Bank of England	8,640
		Stock	8,370
		Sundry Debtors	6,730
		Shares Account—	
		XL Spinning Co. ..	2,000
		Office Fixtures	350
	£ 26,220		£ 26,220

D

	£		£	£
Capital	17,500	Cash		260
Bills Payable	7,650	Bank (Current Account) ..		6,750
I. C. & M. Bank O/D ..	3,740	Stock		7,980
		Sundry Debtors		7,200
		Shares Account:—		
		A Spinning Co. ..	1,000	
		B " ..	2,000	
		C " ..	1,500	
		D " ..	2,000	
				6,500
		Office Fixtures		200
	£ 28,890			£ 28,890

It is agreed:—

(a) That the Capital of the new firm shall be £32,000 divided equally.

(b) That the shares shall be taken in at the following figures:—

		£
XL Spinning Co.	.. ..	2,000
A "	.. ..	800
B "	.. ..	1,750
C "	.. ..	1,350
D "	.. ..	2,000

(c) That the debts of both firms be taken over less 10 per cent.

(d) That the business shall be carried on at the Offices of C whose fixtures are to be taken in at £200. The fixtures belonging to D are sold for cash £75, which is to be brought into account.

(e) That all other assets to be taken at face value.

You are required to prepare the Balance Sheet of the new firm, explaining how the adjustments, which are required, should be effected.

(Incorporated Accountants.) 130

(Current Account Balance:—
C £1,177 and D £55; Balance Sheet Total, £52,842.)

68. On January 1st, 1918, A and B, who had previously been engaged in competitive businesses, agreed to become partners and amalgamate. The Balance Sheets of the two firms on 31st December 1917, were as follows:—

A's BALANCE SHEET.

Liabilities	£	*Assets*	£
Creditors	3,000	Stock	50,000
Bills Payable	6,000	Debtors	30,000
Capital	100,000	Premises	20,000
		Plant and Machinery	5,000
		Bank	1,500
		Furniture and Fixtures	500
		National War Bonds	2,000
	£ 109,000		£ 109,000

B's BALANCE SHEET.

Liabilities	£	*Assets*	£
Creditors	25,000	Stock	75,000
Bank	10,300	Debtors	45,000
Capital	105,000	Plant and Machinery	20,000
		Furniture	300
	£ 140,300		£ 140,300

A valuation of the assets of both businesses was made, and it was agreed that the Premises and Plant and Machinery belonging to A should be taken over by the new firm at £25,000 and £10,000 respectively. B was to be credited with £5,000 as the value of certain Patent Rights he possessed, which became the property of the partnership and which were not included in his Balance Sheet. All the other assets were taken over at the values stated in the respective Balance Sheets, except the National War Bonds belonging to A, which were not taken over. Both men undertook to discharge their own liabilities, and it was agreed that A should introduce Cash to make his Capital equal to that of B. Prepare Capital Accounts of A and B, embodying the above arrangements, as also a Balance Sheet of the new firm. (*B. Com.*) 131

(*A's Capital Account balance,* £1,45,300; *B's Capital Account balance,* £1,45,300; *Balance Sheet Total,* £2,90,600.)

JOINT-LIFE POLICY.

69. As a provision for repayment of Capital and Goodwill in the event of death of one of the partners, the firm of Sen and Gupta arranged for a Joint-Life Policy of partners of the face value of Rs. 30,000, the annual premium payable being Rs. 1,200. The premium is paid each year on 10th April from 1934 out of profits, and the Policy Account is maintained in the books of the firm on the surrender value basis, which was as under:—

1934, Nil; 1935, Rs. 120; 1936, Rs. 250; 1937, Rs. 450. Sen dies on 10th December 1937 and the policy money is realised on 31st December 1937.

Show how the Joint-Life Policy Account and the Joint-Life Policy Reserve Account will appear in the firm's books year after year, and how the same will be finally adjusted, assuming that the financial period closes on 31st December, and the partners share profits in proportions of 3|5ths and 2|5ths. Give also the necessary Journal Entries. 132

CHAPTER VIII

PARTNERSHIP DISSOLUTION ACCOUNTS.

Dissolution of Partnership.—Subject to contract between the partners, a firm is ordinarily dissolved under any of the following conditions:—

(*a*) By mutual agreement between the partners to dissolve.

(*b*) If constituted for a fixed term, by the expiry of that term.

(*c*) If constituted to carry out one or more adventures or undertakings, by the completion thereof.

(*d*) By the death of a partner.

(*e*) By the adjudication of a partner as an insolvent.

(*f*) Where the partnership is at will, by any partner giving notice in writing to all the other partners of his intention to dissolve the firm.

(*g*) On the insolvency of the partnership business.

Right of Partners on Dissolution.—On the dissolution of a firm, every partner or his representative is entitled, as against all the other partners or their representatives, to have the property of the firm applied in payment of the debts and liabilities of the firm, and to have the surplus distributed among the partners or their representatives according to their rights.

Continuing Authority of Partners on Dissolution.—After the dissolution of a firm, the authority of each partner to bind the firm, and the other mutual rights and obligations of the partners, continue notwithstanding the dissolution, so far as may be necessary to wind up the affairs of the firm and to complete transactions begun but unfinished at the time of the dissolution, but not otherwise.

Mode of Settlement of Accounts.—In settling the accounts of the firm after dissolution, the following rules shall, subject to agreement by the partners, be observed:—

(*a*) Losses, including deficiencies of capital, shall be paid first out of profits, next out of capital, and, lastly, if necessary, by the partners individually in the proportions in which they were entitled to share profits.

(*b*) The assets of the firm, including any sums contributed by the partners to make up deficiencies of capital, shall be applied in the following manner and order:—

(*i*) in paying the debts of the firm to third parties;

(*ii*) in paying to each partner rateably what is due to him from the firm for advances as distinguished from capital;

(*iii*) in paying to each partner rateably what is due to him on account of capital; and

(*iv*) the residue, if any, shall be divided among the partners in the proportions in which they were entitled to share profits.

Firm Debts and Separate Debts.—Where there are joint debts due from the firm, and also separate debts due from any partner, the property of the firm shall be applied, in the first instance, in payment of the debts of the [illegible], and, if there is surplus, then the share of each partner shall be applied in payment of his separate debts or paid to him. The separate property of any partner shall be applied first in the payment of his separate debts, and the surplus (if any) in the payment of the debts of the firm.

Steps on Dissolution of Partnership.—On dissolution of a partnership, the following steps are necessary:—

(1) *The partnership assets including goodwill are sold.*

(2) The proceeds thus realised are first utilised in paying off the debts and liabilities of the firm to persons who are not partners therein.

(3) Any partner who has advanced money to the firm will then be paid out his loan.

(4) Each partner will then be paid rateably what is due from the firm to him *in respect of his Capital.*

(5) If there is any surplus arising from the realisation of assets and left after the above payments, the same will be divided among the partners in the proportions in which profits are divisible.

Realisation Account.—Dissolution Accounts will naturally have to be maintained showing what amounts were realised on sale of the assets, what liabilities were liquidated, what profit or loss arose as a result of the realisation and how the partners' accounts were adjusted *inter se.*

A special account styled "Realisation Account" will have to be opened for this purpose, in order that the whole of the above information may be ascertained therefrom.

ENTRIES ON DISSOLUTION.

On a dissolution of a business, the following entries are necessary to record the realisation of the assets and the adjustment of accounts between the partners:—

(1) Open a Realisation Account and transfer thereto all the assets at *book values* (with the exception of Cash and Bank Accounts), *thus* closing all asset accounts. The entry will be to debit the Realisation Account and credit each asset account.

(2) Transfer all the Liabilities (other than Loan from a partner) to the Realisation Account, at *book values,* by debiting each Liability Account and crediting the Realisation Account. The effect of this entry will be to close all the separate liability accounts and bring these on the credit of Realisation Account.

(3) On the assets being sold, debit Bank Account and credit Realisation Account with the sale proceeds.

(4) When any partner takes over any assets at an agreed val[illegible] such partner's Capital Account and credit the Realisation Acc[illegible] the sale price.

(5) Debit Realisation Account and Credit Bank Acco[illegible] amounts paid out in respect of Liabilities.

(6) Debit Realisation Account and credit Bank A[illegible] expenses incurred in connection with the dissolution.

(7) The balance on the Realisation Account [illegible] profit or loss on realisation.

(8) Transfer such profit or loss to the part[illegible] the proportions in which they share profits or [illegible]

(9) If there is a Loan by a partner, the same will be paid out, and the entry will be to debit the Partner's Loan Account and credit Bank.

(10) If any partner's Capital Account shows a debit balance, the partner concerned must bring in cash to make good the deficiency, the entry being to debit Bank Account and credit such partner's Capital Account.

(11) The balance at Bank will now exactly equal the total of balances on the Capital Accounts of the partners. Each partner will be paid what is ultimately owing to him by the firm as shown by his respective Capital Account. The entry will be to debit each partner's Capital Account and to credit the Bank Account.

NOTES.—(*a*) If there are balances on partners' Current Accounts (debit or credit), the same will have to be transferred to their respective Capital Accounts, prior to the final distribution of cash amongst the partners.

(*b*) If there is any cash balance at the date of dissolution, the same should be transferred over to the Bank Account and the amount should be paid into the Bank. The Bank Account should not be closed by transfer to the Realisation Account, as it will have to be operated upon till the final distribution of cash amongst the partners.

GOODWILL ON DISSOLUTION.

Upon a dissolution of partnership, the Goodwill of the firm will have to be realised along with the other assets for the common benefit of all the partners. If the business is taken over by one of the partners who intends to carry it on in the same old name, the value of Goodwill will have to be determined in accordance with the basis, if any, as laid down in the partnership agreement, and where no agreement exists, by mutual understanding amongst the partners. The amount as then agreed upon as representing the Goodwill value, will have to be debited to Goodwill Account and credited to the Capital Accounts of all the partners in the same proportions as they share profits. The Capital Account of the partner who takes over the business, will have to be debited with the full value of Goodwill and Realisation Account will be credited.

Where the entire business is taken over by a Limited Company, the value of Goodwill, if any, would be included in the amount of purchase consideration agreed upon, and the Purchasing Company would be debited ... total amount it has agreed to pay (inclusive of Goodwill) and the ...n Account would be credited.

...e the Goodwill of a firm is sold after dissolution, a partner may ...ess competing with that of the buyer and he may advertise ... but, subject to agreement between him and the buyer, he

... the firm name,

...present himself as carrying on the business of the firm, or ...it the custom of persons who were dealing with the firm ...tions ...its dissolution.

...y, upon the sale of Goodwill of a firm, make an agree... that such partner will not carry on any business ... firm within a specified period or within specified ...greement shall be valid, if the restrictions imposed

ILLUSTRATION 78.

P and Q agree to dissolve partnership on 31st December 1932, on which date their Balance Sheet was as follows:—

Liabilities		Rs.	*Assets*	Rs.
Sundry Creditors ..		6,000	Cash ..	1,000
P's Loan Account ...		8,000	Sundry Debtors ..	5,000
Capital Accounts:—	Rs.		Stock ...	20,000
P ...	20,000		Plant and Fixtures ...	14,000
Q ...	10,000		Goodwill ...	4,000
		30,000		
	Rs.	44,000	Rs.	44,000

The partners share profits and losses in proportion to their Capitals.

The Sundry Debtors realised Rs. 4,200, Stock Rs. 18,000, Plant and Fixtures 20% less than the book value and the Goodwill Rs. 6,000. The *Creditors were paid off* at a discount of 5% and the costs of dissolution amounted to Rs. 600.

Pass the necessary Journal Entries to show the process of realisation and open the dissolution accounts showing the final disposal of cash balance.

Solution.

JOURNAL ENTRIES.

1932		L.F.	Rs.	Rs.
Dec. 31	Realisation Account ... ... Dr.		43,000	
	To Sundry Debtors			5,000
	„ Stock			20,000
	„ Plant and Fixtures			14,000
	„ Goodwill			4,000
	(Being the transfer of the above assets to Realisation Account at book values).			
	Sundry Creditors ... ... Dr.		6,000	
	To Realisation Account			6,000
	(Being the transfer of Sundry Creditors to Realisation Account)			
	Bank Account ... ... Dr.		39,400	
	To Realisation Account			39,400
	(Being the amount on sale of assets as under). Rs.			
	Sundry Debtors 4,200			
	Stock 18,000			
	Plant and Fixtures 11,200			
	Goodwill 6,000			
	39,400			
	Realisation Account ... ... Dr.		600	
	To Bank			600
	(Realisation expenses paid).			
	Realisation Account ... ... Dr.		5,700	
	To Bank			5,700
	(Being the payment of sundry liabilities at a discount of 5%).			
	P's Capital Account ... ... Dr.		2,600	
	Q's „ „ ... ... „		1,300	
	To Realisation Account			3,900
	(Being the transfer of loss on realisation to Partners' Capital Accounts in their profit-sharing proportions).			

JOURNAL ENTRIES—(*Contd.*)

			L.F.	Rs.	Rs.
1932 Dec. 31	P's Loan Account	Dr.		8,000	
	To Bank				8,000
	(Being the payment of Loan given by P to the firm).				
	P's Capital Account	Dr.		17,400	
	Q's " "	"		8,700	
	To Bank				26,100
	(Being the withdrawal by the partners of the balances standing to their Capital Accounts).				

BANK ACCOUNT.

1932		Rs.	1932		Rs.
Dec. 31	To Balance b/fd. ...	1,000	Dec. 31	By Realisation Account—Cost of realisation ..	600
" "	" Realisation Account—Sundry assets realised	39,400	" "	" Realisation Account—Payment of liabilities...	5,700
				" P's Loan Account ...	8,000
				" P's Capital Account ...	17,400
				" Q's Capital Account ...	8,700
	Rs.	40,400		Rs.	40,400

REALISATION ACCOUNT.

1932		Rs.	1932		Rs.	Rs.
Dec. 31	To Sundry Assets—(Transfer) ...	43,000	Dec. 31	By Sundry Liabilities—(Transfer) ...		6,000
	" Bank—Cost of realisation ...	600		" Bank—Assets realised...		39,400
	" Bank—Liabilities paid ...	5,700		" Capital Accounts (Loss transferred)		
				P 2/3rds	2,600	
				Q 1/3rd	1,300	
						3,900
	Rs.	49,300		Rs.		49,300

P's LOAN ACCOUNT.

1932		Rs.	1932		Rs.
Dec. 31	To Bank ...	8,000	Dec. 31	By Balance b/fd. ...	8,000

P's CAPITAL ACCOUNT.

1932		Rs.	1932		Rs.
Dec. 31	To Realisation Account—2/3rds share of loss ...	2,600	Dec. 31	By Balance b/fd. ...	20,000
	" Bank ...	17,400			
	Rs.	20,000		Rs.	20,000

Q's CAPITAL ACCOUNT.

		Rs.			Rs.
1932 Dec. 31	To Realisation Account— 1/3rd share of loss ...	1,300	1932 Dec. 31	By Balance b/fd. ...	10,000
	,, Bank ...	8,700			
	Rs.	10,000		Rs.	10,000

ILLUSTRATION 79.

On 30th June 1931, X and Y who have been trading in partnership and sharing profits in 2\|3rds and 1\|3rd decide to dissolve and trade separately. Their Balance Sheet on that date showed as follows:—

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Creditors ...		13,000	Cash at Bank ...		2,000
Reserve Account ...		3,000	Sundry Debtors	12,500	
Current Accounts:—	Rs.		*Less* Reserve	500	
X	1,500				12,000
Y	1,500		Investments ...		5,000
		3,000	Stock ...		29,000
Capital Accounts:—			Furniture and Fixtures ...		1,000
X	20,000				
Y	10,000				
		30,000			
Rs.		49,000	Rs.		49,000

X agrees to discharge the liabilities and takes over the Bank balance. He also takes over the Book Debts at Rs. 10,000. Y takes over the Stock at Rs. 30,000, Fixtures at Rs. 900 and the Investments at Rs. 8,500. Y is allowed to carry on the trade in the old Firm's name on his taking over the Goodwill at Rs. 9,000. Pass the necessary Journal Entries, show Realisation Account and the Capital Accounts and prepare Balance Sheet showing the final position of the partners.

Solution.

JOURNAL ENTRIES.

	L.F.	Rs.	Rs.
Reserve Fund ... ... Dr.		3,000	
To X's Current Account			2,000
,, Y's Current Account			1,000
(Being the transfer of Reserve to Partners' Current Accounts).			
Realisation Account ... ... Dr.		49,500	
To Cash at Bank			2,000
,, Sundry Debtors			12,500
,, Investments			5,000
,, Stock			29,000
,, Furniture and Fixtures			1,000
(Being the transfer of above assets to Realisation Account).			
Sundry Creditors ... ... Dr.		13,000	
Reserve for Doubtful Debts ... ... ,,		500	
To Realisation Account			13,500
(Being the transfer of liabilities to Realisation Account).			

JOURNAL ENTRIES—(*Contd.*)

	L. F.	Rs	Rs
X's Current Account ... ... Dr.		12,000	
To Realisation Account			12,000
(Being the value of Assets taken over by X as under). Rs. Cash at Bank 2,000 Sundry Debtors 10,000 Rs. 12,000			
Realisation Account ... ... Dr		13,000	
To X's Current Account			13,000
(Being the liability in respect of Sundry Creditors taken over by X).			
Y's Current Account ... ... Dr.		48,400	
To Realisation Account			48,400
(Being the value of Goodwill and other assets taken over by Y as under). Rs. Stock 30,000 Fixtures 900 Investments 8,500 Goodwill 9,000 Rs. 48,400			
Realisation Account ... ... Dr.		11,400	
To X's Current Account			7,600
,, Y's Current Account			3,800
(Being the transfer of profits on Realisation to Partners' Current Accounts).			
X's Current Account ... ... Dr.		12,100	
To X's Capital Account			12,100
(Being the transfer of Current Account balance to Capital Account).			
Y's ~~Capital~~ Current Account ... Dr.		42,100	
To Y's ~~Capital~~ Account (Current A/c)			42,100
(Being the transfer of debit balance on Current Account to Capital Account)			

REALISATION ACCOUNT.

	Rs.	Rs.		Rs.
To Sundry Assets ...		49,500	By Sundry Liabilities ..	13,500
,, X's Current Account ..		13,000	,, X's Current Account ..	12,000
,, Current Accounts—(Profits transferred)			,, Y's ,, ,, ...	48,400
X 2/3rds	7,600			
Y 1/3rd	3,800	11,400		
Rs		73,900	Rs.	73,900

X's CURRENT ACCOUNT.

	Rs		Rs.
To Realisation Account ...	12,000	By Balance b/fd. ...	1,500
,, X's Capital Account—Transfer ...	12,100	,, Reserve Fund ..	2,000
		,, Realisation Account ..	13,000
		,, Realisation Account—2/3rds share of profits ..	7,600
Rs.	24,100	Rs.	24,100

X's CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance c/d. ...	32,100	By Balance b/fd. ...	20,000
		„ X's Current Account—Transfer ...	12,100
Rs.	32,100	Rs.	32,100
		By Balance b/d. ...	32,100

Y's CURRENT ACCOUNT.

	Rs.		Rs.
To Realisation Account ...	48,400	By Balance b/fd. ...	1,500
		„ Reserve Fund ..	1,000
		„ Realisation Account—1/3rd share of profits ..	3,800
		„ Y's Capital Account—Transfer ..	42,100
Rs.	48,400	Rs.	48,400

Y's CAPITAL ACCOUNT.

	Rs.		Rs.
To Y's Current Account—Transfer ...	42,100	By Balance b/fd. ...	10,000
		„ Balance c/d. ...	32,100
Rs.	42,100	Rs.	42,100
To Balance b/d. ...	32,100		

BALANCE SHEET.

(Showing the final position of X & Y.)

Liabilities	Rs.	*Assets*	Rs.
X's Capital Account ...	32,100	Y's Capital Account ...	32,100

NOTE.—As the capitals are fixed in this case, all the adjustments in regard to dissolution are made on the Current Accounts of the partners, and the ultimate balances on these accounts are then transferred to the respective Capital Accounts.

ILLUSTRATION 80.

Slow and Sure have been in business together for the three years ending with 31st December 1931, at which date they agree to dissolve. The Capital at the commencement was, Slow Rs. 20,000 and Sure Rs. 15,000. Slow takes over the business and agrees to pay Sure Rs. 5,000 for his share of Goodwill. Slow and Sure both have drawn Rs. 3,000 and Rs. 4,000 per annum each of the three years. The profits were Rs. 10,500, Rs. 12,000 and Rs. 15,000 respectively.

Give Journal Entries, Capital Accounts and Realisation Account assuming that the outgoing partner has been paid out.

Solution.

JOURNAL ENTRIES.

		L. F.	Rs.	Rs.
Realisation Account ... ... Dr. To Sundry Assets (Being the transfer of Assets to Realisation Account at book values).			51,500	51,500
Slow's Capital Account ... ... Dr. To Realisation Account (Being the purchase of Assets by Slow).			51,500	51,500
Slow's Capital Account ... ... Dr. To Sure's Capital Account (Being the amount of Goodwill agreed to be paid by Slow to Sure).			5,000	5,000
Bank ... ... Dr. To Slow's Capital Account (Being the amount brought in by him in settlement of account).			26,750	26,750
Sure's Capital Account ... ... Dr. To Bank (Being the payment of the amount in final settlement).			26,750	26,750

REALISATION ACCOUNT.

	Rs.		Rs.
To Sundry Assets ...	51,500	By Slow's Capital Account—transfer	51,500
Rs.	51,500	Rs.	51,500

SLOW'S CAPITAL ACCOUNT.

		Rs.			Rs.
1929			1929		
Dec. 31	To Drawings Account—Transfer ...	3,000	Jan. 1	By Bank ...	20,000
,, 31	,, Balance c/d. ...	22,250	Dec. 31	,, Profit & Loss Account—Half Share ...	5,250
	Rs.	25,250		Rs.	25,250
1930			1930		
Dec. 31	To Drawings Account—Transfer ...	3,000	Jan. 1	By Balance b/d. ...	22,250
,, 31	,, Balance c/d. ...	25,250	Dec. 31	,, Profit & Loss Account—Half Share ...	6,000
	Rs.	28,250		Rs.	28,250
1931			1931		
Dec. 31	To Drawings Account—Transfer ...	3,000	Jan. 1	By Balance b/d. ...	25,250
,, 31	,, Realisation Account ...	51,500	Dec. 31	,, Profit & Loss Account—Half Share ...	7,500
,, 31	,, Sure's Capital Account for Goodwill ...	5,000	,, 31	,, Bank ...	26,750
	Rs.	59,500		Rs.	59,500

SURE'S CAPITAL ACCOUNT.

		Rs.			Rs.
1929			1929		
Dec. 31	To Drawings Account—Transfer ...	4,000	Jan. 1	By Bank ...	15,000
„ 31	„ Balance c/d. ...	16,250	Dec. 31	„ Profit & Loss Account —Half Share ..	5,250
	Rs.	20,250		Rs.	20,250
1930			1930		
Dec. 31	To Drawings Account—Transfer ...	4,000	Jan. 1	By Balance b/d. ...	16,250
„ 31	„ Balance c/d. ...	18,250	Dec. 31	„ Profit & Loss Account —Half Share ...	6,000
	Rs.	22,250		Rs.	22,250
1931			1931		
Dec. 31	To Drawings Account—Transfer ...	4,000	Jan. 1	By Balance b/d. ..	18,250
„ 31	„ Bank ...	26,750	Dec. 31	„ Profit & Loss Account —Half Share ...	7,500
			„ 31	„ Slow's Capital Account for Goodwill ...	5,000
	Rs.	30,750		Rs.	30,750

NOTES.—(*a*) As Slow takes over the Assets, it is necessary to ascertain the book value of these. In the absence of any detailed information in the shape of a Balance Sheet, the book value of Assets may be taken to be the same as the total Capital of the firm on that date. This is arrived at as under :—

	Rs.
Total Capital at commencement	35,000
Add 3 years' profits	37,500
	72,500
Less total vithdrawals by partners	21,000
Capital at the date of dissolution, i.e., value of net assets Rs.	51,500

(*b*) The agreement by Slow to pay Sure Rs. 5,000 for his share of Goodwill is given effect to in the above working by debiting Slow's Capital Account and crediting *Sure's* Capital Account with that amount.

ILLUSTRATION 81. Impor

On 1st January 1930, A, B and C commenced business in partnership sharing profits and losses in the proportions of 1|2, 1|3rd and 1|6th respectively. They paid into their Bank Account as their Capital Rs. 40,000 being Rs. 20,000 by A, Rs. 15,000 by B and Rs. 5,000 by C. During the year each partner withdrew Rs. 2,000 and on 31st December 1930, they dissolve their partnership, A taking up stock at an agreed valuation of Rs. 7,000, B taking up furniture at Rs. 1,000 and C taking up debtors at Rs. 5,000. After paying off their creditors, there remained a balance of Rs. 3,000 at the Bank.

Prepare the necessary accounts showing the distribution of cash at the Bank and of the further cash brought in by any partner or partners as the case required.

Solution.

BANK ACCOUNT.

	Rs.		Rs.
To Realisation Account ..	3,000	By A's Capital Account ...	2,000
„ C's Capital „ ..	5,000	„ B's „ „ ..	6,000
Rs.	8,000	Rs.	8,000

REALISATION ACCOUNT.

		Rs.		Rs.	Rs.
To Sundry Net Assets	...	34,000	By Capital Accounts :—		
			A—Stock	7,000	
			B—Furniture	1,000	
			C—Debtors	5,000	
					13,000
			„ Bank	...	3,000
			„ Capital Accounts —		
			A 1/2	9,000	
			B 1/3rd	6,000	
			C 1/6th	3,000	
					18,000
	Rs.	34,000		Rs.	34,000

A's CAPITAL ACCOUNT.

1930		Rs.	1930		Rs.
Dec. 31	To Drawings Account—Transfer ...	2,000	Jan. 1	By Bank ..	20,000
	„ Realisation Account—Stock ...	7,000			
	„ Realisation Account—½ loss ...	9,000			
	„ Bank ...	2,000			
	Rs.	20,000		Rs.	20,000

B's CAPITAL ACCOUNT.

1930		Rs.	1930		Rs.
Dec. 31	To Drawings Account—Transfer ...	2,000	Jan. 1	By Bank ...	15,000
	„ Realisation Account—Stock ...	1,000			
	„ Realisation Account—⅓rd loss ..	6,000			
	„ Bank ...	6,000			
	Rs.	15,000		Rs.	15,000

C's CAPITAL ACCOUNT.

1930		Rs.	1930		Rs.
Dec. 31	To Drawings Account—Transfer ...	2,000	Jan. 1	By Bank ...	5,000
	„ Realisation Account—Debtors ..	5,000	Dec. 31	„ Bank	5,000
	„ Realisation Account—1/6th loss ...	3,000			
	Rs.	10,000		Rs.	10,000

NOTE—The important point in this problem is to find out the book value of the "Net Assets", i.e., the Assets *minus* the Liabilities, at the date of dissolution.

As the Capital of a concern on any date is always represented by the difference between its then assets and liabilities, it is necessary to find out what the total capital was at the date the partners determined to dissolve. The value of Net Assets is, therefore, arrived at as under:—

		Rs.
Total Capital at start	..	40,000
Less Total Drawings	..	6,000
Capital at date of dissolution	Rs.	34,000

i.e. the book value of Net Assets on that date.

ILLUSTRATION 82.

A and B were in partnership and agreed to dissolve. The assets realised Rs. 75,000. The liabilities were as follows:—Sundry Creditors, Rs. 45,000; Loan from A, Rs. 20,000; A's Capital, Rs. 10,000 and B's Capital, Rs. 15,000. They share profits and losses in proportions of A $\frac{3}{4}$ths and B $\frac{1}{4}$th.

Show by means of accounts how the cash realised should be distributed.

REALISATION ACCOUNT.

	Rs.		Rs.	Rs.
To Sundry Assets ...	90,000	By Sundry Creditors ...		45,000
„ Bank—Creditors paid ..	45,000	„ Bank—Assets realised ...		75,000
		„ Capital Accounts—(Loss transferred)		
		A 3/4ths	11,250	
		B 1/4th	3,750	15,000
Rs.	1,35,000	Rs.		1,35,000

BANK ACCOUNT.

	Rs.		Rs.
To Realisation Account ..	75,000	By Realisation Account—Cerditors paid ...	45,000
„ A's Capital „ ...	1,250	„ A's Loan Account ..	20,000
		„ B's Capital „ ...	11,250
Rs.	76,250	Rs.	76,250

A's CAPITAL ACCOUNT.

	Rs		Rs.
To Realisation Account—3/4ths Loss ...	11,250	By Balance b/fd. ..	10,000
		„ Bank ...	1,250
Rs.	11,250	Rs.	11,250

B's CAPITAL ACCOUNT.

	Rs.		Rs
To Realisation Account—1/4th Loss ...	3,750	By Balance b/fd. ..	15,000
„ Bank ...	11,250		
Rs.	15,000	Rs.	15,000

A's LOAN ACCOUNT.

		Rs.			Rs.
To Bank	...	20,000	By Balance b/fd.	..	20,000
	Rs.	20,000		Rs.	20,000

NOTE.—In order to work out this problem, it is necessary to ascertain the book value of the assets at the date of dissolution. As we have full information regarding the liabilities side of the Balance Sheet on that date, we may safely assume that the book value of the assets on that date equalled the total of the liabilities side. The liabilities side of the Balance Sheet is as under:—

		Rs.
Sundry Creditors	.. ..	45,000
A's Loan Account	.. ..	20,000
Capital of partners	.. ..	25,000
	Rs.	90,000

Therefore the total value of the assets on the same date must be Rs. 90,000.

ILLUSTRATION 83.

The following is the Trial Balance of the firm of P, Q and R, on 31st December 1931:—

	Rs.	Rs.
Freehold Property (Bombay)	45,000	
Leasehold Property (Calcutta)	15,000	
Leasehold Property (Rangoon)	12,000	
Investments	6,000	
Office Furniture	1,000	
Stock (Bombay)	18,000	
" (Calcutta)	16,000	
" (Rangoon)	14,000	
Sundry Debtors	12,500	
" Creditors		18,500
Capital P		50,000
" Q		45,000
" R		30,000
Cash at Bank	4,000	
Rs.	1,43,500	1,43,500

They agreed to dissolve on this date on the following terms:—

(a) The Freehold Property was sold and realised Rs. 50,000; the Investments realised Rs. 7,500, Debtors Rs. 11,500 and Office Furniture Rs. 600.

(b) P retired from the business altogether.

(c) Q took over the Calcutta business and the assets in connection therewith at book values, the Goodwill thereof being valued at Rs. 10,000.

(d) R took over the Rangoon business and the corresponding assets at book values, the Goodwill for this purpose being valued at Rs. 5,000.

(e) The expenses of realisation amounted to Rs. 1,200.

(f) The Bombay Stock was taken over by Q and R equally at book value.

(g) The partners shared profits in the proportions of three-fifths, one-fifth and one-fifth.

Pass the entries necessary to close the books, assuming that each partner finally settled his account with the firm. Open also the necessary accounts to show the working.

Solution.

JOURNAL ENTRIES.

	L.F.	Rs.	Rs.
Realisation Account ... ... Dr.		1,39,500	
To Freehold Property (Bombay)			45,000
„ Leasehold „ (Calcutta)			15,000
„ „ „ (Rangoon)			12,000
„ Investments			6,000
„ Office Furniture			1,000
„ Stock (Bombay)			18,000
„ „ (Calcutta)			16,000
„ „ (Rangoon)			14,000
„ Sundry Debtors			12,500
(Being the transfer of above Assets to Realisation Account).			
Sundry Creditors ... ... Dr.		18,500	
To Realisation Account			18,500
(Being the transfer of Sundry Creditors to Realisation Account).			
Bank Account ... ... Dr.		69,600	
To Realisation Account			69,600
(Being the amount realised on the sale of the following assets). Rs.			
Freehold Property 50,000			
Investments 7,500			
Debtors 11,500			
Office Furniture 600			
Rs. 69,600			
Q's Capital Account ... ... Dr.		50,000	
To Realisation Account			50,000
(Being the values of Assets and Goodwill taken over by him as under). Rs.			
Leasehold Property (Calcutta) ... 15,000			
Stock „ ... 16,000			
½ Stock (Bombay) ... 9,000			
Goodwill ... 10,000			
Rs. 50,000			
R's Capital Account ... ... Dr.		40,000	
To Realisation Account			40,000
(Being the values of Assets and Goodwill taken over by him as under). Rs.			
Leasehold Property (Rangoon) ... 12,000			
Stock „ ... 14,000			
½ Stock (Bombay) ... 9,000			
Goodwill ... 5,000			
Rs. 40,000			
Realisation Account ... ... Dr.		18,500	
To Bank			18,500
(Being the payment of Liabilities in respect of Sundry Creditors).			
Realisation Account ... ... Dr.		1,200	
To Bank			1,200
(Being the payment of realisation expenses).			

JOURNAL ENTRIES—(*Contd.*)

		L.F.	Rs.	Rs.
Realisation Account	Dr.		18,900	
To P's Capital Account				11,340
,, Q's ,, ,,				3,780
,, R's ,, ,,				3,780
(Being the transfer of profits on realisation to Partners' Capital Accounts in their profit-sharing proportions).				
Bank Account	Dr.		1,220	
To Q's Capital Account				1,220
(Being the amount brought in by Q).				
Bank Account	Dr.		6,220	
To R's Capital Account				6,220
(Being the amount brought in by R).				
P's Capital Account	Dr.		61,340	
To Bank Account				61,340
(Being the payment of amount to P in final settlement).				

BANK ACCOUNT.

	Rs.		Rs.
To Balance b/fd. ..	4,000	By Realisation Account—Liabilities paid ...	18,500
,, Realisation Account—Assets realised ..	69,600	,, Realisation Account—Cost of realisation ..	1,200
,, Q's Capital Account ..	1,220	,, P's Capital Account ..	61,340
,, R's Capital ,, ..	6,220		
Rs.	81,040	Rs.	81,040

REALISATION ACCOUNT.

	Rs.	Rs.		Rs.
To Sundry Assets ..		1,39,500	By Sundry Creditors ..	18,500
,, Bank—Payments to creditors ...		18,500	,, Bank ...	69,600
,, Bank—Cost of realisation ..		1,200	,, Q's Capital Account ..	50,000
,, Capital Accounts—Profit transferred:			,, R's ,, ,, ...	40,000
P 3/5ths	11,340			
Q 1/5th	3,780			
R 1/5th	3,780			
		18,900		
Rs.		1,78,100	Rs.	1,78,100

P's CAPITAL ACCOUNT.

	Rs.		Rs.
To Bank ...	61,340	By Balance b/fd. ...	50,000
		,, Realisation Account—3/5ths share of profits ...	11,340
Rs.	61,340	Rs.	61,340

Q's CAPITAL ACCOUNT.

	Rs.		Rs.
To Realisation Account ..	50,000	By Balance b/fd. ...	45,000
		„ Realisation Account—1/5th share of profits ...	3,780
		„ Bank ...	1,220
Rs.	50,000	Rs.	50,000

R's CAPITAL ACCOUNT.

	Rs.		Rs.
To Realisation Account ...	40,000	By Balance b/fd. ..	30,000
		„ Realisation Account—1/5th share of profits ...	3,780
		„ Bank ...	6,220
Rs.	40,000	Rs.	40,000

ILLUSTRATION 84.

C, D and E are in partnership, C contributing Rs. 15,000, D Rs. 11,000 and E Rs. 10,000 as Capital on 1st January 1929. D advances Rs. 6,000 to the firm after six months at 6% interest. Interest on Capital is agreed by the partners to be taken at 5%. The first year's profits before charging interest on Capital amounted to Rs. 9,000 and the second year showed a loss of Rs. 3,000. Each partner withdrew Rs. 1,000 per annum in anticipation of profits. E dies on 31st December 1930 and the partnership is at once dissolved. The assets valued at Rs. 52,000 realise Rs. 30,000 and the outside liabilities amounting to Rs. 10,000 are satisfied on payment of Rs. 9,000. You are requested by the surviving partners to prepare the necessary accounts showing the final distribution.

Solution.

PROFIT AND LOSS ACCOUNT.

			Rs.			Rs.
1929 Dec. 31	To Interest on Capitals:—	Rs.		1929 Dec. 31	By Profit ..	9,000
	C	750				
	D	550				
	E	500	1,800			
„ 31	„ Net Profits transferred to Capital Accounts:—	Rs.				
	C	2,400				
	D	2,400				
	E	2,400	7,200			
		Rs.	9,000		Rs.	9,000
1930 Dec. 31	To Loss ...		3,000	1930 Dec. 31	By Net Loss transferred to Capital Accounts:— Rs.	
	„ Interest on Capitals:—	Rs. a. p.			C 1,700	
	C	857 8 0			D 1,700	
	D	647 8 0			E 1,700	5,100
	E	595 0 0	2,100			
		Rs.	5,100		Rs.	5,100

REALISATION ACCOUNT.

Date	Particulars	Rs.	Date	Particulars	Rs.	Rs.
1930			1930			
Dec. 31	*To Sundry Assets* ...	*52,000*	*Dec. 31*	*By Sundry Liabilities* ...		10,000
	„ Bank—Liabilities paid ...	9,000		„ Bank—Assets realised ...		30,000
				„ Capital Accounts (Loss transferred):—		
				C 1/3rd	7,000	
				D 1/3rd	7,000	
				E 1/3rd	7,000	21,000
	Rs.	61,000		Rs.		61,000

BANK ACCOUNT.

Date	Particulars	Rs.	Date	Particulars	Rs. a.
1930			1930		
Dec. 31	To Realisation Account—Assets realised ...	30,000	Dec. 31	By Realisation Account—Liabilities paid ...	9,000 0
				„ *D's Loan Account* ...	6,000 0
				„ C's Capital Account ...	8,307 8
				„ D's Capital Account ...	3,897 8
				„ E's Capital Account ...	2,795 0
	Rs.	30,000		Rs.	30,000 0

D's LOAN ACCOUNT.

Date	Particulars	Rs.	Date	Particulars	Rs.
1931 Dec. 31	To Bank ..	6,000	1930 Dec. 31	By Balance b/fd. ..	6,000

C's CAPITAL ACCOUNT.

Date	Particulars	Rs. a.	Date	Particulars	Rs. a.
1929			1929		
Dec. 31	To Drawings Account—Transfer ...	1,000 0	Jan. 1	By Bank ..	15,000 0
	„ Balance c/d. ...	17,150 0	Dec. 31	„ Interest on Capital ...	750 0
				„ Profit & Loss Account	2,400 0
	Rs.	18,150 0		Rs.	18,150 0
1930			1931		
Dec. 31	To Drawings Account Transfer ...	1,000 0	Jan. 1	By Balance b/d. ...	17,150 0
	„ Profit & Loss Account	1,700 0	Dec. 31	„ Interest on Capital ..	857 8
	„ Balance c/d. ...	15,307 8			
	Rs.	18,007 8		Rs.	18,007 8
1930			1930		
Dec. 31	To Realisation Account—1/3rd share of loss ...	7,000 0	Dec. 31	By Balance b/d. ..	15,307 8
	„ Bank ...	8,307 8			
	Rs.	15,307 8		Rs.	15,307 8

D's CAPITAL ACCOUNT.

1929		Rs.	1929		Rs.
Dec. 31	To Drawings Account —Transfer ...	1,000	Jan. 1	By Bank ...	11,000
	" Balance c/d. ...	12,950	Dec. 31	" Interest on Capital ...	550
				" Profit & Loss Account	2,400
	Rs.	13,950		Rs.	13,950
1930		Rs. a.	1930		Rs. a.
Dec. 31	To Drawings Account —Transfer ...	1,000 0	Jan. 1	By Balance b/d. ...	12,950 0
	" Profit & Loss Account	1,700 0	Dec. 31	" Interest on Capital ...	647 8
	" Balance c/d. ...	10,897 8			
	Rs.	13,597 8		Rs.	13,597 8
1930			1930		
Dec. 31	To Realisation Account— ⅓rd share of loss ...	7,000 0	Dec. 31	By Balance b/d. ...	10,897 8
	" Bank ...	3,897 8			
	Rs.	10,897 8		Rs.	10,897 8

E's CAPITAL ACCOUNT.

1929		Rs.	1929		Rs.
Dec. 31	To Drawings Account —Transfer ...	1,000	Jan. 1	By Bank ..	10,000
	" Balance c/d. ..	11,900	Dec. 31	" Interest on Capital ...	500
				" Profit & Loss Account ...	2,400
	Rs.	12,900		Rs.	12,900
1930			1930		
Dec. 31	To Drawings Account —Transfer ...	1,000	Jan. 1	By Balance b/d. ...	11,900
	" Profit & Loss Account ...	1,700	Dec. 31	" Interest on Capital ...	595
	" Balance c/d. ...	9,795			
	Rs.	12,495		Rs.	12,495
1930			1930		
Dec. 31	To Realisation Account— ⅓rd share of loss ...	7,000	Dec. 31	By Balance b/d. ...	9,795
	" Bank ..	2,795			
	Rs.	9,795		Rs.	9,795

DEBIT BALANCE ON PARTNER'S ACCOUNT.

It happens sometimes that after adjustment of the loss on realisation, the Capital Account of one of the partners shows a debit balance. Such a partner then is a debtor to the firm to that extent and he has to bring in the amount owing by him to the firm. On his doing so, there will be cash in the firm just enough to pay off the other partners what stands to the credit of their respective Capital Accounts.

Occasionally, one of the partners' Capital Account may show a debit balance even prior to adjustment of loss on realisation, in which case, such loss would go to add to the deficiency already existing. On such a partner being solvent, he has to bring in the total amount standing to the debit of his Capital Account. After this is done, the other partners would be paid off the amount standing to the credit of their respective Capital Accounts.

ILLUSTRATION 85.

The Balance Sheet of X, Y and Z showed as under, when they resolved to dissolve their business:—

Liabilities	Rs.	*Assets*	Rs.
Creditors ...	6,600	Cash at Bank ...	100
X's Capital ...	12,000	Debtors ...	4,500
Y's „ ...	9,000	Stock ...	16,000
Z's „ ...	3,000	Machinery ...	10,000
Rs.	30,600	Rs.	30,600

Debtors, Stock and Machinery realise 50% of the book value and expenses of realisation come to Rs. 50. Assuming that Z is solvent, the accounts would appear as follows:—

REALISATION ACCOUNT.

	Rs.		Rs.	Rs.
To Sundry Assets ...	30,500	By Sundry Creditors ...		6,600
„ Bank—Cost of realisation ...	50	„ Bank—Sundry Assets realised ...		15,250
„ „ Payment to Creditors ...	6,600	„ Capital Accounts (loss transferred):—		
		X ...	5,100	
		Y ...	5,100	
		Z ...	5,100	
				15,300
Rs.	37,150	Rs.		37,150

BANK ACCOUNT.

	Rs.		Rs.
To Balance b/fd. ...	100	By Realisation Account—Cost of realisation ...	50
Realisation Account—Assets realised ...	15,250	„ Realisation Account—Payment to Creditors ...	6,600
„ Z's Capital Account ...	2,100	„ X's Capital Account ...	6,900
		„ Y's „ „ ...	3,900
Rs.	17,450	Rs.	17,450

X's CAPITAL ACCOUNT.

	Rs.		Rs.
To Realisation Account—⅓rd loss ...	5,100	By Balance b/d. ..	12,000
„ Bank ...	6,900		
Rs.	12,000	Rs.	12,000

Y's CAPITAL ACCOUNT.

	Rs.		Rs.
To Realisation Account—		By Balance b/fd. ..	9,000
1/3rd loss ...	5,100		
,, Bank ...	3,900		
Rs.	9,000	Rs.	9,000

Z's CAPITAL ACCOUNT.

	Rs.		Rs.
To Realisation Account—		By Balance b/fd. .	3,000
1/3rd loss ...	5,100	,, Bank ..	2,100
Rs.	5,100	Rs.	5,100

When the partner with a deficiency is insolvent and unable to satisfy his debt to the firm, this is a further loss to the other solvent partners who *formerly* used to bear the same in the proportions in which they shared profits or losses.

DECISION IN GARNER *v.* MURRAY.

Loss arising from Insolvency of a Partner.—Where a partner is insolvent and is unable to satisfy his indebtedness to the firm, the final adjustment among the partners will have to be made in accordance with the decision in the English Case of *Garner* v. *Murray*. In this case it was ruled that, *in the absence of any agreement to the contrary,* the deficiency on the insolvent partner's Capital Account must be borne by the other solvent partners in proportion to their capitals, after each solvent partner has brought in cash to the extent of his own share of loss on realisation.

In other words, it was held in *Garner* v. *Murray* that in the absence of agreement, when the capital account of an insolvent partner is in debit, the solvent partners must first contribute cash to the extent of their respective share of loss on realisation, and the balance of cash remaining after paying off the firm's creditors is to be divided amongst the solvent partners in proportion to their capitals. The effect of this decision is to distinguish between a loss arising from trading and one arising from a partner failing to make good the debit balance on his capital account. Thus, whereas any loss on trading or even loss arising from realisation must be borne by *all* the partners (including the defaulting partner) in the proportions in which the partners share profits or losses, the loss caused by the deficiency of an insolvent partner must be borne by the remaining partners in proportion to their capitals.

It needs to be pointed out, however, that the above ruling in *Garner* v. *Murray* is subject to any agreement to the contrary that may exist amongst the partners in this connection. Thus, if the partners have agreed that all losses or gains including losses arising from Capital Deficiency of a partner shall be shared by the partners in [illegible] such an agreement will hold good, and the solvent partners will then bear the insolvent partner's deficiency in those agreed proportions.

Adjustment of Capital Accounts under Garner *v.* Murray.—The most important point underlying the decision in **Garner *v.* Murray** seems to be that the loss arising from the deficiency of an insolvent partner should be borne by the solvent partners in proportion to their respective capitals as **they stood at the date the partners determined upon dissolution,** and prior to any adjustment arising from the realisation of assets.

The first thing, therefore, that will need to be determined is, "what were the Capitals of the partners at the date of dissolution?" For a proper answer to this question, it is necessary to ascertain whether the partners' capitals were fixed or fluctuating quantities.

Where the Capitals are Fluctuating Quantities, it should first be seen whether there are any items in the given Balance Sheet at the date of dissolution which would call for adjustment in the ordinary course. Thus, if there is a balance on Reserve Account (which would represent undistributed profits), or a credit or debit balance of Profit and Loss Account standing unadjusted on the Balance Sheet, such balance should be adjusted on the Capital Accounts of all the partners in their profit-sharing proportions so as to ascertain the actual capitals that existed at the date the partners determined upon dissolution, for it would be in these proportions that the solvent partners would bear the insolvent partner's capital deficiency.

Further, as each solvent partner is required to bring in Cash to the extent of his respective share of loss **arising from realisation,** it becomes still more necessary to see that the Realisation Account should show only the items of profits or losses as are the natural outcome of dissolution. Evidently, therefore, any other gain or loss, already existing at the date of the last Balance Sheet and as would ordinarily have been transferred to Profit and Loss Account but has been so held over and left unadjusted, should first be adjusted in order to ascertain the **real** capitals of the partners at the date of dissolution.

Where the Capitals are Fixed Quantities.—The question of adjustment of Capitals as at the date of dissolution will not arise **where the Capitals are fixed,** for in that case, the insolvent partner's deficiency would be borne by the solvent partners in proportion to their respective capitals **which have been agreed by the partners to be fixed quantities.** If therefore, there are any undistributed profits at the date of dissolution shown in the Balance Sheet under Reserve Fund, Contingency Fund or any account similarly named, these will have to be apportioned and credited to the partners directly in their Current Accounts (in their respective profit-sharing proportions) and **not** in their Capital Accounts. Similarly, if there happen to be any losses held over and left unadjusted on the Balance Sheet, the same will have to be adjusted directly on the Current Accounts of the partners, in their usual profit-sharing proportions.

Each partner's share of loss or gain on Realisation Account should also be debited or credited to his respective Current Account, and where there is loss on realisation, the corresponding amount brought in cash by each of the solvent partners should be credited to his Current Account.

In fact, where the capitals are fixed, all the necessary adjustments should be done on the Current Accounts of the partners, and the balance on Capital Accounts should only be taken as a guide to determine the proportions in which the solvent partners are to bear the insolvent partner's deficiency.

In order to ascertain the ultimate deficiency of the insolvent partner, it would be necessary to transfer the balance on his Current Account to his Capital Account. The total deficiency of the insolvent partner having thus been determined, the same should be transferred to the Current Accounts of the solvent partners in proportion to their Capitals as shown by their respective Capital Accounts. This being done, it would now become necessary to transfer the balance on Current Account of each solvent partner to his respective Capital Account, so that his ultimate position with the firm may be determined. Each partner would now stand to be paid out the balance as shown by his Capital Account.

Where the Capitals are Fluctuating, the point to be borne in mind is that once the true capital of each partner at the date of dissolution is determined by the adjustment of any losses or gains held over and appearing in the last Balance Sheet, it will be in these proportions that the solvent partners will bear the insolvent partner's deficiency. The loss or gain on realisation may, in this case, be adjusted straight on the Capital Accounts of the partners. Where there is a loss on realisation, each solvent partner will be assumed to have brought his respective share thereof in cash, and the same having been credited to his Capital Account, his original Capital balance will remain unaffected. In case of a gain on realisation, the share of each partner may be credited to his respective Capital Account, but, in this case, the fact that the balance on the Capital Account of each solvent partner **prior to the adjustment of this gain** would be the basis for apportioning the insolvent partner's deficiency should not be lost sight of. Once this is done, it is immaterial whether all the necessary adjustments as above explained are made directly on the Capital Accounts or through the Current Accounts.

A large majority of professional Accountants now seem to be of opinion that the bringing in of cash by the solvent partners to make good their share of loss on Realisation is not necessary. Where the problem is worked on the assumption that the solvent partners do not contribute cash towards their respective share of loss on realisation, the point that needs to be stressed in that case is that the proportions in which the solvent partners should bear the insolvent partner's deficiency should be based on their respective capitals as they stood **prior to the charging of such loss.**

The correctness of this decision has been the subject of much severe criticism, and in order to obviate the inequity arising from the rule as laid down in *Garner* v. *Murray*, partnership agreements in England are now so framed as to expressly exclude the rule.

If it was not for this decision, there does not seem to be any sound reason why any distinction should be drawn between losses and deficiencies of capital arising from trading and those arising from the capital deficiency of an insolvent partner, and that whereas all the partners in a firm had been sharing profits and losses in certain agreed proportions, the solvent partners should now be made to share the loss resulting from the insolvency of one of them in proportions to their respective capitals and not in the manner they have been sharing profits and losses hitherto. The illogical position created by this ruling becomes still more glaring in case of a partner who has either contributed no capital or has overdrawn his capital account. In such a circumstance, on a dissolution arising and on one of the partners becoming insolvent, the partner with no capital or with his capital account showing a debit balance, however solvent and affluent he may be, will not be called upon to bear any share of the insolvent partner's capital deficiency, as the same has to be borne by the solvent partners in proportions to their capitals. Such a partner will only be called upon to bring in the amount, if any, standing to the debit of his own capital account. Inasmuch as he has no capital in the firm, he is not to bear any loss arising from the insolvent partner's deficiency.

It may be pointed out that in order to arrive at the result as required by the ruling in the above decision, theoretically, the solvent partners are supposed to bring actual cash in the firm to make good their respective share of loss, if any, on Realisation Account. Such a procedure in practice would, however, serve to increase their respective capitals to the same extent, and so much more will have to be returned to each of them in the final refund of capital. While working out Examination Problems, however, the student would do well to assume that each solvent partner actually brings his respective share of loss on realisation in cash and the same is then refunded by the firm in the final repayment of capital.

Sec. 48 of the Indian Partnership Act lays down as follows:—

(*a*) Losses, including deficiencies of capital, shall be paid first out of profits, next out of capital, and lastly, if necessary, by the partners individually *in the proportions in which they were entitled to share profits.*

(*b*) The assets of the firm, including any sums contributed by the partners to make up deficiencies of capital, shall be applied in the following manner and order:—

(*i*) in paying the debts of the firm to third parties;
(*ii*) in paying to each partner rateably what is due to him from the firm for advances as distinguished from capital;
(*iii*) in paying to each partner rateably what is due to him on account of capital; and
(*iv*) the residue, if any, shall be divided among the partners in the proportions in which they were entitled to share profits.

In view of there being no judicial ruling in India on the point as to how the deficiency on Capital Account of an Insolvent Partner should be borne by the Solvent Partners, and in view also of the severe adverse criticisms that have followed this decision in England, it is extremely doubtful whether, on a similar situation arising in India, the Indian Law Courts would be tempted to follow the same. It may, therefore, safely be assumed that, in India, any loss arising from the capital deficiency of an insolvent partner would be borne by the solvent partners in the same proportions in which they had been sharing profits or losses. This will, of course, be subject to any specific agreement among the partners to the contrary.

ILLUSTRATION 86.

The Balance Sheet of X, Y and Z showed as under, when they resolved to dissolve their business:—

Liabilities	Rs.	*Assets*	Rs.
Creditors ..	6,600	Cash at Bank ..	100
X's Capital ..	12,000	Debtors ..	4,500
Y's " ...	9,000	Stock ..	16,000
Z's " ..	3,000	Machinery ..	10,000
Rs.	30,600	Rs.	30,600

Debtors, Stock and Machinery realise 50% of the book value and expenses of realisation come to Rs. 50. *Z* is insolvent and is unable to bring in anything in respect of his debt to the firm. Show the final adjustment of accounts, (*a*) prior to, and (*b*) after the decision in *Garner* v. *Murray*.

Solution.

(*a*) Method adopted prior to decision in *Garner* v. *Murray*.

REALISATION ACCOUNT.

	Rs.		Rs.	Rs.
To Sundry Assets ...	30,500	By Sundry Creditors ...		6,600
„ Bank—Cost of realisation ...	50	„ Bank—Sundry Assets realised ...		15,250
„ „ Payment to Creditors ...	6,600	„ Capital Accounts (loss transferred):—		
		X ...	5,100	
		Y ...	5,100	
		Z ...	5,100	
				15,300
Rs.	37,150	Rs.		37,150

BANK ACCOUNT.

	Rs.		Rs.
To Balance b/fd. ..	100	By Realisation Account—Cost of realisation ...	50
„ Realisation Account—Assets realised ...	15,250	„ Realisation Account—Payment to Creditors ...	6,600
		„ X's Capital Account ...	5,850
		„ Y's „ „ ..	2,850
Rs.	15,350	Rs.	15,350

X's CAPITAL ACCOUNT.

	Rs.		Rs.
To Realisation Account—⅓rd share of loss ...	5,100	By Balance b/fd. ...	12,000
„ Z's Capital Account—½ share of deficiency ...	1,050		
„ Bank ...	5,850		
Rs.	12,000	Rs.	12,000

Y's CAPITAL ACCOUNT.

	Rs.		Rs.
To Realisation Account—⅓rd share of loss ...	5,100	By Balance b/fd. ...	9,000
„ Z's Capital Account—½ share of deficiency ...	1,050		
„ Bank ...	2,850		
Rs.	9,000	Rs.	9,000

Z's CAPITAL ACCOUNT.

	Rs.		Rs.
To Realisation Account— ⅓rd share of loss ...	5,100	By Balance b/fd. ...	3,000
		„ X's Capital Account (transfer) ...	1,050
		„ Y's Capital Account (transfer) ...	1,050
Rs.	5,100	Rs.	5,100

(*b*) Method as laid down in *Garner* v. *Murray*.

BANK ACCOUNT.

	Rs.		Rs.
To Balance b/fd. ...	100	By Realisation Account— Cost of realisation ...	50
„ Realisation Account— Assets realised ..	15,250	„ Realisation Account— Payment to Creditors ...	6,600
„ X's Capital Account ...	5,100	„ X's Capital Account ...	10,800
„ Y's „ „ ..	5,100	„ Y's „ „ ...	8,100
Rs.	25,550	Rs.	25,550

X's CAPITAL ACCOUNT.

	Rs.		Rs.
To Realisation Account— ⅓rd share of loss ...	5,100	By Balance b/fd. ...	12,000
„ Bank ...	10,800	„ Bank ...	5,100
„ Z's Capital Account (transfer) ...	1,200		
Rs.	17,100	Rs.	17,100

Y's CAPITAL ACCOUNT.

	Rs.		Rs.
To Realisation Account— ⅓rd share of loss ...	5,100	By Balance b/fd. ...	9,000
„ Bank ...	8,100	„ Bank ...	5,100
„ Z's Capital Account (transfer) ...	900		
Rs.	14,100	Rs.	14,100

Z's CAPITAL ACCOUNT.

	Rs.		Rs.
To Realisation Account— ⅓rd share of loss ...	5,100	By Balance b/fd. ...	3,000
		„ X's Capital Account (transfer) ...	1,200
		„ Y's „ „ ...	900
Rs.	5,100	Rs.	5,100

ILLUSTRATION 87.

A, B and C are three partners who divide profits equally. C is insolvent. On the dissolution of the partnership, the Balance Sheet stands thus:—

Liabilities	Rs.	*Assets*	Rs.
A's Capital ...	2,000	Cash at Bank ...	1,500
B's " ...	500	C's Capital Account ...	400
		Loss on Realisation ...	600
Rs.	2,500	Rs.	2,500

After the adjustment of the Loss on Realisation, and after the solvent partners have brought their respective share of such loss in cash, the Ledger Accounts would show as follows:—

CASH AT BANK

	Rs.		Rs.
To Balance b/fd. ...	1,500		
" A's Capital Account— Realisation Loss ...	200		
" B's Capital Account— Realisation Loss ..	200		

A's CAPITAL ACCOUNT.

	Rs.		Rs.
To Realisation Account— ⅓rd Loss ...	200	By Balance b/fd. ...	2,000
		" Bank ...	200

B's CAPITAL ACCOUNT.

	Rs.		Rs.
To Realisation Account— ⅓rd Loss ...	200	By Balance b/fd. ...	500
		" Bank ...	200

C's CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance b/fd. ...	400		
" Realisation Account— ⅓rd Loss ...	200		

The Balance Sheet will then appear as under:—

Liabilities	Rs.	*Assets*	Rs.
A's Capital ..	2,000	Cash at Bank ...	1,900
B's " ..	500	C's Deficiency ...	600
Rs.	2,500	Rs	2,500

Following the decision in *Garner* v. *Murray*, A will receive Rs. 1,520 and B Rs. 380 in respect of Capitals, the loss from C's Deficiency being borne by them in the ratio of 4 to 1.

Under the practice before this decision, A would have received Rs. 1,700 and B Rs. 200 in respect of their Capitals, the loss from C's Deficiency being borne by them as they had shared profits and losses, i e., equally.

ILLUSTRATION 88.

The Balance Sheet of P, Q and R showed as under on the date the partners determined upon dissolution :—

BALANCE SHEET.

Liabilities		Rs.	*Assets*		Rs.
Creditors ...		30,000	Cash at Bank ..		5,000
P's Loan Account ...		5,000	Sundry Assets ...		57,000
Capital Accounts :—	Rs.		Current Accounts :—	Rs.	
P	20,000		Q	5,000	
Q	10,000		R	4,000	
R	5,000				9,000
		35,000			
Current Account—P ...		1,000			
Rs.		71,000	Rs.		71,000

The Assets realised Rs. 21,000. Show the final adjustment of Accounts among the partners assuming that Q is insolvent and nothing was obtained from his estate.

Solution.

BANK ACCOUNT.

	Rs.		Rs.
To Balance b/fd. ...	5,000	By Sundry Creditors ...	30,000
„ Realisation Account—Assets realised ...	21,000	„ P's Loan Account ...	5,000
„ P's Current Account ...	12,000	„ P's Capital „ ...	15,400
„ R's „ „ ...	12,000		
„ R's Capital Account ...	400		
Rs.	50,400	Rs.	50,400

P's CAPITAL ACCOUNT.

	Rs.		Rs
To Q's Capital Account—4/5ths share of deficiency ...	5,600	By Balance b/fd. ...	20,000
„ Bank ...	15,400	„ Current Account—Transfer ...	1,000
Rs.	21,000	Rs.	21,000

P's CURRENT ACCOUNT.

	Rs.		Rs.
To Realisation Account—⅓rd share of loss ...	12,000	By Balance b/fd. ...	1,000
„ P's Capital Account—Transfer ...	1,000	„ Bank ..	12,000
Rs.	13,000	Rs.	13,000

Q's CAPITAL ACCOUNT.

	Rs.		Rs.
To Current Account—Transfer ...	17,000	By Balance b/fd. ...	10,000
		„ P's Capital Account—Transfer of Q's Deficiency 4/5ths	5,600
		„ R's Capital Account—Transfer of Q's Deficiency 1/5th	1,400
Rs.	17,000	Rs.	17,000

Deficie[ncy] adjuste[d] cap. a/c not in a/c.

Q's CURRENT ACCOUNT.

	Rs.		Rs.
To Balance b/fd. ...	5,000	By Q's Capital Account—Transfer ...	17,000
„ Realisation Account—⅓rd share of loss ...	12,000		
Rs.	17,000	Rs.	17,000

R's CAPITAL ACCOUNT.

	Rs.		Rs.
To Q's Capital Account—1/5th share of deficiency ...	1,400	By Balance b/fd. ...	5,000
„ R's Current Account—Transfer ...	4,000	„ Bank ...	400
Rs.	5,400	Rs.	5,400

R's CURRENT ACCOUNT.

	Rs.		Rs.
To Balance b/fd. ...	4,000	By Bank ...	12,000
„ Realisation Account—⅓rd share of loss ...	12,000	„ Capital Account—Transfer ...	4,000
Rs.	16,000	Rs.	16,000

NOTE.—As the Capitals are fixed, the share of loss on Realisation is transferred to each partner's Current Account and the corresponding amount brought in by each solvent partner is also credited to his Current Account. After the insolvent partner's deficiency is transferred to each solvent partner's Capital Account in proportion to Capital, the Current Account balance of each solvent partner is transferred to his Capital Account in order to ascertain the amount finally due by the firm to him.

ILLUSTRATION 89.

The Balance Sheet of the firm of X, Y and Z, sharing profits and losses in proportions of 2|5ths, 2|5ths and 1|5th, showed the final position on dissolution thus:—

BALANCE SHEET.

Liabilities	Rs.	*Assets*	Rs.
X's Capital ...	17,000	Cash ...	6,500
Y's „ ...	3,000	Realisation Account—Loss ...	15,000
Z's „ ...	1,500		
Rs.	21,500	Rs.	21,500

State what the position between the partners would be, assuming that Z is insolvent and is unable to bring in anything in respect of his deficiency.

Solution.

BANK ACCOUNT.

		Rs.			Rs.
To Balance b/fd.	...	6,500	By X's Capital Account	...	15,725
„ X's Capital Account	..	6,000	„ Y's „ „	...	2,775
„ Y's „ „	...	6,000			
	Rs.	18,500		Rs.	18,500

X's CAPITAL ACCOUNT.

		Rs.			Rs.
To Realisation Account— 2/5ths share of loss	...	6,000	By Balance b/fd.	...	17,000
„ Z's Capital Account— 17/20ths share of deficiency	...	1,275	„ Bank	...	6,000
„ Bank	...	15,725			
	Rs.	23,000		Rs.	23,000

Y's CAPITAL ACCOUNT.

		Rs.			Rs.
To Realisation Account— 2/5ths share of loss	...	6,000	By Balance b/fd.	...	3,000
„ Z's Capital Account— 3/20ths share of deficiency	...	225	„ Bank	...	6,000
„ Bank	...	2,775			
	Rs.	9,000		Rs.	9,000

Z's CAPITAL ACCOUNT.

		Rs.			Rs.
To Realisation Account— 1/5th share of loss	...	3,000	By Balance b/fd.	...	1,500
			„ X's Capital Account—Transfer— 17/20ths of Deficiency	...	1,275
			„ Y's Capital Account—Transfer— 3/20ths of Deficiency	...	225
	Rs.	3,000		Rs.	3,000

NOTE.—The Loss on Realisation is transferred to the Capital Accounts of the partners in their profit-sharing proportions. Each solvent partner then brings in his respective share of such loss. The deficiency of the insolvent partner is then borne by the solvent partners in proportions of their Capitals.

ILLUSTRATION 90.

The Balance Sheet of A, B, C and D showed the following position on dissolution :—

BALANCE SHEET.

Liabilities		Rs.	Assets	Rs.
Creditors ...		10,000	Cash at Bank ...	34,000
Capital Accounts :–	Rs.		C's Capital Account ...	10,000
A	15,000		D's " " ...	3,000
B	10,000			
		25,000		
Realisation Account— Profit ...		12,000		
Rs.		47,000	Rs.	47,000

Show the final adjustment among the partners assuming that C is insolvent.

Solution.

BANK ACCOUNT.

	Rs.		Rs.
To Balance b/fd. ...	34,000	By Sundry Creditors ...	10,000
		" A's Capital Account ...	13,800
		" B's " " ...	10,200
Rs.	34,000	Rs.	34,000

A's CAPITAL ACCOUNT.

	Rs.		Rs.
To C's Capital Account— 3/5ths share of deficiency ...	4,200	By Balance b/fd. ...	15,000
" Bank ..	13,800	" Realisation Account— ¼th share of Profit ...	3,000
Rs.	18,000	Rs.	18,000

B's CAPITAL ACCOUNT.

	Rs.		Rs.
To C's Capital Account— 2/5ths share of deficiency ...	2,800	By Balance b/fd. ...	10,000
" Bank ...	10,200	" Realisation Account— ¼th share of Profit ...	3,000
Rs.	13,000	Rs.	13,000

C's CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance b/fd. ...	10,000	By Realisation Account— ¼th share of Profit ...	3,000
		" A's Capital Account—Transfer ...	4,200
		" B's " " " ...	2,800
Rs.	10,000	Rs.	10,000

D's CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance b/fd. ...	3,000	By Realisation Account— ¼th share of Profit ...	3,000
Rs.	3,000	Rs.	3,000

NOTES.—(a) The partners share the profit on realisation equally in the absence of any agreement to the contrary.

(b) As D's Capital Account showed a debit balance at the date the partners decided to dissolve, he has not to bear any portion of C's deficiency.

(c) C's deficiency on Capital is, therefore, borne by A and B in proportions of their respective Capitals.

ILLUSTRATION 91.

The Balance Sheet of P, Q and R showed as under upon dissolution after the whole of the assets were realised:—

BALANCE SHEET.

Liabilities	Rs.	Rs.	*Assets*	Rs.
Creditors ...		7,000	Cash at Bank ...	40,000
Q's Loan Account ...		4,000	R's Capital Account ...	5,000
Capital Accounts:—	Rs.			
P	15,000			
Q	10,000			
		25,000		
Realisation Account—Profit ...		9,000		
Rs.		45,000	Rs.	45,000

Show the final settlement between the partners assuming that R is insolvent.

Solution.

P's CAPITAL ACCOUNT.

	Rs.		Rs.
To R's Capital Account— 3/5ths share of deficiency ...	1,200	By Balance b/fd. ...	15,000
„ Bank ...	16,800	„ Realisation Account— ⅓rd share of Profit ...	3,000
Rs.	18,000	Rs.	18,000

Q's CAPITAL ACCOUNT.

	Rs.		Rs.
To R's Capital Account— 2/5ths share of deficiency ...	800	By Balance b/fd. ...	10,000
„ Bank ...	12,200	„ Realisation Account— ⅓rd share of Profit ..	3,000
Rs.	13,000	Rs.	13,000

R's CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance b/fd. ...	5,000	By Realisation Account—	
		⅓rd share of Profit ...	3,000
		„ P's Capital Account—Transfer ...	1,200
		„ Q's „ „ „ ...	800
Rs.	5,000	Rs.	5,000

BANK ACCOUNT.

	Rs.		Rs.
To Balance b/fd. ...	40,000	By Sundry Creditors ...	7,000
		„ Q's Loan Account ..	4,000
		„ P's Capital Account ...	16,800
		„ Q's „ „ ...	12,200
Rs.	40,000	Rs.	40,000

NOTE.—In this case, the Realisation Account shows a profit which has been transferred to the Capital Accounts of the partners equally in the absence of any agreement to the contrary. It should be noted that the deficiency of R is borne by P and Q in proportions to their respective Capitals as they stood at the date the partners determined upon dissolution and not after the profit on realisation is credited to the Capital Accounts.

ILLUSTRATION 92.

The Balance Sheet of X, Y and Z who were sharing profits in 3|5ths, 1|5th and 1|5th stood as follows on 31st December 1937, i.e., the date of dissolution:—

Liabilities	Rs.	*Assets*	Rs.
Bank Overdraft ...	60,000	Cash at Office ...	1,000
Sundry Creditors ...	45,000	Bills Receivable ...	4,000
X's Capital ...	15,000	Debtors ...	25 000
Z's „ ...	10,000	Stock ...	40,000
		Plant ...	30,000
		Goodwill ...	10,000
		Y's Capital Account ...	20,000
Rs.	1,30,000	Rs.	1,30,000

The assets realised Rs. 79,750 and after paying Rs. 2,000 for realisation expenses, the creditors were paid 12 annas in the Rupee. Show the final adjustment amongst the partners, assuming that they are all insolvent.

Solution.

BANK ACCOUNT.

	Rs.		Rs.
To Cash ...	1,000	By Realisation Account—	
„ Realisation Account—		Expenses paid ..	2,000
Sale proceeds of assets ...	79,750	„ Realisation Account—	
		Payment of Liabilities ...	78,750
Rs.	80,750	Rs.	80,750

REALISATION ACCOUNT.

	Rs.		Rs.	Rs.
To Sundry Assets— Transfer at Book values ..	1,09,000	By Sundry Liabilities ...		1,05,000
„ Bank—Payment of Liabilities ..	78,750	„ Bank—Amount realised from assets ...		79,750
„ Bank—Realisation Expenses ..	2,000	„ X's Capital Account 3/5ths	3,000	
		„ Y's Capital Account 1/5th	1,000	
		„ Z's Capital Account 1/5th	1,000	
				5,000
Rs.	1,89,750	Rs.		1,89,750

X's CAPITAL ACCOUNT.

	Rs.		Rs.
To Realisation Account—3/5ths loss ...	3,000	By Balance b/fd. ...	15,000
„ Y's Capital Account—Transfer of 3/5ths deficiency ...	12,600	„ Z's Capital Account—Transfer ...	600
Rs.	15,600	Rs.	15,600

Y's CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance b/fd. ..	20,000	By X's Capital Account— 3/5ths deficiency ...	12,600
„ Realisation Account—1/5th loss ..	1,000	„ Z's Capital Account— 2/5ths deficiency ...	8,400
Rs.	21,000	Rs.	21 000

Z's CAPITAL ACCOUNT.

	Rs.		Rs.
To Realisation Account, 1/5th loss ..	1,000	By Balance b/fd. ...	10,000
„ Y's Capital Account— Transfer of 2/5ths deficiency ...	8,400		
„ X's Capital Account—Transfer ..	600		
Rs.	10,000	Rs.	10,000

NOTES—(a) In this case, the firm's assets, when realised, are not sufficient to pay off the liabilities in full, and, under the circumstance, the profit thus arising gets merged in the Realisation Account.

(b) The deficiency of Y is transferred to the Capital Accounts of X and Z in proportions to their respective Capitals at the date of dissolution.

(c) As X and Z are insolvent and as there is no mention of anything being available from their private estate, their Capital Accounts will be closed by transfer of the balance of one account to the other.

CONVERSION INTO A LIMITED COMPANY.

Partnerships are frequently converted into Limited Companies chiefly with the object of limiting the personal liabilities of the partners. On such a conversion taking place, it would be necessary to close the firm's books, which is done by passing the following entries:

1. Open a Realisation Account and debit it with the *book values* of the various Assets taken over by the Company, and credit each such Asset Account.

2. Debit the Accounts of the various Liabilities taken over by the Company and credit Realisation Account.

3. Debit the Purchasing Company's Account with the purchase price as agreed upon and credit Realisation Account with the same.

4. Debit Realisation Account with expenses of realisation, if any, and credit Bank.

5. The Realisation Account will now show the profit or loss on conversion and will be closed by the Capital Accounts of the partners in the proportions in which they shared profits and losses.

6. On receipt of purchase consideration from the Company, debit Bank, Shares, Debentures, etc., Accounts and credit the Purchasing Company's Account. This will close the Purchasing Company's Account.

7. On paying off any liabilities not taken over by the Company, debit the Liabilities Accounts and credit Bank.

8. On distribution of shares and debentures among the partners, debit the Capital Accounts of the partners and credit Shares and Debentures Accounts.

9. On payment of the Partners' Capital Account balances, debit the Capital Accounts and credit Bank. The Partnership Books will thus be completely closed.

ILLUSTRATION 93.

Set out below is the Balance Sheet, as on 31st December 1937, of Messrs. A and B, who shared profits in proportions to capitals.

Liabilities		Rs.	*Assets*	Rs.
Sundry Creditors ...		55,000	Cash at Bank ...	4,500
Reserve Fund ...		7,000	Sundry Debtors ...	40,000
Capitals:—	Rs.		Stock ...	37,000
A	75,000		Machinery and Plant ...	85,000
B	50,000		Investments ...	20,500
		1,25,000		
	Rs.	1,87,000	Rs.	1,87,000

A Limited Company, with a Nominal Capital of Rs. 2,00,000 in Ordinary Shares of Rs. 100 each, was formed to acquire and carry on the business. The Company took over the whole concern with the exception of Cash and Investments and agreed to pay the book values of the assets taken over less 10 per cent. The Goodwill of the firm was valued at Rs. 5,000, which the company agreed to pay. The purchase price was paid half in cash and half in fully-paid shares of the Company.

The firm realised their own Investments as also the Shares they received from the new Company at 5% less than their face value.

Give Journal Entries in the books of the partnership to give effect to the above and show also (*a*) Realisation Account; (*b*) Cash Account; and (*c*) Partners' Capital Accounts.

Solution.

JOURNAL ENTRIES.

	L.F.	Rs.	Rs.
Realisation Account ... ... Dr.		1,62,000	
To Sundry Assets:—			
Debtors			40,000
Stock			37,000
Machinery and Plant			85,000
(Being the transfer of assets taken over by the Company to Realisation Account).			
Sundry Creditors ... ... Dr.		55,000	
To Realisation Account			55,000
(Being the transfer of sundry creditors to Realisation Account).			
Purchasing Company ... ... Dr.		95,800	
To Realisation Account			95,800
(Being the agreed value at which the business is taken over by the Company including Goodwill as per agreement dated———).			
Bank ... ... Dr.		47,900	
Shares in Limited Company ... ... "		47,900	
To Purchasing Company			95,800
(Being the satisfaction of purchase price in Cash and Shares as per agreement dated———).			
Bank ... ... Dr.		64,980	
To Investment Account			19,475
" Shares in Limited Company			45,505
(Being the amount realised on the sale of Shares and other Investments).			
Realisation Account ... ... Dr.		3,420	
To Investment Account			1,025
" Shares in the Limited Company			2,395
(Being the loss on realisation of Investments and Shares transferred).			
Reserve Fund ... ... Dr.		7,000	
To A's Capital Account			4,200
" B's " "			2,800
(Being the transfer of Reserve Fund to Capital Accounts in profit-sharing proportions).			
A's Capital Account ... ... Dr.		8,772	
B's " " ... ... "		5,848	
To Realisation Account			14,620
(Transfer of loss on realisation to Capital Accounts).			
A's Capital Account ... ... Dr.		70,428	
B's " " ... ... "		46,952	
To Bank			1,17,380
(Distribution of available cash balance amongst the partners against balance of their Capital).			

REALISATION ACCOUNT.

	Rs.		Rs
To Sundry Assets ...	1,62,000	By Sundry Creditors ...	55,000
„ Investment Account— (loss on realisation) ...	1,025	„ Purchasing Co. ...	95,800
„ Share in Limited Co.— (loss on realisation) ...	2,395	„ A's Capital Account— 3/5ths share of loss ...	8,772
		„ B's Capital Account— 2/5ths share of loss ...	5,848
Rs.	1,65,420	Rs.	1,65,420

BANK ACCOUNT.

	Rs.		Rs.
To Balance b/fd. ..	4,500	By A's Capital Account ...	70,428
„ Purchasing Co. ..	47,900	„ B's „ „ ...	46,952
„ Investments ..	19,475		
„ Share in Limited Co. ...	45,505		
Rs.	1,17,380	Rs.	1,17,380

A's CAPITAL ACCOUNT.

	Rs.		Rs.
To Realisation Account— 3/5ths share of loss ..	8,772	By Balance b/fd. ...	75,000
„ Bank ...	70,428	„ Reserve Fund—Transfer ..	4,200
Rs.	79,200	Rs.	79,200

B's CAPITAL ACCOUNT.

	Rs.		Rs.
To Realisation Account— 2/5ths share of loss ...	5,848	By Balance b/fd. ..	50,000
„ Bank	46,952	„ Reserve Fund—Transfer ...	2,800
Rs.	52,800	Rs.	52,800

✓ILLUSTRATION 94.

The Balance Sheet of A, B & Co., stood as follows on 31st December 1931 :—

Liabilities		Rs.	*Assets*		Rs.
Creditors		17,000	Cash at Bank ..		6,200
Bills Payable		1,200		Rs.	
Capital Accounts :—	Rs.		Sundry Debtors	20,000	
A	20,000		*Less* Reserve	1,000	
B	20,000				19,000
C	10,000		Stock ...		22,000
		50,000	Machinery & Plant ...		15,000
			Fixtures ...		1,500
			Goodwill ...		4,500
Rs.		68,200	Rs.		68,200

It was decided to sell the business to X, Y, Z & Co., Ltd., on the Company agreeing to allot 6,000 fully-paid shares of Rs. 10 each in full satisfaction of the purchase consideration. The Company assumed the liabilities except the Bills Payable and took over all the assets excepting the Bank Balance. The partners shared profits and losses in proportions of one-half, one-third and one-sixth respectively. Pass Journal entries and prepare accounts showing the final settlement as regards the partners, assuming that the shares were duly allotted.

Solution.

JOURNAL ENTRIES.

	L F.	Rs.	Rs.
Realisation Account ... ... Dr.		63,000	
To Sundry Debtors			20,000
„ Stock			22,000
„ Machinery & Plant			15,000
„ Fixtures			1,500
„ Goodwill			4,500
(Being the transfer of the assets taken over by the Company to Realisation Account).			
Sundry Creditors ... ... Dr.		17,000	
Reserve for Doubtful Debts ... ... „		1,000	
To Realisation Account			18,000
(Being the transfer of liabilities taken over to Realisation Account).			
X, Y, Z & Co, Ltd. ... ... Dr.		60,000	
To Realisation Account			60,000
(Being the purchase consideration due from the Co.).			
Share in X, Y, Z & Co., Ltd. ... ... Dr.		60,000	
To X, Y, Z & Co, Ltd.			60,000
(Being the receipt of purchase consideration as agreed).			
Realisation Account ... ... Dr.		15,000	
To A's Capital Account			7,500
„ B's „ „			5,000
„ C's „ „			2,500
(Being the transfer of profits on Realisation transferred to Partner's Capital Accounts).			
Bill Payable ... ... Dr.		1 200	
To Bank			1,200
(Being the amount paid on meeting our Bills Payable).			
A's Capital Account ... ... Dr.		25,380	
B's „ „ ... ... „		23,080	
C's „ „ ... ... „		11,540	
To Shares in X, Y, Z & Co., Ltd.			60,000
(Being the distribution of Shares between the partners).			
A's Capital Account ... ... Dr.		2,120	
B's „ „ ... ... „		1,920	
C's „ „ ... ... „		960	
To Bank			5,000
(Being the distribution of Bank Balance between the partners)			

REALISATION ACCOUNT.

		Rs.		Rs.
To Sundry Assets ...		63,000	By Sundry Liabilities ...	18,000
„ Profits transferred to Capital Accounts:—	Rs.		„ X, Y, Z & Co., Ltd. ...	60,000
A 1/2	7,500			
B 1/3rd	5,000			
C 1/6th	2,500			
		15,000		
Rs.		78,000	Rs.	78,000

BANK ACCOUNT.

	Rs.		Rs.
To Balance b/fd. ...	6,200	By Bills Payable ...	1,200
		„ A's Capital Account ...	2,120
		„ B's „ „ ..	1,920
		„ C's „ „ ...	960
Rs.	6,200	Rs.	6,200

SHARES IN X, Y, Z & CO., LTD. ACCOUNT.

	Rs.		Rs.
To X, Y, Z & Co., Ltd. ...	60,000	By A's Capital Account ...	25,380
		„ B's „ „ ...	23,080
		„ C's „ „ ...	11,540
Rs.	60,000	Rs.	60,000

A's CAPITAL ACCOUNT.

	Rs.		Rs.
To Shares in X, Y, Z & Co., Ltd. ..	25,380	By Balance b/fd. ...	20,000
„ Bank ...	2,120	„ Realisation Account—½ share of Profits ..	7,500
Rs.	27,500	Rs.	27,500

B's CAPITAL ACCOUNT.

	Rs.		Rs.
To Shares in X, Y, Z & Co., Ltd. ...	23,080	By Balance b/fd. ...	20,000
„ Bank ...	1,920	„ Realisation Account—⅓rd share of Profits ...	5,000
Rs.	25,000	Rs	25,000

C's CAPITAL ACCOUNT.

	Rs.		Rs.
To Shares in X, Y, Z & Co., Ltd. ...	11,540	By Balance b/fd. ...	10,000
,, Bank ...	960	,, Realisation Account—1/6th share of Profits ...	2,500
Rs.	12,500	Rs.	12,500

NOTE.—When the final refund of capitals is partly in cash and partly in shares, the distribution should be made in proportions to the capitals.

DISTRIBUTION OF CASH AMONGST PARTNERS.

In dissolution of partnerships, it often happens that the Assets are realised from time to time and the distribution of the Cash is not left over till all the assets are disposed of, but the same may take place at periodical intervals. Under such a circumstance, the question as to in what proportions the Cash should be paid to the partners in refund of their Capitals will present some difficulty, and the following illustrations will help the student to understand this phase of Partnership Accounts.

The main points to be noted are that:—

(1) The creditors of the firm must be paid out in full prior to any partner being paid anything in respect of his Capital.

(2) After the creditors have been paid off, the loan from a partner, if any, should be paid off.

(3) If the Capitals of the partners stand in the ratio of their profit-sharing arrangements, then each of them may be paid out in proportion to his Capital at each distribution.

(4) On the other hand, if the Capitals stand in proportions different from those in which the partners have agreed to share profits or losses, then the first Cash available for distribution amongst the partners should be paid to such partners whose Capitals are comparatively in excess of their profit-sharing arrangements. Thus, the Capitals of the partners which are in excess of the profit-sharing ratios would be reduced by payment from time to time until the Capitals of all of them are brought on a level with their profit-sharing interests. After this, each partner will be paid in proportion to his Capital.

ILLUSTRATION 95.

P, Q and R share profits in proportions of ½, ¼ and ¼. On the date of dissolution, their Balance Sheet showed as follows:—

Liabilities	Rs.	Rs.	*Assets*	Rs.
Creditors ...		14,000		
P's Capital	10,000		Sundry Assets ...	40,000
Q's ,,	10,000			
R's ,,	6,000			
		26,000		
Rs.		40,000	Rs.	40,000

The assets realised Rs. 34,000 which were received in instalments of Rs. 14,000, Rs. 10,000 and Rs. 10,000.

Show how the proceeds should be distributed as and when received.

Solution.

The first instalment of Rs. 14,000 received will be utilised in paying off the creditors in full.

		½ P	¼ Q	¼ R
		Rs.	Rs.	Rs.
Capitals as per Balance Sheet	...	10,000	10,000	6,000
	Cash paid ...		4,000	
		10,000	6,000	6,000
Out of the 2nd instalment of Rs. 10,000	Do. ...		1,000	1,000
		10,000	5,000	5,000
	Do. ...	2,000	1,000	1,000
		8,000	4,000	4,000
Third instalment of Rs. 10,000 distributed	...	5,000	2,500	2,500
	Balance Rs.	3,000	1,500	1,500

NOTE.—The capitals of P, Q and R are not in their profit-sharing proportions, those of Q and R being in excess to that of P by Rs. 5,000 and Rs. 1,000 respectively.

Between Q and R, as Q's capital is in excess of R's by Rs. 4,000, this amount must be paid off first to Q, out of second instalment of Rs. 10,000, to reduce his capital to that of R's. The capitals of Q and R being still proportionately in excess of P's capital by Rs. 1,000 each, Q and R should next be paid off Rs. 1,000 each. This brings the capitals of P, Q and R on a level with their profit-sharing proportions and, therefore, the balance of Rs. 4,000 (out of the second instalment of Rs. 10,000) as also the third instalment of Rs. 10,000 should be paid to P, Q and R in proportions of their capitals.

ILLUSTRATION 96. J0 500

X, Y and Z were in partnership with a capi
the proportions of 1|2, 1|3rd and 1|6th respective9,000 and Rs. 500 respectively more than
same proportions. The partnership was dissolvill be made first to reduce these amounts
tions to their capitals.

.istribution :—

Liabilities		Rs.
Capitals—		
X	..	20,000
Y	...	10,00
Z	...	2,0
Creditors	...	30,C
	Rs.	62

E	F	G	
Rs.	Rs.	Rs.	Rs.
33,000	54,000	18,000	
......	19,000 (1)	500 (1)	30,000
33,000	35,000	17,500	
......	7,000 (1)	3,500 (1)	
	28,000	14,000	
	6,000 (2)	3,000 (2)	
33,000	22 000	11,000	21,000
6,000 (2)	4,000 (2)	2,000 (2)	
27,000	18,000	9,000	
9,000 (3)	6,000 (3)	3,000 (3)	18,000
Balance Rs. 18,000	12,000	6,000	

It was arranged that the net real
at the end of each calendar month. T

		Debt Rs
April	.. ..	8'
May	.. ..	1'
June	.. ..	
July	.. ..	
August	.. ..	

The Stock having been cor
over the remaining debts at R
how the cash realised was dis

Solution.

On dissolution of the partnership, the expenses of realisation and the creditors of the firm are to be paid in full first before anything is repaid to the partners as their capital :—

The following statement shows the amounts available for distribution among the partners :—

Amount realised.				Less Expenses.	Amount available.	Amount due & Payable to Creditors.		Amount available for Distribution to Partners.
Date.	Debtors.	Stock.	Total.					
April ...	Cash	Balance.			4,000			
" ...	8,000	4,000	12,000	1,000	11,000	15,000	Rs.	
May ...	12,000	6,000	18,000	800	17,200	15,000	30,000	2,200
June ...	7,000	3,000	10,000	700	9,300	...		9,300
July ...	10,000	1,000	11,000	500	10,500	...		10,500
Aug. ...	2,000	3,500	5,500	500	5,000	...		5,000

X, Y and Z share profits in proportions of one-half, one-third and one-sixth respectively, but their capital accounts as per the Balance Sheet stand at Rs. 20,000, Rs. 10,000 and Rs. 2,000 respectively, i.e., X's and Y's Capitals are in excess of their proportionate shares of interest in the working of the firm by Rs. 14,000 and Rs. 6,000 respectively. The amounts, therefore, available for distribution among the partners, will first be utilised to pay off the partners the amounts standing to their credits in excess of their interest in the firm and then to pay all the partners in proportion to their capitals, as shown in the following statement :—

	X	Y			Z			
	Rs.	Rs.	a.	p.	Rs.	a.	p.	Rs.
Capital as per Balance Sheet ...	20,000	10,000	0	0	2,000	0	0	
First Distribution &c. ...	2,200							2,200
	17,800	10,000	0	0	2,000	0	0	
	2,800							
	3,900	2,600	0	0				9,300
	11,100	7,400	0	0	2,000	0	0	
	5,100	3,400	0	0				
	1,000	666	10	8	333	5	4	10,500
	000	3,333	5	4	1,666	10	8	
	300	1,866	10	8	333	5	4	5,000
	)	1,466	10	8	1,333	5	4	
					600	0	0	Debtors.
		1,466	10	8	733	5	4	

his Capital at each distribution.

(4) On the other hand, if
from those in which the partners
the first Cash available for distribu
to such partners whose Capitals ar
sharing arrangements. Thus, the Ca
of the profit-sharing ratios would be
until the Capitals of all of them are
sharing interests. After this, each p
his Capital.

ILLUSTRATION 95.

P, Q and R share profits in proportions o
their Balance Sheet showed as follows :—

P and G on 31st December 1921 :—

Liabilities	Rs.	Rs.	*Assets*	Rs.
Creditors	...	14,000	y Assets ...	1,05,000
P's Capital	10,000			
Q's "	10,000			
R's "	6,000	26,000		
	Rs.	40,000	Rs.	1,05,000

The assets realised Rs. 34,000 which were rec
Rs. 10,000 and Rs. 10,000.

Show how the proceeds should be distribu

The profits and losses were shared in proportions of one-half, one-third and one-sixth respectively.

The assets were being realised gradually, and distributions were made of the following sums to the partners:—

1922	Rs.
March 31	30,000
June 30	21,000
Sept. 30	18,000

Set out the partners' Accounts showing the distribution.

Solution.

E, F and G shared profits in the proportions of one-half, one-third and one-sixth respectively, while their capitals as per the Balance Sheet stand at Rs. 33,000, Rs. 54,000 and Rs. 18,000 respectively.

The total capital of the firm being Rs. 1,05,000, the amount of capital to be contributed by each partner in proportion to his respective interest in the firm's working and the amount actually standing to the credit of each partner is shown in the following table:—

	Proportionate Amount to be contributed.	Amount actually to the credit.	Amount less contributed.	Amount more contributed.
	Rs.	Rs.	Rs.	Rs.
E	52,500	33,000	19,500	......
F	35,000	54,000	......	19,000
G	17,500	18,000	......	500

F and G thus having contributed Rs. 19,000 and Rs. 500 respectively more than their interest in the firm, the distribution will be made first to reduce these amounts and then to pay all the partners in proportions to their capitals.

The following table will show the distribution:—

	E	F	G	
	Rs.	Rs.	Rs.	Rs.
Capital as per Balance Sheet, 1922 ...	33,000	54,000	18,000	
March 31, First Distribution ...	......	19,000 (1)	500 (1)	30,000
	33,000	35,000	17,500	
	......	7,000 (1)	3,500 (1)	
		28,000	14,000	
June 30, Second Distribution ...		6,000 (2)	3,000 (2)	
	33,000	22,000	11,000	21,000
	6,000 (2)	4,000 (2)	2,000 (2)	
	27,000	18,000	9,000	
September 30, Third Distribution ...	9,000 (3)	6,000 (3)	3,000 (3)	18,000
Balance Rs.	18,000	12,000	6,000	

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. What are the rules for adjustment of losses and distribution of assets in a dissolution of partnership?

2. State the entries usually necessary on a dissolution of partnership.

3. How is profit or loss on realisation of assets to be adjusted?

4. Discuss the position of a partner whose Capital Account shows a debit balance on dissolution.

5. State the decision in *Garner* v. *Murray*.

6. How should the Capital Accounts of the partners be treated as a result of this decision?

7. Explain carefully how such adjustments would differ where the Capitals are fluctuating from a case where they are fixed.

8. State the usual entries where a partnership concern is converted into a Limited Company.

9. Explain fully the working of decision in *Garner* v. *Murray* where there is profit on realisation.

10. How should the accounts be finally adjusted when after realisation there is not sufficient money to pay off the creditors in full and all the partners are insolvent?

DISSOLUTION OF PARTNERSHIPS.

11. A, B and C carried on business in partnership and on 31st December 1913, their Balance Sheet was as follows:—

Liabilities	£	*Assets*	£
Sundry Creditors	4,500	Land and Building	4,000
A—Loan	6,000	Plant and Machinery ..	8,000
Capital Accounts:—		Loose Plant and Tools ..	1,500
A	12,000	Stock-in-Trade	10,000
B	10,000	Sundry Debtors	14,000
C	7,500	Cash at Bank and in Hand ..	2,500
£	40,000	£	40,000

They decide to dissolve the partnership as at 31st December 1913. A retires, and B and C continue the business, and agree to purchase A's share in the Capital of the firm in the proportions in which they share profits and losses. Profits and Losses are shared: A two-fifths, B two-fifths, and C one-fifth. A agrees to allow his loan to remain in the business.

For the purposes of the dissolution, Goodwill is valued at £5,000, and the assets are to be taken as follows:—

Land and Building £4,500.

Plant and Machinery as in the Balance Sheet, subject to 10% depreciation.

Loose Plant and Tools as in the Balance Sheet.

Stock-in-Trade at £9,000.

Sundry Debtors as in the Balance Sheet, subject to £1,100 provision for Bad Debts and an allowance of 5% for discounts and costs of collection.

The liability to Sundry Creditors is taken over by B and C subject to an allowance of £200, for discounts.

B and C continue to share profits and losses in the same proportions as heretofore.
Draw up the Realisation Account and the Balance Sheet of B and C as on 1st January 1914. *(Chartered Accountants.)* 133

(Balances on Capital Accounts after adjustments:—
B £19,436-13-4 and C £12,218-6-8; A's Loan Account £6,000;
Balance Sheet Total, £41,955.)

12. A, B and C have been carrying on business as wholesale grocers and they share profits 7|15ths, 5|15ths and 3|15ths respectively. On 31st December 1917, they dissolve partnership. The Balance Sheet of the firm on that date was, as follows:—

Liabilities		Rs.	*Assets*	Rs.
Sundry Creditors		2,500	Land and Buildings	7,500
Loan from A at 5 per cent ..		6,000	Plant and Fittings	2,250
Capitals:—	Rs.		Stock-in-Trade	10,650
A	9,000		Horse, Cart and Harness ..	1,000
B	6,000		Sundry Debtors	3,000
C	2,500		Cash	1,600
		17,500		
	Rs.	26,000	Rs.	26,000

A and B wanted C to join them in floating the concern as a private company but C refused and A and B arranged to pay C out and then to form the company.

The arrangements between A, B and C were as follows:—A and B took over the liabilities at book figures *plus* Rs. 500 allowed for realisation expenses; they also took over the cash; and the Horse, Cart and Harness were sold for cash realising Rs. 740. The other assets A and B agreed to take over as follows:—Land and Building Rs. 10,000; Plant and Fittings *less* 10 per cent; Stock *less* 20 per cent; Debtors at Rs. 2,115.

A and B, having paid the realisation expenses Rs. 500 and having paid out C by providing the required cash in the same proportions as they share profits and losses *inter se*, proceed to sell the assets, as they stand, to the Harbour Grocery Co., Ltd., for Rs. 12,000 cash and Rs. 12,000 in fully paid up shares. The latter A and B take in the same proportions as they share profits and losses.

A and B then pay off the liabilities and themselves, and close the partnership books.

You are required to show only (*a*) the Cash Account, (*b*) the Capital Accounts, (*c*) the Realisation Accounts, (*d*) Harbour Grocery Co., Ltd., Account. Assume that all the above transactions are put through and completed on 31st December 1917.
(G. D. A.) 134

(Realisation Account of A, B and C—Loss Rs. 1,500; Realisation Account of A and B—Profit Rs. 1,340; Final Repayment to A Rs. 2,291-10-8,
B Rs. 1,208-5-4, and C Rs. 2,200.)

13. The Balance Sheet of a firm on 31st December 1912, was as follows:—

Liabilities	£	*Assets*	£
Partner A's Capital	5,000	Freehold Property	8,000
„ B's „	4,000	Investments	2,000
„ C's „	3,000	Book Debts	1,000
Trade Creditors	2,000	Cash	3,000
£	14,000	£	14,000

Partnership profits and losses were divided equally. The partnership was dissolved as on 31st December 1912. The Trade Creditors were paid at 5% discount. A agreed to take over the freehold property at £9.000, B the investments at £500, and C the book debts at £600.

Show the Final Partnership Accounts. *(Chartered Accountants.)* 135

(Realisation Account—Loss £800; Final Repayment to B £3,233-6-8,
and C £2,133-6-8; A to pay £4,266-13-4.)

14. Jones, Brown and Robinson were partners in a business, profits and losses being divided thus—Jones 2|5ths, Brown 2|5ths, and Robinson 1|5th. The partnership was dissolved as on 31st December 1909, upon which date the position of the firm was as follows:—

	£	£		£	£
Capitals:—			Sundry Assets		10,620
Jones	3,000		Debtors:—		
Brown	2,100		Robinson ..	500	
		5,100	Sundry	2,000	
Loans:—					2,500
Jones	500		Cash in hand		120
Smith	800				
		1,300			
Sundry Creditors		5,840			
Bank Overdraft		1,000			
	£	13,240		£	13,240

The expenses of the dissolution were £120. Jones took over the business, paying £7,850 for the "Sundry Assets" and £2,500 for the Goodwill.

Prepare an account, as between the partners, showing the result of the dissolution. *(Chartered Accountants.)* 136

(Realisation Account—Loss £390; Balance Sheet Total £4,788; Capital Account Balances—Jones £2,844, and Brown £1,944 Robinson (Dr.) £578.)

15. The following Balance Sheet states the position of Messrs. Rufus & Isaacs on the 31st December 1910, on which date they decide to give up business and wind up their affairs:—

Liabilities	£	*Assets*	£
Sundry Creditors	3,800	Stock-in-Trade	7,200
Reserve	2,000	Book Debts	12,000
Mr. Rufus—Capital	11,000	Fixtures and Fittings	400
Mr. Isaacs—Capital	8,000	Machinery and Plant	1,800
		Profit and Loss Account ..	3,400
£	24,800	£	24,800

The book debts were collected at a cost of 7½%, Stock sold for £6,000, Machinery etc., for £1,400, and Fixtures and Fittings for £500. Open the necessary Ledger Accounts on the basis of the above Balance Sheet, and show the final closing of the books, including the withdrawal by partners of any ultimate balances due to them. The partners share equally. *(Incorporated Accountants.)* 137

(Realisation Account—Loss £2,400; Final Repayment—Rufus £9,100, and Isaacs £6,100.)

16. On January 1st, 1906, A, B and C were partners carrying on business as merchants with a Capital divided as follows:—A £30,000, B £20,000, C £10,000. Each partner was to receive 5 per cent interest per annum on his Capital, and to share profits and losses in the following proportions:—A seven-twelfths, B one-fourth, and C one-sixth.

At June 30th, 1907, it was agreed to dissolve partnership and realise all the assets. In the result after all liabilities and claims had been paid with the exception of law and accountancy charges agreed at £500, there remained a balance in cash of £38,750.

December 31st, 1907, was an agreed date between the parties for a settlement. Draw up a Statement showing the position as at that date. *(Incorporated Accountants.)* 138

(Loss on Realisation—£27,750; Final Repayment—A £16,812-10-0, B, £15,062-10-0, and C, £6,375.)

17. The Balance Sheet of Messrs. Harris & Smith stood at 31st December 1910, as follows:—

Liabilities	£	*Assets*	£
Creditors	2,300	Debtors	2,200
Loan by Harris	3,000	Plant and Machinery	5,000
Capital—Harris	1,000	Building	3,100
Capital—Smith	4,000		
£	10,300	£	10,300

The partners share profits and losses equally. They decide to wind up the business as at 31st December 1910. The realisation of the assets yields 75% of the debts, 60% of the plant and machinery, and 70% of the building. Make out a final Balance Sheet and Capital Accounts. (*Incorporated Accountants.*) 139

(*Realisation Account—Loss* £3,480; *Final Repayment—Harris* £2,260 *and Smith* £2,260)

18. On 1st January 1915, L and M take Y into partnership, the terms being that he shall bring in £5,000 as Capital, and that L and M shall reduce the amount of their Capital to £12,000 and £6,000 respectively. Profits are to be shared, one-half to L and one-fourth to each of M and Y. No other terms are definitely agreed upon. On 30th September 1915, the partnership was dissolved. A valuation of the Land and Buildings shows them to be worth £6,000, and L agrees to take them at that price, in part satisfaction of his share. The Goodwill is sold for £5,000, and the other assets realise their book values, the Balance Sheet at that date being as follows:—

Liabilities	£	*Assets*	£
Creditors	7,000	Land and Buildings	4,000
L—Capital Account	12,000	Plant and Machinery	8,500
L—Current "	500	Stock	10,200
M—Capital "	6,000	Debtors	6,700
M—Current "	300	Y—Current Account	200
Y—Capital "	5,000	Cash	1,200
£	30,800	£	30,800

Set out the Dissolution Account and show how much each partner receives. (*Chartered Accountants.*) 140

(*Realisation Account—Profit* £7,000; *Final Repayment—L* £10,000, *M* £8,050, *and Y* £6,550.)

19. Antia and Burdy are in equal partnership. Their Balance Sheet stood as:—

Liabilities	Rs.	*Assets*	Rs.
Antia's Capital	600	Machinery and Plant	1,475
Creditors	3,900	Furniture	400
		Debtors	500
		Stock	625
		Cash	300
		Burdy's Drawings	1,200
Rs.	4,500	Rs.	4,500

The Assets were realised as follows:—

Stock Rs. 350, Furniture Rs. 200, Debtors Rs. 500 and Machinery Rs. 700.

The cost of collecting and distributing the estate amounted to Rs. 150. Antia's private estate is not sufficient even to pay his private debts, whereas in Burdy's private estate there is a surplus of Rs. 50.

Prepare a Realisation Account, Cash Account, Profit and Loss Account and Creditors' Account showing what dividend is paid to Creditors. (*B. Com.*) 141

(*Realisation Account—Loss Rs. 1,400; Sundry Creditors receive 8 annas in the Rupee.*)

20. Cama, Norton and Madhavji are in partnership as Solicitors in Bombay, Nagpur and Calcutta, dividing profits: Cama one-half, Norton and Madhavji one-fourth each.

On 31st December 1923 their Trial Balance showed as under:—

	Rs.	Rs.
Furniture and Fittings:—		
Bombay	4,000	
Nagpur	2,000	
Calcutta	2,000	
Debtors (including costs accruing):—		
Bombay	12,000	
Nagpur	8,000	
Calcutta	6,000	
Creditors		5,000
Cash at Bank	6,900	
Drawings:—		
Cama	12,700	
Norton	5,500	
Madhavji	6,000	
Capital, 1st January 1923:—		
Cama		15,000
Norton		8,000
Madhavji		7,000
Profit for the year		30,100
Rs.	65,100	65,100

On this date they decided to dissolve the partnership under the following arrangements:—

Cama to take over the Bombay assets and all liabilities, and to pay Norton and Madhavji each Rs. 3,000. Norton is to take over the Nagpur assets, and Madhavji, the Calcutta assets. Furniture and Fittings are to be reduced by 20% and Debtors by 10%. Interest on Capital is to be allowed at 5%. Cash at Bank is to be applied in adjusting the final balances between them.

Prepare statements showing the distribution of Profits and the Partners' Accounts. 142

(*Final Repayment:—*
Cama Rs. 250, Norton Rs. 3,200, and Madhavji Rs. 3,450.)

21. Dinshaw and Merwan entered into partnership on January 1st, 1922, Dinshaw bringing in cash Rs. 8,000 and Merwan bringing in nothing. The partnership agreement stipulated that Dinshaw was to receive 5% interest on his Capital before dividing any profit which was divisible three-fifths and two-fifths respectively. On December 31st, 1926, they agreed upon a dissolution. A Balance Sheet was prepared at 31st December 1926, and stood as follows:—

Liabilities		Rs.	*Assets*	Rs.
Dinshaw—Capital Account ..		8,000	Book Debts	14,000
Nariman—Loan Account ..		4,000	Stock-in-Trade	5,700
Sundry Creditors		4,200	Machinery, etc.	2,400
Balance of P. and L.	Rs.		Drawings Account—Dinshaw ..	5,350
Account ..	10,000		Merwan's Account	1,250
Profit for the year 1926	2,500			
		12,500		
Rs.		28,700	Rs.	28,700

Dinshaw has not been credited with Interest on Capital. No interest on drawings or undistributed profits is to be taken into account. The Book Debts realised Rs. 13,600.

Stock-in-Trade Rs. 4,900, and Machinery Rs. 2,800. An amount of Rs. 500 was also received for Goodwill which had not appeared in the partnership books. Write up the necessary accounts to give effect to the above statements, assuming that all liabilities are discharged and the costs of realisation amounting to Rs. 300 are also paid by cash. Show the closing of Partners' Accounts. The interest on Dinshaw's Capital Account is to be reckoned for each year on the original figure of Rs. 8,000 and no interest on interest need be taken into account. 143

(*Final Repayment:—*
Dinshaw Rs. 10,590, and Merwan Rs. 2,710.)

22. The following items represented the book values at 31st December 1927 of the Assets of a firm of Chemists with four branch shops:—

	Rs.
Lease and Goodwill	25,280
Furniture, Fixtures, etc.	9,100
Stock	38,210
Book Debts	1,520
Cash in hand	70
Bonuses accrued due from Manufacturers	750
Rents paid in Advance	490
The firm's liabilities at the same date were as under:—	
Sundry Creditors	23,780
Secured Loan Creditor with accrued interest ..	38,300
Overdraft at Bank	3,100

The Partners' Capital Accounts stood as follows:—

	Rs.
A	5,020
B	5,220

Owing to a disagreement between the Partners (who shared profits equally), it was mutually agreed that they should dissolve the Partnership and each continue to trade separately. With a view to an equitable division of the Partnership property, an Arbitrator was appointed, who awarded two of the businesses to each partner.

The value assigned to the Lease, Goodwill, Fixtures, etc., of the two businesses awarded to A was Rs. 31,200, and to the Lease, Goodwill, Fixtures, etc., of the remaining businesses awarded to B Rs. 22,500. It was also awarded that the Stock and other assets should be divided equally and that the liabilities should be borne equally.

A was directed to retain the whole of the Bonuses due from the manufacturers as and when received and, in order to equalise matters between the Partners, to make a cash payment to B.

Show the Partners' Accounts after giving effect to the Arbitrators' award. 144

(*A makes a cash payment of Rs. 4,825 to B in final settlement.*)

23. A and B carrying on business in partnership admit C on the basis of equal division of profits, C to bring in no Capital, and in the event of dissolution to have no interest in the Goodwill.

On 1st February 1924, the partnership was formally dissolved and as from that date, the business was sold to D & Co. for Rs. 1,80,000. Of this sum, Rs. 96,000 was in respect of Property, Plant and Machinery. The Balance Sheet of A, B & C on 1st February 1924, was as follows:—

Liabilities	Rs.	*Assets*	Rs.
Creditors	18,000	Freehold Property, Plant and Machinery	72,000
Capital Accounts—		Debtors	44,000
A	60,000	Stock-in-Trade	28,000
B	60,000	Cash	2,400
Current Accounts—			
A	1,600		
B	3,200		
C	3,600		
Rs.	1,46,400	Rs.	1,46,400

You are required to draft the Final Dissolution Account of A, B and C. 145

(Profit on Realisation Rs. 24,000 to be shared equally between A, B and C; Goodwill realised on sale of business Rs. 27,600 to be shared between A and B only; Final Repayment—A Rs. 83,400, B Rs. 85,000, and C Rs. 11,600.)

24. D, E and F were partners with Capitals of Rs. 10,000, Rs. 8,000 and Rs. 4,000 respectively, sharing profits 4|9ths, 3|9ths and 2|9ths. During the year, each partner had withdrawn Rs. 2,000. The Firm's assets were then disposed of and realised Rs. 13,500. The liabilities amounting to Rs. 6,000 and the expenses of dissolution amounting to Rs. 500 were paid off. Show how the balance of cash should be apportioned among the partners and prepare the necessary accounts. 146

(Realisation Account—Loss Rs. 9,000; Final Repayment—D Rs. 4,400, and E Rs. 3,000.)

25. On 1st January 1930, X, Y and Z commenced business in partnership, sharing profits and losses in the proportions of one-half, one-third and one-sixth respectively. They paid into their Bank account as their Capital Rs. 40,000, being Rs. 20,000 by X, Rs. 15,000 by Y and Rs. 5,000 by Z. During the year each partner withdrew Rs. 2,000 and on 31st December 1930, they dissolve their partnership, X taking up stock at an agreed valuation of Rs. 7,000, Y taking up Furniture at Rs. 1,000 and Z taking up Debtors at Rs. 5,000. After paying off their creditors, there remained a balance of Rs. 3,000 at the Bank.

Prepare the necessary accounts showing the distribution of the cash at the Bank, and of the further cash, brought in by any partner or partners as the case required. 147

(Realisation Account—Loss Rs. 18,000; Final Repayment—X Rs. 2,000, and Y Rs. 6,000; Z brings in Rs. 5,000.)

26. X and Y were in partnership and agreed to dissolve. The assets realised Rs. 75,000. The Liabilities were as follows:—Sundry Creditors Rs. 45,000, Loan from X Rs. 20,000, X's Capital Rs. 10,000, and Y's Capital Rs. 15,000. They share profits and losses in proportions of X $\frac{3}{4}$ and Y $\frac{1}{4}$.

Show by means of accounts how the cash realised should be distributed. 148

(Realisation Account—Loss Rs. 15,000; X brings in Rs. 1,250, and Y is paid Rs. 11,250 in final settlement.)

GARNER *v.* MURRAY DECISION

27. State the principle laid down by Mr. Justice Joyce in the case of *Garner v. Murray* for the adjustment of Partners' Accounts, when one partner is in debit after the realisation of Assets. What was the practice before this decision?

Illustrate your answer by a case where A, B and C are three partners who divide profits equally. On the dissolution of the partnership, the Balance Sheet stands thus:—

Liabilities	£	*Assets*	£
A	2,000	Cash	1,500
B	500	C	400
		Loss on Realisation	600
	£ 2,500		£ 2,500

(Incorporated Accountants.) 149

(A will receive £1,520, and B £380.)

28. The partnership of A, B and C who are sharing profits and losses in the of 4|9, 2|9 and 1|3 is dissolved on 1st April 1925. Their Balance Sheet on was as follows:—

Liabilities		Rs.	*Assets*	Rs.
Sundry Creditors		4,500	Cash in hand	500
Bills Payable		2,050	Cash at Bank	3,250
A's Loan		2,000	Bills Receivable	2,800
Capitals:—	Rs.		Investments	12,000
A	34,000		Debtors	15,500
B	23,000		Stock	9,700
C	1,500		Furniture	1,850
		58,500	Machinery	7,500
Reserve Fund		6,300	Buildings	22,500
Profit and Loss		2,250		
	Rs.	75,600	Rs.	75,600

The Assets realised—Investments, 15% less; Bills Receivable and Debtors, Rs. 14,100; Stock 25% less; Furniture, Rs. 1,025; Machinery, Rs. 4,300; and Buildings. Rs. 13,200. The cost of realisation was Rs. 300. All the Liabilities were paid off. C becomes bankrupt and Rs. 512 only are received from his estate in full settlement of his indebtedness to the firm. Partners are paid off.

Show the Realisation Account and Current and Capital Accounts of the partners (1) when the capitals of the partners are fixed quantities, and (2) when the capitals are not fixed. 150

(*Realisation Account*—*Loss Rs.* 22,050; *Where Capitals are fixed, A receives Rs.* 36,315-14-10; *and B Rs.* 23,896-1-2; *Where Capitals are fluctuating, A receives Rs.* 36,300-0-11, *and B Rs.* 23,911-15-1.)

29. A, B and C are equal partners, who decide to dissolve partnership. After realisation of their Estate, the Balance Sheet stands thus:—

Liabilities	£	*Assets*	£
Capitals:—		Cash	2,500
A	2,710	C—Overdrawn	600
B	1,902	Deficiency	1,512
£	4,612	£	4,612

C being insolvent, determine the final adjustment between A and B.

(*Incorporated Accountants.*) 151

(*A receives* £2,061-5-10, *and B* £1,446-14-2 *in final settlement.*)

30. The following is the Balance Sheet of A, B and C, on 31st December 1911:—

Liabilities	£	*Assets*	£
Creditors	2,000	Cash	500
Bank—Loan	500	Stock	2,000
Bills Payable	500	Plant and Tools	2,000
A—Capital	2,500	Sundry Debtors	1,000
B—Capital	1,500	Bills Receivable	1,000
		C—Capital Overdrawn	500
£	7,000	£	7,000

C is insolvent, but his partners recover from his private estate £250. It is decided to wind up the Partnership, and the Assets realise—Cash £500, Stock £1,600, Plant and Tools £1,500, Sundry Debtors £750, Bills Receivable £700. Profits and Losses are divided equally. What would be the position of each Partner's Account on the winding up of the Partnership in accordance with the Partnership Act, the costs of Realisation amounting to £250? (*Chartered Accountants.*) 152

(*Realisation Account*:—

Loss £1,700; *A receives* £1,989-11-8, *and B* £1,193-15-0.)

31. A, B and C are partners in a business dividing profits equally. Their Balance Sheet at 31st December 1912, is as follows:—

Liabilities	£	Assets	£
Sundry Creditors	3,800	Sundry Debtors	9,700
Bills Payable	900	Stock	2,400
Capital Accounts:—		Furniture	380
A	6,000	Cash at Bank	620
B	3,000	C's Drawings Account	3,000
C	1,900		
Drawings Accounts:—			
A	700		
B	700		
	£ 16,100		£ 16,100

C is insolvent and unable to contribute anything; the partnership is consequently dissolved, and the Sundry Debtors, Stock and Furniture realise £10,380. Draw up a final Balance Sheet showing the position of each partner's Capital Account. There is no agreement between the parties.

(Incorporated Accountants.) 153

(Final Balances Payable—A £4,900, and B £2,800.)

32. Brown, Jones and Robinson were in partnership as Coal Merchants. On 31st December 1911, their Balance Sheet showed the following position of affairs:—

Liabilities	£	£	Assets	£
Sundry Creditors		3,000	Cash in hand and at Bank	1,400
Loan on Mortgage		400	Sundry Debtors	4,000
Brown—Capital Account	2,500		Stock	1,500
" —Drawings Account	1,000		Horses, Carts, etc.	500
		3,500	Freehold Property	1,000
Jones—Capital Account	1,500		Robinson	500
" —Drawings Account	500			
		2,000		
		£ 8,900		£ 8,900

They shared profits and losses in the proportions of Brown one-half, Jones one-third, Robinson one-sixth. It was decided to dissolve the partnership as at the date of the above Balance Sheet. The Freehold Property realised £1,300. Bad Debts and Discounts allowed amounted to £500. The Stock realised £1,200, and the Horses, Carts, etc. £300. The Mortgage on the Property was duly paid off. The Creditors were also paid *less* discounts amounting to £100. The costs of realisation amounted to £300.

After the assets had been realised and all the liabilities discharged, Robinson became bankrupt and a claim was made against his estate for the amount due from him to the firm on the dissolution, and a dividend thereon at the rate of sh. 6/8 in the £ was received.

Write up the Realisation Account, the Cash Account, and the Capital and Drawings Accounts of the Partners, and close the books of the firm. *(Chartered Accountants.)* 154

(Realisation Account—Loss £900; Final Repayments—Brown £3,229-3-4. and Jones £1,837-10-0.)

33. A, B and C are partners in a firm dealing in fancy goods, and sharing profits and losses 48%, 35% and 17% respectively, decide to dissolve, and appoint B to realise the assets and distribute the proceeds. B is to receive 5% of the amounts coming to A and C as his remuneration, and is to bear all the expenses of realisation.

The following is the Balance Sheet prepared by the firm as on the date of dissolution:—

Liabilities		£	*Assets*		£
Creditors		1,247		£	
Capitals :—	£		Debtors	4,229	
A	4,129		Less Reserve for Bad Debts	211	
B	3,057				4,018
		7,186	Stock-in-Trade		1,872
			Cash		476
			Other Assets		1,710
			C—Overdrawn		357
	£	8,433		£	8,433

B reports the result of realisation as follows:—

	£
Debtors realise	3,462
Stock-in-trade realises	1,444
Goodwill is sold for	50
The other assets realise	909

58650

Creditors were omitted from the Balance Sheet to the amount of £100.

The expenses of realisation amount to £110.

C informs his late partners that he is possessed of £100 only, and they agree that, if as a result of the realisation he is still indebted more than this amount, they will accept it in full settlement. Prepare Dissolution Accounts. (*Chartered Accountants.*) 155

(*Realisation Account*—*Loss* £1,835 ; *Final Repayments*—*A* £3,662-19-9, *and B* £2,844-1-3.)

64. A, B and C are partners in a firm dealing in hardware, and sharing profits and losses 40 per cent, 30 per cent and 30 per cent respectively decide to dissolve, and appoint B to realise the Assets and distribute the proceeds. B is to receive 5 per cent of the amounts realised from Stock and Debtors as his remuneration, and is to bear all the expenses of realisation.

The following is the Balance Sheet prepared by the firm as on the date of dissolution:—

Liabilities		Rs.	*Assets*		Rs.
Creditors		59,000		Rs.	
Capital Accounts :—	Rs.		Cash		1,500
A	30,000		Debtors	45,500	
B	20,000		Less Reserve for Doubtful Debts ..	2,500	
		50,000			43,000
			Stock		60,000
			C—Overdrawn		4,500
	Rs.	1,09,000		Rs.	1,09,000

B reports the result of realisation as follows:—

Debtors realise Rs. 35,000.

Stock realises Rs. 45,000.

The Goodwill is sold for Rs. 2,000.

Creditors were paid Rs. 57,500 in full settlement.

Outstanding Creditors Rs. 500 have also been paid.

The expenses of realisation came to Rs. 600 which B met personally.

A and B agree to receive from C Rs. 3,000 in full settlement of the firm's claim against him. Show Capital, Realisation and Cash Accounts. (*B. Com.*) 156

(*Realisation Account*—*Loss Rs.* 24,000 ; *Final Repayments*—*A Rs.* 24,780, *and B Rs.* 19,920.)

35. The Balance Sheet of Arthur, Benson and Charles, who are equal partners, showed as follows on 31st March 1924:—

Liabilities		Rs.	*Assets*	Rs.
Creditors		1,10,000	Cash at Bank	12,500
Capitals:—	Rs.		Debtors	1,25,000
Arthur	1,65,000		Stock	1,75,000
Charles	1,10,000		Investments	50,000
		2,75,000	Furniture and Fixtures	2,500
			Benson—Overdrawn	20,000
		Rs. 3,85,000		Rs. 3,85,000

The firm was dissolved as on that date. For the purposes of dissolution, the investments were valued at Rs. 80,000 and Stock at Rs. 1,40,000. Charles agreed to take over the investments and Arthur to take over the Stock. Arthur also took over the office furniture at book value. The Debtors realised Rs. 1,18,000. The Creditors were paid off Rs. 1,07,000 in full satisfaction of their claims.

Assuming that Benson is insolvent and is unable to bring in anything in respect of his debt to the firm, show the Realisation and Capital Accounts of all the Partners. The final adjustments are to be made in accordance with the decision in *Garner* v. *Murray*. 157

(*Realisation Account*—*Loss Rs.* 9,000; *Final Repayments*—*Arthur Rs.* 8,700, *and Charles Rs.* 20,800.)

SALE TO A COMPANY

36. The partners in a Drapery Business decide to sell their business to a Limited Company as on 31st December 1914, for the sum of £40,000, to include Goodwill. The Vendors are to collect the Debts and pay off the Mortgage and discharge the other Liabilities. On the 31st December 1914, the Balance Sheet of the Vendors showed:—

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Sundry Creditors	18,189	7	6	Freehold Premises	11,500	0	0
Mortgage on Freehold	7,000	0	0	Stock-in-Trade	18,560	16	6
Bills Payable	1,860	3	9	Book Debts	5,752	11	3
J. Smith—Capital	7,500	0	0	Rates, Insurance and Telephone paid in advance	177	3	8
H. A. Smith—Capital	7,500	0	0	Cash at Bankers	6,058	19	10
£	42,049	11	3	£	42,049	11	3

On the final winding up of the Partnership affairs, the Book Debts realised £5,500; and on payment of the Creditors, Discounts amounting to £385 were allowed. Prepare a statement showing the amount payable to each Partner after the repayment of his Capital

(*Chartered Accountants.*) 158

(*Profit on sale of business*:—
J. Smith £1,917-14-5, *and H. A. Smith* £1,917-14-4.)

37. J. Dyson and W. Daw traded in partnership as Dyson & Co., sharing profits and losses 2|3rds and 1|3rd respectively, and on 31st December 1911 their Balance Sheet was as follows:—

Liabilities	£	£	*Assets*	£	£
Sundry Creditors		2,000	Cash in hand		15
Bills Payable		500	Bills Receivable		250
Bank Overdraft		1,115	Sundry Debtors	3,000	
Capital Accounts:—			*Less* Reserve for Discount and Bad Debts	150	
J. Dyson	2,000				2,850
W. Daw	1,000		Stock-in-Trade		2,500
		3,000	Plant and Machinery		1,000
	£	6,615		£	6,615

On that date they agreed to sell the business to a limited company, the company to take over at the following valuations:—

Sundry Debtors £2,700, Stock £2,200, Plant and Machinery £1,210, the other assets and liabilities at their book values, and the company agreed to pay £1,740 for goodwill. The firm received £3,000 of the purchase price in £1 fully paid ordinary shares in the limited company and £1,500 in cash, and these assets were distributed among the partners in proportion to their capitals. Show in the books of the partnership:—(*a*) Realisation Account; (*b*) Company's Purchase Account; (*c*) Partners' Capital Accounts; (*d*) Cash Account; and (*e*) the Shares Account. No other accounts are required. (*Lancashire & Cheshire Institutes.*) 159

(*Realisation Account—Profit £1,500; Cash payable to Dyson £1,000, and Daw £500; Shares—Dyson £2,000, and Daw £1,000.*)

38. Messrs. Anderson and Mullan who are equal partners, carry on business as Manufacturers, and their position, as stated in their Balance Sheet at 31st December 1921, is as follows:—

Liabilities	Rs.	*Assets*	Rs.
Sundry Creditors	55,500	Stock-in-Trade	42,000
Imperial Bank of India ..	28,500	Machinery and Plant ..	18,000
Bills Payable	10,500	Office Furniture	1,500
Anderson's Capital	33,000	Book Debts	60,000
Mullan's Capital	52,500	Life Policy on Joint Lives—	
		Surrender Value	7,500
		Leasehold Property	22,500
		Anderson's Drawings	9,000
		Mullan's Drawings	3,000
		Profit and Loss Account ..	16,500
Rs.	1,80,000	Rs.	1,80,000

The business is carried on until 30th June 1922, by which time a net profit of Rs. 12,300 has been made for the half year, after 10 per cent per annum has been written off Leaseholds. Meanwhile, Sundry Creditors have been reduced by Rs. 12,000, Bills Payable by Rs. 2,925 and overdraft by Rs. 3,000, and Partners have withdrawn Rs. 3,000 each during the half year.

Stock-in-Trade now stands at Rs. 45,300, Book Debts at Rs. 46,200 and subject to any necessary alteration, the other items remain as at 31st December 1921.

In September, the firm agrees to sell the business to a Limited Company upon the basis that the Stock shall be taken over at a discount of 5 per cent and Book Debts at a discount of 2½ per cent as at June, the Company paying Rs. 7,500 for profits in the interval *less* Rs. 1,500 each withdrawn by partners since June; the partners to retain the Life Policy, and the Company, with these exceptions, taking over on the basis of the Balance Sheet at 30th June, and agreeing to pay a Goodwill of Rs. 37,500. The purchase money is to be paid (1) by Rs. 90,000 in cash, and (2) by the issue to the partners of Rs. 15 Preference Shares to satisfy the balance due to them respectively.

Disregarding Interest on Drawings and Capital, you are required to prepare a Realisation Account and Capital Accounts of the Partners. Give also the final Journal Entry for the distribution of the remaining assets between the partners. (*G. D. A.*) 160

(*Realisation Account—Profit Rs.* 34,080; *Final Amounts payable—Anderson Rs.* 38,190, *and Mullan Rs.* 63,690.)

39. A and B were partners and shared profits in the proportions of 2/3 and 1/3, respectively. They sold the Goodwill of their business and the Plant and Stock to C. Company, Limited, for £10,000 cash, and 10,000 £1 shares in the C. Company, the market price of such shares being 25s. per share. The partners undertook to collect their own book debts and to discharge their own liabilities.

The following Balance Sheet represented the state of affairs at the date of the sales:—

A AND B'S BALANCE SHEET.

Liabilities	£	*Assets*	£
Creditors	6,000	Debtors	12,000
Loan, A	2,000	Cash	25
Capital, A	13,525	Bank	500
Capital, B	10,000	Plant	5,000
		Stock	14,000
£	31,525	£	31,525

A Debtor for £500 became bankrupt and his estate realised 5s. in the £. All the other debts were realised, subject to a discount of 2½ per-cent; the creditors were paid in full. A and B agreed that A should receive the whole of the C. Company Shares as part of his share in the settlement.

Prepare an account showing how much A and B would each receive in cash. (B. Com.) 161

(*Realisation Account—Profit* £2,837-10-0; *Final Repayments—A* £4,916-13-4, *and B* £10,945-16-8.)

40. M and P wish to convert their business into a Private Limited Company, with the view of giving their assistants an interest and being gradually bought out. To expedite matters, it is arranged to incorporate the Company as at 1st January 1925, on the basis of the last Balance Sheet dated 30th June 1924, net profits after charging all interest and commission for the intervening half-year being estimated at Rs. 1,25,000. M and P get 3|5ths and 2|5ths of the profits respectively. The Balance Sheet discloses *inter alia* the following figures:—

	Rs.
M Capital	6,39,281
P Capital	3,85,637
X Deposit	50,000
A (Assistant) at Credit	24,321
B (Assistant) at Credit	9,738

These balances receive interest at 6% per annum on opening balances only. Goodwill is to be valued at Rs. 3,50,000, each partner sharing equally therein.

On 1st December 1924, A sells War Bonds for Rs. 15,000 at 95 and pays the proceeds into his account with the firm. Both A and B receive commission at 3% on the Net Profits, before crediting the partners with interest. It is agreed by all to take shares to the fullest extent of their credits. M and P's drawings are Rs. 12,040 and Rs. 5 960 respectively for the half-year. It is proposed to raise the necessary finance as follows:

Capital Rs. 10,00,000 in Rs. 100 Shares, Debentures Rs. 4,00,000 to be held by partners equally and the balance to be loaned by the partners in ratio of profits received.

Draw up a clear statement to submit to the partners, showing the finance available as at 31st December 1924 and its allocation. (B. Com.) 162

(*Final Amounts payable—M Rs.* 8,96,419, *and P Rs.* 6,16,246.)

41. Messrs. Short and Small, Drapers, sold their business to the Swadeshi Trusts, Ltd. on 1st January 1927, for Rs. 1,20,000. The Company obtained for that amount the business and Goodwill as a going concern, with all its Assets, but the Trust Company undertook to pay the firm's Liabilities existing on 31st December 1926, amounting to Rs. 10,000. The Balance Sheet of the firm on 31st December 1926, was as follows:—

Liabilities	Rs.	*Assets*	Rs.
Trade Creditors	10,000	Cash at Bank	4,000
Partners' Capital Accounts ..	76,000	Stock	30,000
		Debtors	12,000
		Freehold Property	35,000
		Furniture and Fixtures	5,000
Rs.	86,000	Rs.	86,000

Submit the necessary entries to record the above transactions in the books of Messrs. Short and Small.

The profit of Messrs. Short and Small for the previous years were:—

1924, Rs. 6,600. 1925, Rs. 7,200. 1926, Rs. 8,400.

Assuming $3\frac{1}{2}$ years' purchase of the average profits for the last three years previous to the date of the sale as being a fair price for the Company to pay as Goodwill of the business, how much in excess of the equitable market price did the Trust Company pay for the Goodwill? 163

(*The price paid for Goodwill is Rs. 44,000, which is Rs. 18,100 in excess of its equitable market price.*)

42. A, B and C carry on business in partnership sharing profits and losses, $\frac{1}{2}$, $\frac{3}{8}$ and $\frac{1}{8}$ respectively. On 31st March 1916, when they agreed to sell off their concern to a newly started Joint Stock Company, their position was as follows:—

	Rs.		Rs.
A's Capital	20,000	Freehold Property	18,000
B's „	15,000	Machinery	12,000
C's „	13,000	Book Debts	15,000
Sundry Creditors	12,000	Stock	13,000
		Cash	2,000
Rs.	60,000	Rs.	60,000

The Company took up the following Assets at the valuation shown below:—

	Rs.
Freehold Property	22,000
Machinery	11,000
Book Debts	14,000
Stock	12,000
Goodwill	4,000

The purchase price of the Freehold Property and Machinery was paid by the Company in its shares for Rs. 33,000 and Book Debts, Stock and Goodwill were paid for in cash. The Sundry Creditors are paid off at a discount of $2\frac{1}{2}$ per cent and the expenses of realisation amounted to Rs. 500.

Pass the necessary Journal Entries to close the books of the firm and prepare the Ledger Accounts showing the result of dissolution, and the final distribution of cash and the new company's shares between the partners. 164

(*Realisation Account—Profit Rs. 4,800; A gets Rs. 8,400 in Cash and Rs. 14,000 in Shares, B gets Rs. 6,300 in Cash and Rs. 10,500 in Shares, and C gets Rs. 5,100 in Cash and Rs. 8,500 in Shares.*)

43. X and Y are in partnership as motor manufacturers. The following is their Balance Sheet on 31st December 1917.

Liabilities		Rs.	*Assets*	Rs.
Sundry Creditors		20,000	Cash at Bank	1,500
Capitals:—	Rs.		Debtors	35,000
X	85,000		Stock	42,000
Y	85,000		Plant	81,500
		1,70,000	Land and Buildings	30,000
	Rs.	1,90,000	Rs.	1,90,000

They decided to sell their business as from the above date to the Madras Motor Manufacturing Company, Limited. The company acquires the Stock, Plant, Land and Buildings, and Goodwill for which the vendors receive Rs. 1,75,000 in fully paid Rs. 100 Ordinary Shares.

The Debtors realise Rs. 32,500 and all the creditors have been paid amounting to Rs. 22,500 (including Rs. 2,500 outstanding creditors).

Make the necessary Journal Entries to close the partnership books. 165

(*Profit on Realisation—Rs. 16,500; X and Y each gets Rs. 5,750 in Cash and Rs. 87,500 in Shares.*)

44. The following is the Balance Sheet of C and S, manufacturers, as at 31st December 1929:—

Liabilities		Rs.	*Assets*	Rs.	Rs.
Trade Creditors		11,853	Plant and Machinery		5,000
Loans		3,297	Freehold Property		7,500
Capitals:—	Rs.		Stock		9,000
C	25,000		Work-in-Progress		10,000
S	12,500		Debtors	20,500	
		37,500	*Less* Reserve ..	2,350	
					18,150
			Bank		3,000
		Rs. 52,650		Rs.	52,650

C and S have decided to sell their business to a Limited Company to be called the Crank Manufacturing Co., Ltd. as and from the date of the Balance Sheet, viz., 31st December 1929. The purchase is not completed until 31st March 1930, but the Company agrees to pay interest on the purchase price at 5 per cent per annum for the three months. Show the Ledger accounts in the firm's books of the sale of the business to the Company having regard to the following adjustments, and allot to each partner his respective share. The partners share profits in proportions to their capitals.

The business is sold to the Company for cash. Plant and Machinery are valued for the purposes of sale at Rs. 1,600 more than the figure appearing in the books and the Goodwill of the firm is assessed at Rs. 7,900. In addition to the Reserve for Bad Debts already provided, C and S have to make a further allowance of Rs. 1,500, while the liabilities to be taken over by the new Company are found to be Rs. 500 more than the amount stated in the Balance Sheet. (*B. Com.*) 166

(*Realisation Account:—*

Profit Rs. 8,062-8-0; C *gets Rs.* 30,375; *and S gets Rs.* 15,187-8-0.)

MISCELLANEOUS PARTNERSHIP PROBLEMS.

45. A, B and C carried on business in partnership, profits being divisible to A 1|2; to B 1|3 and to C 1|6.

The Balance Sheet on 31st December 1930 showed their Capitals to be:—

A Rs. 10,400; B Rs. 5,000; C Rs. 3,000. On 28th February 1931 A died, and you are instructed to prepare an account for presentation to his executors having regard to the following facts:—

(*a*) The firm had insured the partners' lives severally, A for Rs. 9,000, B for Rs. 4,800 and C for Rs. 2,400. The premiums have been charged to Profit and Loss Account and the surrender value on 28th February 1931 amounted in each case to one-fourth of the sum assured

(b) Capital carried interest at 5 per cent per annum.

(c) A's drawings from 1st January 1931 to the date of his death amounted to Rs. 1,200.

(d) A's share of profits for the portion of the current financial year for which he lived was to be taken at the sum calculated on the average of the last three completed years and Goodwill was to be raised on the basis of two years' purchase of the average profit of those three years

The annual profits were Rs. 9,200, Rs. 7,400 and Rs. 8,600 respectively.

Show the account and journalise the entries affecting it. Ignore Income-tax.

(*G. D. A.*) 167

(*Amount payable to Executors of A is Rs.* 23,786-10-8)

46. Red, White and Blue agreed to dissolve partnership, White and Blue retiring, and Red taking over the Goodwill on the basis of two years' profits, calculated on an average of the previous five years, *less* 10 per cent. The result of the five years' trading has been:—

			£
1896	.. .. ..	Profit	2 400
1897	.. .. ..	"	1,680
1898	.. .. ..	Loss	950
1899	.. .. ..	Profit	112
1900	.. .. ..	"	106

4298
950
3348
2
6696
13.
5

The Capital of each partner before the figures are adjusted is as follows:—

Red	White	Blue
£3,100	£2,900	£1,280

Prepare General and Personal Accounts, showing the result of the dissolution.
(*Incorporated Accountants*) 168

(*Red has to bring in £4,983-10-4 of which £3,301-15-2 will be payable to White and £1,681-15-2 to Blue.*)

47. Black and White enter into partnership upon equal terms as to profits or losses of the venture, for the purpose of perfecting an invention with a view to its sale to a Syndicate. No interest was to be paid on Partners' Capitals prior to division of results Black contributed £300 and White £150 to cover the cost of experiments, White giving his personal services without salary. Upon the completion of the necessary experiments, the purchases and expenses were found to have amounted to £478. Black then advanced a further £50 and White paid a further £22 for Patent Fees, etc. The invention was sold by them to a Syndicate for £1,000 in cash, which was paid to them, and 1,000 fully paid shares of £1 each in the Syndicate, and these were duly allotted. Upon dissolving the partnership, White arranged to take over the stock of materials at an agreed valuation of £36, and undertook to discharge outstanding liabilities (if any). Black consented to take over the 1,000 fully paid shares at an agreed valuation of £50. Prepare the accounts necessary upon the dissolution of partnership. (*Royal Society of Arts.*) 169

(*Black gets £593 in Cash and White £429.*)

48. C, D and E are in partnership sharing profits equally, and having each a Capital of Rs. 5,000. C retires from the business on 30th September 1920. It is provided in the Articles of Partnership that in the event of a partner retiring, he shall be repaid his capital and proportionate share of profit to the date of dissolution, *less* his drawings, these profits to be taken on the basis of the average profits of the last three completed years. In addition to this, he shall be paid half the Goodwill of the business —the Goodwill to be considered equal to three times the average profits of the last three completed years.

The amount payable to C in respect of his dues is to be satisfied by giving six bills of equal amounts carrying interest at 5 per cent per annum from 1st October 1920.

The profits of the last three completed years amounted to Rs. 10,000 on December 1917; Rs. 4,000 on December 1918 and Rs. 2,700 on December 1919.

Show what amount is due to C for Capital, Goodwill and Profits, he having drawn Rs. 750 on account of profits, and the amount of each bill with interest thereon added to it. 170

(*The Total amount payable to C will be Rs. 13,991-10-8.*)

49. The position of the partnership firm of Karim, Esmail and Kunte who are sharing profits in the proportions of 1/2, 1/3 and 1/6 on 30th June 1925 was as follows:—

	Rs.		Rs.
Sundry Creditors	12,000	Investments	7,800
Bills Payable	3,500	Sundry Debtors	12,800
Bank Overdraft	13,800	Stock	14,800
Capitals:—		Furniture	1,750
Karim	20,000	Plant	3,250
Esmail	17,500	Bills Receivable	3,000
Kunte	1,500	Cash in hand	3,200
Karim's Loan Account	5,000	Current Accounts:—	
Profit and Loss Account ..	4,800	Esmail	2,500
		Kunte	3,000
		Buildings	26,000
Rs.	78,100	Rs.	78,100

Kunte having become insolvent, the partnership was dissolved on 1st July 1925. Investments were taken up by the partners and other assets realised Rs. 38,800. A dividend of 4 annas in the rupee was received from Kunte's estate.

Pass Journal Entries to close the books of the firm and show Capital Accounts of the Partners. 171

(Final Repayment in Cash:—
Karim Rs. 16,100, *and Esmail Rs.* 11,725.)

50. Two Firms, Bhesanias and Kapadias agree to amalgamate, and to convert the united business into a Limited Company under the name of Fashions, Ltd. The assets of both Firms, exclusive of Goodwill are to be transferred at book values, and amount to Rs 7,60,000, namely Bhesanias Rs. 5,40,000 and Kapadias Rs. 2,20,000.

The Goodwill is to be valued at a sum equal to three years' purchase of the combined profits of the two Firms, calculated on the average profit of the preceding five years of each firm. The amount of Goodwill so ascertained is to be taken 3|4ths by Bhesanias and 1|4th by Kapadias.

The totals of the five years' profit were:—Bhesanias Rs. 2,40,000 and Kapadias Rs. 70,000.

The purchase money is payable as follows:—Fully paid Ordinary Shares of Rs. 100 each for the amount of Goodwill. Fully paid Ordinary and fully paid Preference Shares of Rs. 100 each in equal proportions for the other assets, *less* Rs. 1,00,000 in cash to Bhesanias and Rs. 25,000 in cash to Kapadias.

State the amounts to be received by Bhesanias and Kapadias respectively in Ordinary Shares, Preference Shares and Cash. 172

(*Bhesanias will receive* 3,595 *Ord. Shares,* 2,200 *Pref. Shares and Rs.* 1,00,000 *in Cash; Kapadias will receive* 1,440 *Ord. Shares,* 975 *Pref. Shares and Rs.* 25,000 *in Cash.*)

51. Smith, Brown and Robinson enter into partnership as equal partners for the purpose of purchasing the business of Peter White, who is retiring, on 1st January 1905, upon the basis of the last B|S which was as follows:—Liabilities: Capital £20,540; Sundry Creditors £3,218; Reserve for Depreciation £608; Assets: Leasehold Factory £12,540; Machinery and Plant £8,200; Patents £600; Sundry Debtors £1,560; Stock £1,458; Difference in Books £8. The purchase price of the business was agreed at £25,000 which was paid to White. Cash was paid into the new firm's Banking Account by the partners as follows:—Smith £12,000; Brown £10,000; Robinson £6,000. Before opening the books of the new firm it was agreed (*a*) to transfer the Reserve for Depreciation to Machinery and Plant Account and to write off a further £200 as depreciation, and (*b*) to write off £200 from Patents. Record the transactions in the books of the new firm. Prepare B|S disclosing the position of Smith, Brown and Robinson, on commencing business *(London Chamber of Commerce.)* 173

(Balance Sheet Total, £31,218.)

52. Robert and Novy are in partnership. On 31st December 1922, Robert's Capital was Rs. 76,240 and Novy's Rs. 26,300. They share profits and losses in the proportions of five-sevenths and two-sevenths, and their withdrawals are to be in the same proportions.

At the close of 1923 you are given the following information relating to that year:—

(a) The Joint Capital on 31st December was Rs. 1,06,380.

(b) The drawings of Novy were Rs. 1,080 in excess of the arranged proportion.

(c) Novy is to be credited with Rs. 1,050 by way of preferential salary for 1923.

(d) Effect is to be given to a promise made to Novy by Robert in 1922 that Robert should pay Novy Rs. 500 for additional work thrown on him owing to the illness of Robert.

(e) Interest on Capital at 5% to be charged. Prepare a statement showing how the Capital of Rs. 1,06,380 is divided between Robert and Novy.

(*B. Com.*) 174

(*Capitals on 31st December 1923:—
Robert Rs. 78,654-2-3, and Novy Rs. 27,725-13-9.*)

53. X and Y are in partnership. The Balance Sheet of 31st December 1915 showed X's Capital at Rs. 6,000 and Y's at Rs. 3,000. Goodwill does not appear on the Balance Sheet. Profits and Losses are to be divided as to 2|3rds to X and 1|3rd to Y. As a matter outside the partnership, Y owes X Rs. 1,000. This does not appear in the firm's Books. Disagreements arising, the partners agree to dissolve as from 31st December 1915, on the basis of the Balance Sheet above referred to. Y offers X Rs. 11,000 to go out, this payment to recompense X for his interest in the Business including Goodwill and also to settle the private debt of Y to X. X, however, would rather pay Y out on the like terms with an additional amount of Rs. 500, and offers Y a sum to settle Y's interest in the Business and his (Y's) private debt, and the additional amount above referred to.

Prepare statements showing the details of their offers, assuming that X values the Goodwill at the amount which is implied as its value in Y's offer to X. (*B. Com.*) 175

(*Y's offer to X is Rs. 11,000; X's offer to Y is Rs. 4,500.*)

54. A Firm consisting of three Partners divided profits and losses as follows:—

Years 1920 to 1924 inclusive: A five-tenths, B four-tenths, C one-tenth.

Years 1925 to 1926: A three-tenths, B four-tenths, C three-tenths.

Difficulties arise over the treatment in the Accounts of the following matters:—

(a) In the year 1921 a loss of Rs. 5,000 arose through the dishonesty of an employee. A reversionary interest, worth Rs. 2,000 on 31st December 1921, was obtained in part recoupment, and was included in the books of the firm at Rs. 2,000. This asset fell in on 31st December 1925, and realised Rs. 5,400.

(b) At the 31st December 1921, the indebtedness of a foreign customer was Rs. 1,00,000.

The following amounts were written off:—

		Rs.
1922	.. ..	30,000
1923	.. ..	10,000

In the year 1925, it was ascertained that the debt was wholly bad, and the balance was written off.

You are requested to advise the Partners as to the correct treatment of these matters, having regard to the changes in the Partnership Shares. State such advice accordingly, indicating, if thought necessary, such further information as is required to enable you to form your views on the matters in question. 176

55. A, B and C enter into partnership to acquire a controlling interest in two private limited companies, India Co., Ltd., and Egypt Co., Ltd., and purchase 5,600 fully paid shares of Rs. 100 each in India Co., Ltd., for Rs. 6,16,000 and 4,200 fully paid shares of Rs. 100 each in Egypt Co., Ltd., for Rs. 6,30,000. On the date of acquisition of the shares, the India Co., Ltd. had an undistributed credit balance in the Profit & Loss Account of Rs. 3,500 and the Egypt Co., Ltd. had Rs. 25,200. On 1st July 1927, C wished to retire and to realise his interest. It was determined to find out the value of C's interest and consequently to raise the firm's Investments Account to the proper

figure. Since acquisition, the value of goodwill in the case of India Co., Ltd., has gone up by Rs. 10,500 and in the case of Egypt Co., Ltd., has come down by Rs. 3,150.

From the following particulars, prepare the firm's Balance Sheet after raising the Investments Account to the proper figure and determine the value of C's interest which is agreed to be purchased by the remaining partners.

BALANCE SHEET OF INDIA CO., LTD.

As at 30th June 1927.

Liabilities	Rs.	*Assets*	Rs
Capital:—		Cash at Bank	34,000
7,000 Shares of Rs. 100 each fully paid up	7,00,000	Debtors	4,00,000
Sundry Creditors	14,000	Stock	3,50,000
Profit and Loss	70,000		
Rs.	7,84,000	Rs.	7,84,000

BALANCE SHEET OF THE EGYPT CO, LTD.

As at 30th June 1927.

Liabilities	Rs.	*Assets*	Rs.
Capital:—		Cash at Bank	38,900
6,300 Shares of Rs. 100 each fully paid up	6,30,000	Debtors	2,95,000
Sundry Creditors	35,000	Stock	3,50,000
Profit and Loss	18,900		
Rs.	6,83,900	Rs.	6,83,900

BALANCE SHEET OF THE FIRM OF A, B AND C.

As at 30th June 1927.

Liabilities	Rs.	Rs.	*Assets*	Rs.
Sundry Creditors		1,00,000	Investments in Private Limited Companies' Shares (at cost)	12,46,000
Capital Accounts:—			Loans	7,000
A	6,00,000		Cash at Bank	2,47,000
B	5,00,000			
C	3,00,000			
		14,00,000		
	Rs.	15,00,000	Rs.	15,00,000

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(*Total of Adjusted Balance Sheet of A, B and C*—*Rs.* 15,55,300; *Balances on Capital Accounts*—*A Rs* 6,18,433-5-4, *B Rs.* 5,18,433-5-4, *and C Rs.* 3,18 433-5-4.)

56. R, M and D are in partnership. The partnership deed provides that upon the expiry of the partnership term as at 31st December 1923, M shall acquire the whole business upon repaying to the other partners the Capital standing to their credit at that date plus four years' purchase of their respective shares of profit taking the year 1923 as a basis. The partners' Capital which on 1st January 1923, is R Rs. 90,000, M Rs. 40,000 and D Rs. 35,000 carries interest at 5%. Profits are divisible as to R 5|9ths, M 3|9ths and D 1|9th against which each partner draws Rs. 5,000 per annum upon which the interest is not calculated. Stock at 31st December 1923 amounts to Rs. 80 000 and the remaining balances are as follows:—

	Rs.
Sundry Creditors	69,000
Book Debts	1,50,000
Stock, 1st January 1923	65,000
Sales	4,20,000
Cash in Bank	16,500
Purchases	3,50,000
Bills Receivable	8,000
Machinery and Plant	30,000
Furniture and Fittings	1,500
Cash in hand	1,000
Profit and Loss Charges	20,000
Bad Debts Reserve This is the item of B/S	3,000

M deposited the title deeds of his property with the Bankers and obtained an overdraft of Rs. 70,000, himself introducing any further Capital necessary to pay out his partners. Prepare a Profit & Loss Account and Balance Sheet of the old firm and a further Balance Sheet showing M's position on 1st January 1924 after such payments. *(B. Com.)* 178

(Net Profit—Rs. 56,750 ; Balances on Capital Accounts—R Rs. 1,21,027-12-5, M Rs. 55,916-10-8, and D Rs. 38,055-8-11 ; Total of Balance Sheet of R, M and D—Rs. 2,84,000 ; Goodwill payable by M—Rs. 1,51,333-5-4.)

57. X, Y and Z are in partnership sharing profits and losses in the proportions of 2|5, 2|5 and 1|5. They dissolve the partnership and Y continued the business by taking over the Goodwill of the firm at Rs. 5,000. Their Balance Sheet is as follows:—

Liabilities		Rs.	*Assets*	Rs.
Sundry Creditors		4,200	Cash in hand	700
Bills Payable		2,300	Cash at Bank	3,000
Capitals:—	Rs.		Bills Receivable	4,500
X	17,000		Book Debts	9,800
Y	20,000		Investments	6,300
Z	9,600		Stock	12,300
		46,600	Office Motor Car	6,500
			Machinery	7,500
			Goodwill	3,000
	Rs.	53,600	Rs.	53,600

X takes over Investments at a value of Rs. 5,500 and the Office Motor Car for Rs. 7,000. The other Assets and Liabilities are taken over by Y on revaluation agreed upon by all the partners, as follows:—Stock at Rs. 10,500 and Machinery at Rs. 8,200. The Bills Receivable and Book Debts are taken over by him at their book values on X and Z agreeing to keep with him an amount of Rs. 500 each as guarantee to cover any loss that he may sustain on realising these assets. X and Z are paid out on Y's bringing in the necessary cash.

Show the necessary Ledger accounts on closing the books of the partnership and also show the Balance Sheet of Y.

(Realisation Account—Profit Rs. 600 ; Final Repayments—X Rs. 4,240, and Z Rs. 9,220 ; Y brings in Cash Rs. 9,760.)

58. The Balance Sheet of B, W, G and R trading as B and Co., stood as follows on 1st January 1934:—

Liabilities		Rs.	*Assets*	Rs.
Sundry Creditors		4,290	Cash	18,720
Capitals:—	Rs.		Bills Receivable	720
B	6,000		Sundry Debtors	17,440
W	13,730		Stock	7,300
G	20,040		Stock on Consignment	1,500
R	4,580		Furniture	2,960
		44,350		
	Rs.	48,640	Rs.	48,640

During the year, the Stock on consignment was sold for Rs. 2,050, from which was deducted before the Draft was received, commission at the rate of 8 per cent. A second consignment (unsold at the time of balancing) had been sent at a cost price of Rs. 2,000, the expense paid thereon being Rs. 60. The purchases for the year were Rs. 59,740. Sales, exclusive of consignments, were Rs. 1,00,320. Stock, 31st December 1921, was Rs. 5,960. The Sundry Debtors discharged their accounts, less Rs. 304 for discount. The Bills of Exchange were met without allowance for discount. All the Sundry Creditors were paid, the allowance for discount being Rs. 200. Of the new Creditors, the amount due at the end of the year was Rs. 10,690, but included in the amount discharged was Rs. 790 for discount. The firm's acceptances for Rs. 2,460 had fallen due and were paid, except one for Rs. 460 carried forward. New Debtors had paid Rs. 77,510 and Rs. 4,000 had been allowed to them for discount, the Bad Debts amounting to Rs. 400. Other Debtors had given, and met in full, acceptances amounting to Rs. 3,000. The General Expenses paid were Rs. 8,510, there being Rs. 680 due and unpaid. The Furniture Account is to be depreciated at 5 per cent. Reserve 5 per cent for discount on Debtors' Balances and 1 per cent on Creditors' Balances. On 31st March, 30th June, 30th September and 31st December, B and W drew Rs. 300 each and G and R Rs. 400 each, these drawings being subject to interest at 5 per cent per annum. Credit Interest on Capital at 5 per cent, and divide the profits as B 1/3, W 7/24ths, G 5/24ths and R 1/6th. Prepare Trading Account, Profit & Loss Account, Cash Account and Balance Sheet. 180

(*Gross Profit—Rs. 41,240; Net Profit—Rs. 26,602-14-6; Balance Sheet Total—Rs. 79,485-8-0.*)

59. On 1st January 1922 X, a manufacturer, admitted his manager Y as a salaried partner on the following conditions:—

(*a*) A Goodwill Account was to be opened in the books of the new Firm, and debited with Rs. 50,000 and this amount was to be credited to the partners' Capital Accounts in proportions of 3/4ths and 1/4th. The share of Goodwill credited to X was equal in amount to one-third of the balance standing to the credit of his Capital Account, before the admission of Y as a partner.

(*b*) Each partner's capital was to bear interest at 5 per cent per annum.

(*c*) Y was to receive a monthly salary of Rs. 500 and was also to be credited with 10 per cent of the profits shown by Profit and Loss Account before charging his salary and any interest on Capital. The balance of profits were to belong to X.

(*d*) No interest was to be charged on the partners' drawings.

The entries required by clause (*a*) of the deed were duly made on 1st January 1922 and during the year ended 31st December 1922, Y drew his agreed salary and also Rs. 1,000 on account of his percentage of profits (with the consent of X). In addition to the amount standing to the credit of X's Capital Account, before the admission of Y as a partner, and the balances represented by the abovementioned transactions, the following balances appeared in the books of the Firm on 31st December 1922:—

Cash at Bank Rs. 4,900; Cash in hand Rs. 150; Fixtures and Fittings Rs. 3,270; Plant and [illegible]; Purchases Rs. 1,74,200; Sales Rs. 3,19,210; Carriage Inwards Rs [illegible] s Rs. 2,460; X's Drawings Account Rs. 12,750; Manufactur[illegible] Salaries, Rs. 6,410; Sundry Debtors Rs. 89,420; Sundry Cre[illegible] (Cr.) Rs. 80; Postage and Stationery Rs. 510; Office Expenses Rs. 1,970; Manufacturing Expenses Rs. 4,390; Stock (December last) Rs. 50,640; Bad Debts Rs. 2,710; Rent Rs. 2,250; Bills Payable Rs. 14,660; Taxes and Insurance Rs. 1,270; Fuel and Power Rs. 1,000; Lighting and Heating Rs. 490; Purchases Returns Rs. 9,870; Sales Returns Rs. 13,260.

You are required to prepare a Trading and Profit & Loss Account for the year and a Balance Sheet as at 31st December 1922, after making the following adjustments:—(1) 10 per cent Depreciation to be written off Plant and Fixtures; (2) Factory Rent Rs. 300 was outstanding; (3) Unexpired Taxes and Insurance amounted to Rs. 175; (4) Stock on 31st December 1922 was valued at Rs. 48,000.

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(*Gross Profit—Rs. 75,640; Net Profit transferred to Y's Capital, Rs. 5,522-6-5; Net Profit transferred to X's Capital Account after charging Y's Salary and Interest on Y's Capital, Rs. 35,576-9-7; Balance Sheet Total, Rs. 2,36,304.*)

60. On 1st January 1926, B. Bapuji, a long-established Silk Mercer, formed a partnership with M. Makuji. On that date, the latter brought in as his capital:—

	Rs.
Cash	95,040
Stock (Silk)	25,200
Debtors guaranteed by him	12,760

It was agreed that the capitals should be in the proportions—B. Bapuji ¾ths and M. Makuji ¼th, this to be effected by raising a Goodwill Account.

After crediting M. Makuji with a partnership salary of Rs. 6,500 per annum, the profits are to be shared in proportions to the respective capitals.

No entries had been made in the books in respect of the above except that the cash brought in by M. Makuji had been debited in the Cash Book and posted to his Capital Account and Rs. 12,450 cash collected from his debtors had been received into cash and posted to a Suspense Account.

In addition to these two balances, the following were extracted from the books on December 31st, 1926 :—

	Rs.	Rs.
B. Bapuji—Capital (December 31st, 1925)		3,35,760
„ Drawings	25,650	
M. Makuji „	6,700	
Wages: Warehouse	17,800	
Vanmen and Stable	8,640	
Packers	7,500	
Office	9,600	
Advertising Department	12,320	
Rent, Rates and Insurance :—		
Warehouse	12,620	
Office	4,780	
Carriage Inwards	13,420	
Lighting and Heating :—		
Warehouse	1,720	
Office	1,100	
Furniture, Fixtures and Fittings	62,600	
Sales Ledger Adjustment Account (Creditors Rs. 1,480) ...	1,64,020	
Bought Ledger Adjustment Account		67,330
Purchases : Silk	4,18,560	
Packing Materials	2,930	
Sales Returns	19,030	
Sales		8,64,780
Purchases Returns (Silk)		12,220
Stock (Silk), December 31st, 1925	1,87,620	
Advertising :—		
Newspapers and Periodicals	33,490	
Catalogues and Price Lists	12,100	
General Expenses	14,280	
Postage, Stationery and Telephone	3,210	
Customs Import Duty	2,870	
Travellers' Commission and Expenses...	36,820	
Despatch Department : Stable Expenses	7,800	
Carriage on Sales	9,730	
Discount Account (Balance)		10,040
Bad Debts Reserve, December 31st, 1925		5,760
Cash in hand	2,500	
Cash at Bank	32,960	
Travellers' Deposits		24,440
Legal Expenses	1,050	
Horses and Vans, December 31st, 1925	24,730	
Bills Payable		10,080
Bills Receivable	1,89,650	
Leasehold Premises	90,100	

You are required to prepare Trading and Profit & Loss Accounts for the year ended December 31st 1926, and a Balance Sheet as on that date.

In preparing these Accounts, the following must be taken into consideration:—

(1) Silk costing Rs. 1,970 had been used by the Advertising Department during the year.

(2) 15% is to be written off Furniture, Fixtures and Fittings.

(3) The following valuations were made on December 31st, 1926:—

	Rs.
Stock (Silk)	1,21,150
Horses and Vans	21,120
Advertising Matter	1,300

(4) Rs. 6,500 is to be written off Sundry Debtors as 'bad' and the Bad Debts Reserve is to be made equal to 5% of the Sundry Debtors (excluding Bills Receivable).

(5) The following were due but unpaid:—

	Rs.
Interest on Travellers' Deposits	1,460
Travellers' Commission	9,620
Rent of Warehouse	2,000
Rent of Office	560

(6) Rates and Insurance paid in advance:—
Warehouse Rs. 1.050; Office Rs. 400.

(7) The uncollected balance of debtors brought in by M. Makuji is a bad debt and must be charged to his Drawings Account. 182

(8) No Depreciation of Lease to be written off.

(*Gross Profit Rs.* 3,00,330; *Net Profit Rs.* 1,04,920; *Balance Sheet Total, Rs.* 7,27,730.)

61. R and N have carried on business since 1st January 1920, and the result of their trading for the last four years is as follows:—

		Rs.
1920	Loss	8,000
1921	Profit	36,000
1922	"	41,000
1923	"	53,600

The Capital (which has remained unchanged all these years) is R Rs. 1,50,000 and N Rs. 1,00,000, the profits and losses being divisible in these proportions. On 1st January 1920, C the Manager, loaned Rs. 25,000 at 5 per cent. and nothing has been repaid against this amount. The trading results are arrived at after charging 4½ per cent on the Capital and 5 per cent on the Loan and C's salary of Rs. 5,000 per annum.

At the end of the fourth year, the partners agree to adjust the accounts by treating C as a partner from the commencement, his Rs 25,000 entitling him to one-eleventh of the profits, and carrying interest at 4½ per cent instead of 5 per cent as originally arranged, but his salary is reduced to Rs. 4,000 per annum for the whole period of four years.

Make the necessary Ledger entries to adjust the accounts to accord with the new arrangements, and show how the loss of the first year and profits of the subsequent years are divisible between R, N and C. 183

[*Net Loss* (1920)—*R Rs.* 3,750, *N Rs.* 2,500, *and C Rs.* 625; *Net Profit* (1921)—*R Rs.* 20,250, *N Rs.* 13,500, *and C Rs* 3,375; *Net Profit* (1922)—*R Rs* 22,977-4-3, *N. Rs.* 15,318-3-0, *and C Rs* 3,829-8-9; *Net Profit* (1923)—*R Rs.* 29,850, *N Rs.* 19,900, *and C Rs.* 4,975.]

CHAPTER IX.

SINGLE ENTRY SYSTEM.

Single Entry Book-keeping.—The term Single Entry is applied to a style of Book-keeping under which only the Personal Accounts of the debtors and creditors of the trader are kept. The usual Subsidiary Books are sometimes kept in just the same way as in Double Entry, but the postings are made therefrom of such entries as relate to Personal Accounts. Thus, the entries from the Cash Book are posted only so far as they relate to moneys received from debtors and the payments made to creditors. Cash Book entries relating to accounts other than personal ones are not posted to any Ledger Account. From the Day and Invoice Books, the sales and purchases are charged and credited to respective Personal Accounts, but the periodical totals of these books are not posted anywhere. From the Bill Books also, only the personal aspect of each transaction is posted to the Ledger. In fact, Single Entry is not any particular system of Book-keeping, but rather the Double Entry System in an incomplete and disjointed form.

Disadvantages of Single Entry.—(1) Single Entry ignores the two-fold effect of each transaction and hence presents a partial and an incomplete record.

(2) A Trial Balance cannot be prepared, and in consequence, the arithmetical accuracy of the books cannot be tested.

(3) Owing to the absence of Nominal Accounts, no classified or detailed information respecting the various gains or losses is available, and a Profit and Loss Account cannot be prepared.

(4) Owing to the absence of Real or Property Accounts, no information is furnished by the Ledger regarding the various assets of the business, and a Balance Sheet cannot be prepared so as to show the true financial condition of the business.

(5) No detailed information is available for comparative purposes as in the case of Double Entry.

(6) In the absence of the various checks, as usually obtain in the Double Entry system, fraud is more easily committed and is very difficult to detect.

Preparation of Statement of Affairs from Single Entry Books.—In order to ascertain the financial position of a trader from books kept under Single Entry, a Statement of Affairs must be compiled, from such information as may be available, setting forth the various assets and liabilities on a given date. For this purpose, the Cash Book will have to be balanced and the balance of cash in hand verified. The Bank balance must be reconciled with the Pass Book. The list of Debtors will be made out from the Ledger Accounts. Stock-in-trade will have to be taken and valued. The values of Plant, Machinery, Furniture, Fixtures and such other assets will have to be ascertained from such source of information as may be available or estimated. The list of Creditors will be made out from the Ledger Accounts. All outstanding liabilities for expenses relating to the period will have to be included. The assets and liabilities, having been determined, will be arranged in the form of a Balance Sheet, and the excess of assets over liabilities will be termed Capital. When a Statement of Assets and Liabili-

The Bought and Sold Books, Bill Books and Returns Books will have to be added up and their Double Entry completed by posting the totals to their respective Impersonal Accounts. Thus, the total of the Sold Book will be credited to Sales Account and that of the Bought Book debited to Purchases Account; the total of the Bills Receivable Book will be debited to Bills Receivable Account and that of the Bills Payable Book credited to Bills Payable Account; the total of the Purchases Returns Book will be credited to Returns Outwards Account and that of the Sales Returns Book debited to Returns Inwards Account.

The Personal Accounts, which have already been kept in the Ledger, will now have to be gone through to see if there are any items there not coming from any of the Original Records. If there be any such items, their double entry must be completed by means of analysis and Journal entries. For instance, while running through the Personal Accounts of the Customers, if items of allowances or bad debts are found credited to some accounts or items of packing, cartage, etc., are found debited to various accounts without their having first gone through any book of Original Entry an analysis must be made of these and the totals thus ascertained debited or credited to the respective Nominal Accounts. The Personal Ledger will have also to be further scrutinised to see that there is nothing debited or credited there which properly ought to have been debited or credited to Nominal or Real Accounts. Thus, if rent is debited to the landlord's account, or salaries are debited to personal accounts of clerks, or payment in respect of purchase of machinery is debited to the account of the firm that has been paid in respect of same, these should be transferred to their proper Impersonal Accounts.

Having thus completed the double entry of all the transactions of a given period, a Trial Balance can now be prepared from the Ledger from which a Trading and Profit and Loss Account and a Balance Sheet can be compiled in the usual way, after bringing into account all the Outstanding Assets and Liabilities.

Not infrequently, the Cash Book is the only subsidiary book kept and the other transactions are recorded directly in the Ledger to the Personal Accounts of the parties affected. In such a case, having first compiled the opening Statement of Affairs, as already explained above, the Double Entry of the various transactions of the particular period under review would be completed by making a careful analysis of all the items appearing on both the sides of the Ledger Accounts and by passing Journal entries with the totals of the analysis thus ascertained. The analysis of the debit side of the Customers' Accounts will give the following:—

(a) Opening Balances (as shown in the opening Statement of Affairs).
(b) Sales.
(c) Dishonoured Bills.
(d) Transfers (if any).

The analysis of the credit side of the Customers' Accounts will give:—

(a) Cash received from Customers and Discount allowed to them.
(b) Bills Receivable.
(c) Returns Inwards.
(d) Allowances made to Customers.
(e) Bad Debts.
(f) Transfers (if any).

The totals of these analysis columns will be debited or credited to the respective Impersonal Accounts, the corresponding credit or debit being given to a Total Debtors' Account.

The analysis of the credit side of the Creditors' Accounts will give:—

(*a*) Opening Balances (as shown in the opening Statement of Affairs).
(*b*) Purchases.
(*c*) Dishonour or Renewal of Bills Payable.
(*d*) Transfers (if any).

The analysis of the debit side of the Creditors' Accounts will give:—

(*a*) Cash paid to Creditors and Discount received.
(*b*) Bills Payable.
(*c*) Returns Outwards.
(*d*) Allowances made by Creditors.
(*e*) Transfers (if any).

The totals of these analysis columns will be debited or credited to the respective Impersonal Accounts, the corresponding credit or debit being given to a Total Creditors' Account.

The correctness of the analysis would be verified by the agreement of the Debit balance of the Total Debtors' Account with the total of the list of debtors' balances at the close, as made out from the Ledger. In a like manner, the credit balance of the Total Creditors' Account will agree with the total creditors' balances at the close, as extracted from the Ledger.

All the items of the Cash Book that have been left off unposted will have to be posted to their proper Impersonal Accounts, and its double entry thus completed. The Trial Balance can now be got out from these books, and the arithmetical accuracy of the work as a whole checked.

ILLUSTRATION 99.

A Trader keeps his books by Single Entry, and he desires you to prepare a Profit & Loss Account for the year ended 30th September 1927, together with a Balance Sheet as on that date.

Upon analysis of the Cash Book for the year, you find the following, viz.:—

	Rs.
Received from Trade Debtors	75,000
Received from Cash Sales	45,000
	Rs. 1,20,000

	Rs.		Rs.
Bank Overdraft on 1st Oct. 1926	12,000	Balance on 30th Sept. 1927, at Bank	7,275
Interest on above and Bank Charges	225	Balance on 30th Sept. 1927, with Cashier	225
Personal Drawings	6,000		
Manager's Salary	3,000		
Salaries to Staff	22,500		
General Expenses	23,775		Rs. 1,20,000
Paid to Trade Creditors ..	45,000		

His Capital on 1st October 1926 was Rs. 1,05,000, Stock, Rs. 27,000, Debtors, Rs. 66,000, Furniture, Rs. 3,000, Business Premises, Rs. 45,000, and Creditors, Rs. 24,000. On 30th September 1927, his Stock was Rs. 30,660, Debtors, Rs. 90,000, Furniture, Rs. 3,000, Premises, Rs. 45,000, and Creditors, Rs. 16,500.

From the above figures, prepare Final Accounts after writing off 5% on Furniture Rs. 3,000 for Doubtful debts and 5% Interest on Capital.

ties is thus prepared partly from a trader's books and partly from any memorandum that he may possess or from his memory, there is every likelihood of errors creeping in and remaining unnoticed. There are also chances of some important assets or liabilities being omitted to be included in the statement or being incorrectly valued.

It is evident, therefore, that whereas a Balance Sheet, being compiled from a set of Double Entry books, shows the true financial condition of a business and is reliable inasmuch as its arithmetical accuracy can be proved, a Statement of Affairs being constructed partly from a set of imperfect books and partly from other sources of information, is absolutely unreliable.

Ascertainment of Profits under Single Entry.—As a Profit and Loss Account cannot be prepared from Single Entry books, the net gain or net loss of the trader cannot be definitely determined in the usual way. There is, however, a clumsy and unsatisfactory method of arriving at the trading profits of any given period by a comparison of the present financial position of the trader with the one at the commencement of the period. For this purpose, two Statements of Affairs will have to be compiled, one at the commencement of the period and the other, at the close of the period. The former will give the capital at the commencement and the latter the capital at the close of the trading period—the capital in each case being represented by the excess of assets over liabilities. If the capital at the close is greater than the initial capital, the excess will be assumed to be profit. If the Capital at the close is less than the initial capital, the deficiency will be assumed to be loss. Allowance must be made, of course, for additions to capital or withdrawals therefrom, during the period. If there have been any drawings during the period, the same must be added to the closing capital, for the reason, that the assets of the concern would have been more to that extent if such withdrawals had not taken place. If additions have been made to capital during the period, the same must be deducted from the Capital at the close, for the reason, that the assets of the concern would have been less by that amount had it not been for such additions. This is, no doubt, a very crude process of arriving at the trading results of a business and is quite unreliable.

ILLUSTRATION 98.

P. Atmaram prepared a Statement of Affairs on 1st January, 1925 and found his position to be as follows:—

STATEMENT OF AFFAIRS.

As at 1st January 1925.

Liabilities	Rs.	*Assets*	Rs.
Due to Creditors ...	15,000	Cash in hand ...	150
Capital—being excess of assets over liabilities at this date ...	12,200	Cash at Bank ...	3,500
		Due by Customers ...	12,300
		Goods on hand ...	10,500
		Office Furniture ...	750
Rs.	27,200	Rs.	27,200

During the year 1925 he carried on business, and kept his books by Single Entry. At 31st December he finds that during the year he has drawn out cash from his [illegible] amounting to Rs 3,600 and has at various times financed the business by putting [illegible] into it amounting to Rs. 5,000.

On 31st December he takes Stock, and makes up lists of his debtors and creditors, values his office furniture and finds his position to be as follows:—

STATEMENT OF AFFAIRS.

As at 31st December 1925.

Liabilities	Rs.	*Assets*	Rs.
Bills Payable ...	2,400	Cash in hand ...	300
Due to Creditors ..	13,500	Cash at Bank ..	2,700
Capital—being excess of assets over liabilities at this date ...	16,400	Bills Receivable ..	1,500
		Due by Customers ...	14,450
		Goods on hand ..	12,700
		Office Furniture ...	650
Rs.	35,300	Rs.	35 300

From these particulars, the profit made during the year will be ascertained as follows:

		Rs.
Capital—as per Statement of Affairs at 31st December 1925	..	16,400
Add Drawings during the year	..	3,600
		20,000
Less Additions to Capital during the year	..	5,000
Actual Capital left in the business	=	15 000
Less Capital on 1st January 1925	..	12,200
Net Profit made during the year	Rs.	2,800

Conversion of Single Entry Books into Double Entry.—Occasionally, a trader having kept his books under Single Entry for a particular period, desires them to be converted into Double Entry. Under such a circumstance, the steps necessary to be taken to so convert the books will be as follows:—

A Statement of Affairs will have first to be prepared showing the position of the concern as at the commencement of the period in the manner already indicated above. Care must be taken to see that the total amounts of Debtors and Creditors, as shown therein, agree with the total opening balances of Debtors' and Creditors' Accounts as appearing in the Personal Ledger. Similarly, Cash and Bank balances as appearing in the Statement of Affairs, must agree with the opening Cash balance as shown by the Cash Book and with the opening Bank balance as shown either by the Bank Columns of the Cash Book or by the Bank Account in the Ledger. All the various assets and liabilities, as determined from this Statement of Affairs, will have to be brought into the books by means of an opening Journal entry, the difference between the assets and liabilities being credited to Capital Account. The Books will thus be opened on the Double Entry principles, to start with.

Assuming then that the usual Subsidiary Books such as the Cash Book, Bought and Sold Books, Returns and Bill Books have been kept, the next step would be as follows:—

From the Cash Book, all Personal Accounts will [illegible]dy have been posted. The only thing that remains to be done is to po[illegible]he Impersonal Accounts which have remained unposted upto now. If [illegible]ount columns have already been opened in the Cash Book, their [illegible]ill have to be posted to Discount Account. The Double Entry of th[illegible] Book will thus be completed.

Solution.

TRADING AND PROFIT & LOSS ACCOUNT.

For the year ended 30th September 1927.

	Rs.		Rs.
To Stock, on 1st October 1926 ...	27,000	By Sale ...	1,44,000
„ Purchases ..	37,500	„ Stock, 30th September 1927 ...	30,660
„ Gross Profit c/d. ..	1,10,160		
Rs.	1,74 660	Rs.	1,74,660
To Salaries to Staff ...	22,500	By Gross Profit b/d. ..	1,10,160
„ Manager's Salary ...	3,000		
„ General Expenses ...	23,775		
„ Interest and Bank Charges ...	225		
„ Reserve for Bad Debts ..	3,000		
„ Depreciation on Furniture ...	150		
„ Interest on Capital ..	5,250		
„ Net Profit transferred to Capital Account ...	52,260		
Rs.	1,10,160	Rs.	1,10,160

NOTE.—In order to ascertain the amount of Credit Purchases during the period, the creditors at the close and the payments made to the creditors during the period are added, and from the total, the amount of opening balance of the creditors is deducted. The Credit Sales are determined by adding the amounts recovered from the debtors to the debtors at close of the period, and deducting from the total, the debtors at commencement.

BALANCE SHEET.

As at 30th September 1927.

Liabilities		Rs.	*Assets*		Rs.
				Rs.	
Sundry Creditors ..		16,500	Cash in hand	225	
Capital Account—	Rs.		„ at Bank	7,275	7,500
Balance 1st October 1926	1,05,000		Sundry Debtors	90,000	
Add Interest	5,250		*Less* Reserve for Doubtful Debts	3,000	87,000
„ Profit	52,260		Stock ...		30,660
	1,62,510		Furniture	3,000	
Less Drawings	6,000	1,56,510	*Less* 5% Depreciation	150	2,850
			Business Premises ...		45,000
Rs.		1,73,010	Rs.		1,73,010

'N 100.

T Ramchandra who keeps his books by Single Entry instructs you to prepare a 'Loss Account of his business for the year ended 31st March 1924, and a Balance at that date.

1st April 1923, he had Stock worth Rs. 27,000, Creditors on open accounts Debtors Rs. 60,000, Business Premises Rs. 45,000, and Office Furniture Rs. 3,000.

analysing his Cash Book for the year, you find the following :—

	Rs.		Rs.
Bank overdraft on 1st April 1923 ...	12,000	Interest on overdraft ...	500
Received from debtors ...	75,000	Paid salaries and wages ...	9,000
Received for cash sales ...	20,000	Paid general charges ...	750
Paid to creditors ...	44,000	Rent and taxes ...	1,200
Paid for cash purchases ...	12,000	Drew for personal use ...	1,000

A scrutiny of the Personal Accounts showed that he had allowed Rs. 4,500, as discount and allowance to his debtors and had earned Rs. 3,000, as discount from his creditors. On 31st March 1924, he had Stock Rs. 40,000, Debtors Rs. 67,000, Bills Receivable Rs. 3,000, Creditors Rs. 20,000, Bills Payable Rs. 4,000, Business Premises Rs. 45,000 and Furniture Rs. 3,000. He also owed Rs. 400 for expenses.

You are to charge 5% depreciation on Furniture and Premises, reserve Rs. 4,800 for Doubtful Debts and allow 5% interest on opening capital.

Solution.

TRADING AND PROFIT & LOSS ACCOUNT OF T. RAMCHANDRA.

For the year ending 31st March 1924.

	Rs.	Rs.		Rs.	Rs.
To Opening Stock ..		27,000	By Sales :—		
„ Purchases :—			Cash ...	20,000	
Cash ...	12,500		Credit ...	89,500	
Credit ...	47,000				1,09,500
		59,500	„ Closing Stock ..		40,000
„ Gross Profit c/d. ..		63,000			
Rs.		1,49,500	Rs.		1,49,500
To Salaries and Wages ...		9,000	By Gross Profit b/d. ...		63,000
„ General Charges ...		1,150			
„ Rent and Taxes ...		1,200			
„ Discount ...		1,500			
„ Reserve for Doubtful Debts ...		4,800			
„ Interest on Overdraft ...		500			
„ „ „ Capital ..		4,950			
„ Depreciation :—	Rs.				
5% on Premises ...	2,250				
„ „ Furniture ...	150				
		2,400			
„ Net Profit transferred to Capital Account ...		37,500			
Rs.		63,000	Rs.		63,000

BALANCE SHEET OF T. RAMCHANDRA.

As at 31st March 1924.

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Creditors :—			Cash in hand		14,050
On Bills Payable ...	4,000		Bills Receivable		3,000
„ Open Accounts ...	20,000		Debtors ...	67,000	
For Expenses ...	400		*Less* Reserve for Doubtful Debts	4,800	
		24,400			62,200
Capital :—			Stock-in-trade		40,000
Balance, 1-4-1923 ...	99,000		Furniture ...	3,000	
Add Interest @ 5% ...	4,950		*Less* Depreciation ...	150	
„ Profits ...	37,500				2,850
	1,41,450		Business Premises ...	45,000	
Less Drawings ...	1,000		*Less* Depreciation ...	2,250	
		1,40,450			42,750
Rs.		1,64,850	Rs.		1,64,850

ILLUSTRATION 101.

The partnership of P, Q and R kept their books by Single Entry. Their Capital accounts on 1st January 1924 were:—P, Rs. 40,000, Q, Rs. 30,000 and R, Rs. 10,000. Each partner is entitled to 5% interest on the capital standing to his credit at the beginning of each year; Q and R are entitled to a Salary of Rs. 200 and Rs 300 per month respectively. The net profits are to be shared P 1|6, Q 1|3 and R 1|2. In the half year ending 30th June 1924, Q and R had received their salaries and P, Q and R had drawn on account Rs 1,000, Rs. 1,500, and Rs. 2,000, respectively. On 30th June 1924, their assets and liabilities were as follows:—

	Rs		Rs.
Sundry Creditors ..	10,500	Stock ..	55,000
Bills Payable ..	1,500	Debtors ...	35,000
		Plant ...	15,000
		Bills Receivable ...	3,000
		Cash at Bank ..	2,500
		Rs.	1,10,500

Prepare their Balance Sheet and Capital Account of each of the partners, on 30th June 1924.

Solution.

P's CAPITAL ACCOUNT.

1924		Rs.	a.	p	1924		Rs.	a.	p.
June 30	To Drawings ...	1,000	0	0	Jan. 1	By Balance b/fd. ...	40,000	0	0
,,	,, Balance c/d. ..	43,583	5	4	June 30	,, Interest on Capital ...	1,000	0	0
					,,	,, Profits ...	3,583	5	4
	Rs.	44,583	5	4		Rs.	44,583	5	4
					July 1	By Balance b/d. ...	43,583	5	4

Q's CAPITAL ACCOUNT.

1924		Rs.	a.	p	1924		Rs.	a.	p
June 30	To Drawings ...	1,500	0	0	Jan. 1	By Balance b/fd. ...	30,000	0	0
,,	,, Balance c/d. ...	36,416	10	8	June 30	,, Interest on Capital ...	750	0	0
					,,	,, Profits ...	7,166	10	8
	Rs.	37,916	10	8		Rs.	37,916	10	8
					July 1	By Balance b/d. ...	36,416	10	8

R's CAPITAL ACCOUNT.

1924		Rs.	a.	p	1924		Rs.	a.	p.
June 30	To Drawings ...	2,000	0	0	Jan. 1	By Balance b/fd. ..	10,000	0	0
,,	,, Balance c/d. ...	19,000	0	0	June 30	,, Interest on Capital ..	250	0	0
					,,	,, Profits ...	10,750	0	0
	Rs.	21,000	0	0		Rs.	21,000	0	0
					July 1	By Balance b/d. ...	19,000	0	0

BALANCE SHEET OF P, Q AND R.

As at 30th June 1924.

Liabilities		Rs. a. p.	*Assets*	Rs. a. p.
Sundry Creditors :—	Rs. a. p.		Cash at Bank ...	2,500 0 0
On Open Accounts	10,500 0 0		Bills Receivable ...	3,000 0 0
Bills Payable	1,000 0 0	11,500 0 0	Sundry Debtors ...	35,000 0 0
Capital Accounts:—			Stock-in-trade ..	55,000 0 0
P—Balance, 1-1-24	40,000 0 0		Plant ...	15,000 0 0
Add interest on capital	1,000 0 0			
,, 1/6th share of profits	3,583 5 4			
	44,583 5 4			
Less Drawings	1,000 0 0	43,583 5 4		
Q—Balance, 1-1-24	30,000 0 0			
Add interest on capital	750 0 0			
,, 1/3rd share of profits	7,166 10 8			
	37,916 10 8			
Less Drawings	1,500 0 0	36,416 10 8		
R—Balance, 1-1-24	10,000 0 0			
Add interest on capital	250 0 0			
,, ½ share of profits	10,750 0 0			
	21,000 0 0			
Less Drawings	2,000 0 0	19,000 0 0		
Rs.		1,10,500 0 0	Rs.	1,10,500 0 0

'ON 102.

B into partnership on 1st January 1919 on the basis of the following \ the same date, prepared from A's books kept by Single Entry :—

'ities	Rs.	*Assets*	Rs.
...	24,000	Furniture and Fittings ...	7,500
...	39,000	Debtors ..	37,500
		Stock ...	15,000
		Cash at Bank ...	3,000
Rs.	63,000	Rs.	63,000

B is to pay a premium of Rs. 6,000 out of his share of profits exceeding Rs. 3,750 per annum over which sum he is not to draw on any account. The new firm takes over the assets and discharges the liabilities and A's capital is agreed as per the above statement. B is to bring in Rs. 7,500 as capital which he did on 1st January 1919. The profits are to be divided A 2|3rds and B 1|3rd and 5% interest is to be allowed on the opening balance of capital, each year. A's drawings were Rs. 9,000, Rs. 8,100, and Rs. 8,700 for years 1919, 1920 and 1921 respectively, and B drew Rs. 3,750 each year. The firm's assets and liabilities exclusive of the capitals on 31st December, 1919, 1920 and 1921 were as follows :—

	1919	1920	1921
Assets	Rs. 75,000	74,250	85,500
Liabilities	„ 26,250	22,500	24,000

Amounts due from B to A in respect of premium were to be transferred from his Capital to A's Capital.

Make out a Statement showing profit or loss for each year and write up the partners' Capital Accounts.

Solution.

STATEMENT OF PROFIT AND LOSS.

31st December, 1919.

	Rs.	a.	p.	Rs.	a.	p.
Excess of Assets over Liabilities, i.e., Capitals 31-12-1919 ..				48,750	0	0
Add Drawings during the year				12,750	0	0
				61 500	0	0
Less Capitals, 1-1-1919				46,500	0	0
				15,000	0	0
Less Interest on Capitals—A	1,950	0	0			
B	375	0	0			
				2,325	0	0
Net Profits Rs.				12,675	0	0
A—2/3rds share = Rs.	8,450	0	0			
B—1/3rd „ = „	4,225	0	0			
Rs.	12,675	0	0			

STATEMENT OF PROFIT AND LOSS.

31st December 1920.

	Rs.	a.	p.	Rs.	a.	p.
Excess of Assets over Liabilities, i e., Capitals 31-12-1920 ..				51,750	0	0
Add Drawings during the year				11,850	0	0
				63,600	0	0
Less Capitals, 1-1-1920				48,750	0	0
				14,850	0	0
Less Interest on Capitals—A	2,043	12	0			
B	393	12	0			
				2,437	8	0
Net Profits Rs.				12,412	8	0
A—2/3rds share = Rs	8,275	0	0			
B—1/3rd „ = „	4,137	8	0			
Rs.	12,412	8	0			

STATEMENT OF PROFIT AND LOSS.

31st *December* 1921.

	Rs. a. p.	Rs. a. p.
Excess of Assets over Liabilities, i.e., Capitals 31-12-1921 ..		61,500 0 0
Add Drawings during the year		12,450 0 0
		73,950 0 0
Less Capitals, 1-1-1921		51,750 0 0
		22,200 0 0
Less Interest on Capitals—A	2,174 1 0	
B	413 7 0	
		2,587 8 0
Net Profits Rs.		19,612 8 0

	Rs. a. p.
A—2/3rds share = Rs.	13,075 0 0
B—1/3rd „ = „	6,537 8 0
Rs.	19,612 8 0

A's CAPITAL ACCOUNT.

Date	Particulars	Rs. a. p.	Date	Particulars	Rs. a. p.
1919 Dec. 31	To Drawings ..	9,000 0 0	1919 Jan. 1	By Balance b/fd. ...	39,000 0 0
„ „	„ Balance c/d. ...	40,875 0 0	Dec. 31	„ Interest on Capital	1,950 0 0
			„ „	„ Profits, ⅔rds share	8,450 0 0
			„ „	„ B's Capital Account transfer ...	475 0 0
	Rs.	49,875 0 0		Rs.	49,875 0 0
1920 Dec. 31	To Drawings ..	8,100 0 0	1920 Jan. 1	By Balance b/d. ...	40,875 0 0
„ „	„ Balance c/d. ...	43,481 4 0	Dec. 31	„ Interest on capital ...	2,043 12 0
			„ „	„ Profits, ⅔rds share ...	8,275 0 0
			„ „	„ B's Capital Account transfer ..	387 8 0
	Rs.	51,581 4 0		Rs.	51,581 4 0
1921 Dec. 31	To Drawings ...	8,700 0 0	1921 Jan. 1	By Balance b/d. ...	43 481 4 0
„ „	„ Balance c/d. ..	52,817 13 0	Dec. 31	„ Interest on Capital ..	2,174 1 0
			„ „	„ Profits, ⅔rds share ..	13,075 0 0
			„ „	„ B's Capital Account transfer ..	2,787 8 0
	Rs.	61,517 13 0		Rs.	61 517 13 0
			1922 Jan. 1	By Balance b/d. ...	52,817 13 0

B's CAPITAL ACCOUNT.

Date	Particulars	Rs. a. p	Date	Particulars	Rs. a. p.
1919 Dec. 31	To Drawings ...	3,750 0 0	1919 Jan. 1	By Balance b/fd. ..	7,500 0 0
„ „	„ A's Capital Account transfer ...	475 0 0	Dec. 31	„ Interest on capital ...	375 0 0
„ „	„ Balance c/d. ..	7,875 0 0	„ „	„ Profits, ⅓rd share ...	4,225 0 0
	Rs.	12,100 0 0		Rs.	12,100 0 0

B's CAPITAL ACCOUNT—(*Contd.*)

		Rs.	a.	p.			Rs.	a.	p.
1920					1920				
Dec. 31	To Drawings ...	3,750	0	0	Jan. 1	By Balance b/d. ...	7,875	0	0
" "	" A's Capital Account, transfer ...	387	8	0	Dec. 31	" Interest on capital ...	393	12	0
" "	" Balance c/d. ...	8,268	12	0	" "	" Profits, ⅓rd share ...	4,137	8	0
	Rs.	12,406	4	0		Rs.	12,406	4	0
1921					1921				
Dec. 31	To Drawings ..	3,750	0	0	Jan. 1	By Balance b/d. ...	8,268	12	0
" "	" A's Capital Account transfer ...	2,787	8	0	Dec. 31	" Interest on Capital ...	413	7	0
" "	" Balance c/d. ..	8,682	3	0	" "	" Profits, ⅓rd share ..	6,537	8	0
	Rs.	15,219	11	0		Rs.	15,219	11	0
					1922				
					Jan. 1	By Balance b/d. ...	8,682	3	0

ILLUSTRATION 103.

X and Y keeping their books by Single Entry have placed the following before you :—

(1) Their Statement of Affairs, at 1st January 1923;

(2) A summary of cash transactions for 1923;

(3) A list of remaining transactions for that year.

(1)

	Rs.	Rs.		Rs.	Rs.
Loans ...		12,000	Debtors	40,000	
Creditors ...		27,000	*Less* Reserve for Doubtful Debts	750	
Bills Payable ...		1,500			39,250
Capitals :—			Bills Receivable ..		10,000
X	80,000		Stock ...		45,000
Y	60,000		Plant ...		30,000
		1,40,000	Buildings ...		55,000
			Cash ...		1,250
Rs.		1,80,500	Rs.		1,80,500

(2)

	Rs.		Rs.	Rs.
To Balance on 1-1-1923 ...	1,250	By Payments to Creditors ..		1,10,000
" Amount received from customers ...	1,72,000	" Cash Purchases ...		25,000
" Bills Receivable –	35,000	" Bills Payable ...		45,000
" Cash Sales ...	24,500	" Loans Paid ...		12,000
		" Salaries ...		9,000
		" Rent ...		6,000
		" Interest ..		450
		" General Charges ...		750
		" Drawings :— ...		
		X	8,000	
		Y	7,500	
				15,500
		By Balance on 31-12-1923 ...		9,050
Rs.	2,32,750	Rs.		2,32,750

(3)

	Rs.
Total Purchases	2,15,000
„ Sales	2,35,000
Discount allowed to Customers	1,250
„ „ by Creditors	1,850
Bills Receivable received during the year	60,000
Bills Payable granted during the year	50,000
Stock on 31st December 1923	90,000
Owing for outstanding Liabilities	1,500
Owing for Commission earned by the firm	1,200

Provide 5% Reserve on Doubtful Debts and 2½% Discount on Debtors, and depreciate Buildings by 2½% and Plant by 5% per annum.

You are to prepare Profit & Loss Account and Balance Sheet from the above.

Solution.

TRADING AND PROFIT & LOSS ACCOUNT.

For the year ending 31st December 1923.

		Rs. a. p		Rs. a. p.
To Stock, 1-1-1923 ...		45,000 0 0	By Sales ...	2,35,000 0 0
„ Purchases ...		2,15,000 0 0	„ Stock, 31st Dec. 1923 ...	90,000 0 0
„ Gross Profit c/d. ...		65,000 0 0		
Rs.		3,25,000 0 0	Rs.	3,25,000 0 0
To Salaries ...		9,000 0 0	By Gross Profit b/d. ...	65,000 0 0
„ Rent ...		6,000 0 0	„ Discount ...	1,850 0 0
„ General Expenses ...		2,250 0 0	„ Commission ...	1,200 0 0
„ Interest ...		450 0 0		
„ Discount ...		1,659 11 0		
„ Reserve for Doubtful Debts—	Rs. a. p.			
Provision for this year	862 8 0			
Less Old Reserve	750 0 0			
		112 8 0		
„ Depreciation:—				
Buildings 2½%	1,375 0 0			
Plant 5%	1,500 0 0			
		2,875 0 0		
„ Profit:—				
X's ½ share	22,851 6 6			
Y's ½ „	22,851 6 6			
		45,702 13 0		
Rs.		68,050 0 0	Rs.	68,050 0 0

BALANCE SHEET OF X AND Y

As at 31st December 1923.

Liabilities	Rs. a. p.	Rs. a. p.	*Assets.*	Rs. a.	Rs. a. p.
Sundry Creditors :—			Cash in hand ...		9,050 0 0
On open Accounts	55,150 0 0		Bills Receivable ...		35,000 0 0
Bills Payable ...	6,500 0 0				
For expenses ...	1,500 0 0	63,150 0 0	Sundry Debtors ...	17,250 0	
Capital Accounts :—			*Less* Reserve for Doubtful Debts	862 8	
X's Balance on 1-1-23	80,000 0 0			16,387 8	
Add Profit ½ share	22,851 6 6		*Less* Reserve for Discount ...	409 11	
	1,02,851 6 6				15,977 13 0
Less Drawings ...	8,000 0 0	94,851 6 6	Outstanding for Commission ...		1,200 0 0
Y's Balance on 1-1-23	60,000 0 0		Stock ...		90,000 0 0
Add Profit ½ share	22,851 6 6		Plant ...	30,000	
	82,851 6 6		*Less* Depreciation @ 5% ...	1,500	
Less Drawings ...	7,500 0 0	75,351 6 6			28,500 0 0
			Buildings ...	55,000	
			Less Depreciation @ 2½% ...	1,375	53,625 0 0
Rs.		2,33,352 13 0	Rs.		2,33,352 13 0

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. What is Single Entry and wherein does it fail?

2. How can you ascertain profit made during any trading period, when books are kept under Single Entry?

3. Can you prepare a Balance Sheet from Single Entry Books?

4. Mention the necessary steps you will have to take to convert Single Entry Books into Double Entry.

5. How will you proceed to prepare a Statement of Affairs from Single Entry Books?

6. Brown commenced business on 1st January 1913, with a Capital of £1,000, which he paid into a Banking Account opened for that purpose. On the same day he bought stock valued at £650, and Shop Fixtures and Fittings which cost £200. His books, kept by single entry, consisted of a Cash Book and Ledger; and the whole of his Receipts and Payments, both in connection with the business and his private affairs, was passed through his Cash Book. On 31st December 1913, stock was taken, which amounted to £830. There were Book Debts in the Ledger amounting to £345-10-6 of which £75 represented debts which were irrecoverable. Creditors as per Ledger amounted to £483-15-2, and the Cash Book showed a balance of £167-15-8, but according to the Pass Book, the balance at Brown's credit was only £67-15-8, he having lent his

son £100 and omitted to enter it in the Cash Book. Brown's private expenses during the year amounted to £150, and, in addition, he used £50 worth of goods from his shop. The Fixtures were valued at £250 on 31st December 1913, Brown having expended a further £50 on them during the year. From this information, prepare a statement showing Brown's profit or loss in the business for the year 1913.

(Chartered Accountants.) 184

(Net Profit during the year £234-11-0.)

7. Robert Webber keeps his books by the "single entry" method. His position on 31st December 1908, was as follows:—Cash in hand £12-10; Cash at Bank £153; Stock-in-Trade £642-15; Sundry Debtors £421-10; Fixtures and Fittings £89; Machinery and Plant £981; Sundry Creditors £1,209-15. During the year, Webber withdrew from the business, for private purposes, the sum of £480. On the 31st December 1909, Webber's position was as follows:—Machinery and Plant £1,350-10; Fixtures and Fittings £80-10; Sundry Debtors £732; Stock-in-Trade £950-10; Cash in hand £15; Bank Overdraft £500; Sundry Creditors £1,400-10. From the above, prepare a Statement showing the profit made by Webber for the year ended 31st December 1909. No depreciation need be written off any of the assets, and no provision for bad and doubtful debts is necessary. *(London Chamber of Commerce.)* 185

(Net Profit during the year £618)

8. You are given:—

(1) The Balance Sheet of A and B as on 1st January 1908.

(2) The cash transactions for 12 months to 31st December 1908.

(3) A summary of the remaining transactions for that year.

(1)

	£	£		£	£
Creditors:—			Cash at Bankers		2,000
On Bills Payable		800	Bills Receivable		750
On Open Accounts		1,800	Debtors	2,000	
Capitals:—	£		*Less* Reserve for Discount	50	
A	5,050				1,950
B	5,050		Stock of Goods		3,000
		10,100	Plant and Machinery		2,000
			Land and Building		3,000
	£	12,700		£	12,700

(2)

	£		£
To Balance, 1st January 1908	2,000	By Salaries	600
" Receipts from Debtors	13,500	" Wages	740
" Bills Receivable	4,500	" Bills payable	3,660
		" Payments to Creditors	7,350
		" Office Expenses	400
		" Drawings by A	750
		" Drawings by B	750
		" Balance, 31st December 1908	5,750
£	20,000	£	20,000

(3)

	£
Purchases	15,000
Discount allowed off Purchases	50
Sales	19,000
Discount allowed off Sales	100
Bills Receivable received during the year	4,550
Bills Payable issued during the year	7,750
Stock of Goods on 31st December 1908	3,500

You are to write off Depreciation on Plant and Machinery £200, and to provide Reserves for Land and Buildings, £150, and for Discount on Debtors, £100.

Prepare Profit & Loss Account for the year to 31st December 1908, and Balance Sheet as on that date, embodying the transactions under headings (2) and (3) and dividing the Profits equally between A and B. (*Chartered Accountants.*) 186

(*Gross Profit £3,760, Net Profit £2,310; Balance Sheet Total £17,450; A's Capital Account Balance £5,455; B's Capital Account Balance £5,455.*)

9. X, Y and Z carrying on business in partnership, keep their books by Single Entry. On 30th June 1915, the statement of their position was:—

	£		£
X	876	Cash	71
Y	413	Debtors	598
Creditors	218	Stock	416
		Plant	285
		Z	137
	£ 1,507		£ 1,507

On 30th June 1916, Cash was £47; Debtors, £714; Stock, £380; Plant, £420; and Creditors, £351. They share Profits in the proportions of three-sevenths, two-sevenths, and two-sevenths, and they have drawn per week during the year:—X £7; Y £4; Z £3. Interest on Capital and Partners' Overdrafts at 6%. Show the position of their Accounts on 30th June 1916, and how the amounts are arrived at. (*Chartered Accountants.*) 187

(*Net Profit £716-17-8; Statement of Affairs Total £1,657-7-11; X's Capital Account Balance £871-15-10; Y's Capital Account Balance £434-12-1; Z's Capital Account Balance (Dr.) £96-7-11.*)

10. A keeps his books by Single Entry. On January 1st 1909, his Capital was £6,900. An analysis of his Cash Book for 1909 gives the following particulars:—

	£
Debit Side	
Received from Sundry Debtors	6,000
Paid in on Capital Account	500
Credit Side	
Due to Bank, 1st January 1909	740
Payments to Sundry Creditors	2,500
General Expenses of Business	1,000
Wages	1,550
Drawings	300
Balance at Bank, 31st December 1909	400
Balance in Hand	10

		£			£
Debtors at 1st January 1909 were		5,300	and at 31st December 1909 were		8,800
Creditors	Do.	1,500	Do.	do.	1,950
Stock	Do.	was 1,700	Do.	do.	was 1,900
Plant & Machinery	Do.	2,000	Do.	do.	2,000
Furniture & Fittings	Do.	were 140	Do.	do.	were 140

From the above materials, prepare a Profit & Loss Account for the year ended 31st December 1909, and a Balance Sheet at that date, after providing 5 per cent Interest on Capital (ignoring payments in and drawings), 10 per cent Depreciation on Plant, 5 per cent Depreciation on Furniture, and a Reserve of 5 per cent on Sundry Debtors. (*Chartered Accountants.*) 188

(*Gross Profit £5,200; Net Profit £3,208; Balance Sheet Total £12,603; Capital Account Balance £10,653*)

11. You are *instructed* by W. Robertson who keeps his books by Single Entry, to prepare a Trading and Profit & Loss Account for the year ended 30th September 1920, together with a Balance Sheet as at that date.

Upon analysing the Cash Book for the year, you find the following, viz.:—

	Rs.
Bank Overdraft at 1st October 1919	8,000
Interest on above and Bank Charges	150
W. Robertson's Drawings	4,000
Manager's Salary	2,000
Salaries and Wages	15,000
Other Business Expenses	15,800
Paid to Trade Creditors	30,000
Balance at Bankers, 30th September 1920	4,850
Balance in hands of Cashier	150
Received from Trade Debtors	50,000
Received from Cash Sales	30,000

	Rs.
W. Robertson—Capital at 1st October 1919	70,000
His Stock on hand on 1st Oct. 1919 was Rs. 18,000 and on 30th Sept. 1920	20,440
His Creditors on 1st Oct. 1919 were Rs. 16,000 and on 30th Sept. 1920	11,000
His Debtors on 1st Oct. 1919 were Rs. 44,000 and on 30th Sept. 1920	60.000
His Furniture on 1st Oct. 1919 was Rs. 2,000 and on 30th Sept. 1920	2,000
His Business Premises on 1st Oct. 1919 was Rs. 30,000 and on 30th Sept. 1920	30,000

You are to allow 5% interest on the Balance of Capital at 1st October 1919, to reserve Rs. 3,000 for Doubtful Debts, and to charge 5% Depreciation on Business Premises and Furniture.

In addition to the Salary of Rs. 2,000 already paid to the Manager, he is entitled to a Commission of 5% upon the Net Profits, after charging such salary and commission.

Make provision for this Commission, and prepare the Accounts as instructed.
(*G. D. A.*) 189

(*Gross Profit Rs.* 73,440, *Net Profit Rs.* 30,800 ; *Balance Sheet Total Rs.* 1,12,840 ; *Capital Account Balance Rs.* 1,00,300.)

12. P and Q are in partnership and keep their books by Single Entry. They share profits and losses in the proportions of three-fifths and two-fifths respectively, and instruct you to prepare their Balance Sheet as at 30th September 1925, together with a Profit & Loss Account for the year ended that date.

Upon analysing the firm's Cash Book for that period, you find the following:—

Bank Balance, 1st October 1924, Rs. 4,000 ; P's Drawings, Rs. 4,500 ; Q's Drawings, Rs. 3,000 ; Paid to Trade Creditors (including Bills Payable), Rs. 38,000 ; Wages, Rs. 11,000 ; Salaries, Rs. 5,000 ; Other Trade Expenses, Rs. 13,255 ; Received from Trade Debtors (including Bills Receivable), Rs. 53,645 ; Bank Balance, 30th September 1925 (Overdraft), Rs. 1,500 ; Cash in hand, 30th September 1925, Rs. 200 ; and Receipts from Cash Sales, Rs. 15,810.

The respective capitals of P and Q at 1st October 1924 were Rs. 40,000 and Rs. 10,000. Particulars of the other Assets and Liabilities of the firm are as follows:—

	1st Oct. 1924. Rs.	30th Sept. 1925. Rs.
Stock on hand	19,800	25,000
Debtors	25,000	19,355
Creditors	22,000	7,000
Bills Receivable	5,000	7,000
Business Premises	20,000	20,000
Bills Payable	3,000	
Office Furniture	1,200	1,200

Under the Partnership Deed 5% interest on Partners' Capital is to be a charge on Profit & Loss Account (ignore drawings), and Q is also entitled to be credited with a Commission of 6% upon the net profits divisible between the partners after charging such commission.

Reserve Rs. 1.500 for Doubtful Debts, and write off 5% Depreciation on Business Premises and Office Furniture. 190

(*Gross Profit Rs.* 40,010 ; *Net Profit Rs.* 15,750 ; *Balance Sheet Total Rs.* 70,195 ; *Capital Account Balances*:—*P Rs.* 46,950, *Q Rs.* 14,745.)

13. The Books of H and S, on 1st October 1924, showed the following position:—

	Rs.		Rs.
Capital	1,600	Goodwill	618
Profits undrawn	1,161	Fittings & Furniture	467
Sundry Creditors	307	Sundry Debtors	1,561
		Cash at Bank	422

During the six months ending 31st March 1925, the accounts of the business had been very imperfectly recorded, but an analysis of the bank transactions disclosed the following:—

	Rs.		Rs.
Receipts from Customers ..	7,080	Payments to Creditors ..	3,012
Drawings of Partners ..	2,720	Payments for Rent, etc. ..	315
Payments for Salaries ..	610	Sundry Expenses	128

No account was taken of the Stock but a Schedule of Debtors totalled to Rs. 1,890 and that of the Creditors to Rs. 535.

Prepare a Bank Account, a Trading and Profit & Loss Account and a Balance Sheet, as at 31st March 1925. (*B. Com.*) 191

(*Gross Profit Rs.* 4,169, *Net Profit Rs.* 3,116 ; *Balance Sheet Total Rs.* 3,692 ; *Balance on Capital Account Rs.* 3,157.)

14. A retail trader had not kept proper books of accounts, but from the following details you are required to ascertain the profit or loss for the year ended 30th June 1925, and also to prepare a Statement of Affairs as at that date:—

	1st July 1924. Rs.	30th June 1925. Rs.		1st July 1924. Rs.	30th June 1925. Rs.
Stock-in-Trade ..	16,700	18,500	Bank Overdraft ..	20,200	19,400
Sundry Creditors ..	15,400	14,000	Bills Receivable ..	15,050	14,200
Sundry Debtors ..	11 200	10,500	Fixtures, Fittings, etc.	1,500	1.500
Cash in hand ..	250	1,200	Motor Van ..	1,900	1,900

The drawings during the year amounted to Rs. 2,600. Depreciate Fixtures, etc. by 10% ; write off Rs. 300 to Motor Van. As regards the Debtors, it is ascertained that Rs. 500 are irrecoverable, and a further reserve of 5% should be made. Also reserve Rs. 700 in respect of Bills Receivable.

(*Net Profit Rs.* 3,850 ; *Statement of Affairs Total Rs.* 45,650 ; 192 *Capital Account Balance Rs.* 12,250.)

15. The following is the Balance Sheet of Mr. Dandy, a manufacturer, on 30th June 1924.

Liabilities		Rs.	*Assets*	Rs.	Rs.
Sundry Creditors:—	Rs.		Freehold Buildings		45,000
For Goods (Net) ..	65,000		Plant & Machinery		33 000
" Wages ..	1,400		Cash in hand		750
" Travelling Expenses	850		Sundry Debtors ..	52,000	
		67,250	*Less* Estimated Discounts	4,000	
Due to Bankers		24,000			48,000
Dandy's Capital		1,31,500	Stock		96,000
	Rs.	2,22,750		Rs.	2,22,750

His books are kept by Single Entry, and the following is an analysis of his cash transactions for the year ended 30th July 1925:—

Receipts	Rs.	*Payments*	Rs.
In Hand—30-6-1924	750	Bankers	2,13,000
From Bankers	1,91,800	For Goods	91,250
„ Customers	2,06,150	„ Wages	59,000
Additional Capital	20,000	„ Carriage Inwards	4,400
		„ „ Outwards ..	7,000
		„ Salaries	12,500
		„ Travelling Expenses ..	5,500
		„ Trade Expenses	7,500
		„ Private Drawings	18,000
		In hand—30-6-1925	850
Rs.	4,19,000	Rs.	4,19,000

His bankers have debited him with Rs 1200 for interest and bankers' charges not included in the foregoing cash statement. On 30th June 1925, he owed to Sundry Creditors for goods Rs. 56,000 net, for Wages Rs. 700, for Trade Expenses Rs. 1,450, and for Carriage Outwards Rs. 1,000. The value of the Stock was Rs. 1,04,000. The Sundry Debtors amounted to Rs. 65,000, but of these Rs. 4,000 were bad, and the estimated discounts on the good debts were Rs. 4,500. The discounts allowed during the year on receipts from customers amounted to Rs. 14,500. The rate of Depreciation on the Buildings was fixed at 2% per annum and on the Plant and Machinery at 10% per annum. Prepare Balance Sheet on 30th June 1925, and Trading and Profit and Loss Account for the year, ignoring interest on Capital and on Drawings. 193

(*Gross Profit Rs.* 97,000, *Net Profit Rs.* 38,500; *Balance Sheet Total Rs.* 2,35,150; *Capital Account Balance Rs.* 1,72,000)

16. Mr. J. Portlock whose accounts are recorded by Single Entry only, with Rs 1,000 lent him by his wife and Rs. 2,000 of his own, acquired a Retail Business of which he took possession on 1st January 1927.

Of the acquisition price, Rs. 750 was attributed to Goodwill, Rs. 250 to Furniture, Fixtures and Fittings, Rs. 1,750 to Stock, and Rs. 250 was retained as working Capital of which Rs. 200 was paid into the Bank. During the year Mr. Portlock's takings amounted to Rs. 11,500 of which Rs. 10,900 was paid into the Bank, the remainder being in part utilised for cash payments. The payments out of the Bank and Cash during the year were as under:—

	Rs.
Purchases	7,800
Salary, Head Assistant	250
Wages	820
Trade Expenses	360
Rent, Rates and Taxes—	
Business Proportion	296
Personal	148
Payments made for Domestic purposes	120
Drawings	1,200

At the close of the year Mr. Portlock's stock was of the value of Rs. 1,875 He owed Sundry Creditors for goods Rs. 675, and there was owing to him for goods sold Rs. 750. The Balance at the Bank was Rs. 275.

Provide 5 per cent for Depreciation on Furniture, Fittings and Fixtures, Interest at 5 per cent per annum on Wife's Loan, Rs. 50 for Doubtful Debts. Prepare Cash

Account, Bank Account, Profit & Loss Account for the year ended 31st December 1927 and the Balance Sheet as on that date. 194

(*Gross Profit Rs.* 3,080, *Net Profit Rs.* 2,061-8-0 ; *Balance Sheet Total Rs.* 4,318-8-0 ; *Capital Account Balance Rs.* 2,593-8-0.)

17. The following is the statement of Affairs as at 31st March 1928 of Young and Bell, who are in partnership sharing profits and losses in the proportions of 2|3rds and 1|3rd respectively.

From the particulars given hereunder prepare as at 31st March 1929 (*a*) a Statement of Profit, apportioning the balance between Young and Bell; and (*b*) a Statement of Affairs as at that date.

YOUNG and BELL

Statement of Affairs as at 31st March 1928

	Rs.	Rs.		Rs.
Capital Accounts:—			Plant & Machinery	4,000
Young	20,000		Freehold Property	12,000
Bell	8,000		Furniture & Fittings	1,000
		28,000	Stock	7,000
Bills Payable		1,000	Sundry Debtors	13,000
Sundry Creditors		12,000	Bills Receivable	3,000
			Bank	990
			Cash	10
	Rs.	41,000	Rs.	41,000

The position as at 31st March 1929 was as follows:—

Cash at Bank Rs. 1,500 ; Cash in hand Rs. 100 ; Sundry Creditors Rs. 19,000 ; Bills Payable Rs. 1,200 ; Sundry Debtors Rs. 5,000 ; Bills Receivable Rs. 3,800. The Stock on hand amounted to Rs. 8,400. Young's drawings during the year had been Rs. 3,000 and Bell had drawn Rs. 1,200. Young withdrew the sum of Rs. 4,000 on 30th September 1928 from his Capital Account. Depreciate Machinery and Plant by 5%, Furniture and Fittings by 10% and allow interest on partners' Capitals at the rate of 5% per annum. Ignore interest on Drawings. (G. D. A.) 195

(*Net Loss:—Young Rs.* 3,866-10-8, *Bell Rs.* 1,933-5-4 ; *Statement of Affairs Total Rs.* 35,500 ; *Capital Account Balances:—Young Rs.* 10,033-5-4, *Bell Rs.* 5,266-10-8)

18. Ram Sarup keeps his books by the "Single Entry" method. His position on 31st December 1931 was as follows:—

Cash in hand Rs. 200 ; Cash at Bank Rs. 3,000 ; Stock-in-Trade Rs. 20,000 ; Sundry Debtors Rs. 8,500 ; Fixtures and Fittings Rs. 1,800 ; Machinery and Plant Rs. 15,000 ; Sundry Creditors Rs. 22,000. During the year, Ram Sarup introduced Rs. 5,000 as further Capital in the business, and withdrew Rs. 750 per month.

On 31st December 1932 his position was as follows:—

Cash in hand, Rs. 300 ; Cash at Bank, Rs. 2,000 ; Sundry Debtors, Rs. 14,000 ; Stock-in-Trade, Rs. 19,000 ; Plant and Machinery, Rs. 27,000 ; Fixtures and Fittings, Rs. 1,500 ; Sundry Creditors, Rs. 29,000.

From the above, prepare a statement showing the profit or loss made by him for the year ended 31st December 1932. 196

(*Net Profit Rs.* 12,300.)

19. You are given below:—

(1) The Balance Sheet of Messrs. A and B, on 1st April 1931.

(2) The cash transactions for 12 months to 31st March 1932.

(3) A Summary of the remaining transactions for the year.

(1)

		Rs.		Rs.
Bank Overdraft		5,000	Cash in hand	700
Sundry Creditors		36,000	Bills Receivable	25,000
Bills Payable		16,000	Sundry Debtors	39,000
Capitals :—	Rs.		Stock of Goods	75,300
A	1,10,000		Plant & Machinery	47,000
B	90,000		Land & Buildings	70,000
		2,00,000		
		Rs. 2,57,000		Rs. 2,57,000

(2)

	Rs.			Rs.
To Balance in hand, 1-4-1931	700	By Overdraft, 1-3-31		5,000
„ Receipts from Debtors	2,90,000	„ Salaries		12,000
„ Bills Receivable	1,00,000	„ Wages		15,800
		„ Bills Payable		1,43,000
		„ Payments to Creditors		1,47,000
		„ Office Expenses		8,000
		„ Drawings by A		25,000
		„ „ „ B		20,000
		„ Balance, 31-3-32 :—	Rs.	
		in hand	2,400	
		at Bank	12,500	
				14,900
	Rs. 3,90,700			Rs. 3,90,700

(3)

	Rs.
Sales	4,07,000
Discount to Customers	2,000
Purchases	3,00,000
Discount Received from suppliers	1,000
Bills Receivable received during the year	1,09,000
Bills Payable issued during the year	1,50,000
Stock of Goods on 31st March 1932	53,000

Reserve for Doubtful Debts 5% on Debtors outstanding.

Provide depreciation on Plant and Machinery at 5% and on Land and Buildings at 2½%.

From the above particulars, prepare a Trading and Profit & Loss Account for the year ended 31st March 1932, and a Balance Sheet as on that date. 197

(*Gross Profit Rs.* 68,900, *Net Profit Rs.* 41,550; *Balance Sheet Total Rs* 2,57,550; *Capital Account Balances* :—*A Rs.* 1,05,775, *B Rs.* 90,775.)

CHAPTER X.

ACCOUNTS OF JOINT STOCK COMPANIES.

PRELIMINARIES TO INCORPORATION OF COMPANIES AND RECORD OF SHARE CAPITAL TRANSACTIONS.

The Indian Companies Act, 1936.—The passing of the Indian Companies Act, 1936, marks an important advance in the development of Joint Stock Companies in British India. The Act follows closely upon the lines of English legislation, and introduces considerable changes of a far-reaching character affecting the promotion, working and management of public companies in several directions. It has, therefore, been thought desirable to give, in the following few pages, an outline of the steps necessary to be taken prior to the promotion and registration of a Limited Company and also to briefly enumerate the several obligations and restrictions imposed on Public Companies, under the New Act, before proceeding with the subject of Company Accounts. Besides, it will be readily admitted that a knowledge of the regulations that govern the working of Limited Companies is essential to a proper understanding of the problems in accounting which are peculiar to companies.

Amongst the more important changes brought about by the New Act may be mentioned the following:—

(1) The provisions relating to the contents of the Prospectus have been altered substantially so as to embody within that document several additional matters as would help the prospective shareholders to form their own opinion as to the desirability or otherwise of taking up the shares of the company.

(2) The basis for fixing up of the minimum subscription has been defined and it must now be of such an amount as would provide not only for the acquisition of the fixed assets and the initial preliminary expenses but also the working capital of the company.

(3) The Act prohibits the use of moneys received from prospective shareholders until receipt of Certificate of Commencement of Business.

(4) It regulates the appointment and dismissal of directors and managing agents, and while imposing on them fresh responsibilities and obligations, it places due restrictions on the powers of management they have hitherto enjoyed.

(5) While the powers of the directors and managing agents have been considerably curtailed by the New Act, the shareholders have been granted better privileges, wider powers of control and greater facilities for acquiring a more intimate knowledge of the inner working and finances of the company.

(6) The appointment of the managing agents, their remuneration, and any variation in the managing agency agreement are made subject to a resolution of the general meeting.

(7) A very important and highly desirable right has been conferred on the shareholders in enabling them to remove any director before his time, by an Extraordinary Resolution.

(8) An independent Board of Directors is now rendered possible by limiting the managing agents' right of nominations to one-third of the total number of directors.

(9) There is provision for fuller information to be disclosed to the shareholders in the Statutory Report than hitherto.

(10) Compilation of a detailed Profit and Loss Account coupled with the annual Balance Sheet disclosing additional information, and the circulation of a Directors' Report on the affairs of the company have been made compulsory so as to secure to the shareholders better information relating to the working and financial position of the company.

(11) The shareholders have been authorised to inspect the Register of Company's Contracts with Directors, and this will undoubtedly serve to make the directors more cautious in their dealings with the company.

(12) They have been henceforth empowered to inspect the minutes of the shareholders' meetings during business hours and to obtain a certified copy thereof on payment of nominal charges.

(13) They have also been authorised to obtain copy of the Register of Members within ten days of their application to the company.

(14) A further duty is imposed on the auditors to see that the Profit and Loss Account includes all items of expenses and gains shown under their appropriate heads, and to report to the shareholders on the fact that proper books of accounts have been maintained by the company.

(15) A new privilege of receiving notice of general meetings and to attend general meetings, if they so think it necessary, has been conferred on the auditors.

(16) The issue of shares at a discount and the issue of Redeemable Preference Shares are authorised for the first time.

(17) Provisions relating to Holding Companies and Banking Concerns have been included.

(18) The Registrar of Joint Stock Companies is empowered to investigate cases of fraud brought to his notice.

The whole aim has been to remedy the existing defects in company management, and there is little doubt that the combined effect of the several new provisions as also the amendments to the existing ones will be to help considerably to achieve the end. The changes have been many and varied, but as the object of these pages is to facilitate the work of the student in accounting, it has been thought necessary to briefly enumerate only the *more important Sections* as relate to the working and accounts of Joint Stock Companies.

Definition.—A Joint Stock Company may be defined as an association of persons carrying on trade or business for the purposes of profit, possessing a common capital divided into shares which are held by the members in any proportions and which are transferable.

Restriction on Number of Members in Partnerships.—No company, association or partnership consisting of *more than ten persons* shall be formed for the purpose of carrying on the *business of banking* unless it is registered as a company under this Act, or is formed in pursuance of an Act of Parliament or some other Act of the Governor-General-in-Council, or of Royal Charter or Letters Patent.

No company, association or partnership consisting of *more than twenty persons* shall be formed for the purpose of carrying on *any other business* that has for its object the acquisition of gain by the company, association or partnership, or by the individual members thereof, unless it is registered as a company under this Act, or is formed in pursuance of any Act of Parliament or some other Act of the Governor-General-in-Council or of Royal Charter or Letters Patent.

Classes of Companies.—Any seven or more persons (or where the company to be formed is a private company, any two or more persons) associated for any lawful purpose may form an incorporated company, either as:—

1. **A company limited by shares,** the liability of each member being limited to the amount, if any, unpaid on the shares held by him; or

2. **A company limited by guarantee,** the liability of each member being limited to the amount the members may respectively undertake to contribute to the assets of the company in the event of its being wound up; or

3. **An unlimited company,** not having any limit on the liability of its members.

NOTE.—It is intended to deal in this chapter with companies limited by shares, as almost all the commercial companies are registered in India as such.

Distinction between a Partnership and a Company.—The following are the principal points of distinction between a Joint Stock Company and an ordinary partnership:—

1. In a limited company, the liability of each shareholder is limited to the amount of the shares which he has agreed to contribute to its capital; in a partnership, every partner is liable jointly and severally to an unlimited extent for the whole of the debts of the firm incurred in the ordinary course of business, during the time that he is a partner.

2. In a partnership, the number of members must not exceed twenty in any business, and ten in case of banking. In a limited company, there is no such limit, except that in a public company there must not be less than seven persons, and in a private one, not less than two. A private company cannot have more than fifty members.

3. In a public company, shares are transferable without the consent of the other members, whereas in a partnership, a partner cannot transfer his share without the consent of the other partners.

4. A partnership is formed on the mutual trust and confidence of each partner in the skill, knowledge and integrity of every other partner. In the absence of any agreement to the contrary, every member can take part in the management, and the acts of any partner within the scope of the partnership business are binding on the firm; in a company, the management is placed in the hands of a special body of shareholders called directors, and a shareholder cannot bind his company by his acts.

5. In a partnership, the creditors of the firm can proceed against the partnership property and also against the private property of each individual partner in case of necessity. In a company, the creditors cannot look to its members for payment, but must look to the assets of the company and the uncalled capital for the satisfaction of their claims.

6. In a partnership, the rights of the members and the constitution of the firm as originally agreed upon, may be altered at any time by mutual consent of the partners The powers of a company are governed by the Memorandum of Association which cannot be altered except in the manner and to the extent as provided for in the Act.

7. A company is legally required to have its accounts annually audited; there is no such compulsory requirement for a partnership.

8. The death, retirement or bankruptcy of a partner dissolves the partnership, in the absence of any agreement to the contrary, but a shareholder's death, bankruptcy or retirement would not affect the constitution of the company.

Definition of a Private Company.—A private company means a company which by its articles—

(*a*) restricts the right to transfer the shares, if any;

(*b*) limits the number of its members to fifty, not including persons who are in the employment of the company; and

(*c*) prohibits any invitation to the public to subscribe for the shares, if any, or debentures of the company.

Where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this definition, be treated as a single member.

Public Company.—A public company may be defined as one which offers its shares or debentures to the public for subscription.

Necessary Steps to Register a Public Company.—In order to register a Public Company, the following documents must be filed with the Registrar of Joint Stock Companies:—

(1) The Memorandum of Association and the Articles of Association.

(2) A statement of the Nominal Capital.

(3) A list of persons who have consented to act as Directors.

(4) A written consent by the Directors to act in that capacity.

(5) An undertaking by the Directors to take up and pay for their qualification shares.

(6) A Statutory Declaration by the Solicitor or the Secretary that all the requirements of the Act have been complied with.

(7) The Memorandum and Articles of Association after being signed by at least seven persons must be stamped and lodged with the Registrar, who, if satisfied that everything is in order, will issue a Certificate of Incorporation.

Memorandum of Association.—A Memorandum of Association is the document of utmost importance required to be registered on the formation of the company. It is a contract binding the company and its members to the observation of its provisions. It is, so to say, the charter of the company for the guidance of the outside public, defining the company's powers and limiting the scope of its operations. A company only exists for the purposes which are stated in its Memorandum, and any act done outside these powers is null and void. The greatest care is required, therefore, in setting forth the objects of the company. A company cannot alter the conditions contained in its Memorandum except in the manner and to the extent as provided for in the Act.

Contents of Memorandum of Association.—In the case of a company limited by shares, the Memorandum shall state—

(1) the name of the company, with "Limited" as the last word in its name;

(2) the province in which the registered office of the company is to be situate;

(3) the objects of the company;

(4) that the liability of the members is limited;

(5) the amount of share capital with which the company proposes to be registered, and the division thereof into shares of a fixed amount.

No subscriber of the Memorandum shall take less than one share.

Each subscriber shall write opposite to his name the number of shares he takes.

In case of a company limited by guarantee, there will be an additional declaration that each member undertakes to contribute to the assets of the company in the event of its being wound up while he is a member or within one year afterwards, such an amount as may be required, but not exceeding a specified sum, for the payment of debts and liabilities of the company incurred during his membership or for adjustment of the rights of the contributories *inter se.*

Printing and Signature of Memorandum.—The Memorandum must be printed, and divided into paragraphs numbered consecutively. It must be signed by each subscriber (who shall add his address and description) in the presence of at least one witness who shall attest the signature.

Articles of Association.—Every company is required by the Act to have two documents, one called the Memorandum of Association which defines its constitution, and the other, the Articles of Association which specifies its rules of conduct.

The Articles of Association may be defined as the regulations framed for the internal management of the company, and by which the objects and powers of the company are carried into effect. They constitute a contract between the company on the one hand and the shareholders individually on the other, and also between the members *inter se.* They are subordinate to and are controlled by the Memorandum.

The Articles usually deal with the following points:—

(1) Share capital and its division into various classes.
(2) Rights attaching to the different classes of shares.
(3) Calls on shares.
(4) Underwriting commission.
(5) Transfer and Transmission of shares.
(6) Lien on shares.
(7) Forfeiture of shares.
(8) Conversion of shares into stock.
(9) Share warrants.
(10) Alteration of capital.
(11) Directors, their number, powers, duties, qualification, remuneration, disqualification and rotation.
(12) Proceedings of Directors.
(13) Managing Agents and their rights and duties.

(14) General and Extraordinary Meetings.
(15) Proceedings at Meetings.
(16) Voting rights of members.
(17) Notices.
(18) The Common Seal.
(19) Dividends and Reserve.
(20) Accounts and Audit, etc., etc.

A company may by its Articles of Association adopt all or any of the regulations contained in Table A (a model set of Articles set forth in the First Schedule to the Act), but *certain regulations of Table A must be embodied in the Articles of every company,* as required by **Section 17.**

In case of a company limited by shares, if the Articles are not registered along with the Memorandum, the whole of the regulations contained in Table A will apply. If the Articles are registered, then the regulations in Table A will apply in so far as the Articles do not exclude or modify the regulations in Table A.

A company may, by special resolution, alter or add to its Articles and any alteration or addition so made shall be equally valid and can in like manner be altered by special resolution.

Every company shall send to every member, at his request and within fourteen days thereof, on payment of one rupee or such less sum as the company may prescribe, a copy of the Memorandum and of the Articles (if any).

Where any alteration is made in the Memorandum or the Articles of a company, every subsequent copy thereof issued shall contain such alteration.

Prospectus.—Immediately after the registration, a Public Company issues a Prospectus and advertises the same broadcast. A prospectus means any notice, circular, advertisement or other invitation, offering to the public for subscription any shares or debentures of a company.

Every prospectus issued by or on behalf of a company must be dated. A copy of such prospectus signed by every person who is named therein as a director or proposed director of the company, or by his agent authorised in writing, must be filed for registration with the Registrar on or before the date of its publication, and no such prospectus must be issued until a copy thereof has been so filed for registration. Every prospectus must state on the face of it that a copy has been filed for registration.

Contents of the Prospectus.—Every prospectus issued by a public company must contain the following information:—

(1) The contents of the memorandum, with the names, descriptions and addresses of the signatories and the number of shares subscribed for by them respectively;

(2) The number of founders', or management or deferred shares (if any), and the nature and extent of the interest of the holders in the property and profits of the company;

(3) The number of redeemable preference shares intended to be issued and the proposed method of redemption;

(4) The number of shares (if any) fixed by the articles as the qualification of a director, and any provision in the articles as to the remuneration of the directors;

(5) The names, descriptions and addresses of the directors or proposed directors, and of the managers or proposed managers and managing agents (if any), and any provision in the articles or in any contract as to the appointment of managers or managing agents, and the remuneration payable to them;

(6) The minimum subscription on which the directors may proceed to allotment, and the amount payable on application and allotment on each share, and in the case of a second or subsequent offer of shares, the amount offered for subscription on each previous allotment made within the two preceding years, and the amount actually allotted, and the amount (if any) paid on the shares so allotted;

(7) The number and amount of shares and debentures which within the two preceding years have been issued, or agreed to be issued, as fully or partly paid up otherwise than in cash, and in the latter case, the extent to which they are so paid up, and in either case, the consideration for which those shares or debentures have been issued or agreed to be issued;

(8) Where any issue of shares or debentures is underwritten, the names of the underwriters, and the opinion of the directors that the resources of the underwriters are sufficient to enable them to discharge their underwriting obligations;

(9) The names and addresses of the vendors of any property purchased by the company, or proposed so to be purchased, and the amount payable in cash, shares or debentures to the vendors;

(10) Where any property referred to in the above clause has been transferred by sale within the two years preceding the issue of the prospectus, the amount paid by the purchaser at each such transfer;

(11) Where any such property is a business, the profits that may have accrued from such business during each of the three years immediately preceding the issue of the prospectus or during each year of the existence of the business, if less than three years. A balance sheet of the business concerned made up to a date not more than ninety days before the date of the issue of the prospectus shall be appended to the prospectus;

(12) The amount (if any) paid or payable as purchase-money in cash, shares or debentures, for any such business as aforesaid, specifying the amount (if any) payable for goodwill;

(13) The amount (if any) paid within the two preceding years or payable, as commission for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in, or debentures of, the company;

(14) Any amount payable as discount in respect of shares issued, showing separately the amount, if any, so paid to the managing agents;

(15) The amount or estimated amount of preliminary expenses;

(16) The amount paid within the two preceding years or intended to be paid to any promoter, and the consideration for any such payment:

(17) The dates of, and parties to, every material contract including contracts relating to the acquisition of property mentioned above, and a reasonable time and place at which any material contract or a copy thereof may be inspected;

(18) The names and addresses of the auditors (if any) of the company;

(19) Full particulars of the nature and extent of the interest (if any) of every director in the promotion of, or in the property proposed to be

acquired by, the company, or, where the interest of such a director consists in being a partner in a firm, the nature and extent of the interest of the firm, with a statement of all sums paid or agreed to be paid to him or to the firm in cash or shares or otherwise, either to induce him to become, or to qualify him as, a director, or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the company;

(20) Where the company has shares of more than one class, the right of voting at meetings of the company conferred by and the rights in respect of capital and dividends attached to the several classes of shares respectively;

(21) Where the articles of the company impose any restrictions upon the members of the company in respect of the right to attend, speak or vote at meetings of the company, or of the right to transfer shares, or upon the directors of the company in respect of their powers of management, the nature and extent of those restrictions.

(22) If the company has already been carrying on business, the Prospectus is to contain the following reports:—

(*i*) a report of the auditors of the company regarding (*a*) profits made during each of the three preceding financial years; (*b*) rates of dividends paid on each class of shares for each of those three years; (*c*) the sources from which such dividends have been paid; (*d*) particulars where no dividend has been paid on any class of shares for any of those years; (*e*) whether accounts have been made up to a date within three months of the date of the prospectus;

(*ii*) if any business is to be purchased from the proceeds of the issue of shares or debentures, a report by a qualified auditor named in the prospectus on the profits of the business for each of the three preceding financial years.

The statement of profits in the prospectus and in the report of the auditor must clearly show the trading results and all charges and expenses incidental thereto, but shall exclude (*a*) non-trading profits, and (*b*) profits of a non-recurring nature. It must, however, include profits appropriated towards taxation or reserves.

This Section does not apply to a circular or notice inviting existing members or debenture-holders of a company to subscribe either for shares or for debentures of the company, whether with or without the right to renounce in favour of other persons. (*Sec. 93.*)

Statement in lieu of Prospectus.—A company which does not issue a prospectus on its formation shall not allot any of its shares or debentures unless before such allotment there has been filed with the Registrar a *statement in lieu of prospectus* signed by every person who is named therein as a director or a proposed director of the company, in the prescribed form. This provision will not apply to a private company.

Restriction on Allotment.—No allotment shall be made of any share capital of a company offered to the public for subscription unless the amount of share capital stated in the prospectus as the minimum subscription has been subscribed and the sum of at least five per cent thereof has been received in cash by the company.

The amount of such minimum subscription should be reckoned exclusively of any amount payable otherwise than in cash.

The amount payable on application on each share shall not be less than five per cent of the nominal amount of the share.

If the conditions aforesaid have not been complied with on the expiration of *one hundred and eighty days* after the first issue of the prospectus, all money received from applicants for shares shall be forthwith repaid to them without interest, and, if any such money is not so repaid within *one hundred and ninety days* after the issue of the prospectus, the directors of the company shall be jointly and severally liable to repay that money with interest at the rate of seven per cent per annum from the expiration of the one hundred and ninetieth day.

Any condition requiring or binding any applicant for shares to waive compliance with any requirement of this Section shall be void.

The above restrictions shall not apply to any allotment of shares subsequent to the first allotment of shares offered to the public for subscription. (*Sec. 101.*)

Basis for Minimum Subscription.—Under the Old Act, the fixing of the minimum subscription was left entirely to the discretion of the directors and there was nothing to prevent ridiculously low figures being fixed by the Articles of Association and stated in the prospectus as the minimum subscription.

The New Act now lays down that in fixing the amount of the minimum subscription, the directors must make provision for the following:—

(1) The purchase price of any property acquired or to be acquired out of the proceeds of the issue of the shares;

(2) Preliminary Expenses payable by the company;

(3) Commission payable for procuring subscription of shares;

(4) Repayment of any moneys borrowed by the company in respect of any of the foregoing matters; and

(5) Working Capital. (*Sec. 101.*)

It would thus be no longer possible for a public company to fix an arbitrary amount as minimum subscription and to obtain a certificate of commencement of business easily.

Moneys received from Prospective Shareholders.—Whereas under the Old Act, a company could utilise moneys received from applicants for shares even before the allotment was made, under the New Act, all such moneys will have to be banked intact in a Scheduled Bank until the Certificate of Commencement of Business is obtained. (*Sec. 101.*)

Restriction on Commencement of Business.—A public company shall not commence any business or exercise any borrowing powers unless—

(*a*) shares held subject to the payment of the whole amount thereof in cash have been allotted to an amount not less in the whole than the minimum subscription;

(*b*) every director of the company has paid to the company on each of the shares taken or contracted to be taken by him, and for which he is liable to pay in cash, a proportion equal to the proportion payable on application and allotment on the shares offered for public subscription;

(*c*) there has been filed with the registrar a duly verified declaration by the secretary or one of the directors, in the prescribed form, that the aforesaid conditions have been complied with; and (*d*) in the case of a company which does not issue a prospectus inviting the public to subscribe for its shares, there has been filed with the registrar a statement in lieu of prospectus.

The registrar shall, on the filing of a duly verified declaration, certify that the company is entitled to commence business, and that certificate shall be conclusive evidence that the company is so entitled. This restriction will not apply to a Private Company. (*Sec. 103.*)

Return as to Allotment.—Whenever a company having a share capital makes any allotment of its shares, the company shall, *within one month* thereafter—

(1) file with the registrar a return of the allotments stating the number and nominal amount of the shares allotted, the names, addresses and descriptions of the allottees, and the amount (if any) paid or due and payable on each share; and

(2) in the case of shares allotted as fully or partly paid up otherwise than in cash, produce for the inspection and examination of the registrar a contract in writing constituting the title of the allottee to the allotment together with any contract of sale, or for services or other consideration in respect of which that allotment was made, such contracts being duly stamped; and

(3) file with the registrar copies verified in the prescribed manner of all such contracts and a return stating the number and nominal amount of shares so allotted, the extent to which they are to be treated as paid up, and the consideration for which they have been allotted.

The Return of Allotment is to be in the prescribed Form. (*Sec. 104.*)

Commission on Subscription of Shares.—It shall be lawful for a company to pay commission to any person in consideration of his subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in the company, if the payment of the commission is authorised by the articles and the commission paid or agreed to be paid does not exceed the amount or rate so authorised and if the amount or rate per cent of the commission paid or agreed to be paid is—

(*a*) in the case of shares offered to the public for subscription, disclosed in the prospectus; and

(*b*) in the case of shares not offered to the public for subscription, disclosed in the statement in lieu of prospectus. (*Sec. 105.*)

Underwriting Commission.—In order to ensure that the contract for underwriting of shares or debentures is undertaken by a firm of standing, the New Act now makes it compulsory that where any issue of shares or debentures is underwritten, the names of the underwriters, and the opinion of the directors that the resources of the underwriters are sufficient to enable them to discharge their obligations, must be clearly stated in the prospectus.

Issue of Shares at a Discount.—It shall be lawful for a company to issue at a discount shares in the company of a class already issued:

Provided that—

(a) the issue of the shares at a discount must be authorised by a resolution passed in general meeting of the company and must be sanctioned by the Court;

(b) the resolution must specify the maximum rate of discount (not exceeding ten per cent in any case) at which shares are to be issued;

(c) not less than one year must, at the date of issue, have elapsed since the date on which the company was entitled to commence business; and

(d) the shares to be issued at a discount must be issued within six months after the date on which the issue is sanctioned by the Court or within such extended time as the Court may allow.

Every prospectus relating to the issue of the shares and every balance sheet issued by the company subsequently to the issue of the shares must contain particulars of the discount allowed on the issue of the shares, or of so much of that discount as has not been written off at the date of the issue of the document in question. (*Sec. 105A.*)

Issue of Redeemable Preference Shares.—A company limited by shares may, if authorised by its articles, issue preference shares which are liable to be redeemed;

Provided that—

(a) no such shares shall be redeemed except out of profits of the company which would otherwise be available for dividend, or out of the proceeds of a fresh issue of shares made for the purposes of the redemption, or out of sale proceeds of any property of the company;

(b) no such shares shall be redeemed unless they are fully paid;

(c) where any such shares are redeemed otherwise than out of the proceeds of a fresh issue, there shall out of profits distributable be transferred to a reserve fund, to be called "the capital redemption reserve fund", a sum equal to the amount applied in redeeming the shares;

(d) where any such shares are redeemed out of the proceeds of a fresh issue, the premium, if any, payable on redemption must have been provided for out of the profits of the company before the shares are redeemed.

There shall be included in every balance sheet of a company which has issued redeemable preference shares a statement specifying what part of the issued capital of the company consists of such shares and the date on or before which those shares are liable to be redeemed or, where no definite date is fixed for redemption, the period of notice to be given for redemption. (*Sec. 105B.*)

DIRECTORS AND THEIR POWERS OF MANAGEMENT.

The *new provisions* regarding directors and their powers may be summarised as under:

Minimum Number of Directors.—Section 83A requires that every company shall have at least *three* directors instead of *two*. This will not apply to a private company, except a private company which is a subsidiary of a public company.

Two-thirds to Retire by Rotation.—Under Section 83B (2), notwithstanding anything contained in the Articles, *not less than two-thirds* of the whole number of directors shall be *liable to retirement* by rotation. This provision does not apply to a company incorporated *before the commencement* of the New Act, if its Articles provide otherwise, nor does it apply to a private company.

Restriction on Assignment of Office.—By Section 86B, the assignment of office by a director to another person is made subject to approval of the shareholders by means of a special resolution. But the appointment by a director of a *temporary substitute* to act for him during his absence of *not less than three months* from the district in which Board Meetings are held, *if done with the approval of the Board,* will not be deemed to be an assignment.

Provisions relieving Directors from Liability to be Void.—Section 86C renders void any provision in the Articles or any other contract relieving any director, manager, officer or auditor of the company from liability in respect of any negligence, default, breach of duty or breach of trust of which he may be guilty in relation to the company.

Any such provision existing at the date of the commencement of the Amending Act shall have effect only for six months after that date.

A company may, however, indemnify any such director, manager, officer or auditor against any liability incurred by him in defending any proceedings, civil or criminal, in which judgment is given in his favour.

Loan or Guarantee to Director.—Section 86D forbids granting of any loans or guaranteeing any loan made to a director, or to a firm of which such director is a partner, or to a private company of which such director is a director.

A banking company and a private company other than a subsidiary of a public company are exempt from this Section.

Office of Profit.—Section 86E prevents a director from holding any office of profit under the company except that of a managing director, manager, legal or technical adviser or a banker, without the consent of the general meeting of shareholders.

The office of a managing agent is not to be deemed as an office of profit for the purpose of this Section.

Restriction on Contracts with Company.—Section 86F forbids (*a*) a director of the company, or (*b*) the firm of which he is a partner, or (c) any partner of such firm, or (*d*) the private company of which he is a member or director from entering into any contract with the company for the sale, purchase or supply of goods, except with the consent of the directors.

Any existing contract or arrangement entered into before the commencement of the Amending Act will not be affected by this Section.

Removal of Directors.—Section 86G empowers the shareholders by an *Extraordinary Resolution* to remove any director liable to retire by rotation before the expiration of his period of office, and to appoint another director in his place by *Ordinary Resolution.*

Restriction on Sale of Undertaking by Directors.—Section 86H prevents the directors from disposing of the undertaking of the company or from remitting any debt due by a director, without the sanction of the shareholders in general meeting.

Conditions under which Office will be vacated.—Section 86I lays down the conditions under which the office of a director will be deemed to be vacated, as under:—

(a) If he fails to obtain qualification shares within the time prescribed by the Statute, or at any time ceases to hold qualification shares; or

(b) is adjudged an insolvent, or is found by the Court to be of unsound mind; or

(c) fails to pay calls within six months from the date of such calls; or

(d) accepts or holds any prohibited office of profit without sanction of the shareholders in general meeting; or

(e) takes any loan or guarantee from the company contrary to the provisions in the Act; or

(f) absents himself from three consecutive meetings of the directors or from all the meetings of the board for three months continuously whichever is longer, without sanction of the board; or

(g) enters into any contract with the company for the sale or purchase of goods without the consent of the directors.

Articles may provide additional grounds for vacation of office.

Register of Contracts by Directors.—Section 91A (3) requires a register to be maintained containing particulars of all contracts or arrangements in which any director is directly or indirectly concerned and the same to be open for inspection by any member at the registered office.

Voting by Director interested in Contract.—Section 91B, as amended, not only prevents a director who is interested in a contract from voting at the time when such a contract is considered by the board, but further enacts that his presence will not be counted for the purpose of forming a quorum.

Profit and Loss Account to accompany Balance Sheet.—Section 131, as amended, requires the directors to lay before the shareholders in general meeting a Profit & Loss Account along with the Balance Sheet each year.

Report of Directors.—By Section 131A, directors are now required compulsorily to submit a Report along with every Balance Sheet regarding the state of the company's affairs, and to mention therein the dividend they propose and the amounts they recommend to be carried to reserves. Hitherto, this was done only as a result of practice.

MANAGING AGENTS AND THEIR POWERS OF MANAGEMENT.

Definition.—Whereas the Old Act contained no reference to managing agents, the Amending Act now for the first time specifically regulates their position, and embodies clauses relating to their appointment, continuance and dismissal. A managing agent is now included among the officers of the company and is defined as a person, firm or company entitled to the management of the whole affairs of a company by virtue of an agreement and *subject to the control and direction of the directors,* except to the extent, if any, otherwise provided for in the agreement. It is thus clear beyond doubt that the managing agents would henceforward be under the control and direction of the directors except to the extent to which the latter might themselves delegate their functions to the agents.

The main provisions applicable to managing agents are as under:

Duration of Office.—Section 87A lays down that—

(*a*) No new managing agent shall be appointed to hold office continuously for more than 20 years.

(*b*) No existing managing agents can continue for more than 20 years after the commencement of this Act, unless by way of a reappointment.

(*c*) On termination of his office, a managing agent is entitled to a charge on the assets of the company for all liabilities or obligations properly incurred by him on behalf of the company.

(*d*) These provisions do not apply to a private company except a subsidiary of a public company.

Conditions applicable to Managing Agents.—Section 87B contains the following provisions:—

(*a*) A managing agent may be removed by a resolution at a general meeting, if he is convicted of certain non-bailable offences in connection with the affairs of the company.

(*b*) The office of the managing agent shall be vacated if he is adjudged an insolvent.

(*c*) A transfer of his office by a managing agent shall be void unless approved by the company in general meeting. But a change in the constitution of the managing agents' firm is not a transfer, so long as at least one of the original partners continues to be a partner.

(*d*) Any charge or assignment of his remuneration effected by a managing agent shall be void as against the company.

(*e*) The appointment of a managing agent, his removal, or any variation of the agency agreement made after the commencement of the New Act shall not be valid unless approved by the company in general meeting. These conditions will, however, not apply to the appointment of the company's first managing agent made prior to the issue of prospectus or statement in lieu of prospectus in which the terms of such appointment are set forth.

Remuneration of Managing Agents.—By Section 87C, the remuneration of a managing agent *appointed after the New Act*, shall be based on a fixed percentage of the net annual profits. There can be a provision for a minimum payment in case of inadequacy of profits and an office allowance to be defined in the agreement. Any additional remuneration or one in any form other than as specified above will not be binding unless sanctioned by a special resolution of the shareholders.

Net Profits.—"Net Profits" have been defined as profits arrived at after allowing for all the usual working expenses, interest on loan, repairs and outgoings, depreciation, bounties from Government or public bodies, premium on shares sold, sales of forfeited shares, or profits from the sale of the whole or part of the undertaking, but without any deduction of income-tax or supertax or any other tax or duty on income, or interest on debentures or otherwise on capital account, or amounts set aside out of reserves or any special fund.

This section does not apply to a private company except a subsidiary of a public company or a company whose principal business is insurance.

Loans to Managing Agents.—Under Section 87D, a company is not allowed to make or guarantee a loan to a managing agent. This does not apply to any credit allowed to a managing agent in a current account for the purposes of the company's business, subject to limits previously approved by the directors.

This does not apply to a private company, unless it is a subsidiary of a public company.

Contract with Company.—A managing agent is not allowed to enter into any contract with the company for the purchase, sale or supply of goods, except with the consent of three-fourths of the directors present and entitled to vote.

This will not affect any contract entered into before the commencement of the New Act.

Inter-Company Loans.—Section 87E prohibits loans or guarantees to or by companies under the same management, except by way of renewal of an existing loan or guarantee.

This does not apply to loans or guarantees between a company and its subsidiary.

Inter-Company Investments.—Under Section 87F, a company, other than an investment company, shall not purchase the shares or debentures of another company under the same managing agency, unless such transaction has been previously approved by the directors unanimously.

Restriction on Powers of Management.—Section 87G prevents a managing agent from issuing debentures, and restricts his powers to invest the funds of the company except with the authority of the directors, and within the limits fixed by them.

Not to carry on Competing Business.—Under Section 87H, a managing agent shall not on his own account engage in a business which is of the same nature as and which directly competes with the business carried on by his company or its subsidiary.

Ex-Officio Directors.—Section 87I provides that the directors appointed by the managing agents shall not exceed one-third of the total number of directors. This does not apply to a private company.

Disclosure in Prospectus.—By Section 93 (c), the prospectus is required to disclose any provision in the Articles or in any agreement as to the appointment of managers or managing agents and the remuneration payable to them.

Disclosure to Members.—Section 91C requires any contract for the appointment of managing agents or any variation of such an existing contract in which any director is directly or indirectly concerned to be reported to the members of the company within 21 days.

Restriction on Appointment or Advertisement of Directors.—A person shall not be capable of being appointed director of a company by the articles, and shall not be named as such in any prospectus issued by a company unless, before the registration of the articles or the publication of the prospectus, or the filing of the statement in lieu of prospectus, he has, by himself or by his agent authorised in writing—

(1) signed and filed with the Registrar a consent in writing to act as such director; and

(2) either signed the memorandum for a number of shares not less than his qualification (if any), or taken from the company and paid or agreed to pay for his qualification shares, or signed and filed with the Registrar a contract in writing to take from the company and pay for his qualification shares.

This provision will not apply to a private company. (*Sec. 84.*)

Share Qualification of Directors.—It shall be the duty of every director who is by the articles required to hold a specified share qualification, and who is not already qualified, to obtain his qualification within two months after his appointment, or such shorter time as may be fixed by the articles. (*Sec. 85.*)

Disclosure of Interest by Directors.—Every director who is directly or indirectly concerned or interested in any contract or arrangement entered into by or on behalf of the company shall disclose the nature of his interest at the meeting of the directors at which the contract or arrangement is determined on, if his interest then exists, or in any other case at the first meeting of the directors after the acquisition of his interest or the making of the contract or arrangement.

A general notice that a director is a director or a member of any specified company or is a member of any specified firm, and is to be regarded as interested in any subsequent transaction with such firm or company, shall as regards any such transaction be sufficient disclosure and after such general notice, it shall not be necessary to give any special notice relating to any particular transaction with such firm or company. (*Sec. 91A.*)

MEETINGS & RESOLUTIONS.

General Meeting of Shareholders.—Every company must hold a general meeting of its shareholders within eighteen months from the date of its incorporation and thereafter once at least in every calendar year and not more than fifteen months after the holding of the last preceding general meeting. (*Sec. 76.*)

Statutory Meeting and Statutory Report.—(1) Every company limited by shares shall, within a period of not less than one month nor more than six months from the date at which the company is entitled to commence business, hold a general meeting of the members of the company, which shall be called the statutory meeting.

(2) The directors shall, at least twenty-one days before the day on which the meeting is held, forward a report, called the statutory report, certified as required to every member of the company.

(3) The statutory report shall be certified by not less than two directors of the company or by the chairman of the directors if authorised in this behalf by the directors and shall state—

(*a*) the total number of shares allotted, distinguishing shares allotted as fully or partly paid up otherwise than in cash, and stating in the case of shares partly paid up the extent to which they are so paid up, and in either case the consideration for which they have been allotted;

(b) the total amount of cash received by the company in respect of all the shares allotted, distinguished as aforesaid;

(c) an abstract of the receipts of the company and of the payments thereout up to a date within seven days of the date of the report, exhibiting under distinctive headings the receipts of the company from shares and debentures and other sources, the payments made thereout and particulars concerning the balance remaining in hand, and an account or estimate of the preliminary expenses of the company showing separately any commission or discount paid on the issue or sale of shares;

(d) the names, addresses and descriptions of the directors, auditors, managing agents and managers, if any, and the secretary of the company, and the changes, if any, which have occurred since the date of the incorporation;

(e) the particulars of any contract, the modification of which is to be submitted to the meeting for its approval, together with the particulars of the modification or proposed modification;

(f) the extent to which the underwriting contracts, if any, have been carried out;

(g) the arrears, if any, due on calls from directors, managing agents and managers; and

(h) the particulars of any commission or brokerage paid or to be paid in connection with the issue or sale of shares to any director, managing agent or manager or a partner of the managing agent, if the managing agent is a firm, or if the managing agent is a private company, a director thereof.

(4) The statutory report shall, so far as it relates to the shares allotted by the company, and to the cash received in respect of such shares and to the receipts and payments of the company, be certified as correct by the auditors of the company.

(5) The directors shall cause a copy of the statutory report duly certified to be delivered to the registrar for registration forthwith after the sending thereof to the members of the company.

(6) The directors shall cause a list showing the names, descriptions and addresses of the members of the company, and the number of shares held by them respectively, to be produced at the commencement of the meeting, and to remain open and accessible to any member of the company during the continuance of the meeting.

(7) The members of the company present at the meeting shall be at liberty to discuss any matter relating to the formation of the company or arising out of the statutory report, whether previous notice has been given or not, but no resolution of which notice has not been given in accordance with the articles may be passed.

(8) The meeting may adjourn from time to time, and at any adjourned meeting any resolution of which notice has been given in accordance with the articles, either before or subsequently to the former meeting, may be passed, and the adjourned meeting shall have the same powers as an original meeting.

(9) This section shall not apply to a private company. *(Sec. 77.)*

Extraordinary General Meeting.—Notwithstanding anything in the Articles, the directors of a company must, on the requisition of the holders of not less than one-tenth of the issued share capital of the company upon which all calls or other sums then due have been paid, forthwith proceed to call an extraordinary general meeting of the company. The requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the registered office of the company. If the directors do not convene a meeting within twenty-one days, the requisitionists may themselves do so. (*Sec. 78.*)

The **Resolutions** required for the conduct of the company's business by the shareholders, are as under:—

Ordinary Resolution.—This is a resolution passed by a *bare majority* of members entitled to vote as are present in person or by proxy at a general meeting of which 14 days' notice has been given. The business usually transacted by means of an Ordinary Resolution is:—

(*a*) Adopting the Statutory Report;

(*b*) Adopting the Balance Sheet and Accounts at the Annual General Meeting;

(*c*) Appointing Directors;

(*d*) Electing Auditors and fixing their remuneration;

(*e*) Declaring Dividends and sanctioning the sums to be carried to Reserves;

(*f*) Permitting a director or his firm to hold an office of profit;

(*g*) Appointing or removing a Managing Agent;

(*h*) Authorising issue of Shares at a discount, etc., etc.

Extraordinary Resolution.—An Extraordinary Resolution is one which is passed by a *majority of not less than three-fourths* of such members entitled to vote as are present in person or by proxy at a general meeting of which notice of not less than 14 days specifying the intention to propose the resolution as an Extraordinary Resolution has been duly given.

Removal of a Director would require an Extraordinary Resolution.

Special Resolution.—A resolution will be a Special Resolution when it has been passed by such a majority as is required for the passing of an Extraordinary Resolution and at a general meeting of which *notice of not less than 21 days* specifying the intention to propose the resolution as a Special Resolution has been duly given.

The following business would require a Special Resolution:—

(*a*) Altering the Company's Articles of Association;

(*b*) Re-organizing of the Share Capital;

(*c*) Reducing the Share Capital;

(*d*) Sanctioning additional remuneration to Managing Agents;

(*e*) Sanctioning, payment of Interest out of Capital during construction;

(*f*) Appointment of inspectors to investigate the company's affairs, etc.

EXEMPTIONS TO PRIVATE COMPANIES.

Private Companies are exempted from the following important provisions which apply to Public Companies:—

(1) Restrictions on appointment of directors.

(2) Securing of Minimum Subscription.

(3) Obtaining of a Certificate of Commencement of Business.

(4) Restrictions on allotment of shares.

(5) Holding of Statutory Meeting and circulating and filing a Statutory Report.

(6) Retirement by rotation of not less than two-thirds of the whole number of directors.

(7) Restrictions on number of directors that can be appointed by the Managing Agents.

(8) Circulation of Annual Balance Sheet, Profit & Loss Account and Auditor's Report amongst its Members.

SHARE CAPITAL.

Nominal Capital or **Registered Capital** or **Authorised Capital** represents the full amount of share capital which is stated in a company's Memorandum and with which the company is registered.

Issued Capital means that part of the Authorised Capital which is *offered* for subscription and includes shares allotted to vendors for consideration other than cash.

Subscribed Capital is represented by the total amount of the shares *taken up* by the public including the shares issued to vendors as fully or partly paid up.

Called-up Capital means the total amount that the shareholders have been called upon by the company to pay on the shares subscribed for by them, and also includes the amount of fully or partly paid shares issued to the vendors.

Paid-up Capital represents the actual amount received by the company on account of the called up amount, including, of course, the amount of shares issued for consideration other than cash.

Calls in Arrear are the amounts called up but not paid by the shareholders. Thus, the called-up capital *less* calls in arrear would represent the paid-up capital.

Uncalled Capital would represent the difference between the subscribed capital and the called up amount.

Reserve Capital represents that portion of the subscribed capital which has not been called up and which the Company, by special resolution, has declared not to be called up, except in the event of and for the purposes of winding up.

ILLUSTRATION 104.

A Company was formed with a Capital of Rs. 5,00,000 divided into 5,000 shares of Rs. 100 each. Of these, 1,000 shares were issued to the vendors as fully paid in payment of purchase consideration. 3,000 shares were offered to the public, and of these 2,500 were applied for and allotted. Rs. 10 per share was payable on application and Rs. 25 on allotment. The balance was to be called as and when required. All the money called up was duly received with the exception of allotment money on 200 shares.

The Capital, in this case, would be termed as follows:—

	Rs.
Authorized or Registered or Nominal	5,00,000
Issued	4,00,000
Subscribed	3,50,000
Called up	1,87,500
Paid up	1,80,000
Calls in arrear	7,500
Uncalled	1,62,500

and the same would appear on the liabilities side of Balance Sheet as under:—

		Rs.	Rs.
Authorised Capital:—			
5,000 Shares of Rs. 100 each		5,00,000	
Issued Capital:—			
4,000 Shares of Rs. 100 each		4,00,000	
Subscribed Capital:—			
3,500 Shares of Rs. 100 each		3,50,000	
Amount Called up:—			
1,000 Shares of Rs. 100 each issued to Vendors as fully paid		1,00,000	
2,500 Shares of Rs. 100 each, Rs. 35 per share called up	Rs. 87,500		
Less Calls in arrear	7,500		
		80,000	
			1,80,000

SHARES.

Share.—The individual portion of a joint stock company's capital owned by a shareholder is called a share.

A company generally issues several distinct classes of shares in order to satisfy the requirements of the various classes of investors. The respective rights of the different classes of shareholders are usually laid down in the prospectus and are also mentioned in the Memorandum and Articles of the Company.

Share Certificate.—Every shareholder is given a share certificate under the common seal of the company which evidences his holding in the Share Capital.

Ordinary Shares are those the holders of which do not enjoy any special privilege but are entitled to surplus profits or a portion of the same, that may be available after all the preferential rights as to dividend have been met.

Preference Shares are those that rank for a fixed dividend out of the profits in priority to any other class of shareholders. These shares may be preferential as to dividend or capital or as to dividend and capital both. A preference in respect of capital gives the right to a return of capital in priority to other classes of shares in the event of winding up.

Preference Shares are always cumulative as to dividend, unless the Company's Articles either state otherwise or are repugnant thereto. They are, however, not preferential as to capital unless it is so definitely stated.

It needs to be clearly understood, however, that preferential shareholders cannot claim their dividend as a matter of right, even though profits may have been earned. Dividends are usually proposed by the directors and sanctioned by the shareholders in General Meeting. Subject to the Articles of the Company, it is within the reasonable discretion of directors to provide for proper reserves for contingencies, equalisation of dividends, or for reserves to serve as additional working Capital before recommending any dividend. The right of the preference shareholders to dividend is, therefore, relative in the sense that if any dividend is declared, they will stand to be paid in priority to the shareholders of any other class.

The student would do well to note that where in an examination problem, there is a mention of a certain dividend having been sanctioned on the Ordinary Shares, the payment of dividend to the preference shareholders must necessarily be assumed.

Preferred Ordinary Shares are those which carry a right to a fixed dividend after the preference shareholders have been paid their dividend.

Cumulative Preference Shares are those which entitle the holders to a fixed dividend for each year out of current or future profits. If the profits of any one year or a series of years are not sufficient to pay such dividend, the right to such dividend accumulates until it is satisfied as to all arrears before the other shareholders can rank for dividend.

Redeemable Preference Shares.—These are a new class of shares which a company can now issue under the Indian Companies Act, 1936, if so authorised by its Articles. These shares must be fully paid and the company can provide for their repayment by creating a Specific Reserve for the same out of distributable profits, or out of the proceeds of a fresh issue made for the purpose.

Participating Preference Shares are those which give to the holders in addition to the fixed preference dividend, a right to share in the surplus profits after all the other shareholders have received a specified rate of dividend. The Participating Preference Shareholders may also have a further right to participate in the distribution of surplus assets which may result on the dissolution of the company.

Guaranteed Preference Shares carry the right to a fixed rate of dividend which is guaranteed either by the vendors or by some third party. In the event of the company not making sufficient profits to pay such dividend, the guarantors have to pay the same out of their personal resources.

Deferred Shares are those in respect of which the right to dividend is postponed till the rights of preference and ordinary shareholders are satisfied. Where deferred shares exist, the ordinary shares frequently take a prior fixed dividend, with a right of participation in any surplus left after the satisfaction of fixed deferred interests.

Founders' Shares are generally issued to founders or promoters of the company and sometimes to the vendors. The right to dividend on these shares is usually deferred to that of all other classes of shares.

Stock.—Shares fully paid up may be converted into stock. The vantage is that stock is transferable in fractional parts whereas shares only be transferred in their entirety.

Share Warrant.—A share warrant to bearer entitles the holder of it to the fully paid up shares or stock named therein, and the ownership therein is transferred by simply handing the warrant to the purchaser.

DEBENTURES.

Every trading company has an implied power to borrow money. The usual way in which a company borrows money is by issuing debentures.

Debentures.—These are documents acknowledging the loans borrowed by a company issued under the common seal and embodying the terms and conditions as to repayment of money, rate of interest, etc.

Redeemable Debentures are those which are repayable at the end of a specified period.

Irredeemable Debentures are such as are never repayable during the existence of the company. These are generally issued by Railway and such other companies.

Simple or Naked Debentures are those which carry no security as to payment of interest or repayment of principal.

Registered Debentures are debentures registered in the names of the holders in the books of the company, and the transfers of these must be registered in the books of the company as in the case of shares.

Bearer Debentures are payable to bearer. They are negotiable instruments and are transferable by mere delivery.

Mortgage Debentures are those which are secured by a fixed or floating charge on the assets of the company. In case of a *fixed charge,* an actual mortgage deed is entered into between the company on the one hand and the trustees on behalf of the debenture-holders on the other, whereby some fixed assets of the company such as Building, Plant and Machinery, etc., are specifically mortgaged. In case of a *floating charge,* the company merely agrees that, in case of failure as to payment of interest or principal, the debenture-holders will have a prior claim to such assets as would then belong to the company.

Debenture Stock is one or more series of debentures consolidated, each stock-holder being entitled to such proportion of the whole amount as is represented by his stock certificate. The stock is more readily transferable than is the case with debentures.

Difference between a Shareholder and a Debenture-holder.—(*a*) A shareholder is a partner in the company, whereas a debenture-holder is a loan creditor of the company.

(*b*) A shareholder can only claim a dividend on his shares, if there are sufficient profits to enable the declaration of such dividend and provided the dividend is sanctioned by the general meeting. A debenture-holder is entitled to his agreed interest irrespective of the fact as to whether the company has made profit or loss. The interest on debentures is, therefore, a charge against profits, whereas any dividend in respect of shares is an appropriation of profits.

(c) Shareholders exercise some control in the management of the company by voting at general meetings, but the debenture-holders have no right of interference in the management of the company so long as the terms of the debentures are complied with.

(*d*) In the event of a winding up, a debenture-holder, even if unsecured, will always rank for repayment in full before the shareholders of any class.

RECORD OF SHARE CAPITAL TRANSACTIONS.

Having regard to the large number of shareholders that generally belong to a public company, the entries relating to the record of its share capital transactions are made in its Financial Books, as far as possible, in totals. A detailed record as to the holding of each individual shareholder is, however, kept in separate Statistical Books.

It is now proposed to show, in the following pages, how the various Statistical Books are written up and also what entries are made in the Financial Books.

Application for Shares.—A form of application, similar to the one, as indicated on the opposite page, is usually attached to the prospectus. The application letters together with the deposits are sent by the applicants direct to the Company's Bankers, as desired in the Application Form. The Company's Bankers acknowledge these amounts in a separate Pass Book which is sent by them to the Company's Office, from time to time, together with the applications. Each application is numbered consecutively and full details thereof, viz., the number and date, the applicant's name, address and occupation, the number of shares applied for, and the amount of deposit are then recorded by the company in the **Application and Allotment Book**, the form of which is illustrated on page 392. After these details are recorded, the applications are filed in order of their number, for facility of reference.

Entries in Financial Books.—In the Company's Cash Book, the deposits received on the applications, from day to day, as shown by the Banker's Pass Book, would be debited in the Bank column in detail under the heading of Share Application Account, as follows:—

1938	*Cash Book* (Receipts Side)	Details	Bank
March 1	**To Share Application Account:—** Being the deposits on applications of shares received this day from the following applicants at Rupee 1 per share:—		
	B. C. Rice—15 shares ..	15 0 0	
	P. D. Shroff—10 shares ..	10 0 0	
	N. D. Banker—200 shares ..	200 0 0	
			225 0 0

From the Cash Book, the postings are made to the credit of the Share Application Account in the Ledger. The total amount standing to the credit of Share Application Account is afterwards transferred to the credit of Share Capital Account by means of a Journal entry, Share Application Account Dr. to Share Capital Account.

Allotment of Shares.—After the Minimum Subscription is reached, the Board of Directors would proceed to allotment. The allotment of shares must always be made by the Directors by means of a resolution at a meeting of the Board, and full particulars of such resolution must be entered in the Directors' Minute Book. It is also usual for the Directors to initial the Application and Allotment Book each time the Allotment is made. The

THE NATIONAL TRADING COMPANY, LIMITED.

(Form of Application for Shares).

No.......

THE DIRECTORS OF
THE NATIONAL TRADING COMPANY, LIMITED,
125, ESPLANADE ROAD, FORT,
BOMBAY.

GENTLEMEN,

Having paid the Company's Bankers the sum of Rs. .... being a deposit of Rs. ...... per share on ...... Ordinary/Preference shares applied for by me in the above-named company, I hereby request you to allot these to me in terms of the company's Prospectus dated .... I agree to accept the same or any smaller number that may be allotted to me, and I agree to pay the further instalments as provided by the said Prospectus, and I authorise you to register me as the holder of the said shares.

Name (in full) .... Date ....

Address ....

Occupation .... Signature ....

.................................(*Perforation.*).................................

THE NATIONAL TRADING COMPANY, LIMITED.

(Bankers' Receipt.)

No. ......

RECEIVED this .... day of.............................
from ....the sum of
Rupees ....being the
application deposit of Rs. .... per share on ....
Ordinary/Preference shares of Rs. .... each in the above-named company.

For the Fort Banking Company, Limited,

Rs. ....

Cashier.

This receipt, when returned from the Bankers, must be preserved by the applicant for exchange in due course for Share Certificate.

Secretary is then instructed to write Letters of Allotment to each applicant to whom shares have been allotted. The usual Form of Letter of Allotment is as shown on page 393.

After the Allotment Letters have been posted, the detailed records as to the date of allotment, the number of shares allotted to each applicant, their distinctive numbers and the allotment money due from each allottee, is made in the Application and Allotment Book. On receipt of cash from each allottee, the date of the receipt and the amount are also recorded in this Statistical Book, over and above the same being entered in the Cash Book.

[*Continued at foot of p. 393.*

SHARE APPLICATION AND ALLOTMENT BOOK.

No. of Application.	Date of Application.	Applicant's Name.	Address.	Occupation.	No. of Shares applied for.	Amt paid on Application.	Cash Book Folio.	Date of Allotment.	No. of Shares Allotted.	Distinctive Nos. From	Distinctive Nos. To	Amt. Payable on Allotment.	Date paid.	Amount returnable.	Date repaid.	Folio in Reg. of Members.	Remarks.
1	2-4-35	S. B. Subedar	65, Parsi Colony, Dadar	Bar-at-Law	75	375	5	2-7-35	75	1	75	150	3-8 35			1	Signatory
2	10-4-35	P. D. Munshi	102, Forjett Street, Bombay	Physician	80	400	7	,,	80	76	155	160	8-8-35			2	,,
3	21-4-35	F. V. Gupta	75, Princess Street, Bombay	Accountant	150	750	10	,,	150	156	305	300	21-8-35			3	,,
4	3-5-35	S. D'Souza	6, Wadala Road, Bombay	Teacher	25	125	15	,,	25	306	330	50	9-8-35			4	,,
5	4-6-35	V. D. Chatterji	Cuffe Parade, Colaba	Solicitor	100	500	21	,,	100	331	430	200	20-8 35			5	,,
6	23-6-35	K. T. Dalal	Currie Road, Parel	Merchant	20	100	22	,,	Nil.					100	5-7-35		Letter of Regret No. 1

SHARE CALL BOOK.

First Call of Rs. 15 per share made on *2nd September* 1935 and payable by *30th September* 1935.

Name.	Address.	Fol. in Reg. of Members.	No. of Shares held.	Amount due.	Amount paid	C. B. Folio.	Arrears. Amt. due	Arrears. Day	Arrears. Int.	Arrears. Amt.	Arrears. C. B. Folio	Calls in advance.	Remarks.
S. B. Subedar	65, Parsi Colony, Dadar.	1	75	1,125	1,125	50							
P. D. Munshi	102, Forjett St., Bombay.	2	80	1,200	800	48	400						
F. V. Gupta	75, Princess St., Bombay.	3	150	2,250	2,250	52							
S. D'Souza	6, Wadala Road, Bombay.	4	25	375	275	54	100						
V. D. Chatterji	Cuffe Parade, Colaba.	5	100	1,500	2,000	50						500	Subject to 4% Interest.

THE NATIONAL TRADING COMPANY, LIMITED.

(Letter of Allotment).

No. ...... 125, ESPLANADE ROAD, FORT,
BOMBAY, ...

SIR,

I am instructed by the Directors to inform you that in accordance with your application they have allotted to you .... $\frac{\text{Ordinary}}{\text{Preference}}$ shares in the company.

The amount payable on application and allotment in respect of the said

shares is	Rs. ....
You have paid on application	Rs. ....
Leaving a balance due from you of	Rs. ....

which kindly pay to the Company's Bankers, the Fort Banking Company, Limited, on or before the ...... instant.

Yours faithfully,

To ....

.... *Secretary.*

This form must be sent *entire,* together with remittance, to the Company's Bankers.

..................................*(Perforation.)*..................................

THE NATIONAL TRADING COMPANY, LIMITED.

(Bankers' Receipt.)

No. ......

RECEIVED this .... day of...............................

from ....the sum of

Rupees .... being ....

per share payable on allotment of .... $\frac{\text{Ordinary}}{\text{Preference}}$ shares of Rs. .... each in the above-named company.

For the Fort Banking Company, Limited,

Rs. ....

Cashier.

This receipt, when returned from the Bankers, must be preserved for exchange in due course for Share Certificate.

Continued from p. 391]

Entries in Financial Books.—On the allotment being made, a Journal entry is passed with the *total amount of allotment money due from all the shareholders* debiting Share Allotment Account and crediting Share Capital Account. From day to day, the record in respect of the allotment money received by the Bank and as ascertained from the Pass Book, is made in the company's Cash Book as follows:—

1938	*Cash Book* (Receipts Side)	Details	Bank
May 15	**To Share Allotment Account:—** Being the allotment money received this day from the following shareholders at Rs. 2 per share:—		
	N. J. Kapadia—25 shares ..	50 0 0	
	P. C. Shroff—15 shares ..	30 0 0	
	D. Bomanji—50 shares ..	100 0 0	
			180 0 0

From here, the items are posted to the credit of the Share Allotment Account in the Ledger. When all the allotment moneys have been duly received by the Company, the Share Allotment Account will show no balance. In the event of there being any arrears, the Share Allotment Account will show a debit balance to that extent.

It must be clearly understood that an application for shares is a mere offer for acceptance, and the applicant is at liberty to withdraw his application and ask for a refund of his deposit, if he so desires, prior to the posting of the Allotment Letter. Immediately, however, the Letter of Allotment is posted, the contract between the company and the applicant becomes complete, thus binding the former to issue those shares and the latter to take and pay for them as and when called upon to do so.

Return of Money to Applicants.—In case the Capital is over-subscribed and some applications have been refused, or the applications of some shareholders have not been accepted for one reason or the other, the moneys deposited with such applications will have to be returned together with a Letter of Regret, a specimen of which is shown on the opposite page.

As the moneys are returned to the applicants, a record to that effect will be made in the Application and Allotment Book, in the special columns provided for the purpose.

Entries in Financial Books.—Entries will be passed through the credit side of the Cash Book as follows:—

1938	*Cash Book* (Payments Side)	Details	Bank
May 1	**By Share Application Account:—** Being the return of Application Deposits at Re. 1 per share to the following applicants whose applications were not accepted:—		
	A. Jones—10 shares ..	10 0 0	
	B Bhathena—15 shares ..	15 0 0	
	C. Green—20 shares ..	20 0 0	
			45 0 0

The Share Application Account in the Ledger will be debited in respect of such amounts from the Cash Book.

Allotment of less number than applied for.—When any applicant has been allotted a less number of shares than he has applied for, the excess of his deposit on application will be applied towards the allotment money

THE NATIONAL TRADING COMPANY, LIMITED.

(*Letter of Regret.*)

125, Esplanade Road, Fort,
Bombay, ...

Sir,

In response to your application for shares in the above Company, I am instructed to inform you that owing to over-subscription of same, the Directors regret they are unable to allot you any of the Shares of this Company.

A cheque of Rs. .... being the amount deposited by you on application for the said shares is herewith enclosed, and I shall be obliged if you will sign and return the Receipt at the foot of this form.

Yours faithfully,

To ....

....

.... *Secretary.*

.................................(*Perforation.*)..................................

THE NATIONAL TRADING COMPANY, LIMITED.

(*Receipt*).

No. ......

Date ....

Received from the National Trading Company, Limited, the sum of Rs. .... being refund of the amount deposited by me on application for .... shares in the above Company not allotted.

Rs. .... Signature ....

Continued from p. 394]
due from him. The Journal entry to give effect to this would be to debit the Share Application Account and credit the Share Allotment Account, with the amount to be so transferred. In the Application and Allotment Book, a note to this effect will be made in the remarks column.

First Call.—Usually, the prospectus mentions the dates on which further Calls would be made on the shareholders for their instalments. In the absence of such an arrangement, the Board of Directors have an absolute discretion as to when to make a Call. A resolution of the Board is necessary for this purpose, and a proper record is made thereof in the Directors' Minute Book. After the Directors have resolved to make a Call, the Secretary sends out Notice of Call to all the members requesting them to pay up the required amounts.

After the Call Notice, the usual form of which is as shown on page 397, has been issued, full particulars as to the Call due from each member will be entered in a special book kept for the purpose called the **Share Call Book**, the rulings of which have already been illustrated on page 392. On the cash being received from day to day on account of call, further columns in this book will be filled in from the Cash Book.

Entries in Financial Books.—A Journal entry is made for the total amount due from the shareholders in respect of the First Call, debiting Share First Call Account and crediting Share Capital Account. From day to day, as the call money is received, entries are made in the Cash Book, as follows:—

1938	*Cash Book* (Receipts Side)	Details	Bank
August 10	**To Share First Call Account:—**		
	Being the First Call money received this day from the following shareholders at Rs. 3 per share:—	Rs. a. p.	Rs. a. p.
	D. Roberts—5 shares ..	15 0 0	
	F. Furtado—9 shares ..	27 0 0	
			42 0 0

From the Cash Book, postings will be made to the credit of the Share First Call Account in the Ledger. When the total amount due on account of First Call is received, both the sides of this account will agree. If, however, there are any arrears in respect of First Call, the Share First Call Account will show a debit balance to that extent.

Entries must be made in a similar manner to record the second or other Calls that may be made at the dates as mentioned in the Prospectus or as and when the Directors may think fit.

Interest on Calls in Arrears.—Directors are usually authorised, under the Articles, to charge interest on Calls not paid within the specified time. When any such interest is due from the shareholders at the time of balancing, the same will have to be brought into account by means of a Journal entry debiting Outstanding Interest Account and crediting Interest Account. The detailed information as to such interest due would be ascertained from the Call Book in which special columns are provided for this purpose.

Interest on Calls paid in Advance.—Interest is also usually allowed, under the Articles, on Calls paid in advance. Any such interest payable at the time of periodical balancing will have to be taken into account by debiting Interest Account and crediting Outstanding Creditors' Account. Details as to such interest are recorded in the special columns in the Call Book.

The amount received in advance of Calls should be credited to Calls in Advance Account and must be shown quite distinct from the called up capital. It must further be noted that Calls in Advance are not entitled to any dividend, but only carry a certain rate of interest, provided the company's Articles authorise such interest to be paid.

Where several distinct classes of shares are issued, a separate Share Capital Account must be opened in the Ledger for each class.

Entries on Issue of Debentures.—The entries in relation to the issue of Debentures, if any, are made in just the same way as the entries relating Share Capital.

THE NATIONAL TRADING COMPANY, LIMITED.

(*Call Notice*).

FIRST CALL of Rupees .... per share on ORDINARY SHARES (making Rs. .... per share called up)

No. ......

125, ESPLANADE ROAD, FORT,

BOMBAY, ...

SIR,

I beg to give you notice that a First Call of Rs. .... per share on the Ordinary Shares has been made this day by the Board of Directors in accordance with the terms of Prospectus.

The amount of Call payable by you in respect of .... Shares held by you in this Company is Rs. .... and I have to request you to be good enough to pay this sum to the Company's Bankers, the Fort Banking Company, Limited, on or before the .... instant.

Yours faithfully,

To ....

....

.... *Secretary.*

This form must be sent *entire*, together with remittance, to the Company's Bankers.

.... (*Perforation.*) ....

THE NATIONAL TRADING COMPANY, LIMITED.

(*Bankers' Receipt*).

No. ......

RECEIVED this .... day of ....

from .... the sum of

Rupees .... being Rs. ....

per share payable on First Call on .... Ordinary Shares in the above Company.

For the Fort Banking Company, Limited,

Rs. .... Cashier.

This receipt, when returned from the Bankers, must be preserved for exchange in due course for Share Certificate.

SPECIMEN ENTRIES IN REGARD TO SHARE CAPITAL ISSUE.

The entries in regard to the issue of Share Capital, when journalised, will appear as under:—

	L.F.	Rs.	Rs.
Bank Account ... ... Dr. To Application Account (Ordinary Shares) (Being the total amount received in respect of application money on——Ordinary Shares applied for at Rs.——per share).			
Application Account (Ordinary Shares) ... ... Dr. To Ordinary Share Capital Account (Being the transfer of the above amount to Share Capital Account).			
Allotment Account (Ordinary Shares) ... ... Dr. To Ordinary Share Capital Account (Being the total amount due on allotment of——Ordinary Shares at Rs.——per share as per Board's Minute dated——).			
Bank Account ... ... Dr. To Allotment Account (Ordinary Shares) (Being the amount received in respect of allotment money).			
First Call Account (Ordinary Shares) ... ... Dr. To Ordinary Share Capital Account (Being the total amount of First Call due on——Ordinary Shares at Rs ——per share as per resolution of the Board dated——).			
Bank Account ... ... Dr. To First Call Account (Ordinary Shares) (Being the amount received in respect of First Call).			
Final Call Account (Ordinary Shares) ... ... Dr. To Ordinary Share Capital Account (Being the total amount of Final Call due on——Ordinary Shares at Rs ——per share as per Board's Resolution dated——).			
Bank Account ... ... Dr. To Final Call Account (Ordinary Shares) (Being the amount received in respect of Final Call).			

Theoretically, all entries may be journalised as illustrated above. In practice, however, the cash entries will be recorded through the Cash Book and only the proper Journal entries will be passed through the Journal.

ILLUSTRATION 103.

A Limited Company with a Registered Capital of Rs 10,00,000 issued 25,000 Ordinary Shares of Rs 10 each, payable Rs. 2 per share on application, Rs 2 per share on allotment and Rs. 3 per share on First Call. It also issued 25,000 Preference Shares of Rs 10 each, payable Re 1 per share on application, Rs. 2 per share on allotment, Rs 2 per share on First Call and Rs. 5 per share on Final Call. All the money was duly received with the exception of Rs. 1,500 in respect of First Call on Ordinary Shares, and Rs. 3,000 on account of First Call and Rs. 10 000 on account of Final Call on Preference Shares. Make the necessary Journal, Cash Book, and Ledger entries and show how the Share Capital will appear in the Balance Sheet.

CASH BOOK.

Date.	PARTICULARS	Bank Rs.	Date.	PARTICULARS	Bank Rs.
	To *Application Account* (*Ordinary Shares*) ... (Being Cash received on application of 25,000 Ord. Shares).	50,000		By Balance c/fd. ...	4,10,500
	,, *Application Account* (*Preference Shares*) ... (Being Cash received on Application of 25,000 Pref. Shares).	25,000			
	,, *Allotment Account* (*Ordinary Shares*) ... (Being Allotment money received on 25,000 Ord. Shares).	50,000			
	,, *Allotment Account* (*Preference Shares*) ... (Being Allotment money received on 25,000 Pref. Shares).	50,000			
	,, *First Call Account* (*Ordinary Shares*) ... (Being First Call money received on 24,500 Ord. Shares).	73,500			
	,, *First Call Account* (*Preference Shares*) ... (Being First Call money received on 24,000 Pref. Shares).	72,000			
	,, *Final Call Account* (*Preference Shares*) ... (Being Final Call money received on 22,500 Pref. Shares).	90,000			
	Rs.	4,10,500		Rs.	4,10,500

JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
	Application Account (Ordinary Shares) ... ... Dr.		50,000	
	To Ordinary Share Capital Account			50,000
	(Being the transfer of application money received on 25,000 Ordinary Shares to Ordinary Share Capital Account).			
	Application Account (Preference Shares) ... ... Dr.		25,000	
	To Preference Share Capital Account			25,000
	(Being the transfer of application money received on 25,000 Preference Shares to Preference Share Capital Account).			
	Allotment Account (Ordinary Shares) ... ... Dr.		50,000	
	To Ordinary Share Capital Account			50,000
	(Being the total amount due on allotment of 25,000 Ordinary Shares at Rs. 2 per share as per Board's Resolution dated——).			

JOURNAL ENTRIES—*Contd.*

	L.F.	Rs.	Rs.
Allotment Account (Preference Shares) ... ... Dr. To Preference Share Capital Account (Being the total amount due on allotment of 25,000 Preference Shares at Rs. 2 per share as per Board's Resolution dated——).		50,000	50,000
First Call Account (Ordinary Shares) ... ... Dr. To Ordinary Share Capital Account (Being the total amount due on First Call of Rs. 3 per share on 25,000 Ordinary Shares as per Board's Resolution dated——).		75,000	75,000
First Call Account (Preference Shares) ... ... Dr. To Preference Share Capital Account (Being the total amount due on First Call of Rs. 3 per share on 25,000 Preference Shares as per Board's Resolution dated——).		75,000	75,000
Final Call Account (Preference Shares) ... ... Dr. To Preference Share Capital Account (Being the total amount due on Final Call of Rs. 4 per share on 25,000 Preference Shares as per Board's Resolution dated——).		1,00,000	1,00,000

ORDINARY SHARE CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance c/d.	1,75,000	By Application Account—(Ordinary Shares) ...	50,000
		,, Allotment Account—(Ordinary Shares) ...	50,000
		,, First Call Account—(Ordinary Shares) ...	75,000
Rs.	1,75,000	Rs.	1,75,000
		By Balance b/d. ...	1,75,000

PREFERENCE SHARE CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance c/d. ...	2,50,000	By Application Account—(Preference Shares) ...	25,000
		,, Allotment Account—(Preference Shares) ...	50,000
		,, First Call Account—(Preference Shares) ...	75,000
		,, Final Call Account—(Preference Shares) ...	1,00,000
Rs.	2,50,000	Rs.	2,50,000
		By Balance b/d. ...	2,50,000

APPLICATION ACCOUNT (Ordinary Shares).

	Rs.		Rs.
To Ordinary Share Capital Account ...	50,000	By Bank ...	50,000

ALLOTMENT ACCOUNT (Ordinary Shares).

	Rs.		Rs.
To Ordinary Share Capital Account ...	50,000	By Bank ...	50,000

FIRST CALL ACCOUNT (Ordinary Shares).

	Rs.		Rs.
To Ordinary Share Capital Account ...	75,000	By Bank ...	73,500
		„ Balance c/d. ...	1,500
Rs.	75,000	Rs.	75,000
To Balance b/d. ...	1,500		

APPLICATION ACCOUNT (Preference Shares).

	Rs.		Rs.
To Preference Share Capital Account ..	25,000	By Bank ...	25,000

ALLOTMENT ACCOUNT (Preference Shares).

	Rs.		Rs.
To Preference Share Capital Account ...	50,000	By Bank ...	50,000

FIRST CALL ACCOUNT (Preference Shares).

	Rs.		Rs.
To Preference Share Capital Account ...	75,000	By Bank ...	72,000
		„ Balance c/d. ...	3,000
Rs.	75,000	Rs.	75,000
To Balance b/d. ...	3,000		

FINAL CALL ACCOUNT (Preference Shares).

	Rs.		Rs.
To Preference Share Capital Account ...	1,00,000	By Bank ...	90,000
		„ Balance c/d. ...	10,000
Rs.	1,00,000	Rs.	1,00,000
To Balance b/d. ...	10,000		

BALANCE SHEET OF THE ...... COMPANY, LIMITED.

As at ....

CAPITAL AND LIABILITIES	Rs.	Rs.	Rs.
Authorised Capital :—			
50,000 Ordinary Shares of Rs. 10 each	5,00,000		
50,000 Preference Shares of Rs. 10 each	5,00,000	10,00,000	
Issued and Subscribed Capital :—			
25,000 Ordinary Shares of Rs. 10 each	2,50,000		
25,000 Preference Shares of Rs. 10 each	2,50,000	5,00,000	
Amount Called up :—			
25,000 Ordinary Shares of Rs. 10 each, Rs. 7 per share called ...	1,75,000		
Less Calls in arrears	1,500	1,73,500	
25,000 Preference Shares of Rs. 10 each fully called up ..	2,50,000		
Less Calls in arrears	13,000	2,37,000	
Amount paid up			4,10,500
		Rs.	4,10,500

ILLUSTRATION 106.

A Limited Company with a Registered Capital of Rs. 5,00,000 in shares of Rs. 10 each, issued 20,000 of such shares, payable Re. 1 per share on application, Rs. 2 per share on allotment and Rs. 3 per share three months later. All the moneys payable on allotment were duly received, but on the First Call being made, one shareholder paid the entire balance on his holding of 300 shares, and five shareholders with a total holding of 1,000 shares failed to pay the First Call on their shares. Give Journal Entries to record the above transactions and show the Company's Balance Sheet.

JOURNAL ENTRIES.

	L. F.	Rs.	Rs.
Bank Account ... ... Dr.		20,000	
To Share Application Account			20,000
(Being the amount received as Application Deposit on 20,000 shares at Re. 1 per share).			
Share Application Account ... ... Dr.		20,000	
To Share Capital Account			20,000
(Being the transfer of Application Account to the latter Account).			
Share Allotment Account ... ... Dr.		40,000	
To Share Capital Account			40,000
(Being the amount due on allotment of 20,000 shares at Rs. 2 per share as per Board's Resolution dated......).			
Bank Account ... ... Dr.		40,000	
To Share Allotment Account			40,000
(Being the amount received on allotment of 20,000 shares).			
Share First Call Account ... ... Dr.		60,000	
To Share Capital Account			60,000
(Being the total amount due on First Call on 20,000 shares at Rs. 3 per share as per Board's Resolution dated......).			

JOURNAL ENTRIES.—(*Contd.*)

		L. F.	Rs.	Rs.
	Bank Account ... ... Dr. To Share First Call Account (Being the amount received on First Call).		58,200	58,200
	Share First Call Account ... ... Dr. To Calls in Advance Account (Being the amount received in advance of Calls on 300 shares).		1,200	1,200

BALANCE SHEET OF THE .... CO., LTD.

Capital and Liabilities		Rs.	Assets	Rs.
Authorised Capital— 50,000 shares of Rs. 10 each ...	Rs. 5,00,000		Cash at Bank	1,18,200
Issued Capital— 20,000 shares of Rs. 10 each ...	2,00,000			
Subscribed Capital— 20,000 shares of Rs. 10 each ...	2,00,000			
Paid-up Capital— 20,000 shares of Rs. 10 each, Rs. 6 per share called up ...	1,20,000			
Less Calls in arrears ...	3,000	1,17,000		
Calls in Advance ...		1,200		
Rs.		1,18,200	Rs.	1,18,200

ILLUSTRATION 107.

A Limited Company issued 100 6% Debentures of Rs. 1,000 each, at par, payable 10% on Application, 20% on Allotment, 30% two months later, and the balance after further two months. All the money was duly received by the Company. Make the necessary Cash and Journal entries.

CASH BOOK.

Date.	Particulars.	Bank. Rs.	Date.	Particulars.	Bank. Rs.
	To *Debenture Application Account* ... (Being Cash received on Application of 100 Debentures).	10,000		By Balance ...	1,00,000
	„ *Debenture Allotment Account* ... (Being Allotment money received on 100 Debentures).	20,000			
	„ *Debenture First Call Account* ... (Being First Call money received on 100 Debentures).	30,000			
	„ *Debenture Final Call Account* ... (Being Final Call money recd. on 100 Debentures).	40,000			
	Rs.	1,00,000		Rs.	1,00,000

JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
Debenture Application Account ... ... Dr. To Debentures Account (Being the amount received on application of 100 Debentures at Rs. 100 per Debenture transferred).			10,000	10,000
Debenture Allotment Account ... ... Dr. To Debentures Account (Being the total amount due on Allotment of 100 Debentures at Rs. 200 per Debenture as per Board's Resolution dated ——— ———).			20,000	20,000
Debenture First Call Account ... ... Dr. To Debentures Account (Being the total amount due on First Call on 100 Debentures at Rs. 300 per Debenture, as per Board's Resolution dated——— ———).			30,000	30,000
Debenture Final Call Account ... ... Dr. To Debentures Account (Being the total amount due on Final Call on 100 Debentures at Rs. 400 per Debenture as per Board's Resolution dated——— ———).			40,000	40,000

Preliminary Expenses.—These are the expenses which must necessarily be incurred for the purpose of forming a new company. The following items are usually included under this head :—

(1) Cost of registering the company.

(2) Stamp Duty and Fees on the Nominal Capital.

(3) Fees and Stamp duties on the documents filed with the Registrar.

(4) Cost of preparing and printing the Memorandum and Articles of Association.

(5) Cost of preparing all preliminary agreements including stamp duties.

(6) Cost of preparing, printing and circulating the Prospectus.

(7) Valuers' fees for valuing assets proposed to be acquired.

(8) Accountants' charges for certifying profits.

(9) Cost of preparing and printing Share Certificates, Letters of Allotment, Debentures, Trust Deed, etc.

(10) Cost of the Books of Accounts, Statutory and Statistical Books and the company's seal.

As the amount expended under this head is of a non-recurring nature and as it results in getting the Share Capital subscribed, it is deemed desirable not to charge the whole of it to the first year's Revenue Account, but to distribute it over a reasonable number of years, say from 3 to 5 years.

It may be pointed out that there is nothing in the Companies Act to compel a company to write off its Preliminary Expenses within any stated number of years, and the expenditure under this head may be permanently capitalised and shown as an asset in the Balance Sheet, if a company so desires. In any case, it would be a fictitious and an intangible asset, and as the permanent capitalising of such an item cannot be said to be a sound or a prudent measure from the view-point of finance or accounting, it would seem desirable to extinguish it from the books as early as the net profits would admit.

The total amount of Preliminary Expenses or so much of it as has not been written off must be shown separately on the assets side of the Balance Sheet.

Commission or Brokerage on Shares.—A company can pay a commission to any person for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares in the company, if the payment of the commission is authorised by the Articles and the commission paid or agreed to be paid does not exceed the amount or rate so authorised and as disclosed in the Prospectus or the Statement in lieu of Prospectus.

The treatment of this item in accounts is similar to that of the Preliminary Expenses Account as discussed above.

In the Prescribed Form of Balance Sheet, the unwritten off balance of such Commission and Brokerage is required to be shown on the assets side quite distinct from Preliminary Expenses.

ISSUE OF SHARES AT A PREMIUM.

A company can issue its shares at a premium, i.e., at a higher price than the face value, provided there is a public demand for such shares at a higher value. The Premium received on issue of shares must not be mixed with the Share Capital moneys, but must be credited to a separate account styled "Premium on Issue of Shares Account", and shown as a separate item on the liabilities side of the Balance Sheet.

The amount earned by a company on issue of its shares at a premium cannot be said to be profits earned in the usual course of its business, and as such, must be treated as Capital Profits and not transferred to Profit & Loss Account. It should be noted, however, that unless the Company's Articles prohibit such a procedure, there is nothing to prevent a company from crediting such gain to Profit & Loss Account, and thus distributing it by way of dividend, although from the view-point of finance and accounting such a measure may seem to be unsound and imprudent. The best method of dealing with such an extraneous source of gain would be to utilise it in writing down fictitious assets such as Preliminary Expenses, Brokerage or Underwriting Commission on Shares, Discount on Debentures, or Cost of Issue of Debentures. It may be even utilised in writing down Goodwill Account, if any. If there be none of these accounts left to be written down, the credit balance on Premium on Shares may be transferred to a Capital Reserve Fund which may be utilised in writing off Capital Losses, if any arise in future.

ILLUSTRATION 108.

A Limited Company issued 5,000 Preference Shares of Rs. 10 each at a premium of Rs. 4 per share payable Re. 1 per share on Application, Rs. 6 per share on Allotment (including premium), Rs. 3 on First Call and Rs. 4 on Final Call. The shares were all subscribed and the money duly received except the First Call on 1,000 shares and the Final Call on 1,500 shares. Give Journal Entries to record the above transactions and open Ledger Accounts.

JOURNAL ENTRIES.

	L.F.	Rs.	Rs.
Bank ... ... Dr. To Preference Share Application Account (Being the amount received on application of 5,000 Preference Shares at Re. 1 per share).		5,000	5,000
Preference Share Application Account ... ... Dr. To Preference Share Capital Account (Being the transfer of Application money to Share Capital Account).		5,000	5,000
Preference Share Allotment Account ... ... Dr. To Preference Share Capital Account ,, Premium on Shares Account (Being the total amount due on allotment including Rs. 4 per share payable as premium on 5,000 shares allotted).		30,000	10,000 20,000
Bank Account ... ... Dr. To Preference Share Allotment Account (Being the receipt of total amount due on allotment).		30,000	30,000
Preference Share First Call Account ... ... Dr. To Preference Share Capital Account (Being the amount due as First Call on 5,000 shares at Rs. 3 per share).		15,000	15,000
Bank Account ... ... Dr. To Preference Share First Call Account (Being the First Call amount received on 4,000 shares).		12,000	12,000
Preference Share Final Call Account ... ... Dr. To Preference Share Capital Account (Being the amount due in respect of Final Call of Rs. 4 per share on 5,000 Preference Shares).		20,000	20,000
Bank Account ... ... Dr. To Preference Share Final Call Account (Being the receipt of Final Call on 3,500 shares at Rs. 4 per share).		14,000	14,000

PREFERENCE SHARE APPLICATION ACCOUNT.

	Rs.		Rs.
To Preference Share Capital Account —Transfer	5,000	By Bank ..	5,000
Rs.	5,000	Rs.	5,000

PREFERENCE SHARE ALLOTMENT ACCOUNT.

	Rs.		Rs.
To Preference Share Capital Account ..	10,000	By Bank ..	30,000
,, ,, ,, Premium Account	20,000		
Rs.	30,000	Rs.	30,000

PREFERENCE SHARE PREMIUM ACCOUNT.

			Rs.
		By Preference Share Allotment Account ...	20,000

PREFERENCE SHARE FIRST CALL ACCOUNT.

	Rs.		Rs.
To Preference Share Capital Account ...	15,000	By Bank ...	12,000
		„ Balance c/d. ...	3,000
Rs.	15,000	Rs.	15,000
To Balance b/d. ...	3,000		

PREFERENCE SHARE FINAL CALL ACCOUNT.

	Rs.		Rs.
To Preference Share Capital Account ...	20,000	By Bank ..	14,000
		„ Balance c/d. ...	6,000
Rs.	20,000	Rs	20,000
To Balance b/d. ...	6,000		

PREFERENCE SHARE CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance c/d. ...	50,000	By Preference Share Application Account ...	5,000
		„ Preference Share Allotment Account ...	10,000
		„ Preference Share First Call Account ...	15,000
		„ Preference Share Final Call Account ...	20,000
Rs.	50,000	Rs.	50,000
		By Balance b/d. ...	50,000

Forfeited Shares.—Directors are usually authorised by the Articles to forfeit the shares of those shareholders who fail to pay the calls, after due notice has been given to them of such forfeiture. The defaulting shareholder ceases to be a member after such forfeiture and loses all his rights on the shares held by him, whereas the moneys paid by him on the shares prior to the forfeiture belong absolutely to the company.

Forfeited Shares are those shares which are declared by the Directors to have been forfeited by any shareholder on account of non-payment of calls due by the latter. The procedure to be followed in case of such a forfeiture is usually laid down in the Articles and the same must be rigidly observed.

When any member fails to pay the call or other instalment on the due date, the Directors may thereafter serve a notice on him requiring payment of the call or instalment together with any interest which may have accrued. The notice must also name a further day, not earlier than 14 days from the date of the notice, on or before which the payment should be made, and must state that in the event of non-payment before the time appointed, the shares will be liable to be forfeited. If the member fails to comply with the requirements of the notice, the directors may by a resolution, forfeit the shares and give notice of such forfeiture to the member concerned. As a result of such forfeiture, the member loses all his rights and interest in the shares forfeited.

Entries on Forfeiture of Shares.—The following entries are necessary on Forfeiture of Shares:

Debit the Share Capital Account with the total amount *called up* on those shares; credit the Forfeited Shares Account with the amount already *received* by the company on those shares, and credit the Share Allotment Account or the Share Call Account, as the case may be, with the amount owing on those shares.

The Share Capital Account will thus be written back to the extent of the amount called on the forfeited shares, and the credit balance of Forfeited Shares Account will represent the amount received by the company in respect of the forfeited shares. The debit balance on the Allotment Account or the Call Account will be wiped off by the credit given to such account with the amount outstanding, as a result of the above entry.

The nominal amount of Forfeited Shares would be shown as a deduction from the total Issued Capital, and the called up amount on the Forfeited Shares as a deduction from the total called up Capital. The credit balance of Forfeited Shares Account must appear as a separate item on the liabilities side immediately underneath the Share Capital item, until the re-issue of such shares.

ILLUSTRATION 109.

A Limited Company has an Issued Capital of Rs. 50,000 in shares of Rs. 5 each which were fully called. The Directors resolve that 100 shares on which the last Call of Re. 1 per share had not been paid, should be forfeited. Make the necessary Journal entry to record the forfeiture.

JOURNAL ENTRY.

		L.F.	Rs.	Rs.
	Share Capital Account ... ... Dr.		500	
	To Forfeited Shares Account			400
	,, Final Call Account			100
	(Being the forfeiture of 100 Shares of Rs. 5 each fully called up, for non-payment of Final Call of Re. 1 per share as per Board's Resolution dated.........).			

ILLUSTRATION 110.

The Directors of a company with a registered and subscribed Capital of 10,000 Ordinary Shares of Rs. 25 each and 10,000 Preference Shares of Rs. 25 each, on both of which Rs. 20 per share were called up, forfeit 100 Ordinary Shares held by Smith on which he failed to pay First and Second Call of Rs. 5 per share each. They also forfeit 200 Preference Shares of Green who failed to pay Rs. 5 per share on Allotment, Rs 5 per share on First Call and Rs. 5 per share on Second Call. Pass the necessary Journal entries as to forfeiture and show the Capital in the Balance Sheet.

JOURNAL ENTRIES.

	L.F.	Rs.	Rs.
Ordinary Share Capital Account ... ... Dr.		2,000	
To Forfeited Shares Account (Ordinary)			1,000
„ First Call Account (Ord. Shares)			500
„ Second Call Account (Ord. Shares)			500
(Being the forfeiture of 100 Ordinary Shares of Rs. 25 each with Rs. 20 per Share called up, for non-payment of First and Second Call of Rs. 5 each, as per Board's Resolution dated.........).			
Preference Share Capital Account ... ... Dr.		4,000	
To Forfeited Shares Account (Preference)			1,000
„ Allotment Account (Preference Shares)			1,000
„ First Call Account (do. do.)			1,000
„ Second Call Account (do. do.)			1,000
(Being the forfeiture of 200 Preference Shares of Rs. 25 each with Rs. 20 per share called up, for non-payment of Allotment, First Call and Second Call money at Rs. 5 per share each, as per Board's Resolution dated ....).			

BALANCE SHEET.

CAPITAL AND LIABILITIES	Rs.	Rs.
Authorised Capital :—		
10,000 Preference Shares of Rs. 25 each	2,50,000	
10,000 Ordinary „ „ 25 „	2,50,000	
		5,00,000
Issued and Subscribed Capital :—		
10,000 Preference Shares of Rs. 25 each	2,50,000	
10,000 Ordinary „ „ 25 „	2,50,000	
		5,00,000
Amount Called up :—		
9,800 Preference Shares of Rs. 25 each, Rs. 20 per share called up ...	1,96,000	
9,900 Ordinary „ „ 25 „ „ 20 „ „ „ „ ...	1,98,000	
		3,94,000
Forfeited Shares (amount paid up) :—		
Preference Shares	1,000	
Ordinary „	1,000	
		2,000

NOTE.—When the whole of the Capital offered for subscription has been taken up by the public, the Issued and Subscribed Capital need not be shown separately.

When shares have been forfeited, the Issued and Subscribed Capital will show the number of shares originally offered and taken up, and the present number of shares held will appear under the heading Called-up Amount as above.

ILLUSTRATION 111.

The X, Y, Z Company Limited, with a Registered Capital of 20,000 Shares of Rs. 10 each has issued 10,000 Shares on which Rs. 7-8 per share have so far been called up. Of the total shares subscribed, all the shareholders paid the calls made on them with the exception of the following whose instalments as marked hereunder were in arrears and whose shares were therefore forfeited :—

A holding 200 shares — (Allotment Rs. 2 per share, First Call Rs. 2 per share and Second Call Rs. 2-8 per share).

B holding 300 shares — (1st and 2nd Call).

C holding 400 shares — (2nd Call).

JOURNAL ENTRIES.

	L. F.	Rs.	Rs.
Share Capital Account ... ... Dr.		500	
To Forfeited Shares Account			400
„ Final Call Account			100
(Being the forfeiture of 50 Shares of Rs. 10 each fully called, for non-payment of Final Call of Rs. 2 per share as per Board's Resolution dated———).			
Bank Account ... ... Dr.		350	
To Share Capital Account			350
(Being the amount received from the new allottee on re-issue of the 50 forfeited shares of Rs. 10 each as fully paid for Rs. 7 per share, as per Board's Resolution dated———).			
Forfeited Shares Account ... ... Dr.		150	
To Share Capital Account			150
(Being the discount of Rs. 3 per share on the re-issue of 50 forfeited shares made good out of the Forfeited Shares Account).			
Forfeited Shares Account ... ... Dr.		250	
To Preliminary Expenses or Goodwill Account or Special Reserve Fund			250
(Being the transfer of credit balance standing to the Forfeited Shares Account after the re-issue of shares).			

ILLUSTRATION 113.

The Hindustan Manufacturing Co., Ltd., had a total Subscribed Capital of Rs. 10,00,000 in Ordinary Shares of Rs. 10 each on which Rs. 7-8 had been called up. A Final Call of Rs. 2-8 per share was made and all amounts were paid except the two Calls of Rs. 2-8 each in respect of 100 shares held by D. Roy. These shares were forfeited and re-issued *at Rs. 8 per share for cash. Make Journal entries necessary to record the above.*

JOURNAL ENTRIES.

	L.F.	Rs.	Rs.
Share Final Call Account ... ... Dr.		2,50,000	
To Share Capital Account			2,50,000
(Being the amount due on Final Call of Rs. 2-8 per share on 1,00,000 shares as per Board's Resolution dated———).			
Bank ... ... Dr.		2,49,750	
To Share Final Call Account			2,49,750
(Being Cash received on Final Call).			
Share Capital Account ... ... Dr.		1,000	
To Forfeited Shares Account			500
„ Share First Call Account			250
„ Share Final Call Account			250
(Being the forfeiture of 100 Shares owned by D. Roy for non-payment of First and Final Calls of Rs. 2-8 each per share as per Board's Resolution dated——).			
Bank ... ... Dr.		800	
Forfeited Shares Account ... ... „		200	
To Share Capital Account			1,000
(Being the re-issue of 100 Forfeited Shares at Rs. 8 per share).			

NOTE.—The credit balance of Rs. 300 on Forfeited Shares Account should now be transferred to Premium on Forfeited Shares Account and may then be utilised in reducing or wiping off such fictitious assets as Preliminary Expenses or Brokerage on Shares or Cost of Issue of Debentures or Goodwill. Legally, however, unless the Articles forbid such a procedure, there is nothing to prevent a company from transferring the profit on re-issue of Forfeited Shares to the Profit and Loss Account, although this cannot be said to be a sound procedure to follow.

Discount on Issue of Shares.—Shares can now be issued at a discount under conditions as laid down in Sec. 105 of the Indian Companies Act, 1936. On such an issue of Shares, the entry to be passed will be as under:—

Bank Account .. .. Dr.
(with the actual amount received)
Discount on Issue of Shares Account .. .. „
(with the discount allowed by the Co.)
To Share Capital Account
(with the value of the shares issued)

There is no legal compulsion on a Company to write off the Discount on Issue of Shares within any stated number of years, but inasmuch as it represents a deferred revenue loss, it seems desirable and sound to write off this debit by charging it to revenue over a reasonable number of years. Until this account is thus entirely written off, the balance remaining will have to be shown on the assets side of the Balance Sheet under its distinct heading.

STATUTORY BOOKS.

Every limited company must compulsorily maintain the following books:—

(1) Register of Members.
(2) Index of Members.
(3) Annual List of Members and Summary of Share Capital.
(4) Minute Book.
(5) Register of Directors, Managers and Managing Agents.
(6) Register of Contracts in which a Director or Directors are interested.
(7) Register of Mortgages and Charges.
(8) Register of Debenture-holders.

REGISTER OF MEMBERS.

Every company shall keep in one or more books a register of its members, and enter therein the following particulars:—

(a) the names, addresses and occupations, if any, of the members and, in the case of a company having a share capital, a statement of the shares held by each member distinguishing each share by its number, and of the amount paid or agreed to be considered as paid on the shares of each member;
(b) the date at which each person was entered in the register as a member;
(c) the date at which any person ceases to be a member.

If a company makes default in complying with the requirements of this Section, it shall be liable to a fine not exceeding fifty rupees every day during which the default continues, and every officer of the company who knowingly and wilfully authorises or permits the default shall be liable to a like penalty. (*Sec. 31.*)

The **Register of Members** is the most important of Statutory Books and the greatest possible care should be taken to see that it is written up correctly and kept up to date. The necessary particulars that this book must contain will be found on pages 415 and 416. In actual practice, however, many additional particulars are usually given and the Book is more generally known as a Share Ledger or Shareholders' Register. The law does not prescribe any particular form, and in consequence, there is no standard ruling. The forms given on pages 415 and 416 may, however, be conveniently used by any company. All the various entries in the Register of Members are practically posted from the Share Application and Allotment Book, the Call Books and the Register of Transfers.

It is the entry in this book which is the *prima facie* evidence of membership. The Register facilitates the making of Calls, payment of Dividends, Transfer of Shares, verification of the voting of each member, and the settlement of the List of Contributories in the event of liquidation.

INDEX OF MEMBERS.

Every company having more than fifty members shall, unless the Register of Members is in such a form as to constitute in itself an index, keep an index of the names of the members of the company and shall within 14 days after the date on which any alteration is made in the register of members make any necessary alteration in the index.

The Index, which may be in the form of a card index, shall in respect of each member contain a sufficient indication to enable the account of that member in the register to be readily found.

If default is made in complying with this Section, the company and every officer of the company who is knowingly and wilfully in default shall be liable to a fine not exceeding fifty rupees. (*Sec. 31A.*)

ANNUAL LIST OF MEMBERS AND SUMMARY OF SHARE CAPITAL.

Every company having a share capital shall within 18 months from its incorporation and thereafter once at least in every year make a list of all persons who, on the day of the first or only ordinary general meeting in the year, are members of the company, and of all persons who have ceased to be members since the date of the last return or (in the case of the first return) of the incorporation of the company.

The list shall state the names, addresses, and occupations of all the past and present members therein mentioned, and the number of shares held by each of the existing members at the date of the return, specifying the shares transferred since the date of the last return or (in the case of the first return) of the incorporation of the company by persons who are still members and persons who have ceased to be members respectively, and the dates of registration of the transfers, and shall contain a summary distinguishing between shares issued for cash and shares issued as fully or partly paid up otherwise than in cash, and specifying the following particulars:—

(a) the amount of the share capital of the company and the number of the shares into which it is divided;

(b) the number of shares taken from the commencement of the company up to the date of the return;

(*c*) the amount called up on each share;

(*d*) the total amount of calls received;

(*e*) the total amount of calls unpaid;

(*f*) the total amount of the sums (if any) paid by way of commission in respect of any shares or debentures, or allowed by way of discount in respect of any shares or debentures, since the date of the last return, or so much thereof as has not been written off at the date of the return;

(*g*) the total number of shares forfeited;

(*h*) the total amount of shares or stock for which share warrants are outstanding at the date of the return;

(*i*) the total amount of share warrants issued and surrendered respectively since the date of the last return;

(*j*) the number of shares or amount of stock comprised in each share warrant;

(*k*) the names and addresses of the persons who at the date of the return are the directors of the company and of the persons (if any) who at the said date are the managers or managing agents of the company, and the changes in the personnel of the directors, managers and managing agents since the last return together with the dates on which they took place; and

(*l*) the total amount of debt due from the company in respect of all mortgages and charges which are required to be registered with the registrar under this Act.

The above list and summary shall be contained in a separate part of the register of members and shall be completed *within 21 days* after the day of the first or only ordinary general meeting in the year, and the company shall forthwith file with the registrar a copy signed by a director or by the manager or the secretary of the company, together with a certificate from such director, manager or secretary that the list and summary state the facts as they stood on the day aforesaid.

A private company shall send with the annual return required as above, a certificate signed by a director or other officer of the company that the company has not, since the date of the last return or, in the case of a first return, since the date of the incorporation of the company, issued any invitation to the public to subscribe for any shares or debentures of the company.

If a company makes default in complying with the requirements of this Section, it shall be liable to a fine not exceeding fifty rupees for every day during which the default continues, and every officer of the company who knowingly and wilfully authorises or permits the default shall be liable to a like penalty. (*Sec.* 32.)

From the above, it may be seen that the Annual List and Summary of Share Capital must be entered in a separate part of the Register of Members and must contain the names, addresses and occupations of all persons who have been members of the company since the date of the last return (or the date of incorporation, if it is the first return) till the date of the first or only ordinary general meeting in the year. It must also state the number of shares held by each existing member specifying the shares transferred during

REGISTER OF MEMBERS.

Name: *S. B. Subedar.*
Address: 65, *Parsi Colony, Dadar.*
Occupation: *Bar-at-Law.*

When entered on Register: *2nd July* 1937.
When ceased to be a Member ....
....

Dr.

For Shares held.

Date.	Particulars of Debit.	No. of Shares	Distinctive Numbers From	Distinctive Numbers To	Amount Payable per Share.	Journal Folio	Total due.	Date paid.	C. B. Folio.	Total Amount paid.	Remarks.
					Rs.		Rs.			Rs.	
2-4-37	Application ...	75	1	75	50		3,750	2-4-37	5	3,750	
2-7-37	Allotment ...				20	9	1,500	3-8-37	35	5,250	
2-9-37	First Call ...				15	21	1,125	5-9-37	50	6,375	

Cr.

For Shares transferred.

Date.	To whom Transferred.	No. of Shares.	Distinctive Numbers. From	Distinctive Numbers. To	Folio of Transferee's Account.	Total due transferred.	Total paid transferred.	Remarks.
						Rs.	Rs.	
22-9-37	N. V. Khareghat ..	20	56	75	35	300	1,700	

REGISTER OF MEMBERS (Alternative Form.)

Date of entry as a Member ....

Date of ceasing to be a Member ....

Name ....

Address ....

Occupation ....

Dr. Cr.

Cash payable on shares.				Cash paid on shares.			
Date when called.	Description of Instalment.	Amount per Share.	Total Amount.	Date when due.	Date of payment.	Cash Book Folio.	Amount paid.
		Rs.	Rs.				Rs.

Shares acquired.					Shares transferred.						Balance of shares held.		
Allotment or Transfer No.	No. of Shares	Distinctive Nos.		Total Amount paid on Shares.	Date transfer passed.	Transfer No.	No. of Shares transferred.	Distinctive Nos.		Total Amount paid on Shares.	Date.	No. of Shares.	Amount paid
		From	To					From	To				
				Rs.						Rs.			Rs.

the period covered by the return by all persons who are existing members or have ceased to be members.

The Return must contain a summary of shares issued for cash and those issued as fully or partly paid up otherwise than in cash. Besides that, it must contain particulars as to the share capital and its division, the total number of shares issued, amount of calls made, received and unpaid, amount of underwriting commission, commission paid on placing shares, and discount on shares allowed and not written off, shares forfeited, share warrants outstanding, issued and surrendered, names, addresses and occupations of directors and managers or managing agents and changes in the personnel since the last Return, and the amount of debt secured by mortgages and charges.

Under the **English Act**, the Annual Return is required to be made up as on the fourteenth day after the meeting and further 14 days' time is then allowed to complete the list and summary.

MINUTE BOOKS.

Section 83 enacts as under in regard to minutes of proceedings of general meetings and meetings of directors:

(1) Every company shall cause minutes of all proceedings of general meetings and of its directors to be entered in books kept for that purpose.

(2) Any such minute, if purporting to be signed by the chairman of the meeting at which the proceedings were had, or by the chairman of the next succeeding meeting, shall be evidence of the proceedings.

(3) Until the contrary is proved, every general meeting of the company or meeting of the directors in respect of the proceedings whereof minutes have been so made shall be deemed to have been duly called and held, and all proceedings had thereat to have been duly had, and all appointments of directors or liquidators shall be deemed to be valid.

(4) The books containing the minutes of proceedings of any general meeting of a company held after the commencement of the Indian Companies (Amendment) Act, 1936, shall be kept at the registered office of the company and shall during business hours (subject to such reasonable restrictions as the company may by its articles or in general meeting impose, so that not less than two hours in each day be allowed for inspection) be open to the inspection of any member without any charge.

(5) Any member shall at any time after seven days from the meeting be entitled to be furnished within seven days after he has made a request in that behalf to the company with a copy of any minutes referred to in sub-section (4) at a charge not exceeding six annas for every hundred words.

(6) If any such inspection is refused or if any copy required is not furnished within the time specified, the company and every officer of the company who is knowingly and wilfully in default shall be liable to a heavy fine.

The **Minute Book** does not call for any special rulings as only proceedings at the meetings of the Board of Directors and those at the meetings of shareholders are required by the Act to be recorded therein. In practice, it is found convenient to keep two separate Minute Books, one to record Minutes of proceedings at Board Meetings and the other for Minutes of Shareholders' Meetings.

REGISTER OF DIRECTORS, MANAGERS AND MANAGING AGENTS.

Every company shall keep at its registered office a register of its directors, managers and managing agents containing the following particulars:—

In the case of an individual, his present name in full, any former name or surname in full, his usual residential address, his nationality and, if that nationality is not the nationality of origin, his nationality of origin and his business occupation, if any, and if he holds any other directorship or directorships, the particulars of such directorship or directorships;

In the case of a corporation, its corporate name and registered or principal office; and the full name, address and nationality of each of its directors; and

In the case of a firm, the full name, address and nationality of each partner, and the date on which each became a partner.

The company shall within the periods respectively mentioned below send to the registrar a return in the prescribed form containing the particulars specified in the said register and a notification in the prescribed form of any change among its directors, managers or managing agents or in any of the particulars contained in the register.

The period within which the said return is to be sent shall be a period of 14 days from the appointment of the first directors of the company and the period within which the said notification of a change is to be sent shall be 14 days from the happening thereof.

The register to be kept under this Section shall during business hours (subject to such reasonable restrictions as the company may by its articles or in general meeting impose, so that not less than two hours in each day be allowed for inspection) be open to the inspection of any member of the company without charge, and of any other person on payment of one rupee or such less sum as the company may impose for each inspection.

If any inspection required under this Section is refused or if default is made in complying with any of the above requirements, the company and every officer of the company who is knowingly and wilfully in default shall be liable to a fine of fifty rupees. (*Sec. 87.*)

From the above, it will be seen that the Register of directors, managers and managing agents is a *Statutory Book* and will have to be maintained giving more detailed information than before.

The original appointment of each director as also any changes therein will have to be filed with the Registrar within 14 days from the date of such appointment or change in the prescribed form.

Such Register will be open to inspection of members during business hours without any charge and of other persons on payment of a fee not exceeding one rupee for each inspection.

REGISTER OF CONTRACTS IN WHICH DIRECTORS ARE INTERESTED.

Every company must keep a Register in which should be entered full particulars of all contracts or agreements in which any director is directly or indirectly interested or concerned. This Register must be open to inspection by any shareholder at the registered office during business hours. [*Sec. 91A (3)*].

REGISTER OF DIRECTORS, MANAGERS OR MANAGING AGENTS.

Present Name and Surname.	Any former Name and Surname.	Residential Address.	Present Nationality.	Nationality of Origin.	Business Occupation.	Particulars of other Directorships held.	Date of Change.	Particulars of Change.	Date of Return Filed.

REGISTER OF MORTGAGES AND CHARGES.

No.	Date of Mortgage or Charge.	Date of Registration of Mortgage.	Short Description of Property Mortgaged or Charged.	Amount of Charge created.	Name and Address of Mortgagee or Person entitled to the Charge.	Date of Discharge of Mortgage or Charge.	Remarks.

REGISTER OF MORTGAGES AND CHARGES.

Every company shall keep a register of mortgages and enter therein all mortgages and charges specifically affecting the property of the company and all floating charges on the undertaking or on any property of the company, giving in each case a short description of the property mortgaged or charged, the amount of the mortgage or charge and (except in case of securities to bearer) the names of the mortgagees or persons entitled thereto.

If any director, manager or other officer of the company knowingly and wilfully authorises or permits the omission of any entry required to be made in pursuance of this Section, he shall be liable to a fine not exceeding five hundred rupees. (*Sec. 123.*)

This book must contain a short description of the property mortgaged or charged, the amount of the mortgage or charge and the names of the mortgagees or persons entitled thereto.

The book is of utmost importance from the point of view of the creditors of the company. The existence of this book enables a loan creditor or a creditor for goods supplied to see what assets of the company have been mortgaged or charged, and whether the remaining assets are sufficient or not to cover the unsecured liabilities of the company. In the absence of such a book, there is nothing to prevent a company from creating more than one floating charge over the same assets. The interest of the loan creditors would thus be jeopardised.

REGISTER OF DEBENTURE-HOLDERS.

Every register of holders of debentures of a company shall, except when closed in accordance with the articles during such period or periods (not exceeding in the whole thirty days in any year) as may be specified in the articles, be open to the inspection of the registered holder of any such debentures, and of any holder of shares in the company, but subject to such reasonable restrictions as the company may in general meeting impose, so that at least two hours in each day are appointed for inspection, and every such holder may require a copy of the register or any part thereof on payment of six annas for every one hundred words or fractional part thereof required to be copied. (*Sec. 125.*)

From the above Section, it is clear that this register is required by the Companies Act to be compulsorily kept. The maintenance of such a register is highly necessary and desirable. A separate page is devoted to record particulars relating to each debenture-holder. It contains full particulars as to the name, address and occupation of each debenture-holder, the date of allotment, the number of debentures held by him, their distinctive numbers, the amounts paid upon each debenture, the dates when paid and the transfer in respect of debentures made by the holder. This record must be open to the inspection of every debenture-holder or shareholder of the company during a part of the business hours.

STATISTICAL BOOKS.

Besides the various Statutory Books as detailed in the preceding pages, every company would find it convenient and necessary to maintain the following Statistical Records. They are called Statistical Records as they serve to give detailed statistical information in regard to the holdings and transfers of shares and debentures, the calls made on the shareholders and debenture-holders, dividends to shareholders and interest to debenture-holders, etc., and are quite distinct from the Financial Books which maintain a record of the financial transactions of the company.

The following statistical books are usually maintained:—

(1) Share Application and Allotment Book.
(2) Share Call Books.
(3) Debenture Application and Allotment Book.
(4) Debenture Call Books.
(5) Register of Share Transfers.
(6) Shareholders' Dividend Book.
(7) Debenture Interest Book.
(8) Register of Certifications and Balance Tickets.
(9) Debenture Transfer Register.
(10) Agenda Book.
(11) Directors' Attendance Book.
(12) Register of Sealed Documents.
(13) Register of Powers of Attorney.
(14) Register of Share Certificates.
(15) Register of Probates.
(16) Register of Share Warrants, etc., etc.

WRITING UP OF STATISTICAL RECORDS.

The recording of the Application and Allotment Book and also the Call Book has already been explained in the previous pages. It now only remains to add, in connection with these books, that where there are different classes of shares, there must be separate Application and Allotment and Call Books for each class. Besides, there must be a separate Call Book for each of the Calls made by the directors. Further, it must be noted that these books are not compulsorily required by the law, but are maintained simply as a matter of convenience to facilitate the writing up of the Register of Members.

REGISTER OF SHARE TRANSFERS.

The Register of Share Transfers, although not a Statutory Book in the sense that it is compulsorily required to be maintained by every company, is a very important book which would serve as a useful purpose of maintaining a complete record of each Transfer of Shares.

The articles of a company usually prescribe the mode of Transfer of Shares, and it is the duty of the Secretary to see that each Transfer Form lodged with the company is properly filled in and signed by the transferor and the transferee, and is duly stamped. At regular intervals, these Transfer Forms are placed before the Board of Directors who formally sanction the transfers by passing a resolution and recording the same in the Directors' Minute Book. Full particulars of each transfer, viz., the number of transfer, the date, transferor's and transferee's names, addresses, occupations, and folios in Register of Members, as also the distinctive numbers of the shares transferred, are then entered in the **Register of Transfers**. The ruling of this book is illustrated on page 423.

STATISTICAL RECORD OF DEBENTURE-HOLDERS.

Where a company has issued Debentures, it will be necessary to maintain several other Statistical Books, such as Debenture Application and Allotment Book, Debenture Call Books. Debenture Transfer Register, etc., in order to have a detailed record as to the holding of each debenture-holder and to serve as a medium for posting entries into the statutory record known as the Register of Debenture-holders. The rulings of these books follow practically on the same lines as the Share Statistical Books.

Debenture Application and Allotment Book. This book serves to record full details of applications for debentures and their subsequent allotment. It contains columns for the serial number of each application, the date of application, the name, address and occupation of each applicant, the number of debentures applied for, the amount deposited on application, the date of allotment, the number of debentures allotted, their distinctive numbers, the amount received on allotment, the date of receipt and the arrears in that respect, if any.

Debenture Call Book. This book records full details as to the amount due from each debenture-holder in respect of the call made, the amount actually paid, the date of payment and the amount of call in arrears, if any.

Debenture Transfer Register. This book serves the same purpose as the Share Transfer Register. It records full details of every transfer of Debentures indicating the names of the transferor and the transferee in each case, the number of debentures transferred and their distinctive numbers, the date of registration of each transfer, etc.

Debenture Interest Book. This book gives particulars at the end of each half-year as to the names of the debenture-holders, the amount of debentures held by each of them, the gross amount of interest due, the amount of tax to be deducted and the net amount of interest payable to each debenture-holder.

REGISTER OF SHARE WARRANTS.

A company limited by shares, if so authorised by its articles. may with respect to any fully paid up shares, or to stock, issue under its common seal a share warrant stating that the bearer of the warrant is entitled to the shares or stock therein specified, and may provide by coupons or otherwise, for the payment of the future dividends on the shares or stock included in the warrant.

A share warrant shall entitle the bearer thereof to the shares or stock therein specified, and the shares or stock may be transferred by delivery of the warrant.

The bearer of a share warrant shall, subject to the articles of the company, be entitled, on surrendering it for cancellation, to have his name entered as a member in the register of members.

Where there are many transactions in Share Warrants, the maintenance of a Register of Share Warrants becomes necessary for the record of particulars relating to the issues and surrenders of share warrants in exchange for Share Certificates. The form of this Register is shown on the opposite page.

REGISTER OF SHARE TRANSFERS.

No. of Transfer.	Date of Registration of Transfer	Transferor's				Transferee's				Shares transferred.			No. of New Certificate.	Remarks.
		Folio in Register of Members.	Name.	Address.	Occupation.	Folio in Register of Members.	Name.	Address.	Occupation.	No.	Distinctive Nos. From	Distinctive Nos. To		
1	30-9-37	1	S. B. Subedar.	65, Parsi Colony, Dadar.	Bar-at-Law.	35	N. V. Khareghat.	55, New Charni Rd., Bombay.	Civil Engineer	20	56	75	35	

REGISTER OF SHARE WARRANTS.

Particulars of Shares Exchanged.				Particulars of Warrants Issued.				Particulars of Warrants Surrendered.					Remarks.
No. of Shares Exchanged	Distinctive Nos. From	Distinctive Nos. To	Folio in Register of Members.	Date of Application.	Date of Issue.	To Whom Issued.	No. of Warrant Issued.	Date of Surrender.	By Whom Surrendered.	Distinctive Nos. From	Distinctive Nos. To	Folio in Register of Members.	

DEBENTURE APPLICATION AND ALLOTMENT BOOK.

No. of Application.	Name.	Address.	Occupation.	No. of Debentures applied for.	Amount paid on Application.	Cash Book Folio.	Date of Allotment.	No. of Debentures Allotted.	Distinctive Nos. From	Distinctive Nos. To	Debenture Regr. Folio.	Amount due on Allotment.	Cash received on Allotment.	Cash Book Folio.	Cash Returned.	Remarks.
					Rs.							Rs.	Rs.		Rs.	
1	K. P. Iyer.	Hill Road, Bandra.	Registrar.	50	10,000	85	16-2-37	50	1	50	1	5,000	5,000	120		
2	R. M. Mullan	Banya's Chawl, Colaba.	Commissioner.	100	20,000	102	"	10	51	60	2				17,000	Excess deposit on application has been applied towards allotment money.

DEBENTURE CALL BOOK.

Call of Rs. 100 per Debenture made on 1st *March* 1938, payable on or before 16*th March* 1938.

Debenture Regr. Folio.	Name.	Address.	No. of Debentures held.	Amount due on Call.	Amount paid on Call.	Date paid.	Cash Book Folio.	Remarks.
				Rs.	Rs.			
1	K. P. Iyer.	Hill Road, Bandra.	50	5,000	5,000	9-3-38	125	
2	R. M. Mullan.	Banya's Chawl, Colaba.	10	1,000	1,000	7-3-38	122	

REGISTER OF DEBENTURE-HOLDERS.

Name: *K. P. Iyer.*
Occupation: *Registrar.*
Address: *Hill Road, Bandra.*

Debentures acquired.							Debentures transferred.						Balance held.	
Date of Allotment.	No. of Debentures.	Distinctive Nos. From	Distinctive Nos. To	Amount Paid.	Date Paid.	Cash Book Folio.	Date of Transfer.	Folio of Transferee's Account	No. of Debentures Transferred.	Distinctive Nos. From	Distinctive Nos. To	Amount Paid.	No. of Debentures.	Amount Paid up.
				Rs.								Rs.		Rs.
16-2-1938	50	1	50	10,000	21-1-1938	85	16-3-1938	15	10	11	20	4,000	40	16,000
				5,000	26-2-1938	120								
				5,000	9-3-1938	125								

DEBENTURE TRANSFER REGISTER.

No. of Transfer.	Date.	Transferor's.				Transferee's.				Debentures transferred.				Remarks.
		Debenture Register Folio.	Name.	Address.	Occupation.	Debenture Register Folio	Name.	Address.	Occupation.	No. of Debentures.	Distinctive Nos. From	Distinctive Nos. To	Amount Paid up.	
													Rs.	
1	16-3-38	1	K. P. Iyer.	Hill Road, Bandra.	Registrar.	15	F. S. Gyara.	Cumbala Hill, Bombay.	Auditor.	10	11	20	4,000	

ACCOUNTS AND BALANCE SHEET.

Under the New Act, the provisions for maintaining proper books of accounts and the preparation and submission of Balance Sheet to shareholders have been very much amplified.

BOOKS OF ACCOUNTS.

Section 130, as amended, particularises the transactions that should be recorded in the books of account of every company, as shown below.

Every company must maintain proper books of accounts having due regard to the nature of its business and must record therein every transaction, whether cash or credit, so as to be able to prepare at periodical intervals a Profit & Loss Account indicating the correct figure of profit or loss made during any given period, and a Balance Sheet presenting the true financial condition of the business as reflected by its assets. liabilities and capital. There must be a complete system of account-keeping which should embody the whole of the transactions recorded under duly classified Ledger Accounts after their having first passed through the appropriate subsidiary journals, and no account or figure should find its place in the Profit & Loss Account or Balance Sheet, unless it comes from one of the Ledger Accounts.

The books of account are required to be kept at the registered office of the company, and should be open to inspection by the directors during business hours.

The managing agents, or, where there are no managing agents, the directors are liable to penalty for any default by the company in complying with the above requirements.

Section 130.—Every company shall cause to be kept proper books of accounts with respect to—

(*a*) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(*b*) all sales and purchases of goods by the company;

(*c*) the assets and liabilities of the company.

The books of account shall be kept at the registered office of the company or at such other place as the directors think fit, and shall be open to inspection by the directors during business hours.

In the case of a company managed by a managing agent, the managing agent, or where the managing agent is a firm or company, the partner or director of such firm or company and in any other case the director or directors who have knowingly by their act or omission been the cause of any default by the company in complying with the requirements of this Section, shall in respect of such offence be liable to a fine not exceeding one thousand rupees.

BALANCE SHEET AND PROFIT & LOSS ACCOUNT.

The directors of every company must lay before the shareholders in general meeting a Balance Sheet and a Profit & Loss Account, and a Balance Sheet and Income and Expenditure Account in case of a non-trading company first within 18 months of incorporation, and subsequently, once at least in every calendar year.

The Balance Sheet and accounts must relate to a period not earlier than nine months from the date of the meeting, and in case of a company carrying on business outside British India, not more than 12 months.

The Balance Sheet together with the Profit & Loss Account (or the Income and Expenditure Account) shall be audited by the auditors of the company appointed under Section 144 of the Act, and the Auditor's Report will have to be attached thereto. Such Report should be read before the shareholders in general meeting and should also be open to inspection of the members.

Copies of the Profit & Loss Account and Balance Sheet including the Auditor's Report must be sent to every member 14 days before the general meeting.

A copy of such accounts must also be available at the registered office of the company for inspection of the members at least 14 days before the general meeting.

Section 131.—(1) The directors of every company shall at some date not later than eighteen months after the incorporation of the company and subsequently once at least in every calendar year lay before the company in general meeting a Balance Sheet and Profit & Loss Account or in the case of a company not trading for profit an Income and Expenditure Account for the period, in the case of the first account since the incorporation of the company and in any other case since the preceding account, made up to a date not earlier than the date of the meeting by more than nine months or in the case of a company carrying on business or having interest outside British India by more than twelve months.

Provided that the registrar may for any special reason extend the period by a period not exceeding three months.

(2) The Balance Sheet and the Profit & Loss Account or Income and Expenditure Account shall be audited by the auditor of the company as hereinafter provided, and the auditor's report shall be attached thereto, or there shall be inserted at the foot thereof a reference to the report and the report shall be read before the company in general meeting and shall be open to inspection by any member of the company.

(3) Every company other than a private company shall send a copy of such Balance Sheet and Profit & Loss Account or Income and Expenditure Account so audited together with a copy of the auditor's report to the registered address of every member of the company at least *fourteen days* before the meeting at which it is to be laid before the members of the company, and shall deposit a copy at the registered office of the company for the inspection of the members of the company during a period of at least *fourteen days* before that meeting.

CONTENTS OF PROFIT & LOSS ACCOUNT.

Section 17(2) requires that Clause 107 of Table A must be included in the articles of every company. The Clause reads as under:—

> "The Profit & Loss Account shall show, arranged under the most convenient heads, the amount of gross income, distinguishing the several sources from which it has been derived, and the amount of gross expenditure distinguishing the expenses of the establishment, salaries and other like matters. Every item of expenditure fairly

> chargeable against the year's income shall be brought into account, so that a just balance of profit and loss may be laid before the meeting, and, in cases where any item of expenditure which may in fairness be distributed over several years has been incurred in any one year, the whole amount of such item shall be stated, with the addition of the reasons why only a portion of such expenditure is charged against the income of the year."

Section 132, as amended requires that the Profit & Loss Account must show the remuneration paid to managing agents and directors, whether as fees, percentages or otherwise, and the total amount written off as depreciation. If a director of a company is by virtue of the nomination, a director of any other company, then the remuneration received from the latter company must be stated by way of a footnote.

DIRECTORS' REPORT AND OPINION ON COMPANY'S AFFAIRS.

Section 131A inserts a new provision to the effect that the directors' report must be attached to every Balance Sheet, and such report must include their opinion as to the state of the company's affairs as also their recommendations with regard to dividends and reserves. Such report may be signed by the Chairman, if so authorised.

Section 131A.—(1) The directors shall make out and attach to every balance sheet a report with respect to the state of the company's affairs, the amount, if any, which they recommend should be paid by way of dividend and the amount, if any, which they propose to carry to the Reserve Fund, General Reserve or Reserve Account shown specifically on the balance sheet or to a Reserve Fund, General Reserve or Reserve Account to be shown specifically in a subsequent balance sheet.

(2) The report referred to in sub-section (1) may be signed by the chairman of the directors on behalf of the directors if authorised in that behalf by the directors.

(3) The provisions of sub-section (3) of Section 130 shall apply to any person being a director who is knowingly and wilfully guilty of a default in complying with this Section.

FORM F—PRESCRIBED FORM OF BALANCE SHEET.

The new Form F, as required under Section 132, representing the prescribed form of Balance Sheet, provides for much greater details in regard to assets and liabilities to be embodied therein so as to present to the average shareholder a fairly accurate perspective of the true financial condition of the company.

The prescribed Form of Balance Sheet is given on pages 472 to 475. All additional information required under the Amendment Form is shown in italics so that it may be seen at a glance what improvements have been made on the Old Form.

Section 132.—(1) The Balance Sheet shall contain the summary of the [illegible] ty and assets and of the capital and liabilities of the company giving [illegible]ch particulars as will disclose the general nature of those liabilities and [illegible] and how the value of the fixed assets has been arrived at.

(2) The Balance Sheet shall be in the Form marked F in the Third Schedule or as near thereto as circumstances admit.

(3) The Profit & Loss Account shall include particulars showing the total of the amount paid whether as fees, percentages or otherwise to the managing agent, if any, and the directors respectively as remuneration for their services and, where a special resolution passed by the members of the company so requires, to the manager, and the total of the amount written off for depreciation. If any director of the company is by virtue of the nomination, whether direct or indirect, of the company, a director of any other company, any remuneration or other emoluments received by him for his own use, whether as director of, or otherwise in connection with the management of, that other company, shall be shown in a note at the foot of the account or in a statement attached thereto.

SIGNING OF THE BALANCE SHEET AND PROFIT & LOSS ACCOUNT.

Section 133 provides as under:—

(1) Save as provided by sub-section (2) the Balance Sheet and Profit & Loss Account or Income and Expenditure Account shall—

(*i*) in the case of a banking company, be signed by the manager or managing agent (if any), and, where there are more than three directors of the company, by at least three of these directors and, where there are not more than three directors, by all the directors;

(*ii*) in the case of any other company, be signed by two directors or, when there are less than two directors, by the sole director and by the manager or managing agent (if any), of the company.

(2) When the total number of the directors of the company for the time being in British India is less than the number of directors whose signatures are required by sub-section (1), then the Balance Sheet and Profit & Loss Account or Income and Expenditure Account shall be signed by the directors for the time being in British India, or, if there is only one director for the tme being in British India, by such director, but in such a case there shall be sub-joined to the Balance Sheet and Profit & Loss Account or Income and Expenditure Account a statement signed by such directors or director explaining the reason for non-compliance with the provisions of sub-section (1).

(3) If any default is made in laying before the company or in issuing a Balance Sheet and Profit & Loss Account or Income and Expenditure Account as required by Section 131 or if any Balance Sheet and Profit & Loss Account or Income and Expenditure Account is issued, circulated or published which does not comply with the requirements laid down by and under Sections 131, 132, 132A and this Section, the company and every officer of the company who is knowingly and wilfully a party to the default shall be punishable with fine which may extend to five hundred rupees.

FILING OF BALANCE SHEET.

Section 134 lays down as under:—

(1) After the Balance Sheet and Profit & Loss Account have been laid before the company at the general meeting, a copy of the Balance Sheet

signed by the manager or secretary of the company shall be filed with the registrar at the same time as the copy of the annual list of members and summary prepared in accordance with the requirements of Section 32.

(2) If the general meeting before which a Balance Sheet is laid does not adopt the Balance Sheet, a statement of the fact and of the reasons therefor shall be annexed to the Balance Sheet and to the copy thereof required to be filed with the registrar.

(3) This Section shall not apply to a private company.

(4) If a company makes default in complying with the requirements of this Section, the company and every officer of the company who knowingly and wilfully authorises or permits the default shall be liable to the like penalty as is provided by Section 32 for a default in complying with the provisions of that Section.

FILING OF PROFIT & LOSS ACCOUNT.

Although Section 134 does not provide in so many words for the filing of Profit & Loss Account along with the Balance Sheet, the intention of the Legislature evidently seems to be otherwise, and the absence of the words "Profit & Loss Account" may be taken as an omission due to oversight. As the Section stands, however, the Profit & Loss Account need not be filed.

RIGHT OF MEMBERS TO COPIES OF ANNUAL ACCOUNTS.

Save as otherwise provided in this Act, any member of a company shall be entitled to be furnished with copies of the Balance Sheet and the Profit & Loss Account or Income and Expenditure Account and the auditor's report at a charge not exceeding six annas for every hundred words or fractional part thereof. (*Sec. 135.*)

AUDIT AND AUDITORS.

Every public company and every *private company being subsidiary of a public company* must have the Annual Accounts and the Balance Sheet audited by an auditor qualified under Section 144.

The first auditors may be appointed by the directors before the Statutory Meeting, and any casual vacancy will be filled up by the directors who may fix their remuneration.

Ordinarily, every company shall appoint an auditor or auditors at each annual general meeting to hold office until the next annual general meeting and fix their remuneration.

The shareholders in general meeting can remove the first auditors appointed by the directors before the statutory meeting.

No person other than a retiring auditor can be appointed an auditor by the company unless the following conditions are complied with, viz. :—

(1) The member intending to nominate such person must give notice to the company of not less than 14 days before the date of the annual general meeting;

(2) The company must send a copy of such notice to the retiring [illegible]; and

(3) The company should also give notice of not less than seven days thereof to the members either by advertisement or in any other mode allowed by the articles.

If the appointment of an auditor is not made at any annual general meeting, the Local Government will appoint an auditor and fix his remuneration, on the application of any member of the company.

The following persons are not eligible to act as auditors:—

(1) a director or officer of the company;
(2) a partner of such director or officer;
(3) any person in the employment of such director or officer (in case of public companies or subsidiaries of public companies); and
(4) any person indebted to the company.

An auditor is disqualified, if he becomes indebted to the company even after appointment.

Section 144.—(1) No person shall be appointed or act as an auditor of any company other than a private company not being the subsidiary company of a public company unless he holds a certificate from the Governor-General-in-Council entitling him to act as auditor of companies:

Provided that a firm whereof all the partners practising in India hold such certificates may be appointed by its firm-name to be auditor of a company, and may act in its firm-name.

(2) The Governor-General-in-Council may, by notification in the *Gazette of India* and after previous publication, make rules providing for the grant, renewal or cancellation of such certificates and prescribing conditions and restrictions for such grant, renewal or cancellation:

Provided that nothing contained in such rules shall preclude any person from being granted a certificate merely by reason that he does not practise as a public accountant.

(2A) In particular, and without prejudice to the generality of the foregoing power, such rules may—

(*a*) provide for the maintenance of a Register of Accountants entitled to apply for such certificates;
(*b*) prescribe the qualifications for enrolment on the Register and the fees thereof;
(c) provide for the examination of candidates for enrolment, and prescribe the fees to be paid by examinees;
(*d*) prescribe the circumstances in which the name of any person may be removed from or restored to the Register;
(*e*) provide for the establishment, constitution and procedure of an Indian Accountancy Board, consisting of persons representing the interests principally affected or having special knowledge of accountancy in India, to advise him on all matters of administration relating to accountancy, and to assist him in maintaining the standards of qualification and conduct of persons enrolled on the Register; and
(*f*) provide for the establishment, constitution and procedure of local accountancy boards at such centres as the Governor-General-in-Council may select, to advise him and the Indian Accountancy Board on any matter that may be referred to them.

(2B) The holder of a certificate granted under this Section shall be entitled to be appointed and act as an auditor of companies throughout British India.

(3) Every company shall at each annual general meeting appoint an auditor or auditors to hold office until the next annual general meeting.

(4) If an appointment of an auditor is not made at an annual general meeting, the Local Government may, on the application of any member of the company, appoint an auditor of the company for the current year, and fix the remuneration to be paid to him by the company for his services.

(5) The following persons: that is to say,

(*i*) a director or officer of the company;

(*ii*) a partner of such director or officer;

(*iii*) in the case of a company other than a private company not being the subsidiary company of a public company any person in the employment of such director or officer; and

(*iv*) any person indebted to the company

shall not be appointed auditors of the company, and if any person after being appointed auditor becomes indebted to the company his appointment shall thereupon be terminated.

(6) A person, other than a retiring auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice of an intention to nominate that person to the office of auditor, has been given by a member of the company to the company not less than 14 days before such annual general meeting, and the company shall send a copy of any such notice to the retiring auditor, and shall give notice thereof to its members either by advertisement or in any other mode allowed by the articles not less than 7 days before the annual general meeting:

Provided that, if after notice of the intention to nominate an auditor has been given to the company, an annual general meeting is called for a date 14 days or less after the notice has been given, the requirements of this Section as to time in respect of such a notice shall be deemed to have been satisfied, and the notice to be sent or given by the company may, instead of being sent or given within the time required by this Section, be sent or given at the same time as the notice of the annual general meeting.

(7) The first auditors of the company may be appointed by the directors before the statutory meeting, and if so appointed shall hold office until the first annual general meeting, unless previously removed by a resolution of the members of the company in general meeting, in which case such members at that meeting may appoint auditors.

(8) The directors may fill any casual vacancy in the office of auditor, but while any such vacancy continues, the surviving or continuing auditor or auditors (if any) may act.

(9) The remuneration of the auditors of the company shall be fixed by the company in general meeting, except that the remuneration of any auditors appointed before the statutory meeting or to fill any casual vacancy, may be fixed by the directors.

RIGHTS AND DUTIES OF AUDITORS.

As these have been clearly specified in Section 145, it has been thought necessary to quote the section in its entirety herein.

Section 145.—(1) Every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, and shall be entitled to require from the directors and officers of the company such information and explanation as may be necessary for the performance of the duties of the auditors.

(2) The auditors shall make a report to the members of the company on the accounts examined by them, and on every balance sheet *and profit and loss account* laid before the company in general meeting during their tenure of office, and the report shall state:—

(*a*) whether or not they have obtained all the information and explanations they have required; and

(*b*) whether or not in their opinion the Balance Sheet and the Profit & Loss Account referred to in the report are drawn up in conformity with the law; and

(c) whether or not such Balance Sheet exhibits a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company; and

(*d*) whether in their opinion books of account have been kept by the company as required by Section 130.

(2A) Where any of the matters referred to in clauses (*a*), (*b*), (*c*) and (*d*) of sub-section (2) is answered in the negative or with a qualification, the report shall state the reason for such answer.

(3) In the case of a banking company, if the company has branch banks beyond the limits of India, it shall be sufficient if the auditor is allowed access to such copies of and extracts from the books and accounts of any such branch as have been transmitted to the head office of the company in British India.

(4) The auditors of a company shall be entitled to receive notice of and to attend any general meeting of the company at which any accounts which have been examined or reported on by them are to be laid before the company and may make any statement or explanation they desire with respect to the accounts.

(5) If any auditors' report is made which does not comply with the requirements of this Section, every auditor who is knowingly and wilfully a party to the default shall be punishable with fine which may extend to one hundred rupees.

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. What are the preliminaries to registration of a Public Company?
2. Mention the main points of difference between a limited company and an ordinary partnership.
3. What is a private company and how does it differ from a public company?
4. Define Memorandum of Association and state its contents.

5. What are Articles of Association and what is Table A?

6. What is a Prospectus and what should be its contents?

7. What is Minimum Subscription and what are the requirements under the New Act in regard to it?

8. What restrictions are imposed on Public Companies in regard to Allotment of Shares?

9. Mention the restriction imposed on Public Companies in regard to Commencement of Business.

10. Name the Statutory Books compulsorily required to be maintained by every company.

11. What Statistical Books are usually kept by Companies?

12. Describe the different classes of shares into which Share Capital is usually divided.

13. What are the provisions in the New Act in regard to Redeemable Preference Shares?

14. Mention the conditions under which a company can issue Shares at a discount.

15. State the entries that would usually be passed in relation to Share Capital issue.

16. Define Preliminary Expenses and state how this item should be dealt with in Accounts.

17. When can a company allow brokerage or under-writing commission on its Shares?

18. Can shares be issued at a premium, and, if so, how should Premium on Shares be dealt with?

19. When would shares be forfeited, and how should such forfeiture be dealt with in accounts?

20. What is the difference between a Shareholder and a Debenture-holder?

21. What entries are made on re-issue of forfeited Shares?

22. What is the best method of dealing with any credit balance on Forfeited Shares Account left after the re-issue of such shares?

23. What restrictions are imposed on the appointment of Directors in a Public Company?

24. What is a Statutory Meeting and when should it be held?

25. State the contents of a Statutory Report.

26. How should Calls in Advance be dealt with in Accounts?

27. How would you ascertain if there are any Calls in Arrear and where would you show these in Final Accounts?

28. Describe the use of a (a) Share Application and Allotment Book, and (b) Share Call Book. Give also the Forms of these books.

29. What purpose is served by the Register of Share Transfers? Give a suitable Form of this book.

30. Describe fully the contents of the Register of Members together with a suitable form.

31. What is a Minute Book, and what purpose does it serve?

32. Describe the contents of a (a) Register of Directors and Managers, and (b) Register of Mortgages.

33. What are the requirements under the New Act in regard to Contracts with Directors?

34. Explain fully the position of Preference Shareholders in regard to their right Dividend.

35. Define: (a) Stock, (b) Share Warrant, (c) Deferred Shares, (d) Reserve (e) Authorised Capital, and (f) Cumulative Preference Shares.

ISSUE OF SHARES AND DEBENTURES.

36. The Chilworth Motor Co., Ltd., registered in 1903, with nominal Capital of 2,00,000 6 per cent Preference Shares of £1 each, and 2,00,000 Ordinary Shares of £1 each. During the year 1903, the whole of the Preference Shares and 1,00,000 of the Ordinary Shares were issued to the public and fully paid up, with the exception of £100 calls in arrear on the Ordinary Shares. The company was very successful, and during the year 1906, offered the balance of the Ordinary Shares to the public at a premium of 10*s.* per share. All the issue was taken up and duly allotted, payable as to 12*s.* 6*d.* per share on application (including the premium) and 7*s.* 6*d.* per share one month after allotment. No further calls were made during the year. Set out the Capital of the Co., as it would appear in the Balance Sheet as on 31st December 1906.

(*London Chamber of Commerce.*) 198

(*Subscribed Share Capital,* £349,900.)

37. The Birget Engineering Co., Ltd. purchased certain patents from Short and Sharp, under an agreement, dated 30th June 1906, at a cost of £40,000; £1,000 of this sum was to be paid to the vendors in cash, and the balance in fully paid £10 Ordinary Shares. Including the shares allotted as fully paid to the vendors, the Company issued Capital to the extent of £75,000 consisting of £50,000 in Ordinary Shares of £10 each (£1 on application, £4 on allotment, and £5 at the end of three months), and £25,000 in 5 per cent Preference Shares of £5 each (£1 on application, £2 on allotment, and £2 at the end of three months). Under the agreement with Short and Sharp, the patents passed to the Company on 9th July 1906 which date was also the date of allotment. All the shares issued to the public were fully subscribed and duly paid for with the exception of £200 calls in arrear on the Preference Shares. All cash was paid direct to the Company's Bankers. Make the entries in the books of the Co., to give effect to the above and show how they would appear in the Company's first Balance Sheet.

(*London Chamber of Commerce.*) 199

(*Balance Sheet Total,* £74,800; *Issued and Subscribed Capital,* £74,800.)

38. Enter the following transactions of the Hindustan Mines Company, Limited, in proper books, and prepare Balance Sheet. The Company was formed on the 2nd of February and 50,000 shares of Rs. 20 each were offered to the public for subscription:—

February 2 Received applications for 1,20,000 shares with a payment of Rs. 2-8-0 on each share.

" 15 Allotted 50,000 shares (due on allotment Rs. 2-8-0 per share) retaining out of amount over-paid on applications, on account of allotment Rs. 40,000; on account of First Call Rs. 40,000; on Second Call Rs. 10,000 and returning Rs. 85,000 to those applicants who received no allotment.

March 1 Balance of amount due on allotment received this day. 12

" 15 Made Call of Rs. 5 per share, due 1st April.

April 1 Received on account of Call due this day, Rs. 1,57,760.

" 16 Made Call of Rs. 5 per share, due 1st May.

" 27 Received on account of Calls Rs. 52,000. Of this amount one shareholder paid off the balance on his shares in full, that is, on Second Call Account Rs. 1,000 and on Final Call Account Rs. 1,000.

May 1 Received on account of Second Call, Rs. 1,36,840.

" 17 Final Call of Rs. 5 per share made, due 1st June.

" 27 Received on account of Second Call, Rs. 88,420.

June 1 Received on account of Final Call due this day, Rs. 2,09,520.

Sept. 17 Received on account of Second Call Rs. 11,500, on Final Call Account Rs. 37,240. 200

(*Balance Sheet Total,* Rs. 9,93,280.)

39. The prospectus of Messrs. Black & Tan, Ltd., was publicly advertised on 21st January, 1902, with the following loan and share issues. Debentures—1,000 4 per cent Debentures of £100 each, the whole of which were offered and fully subscribed and paid up. Preference Shares—20,000 6 per cent Preference Shares of £5 each, the whole of which were offered and fully subscribed and paid up. Ordinary Shares—Nominal 30,000 shares of £5 each, of which 10,000 shares were issued as fully paid to the vendors as part payment of the purchase-price of the business. Of the remaining 20,000 shares, the public subscribed for 15,000 shares the whole of which were in due course fully paid

up, with the exception of the last call of £2 per share on 500 shares which were subsequently forfeited by resolution of the directors. Pass the necessary entries through the Company's books to record these transactions, and state how they should appear in the Balance Sheet. *(London Chamber of Commerce.)* 201

(Total of Liabilities side of Balance Sheet, £349,000.)

40. The Timbuctoo Railway Co. issued its prospectus on 1st January, 1910, inviting applications for 20,000 shares of £5 each, payable £1 per share on application, £1 on allotment on 10th January, and £3 on 1st March. In addition, there was an issue of £1,000,000 3 per cent Redeemable Debentures, payable as to 5 per cent upon application, and 95 per cent on 31st January. The whole of the issues were applied for and the cash duly received, with the exception that, on 25th March, the directors resolved that the 10 shares upon which application and allotment money had been paid should be forfeited for non-payment of the call of £3 per share on 1st March. Give the Journal entries for the above, omitting Cash. *(National Union of Teachers.)* 202

41. The Weyside Co., Ltd., was formed to purchase the business of Richard Blank, and was registered with a Capital of £200,000 in 200,000 shares of £1 each, which was divided into 100,000 Ordinary Shares, and 100,000 6 per cent Preference Shares. The whole of the preference and 52,000 of the ordinary were offered for public subscription, payable in both classes of shares as follows:—

2*s.* 6*d.* per share on application, 2*s.* 6*d.* per share on allotment and 5*s.* per share on 15th January 1905 (1st call), 5*s.* per share on 15th February 1905 (2nd call); the balance as and when required. The whole of the shares offered to the public were applied for and allotted in due course; the balance of the ordinary shares being issued as fully paid to the vendor as part purchase price of his business. 500 Ordinary Shares applied for by John Smith upon which the application money only had been paid were subsequently forfeited in accordance with the Articles. Make the entries necessary to record the above and show how they would appear in the Balance Sheet.

(London Chamber of Commerce.) 203

(Issued and subscribed Capital, £161,625)

42. On 1st January 1912, a Company with a Nominal Capital of £20,000 divided into 10,000 Ordinary Shares of £1 each, and 1,000 6 per cent Preference Shares of £10 each, was formed to acquire the business of Albert Durand. It was agreed to allot as fully paid to the vendor, as purchase consideration of the assets acquired, 5,000 Ordinary Shares and 500 Preference Shares. On the 5th January 1912, the balance of the Ordinary Shares was issued to the public at a premium of 5*s.* per share and 75 per cent of this issue was duly applied for, the terms of subscription being 10*s.* per share (including the premium) on application, 7*s.* 6*d.* per share on allotment and the balance on 31st March. The Company carried out its agreement with Albert Durand and went to allotment on 12th January. All cash due on application and allotment was paid with the exception of that due on allotment of 500 shares to Victor Verdier. These shares were forfeited by resolution of the Directors on 15th March 1912, and were re-issued on 22nd March to Hugh Dickson on payment of the amount due on the shares. Show how these transactions would appear in the books of the Company assuming that the call due on 31st March has been made, but that no cash has been received in respect of it.

(London Chamber of Commerce.) 204

43. The Nominal Capital of the Richmond Co., Ltd. consists of 10,000 shares of £1 each. The whole of these shares were issued in 1910, and were fully called up in four instalments of 5*s.* each. On 12th February 1911, after due notice, the Directors passed a resolution forfeiting the 1,000 shares held by Mr. W. A. Richardson, the final instalment due upon his holding not having been paid. On 1st May 1911, the 1,000 shares thus

forfeited were issued as fully paid to Captain Heyward, who paid £500 for them. Give the entries necessary to record these transactions in the Company's books.

(*London Chamber of Commerce.*) 205

44. John Jones was the holder of 200 £1 shares in the Goodly Iron Co., Ltd., upon which 10s. a share had been called up; but he had only paid 2s. 6d. a share thereon.

The Company forfeited the shares, and afterwards sold them to James Arkle, credited with 10s. a share paid for £90.

How should the forfeiture and sale be recorded in the Company's books and shown in the Balance Sheet?

(*Chartered Accountants.*)[1] 206

45. One thousand shares of £1 each in the Eldorado Mining Co., Ltd. were allotted to John Jones, of Bangor, Shipowner, on March 31st, 1911. 55

He paid 5s. per share on application and 5s. per share on allotment. A first call of 5s. per share was made, payable on June 1st, 1911. This he failed to pay, and the Directors of the company decided to forfeit his shares. Notice of the intention to forfeit was given on August 1st, 1911, and as the call still remained unpaid, the shares were duly forfeited on 1st September 1911. In the meanwhile, a second call of 5s. per share had been made, payable on 1st September 1911. 101 R. R

On 1st October 1911, the forfeited shares were re-issued as fully paid to William Wilson, of Exchange Street, Liverpool, Cotton Merchant, at the price of 15s. per share.

Describe the usual course of procedure in forfeiting shares, and make the entries in the books of the Company necessary to show the full effect of the above transactions.

(*Chartered Accountants.*) 207

46. The Directors of a Company with a registered and subscribed Capital of 20,000 Ordinary Shares of Rs. 25 each and 20,000 Preference Shares of Rs. 25 each on both of which Rs. 20 per share were called up, forfeit 200 shares held by A on which he had failed to pay First and Second calls of Rs. 5 per share each. They also forfeit 400 Preference Shares of B who failed to pay Rs. 5 per share on allotment, Rs. 5 per share on First Call and Rs. 5 per share on Second Call. The Directors further re-issued the forfeited shares of A at Rs. 15 per share and those of B at Rs. 17-8-0 per share, all of which were taken up and paid up by C.

Pass the necessary Journal Entries to record the above transactions in the books of the Company. 208

47. A holds 100 Shares of Rs. 10 each, on which he has paid Re. 1 per share as Application money.

B holds 200 shares of Rs. 10 each and has paid Re. 1 and Rs. 2 per share as Application and Allotment moneys respectively.

C holds 300 shares of Rs. 10 each and has paid Re. 1 on Application, Rs. 2 on Allotment, and Rs. 3 per share for the First Call.

They all fail to pay their arrears and the Final Call of Rs. 4 per share and the Directors, therefore, forfeit their shares. These shares are, subsequently, re-issued for cash at a discount of 10%.

Pass Journal Entries in the books of the Company to give effect to the above. State also in what manner the amount, if any, standing to the credit of Forfeited Shares Account can be utilised. 209

CHAPTER XI.

ACCOUNTS OF JOINT STOCK COMPANIES.

(OTHER PROBLEMS PECULIAR TO COMPANIES.)

Purchase of Business by a Company.—Not infrequently, a company is formed to take over a running business, and the opening entries to record such a purchase would take the following shape:—

(1) Entry to record the purchase of the business and indicating the full purchase-price agreed upon:—

Business Purchase Account .. .. .. Dr.
  To Vendors

(2) Entry recording the several assets and liabilities of the business taken over and explaining how the total purchase price is made up:—

Each Asset Account .. .. Dr.
  To Each Liability Account
  „ Business Purchase Account

NOTES.—(*a*) When the net intrinsic worth of the business as represented by the total worth of its assets *minus* the liabilities is less than the purchase price the company has agreed to pay, the excess amount must be debited to Goodwill Account.

(*b*) If the net intrinsic worth of the business as determined by its total assets *minus* the liabilities comes to more than the purchase consideration, the company stands to gain on the purchase, and such a gain (not being a profit earned in the usual course of the business) must be credited to Capital Reserve Fund Account.

(3) Entry to record the payment of purchase price:—

Vendors' Account .. .. Dr.
  To Share Capital Account
  (to the extent to which the shares issued to the Vendors are considered as paid up).
  To Bank Account
  (for any payment in cash).

NOTE.—If for the purpose of the issue of such shares either as fully or partly paid, the shares are valued at a premium, such premium must be credited separately to a Share Premium Account.

ILLUSTRATION 114.

The Indian Industries, Ltd. was incorporated on 1st January 1929 with a Capital of Rs. 5,00,000 divided into 2,000 7½% Cumulative Preference Shares of Rs. 100 each and 6,000 Ordinary Shares of Rs. 50 each to take over the business of Messrs. B. & C. at the following valuation:—

	Rs.
Land and Buildings	1,50,000
Machinery and Plant	60,000
Stock-in-trade and Work-in-progress	30,000
Book Debts	15,000
Goodwill	95,000
	Rs. 3,50,000

Collateral security

The consideration was to be the issue to the Vendors of 500 Preference Shares, 4,000 Ordinary Shares and the balance was to be paid in cash.

Of the remaining Capital, 1,500 Preference Shares and 1,500 Ordinary Shares were issued to the public, payable one-fifth on application, two-fifths on allotment and two-fifths on a call to be made on February 15th. Subscriptions were received for 1,600 Preference Shares and 1,300 Ordinary Shares, the application payments on 100 Preference Shares being returned to the applicants. All the remainder were allotted on January 25th. The payments due on allotment were received, and settlement made with the Vendors. The Call was made in due course and on March 1st Rs. 20,000 had been received on account of same from Preference Shareholders and Rs. 18,000 from Ordinary Shareholders. The Preliminary Expenses amounted to Rs. 4,500. Write up the books and accounts necessary to give effect to these transactions and show the statement of the Capital in the Balance Sheet as at March 1st.

Solution.

JOURNAL ENTRIES.

		L.F.		
1929 Jan. 25	Preference Share Application Account ... ... Dr. To Preference Share Capital Account (Being the transfer of application money received on 1,500 Preference Shares).			
„ 25	Ordinary Share Application Account ... ... Dr. To Ordinary Share Capital Account (Being the transfer of Application money received on 1,300 Ordinary Shares).			
„ 25	Preference Share Allotment Account ... ... Dr. To Preference Share Capital Account (Being the amount due at Rs. 40 per share on 1,500 Preference Shares allotted as per Minute dated January 25th).			
„ 25	Ordinary Share Allotment Account ... ... Dr. To Ordinary Share Capital Account (Being the amount due on 1,300 Ordinary Shares at Rs. 20 per share allotted as per Minute dated January 25th).			
„ 25	Business Purchase Account ... ... Dr. To Vendors' Account (Being the purchase consideration payable to the Vendors for the assets acquired by the Company as per agreement dated——and adopted by the Board on——).			
„ 25	Land and Buildings Account ... ... Dr. Plant and Machinery „ ... ... „ Stock-in-trade „ ... ... „ Sundry Debtors „ ... ... „ Goodwill „ ... ... „ To Business Purchase Account (Being the incorporation of the assets taken over from the Vendors).			
„ 25	Vendors' Account ... ... Dr. To Preference Share Capital Account „ Ordinary Share Capital Account (Being the allotment to the Vendors of 500 Preference and 4,000 Ordinary Shares, all as fully paid up in part payment of purchase consideration as per Board's Resolution of——).			

JOURNAL ENTRIES.—(*Contd.*)

			L.F.	Rs.	Rs.
Feb. 15	Preference Share Call Account ... ... To Preference Share Capital Account (Being the amount due on Call on 1,500 Preference Shares made as per Board's Resolution of February 15th).	Dr.		60,000	60,000
	Ordinary Share Call Account ... ... To Ordinary Share Capital Account (Being the amount due on Call on 1,300 Ordinary Shares as per Board's Resolution of February 15th).	Dr.		26,000	26,000

CASH BOOK.

	Rs.		Rs.
To Preference Share Application Account (Being Application Deposit of Rs. 20 per share on 1,600 Shares applied for) ..	32,000	By Preference Share Application Account (Being return of Application Deposit) ..	2,000
" Ordinary Share Application Account (Being Application Deposit of Rs. 10 per share on 1,300 Shares applied for) ..	13,000	" Preliminary Expenses (Being the amount expended on Registration and Promotion) ..	4,500
" Preference Share Allotment Account (Being the Allotment Money received on 1,500 Shares @ Rs. 40 per share) ..	60,000	" Vendors' Account (Being the payment to Vendors on final settlement) ..	1,00,000
" Ordinary Share Allotment Account (Being Allotment Money received on 1,300 Ordinary Shares at Rs. 20 per share) ..	26,000	" Balance c/d. ...	62,500
" Preference Share First Call Account (Being the amount received on account of First Call on Preference Shares) ..	20,000		
" Ordinary Share First Call Account (being the amount received on account of First Call on Ordinary Shares) ..	18,000		
Rs.	1,69,000	Rs.	1,69,000
To Balance b/d. ...	62,500		

PREFERENCE SHARE APPLICATION ACCOUNT.

	Rs.		Rs.
To Preference Share Capital Account—Transfer ..	30,000	By Bank ..	32,000
" Bank ..	2,000		
Rs.	32,000	Rs.	32,000

ORDINARY SHARE APPLICATION ACCOUNT.

	Rs.		Rs.
To Ordinary Share Capital Account— Transfer ...	13,000	By Bank ...	13,000
Rs.	13,000	Rs.	13,000

PREFERENCE SHARE ALLOTMENT ACCOUNT.

	Rs.		Rs.
To Preference Share Capital Account ..	60,000	By Bank ...	60,000
Rs.	60,000	Rs.	60,000

ORDINARY SHARE ALLOTMENT ACCOUNT.

	Rs.		Rs.
To Ordinary Share Capital Account ...	26,000	By Bank ...	26,000
Rs.	26,000	Rs.	26,000

PREFERENCE SHARE CALL ACCOUNT.

	Rs.		Rs.
To Preference Share Capital Account...	60,000	By Bank ...	20,000
		„ Balance c/d. ...	40,000
Rs.	60,000	Rs.	60,000
To Balance b/d. ...	40,000		

ORDINARY SHARE CALL ACCOUNT.

	Rs.		Rs.
To Ordinary Share Capital Account ...	26,000	By Bank ...	18,000
		„ Balance c/d. ...	8,000
Rs.	26,000	Rs.	26,000
To Balance b/d. ...	8,000		

PREFERENCE SHARE CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance c/d. ...	2,00,000	By Preference Share Application Account ...	30,000
		„ Preference Share Allotment Account ...	60,000
		„ Vendors' Account ...	50,000
		„ Preference Share Call Account ...	60,000
Rs.	2,00,000	Rs.	2,00,000
		By Balance b/d. ...	2,00,000

ORDINARY SHARE CAPITAL ACCOUNT.

	Rs.		Rs.
To Balance c/d. ...	2,65,000	By Ordinary Share Application Account ..	13,000
		,, Ordinary Share Allotment Account	26,000
		,, Vendors' Account ...	2,00,000
		,, Ordinary Share Call Account ...	26,000
Rs.	2,65,000	Rs.	2,65,000
		By Balance b/d. ...	2,65,000

BUSINESS PURCHASE ACCOUNT.

	Rs.		Rs.
To Vendors' Account ...	3,50,000	By Land and Buildings ..	1,50,000
		,, Plant and Machinery ...	60,000
		,, Stock-in-trade and Work-in-progress ..	30,000
		,, Sundry Debtors ...	15,000
		,, Goodwill ...	95,000
Rs.	3,50,000	Rs.	3,50,000

[*For* VENDORS' ACCOUNT *see* p. 443

THE INDIAN INDUSTRIES, LTD.
BALANCE SHEET *as at* 1st *March* 1929.

Capital and Liabilities	Rs.	Rs.	Property and Assets	Rs.	Rs.
Authorised Capital:			Goodwill at cost ...	95,000	
2,000 7½% Cumulative Preference Shares of Rs. 100 each ...	2,00,000		Land and Buildings at cost...	1,50,000	
6,000 Ordinary Shares of Rs. 50 each ...	3,00,000		Machinery and Plant at cost...	60,000	3,05,000
Rs.	5,00,000		Preliminary Expenses ...		4,500
Issued Capital:			Stock-in-trade and Work-in-progress at cost ...		30,000
2,000 7½% Cumulative Preference Shares of Rs. 100 each ...	2,00,000		Book Debts ...		15,000
5,500 Ordinary Shares of Rs. 50 each ...	2,75,000		Cash at Bank ...		62,500
Rs.	4,75,000				
Subscribed and Called up Capital:					
1,500 7½% Preference Shares of Rs. 100 each, fully called up ...	1,50,000				
500 7½% Preference Shares of Rs. 100 each issued to the vendors as fully paid up	50,000				
1,300 Ordinary Shares of Rs. 50 each, fully called up	65,000				
4,000 Ordinary Shares of Rs. 50 each, issued to the vendors as fully paid up ...	2,00,000				
	4,65,000				
Less Calls unpaid as under:— On Preference Shares 40,000; On Ordinary Shares 8,000	48,000	4,17,000			
Rs.		4,17,000	Rs.		4,17,000

VENDORS' ACCOUNT.

	Rs.		Rs.
To Preference Share Capital Account...	50,000	By Business Purchase Account ...	3,50,000
" Ordinary Share Capital Account ...	2,00,000		
" Bank ...	1,00,000		
Rs.	3,50,000	Rs.	3,50,000

ILLUSTRATION 115.

The Bengal Products, Ltd. was registered with a Capital of Rs. 10,00,000 consisting of 50,000 Ordinary Shares of Rs. 10 each and 50,000 7½% Preference Shares of Rs. 10 each. It purchased the going concern of Messrs. Black and Brown for Rs. 2,50,000 on the basis of the following Balance Sheet.

BALANCE SHEET OF BLACK AND BROWN.

Liabilities	Rs.	*Assets*	Rs.
Bills Payable	19,000	Cash at Bank	4,000
Sundry Creditors	80,000	Bills Receivable	5,000
Capital	2,20,000	Book Debts	50,000
		Stock	70,000
		Furniture & Fixtures	10,000
		Plant & Machinery	1,20,000
		Freehold Premises	60,000
Rs.	3,19,000	Rs.	3,19 000

The purchase price was to be paid Rs. 50,000 in fully paid Ordinary Shares, Rs. 50,000 in fully paid Preference Shares, Rs. 50,000 in fully paid Debentures and the balance in cash. The remainder of the shares were offered to the public payable Rs. 2 per share on Application, Rs. 3 on Allotment and Rs. 4 on First Call, and were taken up and paid for. The vendors were duly paid the purchase consideration. Record the above transactions by means of Journal Entries and draw up the Company's Balance Sheet.

Solution.

JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
Business Purchase Account	Dr.		2,50,000	
To Black and Brown (Vendors)				2,50,000
(Being the agreed consideration for the purchase of business taken over from the Vendors).				
Freehold Premises	Dr.		60,000	
Plant and Machinery	"		1,20,000	
Furniture and Fixtures	"		10,000	
Stock	"		70,000	
Book Debts	"		50,000	
Bills Receivable	"		5,000	
Cash at Bank	"		4,000	
Goodwill	"		30,000	
To Bills Payable				19,000
" Sundry Creditors				80,000
" Business Purchase Account				2,50,000
(Being the incorporation of the Sundry Assets and Liabilities making up the purchase consideration).				

Solution.

JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
Business Purchase Account	Dr.		40,000	
To Vendors (X and Y)				40,000
(Being the purchase of the entire business at the agreed price).				
Stock	Dr.		25,000	
Sundry Debtors	„		5,000	
Fixtures	„		1,000	
Plant	„		30,000	
To Creditors				11,000
„ Capital Reserve Account				10,000
„ Business Purchase Account				40,000
(Being the incorporation of the assets and liabilities taken over).				
Vendors' Account	Dr.		40,000	
To Share Capital Account				10,000
„ Premium on Shares Account				2,500
„ Bank Account				27,500
(Being the full payment in satisfaction of the purchase price as per agreement dated...........).				

NOTES.—(*a*) In this case, as the purchase price is less than the value of the assets *minus* the liabilities taken over, the difference has been credited to Capital Reserve Account.

(*b*) As the shares have been issued at a higher price than the face value, the excess has been credited to Premium on Shares Account.

Premium on Issue of Debentures.—When debentures are issued at a premium, such a premium should be credited to a Debenture Premium Account. As this is a profit earned outside the usual course of the business, it is advisable not to transfer it to Profit & Loss Account for distribution in the shape of dividends. The proper treatment of this item would be to utilize it in writing off expenses of issuing the Debentures, or in reducing or writing off any fictitious assets such as Preliminary Expenses or Goodwill, or to credit it to Debenture Redemption Fund Account.

There is nothing, however, in the Companies Act to prevent a Company from treating this item as a Revenue Profit, unless the Articles forbid such a course.

ILLUSTRATION 117.

A Limited Company issued Rs. 50,000 Debentures at a premium of 5% agreeing to repay the same at par at the end of five years. 20% was to be paid with application, 25% on allotment including the premium, and 60% on First and Final Call. All the money was duly received. Pass the entries as to the issue through the Journal.

Solution.

JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
Bank Account	Dr.		10,000	
To Debenture Application Account				10,000
(Being the amount received on application of Debentures).				

JOURNAL ENTRIES—(Contd.)

	L.F.	Rs.	Rs.
Debenture Application Account ... ... Dr. To Debentures Account (Being transfer of the amount received by way of application money on Debentures).		10,000	 10,000
Debenture Allotment Account ... ... Dr. To Debentures Account „ Debenture Premium Account (Being the money due on allotment of Debentures, including the premium as per Board's Resolution dated............)		12,500	 10,000 2,500
Bank Account ... ... Dr. To Debenture Allotment Account (Being the amount received in respect of allotment of Debentures, including Premium).		12,500	 12,500
Debenture First and Final Call Account ... ... Dr. To Debentures Account (Being the amount due on First and Final Call on Debentures as per Board's Resolution dated . .....).		30,000	 30,000
Bank Account ... ... Dr. To Debenture First and Final Call Account (Being the amount received on First and Final Call on Debentures).		30,000	 30,000

Discount on Issue of Debentures.—Debentures can be issued at a discount, i.e., at a price less than the face value, unless the Articles forbid such an issue. When Debentures are issued at a Discount, Bank Account is debited with the actual amount received, Discount on Debentures Account is debited with the total discount allowed on the whole issue, and Debentures Account is credited with the full nominal value of the Debentures issued. The Discount on Debentures is a loss, but it should not be completely written off in the year in which the Debentures are issued, since the benefit to be derived from the amount borrowed by such an issue will continue till the Debentures are redeemed. Where the Debentures are redeemable at the end of a fixed period, a proportionate amount of the Discount should be written off out of revenue every year during which the Debentures are outstanding. The debit balance left on the Discount on Debentures Account will continue to be shown separately on the assets side of the Balance Sheet until it is completely written off.

Where the Debentures are irredeemable, the Discount on Debentures should not be allowed to stand in the books permanently, but should be written off within a reasonable period. While writing up the Books of Accounts, care should be taken to distinguish Cash Discounts from the Discount on Debentures, since the latter needs special treatment as described above.

Where any other expenses are incurred on the issue of Debentures, it is usual to debit such expenses as well as the Discount on the Debentures to one account called "Cost of Issue of Debentures." The whole of the cost of issue should then be spread equally over the number of years for which the Debentures are to run and a proportionate amount charged off to Profit off appearing in the meantime on the assets side of the Balance Sheet, under its distinct heading.

The Premium on Redemption of Debentures Account will appear as a distinct liability apart from the Debentures Account, year after year, during the period the Debentures are running. When the Debentures become repayable, the credit balance of Premium on Redemption of Debentures Account will be transferred to the Debentures Account, and on the Debenture-holders being paid out the whole amount including the premium, the Debentures Account will be debited and thus closed.

It must be noted that the provision to be made in respect of redemption of the Debentures must be inclusive of the premium amount.

ILLUSTRATION 120.

A Company issued Rs. 1,00,000 worth of 6% Debentures at par repayable after 10 years at a premium of 5%. Pass the necessary entry to record the transaction.

		Rs.	Rs.
Bank Account	Dr.	1,00,000	
Loss on Issue of Debentures	„	5,000	
To Debentures Account			1,00,000
„ Premium on Redemption of Debentures			5,000

NOTE.—As the Debentures are to last for 10 years, one-tenth of the Loss on Issue will be charged off to revenue each year, so that by the time the Debentures expire, the whole of the loss would be equally distributed.

Debentures issued at Discount and Repayable at Premium.—When the Debentures are issued at a discount and are repayable at a premium, the whole of the difference represented by the actual amount realised at the time of issue and the amount repayable inclusive of the premium will be debited to Loss on Issue of Debentures Account.

ILLUSTRATION 121.

A Company issued Rs. 1,00,000 worth of 6% Debentures at a discount of 5% repayable after 10 years at a premium of 5%. Pass the necessary entry to record the transaction.

		Rs.	Rs.
Bank Account	Dr.	95,000	
Loss on Issue of Debentures	„	10,000	
To Debentures Account			1,00,000
„ Premium on Redemption of Debentures			5,000

NOTE.—In this case, the loss represents the difference between the discount and par value and also the par and the premium value. The whole of this loss of Rs 10,000 will be spread equally over the 10 years the Debentures are to run, and a proportionate amount will be charged off to revenue each of these years.

Provision for Redemption of Debentures.—As Debentures issued by a Limited Company are usually redeemable at the end of a specified period, it is necessary that some provision should be made for their redemption during the term covered by the Debentures, as otherwise it would be very hard for the Company to find a lump amount at the time when they become repayable.

The provision for Redemption of Debentures is therefore usually made by creating a Sinking Fund and investing the same in gilt-edged securities or by taking out a Sinking Fund Insurance Policy.

Under the first method, a certain fixed sum is set aside out of profits every year and a corresponding amount is invested in gilt-edged securities, which when allowed to accumulate with compound interest will produce the amount required to redeem the Debentures on their due date.

The entry necessary to make provision for the Redemption of Debentures is to debit the Profit & Loss Appropriation Account and credit the Sinking Fund Account or the Debenture Redemption Fund Account at the end of every year, with the amount ascertained for the purpose. When a corresponding sum is invested in gilt-edged securities, Debenture Redemption Investment Account will be debited and Bank Account will be credited.

The periodical interest when received on these investments will be credited to the Debenture Redemption Fund Account and not to Interest Account. The amount received in respect of Interest would also be immediately invested in the same class of securities, the entry being to the debit of Debenture Redemption Investment Account and to the credit of Bank Account.

Year after year, this procedure would be followed, and at the end of the term of Debentures, the Redemption Fund Account and the Redemption Fund Investment Account would be accumulated to an amount sufficient for the repayment of the Debentures.

On the sale of the specific Investments, Bank Account will be debited and Debenture Redemption Investment Account will be credited with the sale proceeds. The balance on the latter account will represent profit or loss on realisation of investments and should be transferred to Debenture Redemption Fund Account. This will close the Debenture Redemption Investment Account.

When the Debenture-holders are paid off, Debentures Account will be debited and Bank Account credited.

The purpose for which the Debenture Redemption Fund Account was created having been fulfilled, it is no longer necessary to allow this account to stand in the books under the same old name, and the balance on this Account should, therefore, be transferred to General Reserve Fund.

The method of Sinking Fund Insurance Policy is, perhaps, a bit more costly, but is becoming more popular with large companies on account of its simplicity and also due to the fact that the policy is not subject to any risk of depreciation due to market fluctuations to which gilt-edged securities are open.

The entries for the creation of the Sinking Fund are similar to those described above in respect of Debenture Redemption Fund Account. But instead of investing the annual sum set aside out of profits in gilt-edged securities, the same is paid by way of premium to an Insurance Company, which issues an endowment policy for an amount equal to the sum necessary to redeem the Debentures and maturing on the date when the Debentures become repayable. The premium paid annually will be debited to Sinking Fund Policy Account and credited to Bank. On the maturity of the policy, the amount will be received from the Insurance Company and the entry would be to debit Bank and credit Sinking Fund Policy Account. The balance on the latter account, if any, will be transferred to Sinking Fund Account. On payment to the Debenture-holders, Debentures Account will be debited and Bank Account credited. After the payment of the Debentures, the credit balance on the Sinking Fund Account is transferred to the General Reserve Fund.

When the Debentures are repayable by annual drawings out of Capital and not out of profits, there is no necessity for creating a Redemption Fund. At the end of each year when the Debentures are paid off, the entry would be to debit Debentures Account and credit Bank.

ILLUSTRATION 122.

A Company issues 7½% Debentures of Rs. 6,00,000 with a condition that they should be redeemed by setting aside at the end of every year Rs. 20,000 out of profits and investing the amount in 4% Government Securities (Free of Tax). The interest received at the end of every year should also be invested in the same securities. Show the Debenture Redemption Fund Account and the Debenture Redemption Investment Account for the three years after the issue of Debentures. The investments are made in multiples of Rs. 100 only.

DEBENTURE REDEMPTION FUND ACCOUNT.

			Rs.			Rs.
1st Year	To Balance c/d. ...		20,000	1st Year	By Profit & Loss Appropriation Account ...	20,000
		Rs.	20,000		Rs.	20,000
			Rs.			Rs.
2nd „	To Balance c/d. ...		40,800	2nd „	By Balance b/d. ..	20,000
					„ Interest on Rs. 20,000 ...	800
					„ Profit and Loss Appropriation Account ...	20,000
		Rs.	40,800		Rs.	40 800
			Rs.			Rs.
3rd „	To Balance c/d. ...		62,432	3rd „	By Balance b/d. ...	40,800
					„ Interest on Rs. 40,800 ..	1,632
					„ Profit and Loss Appropriation Account ..	20,000
		Rs.	62,432		Rs.	62,432
				4th „	By Balance b/d. ...	62,432

DEBENTURE REDEMPTION INVESTMENT ACCOUNT.

			Rs.			Rs.
1st Year	To Bank ...		20,000	1st Year	By Balance c/d. ...	20,000
			Rs.			Rs.
2nd „	To Balance b/d. ...		20,000	2nd „	By Balance c/d. ...	40,800
	„ Bank—	Rs.				
	Interest	800				
	Instalment	20,000				
			20,800			
		Rs.	40,800		Rs.	40,800
			Rs.			Rs.
3rd „	To Balance b/d. ...		40,800	3rd „	By Balance c/d. ...	62,400
	„ Bank—	Rs.				
	Interest	1,600				
	Instalment	20,000				
			21,600			
		Rs.	62,400		Rs.	62,400
4th „	To Balance b/d. ...		62,400			

NOTE.—Since the first instalment will be invested at the end of the first year, no interest in respect thereof will be received in the first year.

ILLUSTRATION 123.

The X Company Ltd. issued Debentures for Rs. 5,00,000 redeemable at a premium of 5% at the end of 10 years. The directors decided to apply a part of the annual profits to raise a Debenture Redemption Fund to redeem the Debentures including the premium payable.

Draft the Journal Entries required to be passed each year (excluding the figures) to bring this arrangement into effect. Show also how the Ledger Accounts will appear at the end of the 10 years, before and after the redemption takes place. Give further Journal Entries showing the final redemption of Debentures.

Solution.

JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
	First Year Profit and Loss Appropriation Account ... ... Dr. To Debenture Redemption Fund (For amount of profits set aside for redemption of Debentures).		...	...
	Debenture Redemption Investment Account ... Dr. To Bank Account (Being the investment of the above amount set aside out of profits for redemption of Debentures).		...	...
	Second and Subsequent Years Bank Account ... ... Dr. To Debenture Redemption Fund (For the amount of Interest realised on the specific investments).		...	...
	Profit and Loss Appropriation Account ... ... Dr. To Debenture Redemption Fund (For the annual amount set aside out of profits to build up the Debenture Redemption Fund).		...	...
	Debenture Redemption Investment Account ... Dr. To Bank (Being the investment of the sum set aside each year out of profits as also the interest realised on specific securities).		...	...

LEDGER ACCOUNTS BEFORE REDEMPTION.

DEBENTURES ACCOUNT.

		Rs.
	By Bank ...	5,00,000

PREMIUM ON REDEMPTION OF DEBENTURES ACCOUNT.

		Rs.
	By Sundries ...	25,000

DEBENTURE REDEMPTION FUND ACCOUNT.

	Rs.		Rs.
		By Sundries ...	5,25,000

DEBENTURE REDEMPTION INVESTMENT ACCOUNT.

	Rs.		
To Sundries	5,25,000		

JOURNAL ENTRIES TO EFFECT REDEMPTION.

		L. F.	Rs.	Rs.
Bank Account ... ... Dr. To Debenture Redemption Investment Account [For amount realised (assumed figure) on sale of Investments].			5,23,500	5,23,500
Debenture Redemption Premium ... ... Dr. To Debentures Account (For transfer of the premium payable on redemption to the Debentures Account).			25,000	25,000
Debentures Account ... ... Dr. To Bank (For payment to the Debenture-holders inclusive of the premium).			5,25,000	5,25,000
Debenture Redemption Fund ... ... Dr. To Debenture Redemption Investment Account (For transfer of loss on sale of Investments to the former Account).			1,500	1,500
Debenture Redemption Fund ... ... Dr. To Reserve Fund (For transfer of the credit balance on the former Account to the General Reserve Fund).			5,23,500	5,23,500

LEDGER ACCOUNTS AFTER REDEMPTION.

PREMIUM ON REDEMPTION OF DEBENTURES ACCOUNT.

	Rs.		Rs
To Debentures Account—Transfer ..	25,000	By Sundries	25,000

DEBENTURES ACCOUNT.

	Rs.		Rs.
To Bank	5,25,000	By Balance ..	5,00,000
		,, Premium on Redemption-Transfer	25,000
Rs.	5,25,000	Rs.	5,25,000

DEBENTURE REDEMPTION FUND ACCOUNT.

	Rs.		Rs.
To Debenture Redemption Investment Account—Transfer ...	1,500	By Sundries ...	5,25,000
,, Reserve Fund—Transfer ...	5,23,500		
Rs.	5,25,000	Rs.	5,25,000

DEBENTURE REDEMPTION INVESTMENT ACCOUNT.

	Rs.		Rs.
To Sundries ..	5,25,000	By Bank ...	5,23,500
		,, Debenture Redemption Fund Account—Transfer ..	1,500
Rs.	5,25,000	Rs.	5,25,000

RESERVE FUND ACCOUNT.

	Rs.		Rs.
		By Debenture Redemption Fund Account—Transfer ..	5,23,500

Debentures as Collateral Securities.—When Debentures are issued by a company as a collateral security against a loan or a bank overdraft, they serve as an additional security to the creditor and can be realised by the possessor in case the loan is not repaid at maturity and the principal security proves insufficient. Ordinarily, such Debentures will be withdrawn on the repayment of the loan.

No entry need be passed in the financial books of the Company, but the fact of such Debentures having been issued must be clearly stated in the Balance Sheet under the liability in respect of which they are so issued.

Redeemable Preference Shares.—These shares can only be redeemed out of the proceeds of a fresh issue of shares made *solely* for the purpose of redemption or from divisible profits. The provision for redemption out of distributable profits should be made by either debiting Profit and Loss Appropriation Account or Reserve Fund, as the case may be, and crediting Capital Redemption Reserve Fund.

ILLUSTRATION 124.

The Hard and Fast Co., Ltd. had, as a part of its Share Capital, 500 Redeemable Preference Shares of Rs. 100 each fully paid and these have become due for redemption. The Company having Rs. 45,000 to its Reserve Fund, issued Ordinary Shares of the face value of Rs. 30,000 at a premium of 10 per cent specifically for the purpose of such redemption and received cash for the full amount of the issue. The Redeemable Preference Shares are then paid out of the proceeds of the new issue, the balance having been met out of the balance to the credit of the Reserve Fund. Pass Journal Entries and show Ledger Accounts recording the above transactions.

Solution.

JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
Bank Account ... ... To Ordinary Share Capital Account „ Premium on Shares Account (Being the amount realised on the issue of Ordinary Shares).	Dr.		31,500	30,000 1,500
Redeemable Preference Shares Account ... ... To Preference Shareholders' Account (Being the transfer entry prior to redemption of the Shares).	Dr.		50,000	50,000
Reserve Fund ... ... To Capital Redemption Reserve Fund (Being the amount set aside from distributable profits to provide for redemption).	Dr.		18,500	18,500
Redeemable Preference Shareholders' Account ... To Bank (Being the entry for payment).	Dr.		50,000	50,000

REDEEMABLE PREFERENCE SHARES ACCOUNT.

	Rs.		Rs.
To Preference Shareholders' Account—Transfer ...	50,000	By Balance b/fd. ...	50,000
Rs.	50,000	Rs.	50,000

PREFERENCE SHAREHOLDERS' ACCOUNT.

	Rs.		Rs.
To Bank ...	50,000	By Redeemable Preference Shares Account—Transfer ...	50,000
Rs.	50,000	Rs.	50,000

RESERVE FUND ACCOUNT.

	Rs.		Rs.
To Capital Redemption Reserve Fund—Transfer ...	18,500	By Balance b/fd. ...	45,000
„ Balance c/d. ...	26,500		
Rs.	45,000	Rs.	45,000
		By Balance b/d. ...	26,500

CAPITAL REDEMPTION RESERVE FUND.

			Rs.
		By Reserve Fund Account-Transfer	18,500

ORDINARY SHARE CAPITAL ACCOUNT.

	By Bank	..	Rs. 30,000

PREMIUM ON SHARES ACCOUNT.

	By Bank	...	Rs. 1,500

NOTE.—As Rs. 31,500 have been realised from the issue of new Ordinary Shares, it has become necessary to provide Rs. 18,500 only from the Reserve Fund in order to secure Rs. 50,000 for the redemption of the shares. If the shares had to be redeemed at a premium, the latter would also have to be provided for from the Reserve Fund.

Sub-division of Shares.—On a sub-division of Shares being duly authorised and resolved upon, the necessary entry would be as under:

ILLUSTRATION 125.

The X Co., Ltd., resolves to sub-divide its 5,000 fully paid Ordinary Shares of Rs. 100 each into 50,000 Ordinary Shares of Rs. 10 each fully paid. Pass the necessary Journal Entry to give effect to this.

Solution.

		Rs.	Rs
Ordinary Share Capital Account (Rs. 100)	Dr.	5,00,000	
To Ordinary Share Capital Account (Rs. 10)			5,00,000
(Being the sub-division of 5,000 fully paid Ordinary Shares of Rs. 100 each into 50,000 Shares (fully paid) of Rs. 10 each as per the Shareholders' Resolution dated ...... Minute Book folio ....).			

The original Share Certificates will have to be called back and cancelled and 10 new Shares of Rs. 10 each fully paid will be issued in place of each of the old shares of Rs. 100.

Consolidation of Shares.—In case of a consolidation of shares, the reverse entry to the above will be passed. Thus, if 50,000 fully paid shares of Rs. 10 each are consolidated into 5,000 fully paid shares of Rs. 100 each, the entry will be:—

		Rs.	Rs.
Ordinary Share Capital Account (Rs. 10)	Dr.	5,00,000	
To Ordinary Share Capital Account (Rs. 100)			5,00,000
(Being the consolidation of 50,000 fully paid shares of Rs. 10 each into 5,000 fully paid shares of Rs. 100 each).			

Profit and Loss Appropriation Account.—The net profit made by a company as appearing from its Profit and Loss Account is transferred to the credit of another account styled Profit and Loss Appropriation Account. The object of this account is to show the amount of the net profit available for disposal and how the same has been appropriated. Any balance of profit left from the previous year will appear as the first item on the credit side of this account. On the debit side of this account will appear all such items as represent allocations or appropriations of net profits, such as dividends declared, amounts set aside for Debenture Redemption Fund, Reserve Fund, Dividend Equalisation Fund, etc. Provisions made in respect of Income-tax payable, as also any percentage of net profits payable to the general manager, should be charged to this account. This account must always show a credit balance representing profits not disposed off and will appear on the liabilities side of the Balance Sheet.

DIVIDENDS.

Dividends are proportions of profits distributed to the shareholders according to their holdings. The declaration of a dividend may be by way of either a fixed amount per share or a percentage on the Capital of the Company.

The power to declare a dividend rests with the company in general meeting, but unless the Directors recommend a dividend, the shareholders have no right to declare it. Besides, dividends can be declared and made payable only from out of net profits. An Ordinary Resolution is sufficient for the purpose of declaring a dividend, and once the dividend is declared, it becomes a liability of the company to the shareholders.

Share Dividend Book.—Immediately after the declaration of a dividend, a statistical book called Share Dividend Book is written up in order to ascertain the exact amount of dividend payable to each shareholder. The details to be entered in this book are ascertained from the Register of Members. The form of this book is given on page 461 and the columns are self-explanatory. If any instructions are received from a member as to the payment of a dividend direct to his bankers, such instructions will be noted in the Remarks column. Dividend Warrants are then issued to the shareholders, requesting them to cash these either at the Registered Office of the company or at the bankers specified therein. In the latter case, arrangements would be made with the bankers to transfer the whole amount of the dividend payable from the Current Account to a separate Dividend Account. At periodical intervals, the paid warrants would be obtained from the bankers and would be debited to the Dividend Account and credited to the special Account after being checked with the Pass Book entries. The balance on the Dividend Account as per the Bank Pass Book will represent unpaid dividend and should tally with the credit balance on the Dividend Account in the Ledger. The Dividend Account of each year is given a consecutive number in order to distinguish it from the previous or future Dividend Accounts.

Entries would also be made in the Share Dividend Book as and when dividends are paid, so that this Book will help to ascertain as to whose dividends are in arrears, from time to time.

Interim Dividends.—The power to declare Interim Dividends is generally given by the Articles, and Table A empowers the Directors to pay Interim Dividends at their discretion. This dividend is usually declared by the Directors without the sanction of the company in general meeting. Since an Interim Dividend is in anticipation of the profits for the whole financial year, the Directors must be careful to see that the profits already made sufficiently justify the payment of an interim dividend and there is no likelihood of any loss being made in the succeeding half year as would wipe off the profits already made in the first half year. If the company makes loss for the year, the dividend will be taken to have been declared and paid out of capital, and the Directors will be personally liable to make good the whole amount paid by way of interim dividend.

Before declaring an interim dividend, interim financial accounts should be prepared in which all the usual provisions in respect of outstanding liabilities for Expenses, Depreciation, etc., should be made. Although the accounts may disclose large profits, it is always desirable that the interim dividend be declared on a very conservative basis, leaving a major portion of the profits undistributed to provide for contingencies.

Dividend Entries.—When a *dividend is declared Free of Income-tax,* it means that the gross amount of the dividend declared should be paid to the shareholders without deducting any income-tax. On a dividend being declared, the entry would be to debit Profit and Loss Appropriation Account and credit the particular Dividend Account with the total amount of the Dividend payable. Separate Dividend Accounts should be kept for the dividends on different classes of shares. As and when the dividend is paid, Dividend Account is debited and Bank Account is credited. If some of the shareholders have not claimed their dividends, the Dividend Account will show a credit balance representing dividends unpaid. This is a liability of the company to the shareholders and will appear on the liabilities side of the Balance Sheet under the heading of Unclaimed or Unpaid Dividends.

When a *dividend is declared less Tax,* it means that each shareholder will receive only the net amount after deducting from the gross dividend the amount of Income-tax at the appropriate rate ruling at the time of declaration of dividend. Unless a dividend is specifically declared to be *free of tax,* it is always assumed to be *less tax.* The dividend on preference shares, in the absence of any provision in the Articles to the contrary, should always be paid less tax. The Income-tax deducted from a dividend declared less tax is not to be paid to the Inland Revenue authorities. since a company always pays Income-tax on its entire net profits for the year irrespective of whether these are distributed to the shareholders or not. The company by declaring a dividend less tax simply recoups a portion of the tax from the shareholders.

In the books of accounts, the following entries will be necessary on the declaration of a dividend less tax:—

		Rs.	Rs.
Profit and Loss Appropriation Account	Dr.	..	
To Dividend Account			..
(With the gross amount of Dividend declared).			
Dividend Account	Dr.	..	
To Income-tax Account			..
(With the amount of Income-tax calculated at the appropriate rate on the gross dividend).			

The second entry has the effect of reducing the debit already given to the Income-tax Account in respect of Income-tax paid by the company on the whole of its profits.

The credit balance of Dividend Account will now stand at the total net figure of dividend payable, and on each shareholder being paid his net amount of dividend (after deduction of Income-tax), Dividend Account will be debited and Bank Account credited. The account will be closed when all the shareholders have received their dividend.

Dividend on partly-paid Shares.—(1) Dividend may be payable on the Nominal, Called up or paid up amount of the shares as laid down in the Company's Articles.

(2) Where there is no specific mention in the Articles in regard to Dividends and the corresponding clauses in Table A are not excluded, the provisions in Table A will hold good, and dividend would then become payable on the paid up amount of the Shares. Calls paid in advance, however, will not be considered for this purpose, but the same may carry interest if the Company's Articles so allow.

(3) Where the Company's Articles are silent on the matter of Dividends and the corresponding Clauses in Table A are specifically excluded, the Dividend will become payable on the nominal amount of the Shares.

The following Clauses in Table A are obligatory on every Company:—

(Clause 95). The Company in general meeting may declare dividends, but no dividends shall exceed the amount recommended by the directors.

(Clause 97). No dividends shall be paid otherwise than out of profits of the year or any other undistributed profits.

Interest on Debentures.—As Interest on Debentures is a charge on the profits, a provision should be made in respect of any such interest unpaid at the end of the financial period, by debiting Debenture Interest Account and crediting an account styled "Debenture-holders for Interest."

The detailed record in regard to the amount of interest due to each Debenture-holder at the end of each half-year or year as the case may be, is kept in a Statistical Book called Debenture Interest Book, the form of which is illustrated on the opposite page.

Deduction of Income-tax from Debenture Interest.—A company is entitled to deduct income-tax at the current rate before paying interest to the debenture-holders. The income-tax thus collected will have to be handed over to the Revenue Authorities together with the tax the company has to pay on its own assessable profits.

In examination papers and exercises, whenever a Trial Balance includes the item of Debentures, the student must carefully look for the item of Debenture Interest to see if full one year's interest is brought into account or not. If the debit to Debenture Interest is not shown at the full figure, the balance must be provided for by charging the amount to Debenture Interest and crediting the same to Outstanding Creditors' Account. Even if there is no debit to Debenture Interest and the exercise is silent on the provision to be made in this respect, the item should be provided for inasmuch as it is as good a charge on the company's profit as any other business expense.

The entries in connection with Debenture Interest are:—

Debenture Interest .. .. Dr.
(For the gross annual Debenture Interest)
To Income-tax Collector
(For the amount to be handed over to him)
To Debenture-holders
(For the net amount payable to them).

As the debenture-holders are paid the net amount of interest, Debenture-holders' Account would be debited and Bank credited.

SHARE DIVIDEND BOOK (Ordinary Shares).

Dividend at ...... per cent per annum payable on .... 19 , in respect of the year ended ....19 .

Folio in Register of Members.	Name.	Address.	No. of Shares held.	Amount paid on Shares.	No. of Dividend Warrant.	Amount of Dividend.	Income-tax to be deducted at...........in the Re.	Net amount payable.	Date paid.	Cash Book Folio.	Remarks.
				Rs.		Rs.	Rs. a. p.	Rs.			

DEBENTURE INTEREST BOOK.

Folio Deb. Regr.	Name.	No. of Debentures.	Amount of Debentures.	Half Year's Interest.	Amount of Tax to be deducted.	Net Interest payable.	Date paid.	C. B. Folio.	Remarks.
			Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.			

At balancing time, if the income-tax thus deducted has not been handed over to the Collector, and if any debenture interest remains unpaid, both these items will figure in the Balance Sheet as Outstanding Liabilities.

Dividend Equalisation Fund.—A Dividend Equalisation Fund is created by some companies for the purpose of equalising the distribution of profits as between lean and prosperous years. It is a prudent financial policy for a company to distribute only a part of the profits made in prosperous years and to hold back a portion thereof in reserve to be drawn upon in the years in which the profits are not sufficient to declare the usual dividend. In this way, the company is enabled to pay a fixed rate of dividend for all the years whether bad or good, thereby preventing wide fluctuations in the market value of its shares.

The fund is created by debiting Profit & Loss Appropriation Account and crediting Dividend Equalisation Fund Account with the amount of profits required to be set aside. The fund may be either invested outside the business or left in the business at the discretion of the directors.

When the fund is drawn upon in less prosperous years for the purpose of declaring a dividend, the entry necessary would be to debit Dividend Equalisation Fund Account and credit Profit & Loss Appropriation Account with the amount required to be transferred from the Fund.

Reserve Fund.—A Reserve Fund is created out of distributable profits with a view to strengthen the financial position of the company or for the purpose of providing for any contingency that may arise. The entry necessary to transfer any sum from divisible profits to Reserve Fund is to debit Profit & Loss Appropriation Account and credit Reserve Fund.

It may be pointed out that in the absence of a Dividend Equalisation Fund as above explained, a Company can fall back upon its Reserve Fund, if need be, for the purpose of enabling it to pay a dividend or to equalise dividend.

Investment of Reserve Fund.—The question as to whether the Reserve Fund or the Dividend Equalisation Fund should be invested in specific securities outside the business or the amount of undistributed profits as represented by the Reserve Fund or the Dividend Equalisation Fund should be allowed to get merged in the general assets of the company, would depend on the financial condition of the company. Where the company is sufficiently capitalised in the sense that any additional working capital cannot be usefully employed in the business, it would seem advisable to invest these Funds in gilt-edged securities. Where, however, the company seems to be hampered for want of working capital, it would appear to be a bad financial policy to deplete its cash resources by investing these Funds in outside securities.

When any investments are specifically purchased to represent Reserve Fund or Dividend Equalisation Fund, care should be taken to see that the amount is debited to a Reserve Fund Investment Account or Dividend Equalisation Fund Investment Account, as the case may be, so as to distinguish these investments from those acquired for any other purpose.

ILLUSTRATION 126.

The Directors of a company with a fully paid capital of 5,00,000 Ordinary Shares of Re. 1 each, decided to pay for the half year ended 30th June 1932 an Interim Dividend of 10% per annum free of tax. Give the necessary entries in the financial books to record the payment of the Interim Dividend.

The following Journal Entries are necessary:—

	L.F.	Rs.	Rs.
Profit and Loss Appropriation Account ... Dr. To Interim Dividend Account (Being Interim Dividend for the half year ended 30th June 1932 at 10% per annum, free of tax on 5,00,000 Ordinary Shares of Re. 1 each fully paid, declared by the Board on..............).		25,000	25,000
Interim Dividend Account ... ... Dr. To Bank (Being payment of the Interim Dividend).		25,000	25,000

BALANCE SHEET.

Definition of Balance Sheet.—It is necessary for the student to understand at this stage of his progress, that a Balance Sheet is not only a mere statement of assets, liabilities and capital of a concern at any one date. It includes, no doubt, all the assets and liabilities of the concern, but in many cases it also includes items on both sides which may neither be called assets nor liabilities. For example, items such as preliminary expenses, brokerage on shares, cost of issue of debentures, discount on issue of debentures or shares and other items of deferred revenue expenditure such as abnormally heavy advertising or repairs and renewals which are written off over a period of years, necessarily appear on the right-hand side of a Balance Sheet until written off, and it would be incorrect to term them "Assets". Besides, in a Company Balance Sheet, the debit balance on the Profit & Loss Account, if any would also appear on its right-hand side, and this item surely cannot be termed an "Asset". On the other hand, items such as Reserve Fund, Amount received on account of Forfeited Shares and balance on Profit and Loss Appropriation Account appear on the left-hand side of the Balance Sheet, and these cannot be scheduled as "Liabilities".

For the above reasons, it is desirable that the sides of a Balance Sheet should not be headed "Assets" and "Liabilities". If the right-hand side be headed "Assets", it must necessarily mean that every item shown underneath is an asset, and the total of this side must represent the total value of the assets at the date of the Balance Sheet, whereas, in a majority of Company Balance Sheets it is not so. The same argument, of course, holds good in regard to the heading "Liabilities" on the left-hand side of the Balance Sheet.

A Balance Sheet may, therefore, properly be defined as a classified summary of assets, liabilities and all other balances remaining in the Ledger after all the nominal accounts have been closed by transfer to the Profit and Loss Account, the balance of net profit or net loss as shown by the latter account being also included therein. A Balance Sheet includes the net result of the Profit & Loss Account, whereas the latter account serves to give detailed information as to how such profit or loss has arisen.

Object of a Balance Sheet.—The main object of every Balance Sheet should be to indicate clearly and concisely the true financial position of the undertaking at one particular date. As the capital of any undertaking is represented by the excess of assets over liabilities, a Balance Sheet serves to indicate what capital there is in the concern at the date of such Balance Sheet, how it stands invested and whether such capital has increased or decreased as compared with the capital at the commencement of a given period. Further, since a true profit must always result in a corresponding increase of capital, and a loss in a decrease in the capital invested in a business, it follows that a Balance Sheet also acts as a check on the correctness of the trading result as disclosed by the preparation of the Profit & Loss Account. Thus, if the Profit & Loss Account shows that a profit has been made during a given period, the excess of assets over liabilities as appearing from the Balance Sheet at the end of that period must show a corresponding increase over the excess of assets over liabilities as indicated by the previous Balance Sheet. On the other hand, if the Profit & Loss Account of a stated period shows that a loss has been incurred, then the capital as disclosed by the Balance Sheet at the end of that period must show a like decrease as compared with the capital indicated by the Balance Sheet at the commencement of that period.

Valuation of Assets.—The main object of a Balance Sheet is to reflect the true financial condition of the undertaking, and it is necessary, therefore, to see that all assets and liabilities are brought in at their proper values, that all the items are properly classified and shown under correct headings, and that no material fact is suppressed or is represented in a manner as would create a misconception as to the true financial condition of the concern in question.

As has been said above, the capital of any undertaking at any one date is represented by the surplus of its assets over liabilities at that date. Further, since any increase or decrease of capital during a given period would indicate the profit or loss made during that period, it is clear that the ascertainment of the true profit or loss as also the correctness of a Balance Sheet depend considerably upon the manner in which the various assets have been valued for the purpose of inclusion in such Balance Sheet. As the question of proper valuation of assets plays such an important part in the preparation of the periodical accounts of any concern, it has been thought proper to consider it here in detail.

There appears to be a considerable misconception in the lay mind regarding the meaning to be attached to the figures in the Balance Sheet. The opinion is held by some that if the assets of a company would not realise the values stated in the Balance Sheet in the event of liquidation, such Balance Sheet is unreliable and that it fails to indicate the true position of the concern. The true value of an asset does not necessarily mean the amount that the asset, if offered for sale by auction or otherwise, would realise. That would be difficult to arrive at, in almost all cases. What is aimed at in drawing up a Balance Sheet is a fair estimate of the value of assets of a company as a going concern. A company's Balance Sheet is not drawn for the purpose of showing what the capital would be worth if the assets were realised and the liabilities paid off, but rather to show how the capital stands invested. If the values shown are based on principles generally recognised as sound and correct, and if the basis of valuation is clearly indicated on the face of the Balance Sheet, then such Balance Sheet is "properly drawn up so as to exhibit a true and correct view of the state of the company's affairs" as required by the Act.

Ordinarily, *Fixed Assets*—which are held not with a view to re-sale but which have been acquired by a company by way of permanent equipment to enable the company to earn profits for a period of years by their use, are valued at original cost *less* an estimated amount of deterioration such assets are deemed to have undergone in each period owing to the use made thereof. On the other hand, *Floating Assets* which are produced or acquired by a company in course of its business and are held with a view to re-sale or immediate realisation into cash, should always be valued on the basis of either cost or market price, whichever is lower at the date of the Balance Sheet.

In other words, whereas fixed or permanent assets are unaffected by market fluctuations and are always valued on the standpoint of their utility to the concern owning them, the value of floating or circulating assets is always modified by market fluctuations for the reason that, as it is the intention of the company to convert these assets into cash, they should not be assessed in the Balance Sheet at more than they are likely to realise, even though they may have cost more.

It is now proposed to deal in detail with the valuation of some of the important assets which are constantly met with in Company Balance Sheets.

Goodwill.—As a rule, goodwill should not be shown as an asset in a Balance Sheet, except in case of purchase of an established business when a price has been paid for goodwill. In such a case, it should appear at cost price, and must be clearly set out as a separate item.

There is no legal obligation on a company to provide for the redemption of goodwill out of revenue, and the writing off of goodwill, therefore, becomes a mere matter of policy. If times are good and profits are on the upgrade, there is no necessity to write down goodwill, for, it is not subject to wear and tear or to obsolescence and it does not require to be renewed. It is, however, an asset of doubtful value inasmuch as it retains its value so long as profits continue to be made, but disappears altogether when depression of trade sets in. In practice, therefore, it is either written off over a term of years or a reserve is built up against it during years of prosperity.

Land and Buildings.—These assets should be stated at cost *minus* some reasonable depreciation in respect of wear and tear of Buildings. All repairs and renewals should be charged to revenue and only actual additions, extensions or structural alterations and improvements to properties as would add to their revenue earning capacity should be capitalised. If the property in question is a leasehold, the percentage of depreciation to be provided for annually should be such as would bring down the book value of leasehold to zero by the time the lease expires. Whilst considering the amount of depreciation to be written off the lease, the question of the amount to be provided for dilapidations at the end of the term should also be borne in mind. The Articles of the company must also be consulted to ascertain if any provision for redemption of the lease is to be made prior to distribution of profits. It is never desirable to write up the book value of any asset until realisation, although it may have actually increased in value.

Plant and Machinery.—This asset must also be shown at its original cost with the provision for depreciation as a deduction. All additional capital expenditure during the year must be represented by actual additions or improvements and must be shown distinctly. Repairs and renewals should always be charged to revenue. The question of depreciation must receive most careful attention. The provision should be such as to reduce the book value of the plant to its residual value at the end of its estimated life. The depreciation may be calculated in any one of the various ways, but it must be seen that the same method is utilised year after year. If the plant is of a heavy nature, which will be required to be renewed in full at the end of a lengthy period, the Depreciation Fund System should be adopted.

In large undertakings, where the machinery is very costly, the amount of depreciation would make a material difference in the net profit. In such cases, a Machinery Register is kept in which separate accounts are opened of different sections of machinery requiring different rates of depreciation. As the rates of depreciation vary according to the durability and class of the machinery and the use it is subjected to in each particular business, it is necessary that these should be fixed by the engineer or the works manager.

In writing off depreciation, no regard need be taken of any fluctuation in the market price of similar plant, whether such price be up or down, as the plant is held as a fixed asset and not for the purpose of re-sale.

In case of re-sale of any old machine or part thereof, care must be taken to see that the item is not credited to Sales but to Plant and Machinery Account, and that any difference between the book value and the realised price is written off.

Patents.—The cost of a patent should be written off in the course of its life. It may be, that the patent might become valueless due to obsolescence or failure to create a demand of the patented article, and in such a case, it should be seen that its value is written off even before the expiration of the period covered by the patent.

In a business where patents form valuable assets, periodical revaluation becomes necessary. It is never desirable, however, to write up the value of any patent, even if on a revaluation it is found to be in excess of the book value.

Patterns and Drawings.—The values of only such patterns and drawings as are in fairly constant use should be shown in the Balance Sheet. Proper depreciation should be provided each year and the patterns that have become obsolete should be entirely written off. Expenditure in respect of patterns and drawings made for any special contract or job should be charged off to that particular contract or job.

Loose Tools.—It is usual to have a revaluation made of these at each stock-taking, the schedules being properly certified by some responsible manager. The difference between the actual value as ascertained from the inventory and the book value must be written off as depreciation.

Live Stock.—These should be scheduled and certified by a responsible official, and brought into each Balance Sheet at a fresh valuation.

Stock-in-Trade.—The valuation placed on the Closing Stock must receive most careful attention, as the correctness of the profit of a business would depend to a considerable extent on the accuracy with which this asset is valued. Stock-in-Trade is a floating asset and, therefore, the basis of valuation should be cost price or market price, whichever be the lower at the date of the Balance Sheet. Under no circumstances should it be valued above cost, as this would result in anticipating profits which may or may not be realised.

A manufacturer's Stock-in-Trade will naturally include raw materials, goods in process of manufacture and finished goods. Ordinarily, as the raw materials are held by a manufacturer not with the object of re-sale but to be consumed in the process of manufacture, the basis of valuation adopted is the actual cost price. The cost price would consist of the net invoice price (after deduction of trade discounts and allowances) *plus* all direct charges such as freight, duty, clearing charges, carriage, etc., as may have been incurred before the materials reach the factory. If, however, the market value of raw materials at the date of balancing has fallen to an extent as would affect the sale price of the manufactured articles, then it is desirable to value these at market price.

As to the valuation of partly finished and finished goods, the basis generally accepted as sound and correct is the cost of the raw materials consumed, the productive wages and a percentage to cover factory expenses, such as the wages of foremen, supervisors, store-keepers, time-keepers; cleaners, etc., motive-power, factory rent, lighting, heating and depreciation of plant arrived at on some reasonable basis. It is not desirable, under any circumstance, to add any percentage in respect of office establishment and administration expenses for the purpose of inclusion of these items in the Balance Sheet. If, however, the cost of the goods in process of manufacture or of finished goods ascertained as above exceeds their market price, then it would be necessary to value them at the market price and not at the cost price.

The further important points to be borne in mind while valuing Stock-in-Trade are:—

(1) That the Stock Sheets are subjected to a good internal check, i.e., they are certified as to take, prices, extensions and additions, and are approved as correct by the managing director or some responsible official;

(2) That obsolete and unsaleable Stock is written down;

(3) That goods entered as sold and not delivered are not included;

(4) That goods bought and not entered in the Invoice Book are not included;

(5) That goods sent out on consignment, on sale or return, or with branches are not valued at a price higher than the cost; and

(6) That the goods received on consignment or on sale or return are not included in the stock figure.

In no event should stock be valued at higher than cost, as the effect of this will be to bring into account a purely fictitious and unrealised profit.

Goods on Consignment.—The basis of valuation of any unsold balance of outward consignments should be cost or market price, whichever is the lower. The cost price of the unsold portion would no doubt include the proportionate expenses incurred by the consignor, such as freight, etc., but it is most undesirable to include in this valuation the proportionate expenses *incurred by the consignee*. Further, while valuing the unsold balance of consignments, due allowance must be made for deteriorated or damaged goods.

Sundry Debtors.—The amount appearing under this head must represent *bona fide* Debts, after all known Bad Debts have been written off and a sufficient reserve is provided for doubtful debts and discounts. Statute-barred debts and debts under dispute should be reserved for in full. The item of Sundry Debtors should include only balances owing by customers and should not include any debtors for loans. If there are any amounts owing by directors or managers, the same should be shown separately on the Balance Sheet. It must be seen that goods sent out on consignment, or sale or return, and goods sent to branches are not included in this item.

Bills Receivable.—The amount appearing under this head in the Balance Sheet must consist of only unmatured Bills Receivable, all overdue and dishonoured bills being written back to the personal accounts of the acceptors or endorsers concerned. Full provision should be made in respect of dishonoured bills as also in regard to weak bills as are not likely to be honoured. The contingent liability on account of Bills Receivable discounted should be stated by way of a foot-note on the face of the Balance Sheet.

Investments.—Where there are many investments, a schedule should be prepared giving particulars of each investment, the actual cost, and the market value as at the date of the Balance Sheet. It is a prudent policy to write the investments down to market value, if that is lower than the cost; temporary market fluctuations may, however, be disregarded. If the investments are taken at cost and no provision is made for the fall in market value, it is best to show on the Balance Sheet what the market value was. In any case, the basis of valuation should be clearly stated on the Balance Sheet, i.e., as to whether Investments have been valued at cost or market price. The Investments should be subdivided in such a manner as to give a fair idea of their true nature. In other words, gilt-edged Securities should not be mixed up with Investments of a speculative nature, such as shares in joint stock companies, but both these should be grouped separately and shown distinctly under the heading of "Investments".

Where the market value of the Investments at the date of the Balance Sheet has fallen below the cost price and there is no immediate chance of its going up, the best method of providing for such a loss is to debit Depreciation Account and credit Investment Fluctuation Account. The balance on this latter Account must be shown by way of deduction from the item Investments on the assets side.

Deferred Revenue Expenditure.—In case any amount is expended by way of abnormally heavy advertising, unusually heavy repairs or replacements or expenses on removal of business, there can be no objection to spreading such an expenditure over a term of years, provided the benefit to be derived from it is likely to last for such period. Such items come under the heading of Deferred Revenue Expenditure, and until the whole amount expended is written off, the debit balance will appear on the assets side of the Balance Sheet. Care must, however, be taken to see that they appear under a heading clearly indicating the nature of the expenditure so that no one reading the Balance Sheet may mistake them for any tangible assets.

PRESCRIBED FORM OF BALANCE SHEET.

Form F—Prescribed Form of Balance Sheet.—The Indian Companies Act, 1936, has made substantial improvements regarding information to be conveyed to the shareholders and others to enable them to ascertain the true state of affairs of a company. Thus, in the matter of accounts, apart from the compulsory compilation of a Profit & Loss Account, the New Form F, representing the prescribed Form of Balance Sheet, provides for more detailed information being given in the Balance Sheet so as to help anyone reading it to judge fairly and accurately the exact financial-condition of the company. The Form appears on pages 472 to 475, and all additional information required under the *amended form* is shown in italics, so that the improvements made on the Old Form may be seen at a glance.

The following important points need to be carefully noted:—

Property and Assets Side:—

It would be noticed from this Form that the Assets and Liabilities are arranged in *order of permanence,* the Fixed Assets being shown above the Floating Assets and the Fixed Liabilities over the Floating Liabilities.

Fixed Capital Expenditure.—The Fixed Capital Expenditure is required to be distinguished as far as possible between the several assets acquired, namely, Goodwill, Land, Buildings, Leaseholds, Railway Sidings, Development of Property, Plant, Machinery, Furniture, Patents, Trade Marks, Designs, etc.

Each Fixed Asset will have to be shown at its *original cost* and under its *appropriate heading.* Any *additions* thereto or *deductions* therefrom during the year will have to be clearly indicated. The *total Depreciation* written off under each head will also have to be shown by way of deduction from the asset in question.

Where any assets have been written down on a reduction of capital or on a revaluation, every subsequent Balance Sheet will have to disclose the date of such reduction and the amount of the reduction made.

Interest paid out of Capital during Construction.—A company can pay Interest out of capital during the period of construction under the following circumstances, and the amount thus paid is allowed to be capitalised and shown under Fixed Capital Expenditure, under its distinct head. The Balance Sheet must clearly set out the Share Capital on which and the rate at which such interest has been paid during each period.

Where any shares of a company are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant which cannot be made profitable for a lengthened period, the company may pay interest on so much of that share capital as is for the time being paid up for the period. and may charge the same to capital as part of the cost of construction of the work or building or the provision of plant, provided that:

1. No such payment must be made unless the same is authorised by the Articles or by Special Resolution;

2. No such payment, whether authorised by the Articles or by Special Resolution, must be made without the previous sanction of the Local Government;

3. The payment should be made only for such a period as may be determined by the Local Government;

4. The rate of interest shall in no case exceed four per cent per annum; and

5. The accounts of the company shall show the share capital on which, and the rate at which, interest has been paid out of capital during the period to which the accounts relate. (*Sec. 107*).

Preliminary Expenses, Brokerage on Shares or Debentures, Discount on Issue of Shares or Debentures, or Under-writing Commission.—Such items are required to be shown under their distinct heads until written off. It may be mentioned in connection with these items that inasmuch as they are of the nature of deferred revenue expenditure and do not represent any tangible assets, it would seem desirable and sound not to permanently capitalise them, but to write them off as soon as circumstances would permit.

Stock-in-Trade.—The mode of valuation, i.e., cost price or market value will have to be clearly stated on the face of the Balance Sheet.

Book Debts.—These will have to be distinguished between good, doubtful or bad; further, debts fully secured and unsecured will have to be separately stated. Debts due by Directors or other officers of the company will also have to be specifically disclosed.

Advances.—Under this head will appear pre-paid expenses by way of Rates, Taxes, Insurance, etc., as also loans, if any, given to Subsidiary Companies under distinct heads.

Any loans, even by way of temporary advances, if made to Directors or Managers, at any time during the year, will have to be disclosed. Even where such a loan has been repaid before the end of the financial period, the fact will have to be stated by way of a note.

Investments.—The mode of valuation of Investments, viz., cost or market value, must be clearly mentioned. Further, the different classes of investments must be distinctly shown as under:—

(*a*) Investments in Government or Trust Securities,
(*b*) Investments in shares, debentures or bonds (showing separately shares fully paid up and partly paid up),
(*c*) Investments in shares, debentures or bonds of subsidiary companies, and
(*d*) Immovable properties.

Interest Accrued on Investments.—Under this head, any interest on investments calculated from the date upto which it was last received to the date of the Balance Sheet will have to be brought in.

Bank Balances.—While showing the *Bank Balances,* it must be stated whether they are on Current or Fixed Deposit Accounts.

Profit & Loss Account.—The *Loss,* if any, made by a Limited Company will remain on the debit of Profit & Loss Account and will appear as the last item on the assets side, under the heading of Profit & Loss Account.

Capital and Liabilities Side:—

Authorised Capital.—The different classes of the authorised share capital are required to be distinguished, under this head.

Issued Capital.—The issue of shares in cash and the issue for consideration other than cash must be separately stated.

Unpaid Calls.—Calls unpaid and due from managing agents are required to be shown separately from those due from others.

Forfeited Shares.—The amount received on Forfeited Shares is required to be shown distinctly from the Paid-up Capital.

Redeemable Preference Shares.—Where such shares are issued, the Balance Sheet must state the date on or before which the shares are liable to be redeemed.

Reserves.—Under this head will be shown such Reserves as may have been built up by way of appropriations out of undistributed profits, such as Reserve Fund, Dividend Equalisation Fund, etc.

Any provision, if made, for decline in market value of securities and styled either Investment Depreciation Fund or Investment Fluctuation Fund should preferably be shown as a deduction from the asset in question.

Provision for Bad and Doubtful Debts.—This item, although required to be shown on the liabilities side of the Balance Sheet, would be more correctly shown as a deduction from the item Book Debts on the assets side.

Debentures.—When these are secured, the nature of the security should be stated.

Sinking Fund.—Debenture Redemption Fund, or Sinking Fund for the redemption of Leasehold, if any, would appear under this head.

Secured Loans.—These are required to be classified as under:—

(*i*) loans on mortgage of fixed assets,
(*ii*) loans on debentures,
(*iii*) loans from banks, stating the nature of security,
(*iv*) liability to subsidiary companies,
(*v*) other secured loans, stating the nature of security, and
(*vi*) interest accrued on mortgages, debentures or other secured loans.

NOTE.—As the liability on account of Debentures is shown as a separate item, it is assumed that Loans on Debentures appearing as item (*ii*) would mean Loans on the collateral security of debentures.

Unsecured Loans.—These have also been classified as under:—

(*i*) loans from banks,
(*ii*) fixed deposits,
(*iii*) short-term loans,
(*iv*) advances by directors or managers and managing agents,
(*v*) interest accruing but not due and interest accrued and due, and
(*vi*) liabilities to subsidiary companies.

Advance Payments.—Under this head, would appear any amount received by the company in return for which it has not rendered full benefit or service in the current period. For instance, a newspaper company might have received annual subscription and advertisement moneys in advance from subscribers and advertisers, but the whole of the period covered by such subscription and advertisement moneys may not have expired concurrently with the date of the financial closing. Under such a circumstance, subscription and advertisement moneys applicable to the period covered by the accounts only would be transferred to Revenue and the balance in respect of which the benefit is still to be imparted will be carried forward as a liability, under the heading of Advance Payments.

Unexpired Discounts.—This item would only arise in case of Banks or Finance Companies whose business would be to discount Bills of Exchange on a large scale. In this case, the proportionate discounts on such Bills as remain unmatured at the date of the Balance Sheet will have to be transferred from the credit of Discount Account to an Account styled Rebate on

[Continued on p. 476

INDIAN COMPANIES ACT,

(See Section

....

Balance Sheet as at

CAPITAL AND LIABILITIES.					
CAPITAL—					
Authorised Capital....shares of Rs......each .. (*Distinguishing between the various classes of Capital.*)	...	...	...		
Issued Capital....shares of Rs......each ..	...	...	...		
(i) *Shares issued as fully paid up pursuant to any contract without payments being received in cash....shares of Rs......each.*					
(ii) *Shares issued for payments in cash .... shares of Rs.......each.*					
Subscribed Capital....shares of Rs......each ..	...	...	...		
Amount called up at Rs.......per share ..	...	...	...		
Less—Calls unpaid—					
(i) *due from Managing Agents*	...	...	...		
(ii) *due from others*	...	...	...		
Add—Forfeited shares (amount paid up).					
Note.—Where circumstances permit, issued and subscribed capital and amount called up may be shown as one item, e.g., Issued and Subscribed Capital.......shares of Rs..........each, Rs...........paid up.	...	...	...	...	...
RESERVES					
DEBENTURES *stating the nature of security* ..				..	...
ANY SINKING FUND				...	...
ANY OTHER FUND CREATED OUT OF NET PROFITS, *including any development fund*				...	...
ANY PENSION OR INSURANCE FUND				...	...
PROVISION FOR BAD AND DOUBTFUL DEBTS ..				...	...
LOANS—					
(a) Secured—				...	...
(i) *loans on mortgages or fixed assets* ..	...	...	...		
(ii) *loans on debentures*	...	...	...		
(iii) *loans from banks, stating the nature of security*	...	...	...		

NOTE.—This new Form F replaces the old Form F. *Additions* have been shown

SCHEDULE III, FORM F

132)

LIMITED.

....................19 .

PROPERTY AND ASSETS.		
FIXED CAPITAL EXPENDITURE— (Distinguishing as far as possible between expenditure upon goodwill, land, buildings, leaseholds, railway sidings, plant, machinery, furniture, development of property, patents, trade marks and designs, interest paid out of Capital during construction, etc., and stating in every case the original cost *and the additions thereto and deductions therefrom during the year,* and the total Depreciation written off under each head. *Where sums have been written off on a reduction of capital or a revaluation of assets, every balance sheet after the first balance sheet subsequent to the reduction or revaluation shall show the reduced figures, with the date of and the amount of the reduction made.*)	...	......
PRELIMINARY EXPENSES	...	......
COMMISSION OR BROKERAGE .. .. .. (Commission or Brokerage paid for underwriting or placing *or subscribing* shares or *debentures until written off.*)	...	......
Discount Allowed on the issue of shares or so much as has not been written off at the date of the balance sheet.	...	......
STORES AND SPARE *Parts*	...	......
LOOSE TOOLS	...	......
LIVE-STOCK AND *Vehicles*	...	......
STOCK-IN-TRADE .. .. (Stating mode of valuation, e.g., cost or market value.)	...	......
BILLS OF EXCHANGE		
BOOK DEBTS (other than bad and doubtful debts of a Bank for which provision has been made to the satisfaction of the auditors) ..	...	......
(Distinguishing between those considered good and in respect of which *the company* is fully	...	......

n *italics.*

CAPITAL AND LIABILITIES—*Contd.*					
(*iv*) *liabilities to subsidiary companies* ..	...	...	...		
(*v*) *other secured loans stating the nature of security*	...	...	...		
(*vi*) *interest accrued on mortgages, debentures or other secured loans* ..	...	...	...		
(*b*) Unsecured—					
(*i*) *loans from banks*	...	...	...		
(*ii*) *fixed deposits*	...	..	...		
(*iii*) *short-term loans*	...	...	..		
(*iv*) *advances by directors or managers and managing agents*	...	..	...		
(*v*) *interest accruing but not due and interest accrued and due*	...	...	...		
(*vi*) *liabilities to subsidiary companies* ..	...	...	...	...	..
UNCLAIMED DIVIDENDS				...	...
LIABILITIES—					
For Goods supplied	...	...	...		
For Expenses	...	...	...		
For Acceptances	...	..	...		
For Other Finance	...	...	...	...	..
ADVANCE PAYMENTS AND UNEXPIRED DISCOUNTS .. (For the portion for which value has still to be given, e.g., in the case of the following classes of companies—Newspaper, Fire Insurance, Theatre, Club, Banking, Steamship Companies, etc.)				...	...
PROFIT AND LOSS				...	...
				...	..
CONTINGENT LIABILITIES—					
Claims against the company not acknowledged as debts	...	...	...		
Money for which the company is contingently liable .. .. (*Showing separately the amount of any guarantees given by the company on behalf of directors or officers of the company.*)	...	...	...		
Arrears of Cumulative Preference Dividends ..	...	...	..		

The information required to be given under any of the items or sub-items in this or Schedules to be attached to and form part of the Balance Sheet.

SCHEDULE III, FORM F—(*Contd.*)

PROPERTY AND ASSETS—*Contd.*						
secured and those considered good for which *the company* holds no security other than the debtors' personal security, and distinguishing between debts considered good and debts considered doubtful or bad. Debts due by directors or other officers of the company or any of them either severally or jointly with any other persons to be separately stated.)						
ADVANCES				...		
(Recoverable in cash or in kind or for value to be received, e.g., Rates, Taxes, Insurance, etc., *showing separately*)—						
(i) *loans given to subsidiary companies* ..	...	...	...			
(ii) *loans including temporary advances made at any time during the year to directors or managers of the company* ..	...	...	...			
INVESTMENTS				...	...	...
[*Showing nature of investments and mode of valuation, e.g., Cost or Market Value and distinguishing—*						
(i) *investments in Government or trust securities*	...	...	...			
(ii) *investments in shares, debentures or bonds (showing separately shares fully paid up and partly paid up)* ..	...	...	...			
(iii) *investments in shares, debentures or bonds of subsidiary companies* ..	...	...	...			
(iv) *immovable properties*]	...	...	...			
INTEREST ACCRUED ON INVESTMENTS				...	...	...
CASH AND OTHER BALANCES				...	...	...
Amount in hand	...	...	...			
Balances with Agents and Bankers (in detail showing whether on deposit or current account, etc.)	...	...	...			
PROFIT AND LOSS				...	...	...

...orm, if not included in the Balance Sheet itself, shall be furnished in a separate Schedule.

Bills Discounted and would then appear as a liability under the above head, representing discounts received in the current year but properly applicable to the next period.

Profit & Loss Account.—The details of appropriation of profits are omitted as a separate Profit & Loss Account is now made compulsory.

Contingent Liabilities.—Contingent Liabilities are liabilities which have not arisen or have already accrued, but may arise out of transactions pending upon the happening of a certain event. Thus a contingent liability may or may not involve the payment of money.

Among instances of Contingent Liabilities may be quoted:—(1) Liability for Calls on partly paid shares held; (2) Liability on Bills Receivable discounted and not matured; (3) Liabilities under a Guarantee; (4) Liabilities for Penalties under Contracts; and (5) Liability in respect of arrears of Dividend on Cumulative Preference Shares.

While preparing a Balance Sheet, only the liabilities that have actually accrued due to the date of the financial close should necessarily be brought into account. The Form of Balance Sheet prescribed under the Indian Companies Act, however, requires that Contingent Liabilities should be stated in the shape of a Note appended to the Balance Sheet, at the foot of the liabilities side.

The amount of any guarantees given by the Company on behalf of directors or officers is required to be separately shown under this head.

Arrears of Cumulative Dividend.—As the liability in respect of the Arrears of Dividend on Cumulative Preference Shares is a contingent liability and does not arise until the Company has made sufficient profits to enable such dividends to be paid, no entry should be made in the Books regarding these. The form of Balance Sheet under the Indian Companies Act, however, requires such arrears to be shown by way of a Note on the liabilities side of the Balance Sheet.

Alteration of Share Capital.—A company, if authorised by its Articles may, by Special Resolution, alter its share capital in any of the following ways:—

(a) increase its share capital by the issue of new shares;

(b) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;

(c) convert all or any of its paid up shares into stock and reconvert that stock into paid up shares;

(d) subdivide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum, so however, that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived; or

(e) cancel unissued capital, thereby diminishing the nominal capital accordingly.

The above powers must be exercised by the company in general meeting (*Sec. 50.*)

Notice of any such alteration, consolidation, conversion or subdivision must be given to the Registrar of Joint Stock Companies within 15 days and every copy of the Memorandum issued after the date of the alteration shall be in accordance with the alteration. (*Sec. 51.*)

NOTE.—*Journal Entries in regard to Subdivision and Consolidation of Shares are given on page 457.*

Reduction of Share Capital.—Subject to confirmation by the Court, a company, if authorised by its Articles, may, by Special Resolution, reduce its share capital in any way, and in particular may.

(*a*) extinguish or reduce the liability on any of its shares in respect of capital not paid up; or

(*b*) either with or without extinguishing or reducing liability on any of its shares, cancel any paid up share capital which is lost or unrepresented by available assets; or

(*c*) either with or without extinguishing or reducing liability on any of its shares, pay off any paid up share capital which is in excess of the wants of the company, and may, if and so far as is necessary, alter its Memorandum by reducing the amount of its share capital and of its shares accordingly. (*Sec. 55.*)

Where a company has passed the necessary Special Resolution, it must apply by petition to the Court for an order confirming the reduction. (*Sec. 56.*)

If the proposed reduction involves any diminution of liability in respect of unpaid calls or the repayment to shareholders of paid up capital, any creditor has a right to object to the reduction.

The Court, if satisfied, with respect to every creditor of the company who is entitled to object to the reduction, that either his consent to the reduction has been obtained or his claim has been discharged or has been secured, may make an order confirming the reduction on such terms and conditions as it thinks fit.

On and from the passing by a company of a resolution for reducing share capital, or where the reduction does not involve either the diminution of any liability in respect of unpaid share capital or the payment to any shareholder of any paid up share capital, then on and from the making of the order confirming the reduction, the company shall add to its name, until such date as the Court may fix, the words "and reduced" as the last words in its name, and those words shall, until that date, be deemed to be part of the name of the company.

Where the reduction does not involve either the diminution of any liability in respect of unpaid share capital or the payment of any shareholder of any paid up share capital the Court may, if it thinks expedient, dispense altogether with the addition of the words "and reduced". (*Sec. 57.*)

Reduction of Capital for writing off Losses.—The following illustration serves to show the entries in a company's books consequent upon reduction of capital to write off heavy losses.

ILLUSTRATION 127.

A company having sustained heavy losses obtained the sanction of the Court to reduce its capital from 10,000 shares of Rs. 20 each, Rs. 15 per share paid up to 10,000 shares of Rs. 20 each, Rs. 10 per share paid up. The necessary Journal entry would be:

		L. F.	Rs.	Rs.
Share Capital Account	Dr.		50,000	
To Profit and Loss Account				50,000
(Being reduction of 10,000 shares of Rs. 20 each, Rs. 15 per share paid up, to 10,000 shares of Rs. 20 each, Rs. 10 per share paid up, as per Special Resolution dated.... confirmed by the Court's order dated......)				

Each page in the Register of Members will be impressed with a rubbe stamp as to the resolution. The Share Certificates may be dealt wit similarly or new ones may be issued cancelling the old ones.

Reduction of Capital for wiping off Losses and writing down Assets.

ILLUSTRATION 128.

The Balance Sheet of the Imperial Trading Co., Ltd., showed as follows on 31s December 1937 :—

BALANCE SHEET.

As at 31st December 1937.

CAPITAL AND LIABILITIES	Rs.	PROPERTY AND ASSETS	Rs.
Authorized Capital :—		Freehold Premises ...	1,00,000
30,000 Ord. Shares of Rs. 10 each ...	3,00,000	Plant and Machinery ...	2,00,000
30,000 Pref. Shares of Rs. 10 each ...	3,00,000	Stock ...	56,000
Rs.	6,00,000	Sundry Debtors ...	32,000
Issued and Subscribed Capital :—		Preliminary Expenses ...	6,000
20,000 Ord. Shares of Rs. 10 each, fully called ...	2,00,000	Cash at Bank ...	1,000
20,000 Pref. Shares of Rs. 10 each, fully called ...	2,00,000	Profit and Loss Account—debit balance ...	1,25,000
Sundry Creditors ...	45,000		
Bank Overdraft ...	75,000		
Rs.	5,20,000	Rs.	5,20,000

It was resolved, (1) that Ordinary and Preference Shares be reduced to the same number of fully paid shares of Rs. 5 each; and that (2) the sum thus made available be utilised (*a*) in writing off the debit balance of Profit & Loss Account; (*b*) in writing off Preliminary Expenses Account; (*c*) in writing down the Machinery Account by Rs. 60,000; (*d*) by writing down Stock by Rs. 5,000; and (*e*) in providing a Reserve of Rs. 4,000 for Doubtful Debts.

JOURNAL ENTRIES.

		L. F.	Rs.	Rs.
Ordinary Share Capital Account			1,00,000	
Preference " "	Dr.		1,00,000	
To Capital Reduction Account	"			2,00,000
(Being reduction of 20,000 Ordinary Shares of Rs. 10 each, and 20,000 Preference Shares of Rs. 10 each, fully paid to an equal number of Ordinary and Preference shares of Rs. 5 each, fully paid as per Special Resolution dated......sanctioned by the Court on.........).				

JOURNAL ENTRIES—(*Contd.*)

	L. F.	Rs.	Rs.
Capital Reduction Account ... ... Dr.		2,00,000	
To Profit and Loss Account			1,25,000
,, Preliminary Expenses Account			6,000
,, Plant and Machinery Account			60,000
,, Stock Account			5,000
,, Reserve for Doubtful Debts Account			4,000
(Being the amount of losses wiped off, and the assets written down, out of the reduction of capital as above).			

THE IMPERIAL TRADING COMPANY LIMITED (*and reduced*).

BALANCE SHEET.

As at 31st December 1937.

CAPITAL AND LIABILITIES		Rs.	PROPERTY AND ASSETS	Rs.	Rs.
Authorized Capital (and reduced):—			Freehold Premises ...		1,00,000
30,000 Ordinary Shares of Rs. 10 each reduced to Rs. 5 each. ...	Rs. 1,50,000		Plant and Machinery ...	2,00,000	
			Less reduced by Capital Reduction ...	60,000	1,40,000
30,000 Preference Shares of Rs. 10 each reduced to Rs. 5 each ...	1,50,000		Stock		51,000
			Sundry Debtors ...	32,000	
Rs.	3,00,000		*Less* Reserve for Doubtful Debts ...	4,000	28,000
ssued and Subscribed Capital (and reduced):—			Cash at Bank ...		1,000
20,000 Ordinary Shares of Rs. 10 each reduced to Rs. 5 each, fully paid ...	1,00,000		Profit and Loss Account ...	1,25,000	
			Written off by Reduction of Capital ...	1,25,000	...
20,000 Preference Shares of Rs. 10 each reduced to Rs. 5 each, fully paid ...	1,00,000	2,00,000			
undry Creditors ...		45,000			
ank Overdraft ...		75,000			
Rs.		3,20,000	Rs.		3,20,000

Capitalisation of Reserves.—Occasionally, in the case of a successful ompany, large reserves might have been accumulated out of profits as a esult of the directors' policy not to distribute the whole of the profits, but › lay aside something to enable the company to meet any unforeseen conngency that may arise in the future or to serve as so much more working apital to cope with the increasing business. Besides, the Reserve Fund may ave accumulated to an amount far in excess of the present or the future eeds of the company, and it would then be deemed desirable to give benefit f a part of such reserve to the existing shareholders by way of compensaon for the loss of dividends which they have suffered. This desire on the art of the directors can be given effect to by a Bonus to shareholders payble from out of the Reserve Fund being proposed by the former and sanconed by the General Meeting of Shareholders. Instead, however, of paying ısh and depleting the financial resources of the company, such bonus may be satisfied by the issue of additional shares considered as fully or partly paid up. Thus the company is enabled to capitalise a part of its reserves by issuing Bonus Shares in lieu of cash.

The capitalising of reserves by the above method benefits the company inasmuch as the past accumulated profits are permanently retained in the business. Further, the share capital is thus adjusted to a figure more on a level with the actual capital employed in the undertaking. Where the profits and the consequent dividends are large in comparison with the company's paid up capital, the inference of profiteering naturally follows; but where the paid up capital is increased by the issue of bonus shares, although the profits will remain practically at about the previous level, the percentage of dividend must necessarily be reduced, although the actual return to the individual shareholder will remain the same.

The shareholders will have no occasion to be dissatisfied with such a procedure, as they can easily realise their Bonus Shares, if they so wish to. Besides, the fact that the Company was enabled to issue Bonus Shares out of accumulated Reserves will tend to bring up the market value of those shares at a premium.

Bonus Shares issued at Par out of Reserve.—Sometimes a company having large reserves accumulated out of profits, issues fully paid Bonus Shares to its Shareholders so that the latter may enjoy some benefit by way of dividends on those shares and at the same time the money being thus capitalised may remain in the business as working capital.

The following illustration will show the entries to record such a transaction.

ILLUSTRATION 129.

A Limited Company having a paid-up Capital of Rs. 5,00,000 in shares of Rs 10 each, had a Reserve of Rs. 90,000 built up out of profits. It was resolved to capitalise Rs. 50,000 of the Reserve by issuing 5,000 fully paid Bonus Shares of Rs. 10 each, each shareholder to get one such share for every ten shares held by him in the Company.

JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
Reserve Fund ... ... To Bonus to Shareholders' Account (Being Bonus of 10% payable out of Reserve as per Shareholders' Resolution dated... .....).	Dr.		50,000	50,000
Bonus to Shareholders' Account ... ... To Share Capital Account (Being the issue of 5,000 fully paid Bonus Shares of Rs. 10 each in payment of bonus, at the rate of 1 Bonus Share for every 10 Shares held in the company).	Dr.		50,000	50,000

Bonus Shares issued at a Premium out of Reserve.—When the market price of existing shares in a company is at premium, the bonus shares are generally issued at a premium.

ILLUSTRATION 130.

A company with a paid-up Capital of Rs. 80,000 in shares of Rs. 5 each declared a bonus of Rs. 30,000 out of Reserve, payable in fully paid-up shares of Rs. 5 each at a premium of Rs. 2-8 per share, each shareholder to get one such share for every four shares that he held in the company.

JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
	Reserve Fund ... ... Dr. To Bonus to Shareholders' Account (Being the amount of Bonus payable out of Reserve in fully-paid shares as per Shareholders' Resolution dated............).		30,000	30,000
	Bonus to Shareholders' Account ... ... Dr. To Share Capital Account „ Share Premium Account (Being the isssue of 4,000 fully-paid Bonus Shares of Rs. 5 each at a premium of Rs. 2/8 per share in payment of the Bonus at the rate of one Bonus Share for every four Shares held in the Company).		30,000	20,000 10,000

Bonus used in making partly-paid Shares fully-paid.—Occasionally, the existing shares are only partly called up, and in such a case the Bonus is utilised in making the partly-paid shares fully paid up.

ILLUSTRATION 131.

A company with a Subscribed Capital of Rs. 1,00,000 in shares of Rs. 10 each, had called up Rs. 7-8 per share. A Bonus of Rs. 25,000 is now declared out of Reserve to be applied in making the existing shares fully paid up.

JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
	Final Call Account ... ... Dr. To Share Capital Account (Being the Final Call of Rs. 2/8 per share of 10,000 Shares as per Board's Resolution dated............).		25,000	25,000
	Reserve Fund ... ... Dr. To Bonus to Shareholders' Account (Being the Bonus of Rs. 2/8 per share on 10,000 Shares, payable out of the Reserve as per Shareholders' Resolution dated...............).		25,000	25,000
	Bonus to Shareholders' Account ... ... Dr. To Final Call Account (Being the amount of Bonus applied towards the payment of Final Call as per Resolution dated.........).		25,000	25,000

Treatment of Profit Prior to Incorporation or Commencement Certificate.—When a company takes over a running business from a date prior to the date of its own incorporation, the profits earned prior to incorporation cannot be said to have been earned by the company, as it had no legal existence then, and such profits are, therefore, not legally available for the purpose of distribution as dividend. In case of a public company, it is not supposed to have legally earned profits until it has received a Certificate entitling it to commence business. Evidently, therefore, such profits are in the nature of Capital Profits and should be transferred to Capital Reserve Fund.

It need be noted, however, that in return for the loss of profits which the vendors sustain from the date of sale of their business to the date of actual payment of the purchase consideration by the company, the vendors are entitled to a certain rate of interest on the purchase price from the date the sale is effected to the date of payment; and, inasmuch as such interest payable by the company is in return for the profits it enjoys from the date of purchase, it becomes necessary to see that the interest from the date of purchase to the date of incorporation or commencement certificate is set off as a first charge against the profits, if any, made by the company, between the above two dates. The credit balance of such profits, if any, then left after the charge in respect of the above interest, should be transferred to Capital Reserve Fund and *not* to the general or ordinary Reserve Fund, as the latter is available at any time for equalisation of dividend. If, however, the directors feel that the book values of some of the assets acquired are far in excess of their true present worth, they can well utilise the balance of the above profits in writing down such assets so as to bring them on a par with their present values, or in reducing the value of goodwill account, if there is any.

Ascertainment of Profit Prior to Incorporation or Commencement Certificate.—The ascertainment of the actual profits made before incorporation is practicable only provided stock is taken and valued as at the date of the company's incorporation. As, however, in a majority of cases this is not done, the first Trading and Profit and Loss Account naturally includes the figures for the whole period, viz., from the date of purchase of the business to the close of the financial period. The net profits thus ascertained would then have to be apportioned into two periods, viz., *before* and *after* the incorporation, on some equitable basis. This apportionment may be done either on the basis of the periods themselves or on the basis of the respective turnover of each of the periods. The only profits then available for dividend would be those ascertained to have been earned subsequent to incorporation, or in case of a public company, subsequent to receipt of its Commencement Certificate.

A still more reliable and accurate method for approximation of profits prior to incorporation is to apportion the gross profit between the two periods on the basis of their respective turnovers and then to set off against such gross profit the revenue expenses of each period. In so allocating the expenses, fixed expenses such as Office Rent, Staff Salaries, Rates, Taxes, Insurance, etc., should be apportioned on the basis of the time covered by each period. On the other hand, expenses as have a direct bearing on the sales such as Commission to canvassers and sales managers, Travelling Expenses of canvassers, Advertising, etc., should be apportioned on the basis of the turnover of each period. The expenses of each period having thus been set off against their relative figure of gross profit, the net profit made before and after the incorporation or Commencement Certificate will be ascertained.

Loss Prior to Incorporation or Commencement Certificate.—If a company buys over a running business before the date of its registration and a loss is incurred prior to the date of Incorporation or the date of Commencement Certificate, such loss should be capitalised by adding it to the amount of Goodwill paid on the purchase of business, or if no Goodwill is paid for, by debiting the amount to Goodwill Account. If it is not desired to capitalise the loss, then the amount should be left on a Suspense Account, which should be written off out of profits of a capital nature, e.g., Premium on Shares, Profit on Forfeited Shares, or Premium on Issue of Debentures, etc.

ILLUSTRATION 132.

The Tin Toys, Ltd. was registered on 1st January 1938, to buy over the business of Messrs. Symington & Todd as on 1st October 1937, and obtained its Certificate for Commencement of Business on 1st February 1938.

The accounts of the company for the period ended 30th September 1938, disclosed the following facts:—

(1) The turnover for the whole period amounted to Rs. 2,40,000 of which Rs. 40,000 related to the period from 1st October 1937 to 1st February 1938.

(2) The Trading Account showed a gross profit of Rs. 96,000.

(3) The following items appeared in the Profit and Loss Account:—

	Rs.	
Directors' Fees	1,500	
Auditor's Fees	750	
Rent, Rates, etc.	4,800	
Bad Debts	2,000	(of which Rs. 700 related to Book Debts created before 1st February 1938).
Staff Salaries	12,000	
Debenture Interest	6,000	
Depreciation on Plant and Machinery ..	3,600	
Preliminary Expenses	2,400	
General Expenses	1,800	
Commission on Sales	3,600	
Printing and Stationery	2,400	
Advertising	4,200	
Travellers' Expenses & Salaries	8,400	
Interest to Vendors @ 6% on Rs. 1,00,000 from 1st October 1937 to 31st May 1938 ..	4,000	

	Profits prior to Commencement Certificate.		Profits after Commencement Certificate.	
	Rs.	Rs.	Rs.	Rs.
Gross Profit Rs. 96,000 apportioned on the basis of turnover...		16,000		80,000
Less Expenses:—				
1. Directors' Fees			1,500	
2. Auditors' Fees			750	
3. Rents, Rates, etc.	1,600		3,200	
4. Bad Debts	700		1,300	
5. Staff Salaries	4,000		8,000	
6. Debenture Interest			6,000	
7. Depreciation on Plant and Machinery	1,200		2,400	
8. Preliminary Expenses			2,400	
9. General Expenses	600		1,200	
10. Commission on Sales	600		3,000	
11. Printing and Stationery	800		1,600	
12. Advertisements	700		3,500	
13. Travelling Expenses and Salaries	1,400		7,000	
14. Interest on Purchases Price	2,000		2,000	
Net Profit for the period	2,400		36,150	
Rs.	16,000	16,000	80,000	80,000

NOTES.—(*a*) Expenses which relate solely to the company are not apportioned.

(*b*) Expenses having a direct bearing on the sales are apportioned on the basis of the sales for each period.

(*c*) Other expenses are apportioned on the basis of time.

Preparation of Books and Accounts for Audit.—The Secretary being the clerical agent of the company, it is his duty to see that the accounts to be submitted to the auditor have been accurately prepared, and the books of account properly balanced. It would not, therefore, be out of place to append the following summary to show as to what an auditor would ordinarily expect to find done before he commences with the audit:—

1. A complete list of all books kept should be prepared.

2. All postings and additions should be completed in ink and the Trial Balance agreed.

3. The Cash Book should be made up to the date of audit and the balance of cash in hand kept ready for verification.

4. The Bank Account must be reconciled with the Bank Pass Book which should be made up to the date of audit. A certificate must also be obtained from the Bankers as to the amount of the balance at Bank at the date of closing.

5. Vouchers should be available for all payments and properly arranged and numbered consecutively for facility of reference.

6. A list should be prepared of all Bills of Exchange, Deeds, Investments and other Securities which should be ready for the auditor's inspection.

7. Complete stock lists, properly priced, extended, added and certified as correct by some responsible official, must be ready together with a statement as to the basis of valuation.

8. A list of all accounts, the recovery of which is doubtful, should be prepared so as to enable the auditor to judge as to the adequacy of the provision made in this respect.

9. A list of all Outstanding Liabilities should be prepared and signed by the Secretary with a statement that all liabilities pertaining to the period under review have been included.

10. All Statutory Books must be ready for inspection.

11. A draft Trading and Profit and Loss Account and Balance Sheet should be prepared and approved by the Board (subject to audit).

ILLUSTRATION 133.

The Eastern Trading Company, Limited, was formed with an Authorised Capital of 20,000 Ordinary Shares of Rs. 100 each and 20,000 Preference Shares of Rs. 100 each. It acquired the business of A, B & C as at 31st December 1937, at a purchase price of Rs. 4,00,000.

The assets and liabilities of the business taken over were as follows:—

	Rs.
Freehold Premises	1,40,000
Plant and Machinery	75,000
Stock-in-Trade	80,000
Debtors	65,000
Fixtures and Fittings	12,500
Creditors	52,500

The vendors were to be paid half the amount in the issue of fully paid Preference Shares and the balance in cash; and they agreed to pay the whole of the Preliminary Expenses, which amounted to Rs. 7,500 and which the Company paid in the first instance.

The Company offered for public subscription 10,000 Ordinary Shares payable Rs. 10 on application, Rs. 20 on allotment, Rs. 20 one month after allotment and Rs. 20 two months after allotment. The issue was underwritten at a commission of 5% to the extent of 8,000 shares. The whole of the underwritten number was taken up and all the calls made thereon were paid by the allottees with the exception of allotment amount on 200 shares, and first and second calls on 250 shares. The Directors forfeited the 200 shares on which Allotment, First Call and Second Call were in arrears. Of these, the Directors re-issued 100 shares at a discount of Rs. 10 per share receiving Rs. 60 per share in cash.

Draft the necessary entries in the Company's Books to record the above transactions, give all the Ledger Accounts and show the Balance Sheet of the Company as it would appear after all the above transactions have been passed through the Company's books.

Solution.

CASH BOOK.

Receipts	Rs.	Payments	Rs.
To *Ordinary Share Application Account* (Being Cash received on application of 8,000 Ordinary Shares).	80,000	By *Preliminary Expenses* ... (Being the payment of Preliminary Expenses).	7,500
„ *Ordinary Share Allotment Account*... (Being Allotment money received on 7,800 Ordinary Shares).	1,56,000	„ *A.B. and C. (Vendors)* ... (Being the Cash payment to Vendors).	1,92,500
„ *Ordinary Share First Call Account* ... (Being the First Call money received on 7,750 Ordinary Shares).	1,55,000	„ *Underwriting Commission* ... (Being the payment of Underwriting Commission).	40,000
„ *Ordinary Share Second Call Account* (Being the Second Call money received on 7,750 Ordinary Shares).	1,55,000	„ Balance c/d. ...	3,12,000
„ *Ordinary Share Capital Account* ... (Being the money received on re-issue of 100 Forfeited Shares at a discount of 10%).	6,000		
Rs.	5,52,000	Rs.	5,52,000
To Balance b/d. ...	3,12,000		

JOURNAL ENTRIES.

	L. F.	Rs.	Rs.
Business Purchase Account ... ... Dr.		4,00,000	
To A. B. & C. (Vendors)			4,00,000
(Being the purchase price of the business taken over by the Company from Messrs. A. B. & C. as per agreement dated............).			
Debtors ... ... Dr.		65,000	
Stock-in-trade ... ... „		80,000	
Fixtures and Fittings ... ... „		12,500	
Plant and Machinery ... ... „		75,000	
Freehold Premises ... ... „		1,40,000	
Goodwill ... ... „		80,000	
To Creditors			52,500
„ Business Purchase Account			4,00,000
(Being the individual value of assets, including goodwill and liabilities taken over).			
Ordinary Share Application Account ... ... Dr.		80,000	
To Ordinary Share Capital Account			80,000
(Being the transfer of Application money received on 8,000 Ordinary Shares to Ordinary Share Capital Account).			
Ordinary Share Allotment Account ... ... Dr.		1,60,000	
To Ordinary Share Capital Account			1,60,000
(Being the total amount due on allotment of *8,000* Ordinary Shares at Rs. 20 per share as per Board's Resolution dated ....).			

JOURNAL ENTRIES.—(*Contd.*)

		L.F.	Rs.	Rs.
A. B. & C. (Vendors) Account	Dr.		2,00,000	
To Preference Share Capital Account				2,00,000
(Being the issue of 2,000 Preference Shares of Rs. 100 each fully paid to the Vendors in part payment of the purchase price as per agreement dated.........).				
A. B. & C. (Vendors) Account	Dr.		7,500	
To Preliminary Expenses				7,500
(Being the transfer of Preliminary Expenses to Vendors' Account being payable by them as per agreement dated............).				
Ordinary Share First Call Account	Dr.		1,60,000	
To Ordinary Share Capital Account				1,60,000
(Being the total amount due on First Call of Rs. 20 per share on 8,000 Ordinary Shares as per Board's Resolution dated............).				
Ordinary Share Second Call Account	Dr.		1,60,000	
To Ordinary Share Capital Account				1,60,000
(Being the total amount due on Second Call of Rs. 20 per share on 8,000 Ordinary Shares as per Board's Resolution dated.........).				
Ordinary Share Capital Account	Dr.		14,000	
To Forfeited Shares Account				2,000
,, Ordinary Share Allotment Account				4,000
,, ,, ,, First Call Account				4,000
,, ,, ,, Second Call Account				4,000
(Being the forfeiture of 200 Ordinary Shares of Rs. 100 each, Rs. 70 called up per share, for non-payment of allotment money of Rs. 20 per share, First Call of Rs. 20 per share and Second Call of Rs. 20 per share, as per Board's Resolution dated.........).				
Forfeited Shares Account	Dr.		1,000	
To Share Capital Account				1,000
Being the discount of Rs. 10 per share on the re-issue of 100 forfeited Ordinary Shares made good out of the Forfeited Shares Account).				

ORDINARY SHARE APPLICATION ACCOUNT.

	Rs.		Rs.
To Ordinary Share Capital Account—Transfer ...	80,000	By Cash ...	80,000

ORDINARY SHARE ALLOTMENT ACCOUNT.

	Rs.		Rs.
To Ordinary Share Capital Account ...	1,60,000	By Cash ...	1,56,000
		,, Ordinary Share Capital Account...	4,000
Rs.	1,60,000	Rs.	1,60,000

ORDINARY SHARE FIRST CALL ACCOUNT.

	Rs.		Rs.
To Ordinary Share Capital Account ...	1,60,000	By Cash ...	1,55,000
		„ Ordinary Share Capital Account ...	4,000
		„ Balance c/d. ...	1,000
Rs.	1,60,000	Rs.	1,60,000
To Balance b/d. ...	1,000		

ORDINARY SHARE SECOND CALL ACCOUNT.

	Rs.		Rs.
To Ordinary Share Capital Account ...	1,60,000	By Cash ...	1,55,000
		„ Ordinary Share Capital Account ...	4,000
		„ Balance c/d. ...	1,000
Rs.	1,60,000	Rs.	1,60,000
To Balance b/d. ...	1,000		

ORDINARY SHARE CAPITAL ACCOUNT.

	Rs.		Rs.
To Sundries ...	14,000	By Ordinary Share Application Account	80,000
„ Balance c/d. ...	5,53,000	„ „ „ Allotment „	1,60,000
		„ „ „ First Call „	1,60,000
		„ „ „ Second Call „	1,60,000
		„ Cash ...	6,000
		„ Forfeited Shares Account ...	1,000
Rs.	5,67,000	Rs.	5,67,000
		By Balance b/d. ...	5,53,000

PREFERENCE SHARE CAPITAL ACCOUNT.

			Rs.
		By A. B. & C. (Vendors) ...	2,00,000

FORFEITED SHARES ACCOUNT.

	Rs.		Rs.
To Ordinary Share Capital Account ...	1,000	By Ordinary Share Capital Account ...	2,000
„ Balance c/d. ...	1,000		
Rs.	2,000	Rs.	2,000
		By Balance b/d. ...	1,000

BUSINESS PURCHASE ACCOUNT.

		Rs.			Rs.
To A. B. & C. (Vendors)	...	4,00,000	By Sundries	...	4,00,000

A. B. & C. (VENDORS) ACCOUNT.

		Rs.			Rs.
To Preliminary Expenses	...	7,500	By Business Purchase Account	...	4,00,000
„ Pref. Share Capital Account	...	2,00,000			
„ Cash	...	1,92,500			
	Rs.	4,00,000		Rs.	4,00,000

SUNDRY DEBTORS' ACCOUNT.

		Rs.			
To Sundries	...	65,000			

STOCK-IN-TRADE ACCOUNT.

		Rs.			
To Sundries	...	80,000			

FIXTURES & FITTINGS ACCOUNT.

		Rs.			
To Sundries	...	12,500			

PLANT & MACHINERY ACCOUNT.

		Rs.			
To Sundries	...	75,000			

FREEHOLD PREMISES ACCOUNT.

		Rs.			
To Sundries	...	1,40,000			

GOODWILL ACCOUNT.

		Rs.			
To Sundries	...	80,000			

SUNDRY CREDITORS' ACCOUNT.

					Rs.
			By Sundries	...	52,500

PRELIMINARY EXPENSES ACCOUNT.

	Rs.		Rs.
To Cash ...	7,500	By A. B. & C. (Vendors) ...	7,500

UNDERWRITING COMMISSION ACCOUNT.

	Rs.		
To Cash	40,000		

THE EASTERN TRADING COMPANY, LIMITED.

BALANCE SHEET.

As at ....

Capital and Liabilities	Rs.	Rs.	Property and Assets	Rs.
Authorised Capital:—			Goodwill at cost ...	80,000
20,000 Preference Shares of Rs. 100 each ...	20,00,000		Freehold Premises at cost ...	1,40,000
20,000 Ordinary Shares of Rs. 100 each ...	20,00,000		Plant and Machinery at cost ...	75,000
		40,00,000	Fixtures and Fittings at cost ...	12,500
Issued Capital:—			Underwriting Commission ...	40,000
2,000 Preference Shares of Rs. 100 each ...	2,00,000		Stock-in-Trade at cost ...	80,000
10,000 Ordinary Shares of Rs. 100 each ...	10,00,000		Debtors ...	65,000
		12,00,000	Cash ...	3,12,000
Subscribed Capital:—				
2,000 Preference Shares of Rs. 100 each ...	2,00,000			
7,900 Ordinary Shares of Rs. 100 each ...	7,90,000			
		9,90,000		
Called up Capital:—				
2,000 Preference Shares of Rs. 100 each issued to Vendors as fully paid up ...	2,00,000			
7,900 Ordinary Shares of Rs. 100 each, Rs. 70 per share called up 5,53,000 *Less* Calls in arrears ... 2,000	5,51,000			
		7,51,000		
Forfeited Shares Account ...		1,000		
Sundry Creditors ...		52,500		
Rs.		8,04,500	Rs.	8,04,500

ILLUSTRATION 134.

On the 31st December 1936, the following Trial Balance was extracted from the books of the Imperial Manufacturing Co., Ltd:—

	Rs.	Rs.
Preference Share Capital		1,50,000
Ordinary Share Capital		1,25,000
5% Debentures		1,00,000
Debenture Redemption Fund		20,000
Calls in arrears—Ordinary Shares	1,200	
Freehold Property	1,22,500	
Plant and Machinery—1st January 1936	1,75,500	
Do. Additions—1st July 1936	25,000	
Loose Tools	3,500	
Stock—Materials	10,500	
„ Partly-finished Goods	14,500	
„ Finished Goods	30,000	
Debtors	62,500	
Creditors		45,000
Appropriations from last year's profit :—		
Dividend on Preference Shares for 1935	9,000	
„ „ Ordinary Shares 8% for 1935	10,000	
Amount transferred to Debenture Redemption Fund	5,000	
„ „ „ Reserve Fund	3,000	
Interim Dividend on Preference Shares to 30th June 1936	4,500	
Reserve Fund		10,000
Staff Pension Fund		25,000
Profit and Loss Account Balance, 31st December 1935		28,000
Directors' Fees	1,500	
Auditors' Fees	750	
Discount off Purchases		1,200
Salaries	6,000	
Bonus to Office Staff	2,500	
Sales		1,70,950
Bank Charges	100	
Purchases—Materials	40,000	
Patents	12,500	
Goodwill	40,000	
Wages	23,900	
Bonus to Factory Workmen	5,000	
Office Expenses	2,700	
Rent, Taxes and Insurance	3,500	
Fuel	2,500	
Bills Receivable	8,000	
„ Payable		7,500
Returns Inwards	3,500	
„ Outwards		1,000
Debenture Interest	2,500	
Office Furniture and Fixtures	6,500	
Bad Debts	1,200	
Travellers' Salaries and Expenses	2,300	
Carriage on Materials	1,750	
General Expenses	150	
Discount to Customers	2,200	
Insurance, Taxes, etc. paid in advance	500	
Balance at Central Bank, Ltd.	12,950	
Cash Book Balance	750	
Debenture Redemption Investments	19,500	
Preliminary Expenses	4,200	
Rs.	6,83,650	6,83,650

The Authorised Capital of the Company was Rs. 5,00,000 divided into 2,500 6% Preference and 2,500 Ordinary Shares of Rs. 100 each. The whole of the Capital was offered for subscription of which 2,000 Preference and 1,000 Ordinary Shares were taken up, and were called up to the extent of Rs. 75 per share. Besides, 500 fully paid Ordinary Shares were allotted to the Vendors in payment of purchase price.

The Stock on 31st December 1936, valued at cost, was:—

Materials Rs. 15,000; Partly Finished Goods Rs. 18,000; Finished Goods Rs. 37,500.

Allow 7½% Depreciation on Plant and Machinery, 10% off Loose Tools and Patents, and 5% off Office Furniture.

Provide 5% Reserve for Doubtful Debts on Debtors, Rs. 600 for Salaries and Rs. 400 for Rent outstanding. Write off one-third of the Preliminary Expenses. A contribution of Rs. 2,000 is to be made from profits to the Staff Pension Fund.

From the above information prepare Final Accounts.

Solution.

THE IMPERIAL MANUFACTURING COMPANY, LIMITED.

TRADING AND PROFIT & LOSS ACCOUNT.

For the year ended 31st December 1936.

	Rs.	Rs.		Rs.	Rs.
To Stock :—			By Sales ...	1,70,950	
Finished Goods ...	30,000		*Less* Returns ...	3,500	
Partly-finished Goods ...	14,500				1,67,450
Materials ...	10,500		„ Stock, 31-12-36 :—		
		55,000	Finished Goods ...	37,500	
„ Purchases ...	40,000		Partly-finished Goods	18,000	
Less Returns ...	1,000		Materials ...	15,000	
		39,000			70,500
„ Wages ...	...	23,900			
„ Bonus to Factory Workmen	...	5,000			
„ Fuel ...	...	2,500			
„ Carriage on Materials ...	...	1,750			
„ Gross Profit c/d. ...	...	1,10,800			
	Rs.	2,37,950		Rs.	2,37,950
To Salaries ...	...	6,600	By Gross Profit b/d.	...	1,10,800
„ Rent, Taxes and Insurance	...	3,900	„ Discount off purchases	...	1,200
„ Office Expenses ...	...	2,700			
„ Bonus to Office Staff ...	...	2,500			
„ Travellers' Expenses ...	...	2,300			
„ Debenture Interest ...	...	5,000			
„ Discount to Customers ...	...	2,200			
„ Directors' Fees ...	...	1,500			
„ Auditors' Fees ...	...	750			
„ General Expenses ...	...	150			
„ Bank Charges ...	...	100			
„ Bad Debts ...	1,200				
Add 5% Reserve for Doubtful Debts ...	3,125				
		4,325			
„ Preliminary Expenses written off ...		1,400			
„ Depreciation :—	Rs.				
Plant and Machinery at 7½% ...	14,100				
Patents at 10% ...	1,250				
Loose Tools at 10% ...	350				
Office Furniture at 5% ...	325				
		16,025			
„ Net Profit carried down	...	62,550			
	Rs.	1,12,000		Rs.	1,12,000
To Appropriation for last year :—	Rs.		By Balance brought forward from last year	...	28,000
Divid. on Preference Shares	9,000		„ Net profit brought down	...	62,550
„ „ Ordinary „	10,000				
Debenture Redemption Fund	5,000				
Reserve Fund ...	3,000				
		27,000			
„ Int. Div. on Preference Shares	...	4,500			
„ Staff Pension Fund	...	2,000			
„ Balance carried forward	...	57,050			
	Rs.	90,550		Rs.	90,550

THE IMPERIAL MANUFACTURING COMPANY, LIMITED.

BALANCE SHEET.

As at 31st December 1936.

CAPITAL AND LIABILITIES.		Rs.	Rs.
Authorised Capital:—			
2,500 6% Preference Shares of Rs. 100 each ...		2,50,000	
2,500 Ordinary Shares of Rs. 100 each ...		2,50,000	5,00,000
Issued Capital:—			
2,500 6% Preference Shares of Rs. 100 each ...		2,50,000	
2,500 Ordinary Shares of Rs. 100 each ...		2,50,000	5,00,000
Subscribed Capital:—			
2,000 6% Preference Shares of Rs. 100 each ...		2,00,000	
1,500 Ordinary Shares of Rs. 100 each ...		1,50,000	3,50,000
Called up Capital:—			
2,000 6% Preference Shares of Rs. 100 each, Rs. 75 per share called up ...		1,50,000	
500 Ordinary Shares of Rs. 100 each, issued to the Vendors as fully paid up ...		50,000	
1,000 Ordinary Shares of Rs. 100 each, Rs. 75 per share called up	75,000		
Less Calls in arrears	1,200		
		73,800	2,73,800
Reserve Fund ...			10,000
Debenture Redemption Fund ...			20,000
Staff Pension Fund ...			27,000
Reserve for Doubtful Debts ...			3,125
5% Debentures ...			1,00,000
Interest Accrued on Debentures ...			2,500
Liabilities:—			
For Goods supplied ...		45,000	
„ Acceptances ...		7,500	
„ Expenses ...		1,000	53,500
Profit and Loss Account ...			57,050
Rs.			5,46,975

PROPERTY AND ASSETS		Rs.	Rs.
Fixed Capital Expenditure:—			
Goodwill at cost ...		40,000	
Freehold at cost ...		1,22,500	
Plant and Machinery at cost	1,75,500		
Add Additions	25,000		
	2,00,500		
Less Depreciation at 7½%	14,100	1,86,400	
Patents at cost	12,500		
Less Depreciation at 10%	1,250	11,250	
Loose Tools at cost	3,500		
Less Depreciation at 10%	350	3,150	
Office Furniture and Fixtures at cost	6,500		
Less Depreciation at 5%	325	6,175	3,69,475
Preliminary Expenses ...		4,200	
Less ⅓ written off ...		1,400	2,800
Stock at cost:—			
Finished Goods ...		37,500	
Partly-finished Goods ...		18,000	
Materials ...		15,000	70,500
Bills Receivable ...			8,000
Sundry Debtors ...			62,500
Expenses Prepaid ...			500
Debenture Redemption Investments...			19,500
Cash:—			
At Central Bank, Ltd. ...		12,950	
In Office ...		750	13,700
Rs.			5,46,975

ILLUSTRATION 135.

The X. Y. Z. Co., Ltd. was formed with a Capital of Rs. 10,00,000 in Rs. 10 Shares, the whole amount being issued to the public. The Underwriting was as follows:—

M 35,000	N 30,000	O 20,000
P 10,000	Q 3,000	R 2,000

All marked forms were to go in relief of the Underwriters whose name they bear.

The applications on forms marked by the Underwriters were:—

M 10,000	N 22,500	O 20,000
P 7,500	Q 5,000	R nil.

Applications for 20,000 Shares were received on forms not "marked."

Draw up a statement showing the number of Shares each Underwriter had to take up.

Solution.

Statement showing number of Shares to be taken up by Underwriters.

	M	N	O	P	Q	R
Agreed Numbers	35,000	30,000	20,000	10,000	3,000	2,000
Subscribed Numbers	10,000	22,500	20,000	7,500	3,000	nil.
Balances	25,000	7,500	nil.	2,500	nil.	2,000

	Rs.
Total amount Underwritten	10,00,000
Less Subscriptions on Underwriters' forms ..	6,50,000
	3,50,000
Less Direct Subscriptions ..	2,00,000
Balance, being Underwriters' Liability	Rs. 1,50,000

Apportionment of Liability.

	Shares.	Shares.	Rs.	Rs.
M	37,000 :	25,000 :	1,50,000 :	1,01,351
N	37,000 :	7,500 :	1,50,000 :	30,406
P	37,000 :	2,500 :	1,50,000 :	10,135
R	37,000 :	2,000 :	1,50,000 :	8,108

Underwriters' Liability:—M 1,01,351; N 30,406; P 10,135; R 8,108 = Rs. 1,50,000.

ILLUSTRATION 136.

It is provided in the Articles of Association that on the death of a shareholder his shares shall be purchased by the remaining shareholders at a price to be settled by the Auditors on the basis of the last Balance Sheet.

It is further provided that Goodwill shall be taken for this purpose to be of the value of three years' purchase of the average annual profits for the last four years. The last Balance Sheet is as follows:—

Liabilities	Rs.	*Assets*	Rs.
Capital:—		Goodwill ...	1,50,000
3,000 Shares of Rs. 100 each ...	3,00,000	Investment at cost (Market value= Rs. 2,15,000) ...	2,25,000
Debentures ...	3,00,000	Stock at cost ...	3,75,000
Reserve Fund ...	1,50,000	Debtors ...	2,10,000
Sundry Creditors ...	2,25,000	Cash at Bank ...	67,500
Profit and Loss Account—undistributed Balance ...	52,500		
Rs.	10,27,500	Rs.	10,27,500

The profits for the last four years were Rs. 22,500, Rs. 30,000, Rs. 37,500 and Rs. 60,000 respectively. You are required to state with details of working the price to be paid per share

Solution.

		Rs.
Valuation of Assets:—		
Goodwill	..	1,12,500
Investments at Market Value	..	2,15,000
Stock at Cost	..	3,75,000
Debtors	..	2,10,000
Cash at Bank	..	67,500
		9,80,000

	Rs.	
Less Liabilities:		
Debentures	3,00,000	
Sundry Creditors	2,25,000	
		5,25,000
Value of Net Assets	Rs.	4,55,000

As this value of Rs. 4,55,000 will be distributed over 3,000 Shares, the price of each share would be Rs. 151-10-8.

ILLUSTRATION 137.

Under the Articles of a Private Limited Company dealing in Wine and Tobacco, you have as Auditor to fix annually the "fair value" of the shares. At 31st December 1919, the Company's position was as follows:—

Liabilities		Rs.	*Assets*		Rs.
Capital 5,000 Shares of Rs. 100 each fully paid ...		5,00,000	Buildings at cost ...		80,000
Reserve Fund ...		1 50,000	Furniture at cost ...		3,000
Depreciation Funds:—	Rs.		Stock-in-Trade at market value ...		4,50,000
Buildings ...	10,000		Investments at cost:—	Rs.	
Investments ...	45,000		3½% G. P. Notes for Rs. 1,00,000 ...	80,000	
		55,000	British War Loan for £ 7,500 ...	1,00,000	
Creditors ...		48,000	Indian War Loan repayable 1920 ...	2,00,000	
Bad Debt Reserve ...		20,000			3,80,000
Profit and Loss—Balance from 1918 ...	80,000		Book Debts— Considered good ...		3,00,000
Profit for 1919 ...	4,30,000		Cash and Bank Balances ...		70,000
		5,10,000			
Rs.		12,83,000	Rs.		12,83,000

You are given the following information:—

(1) The Company's prospects for 1920 are equally good.

(2) Its Buildings are now worth Rs. 3,50,000.

(3) Public Companies doing similar business show a profit-earning capacity of 15 per cent on market value of their shares.

(4) Profits for the past three years have shown an increase of Rs. 50,000 annually.

Fix the "fair value" and show your working.

Solution.

Intrinsic Value of each Share.

	Rs.	Rs.
Book Value of the Assets		12,83,000
Add Appreciation in the value of Buildings		2,70,000
		15,53,000
Less Depreciation of Investments	45,000	
Bad Debts Reserve	20,000	
		65,000
Actual Market Value of Assets		14,88,000
Less Creditors		48,000
Total Value of 5,000 Shares	Rs.	14,40,000

Therefore each Share is worth Rs. $\frac{14,40,000}{5,000}$ = Rs. 288.

Market Value of each Share.

	Rs.	Rs.
Book Value of the Assets		12,83,000
Less Non-Trading Assets—Investments		3,80,000
		9,03,000
Less Depreciation on Buildings	10,000	
Reserve for Bad Debts	20,000	
		30,000
		8,73,000
Less Trading Liability—Creditors		48,000
Effective Capital used in the Business	Rs.	8,25,000

On which a Profit of Rs. 4,30,000 was made.

Therefore the Profit earning capacity is Rs. $\frac{4,30,000 \times 100}{8,25,000}$ = 52.1%.

The Market Value, therefore, is $\frac{52.1 \times 100}{15}$ = Rs. 347.

Therefore the fair value of a share will be the average of the intrinsic and the market value, i.e., Rs. $\frac{288+347}{2}$ = Rs. 317-8.

NOTE.—In ascertaining the Market Value of the Shares, as non-trading Assets such as Investments are eliminated, it would be equally necessary to eliminate the income therefrom from the Profit & Loss Account in order to arrive at the business income.

ILLUSTRATION 138.

Messrs. Rutton and Sorab, who are equal partners, carry on business ... facturers, and their position, as stated in their Balance Sheet as at 31st D... is as follows: —

Liabilities	Rs.	Assets	Rs.
Sundry Creditors ...	37,000	Stock-in-Trade ...	28,000
Imperial Bank of India, Ltd. ...	19,000	Machinery and Plant ...	12,000
Bills Payable ...	7,000	Office Furniture ...	1,000
Rutton's Capital Account ...	22,000	Book Debts ...	40,000
Sorab's " " ...	35,000	Life Policy on joint lives, surrender value ...	5,000
		Leasehold Property ...	15,000
		Rutton's Drawings Account ...	6,000
		Sorab's " " ...	2,000
		Profit and Loss Account ...	11,000
Rs.	1,20,000	Rs.	1,20,000

The business is carried on until 30th June 1937, by which time a net Profit of Rs. 8,200 has been made for the half year, after 5 per cent had been written off leaseholds. Meantime, Sundry Creditors have been reduced by Rs. 8,000, Bills Payable by Rs. 1,950 and Overdraft by Rs. 2,000, and partners have withdrawn Rs. 2,000 each during the half year.

Stock-in-Trade now stands at Rs. 30,200, Book Debts at Rs. 30,800, and subject to any necessary alteration, the other items remain as at 31st December 1936.

In September, the firm agrees to sell the business to a Limited Company upon the basis that stock shall be taken over at a discount of 5 per cent and Book Debts at a discount of 2½% as at 30th June, the Company paying Rs. 5,000 for profits in the interval, *less* Rs. 1,000 each withdrawn by partners since June; the partners to retain and surrender the Life Policy, and the Company, with these exceptions, taking over on the basis of the Balance Sheet as at 30th June, and agreeing to pay a goodwill of Rs. 25,000. The purchase money is to be paid (*a*) by the taking over of the firm's liabilities at Rs. 50,000, (*b*) by Rs. 10,000 in cash, and (*c*) by the issue to the partners of Rs. 10 Preference Shares to satisfy any balance due to them respectively.

Disregarding interest on Drawings and Capital, you are required to prepare a Realisation Account and Capital Account of each partner, showing the ultimate settlement. Show also the Opening Entries in the books of the Company.

BALANCE SHEET.

As at 30th June 1937.

	Rs.	Rs.	Rs.		Rs.
Sundry Creditors ...			29,000	Leasehold Property ...	14,250
Imperial Bank of India, Ltd., Overdraft			17,000	Machinery and Plant ...	12,000
Bills Payable ...			5,050	Office Furniture ...	1,000
Capital Accounts:—	Rs.	Rs.		Stock ...	30,200
Rutton	...	22,000		Sundry Debtors ...	30,800
Less Loss to date	1,400			Life Policy, on joint lives, surrender value ...	5,000
" Drawings to date	8,000				
		9,400			
			12,600		
Sorab	...	35,000			
Less Loss to date	1,400				
" Drawings to date	4,000				
		5,400			
			29,600		
		Rs.	93,250	Rs.	93,250

REALISATION ACCOUNT.

		Rs.		Rs.
To Leasehold Property ...		14,250	By Sundry Liabilities ..	51,050
„ Machinery and Plant ...		12,000	„ Cash ..	10,000
„ Office Furniture ...		1,000	„ Preference Shares of Rs. 10 each	53,970
„ Stock ...		30,200		
„ Sundry Debtors ...		30,800		
„ Capital Accounts, being profit on Realisation—	Rs.			
Rutton ...	13,385			
Sorab ...	13,385			
		26,770		
Rs.		1,15,020	Rs.	1,15,020

RUTTON'S CAPITAL ACCOUNT.

	Rs.		Rs.
To Share of Policy ..	2,500	By Balance b/fd. ...	12,600
„ Cash and Shares in the Company ..	23,485	„ Realisation Account Profit ...	13,385
Rs.	25,985	Rs.	25,985

SORAB'S CAPITAL ACCOUNT.

	Rs.		Rs.
To Share of Policy ...	2,500	By Balance b/fd. ...	29,600
„ Cash and Shares in the Company ...	40,485	„ Realisation Account Profit ...	13,385
Rs.	42,985	Rs.	42,985

NOTE.—The amount payable in Preference Shares is arrived at as follows:—

	Rs.	Rs.
Assets acquired		88,250
Add Goodwill	25,000	
Payment on account of Profits *Less* Drawings	3,000	
		28,000
		1,16,250
Less Discount:—		
On Stock	1,510	
On Debtors	770	
		2,280
		1,13,970
Less Liabilities taken over	50,000	
Paid in Cash	10,000	
		60,000
Balance payable in Preference Shares of Rs. 10 each.	= Rs.	53,970

JOURNAL ENTRIES.

In the Books of the Company.

		L. F.	Rs.	Rs.
Business Purchase Account	Dr.		63,970	
To Rutton and Sorab's Account (Vendors)				63,970
(Being the purchase price of the business taken over by the Company from Messrs. Rutton and Sorab as per agreement dated...........).				
Leasehold Property	Dr.		14,250	
Machinery and Plant	"		12,000	
Office Furniture	"		1,000	
Stock	"		28,690	
Sundry Debtors	"		30,030	
Goodwill	"		29,050	
To Sundry Creditors				29,000
" Central Bank Overdraft				17,000
" Bills Payable				5,050
" Business Purchase Account				63,970
(Being the values of assets including Goodwill and liabilities of the business taken over).				
Rutton and Sorab's Account (Vendors)	Dr.		63,970	
To Cash				10,000
" Preference Share Capital Account				53,970
(Being the issue of 5,397 Preference Shares of Rs. 10 each as fully paid and payment of Rs. 10,000 in cash in full satisfaction of the purchase price).				

ILLUSTRATION 139.

X, Y and Z decided to convert their business into a limited company with a nominal capital of Rs. 10,00,000, divided into 50,000 6% Preference Shares of Rs. 10 each, and 50,000 Ordinary Shares of Rs. 10 each. The firm's Balance Sheet at 31st December 1936 is as follows:—

Liabilities		Rs.	*Assets*	Rs.
Creditors ...		2,00,000	Property ...	2,00,000
Bank ...		55,000	Plant and Machinery ...	1,00,000
Capital:—	Rs.		Stock ..	2,50,000
X	2,50,000		Book Debts ...	3,00,000
Y	2,00,000		Cash in hand ...	5,000
Z	1,50,000			
		6,00,000		
	Rs.	8,55,000	Rs.	8,55,000

The profits for the three years ended 31st December 1936 were Rs. 50,000, Rs. 70,000 and Rs. 80,000 respectively. The following arrangements were agreed: (1) To create Goodwill equal to the aggregate of the last three years' profits; (2) To credit Goodwill to the partners in proportion to their capitals; (3) To transfer to the company the Plant and Machinery, Property and Stock only; (4) The Book Debts to be collected by the new company on behalf of the vendors who were responsible for discharging all the liabilities of the firm; (5) The cash in hand was taken over by the Company, the latter being required to account for it to the vendors; (6) X and Y to take Rs. 50,000 6% Preference Shares each and the balance of their capital in Ordinary Shares, Z to take the whole of his capital in 6% Preference Shares.

The preliminary expenses amounting to Rs. 10,000 were borne by the Company and were to be written off over a period of three years if profits allowed. The following figures were extracted from the Company's books for the purpose of making up interim accounts at 30th June 1937 :—

	Rs.		Rs.
Purchases ...	4,00,000	Preliminary Expenses ...	10,000
Wages ...	50,000	Salaries ...	20,000
Carriage inwards ...	10,000	Bank ...	2,500
Discount ...	11,000	Cash ...	1,500
Repairs ...	2,500	Debtors ...	2,40,000
Taxes and Insurance ...	3,500	Sales ...	5,92,000
Coal for power ...	5,000	Discount ...	8,000
General Expenses ...	15,000	Creditors ...	1,20,000

The stock at 30th June 1937 amounted to Rs. 2,20,000. The debtors at 30th June 1937, included Rs. 40,000 belonging to the Vendors, Rs. 10,000 of which were irrecoverable, and should be written off. All the liabilities of the old firm were discharged. Discounts allowed and received included Rs. 5,000 and Rs. 2,000 respectively in connection with the Vendors' Debts.

Draw up Vendors' Account, Balance Sheet and Trading and Profit & Loss Account at 30th June 1937, allowing 2½% discount off company's debtors and 1½% off creditors. Allow 5% depreciation off Plant and Machinery.

Solution.

VENDORS' ACCOUNT.

			Rs.				Rs.
1937 Jan. 1	To Preference Share Capital Account :—	Rs.		1937 Jan. 1	By Business Purchase :—	Rs.	
	X	50,000			Goodwill	2,00,000	
	Y	50,000			Property	2,00,000	
	Z	1,87,500	2,87,500		Plant and Machinery	1,00,000	
" "	" Ordinary Share Capital Account :—				Stock	2,50,000	7,50,000
	X	2,62,500					
	Y	2,00,000	4,62,500				
		Rs.	7,50,000			Rs.	7,50,000

VENDORS' SUSPENSE ACCOUNT.

		Rs.				Rs.
1937 Jan. 1	To Creditors taken over ...	2,55,000	1937 Jan. 1	By Sundries taken over :—	Rs.	
June 30	" Discounts allowed ...	5,000		Debtors	3,00,000	
	" Bad Debts ...	10,000		Cash	5,000	3,05,000
	" Balance c/d. ...	37,000	June 30	" Discount received ...		2,000
	Rs.	3,07,000			Rs.	3,07,000
			1937 July 1	By Balance b/d. ..		37,000

X, Y, Z COMPANY'S BALANCE SHEET.
As at 30th June 1937.

Capital and Liabilities	Rs.	Rs.	Property and Assets	Rs.	Rs.
Nominal Capital:—			Goodwill at cost ...		2,00,000-0-0
50,000 6% Pref. Shares of Rs. 10 each ...	5,00,000		Property at cost ...		2,00,000-0-0
50,000 Ord. Shares of Rs. 10 each ...	5,00,000		Plant and Machinery at cost	1,00,000	
	10,00,000		*Less* Depreciation...	5,000	
ssued Capital:—					95,000-0-0
28,750 6% Pref. Shares of Rs. 10 each ...	2,87,500		Preliminary Expenses ..		8,333-5-4
46,250 Ord. Shares of Rs. 10 each ...	4,62,500		Stock-in-Trade ...		2,20,000-0-0
	7,50,000		Debtors ...	2,30,000	
Subscribed Capital:—			*Less* Reserve for discount ...	5,000	
28,750 6% Pref. Shares of Rs. 10 each ...	2,87,500				2,25,000-0-0
46,250 Ord. Shares of Rs. 10 each ...	4,62,500		Cash Balance:—		
	7,50,000		At Bank ...	2,500	
Called and Paid up Capital:—			In hand ...	500	
28,750 6% Pref. Shares of Rs. 10 each, fully paid ...	2,87,500				3,000-0-0
46,250 Ord. Shares of Rs. 10 each, fully paid ...	4,62,500				
		7,50,000-0-0			
Liabilities:—					
Creditors on open Accounts ...	1,20,000				
Less Reserve for discount ...	1,500				
		1,18,500-0-0			
Vendors' Suspense Account ...		37,000-0 0			
Profit and Loss Account:—					
Net Profit	47,500-0-0				
Less Preliminary Expenses	1,666-10-8				
		45,833-5-4			
Rs.		9,51,333-5-4	Rs.		9,51,333-5-4

X, Y, Z COMPANY, LTD.
TRADING AND PROFIT & LOSS ACCOUNT.
For 6 months ended 30th June 1937.

	Rs.		Rs.
To Stock at commencement ...	2,50,000	By Sales ...	5,92,000
" Purchases ...	4,00,000	" Stock at end ...	2,20,000
" Wages ...	50,000		
" Carriage inwards ..	10,000		
" Coal for power ...	5,000		
" Gross profit c/d. ...	97,000		
Rs.	8,12,000	Rs.	8,12,000

TRADING AND PROFIT & LOSS ACCOUNT.—*Contd.*

	Rs.		Rs.
To Salaries ...	20,000	By Gross Profit b/d. ..	97,000
„ General Expenses ..	15,000	„ Discount ..	6,000
„ Discount ...	6,000	„ Reserve for discount on Creditors ...	1,500
„ Repairs ...	2,500		
„ Taxes and Insurance ..	3,500		
„ Reserve for discount on Debtors ...	5,000		
„ Depreciation on Plant and Machinery ...	5,000		
„ Net Profit transferred to Profit and Loss Appropriation Account ...	47,500		
Rs.	1,04,500	Rs.	1,04,500

NOTE.—The main point to be noted in this problem is the distinction to be drawn between the assets and liabilities actually taken over by the Company and those brought in their books for the purpose of either collection or payment on behalf of the vendors. The former will form part of the purchase consideration, whereas the latter items having to be accounted for to the vendors will have to be adjusted on a separate account styled "Vendors' Suspense Account."

WHAT ARE DIVISIBLE PROFITS?

There are no statutory provisions in the Indian Companies Act relating to the distribution of the profits of a company, the only regulations applicable being those contained in the Company's Articles of Association.

The following Clauses of the Table A, however, set out provisions as to Dividend which are generally followed by the Articles of most companies:—

(95) That the dividends are to be declared in General Meeting and the amount recommended by the directors for the declaration of such dividend should not be exceeded; (96) That the directors may pay Interim Dividends; (97) That no dividends may be paid except out of profits; (98) That dividends shall only be paid on the paid-up amount of the shares; and that no dividend is payable on Calls paid in advance; and (99) That the directors have power to make such Reserves as they think fit before declaring a dividend.

Of the above, Clauses (95) and (97) are compulsorily to be adopted by every company.

The main point is that "No Dividends can be paid except out of profits". Now, the word "profits" is a word which is not free from ambiguity. There is no exact definition of this word, and individuals and companies are, therefore, left to themselves to decide what should or should not be included in the Profit and Loss Account to arrive at the figure of profits. Ordinarily, the "True Profit" of any concern for any stated period, is arrived at after setting off against the revenue all expenses and losses which have arisen in carrying on of the business and which relate to the period under review. Further, from the stand-point of sound finance, if any part of the capital of the business is invested in assets and if any of these assets have depreciated in value by reason of their having been utilised for the purpose of earning revenue, or if, for any other reason any part of the capital has been lost, then such depreciation or loss must be made good out of the revenue before the ascertainment of the profits. In other words, if the capital of any concern is to be fully preserved intact and the profit for any period is to be represented by a corresponding increase in the surplus of assets over liabilities at the end of the period, as compared with a similar surplus at the commencement of that period, then all capital depreciation and waste must be provided for.

The above is the commercial viewpoint, but it cannot be claimed that the same is the legal view in respect of the "Divisible Profits" of a Limited Company in all circumstances.

The question, therefore, of what are "Divisible Profits" is one that necessitates most careful consideration. With regard to the accounts of individuals and partnerships, little difficulty arises, since it is a matter for the proprietors themselves to determine what amount they should draw out of the business. In a partnership concern, since all the partners are in close personal touch with the internal affairs of their business, they would naturally be fully aware of its due requirements, and being also guided by prudence, in view of their unlimited liability will generally come to a common agreement as to what charges shall be reasonably made against the profits before any distribution. The management of a limited company, on the other hand, is vested in directors, and the shareholders to whom dividend is payable generally know very little or nothing as to the basis on which the accounts are adjusted. It is necessary, therefore, that the interests of shareholders should be safeguarded by some reasonable measure of control over those in management who are responsible for the preparation of the accounts and with whom also rests the power of recommending the dividends. Further, in case of sole traders or partnerships, if any sums have been withdrawn inadvisedly, fresh capital can be introduced whenever desired, whereas in a limited company, once dividends have been paid, there is little or no opportunity of recovering them afterwards, if it is found that such dividends were improperly declared.

The interpretation of "Divisible Profits" has given rise to many appeals to the Court with a view to deciding whether certain classes of losses need legally be charged and whether capital appreciation or capital profit can be brought into account before arriving at distributable profits. As the decisions in the following several cases on these points form very interesting and instructive reading, it has been thought desirable to summarise them here.

Lee v. *The Neuchatel Asphalt Co., Ltd.* (1889).—In this case, the action was brought by Lee on behalf of himself and the ordinary shareholders of the Company, with a view to obtaining an injunction against the directors to restrain them from declaring a dividend to the preferential shareholders until the depreciation in respect of the Mining Concession had been made good. It was *held* that the Company could distribute a dividend without making good depreciation of its main asset, which was, in this case, a Wasting Asset. The Court's decision, however, was largely dependent upon the fact that the Company's Articles provided that the directors should not be bound to reserve moneys for the renewal or replacement of any lease or interest in any property or concession. In giving judgment, Lindley, L. J., said:—

"If a company is formed to acquire or work property of a wasting nature, e.g., a mine, quarry or a patent, the capital expended in acquiring the property may be regarded as sunk and gone, and if the company retains assets sufficient to pay its debts, it appears to me that there is nothing whatever in the Act to prevent any excess of money obtained by working the property over the cost of working it, from being divided amongst the shareholders, and this, in my opinion, is true although some portion of the property itself is sold, and in some sense the capital is thereby diminished."

Cotton, L. J., said:—

"It was not necessary that the Directors should set apart each year a sum to answer the supposed annual diminution of this property by reason of its wasting nature. . . . It would be wrong for the Court to interfere to prevent the payment of the proposed dividend."

The decision in the above case evidently gives rise to the following considerations. Ordinarily, the main object of a Mining Company would be to acquire mining concessions, work them, sell the ore produced therefrom —and then wind up when the mines get entirely exhausted. Now, if the Profit and Loss Account of such a concern is charged each year with all the current expenses incurred necessarily in raising the ore, as also with a reasonable amount of depreciation in respect of the mines worked, then by the time the mines are exhausted, there will be accumulated from the profits a sum representing the original capital outlay involved in the acquisition and equipment of these mines; and, if the annual estimate in regard to depreciation is worked on sound and correct basis, then, on the company being wound up, the shareholders would stand to be repaid their capital in full. On the other hand, if the shareholders prefer that the entire earnings, of each year, after the deduction of current expenses should be distributed to them without any sum being set aside in respect of depreciation, then, in that case, there will hardly be any return of capital upon winding up, and the annual dividends paid will have to be looked upon by them as partly a return of capital and partly a distribution of income. If the shareholders decide upon the latter course and if the company's Articles provide for such a manner of distribution, such a procedure cannot in any way be considered as opposed to sound business principles, and there is nothing in law to prevent them from doing so.

The non-provision for depreciation, however, cannot be considered to be sound from a business point of view in concerns of other nature. Take the case of a manufacturing company. Such a company is, as a rule, started with the object of equipping itself with works and plant, to manufacture certain articles and sell the products for an indefinite period. It would be absurd to imagine that such a concern will continue to exist as long as the plant works efficiently and will have to wind up as soon as the same becomes obsolete or worn out. In order, therefore, that the company can continue to trade even after the original plant is rendered useless, it is absolutely necessary that proper depreciation should be provided for from year to year before distribution of profits, so that a sufficient sum may be available to replace the discarded assets whenever found necessary.

Bolton v. *Natal Land and Colonisation Co.* (1892).—In this case, the Company debited their Profit and Loss Account in 1882 with a Bad Debt amounting to £70,000, and at the same time, credited the Profit and Loss Account with practically a similar amount representing an estimated appreciation in the value of their lands. In 1885, the Company, having made a working profit, declared a dividend thereout, in respect of that year. The plaintiff thereupon brought an action contending that the book value of the Company's lands at the time of the declaration of this dividend was far in excess of its true value, and sought to restrain the payment of the dividend on the ground that in order to arrive at distributable profits, the lands in question should be written down to their true value and this loss should be charged to Profit and Loss Account in the same way as the estimated increase in value had been credited to the Profit and Loss Account in the year 1882.

It was *held* that the Company may declare a dividend out of current profits without necessarily making good the loss in the value of the Capital Assets. The fact of the Company having written up the value of their lands in 1882 giving the corresponding credit to the Profit and Loss Account of that year, did not place them under any obligation to bring into account in every subsequent year the increase or decrease in the value of their lands.

Verner v. *The General and Commercial Investment Trust, Ltd.* (1894).—The question raised in this case was whether a company was entitled to pay dividends out of profits earned from its investments without first providing for the depreciation in value of these investments.

The facts were as follows. The Company was formed for the purpose of raising money and investing the same in various investments mentioned in its Memorandum of Association, and one of the objects of the Company was "to receive the dividends, income, profits, bonuses and advantages of every description from time to time payable or receivable in respect of the Company's investments, and to apply the same respectively according to the provisions of the Articles of Association in force for the time being."

The Articles above referred to were as follows:—"Subject to the rights of members holding Share Capital issued upon special conditions, the receipts of the Company from the dividends, income, profits, bonuses, and advantages payable or receivable in respect of the Company's investments shall be applicable as follows:—First, to the payment of the dividend for the particular year at the rate of 5 per cent per annum on the preferred stock; second, to the payment of such a dividend on the deferred stock as the same shall suffice to pay, and the trustees may, with the sanction of the Company in General Meeting, declare a dividend to be paid to the members accordingly."

"The trustees may, before recommending any dividend, set aside out of the profits of the Company such sum as they think proper as a Reserve Fund to meet contingencies, or for equalising dividends, or for any other purposes of the Company; and may from time to time apply the whole or any part of such fund for any purposes of the Company."

The Company's Share Capital and Debenture Stock amounted in all to £900,000, and this was invested in various Securities authorised by the Memorandum. The market value of these investments on 28th February 1894 was only £654,776 showing a depreciation of £240,000. Out of this amount there was no prospect of recovering the sum of £75,000 within any reasonable period of time. The Company's Profit and Loss Account for the financial year ending with 28th February 1894 showed that the income derived from the investments had exceeded the current revenue expenditure by £23,000. The question for the Court to decide was whether, there being a loss of capital to the extent of £75,000, a dividend could lawfully be declared and paid out of the excess of income over expenditure of £23,000.

It was *held* that having regard to the nature of the constitution of this Company, it may distribute a dividend out of the excess of current revenue over current expenditure without making good the loss arising from diminution in the value of the investments.

Lindley, L. J., in the course of his judgment said:—

"The broad question raised by this appeal is whether a limited company which has lost part of its capital can lawfully declare or pay a dividend without first making good the capital which has been lost. I have no doubt it can—that is to say, there is no law which prevents it in all cases and under all circumstances. Such a proceeding may sometimes be very imprudent, but a proceeding may be perfectly legal and may yet be opposed to sound commercial principles. We, however, have only to consider the legality or illegality of what is complained of.

"As was pointed out in *Lee* v. *Neuchatel Asphalt Company*, there are certain provisions in the Companies Acts relating to the capital of limited companies; but no provisions whatever as to the payment of dividends or the division of profits. Each company is left to make its own regulations as to such payment or division. The statutes do not even expressly and in plain language, prohibit a payment of dividend out of capital. . . A company may be formed upon the principle that no dividends shall be declared unless the capital is kept undiminished, or a company may contract with its creditors to keep its capital or assets up to a given value. But in the absence of some special article or contract there is no law to this effect, and, in my opinion, for very good reasons. It would, in my judgment, be most inexpedient to lay down a hard and fast rule which would prevent a flourishing company either not in debt or well able to pay its debts from paying dividends so long as its capital sunk in creating the business was not represented by assets which would if sold, reproduce in money the capital sunk. Even a sinking fund to replace lost capital by degrees is not required by law. It is obvious that dividends cannot be paid out of capital which is lost; they can only be paid out of money which exists and can be divided. Moreover, when it is said, and said truly, that dividends are not to be paid out of capital, the word "capital" means the money subscribed pursuant to the Memorandum of Association, or what is represented by that money. Accretions to that capital may be realised and turned into money which may be divided amongst the shareholders, as was decided in *Lubbock* v. *British Bank of South America*. But, although there is nothing in the statutes requiring even a limited company to keep up its capital, and there is no prohibition against payment of dividends out of any other of the company's assets, it does not follow that dividends may be lawfully paid out of other assets regardless of the debts and liabilities of the company. A dividend pre-supposes a profit in some shape, and to divide as dividend the receipts, say, for a year, without deducting the expenses incurred in that year in producing the receipt, would be as unjustifiable in point of law as it would be reckless and blameworthy in the eyes of businessmen. The same observation applies to payment of dividends out of borrowed money. Further, if the income of any year arises from a consumption in that year of what may be called circulating capital, the division of such income as dividend without replacing the capital consumed in producing it will be a payment of dividend out of capital within the meaning of the prohibition which I have endeavoured to explain. It has been already said that dividends pre-suppose profits of some sort, and this is unquestionably true. But the word "profits" is by no means free from ambiguity. The law is much more accurately expressed by saying that dividends cannot be paid out of capital than by saying that they can only be paid out of profits. The last expression leads to the inference that the capital must always be kept up and be represented by assets which, if sold, would produce it; and this is more than is required by law. Perhaps the shortest way of expressing the distinction which I am endeavouring to explain is to say that fixed capital may be sunk and lost, and yet that the excess of current receipts over current payments may be divided, but that floating or circulating capital must be kept up, as otherwise it will enter into and form part of such excess, in which case to divide such excess without deducting the capital which forms part of it will be contrary to law.

"It is plain there is nothing in the Memorandum and Articles of Association which requires lost capital to be made good before dividends can be declared. On the contrary, they are so framed as to authorise the sinking of capital in the purchase of speculative stocks, funds, and securities, and the payment of dividends out of whatever interest, dividends or other income such stocks, funds, and securities yield, although some of them are hopelessly bad, and the capital sunk in obtaining them is lost beyond recovery. There is no suggestion of any improper juggling with the accounts, and there is no payment of dividend out of capital. There is no insolvency, and we have not to deal with a petition to wind up Some capital is lost, but that *is* all that can be truly said, and that is not enough to justify such an injunction as is sought. The appeal must be dismissed."

Wilmer v. *McNamara and Co., Ltd.* (1895).—The defendant company was formed to carry on the business of general carriers of mails, parcels, goods, etc. The ordinary shareholders of this Company sought an injunction to restrain the directors from paying a dividend to the preference shareholders, on the ground that no provision had been made in respect of depreciation of the Company's Assets as disclosed by a recent valuation. The Assets in question consisted of Goodwill, Leasehold Premises, Horses and Vans, Plant, etc. The Court *held that a dividend could be paid out of* current profits without replacing loss on fixed assets.

Sterling, J., said, "There is nothing in the Articles to show that the capital of the company (or, rather, assets of the value of those acquired by the company at its formation) must be kept up. Further, the Articles appear to contemplate "profits" as the excess of receipts over all expenditure properly attributable to the year. It is necessary, however, to consider whether the depreciation in goodwill and leaseholds is to be treated as loss of "fixed" capital or of "floating" or "circulating" capital, and on this point I am of opinion that it is to be treated as loss of "fixed capital" . . . I think that the Balance Sheet cannot be impeached simply because it does not charge anything against revenue in respect of goodwill."

Dovey v. *Corey* (1901).—In this case, it was *held* that a Director, if he acts *bona fide*, is entitled to rely on the officers of the Company to prepare true and honest accounts.

The following portion of the judgment in the above case deals with the question of divisible profits:—

"The mode and manner in which a business is carried on, and what is usual or the reverse, may have a considerable influence in determining the question what may be treated as profits and what is capital. Even the distinction between fixed and floating capital, which in an abstract treatise like Adam Smith's *Wealth of Nations* is appropriate enough, may with reference to a concrete case be quite inappropriate. It is easy to lay down as an abstract proposition that you must not pay dividends out of capital, but the application of that very plain proposition may raise questions of the utmost difficulty in their solution. I desire, as I have said, not to express any opinion, but as an illustration of what difficulties may arise, the example given by the learned counsel in one ship being lost out of a considerable number, and the question whether all dividends must be stopped until the value of that lost ship is made good out of the further earnings of the company or partnership, is one which one would have to deal with. On the one hand, people put their money into a trading concern to give them an income, and the sudden stoppage of all dividends would send down the value of their shares to zero, and possibly involve its ruin. On the other hand, companies cannot at their will and without the precautions enforced by the statute reduce their capital, but what are profits and what is capital may be a difficult and sometimes an almost impossible problem to solve. When the time comes that these questions come before us in a concrete case we must deal with them, but until they do, I for one, decline to express an opinion not called for by the particular facts before us, and I am the more averse to doing so because I foresee that many matters will have to be considered by men of business which are not altogether familiar to a Court of Law."

Bond v. *The Barrow Haematite Steel Co., Ltd.* (1902).—This case was just the reverse of the Wilmer case. The Company's Profit and Loss Account showed a large credit balance. The Directors, however, proposed to postpone the payment of dividend on the ground that heavy depreciation had taken place in the value of the Company's land, buildings, fixed plant, mining leases, etc. The preference shareholders brought this action seeking to compel the Directors to pay them the arrears of dividend on their shares out of the profits without making good the loss of fixed capital.

It was *held* that Preference Shareholders cannot claim to be paid Dividends out of Current Profits as a matter of right and without regard to such provision for Reserves as the Directors may consider necessary.

"The Courts have, no doubt in many cases, overruled directors who proposed to pay dividends, but I am not aware of any case in which the Court has compelled them to pay when they have expressed their opinion that the state of the accounts do not admit of any such payment. In a matter of depending on evidence and expert opinion, it would be a very strong measure for the Court to override the directors in such a manner."

In re Spanish Prospecting Co., Ltd. (1910).—The meaning of the word "Profits" has been discussed at some length in this case. The facts of the case were as follows: The Company went into voluntary liquidation. All the creditors except Messrs. Punchard and Vivian had been paid in full and, after the subscribed capital had been returned, there was a surplus of over

£3,000 in the hands of the liquidator. This sum was claimed by Punchard and Vivian as salary. The claimants were to receive a certain salary per month, subject to the proviso that they should not be entitled to draw the same "except only out of profits", if any, arising from the company. Such salary was to be cumulative and any arrears thereof were to be payable out of future profits. The business of the Company included the purchase and sale of the shares.

The Court *held* that when a salary is payable only out of Profits, and any arrears in this respect are payable out of succeeding profits, such profits are not necessarily the Profits shown by the Annual Accounts, but may include accretions of Capital, realised after liquidation.

In the course of his judgment, Moulton, L. J., said:—

"The word "Profits" has, in my opinion, a well-defined meaning, and this meaning coincides with the fundamental conception of "profits" in general parlance, although in mercantile phraseology the word may at times bear meanings indicated by the special context, which deviate in some respects from the fundamental signification. "Profits" implies a comparison between the state of a business at two specific dates, usually separated by an interval of a year. The fundamental meaning is the amount of gain made by the business during the year. This can only be ascertained by a comparison of the assets of the business at the two dates.

"For practical purposes these assets in calculating profits must be valued and not merely enumerated. An enumeration might be of little value. Even if the assets were identical at the two periods, it would by no means follow that there had been neither gain nor loss, because the market value—the value in exchange of these assets might have altered greatly in the meanwhile. A stock of fashionable goods is worth much more than the same stock when the fashion has changed, and to a less degree, but no less certainly, the same consideration must apply to buildings, plant, and other fixed assets used in the business, because one form of business risk against which business gains must protect the trader is the varying value of the fixed assets used in the business. A depreciation in value, whether from physical or commercial causes, which affects their realisable value is in truth a business loss.

"We start, therefore, with this fundamental definition of "profits", viz., if the total assets of the business at the two dates be compared, the increase which they show at the later date as compared with the earlier date (due allowance, of course, being made for any capital introduced into or taken out of the business in the meanwhile) represents in strictness the profits of the business during the period in question.

"But the periodical ascertainment of profits in a business is an operation of such practical importance as to be essential to the safe conduct of the business itself. To follow out the strict consequence of the legal conception in making out the accounts of the year would often be very difficult in practice. Hence the strict meaning of the word "profit" is rarely observed in drawing up the accounts of firms or companies. These are domestic documents designed for the practical guidance of those interested, and, so long as the principle on which they are drawn up is clear, their value is diminished little, if at all, by certain departures from this strict definition which lessen greatly the difficulty of making them out. Hence certain assumptions have become so customary in drawing up Balance Sheets and Profit & Loss Accounts that it may almost be said to require special circumstances to induce parties to depart from them. For instance, it is usual to exclude gains and losses arising from causes not directly connected with the business of the company—such, for instance, as arise in the market value of land occupied by the company. The value assigned to trade buildings and plant is usually fixed according to an arbitrary rule, by which they are originally taken at their annual cost and are assumed to have depreciated by a certain percentage each year, though it cannot be pretended that any such calculation necessarily gives their true value either in use or in exchange. These, however, are merely variations of practice by individuals. They rest on no settled principle. They mainly arise from the sound business view that it is better to under-rate than to over-rate the profits, since it is impossible for you to foresee all the risks to which a business may in future be exposed. For instance, there are many sound businessmen who would feel bound to take account of depreciation in the value of business premises, or in the value of plant especially designed for the production of a particular article, although they would not take account of appreciation in the same arising from like causes.

"To render the ascertainment of the profits of a business of practical use, it is convenient that the assets, of whatever nature they be, must be represented by their money value. But as a rule these assets exist in the shape of rights, and not in the shape of money. The debts owed to the company may be good, bad or doubtful. The figure inserted to represent stock-in-trade must be arrived at by a valuation of the actual articles. Property, of whatever nature it be, acquired in the course of a business has a value varying with the condition of the market. It will be seen, therefore, that in almost every item of the account, a question of valuation must come in. In the case of a company like that with which we have to deal in the present case, the process of valuation is often exceedingly difficult, because the property to be valued may be such that there are no market quotations and no contemporaneous sales or purchases to afford a guide to its value. It is not to be wondered at, therefore, that in many cases companies that are managed in a conservative manner avoid the difficulty thus presented and content themselves by referring to assets of a speculative type without attempting to affix any specific value to them. But this does not in any way prevent the necessity of regarding them as forming a part of the assets of the company which must be included in the calculations by which *de facto* profits are arrived at. Profits may exist in kind as well as in cash. For instance, if the business is, so far as assets and liabilities are concerned, in the same position that it was the year before, with the exception that it has contrived during the year to acquire some property, say mining rights, which it had not previously possessed, it follows that those mining rights represent the profits of the year, and this whether or not they are specifically valued in the accounts.

"But though there is a wide field for variation of practice in these estimations of profits in the domestic documents of a firm or company, this liberty ceases at once when the rights of third persons intervene. For instance, the Revenue has a right to a certain percentage of the profits of a company by way of income-tax. The actual Profit & Loss Accounts of the company do not in any way bind the Crown in arriving at the tax to be paid. A company may wisely write off liberally under the head of depreciation, but they will be only allowed to deduct the sum representing actual depreciation for the purpose of calculating the profits for the purpose of income-tax. The same would be the case if a person had a right to receive a certain percentage of the profits made by the company. In the absence of special stipulations to the contrary, "Profits", in cases where the right of third parties comes in, mean actual profits, and they must be calculated as closely as possible in accordance with the fundamental conception or definition to which I have referred. I would have it clearly understood that these remarks have no bearing upon the vexed question of the fund out of which dividends may legally be paid in limited companies. Cases such as *Verner* v. *The General and Commercial Investment Trust* and *Lee* v. *Neuchatel Asphalt Co.*, show that this fund may in some cases be larger than what can rightly be regarded as profits, and the decision in these cases depend largely on the fact that there is no statutory enactment which forbids it to be so."

Crabtree v. *Crabtree* (1912).—In this case, the Testator left a business with directions to his Trustees to carry on the same and give the profits arising therefrom to his wife during her lifetime. Before arriving at such net profits, the Trustees charged depreciation on Machinery at 7½% on the original cost and the life tenant claimed that this should be disallowed. It was *held* that such depreciation had been properly charged.

Part of the judgment ran as follows:—

"But in the ordinary course of ascertaining the profits of a business where there is power machinery and trade machinery which is necessary in order to perform the work of the business, it is, in my opinion, essential that in addition to all sums actually expended in repairing the machinery, or in renewing parts, that there should be also written off a proper sum for depreciation, and that sum ought to be written off before you can arrive at the net profits of the business, or at the profits of the business, and it is not profit until a proper sum, varying with the class of machinery, with the nature of the business, and the life of the machinery, has been written off for depreciation.

"The only authorities referred to were those of companies formed to work a wasting property, and in such a case all profit arising from the wasting property is divisible without any deduction for the depreciation in value of the wasting property.

That is because the object of the company was to acquire a wasting property and to divide all the profits. That is not so here. The profits of this business are not ascertained until a sufficient sum has been deducted to meet the depreciation of the machinery. One of the witnesses in his affidavit referred to the 'saleable value' of this machinery. That is not the right standard. Here it is the values of the machinery for the purpose of this business, not the saleable value."

Capital Profits.—Again, a company's profits may arise through the medium of trading or they may result from the sale of a fixed asset. An important question, therefore, often arises as to whether capital profits can be distributed as dividend. The decisions in the following two leading cases on the point are worth studying:—

Lubbock v. British Bank of South America, Ltd. (1892).—This was a motion by the plaintiff on behalf of himself and all the other shareholders to restrain the company from carrying into effect a resolution passed by the directors of the company placing a sum of £205,000 to the Profit and Loss Account and distributing the same as if it were income of the company. The company was carrying on banking business, and the amount in question represented profit realised on the sale of a part of its undertaking to another company.

It was *held* that the £205,000 was plainly profit on capital, and not part of the capital itself, for that sum was the surplus ascertained on the assets side after the liabilities and capital were placed on one side of the account and the assets on the other. Under the Articles of the Company the directors were justified in carrying over the £205,000 to a Profit and Loss Account, and having appropriated to the Reserve Fund so much of the sum as they thought fit, they could distribute the remainder as dividends after an ordinary meeting, called in pursuance of the Articles, had passed the requisite resolution.

Foster v. The New Trinidad Lake Asphalte Co., Ltd. (1900).—In this case, it was decided that the profit made on the realisation of an asset taken over by a company on its formation is not available for Dividend, even though such asset be a book debt, without due regard to the value of the assets as a whole.

In this case, the defendant company acquired from another company certain assets including amongst them Promissory Notes amounting to $100,000. These were not regarded at the time of purchase as of any value, but were subsequently realised in full. The debenture-holders brought an action to restrain the company from utilising this amount in distribution as dividend, and it was held that such dividend could not be paid. A part of the judgment reads as follows:—

"It appears to me that the amount in question is *prima facie* capital, and that I have no evidence which would justify me in saying that it has changed its character because it has turned out to be of greater value than had been expected. . . . It is clear. I think, that an appreciation in total value of capital assets, if duly realised by sale or getting in of some portion of such assets may, in a proper case, be treated as available for purposes of dividend. This, I think, is involved in the decision in the case of *Lubbock v. British Bank of South America*, cited with approval by Lord Lindley in *Verner v. The General and Commercial Investment Trust*, where he says:—"Moreover, when it is said, and said truly, that dividends are not to be paid out of capital, the word 'capital' means the money subscribed pursuant to the Memorandum of Association, or what is represented by that money. Accretions to that capital may be realised and turned into money, which may be divided amongst the shareholders, as was decided in *Lubbock v. British Bank of South America*." If I rightly appreciate the true effect of the decisions, the question of what is profit available for dividend depends upon the result of the whole accounts fairly taken for the year, capital as well as profit and loss, and although dividends may be paid out of earned profits in proper cases, although there has been a depreciation of capital, I do not think that a realised accretion to the estimated value of one item of the capital assets can be deemed to be profit divisible amongst the shareholders without reference to the result of the whole accounts fairly taken."

From the decisions in the above two cases, it seems that the following conditions must be fulfilled before capital profits may be distributed:—

(1) That the Articles must not prohibit such a distribution;
(2) That such profit must have been actually realised; and
(3) That it must exist after a revaluation of the whole of the assets of the company.

The above precautions seem to be very reasonable in order to prevent the presentation of artificial profits as a result of revaluation. Mere revaluations, however accurately arrived at at the time, may not be permanent, and if the temporary excess over book values be distributed and if the market values of such assets fell at a subsequent date, then there will be no opportunity of such loss being made good except out of current profits. It has, therefore, been rightly laid down that a distribution of such capital profit can be made provided they are actually realised. Then again, it is neither desirable nor sound that a realised surplus resulting from the sale of a single asset be distributed. Other capital assets may have depreciated, and in order to leave the capital fund intact before any surplus of this type be distributed, it is necessary that a surplus be left on a revaluation of the whole of the assets of the company.

The Ammonia Soda Co., Ltd. v. *Arthur Chamberlain and Others* (1917). —In this case, it was *held* that a company may write up the value of its assets as a result of a *bona fide* valuation, and may distribute current profits without first making good past losses.

The facts of the case were these:—Between the years 1908 and 1910, the Company made a loss of £19,028 and a net profit of £6,075 was made in the subsequent seven months, leaving a debit on Profit and Loss Account to the extent of £12,970. In the Balance Sheet of 31st July 1911, the book value of the Company's Land was increased by £20,542 as a result of revaluation and the corresponding amount was credited to a Reserve Account. This Reserve Account was then utilised to cancel the debit balance of the Profit and Loss Account, namely, £12,970 and sundry other items, leaving an ultimate credit balance of £4,091 on the Reserve Account. This credit balance on the Reserve Account was transferred to the Land Account thus bringing the net increase in the book value of the Land to £16,450. The Company made profits subsequent to 31st July 1911 and paid dividends therefrom.

It was contended by the plaintiffs that the revaluation was not a genuine one but was made with a view to wipe off the past losses, and that the debit balance of the Profit and Loss Account should have been written off first out of the subsequent profits prior to the payment of dividend. Part of the judgment reads as follows:—

"The directors in my view honestly entertained the view that the land in 1911 had largely increased in value, and the plaintiff company in general meeting adopted their views, knowing that the valuation had been made by the directors, and knowing, as they must have known, that the directors who had made the valuation were not professional valuers or men who had had a long experience in the salt business.

"There is not any ground for suggesting that any facts were concealed from the shareholders by the directors. In these circumstances it is not, in my opinion, open to the company to attack the directors for an honest, though it may be erroneous, estimate which has been expressly adopted by the company in general meeting after the attention of its shareholders had been pointedly called to the resolution by the auditor's certificate which was attached to the Balance Sheet.

"It was contended, however, that there was no justification for payment of the dividends in question, even if the valuation was honest and even if in its result it was correct. Mr. Gore-Brown said that the essential question was whether or not capital assets could be written up so as to justify payment of a dividend, that the valuation, however careful and however thorough and satisfactory to the Court, was not a justification for paying dividends, that the Profit & Loss Account was a continuous account which was always open, and that there was no Profit on it until all past losses had been wiped off. . . .

"There is one distinction which should, I think, be remembered for the purposes of the present case. A dividend may be improper because it is paid out of capital, or it may be open to objection because it is paid when there are *no* profits available for the purpose. If during the year there is no balance to the credit of Profit & Loss Account, any dividend which is paid must be pointed out as paid out of capital and any such payment must reduce the paid-up capital. . . .

"But where a company has made losses in past years and then makes a profit out of which it pays a dividend, the question is a different one. Such a dividend is not paid out of paid-up capital. If it were, the paid-up capital would be still further reduced by the payment. In fact the assets representing the paid-up capital remain the same or of the same value as before the payment of the dividend. It may be that the balance to the credit of Profit & Loss Account ought to be applied in making up lost capital and it may be that the directors are liable for neglecting to apply it in this way. But such a payment does not involve a reduction of capital, it involves a failure to make good capital which has already been lost.

"In the present case, the dividends in question were not paid out of capital, if the word capital is used as meaning assets which at the time, in fact, represented paid-up capital. They were, in fact, paid out of the balance standing to the credit of Profit & Loss Account for the year in which they were paid. The question in this case, therefore, is whether any profits which were made had to be applied in making good any losses of previous years, and whether an increase in the value of the fixed capital could be taken into consideration for the purpose of wiping out previous losses of paid-up capital. . . .

"As the law stands at present, losses of circulating capital must be made good before there are any profits out of which dividends can be declared; but having regard to the observations of Lord Davey in *Dovey* v. *Corey* the question whether a similar rule applies in the case of fixed capital appears to be still open.

"I am not satisfied that the proposition that it is contrary to all principles of commercial accountancy to utilise an increase in the value of a fixed asset for the purpose of getting rid of a debit which represents loss of paid-up capital is not too wide. It may be a precept of prudence and yet be far removed from the sphere of the categorical imperative. Assuming that a company ought to keep the value of its assets up to the amount of the liabilities and paid-up capital, or, in other words, to see that its paid-up capital is intact, why should it be absolutely precluded from stating the true value of its assets?

"In my judgment, then, the present action fails and must be dismissed with the usual consequences."

It becomes difficult at times to determine exactly whether a profit resulting from certain transactions entered into by a company is actually of a capital or of a revenue nature. The following is the case in point:—

Wall v. *London and General Provincial Trust Co., Ltd.* (1920).—The defendant Company was formed to carry on the business of buying and selling investments. The Company's Articles embodied the following provisions:—"The board might in any year, after 4½ per cent had been paid on the preference stock, 4 per cent on the ordinary stock, carry to General Reserve Account such sum as they might deem expedient for the equalisation of dividend or payment of losses." "No dividend or instalment of dividend or bonus should be payable except out of the net profits arising out of the business of the company." "All profits and losses resulting from any change of investment should be carried to Capital Reserve Account, and any such profits or losses should be disregarded in estimating the net profits."

The Company had issued Debentures which stood on the market on a certain date at a considerable discount. Taking advantage of this, the Company purchased some of these Debentures on the market and thus made a substantial amount of profit while reducing this liability. The Directors desired to distribute this profit and an action was brought by the plaintiff to restrain the Company from so doing.

It was *held* that, having regard to its Articles, the Company cannot treat profits made on redemption of its Debentures as being available for Dividend. The view taken by the Court was that the Company could not regard such a profit in the nature of a revenue profit as it resulted from the extinction of the Company's own liabilities.

If the Company's Articles had allowed the use of Capital Profits for the distribution of dividends, there would have been no legal objection to the distribution of profits arising on the redemption of debentures.

Stapley v. *Read Bros.* (1924).—In this case, the Company had for many years been appropriating some of its profits towards reduction in value of Goodwill with the result that the Goodwill Account ultimately disappeared from the Company's Books. In the year 1921, the Company made a net loss of £45,800 which amount was reduced to £15,707 after the transfer of the previous balance of profit brought forward and the credit balance of the Contingency Fund. In 1922, there was a further loss of £4,787 bringing the total debit of Profit and Loss Account to £20,504. In 1923, the Company made a net profit of £13,430. The Company had issued Cumulative Preference Shares and the Dividends on these Shares for the years 1921, 1922 and 1923 were unpaid. The Directors desired to pay off three years' preference dividends, and to enable them to do so, they recommended that the value of Goodwill in the Company's Books be restored to the extent of £40,000 by giving the corresponding credit to a Reserve Account, and to wipe off the former debit balance on Profit and Loss Account by transfer to the above Reserve Account.

It was *held* that for the purpose of declaration of dividends out of the profits earned in a particular year, it was not necessary to make good the previous debit, if any, standing on the Profit and Loss Account, the Court in this respect affirming the decision in *Ammonia Soda Co.* v. *Arthur Chamberlain*. It was further held that the writing off of the Goodwill out of the profits in the previous years did not amount to a permanent capitalisation of such profits and that the Company was not precluded, in any subsequent year, from writing back to Goodwill Account a sum not exceeding its then fair value by giving a corresponding credit to Profit and Loss Account and treating such profits as available for dividend. This is provided there is nothing in the constitution of the Company prohibiting such a procedure.

General Conclusions to be drawn.—From the above expressions of the judicial views, it seems that the decisions cannot be regarded as establishing a hard and fast precedent compulsory of adoption in all cases, and the question of what profits are divisible or not will have to be decided in each case on its own merits. The following conclusions may, however, be drawn as a safe guide:—

(1) A dividend pre-supposes a trading profit or a surplus.

(2) The Company Law does not require a company to maintain its capital intact, but merely forbids any part of the capital to be returned to its shareholders.

(3) Neither the sanction of a General Meeting nor an express authority in the Memorandum or the Articles can justify the payment of a dividend out of capital.

(4) Whether it is necessary or not for a company to replace capital previously lost before distributing the current profits, depends entirely on the company's own regulations; but the company must retain sufficient assets to enable it to pay off its debts and liabilities while declaring dividends.

(5) Depreciation or Loss on Floating or Circulating Assets must always be made good before the payment of a dividend.

(6) Depreciation of Fixed Assets need not necessarily be provided for before the payment of a dividend; but whether such a provision is necessary or not, will be a question of fact, to be determined by the Court, with due regard to the circumstances of each particular case and the regulations of the company concerned.

(7) In case of a manufacturing concern, due provision must be made for Depreciation of Plant and Machinery before ascertainment of divisible profits.

(8) Unless so required by its Articles, a company formed to work a wasting asset need not necessarily provide for depreciation of such asset before arriving at divisible profits.

(9) That if a company paid dividends in any one year out of a credit balance on Profit and Loss Account of that year properly arrived at, then such dividend is not paid out of Capital.

(10) Assets may be revalued, provided it is done honestly and with the approval of the shareholders. An asset that may have been over-depreciated in the past may be written up, and the surplus thus arising may be utilised in writing down another asset, in order that the book value of each may be brought nearer the present value.

(11) Capital Profits or any accretion in the value of fixed capital of a Limited Company can only be distributed, if after a revaluation of all the assets and liabilities of the company, there is a distinct surplus over the Capital; it is equally necessary to see that such capital profit is realised in cash and the regulations of the company do not prohibit such a distribution.

EXAMINATION QUESTIONS.

Note:—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. Give the entries usually passed when a company takes over a running business.
2. How should Discount on Issue of Debentures be dealt with?
3. What entries should be passed on Redemption of Debentures?
4. How are Debentures issued as Collateral Securities dealt with in accounts?
5. What entries are passed on Redemption of Redeemable Preference Shares?
6. What items are usually found on the debit and credit sides of the Profit & Loss Appropriation Account?
7. What record is maintained in respect of Dividends in the books of a company?
8. What are Interim Dividends, and how are they payable?

9. What entries are passed when a Dividend is declared less Income-tax?

10. How should Dividends be paid on partly-paid shares?

11. Give rulings of (*a*) Share Dividend Book, and (*b*) Debenture Interest Book.

12. Explain what you understand by (*a*) Reserve Fund, and (*b*) Dividend Equalisation Fund.

13. How should Reserve Fund be invested? Would you invest Debenture Redemption Fund in the same way?

14. Describe briefly the important points in the Prescribed Form of Balance Sheet under the New Act.

15. What are Contingent Liabilities, and how should they be dealt with in a Balance Sheet?

16. What entries should be passed when a company reduces its Share Capital with the object of wiping off its past losses and writing down its assets?

17. What do you understand by Capitalisation of Reserves?

18. Give the entries necessary to record the payment of Bonus by the issue of new shares out of the Reserve Fund.

19. What entries are passed when the Bonus out of the Reserve is utilised in making partly-paid Shares fully paid up?

20. How should Profits made by a company prior to Commencement Certificate be dealt with?

21. What is the best method of ascertaining Profit or Loss made prior to obtaining of Commencement Certificate?

22. What are Divisible Profits? Give a brief summary of the various decisions on the point.

ISSUE AND REDEMPTION OF DEBENTURES.

23. How should the figures be shown in a Company's Balance Sheet in both the following cases?:—(*a*) A Company issues £40,000 4 per cent Mortgage Debentures at 95 per cent. (*b*) A Company issues £40,000 4 per cent Mortgage Debentures at par and undertakes to redeem them at the end of 10 years at £105.
(*Lancashire and Cheshire Institute.*) 210

24. On 31st December 1909, the City Trading Co., Ltd., had a Debenture Reserve Fund of £50,000 represented by investments amounting to £59,000 2½ per cent Consols. The Company also had a balance in the Bank on current account at 30th June 1910 of £6,000. The Debentures, amounting to £50,000 were paid off on 30th June 1910. To provide for this, the Consols were realised at 83% net, and the proceeds paid into the Bank on 30th June 1910. Record the above transactions in the books of the Company, and show the Ledger Accounts affected. (*Chartered Accountants.*) 211

25. The X, Y Company Ltd., made an issue of 5,000 4 per cent Debentures of £10 each at £9-10 per Debenture. The whole issue is underwritten by A, B & Co., for a commission of 5 per cent on the nominal value. Applications were received for 4,500 Debentures which were duly allotted and paid for. The remaining 500 Debentures were allotted to A, B & Co., under the terms of their underwriting agreement.

Write up the Debenture Account in the Company's Ledger, the Account of A, B & Co., and the "Cost of Debenture Issue" Account. (*Chartered Accountants.*) 212

26. The Soft Coal Co., Ltd., issued on 1st April 1912, £100,000 of Second Debentures at 5½ per cent on condition that before paying, or providing for payment, of any dividend on any shares or stock, the Company should pay the Trustees for the Debenture-holders (immediately on the ascertainment of the result of the trading for the Company's financial year, which ends on March 31st) one-fourth part of the amount, if any, which might then otherwise be applied in payment of dividend on such shares or stock. The Company made a profit for the year ended March 31st, 1913, of £14,500, and there was £1,500 brought forward from the previous year.

Draft the Journal Entry necessary to make the Company's Ledger show the Liability to the Trustees, and show how the items affected should appear on the Balance Sheet of the Company. (*Chartered Accountants.*) 213

27. The Bengal Iron Company, Limited, issued 7½ per cent Preference Shares of the face value of five crores of rupees at par and 6 per cent Debentures of the face value of three crores of rupees at a discount of ten per cent. Messrs. S. D. & Co. underwrite

the whole of the issue for a commission of four per cent on the Preference Shares and of five per cent on the Debentures. Preference Shares of the value of four crores of rupees and Debentures of the value of two crores of rupees are taken up and paid for by the public. The balance is allotted to the underwriters under the terms of the underwriting agreement.

Prepare the Ledger Accounts where these transactions will be found recorded; what amount will the underwriters have to pay to the company? How will these figures appear in the Balance Sheet of the Company? How will they appear in the Balance Sheet ten years after such issue, if the Debentures are redeemable in 30 years?

(G.D.A.) 214

28. A Limited Company has issued Debentures worth Rs. 10,00,000 repayable after 10 years.

Show how the various Accounts in connection with the issue and redemption of the Debentures would appear in the ledger at the time of expiry of Debentures and also after repayment of such Debentures, assuming that the investments realise 5% less than the original cost. 215

29. A Limited Company issues Rs. 1,00,000 Debentures at a discount of 5% repayable at a premium of 5% at the end of 5 years. Explain what entries should be passed at the time of issue.

What provision should the Company make for the redemption of such Debentures and how would the various Accounts concerned be dealt with at the time of repayment of the Debentures? 216

30. The General Trading Co., Ltd., has made an issue of debentures and, in accordance with covenants contained therein, provides for redemption at a definite future date by means of a Cumulative Sinking Fund, represented by investments, but has power to purchase the debentures in open market prior to that date.

Before the due date for redemption arrives, the Company realises a part of the Sinking Fund Investments and applies the proceeds in cancellation of debentures, which were purchased (below maximum redemption value) in open market. The realisation of investments and application of the proceeds thereof retards accumulation of the Sinking Fund.

What adjustment do you consider necessary in these circumstances and in what manner should it be made? 217

31. A Company had made an issue of 5,000 Debentures of Rs. 100 each at par, a Sinking Fund being created to provide for repayment. Under the terms of issue, the Company might, under certain conditions, purchase the Debentures in the open market for cancellation. On 1st January 1927, 3,800 of the Debentures were outstanding, and the Sinking Fund then amounted to Rs. 2,50,000. The Sinking Fund Investments consisted of Rs. 1,24,000 5% War Loan, standing in the Books at Rs. 1,20,000.

In March 1927, the Directors purchased Rs. 20,000 of the Debentures at a cost of Rs. 19 300 realising Rs 19,000 War Loan to raise the necessary funds. Interest on the War Loan was received on 1st June and 1st December, and invested forthwith in purchase of further War Loan at par in each case. On 31st December, a further Rs. 20,000 was appropriated to the Sinking Fund and invested in War Loan, Rs. 19,850 of which was purchased.

Open in the Company's books the necessary Accounts affected by the above transactions. Ignore Income-tax and expenses of purchase and sale of investments. 218

32. In 1925, a Company made an issue of 1,000 6% Debentures of Rs. 500 each at Rs. 480. The terms of issue provided for the redemption of Rs. 10,000 annually, commencing in 1928, either by purchase in the market or by drawings at par at the Company's option. The expenses of the issue were written off in 1925 and Rs. 5,000 was written off the Debenture Discount Account in each of the years 1925, 1926 and 1927.

In December 1928, the Company purchased for cancellation Rs. 3,500 of its Debentures at Rs. 470, Rs. 6,000 at Rs. 472-8-0 and Rs. 500 at Rs. 475, the expenses amounting to Rs. 25.

Give the entries to be made in the Company's books in connection with the above transactions, dealing with the profit on redemption in the way you consider fit and show also the entries which would appear in consequence in the Company's published accounts as on 31st December 1928. 219

33. A Company raises a loan of Rs. 25,00,000 upon its Debenture Stock at a discount of 2½% on 1st January 1926. At the end of a period of years the loan is

redeemable at par, by means of a Cumulative Sinking Fund, but the Company has power to call upon the Trustees to apply the Sinking Fund Investments in the purchase of stock, if below par, at any time. The annual Sinking Fund Contribution is Rs. 60,000, exclusive of interest accumulated. On the 1st of January each year this amount is invested, together with the income accumulations. Capital balances arising from realisation of investments are reinvested at the same time.

Sinking Fund Investments produce interest, less tax, as follows:—
1927 Rs. 1,970; 1928 Rs. 3,040; 1929 Rs. 3,590.

Realisations of Sinking Fund Investments are as follows:—

	Rs.		Rs.
31st May 1927	21,530	Original Cost ..	21,460
31st Aug. 1927	6,400	" " ..	6,550
31st July 1928	41,700	" " ..	41,535
28th Feb. 1929	30,900	" " ..	30,800

The proceeds of realisations are applied in redemption of stock as follows:—

	Rs.		Rs.	
30th June 1927	21,525	in cancellation of	22,815	stock.
30th Sept. 1927	6,390	" "	6,500	"
31st Aug. 1928	41,700	" "	41,800	"
31st Mar. 1929	30,875	" "	31,000	"

Interest on Debenture Stock is paid half-yearly on 1st July and 1st January.

Prepare accounts for the years 1926 to 1929 (inclusive) in respect of the Sinking Fund transactions, showing the manner in which the Sinking Fund would be compensated for the loss of interest resulting from the realisation of investments. Show also the manner in which you would deal with the accounts relating to Discount on Issue, Profit on Cancellation of Stock, and Profit and Loss on realisation of Investments. 220

34. On 1st January 1929, Exporters, Ltd., issued Rs. 20,00,000 of 7% Debentures at 5% Discount repayable in five years at par; the Company reserved the right to redeem to the extent of Rs. 2,00,000 in any year by purchase in the open market. The interest was payable half-yearly on 30th June and 31st December, and the same was duly paid.

On 30th September 1929, the Company purchased Rs. 2,00,000 Debentures at a cost of Rs. 1,91,000. Pass the necessary Journal entries in the books of the Company up to 31st December 1929 including closing entries for the Balance Sheet on that date. 221

35. A Limited Company created Rs. 1,00.000 Debenture Stock, which was issued as follows:—

	Rs.	
(1) To sundry persons for cash at 90%	50,000	nominal.
(2) To a creditor for Rs. 20,000 capital expenditure in satisfaction of his claim	23,000	"
(3) To the Bankers as collateral security	25,000	"

The issues (1) and (2) are redeemable at the end of 10 years at par. How should the debenture stock be dealt with in preparing the Balance Sheet of the Company?
(G.D.A.) 222

36. On 1st January 1926, a Limited Company issued 200 5% Debentures of Rs. 1,000 each at 950. Holders of these Debentures have an option to convert their holdings into 8% Preference Shares of Rs. 100 each at a premium of Rs. 25 per share at any time within 3 years.

On the 31st December 1926, a year's interest had accrued on the Debentures and remained unpaid and a holder of 20 Debentures notified his intention to exercise his option.

Pass the necessary Journal Entries and show how the items affected would appear in the Company's Balance Sheet.
(B. Com.) 223

37. A Company issues, on 31st December 1920, Rs. 2,00,000 of 4 per cent Debentures, which it is agreed shall be redeemed out of Profits at the rate of Rs. 5,000 per annum. It is to be assumed that the Reserve so created is invested without interval in 5 per cent Government Securities free of Income-tax at par, and all accretions (i.e. interest) which are received on 1st January and 1st July of each year to be similarly invested. Allowing the cost of making investments at one per cent on Capital invested, write up the Debenture Redemption Account and the Debenture Redemption Investments Account up to 31st December 1923. 224

38. On 1st January 1920, the Asiatic Trading Co., Ltd., issued Debentures for Rs. 5,00,000 redeemable at par on 1st January 1925. It was decided to establish a Sinking Fund for the purpose of redemption.

Show the Ledger Accounts for the five years, assuming the annually invested amounts to earn 5% interest, net, and that the amount annually set aside for the purpose is Rs. 90,412-8-0. 225

FINAL ACCOUNTS.

39. Prepare Trading Account, Profit and Loss Account for the year 1937 and Balance Sheet as at 31st December 1937 from the following Trial Balance of the Thana Flour Mill Company, Limited, which is registered in Bombay:—

TRIAL BALANCE, 31st DECEMBER 1937.

	Rs.	Rs.
Capital subscribed 9,000 shares of Rs. 500 each on which Rs. 400 per share is called up		36,00,000
Calls unpaid	1,000	
Buildings—cost	10,00,000	
Machinery—cost	48,00,000	
Depreciation provided on Buildings to 31st December 1936		2,00,000
" " " Machinery " " "		7,50,000
Reserve Fund		3,00,000
Equalisation of Dividend Fund		1,50,000
Loan from Bankers (secured by stock of wheat, flour, etc.)		5,00,000
Creditors for wheat		75,000
" " coal and stores		20,000
Unclaimed Dividends		1,200
Wheat Account	54,00,000	
Coal "	3,15,000	
Flour "		67,60,000
Fixed Deposits		1,20,000
5½% War Bonds, 1922	80,000	
Cash in hand	900	
" at Mill	1,200	
" with Bankers	14,495	
Advanced to A. B. & Company against future wheat contracts	15,000	
Stores	3,45,000	
Wages	4,00,000	
Interest earned		4,020
Transfer Fees		750
Sundry Debtors (these include Rs. 100 due by R. P. Pestonjee, Manager of the Mill, and Rs. 1,200 due by Rustomjee and Patel, Managing Agents of the Mill, Patel is also a director)	66,100	
Profit and Loss		90,225
Salaries	67,500	
Rent and Rates	34,000	
Income-tax in respect of Company's assessment to 31st March 1938	16,000	
General Charges	47,000	
Due for salaries, wages, etc.		32,000
Rs.	1,26,03,195	1,26,03,195

The nominal capital of the company is 10,000 shares of Rs. 500 each.

You are to allow for the following appropriations of profits made by the Directors:—

Depreciation of Machinery Rs. 2,00,000; Depreciation of Buildings Rs. 40,000; Reserve Fund Rs. 1,50,000; Equalisation of Dividend Fund Rs. 1,00,000. They have further resolved to recommend for the shareholders' approval a dividend of Rs. 75 per share free of tax. Provide for Managing Agents' Commission at 10 per cent on the balance of net profits after charging all expenses except such commission and the aforesaid appropriations. Provide for interest on Bank Loan for 6 months at 7 per cent and allow for Rs. 1,980 accrued due on War Bonds. On 31st December 1937, the following stocks were held: Wheat at cost Rs. 10,00,000; Coal at cost Rs. 15,000; Flour taken at or below selling rates Rs. 2,40,000; Stores at cost Rs. 95,000.

If there is any information lacking to enable you to prepare a Balance Sheet in the prescribed form, make notes to this effect stating what further information you require. (G. D. A.) 226

(*Gross Profit Rs.* 16,50,000, *Net Profits Rs.* 11,01,675, *Balance Sheet Total Rs.* 61,39,675.)

40. From the following particulars make out a Balance Sheet as on 31st December 1937 and a Profit and Loss Account for 1937 of the Mercantile Newspaper Co., Ltd., in accordance with the requirements of the Indian Companies Act. The Company was registered in 1934 with an authorized capital of 6,000 shares of Rs. 100 each, and acquired the ownership of the *Mercantile Gazette*, paying the vendors two lakhs of rupees in fully paid up shares. 2,000 shares were allotted to the public in 1934 and paid for at par, 2,000 shares were issued in 1937 and paid for at a premium of Rs. 25 per share.

Buildings were erected at a cost of Rs. 3,00,000, Plant and Machinery purchased for Rs. 3,50,000, and Furniture and Fittings for Rs. 10,000. Depreciation written off up to 31st December 1936 amounted to Rs. 15,000 on Buildings, Rs. 35,000 on Machinery and Rs. 1,500 on Furniture. The Directors wrote off in 1937 5% on Machinery and Furniture and 2½% on Buildings, calculating same on original cost.

Reserve for Doubtful Debts on 1st January 1937 was Rs. 5,000. A sum of Rs. 6,000 was brought forward in 1937 accounts from the Profit and Loss Account of 1936, and an interim dividend at ten per cent per annum was paid in August 1937.

The Bank Loan raised on the security of the Buildings stood at Rs. 1,50,000 on 31st December 1937. Interest for the year on the Loan amounted to Rs. 9,000 of which one-third remained unpaid. Interest on the Bank current account amounted to Rs. 500.

The Company had Rs. 20,000 worth of Paper on 31st December 1936; they brought in 1937 Paper for Rs. 1,00,000 one-half of which remained on hand at the end of the year.

	Rs.	Rs.
Subscription collected in 1937—		
On account of 1936	15,000	
Do. 1937	63,000	
Do. 1938	10,000	
		88,000
Subscription in arrears on 31st Dec. 1937—		
On account of 1936	6,000	
Do. 1937	19,000	
		25,000
Collections in 1937 on account of Advertisements of 1936	12,000	
Do. 1937	1,11,000	
Do. 1938	15,000	
		1,38,000
Uncollected on 31st December 1937—		
On account of Advertisement Bills of 1936	9,000	
Do. Do. 1937	21,000	
		30,000
Printing done for customers in 1937 and Bills rendered out of which Bills for Rs. 31,000 remained uncollected		93,500
The expenditure of 1937 amounted in the		
Printing Department to Rs. 51,000 paid and Rs. 9,000 unpaid		
Editorial Department to „ 20,000 do. „ 8,000 do.		
Manager's Department to „ 12,500 do. „ 10,000 do.		
Cash on hand on 31st December 1937—		
In Bank on current account	8,000	
On hand	2,000	
		10,000

Treat 5% of the book debts as doubtful.
Value the Paper on hand at 80% of the cost price.

(G. D. A.) 227

(*Net Profit Rs.* 83,700, *Balance Sheet Total Rs.* 9,10,000.)

41. The Bombay West Coast Navigation Co., Ltd., has an authorized capital of 3,00,000 shares of Rs. 10 each, of which 56,035 shares have been subscribed. The

following trial balance as on 30th June —— has been prepared by the book-keeper of the Company and owing to his inability to find the difference your assistance is sought.

On carrying out the necessary examination of the accounts you find that the interest accrued on investments is taken into the trial balance from the statement prepared and that no entry therefor is made in the books. You also find that the balance of Profit and Loss Account, viz., Rs. 6,863 (Rs. 89,132 profits as per last balance sheet *less* Rs. 82,269 appropriations thereof), brought forward from last year is omitted, and you find certain other obvious errors in copying down the balances in the trial balance.

After giving effect to the necessary corrections, you are to prepare the Balance Sheet and Profit and Loss Account as required by the Indian Companies Act. Depreciation written off to date on "Steamers, Barges, etc." and on "Furniture and Fittings" is Rs. 1,96,998 and Rs. 2,413 respectively.

The following is the Trial Balance as submitted to you by the book-keeper of the Company:—

	Dr. Rs.	Cr. Rs.
Steamers, Barges, etc.	3,37,743	
Furniture and Fittings	4,613	
Book Debts (of which Rs. 20,367 are doubtful) ...	50,828	
Unexpired Insurance	27,606	
Customs Deposits	1,110	
Investments at cost	4,00,782	
Interest accrued on the above	12,811	
Forfeited Shares Account	*9,342*	
Cash with Banks on F.D.	6,00,000	
Cash with Banks on Current Accounts	1,91,641	
Cash in hand	12,559	
Subscribed Capital		5,60,350
Calls in arrears		6,582
Calls in advance	4,93,315	
Reserve Fund		1,50,000
Dividend Equalisation Fund		25,000
Provision for Doubtful Debts		15,367
Unpaid Dividends		1,17,682
Liabilities for—		
Goods supplied		9,501
Expenses		1,54,336
Other finance		47,416
Voyage receipts		3,92,178
„ expenses	2,14,637	
Interest		19,786
Transfer Fees		1,630
Expenses of Management	1,28,262	
Depreciation	26,406	
Rs.	25,11,655	14,99,831

(*G. D. A.*) 228

(*Net Profit Rs.* 57,100, *Balance Sheet Total Rs.* 16,39,693.)

42. From the following balances abstracted on 31st December 1937 from the Books of the Bombay Cotton Mills, Limited, prepare a Balance Sheet in the Form prescribed under the Indian Companies Act showing full particulars of the appropriation of Profit since the last Balance Sheet:—

The Mill was started on 1st January 1932 with a Nominal Capital of Rs. 14,00,000 divided into 7,000 Shares of Rs. 200 each.

Out of the 7,000 shares 5,250 were issued to the public, but only 4,200 were actually taken up. Rs. 150 were called up per share. Out of Rs. 1,26,000 Book Debts, Rs. 21,000 were due by Directors, Rs. 14 000 were Doubtful, and Rs. 7,000 were Bad. Out of Rs. 6,09,000 Creditors, Rs. 49,000 were due to merchants for Stores, etc., Rs. 4,20,000 due to Bank of India, Limited, for a fixed Loan which is secured by Mortgage on Buildings and Machinery, Rs. 1,05,000 due on Messrs. Dalal & Co.'s loan which is secured by a charge over the Stock-in-Trade, Rs. 14,000 due for Excise duty, and the balance was due to sundry unsecured Creditors.

It was resolved on 3rd March 1937 that out of the credit balance of Profit as per the last Balance Sheet as on 31st December 1936 a dividend at Rs. 20 per share be paid as the final dividend for the second half of 1936, Rs. 84,000 be carried to the Reserve Fund, Rs. 10,000 to Employees' Bonus Fund, and Rs. 30,000 be written off the Preliminary Expenses. It was further resolved on 5th September 1937 that an *Ad Interim* Dividend at Rs. 36 per share be paid for the first half of 1937.

TRIAL BALANCE

	Rs.		Rs.
Land	70,000	Employees' Bonus Fund ..	14,000
Capital	6,30,000	Salaries Due	5,600
Buildings	3,50,000	Bad Debts Reserve ..	6,300
Calls in Arrears	35,000	Cash at Bank of India ..	58,800
Creditors	6,09,000	Live Stock	5,000
Reserve Fund	1,54,000	Machinery	4,90,000
Preliminary Expenses (including Rs. 12,000 for Brokerage on Shares)	42,000	Loose Tools	1,19,000
Stores and Spare Gear	91,000	Book Debts	1,26,000
Wages Due	9,100	Unpaid Dividend	3,500
Godown Rent Due	3,500	Credit Balance of Profit and Loss Account (after being credited Rs. 3,51,200 for this year's Profit and debited for Appropriations as per Resolutions, dated 3rd March and 5th September)	2,10,000
Cash at Mill	2,100		
Stock-in-Trade (at cost) ..	2,40,000		
Unexpired Insurance ..	3,500		
Cash in Office	12,600		

(*G.D.A.*) 229

(*Net Profit Rs.* 3,51,200 ; *Balance Sheet Total Rs.* 16,10,000.)

43. The following is the Trial Balance at 30th June 1937 of the L. Y. Manufacturing Company, Limited :—

	£	£
Stock, June 30th, 1936	7,500	
Sales		35,000
Purchases	24,500	
Productive Wages	5,000	
Discounts	700	500
Salaries	750	
Rent	495	
General Expenses	1,705	
Profit and Loss Account, June 30th, 1936		1,503
Dividend paid, August 1936	500	
Interim Dividend paid, February 1937	400	
Capital—10,000 £1 shares, fully paid		10,000
Debtors and Creditors	3,750	1,750
Plant and Machinery	2,900	
Cash in hand and at Bank	1,620	
Reserve		1,550
Loan to Managing Director	325	
Bad Debts	158	
	£ 50,303	50,303
Stock, 30th June 1937	80,200	

You are required to make out the Trading Account, and Profit and Loss Account for the year ended 30th June 1937, and the Balance Sheet as at the latter date. You are also to make provision in respect of the following :—

(1) Depreciate Machinery 10% per annum.
(2) Reserve 5% discount on Debtors.
(3) Allow $2\frac{1}{2}$% discount on Creditors.
(4) Provide Managing Director's Commission, 15% on the net profit, before deducting his commission.
(5) One Month's Rent at £45 per mensem was due on 30th June.
(6) Six Months' Insurance was unexpired at £75 per annum. (*G.D.A.*) 230

(*Gross Profit £*6,200, *Net Profit £*2,089-2-0, *Balance Sheet Total £*16,030)

44. Prepare an Income and Expenditure Account and Balance Sheet from the following Trial Balance and particulars of the Associated Land and Building Co., Ltd., as on 30th April 1937. Make a Reserve of Rs. 147 for Audit Fee and Rs. 175 for repairs Interest on Mortgage has been paid to 31st December 1936. Two tenants, Lowji & Co. and Karsondas Bros., at Rs. 1,260 a year each have paid rent to 31st March 1937. The only other tenants are those mentioned in the Trial Balance. Provide for a dividend of 6 per cent on the Capital and carry the balance to the Reserve Fund.

Dr. Balances	Rs.		Rs.
Incidental Expenses ..	35	Land and Buildings ..	1,75,000
Postages	21	Income-tax	259
Bank Commission ..	28	Kapadia, half-year's rent due 31st December 1936	630
Interest on Mortgage ..	1,680	Bank	4,263
Secretary's remuneration ..	560		
Patel, half-year's rent due 31st January	560	**Cr. Balances**	
Dastoor, half-year's rent due 28th February	630	Registration and Transfer Fees	7
Repairs and Painting ..	245	Bank Interest	105
Fire Insurance	84	Reserve Fund	8,540
Stationery and Printing ..	112	Rentals	9,170
Mulla, half-year's rent due 31st December 1936	840	Capital Account, 3,000 Shares of Rs. 35 each fully paid ..	1,05,000
Heating and Ventilating ..	350	Forfeited Shares	70
Romer, half-year's rent due 31st March	1,680	A. Barton (Mortgage 4 per cent)	63,000
		Creditors	1,085

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(*Surplus of Income over Expenditure Rs.* 6,706, *Balance Sheet Total Rs.* 1,85,563.)

45. From the following Trial Balance of the Premier Rubber Company, prepare Profit and Loss Account and Appropriation Account for the year ended 31st December 1937 and Balance Sheet as on that date:—

	Rs.	Rs.	Rs.
Share Capital, Authorised and Issued			10,00,000
Leasehold Estate in Sumatra		7,38,450	
Development Account, 1st January, 1937		2,96,720	
Expenditure in Sumatra during 1937:—			
Upkeep of producing area, tapping, manufacturing, shipping, etc.	1,83,030		
Further outlays on areas not in bearing	51,060		
		2,34,090	
Buildings and Machinery		1,37,200	
Inventory of Cattle, Stores, etc.		10,530	
Stock of Rubber in Store and in Transit at 31st December 1936 ...		1,42,410	
Proceeds of Rubber sold			4,23,970
Profit on Exchange			140
Directors' Fees		8,500	
Audit Fees		2,540	
Income-tax		24,300	
Interest on Deposit			640
Transfer Fees			100
Cash at Bankers and in hand		74,880	
Sundry Debtors		11,020	
Sundry Creditors			45,810
General Reserve			1,50,000
Profit and Loss Balance, after payment of Rs. 1,25,000 Final Dividend for 1936			84,980
Interim Dividend paid 31st July 1937		25,000	
	Rs.	17,05,640	17,05,640

Provide 10 per cent Depreciation on Buildings and Machinery, carry Rs. 50,000 to General Reserve and provide for additional remuneration of the Directors, viz., 2½% on the profit for the year before charging Income-tax and General Reserve. The Stock of Rubber in Store and in Transit on 31st December 1937 was valued at Rs. 1,56,860.

(B. Com.) 232

(Gross Profit Rs. 2,55,390, *Net Profit Rs.* 2,25,722-4-0, *Balance Sheet Total Rs.* 14,63,000.)

46. The following Trial Balance of the Universal Manufacturing Company on 31st December 1937 (on which date the cashier had in hand Rs. 450) was prepared by an inexperienced Ledger Clerk :—

Dr. Balances	Rs.	Cr. Balances	Rs.
Machinery	9,92,700	Subscribed and fully called Capital	12,50,000
Unclaimed Dividends	1,700	Discount on Debentures	5,000
Freehold Land	1,50,400	Interest on Sinking Fund Investments	8,000
Preliminary Expenses	8,320	Sinking Fund Investments	2,50,000
Sinking Fund for Redemption of Debentures	2,50,000	Sundry Creditors	2,00,025
Sundry Debtors	2,50,000	Goodwill	50,000
Depreciation on Machinery	55,000	Miscellaneous Receipts	400
Wages	75,000	Loose Tools	4,225
Salary	20,913	4% Debentures (to be redeemed on 31-12-1941)	3,00,000
Purchases	6,47,000	Reserve for Bad Debts	10,000
Bad Debts	3,400	Interest on War Bonds	3,000
Directors' and Auditors' Fees	2,900	Sales	9,83,500
Interest on Debentures	6,000	P. & L. Balance (Cr.)	9,600
Insurance	3,000	Returns from Customers	4,700
Depreciation on Buildings	15,000	Depreciation Fund	2,02,400
Cash at Bank	17,300	Bank Charges	150
Reserve Fund	47,600	Discount on Sales	1,300
Returns from Purchases	3,500		
6% War Bonds	1,00,000		
Motive Power	19,000		
Bills Payable	9,300		
Buildings	4,50,600		
Stock (31-12-1937)	1,37,000		
General Expenses	1,417		
Repairs	3,900		
Postage, Stationery, etc.	2,100		
Rent, Rates and Taxes	6,200		
Carriage	2,000		
Travelling Expenses	1,050		
Rs.	32,82,300	Rs.	32,82,300

You are required to prepare Trading and Profit and Loss Account and Balance Sheet as required by the Indian Companies Act after making following adjustments :—

Reserve for Bad Debts is to be maintained at 5% on Sundry Debtors. Directors' Fees amounting to Rs. 300 are to be provided. Insurance is paid for the year ending 31st March 1938. Write off the whole of Preliminary Expenses. Add Rs. 10,000 to Sinking Fund for Redemption of Debentures. The Closing Stock includes goods worth Rs. 3,000 received on the last day and which have not been passed through the Purchase Book. The Authorised Capital of the Company is Rs. 15,00,000 divided into 15,000 Shares of Rs. 100 each. The Stock on 31st December 1936 was Rs. 1,30,000. *(B. Com.)* 233

(Amended Trial Balance Total Rs. 32,79,025, *Gross Profit Rs.* 2,43,300, *Net Profit Rs.* 1,10,000, *Balance Sheet Total Rs.* 24,10,425)

47. The Reliance Colliery Co., Ltd., which has an authorised Capital of Rs. 20,00,000 divided in 20,000 Shares of Rs. 100 each, of which 10,000 have been issued, makes up accounts annually to 30th September. The Ledger Balances on 30th September 1937 were as follows :—

	Rs.		Rs.
Freehold Property	4,36,260	Insurance	3,000
Plant and Machinery ..	2,27,460	Betterment Fund Levy Account (debit balance)	2,020
Share Capital	10,00,000	Wagon Revenue Account (debit balance)	16,310
Locomotives	58,000	Salaries	28,380
Steam Wagon and Motor Car ..	11,000	Sales Agency Commission ..	14,050
Wagons	1,76,000	Directors' Fees	3,750
Coal Stock—2,514 tons ..	14,630	Bank Charges	4,850
Preliminary Expenses ..	21,000	Office Rent and Expenses ..	17,350
Wages	20,61,310	Discount Account (credit balance)	3,830
Workmen's Compensation Insurance (coal production account)	73,410	Sales—2,40,240 tons ..	31,37,290
National Health and Unemployment Insurance (coal production account)	9,280	Carriage, etc., on Coal ..	1,71,280
Timber and Pitwood ..	1,89,220	Sundry Debtors	3,92,680
Stores	82,190	Sundry Creditors	1,86,410
Repairs	1,03,140	Cash in hand	5,920
Horses and Horsekeep ..	69,060	National Bank, Limited (debit balance)	68,470
Electric Power	42,470	Profit and Loss Account (credit balance)	1,34,020
Rent, Royalties and Wayleaves	34,030	Dividend Account ..	1,00,000
Rates	25,030		

Stock Valuations on 30th September 1937 were as follows:—

	Rs.
Timber and Pitwood	10,110
Stores	15,320
Horsekeep (balance of fodder)	3,500
Coal—2,274 tons	10,100

Horses were valued on 30th September 1937 at Rs. 20,450. One-third of the balance of Preliminary Expenses is to be written off. Depreciation is to be written off at:—

5 per cent on Plant and Machinery.
7½ per cent on Locomotives.
15 per cent on Steam Wagon and Motor Car.
7½ per cent on Wagons.

The output during the year was 2,63,880 tons, of which 24,220 tons were consumed under boilers.

Prepare Coal Production Account (showing proceeds and cost of production per ton of output disposable), Trading and Profit and Loss Account for the year to 30th September 1937 and Balance Sheet as on that date. (*B. Com.*) 234

(*Gross Profit* Rs. 3,05,440, *Net Profit* Rs. 1,98,237, *Balance Sheet Total* Rs. 14,18,727.)

48. On 31st December 1936, A, B and C convert their business into a Joint Stock Company with a Nominal Capital of Rs. 1,00,000 when their Balance Sheet was as under:—

BALANCE SHEET.

	Rs.	Rs.		Rs.
Creditors		14,000	Land and Building ..	30,000
A's Capital ..	27,000		Machinery	20 000
B's " ..	21,000		Stock	10,000
C's " ..	18,000		Debtors	20,000
		66,000		
	Rs.	80,000	Rs.	80,000

The following arrangement was agreed upon by all the partners:—

(1) A Goodwill Account was to be created for Rs. 28,000.

(2) Land and Building, Machinery and Stock to be taken over by the Company at book value.

(3) The Company to allot shares for Rs. 88,000 to the Vendors, as purchase consideration.

(4) Book Debts were to be realised and creditors were to be paid off by the company on behalf of the Vendors.

On 31st December 1937, other Accounts stood as under in the Company's Ledger:—

	Rs.		Rs.
Wages	4,000	Debtors	23,000
Carriage	1,200	Cash	200
Discount allowed	1,300	A's Drawings	600
Repairs	300	B's "	600
Rates and Insurance ..	400	C's "	400
Coal	200	Sales	60,100
General Expenses	1,300	Discount Charged	900
Purchases	38,000	Creditors	5,200
Preliminary Expenses ..	700		

The Stock on hand on 31st December 1937 amounted to Rs. 23,000.

The debtors on 31st December 1937 included Rs. 7,000 belonging to the Vendors Rs. 3,000 of which was irrecoverable and should be written off. All the liabilities of the old firm have been discharged. Discount allowed and discount charged included Rs. 600 and Rs. 100 respectively in connection with Vendors' Debtors and Creditors.

Pass the Journal Entries necessary for adjusting the Vendors' Account (the same set of books being continued) and draw up Trading Account and Profit and Loss Account for the year ending 31st December 1937 and the Balance Sheet as on that date after making provisions as under:—

Bad and Doubtful Debts Reserve at 5 per cent on Debtors.

Unexpired Insurance Rs. 100.

Depreciation on machinery at $7\frac{1}{2}\%$. 235

(*Gross Profit Rs.* 29,700, *Net Profit Rs.* 25,600, *Balance Sheet Total Rs.* 1,20,500.)

49. The following is the Trial Balance as at 31st March 1938 of the Indian Colliery Co., Ltd., with an Authorised Capital of Rs. 7,50,000 in 7,500 shares of Rs. 100 each of which 5,000 shares have been issued and paid up to the extent of Rs. 87-8-0 each.

	Rs.		Rs.
Authorised Capital	7,50,000	Mine Repairs	26,750
Unallotted Shares ..	2,50,000	Electric Power and Lighting ..	26,800
Uncalled Capital	62,500	Mine Rent and Royalties ..	15,000
General Reserve	40,000	Office Salaries	12,000
Leasehold Property ..	2,00,000	Sale Expenses	5,000
Plant and Machinery ..	1,80,000	Carriage on Coal	45,800
Locomotives and Wagons ..	43,500	Office Expenses	2,500
Motor Car	1,800	Sales, coal 67,500 tons ..	9,00,000
Horses	5,500	Sales, stores	5,000
Coal Stock, 1st April 1937, 980 tons	5,000	Directors' Fees	4,000
Stores Stock, 1st April 1937 ..	3,000	Discounts allowed	10,500
Purchases of Stores during the year	32,500	Discounts received	5,700
Debtors	1,35,600	Interest paid	1,500
Creditors	24,300	Rates	2,500
Cash at Bank	58,400	Insurance	7,000
Mine Wages	5,68,750	Horse Grain and Stable Requisites	4,750
Mine Timber	36,850	Dividend Account	35,000
		Appropriation Account, 1st April 1937	57,500

Stocks at 31st March 1938 were valued as under:—Coal, 1,195 tons, Rs. 6,000; Mine Timber, Rs. 6,500; Stores, Rs. 2,500; Horse Grain, Rs. 1,000. The following adjustments have to be made: Depreciation of Machinery and Plant, 10 per cent; locomotives and wagons, 10 per cent; horses, 20 per cent; motor car, 10 per cent; leasehold property, 10 per cent. Insurance premium paid in advance Rs. 500. The output during the year was 72,715 tons, of which 5,000 tons were consumed on working account.

Prepare Working Account, showing cost of production per ton of disposable output, Trading and Profit and Loss Accounts for the year, and Appropriation Account and Balance Sheet as at 31st March 1938. 236

(*Gross Profit Rs.* 1,53,300, *Net Profit Rs.* 73,370, *Balance Sheet Total Rs.* 5,97,670.)

50. The shareholders of the Private Company, Ltd., having a nominal capital of Rs. 1,00,000, divided into 10,000 Ordinary Shares of Rs. 10 each, resolved:—

(1) That the Capital be increased to Rs. 2,50,000 by the creation of 10,000 7½ per cent Cumulative Preference Shares of Rs. 10 each and 5,000 Ordinary Shares of Rs. 10 each;

(2) That the Private Co., Ltd., be converted into the Public Co., Ltd.

Prior to registration as a public company, the Directors, on 22nd October 1937, had valuations made of the freehold premises and fixtures and fittings, which valuations were respectively Rs. 2,00,000 and Rs. 10,000.

The last financial year of the Private Co., Ltd., ended on 31st October 1937, and its Trial Balance at that date, before giving effect to the abovementioned increase of capital and valuation of freehold premises and fixtures and fittings, was as follows:—

		DEBIT.	CREDIT.
		Rs.	Rs.
Nominal Capital 10,000 Shares of Rs. 10 each			1,00,000
Unsubscribed Capital, 1,600 Shares of Rs. 10 each		16,000	
Goodwill		20,000	
Reserves:—1st November 1936	Rs.		
General	15,000		
Doubtful Debts	1,000		
Depreciation of Fixtures & Fittings	5,000		
Depreciation of Plant	600		
			21,600
Freehold Premises, at cost		1,50,000	
Alterations to freehold premises:—			
1st November 1934	1,200		
Less—proportion written off to 1st November 1936 ...	400		
		800	
Mortgage on freehold premises			1,15,000
Fixtures and Fittings, 1st November 1936, at cost		8,500	
Plant, 1st November 1936, at cost		2,500	
Stock, 1st November 1936, at cost		67,500	
Debtors and Creditors		33,000	11,540
Bank Overdraft			15,000
Purchases and Sales		1,05,500	2,02,000
Returns, Sales and Purchases		1,500	300
Directors' Fees		3,000	
Factory wages and expenses		16,500	
Salaries		15,000	
Office Expenses		3,000	
Repairs		160	
Advertising		9,000	
Interest		6,000	
Discounts allowed and received		800	1,300
Lighting Charges		700	
Travellers' Expenses and Commission		2,800	
Rates		1,000	
Municipal Taxes		3,500	
Insurance		750	
Income-tax		830	
Dividend Account		8,400	
Appropriation Account, 1st November 1936			10,000
	Rs.	4,76,740	4,76,740

Stock, 31st October 1937, was valued at Rs. 66,000. Show and give effect to your entries for (1) increase of capital; (2) writing up of freehold premises, and fixtures and fittings as per valuations, and the consequential adjustments with regard thereto; also provide for the following:—

(*a*) Income-tax and Super-tax estimated at Rs. 3,950; (*b*) Depreciation of plant, 10 per cent on original cost; (*c*) Accrued interest on mortgage, Rs. 2,030, and on overdraft, Rs. 750; (*d*) Bad debts, Rs. 900. State the Trading, Profit and Loss and Appropriation Accounts of the Private Co., Ltd., for the year ended, and Balance Sheet at 31st October 1937, differentiating under the item "Reserves," capital profits and profits available for dividend. 237

(*Gross Profit Rs.* 76,600, *Net Profit Rs.* 24,180, *Balance Sheet Total Rs.* 4,80,650.)

51. The following is the Trial Balance of the Manufacturing Company, Ltd., for the year ending 31st December ——:—

Dr. Balances	Rs.	Cr. Balances	Rs.
Calls in arrears	7,500	Authorised Capital 60,000 shares of Rs. 10 each	6,00,000
Freehold Premises	3,00,000		
Plant and Machinery	3,30,000		
Interim Dividend paid, 1st August	37,500	Subscribed and fully called up Capital	4,00,000
Stock (1st January ——)	75,000	Debentures 6%	3,00,000
Furniture and Fixtures	7,200	Balance of P. & L. Appropriation Account last year	14,500
Sundry Debtors	87,000	Bills Payable	38,000
Cash in Hand	750	Sundry Creditors	50,000
Cash at Bank	39,900	Sales	4,15,000
Purchases	1,85,000	Sinking Fund for redemption of Debentures	75,000
Preliminary Expenses	5,000	Bad and Doubtful Debts Reserve	3,500
Sinking Fund Investments	75,000		
Manufacturing Wages	84,865		
Repairs and Renewals	4,300		
Coal, Gas and Water	2,450		
Rates and Taxes	1,800		
Salaries	14,500		
Travelling Expenses	2,000		
Discounts	6,375		
Directors' Fees	5,725		
Bad Debts	2,110		
Debenture Interest Paid	9,000		
Carriage	1,765		
Freight	8,900		
Trade Charges	2,360		
Rs.	12,96,000	Rs.	12,96,000

Prepare Trading and Profit and Loss Account and Balance Sheet after making the following adjustments:—

Depreciate Plant and Machinery by 10 per cent. Write off Rs. 500 from Preliminary Expenses. Add Rs. 15,000 to Sinking Fund. Provide half-year's Debenture Interest. Leave Bad and Doubtful Debts Reserve at 5 per cent on Sundry Debtors. Stock on 31st December —— was Rs. 95,000. 238

(*Gross Profit Rs.* 1,52,020, *Net Profit Rs.* 60,500, *Balance Sheet Total Rs.* 9,06,350.)

52. The Silver Ore Co., Ltd., was formed on 1st April —— with an Authorised Capital of Rs. 6,00,000 divided into 30,000 Ordinary Shares of Rs. 10 each and 30,000 5% Cum. Preference Shares of Rs. 10 each. The whole of the Ordinary Shares were issued and fully paid, but of the Cum. Preference Shares 22,000 only were issued, and of these 21,900 were fully paid. From the following Trial Balance prepare Trading and Profit and Loss Account and Balance Sheet on 1st April following:—

	Rs.		Rs.
Balance at Bank	1,05 500	Ordinary Share Capital	3,00,000
Crushing Plant & Machinery	40,000	Preference Share Capital	2,19,750
Cost to date of sinking Mine	20,000	Silver sold (Cash)	1,70,000
Land	2,00,000	Other minerals sold	9 500
Expenses of Promotion of Co.	6,000	Bank Interest	2,700
Royalties paid	10,000	Dividend received on Investment	3,200
Light Railway cost	12,000	Interest received to 31st December	1,200
Wages of Miners, etc.	74,220		
Wagons	5,000		
Advertising	5,000		
Carriage paid on Crushing Plant and Machinery	1,800		

	Rs.		Rs.
Erection of Sheds	15,000		
Legal Expenses	1,000		
Oil	2,000		
Repairs to Plant	900		
Coal	4,500		
Office Furniture	1,500		
Salaries	20,000		
Cash in Hand	530		
Directors' Fees	7,000		
Investment in Madras Tin Mines, 2,000 Ordinary Shares of Rs. 50 each, Rs. 40 paid up ..	80,000		
Broker's Charges, etc., on same	1,000		
Deposit Account at Bank 3% per annum	89,000		
Loose Tools	4,400		
Rs.	7,06,350	Rs.	7,06,350

Depreciate Plant and Light Railway at 15% per annum. Wagons are valued at Rs. 4,000 and Loose Tools at Rs. 3,000. Promotion Expenses to be charged over a period of three years. Value of Silver Ore on hand Rs. 15,000. On 21st December ——, the Directors decided to forfeit the 100 shares on which only Rs. 7-8 per share had been paid up. 239

(*Gross Profit Rs.* 1,03,780, *Net Profit Rs.* 65,177-8, *Balance Sheet Total Rs.* 5,84,927-8).

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53. The following balances appear at 31st March 1938 in the books of The Publicity Press, Ltd., whose Authorised Capital of 250 Ordinary Shares had been increased during the year by the creation of 12,450 Preference Shares of Rs. 15 each:—

	Rs.		Rs.
Ordinary Share Capital ..	3,750	Paper	8,805
Preference Share Capital ..	93,750	Blocks and Drawings ..	1,695
Cash at Bank	17,505	Rent, Lighting and Heating ..	3,000
Cash in Hand	105	Telephone	1,380
Sundry Debtors, as per Sales Ledger	91,125	Subscriptions received ..	70,000
Reserve for Bad and Doubtful Debts	12,000	Salaries	43,470
Office Furniture and Fixtures ..	6,990	Travelling and Entertaining Expenses	25,515
Goodwill	18,000	Commission	12,195
Commission payable in respect of additional Share Capital subscribed	3,105	Translators', Contributors', and Editorial Charges ..	17,895
Stamp Duty and Registration Fee payable on increase of the Capital of the Company ..	1,950	Stationery and Advertising ..	2,445
Motor Car—Balance as at 31-3-1937	8,565	Bank Charges	175
Profit and Loss Account—Debit Balance as at 31st March 1937	16,800	Transfer Fees	15
Sundry Creditors, as per Bought Ledger	41,220	Legal Expenses	295
Loan Creditors	15,000	Audit Fee	500
Revenue from Advertisements	1,96,545	Postages	19,450
Discounts received	75	Wrapping Charges	3,750
Printing	35,550	Bad Debts	7,380
		Trade Expenses	6,120
		Assurance Premium on life of Managing Director (payable by the Company under special agreement)	1,815
		Directors' Fees	2,850
		Interest on Loans	2,925
		Plant and Machinery ..	71,000

Stock of paper on hand at 31st March 1938 was estimated at Rs. 1,500. Provide Depreciation on Office Furniture and Motor Car at 10% and 20% per annum respectively, and Plant and Machinery at 7½% per annum and increase Reserve for Bad and Doubtful Debts to Rs. 15,000.

The following amounts were owing by the Company at 31st March 1938, in addition to the liabilities shown by the Books:—

	Rs.
Directors' Fees	1,170
Salaries	1,665
Trade Expenses	1,290

The Advertisements and Subscriptions received but attributable to the next period amounted to Rs. 4,000 and Rs. 5,500 respectively. Outstandings due from Advertisers and Subscribers and not included in the above were Rs. 9,000 and Rs. 2,500. Prepare a Trading and Profit and Loss Account and Balance Sheet. 240

(*Gross Profit Rs.* 1,82,900, *Net Profit Rs.* 58,063, *Balance Sheet Total Rs.* 2,23,608.)

54. The Nominal Capital of the All India Steamship Co., Ltd., is Rs. 25,00,000 half in 6% Cumulative Preference Shares of Rs. 100 each and half in Ordinary Shares of Rs. 10 each. There were also 5% Mortgage Debenture Bonds of Rs. 20,00,000 issued at 950 repayable at Rs. 1,000 in twenty equal annual instalments, in respect of which two drawings had been duly made on 1st January 1937, and at 1st January 1938. The Managers are entitled to a remuneration of 2½% on the Gross Freight and Passage Money. The Trust Deed provides that Depreciation at the rate of 6% per annum on the original cost of the steamers should be charged to Profit and Loss Account during the time a vessel is owned by the Company, and that the surplus, if any, over the book value of a steamer, on realisation, should be carried to a "Contingency" Account, any deficit to be charged to Profit and Loss Account. The s.s. *London* was acquired on 1st January 1936. The Ordinary Shares on which the final call was unpaid were forfeited by the Board on 31st March 1937, and have not been reissued. Draw up the Balance Sheet as on 31st December 1937, and Profit and Loss Account for the year ended that date, from the above information and the following Trial Balance. Ignore Annas and Pies.

Dr. Balances	Rs.	Cr. Balances	Rs.
Cost of Fleet, 10 vessels at Rs. 4,50,000	45,00,000	Preference Share Capital issued	12,50,000
Purchase of s.s. *Manchester* 9-6-1937	5,00,000	Ordinary Share Capital issued ..	10,00,000
Purchase of s.s. *Liverpool* 22-12-1937	4,75,000	First Mortgage Debenture Bonds	19,00,000
Repairs and Maintenance ..	1,12,200	Recovered from Underwriters on total Loss of s.s. *London* wrecked 5-5-1937	5,25,000
Port charges, Pilotage & Towage	4,15,700	Gross Freight & Passage Money	34,72,000
Agency and Commission ..	80,600	Creditors, including unpaid Debenture Interest and Preference Dividend	3,51,710
Stevedoring and Cargo Charges	5,03,100	Interest on Deposits	1,000
Insurance of Fleet	2,37,650	Bills Payable	2,75,000
Wages	3,82,500	Depreciation Account as on 1-1-1937	4,45,000
Provision and Stores ..	3,48,500	Profit and Loss Account—Balance on 1-1-37 after payment of Ordinary Dividend for 1936 ..	27,400
Bunkers	6,95,600		
Office Expenses	28,160		
Directors' Fees paid for the year	5,650		
Audit Fees (1937 Accounts) ..	3,150		
Solicitors' Fees paid for the year	940		
Final Call unpaid on 1,000 Ordinary Shares	5,000		
Debenture Interest (31-12-37)	95,000		
Preference Dividend (31-12-37)	75,000		
Discount on Debentures ..	95,000		
Sundry Debtors ..	4,04,000		
Cash at Bankers and in Hand ..	2,84,360		
Rs.	92,47,110	Rs.	92,47,110

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(*Net Profit Rs.* 2,02,950, *Balance Sheet Total Rs.* 58,03,360.)

55. The Myso-Chrome Boot Co., Ltd., was registered with a Nominal Capital of Rs. 5,00,000 divided into 10,000 Preference Shares of Rs. 10 each and 80,000 Ordinary Shares of Rs. 5 each. Before closing the books, the following adjustments are necessary: —One month's carriage is owing and has not been passed through the books Rs. 4,720; Rent due to landlord but not provided for Rs. 1,500; Value of unexpired Insurance

Premium Rs. 1,970; Wages paid in advance Rs. 840; Reserve to be created for Bad Debts Rs. 7,500; Write off the following depreciations: Machinery and Plant 10%, Horses and Vans Rs. 1,460, Land and Buildings 2½%. Stock 31st December 1937:— Finished Goods, Rs. 1,32,410; Raw Materials and Unfinished Goods, Rs. 51,920. Prepare Trading and Profit and Loss Accounts and Balance Sheet on 31st December 1937.

Dr. Balances	Rs.		Rs.
Goodwill Account	50,000	General Expenses	9,390
Pension Fund Investments	45,400	Cost of Trade Catalogues	2,560
Stable Expenses	4,210	Bank Charges	170
Company's Contribution to Pension Fund	5,000	Rent, Rates, Taxes & Insurance	11,730
Bonus paid to Employees	7,630	Office Salaries	42,160
Gas, Electricity and Water	15,370	Bills Receivable	19,310
Manager's Salary	15,000	Advertising	4,700
Purchases	9,76,510	Freehold Land and Buildings	1,84,420
Directors' Fees	2,500	Cash at Bank	32,590
Boxes and Packing	6,740	Cash (Pension Fund)	4,400
Discounts allowed	12,510	Cash in hand	750
Sales Returns	9,460	Profit & Loss Account (1st Jany.)	12,360
Carriage	34,600	**Cr. Balances**	
Stock in hand, 1st January— Finished Goods	1,12,640	Ordinary Share Capital Account	3,58,200
Materials & Unfinished Goods	84,570	Preference Share Capital Acct.	1,00,000
Cost of Repairs to Machinery and Plant	2,930	Pension Fund	49,800
Debtors as per Sales Ledger	1,62,450	Debenture Capital (100 5% Debentures of Rs. 500 each)	50,000
Bad Debts written off	3,150	Transfer Fees received	15
Factory Wages	72,990	Purchases Returns	12,430
Interest paid on Debentures	2,385	Bills Payable	21,620
Postage and Stationery	4,440	Discounts received	19,780
Horses and Vans	9,460	Sales	13,12,760
Audit Fee and Legal Charges	2,740	Creditors as per Bought Ledger	1,17,470
Machinery and Plant Account	74,550		

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(*Gross Profit Rs.* 1,92,460, *Net Profit Rs.* 58,379-8, *Balance Sheet Total Rs.* 7,56,944-8.)

56. The following is a Trial Balance extracted from the books of the Seaface Hotel Co., Ltd., on 31st December 1937, from which prepare Revenue Account and Balance Sheet. Nominal Capital of Rs. 2,50,000 divided into 10,000 5% Cumulative Preference Shares of Rs. 10 each, and 10,000 Ordinary Shares of Rs. 10 each and 5,000 Deferred Shares of Rs. 10 each. Reserve for Debenture Interest, Unpaid Wages and Salaries Rs. 1,280. Stock, 31st December 1937: Beer, Wines, Spirits, etc., Rs. 25,200; Provisions Rs. 1,640. Depreciate furniture and fittings 5% for the year.

Prepare Profit and Loss Appropriation Account assuming that after the Ordinary Shareholders are allowed 10%, the Deferred Ordinary Shareholders are to be paid a dividend of 10%, and Balance carried forward.

Dr. Balances	Rs.	Cr. Balances	Rs
Purchases:— Beer, Wine and Spirit, etc.	54,500	8,500 5% Cumulative Preference Shares	85,000
Provisions	45,800	9,000 Ordinary Shares fully paid	90,000
Wages and Salaries	52,300	5,000 Deferred Ordinary Shares issued to vendors as fully paid	50,000
Rates, Taxes, Insurance, Licences, etc.	18,900	Takings—Beer, Wine, etc.	78,620
Laundry	3,130	Sales of Food	62,630
Coals	1,290	Apartments	81,910
Carriage and Porterage	2,360	Billiards	2,120
Sundry Trade Expenses	5,840	Sundry Receipts	2,155
Advertising	4,710	Discounts received	3,900
Repairs	2,080	Transfer Fees	60
Freehold Land and Buildings	3,50,000	2,000 4½% 1st Mortgage Debentures of Rs. 100 each	2,00,000
Furniture and Fittings	36,710	Profit and Loss Account, 1st January 1937	15,100
Stock on 1st January 1937:— Beer, Wines, Spirits, etc.	21,280	Sundry Creditors	49,800
Provisions	3,200		

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Dr. Balances—*Contd.*	Rs.	Cr. Balances—*Contd.*	Rs.
Cash in hand	1,240	Reserve Fund	50,000
Preliminary Expenses	8,640	Apartments not yet entered	1,520
Debenture Interest to 31st October 1937	7,500	Central Bank of India, Ltd.	22,120
Investments	50,690		
Goodwill at cost to Company	1,00,000		
Interim Dividend on Preference Shares ½ year to 30th June 1937	2,125		
Debtors for apartments not yet entered	1,520		
Additions to Freehold	21,120		

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(Net Profit Rs. 32,249-8, Balance Sheet Total Rs. 5,94,924-8.)

57. The Madras Tobacco Co., Ltd., was registered on 1st April 1937, with a Nominal Capital of Rs. 3,00,000 divided into 25,000 Ordinary Shares of Rs. 10 each and 500 Preference Shares of Rs. 100 each; 22,179 Ordinary Shares were allotted (upon application), called up and fully paid, with the exception of Rs. 320 ("calls in arrears"), while the whole of the Preference Shares were allotted and paid up before 31st March 1938.

On 31st March 1938, in addition to the above transactions, the following were the Ledger Accounts Balances of the Company. You are required, after making the adjustments stated below, to prepare a Trading Account and a Profit and Loss Account for the year ended 31st March 1938, and a Balance Sheet as on that date. The Stock-in-hand as on 31st March 1938, was valued at Rs. 1,64,550.

Ledger Accounts Balances	Rs.		Rs.
Cash in hand	1,290	Travellers' Salaries, Commission and Expenses	14,790
Rent	6,200	Printing and Postage	3,470
Gas and Electric Light	1,820	General Expenses	930
Rates and Taxes	2,030	Plant and Machinery	34,200
Licence and Insurance	2,090	Fixtures and Fittings	11,600
Trade Expenses	5,060	Advertising and Samples	9,040
Electric Power	630	Profit & Loss Acct. (Dr. Balance)	4,790
Interest and Discount (Dr. Balance)	32,750	Legal Expenses	530
Sales—		Audit Fee	1,050
Tobacco	2,56,930	Stock	1,75,320
Cigarettes	6,14,600	Bad Debts Reserve	5,420
Shorts and Sundries	75,650	Sundry Creditors	2,29,700
Sales Returns—		Sundry Debtors	2,43,600
Tobacco	4,270	Cash at Bankers	9,270
Cigarettes	10,360	Adjustments	
Shorts and Sundries	1,930	Insurance paid in advance	490
Purchases—		Rates paid in advance	320
Tobacco	7,40,290	Owing for Salaries	400
Sundries	23,000	Owing for Electric Light	340
Boxes	30,530	Owing for Electric Power	180
Purchases Returns—		Depreciation, Plant & Machinery 10 per cent.	
Tobacco	17,450	Depreciation, Fixtures & Fittings 7½ per cent.	
Sundries	1,620	Reserve for Bad and Doubtful Debts, 2½ per cent on the amount of the Sundry Debtors.	
Boxes	470		
Bad Debts (written off)	2,470		
Wages (Manufacturing)	75,170		
Salaries	15,870		
Carriage	8,960		

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(Gross Profit Rs. 55,570, Net Loss Rs. 42,360, Balance Sheet Total Rs. 5,08,180.)

58. The following Balances were extracted from the books of the Agricultural Instruments Company, Ltd. of Rangoon and Colombo, as on 31st December 1937.

The Nominal Capital was Rs. 10,00,000 divided into 50,000 6 per cent Preference Shares of Rs. 10 each, and 50,000 Ordinary Shares of Rs. 10 each.

	Rs.
Ordinary Share Capital	3,00,000
Preference Share Capital	4,00,000
Sales—Rangoon	15,10,000
„ Colombo	4,70,000
Purchases—Rangoon	12,00,000
Colombo	3,00,000
Stock, 1st January 1937—	
Rangoon	2,10,000
Colombo	65,000
Wages—Rangoon	25,000
Colombo	3,000
Carriage, Cartage and Freight—	
Rangoon	10,000
Colombo	1,600
Investments	2,50,000
Income from Investments	10,000
Trade Expenses—Rangoon	32,500
„ „ Colombo	4,000
Electric Light, Gas, Fuel & Water—	
Rangoon	11,500
Colombo	3,200
Goodwill	1,50,000
Sundry Debtors—Rangoon	4,00,000
„ „ Colombo	32,500
Bills Payable	23,500

	Rs.
Salaries and Travelling Expenses—	
Rangoon	70,100
Colombo	9,700
Printing, Stationery and Advertisements—Rangoon	53,600
Colombo	5,000
Rent, Rates and Insurance—	
Rangoon	15,500
Colombo	2,700
Fixtures, Fittings and Furniture—	
Rangoon	45,000
Colombo	6,000
Sundry Creditors—Rangoon	1,90,000
„ „ Colombo	10,000
Cash in hand—Rangoon	3,000
„ „ Colombo	200
Cash at Bank—Rangoon	76,000
„ „ Colombo	2,500
Directors' Fees	20,000
Bank Interest (Cr. Balance)	2,100
Preference Dividend—paid for half year to 30 June 1937	12,000
Profit & Loss Acct. (Cr. Balance)	4,000
Reserve Fund	1,00,000

Make the following provisions:—

Bad Debts, Rangoon Rs. 7,500, Colombo Rs. 1,200; Wages accrued due, Rangoon Rs. 300, Salaries accrued due, Rangoon Rs. 400, Rent, one quarter's ground-rent, Rangoon Rs. 1,000, Rates, Rangoon, accrued due Rs. 1,500. Insurance, Rangoon, 6 months paid in advance Rs. 300. Charge Colombo and credit Rangoon with Rs. 2,500 for clerical work. Stock on 31st December 1937, Rangoon, Rs. 2,75,000, Colombo Rs. 80,000.

Raise the Rangoon and Colombo Trading Accounts; General Profit and Loss Account for the year 1937, and the Balance Sheet as on 31st December 1937. 245

(Gross Profit: Rangoon Rs. 3,28,200, Colombo Rs. 1,77,200; Net Profit Rs. 2,93,100; Balance Sheet Total Rs. 13,20,500.)

59. From the following Trial Balance of the General Engineering Co., Ltd., on 30th June 1937, prepare Trading and Profit and Loss Accounts and Balance Sheet. The Nominal Capital of the Company is Rs. 4,00,000 divided into 4,000 Ordinary Shares of Rs. 50 each, and 4,000 6 per cent Cumulative Preference Shares of Rs. 50 each.

Dr. Balances	Rs.
Stock-in-Trade, 1-7-1936	66,500
Discounts	3,000
Carriage	5,750
Patterns	37,500
Rates, Taxes, Gas & Insurance	5,500
Patents and Trade Marks	15,000
Materials Purchased	1,23,250
Wages	1,30,500
Coal and Coke	6,300
Freehold Land and Buildings	1,25,000
Plant and Machinery	75,000
Loose Tools	15,000
Goodwill	37,500
Sundry Debtors	26,600
Bills Receivable	13,450
Advertising	1,500
Commission	6,750
Trade Expenses	5,600
Repairs	4,650
Bad Debts	2,550
Cash in hand	1,800
Debenture Interest—half year to 31st December 1936	1,000
Preference Dividend, half year to 31st December 1936	3,000
Directors' Fees	5,000
Bank Interest and Charges	4,100

Cr. Balances	Rs.
2,000 Ordinary Shares	1,00,000
2,000 Preference Shares	1,00,000
4% Debentures	50,000
Provincial Bank, Ltd. (Overdraft)	75,700
Sundry Creditors	17,800
Bills Payable	6,250
Sales	3,61,700
Rents	3,650
Profit and Loss Account	6,700

The Stock at 30th June 1937 was Rs. 70,800. Write off Depreciation—Plant and Machinery, 5 per cent; Loose Tools, 20 per cent; Patterns, 10 per cent; Patents and Trade Marks, 10 per cent. Provide $2\frac{1}{2}$ per cent on Debtors for Discount and Rs. 2,150 for Bad Debts. 246

(*Gross Profit Rs.* 1,00,200, *Net Profit Rs.* 48,438-12, *Balance Sheet Total Rs.* 4,05,038-12.)

60. Prepare Trading, Profit and Loss Accounts and Balance Sheet from the following Trial Balance of the Mysore Brewery, Ltd., as at 30th June 1937:—

	Rs.		Rs.
Licensed and other property ..	2,63,330	Sundry Creditors	3,160
Ordinary Share Capital . ..	1,25,000	Sundry Debtors	14,350
6% Preference Share Capital (Nominal Rs. 1,25,000) ..	1,24,800	Preference Share Dividends ..	7,115
Calls paid on Forfeited Shares ..	20	Plant and Machinery	3,550
Goodwill	11,200	Barrels	1,550
Formation Expenses	2,150	Horses and Drays	1,030
Premium on & alterations to Leases	8,050	Compensation Charges under the Licensing Act (half to be capitalised)	440
Wages	1,520	Cash in hand	20
Brewing Materials	15,125	Cash at Bank	1,895
Mortgages on Licensed Property	1,925	Interest on Debenture Stock ..	1,070
Trade Defence Fund Contribution (half to be written off) ..	40	Railway Claims written off ..	550
Capital alterations to Property ..	705	Directors' Fees	250
Commission (Dr.)	120	Furniture and Fittings	105
Discounts (Dr.)	155	Amounts received on account of Debts written off	55
Reserve Fund	5,000	General Trade Expenses ..	4,110
Ordinary Share Dividend (Interim)	1,875	Profit & Loss Account (Cr.) ..	8,400
Investments	4,810	Sales *less* Returns	24,890
Reserve for Loss on Investments	400	Rent (Cr.)	2,805
Reserve for Doubtful Debts ..	100	Beer Duty paid, *less* amount charged off	1,410
4½% Debenture Stock (1st July 1936)	50,000		

Stock on 30th June 1937 was:—Brewing Materials, Rs. 4,000 and Sundries Rs. 310. Carry forward Rs. 75 as unexpired Rates. Write 15% off Barrels; 9% off Horses and Drays; 7½% off Plant and Machinery; and 5% off Furniture and Fittings. 247

(*Gross Profit Rs.* 11,145, *Net Profit Rs.* 5,805-10, *Balance Sheet Total Rs.* 3,16,800-10.)

61. From the following Ledger Balances of the Southern India Tea Company, Ltd., on the 31st December 1937, prepare Profit and Loss Account and Balance Sheet. The Authorised Capital of the Company is 1,75,000 Shares divided into 1,16,667 Ordinary Shares of Rs. 5 each and 58,333 Preference Shares of Rs. 5 each. The sales include the entire crop for the year, so that the question of stock need not be considered.

		Rs.		Rs.
Capital Account, Ordinary and Preference:—	Rs.		Advance to Coolies	1,13,550
88,000 Ordy. Shares issued and fully paid ..	4,40,000		Bills Payable	1,45,930
46,000 Pref. Shares issued and fully paid	2,30,000		Sundry Creditors	95,560
		6,70,000	Office Establishment Expenses ..	11,820
			Reserve against advances to coolies	57,560
Estates at cost		9,48,405	Commission, Interest on Securities and Transfer Fees	23,150
Reserve Fund		2,35,000	Balance at Bank	12,595
Expenditure on Plantations ..		3,97,025	Dividend on Preference Shares ..	15,400
Interim Dividend		66,000	Profit and Loss (Cr.)	27,495
Produce for the year 1937 ..		6,21,875	Securities at Market Prices ..	85,840
Office Furniture		1,500	Sundry Debtors	2,61,310
Unclaimed Dividends		1,020	Advances received against shipments	[illegible]
Value of Chests and Materials ..		3,195		
Depreciation in value of securities		1,420		

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(*Net Profit Rs.* 2,31,760, *Balance Sheet Total Rs.* 14,20,425.)

62. The Trial Balance of the British Aeroplane Company, Ltd., for the year ending 31st December 1937 is given below. Prepare Trading and Profit and Loss Account and Balance Sheet after making the following adjustments:—Depreciate Plant and Machinery, Patterns and Patents at 10 per cent. Write off £200 from Preliminary Expenses.

Add £1,000 to Sinking Fund for Redemption of Debentures. Provide for a half-year's Debenture Interest due 1st January 1938. Leave Bad and Doubtful Debts Reserve at 5 per cent on Sundry Debtors. Stock £8,075.

Dr. Balances	£		£
Calls in arrears	500	Directors' Fees	420
Freehold Premises	20,000	Bad Debts	250
Plant and Machinery	22,000	Debenture Interest paid, 1-7-1937	400
Interim Dividend paid, 1-8-1937	2,500		
Stock, 31-12-1936	19,000	Cr. Balances	
Office Furniture	525	Authorised Capital £60,000 divided into 60,000 shares of £1 each	60,000
Patterns	5,150		
Patents	4,000		
Sundry Debtors	27,700	Subscribed and fully called Capital	40,000
Cash in hand	450	Debentures 4 per cent	20,000
Cash at Bank	8,800	Balance of P. & L. Account last account	2,140
Purchases	63,655		
Preliminary Expenses	800	Bills Payable	9,000
Sinking Fund Investments	5,000	Sundry Creditors	17,700
Manufacturing Wages	29,500	Sales	1,23,500
Repairs and Renewals	1,200	Discounts received	1,180
Coal, Gas and Water	2,500	Sinking Fund for Redemption of Debentures	5,000
Rates and Taxes	1,750		
Salaries	1,125	Bad and Doubtful Debts Reserve	1,250
Travelling Expenses	1,075	Royalties received	350
Discounts allowed	2,020	Interest on Sinking Fund Investment	200

(National Union of Teachers.) 249

(Gross Profit £17,270, Net Profit £6,360, Balance Sheet Total £97,800.)

63. The Engine and Motor Co., Ltd., has a nominal capital of £100,000 divided into 75,000 Ordinary Shares of £1 each, and 2,500 6 per cent Cumulative Preference Shares of £10 each. The books of the Company were balanced on 31st March 1938, on which date a Trial Balance containing the following balances was extracted. Before closing the books, the following adjustments are necessary:—(1) A portion of the premises has been sub-let since 1st January 1938, at £80 per annum, and the rent due to date has not been paid or passed through the books; (2) The Insurance unexpired amounts to £30; (3) 11 months only of the Office Salaries have been paid; (4) Make the Reserve for Bad Debts equal to an amount representing 5 per cent on the Sundry Debtors (excluding Sundry Debtors for rent); (5) Write off the whole of the Preliminary Expenses; (6) Write off the following depreciations:—(*a*) Plant and Machinery 10 per cent; (*b*) Office Furniture 10 per cent; (*c*) Patterns 15 per cent; (*d*) Patents 20 per cent. Stock on hand on 31st March 1938 was valued at £23,995, and the Loose Tools at £2,730. Prepare Trading, Profit and Loss Accounts and Balance Sheet for the year ended 31st March 1938.

Dr. Balances	£		£
Freehold Premises	12,675	Bad Debts written off	615
Plant and Machinery	11,595	Directors' Fees	300
Calls in arrears	2,000	Carriage	4,155
Stock, 31st March 1937	14,665	Audit Fee and Legal Expenses	205
Office Furniture	545	General Expenses	945
Loose Tools, 31st March 1937	3,125	Discounts allowed	1,235
Patterns	3,155	Preliminary Expenses	350
Patents	1,535	Travelling Expenses	465
Goodwill Account	3,000		
Sundry Debtors	31,215	Cr. Balances	
Cash at Bank—Current Account	985	Ordinary Share Capital (50,000 shares)	50,000
Do. —Deposit	10,000		
Cash in hand	45	Preference Share Capital (2,500 shares)	25,000
Sales Returns	975		
Purchases	71,245	P. & L. Account balance, 31-3-37	1,545
Manufacturing Wages	25,595	Sales	107,015
Repairs and Renewals of Plant	1,245	Purchase Returns	1,675
Coal	2,765	Sundry Creditors	12,805
Gas and water	475	Bills Payable	8,765
Rates, Taxes and Insurance	865	Reserve for Bad Debts, 31-3-37	1,165
Office Salaries	750	Interest on Bank Deposit Account	45
Trade Expenses	2,165	Discounts received	

What dividend, if any, would you recommend the Directors to propose, taking into consideration the fact that the dividend on the Preference Shares for the year ended 31st March 1937, has not been paid? *(London Chamber of Commerce.)* 250

(Gross Profit £10,645, Net Profit £1,786-16-4, Balance Sheet Total £97,970.)

64. The Chiddingfold Manufacturing Co., Ltd., was registered with a nominal capital of £100,000 divided into 50,000 6 per cent Preference Shares of £1 each, and 50,000 Ordinary Shares of £1 each. The books of the Company were balanced as on 31st January 1938, on which date a Trial Balance containing the following balances was extracted. Before closing the books, the following adjustments are necessary:—Telephone Rent paid in advance £25; Traveller's Commission owing £342; Rent due £379; Insurance Unexpired £541; Reserve for Discounts, etc., on Sundry Debtors £500. Write off the following depreciations:—Machinery and Plant 10 per cent; Carts and Horses £214 The Stock on hand as on 31st January 1938 was valued £34,839. The Directors decided to write off the whole of the Building Account and to transfer £7,000 to Reserve Account from the profits of the year. Prepare Trading, Profit and Loss Account and Balance Sheet to 31st January 1938.

Dr. Balances	£		£
Carriage, Dock Dues and Freight	4,773	Rent, Rates, Taxes and Insurance	3,173
Advertising	649	Sales Returns	6,619
Fuel, Lighting and Water	2,163	Discount Account	2,762
Postage and Incidentals	590	Bad Debts written off	203
Catalogue and Price Lists	416	Bank Charges and Interest	42
Packing	542	Legal Expenses and Audit Fee	418
Machinery Repairs	177	Company's Contribution to Superannuation Fund	516
Stable Expenses	913	Debtors per Sales Ledger	19,876
Office Expenses, Stationery and Telephone	1,022	Cash at Bank	5,784
Debenture Interest	855		
Directors' Salaries	1,095	**Cr. Balances**	
Buildings Account	903		
Machinery and Plant Account	8,750	Ordinary Share Capital Account	5,000
Stock on hand, 1st February 1937	38,672	Preference Share Capital Account	20,000
£5,000 Consols (at cost) Investment of Employees' Superannuation Fund	4,360	Debenture Account (200 of £100 each at 4½ per cent)	20,000
		Employees' Superannuation Fund	4,360
Cash in hand	210	Transfer Fees	1
Horses and Carts	720	Purchases Returns	3,748
Purchases	102,664	Sales	174,493
Factory Wages	12,704	Creditors per Bought Ledger	4,340
Salaries & Travellers' Commission	10,691	Bills Payable	320

(London Chamber of Commerce.) 251

(Gross Profit £44,943, Net Profit £18,730, Balance Sheet Total £73,516.)

65. From the following, make out Trading Account, Profit and Loss Account and Balance Sheet for the Motor Manufacturing Co., Ltd., for the year ending 31st December 1937. Nominal Capital 80,000 Shares of £1 each. Write off the whole of Preliminary Expenses and depreciate Plant and Machinery, Office Furniture, Patterns and Patents at a uniform rate of 7½% per annum. Add £2,000 to the Sinking Fund for Redemption of Debentures, and leave the Reserve for Bad and Doubtful Debts at 5 per cent on Sundry Debtors. Stock at the above date was £10,087.

Dr. Balances	£	Cr. Balances	£
Calls in arrears	1,000	Subscribed Capital 60,000 shares of £1 each fully paid	60,000
Freehold Premises	18,000	Debentures 5 per cent	20,000
Plant and Machinery	20,000	Sundry Creditors	16,800
Interim Dividend paid	2,000	Balance to Credit of P. & L. Account 1-1-37	890
Stock, 31st December 1936	18,750	Bills Payable	15,500
Office Furniture	625	Sales	122,000
Patterns	6,250	Discounts received	1,780
Patents	3,750	Interest on Bank Deposit	300
Goodwill	12,000	Reserve for Bad and Doubtful Debts	2,250
Sundry Debtors	37,500		
Cash in hand	150		

Dr. Balances—*Contd.*	£	Cr. Balances—*Contd.*	£
Cash at Bank on Current Account	3,000	*Sinking Fund for Redemption of Debentures	8,000
Cash at Bank on Deposit ..	12,000		
Purchases	62,100		
Preliminary Expenses ..	400		
Sinking Fund Investments ..	8,000		
Manufacturing Wages	30,000		
Repairs and Renewals ..	1,300		
Coal	2,225		
Gas and Water	175		
Rates, Taxes and Insurance ..	1,250		
Office Salaries	1,000		
Travelling Expenses	1,325		
General Expenses	475		
Discounts allowed	2,120		
Directors' Fees	525		
Royalties paid	450		
Bad Debts	150		
Debenture Interest	1,000		

* This is represented by investments, and there is one year's Interest at 3 per cent per annum due, but unpaid, at the date of making up these accounts.

(*National Union of Teachers.*) 252

(*Gross Profit £18,387, Net Profit £9,000-2-6, Balance Sheet Total £127,470-2-6.*)

66. The following is the Trial Balance at 31st December 1937 of the Marine Hotel, Limited, having an authorised capital of £55,000 divided into 5,500 shares of £10 each.

	£	£
Cost of Wines, Provisions, etc., consumed (net)	8,030	
Capital issued 4,470 shares of £ 10 each		44,700
Freehold (including construction and furnishing Hotel) at cost ...	105,000	
Extraordinary Alterations and Improvements (to be written off by equal annual instalments over the three years ending 31st December 1939) at cost	1,500	
Cash at Bank	1,484	
Cash in hand	238	
Debenture Interest (half year to 30th June 1937)	800	
Final Dividend for year ended 31st December 1936	2,235	
General Reserve		10,000
Hotel Receipts		22,749
Insurances and Licences (including £ 132 Compensation Levy paid to 5th April 1938)	421	
Interest on Deposit		95
Interim Dividend at 3% free of tax for half year to 30th June 1937...	1,341	
Mortgage Debenture Stock (4 per cent)		40,000
Profit and Loss Account (Balance from 31st December 1936) ...		6,237
Rents received		104
Repairs and Renewals	1,320	
Reserve for Depreciation		5,000
Salaries, Wages and Commission	2,609	
Sundry Expenses (including fuel, lighting, water, rates, taxes, etc.)	2,732	
Secretary's Salary	105	
Sundry Creditors		2,300
Sundry Debtors	470	
Stock of Wines, Provisions, etc., on 31st December 1937 ...	2,000	
Trade Expenses	1,230	
Wine, Bar and Billiard Room Expenses	1,525	
Do. do. Receipts		1,855
£	133,040	133,040

From the above particulars, prepare a Trading Account and a Profit and Loss Account for the year ended 31st December 1937, and a Balance Sheet as on that date after charging £400 for Directors' Fees, £125 for Auditors' Fees, £400 for Reserve for Depreciation, and £1,000 for General Reserve. (*Chartered Accountants.*) 253

(*Gross Profit £8,090, Net Profit £3,839, Balance Sheet Total £104,825.*)

67. On 31st December 1937, the following Trial Balance was extracted from the Books of Messrs. J. Jones & Co., Ltd. :—

	£	£
Ordinary Shares, £ 10 each		50,000
6 per cent Preference Shares, £ 10 each		40,000
5 „ Debentures		20,000
Calls in Arrear—Ordinary Shares	750	
„ „ „ —Preference Shares	250	
Freehold Property	37,459	
Plant and Machinery as on 31st December 1936	11,640	
Loose Plant and Tools	2,645	
Materials	12,445	
Stock—Finished Goods	9,744	
Sundry Debtors	59,823	
Sundry Creditors		18,444
Dividends paid :—		
On Preference Shares, 6 months to 31st December 1936	1,200	
On Ordinary Shares, 5 per cent for 1936	2,500	
On Preference Shares, 6 months interim to 30th June 1937	1,200	
Cottage Rents		195
Reserve Account		5,000
Profit and Loss Account, balance 31st December 1936		5,446
Directors' Fees	1,250	
Auditors' Fees	105	
Discounts off Purchases		844
Debenture Trustees' Fees	210	
Salaries	2,645	
Sales		149,795
Bank Charges	284	
Purchases—Materials	82,278	
Wages	33,896	
Office Expenses	568	
Rates, Taxes and Insurance	498	
Fuel	2,620	
Travellers' Salaries and Expenses	9,937	
Carriage on Materials	3,149	
Goodwill	10,000	
General Expenses	3,285	
Debenture Interest	1,000	
„ „ due 31st December 1937		500
Discounts to Customers	2,400	
Insurance, Rates, etc., paid in advance	75	
Bank Overdraft		3,780
Cash Book Balance	148	
£	294,004	294,004

The Nominal Capital of the Company was £180,000 divided into Ordinary Shares £100,000 and 6 per cent Preference Shares £80,000.

The Stocks on 31st December 1937 were—

	£
Materials	11,546
Finished Goods	11,496
Loose Plant and Tools	2,315

Allow 5% for Depreciation of Fixed Plant and Machinery, and £500 for provision for Bad and Doubtful Debts. Prepare Trading and Profit and Loss Accounts to 31st December 1937 and Balance Sheet as on that date. *(Chartered Accountants.)* 254

(Gross Profit £28,705, Net Profit £6,150, Balance Sheet Total £143,420.)

68. The Fine Art Trading Corporation, Limited has an authorised Share Capital of £100,000, half in 6 per cent Cumulative Preference Shares and half in Ordinary Shares of £1 each. The Preference Shares were all issued for cash, but £1,000 of the final call due 30th June 1937, is still unpaid. The Ordinary Shares were issued to the Vendors as fully paid. £20,000 of Mortgage Debentures, bearing Interest at 5 per cent per annum,

were issued at 90. The Book-keeper produces the following Trial Balance after the first year's trading:—

	£	£
Ordinary Share Capital		50,000
Preference Share Capital		49,000
First Mortgage Debentures		18,000
Goodwill	40,000	
Plates and Copyrights	15,000	
Stock, 1st January 1937	25,000	
Plant and Machinery	12,000	
Office Furniture and Fittings	250	
Gallery Furniture and Fittings	1,400	
Lease of Premises	8,000	
Debtors	27,000	
Creditors		13,000
Cash at Bankers	13,200	
Cash in hand	150	
Cost of issue of Debentures	400	
Preliminary Expenses	1,200	
Sales		62,000
Purchases, Printing, etc.	29,500	
Wages	4,000	
Salaries, including Travellers	7,300	
Ground Rent	180	
Rates, Taxes, Insurance, etc.	700	
Debenture Interest paid	1,000	
Preference Dividend paid to 31st December 1937	1,950	
Directors' Fees	1,100	
Income-tax (deducted from Interest, Dividends and Directors) ...		420
Discount on Sales	1,280	
Bad Debts written off	690	
Admissions to Gallery		3,680
Commission	2,900	
General Expenses	1,500	
Repairs and Renewals	400	
£	196,100	196,100

Write off:—Plates and Copyrights, 20 per cent; Plant and Machinery, 7½ per cent; Office Furniture, 10 per cent; Gallery Furniture, 15 per cent; Lease, £250; all the cost of Debenture Issue; one-third of Preliminary Expenses; one-half discount on Debentures. Reserve £210 Audit Fee, £1,500 additional for Income-tax and £500 for Doubtful Debts. The Stock on hand at 31st December 1937 was £25,500. Prepare Balance Sheet and Profit and Loss Account. (*Chartered Accountants.*) 255

(*Net Profit £8,735, Balance Sheet Total £139,415.*)

69. On 31st December 1937, the Trial Balance of the Motor Engineering Company, Ltd., was as under:—

	£	£
5,000 Ordinary Shares of £1 each		5,000
100 5 per cent Debentures of £10 each		1,000
Goodwill	2,000	
Freehold Property	1,500	
Machinery and Tools	100	
Fixtures and Fittings	20	
Hire Cars	500	
Sundry Debtors	2,500	
Stock of Accessories, Tyres, Petrol, Oil, etc., 31st December 1937...	250	
Cash at Bank	1,055	
Sundry Creditors		153
Reserve for Bad Debts, 31st December 1936		80
Accessories, including Tyres and Tubes (used)	2,000	
Petrol, Oil, etc. (used)	550	
Cost of Repairing Cars (Wages and Materials)	750	
Charges to Customers for Repairing Cars		800

74. J. Smith's Balance Sheet showed the following Assets and Liabilities:—

	£	s.	d.
Land and Building	150,000	0	0
Stock	100,000	0	0
Work-in-Progress	43,000	0	0
Sundry Debtors	55,000	0	0
Patent Rights	8,000	0	0
Cash at Bank	5,000	0	0
Sundry Creditors	50,000	0	0
Sundry Bills Payable	6,000	0	0

A Limited Company (J. Smith & Co., Ltd.) was formed to purchase the business for the sum of £350,000, payable as to £100,000 in Ordinary Shares, £100,000 in Preference Shares, £100,000 in 4½% Debentures and the balance in cash, the Company agreeing to take over the Assets of J. Smith (with the exception of the Bank balance) and the liabilities to Creditors.

The registered Capital of the Company was £400,000 divided into 250,000 Ordinary and 150,000 Preference Shares of £1 each.

50,000 Ordinary Shares and the balance of the Preference Shares were issued for subscription by the public, payable 5*s*. per share on application, 5*s*. per share on allotment, and 10*s*. per share one month after allotment.

The Issued Capital was fully subscribed, and the shares (including the Vendor's shares) and the Debentures were allotted by the Company on 1st March 1938. By the 30th June all moneys due thereon had been received by the Company except the amounts due on allotment and call accounts in respect of 200 Ordinary Shares and 100 Preference Shares, and the Directors had discharged the Company's cash indebtedness to the Vendor, paid the Preliminary Expenses of £5,000, and declared the Shares forfeited upon which allotment and calls were in arrears.

Give the entries which should appear to record these transactions (in totals) in the Company's Journal, Cash Book and Ledger. (*Chartered Accountants.*) 261.

75. Make the necessary entries in Journal form to record the following transactions in the Books of Accounts of a Limited Company:—

(1) January 1st, 1937. The Company purchased from Vendors, Plant and Machinery valued at £5,000 Stock-in-Trade valued at £2,500, and Patent Rights valued at £3,000.

(2) January 10th, 1937. The Company allotted to Vendors, in part payment of purchase of these Assets, 800 fully paid Ordinary Shares of £10 each, and issued 25 Mortgage Debentures of £100 each in satisfaction of the balance of purchase money.

(3) January 15th, 1937. The Company allotted to Applicants, 1,000 Ordinary Shares of £10 each, having received on same date £2 per share, the amount payable on application and allotment.

(4) February 15th, 1937. First Call of £2 per share made on 1,000 Ordinary Shares.

(5) February 20th, 1937. Payment of First Call received in full.

(6) March 1st, 1937. The Company received £2,500 in respect of Book Debts due to Vendors, agreed to be collected on their behalf. Vendors agreed to accept 30 Mortgage Debentures of £100 each in payment thereof, and these Debentures were issued to them on this date.

(7) April 1st, 1937. Certain Shareholders, being desirous of paying up the balance due on their shares pending further Calls, the Company agreed to allow them 5 per cent per annum Interest on calls paid in advance. £3,000 were received on this date from shareholders under this agreement.

(8) April 15th, 1937. The Company applied the sum of £2,300 in redeeming 20 Debentures of £100 each at a premium of 10 per cent with £100 interest thereon to date of redemption.

In addition to the entries in the Books of Accounts, state briefly what other entries must be made in the records of the Company in respect of the above transactions. 262

(*Incorporated Accountants.*)

76. A Company registered with a Capital of Rs. 30,00,000 in Rs. 100 shares issues 8,000 shares payable Rs. 20 on application and Rs. 30 on allotment. It also issues 7

per cent Debentures to the extent of Rs. 2,00,000 at Rs. 1,140 per Rs. 1,000 debenture payable Rs. 240 on application including premium and the balance on allotment.

The Company acquires a business for Rs. 25,00,000 payable Rs. 20,00,000 in fully paid shares and Rs. 5,00,000 in cash.

The preliminary expenses amounting to Rs. 20,000 are paid out of the premium on debentures and the balance of premium is carried to reserve.

Make the Journal entries to record the above, write up the cash account and draw up a statement for incorporation in the Statutory Report. (*G. D. A.*) 263

(*Cash Balance at Bank, Rs.* 1,08,000.)

77. The following figures are taken from the books of a firm as at 31st December 1936:—

	Rs.
Sundry Debtors	55,700
Stock	19,500
Fixtures	4,500
Plant and Machinery	40,000
Investments, Schedule 1	48,000
Investments, Schedule 2	35,000
Trade Creditors	96,000
Loans	90,000

On 1st January 1937, a private Company was formed to take over the business, but the Investments Schedule 2 were retained by the partners.

10,000 out of 25,000 Ordinary Shares of Rs. 10 each were issued to the Vendors as fully paid and 5,000 were issued for Cash.

9,000 out of 25,000 Preference Shares of Rs. 10 each were allotted in discharge of the Loans of Rs. 90,000.

Prepare a statement showing the position of the firm's accounts on the formation of the Company, and draft a Balance Sheet of the Company, dealing with any difference according to your judgment. (*G. D. A.*) 264

(*Total of Balance Sheet of New Company, Rs.* 3,36,000.)

78. The following is the Balance Sheet of Jeejeebhai, Davar and Company on 31st March 1937:—

	Rs.	Rs.		Rs.
Sundry Creditors		10,832	Furniture	537
Capital Accounts:—			Stock	6,042
Jeejeebhai ..	16,435		Sundry Debtors	23,421
Davar	5,824		Cash at Bank and in hand ..	3,091
		22,259		
		Rs. 33,091		Rs. 33,091

A private limited company, Jeejeebhai, Davar & Co., Ltd., with an authorised capital of Rs. 35,000 divided into 2,500 Preference Shares of Rs. 10 each, and 1,000 Ordinary Shares of Rs. 10 each, was registered in March, and took over the business on 1st April 1937 on the following terms:—

Goodwill to be taken at Rs. 10,000.

Stock and Furniture to be taken at Balance Sheet values.

The Purchase Price to be paid in Cash.

The Liabilities, Book Debts, balance at bankers and Cash in hand not to be taken over, but the Company to collect Book Debts and discharge liabilities as agents for the Vendors, and to account to them at the end of each month.

Jeejeebhai to subscribe forthwith for 500 Ordinary Shares and 1,500 Preference Shares, and Davar for 500 Ordinary Shares and 500 Preference Shares, the Ordinary Shares to be paid for in full on allotment and the Preference Shares Rs. 5 per share on allotment and the balance when called.

The Purchase Price was paid, and the shares were duly applied for and allotted on 1st April.

The Cash received from Customers in April Amounted to Rs. 12,397 of which Rs. 504 were in respect of April sales, and in addition Rs. 3,620 were received as damages in an old suit pending in the Court, which was not included in the accounts in the Balance Sheet on 31st March 1937.

The payments amounted to Rs. 14,966, of which Rs. 6,865 were in respect of the old firm's debts.

Show the Journal entries recording the above transactions and also prepare the Vendors' Adjustment Account showing the balance due to or by them. (G.D.A.) 265

(Vendors' Adjustment Account: Credit Balance carried forward Rs. 7,561.)

79. A Syndicate composed of X, Y and Z purchased the business of an Iron Ore Engineer and sold it to a Limited Company on the following terms:—

	Cost to Company.	Cost to Syndicate.
	Rs.	Rs.
Stock-in-Trade ..	90,000	80,000
Lease and Trade Fittings	16,000	10,000
Plant and Machinery ..	50,000	40,000
Goodwill	30,000	10,000
Patents	14,000	20,000

The Company's Capital was Rs. 2,40,000, in 2,000 fully paid Ordinary Shares of Rs. 100 each, which were issued and wholly subscribed for, and 400 Deferred Ordinary Shares of Rs. 100 each, which the Syndicate agreed to accept in part payment of the purchase price, the balance being payable in cash.

The Capital of the Syndicate was subscribed in proportions of 2, 1 and 1 and the profits were to be shared in the same proportions.

Open Realisation Account and Capital Accounts of the partners.

Open the books of the Company by Journal Entries only in accordance with the foregoing. 266

(Profit on Realisation Account, Rs. 40,000.)

80. A merchant has the opportunity to acquire the goodwill of a business earning a net profit of Rs. 8,000 a year. He proposes to amalgamate it with his own business which is earning Rs. 12,000 a year net profit, and to form a limited liability company with a capital of Rs. 1,00,000 divided into 1,000 shares of Rs. 100 each, and an issue of Rs. 50,000 6% Debentures. He procures subscriptions for the whole of the debentures and for half the shares, the remainder are allotted to him under agreement as vendor. The Company acquires the two businesses as going concerns and takes over the Sundry Debtors Rs. 22,000 and the furniture, etc., Rs. 2,000. The Sundry Creditors Rs. 24,000 are also to be discharged by the company.

You are instructed to open the books of the Company and to show a statement of the position upon completion at 1st January 1938, treating the goodwill of each business as being worth two years' purchase in addition to the vendor's shares. 267

(Balance Sheet Total, Rs. 2,14,000.)

81. A. Hajibhoy sells his business to a limited company for Rs. 7,50,000, to be paid by the issue of 5,500 Ordinary and 2,000 Preference Shares of Rs. 100 each. The Company takes over the Book Debts Rs. 1,80,000, Plant and Machinery Rs. 2,10,000, and Stock Rs. [illegible]. A. Hajibhoy disposes of all the Preference Shares at par and invests half the sum in the Company taking a debenture bond.

Show the transactions:—

(1) In A. Hajibhoy's Books.

(2) In the Books of the Company. 268

82. B sells his business to a Limited Company—his assets are at book figures as under:—

	Rs.
[illegible]	10,000
Book Debts	30,000
Stock	20,000
Plant and Tools	20,000

His Liabilities amounted to Rs. [illegible] to be adopted by the Company.

The Company also takes over his assets, less a deduction of 5 per cent on Book [illegible] per cent off Stock, [illegible] per cent off Plant and Tools. For Goodwill they [illegible]

100 fully paid shares of Rs. 100 each, on which (as Rs. 60 only has been called up and paid by the other shareholders) he is to receive dividend on Rs. 60 per share and 5 per cent interest on Rs. 40 per share.

The purchase should have been completed on 1st January 1937, but for various reasons it was not completed till 1st January 1938. It was arranged that E should receive the dividend and interest on his share for 1937, a dividend being declared at 6 per cent.

Prepare an account between E and the Company, on which the purchase could be completed on 1st January 1938, and on which the Company's book-keeper could journalise the transactions. 269

83. Jamnadas and Sorabji are in partnership as Motor Manufacturers. The following is their Balance Sheet on 31st December 1936:—

Liabilities	Rs.	Rs.	*Assets*	Rs.
Creditors		26,210	Cash at Bank	8,250
Capital Accounts:—	Rs.		Debtors	52,860
Jamnadas ..	79,510		Stock	44,090
Sorabji ..	79,510		Plant	50,030
		1,59,020	Land and Buildings	30,000
	Rs.	1,85,230	Rs.	1,85,230

They decide to sell their business as from the above date to the Universal Motor Manufacturing Co., Ltd. The Company acquires the Stock, Plant, Land and Buildings, and Goodwill, for which the Vendors receive Rs. 1,50,000 in fully paid Rs. 10 Ordinary Shares.

The Company agrees to pay the Creditors and collect the Book Debts on behalf of the Vendors, the net proceeds to be applied in taking up further shares.

In October 1937, you ascertain that the Creditors have all been paid and that the amount so paid is Rs. 27,630. Also that the Book Debts have all been collected or accounted for, and have realised Rs. 52,130. You certify accordingly, and on 31st October the Vendors apply for and are allotted at par and in equal proportions, Ordinary Shares for the balance which the Company holds to their credit.

(1) Pass the Journal Entries in the Company's books relating to the assets purchased from the Vendors.

(2) Set forth briefly the procedure you recommend for the purpose of dealing in the Company's books, with the Vendors' Liabilities and Book Debts and the subsequent settlement. Illustrate this, if necessary, by Journal Entries, and draw out a *pro forma* Vendors' Account in the Company's books showing the settlement. 270

(*Vendors' Account Total Rs.* 1,50,000; *Vendors' Suspense Account Total Rs.* 52,860.)

84. A Company was formed to take over the business of an old-established firm. The Assets consisted of:—

	Rs.	Rs.
Land and Buildings		1,50,000
Machinery and Plant		3,25,000
Furniture and Fittings		5,000
Stock-in-Trade		1,00,000
Sundry Debtors		1,00,000
Work-in-Progress	70,000	
Less received on account	30,000	
		40,000
Cash at Bank		20,000
Cash in hand		300
	Rs.	7,40,300

and the Liabilities were:—

	Rs.
Trade and Cash Creditors	2,40,300
Partners' Capital	5,00,000
Rs.	7,40,300

The Company took over all the Assets and agreed to discharge the Liabilities.

The purchase consideration was Rs. 8,50,000 in 40,000 fully paid shares of Rs. 10 each, Rs. 1,00,000 in 5 per cent Debenture Stock and the balance in cash.

Rs 3,50,000 in Rs. 10 shares, were invited and obtained from the public, as well as Rs 1,50,000 Debenture Stock as follows:—

		Shares Rs. a.	Debenture Stock.
On Application	..	1 4	10 per cent
„ Allotment	..	2 8	25 „ „
„ 1st Call	..	2 8	25 „ „
„ 2nd Call	..	2 8	25 „ „
„ 3rd Call	..	1 4	15 „ „

Pass the necessary Journal Entries to record the purchase of the business and the issue of the Capital and draw up the Balance Sheet, assuming that the Vendors have been paid, ignoring the question of interest.

(Balance Sheet Total, Rs. 12,40,300.) 271

85. A and B, carrying on business as equal partners, owed C D Rs. 65,000 on 31st December 1937. It is agreed to form the business into a Limited Company, as from that date, the Share Capital to be held in equal parts by A. and B on the one hand, and by C D on the other. The Balance Sheet on 31st December 1937, was as follows:—

	Rs.		Rs.
A and B Joint Capital ..	75,000	Debtors *less* Reserve	60,000
Creditors (including C D) ..	80,000	Cash	5,000
		Other Assets	90,000
Rs.	1,55,000	Rs.	1,55,000

A and B Limited was registered on 31st March 1938 with a nominal capital of Rs. 1,60,000 in Shares of Rs. 10 each. In order to save stamp duties, it was arranged that the Company should only acquire the "Cash" and "other Assets" and that the Debts should be collected on account of A and B, who would utilise the total, so collected at the end of each month, in applying for and paying full on Shares to an equal amount, until they hold in all 7,000 Shares, when any further collections would be retained by them. The consideration for the assets taken over was the allotment to A and B of 1,500 Shares, and the taking over of the Creditors. Immediately on registration, cheques were exchanged between C D and the Company to liquidate the debt due to him, and for the investment of the same amount by him in Shares of the Company. He also agreed to apply in due course for further shares, so that his holding from time to time should equal that of A and B together. The Debts were collected. April Rs. 30,000; May Rs. 15,000; June Rs. 7,000; July Rs. 9,000; August Rs. 2,000.

Set out the Cash Book and Journal Entries to record these transactions and show the Accounts. 272

Prepare the Opening Balance Sheet of the Company.

(Balance Sheet Total, Rs. 6,36,000.) 273

87. A and B decided to convert their business into a limited company as from 1st January 1938. Their Balance Sheet on that date was as follows:—

Liabilities	Rs.	*Assets*	Rs.
Sundry Creditors	15,000	Land and Buildings	10,000
Loan on Mortgage of Land and Buildings (*Contra*)	7,500	Machinery and Plant	8,000
Capitals:—		Models and Patterns	1,500
A	17,000	Stock-in-Trade	12,000
B	10,000	Sundry Debtors	17,500
		Cash in hand and at Bank	500
Rs.	49,500	Rs.	49,500

A Company called A, B & Co., Ltd., was formed for the purpose of taking over the business. Its capital was Rs. 1,00,000 divided into 5,000 6 per cent Cumulative Preference Shares of Rs. 10 each and 5,000 Ordinary Shares of Rs. 10 each. The Company was a private company, registered on 31st December 1937, the signatories to the Memorandum of Association being A and B for one ordinary share each, for which they paid on January 7th, 1938.

The Company purchased the assets (exclusive of cash in hand and at Bank) for Rs. 32,500, and agreed to take over the mortgage and pay the sundry creditors. The purchase price was to be discharged by the allotment to the Vendors of 1,210 6 per cent Preference Shares and 1,650 Ordinary Shares, and the payment of the balance in cash.

Show the Realisation and Capital Accounts in the books of the firm and the Opening Balance Sheet of the Purchasing Company. 274

(Realisation Account: Profit Rs. 6,000; Balance Sheet Total Rs. 55,000.)

88. A private business, as carried on by Jehangir Sorabji, is converted on 1st January 1937 into a Limited Company under the title of "Sorabji, Ltd." on the following terms:—The Company takes over the Cash and Bills in hand but collects the Book Debts and discharges the Liabilities on behalf of the old firm; it also purchases the Stock for Rs. 15,000, the Plant for Rs. 30,000 and the Goodwill for Rs. 50,000.

The purchase-money is payable as to Rs. 50,000 in 5 per cent Debentures, as to Rs. 50,000 in fully paid Shares, and the balance in cash. The Balance Sheet of the business on 31st December 1936, was as under:—

BALANCE SHEET.

As at 31st December 1936.

	Rs.		Rs.	Rs.
Sundry Creditors	30,000	Cash in hand		6,500
Jehangir Sorabji—Capital A/c.	1,11,500	B/R in hand		9,000
		Sundry Debtors	1,05,000	
		Less Reserve for Doubtful Debts	15,000	
				90,000
		Stock-in-Trade		16,000
		Plant		20,000
	Rs. 1,41,500			Rs. 1,41,500

The sums paid over by the Company in respect of Book Debts collected, over and above the amount required to pay off the Creditors, are as follows:—On 31st January. Rs. 20,000; 28th February Rs. 20,000; on 30th April an agreed sum of Rs. 13,500 in settlement of the balance and as purchase money for the Book Debts then outstanding.

Show the Cash Book and Journal Entries necessary to record the above transactions in the books of the new Company, open and post the Ledger accounts, and take out a Trial Balance on 30th April 1937.

(Trial Balance Total as at 30th April 1937, Rs. 1,25

89. The business of S, A and M who share profits in the proportions of 3, 3 and 2 respectively was acquired by the A B Company, Ltd., on the footing of the partnership Balance Sheet as at 31st October 1937, which is as follows:—

Liabilities		Rs.	Assets	Rs.
Creditors		8,000	Goodwill	6,000
Capital Accounts:—	Rs.		Freehold Premises	10,000
S	14,400		Plant	750
A	16,800		Fixtures	1,250
M	6,400		Debtors	12,000
		37,600	Stock	14,000
Current Accounts:—			Cash at Bank	4,640
S	1,280			
A	960			
M	800			
		3,040		
		Rs. 48,640		Rs. 48,640

The Company took over the assets, exclusive of cash, and assumed the liabilities: the consideration for the purchase being the payment to the Vendors of Rs. 11,200 in cash and the allotment to them of 1.200 Fully Paid Shares of Rs. 20 each, on the basis of their market value of Rs. 24 per share on 1st November.

The partners agreed that the fractional shares to which S and M may be entitled, be debited to A, and the amounts thereof be deducted from A's share in the cash distribution.

You are required to state final accounts of the partnership as at 1st November 1937, show the proportionate number of shares to which each partner is entitled and give the Journal Entries in the Company's books to record the transaction with the Vendors. 276

(Realisation Profit Rs. 4,000; S gets 462 shares, A 518 shares and M 220 shares)

90. A Syndicate purchases a merchant's business and later floats it at a profit, the new company taking up the same as at the date of original purchase. The following are the values of the assets transferred:—

	As received by the merchant.	As valued by the Company.
	Rs.	Rs.
Stock-in-Trade	3,04,000	2,80,000
Book Debts	70,000	70,000
Furniture and Fittings ..	30,000	50,000
Other Assets	7,000	7,000

The merchant in addition receives Rs. 1,00,000 for Goodwill, and the Syndicate's price per sale agreement is Rs. 6 lakhs. Prior to incorporation of the Company, the merchant continues the business for two months at the Syndicate's risk. and out of moneys collected appropriates Rs. 84,000 (debiting the same to his own account) for payment of his trade liabilities which were not taken over. This sum is adjusted between the merchant and the Syndicate in settlement of the purchase price.

Pass the entries in the Co's Journal recording the purchase of the above Assets and Goodwill and adjusting the above said amount of Rs 84,000. Also prepare a statement (in detail) of the profit made by the Syndicate on the above sale to the Company. 277

(Profit made by the Syndicate on Sale of Business to the Company Rs. 89,000)

APPROPRIATION OF PROFITS.

91. The following items compose the Balance Sheet of the X, Y, Z Co, Ltd., as on 31st December 1937. Liabilities:—Capital 15,000, Ordinary Shares of £1 each, fully paid; Bills Payable £500; Sundry Creditors £2,500. Mortgage on Freehold Premises

£2,000; Net Profit for the year £3,000. Assets:—Cash £6,000; Sundry Debtors £3,000; Stock on hand £4,000; Freehold Premises £10,000. The Directors propose to pay off the Mortgage on Freehold Premises, to distribute a year's dividend at the rate of 12 per cent less income-tax at 1/2 in the £, to purchase £1,000 Consols at 72 (neglect brokerage), to form a Reserve Fund and to carry forward the balance of Profit and Loss. The above proposals having been duly approved, you are requested to raise the necessary Ledger Accounts showing these transactions and draw up a fresh Balance Sheet showing the changed state of affairs. *(National Union of Teachers.)* 278

(Total of Revised Balance Sheet £19,305.)

92. The Profit and Loss Account of Soleil d'Or, Ltd., prior to the payment of Debenture Interest for the half year to 31st December 1937, disclosed a profit of £12,850 as on 31st December 1937. The Paid up Capital of the Company consisted of £100,000 divided into 50,000 5 per cent Preference Shares of £1 each, and 50,000 Ordinary Shares of £1 each. 100 Debentures of £100 each at 4 per cent had also been issued. The Directors made the undermentioned recommendations for the disposal of the above balance which were approved by the shareholders at the Annual Meeting. (1) To pay the half year's interest to 31st December 1937 due on the Debentures. (2) To pay the Preference dividend for the half year to 31st December 1937. (3) To pay a dividend for the year ended 31st December 1937 of 10 per cent on the Ordinary Shares free of Income-tax. (4) To transfer £5,000 to Reserve, raising that Account to £15,000 in all. (5) To carry forward the balance to next year. Show the entries necessary to record these transactions in the books of Soleil d'Or, Ltd. *(London Chamber of Commerce.)* 279

93. The accounts of the Midland Industries Co., Ltd., showed an amount of £100,000 to the credit of Profit and Loss Account on 31st December 1937 out of which the Directors decided to place £20,000 to General Reserve Fund, and £5,000 to Debenture Redemption Fund. At the Annual General Meeting it was decided to place £10,000 to a War Reserve Fund (to provide for contingencies) and to pay a bonus of 2½ per cent of the profits to the Directors as additional remuneration. The payment of the half-yearly dividends on £250,000 6 per cent. Cumulative Preference Shares on 30th June and 31st December 1937, was confirmed, and a dividend at the rate of 10 per cent was declared on the Ordinary Share Capital of £300,000, the balance of Profit and Loss Account to be carried forward to next year.

Make out the Appropriation Account, showing the above arrangements.

(Chartered Accountants.) 280

94. The following is the Balance Sheet of a Company on 29th September 1937, showing to the credit of the Profit and Loss Account the sum of £103,720.

A. B CO., LTD., BALANCE SHEET.

As at 29th September 1937.

		£			£
Capital:—			Freehold Factory and Works		100,000
50,000 Ordy. Shares of £10 each		500,000	Leaseholds		150,000
2,000 Debentures of £100 each		200 000	Plant and Machinery		250,000
Sundry Creditors		85,000	Sundry Debtors		230,000
Reserve Account		50,000	Horses, Carts and Harness		5,720
Sinking Fund—Leaseholds		9,000	Motors and Motor Lorries		9,500
Profit and Loss—	£		Stock	32,000	
Balance from 1936	15,680		Works-in-Progress	90,000	
Balance from 1937	100,040				122,000
	115,720		Bank Balance		20,500
Less Debenture Interest	12,000		Bank Deposit Account		60,000
		103,720			
		£ 947,720			£ 947,720

Resolutions have been passed appropriating this profit as follows:—

£20,000 to Reserve Account.
3 per cent Depreciation on Freehold Premises.
10 per cent Bonus on the year's Salaries of £8,000.
5 per cent Bonus on the year's Wages of £75,000.
5 per cent Sinking Fund on Leasehold Property.
£1,000 to Directors' Special Fees.
10 per cent Dividend for the year, less tax.
Balance to be carried forward.

Make the necessary Journal Entries; prepare an Appropriation Account, and revise the Balance Sheet.
(*Chartered Accountants.*) 281

(*Total of Revised Balance Sheet* £944,720.)

BONUS AND BONUS SHARES.

95. A Limited Company has resolved to utilise Rs. 5,00,000 out of its Reserve Fund in declaration of a bonus to the shareholders. The bonus, however, is to be applied to the extent of Rs. 2,00,000 in payment of final call of Rs. 40 per share on 5,000 shares of Rs. 100 each; and to the extent of Rs. 3,00,000 in the issue of 3,000 fully paid shares of Rs 100 each to the existing shareholders.

Draft Journal entries necessary to give effect to the above resolution. 282

96. The Eastern Trading Company, Ltd., was registered in 1928, with a Capital of Rs. 30,00,000, divided into 12,000 Ordinary Shares of Rs. 250 each. The Company made a profit of Rs. 35,00,000 for the year ended 31st December 1936. During the year 1937 the following arrangements were entered into by the Company:—

(*a*) On 1st March 1937, the Company bought certain assets from Ramchandra Hardas who closed his business and retired. The Company also undertook to collect his debts for Rs. 1,30,000 and to pay out therefrom his Creditors for Rs. 30,000. The Debtors realised Rs. 1,20,000 only out of which all the creditors were paid off. Ramchandra Hardas agreed to accept the Company's 6 per cent Debentures for Rs. 1,00,000 in full satisfaction of the amount due to him under the abovesaid arrangement.

(*b*) On 1st April 1937, it was resolved by the Shareholders that the Share Capital of the Company be increased by Rs. 30,00,000 by the issue of 24,000 Preference Shares of Rs. 125 each, and that the holder of every Ordinary Share was to be given one fully paid Preference Share and three coupons of the same of Rs. 25 each as dividend for the year ended 31st December, 1936.

(*c*) On 1st November 1937, the Ordinary Share Capital was increased and 1,250 Ordinary Shares of Rs. 250 each were issued to Albert Smith as fully paid in full settlement of the purchase consideration for new Machinery costing Rs. 20,00,000 bought from him. The Ordinary Shares of the Company were quoted at Rs. 1,735 in the market at that time.

Pass Journal Entries necessary for giving effect to the above arrangements.
(*G.D.A.*) 283

97. The Capital of a Limited Company consisted of 25,000 7 per cent Preference Shares of Rs. 10 each and 50,000 Ordinary Shares of Rs. 10 each and the company has accumulated out of profits a Reserve Fund of Rs. 2 lacs. It issued further 10,000 Ordinary Shares during the year at a premium of Rs. 30 per share and the whole amount has been realised.

At the end of the year, an independent valuation of its assets increased the Balance Sheet figures as follows:—

	Rs.
Land and Building by	6,50,000
Plant and Machinery by	3,00,000
Permanent Way, Rolling Stock, etc.	2,50,000

and reduced the amount of the following:—

Goodwill by	1,50,000
Concessions Rights by	1,00,000

It was decided to redeem 3,000 Debentures of Rs. 100 each at 5 per cent premium, to adopt the new valuations and allot two Bonus shares of Rs. 10 each credited as fully paid for every ordinary share. It was further decided that the balance of Reserve Fund after carrying out all the above arrangements was to be capitalised.

Make journal entries for the above and comment on the proposals.

(*B. Com.*) 284

98. The X Co., Ltd. has a share capital of Rs. 10,00,000 divided into 1,000 shares of Rs. 1,000 each which are quoted in the market at Rs. 4,000 each. The Company declares a bonus out of its Reserve Fund to the extent of 60 per cent of the Original Capital, and this bonus is to be satisfied by the issue of 1,000 fully paid shares at a premium of Rs. 400 per share. Pass the necessary entries to give effect to this. 285

99. A Company having a share capital of Rs. 5,00,000 divided into 500 shares of Rs. 1,000 each, which are quoted in the market at Rs. 2,700 each, distributes a Bonus out of Reserve Fund at the rate of 60 per cent of the original Capital by issuing to the holder of every share a Coupon for Rs. 250 ($\frac{1}{4}$ fully paid up share) in full settlement of the Bonus. Pass the necessary entries. (*G. D. A.*) 286

100. A Limited Company has had a profitable year but is short of Working Capital. It proposes, in lieu of a Cash Dividend, to issue Bonus Shares at a premium of 5s. per £1 share, the value of shares taken out at this figure being equal to the dividend that would have been paid if cash had been available.

Give your opinion on the proposal, and show how you would deal with such transaction in the books of the Company. (*Incorporated Accountants.*) 287

101. The following particulars have been extracted from the Balance Sheet of Soleil d'Or, Limited, as on December 31st, 1936.

		£	£
Capital:—			
Nominal:	10,000 5 per cent Preference Shares of £ 5 each...	50,000	
	100,000 Ordinary Shares of £ 1 each ...	...1,00,000	
		£ 1,50,000	
Issued:	5,000 5 per cent Preference Shares of £ 5 each...	25,000	
	50,000 Ordinary Shares of £ 1 each ...	... 50,000	
			75,000
Reserve Fund			20,000
Profit and Loss Account (Balance)			12,000

During the year 1937, Resolutions were duly passed as follows:—

(1) A Resolution converting the Preference Shares into Preference Shares of £1 each.

(2) A Resolution declaring a bonus of 20 per cent on the Ordinary Shares to be provided as to £6,000 out of the Reserve Fund, and as to the remainder out of the Balance of Profit & Loss Account.

The bonus to be satisfied by the issue of one fully paid Ordinary Share for every five Ordinary Shares held.

Give Journal entries which are necessary to carry out the above Resolutions, and show how they would affect the Balance Sheet of the Company as on 31st December 1937. Assume that the profit for the year 1937 amounted to £4,000.

(*London Chamber of Commerce.*) 288

PROFITS PRIOR TO INCORPORATION.

102. The profits of a business taken over by a Company, registered on 31st March 1937, amounted for the year ended 31st December 1937, to £50,000.

Is the whole available for dividend? If not, to what extent and how should the balance be appropriated? (*Chartered Accountants.*) 289

103. The Madhubhai Mills, Ltd., was incorporated on 1st July 1937, to purchase the business of D. Madhubhai as on April 1st, 1937.

The fully paid Capital of the Co. consisted of Rs. 20,000 in shares of Rs. 10 each.

500 6 per cent Debentures of Rs. 1,000 each were also issued and fully paid up.

The accounts for the year (ended 31st March 1938), disclosed the following particulars:—

Sales for the year Rs. 32 10,400 (1st April to 1st July 1937, Rs. 8,02,600; 1st July 1937 to 31st March 1938, Rs. 24,07,800).

Gross Profit for the year Rs. 4,12,800, Managing Director's Salary, Directors' Fees, Preliminary expenses written off, and Secretary's salary Rs. 58,000.

Bad Debts, Rs. 14,890 (prior to 1st July 1937, Rs. 4,020; after 1st July 1937, Rs. 10,870).

Interest on Debentures Rs. 20,000. Depreciation on Machinery and Plant, etc., Rs. 25,200.

Advertising and General Expenses Rs. 58,400.

You are required to prepare a statement demonstrating your views as to the proper apportionment of the profit of the company as between: (*a*) profits available for distribution: and (*b*) profits prior to incorporation.

You are also required to state how you would deal with the latter amount (*b*) when ascertained. 290

[*Profits*: (*a*) *Available for Distribution Rs.* 1,58,030
(*b*) *Prior to Incorporation Rs.* 78 280.]

104. A Company was formed on April 8th, 1937, taking over a Business as from 1st March 1937. The Balance Sheet on 1st September 1937, contains the following items:—

Liabilities	£	*Assets*	£
Creditors	8,596	Debtors	21,586
Mortgage	10,000	Bank	586
Capital, 5 per cent Preference	36,000	Patent Rights	2,000
Capital, Ordinary	22,668	Machinery	15,976
Profit from 1st March 1937	8,984	Building	20,000
		Goodwill	15,000
		Preliminary Expenses	1,100
		Stock	10,000
	£ 86,248		£ 86,248

How would you ascertain the profit to 8th April, and what suggestions would you make as to its disposal? (*Incorporated Accountants.*) 291

105. The Colombo Trading Company, Limited, registered on 1st April 1937, received certificates to commence business on 1st June 1937. The Company took over a running business as at 1st January 1937 from a Promoter for Rs. 56,00,000 (including Rs. 3,00,000 for Goodwill). It is arranged with the Promoter that he should pay off the Vendors and look after the general management of the business upto the date of the incorporation. The Promoter was to be allowed Rs. 5,000 a month from the date of purchase upto the date of Incorporation, and interest at the rate of 6 per cent per annum, on the purchase consideration. The Capital of the company was fully subscribed and paid up, and the promoter was paid off on 30th June 1937 the sum of Rs. 56,00,000 with interest on the same. The net profit (i.e., after charging allowance and interest paid to the promoter, depreciation, and all other losses and expenses) for the year ending 31st December was Rs. 15,00,000. The total turnover during the year was Rs. 96,00,000. The total turnover upto the date of Incorporation amounted to Rs. 19,20,000, and that upto the date of the certificate for commencement of business amounted to Rs. 32,00,000.

Is the entire profit of Rs. 15,00,000 available for Dividend? If not, state which portion is not thus available for Dividends (showing how you arrive at the same); also state how you would in this particular case treat that portion which is not available for Dividends, giving journal entries for the same. (*G. D. A.*) 292

(*Profit prior to commencement of business Rs.* 4,06,000.)

106. A Company incorporated on 1st April 1937, takes over a running business as at 1st January 1937, from a promoter for Rs. 8,00,000. It is arranged with the promoter that he should pay the Vendors, and look after the general management of the business upto the date of Incorporation. The promoter was to be allowed Rs. 2,000 a month from the date of purchase upto the date of Incorporation, and interest at the rate of 6 per cent per annum on the purchase consideration. The Capital of the Company was fully paid up, and the promoter was paid off on 31st May 1937 the sum of Rs. 8,00,000 with interest on the same. The net profit of the concern was Rs. 1,50,000 for the year ending 31st December 1937. The total turnover during the year was Rs. 12,00,000. The total turnover upto the date of Incorporation was Rs. 2,40,000.

Apportion the profit prior to Incorporation, and state how you would deal with the same in the above case. (*B. Com.*) 293

(*Profit prior to Incorporation Rs.* 35,200.)

VALUATION OF SHARES.

107. The Directors of a private company, on the death of the principal shareholder, consult you as to the real value of the shares. You find the dividends for the last three years have been 20%, 30% and 25%. You come to the conclusion that on the basis of an average dividend of 12½% over the last three years, the shares (which are of Rs. 100 each) should be deemed to be worth par and that for every ½% paid, more (or less) than 12½%, on the last three years' basis, the shares should be worth Rs. 3-8-0 more (or less) than par. On this basis, what would be the value of the deceased shareholder's shares ? (*G. D. A.*) 291

(*Value of each share Rs.* 187-8-0)

108. Under the Articles of a Private Limited Company dealing in Wines and Tobacco, you have as Auditor to fix annually the "fair value" of the shares. At 31st December 1937, the Company's position was as follows:—

Liabilities		Rs.	*Assets*		Rs.
Capital, 5,000 shares of Rs. 100 each, fully paid		5,00,000	Buildings at cost		80,000
Reserve Fund		1,50,000	Furniture at cost		3,000
Depreciation Funds—	Rs.		Stock-in-Trade at market value		4,50,000
Buildings	10,000		Investments at cost—	Rs.	
Investments	45,000		3½% G.P. Notes for Rs. 1,00,000	80,000	
		55,000	British War Loan for £7,500	1,00,000	
Creditors		48,000	Indian War Loan repayable 1938	2,00,000	
Bad Debts Reserve		20,000			3,80,000
Profit and Loss—			Book Debts—		
Balance from 1936	80,000		Considered good		3,00,000
Profit for 1937	4,30,000		Cash and Bank Balances		70,000
		5,10,000			
		Rs. 12,83,000			Rs. 12,83,000

You are given the following information:—

(1) The Company's prospects for 1938 are equally good.

(2) Its Buildings are now worth Rs. 3,50,000.

(3) Public Companies doing similar business show a profit-earning capacity of 15 per cent on market value of their shares.

(4) Profits for the past three years have shown an increase of Rs. 50,000 annually.

Fix the "fair value" and show your working. (*G.D.A.*) 295

(*Intrinsic Value of each share Rs.* 288 ; *Market Value of each share Rs.* 347 ; *Fair Value of each share Rs.* 317-8-0.)

109. Given below is the Balance Sheet of the Imperial Manufacturing Company, Limited ;—

	Rs.		Rs.
Capital :—		Land (at cost) ..	.. 2,21,000
8,800 shares of Rs. 250 each fully paid up ..	22,00,000	Building (at cost) ..	..11,73,000
Reserve Fund ..	.. 8,24,000	Machinery, etc. (at cost)	..20,58,000
Workmen's Savings Account	.. 2,27,000	Furniture and Dead Stock ..	5,000
Provident Fund Account	.. 54,000	Stock-in-trade (at market value)	26,00,000
Depreciation Fund Account	.. 4,63,000	Debenture Charges ..	.. 25,000
Creditors	..38,86,000	Book Debts	.. 3,35,000
Profit and Loss Account	36,12,000	Investments (at market value)	17,00,000
		Cash and other balances	..31,49,000
	Rs. 1,12,66,000		Rs. 1,12,66,000

Depreciation Fund is in excess by Rs. 54,000 than the amount of actual Depreciation. Find out the intrinsic value of the share. (B. Com.) 296

(*Intrinsic Value of each share Rs. 757-6-2.*)

110. It is provided in the Articles of Association that on the death of a shareholder his shares shall be purchased by the remaining shareholders at a price to be settled by the Auditors, on the basis of the last Balance Sheet.

It is further provided that Goodwill shall be taken for this purpose to be of the value of three years' purchase of the average annual profits for the last four years. The last Balance Sheet is as follows:—

Liabilities	Rs.	*Assets*	Rs.
Capital :—		Goodwill	1,00,000
20,000 shares of Rs. 10 each fully paid	2,00,000	Investment at Cost (Market Value Rs. 1,25,000)	.. 1,50,000
Reserve	.. 1,00,000	Stock at cost	.. 2,50,000
Debentures	.. 2,00,000	Debtors	.. 1,50,000
Sundry Creditors ..	.. 1,50,000	Cash	.. 35,000
Profit & Loss Account, profit not distributed ..	.. 35,000		
	Rs. 6,85,000		Rs. 6,85,000

The profits for the last four years were Rs. 15,000, Rs. 20,000, Rs. 25,000 and Rs. 40,000 respectively.

You are required to state with details of working the price to be paid per share. 297

(*Price to be paid per share Rs. 14-4-0.*)

111. The following is the Balance Sheet of the Tumtum Metal Works, Ltd., as on 31st December 1937 :—

Liabilities	Rs.	*Assets*	Rs.
Authorised & Issued Capital :—		Goodwill, Patents & Trade Marks	16,50,000
10,000 6% Cumulative Pref. Shares of Rs. 100 each, fully paid	..10,00,000	Freehold Land and Buildings ..	8,10,000
10,000 Ordinary Shares of Rs. 100 each fully paid	.. 10,00,000	Plant and Machinery ..	... 13,80,000
6½% Debenture Stock ..	.. 11,50,000	Office Furniture ..	.. 10,000
General Reserve ..	.. 10,00,000	Stocks	.. 2,65,000
Sundry Creditors ..	.. 6,20,000	Sundry Debtors ..	.. 3,50,000
NOTE.—The Dividends on Cumulative Preference Shares are in arrears for the past three years.		Redemption of Debentures ..	20,000
		Cash at Bank and in hand ..	1,65,000
		Balance of Profit & Loss Account	1,20,000
	Rs. 47,70,000		Rs. 47,70,000

A Shareholder owning 200 Preference and 250 Ordinary Shares died on 28th February 1938, and in the absence of market quotations, you are asked to value the shares for probate purposes. Show your working for arriving at your estimates. 298

(Value of each Ordinary Share Rs. 164-4-0.)

MISCELLANEOUS PROBLEMS.

112. The Balance Sheet of the Lions Company, Limited, as on December 31st, 1937, was as follows:—

BALANCE SHEET.

	Rs		Rs.
Ordinary Shares (1,000 shares of Rs. 100 each)	1,00,000	Freehold Property	78,362
Sundry Creditors	17,862	Leasehold Property	22,441
Reserve Account	20,000	Machinery and Plant ..	10,249
Profit & Loss Account (balance)	7,462	Sundry Assets	34,272
Rs.	1,45,324	Rs.	1,45,324

A recent valuation of the Company's property disclosed the following results:—

Freehold Property Rs. 1,00,784; Leasehold Property Rs. 32,948.

The Directors decided to adopt the revaluation figures and to capitalise the reserve allotting one Rs. 100 new share for every two shares held. Give the necessary Journal Entries and prepare a Balance Sheet after giving effect to the same. State also your views with reference to these proposals. (*G. D. A.*) 299

113. On 31st October 1937 the Indian Finance Co., Ltd., successfully floated the Sound Trading Co., Ltd., the consideration being Rs. 2,000 in cash and Rs. 10,000 in Ordinary fully paid shares of Rs. 10 each in Sound Trading Co., Ltd., the Cash and Shares were received on 10th November 1937.

The expenses of promotion were Rs. 4,000.

On 30th November 1937, the Finance Company disposed of 200 of the shares by private treaty at Rs. 9 each.

Journalise the above transactions in the Finance Company's Books, and state how the same will appear in the Final Accounts of the Company. 300

114. A parent Company owns three properties, which appear in the Company's books at the cost values, viz.:—

	Rs.
Property No. 1	50,000
„ „ 2	40,000
„ „ 3	70,000

The directors form three subsidiary Companies to acquire the properties, the purchase prices of which were payable in fully paid Rs. 100 shares of the new Companies, as under:—

	Rs.
No. 1	1,00,000
„ 2	75,000
„ 3	1,20,000

At what values should the shares in the subsidiary Companies be shown in the books and Balance Sheet of the parent Company? 301

(Shares in Subsidiary Companies at cost Rs. 1,60,000.)

115. Give suitable rulings for the Share Ledger of a Limited Company, and enter therein the following particulars:—John Smith, Cork Merchant, 440 Austin Friars, E. C., applied on 2nd January 1938 for 150 Ordinary Shares of £1 each, and forwarded the necessary 2/6 per share with his application. On 12th January 1938 John Smith forwarded a further 2/6 per share on being informed by the Company that 150 Ordinary Shares (numbered 1 to 150) had been allotted to him. On 10th March 1938 a call of 5s per share was notified by the Company and was duly paid by John Smith on his holding on 15th March 1938. On 3rd April 1938, John Smith sold 100 of his shares (numbered 1 to 100) to Wm. Brown, hatter, 488 Bond Street W., at 12/6 per share, the transfer being accepted by the Company. *(London Chamber of Commerce.)* 302

116. The Asian Trading Co, Ltd., in 1930, sold one of its Branches to the National Co., Ltd. The value of this branch, according to the books of the Company was Rs. 2,00,000. The purchase price was fixed at Rs. 3,00.000 to be discharged by the issue to the Asian Trading Co, Ltd, of 30 000 Ordinary Shares of Rs 10 each, fully paid, in the National Co, Ltd.

The Asian Trading Co, Ltd. had borrowed from C. Das Rs. 2,00,000 at 6%, and the National Co, Ltd., being very prosperous, C. Das in 1937 agreed to accept 10,000 National Co. Shares at Rs. 20 per share in discharge of the loan These shares were accordingly transferred to C. Das on 30th June 1937.

Draft the Journal entries necessary to record the above transactions in the books of the Asian Trading Co., Ltd. How would you deal with the apparent profit on the sale to the National Co., Ltd., and on the transfer of the National Co. Shares to C. Das? 303

117. How would you recommend the following items should be dealt with in the Accounts of a Limited Company:—

(1) Preliminary Expenses £1,200.
(2) Premium of £3,000 paid for 21 years' lease of premises.
(3) £1,500 expended in structural alterations to the above premises.
(4) £5,000 received as premium on shares issued.
(5) 500 £1 shares forfeited on which 10s. per share had been paid?

(Incorporated Accountants.) 304

118. A Limited Company receives:—

(a) £10,000 as compensation for the acquisition of some of its property by a Local Authority.
(b) £7,500 as premium on an issue of Debentures.
(c) £8,000 on the sale of one of its Foreign branches.

What considerations would weigh with you in dealing with the sums as profits available for distribution or otherwise? *(Incorporated Accountants.)* 305

119. How should the following items be treated in the accounts of a Limited Company:—(1) An issue of 1,000 debentures of £100 each, issued 1st January 1938 at 90, repayable in 1948. (2) An expenditure of £5,000 on advertising a new patent medicine. The sales of the first year amounted to £1,500 but were on the up grade. (3) A debt owing by a director of the company?

(London Chamber of Commerce.) 306

120. You are preparing the Balance Sheet of a Limited Company of which you are the chief accountant, and find that there are bills under discount amounting to £10,750 On going through the books you discover facts which point to the probability

that £1,000 worth of these bills will be dishonoured on maturity, but that there is a reasonable chance of eventually receiving 10/- in the £ on the £1,000. How would you deal with these bills under discount, and how should they appear in the Co's published accounts? *(London Chamber of Commerce.)* 307

121. The following assets are the property of the Reliance Boot Manufacturing Co., Ltd. How should they be valued for Balance Sheet purposes? (*a*) Twenty debentures of £100 each in the Southern Railway of America, representing the investment of the reserve fund. The debentures were purchased at par, but the market price has since fluctuated between 94 and 108, the former quotation being the mean market price as on 31st December 1937, the date upon which the Balance Sheet of the Reliance Boot Manufacturing Co., Ltd., is prepared. (*b*) Patents £2,000. This amount represents the original cost of the patent rights in a welting machine. The grant of Letters Patent is dated 1st January 1933. (*c*) Goodwill £5,000. The asset was purchased in 1932 at the price named, upon the formation of the limited company. The trading profits have steadily declined from £4,200 in 1933 to £2,124 in 1937.

(London Chamber of Commerce.) 308

122. A & Co., Ltd., bought their Freehold Premises in the year 1889 for £50,000. In the year 1937 they employ Valuers who certify the present value to be £100,000. The asset stands in the Balance Sheet at £50,000. The Directors seek your advice as to dealing with the increment of £50,000 in the accounts. What would you propose?

(Incorporated Accountants.) 309

123. A Limited Company has removed its business to new works, which have cost, including Freehold Land £30,000. A portion of the Machinery and Plant, at an estimated value of £14,000, has been removed to the new works at a cost of £1,800. The remainder has been sold, showing a loss on the total book value of the Machinery and Plant of £3,200. The profits for the year, including balance brought forward from the previous year, after making provision for depreciation at 7½% on the Machinery and Plant, are £4,500, without taking into account the above-named loss, and are about the normal amount of profits in previous years.

State your views as to the proper mode of dealing with the cost of removal and the loss on the sale and whether, apart from financial considerations, the Directors would be justified in declaring a dividend. *(Chartered Accountants.)* 310

124. A large Engineering Co., which has for many years regularly depreciated its Fixed Plant and Machinery and its Loose Plant and Tools, decided to have them valued by an independent valuer as on 31st December 1937, on which date they stood in the books of the company at the following values:—

	£	s.	d.
Fixed Plant and Machinery	16,252	8	9
Loose Plant and Tools	5,368	10	3

The valuations were made, and resulted as follows:—

Fixed Plant and Machinery	17,329	16	4
Loose Plant and Tools	6,035	11	6

The Directors decide to increase the book values to the values shown by the new valuation.

How do you consider this should be effected? Give your reasons, and draft the necessary Journal Entries. *(Chartered Accountants.)* 311

CHAPTER XII.

AMALGAMATION, ABSORPTION AND RECONSTRUCTION ACCOUNTS.

Not infrequently, two or more companies carrying on similar businesses amalgamate their concerns so that the combination may result in reducing working expenses or that the combined capital may enable the carrying on of the business more profitably or may help in avoiding the disastrous results of keen competition or for several other reasons.

An *Amalgamation* takes place where two or more companies carrying on business of a like nature combine together and form a new company. The object usually would be to secure economical working by reducing establishment and management charges and to eliminate competition and control the market in a particular line of trade. The companies forming part of such a combine all go into liquidation, and sell their businesses to a new company, which is formed solely to take over the assets and assume the liabilities of the companies going into liquidation. No return of capital is involved, as the shareholders are usually given fully-paid shares in the new company in proportion to their holdings in the old company.

The term *Absorption* generally applies where an existing company buys over or absorbs another smaller company doing similar business for a consideration as may be agreed upon with the vendor company. The object here again may be to reduce competition and enhance profits by effecting economy in management. The company bought over goes into liquidation, and the absorbing company purchases the business from the liquidator. The creditors of the absorbed company may either be paid off or the purchasing company may take over the liabilities. The shareholders in the absorbed company may be given shares or cash in return for their holdings.

The term *Reconstruction*, as a rule, indicates that an existing company on account of past losses in trading, and also due to financial difficulties, goes into liquidation with a view to forming another company to take over the existing concern.

The difference between an absorption and a reconstruction arises from the fact that whereas the former represents the company which is absorbed being taken over by an *existing* company, the latter denotes the sale of the undertaking to a *new* company, to be formed specially for such purpose. Besides, in the case of an absorption, the shareholders of the absorbed company generally stand to profit from the sale of their business, while a reconstruction will usually result in a loss to the shareholders on account of the company having been financially hard hit due to past losses. Where the company has lost a part of its capital due to losses, the reconstruction scheme may provide for the existing creditors to be satisfied either by a cash composition, or by the issue of debentures and even sometimes shares in the new company. The shareholders may also be called upon to accept partly-paid shares in exchange for their holding in the old undertaking in order to secure fresh working capital for the new company. As the balance on the partly-paid shares will necessarily have to be called up at any time, this would encumber the shareholders with a further liability, and it may be that some of them may refuse to accept such a scheme of reconstruction, and in such a circumstance, the liquidator will have to purchase their interest at a price as may be mutually agreed upon. In short, a reconstruction scheme presents an opportunity to obtain a new lease of life for the old company by writing off past losses and obtaining further working capital resulting from the creditors and the members all agreeing to sacrifice equitably.

Amalgamation by the Formation of a New Company to take over the Business of two Existing Companies:—

ILLUSTRATION 140.

Two companies carrying on similar businesses enter into a contract to amalgamate, a new Company being formed to take over the Assets and Liabilities of each. The following are the respective Balance Sheets, showing the values of the Assets as agreed in the contracts, and it is provided that fully-paid Rs 50 shares shall be issued by the new company, to the value of the net assets of each of the old companies.

THE SPHINX COMPANY, LIMITED.
BALANCE SHEET.
As at 31st December 1937

Liabilities	Rs.	*Assets*	Rs.
Share Capital:—		Freehold Property ..	55,000
5,000 shares of Rs. 50 each ...	2,50,000	Plant and Machinery ..	90,000
Sundry Creditors ...	41,000	Stock ...	75,000
		Sundry Debtors ..	40,000
		Cash at Bank ..	11,000
		Profit and Loss Account ..	20,000
Rs.	2,91,000	Rs.	2,91,000

THE EGYPTIAN COMPANY, LIMITED.
BALANCE SHEET.
As at 31st December 1937.

Liabilities	Rs.	*Assets*	Rs.
Share Capital:—		Goodwill ...	10,000
4,000 Shares of Rs. 50 each ...	2,00,000	Freehold Property ..	75,000
Sundry Creditors ...	30,000	Plant and Machinery ..	1,00,000
Reserve Fund ...	50,000	Stock ...	45,000
Profit and Loss Account ...	10,000	Sundry Debtors ...	25,000
		Cash at Bank ...	35,000
Rs.	2,90,000	Rs.	2,90,000

Show the Balance Sheet of the new company on taking over the two businesses, and state what shares the Liquidator of each company will receive, and the distribution of the same.

Solution.

The net value of the assets of the Sphinx Company, Limited, as taken over by the new company is arrived at as follows:—

	Rs.
Total Assets	2,71,000
Less Sundry Creditors	41,000
Net Assets = Rs.	2,30,000

The net value of the assets of the Egyptian Company, Limited, as taken over by the new company is arrived at as follows:—

	Rs.
Total Assets	2,90,000
Less Sundry Creditors	30,000
Net Assets =	Rs. 2,60,000

The shares in the new company would be issued as follows:—

The Liquidator of the Sphinx Company, Limited will be given 4,600 shares of Rs. 50 each fully-paid to be distributed by him in proportion of 23 shares in the new company for every 25 in the old.

The Liquidator of the Egyptian Company, Limited will be given 5,200 shares of Rs 50 each fully-paid to be distributed by him in proportion of 13 shares in the new company for every 10 shares in the old.

Of course, all the shares cannot be distributed in these proportions, as shares can only be issued in whole and not in fractions. This will necessitate the selling of some of the shares by the Liquidators and the amount realised thereby would be distributed among those entitled thereto.

The Balance Sheet of the new company will appear as follows:—

NEW COMPANY'S BALANCE SHEET.
As at 31st December 1937.

Liabilities	Rs.	*Assets*	Rs.
Share Capital:—		Goodwill ..	10,000
9,800 Shares of Rs. 50 each ...	4,90,000	Freehold Properties ..	1,30,000
Sundry Creditors ...	71,000	Plant and Machinery ...	1,90,000
		Stock ..	1,20,000
		Sundry Debtors ..	65,000
		Cash at Bank ...	46,000
Rs.	5,61,000	Rs.	5,61,000

If the values of the assets of each company as accepted for the purpose of amalgamation are not the same as shown by the respective Balance Sheets, it would be necessary to prepare revised Balance Sheets in order to arrive at the value of the net assets taken over.

If the company having a Reserve Fund or any undistributed balance of profit has sufficient cash to a like extent, it is sometimes arranged that such accumulated profits may be distributed among the shareholders of that company prior to amalgamation and the new company may then take over the balance of net assets then left.

Occasionally, it is agreed upon that each company should pay off its own liabilities, in which case the new company will take over only the assets of each company.

Amalgamation by the Absorption of one Limited Company by another Limited Company.—When one company absorbs another company, that is, buys up its business, the company that has been taken over will have to go into voluntary liquidation. The Purchasing Company either takes over the assets of the Vendor Company at book values or after certain adjustments, as may be mutually agreed upon, and either takes over the liabilities or leaves it to the Vendor Company to pay off its own creditors. The balance of undistributed profits, if any, in the Vendor Company's Books is not usually brought in the Purchasing Company's Books but is retained by the Vendor Company and distributed by the Liquidator amongst its shareholders.

The Entries necessary to close the Books of the Company that goes into Liquidation will be similar to those that are required in case of a dissolution of partnership :—

1. Debit Realisation Account and credit each Asset Account as per book value.

2. Debit each Liability Account and credit the Realisation Account, if the liabilities are taken over by the Purchasing Company.

3. Debit the Purchasing Company's Account and credit the Realisation Account with the agreed Purchase-price.

4. If the expenses of liquidation are paid by the Vendor Company, debit Realisation Account and credit Bank.

5. If the expenses of liquidation are to be borne by the Purchasing Company, debit the Purchasing Company's Account and credit Bank.

6. The Realisation Account will now show Profit or Loss which will be transferred to Shareholders' Account.

7. Transfer the Share Capital Account, Reserve Fund, or any balance of Profit and Loss Account to the Shareholders' Account.

8. Debit Cash and Shares when received from the Purchasing Company and credit the Purchasing Company.

9. Debit the Shareholders' Account and credit Cash and Shares when the same are distributed amongst the shareholders.

All the accounts in the Vendor Company will then be closed.

The Entries in the Books of the Purchasing Company will be as follows :—

1. Debit an individual account for each Asset taken over including the Goodwill Account (if any) and credit each Liability Account with its respective amount (if the Liabilities are taken over) and the Vendor Company's Account with the amount of the purchase consideration.

The amount of Goodwill is always represented by the difference between the assets acquired *less* liabilities and the purchase price agreed to be paid.

2. Debit the Vendor Company's Account and credit Share Capital Account with the amount of shares, if any, issued as fully paid up, and Bank Account with the cash paid in full satisfaction of the purchase consideration.

ILLUSTRATION 141.

The following is the Balance Sheet of X, Y, Z Co., Ltd. on 31st December 1937 :—

BALANCE SHEET.
As at 31st December 1937.

Liabilities	Rs.	*Assets*	Rs.
Capital—20,000 shares of Rs. 10 each ...	2,00,000	Land and Buildings ...	1,00,000
Debentures ..	1,00,000	Plant and Machinery ...	1,50,000
Sundry Creditors ...	30,000	Work-in-Progress ...	30,000
Reserve Fund ...	25,000	Stock-in-Trade ...	60,000
Dividend Equalization Fund ..	20,000	Furniture and Fittings ...	2,500
Profit and Loss Appropriation Account—balance ...	5,100	Sundry Debtors ...	25,000
		Cash at Bank ...	12,500
		Cash in hand ...	100
Rs.	3,80,100	Rs.	3,80,100

The Company is absorbed by the A, B, C Co., Ltd. on that date. The consideration for the absorption is the discharge of the Debentures at a premium of 5%, taking over of the liability in respect of the creditors on open accounts, and a payment of Rs. 7 in cash and one share of Rs 5 in the A, B, C Co., Ltd., at the market value of Rs. 8 per share in exchange for one share in the X, Y, Z Co, Ltd. The cost of Liquidation Rs. 500 is to be met by the Purchasing Company.

Entries in the Books of the Company going into Liquidation:—

		L F.	Rs.	Rs.
Realisation Account	Dr.		3,80,100	
To Land and Buildings				1,00,000
,, Plant and Machinery				1,50,000
,, Work in Progress				30,000
,, Stock-in-Trade				60,000
,, Furniture and Fittings				2,500
,, Sundry Debtors				25,000
,, Cash at Bank				12,500
,, Cash in hand				100
(Being the respective values of the assets taken over by the purchasing company).				
Sundry Creditors	Dr.		30,000	
To Realisation Account				30,000
(Being the liabilities in respect of creditors on open accounts taken over by the purchasing company).				
A. B. C. Co, Ltd	Dr.		4,05,000	
To Realisation Account				4,05,000
(Being the purchase price for the absorption of the old company agreed to be paid by the new company).				
Realisation Account	Dr.		5,000	
To Debentures Account				5,000
(Being the transfer of the premium payable to Debenture holders).				
Realisation Account	Dr.		49 900	
To Shareholders' Account				49,900
(Being the transfer of the credit balance of Realisation Account).				
Share Capital Account	Dr.		2,00,000	
Reserve Fund	,,		25 000	
Dividend Equalization Fund	,,		20,000	
Profit and Loss Appropriation Account	,,		5,100	
To Shareholders' Account				2,50,100
(Being the transfer of credit balance standing to the former accounts).				
Bank	Dr.		2,45,000	
Shares in A. B. C Co, Ltd.	,,		1,60,000	
To A. B C. Co., Ltd.				4,05,000
(Being cash and shares received from the purchasing company in payment of the purchase price).				
A. B. C. Co, Ltd.	Dr.		500	
To Bank				500
(Being cost of Liquidation to be met by the purchasing company).				
Debentures Account	Dr		1,05,000	
To Bank				1,05,000
(Being repayment of Rs. 1,00,000 Debentures at a premium of 5%).				

JOURNAL ENTRIES—(*Contd.*)

		L. F.	Rs.	Rs.
Bank	Dr.		500	
To A. B. C. Co., Ltd.				500
(Being receipt of cost of Liquidation from the purchasing company).				
Shareholders' Account	Dr.		3,00,000	
To Bank				1,40,000
„ Shares in A. B. C. Co., Ltd.				1,60,000
(Being distribution of cash and shares in the new company amongst the shareholders *pro rata*).				

REALISATION ACCOUNT.

	Rs.		Rs.
To Sundry Assets ...	3,80,100	By Sundry Creditors ..	30,000
„ Debentures ...	5,000	„ A. B. C. Co., Ltd. .	4,05,000
„ Profit on Realisation transferred to Shareholders' Account ..	49,900		
Rs.	4,35,000	Rs.	4,35,000

A, B, C CO., LTD (PURCHASING COMPANY) ACCOUNT

	Rs.		Rs.
To Realisation Account ..	4,05,000	By Bank ...	2,45,000
„ Bank (Liquidation Expenses) ..	500	„ Shares in A. B. C. Co., Ltd. ...	1,60,000
		„ Bank ...	500
Rs.	4,05,500	Rs.	4,05,500

SHAREHOLDERS' ACCOUNT.

	Rs.		Rs.
To Bank ..	1,40,000	By Share Capital Account ..	2,00,000
„ Shares in A. B. C. Co., Ltd ..	1,60,000	„ Reserve Fund ...	25,000
		„ Dividend Equalization Fund ..	20,000
		„ P. & L. Appropriation Account ...	5,100
		„ Realisation Account ...	49,900
Rs.	3,00,000	Rs.	3 00 000

BANK ACCOUNT

	Rs.		Rs.
To Balance b/fd. ..	12,500	By Realisation Account ..	12,500
„ A. B. C. Co., Ltd. ..	2,45,000	„ Debentures Account ..	1,05,000
„ do. do. ..	500	„ A. B. C. Co., Ltd. ..	500
		„ Shareholders' Account ..	1,40,000
Rs.	2,58,000	Rs.	2,58,000

Entries in the Purchasing Company's Books :—

		L. F.	Rs.	Rs.
Land and Buildings	Dr.		1,00,000	
Plant and Machinery	"		1,50,000	
Work-in-Progress	"		30,000	
Stock-in-Trade	"		60,000	
Furniture and Fittings	"		2,500	
Sundry Debtors	"		25,000	
Cash at Bank	"		12,500	
Cash in hand	"		100	
Goodwill	"		54,900	
To Sundry Creditors	"			30,000
" X, Y, Z Co., Ltd. (Vendors)				4,05,000
(Being the assets, liabilities and goodwill taken over from the X, Y, Z Co., Ltd., now absorbed, in consideration of the purchase price of Rs. 4,05,000 agreed to be paid to the said company).				
Goodwill Account	Dr.		500	
To Bank				500
(Being the amount of Liquidation Expenses of the X, Y, Z Co., Ltd., met by this company as per the agreement, and debited to Goodwill Account).				
X, Y, Z Co., Ltd. (Vendors)	Dr.		4,05,000	
To Bank				2,45,000
" Share Capital				1,00,000
" Premium on Shares				60,000
(Being the cash paid and the 20,000 shares of Rs. 5 each issued at a premium of Rs. 3 per share to the X, Y, Z Co., Ltd., in full satisfaction of the purchase price).				

Note.—The Purchase Price is arrived at as under :—

	Rs.
Discharge of Debentures	1,05,000
Cash payment to Shareholders at Rs. 7 per share	1,40,000
20,000 Shares of the Company valued at Rs. 8 each	1,60,000
	Rs. 4,05,000

ILLUSTRATION 142.

The following was the Balance Sheet of "A" Co., Ltd., on 1st January 1938.

Liabilities	Rs.	*Assets*	Rs.
Capital :—		Land and Buildings ...	94,500
2,500 Shares of Rs. 100 each ...	2,50,000	Plant and Machinery ...	2,03,000
150 Mortgage Debentures of Rs. 1,000 each ...	1,50,000	Stock ...	70,000
Sundry Creditors ...	60,000	Debtors ...	75,000
Profit & Loss Account—Balance ...	2,000	Cash at Bank ...	19,500
Rs.	4,62,000	Rs.	4,62,000

On the same date, the "B" Co., Ltd., took over the assets and liabilities of the "A" Co., Ltd., on the following terms:—

(a) The Shareholders of the "A" Co. were to be allotted one share of Rs. 100 each as Rs. 75 per share paid up in the "B" Co., for every Rs. 100 shares fully paid up in the "A" Co.

(b) The Debenture-holders were to be allotted a Debenture of Rs. 900 for every Debenture of Rs. 1,000 held by them in the "A" Co.

Draft Journal entries to close the books of the "A" Company and to record the transactions in the "B" Company's Books.

'A' COMPANY'S BOOKS.

JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
Realisation Account	Dr.		4,62,000	
To Sundry Assets—*viz.*,				
Land and Buildings				94,500
Plant and Machinery				2,03,000
Stock				70,000
Debtors				75,000
Cash at Bank				19,500
(Being Sundry Assets taken over by the 'B' Company as per Balance Sheet dated 1-1-38, under Agreement dated.........).				
Sundry Creditors	Dr.		60,000	
To Realisation Account				60,000
(Being the Liabilities taken over by the 'B' Company as per Agreement dated.........).				
'B' Company	Dr.		3,22,500	
To Realisation Account				3,22,500
(Being the agreed consideration as per Contract dated.........).				
Shareholders' Account	Dr.		64,500	
Mortgage Debentures Account	"		15,000	
To Realisation Account				79,500
(Being the transfer of loss on realisation).				
Share Capital Account	Dr.		2,50,000	
Profit and Loss Account	"		2,000	
To Shareholders' Account				2,52,000
(Being the transfer of Capital and the Profit and Loss Account balance).				
Shares in 'B' Company	Dr.		1,87,500	
Debentures in 'B' Company...	"		1,35,000	
To 'B' Company				3,22,500
(Being satisfaction of purchase consideration in terms of agreement dated.........).				
Shareholders' Account	Dr.		1,87,500	
To Shares in 'B' Company				1,87,500
(Being distribution of Shares in 'B' Company amongst the Shareholders of 'A' Company *pro rata*).				
Mortgage Debentures Account	Dr.		1,35,000	
To Debentures in 'B' Company				1,35,000
(Being distribution of Debentures in 'B' Company amongst the Debenture-holders of 'A' Company).				

'B' COMPANY'S BOOKS.
JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
Land and Buildings	Dr.		94,500	
Plant and Machinery	"		2,03,000	
Stock	"		70,000	
Sundry Debtors	"		75,000	
Cash at Bank	"		19,500	
To Sundry Creditors				60,000
" Capital Reserve Account				79,500
" 'A' Company, Ltd.				3,22,500
(Being the Assets and Liabilities taken over from the 'A' Company as per agreement dated.........and the consequent profit thereon transferred to Capital Reserve Account).				
'A' Company Ltd.	Dr.		3,22,500	
To Share Capital Account				1,87,500
" Debentures Account				1,35,000
(Being the issue of 2,500 Shares of Rs. 100 each at Rs. 75 per share paid up, and 150 5% Debentures of Rs. 900 each to 'A' Company in satisfaction of purchase price).				

Notes.—(*a*) The purchase consideration is arrived at, thus:—

	Rs.
2,500 shares of Rs. 100 each taken at Rs. 75 per share paid up ..	1,87,500
Issue of 150 Mortgage Debentures of Rs. 900 each	1,35,000
	Rs. 3,22,500

(*b*) In the purchasing company's books, it will be seen that the net intrinsic worth of the *assets* minus the liabilities taken over comes to Rs. 4,02,000, whereas the consideration they have agreed to pay is Rs. 3,22,500 as shown above. The gain of Rs. 79,500 that the company thus stands to make is credited to Capital Reserve Account.

ILLUSTRATION 143.

The Indo-European Co., Ltd., sells its business to the Continental Co., Ltd, as on 31st December 1937, on which date its Balance Sheet was as under:—

Liabilities	Rs.	*Assets*	Rs.
Paid up Capital—		Goodwill ...	50,000
2,000 Shares of Rs. 100 each ...	2,00,000	Freehold Property ...	1,50,000
Debentures ...	1,00,000	Plant and Tools ...	83,000
Trade Creditors ...	30,000	Stock ..	35,000
Reserve Fund ...	50,000	Bills Receivable ..	4,500
Profit and Loss Account ..	20,000	Sundry Debtors ..	27,500
		Cash at Bank ...	50,000
Rs.	4,00,000	Rs.	4,00,000

The Continental Co. agreed to take over the Assets (exclusive of Cash and Goodwill) at 10 per cent less than the book values. to pay Rs 75,000 for Goodwill, and to take over the Debentures.

The purchase consideration was to be discharged by the allotment to the I. E. Co. Ltd., of 1,500 Shares of Rs. 100 each at a premium of Rs. 10 per Share and the balance in Cash.

The cost of the liquidation amounted to Rs. 3,000. Show the necessary Accounts in the books of the I. E Co., Ltd., and pass the entries recording the transactions in the books of the Continental Co., Ltd.

Solution.

REALISATION ACCOUNT.

		Rs.			Rs
To Goodwill	...	50,000	By Debentures	...	1,00,0
„ Freehold Property	...	1,50 000	„ Continental Co., Ltd.	..	2,45,0
„ Plant and Tools	...	83,000	„ Shareholders' Account— Balance transferred		8,0
„ Stock	...	35,000			
„ Bills Receivable	...	4,500			
„ Sundry Debtors	...	27,500			
„ Bank, Cost of Liquidation	...	3,000			
	Rs.	3,53,000		Rs.	3,53,0

BANK ACCOUNT.

		Rs.			Rs.
To Balance b/fd.	...	50,000	By Realisation Account— Cost of Liquidation	..	3,0
„ Continental Co., Ltd.	...	80,000	„ Trade Creditors	..	30,0
			„ Shareholders' Account	...	97,0
	Rs.	1,30,000		Rs.	1,30,0

CONTINENTAL CO., LTD.

		Rs.			Rs.
To Realisation Account	...	2,45,000	By Shares in Continental Co., Ltd.	...	1,65,0
			„ Cash	...	80,00
	Rs.	2,45,000		Rs.	2,45,00

SHAREHOLDERS' ACCOUNT.

		Rs.			Rs.
To Realisation Account	...	8,000	By Share Capital Account	...	2,00,00
„ Shares in Continental Co., Ltd.	...	1,65,000	„ Reserve Fund	...	50,00
„ Bank	..	97,000	„ Profit and Loss Account	...	20,00
	Rs.	2,70,000		Rs.	2,70,00

CONTINENTAL CO.'s BOOKS.

JOURNAL ENTRIES.

		L. F.	Rs.	Rs.
Goodwill	Dr.		75,000	
Freehold Property	„		1,35,000	
Plant and Tools	„		74,700	
Stock	„		31,500	
Bills Receivable	„		4,050	
Sundry Debtors	„		24,750	
To Debentures				1,00,000
„ I. E. Co., Ltd.				2,45,000
(Being the Assets and Liabilities as taken over from the Indo-European Co., Ltd. as per agreement dated.........).				

JOURNAL ENTRIES.—(*Contd.*)

		L. F.	Rs.	Rs.
Indo-European Co, Ltd.	Dr.		2,45,000	
To Share Capital Account				1,50,000
" Premium on Shares Account				15,000
" Bank Account				80,000
(Being the issue of 1,500 shares of Rs. 100 each at a premium of Rs. 10 per share and the balance in cash in satisfaction of purchase price as per agreement dated ....).				
Premium on Shares Account	Dr.		15,000	
To Goodwill				15,000
(Being the Premium on Shares utilised in reducing Goodwill Account).				

Purchasing Company Issuing Shares at a Premium.—When the Purchasing Company issues shares to the Vendor Company at a premium, the treatment in accounts should be as follows. In the Vendor Company's Books, the shares will be brought in at the Premium Value and the corresponding credit will have to be given to the Purchasing Company. In the Purchasing Company's Books, the Share Capital Account will be credited at the face value of the shares, whereas the premium amount will have to be credited to an account styled "Premium on Shares Account." The credit balance on this latter Account is then utilised towards reducing or wiping off the Goodwill Account or may be transferred to General or Special Reserve Account as the Directors may deem fit.

Reserve Fund, Dividend Equalisation Fund, Contingency Fund, etc.—These Funds represent accumulations of profits and they belong to the shareholders. They need not, therefore, be transferred in the Books of the Purchasing Company that has taken over the liabilities of the Vendor Company, but will be closed in the Vendor Company's Books by transfer to the Shareholders' Account.

Accident Compensation Fund or Workmen's Compensation Fund.—Such a fund is usually raised out of profits and is invested in specific securities with the object of enabling the Company to meet any compensation claim that might be made in case of an accident. Such claims, as and when paid, are debited to this Fund Account and the specific securities will, of course, have to be realised for such a purpose. If, therefore, this Fund Account shows a credit balance on any particular date, it would mean that the Company has made a profit under this head in the sense that the whole of the provision made in order to meet compensation claims has not been wiped off. Such a credit balance cannot be regarded as a liability and should not, therefore, be brought in the Books of the Purchasing Company. The Vendor Company will close it by transfer to the Shareholders' Account.

Insurance Fund.—An Insurance Fund is sometimes created and maintained by some companies and is specifically invested in order to enable them to meet any loss either through fire or marine accidents. Such a fund would be charged with any losses that would arise from time to time, and if, on any one date, there is a credit balance on this Fund Account, what it signifies is that the Company has made a profit on this Account and such a credit balance cannot be regarded as a liability. The Purchasing Company taking over the liabilities of a Vendor Company will, therefore, not bring this account in its Books. The Vendor Company will wipe it off by transfer to the Shareholders' Account.

Provident Fund, Super-annuation Fund, Staff Pension Fund, etc.—Such a Fund usually represents periodical deductions from wages or salaries as also additional contributions by the company from profits, for the purpose of paying to each employee a sum arrived at in a definite manner having due regard to the length of his service, the position he enjoyed, etc., on the death or retirement of each such employee. It naturally represents a definite liability by way of amounts claimable by employees under contract and consequently such a Fund Account should be brought into the Books of the Purchasing Company taking over the liabilities of a Vendor Company.

Workmen's Profit-Sharing Fund or Employees' Profit-Sharing Fund.—Such a Fund always represents appropriations from profits to be distributed amongst the employees under specified terms and conditions, and therefore, the credit balance on such account on any one date would mean the amount not yet withdrawn by the employees entitled thereto. This again is, therefore, a liability in the strict sense and must be transferred in the Books of the Purchasing Company taking over the liabilities of a Vendor Company.

RECONSTRUCTION OF A LIMITED COMPANY.

The term reconstruction as applied to a Limited Company means the winding up of an existing company and registering itself into a new one after a rearrangement of its financial position, as approved by its shareholders and creditors. Such a step usually involves the writing off of a debit balance on Profit and Loss Account or the elimination of any fictitious assets from the Balance Sheet, and the consequent readjustment of Share Capital.

The entries necessary to close the books of the old company and to open those of the new company follow on the same lines as already explained.

ILLUSTRATION 144.

The "A" Company's Balance Sheet showed the following position on 31st December 1937:—

Liabilities	Rs.	*Assets*	Rs.
Share Capital, 15,000 shares of Rs. 10 each ...	1,50,000	Goodwill ...	15,500
Sundry Creditors ...	54,000	Land and Buildings ..	85,000
		Plant and Machinery ..	40,000
		Stock ..	27,000
		Debtors ..	22,500
		Profit and Loss Account ...	14,000
Rs.	2,04,000	Rs.	2,04,000

The Committee of Shareholders and Creditors resolved as follows:—

1. That the Company be taken into voluntary liquidation, and a new company be formed with a nominal capital of Rs. 2,00,000 in shares of Rs. 10 each, to take over the Assets and Liabilities of the existing company.

2. That the item of Goodwill be eliminated and Machinery be valued at 20 per cent less in the books of the new company.

3. That 15,000 shares of Rs. 10 each be issued to the shareholders in the old company as Rs. 7-8 per share paid up.

4. The shareholders to pay up the balance of Rs. 2-8 per share in cash.

5. The creditors of the company to be satisfied by the payment to them of half the amount in cash and by the issue of 6 per cent Debentures as to the other half.

Show the Journal entries and the Ledger Accounts in the Old Company's Books to give effect to the above.

Show also the entries to open the Books of the New Company and the opening Balance Sheet.

Solution.

Entries to close the Books of the Old Company:—

		L. F.	Rs.	Rs.
Realisation Account	Dr.		1,90,000	
To Goodwill Account				15,500
„ Land and Buildings				85,000
„ Plant and Machinery				40,000
„ Stock				27,000
„ Debtors				22,500
(Being the transfer of the assets to Realisation Account).				
Sundry Creditors	Dr.		54,000	
To Realisation Account				54,000
(Being the transfer of the liabilities to Realisation Account).				
The New Company's Account	Dr.		1,12,500	
To Realisation Account				1,12,500
(Being the debit to the new company in respect of the purchase consideration agreed to be paid to the shareholders of this company).				
Shareholders' Account	Dr.		23,500	
To Realisation Account				23,500
(Being transfer of loss on realisation).				
Shareholder's Account	Dr.		14,000	
To Profit and Loss Account				14,000
(Being the transfer of debit balance of Profit and Loss Account to Shareholders' Account).				
Share Capital Account	Dr.		1,50,000	
To Shareholders' Account				1,50,000
(Being the transfer of share capital to Shareholders' Account).				
Shares in the New Company, Ltd., ...	Dr.		1,12,500	
To New Company's Account				1,12,500
(Being the value of 15,000 shares of Rs. 10 each at Rs. 7/8 per share paid up, received from the New Company in satisfaction of the purchase price)				
Shareholders' Account	Dr.		1,12,500	
To Shares in the New Co., Ltd.				1,12,500
(Being the distribution of the above shares amongst the shareholders of this company *pro rata*).				

REALISATION ACCOUNT.

	Rs.		Rs.
To Goodwill ...	15,500	By Sundry Creditors ...	54,000
,, Plant and Machinery Account ..	40,000	,, New Company's Account ...	1,12,500
,, Land and Buildings ...	85,000	,, Shareholders' ,, ...	23,500
,, Stock ..	27,000		
,, Sundry Debtors ...	22,500		
Rs.	1,90,000	Rs.	1,90,000

SHAREHOLDERS' ACCOUNT.

	Rs.		Rs.
To Realisation Account ..	23,500	By Share Capital Account ...	1,50,000
,, Profit and Loss Account ...	14,000		
,, Shares in the New Co. ...	1,12,500		
Rs.	1,50,000	Rs.	1,50,000

Entries in the New Company's Books :—

	L. F.	Rs.	Rs.
Land and Buildings ... ... Dr.		85,000	
Plant and Machinery ... ... ,,		32,000	
Stock ... ... ,,		27,000	
Debtors ... ... ,,		22,500	
To Sundry Creditors			54,000
,, "A" Company, Ltd. (in liquidation)			1,12,500
(Being the values of the assets and liabilities of the "A" Company, Ltd. (in liquidation) as taken over by this company).			
"A" Company, Ltd. (in liquidation) ... ... Dr.		1,12,500	
To Share Capital Account			1,12,500
(Being the issue of 15,000 shares of Rs.10 each at Rs.7/8 per share paid up to the Liquidator of the "A" Company, Ltd. in satisfaction of the purchase price).			
Bank ... ... Dr.		37,500	
To Share Capital Account			37,500
(Being the balance of the share capital money received from the shareholders).			
Sundry Creditors ... ... Dr.		54,000	
To Bank			27,000
,, Debentures Account			27,000
(Being the payment to creditors of half the amount in cash and the balance by issue of 6% Debentures as agreed).			

BALANCE SHEET OF THE NEW COMPANY, LIMITED.

As at ....

Capital and Liabilities.	Rs.	Rs.	*Property and Assets.*	Rs.
Authorised Capital :—			Land and Buildings ..	85,000
20,000 shares of Rs. 10 each	2,00,000		Plant and Machinery ..	32,000
			Stock ...	27,000
Issued & Subscribed Capital :—			Sundry Debtors ..	22,500
15,000 shares of Rs. 10 each issued to the shareholders of the "A" Company, Ltd. as Rs. 7/8 per share paid up	1,12,500		Cash at Bank ...	10,500
The balance of Rs. 2/8 per share on the above Shares called up ...	37,500			
		1,50,000		
Debentures :—				
270 6% Debentures of Rs. 100 each, issued as fully paid up ...		27,000		
Rs.		1,77,000	Rs.	1,77,000

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. Mention the different ways in which limited companies can amalgamate their businesses.

2. Define Amalgamation, Absorption and Reconstruction.

3. What entries are passed by a company to close its books, when it is absorbed by another company?

4. Give entries necessary to be passed by a company on purchase of a running business.

5. When the net intrinsic worth of the assets taken over is less than the purchase consideration agreed upon, how should the difference be dealt with?

6. How would you adjust the difference, when a company taking over a running business has to pay as purchase price an amount less than the value of the net assets taken over?

7. How should premium on shares be dealt with, when fully-paid shares are issued to the vendors by the purchasing company at a premium?

8. The Moon Co., Ltd., and the Rising Star Co., Ltd. have agreed to amalgamate. A new company Sunshine Co., Ltd., has been formed to take over the combined concerns as on 31st December 1937. After negotiation, the assets of the two companies have been agreed as shown in the following Balance Sheets:—

THE MOON CO., LTD.

Liabilities	Rs.	*Assets*	Rs.
Issued Capital :—		Land and Buildings ..	5,00,000
1,00,000 Ordinary Shares of Rs. 10 each fully paid	10,00,000	Machinery and Plant ..	2,00,000
Sundry Creditors ..	80,000	Patents	1,10,000
Profit and Loss Account :—		Stock	1,50,000
(Undistributed Balance) ..	50,000	Sundry Debtors ..	1,20,000
		Cash at Bank ..	50,000
Rs.	11,30,000	Rs.	11,30,000

THE RISING STAR CO., LTD.

Liabilities	Rs.	Assets	Rs.
Issued Capital :— 50,000 Ordinary Shares of Rs. 10 each	5,00,000	Land and Buildings	3,00,000
Sundry Creditors	50,000	Machinery and Plant ..	2,50,000
Reserve Fund	50,000	Goodwill	50,000
Profit & Loss Account (Undistributed Balance)	50,000	Stock	20,000
		Sundry Debtors	20,000
		Cash at Bank	10,000
	Rs. 6,50,000		Rs. 6,50,000

Show how the amount payable to each Company is arrived at and prepare the amalgamated Balance Sheet of the new Company. 312

(The shareholders of the Moon Company, Limited, will get 1,05,000 shares and those of the Rising Star Company, Limited, will get 60,000 shares; Balance Sheet Total Rs. 17,80,000.)

9. The Pig Iron Co., Ltd., agrees to absorb the business of the Iron Ore Co., Ltd. as on 30th June 1937, and to take over the assets and liabilities at their Balance Sheet values, in exchange for which it is to issue 12 shares of Rs. 10 each for every share of Rs. 100 each in the Iron Ore Co., Ltd. The expenses of absorption (Rs. 10,000) will be paid by the Pig Iron Co., Ltd. The Balance Sheets of the two Companies were as follows:

THE IRON ORE CO., LTD.

Liabilities	Rs.	Assets		Rs.
Capital :— 5,000 Ordinary Shares of Rs. 100 each fully paid	5,00,000	Land and Buildings		3,00,000
Sundry Creditors	58,000	Machinery and Plant		2,00,000
Bills Payable	42,000	Sundry Debtors ..	55,000	
Contingency Fund	10,000	*Less* Reserve for Doubtful Debts ..	5,000	
				50,000
		Stock		25,000
		Cash at Bank		35,000
	Rs. 6,10,000			Rs. 6,10,000

THE PIG IRON CO., LTD.

Liabilities		Rs.	Assets	Rs.
Nominal Capital :— 2,00,000 Ordinary Shares of Rs. 10 each	Rs. 20,00,000		Land and Buildings	5,00,000
Issued :— 1,00,000 Ordinary Shares of Rs. 10 each fully paid		10,00,000	Machinery and Plant	3,00,000
Reserve		60,000	Goodwill	1,00,000
Sundry Creditors		1,20,000	Stock	60 000
			Sundry Debtors ..	1,20,000
			Cash at Bank ..	1,00,000
		Rs. 11,80,000		Rs. 11,80,000

Show the Journal Entries in the books of the Company that is being absorbed and the opening Balance Sheet of the Pig Iron Company, Ltd. 313

(Balance Sheet Total Rs. 18,85,000.)

10. The X, Y, Z Co., Ltd, having proved unsuccessful, resolves by special resolution to wind up for the purpose of reconstruction and sale to a new company P, Q, R Co., Ltd. The Balance Sheet of the old company at the date of the confirmatory resolution was as follows:—

Liabilities	Rs.	Rs.	*Assets*	Rs.
Capital :—	Rs.		Land and Buildings	4,50,000
1,00,000 Ordinary Shares of Rs. 10 each fully paid		10,00,000	Machinery and Plant ..	2,40,000
Sundry Creditors ..	30,000		Sundry Debtors	1,00,000
Bills Payable ..	20,000		Stock	50,000
		50,000	Cash at Bank	10,000
			Profit & Loss Account (accumulated loss)	2,00,000
	Rs.	10,50,000	Rs.	10,50,000

The scheme of reconstruction, assented to by all parties, was as follows:—

(1) The new Company was to take over all the Assets of the old Company, but not the Liabilities.

(2) The capital of the new Company was to be Rs. 15,00,000 in 1,50,000 Shares of Rs. 10 each.

(3) The new Company was to purchase the Goodwill, business and assets of the old Company for the sum of Rs. 8,00,000 payable as to Rs. 7,00,000 by the issue of 1,40,000 Ordinary Shares of Rs. 10 each with Rs. 5 per share credited as paid up and as to Rs. 1,00,000 in cash.

(4) The members of the new Company were to pay the balance of Rs. 5 per share due upon the shares issued to them, as to Rs. 2-8 on Application and the balance on Allotment. The expenses of reconstruction amounted to Rs. 5,000. There were no dissentient Shareholders and all the calls were duly paid. No further Shares were issued beyond those forming part of the purchase consideration for the transfer of the business.

Pass Journal Entries to close the books of the X, Y, Z Co., Ltd., and show the opening Balance Sheet of the P, Q, R Co., Ltd. 314

(*Balance Sheet Total* Rs 14,50,000)

11. The Air Machines, Ltd., is absorbed by the Aeroplane Stores, Ltd., the consideration being the assumption of the liabilities, the discharge of the Debenture debt at a premium of 5 per cent by the issue of 5 per cent debentures in the Aeroplane Stores, Ltd., and a payment in cash of Rs. 30 per share, and the exchange of three Rs. 10 shares in the Aeroplane Stores, Ltd., at an agreed value of Rs. 15 per share, for every share in the Air Machines, Ltd.

BALANCE SHEET OF THE AIR MACHINES, LTD.

As at 31st August 1937.

Liabilities	Rs.	Assets	Rs.
Share Capital :— 60,000 Rs. 50 Shares fully paid	30,00,000	Goodwill	2,50,000
5% Debentures . .	15,00,000	Land and Buildings	7,65,000
Sundry Creditors .	2,00,000	Plant and Machinery	22,00,000
Workmen's Profit-sharing Fund	1,00,000	Patents	50,000
Accident Compensation Fund ..	50,000	Patterns and Drawings	25,000
General Reserve Account ..	3,20,000	Work-in-Progress and Stock	10,00,000
Profit and Loss Account ..	30,000	Sundry Debtors ..	4,50,000
		Investments on Compensation Fund Account ..	50,000
		Cash at Bank ..	3,50,000
Rs.	52,00,000	Rs.	52,00,000

Pass Journal Entries to close the books of the Air Machines, Ltd., and also to open the books of the Aeroplane Stores, Ltd. 315

12. The Wallace Co. Ltd. is absorbed by the Bharat Co., Ltd., the consideration being the taking over of the trade liabilities; the payment of the costs of absorption Rs. 6,000; the repayment of the "B" Debentures at a premium of 10%; the discharge of

the "A" Debentures at a premium of 10% by issue of 5% Mortgage Debentures in the Bharat Co., Ltd., and a payment of Rs. 20 per share in cash, and the exchange of 4 fully-paid Rs. 10 Shares in the Bharat Co., Ltd., at the market price of Rs. 15 per share, for every share in the Wallace Co., Ltd. The following being the Balance Sheet of the Wallace Co., Ltd., at the date of absorption, make the necessary entries in both the Companies' books to record the transaction.

BALANCE SHEET OF THE WALLACE CO, LTD.

Capital & Liabilities	Rs.	*Property & Assets*	Rs.
Share Capital :—		Land and Buildings ..	..15,00,000
40,000 Shares of Rs. 50 each		Plant and Machinery	..10,00,000
fully paid ..	..20,00,000	Goodwill	.. 4,00,000
Debentures :—		Patent Rights ..	.. 2,50,000
5% "A" Debentures	..10,00,000	Stock	.. 2,00,000
5% "B" " ..	.. 5,00,000	Sundry Debtors ..	.. 3,60,000
Sundry Creditors ..	.. 1,50,000	Investments on account of Sinking Fund ..	.. 50,000
Reserve Fund ..	.. 2,00,000	Cash at Bank ..	.. 2,50,000
Sinking Fund	50,000		
Employees' Savings Bank Deposits and Interests ..	.. 80,000		
Profit & Loss Account	.. 30,000		
	Rs. 40,10,000		Rs. 40,10,000

316

13. Below is the Balance Sheet of the Blank Co., Ltd, on 31st December 1937 :—

	£	£		£
Nominal Capital :—			Patents at cost ..	.. 114,663
1,00,000 Preference Shares of £1 each	100,000		Leasehold Works ..	.. 3,820
1,00,000 Ordy. Shares of £1 each	100,000		Machinery and Plant ..	.. 4,120
		200,000	Sundry Debtors ..	.. 1,241
Issued Capital :—			Stock on hand ..	.. 4,921
74,720 Preference Shares fully paid	74,720		Advertising Suspense	.. 2,000
42,633 Ordinary Shares fully paid	42,633		Preliminary Expenses	.. 406
		117,353	Profit and Loss Account	.. 1,482
Sundry Creditors ..	..	14,000	Cash in hand ..	.. 28
Bank Overdraft ..	..	1,328		
		£ 132,681		£ 132,681

The Company proved unsuccessful, and resolutions were passed to carry out the following scheme of reconstruction :—(1) That the £1 Preference Shares be reduced to an equal number of fully paid shares of 10s. each. (2) That the £1 Ordinary Shares be reduced to an equal number of fully paid shares of 6/8 each. (3) That the amount thus rendered available for the reduction of the assets be apportioned as follows :—Preliminary Expenses, Profit and Loss Account and Advertising Suspense Account to be written off entirely; £1,200 off the Leasehold Works; £1,400 off the Stock; 20 per cent off the Machinery and Plant, and the balance available to be written off Patents. Prepare Balance Sheet giving effect to above. (*London Chamber of Commerce.*) 317

(*Balance Sheet Total £66,899.*)

14. On the reconstruction of a Company, the following terms were agreed upon :—

The Shareholders to receive in lieu of their present holding (viz., 50,000 shares of £10 each) the following :—

(*a*) Fully-paid Ordinary Shares to 2/5ths of their holding.

(b) 5 per cent Preference Shares, fully paid, to the extent of 1/5th of the above new Ordinary Shares.

(c) £60,000 6 per cent second debentures.

An issue of £50,000 5 per cent first debentures was made and allotted, payment for the same having been received in cash.

The Goodwill, which stood at £300,000, was written down to £150,000.

The Plant and Machinery, which stood at £100,000, was written down to £75,000.

The Freehold and Leasehold Premises, which stood at £150.000, were written down to £125,000.

Make the Journal entries in the books of the Company necessitated by the above reconstruction. (*Chartered Accountants.*) 318

15. The Anglo-Egyptian Co., Ltd., decides to sell its business to the British and Colonial Co., Ltd., as on 31st December 1937.

On that date its Balance Sheet was as follows:—

Liabilities	£	*Assets*	£
Paid-up Capital, 20,000 Shares of £1 each	20,000	Freehold Property	15,000
5% First Mortgage Debentures ..	10,000	Plant and Tools	1,500
Sundry Trade Creditors ..	3.000	Stock-in-Trade	3,500
Reserve Fund	5,000	Sundry Debtors (all good) ..	4,000
Profit and Loss Account ..	2,000	Bills Receivable	2,000
		Goodwill	4,000
		Cash in hand and at Bank ..	10,000
	£ 40,000		£ 40,000

The B & C Co.. Ltd., agreed to take over the Assets (exclusive of Goodwill and Cash) at the amounts stated in the above Balance Sheet, to discharge thereout the liabilities to Trade Creditors, and to pay £10,000 for Goodwill.

The purchase price was to be discharged by the allotment to the A-E Co., Ltd., of 12,000 shares of £1 each in the capital of the B & C Co., Ltd., at 25*s.* per share, and the balance in cash.

The A-E Co., Ltd.. went into voluntary liquidation, and X was appointed Liquidator. The expenses of the liquidation amounted to £300.

Write up and close the books of the A-E Co., Ltd.. and show what the Shareholders will receive in all. (*Chartered Accountants.*) 319

(*Profit on Realisation £5,700; the Shareholders will receive £15,000 in shares and £17,700 in cash.*)

16. The X and Y Companies, having many interests in common, in order to economise, decided to amalgamate and form a new Company, Z.

The position of the two Companies was as follows:—

		£		£
(X)	Capital paid up	30.000	Debtors	18,000
	Debentures	5,000	Stock	20,000
	Creditors	5,000	Goodwill	5,000
	Profit and Loss Account ..	3,000		
		£ 43,000		£ 43,000

		£		£
(Y)	Capital paid up	20,000	Debtors	20.000
	Creditors	8 000	Stock	10,000
	Profit and Loss Account ..	2,000		
		£ 30,000		£ 30,000

The average profits of the X and Y Companies have been £3,000 and £2,000 respectively. The new Z Company agrees with the X and Y Companies to take over both the concerns for the sum of £60,000 and, in addition, to discharge all liabilities, £10,000 to be paid in cash, and the balance in shares.

The profit on the conversion is to be divided between the Shareholders of the X and Y Companies in the same proportions as the profits previously earned by the Companies.

Draw up a Purchase Account on the completion of the Z Company, and show how the Share Capital Accounts in the X and Y Companies should be closed.

A B held £5,000 shares in X Company and £4.000 shares in Y.

Show how much cash and how many shares A B should receive from the new Company. (*Incorporated Accountants*). 320

(*A B will receive 9,000 shares in the Z Company and £1,800 in cash.*)

17. The Prosperous Co., Ltd, after several years of large profits and increasing dividends, decide to reconstruct with a view to giving the holders of each of their Ordinary Shares of £10 each two shares of £10 each, viz., one Ordinary and one 5% Cumulative Preference. From the following Trial Balance of the old Company, prepare the Journal entries necessary to open the books of the new Company, which Company, by agreement, undertakes to discharge the liabilities, collect the Book Debts, and take over the Premises. Plant and Stock at the book values :—

	£	£
Share Capital issued :—		
60,000 Shares of £ 10 each		600,000
Reserve Account		200,000
Trade Creditors		44,000
Dividend Equalisation Reserve		30 000
Sundry Shareholders' Dividend Account		90,000
Profit and Loss Account, balance after providing for Final Dividend as above		58,200
Freehold Premises	200,000	
Plant and Machinery	150,000	
Stock	260,000	
Book Debts	200 000	
Goodwill Account	91,000	
Bank Current and Deposit Accounts	120,000	
Cash	1,200	
	£ 1,022,200	1,022,200

(*Chartered Accountants.*) 321

18. A Limited Company goes into voluntary liquidation on the 31st December 1937, having assets appearing in the books as follows :—

	£
Works and other Properties	90,000
Liquid Assets	10,000

Its Liabilities are £20,000, and its Capital (paid up) £100,000. The Assets are sold to a new Company for £72,000, £50,000 payable in shares of that Company of £1 each, credited with 15s. per share paid up, and £22,000 in cash, which latter just suffices to pay the liabilities and costs of liquidation. Close the books of the Company in liquidation. (*Chartered Accountants.*) 322

19. The following is the Balance Sheet of the Alpin Trading Co., Ltd., as on 31st December 1937 :—

Liabilities	£	Assets	£
Capital—120,000 Shares of £1 each fully paid	120,000	Land and Buildings	100,000
Sundry Creditors	30,000	Machinery and Plant	40,000
Bank Overdraft	26,000	Stock-in-Trade	15,000
		Sundry Debtors	20,000
		Profit and Loss Account	1,000
	£ 176,000		£ 176,000

The Company went into liquidation, and the Assets were sold to the Delta Co., Ltd., for £147,000, payable as to £57,000 in cash (which sufficed to discharge the Creditors and the Bank and pay the costs of winding up £1,000) and as to £90,000 by the allotment of 120,000 £1 shares of the Delta Co., Ltd., 15*s.* paid to the Shareholders of the Alpha Trading Co., Ltd.

Close the books of the Alpha Trading Co., Ltd., and give the necessary entries for recording the transactions in the books of the Delta Co., Ltd.

(*Chartered Accountants.*) 323

20. The Share Capital of the following Cotton Mills is as follows:—

Jamshedjee Spinning and Weaving Co., Ltd., 1,00,000 Shares of Rs. 100 (Rs. 20 paid).

Bharat Cotton Mill, Ltd., 10,000 Shares of Rs. 80 (Rs. 60 paid).

Indian Cotton Manufacturing Co., Ltd., 10,000 Shares of Rs. 20 (fully paid).

The first-named Company acquires the others on the following terms:—

(*a*) two of its shares (market value Rs. 25) for one share of the Bharat Mill *plus* Rs. 20,000 in cash;

(*b*) Rs. 2,40,000 in cash for the business of the Indian Cotton Manufacturing Co., comprising the following assets only:—

	Rs.
Building and Machinery	1,13,400
Stock-in-Trade	46,300
Book Debts (25 per cent bad)	35,920

(*c*) that debts due to the Bharat Mill and the Indian Cotton Manufacturing Co. of Rs. 12,000 and Rs. 4,000 respectively are considered extinguished without payment.

Show complete Journal Entries in the purchasing Company's books calculating the cost of the Bharat Mill's business on the basis of the Market value of the Jamshedjee Mill's shares. (*G. D. A.*) 324

21. The X Company, Ltd., is absorbed by Y Company, Ltd. Given below are the Balance Sheets of the two Companies, taken after revaluation of their assets on a uniform basis:—

X COMPANY, LIMITED.

	Rs.		Rs.
Authorised Capital:— 9,000 Shares of Rs. 300 each	27,00,000	Sundry Assets	33,70,000
		Cash in hand	7,000
Paid up Capital:— 9,000 Shares of Rs. 270 paid on each	24,30,000		
Creditors	1,10,000		
Reserve Fund	8,07,000		
Profit and Loss Account	30,000		
	Rs. 33,77,000		Rs. 33,77,000

Y COMPANY, LIMITED.

	Rs.		Rs.
Authorised Capital :—		Sundry Assets ..	..87,15,000
40,000 Shares of Rs. 180 each	..72,00,000	Cash on hand ..	.. 55,000
Paid up Capital :—			
40,000 Shares, Rs. 150 paid on each ..	..60,00,000		
Creditors ..	.. 1,30,000		
Reserve Fund ..	..25,70,000		
Profit and Loss Account	.. 70,000		
	Rs. 87,70,000		Rs. 87,70,000

The holder of every three shares in the X Company, Ltd., was to receive five shares in the Y Company, Ltd. *plus* as much cash as is necessary to adjust the rights of Shareholders of both the companies in accordance with the intrinsic values of the shares as per respective Balance Sheets. Pass the necessary Journal entries in the books of Y Company, Ltd. and prepare the Balance Sheet giving effect to the above scheme of absorption. (*G. D. A.*) 325

(*Balance Sheet Total Rs.* 1,21,20,000.)

22. The Assets of the National Steel Company, Limited are purchased by the Hindustan Iron & Steel Company, Limited. The purchase consideration was as follows :—

(1) A payment in cash at Rs 90 for every share in the National Steel Company, Limited.

(2) A further payment in cash at Rs. 550 for every Debenture in the National Steel Company, Limited, which the Debenture-holders have agreed to accept in full discharge of their Debentures.

(3) An exchange of four shares of the Hindustan Iron and Steel Company Limited, of Rs. 75 each (quoted in the market at Rs. 140 each) for every share in the National Company, Limited.

The Balance Sheet of the National Steel Company, Limited, stood as follows when given over :—

	Rs.		Rs.
Capital :—		Land and Buildings ..	..11,00,000
6,000 Shares of Rs 500 each	..30,00,000	Machinery and Plant	..15,50,000
1,300 Debentures of Rs 500 each	.. 6,50,000	Furniture and Fittings	.. 2,60,000
Sundry Creditors ..	.. 2,50,000	Patents	.. 2,40,000
Workmen's Savings Bank	.. 2,00,000	Work-in-Progress ..	.. 8,15,000
Insurance Fund ..	.. 65,000	Stock of Goods ..	.. 1,85,000
Reserve Fund ..	.. 2,75,000	Sundry Debtors ..	.. 2,65,000
Profit and Loss Account	.. 60,000	Cash	.. 85,000
	Rs. 45,00,000		Rs. 45,00,000

Make the necessary closing and opening entries in the Journals of the Purchased and Purchasing Companies respectively. (*G. D. A.*) 326

23. With a view to reducing establishment expenses and generally to effect economy in working, the A Company, Limited was taken over by the B Company, Limited as from 1st January 1938, upon the following terms :—

(1) The B Company to assume the liabilities and take over the assets at Book Values.

(2) The B Company to discharge the debentures in A Company at 105 per cent by the issue of new debentures at 6 per cent in the B Company.

(3) The B Co. to pay the Shareholders in the A Co Rs. 10 per share and to give three Rs. 10 shares in the B Co., for every Rs. 20 share in A Co. The Rs. 10 shares were considered as being at par.

The following Balance Sheet of the A Co. was prepared on 31st December 1937 :—

	Rs.		Rs.
Capital :—		Goodwill	.. 7,00,000
Nominal 50,000 Shares of Rs. 20 each	..10,00,000	Freehold Land and Buildings	.. 3,13 000
		Machinery and Plant	.. 64,200
		Fixtures and Fittings	.. 17,000
Issued 47,500 Shares of Rs. 20 each fully paid ..	.. 9,50,000	Sundry Debtors ..	.. 2,19,800
5% Debentures ..	.. 2 40 000	Stock	.. 93,200
Reserve Fund ..	.. 3,00,000	Investments ..	.. 2,93,000
Sundry Creditors ..	.. 1,53,000	Cash at Bank and in hand	.. 42,000
Profit & Loss Account (Balance)	99,200		
Rs.	17,42,200	Rs.	17,42,200

You are required to give the entries necessary to close off the books of the A Co., and to show how the acquisition of the new Business would be recorded in the books of the B Co. (B. Com.) 327

24. The B. T. T. Co., Ltd. was floated with a capital of Rs. 20,00,000 in 1,00,000 Ordinary Shares of Rs. 10 each, and 1,00,000 6% Preference Shares of Rs. 10 each. The Capital was fully subscribed and paid. The Preference Shares carried cumulative preference rights as to dividend but not as to capital repayment. The Company was unsuccessful, and sustained trading losses amounting to Rs. 3,00,000. In addition, the majority of the patents acquired by the Company proved to be worthless. It was resolved to write off Rs. 10.00,000 of the subscribed capital by reducing each class of shares by Rs. 5 per share, and to reduce the assets correspondingly by wiping out the debit balance of the Profit & Loss Account (Rs. 3,00,000) and writing down Goodwill to the extent of Rs. 3,00,000, Patents Rs. 3,00,000, and Preliminary Expenses Account Rs. 1,00,000. Pass Journal Entries to give effect to the above. 328

25. As Auditor of X. Y. Z. Co., Ltd., you are informed that the Company has agreed to purchase the A. B. C. Co., Ltd., as from the 31st December 1937, on the following terms :—

The X. Y. Z. Co., Ltd., is to discharge all the liabilities of the A. B. C. Co., Ltd., and to take over all the assets at the values as shown in the A. B. C. Co.'s Balance Sheet at 31st December 1937. Shareholders in the vendor company are to receive an equivalent number of shares in X. Y. Z. Co. *plus* Rs. 1,00,000 in cash.

The following was the position of the two companies at 31st December 1937.

X. Y. Z. CO., LTD.

Liabilities	Rs.	*Assets*	Rs.
Nominal Capital ..	..15,00,000	Debtors	.. 4,50,000
		Premises	.. 1,00,000
Subscribed Capital ..	..10,00,000	Plant and Machinery	.. 1,50,000
Creditors	.. 70,000	Cash in hand and at Bank	.. 20,000
Reserve Fund ..	.. 1,00,000	Investments ..	.. 1,00,000
Profit and Loss Account	.. 1,25,000	Bills Receivable ..	.. 1,00,000
		Stock	.. 3,75,000
Rs.	12,95,000	Rs.	12,95,000

A. B. C. CO., LTD.

Liabilities	Rs.	*Assets*	Rs.
Subscribed Capital ..	.. 2,50,000	Debtors	.. 1,45,000
Creditors	.. 25,000	Bank	.. 5,000
General Reserve Account	.. 30 000	Premises	.. 55,000
Profit and Loss Account	.. 20,000	Fixtures, etc. ..	.. 20,000
		Stock	.. 1,00,000
Rs.	3,25,000	Rs.	3,25,000

You are requested to prepare a Balance Sheet, as on 1st January 1938, embodying the above arrangements, assuming that the cash transactions do not take place till afterwards.

What recommendations would you, as Auditor, make to the Directors of the X. Y. Z. Co., Ltd. with regard to the new state of affairs, dealing especially with Goodwill? 329

(Balance Sheet Total Rs. 16,70,000.)

26. The "A" Bank, with a Capital of Rs. 2,00,00,000 in 50,000 shares of Rs. 400 each (Rs. 70 is paid up), and a Reserve of Rs. 30,00,000, and whose shares were quoted at Rs. 240, was taken over by the "B" Bank. whose Capital was Rs. 6,00,00,000 in 1,00,000 shares of Rs. 600 each (Rs. 200 paid up), and a Reserve of Rs. 80 00.000, and whose shares were quoted at Rs 740, on the basis that one share in the purchasing Bank was given for three Shares in the vendor Bank.

What are the entries to be made in the purchasing Bank's books. and how will its Share Capital and Reserves then stand? 330

27. The Bombay Trading Co., Ltd, having a Capital of Rs. 4,50,000 divided into 9,000 shares of Rs. 50 each (on which Rs. 40 per share was paid up) and a Reserve Fund of Rs 90.000 was absorbed by the International Trading Co., Ltd., having a Capital of Rs. 12,00,000 divided into 40,000 shares of Rs. 30 each (on which Rs. 25 per share was paid up) and a Reserve Fund of Rs. 2,00,000, on the terms that for every three shares in the absorbed company, the absorbing company was to give five shares (partly paid as the original ones).

Give with full details the Journal Entries in the Books of the absorbing Company and draw out the Balance Sheet after the absorption. 331

(Balance Sheet Total Rs. 16,50,000.)

28. The Bubbles Co, Ltd. is in the hands of a Receiver for Debenture-holders, who hold a charge on all assets, except uncalled Capital. The following statement shows the position as regards creditors as on 30th June 1937:—

Liabilities	Rs.	*Assets*	Rs.
		Cash in hand of the Receiver	27,00,000
Share Capital Rs. 36,00,000 in Shares of Rs. 10 each, Rs. 30 paid up		Property, Machinery & Plant, etc. cost Rs. 39,00,000 estimated at	15,00,000
First Debentures	30,00,000		
Second Debentures	60,00,000	Charged under Debentures ..	42,00,000
Unsecured Creditors .	45,00,000	Uncalled Capital—60 000 Shares at Rs. 30 each	18,00 000
		Deficiency	75,00,000
Rs.	1,35,00,000	Rs.	1,35,00,000

A holds the First Debentures for Rs. 30 00,000 and Second Debentures for Rs. 30,00,000. He is also an unsecured creditor for Rs. 9,00,000. B holds Second Debentures for Rs. 30,00,000 and is an unsecured creditor for Rs. 6,00,000.

The following scheme of reconstruction is proposed:—

(1) A is to cancel Rs. 21,00,000 of the total debt owing to him, to advance Rs. 3,00 000 in Cash and to take First Debentures (in cancellation of those already issued to him) for Rs. 51,00,000 in satisfaction of all his claims.

(2) B is to accept Rs. 9,00,000 in Cash in satisfaction of all claims by him.

(3) Unsecured creditors (other than A and B) are to accept four shares of Rs. 7-8-0 each, fully paid in satisfaction of 12 annas in the rupee of every Rs. 60 of their claims. The balance of 4 annas in the rupee is to be postponed, and to be payable at the end of three years from the date of the Court's approval of the scheme. The Nominal Share Capital is to be increased accordingly.

(4) Uncalled Capital is to be called up in full and Rs. 52-8-0 per share cancelled, thus making the Shares of Rs. 7-8-0 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, adjust the statement accordingly and show the alterations in the Company's Balance Sheet and give the necessary Journal entries. 332

29. The following is the Balance Sheet of a Company as on 30th September 1937 :—

	Rs.	Rs.		Rs.
Nominal Capital :—			Goodwill	50,000
50,000 Ordinary Shares of Rs. 10 each	5,00,000		Freehold Premises	6,00,000
50,000 5% Preference Shares of Rs. 10 each	5,00,000		Plant and Machinery ..	1,00,000
Rs.	10,00,000		Stock	40,000
Issued Capital :—			Sundry Debtors	70,000
45,000 Ordinary Shares of Rs. 10 each, fully paid	4,50,000		Cash at Bank	3,00,000
45,000 5% Preference Shares of Rs. 10 each, fully paid	4,50,000	9,00,000		
Sundry Creditors		10,000		
Profit & Loss Account—Balance		2,50,000		
Rs.		11,60,000	Rs.	11,60,000

The Shareholders resolved that the credit balance of the Profit & Loss Account should be dealt with as follows :—

(*a*) The Preference Dividend to be paid. (*b*) The Ordinary Shareholders to receive a dividend at the rate of 10% free of tax. (*c*) A return of capital (subject to re-call) to be made to the Shareholders, Preference Shareholders to receive Re. 1-4 per share, and Ordinary Rs. 2-8 per share.

A holder of 1,000 Preference Shares gave the necessary notice to the Company that he did not wish to accept a return of capital.

Give the Journal Entries necessary to record the above in the books of the Company and the Balance Sheet immediately after the scheme has been carried out, showing the treatment of the sum the Preference Shareholder refused to accept. 333

(*Balance Sheet Total Rs. 9,27,109-6-0.*)

30. The following is the Balance Sheet of a Company as on 31st December 1937 :—

	Rs.	Rs.		Rs.
Nominal Capital :—			Goodwill	1,00,000
1,00,000 8% Cumulative Participating Preference Shares of Rs. 10 each ..	10,00,000		Plant and Machinery ..	17,00,000
2,00,000 10% Cum. "A" Preference Shares of Rs. 10 each ..	20,00,000		Premises	14,00,000
8,00,000 Ordinary Shares of Rs. 10 each ..	80,00,000	1,10,00,000	Stock	28,09,000
Issued Capital :—			Sundry Debtors	35,80,500
1,00,000 8% Cumulative Participating Preference Shares of Rs. 10 each ..	10,00,000		Cash	15,000
			Profit and Loss Account ..	3,95,000
Carried over Rs.	10,00,000		Carried over Rs.	99,99,500

NOTE.—There is a contingent liability on both classes of Preference Shares in respect of three years' Dividends.

BALANCE SHEET—(*Contd.*)

	Rs.	Rs.		Rs.
Brought over	10,00,000		*Brought over*	99,99,500
2,00,000 10% Cumulative "A" Preference Shares of Rs. 10 each	20,00,000			
3,00,000 Ordinary Shares of Rs. 10 each	30,00,000			
		60,00,000		
6% Debentures ..	..	15,00,000		
Sundry Creditors ..	..	24,99,500		
	Rs.	99,99,500	Rs.	99,99,500

The Company decides to adopt a scheme of re-arrangement (there being no dissentients), on the following lines:—

(1) The 8% Cumulative Participating Preference Shares to forego their arrears of Dividend and be converted into 6% Cumulative First Preference Shares of Rs. 10 each.

(2) The 10% Cumulative "A" Preference Shares to forego their arrears of Dividend and become 7½% Preference Shares of Rs. 10 each.

(3) Each share of the Ordinary Share Capital (consisting of Rs. 10 shares) to be divided into five shares of Rs. 2 each.

In respect of every five New Ordinary Shares thus issued, three of the Rs. 2 shares are to be surrendered to the Company. Two out of every three shares thus surrendered are to be allotted to the holders of the 6% and the 7½% Preference Shareholders, in proportion to their holdings, as 10% Preferred Ordinary Shares. The remaining shares surrendered are to be cancelled and to be utilised in writing off the debit balance on the Profit and Loss Account, in writing down Plant and Machinery to Rs. 16,20,000, and in eliminating Goodwill.

You are required to give the Journal Entries necessary to record the above arrangements in the books of the Company and to prepare the revised Balance Sheet. 334

(*Total of the Revised Balance Sheet Rs.* 94,24,500.)

31.—On 1st January 1938 the Balance Sheet of Wisemen, Ltd., was as under:—

Liabilities		Rs.	*Assets*		Rs.
Share Capital authorised, issued and paid up:—			Bombay Works ..	..	20,00,000
4,00,000 Ordinary Shares of Rs. 5 each, fully paid ..		20,00,000	Calcutta Works ..	..	10,00,000
3,00,000 6% Preference Shares of Rs. 5 each, fully paid ..		15,00,000	Workmen's Compensation Fund Investments ..	..	35,000
"A" 6% Debentures secured on Bombay Works ..	..	1,00,000	Stock ..	..	1,15,000
"B" 6% Debentures secured on Calcutta Works ..	..	2,50,000	Debtors ..	..	50,000
Workmen's Compensation Fund:—	Rs.		Discount on Debentures:—	Rs.	
Bombay ..	25,000		"A" ..	2,500	
Calcutta ..	10,000		"B" ..	10,000	
		35,000			12,500
Bank Overdraft ..	..	7,50,000	Profit and Loss Account	..	16,22,500
Creditors ..	..	2,00,000			
		Rs. 48,35,000			Rs. 48,35,000

As on 1st January 1938, under a scheme to reduce the Capital:—

(*a*) The Ordinary Shares were reduced to Annas 4 each;

(b) The Preference Shares were reduced to Rs. 3-12 each and the rate of dividend on them to 5%;

(c) The "A" and "B" Debenture-holders waived payment of Rs. 42,000 interest (which was included in "Creditors, Rs. 2,00,000");

(d) The Directors were to refund Rs. 50,000 fees they had received.

The "B" Debenture-holders formed a new company to take over the Calcutta Works for Rs. 5,00,000 and this price was satisfied, on the same date, by the surrender of the "B" Debentures and the Allotment of 50,000 fully-paid shares of Rs. 5 each in the new company.

The investments were valued at Rs. 25,000, Stock at Rs. 50,000 and the Debtors at Rs. 40,000. There was no actual liability to workmen in Calcutta. The assets were to be written down accordingly; any fictitious assets were to be eliminated; only necessary reserves were to be retained and the balance available was to be written off the book value of the Bombay Works.

Journalise these transactions. 335

32. The Balance Sheet of the Gamma Factory. Ltd. dated 31st December 1937, is as follows:—

Liabilities		Rs	*Assets*	Rs.
Share Capital authorised and issued: 8,000 Shares of Rs. 100 each fully paid .. Rs. ..		8,00,000	Land, Buildings. Machinery, etc.	14,30,000
Debentures ..	13,40,000		Stock-in-trade	80,000
Interest accrued (Net)	40,000		Sundry Debtors	30,000
		13,80,000	Investments	17,000
Sundry Creditors:—			Cash	13,000
Income-tax ..	10,000		Profit and Loss Account ..	10,70,000
Trade and General	4,50,000			
		4,60,000		
	Rs.	26,40,000	Rs.	26,40,000

The fixed assets (included in a floating charge in favour of the Debenture-holders) are much overvalued. The Debenture-holders are prepared to accept a modification of their claims in consideration of a substantial interest in Share Capital. A Scheme of Arrangement is accordingly prepared, approved by the necessary meetings, and in due course confirmed by the Court. Of this scheme, the following are the main terms:—

(1) Each share shall be sub-divided into twenty fully-paid Ordinary Shares of Rs. 5 each.

(2) After sub-division, each Shareholder shall surrender to the Company 95% of his holding. for the purpose of re-issue to Debenture-holders and Creditors, so far as required, and otherwise for cancellation.

(3) Of those surrendered. 46,000 shares of Rs. 5 each shall be converted into Participating Preference Shares of Rs. 5 each, fully paid.

(4) The Debenture-holders' total claims shall be reduced to Rs. 2,30,000 in consideration for which the Debenture-holders shall receive from the Company 46,000 Participating Preference Shares of Rs. 5 each, upon their claims on 31st December 1937.

(5) The Liability for Income-tax is to be satisfied in full.

(6) The claims of unsecured creditors Rs. 4,50,000 shall be reduced by 4|5ths of the amount and the balance shall be satisfied by allotting them Ordinary Shares of Rs. 5 each from the shares surrendered.

(7) Shares surrendered and not re-issued shall be cancelled.

Journalise the transactions upon the Scheme being carried into effect. Prepare a Balance Sheet showing the effect of the Scheme, assuming that the liability for Income-tax has not been discharged and that the amounts of the assets are unaltered. 336

(*Balance Sheet Total Rs.* 15,70,000.)

33. The All India Company, Limited, agrees to acquire as a going concern, the business of the Presidency Com—, Limited, on the basis of the Vendor's Balance Sheet at 31st December 1937, which — as follows:—

Liabilities	Rs.	*Assets*		Rs.
Authorised Capital:—		Freehold Property		2 50,000
25,000 Shares of Rs. 50 each ..	12,50,000	Plant and Machinery ..		50 000
Issued Capital:—		Stock		3 00,000
20,000 Shares of Rs. 50 each ..	10,00,000	6 per cent Government Paper ..		10,000
Called-up Capital:—			Rs.	
20,000 Shares called up Rs. 30 each	6 00,000	Debtors	2,30,000	
Reserve Fund	1,25 000	*Less* Reserve ..	10,000	
Creditors	75,000			2,20 000
Profit and Loss Account ..	60,000	Bank		30,000
Rs.	8,60,000	Rs.		8,60,000

The All India Company, Limited, took over all the assets and liabilities of the Vendor company subject to the retention out of such assets of Rs. 15.000, to provide for costs of liquidation, income-tax, etc., and to satisfy any dissentient shareholders.

The consideration for the sale is the allotment to the Shareholders in the Vendor company of one share of Rs 100 (Rs. 50 paid up) in the All India Company for every two shares in the Presidency Company, Limited.

The market value of the All India Company's shares which are Rs. 50 paid up, at date of sale is Rs. 70 each. The liquidator of the Vendor company is paid out of the Rs. 15,000 retained: costs of liquidation amount to Rs. 2 500 income-tax is Rs. 7,500, and dissentient shareholders of 100 shares are paid out at Rs. 32-8 per share, viz, Rs. 3,250.

The sale and purchase were carried through in terms of the agreement.

Pass the necessary entries in the books of respective companies. (*B. Com.*) 337

81. On 1st January 1938, the Surviving Co., Ltd., acquired the undertaking of the Going Co., Ltd. The tangible assets were taken at book value and the consideration was: (*a*) The assumption of the liabilities, (*b*) the discharge of the Debentures at a premium of 2½% by the issue of 6% Debentures in the Surviving Co., Ltd.; and (*c*) Four Ordinary Shares in the Surviving Co., Ltd., and Rs. 5 in cash for each Ordinary Share in the Going Co., Ltd.

The following is a summary of the Balance Sheets of the two companies as on 1st January 1938:—

	Going Co., Ltd. Rs.	Surviving Co., Ltd. Rs.		Going Co., Ltd. Rs.	Surviving Co., Ltd. Rs.
Authorised Capital:—			Goodwill at cost ...	2,20,000	10,00,000
50,000 Ordinary Shares of Rs. 20 each ...	10,00,000		Sundry Assets at cost *less* depreciation ...	35,90,000	20,00,000
1,00,000 Preference Shares of Rs. 20 each ...	...	20,00,000	Sundry Debtors ...	2,60,000	2,00,000
3,50,000 Ordinary Shares of Rs. 20 each ...	...	70 00,000	Investments at cost ...	6 00,000	
		90,00,000	Bank ...	1,80,000	29,00,000
Issued Capital (all fully paid up)					
Ordinary Shares ...	10,00,000	20,00,000			
Preference Shares ...		20,00,000			
6% Debentures ...	5,00,000				
Reserve ...	20,00,000				
Sundry Creditors ...	2,00,000	6,00,000			
P. & L. Account ...	11,50,000	15,00,000			
Rs.	48,50,000	61,00,000			

You are required to set out the Balance Sheet of the Surviving Co., Ltd., upon the completion of these transactions. 338

(Total of Adjusted Balance Sheet of the Surviving Company, Limited Rs. 1,08,12,500.)

35. The Trial Balance of the X Co., Ltd., was as follows:—

	Rs.	Rs.
Share Capital 5,000 shares of Rs. 10 each, fully paid		50,000
Creditors		26,500
Patent Rights	48,000	
Debtors	4,500	
Stock	10,000	
Preliminary Expenses	1,800	
Profit and Loss Account	12,050	
Cash	150	
Rs.	76,500	76,500

Efforts to secure sufficient new Capital to pay off the liabilities and place the concern on a sound basis having proved unsuccessful, it was decided to reconstruct, and the following scheme was submitted to, and approved by the shareholders and creditors:—

(1) The Company to go into voluntary liquidation and a new Company having a nominal Capital of Rs. 1,00,000 to be formed, to take over the assets and liabilities of the old Company.

(2) The assets to be taken over at book values, with the exception of the Patent Rights, which were to be subject to adjustment,

(3) The creditors to be discharged by the New Company on the following basis:—

		Rs.
(a)	Preferential to be paid in full	500
(b)	Unsecured to be discharged by Cash composition of 8 annas in a rupee	13,400
(c)	Unsecured to be discharged by issue of 6% Debentures fully paid at a bonus of 10%	12,600
	Rs.	26,500

(4) 5.000 shares of Rs. 10 each, Rs. 5 paid up, to be issued to the shareholders in the old Company, payable Rs. 2-8 on application and Rs. 2-8 on allotment.

(5) The cost of liquidation amounting to Rs. 250 to be paid by the new Company as part of the purchase consideration.

Pass the Journal Entries to close the books of the old Company and also the opening entries in the new Company's books. Assume that all the Shares and Debentures have been allotted and all cash in respect of shares has been received. 339

36. The Mutual Banking Company, Ltd. (having on 30th June 1937, a paid-up Capital of Rs. 25,00,000 in Rs. 100 Shares, Rs. 10 paid, quoted on the market at Rs. 225, and a Reserve Fund of Rs. 1,50,00,000) purchases on 30th November 1937, the business of the Credit Bank, Ltd. (having on 30th June 1937, a paid-up Capital of Rs. 20,00,000 in

Rs. 200 Shares, Rs. 20 paid, quoted on the market at Rs. 85, and a Reserve Fund of Rs. 60,00,000) for Rs. 450 for each five shares, giving one-half of the consideration in its shares taken at the value of Rs. 225 each, and one-half in 4% Debenture Stock taken at par. In addition to this, Rs. 5 per share is to be given in cash by way of dividend on 31st December 1937.

Show how the Accounts of the Mutual Banking Company, Ltd., will stand after the purchase has been completed. 340

537. The following is the Balance Sheet of the Calcutta Coal Company, Ltd., at 31st December 1937 :—

Liabilities	Rs.	*Assets*	Rs.	Rs.
Authorised Capital :—		Debtors	8,34,700	
10,000 Shares of Rs. 100 each ..	10,00,000	*Less* Reserve ..	30,000	
				8,04,700
Issued and Paid-up Capital :—		Cash in hand		21,300
7,000 Shares of Rs. 100 each ..	7,00,000	Furniture		16,400
Bank Overdraft	2,11,700	Wagons		52,500
Loans Unsecured	1,07,600	Preliminary Expenses ..		67,500
Sundry Creditors	5,60,900	Goodwill Account		1,00,000
		Profit & Loss Account :—		
		1934	5,12,600	
		1935	3,01,000	
		1936	2,08,300	
			10,21,900	
		Less Profit 1937	5,04,100	
				5,17,800
Rs.	15,80,200		Rs.	15,80,200

The Company having now become a profit-earning concern, the Directors desire at the earliest moment to convert it into a dividend paying company, and they have an offer of new Capital conditionally upon the losses to date and nominal assets being wiped off. You are invited to submit a Scheme for the reconstruction of the Company which will, in your opinion, most conveniently achieve that object. Supposing the scheme put forth by you was approved by the directors, what formalities would it be necessary to go through before the Scheme can be put into operation? Pass necessary Journal Entries. (*B. Com.*) 341

CHAPTER XIII.

ACCOUNTS OF HOLDING COMPANIES.

A Holding Company is one which holds either the whole of the share capital or a sufficient number of shares in one or more companies so as to secure a controlling interest in such companies, the latter being then known as "Subsidiary Companies". The object may be to eliminate competition, combine expert technical knowledge and experience, secure economy in production and management, monopolise sources of raw material supplies and control prices. Such a combination of separate enterprises can, no doubt, be brought about by the amalgamation and absorption of two or more companies into one, but in such a case, the companies which are being absorbed have to go into liquidation and thus lose their identity, and yet the trade name, reputation and goodwill of some may be worth continuing. This is exactly where the Holding Company System comes in useful. In the case of a Holding Company, whereas the Subsidiary Companies retain their identities and constitutions and carry on their businesses as if they were distinct entities, they are capable of being efficiently controlled in policy and management by the Parent Company due to the latter holding a majority of shares and the consequent voting power. Thus, it is by means of Holding Companies that a combination of separate businesses may be secured without any disturbance of the constituent businesses by the trade name or trade-mark of each Subsidiary Company being left intact and the best advantage being taken of the existing goodwill, if any, of each of the Subsidiary Companies. But, with all the advantages attendant upon economical management and control of market, such combinations present possibilities for fraudulent promotion and management, manipulations of inter-company transactions and presentation of trading results in a manner as would either obscure the true facts or fail to disclose to the shareholders the true value of their holdings.

Until the passing of the Indian Companies Act, 1936, there was practically no legal control over Holding Companies in India with the result that their periodical Balance Sheets hardly disclosed to the investing public the true extent of their financial interests in their subsidiaries. The accounts as published by Holding Companies concealed as much as it suited their purpose or revealed as little as they wished. Under such a state of affairs, it was not possible for the shareholders to ascertain from the legal Balance Sheet either the true relation of the Holding Company to its subsidiaries or the profits arising from the holdings in other companies. This most unsatisfactory state of affairs will now be brought to an end to some extent by the following several provisions in the Indian Companies Act, 1936, which makes the disclosing of certain particulars relating to the financial interests in the subsidiary companies compulsory for Holding Companies.

Section 2, Sub-section 2.—Section 2(2) of the Act defines a Holding Company and a Subsidiary Company by their relation to each other as under:—

Where the assets of a company consist in whole or in part of shares in another company, whether held directly or through a nominee and whether that other company is a company within the meaning of this Act or not, and

(a) the amount of the shares so held is at the time when the accounts of the Holding Company are made up more than fifty per cent of the issued share capital of that other company or such as to entitle the company to more than fifty per cent of the voting power in that other company, or

(b) the company has power (not being power vested in it by virtue only of the provisions of a debenture trust deed or by virtue of shares issued to it for the purpose in pursuance of those provisions) directly or indirectly to appoint the majority of the directors of that other company,

that other company shall be deemed to be a subsidiary company within the meaning of this Act, and the expression 'subsidiary company' in this Act means a company in the case of which the conditions of this sub-section are satisfied and includes a subsidiary company of such company:

Provided that where a company, the ordinary business of which includes the lending of money, holds shares in another company as security only, no account shall, for the purpose of determining under this Section whether that other company is a subsidiary company, be taken of the shares so held.

Subsidiary Company.—A company may thus be a "Subsidiary" of a Holding Company in any of the three cases, viz.:—

(1) Where the Holding Company holds more than 50% of the issued share capital of the Subsidiary Company; or

(2) Where the Holding Company controls more than 50% of the voting power of the subsidiary, even without having a corresponding holding in its share capital; or

(3) Where the Holding Company possesses the power directly or indirectly of appointing a majority of directors of that other company.

Section 132A.—This is a new section based on Section 126 of the English Companies Act, 1929, and is the principal enactment relating to Holding and Subsidiary Companies in India. The whole Section reads as under:—

"(1) Where a company, in this Act referred to as the holding company, holds shares, either directly or through a nominee, in a subsidiary company or in two or more subsidiary companies, there shall be annexed to the Balance Sheet of the holding company the last audited balance sheet, profit and loss account and auditors' report of the subsidiary company or companies, and a statement signed by the persons by whom, in pursuance of Section 133 the Balance Sheet of the holding company is signed stating how the profits and losses of the subsidiary company, or, where there are two or more subsidiary companies, the aggregate profits and losses of those companies, have been dealt with in or for the purposes of the accounts of the holding company, and in particular how and to what extent—

(a) provision has been made for the losses of a subsidiary company either in the accounts of that company or of the holding company or of both, and

(b) losses of a subsidiary company have been taken into account by directors of the holding company in arriving at the profits and losses of the company as disclosed in its accounts:

Provided that it shall not be necessary to specify in any such statement the actual amount of the profits or losses of any subsidiary company or the actual amount of any part of any such profits or losses which has been dealt with in any particular manner:

Provided further that, for the purposes of this Section, an investment company, that is to say, a company whose principal business is the acquisition and holding of shares, stocks, debentures or other securities, shall not be deemed to be a holding company by reason only that part of its assets consists in 51 per cent or more of the shares of another company.

(2) If, in the case of a subsidiary company, the auditors' report on the Balance Sheet of the company does not state without qualification that the auditors have obtained all the information and explanations they have required and that the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them and as shown by the books of the company, the statement which is to be annexed as aforesaid to the balance sheet of the holding company shall contain particulars of the manner in which the report is qualified.

(3) For the purposes of this Section, the profits or losses of a subsidiary company mean the profits or losses shown in any accounts of the subsidiary company made up to a date within the period to which the accounts of the holding company relate, or, if there are no such accounts of the subsidiary company available at the time when the accounts of the holding company are made up, the profits or losses shown in the last previous accounts of the subsidiary company which became available within that period.

(4) If for any reason the directors of the holding company are unable to obtain such information as is necessary for the preparation of the statement aforesaid, the directors who sign the Balance Sheet shall so report in writing and their report shall be annexed to the Balance Sheet in lieu of the statement.

(5) The holding company may by a resolution authorise representatives named in the resolution to inspect the books of account kept in accordance with Section 130 by any subsidiary company, and on such resolution being passed those books of account shall be open to inspection by those representatives at any time during business hours.

(6) The rights conferred by Section 138 upon members of a company may be exercised in respect of any subsidiary company by members of the holding company as if they were members of that subsidiary company."

The provisions of the above Section may briefly be summarised as under:—

(a) If a Holding Company holds shares in one or more subsidiary companies, there should be attached to the Balance Sheet of the Holding Company, the last audited Balance Sheet, Profit and Loss Account and Auditors' Report of the Subsidiary Company or Companies.

(b) There should be also a statement signed by the same persons who signed the Balance Sheet of the Holding Company specifying how the profits or losses of the subsidiary company or the aggregate profits or losses of the subsidiaries have been dealt with in the accounts of the Holding Company.

(c) Such statement should particularly specify how and to what extent losses, if any, of the subsidiaries, have been provided for or brought into account in the Holding Company's accounts.

(d) For the purpose of inclusion of the statements of profits and losses relating to Subsidiary Companies, the Profit and Loss Accounts of the Subsidiaries must be made up to a date within the period to which the accounts of the Holding Company relate.

(e) If the Auditors' Report on the Balance Sheet of any subsidiary company is qualified, the statement abovesaid must contain particulars of such qualification.

(f) The Holding Company may, by special resolution, authorise its representatives to inspect the books of account of any of its subsidiaries.

(g) The Holding Company may exercise the rights (conferred by Section 138) of appealing to the Local Government for having the affairs of any of its Subsidiary Companies investigated.

(h) If any of the information compulsorily required to be attached to the Holding Company's Balance Sheet as abovesaid is not available, the Directors of the Holding Company must make a report to that effect in writing and attach the same to their Balance Sheet.

(i) An Investment Company whose principal business is the holding of shares, stocks, debentures or other securities will not be deemed to be Holding Company for the simple reason that part of its assets consists of 51% or more of the shares of another company.

Requirements of Form F.—In the prescribed form of Balance Sheet as per the new Form F, the Holding Company's position in relation to its subsidiary companies is required to be shown in distinct details. The following items will thus need to be specifically shown :—

On the Assets side :—

(a) Loans to Subsidiary Companies.

(b) Investments in Shares or Debentures of Subsidiary Companies.

On the Liabilities side :—

Any liabilities owing to Subsidiary Companies.

Supplemental Information relating to Subsidiaries.—Any one of the following methods may be adopted by a Holding Company to give supplemental information to its members in relation to its holdings in Subsidiary Companies as required under the Act :—

(1) The Holding Company may publish, with its own Balance Sheet, a copy of the Balance Sheet of each of the subsidiary companies.

This method can only have any practical value where the subsidiary companies are few in number. Moreover, the Balance Sheet periods of subsidiary companies may not coincide with the Holding Company's financial period, and complicated adjustments would therefore become necessary in order to arrive at a fair and reliable summary of the assets and liabilities on the date of presentation, and these may not be properly understood by the shareholders.

(2) The Holding Company may attach with its own Balance Sheet a summarised statement of the assets and liabilities or the net assets of each of its subsidiaries.

By a summary of assets and liabilities, the shareholders would be enabled to see the value of their investments and the amount of the interest of the outside shareholders; but even here, in order that such summaries may present a correct idea of the true state of affairs, it is necessary that the Balance Sheet of the Holding Company as also of the subsidiary companies should be made up to one date.

(3) As a supplement to the "Legal" Balance Sheet, the Holding Company may publish a Consolidated Balance Sheet in which the assets and liabilities of all the associated companies are assimilated just like a Head Office incorporating the assets and liabilities of its Branches. Such a Balance Sheet would serve to reflect the Holding Company's position in greater details than under any other method.

In view of the fact that the main object of the Holding Company system is to exercise control over its subsidiaries, it is highly essential that those in management should have placed before them, at periodical intervals, consolidated statements reflecting the true working results as also the financial position of the combine as a whole, and a Consolidated Balance Sheet serves a very useful purpose in this direction. Besides, questions are now often asked in almost all the examinations in Advanced Accounting calling upon the students to prepare Consolidated Balance Sheets from information supplied to them, and it is hoped, therefore, that the following hints together with the practical illustrations fully worked out will help them in understanding the few peculiar points arising in the preparation of such statements.

In the preparation of such a Consolidated Balance Sheet, the following points are worth noting:—

(*a*) In the Holding Company's Balance Sheet, the amount of shares held in each subsidiary company should be separately stated and not mixed up under the general heading of "Investments". Similarly, Loans and Advances to and from each subsidiary should be shown separately.

(*b*) To enable a Consolidated Balance Sheet to be prepared, it is highly essential that the Balance Sheets of all the Companies must be made up to the same date, and all the assets and liabilities should be classified and valued on some uniform basis.

(*c*) Where the Balance Sheet of any subsidiary company is made up to a date different from the date of the Holding Company's Balance Sheet, proper adjustments must be made to enable the exact position of that subsidiary company to be ascertained as at the date of presentation.

(*d*) Where the Holding Company does not own the whole of the share capital of the subsidiary company, the interest of the outside shareholders should be brought into account while preparing a Consolidated Balance Sheet.

(*e*) Even where the Holding Company owns a *part* only of the share capital of its subsidiary, the *whole* of the assets, liabilities, reserve and gains or losses of the latter Company are embodied in the Consolidated Balance Sheet, and the net proportion of these applicable to the outside shareholders is then included as a liability. It need hardly be pointed out, in this connection, that if there appear on the Consolidated Balance Sheet the whole of the assets and liabilities of the subsidiaries, which are not totally owned by the Holding Company, there must also appear in the same Balance Sheet, the interest of the shareholders outside the combine, as a liability.

(*f*) The proportion of interest of the outside shareholders (assuming the issue to be in ordinary shares) will in such a case be represented by the nominal value of the share capital held by them, a proportionate share of the Capital Reserve representing undistributed profits, if any, as at the date of purchase, and a like proportion of the profit or loss made subsequent to the acquisition of controlling interest by the Holding Company. Where, however, the outside shareholders hold Preference Shares which do not participate in surplus assets, their interest in the Company will be measured by the nominal value of the Preference Shares held by them.

(*g*) Any indebtedness by one Company to another should not be shown in the Consolidated Balance Sheet.

(*h*) Bills drawn by the Holding Company and accepted by any of the subsidiaries and unmatured will be shown in their respective Balance Sheets as Bills Receivable and Bills Payable, but will be eliminated from the Consolidated Balance Sheet.

(*i*) Unrealised profits from inter-company transactions should be eliminated.

(*j*) Where inter-company transactions of purchases and sales of goods have taken place and if such goods have not been sold off by the purchasing company, the selling company must write back the profit taken on these goods, as such profit cannot be said to have been realised from the viewpoint of the combine as a whole. Where, however, some of the shares of the selling company are held by outside shareholders, the profit on unsold goods to be written back will be in proportion to the shares held by the Holding Company.

(*k*) Only dividends paid by subsidiary companies from the profits made subsequent to the purchase of their shares should be credited to Profit and Loss Account.

(*l*) If the Holding Company receives any dividend from a subsidiary company out of Reserves or the Profit and Loss Account balances existing at the date of purchase of the controlling interest, the same should not be credited to Profit and Loss Account, but should be deducted from the purchase price of the shares acquired.

(*m*) Profits of subsidiary companies should not be made available as dividends by the Holding Company, unless these have been actually distributed as dividends by the subsidiaries.

(*n*) Ordinarily, the shares in subsidiary companies should be valued at the actual cost. Where, however, the shares have depreciated in value due to a loss made by the subsidiary company, the value of shares should be adjusted accordingly. In other words, where a subsidiary company makes losses subsequent to the acquisition, a reserve therefor should be made in the Holding Company's Accounts from its own profits and deducted from the investment relating to its holding in the Balance Sheet.

(*o*) Where a loss is made by a subsidiary, but the values of the shares in other subsidiaries have appreciated, no reserve need be made to provide for the depreciation in value of the shares in the former company, but the appreciation in value of the shares of some subsidiaries may be set off against the depreciation in that of others.

(*p*) The item "Goodwill" will include the total value of Goodwill as ascertained from the Balance Sheets of all the companies in the holding group, as also any Premium paid by the Holding Company while acquiring shares in the subsidiaries. From the total of Goodwill thus ascertained, there will be deducted the total of Reserves and other Undistributed Profits existing in the books of the subsidiaries at the date of purchase of their shares.

(*q*) Where the shares in any subsidiary company are acquired at less than their nominal value, the discount thus arising will be deducted from the value of Goodwill.

(*r*) Where there happens to be a deficiency of assets in any subsidiary at the date of purchase, the same should be added to Goodwill.

Before proceeding with practical problems, it seems necessary that the student should note carefully the distinction between Holding Companies, Trust Companies and Finance Companies.

Holding Companies are those which acquire a controlling interest in other companies known as Subsidiaries with the object of bringing the whole lot of them into one combine to the mutual advantage of all, without in any way disturbing their separate legal identities and constitutions. Bearing in mind that the main object of the holding company system is the exercise of control over the finance and management of the subsidiaries, such a control is naturally acquired by the possession of the majority of the voting power by reason of a substantial holding of shares and also by the appointment of some directors, who are generally also directors of the parent company, to the boards of the subsidiaries.

Companies formed with the express object of investing their capital in purchase of shares in several other companies with a view to permanently hold them and thus to average the annual profits and divide the risks are known as **Trust Companies**. The shares in other companies thus held by a Trust Company will be regarded as the Fixed Assets of the latter company.

There are also companies which are brought into existence with the object of effecting company promotions, underwriting debentures and share capital of companies and doing business of buying and selling shares of other commercial, industrial and speculative enterprises, and these are called **Finance Companies**.

ILLUSTRATION 145.

On 1st July 1937, the X, Y, Z Co., Ltd., bought 7,000 shares of Rs. 10 each, fully paid, in the A, B, C Co., Ltd., for Rs. 20 each. The following is the Balance Sheet of each of the Companies on 31st December 1937, in a condensed form:—

	X, Y, Z Co.	A, B, C Co.		X. Y, Z Co.	A, B, C Co.
	Rs.	Rs.		Rs.	Rs.
Share Capital	3,00,000	80,000	Buildings ...	2,75,000	50,000
General Reserve Balance as at 1st January 1937 ...	60,000	25,000	Sundry Assets ..	90,000	1,20,000
Creditors	85,000	51,000	Debtors ...	80,000	30,000
P. & L. Account Balance on 1st January 1937 ...	45,000	10,000	Shares in subsidiary: 7,000 shares of Rs. 20 each ..	1,40,000	
Net Profit for the year 1937	95,000	34,000			
Rs.	5,85,000	2,00,000	Rs.	5,85,000	2,00,000

The Debtors of the X, Y, Z Co. included Rs. 10,000 due from the A, B, C Co. Prepare Consolidated Balance Sheet as at 31st December 1937.

Solution.

CONSOLIDATED BALANCE SHEET OF THE X, Y, Z CO., LTD. AND ITS SUBSIDIARY

As at 31st December 1937.

			Rs.
Share Capital			3,00,000
Interest of outside shareholders in the A. B. C. Co.:—		Rs.	
Share Capital ...		10,000	
General Reserve ...		3,125	
Profit & Loss Balance ...		1,250	
Profit this year ...		4,250	
			18,625
General Reserve			60,000
Capital Reserve:—Representing proportionate Reserve and undistributed profits of A.B.C. Co., Ltd., to date of purchase			
Reserve		25,000	
P. & L. Account Balance 1st January 1937 ...		10,000	
Profit to 1st July ...		17,000	
		52,000	
Less 1/8th interest of outside shareholders ...		6,500	
Deducted from Goodwill Account		45,500	
Creditors—	Rs.		
X. Y. Z. Co.		85,000	
A. B. C. Co. ...	51,000		
Less due to X.Y.Z. Co. ...	10,000		
		41,000	
			1,26,000
Profit and Loss Account—			
X. Y. Z. Co. Balance 1-1-37 ...		45,000	
X. Y. Z. Co. for 1937 ...		95,000	
A. B. C. Co., profit from 1-7-37 to 31-12-37 ...	17,000		
Less 1/8th share applicable to outside shareholders ...	2,125		
		14,875	
			1,54,875
Rs.			6,59,500

		Rs.
Goodwill:—		
Excess of A. B. C. Co. Shares over their Nominal Value:-	Rs.	
Cost Price ...	1,40,000	
Nominal Value ...	70,000	
	70,000	
Less Capital Reserve as per *contra* ...	45,500	24,500
Buildings:—		
X. Y. Z. Co. ...	2,75,000	
A. B. C. Co. ...	50,000	3,25,000
Sundry Assets:—		
X. Y. Z. Co. ...	90,000	
A. B. C. Co. ...	1,20,000	2,10,000
Debtors:—		
X. Y. Z. Co. ...	80,000	
Less due from A. B. C. Co.	10,000	
	70,000	
A. B. C. Co. ...	30,000	1,00,000
Rs.		6,59,500

NOTE.—The other way of ascertaining the amount attributable to Goodwill is as under:—

The X, Y, Z Co., Ltd., having acquired 7,000 Shares out of the total 8,000 making up the Share Capital of the A, B, C Co., Ltd., becomes proprietor of the 7/8ths share of the net assets of the latter Company. The net assets of the subsidiary Company at the date of purchase were represented by—

	Rs.
Share Capital	80,000
General Reserve	25 000
Profit and Loss Account balance	10,000
Net Profit in the current year to date of purchase, i.e., for half year	17,000
Rs.	1,32,000

The purchase price paid by the Parent Company on acquiring 7,000 Shares was	1,40,000
7/8ths share of Rs. 1,32,000, viz., the total net assets of the subsidiary amount to	1,15,500
The excess thus paid represents Goodwill = Rs.	24,500

ILLUSTRATION 146.

Prepare a Consolidated Balance Sheet of the Indian Products Ltd., and its Subsidiary Company from the Balance Sheets given below:—

INDIAN PRODUCTS, LIMITED.
BALANCE SHEET.
As at 31st December 1937.

	Rs.		Rs.
Share Capital:— Authorised, Issued and Paid up— 30,000 Shares of Rs. 10 each, fully paid	3,00,000	Land and Building at cost *less* depreciation	2,00,000
General Reserve	1,00 000	Plant and Machinery at cost *less* depreciation	1,25,000
Creditors	75 000	Shares in Bombay Products, Ltd., at cost, 6,000 Shares at Rs. 15 each...	90,000
Profit and Loss Appropriation Account	40,000	Stock-in-Trade	45,000
		Sundry Debtors	40,000
		Cash at Bank	15,000
Rs.	5,15,000	Rs.	5,15,000

BOMBAY PRODUCTS, LIMITED.
BALANCE SHEET.
As at 31st December 1937.

	Rs.		Rs.
Share Capital:— Authorised 10,000 Shares of Rs. 10 each	1,00,000	Stock-in-Trade	60,000
		Debtors	35,000
		Investments at Cost	25,000
		Cash at Bank	10,000
Issued & Paid up Capital:— 8,000 Shares of Rs. 10 each, fully paid	80,000		
General Reserve	10,000		
Creditors	15,000		
Profit & Loss Appropriation Account ...	25,000		
Rs.	1 30 000	Rs.	1,30 000

The Indian Products, Ltd., acquired the shares in the Bombay Products Ltd., some years back when the latter's Appropriation Account stood at Rs. 16,000 and there was no General Reserve.

Solution.

CONSOLIDATED BALANCE SHEET OF THE INDIAN PRODUCTS, LTD., AND ITS SUBSIDIARY.

As at 31st December 1937.

			Rs.
Share Capital :—			
Authorised, Issued and paid up—30,000 Shares of Rs. 10 each fully paid ...			3,00,000
Subsidiary Company :— Interest of outside Shareholders:—		Rs.	
Share Capital		20,000	
General Reserve		2,500	
Capital Reserve		4,000	
P. & L. Appropriation Account		2,250	
			28,750
Capital Reserve:—			
Undistributed Profits of Subsidiary Company at date of purchase		16,000	
Less proportion applicable to outside shareholders		4,000	
Deducted from Goodwill as per *Contra*		12,000	
General Reserve :—	Rs.		
Indian Products, Ltd.		1,00,000	
Subsidiary Co.	10,000		
Less proportion applicable to outside shareholders	2,500	7,500	
			1,07,500
Creditors :			
Indian Products, Ltd.		75,000	
Subsidiary Co.		15,000	
			90,000
Profit & Loss Appropriation Account :—			
Indian Products, Ltd.		40,000	
Subsidiary Co.	25,000		
Less transfer to Capital Reserve	16,000		
	9,000		
Less proportion applicable to outside shareholders	2,250	6,750	
			46,750
		Rs.	5,73,000

		Rs.
Goodwill :—		
Excess of cost of shares in Subsidiary Company over their nominal value :—	Rs.	
Cost price	90,000	
Nominal value	60,000	
	30,000	
Less Capital Reserve per *contra*	12,000	
		18,000
Land & Buildings at cost *less* Depreciation		2,00,000
Plant & Machinery at cost *less* Depreciation		1,25,000
Stock-in-Trade —		
Indian Products	45,000	
Subsidiary Co.	60,000	
		1,05,000
Debtors:—		
Indian Products	40,000	
Subsidiary Co.	35,000	
		75,000
Investment at cost:— Subsidiary Company		25,000
Cash at Bank :—		
Indian Products	15,000	
Subsidiary Co.	10,000	
		25,000
	Rs.	5,73,000

NOTE—Alternatively, the value of Goodwill may be ascertained as follows:—

The Net Assets of the Subsidiary Company at the date the shares were acquired consisted of—

	Rs.
Share Capital	80,000
General Reserve	nil
Profit and Loss Appropriation Account	16,000
Rs.	96,000

As the Parent Company purchased 6,000 Shares out of the total 8,000 Shares of the Subsidiary Company, evidently the former acquired a $\frac{3}{4}$ths interest in the net assets of the latter.

		Rs.
Price paid for acquiring 6,000 Shares	.. ..	90,000
$\frac{3}{4}$ths of the Net Assets of the Subsidiary	.. ..	72,000
Amount attributable to Goodwill	=	Rs. 18,000

ILLUSTRATION 147.

From the following Balance Sheets, prepare a Consolidated Balance Sheet :—

BALANCE SHEET OF THE SUBSIDIARY COMPANY.

At the date of Acquisition of Shares.

	Rs.		Rs.
Share Capital :—		Goodwill ...	10,000
Authorised, Issued & Paid up—		Land and Buildings ...	85,000
10,000 Shares of Rs. 10 each ...	1,00,000	Plant ...	45,000
Sundry Creditors ...	95,000	Stock-in-Trade ..	20,000
General Reserve ...	20,000	Sundry Debtors ...	40,000
		Cash at Bank ...	5,000
Rs.	2,15,000	Rs.	2,15,000

BALANCE SHEET OF THE SUBSIDIARY COMPANY.

At the date of Consolidated Balance Sheet.

		Rs.		Rs.
Share Capital :—			Goodwill ..	10,000
Authorised, Issued & Paid up—			Land and Buildings ...	85,000
10,000 Shares of Rs. 10 each ...		1,00,000	Plant ...	43,000
Sundry Creditors ...		70,000	Stock-in-Trade ...	37,000
Loan from Holding Company ...		60,000	Sundry Debtors ...	1,10,000
General Reserve ...		30,000	Cash at Bank ..	15,000
Profit & Loss Appropriation	Rs.			
Account, Balance b/fd.	10,000			
Net Profit this year	40,000			
	50,000			
Less Interim Dividend @ 10%	10,000			
		40,000		
Rs.		3,00,000	Rs.	3,00,000

BALANCE SHEET OF THE HOLDING COMPANY.

At the date of Consolidated Balance Sheet.

		Rs.		Rs.
Share Capital :—			Goodwill ...	50,000
Authorised, Issued and Paid up—			Land & Buildings ...	2,00,000
30,000 Ordinary Shares of			Plant & Machinery ...	50,000
Rs. 10 each ...		3,00,000	Stock-in-trade ...	75,000
Sundry Creditors ...		2,00,000	Sundry Debtors ...	1,65,000
General Reserve ...		1,00,000	Loan to Subsidiary Co. ...	60,000
Profit & Loss Appropriation			Bills Receivable ...	10,000
Account—	Rs.		Investments at cost ...	50,000
Balance b/fd.	30,000		Shares in Subsidiary Company :	
Add Net Profit this year	1,50,000		8,000 Ordinary Shares of Rs. 10 each at cost ...	1,00,000
		1,80,000	Cash at Bank ...	20,000
Rs.		7,80,000	Rs.	7,80,000

Solution.

CONSOLIDATED BALANCE SHEET.

			Rs.
Share Capital—Authorised, Issued and Paid up—30,000 Ordinary Shares of Rs. 10 each ..			3,00,000
Subsidiary Capital held by Outside Shareholders, 2,000 Ordinary Shares of Rs. 10 each ..			20,000
Interest of Outside Shareholders in Reserves and Profit & Loss Account Balances—		Rs.	
General Reserve ...		2,000	
Capital Reserve ...		4,000	
Profit & Loss Account ...		8,000	
			14,000
Capital Reserve—			
Reserve in Subsidiary at date of purchase ...		20,000	
less Amount applicable to Outside Shareholders ...		4,000	
deducted *contra*		16,000	
General Reserve—	Rs.		
Holding Co.		1,00,000	
Subsidiary Co.	30,000		
less Balance at date of purchase	20,000		
	10,000		
less Amount applicable to outside shareholders	2,000		
		8,000	
			1,08,000
Sundry Creditors—			
Holding Co. ...		2,00,000	
Subsidiary Co. ...		70,000	
			2,70,000
Profit & Loss Appr. A/c.—			
Holding Co. ...		1,80,000	
Subsidiary Co.	40,000		
less Amount applicable to Outside Shareholders	8,000		
		32,000	
			2,12,000
Rs.			9,24,000

		Rs.	Rs.
Goodwill—			
Holding Co. ...		50,000	
Subsidiary Co. ...		10,000	
		60,000	
Excess of Cost of Shares in Subsidiary Co. over their Nominal Value	Rs. 20,000		
less Capital Reserve as per *contra*	16,000		
		4,000	
			64,000
Land & Buildings—			
Holding Co. ...		2,00,000	
Subsidiary Co. ...		85,000	
			2,85,000
Plant and Machinery—			
Holding Co. ...		50,000	
Subsidiary Co. ...		43,000	
			93,000
Stock-in-Trade—			
Holding Co. ...		75,000	
Subsidiary Co. ...		37,000	
			1,12,000
Sundry Debtors—			
Holding Co. ...		1,65,000	
Subsidiary Co. ...		1,10,000	
			2,75,000
Bills Receivable—			
Holding Co. ...		...	10,000
Investments at Cost—			
Holding Co. ...		..	50,000
Cash at Bank—			
Holding Co. ...		20,000	
Subsidiary Co. ...		15,000	
			35,000
Rs.			9,24,000

NOTE.—The total amount attributable to Goodwill may also be ascertained in this manner :—

	Rs.	Rs.
Goodwill as per Holding Co.'s Balance Sheet ..	50,000	
Goodwill as per Subsidiary Co.'s Balance Sheet ..	10,000	
		60,000
Total Assets of the Subsidiary at date of acquisition ..	2,15,000	
Less Liabilities at date of acquisition	95,000	
Net Assets Rs.	1,20,000	

	Rs.	Rs.
Purchase price for acquiring 8,000 Shares, i.e. 4/5ths interest in the Subsidiary Co.	1,00,000	
Less Value of 4/5ths interest in Net Assets acquired ..	96,000	
Additional amount paid for Goodwill		4,000
		Rs. 64,000

ILLUSTRATION 148.

The following are the Balance Sheets of a Holding Company and its Subsidiary as at 31st December, 1936 and 1937:—

HOLDING COMPANY'S BALANCE SHEETS.

	31-12-36 Rs.	31-12-37 Rs.		31-12-36 Rs.	31-12-37 Rs.
Share Capital— Authorised, Issued and fully Paid up—35,000 Shares of Rs. 10 each ...	3,50,000	3,50,000	Goodwill	50,000	50,000
Sundry Creditors ...	39,000	35,000	Land and Building at cost ..	1,10,000	1,10,000
Reserve ..	41,000	57,000	Plant and Machinery at cost less depreciation ...	80,000	75,000
P. & L. Account ...	67,000	80,000	Stock	40,000	47,000
			Debtors	55,000	60,000
			Investments—9,000 Shares of Rs. 10 each at cost ..	1,50,000	1,50,000
			Cash at Bank ..	12,000	30,000
Rs.	4 97,000	5 22,000	Rs.	4,97,000	5 22,000

SUBSIDIARY COMPANY'S BALANCE SHEETS.

	31-12-36 Rs.	31-12-37 Rs.		31-12-36 Rs.	31-12-37 Rs.
Share Capital— Authorised, Issued and fully Paid up—10,000 shares of Rs. 10 each ..	1,00,000	1,00,000	Goodwill ...	40,000	40,000
Sundry Creditors ..	10,000	8,000	Plant and Machinery at cost less depreciation ..	45,000	42,500
Reserve ...	17,500	20,500	Stock ..	25,000	30 000
P. & L. Account ...	12,000	28,500	Debtors ..	22,000	32,000
			Cash at Bank ...	7,500	12,500
Rs.	1,39,500	1,57,000	Rs.	1,39,500	1 57 000

The shares in the Subsidiary Company were acquired on 31st December 1936 No dividends have been declared. Prepare Consolidated Balance Sheets as at 31st December 1936 and 31st December 1937.

(*The Solution of this Illustration appears on the next page.*)

NOTE.—Alternatively, the Goodwill amount may be ascertained as under:—

	Rs.	Rs.
Goodwill of Holding Company		50,000
" of Subsidiary "		40,000
		90,000
Total assets of the Subsidiary Co. on date of purchase	1,39,500	
Liabilities do. do. ..	10,000	
	1,29,500	
Less 1/10th Shares applicable to outside shareholders ..	12,950	
Rs.	1,16,550	
Purchase price of shares acquired	1,50,000	
Less Net Assets acquired as above	1,16,550	
		33,450
		Rs. 1,23,450

CONSOLIDATED BALANCE SHEETS.

As at 31st December

		1936		1937		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Share Capital— Authorised, Issued and paid up ...			3,50,000			3,50,000
Subsidiary Company Capital held by Outside Shareholders—1,000 shares of Rs. 10 each fully paid ...			10,000			10,000
Interest of Outside Shareholders in the Reserve and Profit and Loss Account of Subsidiary Company—						
Reserve ...		...			300	
Profit and Loss Account ...		...			1,650	
Capital Reserve ...		2,950	2,950		2,950	4,900
Capital Reserve— Balances on Reserve A/c. & P. & L. A/c. ...		17,500			17,500	
At the date of purchase of shares ...		12,000			12,000	
		29,500			29,500	
less Amount applicable to outside Shareholders ...		2,950			2,950	
deducted from *contra* ...		26,550			26,550	
Sundry Creditors— Holding Company ...		39,000			35,000	
Subsidiary Company ...		10,000	49,000		8,000	43,000
General Reserve— Holding Company ...	Rs.	41,000			57,000	
Subsidiary Company	17,500			20,500		
less Transfer to Capital Reserve	17,500			17,500		
				3,000		
less Amount applicable to Outside Shareholders ...		...	41,000	300	2,700	59,700
Profit and Loss Account— Holding Company ..		67,000			80,000	
Subsidiary Company	12,000			28,500		
less Transfer to Capital Reserve	12,000			12,000		
				16,500		
less Amount applicable to outside shareholders ...			67,000	1,650	14,850	94,850
		Rs.	5,19,950		Rs.	5,62,450

		1936		1937	
		Rs.	Rs.	Rs.	Rs.
Goodwill— Holding Company ...		50,000			
Subsidiary Company ...		40,000			
		90,000			
add Excess of cost of shares in Subsidiary Co. over their Nominal Value:—	Rs.				
Cost Price ...	1,50,000				
Nominal Value ...	90,000				
	60,000				
less Capital Reserve (*per contra*) ...	26,550	33,450	1,23,450		1,23,450
Land and Building at cost— Holding Company ...			1,10,000		1,10,000
Plant and Machinery at cost *less* Depreciation— Holding Company ...		80,000		75,000	
Subsidiary Company ...		45,000	1,25,000	42,500	1,17,500
Stock-in-trade— Holding Company— ...		40,000		47,000	
Subsidiary Company ...		25,000	65,000	30,000	77,000
Sundry Debtors— Holding Company ...		55,000		60 000	
Subsidiary Company ...		22,000	77,000	32,000	92,000
Cash at Bank— Holding Company ..		12,000		30,000	
Subsidiary Company ...		7,500	19,500	12,500	42,500
		Rs.	5,19,950	Rs.	5,62,450

ILLUSTRATION 149.

From the following Balance Sheets and further information supplied, you are required to prepare:—

(a) Consolidated Balance Sheet as at 31st March 1938 to be circulated to members.
(b) Consolidated Profit and Loss Appropriation Account to show how the balance on this account as disclosed in the Balance Sheet is arrived at; and
(c) Statements indicating the details in regard to the adjustments of the items embodied in the Consolidated Balance Sheet.

BALANCE SHEETS OF THE SENIOR, LTD. AND ITS SUBSIDIARY COMPANY THE JUNIOR, LTD.

As at 31st March 1938.

	Senior Rs.	Junior Rs.		Senior Rs.	Junior Rs.
Share Capital—Authorised, Issued and fully Paid up:			Goodwill ..	1,26,000	46,000
Rs. 10 Ordinary Shares ...	1,80,000	1,00,000	Land and Buildings ..	95,000	47,000
6% Rs. 10 Preference Shares ...	1,50,000	80,000	Plant and Machinery (*less* 10% Depreciation) ...	45,000	50,400
Premium on Ordinary Shares ..	36,000		Fixtures and Fittings (*less* 5% Depreciation) ...	1,000	500
6% First Mortgage Debentures ...	40,000	50,000	9,000 Ordinary Shares in the Junior Ltd., at cost	1,20,000	
Sundry Creditors ...	30,000	40,000	2,000 Ordinary Shares in the Senior Ltd, at cost ...		24,000
Reserve ...	26,000	30,000	Stock-in-Trade ...	48,000	1,14,000
Profit and Loss Account ...	60,000	20,000	Sundry Debtors ..	55,000	35,000
			Investments at cost ...	26,000	
			Cash at Bank ...	6,000	3,100
Rs.	5,22,000	3,20,000	Rs.	5,22,000	3,20,000

(1) The shares in the Junior, Ltd. were acquired by the Senior, Ltd. on 1st October 1937. At 31st March 1937, the date of the last preceding Balance Sheet of the Junior, Ltd., the Plant and Machinery stood in the books at Rs. 56,000, the Reserve at Rs. 30,000 and the Profit & Loss Account at Rs. 8,000. The Plant was re-valued by the Directors of the Senior, Ltd. on 1st October 1937 at Rs. 60,000, but no adjustments were made in the books of the Junior, Ltd.

(2) Sundry Creditors of Senior, Ltd. include Rs. 15,000 due to Junior, Ltd. for goods supplied since the acquisition of the shares. In arriving at the price at which goods are invoiced to the Senior, Ltd. 10% is added to the gross cost of sales. The stock of Senior, Ltd. at 31st March 1938 includes goods costing Rs. 33,000 purchased from Junior, Ltd.

(3) Sundry Creditors of Junior, Ltd. include Bills Payable of Rs. 6,000 given to Senior, Ltd. which the latter Company has discounted.

Solution.

CONSOLIDATED BALANCE SHEET OF THE SENIOR CO., LTD., AND ITS SUBSIDIARY COMPANY.

As at 31st March 1938.

	Rs.	Rs.		Rs.
Share Capital:—				
Authorised, Issued and Paid up—			Goodwill at cost *less* Capital Reserve	1,58,440
			Land and Buildings at cost ..	1,42,000
15,000 6% Preference Shares of Rs. 10 each ..	1,50,000		Plant and Machinery at cost *less* depreciation	1,01,860
16,000 Ordinary Shares of Rs. 10 each ..	1,60,000		Fixtures and Fittings at cost *less* depreciation	1,500
		3,10,000	Stock-in-Trade	1,59,300
Carried over Rs.		3,10,000	*Carried over* Rs.	5,63,100

CONSOLIDATED BALANCE SHEET—(*Contd.*)

	Rs.	Rs.		Rs.
Brought over ...		3,10,000	*Brought over*	5,63,100
Premium on Shares ...		32,000	Sundry Debtors	75,000
6% First Mortgage Debentures ...		40,000	Investments	26,000
Junior, Ltd.—Interest of *Outside* Shareholders and Debenture-holders :—			Cash at Bank	9,100
8,000 6% Preference Shares of Rs. 10 each ...	80,000			
1,000 Ordinary Shares of Rs. 10 each ...	10,000			
	90,000			
6% First Mortgage Debentures ...	50,000			
		1,40,000		
Junior, Ltd.—Proportion of Reserve and Profit & Loss Account Balance due to Outside Shareholders ...		9,966		
Capital Reserve :— Balance on Reserve and Profit & Loss Account at the date of purchase —*deducted* from Goodwill (*contra*) ...	43,560			
Sundry Creditors ...		55,000		
Reserves ...		26,000		
Profit & Loss Account ...		60,234		
	Rs.	6,73,200	Rs.	6,73,200

CONSOLIDATED PROFIT & LOSS APPROPRIATION ACCOUNT.

For the year ended 31-3-1938.

	Rs.	Rs.	Rs.
By Net Profit for the year ended 31st March 1937 :—			
Senior, Limited			60,000
Junior, Limited		20,000	
Less Balance as at 1-4-1937	8,000		
½ year's profit to 1-10-37 = ½ of (20,000 – 8,000)	6,000		
	14,000		
Less ½ year's Preference Dividend to 1st October 1937	2,400		
Balance of P. & L. Account as at 1st Oct. 1937		11,600	
		8,400	
Less Liability to Pref. Shareholders for ½ year's Dividend		2,400	
Profit earned subsequent to purchase of shares		6,000	
Less Further ½ year's Div. on Pref. Shares to 31-3-38	2,400		
Depreciation on increased valuation of Plant—10% for ½ year on Rs. 6,800	340		
		2,740	

		Rs.	Rs.
Balance of Profit & Loss Account since 1st October 1937		3,260	
Less proportion of profit due to outside shareholders		326	
		2,934	
Less Unrealised Profit on Stock held by Senior, Ltd. written back		2,700	
			234
			Rs. 60,234

STATEMENT SHOWING THE ADJUSTMENTS OF THE ITEMS INCLUDED IN THE CONSOLIDATED BALANCE SHEET.

		Rs.	Rs.
(1) Ordinary Share Capital—18,000 Ordinary Shares of Rs. 10 each		1,80,000	
Less 2,000 Shares held by Junior, Ltd.		20,000	
			1,60,000
(2) Premium on Shares—Balance as per Senior, Ltd. books		36,000	
Less Premium paid by Junior, Ltd. on purchase of Senior, Ltd. Shares		4,000	
			32,000
(3) Reserves and P. & L. Account Balance due to outside Shareholders—			
Reserve (no addition since purchase)		nil.	
Capital Reserve (See Item 4)		4,840	
Profit & Loss Account		326	
Dividend on Preference Shares—due ½ year to 1-10-1937	Rs. 2,400		
due ½ year to 31-3-38	2,400		
		4,800	
			9,966
(4) Capital Reserve—Reserve of Junior, Ltd. at date of purchase		30,000	
Profit & Loss Account at date of purchase	14.000		
Less ½ year's Dividend on Pref. Shares to 31-10-37	2,400		
		11,600	
		41,600	
Add Increase on revaluation of Plant		6,800	
		48,400	
Less proportion due to outside Ordinary Shareholders		4,840	
			43,560
(5) Sundry Creditors—Senior, Ltd.		30,000	
Less owing to Junior, Ltd.		15,000	
		15.000	
Junior, Ltd. on Open Accounts		34,000	
Bills Payable		6,000	
			55,000

	Rs.	Rs.	Rs.
(6) Goodwill—			
Senior, Ltd.			1,26,000
Junior, Ltd.		46,000	
Add Excess of cost over nominal value—			
Cost Price	1,20,000		
Nominal Value	90,000		
	30,000		
Deduct Capital Reserve (see Item 4)	43,560		
		13,560	
			32,440
			Rs. 1,58,440
(7) Land & Buildings—			
Senior, Ltd.			95,000
Junior, Ltd.			47,000
			Rs. 1,42,000
(8) Plant & Machinery—			
Senior, Ltd.			45,000
Junior, Ltd.		50,400	
Add increase on revaluation on 1st Oct. 1937	6,800		
Less ½ year's depreciation thereon	340		
		6,460	
			56,860
			Rs. 1,01,860
NOTE.—The increase in valuation is ascertained as under:—			
Book value at 1st April 1937		56,000	
Less ½ year's depreciation to 1st October		2,800	
		53,200	
Value at 1st October 1937 as per revaluation		60,000	
		Rs. 6,800	
(9) Furniture & Fittings—			
Senior, Ltd.			1,000
Junior, Ltd.			500
			Rs. 1,500
(10) Stock-in-trade—			
Senior, Ltd.		48,000	
Less Inter-Company profit $\frac{9}{10} \times \frac{10}{110}$ of Rs. 33,000 =		2,700	
			45 300
Junior, Ltd.			1,14,000
			Rs. 1,59,300
(11) Sundry Debtors—			
Senior, Ltd.			55,000
Junior, Ltd.		35,000	
Less owing by Senior, Ltd.		15,000	
			20,000
			Rs. 75,000

		Rs.
(12)	Cash at Bank—	
	Senior, Ltd.	6,000
	Junior, Ltd.	3,100
		Rs. 9,100

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. What is a Holding Company, and how does it come into existence?

2. Under what circumstances can a company become a Subsidiary to another Company?

3. Where a Holding Company acquires a part only of the Share Capital of its Subsidiary, how would you ascertain the interest of the outside shareholders?

4. While preparing a Consolidated Balance Sheet, what amount would you carry to Capital Reserve Account?

5. How would you ascertain the amount of Goodwill, if any, paid by a Holding Company on acquisition of its Subsidiary?

6. Mention the requirements under the Indian Companies Act, 1936, in regard to compulsory publication of information by a Holding Company relating to its Subsidiaries.

7. How would you treat the following items in the Accounts of a Holding Company? Give reasons for your answer.

(a) A loan by the Holding Company to one of its subsidiary Companies for the purpose of repaying money borrowed by the latter Company on the security of debentures.

(b) A temporary advance to the Holding Company by a Subsidiary Company.

(c) A premium on shares of the Holding Company issued in exchange for shares in a Subsidiary Company.

(d) A dividend received from a Subsidiary Company which is paid out of profits earned before the date of purchase of that Company's shares by the Holding Company and for which allowance was made in the purchase price of the shares.

8. On 1st July 1937, the Mighty Co., Ltd., bought 5,500 Shares of Rs. 10 each, fully paid, in the Meekly Co., Ltd., for Rs. 20 each. At that time it was estimated that the tangible assets and liabilities of the Meekly Co. might be taken at book valuation except the buildings, etc., which were undervalued by Rs. 25,000.

Each company prepared a Balance Sheet as on 31st December 1937, which can be considered as follows:—

	Mighty Co.	*Meekly Co.*		*Mighty Co.*	*Meekly Co.*
	Rs.	Rs.		Rs.	Rs.
Share Capital ..	2,00,000	60,000	Buildings, etc. ..	1,50,000	65,000
General Reserve ..	50,000	6,000	Sundry Assets ..	50,000	11,000
Creditors ..	15,000	10,000	Debtors	20,000	15,000
Profit & Loss—Balance, 1st January 1937 ..	25,000	3,000	Shares in Meekly Co., Ltd. ..	1,10,000	
Profit for the year ..	40,000	12,000			
Rs.	3,30,000	91,000	Rs.	3,30,000	91,000

The debtors of the Mighty Co. included Rs. 5,000 due from the Meekly Co., Ltd. Prepare a Consolidated Balance Sheet, showing your workings clearly in the form of Journal entries or otherwise. 342

(Total of Consolidated Balance Sheet Rs. 3,47,250.)

9. Elder Co., Ltd., holds two-thirds of the issued Capital of Younger Co., Ltd.

The Directors of Elder Co., Ltd., ask you to draft a Consolidated Balance Sheet of the whole undertaking, amalgamating the assets and liabilities of the subsidiary company, Younger Co., Ltd., with those of Elder Co., Ltd. (Show your detailed workings in an inner column).

The following are the Balance Sheets of the two companies as on 31st December 1937 :—

ELDER CO., LTD.

		Rs.			Rs.
Share Capital :—			Goodwill		75,000
Authorised, Issued and Paid up—			Land and Buildings ..		1,50,000
5,000 Ordinary Shares of Rs. 100 each		5,00,000	Plant and Machinery ..		90,000
Sundry Creditors		2,75,000	Stocks		50,000
General Reserve		1,00,000	Sundry Debtors :—	Rs.	
Profit & Loss Account :—	Rs.		Advances to Younger Co., Ltd ..	1,25,000	
Balance b/fd. ..	15,000		Trade Debtors ..	1,05,000	
Add Profit for the year	85,000				2,30,000
Interim dividend from Younger Co., Ltd.	80,000		Bills Receivable accepted by Younger Co., Ltd. ..		30,000
		1,80,000	Investments at cost :—		
			War Loan ..	40,000	
			Younger Co., Ltd. 2,000 Ordy. Shares of Rs. 100 each ..	2,75,000	
					3,15,000
			Cash and Bank Balances ..		1,15,000
		Rs. 10,55,000			Rs. 10,55,000

NOTE.—There are contingent liabilities in respect of :—

(a) Guarantee of principal and of interest on Rs. 50,000 6% 1st Mortgage Debentures of Younger Co., Ltd.; (b) Bills discounted Rs. 20,000.

YOUNGER CO., LTD.

		Rs.		Rs.
Share Capital :—			Goodwill	30,000
Authorised, Issued and Paid up—			Land and Buildings ..	1,75,000
3,000 Ordinary Shares of Rs. 100 each		3,00,000	Plant and Machinery ..	2,25,000
6% 1st Mortgage Debentures ..		50,000	Stocks	1,00,000
Bills Payable issued to Elder Co., Ltd.		50,000	Sundry Debtors	90,000
Sundry Creditors		2,00,000	Balance at Bankers and Cash in hand	50,000
General Reserve		15,000		
Profit & Loss Account :—	Rs.			
Profit for the year ..	1,75,000			
Deduct Interim Dividend paid 40% ..	1,20,000			
		55,000		
		Rs. 6,70,000		Rs. 6,70,000

The General Reserve of the Younger Co., Ltd., was Rs. 10,000 when the Elder Co., Ltd. purchased the 2,000 shares, and Rs. 5,000 has been added out of subsequent profits. 343

(*Total of Consolidated Balance Sheet Rs.* 13,63,333-5-4.)

10. The Senior Co., Ltd., acquired the whole of the shares in the Junior Co., Ltd., as at 1st January 1937, at a total cost of Rs. 11,20,000. The Balance Sheets at 31st December 1937, when Accounts of both Companies were prepared and audited, were as under:—

THE SENIOR CO., LTD.

BALANCE SHEET.

As at 31st December 1937.

Liabilities	Rs.	*Assets*	Rs.
Share Capital:—		Freehold Premises	10,30,000
Authorised and Issued—		Machinery	3,00,000
15,000 Shares of Rs. 100		Stock (*b*)	3,40,000
each fully paid ..	15,00,000	Debtors	2,80,000
Creditors (*a*)	1,50,000	Investments	11,20,000
General Reserve	9,50,000	Cash	3,30,000
Profit & Loss Account (c) ..	8,00,000		
Rs.	34,00,000	Rs.	34,00,000

(*a*) Includes Rs. 60,000 for Purchase from the Junior Co., Ltd. on which the latter company made a profit of Rs. 15,000.

(*b*) Includes Rs. 30,000 stock at cost purchased from the Junior Co., Ltd., part of Rs. 60,000 purchases [See Note (*a*)].

(c) Includes *interim* dividend at the rate of 10 per cent per annum, free of tax, from the Junior Co., Ltd.

THE JUNIOR CO., LIMITED.

BALANCE SHEET.

As at 31st December 1937.

Liabilities	Rs.	*Assets*	Rs.
Share Capital:—		Freehold Premises	3,00,000
Authorised and Issued—		Machinery	2,71,000
50,000 Shares of Rs. 10 each		Stock	2,02,000
fully paid	5,00,000	Debtors	1,58 000
Creditors	1,61,000	Cash	1,10,000
General Reserve—as at 1st			
January 1937	20,000		
Profit & Loss Account ..	3,60,000		
Rs.	10,41,000	Rs.	10,41,000

NOTE.—The balance on Profit & Loss Account at 1st January 1937 was Rs. 2,80,000, an *interim* dividend of 10 per cent per annum, free of tax, having been paid during the year in respect of the year ended 31st December 1937.

Make the necessary adjustments and show a Consolidated Balance Sheet as at 31st December 1937. 344

(*Total of Consolidated Balance Sheet Rs.* 35,73,500.)

11. From the Balance Sheets given below, prepare a Consolidated Balance Sheet of the Fullsize Co., Ltd., and its subsidiary. The interests of the minority shareholders of the Medium Co., Ltd., are to be shown in the Consolidated Balance Sheet.

THE FULLSIZE CO., LTD.
BALANCE SHEET.
As on 31st December 1937.

	Rs.		Rs.
Share Capital:—		Freehold Property at cost *less* Depreciation	76,00,000
Authorised and Issued— 1,00,000 Shares of Rs. 80 each fully paid	80,00,000	Plant and Machinery at cost *less* Depreciation	11,20,000
General Reserve	40,00,000	Shares in the Medium Co., Ltd., at cost—9,000 Shares of Rs. 80 each	14,40,000
Creditors	24,00,000	Stock on hand at cost	24,00,000
P. & L. Appropriation Account	8,00,000	Sundry Debtors	16,00,000
		Cash at Bank	10,40,000
Rs.	1,52,00,000	Rs.	1,52,00,000

THE MEDIUM COMPANY, LTD.
BALANCE SHEET.
As on 31st December 1937.

	Rs.		Rs.
Share Capital:—		Investments at cost	1,60,000
Authorised and Issued— 10,000 Shares of Rs. 80 each fully paid	8,00,000	Stock on hand at cost	4,00,000
Creditors	1,60,000	Sundry Debtors	5,60,000
P. & L. Appropriation Account	12,00,000	Cash at Bank	10,40,000
Rs.	21,60,000	Rs.	21,60,000

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(*Total of Consolidated Balance Sheet Rs.* 1,59,20,000.).

CHAPTER XIV.

DEPRECIATION AND RESERVES.

Definition.—The term "Depreciation" represents loss or diminution in the value of an asset consequent upon wear and tear, obsolescence, effluxion of time or permanent fall in market value.

Necessity of providing for Depreciation.—All assets which are more or less constantly in use, naturally diminish in value by reason of wear and tear. As the wasting of an asset contributes to the earning of profits, it is only right that it should be viewed as an expense; and in order to arrive at the profits of an undertaking, it is imperative that the question of depreciation should be considered, as no true profit can be ascertained until all losses or expenses incurred for the purpose of earning an income are charged against such income. Another reason why depreciation should be brought into account is that unless the shrinkage in the value of the assets, due from any cause, is provided for, the value of the assets will be overstated in the Balance Sheet.

The whole theory of depreciation is, therefore, that the capital sunk by any concern in the acquisition of its fixed assets must be preserved intact and that the loss in value arising from the use of such assets should be made good out of revenue each year by distributing such charge fairly over their working life, and not left over until the last moment when those assets have ceased to be useful.

It must be observed that the above remarks as to the necessity of provision for depreciation, are made from an accountancy standpoint, and not a legal one. Although it has been held that a company may, by its Articles of Association, provide for the distribution of profits arrived at before making good the depreciation of fixed assets, it is only sound finance that such a provision should be made.

Considerations necessary to determine its Rate.—The practical difficulty, however, in connection with depreciation is how to apportion the cost of wasting assets fairly over each of the limited number of years during which they will be utilised for profit-seeking purposes. The exact measure of depreciation undergone by an asset in any particular year cannot be definitely determined, yet a fair and reasonable estimate can be made in the beginning and the same may be rectified subsequently as actual experience may demand.

In estimating the amount of depreciation to be provided for, the following points should always be considered :—

(a) The original cost of the asset.
(b) The probable working life of the asset.
(c) The amount to be expended on repairs and renewals.
(d) The break-up or residual value.
(e) The chances of the asset becoming obsolete on account of new inventions.

Methods of providing for Depreciation.—The following are the various methods of providing for the depreciation of an asset:—

1. By writing a fixed percentage off the original cost of the asset at the end of each year.
2. By writing a fixed percentage off the diminishing balance of the asset each year.
3. The annuity system.
4. By means of a Sinking Fund or Depreciation Fund.
5. By Sinking Fund Insurance Policy.
6. By annual valuation.

The Fixed Instalment Method.—The first method is known as the fixed instalment method. To ascertain the annual charge under this method, all that is necessary is to divide the original value of the asset by the number of years of its estimated life. Having done this, it only remains to debit Depreciation Account each year with this amount and credit the particular Asset Account.

In case of assets that have any residual value, the amount to be written off during any given number of years must be the difference between the cost and the estimated value of the residue. Although this system is the simplest, it is not scientific, and consequently, it should only be used in case of assets of small intrinsic value, such as furniture, fixtures and short leases.

The Diminishing Balance Method.—Under the second method, as the balance of the asset as brought forward from the previous year will be the amount on which th[illegible] each year, it is natural that the percentage required to bring down the value to a certain figure in a given number of years would be much higher than in the first method.

This method is very advantageous when used in connection with writing down the cost of plant and machinery, for, as the depreciation amount to be written off becomes less year after year, the cost of repairs necessary to keep the machinery in working order increases as the machinery grows older, so that the ultimate burden on Profit and Loss Account each year in respect of depreciation and repairs put together is equalised.

Having calculated the required percentage on the reducing balance at the end of each year, Profit and Loss Account is debited and the particular Asset Account is credited with the amount.

ILLUSTRATION 150.

The original cost of Fixtures and Furniture amounted to Rs. 4,000, and it is decided to write off 5% on the original cost as depreciation at the end of each year. Show the Ledger Account as it will appear during the first four years. Show also how the same Account will appear if it was decided to write off 5% on the diminishing balance of the asset each year.

Solution.

FURNITURE AND FIXTURES ACCOUNT.
(Depreciated on the Fixed Instalment Method.)

Year		Rs.	Year		Rs.
1st	To Bank ...	4,000	1st	By Depreciation ..	200
				„ Balance c/d. .	3,800
	Rs.	4,000		Rs.	4,000
2nd	To Balance b/d. ...	3,800	2nd	By Depreciation ...	200
				„ Balance c/d. ...	3,600
	Rs.	3,800		Rs.	3,800
3rd	To Balance b/d. ...	3,600	3rd	By Depreciation ...	200
				„ Balance c/d. ..	3,400
	Rs.	3,600		Rs.	3,600
4th	To Balance b/d. ...	3,400	4th	By Depreciation ...	200
				„ Balance c/d. ..	3,200
	Rs.	3,400		Rs.	3,400
5th	To Balance b/d. ...	3,200			

FURNITURE AND FIXTURES ACCOUNT.
(Depreciated on the Diminishing Balance Method.)

Year		Rs. a. p.	Year		Rs. a. p.
1st	To Cash ...	4,000 0 0	1st	By Depreciation ...	200 0 0
				„ Balance c/d. ...	3,800 0 0
	Rs.	4,000 0 0		Rs.	4,000 0 0
2nd	To Balance b/d. ...	3,800 0 0	2nd	By Depreciation ...	190 0 0
				„ Balance c/d. ...	3,610 0 0
	Rs.	3,800 0 0		Rs.	3,800 0 0
3rd	To Balance b/d. ...	3,610 0 0	3rd	By Depreciation ..	180 8 0
				„ Balance c/d. ...	3,429 8 0
	Rs.	3,610 0 0		Rs.	3,610 0 0
4th	To Balance b/d. ...	3,429 8 0	4th	By Depreciation ..	171 7 7
				„ Balance c/d. ..	3,258 0 5
	Rs.	3,429 8 0		Rs.	3,429 8 0
5th	To Balance b/d. ..	3,258 0 5			

Annuity System.—Under this method, interest at a fixed rate is calculated on the capital outlay involved in the acquisition of the asset, on the assumption that if the same amount of capital was employed in some other investment, it would have earned a certain rate of interest. The owner of the business, therefore, during the period that he utilises any asset, not only loses the original cost of that asset in the shape of depreciation but also loses the interest thereon, and under the annuity system, the cost of the asset as also the interest thereon are written down annually by equal instalments until the book value of the asset in question is reduced either to zero or its residual value at the end of its usefulness to the business. The annual amount to be thus written off will be ascertained from the Depreciation Annuity Tables, and the following entries will have to be passed at the end of each year. Interest at a fixed rate calculated on the opening balance of the Asset Account will be debited to the Asset Account and credited to Interest Account. The fixed amount as ascertained from the Tables will then be debited to Depreciation Account and credited to the Asset Account. This method can be used advantageously, chiefly in respect of long leases which generally involve a considerable capital outlay. It will not be suitable for adoption in the case of Plant and Machinery, as fresh calculations will have to be made each time any additions are made or any obsolete plant is discarded. Where it is desired not merely to write off an asset but also to provide for its replacement at the time it becomes valueless, the Depreciation Fund System will be more suitable.

ILLUSTRATION 151.

A seven years' lease has been purchased for a sum of Rs. 60,000 and it is proposed to depreciate it under the Annuity Method charging 4% interest. Reference to the Annuity Method Depreciation Table indicates that the required result will be brought about by charging annually Rs. 9,996-8-11 to Depreciation Account. Show how the Lease Account will appear each of the seven years.

Solution.

LEASE ACCOUNT.

Year		Rs.	a.	p.	Year		Rs	a.	p.
1st	To Bank ...	60,000	0	0	1st	By Depreciation ...	9,996	8	11
	„ Interest ...	2,400	0	0		„ Balance c/d. ...	52,403	7	1
	Rs.	62,400	0	0		Rs.	62,400	0	0
2nd	To Balance b/d. ...	52,403	7	1	2nd	By Depreciation ...	9,996	8	11
	„ Interest ...	2,096	2	3		„ Balance c/d. ...	44,503	0	5
	Rs.	54,499	9	4		Rs.	54,499	9	4
3rd	To Balance b/d. ...	44,503	0	5	3rd	By Depreciation ...	9,996	8	11
	„ Interest ...	1,780	1	11		„ Balance c/d. ...	36,286	9	5
	Rs.	46,283	2	4		Rs.	46,283	2	4
4th	To Balance b/d. ...	36,286	9	5	4th	By Depreciation ...	9,996	8	11
	„ Interest ...	1,451	7	5		„ Balance c/d. ...	27,741	7	11
	Rs.	37,738	0	10		Rs.	37,738	0	10
5th	To Balance b/d. ...	27,741	7	11	5th	By Depreciation ...	9,996	8	11
	„ Interest ...	1,109	10	7		„ Balance c/d. ..	18,854	9	7
	Rs.	28,851	2	6		Rs.	28 851	2	6
6th	To Balance b/d. ...	18,854	9	7	6th	By Depreciation ...	9,996	8	11
	„ Interest ...	754	2	11		„ Balance c/d. ...	9,612	3	7
	Rs.	19,608	12	6		Rs.	19,608	12	6
7th	To Balance b/d. ...	9,612	3	7	7th	By Depreciation ...	9,996	8	11
	„ Interest ...	384	5	4					
	Rs.	9,996	8	11		Rs.	9,996	8	11

Depreciation Fund System.—This system consists of not only bringing into account the annual loss sustained by the shrinkage in the value of the assets utilised for the purposes of trade, but also provides fund for their replacement at the time when the old assets have to be discarded and have to be replaced by new ones, without in any way disturbing the financial condition of the business. The steps necessary to work this system are as follows:—

(1) Under this method, the Asset Account is allowed to stand in the books at its original cost from year to year. At the end of each balancing period, such a sum is debited to Depreciation Account and credited to Depreciation Fund Account which, if invested in gilt-edged securities from year to year during the life of the existing asset, will accumulate at compound interest to a sum required to replace the original asset at the time when it becomes useless.

(2) When a corresponding amount is invested in outside securities, the entry will be to debit Depreciation Fund Investment Account and credit Bank.

(3) The periodical interest realised on these ear-marked securities will be debited to Bank and credited to Depreciation Fund Account and will also be invested in the same class of securities. The result of this procedure will be that by the time the existing asset has entirely worn out and has become useless for the purposes of the business, a fund will have been built up represented by specific securities which can be realised to supply the cash necessarily required to acquire a similar asset, without in any way crippling the financial resources of the business.

(4) On the Investments being realised, the entry will be:

Bank .. .. Dr.

To Depreciation Fund Investment Account.

(5) Any balance on the latter account will now represent profit or loss arising from the sale of these investments and will be transferred to Depreciation Fund Account.

(6) The amount realised on the sale of the discarded asset will be credited to the Asset Account concerned.

(7) The Depreciation Fund Account will be closed by its balance being transferred to the Asset Account.

(8) Any balance now left on the Asset Account will represent an over or an under-estimate in respect of depreciation and will be transferred to the Profit and Loss Account.

(9) The cash realised on the sale of the specific investments will now be available for the purchase of the new asset.

It needs to be mentioned that the amount which should be set aside each year to provide for the accumulation of a certain sum at compound interest at the end of a definite period is ascertained from ready-made Annuity Tables.

ILLUSTRATION 152.

A five years' Lease has been acquired for Rs. 50,000 and it has been decided to provide for its annual depreciation as also for its replacement at the expiry of the term on the Depreciation Fund System. A reference to the Depreciation Fund Tables shows that the annual amount to be provided for on the basis of 5% interest works out at Rs. 9,050. Show the necessary accounts affected, if the decision is carried out during the five years.

DEPRECIATION ACCOUNT.

Year		Rs.	Year		Rs.
1st	To Depreciation Fund Account ... Rs.	9,050	1st	By Profit and Loss Account Rs	9,050
2nd	To Depreciation Fund Account ... Rs.	9,050	2nd	By Profit and Loss Account Rs.	9,050
3rd	To Depreciation Fund Account ... Rs.	9,050	3rd	By Profit and Loss Account Rs.	9,050
4th	To Depreciation Fund Account ... Rs.	9,050	4th	By Profit and Loss Account Rs.	9,050
5th	To Depreciation Fund Account ... Rs.	9,050	5th	By Profit and Loss Account Rs.	9,050

DEPRECIATION FUND ACCOUNT.

Year		Rs.	Year		Rs.
1st	To Balance c/d. Rs.	9,050	1st	By Depreciation Account Rs.	9,050
2nd	To Balance c/d. ...	18,550	2nd	By Balance b/d. ..	9,050
				„ Interest ..	450
				„ Depreciation Account ...	9,050
	Rs.	18,550		Rs.	18,550
3rd	To Balance c/d. ...	28,525	3rd	By Balance b/d. ...	18,550
				„ Interest ..	925
				„ Depreciation Account ..	9,050
	Rs.	28,525		Rs.	28,525
4th	To Balance c/d. ...	39,000	4th	By Balance b/d. ..	28,525
				„ Interest ...	1,425
				„ Depreciation Account ..	9,050
	Rs.	39,000		Rs.	39,000
5th	To Balance c/d. ...	50,000	5th	By Balance b/d. ..	39,000
				„ Interest ...	1,950
				„ Depreciation Account ...	9,050
	Rs.	50,000		Rs.	50,000
				By Balance b/d. ...	50,000

DEPRECIATION FUND INVESTMENT ACCOUNT.

Year			Rs.	Year			Rs.
2nd	To Bank	Rs.	9,000	2nd	By Balance c/d. ...	Rs.	9,000
3rd	To Balance b/d. ...		9,000	3rd	By Balance c/d. ...		18,500
	„ Bank ...		9,500				
		Rs.	18,500			Rs.	18,500
4th	To Balance b/d. ..		18,500	4th	By Balance c/d. ...		28,500
	„ Bank ...		10,000				
		Rs.	28,500			Rs.	28,500
5th	To Balance b/d. ...		28,500				
	„ Bank ...		10,500				
		Rs.	39,000				

NOTES.—(*a*) The amount charged to revenue at the end of each year is invested at the commencement of the subsequent year and made to earn interest. Similarly, the interest realised on specific securities is invested in the same class of securities so that the Fund accumulates at compound interest.

(*b*) To the investments worth Rs. 39,000 as shown at the commencement of the fifth year, there will be added Rs. 1,950 for one year's interest thereon and the instalment of Rs. 9,050 at the end of the fifth year, so that a fund of Rs. 50,000 would be available for the acquisition of a new Lease.

Insurance Policy Method.—In some businesses, rather than investing the annual amount in gilt-edged securities to provide for the Depreciation Fund as above explained, a Policy will be taken out with an insurance company which will agree to pay a difinite sum of money at the end of a specified period in return for certain annual premium payable to them during the period of the policy. The entries, under such a circumstance, will be as under :—

(1) *Depreciation Account* .. .. .. Dr.
To Depreciation Fund Account
(To bring into record the annual loss arising from depreciation of the asset).

(2) *Depreciation Fund Policy Account* .. .. Dr.
To Bank
(For the amount of annual premium paid).

NOTE.—The above two entries will have to be passed every year during the continuance of the policy, and the balance of the Depreciation Fund Policy Account will appear as an asset in the Balance Sheet each year, at its accumulated figure.

(3) *Bank Account* .. .. Dr.
To Depreciation Fund Policy Account
(To record the amount realised on maturity of the policy).

(4) Any difference on Depreciation Fund Policy Account will now be transferred to the Depreciation Fund Account.

(5) *Bank Account* .. .. Dr.
To Asset Account
(To record the break-up value realised on sale of the discarded asset).

(6) The Depreciation Fund Account will be closed by transfer of the balance to the old Asset Account.

(7) The balance on the old Asset Account, whichever side it may fall, will be transferred to Profit and Loss Account.

(8) The cash realised on maturity of the policy will now enable a new asset to be acquired without disturbing the other cash resources of the concern.

Revaluation Method.—This method is resorted to in the case of assets which call for special considerations such as live-stock, loose tools, patents, copyrights, patterns, casks, packages, bottles, etc., and where no other method can be employed to secure satisfactory results. At the end of each financial period, the assets are revalued, and the difference between the book value and the revaluation amount is debited to Depreciation Account and credited to the Asset Account. If, however, the revaluation figure presents an excess over the book value of the asset, the difference would represent profit, and such a gain being of a temporary nature need not be brought into account.

DEPRECIATION AS APPLIED TO VARIOUS ASSETS.

Having dealt with the various methods of providing for depreciation, it now remains to consider the question of depreciation as applied to different assets. It may be pointed out, however, that the rates as given below should in no case be taken as more than a mere approximate guide, as so much would depend upon the particular nature of the business in which the assets in question are being employed.

Freehold Land and Buildings.—Buildings may be depreciated from 1½ to 3 per cent on the original cost, all necessary repairs being charged to revenue. The materials utilised in the construction as also the specific use to be made of the building will form an important element in determining its life.

Land generally does not depreciate except when the locality becomes unpopular.

Leasehold Land and Buildings, including landlord's fixtures, should be written off within the term of the lease, and, at the same time, provision should be made for repairing dilapidations.

Plant and Machinery:—

Engine and Boilers.—Boilers are very often treated separately, and this should be so, as they are subject to more frequent renewals than engines. Whereas 10 to 12½ per cent on the diminishing balance is considered as sufficient for engines, boilers would require 12½ to 20 per cent.

Machinery would require 7½ per cent to 10 per cent on the reducing balance. In estimating the life of machinery, due regard should be had to the question of present machinery becoming obsolete and being superseded by new and improved machinery.

Fixed Plant depreciates slowly, and 5 to 7½ per cent on the diminishing balance is suggested as a fair rate.

In manufacturing concerns, where depreciation of plant and machinery forms an important factor in ascertaining the exact cost of production of articles manufactured, it is very desirable that the sufficiency of the rates of depreciation charged over a given number of years should be tested by a periodical valuation of the works. This would be invaluable in enabling timely correction to be made in cases where such a valuation shows that the rates charged in the past have been insufficient.

The question of **repairs and replacements** is so closely connected with the subject of depreciation that it is deemed desirable to deal with it at this stage. The first essential in a going concern where there is plant and machinery is that it must be properly maintained and repaired out of revenue.

With regard to ordinary breakages and repairs and renewals of worn out parts, these should fall upon revenue. If, however, an amount is expended on machinery whereby the machinery is rendered more powerful and capable of turning out a greater quantity of work, or whereby the working life of the machinery is increased, such an expenditure can fairly be treated as capital expenditure to that extent.

There may, however, be heavy breakages of an extraordinary and costly nature, the repair of which may benefit future years. In a case like this, the cost may be spread over three, five or seven years, as it is not considered fair that the profits of a single year should be made to bear such an extraordinary expense, the benefit of which would be enjoyed by a longer period.

Furniture and Fixtures would require 5 to 7½ per cent on the original cost.

Loose Tools may be dealt with by means of an annual valuation. The other method is that the original value may be allowed to stand at cost and all renewals may be charged to revenue.

Horses may be written down at the rate of 15 to 25 per cent on cost, or according to annual valuation.

Patterns and Designs should be written off on a very liberal scale, say from 20 to 33 1/3 per cent on the original cost.

Mines.—The book value of mines may be reduced according to the proportion which the year's output bears to the estimated total output.

Patents should be written off during their life in equal annual instalments.

Copyrights may be treated in the same manner as patents, although when the commercial value of a copyright is expected to expire long before its termination, it must be written off within the estimated period of its usefulness.

Investments.—In dealing with Investments, much discretion is required. If there has been a temporary fall in price and they are valued at the market price at the date of the Balance Sheet, this may cause a heavy loss to be shown, although values may recover within a short time. A useful expedient is the formation of an Investment Fluctuation Account, sufficient in amount to cover any variation which may reasonably be anticipated.

Goodwill.—The value of goodwill rises or falls from time to time coextensively as the profits of an undertaking increase or diminish. If the value of goodwill has reduced, it would be prudent to write that loss off although such a loss is now regarded as a capital loss. Where, however, the profit earned by a concern is constant, no depreciation in goodwill has taken place, and it would not be necessary, in such a case, to write any depreciation off.

RESERVE AND OTHER FUNDS.

Reserve Fund.—A Reserve Fund may be defined as a sum set aside out of divisible profits and retained in order to provide for unexpected or unknown future losses, or to equalise dividends, or to strengthen the financial position of the concern. In other words, it is a surplus created out of distributable profits representing the amount by which the assets of a concern exceed the sum of its paid-up capital and liabilities, provided the assets and liabilities are properly valued on the basis of a going concern.

A Reserve Fund cannot exist, side by side, with the debit balance of Profit and Loss Account. In the event of the Profit and Loss Account showing a debit balance, at any subsequent date, the Reserve Fund must automatically disappear to the extent of the deficiency, as otherwise it would be a contradiction in terms to state on one side of a Balance Sheet, an item representing a deficiency on Profit and Loss Account, and on the opposite side, an item representing a surplus created out of Reserved Profits.

In the absence of special Articles to the contrary, the directors may transfer the whole or any portion of the Reserve Fund to the credit of Appropriation Account for the purpose of increasing the amount of profits available for dividends.

Investment of Reserve Fund.—There is an idea that a Reserve Fund is improperly so called unless it is invested in ear-marked securities. This seems to be quite erroneous. Although in some cases it undoubtedly is very desirable to invest moneys in specific securities to represent the Reserve Fund, so that an easily realisable asset may be available when required, yet in reality, the form of the assets has nothing to do with the existence of a Reserve Fund. A Reserve Fund may be merged in the general assets of the company. The only true test as to the existence of a Reserve Fund is (*a*) whether it is obtained by a reservation of profits which would otherwise have been distributed, and (*b*) whether it represents a clear surplus of assets over capital and liabilities. The question of employment of the amount representing the Reserve Fund, i.e., whether to invest it outside or employ it within the business, is a matter of policy for the management to consider and does not affect the reality of the Reserve Fund. If the concern is in need of more working capital, then it is clearly expedient that the surplus representing the "reserved profits" be allowed to remain in the business. For instance, where a company has an overdraft on which it has to pay 6 or 7 per cent interest, it would be sheer folly not to pay off such liability but to lock up the Reserve Fund amount in gilt-edged securities yielding from 4 to 5 per cent interest. On the other hand, if it appears that an additional working capital cannot be usefully and profitably employed in the business, then the only proper and reasonable course would be to invest the reserved profits in gilt-edged securities outside the business.

Reserves and Reserve Fund.—The distinction between a Reserve Fund and a Reserve or a Reserve Account needs to be clearly drawn, as these terms are indiscriminately applied to items which are essentially different, thus giving rise to considerable confusion on the part of laymen. A Reserve or a Reserve Account is a provision for some *known* or *expected loss*, such as "Reserve for Bad Debts," "Reserve for Discounts," "Reserve for Repairs and Renewals," "Reserve for Disputed Claims," etc. It is not, therefore, a surplus—it is not represented by assets—and it is not available for dividends. While a Reserve Fund is formed as a result of appropriating profits, a Reserve Account is created by making a charge against revenue before true profits can be ascertained. Whereas it is impossible to create a Reserve Fund except out of divisible profits, a Reserve may be provided even during periods when a loss has been sustained. If these "Reserves" were designated "Provisions" and were always shown by way of deduction from the particular assets the loss on which they are intended to cover, no one could then mistake a "Provision for Bad Debts" or a "Provision for Renewals" for a Reserve Fund.

Sinking Fund.—A Sinking Fund is a fund created with the object of providing means for the redemption of liabilities like Debentures or any other loan. It is found by setting aside, half yearly or yearly, a fixed sum of money for a definite period, such sum to be invested at compound interest, so that at the end of the period. the annual amounts, with accumulations of interest, will be sufficient to discharge a prescribed loan. In such a case, the amount set aside should not be debited to Revenue Account but to a Net Revenue Account or Profit and Loss Appropriation Account, as being rather in the nature of an allocation of profits than a charge against them.

The term Sinking Fund is often applied to what is really a provision for the replacement of a wasting asset, invested in liquid assets apart from the business, so that cash may be available at a time when the original asset has to be replaced without severely dislocating the concern. The amount thus set aside each year is a charge against revenue and not an allocation of profits. It would be clearer if the term Sinking Fund were used only in connection with the provision for the *repayment* of a future *liability*, and not in connection with the *renewal* of an *asset*. The expression Replacement and Renewal Fund would be more appropriate in the latter case. If, however, it is desired to use the term Sinking Fund in either case, it may be suggested that the item be made a little bit more explicit in the Balance Sheet thus— "Sinking Fund for Redemption of Debentures" or "Sinking Fund for Replacement of Machinery," etc.

It would be clearly seen from the above that the essence of distinction between a Reserve Fund and a Sinking Fund lies in this, that whereas a Reserve Fund is maintained as a measure of prudence, and the amount representing it may or may not be invested in outside securities as may be found financially desirable, a Sinking Fund, being created to meet a known liability at a definite future date. should always be invested outside the business.

The advantages of maintaining a Sinking Fund quite distinct from a Reserve Fund are:—

(1) That it draws attention to the fact that investments representing this Fund are acquired with a definite object in view: and

(2) That this Fund is not to be utilised for the purpose of equalising dividends or for any object other than the one for which it was created.

Dividend Equalisation Fund.—This Fund is created by setting aside a portion of distributable profits in good years as a provision for less prosperous years, so that whenever the company may not make sufficient profits to enable it to declare the usual dividend, it may have recourse to this fund. The amount representing this fund need not necessarily be invested in outside securities. Even where there is no specific Dividend Equalisation Fund, a company can always draw upon its Reserve Fund, if any, for the purpose of equalising dividends.

Reserve for Repairs and Renewals.—The object of such a Reserve is to equalise the charge against Profit and Loss Account for Repairs and Replacement of Machinery and Plant. The cost of repairs necessary to keep the machinery in proper working order naturally increases year after year as the machinery grows older, and as a result thereof, although the concern gets equal benefit out of the use of this asset each year, the Profit and Loss Account is burdened with a heavier charge in respect of repairs or renewals during the latter years of the life of such an asset. It is in order to equalise this charge to revenue, that some companies maintain a Repairs and Replacements Reserve. An average amount likely to be spent by way of repairs on the asset each year is estimated, and this fixed sum is charged to Profit and Loss Account each year and credited to Repairs and Replacements Reserve. The actual repairs of each year are, in this case, set off against this Reserve.

Fire and Marine Insurance Funds.—Instead of paying premia to insurance companies for insuring their assets against fire or marine risks, some companies insure their own risks and create reserves for this purpose. They, therefore, set aside each year such a sum as would represent an adequate premium for the amount of the risk covered, charging the same to Revenue and crediting it to Insurance Fund Account. A corresponding sum is then invested in gilt-edged securities which are ear-marked for this purpose. The balance of the Insurance Fund goes on increasing till it represents a fair and reasonable reserve for the risks indicated. This reserve is, therefore, a provision against loss and not a general reserve, although it might in course of time partially represent the latter to the extent by which it would exceed the amount fairly and reasonably necessary for the purpose for which it was intended.

Investment Fluctuation Fund.—This item is usually to be found on the liabilities side of the Balance Sheet of Banks, Insurance Companies and other concerns which invest their surplus funds to a considerable extent in Public Funds and other gilt-edged Securities. This is a reserve created to provide for the loss by way of fluctuation in the values of these Investments. Under such a circumstance, the heading Investment Fluctuation Fund is quite misleading. It should be termed Investment Depreciation Account and must be shown by way of deduction from the Investments on the assets side.

To sum up the above, it may be laid down that a *Reserve* is always a *charge against Profits* and is created for any of the following purposes:—

(1) To provide for an estimated loss on doubtful debts or discounts;

(2) To meet depreciation on any asset and to provide for its future renewal;

(3) To provide for loss in the value of investments due to marked fluctuations;

(4) To equalise the charge for repairs and replacements of machinery, etc.;

(5) To create and maintain the company's own fire or marine insurance fund; or

(6) To provide for disputed claims or any other loss which it is expected might occur, the amount of which is not yet known.

A *Reserve Fund,* on the other hand, is an *accumulation of divisible net profits* set aside to serve any of the following purposes:—

(*a*) To retain some portion of the net profits when it is thought inexpedient to distribute profits up to the hilt;

(*b*) To enhance the financial stability of the company;

(*c*) To equalise dividends; or

(*d*) To provide for *unforeseen* contingencies; and the equivalent amount may be used in the business or may be invested outside as the directors may deem expedient.

A *Sinking Fund* proper is created to provide for the *redemption of a known liability,* and the amount represented by the same must always be invested outside the business. The corresponding debit in respect of a Sinking Fund is always an *allocation of net profits* and *not* a charge on the Profit and Loss Account.

Capital Reserve Fund.—Sometimes, a Capital Profit is made by a company by way of appreciation in the value of its land, building or other fixed asset, or arising from the sale of any of its fixed assets. Such Capital Profits are transferred to Capital Reserve Fund. The question as to whether such Capital Profits are divisible has been settled in *Foster* v. *The New Trinidad Lake Asphalte Company Ltd.* In this case, it was decided that Capital Profits are available for distribution in the shape of dividends, subject to the following conditions:—(*a*) that the Memorandum and Articles do not prohibit such a distribution, (*b*) that such profits are actually realised, and (*c*) that such profits remain after a revaluation of the whole of the assets.

The following items are usually credited to Capital Reserve Fund:—

(1) Credit balance left on Forfeited Shares Account after the reissue of such Shares.

(2) Premium received on issue of Shares or Debentures.

(3) Profit realised on sale of any fixed asset.

(4) Profit realised on purchase of Company's own Debentures in the market below their face value.

(5) The amount representing the excess value of *net assets* over the *purchase price* when a company takes over a running business.

(6) Profit made prior to Incorporation or Commencement Certificate.

From the above, it will be clear to the student that *Capital Profits* are extraneous to the usual course of the Company's business and should necessarily be distinguished from the *Trade Profits* which are distributed as dividends. They are usually utilised towards meeting some Capital Loss such as loss on sale of a fixed asset or loss arising from under-insurance of company's stock or fixed assets. There is nothing, however, to prevent a

Company from utilising Capital Profits for dividend purposes, unless there is anything in its Memorandum or Articles to the Contrary.

Secret or Internal Reserve.—A discussion on the subject of Reserve and other Funds would be incomplete without bringing in that most debatable subject "Secret or Hidden Reserve." The term "Secret Reserve" is applied to a Reserve Fund, the existence of which does not appear on the face of the Balance Sheet. Where there is a Secret Reserve, the financial position of the concern is, no doubt, better than as appearing from the Balance Sheet.

The object of secret reserves is to reduce the disclosed profit in good years, so that in bad years this undisclosed profit, or a portion of it, may be merged into the lean year's earnings and thus help in the equalising of dividends.

Secret Reserves are usually formed in several ways as follows:—

(*a*) By making an excessive provision for bad and doubtful debts.

(*b*) By over-depreciating assets.

(*c*) By under-valuation of stock.

(*d*) By an incorrect allocation of expenditure between capital and revenue, it being a common practice to charge everything possible against revenue when such reserves are desired.

(*e*) By the retention of appreciating assets at cost price.

(*f*) By making a provision for contingencies far beyond what is really required.

As these operations reduce the book values of the assets without the fact being disclosed in the Balance Sheet, they become "secret" and are known only to the management.

Secret Reserves are technically improper, yet within certain limits, they are not only justifiable on the ground of expediency, but also of prudence. Nearly all Banks and financial institutions have their secret or internal reserves, and whether they are excessive can only be decided by an examination of their intentions. The justification for secret reserves is that directors sometimes experience a reluctance on the part of shareholders to deny themselves a full distribution of profits in order to form reserve funds, and also a desire to average one year's profits with another. The equalization of profits in this manner not only gives a business the impress of stability but helps to ensure a regular income to the shareholders. Secret Reserves enable the business to meet extraordinary losses without the same being disclosed, and thus prevent the public confidence being shaken. They also serve to conceal huge profits in order to avoid rivalry.

The objections raised against the practice of creating Secret Reserves are:—

1. Whilst the provision of secret reserves gives the satisfaction of a knowledge that the Balance Sheet of a business is a thoroughly sound one and prevents the distribution of profits which might otherwise be demanded, it places the shareholders in a false position with regard to the value of their holding.

2. The Profit and Loss Account of each year, being charged with fictitious amounts in respect of excessive depreciation, doubtful debts, or repairs, etc., fails to disclose the true profits made, and the values of the correspond-

ing assets being understated or the liabilities being overstated, the Balance Sheet cannot be said to be representing a true state of affairs.

3. The system of secret reserves might be abused by unduly suppressing the net profits to such an extent that those behind the scenes might be in a position to purchase shares below their real value, or again, by recourse to an internal reserve already established, the market value of the shares of a failing business could be maintained until unloading by those in management has taken place.

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. State briefly the facts that would guide you in arriving at the proper amount of depreciation to provide for upon the Machinery and Plant used in a manufacturing business; and set out the entries you would pass through the books to give effect thereto. *(London Chamber of Commerce.)*

2. Give some general rules as to the amount of depreciation to be written off Leasehold Buildings, Plant and Machinery, Boilers, Loose Tools, Furniture, also Freehold Land and Buildings thereon. *(Institute of Bankers.)*

3. In preparing the Profit & Loss Account of a manufacturing firm, what different methods are there for providing for the waste of an asset owing (*a*) to wear and tear, as in the case of machinery; or (*b*) efflux ion of time as in the case of a building erected upon leasehold land? What method do you favour for providing for such waste, and why? State briefly what entries would be required to carry your suggestions into effect. *(London Chamber of Commerce.)*

4. James Jowitt & Co., printers, purchased three monotype machines on 1st January 1927, at a cost of £1,000 each. The firm's engineer reports that with care and proper repairs, the machines will remain efficient for ten years. At the end of that period the machines will be sold. The current market price of machines of this type after ten years' use is about £100 each. Advise as to how the depreciation on the above machines should be treated in the books of the firm. Submit alternative methods for the consideration of the partners, and state which you prefer, and why. *(London Chamber of Commerce.)*

5. A company having a lease standing in their books at £5,000 decides to provide for depreciation by taking out a policy for leasehold redemption. How would you deal with the annual premium in the books; and how would you adjust the accounts when the lease expires and the policy matures? *(Royal Society of Arts.)*

6. State as fully as you can the difference between:—(*a*) Depreciation, (*b*) Maintenance, and (*c*) Sinking Funds. *(Chartered Secretaries.)*

7. Distinguish between a Reserve Fund, a Reserve Account and a Sinking Fund.

8. Depreciation is provided either by maintenance and replacement out of revenue, or by the creation of reserve out of profits. Discuss the relative merits of each of these methods. *(Incorporated Accountants.)*

9. Office Furniture having been purchased for Rs. 1,000 on 1st January 1935, it was decided to write off 5 per cent depreciation on the original cost each year. Show how this Account would appear during the first three years. **346**

10. Machinery was purchased for Rs. 50,000 on 1st January 1935 and 10 per cent ...ciation on the reducing balance has been written off as depreciation for three ... Show how this Account will appear in the Ledger during the period. **347**

11. A five years' Lease having cost Rs. 15,000 is to be depreciated on the Annuity System, the unwritten off balance of the asset bearing interest at 5%. The Annual amount to be written off as shown by the Annuity Tables is Rs. 3,464-10. Show the working of the Lease Account for the whole of the period. 348

12. A seven years' Lease costing Rs. 45,000 was acquired on 1st January 1931 and it was decided to provide a Depreciation Fund for the replacement of the same at the end of the period. Assuming that the Depreciation Fund Investments realised 4%, the annual amount chargeable to depreciation is shown by the Annuity Table at Rs. 5,697-7. Show the working of the Lease Account, the Depreciation Fund Account, and the Depreciation Fund Investment Account of all these years. 349

13. The Directors of the Aged Spinning Company decide to replace entirely their plant, which is now out of date. Having advertised for tenders for the new machinery they require, they accept that sent in by Messrs. Fresh and Company amounting to Rs. 61,950.

The old Machinery and Plant Account stood in the books of the Company at Rs. 37,800. There was also a Depreciation Fund in the books, the accumulated credit balance of which amounted to Rs. 7,350. Some of the materials composing the old machinery were found to be in good condition, and Messrs. Fresh & Co. agreed to take over shafting, etc., valued at Rs. 3,850 for use again; whilst the remainder was put up for auction and realised Rs. 8,400 (net).

Make the entries necessary to record these transactions in the books of the Aged Spinning Co. and state how you would deal with the balance of the old "Machinery and Plant Account." 350

14. On the 1st January 1938, the Patent Manufacturing Co., Ltd., purchased the lease of certain premises for Rs. 10,000. The Directors decided to form a Sinking Fund to accumulate this amount at the end of the lease, which had five years to run, the rate of interest being taken at 3%. The requisite sum is to be transferred annually from Profit & Loss Account, and a corresponding amount invested in securities producing the required rate of interest.

According to the Tables, Rs. 1,884 per annum amounts to Re. 1 in five years at 3%. Write the Sinking Fund Account, the Sinking Fund Investment Account, and the Interest Account for the three years 1938, 1939 and 1940. 351

15. In a concern where the current expenditure on Repairs is comparatively slight but where it is known that the expenditure at a subsequent period will be considerable, you find that a Repairs Reserve Account is created and credited every year with Rs. 90,000. What is the object of creating such an account, and how is the amount of Rs. 90,000 ascertained?

If the actual repairs amounted to Rs. 9,000 in the first year, Rs. 21,000 in the second year, and Rs. 33,000 in the third year, what would be the Revenue Charges for the respective years?

Show the Repairs Reserve Account for the three years. *(G. D. A.)* 352

16. A Company has acquired Land on a Lease of 30 years, and has erected a building costing Rs. 9,90.000. You find from the Sinking Fund Tables that the amount for the repayment of Rs. 9,90,000 in 30 years by way of annuity at 5 per cent per annum is Rs. 64,000 per year.

Make up the Leasehold Account for the three years. Show also the net charge to revenue for the first three years in connection with the Leasehold. *(G. D. A.)* 353

17. What is the difference between a Sinking Fund to replace a wasting asset and one to repay a liability?

Illustrate your answer by showing the difference in effect at the end of five years in the following cases:—

(1) A Sinking Fund to replace at the end of five years a leasehold property valued at £6,000.

(2) A Sinking Fund to repay £6,000, 1st Mortgage Debentures, at the end of five years. *(Chartered Accountants.)* 354

CHAPTER IV.

DOUBLE ACCOUNT SYSTEM.

The Double Account System is a method under which the final accounts of large public undertakings are stated in such a manner as to show the amount of capital raised and the amount expended in the construction of works of a permanent nature in quite a separate statement from the one showing the general assets and liabilities. The system is compulsory in the case of Railways. Electric Lighting Companies, Gas Works and similar other undertakings which are incorporated under Special Acts of Parliament. The system is applicable, however, to many other classes of concerns, such as Telegraph and Telephone Companies, Water Companies, Canal and Shipping Companies, etc., which sink their capital in what are called "Permanent Assets" and it is frequently adopted by them.

The object of the Double Account System is to show in detail what portion of the capital raised for the acquisition and construction of works, has been utilised for such purpose and what portion of such capital remains unexpended at any particular date to serve as working capital.

Capital Account and General Balance Sheet.—For this purpose, the Balance Sheet is divided into two sections, the first of which is called the Capital Account, and the second, the General Balance Sheet. The Capital Account contains the Receipts and Expenditure on Capital Account. Thus, the capital raised by means of Stock, Shares, Debentures or Loans appears on the credit side, and the cost of the Fixed Assets of the undertaking on the debit side of this Account. The balance of the Capital Account (in Electric Lighting Companies, the total of each side) is taken to the General Balance Sheet. It must be noted that Premiums on Shares or Debentures are treated as Capital Receipts and have to be shown on the credit side of the Capital Account. Parliamentary Expenses incurred in promoting special Acts of Parliament and also Law Charges incurred in the acquisition of landed property have to be treated as Capital Expenditure and, therefore, shown on the debit side of the Capital Account. The General Balance Sheet shows the Floating Assets and Liabilities of the undertaking together with any Funds and Outstanding Balance on the Revenue Account.

Construction of Capital Account.—The Capital Account is constructed in a columnar form with three columns on either side. On the credit side. in the innermost column would be shown the capital receipts to the date of the previous Balance Sheet; in the middle column, the capital receipts during the period, and in the outer column, the total capital receipts to date. On the debit side, the Capital Expenditure is shown in a similar manner.

Fixed and Floating Assets and Liabilities.—As the Capital Account is to contain the Fixed Assets and Liabilities and the General Balance Sheet the Floating Assets and Liabilities, it would not be out of place to briefly reiterate the chief distinction between these terms.

Amounts expended by any undertaking on construction of works of a permanent nature as well as assets acquired or owned by a concern for the purpose of its equipment are known as Fixed Assets. Assets acquired either for the purpose of resale or for being consumed in the course of the business or held temporarily for the purpose of being converted into money at a subsequent date are known as **Floating Assets.**

"Double Account" and "Double Entry".—The term Double Account System seems to be much misunderstood and generally confused with the term Double Entry, and it has, therefore, been thought desirable to clear up this misimpression. All current transactions of a Railway, Gas, Electric Lighting Company or any other concern required to prepare its accounts on the Double Account System are recorded on the same principles of Double Entry as are followed by any undertaking keeping its accounts under the Single Account System. It is only in the presentation of the Final Accounts to the public that the Double Account System differs from the Single Account System, in this, that whereas under the former system the Balance Sheet is divided into two parts, under the latter, it is prepared in the form of a single statement. As a matter of fact, the system of Double Entry Book-keeping is the only perfect method of recording financial transactions under which a reliable and complete Balance Sheet of either type can be prepared.

Depreciation of Fixed Assets.—Under the Double Account System, the Fixed Assets are always shown in the Capital Account at their original cost without deducting any depreciation therefrom. They are not written down in the books year after year, as in the case of Single Account System. Generally, however, depreciation on these assets is provided for by charging the appropriate amount to Revenue Account every year, and crediting Depreciation Fund Account. The Depreciation Fund is invested in outside securities which are ear-marked as Depreciation Fund Investments. The Depreciation Fund and the corresponding investments are shown in the General Balance Sheet.

Repairs and Renewals.—Under the Double Account System, all repairs and renewals are charged to the Revenue Account of the same period in which they are incurred. Obviously, this method is not equitable between the different periods, inasmuch as the charge in respect of repairs and renewals over the different years will be unequal, whereas the benefits derived by all the years from the use of the respective assets will be more or less equal. As such, the profits of the first few years of the undertaking will be unnecessarily large, since the charge for repairs and renewals during those years will be negligible, and the profits of the latter years in which the repairs and renewals are generally heavy will be understated. In order, therefore, to equalise this burden to revenue over the different years, some undertakings maintain a Repairs and Renewals Reserve Account which is brought into record by debiting a fixed amount every year to Revenue Account and crediting the same to Repairs and Renewals Reserve Account. The fixed amount thus charged annually is assumed to be the amount likely to be spent under the heading of repairs each year on an average during the life of the asset. The actual repairs and renewals are then charged to this Reserve Account instead of to the Revenue Account. The balance of Repairs and Renewals Reserve Account is shown on the liabilities side of the General Balance Sheet.

Additions and Extensions to Fixed Assets.—All additions and extensions to Fixed Assets are shown in the Capital Account separately in the year in which they are made. Occasionally, large sums are spent on an old asset representing partly an extension and partly a replacement. In such cases, the whole amount expended cannot be capitalised. The one method of treating an expenditure of this nature is to write off to Revenue Account the cost of the original asset as it appeared in the Capital Account, and to debit the whole amount presently expended by way of extension and replacement to the Fixed Asset Account, which will appear in the Capital Account. The other method is to ascertain the present cost of replacing the original asset, and charge that amount to Revenue Account, and the balance only of the expenditure is capitalised, representing the cost of additions or extensions to the original asset.

ACCOUNTS OF RAILWAY COMPANIES.

In England, Railway Companies are required to prepare annual statements of accounts in accordance with Forms prescribed by the Railway Companies (Accounts and Returns) Act, 1911. There are numerous statements and returns to be prepared, but the following are important inasmuch as they relate directly to accounts.

(*a*) Receipts and Expenditure in respect of Railway Working (Form No. 10).
(*b*) Revenue Receipts and Expenditure of the Whole Undertaking (Form No. 8).
(*c*) A statement showing Proposed Appropriation of the Net Income (Form No. 9).
(*d*) Receipts and Expenditure on Capital Account (Form No. 4).
(*e*) General Balance Sheet (Form No. 18).

The other Forms are mostly of a statistical nature giving minute details regarding the working of the Railway and other departments.

Receipts and Expenditure in respect of Railway Working.—This statement serves to indicate gross receipts from Passenger and Goods Train Traffic under their appropriate heads and sub-heads, against which are set off the expenses incurred as under:—

(*a*) Maintenance and renewal of way and works,
(*b*) Maintenance and renewal of rolling stock,
(*c*) Locomotive running expenses,
(*d*) Traffic Expenses, and
(*e*) General charges relating to Railway working.

The Form of this statement is given on page 631.

Revenue Receipts and Expenditure of the Whole Undertaking.—This statement embodies the gross receipts and expenditure and the net receipts of each of the sections of the business as also of the undertaking as a whole, and includes accounts relating to the working of the following:—

Form No 10 Railway.
" " 11 Omnibuses, etc.
" " 12 Steamboats.
" " 13 Canals.
" " 14 Docks, harbours and wharves.
" " 15 Hotels, etc.
" " 16 Any other business carried on by the Company.

The detailed particulars of income and expenditure relating to each separate business are given in the respective statements numbered 10 to 16 as indicated above.

The Form of this statement is shown on page 632.

Proposed Appropriation of Net Income.—The statement includes the following:—

(*a*) Balance of unappropriated profits brought over from the preceding year;
(*b*) Net Income of the year under review;
(*c*) Appropriations from Reserves, if any.

From the above would be deducted:

(*a*) Interest, Rentals and other fixed charges that are chargeable to this account;
(*b*) Appropriations towards Reserves and other special purposes;
(*c*) Dividends on Preference and Guaranteed Stock;
(*d*) Dividend on Ordinary Stock; and
(*e*) Balance carried forward to next year's account.

For Form, see page 632.

Receipts and Expenditure on Capital Account.—This statement represents the first section of the Balance Sheet as required under the Double Account System. It shows on the credit side, Share Capital Receipts, moneys received from Debentures and other receipts of a capital nature. Against these on the debit side are set out the various fixed assets as under:—

Lines open for traffic
Lines not opened for traffic
Lines leased
Lines jointly owned
Lines jointly leased
Rolling stock
Manufacturing and Repairing Works and Plant

Total amount expended upon Railway

Amounts expended on acquisition of—
Horses
Road Vehicles

Steamboats
Canals
Docks, harbours and wharves
Hotels
Electric Power stations
Land and Properties not forming part of Railway.

The balance as shown by this account is transferred to the General Balance Sheet which forms the second section of the Balance Sheet.

The Form of this statement is shown on page 633.

General Balance Sheet.—This statement serves to complete the Balance Sheet. It starts with the balance from the Receipts and Payments on Capital Account and contains all the Floating Assets and Liabilities of the concern, so as to indicate the financial position of the company, at one particular date. It should be noted that whereas in the Capital Account, the Fixed Assets appear on the left-hand side and the Fixed Liabilities on the right-hand side of the Account, in the General Balance Sheet, all the other assets and liabilities are shown on their proper sides. Thus, the Floating Assets appear on the right-hand side and the Floating Liabilities on the left-hand. The balance brought forward from the Capital Account is also placed on its proper side.

The usual *Floating Assets* of a Railway Company would be:—

Cash at Bankers
Cash on Deposit
Investments
Stock of Stores
Outstanding Traffic Accounts
Amounts due from other Railway Companies
Amounts due by Railway Clearing Houses
Accounts receivable
Interest accrued on Investments, etc., etc.

The usual *Floating Liabilities* would be:—

Temporary Loans
Interest and Dividends payable
Amounts due to Railway Companies
Amounts due to Railway Clearing Houses
Accounts payable
Superannuation Fund
Fire Insurance Fund
Depreciation Funds
General Reserve Fund
Balance available for Dividend, etc., etc.

The Form of this statement appears on page 634.

ACCOUNTS OF ELECTRIC LIGHTING COMPANIES.

The Forms of periodical Accounts and Statements required to be prepared by Electric Lighting Companies in England are identical to those required under the Indian Electricity Act, 1910. Here, also, the principal statements of accounts are:—

1. Capital Account,
2. General Balance Sheet,
3. Revenue Account, and
4. Net Revenue Account.

The Capital Account.—This account includes only Capital Receipts and Capital Expenditure, i.e., Fixed Assets and Fixed Liabilities, same as in Railway Companies; but, instead of the balance of this account being transferred to the General Balance Sheet (as in the case of Railway Companies), the Total Capital Receipts and Total Capital Expenditure are transferred to the General Balance Sheet.

The usual items of *Fixed Capital Expenditure* include:—

Cost of Licence
Land
Buildings
Plant
Mains, including cost of laying
Transformers, Motors, etc.
Meters
Tools and Instruments
Public Lamps
General Stores (Cable, Mains, Lamps), etc., etc.

Fixed Liabilities will include:—

Ordinary and Preference Share Capital Receipts
Debenture Stock and Mortgage Bonds
Calls received in advance, etc., etc.

The General Balance Sheet.—In this statement will be shown all the floating assets and liabilities as also balances on other accounts which do not appear either in the Capital Account or the Revenue Account.

The *Floating Assets* would thus be represented by:—

Cash and Bank Balances
Stores on hand
Sundry Debtors
Securities and other Investments
Interest accrued on Investments
Other Accounts receivable, etc., etc.

The Floating Liabilities will represent:—

Amounts due for construction or repairs of fixed assets
Sundry Creditors on Open Accounts
Outstanding Creditors for expenses
Net Revenue Account Balance
Interest or Dividend payable
Reserve Fund
Depreciation Fund, etc., etc.

Revenue Account.—In the Revenue Account, the working expenses are grouped under main heads as under:—

Generation of Electricity
Distribution of Electricity
Public Lamps
Rent, Rates and Taxes
Management Expenses
Law Charges
Depreciation
Special Charges

Revenue Receipts will include the following:—

Sale of Energy for lighting purposes
Sale of Energy for power purposes
Sale of Energy under special contracts
Public Lighting
Rental of Meters
Transfer Fees
Sale of ashes
Reconnection and Disconnection Fees, etc., etc.

Forms of Capital Account, General Balance Sheet, Revenue Account and Net Revenue Account of Electric Lighting Companies, under the English Act, are given on pages 635 to 639.

ACCOUNTS OF GAS COMPANIES.

The Forms Prescribed under the English Gas Works Clauses Act, 1847 and 1871, and Companies Clauses Consolidated Act, 1845 are framed on similar lines to those of Electric Lighting Companies with necessary modifications of the items embodied therein, having due regard to the nature of the business.

The Forms are shown on pages 640 to 642.

ACCOUNTS OF WATER COMPANIES AND COLLIERIES.

In England, a majority of Water Companies, although not required by any Act, and even Collieries present their periodical accounts under the Double Account System.

STATUTORY FORMS OF RAILWAY COMPANIES' ACCOUNTS.

[*Provided under the (English Railway) Companies Accounts and Returns Act.*]

No. 10. RECEIPTS AND EXPENDITURE IN RESPECT OF RAILWAY WORKING.

To Expenditure			Year 19 .	Percentage of Traffic Receipts ...	...
			£	%	%
See Abstracts					
A. Maintenance and renewal of way and works					
B. Maintenance and renewal of rolling stock :—					
(1) Locomotives					
(2) Carriages					
(3) Wagons					
	£				
C. Locomotive running expenses					
D. Traffic Expenses					
E. General Charges					
Law Charges					
Parliamentary Expenses					
Compensation (accidents & losses):-					
	£				
Passengers					
Workmen					
Damage & loss of goods, property, etc.					
Rates					
Taxes					
Government duty					
G. Running powers (including debit or credit)					
Total Traffic expenditure	£				
J. Joint Lines					
Miscellaneous					
Total expenditure	£				
Net Receipts	£				
Total	£				

By Gross Receipts			Year 19 .	Percentage of Traffic Receipts ...	...
	£	£	£	%	%
See Abstracts					
Passenger train traffic :—					
Ordinary passengers :					
First Class					
Second Class					
Third Class					
Season Tickets:—					
First Class					
Second Class					
Third Class					
Workmen's tickets					
Total receipts from passenger					
Mails					
Parcels upto 2 cwt. parcels post, and excess luggage					
Other merchandise by passenger trains					
F. *Less* expenses of collection and delivery					
Total passenger train receipts					
Goods train traffic :— £					
Merchandise					
F. *Less* expenses of collection and delivery					
Live Stock					
Coal, coke and patent fuel					
Other minerals					
Total goods train receipts	£				
Total traffic receipts	£				
H. Mileage, Demurrage, and wagon hire					
J. Joint Lines					
Miscellaneous					
Total	£				

STATUTORY FORMS OF ELECTRIC LIGHTING COMPANIES' ACCOUNTS, UNDER THE ENGLISH ACTS.

CAPITAL ACCOUNT.

Dr. *Cr.*

Capital Expenditure.	Expenditure up to 31st Dec. 19	Expended during the Year.	Total Expenditure to 31st Dec. 19	Capital Receipts.	Receipts up to 31st Dec. 19	Received during the Year	Total Receipts to 31st Dec. 19
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
1. To Lands, including Law Charges incidental to acquisition ..				By Ordinary Shares of £			
2. " Buildings				" " " of £			
3. " Machinery				" Preference " of £			
4. " Accumulators at generating and distributing stations ...				" Debenture Stock			
5. " Mains, including cost of laying the mains				" Mortgages and Bonds			
6. " Transformers, Motors, etc. ...				" Amounts received in anticipation of Calls			
7. " Meters and Fees for certifying under the Act				" Sale of Patents or Patent Rights, etc.			
8. " Electrical Instruments, etc. ...				" Other Receipts (to be specified) ..			
9. " General Stores (Cable, Mains, Lamps)							
10. " Purchase of Patents or Patent Rights							
11. " Cost of Licence, Provisional Order, etc.							
12. " Special Items							
Total Expenditure ...							
To Balance of Capital Account ...	...	...					
		£				£	

Provision for depreciation of works is made by a debit of £ to Revenue Account transferred to Depreciation Fund Account, No. VII.

'STATUTORY FORMS OF RAILWAY COMPANIES' ACCOUNTS.—(Contd.)

No. 18. GENERAL BALANCE SHEET.

Dr.		Year 19..	Cr.		
	£	£		£	£
To Capital Account, balance at credit thereof, as per Account No. 4			By Capital Account, balance at debit thereof as per Account No. 4		
Amount due to Bankers			£ s. d.		
Temporary loans and calls paid in advance			Cash at Bankers and in hand		
Lloyds' bonds			Cash on deposit at interest		
Unpaid interest and dividends					
Interest and dividends payable or accruing and provided for			Investments in Consols and Government Securities		
Amount due to Rly. companies & committees					
Amount due to Railway Clearing Houses			Investments in Stocks and Shares held by the Company, not charged as capital expenditure		
Savings Bank					
Superannuation and other provident funds					
Accounts payable			Investment of superannuation and other provident funds		
Liabilities accrued					
Miscellaneous Accounts					
Special items (to be detailed)					
Fire Insurance Fund			Stock of stores and materials		
Depreciation Funds:—			Outstanding traffic accounts		
Railway			Amount due by Rly. companies & committees		
Steamboats (including Insurance Fund)			Amount due by Rly. Clearing Houses		
Other businesses			Amount due by Postmaster-General		
General Reserve Fund			Accounts receivable		
Balance available for Dividends and Reserve as per Account No. 9 £ s. d.			Miscellaneous Accounts		
Less interim dividends paid as per Statement No. 9 (a)			Suspense Account (if any) to be enumerated		
			Special items (to be detailed)		
£			£		

STATUTORY FORMS OF ELECTRIC LIGHTING COMPANIES' ACCOUNTS, UNDER THE ENGLISH ACTS.

CAPITAL ACCOUNT.

Dr. *Cr.*

Capital Expenditure.	Expenditure up to 31st Dec. 19	Expended during the Year.	Total Expenditure to 31st Dec. 19	Capital Receipts.	Receipts up to 31st Dec. 19	Received during the Year	Total Receipts to 31st Dec. 19
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
1. To Lands, including Law Charges incidental to acquisition ..				By Ordinary Shares of £			
2. " Buildings				" " " of £			
3. " Machinery				" Preference " of £			
4. " Accumulators at generating and distributing stations ...				" Debenture Stock			
5. " Mains, including cost of laying the mains				" Mortgages and Bonds			
6. " Transformers, Motors, etc. ...				" Amounts received in anticipation of Calls			
7. " Meters and Fees for certifying under the Act				" Sale of Patents or Patent Rights, etc.			
8. " Electrical Instruments, etc. ...				" Other Receipts (to be specified) ...			
9. " General Stores (Cable, Mains, Lamps)							
10. " Purchase of Patents or Patent Rights							
11. " Cost of Licence, Provisional Order, etc.							
12. " Special Items							
Total Expenditure ...							
To Balance of Capital Account ...	...	...					
		£				£	

Provision for depreciation of works is made by a debit of £ to Revenue Account transferred to Depreciation Fund Account, No. VII.

STATUTORY FORMS OF ELECTRIC LIGHTING COMPANIES' ACCOUNTS, UNDER THE ENGLISH ACTS.

REVENUE ACCOUNT.

Dr.

	£ s. d.	£ s. d.	£ s. d.
A.—*To generation of Electricity.*			
1. To Coal or other Fuel, including dues, carriage, unloading, storing, and all expenses of placing the same on the works.			
2. " Oil, Waste, Water and Engine Room Stores ...			
3. " Proportion of Salaries of engineers, superintendents, and officers, as certified by the Managing Director, Chairman, or Engineer ...			
4. " Wages and Gratuities at generating stations ...			
5. " Repairs and Maintenance, as follows:—			
1. Buildings ...			
2. Engines, boilers ...			
3. Dynamos, exciters, transformers, motors, etc. ...			
4. Othermachinery, instruments, and tools			
5. Accumulators and accessories ...			
Less received for old material ...			
6. To Special Items ...			
B.—*To distribution of Electricity*			
1. To Proportion of Salaries of superintendents and officers, as certified by Managing Directors, Chairman, or Engineer ...			
2. " Wages and Gratuities to linesmen, fitters, labourers ...			
3. " Repairs, Maintenance, and Renewals of Mains of all classes, including materials and cost of laying the same *Less* amounts refunded ...			
4. " Repairs, Maintenance, and Renewals of transformers, meters, switches, fuses, and other apparatus on consumers' premises ...			
Carried forward ...			

Cr.

	£ s. d.	£ s d.
1. By Sale of Current per meter at per B.T.U. ...		
2. " Sale under Contracts ...		
3. " Public Lighting ...		
4. " Rental of Meters and other apparatus on consumers' premises ...		
5. " Sale and Repairs of Lamps, arc or incandescent		
" Sale and Repairs of other Apparatus ...		
6. " Royalties, Licences, etc. ...		
7. " Rents Receivable ...		
8. " Transfer Fees ...		
9. " Other Items (to be specified) ...		
Carried forward ...		

STATUTORY FORMS OF ELECTRIC LIGHTING COMPANIES' ACCOUNTS, UNDER THE ENGLISH ACTS.

REVENUE ACCOUNT—(*Contd.*)

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
Brought forward...			*Brought forward ...*		
5. To Repairs, Maintenance, and Renewals of apparatus at distributing stations ..					
C.—*Public Lamps.*					
1. To Attending and Repairs ...					
2. ,, Renewals of Lamps ...					
D.—*Royalties, etc.*					
To Royalties, etc. payable for use of patents or patent processes ..					
E.—*Rents, Rates and Taxes.*					
1. To Rents payable ...					
2. ,, Rates and Taxes ...					
F.—*Management Expenses.*					
1. To Directors' Remuneration ...					
2. ,, Salaries of Managing Engineers, Secretary, Accountants, Clerks, Messengers, as certified by Managing Director, Chairman or Engineer...					
3. ,, Salaries or Commissions of Collectors ...					
4. ,, Stationery and Printing ...					
5. ,, General Establishment Charges ...					
6. ,, Auditors of Company ...					
7. ,, Auditor appointed under the provisions of the Order ...					
G.—*To Law and Parliamentary Charges.*					
To Law Expenses ...					
H.—*Depreciation.*					
1. To Depreciation in respect of Leasehold Works ...					
2. ,, ,, ,, Buildings ...					
3. ,, ,, ,, Plant, Machinery, etc...					
I.—*Special Charges.*					
1. To Insurances, Superannuation, etc. ...					
2. ,, Expenses for certification of Meters ...					
Total Expenditure ...					
Balance carried to Net Revenue ...					
	£				

STATUTORY FORMS OF ELECTRIC LIGHTING COMPANIES' ACCOUNTS, UNDER THE ENGLISH ACTS.

GENERAL BALANCE SHEET.

Dr. Cr.

Liabilities	£ s. d.	*Assets.*	£ s. d.	£ s. d.
1. To Capital Account: Amount received as per Account No. III		1. By Capital Account: Amount expended for works as per Account No. III		
2. " Sundry Tradesmen and others, due on construction of plant and machinery, fuel, stores, etc., to 31st December, 19......		2. " Stores on hand at...		
3. " Sundry Creditors on open accounts		Coal		
4. " Net Revenue Account: Balance at credit thereof ...		Oils, Waste, etc.		
5. " Reserve Fund Account " " ...		General		
6. " Depreciation Fund Account " " ...		3. " Sundry Debtors for amounts paid on account of contracts in course of completion		
		4. " Preliminary Expenses		
		5. " Sundry Debtors for current supplied		
		6. " Other Debtors		
		7. " Cash at Bankers—		
		Messrs.		
		Messrs.		
		Messrs. (amount on deposit) ...		
		8. " Cash in hand		
£		£		

STATUTORY FORMS OF ELECTRIC LIGHTING COMPANIES' ACCOUNTS, UNDER THE ENGLISH ACTS.

NET REVENUE ACCOUNT.

Dr.	£ s. d.	Cr.	£ s. d.	£ s. d.
1. To Interest on Debentures accrued due to date ..		1. By Balance from last account		
2. „ Interest on Mortgages and Bonds accrued due to date		*Less* Dividend paid		
3. „ Interest on temporary Loans accrued due to date		„ Amount carried to Reserve Fund ..		
4. „ Dividend on Preference Stocks		2. „ Balance brought from Revenue Account ...		
5. „ Balance applicable to Dividend on Ordinary Stock or Shares		3. „ Interest on Money at deposit.		
£				£

RESERVE FUND ACCOUNT.

Dr.	£ s. d.	Cr.	£ s. d.
1. Amount paid out for		1. By Balance brought from last account	
2. „ of balance to next account		2. „ Amount brought from Net Revenue Account ..	
		3. „ Interest on amount invested ... ... (*Description of Investments to be specified.*)	
£		£.	

DEPRECIATION FUND ACCOUNT.

Dr.	£ s. d.	Cr.	£ s. d.
1. To Balance		1. By Balance from last account	
		2. „ Interest on Investments	
		3. „ Amount brought from Revenue Account (*see* H) .. (*Description of Investments to be specified.*)	
£		£	

STATUTORY FORMS OF GAS COMPANIES' ACCOUNTS.

Prescribed by the English Gas Works Clauses Act, 1871.

C. CAPITAL ACCOUNT.

Expenditure.	Expenditure to 31st Dec. 19...	Expended this year.	Total to 31st Dec 19...	Receipts.	Certified Receipts to 31st Dec. 19..	Received during the year	Total Receipts to 31st Dec. 19...
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
1. To Expenditure to 31st December, 19..... since that date				1. By Ordinary Shares of £ each			
2. " Lands acquired including law charges				2. " Do. £ each			
3. " New Buildings, Manufacturing Plant, Machines, Storage Works and other structures connected with manufacture				3. " Preference Shares of £ each			
4. " New Mains and Service Pipes (not being in place of old ones) including laying same, paying and other works connected with distribution				4. " Debenture Stock			
5. " New Meters (not in place of old ones). including fixing				5. " Mortgages and Bonds			
7. " Cost of Promoting Special Act				6. " Amounts received in anticipation of Calls			
6. " Special items (if any)							
Total Expenditure							
To Balance of Capital Account							
		£		Total ...		£	

STATUTORY FORMS OF GAS COMPANIES' ACCOUNTS.

D REVENUE ACCOUNT.

	£	£
To Manufacture of Gas :—		
1. Coals, including dues, carriage, unloading, and all expenses of depositing same on works ...		
2. Purifying materials, oil, water and sundries at works		
3. Salaries of engineers, including chief engineer (if any), superintendents and officers at works ...		
4. Wages and gratuities at works ...		
5. Repairs and maintenance of works and plant (including renewals of retorts), machines, apparatus, tools, materials and labour ...		
Less old materials sold ...		
To Distribution of Gas :—		
6. Salaries of surveyor, chief inspector, inspectors, assistant inspectors and clerks in light office ...		
7. Repairs, maintenance and renewal of mains and of service pipes, including materials, laying and paving and labour ...		
8. Repairing, renewing and refixing meters ...		
To Public Lamps:—		
9. Lighting and Repairing ...		
To Rents, Rates and Taxes :—		
10. Rent ...		
11. Rates and Taxes ...		
To Management :—		
12. Directors' Allowances ...		
13. Salaries of secretary, accountant and clerks, office keepers and messengers ...		
14. Collectors' commission or salaries ...		
15. Stationery and Printing ...		
16. General establishment charges and incidentals ...		
17. Auditor ...		
To Law and Parliamentary Charges :—		
18. Law ...		
19. Parliamentary (oppositions) ...		
20. Depreciation Fund for works on leasehold lands (if any) ...		
21. Bad Debts ...		
22. Other items (if any) ...		
Total Expenditure ...		
Balance carried to Profit and Loss Account E ...	£	

	£	£
By Sales of Gas :—		
1. Common Gas (cubic feet) per 1,000 cubic feet ...		
2. Cannel Gas " " " " ...		
3. Public lighting and under contracts ...		
4. Rental of Meters ...		
By Residual Products :—		
5. Coke *less* labour and cartage ...		
6. Breeze ...		
7. Tar ...		
8. Ammoniacal liquor ...		
9. By Rents ...		
10. " Transfer Fees ...		
11. " Other items (if any) ...		
Total Receipts ..	£	

STATUTORY FORMS OF GAS COMPANIES' ACCOUNTS.

I. GENERAL BALANCE SHEET.

	£		£
1. To Capital Account:— Balance at credit thereof (Account C)		1. By Cash at Bankers	
2. " Profit and Loss Account:— Balance at credit thereof (Account E)		2. " " on Deposit or at interest	
3. " Reserve Fund:— Balance at credit thereof (Account F)		3. " Coals for stock on hand	
4. " Depreciation Fund (for works on leasehold lands):— Balance at credit thereof (Account G)		4. " Coke and breeze	
5. " Unpaid dividends		5. " Tar and other products	
6. " Interest accrued and unpaid on mortgages, bonds and debenture stock, and other loans, to		6. " Sundry Stores	
7. " Sundry Tradesmen and others for amount due for coals, stores, etc., to...		7. " Gas Meter Rental:— Balance of this Account due to the company less Deposits and prepayments	
8. " Wages and Contingencies:— Amount due to...		8. " Coke and other residuals	
9. " Other items (if any)		9. " Sundry Accounts	
		10. " Special items (if any) including investments	
£		£	

E. PROFIT & LOSS ACCOUNT (NET REVENUE).

	£		£
1. To Amount carried to Reserve Fund Account F (if any) from Profits of		1. By Balance of Net Profit brought from last Account	
2. " Interest on temporary loans and moneys received in anticipation of calls		2. " Amount drawn from Reserve Fund (if any) *less* Dividend paid for the half year ended	
3. " do. on Mortgages and Bonds accrued to...		3. " Balance brought from Revenue Account D, being profit for year to	
4. " do. on Debenture Stock to...		4. " Interest on Moneys deposited	
5. " Half year's Dividend on 1st Preferential to...			
6. " do. 2nd Preferential to...			
7. " do. on Ordinary Shares at per cent			
" Balance of Net Profit to be carried to next Account subject to half year's dividends to			
£		£	

ILLUSTRATION 153.

The following are the balances of the Great Southern Railway for the half year ending 31st December 1937. Make out in the prescribed form:—(1) Capital Account; (2) Revenue Account; (3) Net Revenue Account; and (4) General Balance Sheet.

	£
Ordinary Stock £5,192,500; 4 per cent Preference Stock	2,702,711
Debenture Stock £1,526,258; Premiums received	55,653
Expended upon lines open for traffic to 30th June 1937	9,181,704
" " the above during current half year	44,304
" " Working Stock to 30th June 1937	616,961
" " Working Stock during current half year	654

	£
Expended upon Maintenance of Way, Stations, etc.	38,373
" " Locomotive power	93,008
" " Carriage and Wagon Repairs	14,858
" " Traffic Expenses £61,098; General Charges	13,342
" " Dock and Harbour Expenses and Repairs	9,371
" " Shipping Expenses £18,199; Law Charges	2,697
" " Parliamentary Expenses £3,834; Compensation	354
" " Mileage and Demurrage £447; Rates and Taxes	31,060
" " Government Duty	395
Receipts from Parcels, Carriages and Horses	9,578
" " Passengers £106,401; Mails	2,641
" " Merchandise £43,508; Minerals £280,448; Shipping	19,355
" " Dock and Harbours £39,501; Rents	3,977
Interest on Debenture Stock	22,894
Rents payable on Leased Lines, Guarantees, etc.	31,876
Balance to Credit of Net Revenue Account, 30th June 1937	62,666
General Interest Account, Credit Balance	290
Cash in hand and at Bank	45,528
General Stores—Stock on hand	39,363
Traffic Accounts due to the Company	73,658
Amounts due from other Companies	12,356
Amounts due from Post Office £1,446; Sundry Debtors	25,103
Unpaid Dividends and Interest	2,612
Debts due to other Companies	59,730
Amounts due to the Clearing House	12,417
Sundry Creditors and Suspense Accounts	198,806
Fire Insurance Fund £23,945; Reserve Fund	22,419
Employees' Savings Bank Deposit	17,467

(National Union of Teachers.)

Solution.

THE GREAT SOUTHERN RAILWAY.

REVENUE ACCOUNT.

	£		£
To Locomotive Power	93,008	By Receipts from Minerals	280,448
" Maintenance of Way, Stations, etc.	38,373		
" Carriage and Wagon Repairs	14,858	" " " Passengers	106,401
" Traffic Expenses	61,098		
" Shipping Expenses	18,199	" " " Merchandise	43,508
" General Charges	13,342		
" Dock and Harbour Expenses and Repairs	9,371	" " " Docks and Harbours	39,501
" Rates and Taxes	31,060	" " " Shipping	19,355
" Law Charges	2,697		
" Parliamentary Expenses	3,834	" " " Parcels, Carriages and Horses	9,578
" Compensation	354		
" Mileage and Demurrage	447		
" Government Duty	395	" Rents	3,977
" Balance carried to Net Revenue Account	218,373	" Mails	2,641
£	505,409	£	505,409

NET REVENUE ACCOUNT.

	£		£
To Interest on Debenture Stock	22,894	By Balance to Credit of Revenue Account, 30/6/37	62,666
" Rents payable on Leased Lines, Guarantees, etc.	31,876	" Balance brought from Revenue Account	218,373
" Balance applicable to Dividends on Stock	226,559	" General Interest Account	290
£	281,329	£	281,329

RECEIPTS AND EXPENDITURE ON CAPITAL ACCOUNT.

To Expenditure.	Amount expended to 30-6-1937.	Amount expended during the half year	Total.	By Receipts.	Amount received to 30-6-1937.	Amount received during the half year.	Total.
	£	£	£		£	£	£
Lines open for traffic ...	9,181,704	44,304	9,226,008	Ordinary Stock ...	5,192,500	...	5,192,500
				4% Preference Stock	2,702,711	...	2,702,711
				Debenture Stock ...	1,526,258	...	1,526,258
Working Stock ...	616,961	654	617,615	Premiums received	55,653	...	55,653
Total Expenditure £	9,798,665	44,958	9,843,623	Total Receipts £	9,477,122	...	9,477,122
				By Balance ...			366,501
Total ...		£	9,843,623	Total ..		£	9,843,623

GENERAL BALANCE SHEET.

	£		£
To Sundry Creditors and Suspense Account ...	198,806	By Capital Account ...	366,501
" Unpaid Dividends and Interest ...	2,612	" Cash in hand and at Bank ...	45,528
" Debts due to other Companies ...	59,730	" Sundry Debtors ...	25,103
" Amount due to the Clearing House	12,417	" General Stores—Stock on hand ...	39,263
" Fire Insurance Fund ...	23,945	" Traffic Accounts due to the Company ...	73,658
" Reserve Fund ...	22,419	" Amounts due from other Companies	12,356
" Employees' Savings Bank Deposits	17,467	" Amounts due from Post Office ...	1,446
" Balance of Net Revenue Account ...	226,559		
£	563,955	£	563,955

ILLUSTRATION 154.

The following are the balances of an Electric Light and Power Company, Limited as at 31st December, 1937. Prepare Final Accounts as prescribed under the Indian Electricity Act of 1910.

RECEIPTS ON CAPITAL ACCOUNT:—

		Rs.
Ordinary Shares of Rs. 100 each to 31st December 1936	..	.. 4,00,000
" " " during the year	..	.. 1,00,000
5% Preference Shares of Rs. 100 each to 31st December 1936		.. 2,00,000

EXPENDITURE ON WORKS:—

	Rs.		Rs.
Preliminary Expenses to 31st December 1936 ..	10,000	Meters ...	9,000
Cost of Licence ...	15,000	Meters during the year ...	3,000
Leasehold Lands including Law Charges	50,000	Stores ...	500
Buildings ...	50,000	Public Lamps ...	25,000
Additions during the year ...	5,000	Public Lamps during the year ...	5,000
Plant ...	1,50,000	Dead and Live Stock ...	5,000
Additions during the year ...	60,000	Dead and Live Stock during the year	2,500
Mains ...	1,75,000	Tools and Instruments ...	3,000
Extensions during the year ...	55,000	Tools and Instruments during the year	1,000
Transformers ...	25,000		

REVENUE RECEIPTS AND EXPENDITURE :—

		Rs.		Rs.
Sale of energy for lighting purposes ...		50,000	Power House Salaries and Wages ...	3,000
			Repairs and Maintenance of Building	250
			" " " Plant ...	750
			Distribution Wages	600
Sale of energy for power purposes ...		35,000	Repairs and Maintenance of Mains ...	100
			Repairs to Transformers ...	50
			Repairs to Switches, Cut-outs, etc. ...	25
			Street Lighting Wages	600
Public lighting		35,000		
Meter Rent		2,500		
Miscellaneous Receipts ...		1,500		
Sale of Ashes ...		250	Repairs and Renewals to Public Lamps	910
Reconnection and Disconnection Fees		200		
			Rents payable	840
Rent Receivable		600	Rates and Taxes ...	175
Transfer Fees		50	Directors' Remuneration... ...	600
Interest on Deposits		3,000	Management Expenses	4,800
Fuel consumed		15,000	Establishment Charges	3,600
			Auditors of the Company ...	500
Oil, Waste and Engine-Room Stores ...		2,000		
			Auditors appointed under the Act ...	300
Salaries of Engineers, Superintendents and Officers :—			Law Charges	25
	Rs.			
Generation ...	3,600			
Distribution ...	2,400			
		6,000		
Depreciation :—			Dividend on Ordinary Shares paid for 1936 ...	24,000
Lands ...	1,000		Revenue Account Balance b/fd. ...	40,000
Buildings ...	2,000		Amount carried to Reserve Fund ...	5,000
Plant ...	10,000		Depreciation Fund Balance brought	
Mains ...	12,000		forward ...	10,000
		25,000		
Bad Debts		50	Income-tax paid ...	500

GENERAL BALANCES :—

	Rs.		Rs.
Stock of Stores on hand on 31/12/1937 ...	40,500	Interest accrued thereon... ...	3,070
Sundry Debtors for energy, etc. ...	18,500	Expenses prepaid	2,500
Creditors on open Accounts ..	3,000	Cash at Bankers on fixed Deposit ...	40,000
Creditors for purchases, etc. ...	4,500	" " on Current Account	5 000
Securities at cost including Reserve Fund and Depreciation Fund Investments	60,500	Cash at office	2,425
		Interest on Reserve Fund Investment	190
		" on Depreciation Fund Investment ...	380

Solution.

MODEL FORMS OF ACCOUNTS PRESCRIBED UNDER THE INDIAN ELECTRICITY ACT, 1910 (FOR COMPANIES).

No. III. CAPITAL ACCOUNT.

For the year ending 31st December 1937.

Capital Expenditure.	Expenditure upto end of previous year.	Expended during the year.	Total expenditure to 31-12-1937.	Capital Receipts.	Receipts upto end of previous year.	Received during the year.	Total receipts to 31-12-1937.
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
1. To Preliminary Expenses (to be specified) ...	10,000	...	10,000	By Ordinary Shares of Rs. 100 each ...	4,00,000	1,00,000	5,00,000
2. " Lands including Law Charges incidental to Acquisition ...	50,000	...	50,000	" 5 per cent Preference Shares of Rs. 100 each ...	2,00,000		2,00,000
3. " Buildings ...	50,000	5,000	55,000				
4. " Plant ...	1,50,000	60,000	2,10,000	" Debenture Stock ...			
5. " Mains ...	1,75,000	55,000	2,30,000				
6. " Transformers, Motors, etc. ...	25,000	...	25,000	" Mortgage and Bonds ...			
7. " Meters and Fees for certifying under the Act ...	9,000	3,000	12,000	" Amounts received in anticipation of Calls ...			
8. " General Stores ...	500	...	500				
9. " Special items (to be specified)				" Other receipts (to be specified) ...			
Public Lamps ...	25,000	5,000	30,000				
Cost of Licence ...	15,000	...	15,000				
Dead and Live Stock ...	5,000	2,500	7,500				
Tools and Instruments ...	3,000	1,000	4,000				
Total Expenditure ... Rs.	5,17,500	1,31,500	6,49,000	Total Receipts ... Rs.	6,00,000	1,00,000	7,00,000
Total Balance of Capital Account ...			51,000				
		Rs.	7,00,000			Rs.	7,00,000

MODEL FORMS OF ACCOUNTS PRESCRIBED UNDER THE INDIAN ELECTRICITY ACT, 1910 (FOR COMPANIES).

No. IV. REVENUE ACCOUNT.

For the year ending 31st December 1937.

		Rs.	Rs.	Rs.
	A. Generation.			
1.	To fuel		15,000	
2.	„ oil, waste, water and engine-room stores ...		2,000	
3.	„ proportion of salaries of engineers, superintendents and officers		3,600	
4.	„ wages and gratuities		3,000	
5.	„ repairs and maintenance as follows :—			
	Buildings	250		
	Plant	750		
			1,000	
				24,600
	To special items (to be specified)			
	B. Distribution.			
1.	To proportion of salaries of engineers, superintendents and officers		2,400	
2.	„ wages and gratuities		600	
3.	„ repairs, maintenance and renewals of mains ...		100	
4.	„ repairs, maintenance and renewals of transformers, etc.		50	
5.	„ repairs, maintenance and renewals of meters, switches, cut-outs and other apparatus on consumers' premises		25	
				3,175
	C. Public Lamps.			
1.	To attendance and repairs		600	
2.	„ renewals, etc. ...		910	
				1,510
	D. Rents, Rates and Taxes.			
1.	To rents payable		840	
2.	„ rates and taxes		175	
				1,015

		Rs.	Rs.
1.	By sale of energy for lighting purposes ...		50,000
2.	„ „ „ for power purposes ...		35,000
3.	„ „ „ under special contracts ...		
4.	„ public lighting		35,000
5.	„ rental of motors and other apparatus on consumers' premises		2,500
6.	„ rents receivable		600
7.	„ transfer-fees		50
8.	„ other items (to be specified)		
9.	„ Miscellaneous Receipts		1,500
10.	„ Sale of Ashes		250
11.	„ Reconnection and Disconnection Fees ...		200

MODEL FORMS OF ACCOUNTS PRESCRIBED UNDER THE INDIAN ELECTRICITY ACT, 1910 (FOR COMPANIES).

No. IV. REVENUE ACCOUNT—(*Contd.*)

	Rs.	Rs.		Rs.	Rs.
E. Management Expenses.					
1. To Directors' remuneration	600				
2. " management	4,800				
3. " general establishment charges	3,600				
4. " Auditors of the company	500				
5. " Auditor appointed under the provisions of the Act	300	9,800			
F. Law Charges.					
To law expenses		25			
G. Depreciation.					
1. To depreciation in respect of leasehold works ...	1,000				
2. " " " buildings ...	2,000				
3. " " " plant, etc. ...	10,000				
4. " " " mains, etc. ...	12,000	25,000			
H. Special Charges.					
To special items (to be specified) Bad Debts		50			
Total Expenditure ...		65,175			
Balance carried to Net Revenue ...		59,925			
	Rs.	1,25,100		Rs.	1,25,100

MODEL FORMS OF ACCOUNTS PRESCRIBED UNDER THE INDIAN ELECTRICITY ACT, 1910 (FOR COMPANIES).

No. V. NET REVENUE ACCOUNT.

	Rs.		Rs.
1. To Interest on Debentures accrued due to date ..		1. By Balance from last Account ...	40,000
2. ,, Interest on Mortgages and Bonds accrued due to date...		*Less* Dividend paid Rs. 24,000	
3. ,, Interest on Temporary Loans accrued due to date ...		Amount carried to Reserve Fund 5,000	29,000
4. ,, Dividends on Preference Stocks	10,000		11,000
5. ,, Income-tax	500	2. ,, Balance brought from Revenue Account (No. 4) ..	59,925
6. ,, Balance applicable to Dividends on Ordinary Stock or Shares	63,425	3 ,, Interest on Money at Deposit	3,000
Rs.	73,925	Rs.	73,925

No VI. RESERVE FUND ACCOUNT.

	Rs.		Rs.
1. To Amount paid out for ...	...	1. By Balance brought from last Account	...
2. ,, Amount of Balance to next Account	5,190	2. ,, Amount brought from Net Revenue Account	5,000
		3. ,, Interest on Amount invested (Description of Investments to be specified) Rs. 5,000 Port Trust Bonds	190
Rs.	5,190	Rs.	5,190

No. VIII. GENERAL BALANCE SHEET.

Liabilities.	Rs.	*Assets.*	Rs.
1. To Capital Account: amount received as per Account No. III	7,00,000	1. By Capital Account: amount expended for works as per Account No. III ..	6,49,000
2. ,, Sundry Creditors due on construction of Plant and Machinery, fuel, stores, etc. ...	4,500	2. ,, Stores on hand ...	40,500
3. ,, Sundry Creditors on open Accounts	3,000	3. ,, Sundry Debtors ...	18,500
4. ,, Net Revenue Account: balance at credit thereof ...	63,425	4. ,, Preliminary Expenses awaiting adjustment ...	
5. ,, Reserve Fund Account: balance at credit thereof ...	5,190	5. ,, Securities held (cost price) ...	60,500
6. ,, Depreciation Fund Account ...	35,380	6. ,, Special items (to be specified) Interest accrued ...	3,070
7. ,, Special items (to be specified) Preference Share Dividends ...	10,000	Expenses prepaid ...	2,500
		7. ,, Cash at Bankers: Rs. Current Account 5,000; Fixed Deposit 40,000	45,000
		8. ,, Cash on hand ...	2,425
Rs.	8,21,495	Rs.	8,21,495

No. VII. DEPRECIATION FUND ACCOUNT.

	Rs.		Rs.
1. To Balance ...	35,380	1. By Balance from last Account ...	10,000
		2. „ Interest on Investments ...	380
		3. „ Amount brought from Revenue Account (*see* No. IV. G) ... (Description of Investments to be specified)	25,000
Rs.	35,380	Rs.	35,380

ILLUSTRATION 155.

The books of the Wellesley Electric Lighting Corporation, Limited, show the following Receipts and Payments on Capital Account for the first year ended 31st December 1936.

	£		£
Ordinary Shares of £10 each ..	30,000	Transformers	500
Preference Shares of £10 each ..	25,000	Meters	1,500
Lands Purchased	6,000	Instruments	150
Buildings	7,400	Furniture	50
Machinery	15,000	Tools	30
Distributing Stations	2,000	Provisional Order and Law Costs	5,000
Mains	10,000		

The following additional expenditure was made during 1937: Buildings £140, Machinery £100, Distributing Stations £185, Transformers £65, Meters £20, Instruments £10, Tools £10, Public Lamps £114. Prepare the statutory Capital Account of the Company, as at 31st December 1937. (*Incorporated Accountants.*)

Solution.

THE WELLESLEY ELECTRIC LIGHTING CORPORATION, LIMITED.

CAPITAL ACCOUNT.

Dr. *For the Year ending 31st December 1937.* *Cr.*

Expenditure	Expenditure up to 31st Dec. 1936	Expenditure during the year	Total Expenditure to 31st Dec. 1937	Receipts	Receipts up to 31st Dec. 1936	Received during the year	Total Receipts to 31st Dec. 1937
	£	£	£		£	£	£
To Lands ...	6,000	...	6,000	By Ordinary Shares of £ 10 each ...	30,000	...	30,000
„ Buildings ...	7,400	140	7,540	„ Preference Shares of £ 10 each ...	25,000	...	25,000
„ Machinery ...	15,000	100	15,100				
„ Distributing Stations ...	2,000	185	2,185				
„ Mains ...	10,000	...	10,000				
„ Transformers ...	500	65	565				
„ Meters ...	1,500	20	1,520				
„ Instruments ...	150	10	160				
„ Furniture ...	50	...	50				
„ Tools ...	30	10	40				
„ Public Lamps ...	...	114	114				
„ Provisional Order & Law Costs ...	5,000	...	5,000				
Total Expenditure £	47,630	644	48,274				
„ Balance of Capital A/c. ...			6,726				
		£	55,000	£	55,000	£	55,000

ILLUSTRATION 156.

Make out from the following Trial Balance as on 31st December 1937, of the Trent Valley Water Co., Ltd. (1) Capital Account, (2) Revenue Account, (3) Net Revenue Account, (4) Reserve Fund Account, and (5) General Balance Sheet. The Reserve Fund is to be raised to £500, and National War Loan Stock increased to a like amount at par, to be known in future as Reserve Fund Investments.

DR. BALANCES.

	£		£
Expended on Purchase of Land	3,000	Salaries	600
Expended on Construction of Works	102,330	Printing	50
Expended on Mains and Service Pipes	11,920	Incidental Expenses ..	37
Expended on Meters	1,050	Maintenance of Pumping Stations	1,705
„ on Parliamentary Expenses ..	2,000	„ of Reservoirs ..	500
Sundry Debtors	48	„ of Filter Beds ..	150
Debtors for Water Rates due ..	1,242	Repairs to Mains	220
Stores on hand	340	General Repairs	155
Investments—National War Stock, at par	250	Directors' Fees	400
Cash in hand	60	Auditors' Fees	50
Cash at Bank	3,353	Rates and Taxes	2,500
		Interest on Deb. Stock to date ..	1,000
		Dividend on Pref. Shares to date	1,200
		Interim Dividend on Ordinary Shares, 1st August 1937 ..	3,000

CR. BALANCES.

	£		£
60,000 Ordinary Shares of £1 each	60,000	Water Rents	14,667
20,000 Preference Shares of £1 6 per cent	20,000	General Rents	350
Debenture Stock, 5% each ..	20,000	Transfer Fees	24
Premium on Shares	20,000	Unclaimed Dividends ..	20
Sundry Creditors	841	Balance Net Revenue Account, 1st January 1937	1,000
Reserve Fund	258		

(National Union of Teachers.)

Solution.

THE TRENT VALLEY WATER CO., LTD.

REVENUE ACCOUNT.

For the year ending 31st December 1937.

	£		£
To Rates and Taxes ...	2,500	By Water Rents ...	14,667
„ Salaries ...	600	„ General Rents ...	350
„ Maintenance of Pumping Stations ...	1,705	„ Transfer Fees ...	24
„ Maintenance of Reservoirs ...	500		
„ Maintenance of Filter Beds ...	150		
„ Repairs to Mains ...	220		
„ General Repairs ...	155		
„ Directors' Fees ...	400		
„ Auditors' Fees ...	50		
„ Printing ...	50		
„ Incidental Expenses ...	37		
Total Expenditure ...	6,367		
„ Balance carried to Net-Revenue ...	8,674		
£	15,041	£	15,041

THE TRENT VALLEY WATER CO., LTD.

NET REVENUE ACCOUNT.

	£			£	£
To Interest on Debenture Stock to date ...	1,000	By Balance from last Account		1,000	
,, Dividend on Preference Shares to date ..	1,200	,, Balance brought from Revenue Account		8 674	
,, Balance applicable to Dividend on Ordinary Shares	4,232			9,674	
		Less Interim	£		
		Dividend	3,000		
		Reserve Fund	242		
				3,242	6,432
£	6,432			£	6,432

RECEIPTS AND EXPENDITURE ON CAPITAL ACCOUNT.

To Expenditure.	Amount expended to 31st Dec. 1936.	Amount expended during 1937.	Total.	By Receipts.	Amount received to 31st Dec. 1936.	Amount received during 1937.	Total.
	£	£	£		£	£	£
Expended on Purchase of Land ...	3,000	...	3,000	Ordinary Shares of £1 each ..	60,000	...	60,000
Expended on Construction of Works	102,330	...	102.330	6 per cent Preference Shares of £1 each ..	20,000	...	20,000
Expended on Mains and Service Pipes	11,920	...	11,920	5 per cent Debenture Stock ...	20,000	...	20,000
Expended on Meters	1,050	...	1,050	Premium on Shares	20,000	...	20,000
Expended on Parliamentary Expenses	2,000	...	2,000				
Total Expenditure £	120,300		120,300	Total Receipts £	120,000		120,000
				By Balance		£	300
Total		£	120,300	Total		£	120,300

GENERAL BALANCE SHEET.

	£		£
Sundry Creditors	811	Capital Account—Balance ...	300
Reserve Fund	500	Cash in hand	60
Unclaimed Dividend	20	Cash at Bankers	3,103
Balance of Net Revenue Account ..	4,232	Reserve Fund Investment—National War Stock	500
		Stores on hand	340
		Sundry Debtors	48
		Debtors for Water Rates due ...	1,242
£	5 593	£	5,593

RESERVE FUND ACCOUNT.

	£		£
To Balance carried to next Account ...	500	By Balance brought from last Account	258
		„ Amount transferred from Net Revenue Account	242
£	500	£	500

ILLUSTRATION 157.

The figures given below relate to the Cornwall Colliery Co, for the year ending 31st December 1937. Prepare Capital Account and General Balance Sheet on the Double Account System, and then exhibit the same figures in a Balance Sheet on the Single Account System. Nominal Capital £250,000

	£		£
110,000 Ordinary Shares of £1 each fully paid	110,000	Office Buildings	3,000
60,000 6% Preference Shares of £1 each, fully paid ..	60,000	Workmen's Cottages . ..	9,000
Debentures, 5 per cent ..	30,000	Depreciation Fund	20,000
Bills Payable	6,000	Reserve Fund	15,000
Sundry Creditors	9,000	Balance to Credit of Profit and Loss Account	25,000
Lands acquired	8,500	Stock on hand	12,000
Shaft sinking, etc.	111,000	Investments	17,000
Plant and Machinery	35,000	Sundry Debtors	35,000
Wagons	13,500	Cash in hand and at Bank ..	30,000
		Short Workings Account ..	1,000

The above figures include an issue of 10,000 Preference Shares during the year 1937; and the following amounts were also spent during the same period:—Shaft sinking, £6,000; Machinery, £5,000; Wagons, £3,000; Workmen's Cottages. £1,000.

(National Union of Teachers)

Solution.

THE CORNWALL COLLIERY CO., LTD.

RECEIPTS AND EXPENDITURE ON CAPITAL ACCOUNT.

Expenditure.	Amount expended to 31st Dec. 1936.	Amount expended during 1937.	Total.	Receipts.	Amount received to 31st Dec. 1936	Amount received during 1937.	Total.
	£	£	£		£	£	£
Lands acquired ...	8,500	...	8,500	110,000 Ordinary Shares of £1 each fully paid ..	110,000	...	110,000
Shaft sinking, etc.	105,000	6,000	111,000	60,000 6 per cent Preference Shares of £1 each fully paid ...	50,000	10,000	60,000
Plant and Machinery ..	30,000	5,000	35,000	5 per cent Debentures ..	30,000	...	30,000
Wagons ...	10,500	3,000	13,500				
Workmen's Cottages ...	8,000	1,000	9,000				
Office Buildings ..	3,000	...	3,000				
Total Expenditure £	165,000	15,000	180,000	Total Receipts £	190,000	10,000	200,000
To Balance ...			20,000				
Total		£	200,000	Total		£	200,000

THE CORNWALL COLLIERY CO., LTD.

BALANCE SHEET.

As at 31st December 1937.

(SINGLE ACCOUNT SYSTEM)

Capital and Liabilities.		£	*Property and Assets.*	£
Nominal Capital:—			Land acquired	8,500
250,000 Shares of £1 each ...		250,000	Buildings	3,000
			Shaft sinking, etc.	111,000
Issued and paid up Capital:	£		Plant and Machinery	35,000
110,000 Ordinary Shares of £1 each, fully paid ...	110,000		Wagons	13,500
60,000 6 per cent Preference Shares of £1 each, fully paid	60,000		Cottages	9,000
		170,000	Short Workings Account ...	1,000
5 per cent Debentures ...		30,000	Stock on hand	12,000
Reserve Fund		15,000	Sundry Debtors	35,000
Depreciation Fund ...		20,000	Investments	17,000
Sundry Creditors—			Cash in hand and at Bank ...	30,000
On Open Accounts ...	9,000			
Bills Payable ...	6,000			
		15,000		
Profit and Loss Account		25,000		
	£	275,000	£	275,000

GENERAL BALANCE SHEET.

As at 31st December 1937.

	£		£
To Capital Account—Balance ...	20,000	Cash in hand and at Bank ...	30,000
" Bills payable	6,000	Investments	17,000
" Sundry Creditors	9,000	Sundry Debtors	35,000
" Reserve Fund	15,000	Stock on hand	12,000
" Depreciation Fund	20,000	Short Workings Account ...	1,000
" Balance to Credit of Net Revenue Account	25,000		
£	95,000	£	95,000

ILLUSTRATION 158.

A Company decides to create and maintain a Repairs and Renewals Reserve by charging to Revenue each year with a fixed amount of Rs. 2,000. The actual repairs and renewals for the ensuing four years are: (1) Rs. 750; (2) Rs. 900; (3) Rs. 2,120; (4) Rs. 1,400.

Pass Journal Entries, open Ledger Accounts and show how the Repairs and Renewals will appear each year in the Balance Sheet.

Solution.

JOURNAL ENTRIES.

Year.			L.F.	Rs.	Rs.
1st	Profit and Loss Account ... ... To Repairs and Renewals Reserve Account (Being the provision made in respect of Repairs and Renewals).	Dr.		2,000	2,000

JOURNAL ENTRIES—(Contd.)

Year			L.F.	Rs.	Rs.
2nd	Repairs and Renewals Reserve Account ... To Repairs Account (Being the transfer of actual repairs to the Reserve Account).	Dr.		750	750
	Profit and Loss Account ... ... To Repairs and Renewals Reserve Account	Dr.		2,000	2,000
3rd	Repairs and Renewals Reserve Account ... To Repairs Account	Dr.		900	900
	Profit and Loss Account ... ... To Repairs and Renewals Reserve Account	Dr.		2,000	2,000
4th	Repairs and Renewals Reserve Account ... To Repairs Account	Dr.		2,120	2,120
	Profit and Loss Account ... ... To Repairs and Renewals Reserve Account	Dr.		2,000	2,000
5th	Repairs and Renewals Reserve Account ... To Repairs Account	Dr.		1,400	1,400
	Profit and Loss Account ... ... To Repairs and Renewals Reserve Account	Dr.		2,000	2,000

REPAIRS ACCOUNT.

Year		Rs.	Year		Rs.
2nd	To Cash	750	2nd	By Repairs and Renewals Reserve Account ...	750
3rd	„ „	900	3rd	„ Repairs and Renewals Reserve Account ...	900
4th	„ „	2,120	4th	„ Repairs and Renewals Reserve Account ...	2,120
5th	„ „	1,400	5th	„ Repairs and Renewals Reserve Account ...	1,400

REPAIRS AND RENEWALS RESERVE ACCOUNT.

Year		Rs.	Year		Rs.
1st	To Balance c/d. ...	2,000	1st	By Profit and Loss A/c. ...	2,000
2nd	„ Repairs Account ...	750	2nd	„ Balance b/d. ...	2,000
	„ Balance c/d. ...	3,250		„ Profit and Loss A/c. ...	2,000
	Rs.	4,000		Rs.	4,000
3rd	„ Repairs Account ...	900	3rd	„ Balance b/d. ...	3,250
	„ Balance c/d. ...	4,350		„ Profit and Loss A/c. ...	2,000
	Rs.	5,250		Rs.	5,250

REPAIRS AND RENEWALS RESERVE ACCOUNT—(*Contd.*)

Year		Rs.	Year		Rs.
4th	To Repairs Account ...	2,120	4th	By Balance b/d ...	4,350
	„ Balance c/d. ...	4,230		„ Profit and Loss Account ...	2,000
	Rs.	6,350		Rs.	6,350
5th	„ Repairs Account ...	1,400	5th	„ Balance b/d. ..	4,230
	„ Balance c/d. ..	4,830		„ Profit and Loss Account ...	2,000
	Rs.	6,230		Rs.	6,230
			6th	„ Balance b/d. ..	4,830

The credit balance of Repairs and Renewals Reserve Account at the end of each year will appear on the liabilities side of the Balance Sheet. If owing to unusually heavy repairs in any year, the balance of Repairs and Renewals Reserve Account is brought about on the debit, the same will appear, for the time being on the assets side. This would, no doubt. indicate that the estimated annual provision in the past had been insufficient.

ILLUSTRATION 159.

The Eastern Gas Co., Ltd. re-build and re-equip a part of their Works at a cost of Rs. 4,00,000. The part of the old works thus superseded cost originally Rs. 2,50,000, but if erected at the present time would cost 20 per cent more. Rs. 30,000 is realised by the sale of old materials; and old materials to the value of Rs. 15,000 are used in the reconstruction and included in the cost of Rs. 4,00,000 above mentioned.

Give Journal entries for recording the above transactions in the books of the Company, showing particularly what amount you consider should be charged to Capital Expenditure, and what to Revenue Expenditure, stating your reason for your decision.

Solution.

JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
New Works Account	Dr.		85,000	
Replacement Account	„		3,00.000	3,85,000
To Cash Account				
(Being the cash expended on the New Works, Rs. 3,00,000 of which representing the present cost of replacing the Old Works being charged To Replacement Account).				
Cash Account	Dr.		30,000	30,000
To Replacement Account				
(Being the amount realised on sale of old materials).				
New Works Account	Dr.		15,000	15,000
To Replacement Account				
(Being the value of old materials utilised in the reconstruction).				

NOTE.—As a result of the above entries, the New Works Account will be debited with Rs. 1,00,000 only. being the entire cost of reconstruction *less* the estimated present cost of replacing the Old Works. The Revenue Account is charged with Rs. 2,55,000 is, Rs. 3,00,000 for the present cost of replacement, *less* credits for old materials nd utilised in reconstruction.

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. What do you understand by the Double Account System? How does it differ from the Double Entry System?

2. With what object are the Fixed Assets and Fixed Liabilities required to be shown separately from the Floating Assets and Liabilities under the Double Account System?

3. Give a *pro forma* Capital Receipts and Expenditure Account of a Railway undertaking.

4. Enumerate the Fixed Assets of an Electric Lighting Co.

5. Give a *pro forma* Revenue Account of an Electric Light and Power Co.

6. How would you provide for Depreciation when accounts are prepared under the Double Account System?

7. How are repairs and renewals dealt with under the Double Account System?

8. What is the best method of dealing with the amount expended on construction of New Works in place of Old Works?

9. How would you deal with Premium received on Shares or Debentures while preparing accounts under the Double Account System?

10. The following are the balances of the Indian Railway Company for the half year ended 30th June 1937. Prepare in the prescribed form (1) Capital Account, (2) Revenue Account, (3) Net Revenue Account, and (4) General Balance Sheet.

	Rs.	Rs.
Mortgage Debenture Interest	60,000	
" " " Accrued		22,800
Prior Lien Debenture Interest	28,000	
" " " Accrued		7,200
Cash at Bankers and in hand	30,000	
Interest received		70
Investments	50,000	
Loss on Exchange	6,000	
Income Tax	4,400	
Miscellaneous Receipts		300
Passenger Receipts		44,000
Freight, Storage, etc.		1,42,000
Motor Service		4,800
General Reserve Account		4,000
Special Trains		3,000
Renewal of Plant Reserve Account		4,000
Traffic Expenses	32,000	
Maintenance of Way, Works, etc.	16,000	
Transfer Fees		100
Capital Receipts (Share and Debenture)		29,26,000
Locomotive Power	20,000	
Capital Expenditure to 31st December 1936	28,00,000	
" " " half year ended 30th June 1937	54,000	
Govt. Subsidy for half year ended 30th June 1937		48,000
Repairs and Renewals of Carriages and Wagons	3,800	
Remuneration of Trustees for Debenture-holders	800	
Compensations	400	
General Charges	24,000	
Net Revenue Account, balance 31st December 1936		12,130
Dividend Account—Balance of dividend paid for half year ended 31st December 1936	10,000	
Stores on hand and in transit on 30th June 1937	50,000	

	Rs.	Rs.
Interest and Discount	2,000	
Bills Receivable	6,000	
Bills Payable		5,700
Sundry Debtors	47,000	
Sundry Creditors		20,000
Unclaimed Interest		300
Rs.	32,44,400	32,44,400

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(*Revenue Account: Credit Balance Rs.* 92,000; *Net Revenue Account: Credit Balance Rs.* 47,000; *Total of Capital Account Rs.* 29,26,000; *General Balance Sheet Total Rs.* 1,83,000.)

11. Set out below are the figures extracted from the Books of the National Railway Co. on 30th June 1937. You are required to prepare therefrom in the prescribed form a Revenue Account, Net Revenue Account, Capital Account and a General Balance Sheet as on 30th June 1937:—

	Rs.		Rs.
Ordinary Stock	5,19,500	Rent Charge—Stock Guarantee Dividend	26,020
5% Preference Stock	3,70,270	Traffic Expenses	92 350
Premiums Received	46,900	Rent Charges and Chief Rents paid	5,330
Maintenance of Way	70,330	Mails Carried	6,690
Passengers Carried	1,84,180	Carriage & Wagon Repairs ..	25,800
Rent paid on Leased Lines ..	20,620	Investments at Cost	47,190
Lines open for Traffic ..	6,60,600	Forged Transfers Fund ..	5,970
Sundry Outstanding Creditors ..	1,19,940	Net Revenue Account, Balance from last half year	5,760
Traffic Accounts due to the Co.	72,690	Compensation (Accidents and Losses)	4,390
Working Stock	2,41,750	Debts due to other Companies ..	5,690
Parcels Carried	40,780	Bankers and General Interest (Cr.)	800
Locomotive Power	99,090	Cash at Bankers	1,10,380
Rents and Taxes	20,560		
Merchandise Carried	1,36,510		
Minerals Carried	1,43,480		
General Stores—Stock on hand	1,06,530		
Fire Insurance Fund	17,160		

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(*Revenue Account: Credit Balance Rs.* 1,99,120; *Net Revenue Account: Credit Balance Rs.* 1,53,710; *General Balance Sheet Total Rs.* 3,36,790; *Capital Account Total Rs.* 9,36,670.)

12. From the following Balances extracted from the Books of the City Electric Supply Corporation, Ltd., for the year ending 31st December 1937, prepare (*a*) Capital Account, (*b*) Revenue Account, (*c*) Net Revenue Account, (*d*) Depreciation Fund Account, (*e*) Sinking Fund Account, and (*f*) Balance Sheet as on that date. Of the balance of profit, appropriate Rs. 20,000 to Depreciation Fund and Rs 30,000 to Sinking Fund before ascertaining the amount available for Shareholders' Dividend.

	Rs.		Rs.
10,000 Ordinary Shares of Rs. 100 each, fully paid	10,00,000	Electrical Instruments	2,000
Mortgage Debentures	32,00,000	Receipts for Sale of Current ..	4,57,000
Buildings and Works	11,34,180	Law Expenses	1,500
Mains and Cost of laying ..	3,98,170	Received on Sale of old Materials	100
Machinery, Plant, etc.	14,31,750	Depreciation Fund	30,000
Accumulators	10,230	Sinking Fund	50,000
Land and Charges incidental to acquisition	13,60,920	Oil, Waste and other Stores ..	18,130
Law and Parliamentary Charges	60,000	Wages at Station	33,470
Artesian Well	3,500	Interest on Debentures ..	1,28,000
Tools and Loose Plant	21,940	Insurance and Special Charges	4,800
Rents and Taxes	25,000	Interest on Bank Loan	2,500
Coal, Carriage, etc	1,34,040	Transfer Fees	50
Office Furniture and Fittings ..	2,450	Interest on Sinking Fund Investments	1,500
		Salaries to Engineers & Officers	11,470

	Rs.		Rs.
Repairs and Maintenance ..	7,800	Sundry Creditors	68,730
Management Expenses ..	22,300	Stores on hand—Coal	29,000
Meter & Other Rents Receivable	17,050	" " Oil, Waste, etc.	12,000
Discounts on Purchases (Cr.) ..	700	Investments on Account of Sinking Fund	50,000
Bank Loan	2,00,000	Cash in hand and at Bank ..	45,000
Balance of Net Revenue Account	51,020	Taxes and Insurance paid in Advance	4,000
Sundry Debtors	1,65,000		
Capital Reserve	40,000		

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(Revenue Account: Credit Balance Rs. 2,16,390; Net Revenue Account: Credit Balance Rs. 89,910; General Balance Sheet Total Rs. 47,30,140; Capital Account Total Rs. 44,25,140.)

13. The following is the Trial Balance of the Durham Railway Company, after the completion of the Revenue Account for the half year ended 31st December, 1937:—

	£	£
3½ per cent Preference Stock		300,000
Ordinary Stock		500,000
4 per cent Debenture Stock		200,000
Lines open for Traffic	851,950	
Lines in course of construction	5,000	
Lines not commenced	50	
Working Stock (Engines, Carriages, etc.)	130,000	
Contributions to Joint Lines	50,000	
Premiums on Stocks, etc. sold		25,000
Purchase of Grand Canal	5,000	
Cash at Bank	5,000	
General Stores, Stock on hand	10,000	
Traffic Accounts due to Company	10,000	
Due from other Companies	1,000	
Sundry Outstanding Accounts	4,000	
Debts due to other Companies		500
Sundry Tradesmen, etc.		20,000
Fire Insurance Fund		1,500
Superannuation Fund		5,000
Balance to Credit of Net Revenue Account		20,000
£	1,072,000	1,072,000

During the half year there was an issue of £10,000 3½ per cent Preference Stock at par, which was fully subscribed and paid up, also of £20,000 Ordinary Stock fully subscribed and paid up at a premium of 5 per cent. The expenditure on lines open for traffic was £25,000, on lines in course of construction £1,000, and on working stock £5,000.

Make out Capital Account and Balance Sheet in proper form.

(Chartered Accountants.) 358

(Capital Account Total £1,042,000; General Balance Sheet Total £47,000.)

14. Draw up from the following figures a Revenue Account, Net Revenue Account and General Balance Sheet of the East and West Railway on the 30th June 1937, in the prescribed form:—

	£		£
Maintenance of Way	7,033	Compensation (Accidents and Losses)	439
Locomotive Power	9,909	Debts due to other Companies ..	569
Passengers carried	18,418	Rent Charge Stock Guarantee Dividend	2,602
Parcels carried	4,078	Sundry Outstanding Account (Creditors) .. .	11,994
Rates and Taxes	2,056	Invested in Consols	502
Rent Charges and Chief Rents paid	533	General Stores—Stock on hand	10,653
Mails carried	669	Minerals carried	14,348
Merchandise carried ..	13,651		
Forged Transfers Fund ..	597		

	£		£
Rents, Rates and Taxes ..	2,500	Depreciation Fund, Balance to Credit	3,000
Management Expenses ..	2,230	Sinking Fund, Balance to Credit	5,000
Law Expenses	150	Sundry Creditors	6,873
Insurance and Special Charges ..	480	Bank Loan	20,000
Interest on Debenture Stock ..	12,800	Capital Reserve	4,000
Interest on Bank Loan ..	250	Stores on hand—Coal	2,900
Interest on Sinking Fund Investments	150	" " —Oil, Waste, etc.	1,200
Receipts for Sale of Current ..	45,700	Sundry Debtors	16,500
Meter and other Rents receivable	1,705	Rates and Insurance paid in advance	400
Transfer Fees	5	Investments on account of Sinking Fund	5,000
Discounts on Purchases ..	70	Cash in hand and at Bank ..	4,500
Received for sale of old materials	10		
Balance to Credit of last Net Revenue Account	5,402		

(*National Union of Teachers.*) 361

(*Revenue Account: Credit Balance* £21,639; *Net Revenue Account: Credit Balance* £8,991; *General Balance Sheet Total* £473,014; *Capital Account Total* £442,514.)

17. Provide for the undermentioned depreciation, and prepare a Revenue Account, Capital Account and Balance Sheet from the following Trial Balance. A call of £1 per share was payable on the 31st December and arrears are subject to interest at 5 per cent per annum.

Depreciation to be provided for on: Buildings $2\frac{1}{2}$ per cent, Machinery $7\frac{1}{2}$ per cent, Mains 5 per cent, Transformers, etc. 10 per cent, Meters and Electrical Instruments 15 per cent.

THE DYNAMO ELECTRIC LIGHTING CO., LTD.

Trial Balance 30th June ......

Amount last 30th June. £		£	£
	Capital, Nominal, 10,000 shares of £10 each.		
20,000	Subscribed 5,000 shares " " £5 paid		25,000
15,000	Debentures 6 per cent Interest		15,000
1,000	Depreciation Fund		1,000
	Calls in arrears	1,000	
9,300	Freehold Land	9,300	
4,000	Buildings	5,000	
6,000	Machinery at Station	10,000	
5,000	Mains	8,000	
1,000	Transformers, Motors, etc	2,000	
500	Meters	1,500	
300	Electrical Instruments	400	
1,600	General Stores (Cables, Mains and Lamps) in stock	2,350	
250	Office Furniture	250	
	Coal and Fuel	1,900	
	Oil, Waste and Engine Room Stores	750	
	Coal, Oil, Waste, etc. in Stock	100	
	Wages at Station	3,000	
	Repairs and Replacements	500	
	Rates and Taxes	300	
	Salaries of Secretary, Manager, etc.	1,500	
	Directors' Fees	1,000	
	Stationery, Printing and Advertising	600	
	Incidental Expenses	100	
	Law Charges	200	8,750
	Sales by Meter		5,000
	" " Contract		300
	Meter Rents		

		£
Sundry Creditors		1,000
" Debtors	3,000	
Cash in hand and at Bank	3,300	
	£ 56,050	56,050

(Chartered Accountants.) 362

(Revenue Account: Credit Balance £3,180; Net Revenue Account: Credit Balance £2,305; General Balance Sheet Total £45,225; Capital Account Total £39,000.)

18. The Bombay Municipal Corporation having received many complaints regarding the insufficient supply of water decided to replace some of the existing mains by mains of larger size. The cost of the existing mains which are to be replaced was Rs. 10,00 000 at the time they were laid. The cost of the Materials and Wages have increased in the meantime by 50% in the aggregate; it is estimated that the laying of larger mains would cost Rs. 30,00,000 and the old mains would realise about Rs. 2,50,000. As the Capital Expenditure is to be met by means of a Loan and the Revenue Expenditure is to be provided for out of revenue, it is necessary to allocate the cost of Rs. 30,00,000 between Capital and Revenue Expenditure. You are asked to make the allocation.

(G. D. A.) 363

(Amount chargeable to Capital Rs. 15,00,000; Amount chargeable to Revenue Rs. 12,50,000.)

19. The Hindustan Gas Company rebuild and re-equip part of their works at a cost of Rs. 50,000. The part of the old works thus superseded cost Rs. 30,000. The capacity of the new works is double than that of the old. Rs. 2,000 is realised by the sale of old materials, and old materials valued at Rs. 1,000 are used in the reconstruction and included in the cost of Rs. 50,000 abovementioned. The cost of labour and materials is 10% higher now than when the old works were built.

Give the Journal Entries for recording the above transactions in the books of the Company, showing particularly what amount you consider should be charged to Capital Expenditure and stating your reasons for your decision. *(G. D. A.)* 364

20. A Gas Company laid down a main at a cost of Rs. 10,00,000. Some years later owing to increased demand the Company laid down an auxiliary main for a quarter of the length of the old main for Rs. 3,00,000, and replaced the rest of the main at a cost of Rs. 12,00,000. the cost of laying mains having increased by 15% in the meantime.

How would you apportion the new expenditure between Capital and Revenue having regard to the increased cost of materials and wages and the fact that the old materials realised Rs. 1,80,000? 365

21. The following are the balances of a Railway Company for the year ending 31st December 1937. Prepare Capital Account, Summary of Revenue Accounts, Appropriation Account and General Balance Sheet:—

Receipts on Capital Account:—

	£		£
Ord. Pref. and Guarantee Stock to 31st Dec. 1936 ..	7,400,000	Debenture Stock	2,300,000
Received during the year ..	200,000	Premiums received on shares and stocks	19,500
Loans received by the Company	500,000	Premiums received on Debentures	37,000

Expenditure on Capital Account:—

	£
Lines open for traffic to 31st December 1936	4,500,000
" " traffic during the year	1,300,000
Lines not open for traffic:—	
New lines during the year	200,000
Widening of existing lines during the year	400,000
Rolling Stock	1,500,000
" during the year	300,000

	£
Manufacturing and Repairing Works and Plant	400,000
" " during the year	100,000
Horses	80,000
Road Vehicles:—	
Goods and Parcels	4,000
Passengers	7,000
Steamboats	400,000
Docks, Harbours and Wharves	450,000
" " during the year	100,000
Hotels	175,000
Electric Power Stations	120,000
Land and Property not forming part of the Railway or Stations used in connection with Railway working	400,000

Revenue Receipts and Expenditure:—

	Receipts. £	Expenditure. £
Railway	1,005,000	700,000
Steamboats	90,000	20,000
Docks, Harbours and Wharves	225,500	110,000
Hotels, etc.	60,000	30,000

Miscellaneous Net Receipts:—

Rents from Hotels	9,000
Interest and Dividend from Investments	49,500
Transfer Fees	165
General Interest	590

Charges on Net Revenue:—

Interest on Superannuation Funds	3,000
Rent Charges and Annuities	16,000
Interest on Loans	40,000
" " Debenture Stock	60,800
Balance from last year's Appropriation Statement ..	70,000
Appropriation to General Reserve	89,000
Dividends on Guaranteed and Preference Stock ..	300,555

General Assets and Liabilities:—

Cash at Bank	30,000
" in hand	400
Investments in Government Securities	1,005,000
Other Securities	990,000
Investments of Superannuation Funds	152,000
Stocks of Stores and Materials	125,000
Outstanding Traffic Accounts	120,000
Amount due by Railway Companies	39,000
Due from Post Office	48,500
Sundry Creditors	310,000
Due to Railway Clearing House	19,000
Superannuation Fund	150,000
Fire Insurance Fund	350,000
Depreciation Funds:—	
Railway	930,000
Steamboats	90,000
General Reserve Fund	500,000

(Total Net Income £579,755; Balance available for Dividend £140,400; Total of Capital Account £10,456,500; General Balance Sheet Total £2,509,900.)

CHAPTER XVI.

DEPARTMENTAL AND BRANCH ACCOUNTS.

Where a business is divided into several departments, it is desirable that the system of accounting should be so arranged as to enable the management to know at any time not only as to how the business as a whole is progressing but also as to which department of the business is making money and which, if any, is losing money.

For the attainment of the above end, the accounts of stock, purchases, sales and cost of doing business in each department are kept separate, just as though each department were a separate business. Either separate Purchases and Sales Books are kept for each department, or where the departments are not many, it is usually found convenient to keep analytical Purchases and Sales Books having a column for each department, as follows:—

DEPARTMENTAL PURCHASES BOOK.

Date.	Particulars.	Inward Inv. No.	L. F.	Total.	Departments.		
					A	B	C
				Rs.			

DEPARTMENTAL SALES BOOK.

Date.	Particulars.	Outward Inv. No.	L. F.	Total.	Departments.		
					A	B	C
				Rs.			

As shown in the above illustrations, the departments may be either known by letters or numbers or by names, and the columns of the original records must be headed accordingly. It goes without saying that the Returns Books will have to be similarly of an analysed form.

Departmental Ledger Accounts.—In order to ascertain the trading results of each department, it will be necessary to open in the Ledger separate Stock, Purchases. Sales, Returns and Wages Accounts for each department.

Direct Expenses.—All direct expenses such as salaries, rent, insurance and so forth. are directly charged to the department that incurs them. Clerks' salaries may be easily divided from the Salaries Book; rent should be divided according to the floor space used; and insurance according to the value of the stock.

Indirect Charges.—General Expenses, such as manager's salary, book-keeping and sundry office expenses are charged to their respective nominal accounts as usual, and at closing time, these are apportioned and charged to the departments on the basis of turnover or the cost of the goods sold.

Departmental Trading and Profit and Loss Account.—A departmental Trading and Profit and Loss Account can then be prepared from which the profit or loss made by each department may be determined.

Advantages of Departmental Accounts.—An accounting system like this is extremely valuable to shops with several Departments. Very often, the proprietor of a shop of this kind finds that his business is not as paying as it should be, and blames the business as a whole, when it is more than likely that one or two departments only are running at a loss and are eating up the profits earned by all the rest. A departmentalised accounting system will enable the trader to determine which department or departments are at fault, and he can take steps to either remedy the causes of the loss, or to eliminate that section of his business altogether.

In introducing a system of account-keeping for a business with several departments, it must be borne in mind that the first consideration should be simplicity; a multiplicity of forms and books not only tends to run up the book-keeping expenses, but furnishes a loophole for errors—often very hard to locate—and renders the system practically useless.

ILLUSTRATION 160.

TRIAL BALANCE

As at 31st December 1935.

		Dr. Rs.	Cr. Rs.		Dr. Rs.	Cr. Rs.
Capital Account	...		15,800	Furniture and Fixtures	500	
Drawings Account	...	758		Bills Payable .		1,225
Stock on 1st January 1935				" Receivable ...	1,000	
	(A Dept.) .	9,000		Machinery and Plant ..	10,000	
	(B Dept.) ...	3,500		Salaries ...	1,200	
Purchases	(A Dept.) ...	20,000		Advertisement ...	240	
"	(B Dept.) ..	8,500		Commission ...	80	
Sales	(A Dept.) ...		30,000	Rent, Taxes, and		
"	(B Dept.) ..		10,000	Insurance ...	640	
Wages	(A Dept.) .	3,000		Discounts & Allowances	100	
"	(B Dept.) ..	650		Bank Overdraft ..		3,000
Freight and				Printing & Stationery .	300	
Carriage	(A Dept.) ..	250		Fuel and Water ..	400	
" "	(B Dept.) .	65		Bad Debts ..	132	
Sundry Debtors	..	4,800		General Expenses ...	360	
" Creditors	..		5,600	Cash in hand ..	150	

The Stock on 31st December 1935 amounted to (A Dept.) Rs. 8,500, (B Dept.) Rs. 3,000. Provide $2\frac{1}{2}$ per cent Reserve for Doubtful Debts on Book Debts, and write off 5 per cent Depreciation on Machinery and Plant. Fire Insurance Rs. 80 has been paid for the year ending 31st March 1936. Provide for Wages due Rs. 150 (A Dept.) and Rs. 70 (B Dept.), Salaries Rs. 100 are outstanding. Prepare Departmental Trading and Profit and Loss Account and Balance Sheet. The expenses are to be borne by each Department in proportion to its turnover.

Solution.

DEPARTMENTAL TRADING AND PROFIT AND LOSS ACCOUNT.

For the year ending 31st December 1935.

—	Dept. A	Dept. B	Total	—	Dept. A	Dept. B	Total
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Stock on 1st January 1935 ...	9,000	3,500	12,500	By Sales ..	30,000	10,000	40,000
,, Purchases ...	20,000	8,500	28,500	,, Stock on 31st December 1935 ...	8,500	3,000	11,500
,, Wages ...	3,150	720	3,870				
,, Freight and Carriage ...	250	65	315				
,, Fuel and Water ..	300	100	400				
,, Gross Profit carried down ...	5,800	115	5,915				
Rs.	38,500	13,000	51,500	Rs.	38,500	13,000	51,500
To Salaries ...	975	325	1,300	By Gross Profit brought down ...	5,800	115	5,915
,, Rent, Taxes and Insurance ...	165	155	320	,, Net Loss ...	...	823	...
,, General Expenses ...	270	90	360				
,, Printing and Stationery ...	225	75	300				
,, Advertisement ...	180	60	240				
,, Bad Debts ...	99	33	132				
,, Reserve for Doubtful Debts ...	90	30	120				
,, Discounts and Allowances ...	75	25	100				
,, Commission ...	60	20	80				
,, Depreciation on Machinery at 5 per cent ..	375	125	500				
,, Net Profit transferred to Capital Account (balance) ...	2,986	..	2,163				
Rs.	5,800	938	5,915	Rs.	5,800	938	5,915

BALANCE SHEET.

As at 31st December 1935.

Liabilities.	Rs.	Rs.	*Assets.*	Rs.	Rs.
Sundry Creditors :—			Cash in Office ...	...	150
On Open Accounts ...	5,600		Sundry Debtors ...	4,800	
Bank Overdraft ...	3,000		*Less* Reserve for Doubtful		
Bills Payable ...	1,225		Debts	120	
Outstanding for Expenses ...	320				4,680
		10,145	Bills Receivable ...	...	1,000
Capital Account :—			Stock-in-Trade :—		
Balance 1st January 1935 .	15,800		A Department ...	8,500	
Add Net Profit for the year	2,163		B " ...	3,000	
					11,500
	17,963		Furniture and Fixtures ...	...	500
Less Drawings during the			Machinery and Plant ...	10,000	
year ...	758		*Less* Depreciation at 5%	500	
		17,205			9,500
			Insurance Prepaid ...	...	20
Rs.		27,350	Rs.		27,350

BRANCH ACCOUNTS.

Where a business has branch offices or establishments, it is absolutely essential for the account-keeping to be so arranged that the Branch Books can be brought to a correct balance, and that the Head Office, from statements supplied to them of the transactions which have taken place in the branch offices, can incorporate these transactions in their own books, and thus be able to ascertain the working results not only of the business as a whole but also of each of its branches.

The nature of work entrusted to branch establishments varies to a considerable extent in each business, and the method employed in recording the financial effect of their transactions will, therefore, naturally vary according to the circumstances of each case.

For the purpose of enabling the student to have a clear understanding of the different phases of Branch Accounts, it has been thought desirable to divide the Branches into five classes as follows :—

(*a*) Where the Branch acts solely as a depot for cash sales of goods supplied by the Head Office.

(*b*) Where the Branch acts solely as a depot for cash as well as credit sales of goods supplied by the Head Office.

(*c*) Where the goods supplied by the Head Office to the Branches are marked at selling price.

(*d*) Where the Branch trades independently of the Head Office.

(*e*) Where the Branch is in a foreign country.

WHERE THE BRANCH SELLS SOLELY THE HEAD OFFICE GOODS FOR CASH.

Where the Branches take the form of retail shops where the goods supplied by the Head Office are sold for cash only, the money received by each branch for the Cash Sales is either paid in daily at some local bank to the credit of the Head Office Account, or else remitted every day direct to the Head Office, if convenient. The fixed expenses of the Branch such as Salaries, Wages, Rent, etc., are usually paid by cheque from the Head Office. For the purpose of enabling the Branch Manager to make the necessary petty disbursements, Petty Cash cheques are issued by the Head Office on the imprest system.

Record at Branch.—Under such a circumstance, the only necessary books to be kept at each Branch are a Petty Cash Book, a Cash Book and a Stock Book.

Daily or weekly statements are sent by the Branch to the Head Office, showing the daily cash takings, the amounts banked, the cheques, if any, received from the Head Office and the expenses paid thereout, the petty disbursements and the balance of petty cash in hand. Further information is also supplied to the Head Office in respect of the Stock at Branch from time to time and the future requirements.

Record at Head Office.—In the Head Office Ledger, a separate account is opened for each Branch to which all the transactions passing between the Head Office and the particular Branch are posted. The goods supplied to each Branch from time to time are usually invoiced at cost price representing a mere transfer of goods from one place to another and should not, therefore, be treated as sales by the Head Office. The goods issued to Branches are thus recorded in a special book called "Goods Supplied to Branches Book". This book can be so ruled as to have a special column for each Branch, thus:—

GOODS SUPPLIED TO BRANCHES BOOK.

Date.	Particulars.	Inv. No.	Total.	Madras Branch.	Calcutta Branch.	Rangoon Branch.
[illegible]	[illegible]	[illegible]	[illegible]			

The postings from this book are done only once a month. Each Branch Account is debited with the total as shown by its separate column, and the total goods supplied as shown by the total column is credited to Goods supplied to Branches Account. At balancing time, the latter Account is closed by transfer to the Trading Account. The goods issued to the Branches will thus appear in the Head Office Trading Account as an item quite distinct from the sales, as otherwise, the turnover of the Head Office as shown by the Trading Account would be entirely misleading and absolutely useless for the purpose of comparison or calculation of percentage of profit earned on turnover.

Each Branch Account is also debited from the Cash Book with the expenses paid by the Head Office and is credited with the amounts remitted to the Head Office or banked direct into the Head Office Bank Account. Where the cash transactions with Branches are numerous, the Cash Book may be so ruled as to have a column for each Branch on the debit as well as on the credit side. Each time that an amount is received from a Branch, the same will be placed in the Bank column as also in that particular Branch column. Similarly, when a cheque is issued to any Branch, the

Bank column as well as the particular Branch column will show the amount. The Branch items need not then be posted individually but the monthly totals of the Branch columns will be posted to their respective accounts.

At balancing time, each Branch Manager sends in a statement showing the amount of Stock as well as the amount of Petty Cash on hand. With these, a Journal entry is passed in the Head Office books debiting Branch Stock and Branch Petty Cash Accounts and crediting the particular Branch Account. Each Branch Account will now show the profit or loss made by it, which will be transferred to the General Profit and Loss Account, thus closing the Branch Account.

The Branch Petty Cash and the Branch Stock Accounts will appear in the Head Office Balance Sheet and will be transferred to the next year's books. At the commencement of the next period, a reverse entry will be passed debiting the particular Branch Account and crediting its Stock and Petty Cash Accounts.

ILLUSTRATION 161.

The following are the transactions between Messrs. Warden & Co. of Bombay and their Branch at Calcutta for the year ending 30th June 1935:—

	Rs.	Rs.		Rs.
Stock at Branch on 1st July 1934		3,000	Remittances received from the Branch during the year ..	55,000
Goods supplied to Branch during the year		48,000	Stock on 30th June 1935 at the Branch	2,500
Cheques sent to the Branch for:—			Balance of Petty Cash ..	20
Salaries	2,400			
Rent	720			
Telephone ..	200			
Petty Expenses ..	300			
		3,620		

Show the Branch Account appearing in the Head Office Books.

Solution.

HEAD OFFICE BOOKS.

CALCUTTA BRANCH ACCOUNT.

	Rs.		Rs.
To Stock (1-7-1934)	3,000	By Bank—Cash Sales	55,000
„ Goods supplied	48,000	„ Stock (30-6-1935) . ..	2,500
„ Bank—Salaries	2,400	„ Petty Cash (30-6-1935) .	20
„ Do. —Rent	720		
„ Do. —Telephone	200		
„ Do. —Petty Cash	300		
„ Profit and Loss Account :— ...			
(Profit transferred)	2,900		
Rs.	57,520	Rs.	57,520

Note.—At the commencement of the next period, the Calcutta Branch Account will be debited with the Opening Stock of Rs. 2,500 and Petty Cash balance of Rs. 20 by means of a Journal entry—Calcutta Branch Account......Dr. Rs. 2,520 To Calcutta Branch Stock Account Rs. 2,500 and Calcutta Branch Petty Cash Account Rs. 20.

WHERE THE BRANCH SELLS SOLELY THE HEAD OFFICE GOODS FOR CASH OR ON CREDIT.

Record at Branch.—Where the sales made by the Branch are partly for cash and partly on credit, the only additional books to be kept at the Branch, over and above those already indicated, would be a Day Book and a Customers' Ledger. The moneys remitted by the Branch to the Head Office would, in that case, represent cash sales as well as amounts recovered from the debtors. At periodical intervals, the Branch will have then to send additional information in its statements to the Head Office as to its credit sales. At the end of the financial period, it would be necessary for the Branch not only to send its figures of stock and petty cash, but also the amount of debtors at the close, in order to enable the Head Office to ascertain the profit or loss made by the Branch.

Record at Head Office.—In the Head Office books, the record of the Branch transactions will be made in just the same way as in the previous case. Each Branch Account will get debits in respect of the goods supplied and the expenses paid by the Head Office and will get credits in respect of the remittances from the Branch.

At the end of the financial period, on receiving the necessary figures from the Branch, the Head Office will pass a Journal entry debiting Branch Stock, Branch Debtors and Branch Petty Cash Accounts with their respective amounts and crediting the particular Branch Account. Each Branch Account will now represent the profit and loss made by it and will be closed by transfer to the Profit and Loss Account. The various Assets of the Branch will appear in the Head Office Balance Sheet and, as already explained above, these assets accounts will be transferred at the commencement of the next period to the respective Branch Account by means of a Journal entry.

ILLUSTRATION 162.

The following are the transactions between a *Bombay Head Office* and its *Karachi Branch* for the six months ending 31st December 1935:—

	Rs.	Rs.
Stock of Goods at the Branch, on 1st July 1935 ..		2,500
Sundry Debtors do. do. ..		5,000
Goods sent to the Branch		56,000
Returns from the Branch		1.500
Remittances from the Branch:—		
Cash Sales	5,000	
Moneys received from Debtors	48,000	
		53,000
Cheques sent to Branch:—		
Salaries	1,200	
Rent and Insurance	600	
Petty Cash	150	
		1,950
Stock on 31st December 1935 at the Branch ..		6,000
Debtors		8,000
Petty Cash Balance on 31st December 1935 ..		15

Show how the Branch Account will appear in the Head Office Books.

Solution.

HEAD OFFICE BOOKS.

KARACHI BRANCH ACCOUNT.

	Rs.		Rs.
To Stock (1-7-35) ...	2,500	By Bank—Cash Sales	5,000
" Sundry Debtors (1-7-35)	5,000	" " —from Debtors	48,000
" Goods supplied	56,000	" Returns	1,500
" Bank—Salaries	1,200	" Stock (31-12-35)	6,000
" " —Rent, etc. ...	600	" Debtors (31-12-35)	8,000
" " —Petty Cash ...	150	" Petty Cash (31-12-35)	15
" Profit and Loss Account :— (Profit transferred) ...	3,065		
Rs.	68,515	Rs.	68,515

Note.—At the commencement of the next period, the Karachi Branch Account will be debited with the figures of Opening Stock, Debtors and Petty Cash in the same manner as explained in the previous Illustration, and the corresponding asset accounts will be credited and thus closed.

WHERE THE GOODS SUPPLIED TO BRANCHES ARE MARKED AT SELLING PRICE.

In the previous two cases, it was assumed that the goods are supplied to each Branch at cost price. Occasionally, however, goods are invoiced by the Head Office at selling price. The object of this is, firstly, that the Branch Manager, not knowing the cost price of the goods supplied to him, cannot find out for himself the profit or loss made by his Branch, and secondly, that a close and definite check may be had on the stock at each Branch.

Record at Branch.—Assuming that the other arrangements between the Head Office and the Branches are the same as previously considered, the record of the transactions in the Branch Books will be on the same lines as above indicated.

Record at Head Office.—In the Head Office books, the debits and credits to each Branch Account will be on similar lines as explained above. In order to ascertain the profit or loss made by each Branch, however, certain adjusting entries will be necessary at balancing time inasmuch as there will be several items already posted to the Branch Accounts at selling price which ought to be there at cost price. For instance, the opening stock and goods supplied on the debit and the closing stock on the credit of each Branch Account are at selling price instead of at cost price. The necessary adjustments in regard to these items would, therefore, be made as follows :—

The goods supplied which appear on the debit of each Branch Account at selling price would be adjusted by debiting the "Goods supplied to Branches Account" and crediting each Branch Account with the amount representing the difference between the cost and selling price of those goods. The effect of this entry would be to nullify the excess debit which exists on each Branch Account and also to adjust the excess credit which stands on the "Goods supplied to Branches Account".

The closing Stock of each Branch, which appears at selling price on the credit side of that Branch Account and on the debit of the Branch Stock

Account, will be adjusted by the difference between the cost and selling price thereof being debited to the particular Branch Account and credited to an account styled "Difference in value of Stock Account".

Each Branch Account can now be closed by the Profit and Loss Account as in the previous cases. The Branch Debtors Account, Branch Stock Account, Branch Petty Cash Account *minus* the credit balance of "Difference in value of Stock Account" will appear on the assets side of the Head Office Balance Sheet, not under their distinct headings, but mixed with the corresponding Head Office Assets.

The Branch Stock Account (at selling price), the Branch Debtors Account, and the Branch Petty Cash Account will be carried forward in the next year's Ledger. The credit balance of "Difference in value of Stock Account" will also be similarly carried forward. The first three accounts will be immediately closed by transfer to the Branch Account concerned, but the fourth account will remain untouched till the end of the financial period, when it will be transferred to the credit of the Branch Account by means of a Journal entry (debiting Difference in value of Stock Account and crediting Branch Account), thus automatically adjusting the *Opening Stock* standing at selling price on the debit side of the Branch Account.

It goes without saying that these various adjustments, which are being made in the Head Office Books at the time of balancing, with a view to ascertain the Branch profit or loss, should be passed through the Private Journal and Ledger, as otherwise, the object of keeping the Branch Manager in the dark as to the working results of his Branch would be frustrated.

To facilitate the ascertainment of cost price of goods supplied to each Branch, a fixed percentage is usually added to the cost of the goods before invoicing the same. When the nature of the business would not admit of such a course, the Goods Supplied to Branches Book may be so ruled as to have columns for cost and selling price as follows:—

GOODS SUPPLIED TO BRANCHES BOOK.

Date.	Particulars.	Total.		Madras Branch		Rangoon Branch	
		Cost.	Selling.	Cost.	Selling.	Cost.	Selling.

The postings would be made of the totals of the Selling Price columns, whereas the difference between the totals of the Cost and Selling Price columns would be the amount with which the adjusting entries would be made.

ILLUSTRATION 163.

A Head Office in Bombay sends goods to its Branch at Madras marked 20 per cent above cost. From the following particulars, show how the Branch Account will appear in the Head Office Books. Give also the Journal Entries necessary for the Head Office to adjust the Branch Account for arriving at the profit or loss made by the Branch:—

	Rs.	Rs.		Rs.	Rs.
Stock on 1-7-35 at the Branch ..		1,800	Cheques sent to Branch:—		
Debtors „ „ ..		3,000	Salary	900	
Petty Cash in hand „ ..		30	Rent and Taxes ..	150	
Goods supplied to the Branch ..		30,000	Petty Cash ..	110	
Remittance from the Branch:—					1,160
Cash Sales ..	6,000		Stock at Branch on 31-12-35 ..		3,000
Moneys recovered from Debtors ..	21,000		Debtors at the Branch „ ..		4,800
		27,000	Petty Cash „ „ ..		20

Solution.

✓ *HEAD OFFICE BOOKS.*

JOURNAL ENTRIES.

		L. F.	Rs.	Rs.
	Difference in value of Stock Account ... ... Dr. To Madras Branch Account (Being the difference in cost and selling price of the opening Stock debited to Branch Account at selling price now adjusted.)		300	300
	Goods Supplied to Branch Account ... ... Dr. To Madras Branch Account (Being the Difference in cost and selling price of the goods supplied and debited to the Branch Account at selling price now adjusted.)		5,000	5,000
	Madras Branch Account ... ... Dr. To Difference in value of Stock Account (Being the adjustment of the difference in cost and selling price of the closing Stock credited to Branch Account at selling price.)		500	500

MADRAS BRANCH ACCOUNT.

	Rs		Rs.
To Stock (1-7-1935) ...	1,800	By Bank:—	
„ Debtors „ ...	3,000	Cash Sales ...	6,000
„ Petty Cash „ ...	30	From Debtors ...	21,000
„ Goods supplied ...	30,000	„ Stock (31-12-1935) ...	3,000
„ Bank:—		„ Debtors „ ...	4,800
Salary ...	900	„ Petty Cash „ ...	20
Rent and Taxes ...	150	„ Difference in value of Stock Account ...	300
Petty Cash ...	110	„ Goods supplied to Branch Account ...	5,000
„ Difference in value of Stock Account	500		
„ Profit and Loss Account:— (Profit transferred) ..	3,630		
Rs.	40,120	Rs.	40,120

WHERE THE BRANCH TRADES INDEPENDENTLY OF THE HEAD OFFICE.

Not infrequently, branches are given extensive powers to do independent trading and may then purchase any goods other than those supplied by the Head Office, and may also incur all the necessary expenses as the Branch Manager may deem fit. Under this circumstance, it becomes essential that the Branch Managers must have working capital available to them, and consequently, the sales money received by each Branch would not be remitted direct to the Head Office or paid into the Head Office Bank Account as in the previous cases, but would be retained by the Branch. On the other hand, however, the Head Office may still supply each Branch with capital and with greater part of its goods, and in consequence, there would be a constant state of indebtedness by each Branch to the Head Office.

Record at Branch.—In this case, a complete set of books will have to be maintained at each Branch.

The goods received from Head Office would be recorded either in a separate book called "Goods received from Head Office Book", or would be passed through the Invoice Book ruled with a special column for Head Office, thus:—

INVOICE BOOK.

Date.	Particulars.	Inward Inv. No.	Ledger Folio.	Total.	Supplies from Head Office.	Other Purchases.

With the monthly total of the Supplies from Head Office column, an entry would be passed debiting Goods received from Head Office Account and crediting the Head Office Account. At the time of balancing, the former account will be transferred to the Trading Account, and shown as a distinct item from other purchases.

Round sums of money would be remitted by the Branch to the Head Office as and when desired by the latter and whenever there may be surplus cash at the Branch. Similarly, remittances would be sent by the Head Office to the Branch whenever the latter is in need of money. All such transactions would be passed through the Cash Book in the ordinary way and posted therefrom to the debit or credit of the Head Office Account, as the case may be. At balancing time, each Branch would be able to prepare its own Trial Balance, compile therefrom its own Trading and Profit and Loss Account and Balance Sheet and close its own books.

In the Branch Books, the Head Office Account practically takes the place of Capital Account, and accordingly, its Profit and Loss Account would be closed by transfer to Head Office Account. The latter Account as adjusted would usually appear as a liability in the Branch Balance Sheet. A copy of the Branch Trial Balance would then be sent to the Head Office to enable the latter to incorporate the results of the Branch trading in its own books.

Record at Head Office.—In the Head Office Ledger, there will be an account for each Branch, which will be debited from time to time with goods and moneys supplied to the Branch and credited with goods returned or remittances by the Branch. As each Branch records the same set of transactions in the Head Office Account, it naturally follows that, at any particular date, each Branch Account in the Head Office Books will show the same balance as is shown by the Head Office Account in the Books of that particular Branch. There will be this difference, however, that whereas each Branch Account in the Head Office Books will show a debit balance, the Head Office Account in the Branch Books will show a credit balance to the same extent.

On receipt of the Trial Balance from each Branch, the Head Office will have to incorporate all the figures thereof into its own books with a view to arrive at the resultant profit or loss made by each Branch.

The following Journal entries will be necessary in the Head Office Books to incorporate the various items of the Branch Trial Balance:—

1. With such items as usually appear on the debit side of a Trading Account, Branch Trading Account would be debited and Branch Account would be credited.

2. With such items as would appear on the credit of a Trading Account, Branch Account would be debited and Branch Trading Account credited.

3. Branch Trading Account would be debited and Branch Profit and Loss Account credited with the amount of gross profit—thus closing the Branch Trading Account.

4. With the various expenses that are usually chargeable to Profit and Loss Account, Branch Profit and Loss Account would be debited and Branch Account credited.

5. If there be any item which should appear on the credit of Profit and Loss Account, Branch Account would be debited and Branch Profit and Loss Account credited with the same.

6. Branch Profit and Loss Account would be debited and General Profit and Loss Account credited with the amount of net profit made by the Branch—thus closing the Branch Profit and Loss Account.

7. Each Individual Asset Account would be debited with its respective amount as shown by the Branch Trial Balance and the Branch Account would be credited.

8. With each individual liability of the Branch, Branch Account would be debited and Branch Liability Accounts would be credited.

The Head Office having assimilated in its own books the whole of the information conveyed by the Branch Trial Balance, each Branch Account will now be closed as a result of the above entries. The Head Office Balance Sheet will include the Branch Assets and Liabilities which may either be shown separately or merged with its own assets and liabilities.

At the commencement of the next period, the entries (7) and (8) explained above will be reversed in the Head Office Books.

Note.—Entry (3) may be omitted if the Branch Trading and Profit and Loss Account is headed as one account.

ILLUSTRATION 164.

The following are the Trial Balances prepared from the Branch and Head Office Books respectively. Show the Head Office Account, Trading and Profit and Loss Account and Balance Sheet in the Branch Books.

Give also the Branch Account and Journal Entries necessary to enable the Head Office to incorporate the figures of the Branch Trial Balance into its own books, and prepare a combined Trading and Profit and Loss Account and Balance Sheet in the Head Office Books.

BRANCH TRIAL BALANCE.

	Dr. Rs.	Cr. Rs.		Dr. Rs.	Cr. Rs.
Furniture and Fixtures ...	750		Sundry Debtors ..	5,000	
Stock on 1st January ...	5,000		" Creditors ...		6,000
Goods received from Head Office	20,000		Cash at Bank ...	1,500	
Purchases	10,000		Carriage, Cartage, etc. ..	75	
Sales		40,000	Bad Debts	50	
Returns Inwards	500		Allowance to Customers ...	100	
" to Head Office ..		200	Bills Receivable ..	2,000	
Salaries	3,200		Head Office Account ...		2,575
General Expenses ...	300				
Rent and Taxes	300		Rs.	48,775	48,775

The Stock on 31st December 1934 was valued at Rs. 4,500.

HEAD OFFICE TRIAL BALANCE.

	Dr. Rs.	Cr. Rs.		Dr. Rs.	Cr. Rs.
Capital		22,575	Income-tax ..	250	
Furniture and Fixtures ...	1,800		General Charges ..	400	
Machinery	10,000		Postage and Telegrams ...	100	
Stock on 1st January 1934 ...	8,000		Insurance ...	50	
Purchases ..	50,000		Printing and Stationery ...	75	
Sales		50,000	Discounts and Allowances ...	125	
Goods sent to Branch ...		20,000	Sundry Debtors ..	15,000	
Returns Inwards ...	800		" Creditors ...		8,000
" from the Branch ...	200		Cash at Bank	5,000	
Returns Outwards ...		800	" in Office ...	500	
Carriage Inwards ...	500		Branch Account ..	2,575	
Salaries	4,000				
Rates and Taxes ...	1,800				
Telephone Charges ...	200		Rs.	1,01,375	1,01,375

The Stock on 31st December 1934 was Rs. 10,000.

Solution.

BRANCH BOOKS.
TRADING AND PROFIT AND LOSS ACCOUNT.
For the year ending 31st December 1934.

	Rs.	Rs.		Rs.	Rs.
To Stock on 1st January 1934 ...		5,000	By Sales ...	40,000	
" Purchases ...		10,000	*Less* Returns ...	500	39,500
" Goods received from Head Office ...	20,000		" Stock on 31st December 1934 ...		4,500
Less Returns ...	200				
		19,800			
" Carriage		75			
" Gross Profit carried down ...		9,125			
Rs.		44,000	Rs.		44,000
To Salaries		3,200	By Gross Profit brought down ...		9,125
" General Expenses ...		300			
" Rent and Taxes ...		300			
" Discounts and Allowances ..		100			
" Bad Debts ...		50			
" Net Profits transferred to Head Office Account ...		5,175			
Rs.		9,125	Rs.		9,125

BALANCE SHEET.

As at 31st December 1934.

Liabilities		Rs.	*Assets*		Rs.
Sundry Creditors	...	6,000	Cash at Bank	...	1,500
Head Office Account	...	7,750	Bills Receivable		2,000
			Sundry Debtors		5,000
			Stock-in-Trade		4,500
			Furniture and Fixtures	...	750
	Rs.	13,750		Rs.	13,750

HEAD OFFICE ACCOUNT.

1934			Rs.	1934			Rs.
Dec. 31	To Balance c/d.	...	7,750	Dec. 31	By Balance b/d	...	2,575
					" Profit and Loss Account (Profit)	...	5,175
		Rs.	7,750			Rs.	7,750
				1935			
				Jan. 1	By Balance b/d.	...	7,750

HEAD OFFICE BOOKS.

JOURNAL ENTRIES.

		L. F.	Rs.	Rs.
Branch Trading Account	Dr.		34,875	
To Branch Account				34,875
(Being the incorporation of the following items from the Branch Trial Balance.) Rs.				
Opening Stock 5,000				
Purchases 10,000				
Goods from Head Office ... 19,800				
Carriage 75				
Branch Account	Dr.		44,000	
To Branch Trading Account				44,000
(Being the incorporation of the following items from the Branch Trial Balance.) Rs.				
Sales *less* Returns 39,500				
Closing Stock 4,500				
Branch Trading Account	Dr.		9,125	
To Branch Profit and Loss Account				9,125
(Being transfer of Gross Profit.)				
Branch Profit and Loss Account	Dr.		3,950	
To Branch Account				3,950
(Being the incorporation of the following items from the Branch Trial Balance.) Rs.				
Salaries 3,200				
General Expenses 300				
Rent and Taxes 300				
Discounts and Allowances ... 100				
Bad Debts 50				

JOURNAL ENTRIES.—(*Contd.*)

		L. F.	Rs.	Rs.
Branch Profit and Loss Account	Dr.		5,175	
To General Profit and Loss Account				5,175
(Transfer of Branch Profit to General Profit and Loss Account.)				
Branch Furniture and Fixtures Account	Dr.		750	
„ Cash at Bank	„		1,500	
„ Bills Receivable	„		2,000	
„ Sundry Debtors	„		5,000	
„ Stock-in-Trade	„		4,500	
To Branch Account				13,750
(Being the incorporation of Branch Assets from the Branch Trial Balance into Head Office Books.)				
Branch Account	Dr.		6,000	
To Branch Creditors				6,000
(Being the incorporation of Branch Liabilities from the Branch Trial Balance into Head Office Books.)				

BRANCH ACCOUNT.

		Rs.			Rs.
1934 Dec 31	To Balance b/d. ...	2,575	1934 Dec. 31	By Branch Trading Account	34,875
	„ Balance, Trading Account	44,000		„ Branch Profit and Loss Account ...	3,950
	„ Branch Creditors ...	6,000		„ Branch Assets ...	13,750
	Rs.	52,575		Rs.	52,575
1935 Jan. 1	To Branch Assets ..	13,750	1935 Jan. 1	By Branch Creditors ...	6,000

NOTE.—It would be seen from the above, that at the commencement of the next period, a reverse Journal entry is passed debiting the Branch Account and crediting each individual Branch Asset Account with its respective figures, thus closing all the Branch Asset Accounts in the Head Office Books. Similarly, Branch Creditors Account is closed by debiting Branch Creditors Account and crediting the Branch Account. After these adjustments, the Branch Account in the Head Office Books shows an opening debit balance of Rs. 7,750 which agrees with the credit balance of the Head Office Account appearing in the Branch Books.

COMBINED TRADING AND PROFIT AND LOSS ACCOUNT.

For the year ending 31st December 1934.

—	Head Office.	Branch.	Total.	—	Head Office.	Branch.	Total.
	Rs	Rs.	Rs.		Rs.	Rs.	Rs.
To Stock on 1st Jan. 1934 ..	8,000	5,000	13,000	By Sales *less* Returns ..	49,200	39,500	88,700
„ Purchases *less* Returns ..	49,200	10,000	59,200	„ Goods supplied to Branch *less* Returns ...	19,800	...	19,800
„ Goods received from Head Office *less* Returns ...	...	19,800	19,800	„ Stock on 31st Dec 1934 ...	10,000	4,500	14,500
„ Carriage Inwards ..	500	75	575				
„ Gross Profits carried down	21,300	9,125	30,425				
Rs.	79,000	44,000	1,23,000	Rs.	79,000	44,000	1,23,000

COMBINED TRADING AND PROFIT & LOSS ACCOUNT.—(*Contd.*)

—	Head Office.	Branch.	Total.	—	Head Office.	Branch.	Total.
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Salaries ...	4,000	3,200	7,200	By Gross Profit brought down	21,300	9,125	30,425
„ Rent, Rates and Taxes ...	1,800	300	2,100				
„ General Expenses ..	400	300	700				
„ Discounts and Allowances ...	125	100	225				
„ Telephone Charges ..	200	...	200				
„ Postage and Telegrams ...	100	...	100				
„ Printing and Stationery ...	75	...	75				
„ Insurance ...	50	...	50				
„ Bad Debts ..	...	50	50				
„ Income Tax ...	250	...	250				
„ Net Profits carried to Capital	14,300	5,175	19,475				
Rs.	21,300	9,125	30,425	Rs.	21,300	9,125	30,425

BALANCE SHEET.

As at 31st December 1934.

Liabilities.	Head Office.	Branch.	Total.	*Assets.*	Head Office.	Branch.	Total.
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Sundry Creditors ...	8,000	6,000	14,000	Cash in Hand ...	500	...	500
Head Office A/c. ..	...	7,750	7,750	Cash at Bank ...	5,000	1,500	6,500
Capital Account :— Balance on 1st Jan. 1934 Rs. 22,575				Bills Receivable ...	...	2,000	2,000
				Sundry Debtors ...	15,000	5,000	20,000
Add Profits during the year Rs. 19,475				Stock-in-Trade ...	10,000	4,500	14,500
	42,050		42,050	Furniture and Fixtures ...	1,800	750	2,550
				Machinery ...	10,000	...	10,000
				Branch Account ..	7,750	...	7,750
Rs.	50,050	13,750	63,800	Rs.	50,050	13,750	63,800

NOTE.—The same Balance Sheet can also be presented in another form as illustrated on the next page.

BALANCE SHEET.

As at 31st December 1934.

Liabilities.		Rs.	Assets.		Rs.
Sundry Creditors :—	Rs.		Cash in hand (Head Office) ...		500
Head Office Account ...	8,000		Cash at Bank :—	Rs.	
Branch ...	6,000		Head Office ...	5,000	
		14,000	Branch ...	1,500	
Capital Account :—					6,500
Balance on 1st Jan 1934 .	22,575		Sundry Debtors :—		
Add Profit during the			Head Office ...	15,000	
year	19,475		Branch ...	5,000	
		42,050			20,000
			Bills Receivable (Branch) ...		2,000
			Stock-in-Trade :—		
			Head Office ...	10,000	
			Branch ...	4,500	
					14,500
			Furniture and Fixtures :—		
			Head Office ...	1,800	
			Branch ...	750	
					2,550
			Machinery (Head Office) ...		10,000
Rs.		56,050	Rs.		56,050

Goods supplied by Branch to Head Office.—A Branch may sometimes be instructed to buy goods locally available and supply the same to the Head Office. In such a case, the Branch will not be allowed to make the same high percentage of profit over these goods as it does on its sales to customers, but will have to be satisfied with a very nominal charge over the cost. For the purpose of arriving at the correct percentage of profit the Branch earns on its sales, it is necessary, therefore, that such supplies to Head Office be separately recorded. This is usually managed by either having an extra column in the Day Book for supplies to Head Office or by having a separate record for the purpose. The postings of these transactions need only be done monthly by debiting Head Office Account and crediting "Goods supplied to Head Office Account". The returns of such goods will also have to be recorded quite distinctly from the Returns from Customers. The Trading Account of the Branch will then show as follows :—

BRANCH TRADING ACCOUNT.

	Rs.	Rs.		Rs.	Rs.
To Stock at commencement		...	By Sales		
" Purchases	...		*Less* Returns	...	
Less Returns	...			...	
		...			...
" Goods received from Head Office	...		" Goods supplied to Head Office		
Less Returns	...		*Less* Returns	...	
		...		...	
					...
			" Stock at end		...
Rs.		...	Rs.		...

It goes without saying that the Head Office will also deal with its supplies to and from the Branch quite distinctly from its other purchases and sales. Its Trading Account will, therefore, naturally appear thus:—

HEAD OFFICE TRADING ACCOUNT.

	Rs.	Rs.		Rs.	Rs.
To Stock at Commencement		...	By Sales	...	
„ Purchases	...		*Less* Returns	...	...
Less Returns	...	...	„ Goods supplied to Branches	...	
„ Goods received from Branches	...		*Less* Returns	...	...
Less Returns	...	...	„ Stock at end		...
	Rs.	...		Rs.	...

Depreciation of Branch Fixed Assets.—It is usual for the accounts of the Fixed Assets of the Branch, such as Plant and Machinery, Furniture, Fixtures, etc., to be kept in the Head Office Books. When such is the case, the entry necessary to depreciate these assets would be as follows:—In the Branch Books, Depreciation Account would be debited and Head Office Account would be credited with the amount of depreciation. In the Head Office Books, Branch Account would be debited and the Fixed Assets of the Branch will be credited with a like amount.

Inter-Branch Transactions.—Not infrequently, where there are several branches, goods may have to be transferred or money may have to be remitted from one branch to another. The record of such inter-branch transactions can be made by each branch being allowed to open a current account of every other branch with which it has such dealings. At balancing time, the Trial Balance of each branch will then include current accounts of the other branches showing either debit or credit balances, as the case may be, and these current account balances will then be regarded by the Head Office as assets or liabilities of the branches, as between themselves.

If it is desired to avoid the necessity of the branches keeping current accounts with each other for the record of such transactions, any such transfer of goods or cash from one branch to another must be recorded in all the three sets of books. For instance, if goods are transferred from the Madras Branch to the Rangoon Branch, the record of this transaction would be made as follows:—The Head Office, on being notified of the fact, will debit the Rangoon Branch Account and credit the Madras Branch Account; the Madras Branch will debit the Head Office Account and credit Purchases Account; and the Rangoon Branch will debit Purchases Account and credit the Head Office Account.

Separate Account for Remittances.—Where the remittances to or from a Branch are numerous, it is desirable to open a separate "Branch Remittance Account" to which all such remittances would be posted. The object of such an intermediate account is for the Head Office to see clearly the position of the Branch in relation to goods supplied and also in relation to its remittances. At balancing time, however, the Branch Remittance Account is transferred to Branch Account. Similarly, the Branch may have two accounts in regard to its dealings with the Head Office.

Remittances in Transit.—At balancing time, it frequently happens that the Branch has remitted an amount to the Head Office just on the last day of the financial close and has debited the Head Office with the same. The Head Office, however, not having received the amount till after the closing period, has not credited the Branch, and consequently these two accounts will not agree. Under such a circumstance, the Branch, in order to tally the Head Office Account in its own books with its own Account in the Head Office Books, must pass an entry debiting Remittance in Transit Account and crediting Head Office. The Remittance in Transit Account will appear in its Balance Sheet as an asset and will be transferred to the debit of the Head Office Account at the commencement of the next period. If the Head Office has remitted an amount and the same has been received by the Branch after the date of balancing, the Head Office will have to pass a reconciling entry debiting Remittance in Transit Account and crediting the particular Branch Account. The entry will be reversed at the commencement of the succeeding period.

Goods in Transit.—It may likewise happen that the Head Office may have sent goods to the Branch just on the last date and debited the Branch with the same. The Branch, not having received those goods till after the closing period, has not credited the Head Office. In such a case, the Head Office will have to debit Goods in Transit Account and credit the Branch. The Goods in Transit Account will appear as an asset in its Balance Sheet and will be transferred to the debit of the Branch at the commencement of the next period.

ILLUSTRATION 165.

The following Balances are extracted from the books of the Bombay Head Office and Calcutta Branch:—

BOMBAY.	Rs.	CALCUTTA.	Rs.
Stock, 1st January 1937	54,000	Stock, 1st January 1937	39,000
Calcutta Branch, Dr.	54,000	Bombay Office, Cr.	42,000
Capital	1,60,500	Sundry Debtors	15,000
Drawings	27,000	Purchases (Less Returns)	34,500
Purchases (Less Returns)	96,000	Goods received from Bombay	42,500
Sales (Less Returns)	1,08,000	Returns to Bombay Office	2,000
Goods supplied to Branch	50,000	Sales (Less Returns)	96,000
Returns from Branch	2,000	Sundry Creditors	6,000
Sundry Debtors	22,500	Wages	8,000
Sundry Creditors	21,000	Office Salaries	2,500
Wages	12,000	Carriage and Freight	1,200
Carriage	2,700	Rent, Rates, etc.	1,200
Office Salaries	3,000	Office Expenses	300
Rent and Rates	1,800	Cash in Office	350
Office Expenses	1,200	Bank Balance	1,450
Plant at Bombay	36,000		
Plant at Calcutta	24,000	Stock on 31st December 1937	Rs. 42,600
Cash in Office	250		
Bank Balance	3,050		
Stock on 31st December 1937	50,400		

The Bombay Office sent goods worth Rs. 7,500 to Calcutta Branch on 30th December 1937, but the Calcutta Branch received the same on 9th January 1938. The Calcutta remitted to Bombay Office Rs. 4,500 on 30th December 1937, but the money was received by the Bombay Office on 4th January 1938. The Plant at Bombay and Calcutta is to be depreciated by 5 per cent, the depreciation of the Calcutta Plant to be charged *against* Calcutta Profit.

Make the necessary Journal entries in the books of Bombay and Calcutta for reconciling their current accounts. Prepare the Bombay Office Account, Trading and Profit and Loss Account and Balance Sheet in the Calcutta Branch Books. Also give the Journal Entries to incorporate the Branch Trial Balance in the Head Office Books, and prepare the Branch Account, Trading and Profit and Loss Account and Balance Sheet in the Bombay Books.

Solution.

JOURNAL ENTRIES IN CALCUTTA BRANCH BOOKS.

		L.F.	Rs.	Rs.
Remittance in Transit Account	Dr.		4,500	
To Bombay Office Account				4,500
(Being the amount remitted to Bombay Office on 30th December 1937, but credited by the latter on 4th January 1938.)				
Depreciation Account	Dr.		1,200	
To Bombay Office Account				1,200
(Being depreciation at 5 per cent on Plant Account kept in Bombay Office Books.)				
Profit and Loss Account	Dr.		10,200	
To Bombay Office Account				10,200
(Being Net Profit made during the year transferred to Bombay Office Account.)				

JOURNAL ENTRIES IN BOMBAY OFFICE BOOKS.

		L.F.	Rs.	Rs.
Goods in Transit Account	Dr.		7,500	
To Calcutta Branch Account				7,500
(Being the value of goods sent to Calcutta on 30th December 1937, but credited by the latter on 9th January 1938.)				
Calcutta Branch Account	Dr.		1,200	
To Calcutta Plant Account				1,200
(Being depreciation at 5 per cent provided on Calcutta Plant.)				
Branch Trading Account	Dr.		1,23,200	
To Calcutta Branch Account				1,23,200
(Being the incorporation of the following items from the Branch Trial Balance.) Rs.				
Opening Stock 39,000				
Purchases 34,500				
Goods received from Bombay ... 40,500				
Carriage and Freight 1,200				
Wages 8,000				
Rs. 1,23,200				
Calcutta Branch Account	Dr.		1,38,600	
To Calcutta Branch Trading Account				1,38,600
(Being the incorporation of the following items from the Branch Trial Balance.) Rs.				
Sales 96,000				
Closing Stock 42,600				
Rs. 1,38,600				

JOURNAL ENTRIES.—(*Contd.*)

		L.F.	Rs.	Rs.
Branch Trading Account	Dr.		15,400	
To Branch Profit and Loss Account				15,400
(Being the transfer of Branch Gross Profit.)				
Calcutta Branch Profit & Loss Account	Dr.		5,200	
To Calcutta Branch Account				5,200
(Being the incorporation of the following items from the Branch Trial Balance) Rs.				
Office Salaries 2,500				
Rent, Rates, etc. 1,200				
Office Expenses 300				
Depreciation 1,200				
Rs. 5,200				
Calcutta Branch Profit and Loss Account ...	Dr.		10,200	
To Capital Account				10,200
(Being the transfer of Branch Net Profit to Capital Account.)				
Branch Stock Account	Dr.		42,000	
" Cash "	"		350	
" Bank "	"		1,150	
" Debtors "	"		15,000	
" Remittances in Transit Account ...	"		4,500	
To Calcutta Branch Account				63,000
(Being the incorporation of Branch Assets from the Branch Trial Balance.)				
Calcutta Branch Account	Dr.		6,000	
To Branch Creditors Account				6,000
(Being the incorporation of Branch Liabilities from the Branch Trial Balance.)				

CALCUTTA BRANCH BOOKS.

TRADING AND PROFIT AND LOSS ACCOUNT.

For the Year ended 31st December 1937.

	Rs.		Rs.
To Stock, 1-1-37 ...	30,000	By Sales	96,000
" Purchases ...	34,500	" Stock, 31-12-37	42,600
" Goods received from Bombay ...	40,500		
" Carriage and Freight ...	1,200		
" Wages ...	8,000		
" Gross Profit c/d.	15,400		
Rs.	1,38,600	Rs.	1,38,600
	Rs.		Rs.
To Office Salaries ...	2,500	By Gross Profit b/d.	15,400
" Rent, Rates, etc. ...	1,200		
" Office Expenses ...	300		
" Plant Depreciation ...	1,200		
" Net Profit transferred to Bombay Office Account ...	10,200		
Rs.	15,400	Rs.	15,400

BRANCH BOOKS—(Contd.)

BOMBAY OFFICE ACCOUNT.

	Rs.		Rs.
To Balance c/d. ..		By Balance b/fd.	42,000
		„ Remittances in Transit ...	4,500
		„ Depreciation Account ..	1,200
		„ Profit and Loss Account ..	10,200
Rs.	57,900	Rs.	57,900
		By Balance b/d.	57,900

BALANCE SHEET.

As at 31st December 1937.

Liabilities	Rs.	*Assets*	Rs.
Bombay Office Account	57,900	Cash in Office	350
		Bank Balance	1,450
Sundry Creditors	6,000	Remittances in Transit	4,500
		Sundry Debtors	15,000
		Stock-in-Trade	42,600
Rs.	63,900	Rs.	63,900

BOMBAY OFFICE BOOKS.

CALCUTTA BRANCH ACCOUNT.

	Rs.		Rs.
To Balance ..	54,000	By Goods in Transit ...	7,500
„ Calcutta Plant Account (Depreciation) ...	1,200	„ Branch Trading Account ...	1,23,200
„ Branch Trading Account ...	1,38,600	„ Branch Profit and Loss Account ...	5,200
„ Branch Creditors ...	6,000	„ Branch Assets ...	63,900
Rs.	1,99,800	Rs.	1,99,800

BOMBAY OFFICE BOOKS—(Contd.)

TRADING AND PROFIT AND LOSS ACCOUNT.

For the Year ended 31st December 1937.

	Bombay Rs.	Calcutta Rs.		Bombay Rs.	Calcutta Rs.
To Stock, 1-1-37 ...	54,000	39,000	By Sales ...	1,08,000	96,000
„ Purchases ...	96,000	34,500			
„ Goods received from Bombay ...		40,500	„ Goods supplied to Calcutta ...	48,000	
„ Carriage and Freight ...	2,700	1,200			
„ Wages ...	12,000	8,000	„ Stock, 31-12-37 ...	50,400	42,600
„ Gross Profit c/d. ...	41,700	15,400			
Rs.	2,06,400	1,38,600	Rs.	2,06,400	1,38,600
To Office Salaries ...	3,000	2,500	By Gross Profit b/d. ...	41,700	15,400
„ Rent and Rates ..	1,800	1,200			
„ Office Expenses ..	1,200	300			
„ Depreciation on Plant ...	1,800	1,200			
„ Net Profit transferred to Capital ..	33,900	10,200			
Rs.	41,700	15,400	Rs.	41,700	15,400

BALANCE SHEET.

As at 31st December 1937.

Liabilities.	Rs.	Rs.	*Assets.*	Rs.	Rs.
Sundry Creditors:—			Cash in Office:—		
Bombay ...	21,000		Bombay ...	250	
Calcutta ...	6,000	27,000	Calcutta ...	350	600
Capital:—			Cash at Bank:—		
Balance ...	1,60,500		Bombay ...	3,050	
Add Bombay Profit ...	33,900		Calcutta ...	1,450	4,500
„ Calcutta Profit ...	10,200		Remittances in Transit ..		4,500
	2,04,600		Sundry Debtors:—		
Less Drawings	27,000		Bombay ...	15,000	
		1,77,600	Calcutta ...	22,500	37,500
			Stock-in-Trade:—		
			Bombay ...	50,400	
			Calcutta ...	42,600	93,000
			Goods in Transit ...		7,500
			Plant at Bombay ...	36,000	
			Less Depreciation ...	1,800	34,200
			Plant at Calcutta ...	24,000	
			Less Depreciation ...	1,200	22,800
	Rs.	2,04,600		Rs.	2,04,600

FOREIGN BRANCHES.

It, not infrequently, happens that the Branch is in a foreign country, and that, therefore, its books are written up in the foreign currency, and the question that then arises is how the figures thereof are to be incorporated in the Head Office Books. For the purpose of incorporation, therefore, the Branch Trial Balance will have to be converted into the Head Office currency. Where the rate of exchange between the currencies of the Head Office and the Branch is fairly stable, slight fluctuations are ignored, and a fixed rate of exchange is used in converting all the items of the Foreign Branch Trial Balance.

Where, however, the rate of exchange is subject to constant fluctuations, the following rules must be observed in converting the various items of the Foreign Branch Trial Balance into the currency of the Head Office, at the end of each financial period:—

1. Fixed Assets and Liabilities must be converted at the rate of exchange ruling on the day on which they were acquired or incurred.

2. Floating Assets and Liabilities must be converted at the rate of exchange ruling on the date of balancing the books.

3. Revenue items must be converted at an average rate of exchange ruling in course of the period under review.

4. The Head Office Account must be converted at the same figure at which the Branch Account stands in the Head Office Books.

Where the fluctuations in exchange between the currencies of the Head Office and the Branch are incessant and violent, a still better method for the

Head Office is to convert the revenue transactions of the Branch, at the end of each *month* instead of at the end of the financial year, with the average rate of exchange ruling during each particular month.

It should be noted that the balances on the two accounts, viz., the Head Office Account and the Remittances Account appearing in the Branch Books need not be converted at any particular rate of exchange, but should be set out in the Converted Trial Balance at the same figures at which the corresponding Accounts appear in the Head Office Trial Balance. It need hardly be pointed out that the two accounts appearing in the books of the Head Office, viz., the Branch Account and the Branch Remittances Account record the same set or series of transactions as appear in the Head Office Account and the Remittances Account in the particular Branch Books.

Having converted the various items of the same Trial Balance at different rates of exchange, it naturally follows that the Trial Balance thus converted will not agree. Whatever difference there may be on the debit or credit would be inserted under the heading of "Difference in Exchange" and will be transferred to Profit and Loss Account.

The Foreign Trial Balance having been thus converted into the Head Office currency, it is now possible for the Head Office to weave all these figures into its own books in the manner already indicated in previous pages, and compile therefrom a separate Trading and Profit and Loss Account and Balance Sheet of each of its Branches as well as of itself and also a combined Trading and Profit and Loss Account and Balance Sheet of the undertaking as a whole.

ILLUSTRATION 166.

The following illustration serves to show how the Trial Balance from a Branch in Paris is converted by the Head Office in Calcutta into its own currency:—

—	Francs.	Francs.	Rs.	Rs.
Sundry Debtors	25,250·00		15,000	
Sundry Creditors		10,100·00		6,000
Stock on 1st January 1938	15,781·25		9,375	
Purchases	25,300·00		15,000	
Sales		31,625·00		18,750
Salaries	2,530·00		1,500	
General Expenses	253·00		150	
Furniture and Fixtures	6,350·00		3,750	
Machinery	25,400·00		15,000	
Patents	12,700·00		7,500	
Bills Receivable	2,525·00		1,500	
Bills Payable		5,050.00		3,000
Cash at Bank	12,625·00		7,500	
Head Office Account		81,939·25		48,670
Difference in Exchange Account ...			145	
Frcs.	128,714·25	128,714·25	Rs. 76,420	76,420

In the Head Office Books, the Branch Account stands at Rs. 48,670.

Fixed Assets have been converted at the rate on the day they were acquired, viz. Francs 25.40 = Rs. 15.

Floating Assets and Liabilities at the rate on the day of closing, viz. Francs 25.25 = Rs. 15.

Nominal Accounts at the average rate during the year, viz. Francs 25.30 = Rs. 15.

ILLUSTRATION 167.

The following Trial Balance is forwarded to the London Head Office by their Branch in India. Make the necessary conversion and draw up Profit and Loss Account and the Branch Account in the Head Office Books as at 31st December 1937.

	Dr. Rs	Cr. Rs.		Dr. Rs.	Cr. Rs.
Head Office Current Account, 1-1-1937 ...		2,12,000	Loose Tools ...	10,000	
Remittances ...	48,300		Cash and Bank Balance ...	6,000	
Land and Buildings ..	1,00,000		Advances to Indians ...	14,000	
Purchases ..	4,40,200		Debtors ..	21,000	
Salaries ...	7,000		Bills Payable ...		18,500
Wages ...	1,10,000		Creditors ...		12,000
Plant ...	80,000		Stock, 1st January 1937 ...	18,000	
Sales ...		6,20,000			
Office Expenses ...	8,000		Rs	8,62,500	8,62,500

Stock, 31st December 1937, Rs. 19,000.

Rates of Exchange, 1st January 1937—1/3½*d.*, 31st December 1/4½*d.*

Average rate for the year—1/4*d.*

In the Head Office Books, the balance of Branch Current Account (at 1st January) stood at £14,600 and the balance of the Remittances Account at £4,075.

Solution.

BRANCH TRIAL BALANCE CONVERTED.

	Rs.	a.	p.	Rs.	a.	p.	£	s.	d.	£	s.	d.
Head Office Current A/c. ..				2,12,000	0	0				14,600	0	0
Remittances	48,300	0	0				4,075	0	0			
Land and Buildings ...	1,00,000	0	0				6,458	6	8			
Purchases	4,40,200	0	0				29,346	13	4			
Salaries	7,000	0	0				466	13	4			
Wages	1,10,000	0	0				7,333	6	8			
Plant	80,000	0	0				5,166	13	4			
Sales				6,20,000	0	0				41,333	6	8
Office Expenses .	8,000	0	0				533	6	8			
Loose Tools	10,000	0	0				645	16	8			
Cash and Bank Balances ...	6,000	0	0				412	10	0			
Advances to Indians ...	14,000	0	0				962	10	0			
Debtors	21,000	0	0				1,443	15	0			
Bills Payable				18,500	0	0				1,271	17	6
Creditors				12,000	0	0				825	0	0
Stock on 1st January 1937 ...	18,000	0	0				1,162	10	0			
Difference in Exchange ...							23	2	6			
Rs.	8,62,500	0	0	8,62,500	0	0	£58,030	4	2	58,030	4	2

BRANCH ACCOUNT.

In Head Office Books.

	£	s.	d.		£	s.	d.
To Balance	14,600	0	0	By Remittances Account—Transfer	4,075	0	0
" Net Profit carried to General Profit & Loss Account	3,773	19	2	" Balance carried down ...	14,298	19	2
£	18,373	19	2	£	18,373	19	2
To Balance brought down ...	14,298	19	2				

BRANCH TRADING AND PROFIT AND LOSS ACCOUNT.

	£	s.	d.		£	s.	d.
To Stock, 1st January 1937 ...	1,162	10	0	By Sales	41,333	6	8
" Purchases ...	29,346	13	4	" Stock, 31st December 1937	1,306	5	0
" Wages ...	7,333	6	8				
" Gross Profit carried down ...	4,797	1	8				
£	42,639	11	8	£	42,639	11	8
To Salaries ...	468	13	4	By Gross Profit brought down	4,797	1	8
" Office Expenses ..	533	6	8				
" Difference in Exchange ...	23	2	6				
" Net Profit ...	3,773	19	2				
£	4,797	1	8	£	4,797	1	8

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. Mention the main classifications of Branch Accounts.

2. How would you deal with goods supplied by the Head Office to Branches?

3. Give the form of the Sales Book of a Head Office which supplies goods to its three Branches as also effects its own sales.

4. Explain carefully what advantages would arise from the Head Office invoicing its supplies to Branches at selling price.

5. How are supplies by Head Office to Branches invoiced at Selling Price dealt with in the Head Office Books?

6. Explain the working of each Branch Account in the Head Office Books when the Branches serve as a Depot for Cash Sales of goods supplied by Head Office.

7. What periodical returns should each Branch send to the Head Office under the above circumstance, and what books of account should it maintain?

8. What books of account should a Branch maintain when it effects cash as well as credit sales? What periodical returns should it send to the Head Office under such a circumstance?

9. Explain the various debits and credits on each Branch Account as would arise in the Head Office Books, in the above case.

10. What adjustments should be made by the Head Office at the end of each financial period, when the goods supplied to Branches are invoiced at Selling Price?

11. Under what circumstances would it be desirable for each Branch to maintain a complete set of books and ascertain its own profit or loss?

12. Explain fully the various debits and credits on the Head Office Account as would appear in the Branch Books, where the Branch maintains an independent set of books.

13. Give the entries necessary for the Head Office to incorporate the Branch Trial Balance in its own books at each balancing period.

14. Is it necessary to maintain a separate account of the cash transactions from those in goods as passing between the Head Office and the Branches? How would a Remittance Account be dealt with at the close of the financial period?

15. What do you understand by Inter-Branch transactions? What is the best method of dealing with these?

16. Explain the entries in the Head Office as also in Branch Books as to Depreciation of Branch Fixed Assets when such accounts are maintained in the Head Office Books

17. Explain the working of each Branch Account in the Head Office Books where the Branch keeps its own books.

18. How would you deal with supplies of goods, if any, by the Branch to the Head Office?

19. Where the Branch is located in a Foreign country, how are the figures in the Foreign Branch Trial Balance converted in the Head Office Books for the purpose of assimilation?

20. Would it make any difference in your method of converting the Foreign Branch Trial Balance in the Head Office Books, where the fluctuations in the currencies between the Head Office and the Branch are frequent and violent?

21. A Bombay Head Office charges out goods supplied to its Branch at cost plus 20 per cent. From the following particulars prepare the Branch Trading Account and the Branch Total Debtors' Account as in the Head Office Books. Prepare also an account showing the actual Branch Profit:—

	Rs.
Goods sent to Branch	52,968
Total Sales	51,600
Cash Sales	27,600
Cash received from Branch Debtors	22,000
Branch Debtors at Commencement	6,000
Branch Stock at commencement	1,920
Branch Stock at close of the period	3,360

(B. Com.) 367

(Branch Profit Rs. 8,660.)

22. Messrs. J. Silkstone & Co., Coal Merchants of London, opened a branch business at Maidstone, on 1st January 1938. From the Trial Balance of the Maidstone Branch, prepare Profit and Loss Account and draft entries necessary to incorporate the figures below in the Head Office Books. Stock of coal at Maidstone £984.

Dr. Balances.	£	Cr. Balances.	£
Sundry Debtors	640	Head Office Adjustment Account	1,574
Horses, Carts, etc.	280	Coal Sales	1,750
Salaries, Rent and Expenses ..	620	Sundry Creditors	42
Cash in hand	78		
Coal invoiced from Head Office ..	1,748		

(London Chamber of Commerce.) 368

(Branch Gross Profit £986; Branch Net Profit £366.)

23. The London and Westminster Grocery Co., Ltd., has a retail branch in Manchester which is supplied with all goods from London. The branch shop keeps its own Sales Ledger, receives cash against ledger accounts and remits the whole of the cash received daily to the Head Office. All wages and branch expenses are drawn for by cheque weekly from the Head Office upon the imprest system. From the undermentioned particulars supplied by the Branch Manager, show how the branch accounts would appear in the Head Office Books and prepare a Profit and Loss Account for the branch shop for the six months to 31st December 1937.

	£		£
Six months' Credit Sales ..	2,387	Stock, 31st December 1937 ..	1,121
Returns Inwards	20	Debtors, 1st July 1937	1,227
Cash received on Ledger Accounts	2,384	Goods received from Head Office	2,178
Cash Sales	1,214	Rent, Taxes, etc., paid	375
Stock, 1st July 1937	720	Wages and Sundry Expenses paid	396

(*London Chamber of Commerce.*) 369

(*Branch Net Profit £1,033*)

24. Baxter & Sons, whose Head Office is in London, remitted £500 to their Manchester Branch on 30th December 1937. The Books of the Head Office and the Branch are balanced as on 31st December each year. The abovementioned remittance did not reach Manchester until the morning of the 1st January 1938. How would you deal with the amount in question in the Trial Balance of the Head Office and Branch and when preparing the combined Balance Sheet of the whole business?

(*London Chamber of Commerce.*) 370

25. The Southern Confectionery Company, Limited, London, has a Branch at Bristol. Goods are invoiced to the Bristol Branch at selling prices, being cost *plus* 25%.

The Bristol Branch keeps its own Sales Ledger and transmits all cash received to London daily. All expenses are paid from London.

From the following details, prepare a Profit and Loss Account of the Bristol Branch for the year 1937:—

	£
Stock, 1st January 1937 (at invoice prices)	1,250
Stock, 31st December 1937 (at invoice prices)	1,500
Sundry Debtors, 1st January 1937	700
Sundry Debtors, 31st December 1937	900
Cash Sales for the year	5,400
Credit Sales for the year	3,500
Cash received for Ledger Accounts	3,300
Goods invoiced from London	9,100
Rent and Rates (paid from London)	400
Wages (paid from London)	340
Sundry Expenses (paid from London)	80

(3)

(*Chartered Accountants.*) 371

(*Branch Gross Profit £1,820; Branch Net Profit £1,000.*)

26. The Trial Balance of the London Office Books of the "A" Rubber Company is as follows on 31st December 1937:—

	£ s. d.	£ s. d.
Estate Purchases	3,000 0 0	
Estate Development	8,000 0 0	
Estate Produce Stock, 1st January 1937	600 0 0	
Cash at Bank, London	800 0 0	
Estate Manager, 1st January 1937	500 0 8	
Remittance to Estate Manager	1,000 0 0	
London Office Expenses	400 0 0	
Share Capital		12,000 0 0
Creditors		1,900 0 0
Profit and Loss Balance		400 0 8
	£14,300 0 8	14,300 0 8

After taking out the above balances, the accounts to 31st December 1937, are received from the Estate Manager as follows (the dollar to be taken at 2s 4d.):—

	$	$
Balance, 1st January 1937	4,286	
Remittance from London	8,600	
Rebates	131	
Sale of Produce	2,000	
Profit on Rice	249	
Expenditure on Development		9,000
Expenditure on Purchase of New Land		2,800
Expenditure on Upkeep of Estate		1,646
Balance carried forward		1,820
	$15,266	15,266

The produce unsold at 31st December 1937, was valued by the Manager at $5,500

You are required to construct the Revenue Account and Balance Sheet for presentation to the Shareholders. *(Chartered Accountants.)* 372

(Net Loss £269 7s. 4d.; Balance Sheet Total £14,030 13s. 4d.)

27. Black and White of London, general merchants, have a branch in Paris which is carried on quite independently of the London Office.

On 31st December 1937, the Paris Branch Trial Balance was as follows:—

	Frs.	Frs.
Head Office		130,000
Remittances to Head Office	80,000	
Furniture, Fixtures and Fittings	10,000	
Sundry Debtors	30,000	
Sundry Creditors		10,000
Stock, 1st January 1937	25,000	
Purchases	90,000	
Sales		175,000
Salaries and Wages	10,000	
Duty on Purchases	15,000	
Rent, Rates and Taxes	7,500	
Trade Expenses	20,000	
Discounts	4,500	
Cash in Hand	3,000	
Cash at Bank	20,000	
	Frs. 315,000	315,000

Stock at 31st December 1937, 27,000 Francs.

Write off 10% Depreciation from Furniture, Fixtures and Fittings.

For convenience, conversion was made at the rate of 25 Frs. = £1.

The Trial Balance of the Head Office on the same date was as follows:—

	£	£
Paris Branch	5,150	
Remittances from Paris		3,190
Furniture, Fixtures and Fittings (H. O.)	1,500	
Sundry Debtors and Creditors	8,000	7,000
Trading Account Balance		2,310
Stock, 31st December 1937	5,550	
Cash in Hand	300	
Cash at Bank	2,000	
Black's Capital		8,000
White's "		2,000
	£22,500	22,500

Make out the accounts of the Paris Branch and incorporate them in the Head Office Books. Divide the net profit ¾ths to Black and ¼ to White.

(Chartered Accountants.) 373

(Paris Branch: Gross Profit £2,880, Net Profit £1,200; Total Net Profit £3,510. Black gets £2,632 10s. and White gets £877 10s.)

28. The following represent the balances of the London Books of the Eastern Company, Ltd.. on 31st December 1937, viz.:—

	£	£
Share Capital (70,000 shares of £1 each fully paid) ..		70.000
Bills Payable		5,500
Bills Receivable	2,000	
Investments, at cost	14,000	
General Reserve		8,000
Stock on Hand	600	
Debtors	3,000	
Reserve for Doubtful Debts		100
Creditors		5,000
Payments in advance	500	
Properties	25,000	
Profit and Loss Account	21,200	
Rangoon Account	18,760	
Cash at Bank	3,500	
Cash in Hand	40	
	£88,600	88,600

Bills Receivable aggregating to £4,000 were under discount.

The following Statement of Assets and Liabilities at 31st December 1937 was received from the Manager of the Company's Rangoon Branch, viz.:—

	Rs.	a.	p.
Cash at Bankers	1,85,372	5	0
Cash in hand	19,269	8	0
London Account (£17,938 1s. 10d.)	2,69,071	6	0
General Reserves	75,284	14	0
Stocks on hand	3,27,595	3	0
Advances to Indians against security	2,25,000	0	0
Buildings, Plant, etc.	46,280	12	0
Debtors	87,963	13	6
Payments in advance	3,000	0	0
Reserve for Doubtful Debts	2,000	0	0
Creditors	5,48,125	5	0

The apparent difference between the balance of the Rangoon Account in the London Books and the London Account in the Rangoon Books, consists of items in transit.

You are required to prepare an Amalgamated Balance Sheet as at 31st December 1937.

The rupee to be taken at 1s. 4d.

(Chartered Accountants.) 374
(Balance Sheet Total £130,060 13s. 7d.)

29. Johnson Bros., Ltd., carry on business in London as Merchants and Agents. They have a Branch in Panama, which deals with the various interests of the Company in South and Central America, principally the management of a subsidiary Company called the Santiago Mining Co., Ltd., and prospecting for new mining properties.

At 31st December 1937, when the Trial Balance of the London Books was taken out, the Panama Branch appeared as a Debtor for £7,050, and the Santiago Mining Co., Ltd., as a Creditor for £5,100 for cash remitted to London.

The Trial Balance of the Panama Branch was as follows:—

PANAMA BRANCH TRIAL BALANCE.

31st *December* 1937.

	$	$
Aconcagua Exploration Account	345.00	
Furniture and Fittings	575.00	
San Salvadore Exploration Account	2,415.00	
Santiago Mining Co., Ltd.	62,675.00	
Salaries (chargeable to Head Office)	9,775.00	
Trade Expenses (chargeable to Head Office)	3,450.00	
Cash at Bank and in Hand	1,725.00	
Head Office—London		80,960.00
	$80,960.00	80,960.00

Make such adjusting entries as appear to be necessary, and show the amounts at which the Panama Branch Account, and the Santiago Mining Co., Ltd., Account will appear in the London Books at 31st December 1937, after adjustment.

Rate of Exchange, Dols. 11.50 = £1. *(Chartered Accountants.)* 375

(Converted Trial Balance Total £705,000.)

30. From the following figures extracted from the books of Jones & Co., Ltd., as on 31st December 1937, prepare Branch Trading Accounts, and Head Office Profit and Loss Account for the year 1937, and Balance Sheet on 31st December 1937.

—	Head Office.	Hull Branch.	Bristol Branch.
	£	£	£
Share Capital (25,000 Shares of £1 each fully paid) ...	25,000		
6 per cent Debentures	7,000		
Purchases (*less* Returns)		12,000	10,000
Wages		2,300	1,800
Stock, 1st January 1937		4,800	4,000
Debtors		16,900	13,500
Creditors	8,000		
Discounts received		500	400
" allowed		1,600	1,550
Bad Debts (Dr. Balance)		600	500
Bills Payable	2,500		
Furniture, Fixtures and Fittings	150	375	225
Salaries	1,000		
Travellers' Salaries and Expenses		1,800	1,350
Directors' Fees	450		
Sales (*less* Returns)		26,000	22,000
Carriage Inwards		500	450
Reserve Fund	7,500		
Debenture Interest	420		
Horses, Harness, Vehicles, etc.		2,000	1,750
Cash in hand	40	70	55
Cash at Bank	8,900		
Depreciation Charge	20	40	25
Sundry Expenses		3,000	2,850
Rent, Rates and Taxes	275	400	300
Horse and Stable Expenses		325	250
Profit and Loss Account—Cr. Balance	170		
Interim Dividend—10 per cent paid	2,500		
Branches—Hull, Dr.	20,210		
" —Bristol, Dr.	16,205		
Head Office Accounts		20,210	16,205
Stock, 31st December 1937		5,000	4,000

(Chartered Accountants.) 376

(Branch Gross Profit: Hull £11,400, Bristol £9,750; Branch Net Profit: Hull £4,135, Bristol £3,325; Net Profit of the Business £5,295; Balance Sheet Total £52,965.)

31. *A. B. & Co.'s STORES.*

TRIAL BALANCE, 31st December 1937.

—	Head Office.		Manchester Branch.		Liverpool Branch.		Hull Branch.	
	£	£	£	£	£	£	£	£
Stock, 1st January 1937	850		450		425		275	
Goodwill	5,000							
Freehold Premises	6,500							
A. Capital Account		7,804						
B. " "		7,804						
Sales		7,000		5,834		5,412		4,210
Purchases	5,000		4,208		4,000		3,000	
Sundry Debtors	658		631		567		458	
" Creditors				300		276		162
Trade Expenses	78		70		63		32	
Salaries and Wages	600		150		250		250	
Rates and Taxes	139		108		150		73	
Reserve for Bad and Doubtful Debts ...		501						
Bad Debts	38		30		22		22	
Repairs	150							
Postages	30		21		14		11	
Liverpool		197						
Manchester		166						
Hull		251						
Head Office			166		197		251	
Investments	4,000							
Income from Investments		320						
Cash at Bank	1,000							
£	24,043	24,043	6,134	6,134	5,688	5,688	4,372	4,372
Stock, 31st December 1937	£ 884		£ 500		£ 450		£ 300	

From the above Trial Balance prepare Trading and Profit & Loss Account and Balance Sheet of the partnership. *(Incorporated Accountants.)* 377

(Gross Profit: Head Office £2,034, Manchester £1,676, Liverpool £1,437, Hull £1,235; Total Net Profit £4,101; Balance Sheet Total £20,447.)

32. The X, Z Co., of London, has a Branch at Newcastle-on-Tyne. Goods sold at Newcastle are supplied from London, but no charge is made in the books as between the Branch and Head Office. On 31st December 1937, the Branch Balance Sheet, after closing the books, was as follows:—

Liabilities	£	Assets	£
Bought Ledger Balances ..	3,290	Sales Ledger Balances ..	46,700
		Premises Extension Account—closed by Head Office Account	Nil
Head Office	44,720	Cash in hand	50
		" at Bank	1,260
	£ 48,010		£ 48,010

In the six months to 30th June 1938, the following transactions took place at the Branch:—

	£		£
Sales	54,180	Discount allowed	2,500
Purchases	4,200	Cash paid, Bought Ledger Accounts	3,800
Wages paid	5,700	Cash sent to London .. .	29,560
Salaries paid	560	Premises Extension, further payments to Contractors ..	1,500
Directors' Fees paid	200	There is cash in hand on 30th June 1938	60
Fire Insurance Premium for 1 year paid	480	And a Bank Balance	1,450
Cash collected on account of Sales Ledger Accounts ..	42,000		

Set out the Head Office Account in the Newcastle Books on 30th June 1938, to show the entries after the books are closed, and also the Branch Balance Sheet at that date, assuming it to be made up on the same lines as on 31st December 1937.

(Chartered Accountants.) 378

(Branch Balance Sheet Total £58,130.)

33. Jones and Smith, Ltd., carry on business as Cement Manufacturers, at three Depots, A. B and C. From the "Trial Balance" of their books (see below), prepare for the half year to December 31st, 1937, Trading and Profit & Loss Account for each Depot, a General Profit & Loss Account (the Balances of the Depot's Profit & Loss Accounts being included), and their Balance Sheet as on that date.

The Stocks at the Depots on December 31st, 1937. were as follows:—

	£	s.	d.
A	714	18	7
B	1,653	13	8
C	924	16	2
Total £	3,293	8	5

Depreciate Furniture and Fittings at 10 per cent per annum.
Do. Horses and Carts 12½ Do. do.
Do. Machinery 20 Do. do.

Reserve on Debtors for Bad and Doubtful Debts 2½ per cent and for Discounts 1¼ per cent. The Manager is entitled to 10 per cent of the net profits made in each half year.

TRIAL BALANCE

31st December 1937.

Dr.		£	s.	d.	Cr.		£	s.	d.
Stock, 1st July 1937	A	664	6	9	Sales	A	15,688	7	6
" "	B	1,305	11	9	"	B	7,953	0	4
" "	C	743	1	3	"	C	1,994	11	4
Purchases	A	8,163	9	6	Share Capital		5,000	0	0
"	B	6,491	4	11	Debentures		6,477	10	0
"	C	1,649	18	8	Creditors		2,469	0	2
Wages	A	2,522	6	3	Bills Payable		1,086	7	9
"	B	625	3	8	Reserve Account		2,740	4	9
"	C	156	9	2					
Salaries	A	797	0	0					
"	B	67	11	10					
"	C	34	10	1					
Trade Discounts	A	253	4	7					
Expenses	A	1,656	3	7					
"	B	888	17	10					
"	C	203	2	3					
Repairs	A	731	1	6					
Bad Debts	A	144	15	8					
"	B	62	8	10					
"	C	60	1	11					
Debenture Interest		248	12	10					
Taxes and Discounts		47	8	10					
Professional Charges		62	10	6					
Debtors		4,838	0	0					
Furniture and Fittings		27	10	0					
Horses and Carts		260	0	0					
Property		648	11	8					
Buildings		5,808	12	0					
Machinery		2,555	0	0					
Profit & Loss Account—July 1st, 1937		1,521	13	4					
Cash		170	12	8					
	£	43,409	1	10		£	43,409	1	10

(Chartered Accountants.) 379

(Gross Profit: A Depot £4,799 19s., B Depot £1,184 13s. 8d., C Depot £369 18s. 5d.; Net Profit of the Business £807 10s. 3d.; Balance Sheet Total £17,862 17s. 1d.)

34. A, B and C carry on business in partnership as Oil Engine Dealers and Repairers, their business being divided into two parts: (1) Engine Department, and (2) Repairs Department. The following were the Ledger Balances on 31st December 1937:—

	£		£
Engines—Purchases and carriage	8,000	Life Policy—Surrender Value, 31st December 1936	300
„ Fitters' Wages and Expenses	1,500	Bank Interest and Commission (Dr.)	20
„ Stock, 31st Dec. 1936	2,000	Office Expenses	120
„ Sales	12,000	Discounts (Dr.)	250
Repairs—Purchases	5,000	Office Furniture	150
„ Stock, 31st Dec. 1936 ..	800	A—Drawings Account (Dr.) ..	100
„ Wages and Expenses ..	2,000	B „ „ (Cr.) ..	120
„ Sales	10,000	C „ „ (Cr.) ..	200
Sundry Debtors	4,000	C—Loan Account (at 5%) ..	500
„ Creditors	2,200	A—Capital Account in Credit ..	500
Salaries	500	B „ „ „ ..	500
Rents, Rates and Taxes	300	C „ „ „ ..	500
Fuel and Light	50	Cash in hand	25
Insurance—Fire and Workmen's Compensation	140	„ at Bank	1,230
Life Insurance Premium ..	35		

Stocks, 31st December 1937—Engines, £2,100; Repairs, £950.

Surrender value of Life Policy, 31st December 1937, £325.

Interest on capital at 5% per annum. The profits were divided: A 7/20ths, B 6/20ths, and C 7/20ths.

Make out a Trading Account for each of the two Departments, and the firm's Profit & Loss Account of 1937, and Balance Sheet as on 31st December 1937.

(Chartered Accountants.) 380

(Gross Profit: Engine Department £2,600, Repairs Department £3,150; Net Profit to: A £1,491, B £1,278, C £1,491; Balance Sheet Total £8,780.)

35. The Universal Trading Co., Limited, carry on business as Merchants. The Capital of the Company is Rs. 4,00,000 divided into 2,000 Ordinary Shares of Rs. 100 each, all of which have been issued and are paid up to the extent of Rs. 75 per share, and 2,000 6 per cent Preference Shares of Rs. 100 each, of which 1,500 have been issued and are fully paid.

TRIAL BALANCE

31st December ——

	Rs.		Rs.
Ordinary Share Capital ..	1,50,000	Travellers' Salaries & Expenses	54 000
Preference Share Capital ..	1,50,000	Office Salaries	18 000
Sales, Department I	7,00,000	Commission	12,000
„ „ II	3,00,000	Dividend Account—half-year's Dividend on Preference Shares, 30th June	4,500
Sundry Creditors	1,20,000	Advertising	48,000
Bills Payable	15,000	Bank Charges	1,200
Income-Tax Reserve Account ..	3,000	Stationery and Printing ..	27.000
Stocks 1st January, Department I	34,000	Telegrams and Stamps ..	6,000
„ „ „ II	11,000	Exchange and Discount (Dr.) ..	15,000
Sundry Debtors	2,30,000	Incidental Expenses	9,000
Bills Receivable	50,000	Directors' Remuneration ..	30,000
Office Furniture and Fixtures ..	10,800	Coal Mining Syndicate Shares ..	60,000
Rent, Rates and Insurance ..	18,000	Germanic Bank (Limited) ..	35,500
Marine Insurance	24,000	Banque de la Republique ..	25,000
Purchases, Freight, Duty, etc., Department I	4,30,000	British Bank (Limited) ..	35,000
Purchases, Freight, Duty, etc., Department II	2,50,000		

The business of the Company is divided into two Departments:—

(I) Sundries, Machinery and Tools.

(II) Coal, Iron and Steel.

From the above Trial Balance for the year ending 31st December, prepare Departmental Trading Accounts, showing Gross Profit of each Department, and apportion the expenses in proportion to the Turnover of each Department.

Write 10 per cent Depreciation off Furniture and Fittings, provide Rs. 3,000 for Bad Debts, and 2 per cent on the Debtors for Discounts.

The stocks on hand on 31st December were: (I) Rs. 40,000, and (II) Rs. 16,800.

No dividends have been received on the Shares in the Coal Mining Syndicate, Limited, and the Directors have decided to place Rs. 30,000 to a Reserve Fund to provide for the Depreciation in value of these shares

Prepare Profit & Loss Account and Balance Sheet. (*B. Com.*) 381

(*Gross Profit: Department I Rs.* 2,76,000, *Department II Rs.* 55,800; *Net Profit: Department I Rs.* 86 426; *Net Loss: Department II Rs.* 25,446; *Net Profit Rs.* 60,930; *Balance Sheet Total Rs.* 5,02,020.)

36. The following Trial Balance is forwarded to the London Head Office by their Branch in India. Make the necessary conversions and draw up Profit & Loss Account and the Branch Account in the Head Office Books as at 31st December 1937.

	Rs.	Rs.
Head Office Current Account, 1st January 1937		2,12,000
Remittances	48,300	
Land and Buildings	1,00 000	
Purchases	4,40,200	
Salaries	7,000	
Wages	1,10,000	
Plant	80,000	
Sales		6,20,000
Office Expenses	8,000	
Loose Tools	10,000	
Cash and Bank Balances	6,000	
Advances to Indians	14,000	
Debtors	21,000	
Bills Payable		18,500
Creditors		12,000
Stock, 1st January 1937	18,000	
	Rs. 8,62 500	8,62 500

Stock, 31st December 1937. Rs. 19,000.

Rates of Exchange, 1st January 1937—1/3½d., 31st December 1937—1/4½d.

Average rate for the year—1/4d.

In the Head Office Books, the balance of Branch Current Account (at 1st January) stood at £14,600 and the balance of the Remittances Account at £4,075. 382

(*Converted Branch Trial Balance Total* £58,030 4*s.* 2*d.*; *Gross Profit* £4,797 1*s.* 8*d.*; *Net Profit* £3,773 19*s.* 2*d.*)

37. The City Supply Company makes purchases at the Head Office and sends the goods bought to the Branch Offices for sale, no stock being retained at the Head Office. The Branch Offices effect sales, keep their own Sales Ledgers, receive cash against ledger accounts, and pay in the whole of their cash receipts every day to the Head Office. Branch Office expenses are paid from cash remitted by the Head Office to the Branches for the purpose.

From the following particulars, show the Branch Accounts in the Head Office Books. Also prepare a Profit & Loss Account, showing the net profit made by each branch, and the net profit for the whole concern, assuming that the Head Office expenses amounted to Rs. 15,000.

	A	B	C
	Rs.	Rs.	Rs.
Credit Sales	40,500	30,000	34,500
Returns Inwards	300	360	240
Allowances to Customers	75	60	90
Cash received on Ledger accounts	35,700	30,000	30,000
Cash Sales	21,300	18,750	19,500
Stock at commencement, at cost	8,100	7,200	7,500
Stock at end, at cost	9,300	8,700	7,200
Debtors at commencement	18,750	18,000	16,500
Debtors at end	22,950	20,430	20,670
Bad Debts	225	150	
Goods bought by Head Office and supplied to Branches	31,800	30,900	30,000
Rent and Taxes paid	1,200	1,050	1,125
Wages and Sundry Expenses paid	5,700	5,340	5,250

(G. D. A.) 383

(*Gross Profit: A Branch Rs. 25,200, B Branch Rs. 22,650, C Branch Rs. 18,210; Net Profit of the Business Rs. 47,085.*)

38. From the undermentioned information and instructions, prepare Departmental Trading and Profit & Loss Account in columnar form of the three Departments of the Outfitting Supply Stores, Ltd.

	Rs. Tailoring.	Rs. Ladies' Wear.	Rs. Outfitting.
Stock on 1st January 1937	41,280	33,975	93,721
Stock on 31st December 1937	32,840	43,828	81,626
Purchases for year	2,10,342	75,296	1,39,109
Returns (Purchases)	14,382	5,629	1,823
Sales for year	4,00,173	1,54,085	3,62,189
Returns (Sales)	Nil	3,259	11,217
Wages	72,823	30,084	24,613

Goods were transferred from one department to another at cost price as follows:—

Tailoring to Ladies' Wear Rs. 389 and to Outfitting Rs. 6,679;

Ladies' Wear to Tailoring Rs. 5,315;

Outfitting to Tailoring Rs. 4,271 and to Ladies' Wear Rs. 5,801.

[illegible] Stationery Rs. 921, Postages Rs. 663, General Charges Rs. 39,627, Insur[illegible]d Depreciation Rs. 5,460.

Allocate the following further expenditure as you think best and append notes stating the basis selected for each item:—Establishment Rs. 63,395, Bad Debts Rs. 19,823, Advertising Rs. 7,293 and Income-tax Rs. 11,028.

Rent and Taxes Rs. 45,437 is to be split up in proportion to space occupied, i.e., Tailoring 4, Ladies' Wear 2, Outfitting 3, Other space 2.

Approximate apportionment is all that is necessary; charge any odd balances to Outfitting Department. (G. D. A.) 384

(*Gross Profit: Tailoring Rs. 1,20,432, Ladies' Wear Rs. 60,053, Outfitting Rs. 1,80,371; Net Profit: Tailoring Rs. 42,312, Ladies' Wear Rs. 16,396, Outfitting Rs. 1,06,716.*)

39. On 31st December 1937, the Trial Balance of the Surat Branch stood as follows:—

	Rs.		Rs.
Stock on 1st January 1937	3,000	Bombay Office Account	5,500
Furniture	1,200	Sales	11,400
Debtors	2,800	Sundry Creditors	100
Goods received from Bombay Office	8,000		
Salaries, Rent and Expenses	1,100		
Cash on hand	900		
Rs.	17,000	Rs.	17,000

Stock on 31st December 1937, Rs. 2,300.

Find out the Surat Branch profit and draft Journal entries necessary to incorporate the Surat Branch assets and liabilities in the Bombay Office Books. Prepare also the Surat Branch account in the Bombay Office Ledger. (G. D. A.) 385

(Gross Profit Rs. 2,700; Net Profit Rs. 1,600.)

40. Burjorji and Chhaganlal are partners sharing profits and losses in the proportions of 2/3rds and 1/3rd respectively. Burjorji managed the Bombay Office and Chhaganlal managed the Rangoon Office. On 31st December 1937, the Trial Balances stood as follows:—

Bombay Office	Rs.
Stock, 1st January 1937	1,08,000
Rangoon Office, Dr.	45,000
Burjorji's Capital	2,04,000
Purchases	1,92,000
Sales	3,12,000
Book Debts	45,000
Creditors	42,000
Wages	36,000
Carriage and Cartage	5,400
Plant at Bombay	72,000
Plant at Rangoon	48,000
Cash on hand	6,600

Stock on 31st December 1937 Rs. 1,00,800

Rangoon Office	Rs.
Stock on 1st January 1937	78,000
Bombay Office, Cr.	36,000
Chhaganlal's Capital	48,000
Book Debts	30,000
Purchases	1,02,000
Sales	1,44,000
Creditors	12,000
Wages	24,000
Carriage and Cartage	2,400
Cash on hand	3,600

Stock on 31st December 1937 Rs. 85,200

In the Books of the Rangoon Office, the Bombay Office Account has been debited for Rs. 9,000 remitted to the Bombay Office on 30th December 1937, but received and credited by the Bombay Office on the 6th January 1938. Interest on Burjorji's Capital at 5% and depreciation on Bombay Plant at 5% are to be charged against the profits of the Bombay Office, and interest on Chhaganlal's Capital at 5% and depreciation on Rangoon Plant at 5% are to be charged against the profits of the Rangoon Office.

Pass the necessary Journal entries in the Books of both the offices for reconciling their current accounts and the Partners' Capital Accounts, and prepare two separate Profit & Loss Accounts, and Balance Sheets with reconciled current accounts between the two offices. (G. D. A.) 386

(Gross Profit: Rangoon Rs. 22,800, Bombay Rs. 71,400; Net Profit: Rangoon Rs. 18,000, Bombay Rs. 57,600; Balance Sheet Total: Rangoon Office Books Rs. 1,27,800, Bombay Office Books Rs. 3,06,600.)

41. Messrs. Mulraj and Company, Diamond Merchants, whose Head Office was in London, had a Branch established at Lyons. Soon after the outbreak of the War, it was decided to close the Branch and transfer the Stock to London. The following figures represent the Balance Sheets of the two houses on 31st July 19....:—

LONDON BALANCE SHEET.

Liabilities	£	*Assets*	£
Capital	40,000	Buildings	8,000
Creditors	5,000	Debtors	13,500
Profit & Loss Account	3,500	Bank	500
		Cash	100
		Lyons Branch	5,000
		Stock	21,400
	£ 48,500		£ 48,500

LYONS BRANCH (*In Francs*).

	Frs.		Frs.
Creditors	10,000	Debtors	60,000
Head Office	125,500	Cash	1,000
		Bank	5,700
		Fixtures	7,800
		Stock	61,000
	Frs. 135,500		Frs. 135,500

A fixed rate of Exchange 25.10 had been used between the Head Office and Branch, and the Branch Stock was taken over by the Head Office at this rate. The Lyons Debtors realised 45,000 Francs and the Fixtures were sold for 4,500 Francs. Creditors were paid in full, and the cost of winding up the Branch was 1,000 Francs. The proceeds of the realisation including Cash in hand and at bank were transmitted to London at the rate 27.25. You are requested to reconstruct the Head Office Balance Sheet by including the result of the realisation. (*G. D. A.*) 387

(*Loss on Realisation Frs. 19,300; Balance Sheet Total of London Office £47,589.*)

12. Show what entries would be passed by the Head Office to record the following transactions in their books:—

(*a*) Goods amounting to Rs. 500 transferred from Calcutta Branch to Rangoon Branch, under instructions from Head Office.

(*b*) Depreciation of Branch Fixed Assets when such accounts are opened in the Head Office Books.

(c) A remittance of Rs. 3,000 made by the Rangoon Branch to H. O. on 26th December and received by the H. O. on 4th January.

(d) Goods of Rs. 5,000 shipped by the H. O. to the Rangoon Branch on 20th December and received by the latter on 15th January. (*B. Com.*) 388

CHAPTER XVII.

BANKRUPTCY ACCOUNTS.

When a trader has become hopelessly involved in financial difficulties so that further trading is impossible, it becomes necessary for him to take protection under the Bankruptcy Acts. The object of Bankruptcy Law is to distribute the proceeds of the insolvent's estate equitably among his creditors and to free him from all further liability in respect of the unsatisfied portion of his indebtedness to his creditors. The Bankruptcy Petition may be presented to a Bankruptcy Court either by the debtor himself or by a creditor. After the petition is heard, a Receiving Order is made upon it. The effect of a Receiving Order is to remove the debtor's property from his own custody and place it in the hands of an officer of the Court called the Official Receiver, and to stay any further legal proceedings against the debtor by the unsecured creditors.

The Receiving Order having been made, a Statement of Affairs must be made out by the debtor in the prescribed form, and submitted to the Official Receiver. This statement is practically a summary of the debtor's financial position, prepared with a view to the immediate realisation of the assets for distribution among the creditors. The assets available for the unsecured creditors are estimated at their realisable values and placed on the right-hand side of the statement; and the liabilities to be paid out of these assets are placed on the other side. The excess of the liabilities over the assets then presents the estimated deficiency.

ENGLISH BANKRUPTCY ACT.

The Official Statement of Affairs in Bankruptcy under the English Bankruptcy Act, consists of the following forms:—

1. The Front Sheet, i.e., a statement showing in a summarised form the various assets of the debtor, the claims of the various classes of creditors, and the amount of the deficiency.

2. The Schedules containing full details of the several assets and liabilities inserted in the Front Sheet.

3. The Deficiency Account explaining the cause of the debtor's financial embarrassment.

The various Schedules requiring the Bankrupt to give full details as regards his several liabilities and assets have to be prepared on prescribed forms, which have been explained and illustrated herein.

List A. Unsecured Creditors.—The details of debts owing to all trade creditors who have merely a claim upon the general assets of the debtor appear on this list. Creditors on Bills Payable and Promissory Notes are classed as unsecured creditors, and included in this list. Any other unsecured debt, such as bank overdraft or the balances of debts in respect of rent, wages, salaries, etc., exceeding the preferential limit must also be entered on this list.

List B. Fully Secured Creditors.—A creditor who holds a security to the full extent of his debt, such as a mortgage, charge or lien upon any property of the debtor, is called a fully secured creditor. Full details of such debts together with particulars of the security, dates when given, the estimated value of the security and the estimated surplus from security, if any, must be entered on this list. Any surplus of securities in hands of creditors fully secured, if not otherwise charged, will be shown on the assets side of the Statement of Affairs and will be available for distribution among the ordinary creditors.

List C. Partly Secured Creditors.—This list contains details of creditors who hold securities which are not sufficient to cover the whole of the debts due from the bankrupt. Such creditors rank against the estate for dividend in respect of the balances due to them. On the Statement of Affairs, the total amount of debt is shown in the inner column from which the value of the security is deducted, and the unsecured balance is extended in the outer column.

List D. Liabilities of Debtor on Bills Discounted other than his own Acceptances for value.—The debtor's own acceptances for value, i.e., his ordinary Bills Payable, are included in List A. The List D must contain all unmatured Bills Receivable discounted with bankers or bill brokers, or endorsed over to creditors; only those bills, however, that the acceptors are expected to dishonour will be entered as liabilities of the estate ranking for dividend, although the total amount will be shown in the Gross Liabilities column. Accommodation Bills which have been either drawn, accepted or endorsed by the bankrupt must also be included in this list. Where the debtor is liable on accommodation bills as acceptor, such bills should be extended as liabilities of the estate. Where, however, he is liable on them as drawer or endorser, only those bills expected to be dishonoured should be shown as ranking against the estate for dividend.

List E. Contingent or other Liabilities.—On this list must be entered all liabilities which the bankrupt may have incurred as surety or guarantee for others, liabilities in respect of any uncompleted contracts or covenants contained in a lease, any balance due on partly called up shares, loan from the debtor's wife for business purpose, loans carrying by way of interest a share of the profits of the business, or any uncertain debts and liabilities incurred without valuable consideration or jointly with some third party.

List F. Creditors for Rent, etc. recoverable by Distress.—A landlord is entitled to claim six months' rent in full, if he distrains after the commencement of the bankruptcy.

List G. Preferential Creditors for Rates, Taxes and Wages.—Under the English Bankruptcy Act, the following shall be paid in priority to all other debts:—

(*a*) All Rates and taxes not exceeding one year's assessment.

(*b*) All wages or salary of any clerk or servant in respect of services rendered during four months, before the date of the Receiving Order, not exceeding £50.

(*c*) All wages of any labourer or workman in respect of services rendered during two months before the date of the Receiving Order, not exceeding £25.

(*d*) Moneys due under Workmen's Compensation Act, 1925, the liability wherefor accrued before the date of receiving order.

(*e*) All contributions payable under the National Health Insurance Acts or the Widows', Orphans' and Old Age Contributory Pensions Act, or the Unemployment Insurance Acts, by the bankrupt, in respect of employed contributors or workmen, in an insured trade during twelve months before the date of the receiving order.

The foregoing debts shall rank equally between themselves and shall be paid in full, unless the property of the bankrupt is insufficient to meet them, in which case, they shall abate in equal proportions between themselves.

Subject to the retention of such sums as may be necessary for the costs of administration or otherwise, the foregoing debts shall be discharged forthwith so far as the property of the debtor is sufficient to meet them.

Deferred Creditors.—Certain Creditors cannot recover anything from the Bankrupt's estate until all the other unsecured Creditors are paid in full. These are:—

(1) Creditors who have advanced money to the bankrupt in return for a rate of interest varying with the profits.

(2) Loans from wife to husband or husband to wife for use in business.

(3) The Vendor of the Goodwill of a business who has agreed to receive in return a share in the profits of the business.

In the Statement of Affairs, the amounts payable as preferential debts under lists F and G are shown on the liabilities side in the inner column and then deducted on the assets side from the total assets available for distribution. Any balance of amount owing to these creditors exceeding the preferential limits is carried to List A.

List H. Property.—This list contains details of the various properties and assets belonging to the bankrupt other than book debts and debts owing to him on bills of exchange and promissory notes.

In the Statement of Affairs, the book value of each asset is shown in the inner column and the estimated realisable value in the outer column headed "Estimated to produce." The difference between the book values and the estimated realisable values is shown on the Deficiency Account as losses on realisation.

List I. Debts due to the Estate.—This list provides for book debts, distinguishing between good, doubtful and bad. In the Statement of Affairs, the good debts are shown in the "Estimated to produce" column, whereas doubtful and bad debts are shown in the inner column and the amount estimated to produce, in the outer column.

List J. Bills of Exchange.—In this list, full details are required to be shown of all Bills Receivable, Promissory Notes, etc., held by the bankrupt.

Statement K. Deficiency Account.—The object of this Account is to explain how the deficiency, as shown in the Statement of Affairs, as at the date of the Receiving Order, has been brought about. The account is prepared for such period as the Official Receiver may require. The starting point of the account is, therefore, the date given by the Official Receiver. On the left-hand side of this Account is shown the excess of assets over liabilities, as at the commencement of the period. This would be followed by all subsequent trading profits and income from any other source. Against these would be detailed trading losses, if any, during the period, losses by bad debts, household expenses, gambling or stock exchange losses, losses through dishonoured or accommodation bills and the estimated losses on realisation of the assets. The difference between the two sides would represent the deficiency, which amount must agree with the deficiency as shown by the Statement of Affairs. If the bankrupt's books showed a deficiency at the commencement of the period from which he is asked by the Official Receiver to present his Deficiency Account, such deficiency would appear as the first item on the right-hand side of the Deficiency Account, under the heading of "Excess of liabilities over assets."

LIST A. UNSECURED CREDITORS.

The Names to be arranged in alphabetical order and numbered consecutively, Creditors for £10 and upwards being placed first.

No.	Name	Address and Occupation.	Amount of Debt.			Date when contracted.		Consideration.
						Month.	Year.	
			£	s.	d.			

NOTES.—(1) When there is a *contra* account against the Creditor less than the amount of his claim against the estate, the amount of the Creditor's claim and the amount of the *contra* account should be shown in the third column, and the balance only be inserted under the heading "Amount of Debt" thus:—

	£	s.	d.	
Total amount of claim	..	..	..	
Less contra account	..	..	..	
				.. .. ..

No such set-off should be included in sheet 'I.'

(2) The particulars of any Bills of Exchange and Promissory Notes held by a Creditor should be inserted *immediately* below the name and address of such Creditor.

LIST B. CREDITORS FULLY SECURED.

No.	Name of Creditor.	Address and Occupation.	Amount of Debt.			Date when contracted.		Consideration.	Particulars of Security.	Date when given.	Estimated value of Security.			Estimated Surplus from Security.		
						Month.	Year.									
			£	s.	d.						£	s.	d.	£	s.	d.

LIST C. CREDITORS PARTLY SECURED.

No.	Name of Creditor.	Address and Occupation.	Amount of Debt.			Date when contracted.		Consideration.	Particulars of Security.	Month & Year when given.	Estimated value of Security.			Balance of Debt Unsecured.		
						Month.	Year.									
			£	s.	d.						£	s.	d.	£	s.	d.

LIST D. LIABILITIES OF DEBTORS ON BILLS DISCOUNTED OTHER THAN HIS OWN ACCEPTANCES FOR VALUE.

No.	Acceptor's Name, Address and Occupation.	Whether liable as Drawer or Endorser.	Date when due.	Amount.						Holder's Name, Address and Occupation (if known).	Amount expected to rank against Estate for Dividend.		
				Accommodation Bills.			Other Bills.						
				£	s.	d.	£	s.	d.		£	s.	d.

LIST E. CONTINGENT OR OTHER LIABILITIES.

(Full particulars of all Liabilities not otherwise Scheduled to be given here.)

No.	Name of Creditor or Claimant.	Address and Occupation.	Amount of Liability or Claim.			Date when Liability incurred.		Nature of Liability.	Amount expected to rank for Dividend.		
						Month.	Year.				
			£	s.	d.				£	s.	d.

LIST F. CREDITORS FOR RENT, ETC., RECOVERABLE BY DISTRESS.

No.	Name of Creditor.	Address and Occupation.	Nature of Claim.	Period during which Claim accrued due.	Date when due.	Amount of Claim.			Amount recoverable by distress.			Difference ranking for Dividend (to be carried to list A).		
						£	s.	d.	£	s.	d.	£	s.	d.

LIST G. PREFERENTIAL CREDITORS FOR RATES, TAXES AND WAGES.

No.	Name of Creditor.	Address and Occupation.	Nature of Claim.	Period during which Claim accrued due.	Date when due.	Amount of Claim.			Amount recoverable by distress.			Difference ranking for dividend (to be carried to list A).		
						£	s.	d.	£	s.	d.	£	s.	d.

LIST H. PROPERTY.

Full particulars of every description of property, in possession and in reversion not included in any other List, are to be set forth in this List.

Full Statement and Nature of Property.	Estimated to produce.		
	£	s.	d.
(a) Cash at Bankers			
(b) Cash in hand			
(c) Cash deposited with Solicitor for Cost of Petition			
(d) Stock-in-trade at (Cost £)			
(e) Machinery at (do)			
(f) Trade Fixtures, Fittings, Utensils, etc. at			
(g) Farming Stock at			
(h) Growing Crops and Tenant Right at			
(i) Household Furniture and Effects at			
(j) Life Policies			
(k) Other Property (state particulars), viz.			

LIST I. DEBTS DUE TO THE ESTATE.

No.	Name of Debtor.	Residence and Occupation.	Amount of Debt. Good.			Doubtful.			Bad.			Folio of Ledger or other Book where particulars to be found.	When contracted.	Estimated to produce.			Particulars of any Securities held for Debts.
			£	s.	d.	£	s.	d.	£	s.	d.			£	s.	d.	

NOTE.—If any debtor to the estate is also a creditor, but for a less amount than his indebtedness, the gross amount due to the estate and the amount of the contra account should be shown in the third column, and the balance only be inserted under the heading "Amount of Debt" thus:—

	£	s.	d.	
Due to the estate	..	..	..	
Less contra account	..	..	..	.. .. ..

No such claim should be included in sheet 'A'.

LIST J. BILLS OF EXCHANGE, PROMISSORY NOTES, ETC., AVAILABLE AS ASSETS.

No.	Name of Acceptor of Bill or Note.	Address, etc.	Amount of Bill or Note.			Date when due.	Estimated to produce.			Particulars of any Property held as Security for Payment of Bill or Note.
			£	s.	d.		£	s.	d.	

INDIAN BANKRUPTCY ACT.

In India, bankruptcies are governed by the **Presidency Towns Insolvency Act, 1909,** amended to 1934. The form of Statement of Affairs required to be prepared by the insolvent to be submitted to the Official Receiver follows practically on the same lines as the English Statement of Affairs, with the only difference, that it does not provide separate Schedules for Liabilities on Bills Discounted or Accommodation Bills (List D) and Contingent Liabilities (List E), as required under the English Bankruptcy Act. As to the Deficiency Account, the Indian Act does not provide for any particular form, but merely states on a blank form headed "Deficiency Statement" that the insolvent should explain the cause for the deficiency.

The following are the **Preferential Debts** under the Presidency Towns Insolvency Act:—

(*a*) All debts due to the Crown or to any local authority;

(*b*) All salaries or wages of any clerk, servant or labourer in respect of services rendered to the insolvent during four months before the date of the presentation of the petition, not exceeding three hundred rupees for each clerk, and one hundred rupees for each such servant or labourer; and

(*c*) Rent due to landlord from the insolvent, provided the amount payable under this clause does not exceed one month's rent.

The debts specified above shall rank equally between themselves, and shall be paid in full, unless the property of the insolvent is insufficient to meet them, in which case they shall abate in equal proportions between themselves.

Subject to the retention of such sums as may be necessary for the expenses of administration or otherwise, the debts specified above shall be discharged forthwith in so far as the property of the insolvent is sufficient to meet them.

Bankruptcy of Partnership Firms.—In the case of partners, the partnership property shall be applicable in the first instance in payment of the partnership debts and the separate property of each partner shall be applicable in the first instance in payment of his separate debts. Where there is a surplus of the separate property of the partners, it shall be dealt with as part of the partnership property; and where there is a surplus of the partnership property, it shall be dealt with as part of the respective separate property in proportion to the rights and interests of each partner in the partnership property.

Difference between a Balance Sheet and a Statement of Affairs.—(1) A Balance Sheet usually discloses capital represented by excess of assets over liabilities, whereas the preparation of a Statement of Affairs presupposes a financial embarrassment, and generally shows a deficiency represented by the excess of liabilities over assets.

(2) The various assets are set out in a Balance Sheet at book figures, on the basis of a going concern, whilst in a Statement of Affairs, they are valued at likely realisable or break-up figures.

(3) In a Balance Sheet, the liabilities in respect of unsecured, fully secured, partly secured, and preferential creditors are not individually disclosed. In a Statement of Affairs, the various classes of creditors have to be shown distinctly under different heads.

(4) The assets side of a Balance Sheet frequently includes intangible or fictitious assets, such as preliminary expenses, goodwill, prepaid expenses,

etc. A Statement of Affairs excludes all such items and shows only such assets as are realisable and available for the general creditors, assets mortgaged or pledged as security for debts being shown by way of deduction from the debts themselves.

The following illustrations show the prescribed forms of the Statement of Affairs under the English as well as the Indian Insolvency Acts:—

ILLUSTRATION 168.

A filed his petition on 31st December 1935 and his Statement of Affairs was composed of the following figures:—

Creditors on Open Account £70,000; Bills Payable £5,000; Creditors partly secured by lien on shares £40,000; Liability on Bills Receivable discounted (estimated to rank £3,500), £7,000; Mortgage on Buildings £10,100; Landlord for Rent £100; Creditors for wages, etc., payable in full £2,900; Book Debts:—Good £20,000, Doubtful £6,000, estimated to produce £2,000, Bad £1,000; Stock £60,000 estimated to realise £43,000; Shares £20,000 estimated to realise £16,000; Cash at Bankers £1,000; Bills Receivable £500; Building cost £15,000 valued at £12,000; Machinery £14,000 estimated to realise £11,000; Fixtures £3,000 estimated to realise £1,500; Debentures in Gold Mining Co., Ltd., cost £5,250 estimated to realise £5,000.

On 1st January 1931, he had a Capital of £50,000. The business resulted in a profit of £8,000, £6,500, and £3,000 in the years 1931, 1932 and 1933, respectively and a loss of £2,500 and £7,000, in the years 1934 and 1935 respectively, after allowing £2,500 for interest on Capital each year. The withdrawals amounted to £35,850 during the period; losses were incurred through betting and stock exchange transactions of £12,000 and £5,000 respectively.

Prepare a Deficiency Account and a Statement of Affairs.

Solution.

DEFICIENCY ACCOUNT.

	£	£		£	£
Excess of assets over liabilities on the 1st day of January, 1931 ..		50,000	Excess of liabilities over assets on the day of 19 (if any) ...		
Net Profit arising from carrying on business from 1st day of January, 1931, to [illegible] expenses ..		17,500	Net loss arising from carrying on business from the 1st day of January, 1931, to date of Receiving Order after deducting from profits the usual trade expenses		9,500
			Bad Debts as per Schedule I		5,000
Income or Profit from other sources since the 1st day of January, 1931:—			Expenses incurred since the 1st day of January, 1931, other than the usual trade expenses, viz., household expenses ..		
Interest on Capital ..		12,500			35,850
			Other losses and expenses:—		
			Loss through Stock Exchange speculations ..	5,000	
Deficiency as per Statement of Affairs ..		19,600	„ through betting ..	12,000	
			„ on Realising Stock-in-trade ..	17,000	
			„ „ Building ...	3,000	
			„ „ Machinery ...	3,000	
			„ „ Shares ...	4,000	
			„ „ Debentures ..	250	
			„ „ Fixtures ...	1,500	
			„ „ Bills receivable discounted ...	3,500	
					49,250
			Surplus as per Statement of Affairs (if any) ...		
Total amount to be accounted for	£	99,600	Total amount to be accounted for	£	99,600

(*Signature*) ....

Dated.....................

STATEMENT OF AFFAIRS.

(As required by the English Bankruptcy Act.)

IN THE HIGH COURT OF JUSTICE.

IN BANKRUPTCY.

To the Debtor,—You are required to fill up, carefully and accurately, this Sheet and the several sheets A, B, C, D, E, F, G, H, I, J and K, showing the state of your affairs on the day on which the Receiving Order was made against you, viz., the .... day of .... 19......

Such sheets, when filled up, will constitute your Statement of Affairs, and must be verified by Oath or Declaration.

Gross Liabilities.	Liabilities (as stated and estimated by Debtor).		Expected to rank.	Assets (as stated and estimated by Debtor).	Estimated to produce.
£			£		£
75,000	Unsecured Creditors, as per List A		75,000	Property as per List H, viz:—	
		£		(a) Cash at Bankers	1,000
10,100	Creditors fully secured, as per List B ...	10,100		(b) Cash in hand	
	Estimated value of securities ...	12,000		(c) Cash deposited with Solicitor for costs of petition	
	Surplus	1,900		(d) Stock-in-Trade (cost £ 60,000) ...	43,000
	Less amount thereof carried to Sheet C ...			(e) Machinery („ „ 14,000) ...	11,000
				(f) Trade fixtures, fittings, utensils, etc. („ „ 3,000) ...	1,500
	Balance thereof to *contra*	1,900		(g) Farming Stock	
				(h) Growing crops and tenant right	
40,000	Creditors partly secured, as per List C ...	40,000		(i) Furniture	
	Less estimated value of securities ...	16,000		(j) Life Policies	
			24,000	(k) Other Property, viz:— Debentures in the Gold Mining Co., Ltd. („ „ 5,250) ...	5,000
7,000	Liabilities on bills discounted other than debtor's own acceptances for value, as per List D, viz:—			Total as per List H	61,500
				Book Debts, as per List I, viz:—	

		£		
	On Accommodation Bills, as drawer, acceptor or endorser ...			
	On other Bills, as drawer or endorser ...	7,000		
	Of which, it is expected, will rank against the estate for dividend ...		3,500	
	Contingent or other liabilities as per List E £			
	Of which, it is expected, will rank against the estate for dividend	£		
100	Creditors for rent, etc., recoverable by distress as per List F	100		
2,900	Creditors for rates, taxes, wages, etc., payable in full, as per List G	2,900		
	Sheriff's charges payable under the Bankruptcy Act, 1914, estimated at			
	Deducted *contra* ... £	3,000		
137,100	£		102,500	

		£	
Good			20,000
Doubtful		6,000	
Bad		1,000	
	£	7,000	
Estimated to produce			2,000
Bills of Exchange or other similar securities on hand as per List J		£ 500	
Estimated to produce			500
Surplus from securities in the hands of creditors fully secured (per *contra*)			1,900
			85,900
Deduct creditors for distrainable rent and for preferential rates, taxes, wages, Sheriff's charges, etc. (per *contra*)			3,000
	£		82,900
Deficiency explained in Statement K			19,000
	£		102,500

I, make oath and say, that the above Statement and the several lists hereunto annexed marked A, B, C, D, E, F, G, H, I, J and K are to the best of my knowledge and belief a full, true, and complete statement of my affairs on the date of the above-mentioned Receiving Order against me.

Sworn at ....
this .... day of ....
19........

(*Signature*) ....

Before me ....
A Commissioner for Oaths.

STATEMENT OF AFFAIRS.

(As required by the Indian Bankruptcy Act.)

IN THE HIGH COURT OF JUSTICE.

IN INSOLVENCY.

To the Insolvent,—You are required to fill up, carefully and accurately, this Sheet and the several sheets A, B, C, D, E, F, G and H, showing the state of your affairs on the day on which the order of adjudication was made against you, viz., the .... day of .... 19.... .

Such sheets, when filled up, will constitute your Schedule and must be verified by Oath or Declaration.

Gross Liabilities.	Liabilities (as stated and estimated by Debtor).		Expected to rank.	Assets (as stated and estimated by Debtor).	Book Value.	Estimated to produce
Rs.		Rs.	Rs.		Rs.	Rs.
1,02,500	Unsecured Creditors, as per List A ...		99,000	Property as per List E, viz :—		
40,000	Creditors fully secured, as per List B ...	40,000		(a) Cash at Bankers		100
	Estimated value of securities ...	76,000		(b) Cash in hand		20
				(c) Cash deposited with Solicitor for costs of petition		
	Surplus	36,000		(d) Stock-in-Trade	38,880	30,000
	Less amount thereof carried to Sheet C ...	30,000		(e) Machinery		
	Balance thereof to *contra*	6,000		(f) Trade fixtures, fittings, utensils, etc. ...		
				(g) Furniture	4,000	3,000
35,000	Creditors partly secured, as per List C ...	35,000		(h) Life Policies		
	Less estimated value of securities ...	30,000	5,000	(i) Other property, viz :— 100 shares in Moosabhoy & Co., Ltd.	25,000	15,000
				Total as per List E		48,120

2,500	Creditors for rent, rates, taxes, wages, etc. payable in full as per List D	2,500		Book Debts, as per List F, viz. :—			
	Deducted *contra*	2,500		Good			10,000
				Doubtful	30,500		
				Bad	10,000	40,500	
				Estimated to produce			20,000
				Bills of Exchange or other similar securities on hand, as per List G		10,000	
				Estimated to produce			7,000
				Surplus from securities in the hands of creditors fully secured (per *contra*) ...			6,000
							91,120
				Deduct Creditors for preferential rent, rates, taxes, wages, etc. (per *contra*)			2,500
							88,620
				Deficiency explained in Statement H			15,380
1,80,000		Rs.	1,04,000			Rs.	1,04,000

I/We make oath/solemnly affirm, and say, that the above statement and the several lists hereunto annexed marked A, B, C, D, E, F, G and H are, to the best of my/our knowledge and belief, a full, true, and complete statement of my/our affairs on the date of the above-mentioned order of adjudication made against me/us.

Affirmed/Sworn at this day of before me.

(Signature) ....

Commissioner.

ILLUSTRATION 169.

K. Kikabhoy finds himself insolvent on 30th June 1935. His position was as follows:—

Sundry Debtors:—Good, Rs. 10,000; Doubtful, Rs. 30,500 (estimated to produce Rs. 20,000); Bad, Rs. 10,000.

	Rs.
100 Shares in Moosabhoy & Co., Ltd. (estimated to produce Rs. 15,000)	25,000
Mining Shares (estimated to realise Rs. 76,000)	85,000
Loss through betting	15,000
Creditors on Open Accounts	90,000
Creditors holding a second charge on the Mining Shares to the extent of Rs. 30,000	35,000
Creditors holding a first charge on the Mining Shares	40,000
Bills Payable	5,000
Bills Receivable discounted (of which Rs. 3,500 are likely to be dishonoured)	7,000
Creditors for Rent, Rates, Taxes, Wages, etc. (of which Rs. 2,500 are Preferential)	3,000
Furniture and Fixtures (estimated to realise Rs. 3,000)	4,000
Cash at Bank	100
Cash in Office	20
Stock-in-trade (estimated to realise Rs. 30,000)	38,880
Bills Receivable (estimated to realise Rs. 7,000)	10,000

He started with a Capital of Rs. 60,000 on 1st July 1932 and the business resulted in a profit of Rs. 10,000 and Rs. 7,500 for the first two years respectively, and in a loss of Rs. 5,000 for the third year, after allowing Rs. 3,000 as interest on Capital each year. Withdrawals for the whole period amounted to Rs. 26,000.

Prepare a Deficiency Account and a Statement of Affairs.

Solution.

DEFICIENCY ACCOUNT.

	Rs.	Rs.		Rs.	Rs.
Excess of assets over liabilities on 1st July 1932 ...		60,000	Net loss arising from carrying on business from 1st July 1932 to date of Receiving Order ...		5,000
Net Profit arising from carrying on business from 1st July 1932 to date of Receiving Order after deducting usual trade expenses ...		17,500	Bad Debts as per Schedule F		20,500
Income or profit from other sources since 1st July 1932:—			Expenses incurred since 1st July 1932 other than usual trade expenses, viz., Household Expenses ..		26,000
Interest on Capital ...		9,000	Other losses:—		
Deficiency as per Statement of Affairs ..		15,380	Loss through betting ..	15,000	
			Loss on Realisation of Stock-in-trade ...	8,880	
			Loss on realisation of Mining Shares ...	9,000	
			Loss on realisation of share in Moosabhoy Co., Ltd. ...	10,000	
			Loss on realisation of Furniture and Fixtures	1,000	
			Loss on realisation of Bills Receivable on hand ...	3,000	
			Loss on realisation of Bills Receivable discounted ...	3,500	50,380
Rs.		1,01,880		Rs.	1,01,880

[For Statement of Affairs see pages 714-715.

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. What is the difference between a Statement of Affairs and a Balance Sheet?

2. Mention the several Lists that have to be prepared in support of the Statement of Affairs under the English Bankruptcy Act, giving short particulars as to the contents of each of them.

3. What Lists need be prepared along with the Statement of Affairs under the Indian Bankruptcy Law?

4. How are Deferred Creditors dealt with while preparing a Statement of Affairs?

5. What are Preferential Creditors, and how are they shown in the Statement of Affairs?

6. What is a Deficiency Account and what purpose does it serve?

7. How are joint and separate estates of partners dealt with in Bankruptcy?

8. Give full particulars of the creditors that will be embodied in Lists A, B and C.

9. S. Fidaalli finds himself insolvent on 30th June 1935. His position was as follows:—

Sundry Debtors:—Good, Rs. 10,000; Doubtful, Rs. 30,500 (estimated to produce Rs. 20,000); Bad, 10,000.

	Rs.
100 Shares in Moosabhoy & Co., Ltd. (estimated to produce Rs. 15,000)	25,000
Mining Shares (estimated to realise Rs. 76,000)	85,000
Loss through betting	15,000
Creditors on Open Accounts	90,000
Creditors holding a second charge on the Mining Shares to the extent of Rs. 30,000	35,000
Creditors holding a first charge on the Mining Shares	40,000
Bills Payable	5,000
Bills Receivable discounted (of which Rs. 3,500 are likely to be dishonoured)	7,000
Creditors for Rent, Rates, Taxes, Wages, etc. (of which Rs. 2,500 are Preferential)	3,000
Furniture and Fixtures (estimated to realise Rs. 3,000)	4,000
Cash at Bank	100
Cash in Office	20
Stock-in-trade (estimated to realise Rs. 30,000)	38,880
Bills Receivable (estimated to realise Rs. 7,000)	10,000

He started with a capital of Rs. 60,000 on 1st July 1932 and the business resulted in a profit of Rs. 10,000 and Rs. 7,500 for the first two years respectively and in a loss of Rs 5,000 for the third year, after allowing Rs. 3,000 as interest on Capital each year. Withdrawals for the whole period amounted to Rs. 26,000.

Prepare a Statement of Affairs and a Deficiency Account. **389**

(*Total of Statement of Affairs Rs. 1,04,000; Deficiency Rs. 15,380; Deficiency Account Total Rs. 1,01,880.*)

10. The assets of a merchant on 30th September 1937, as shown by his books, were Rs. 46,000 and his liabilities Rs 34,000. He filed his petition in Bankruptcy and estimated his deficiency to be Rs. 24,000. After making the above estimate, he found that the following items were not passed through his account books:—

Interest at 6 per cent on his Capital from 1st January 1937.

A contingent liability for Rs. 2 400 on bills discounted by him for Rs. 10,000.

Amounts due as wages Rs. 250, as salaries Rs. 750, as rent Rs. 340, and as rates and taxes Rs. 260.

Prepare his Statement of Affairs and his Deficiency Account. (*G. D. A.*) **390**

(*Total of Statement of Affairs Rs. 36,400; Deficiency Rs. 28,000; Deficiency Account Total Rs. 40,000.*)

11. Jaffar and Gafur, merchants, are unable to meet their obligations. From their books, papers and information supplied by them, the following particulars relative to their affairs are ascertained:—

Cash in hand, Rs. 250; Debtors—Good, Rs. 1,250, Doubtful, Rs. 600 (estimated to produce Rs 200) and Bad Rs. 1,000; Shares in the Straights Shipping Co., Ltd. of par value, Rs. 5,000; Property (estimated to produce Rs. 9,000) Rs. 14,000; Bills Receivable (Good), Rs. 4,250; Other Securities (Rs. 3,000 pledged with partly secured Creditors and the remainder with fully secured Creditors), Rs. 28,000; Jaffar's Drawings, Rs. 9,000; Gafur's Drawings, Rs. 8,400; Sundry Losses, Rs. 13,500; Trade Expenses, Rs. 7,400; Creditors—Unsecured Rs. 25,000, Partly Secured Rs. 23,900, Fully Secured Rs. 17,000; Preferential Claims—Wages, Salaries and Taxes, Rs. 750; Jaffar—Capital, Rs. 10,000; and Gafur—Capital, Rs. 16,000

Prepare a Statement of Affairs showing the Assets, with respect of their realisation; also a Deficiency Account in respect of the deficiency shown by the Statement of Affairs. 391

(*Total of Statement of Affairs Rs. 45,900; Deficiency Rs. 18,700; Deficiency Account Total Rs. 44,700.*)

12. Prepare a Statement of Affairs and Deficiency Account of C and Co., who filed their petition on 31st December 1937. Their books showed that they owed Rs. 40,100, of which Creditors amounting to Rs. 6,500 held stock of the estimated value of Rs. 7,500, others amounting to Rs. 29,000 held stock of the estimated value of Rs. 15,000 and a mortgage on the property at Calcutta valued at Rs. 13,000, the Landlord being a preferential creditor for Rs. 100. Bills had been discounted amounting to Rs. 3,500, in respect of which it was estimated the firm would be liable for Rs. 500. The assets consisted of Book Debts, Good Rs. 1,500; Doubtful Rs. 600, estimated to produce Rs. 300; and Bad Rs. 700. Furniture and fittings Rs. 300, estimated to realise Rs. 150; Cash Rs. 50; B/R Rs. 350; Stock Rs. 1,600, estimated to produce Rs. 1,200. The firm commenced business on 1st January 1933, with a capital of Rs. 25,000. After charging Rs. 1,000 a year for interest on capital, and Rs. 1,300 a year for partners' salaries (which were credited to the Capital Account and not withdrawn), they made a profit in the first year of Rs. 2,700, but in the succeeding four years losses were incurred of Rs. 2,500, Rs. 3,200, Rs. 4,500 and Rs. 6,000 respectively. They drew out of Cash at the rate of Rs. 1,200 a year. The property at Calcutta cost Rs. 22,000 and the stock mortgaged was subjected to a discount of 25 per cent. 392

(*Total of Statement of Affairs Rs. 6,000; Deficiency Rs. 1,550; Deficiency Account Total Rs. 40,750.*)

2000

13. On 31st March 1938, the Balance Sheet of A and B was as follows:—

Liabilities	Rs.	Rs.	*Assets*	Rs.
Trade Creditors		24,000	Machinery	24,000
Bills Payable		30,000	Building	12,000
Bank		18 000	Book Debts	24,000
Twelve Months' Rent		1,200	Cash	1,200
One Month's Salaries		1,200	Stock	37,200
Capital:—	Rs.			
A	12,000			
B	12,000			
		24,000		
		Rs. 98,400		Rs. 98,400

A owed personally Rs. 21,600 and he had, in addition to the interest in the firm, a house which cost Rs. 6 000; Furniture Rs. 2,400; and Life Policies on which he had paid premiums amounting to Rs. 1,200. B owed Rs. 16,800 and he had paid life premiums amounting to Rs. 3,600 and had furniture which cost Rs. 1,200. The Bank held Deeds of A's property and his life policies. It became necessary to call the creditors together.

The partnership assets were valued as follows:—Machinery Rs. 13,080; Buildings Rs. 6,000; Book Debts, Good Rs. 12 000; Doubtful Rs. 6,000 (estimated at Rs. 3,600); Bad Rs. 6,000; Stock Rs. 24,000; A's property was considered to be worth Rs. 6,000; his life policies Rs. 600; and his furniture Rs. 1,800. B's life policies were worth Rs. 1,800; and his furniture Rs. 600.

Prepare separate Statements of Affairs and Deficiency Accounts of the firm as well as of the partners. 393

(*Total of Statement of Affairs Rs.* 73,100; *Deficiency Rs.* 14,520; *Deficiency Account Total Rs.* 38,520.)

14. Prepare a Statement of Affairs and Deficiency Account as on the 10th October, of William Corby.

Cash in hand £85, Book Debts £3,472 (estimated to produce £2,869); unfinished contract in hand (estimated to produce £3,000 over and above the cost of completing it); Plant, Tools, etc. cost £1,880 (estimated to realise £500); Office Furniture (estimated to realise £25); Stock-in-Trade valued at £1,900; Investments valued at £6,200 of which are deposited with bankers as security for loan £5,460. Life Policies of £2,000 of the estimated surrender value of £1,470 subject to advances made by the Insurance Co., amounting to £1,420; Unsecured Creditors on Trade Account £4,140; Unsecured Creditors for Cash advanced £5,308; W. Smith for two months' wages due to him as clerk, £30; A. Compton, six months' salary due to him at £15 per month; Rent recoverable by distress, £45, Bankers for Loans partly secured, £10,134 (estimated value of securities held by bankers, £7,460, viz., Investments, £5,460, and Lease £2,000); Capital Account on 1st January, as shown by the books, £189; Loss on Trading from 1st January to 10th October, £374; Loss on Sale of Investments made on 13th June, £200; Drawings £750. (*Chartered Accountants.*) 394

(*Total of Statement of Affairs* £12,162; *Deficiency* £3,118; *Deficiency Account Total* £3,307.)

15. A filed his petition on 31st December, and his Statement of Affairs was composed of the following figures:—

	£
Creditors unsecured	75,000
„ partly secured by lien on Shares	40,000
„ fully secured by lien on Stock	100
Liability on Bills Receivable (estimated to rank £3,500)	7,000
Mortgage on Mill	10,000
Creditors payable in full	3,000
Book Debts, Good	20,000
„ „ Doubtful & Bad (estimated to produce £2,000)	10,000
Consignments, Good	5,000
Stock (estimated to realise £40,000)	60,000
Shares (cost and estimated to realise)	16,000
Cash at Bankers	100
Bills of Exchange	1,400
Mill of the value of	11,000
Machinery (estimated to realise £12,000)	15,000
Fixtures (estimated to realise £1,500)	3,000
Cottages (estimated to realise £3,000)	3,500

On 1st January, six years ago, he had a Capital of £50,000. Profits were made in the six years of £20,500, after allowing Interest on Capital £10,000, and withdrawals amount to £63,600.

Prepare the Statement of Affairs and Deficiency Account.

(*Chartered Accountants.*) 395

(*Total of Statement of Affairs* £102,500; *Deficiency* £19,600; *Deficiency Account Total* £100,100.)

16. A trader files his petition in bankruptcy on 30th June 1937, and you are instructed to prepare his Statement of Affairs. The information you are able to obtain as to his position is as follows:—

The Stock-in-Trade at cost is £7,200 of which £600 worth is in the hands of a Creditor for £1,000 who is entitled to exercise a lien; Book Debts, Good £9,750; Doubtful £120, worth 6s. 8*d*. in the £; Bad £150. Fixtures and Fittings (after depreciation) £230. Cash in hand £10. Bills Receivable £1,100 (held by bankers against overdraft of £4,000 the balance of which is secured by a second charge on Debtor's freehold property, and by the guarantee of his brother). Customers' bills under discount £1,500, of which £200 is ascertained to be bad, and £100 is doubtful. Freehold property £3,000 subject to a first mortgage of £2,000. The unsecured Creditors amount to £29,800 in addition to claims for rates, taxes, and wages amounting to £240. The

Stock-in-Trade and the Book Debts (outside the bills) are estimated to be worth 75 per cent of their face value, and the freehold property, which cost £2,800 is valued at £2,200. Subject to the modifications above stated, the assets are worth their book values.

You learn that the Debtor had a surplus of assets of £5,000 on 1st January 1935, since when he has withdrawn £3,000 per annum in equal monthly instalments. His profits for the year ended 31st December 1935, were £2,100 and for 1936 £420, since which time he has not made up his books.

From these details, you are required to prepare as nearly as may be in statutory form (*a*) a Statement of Affairs, and (*b*) a Deficiency Account.

(Incorporated Accountants.) 396

(*Total of Statement of Affairs* £33,350; *Deficiency* £21,047-10-0; *Deficiency Account Total* £28,567-10-0.)

17. From the following figures, prepare a Statement of Affairs and Deficiency Account as at 31st December 1937. Assume that the Stock realises 2/3rds of its value, the Fixtures ½, the Shares par, and the Doubtful Debts, 1/3rd. On 1st January 1935, the Debtor commenced business with a Capital of £3,175. His profits for the first two years amounted to £2,027-10-6, and his drawings were £1,500 a year.
1125

	£	s.	d.
Cash	115	10	6
Stock-in-Trade	500	0	0
Debtors (Good)	3,500	0	0
„ (Doubtful)	900	0	0
„ (Bad)	750	0	0
Fixtures and Fittings	282	0	0
Shares	250	0	0
Creditors, unsecured (included £950 for wife) ..	6,950	0	0
Creditors, secured	1,250	0	0
Value of securities held by Creditors	1,750	0	0
Preferential claims for Rent, Rates and Taxes ..	95	0	0

(Incorporated Accountants.) 397

(*Total of Statement of Affairs* £6,000; *Deficiency* £955-2-10; *Deficiency Account Total* £6,157-13-4.)

18. A Receiving Order was made against A. Boot on the 25th June 1937. The following are the Balances in his Books at the date:—

	£	£
Unsecured Creditors		3,940
Capital Account, A. Boot		700
J. Smith, Loan Account		564
W. Jopp, Loan Account		12,654
Stock	4,113	
Fixtures and Fittings	250	
H. Finlay (Rent one year)		350
H. Jones, Manager (£150 per annum)		100
Collector—Rates and Taxes		85
Cash in hand and at Branches	110	
Horses, carts, etc.	251	
Bills Receivable	169	
Sundry Debtors	2,446	
Cash at Bank	356	
Freehold and other Property	5,000	
Policy of Insurance (Surrender value)	1,778	
Profit and Loss	776	
Drawings Account, A. Boot	1,219	
Interest on Loans	1,925	
Contingent liability on Bills Discounted £358 not expected to rank		
	£ 18,393	18,393

On 1st January 1937, there was a surplus of Assets of £700. J. Smith holds a first charge on the policy of insurance. W. Jopp holds a second charge thereon, and also a charge on the Freehold and Leasehold Property. The Stock for the purpose of the Statement is valued at £3,500. Of the Book Debts, £291 are doubtful, and are estimated to produce £100; £287 are bad. The loss on trading between 1st January and 25th June 1937, was £776.

Make out the Statement of Affairs and the Deficiency Account in the forms required under the Act. *(Chartered Accountants.)* 398

(Total of Statement of Affairs £10,605; *Deficiency* £4,311; *Deficiency Account Total* £5,011.)

19. A finds, by the following Summary of Assets and Liabilities of his business, that he is insolvent, and on 15th October 1937, files his own petition in bankruptcy. Prepare his Statement of Affairs for presentation to his creditors.

The Bank's overdraft is secured by the deposit of Deeds representing his Freehold Property (valued for the purposes of the Statement at £6,000), and Dock Warrants for Stock of the value of £2,383 10*s*. 10*d*.

W. Smith's loan is secured by an assignment of a policy on A's life valued at £100.

There are contingent liabilities on bills discounted amounting to £589 17*s*. 2*d*., of which the sum of £229 13*s*. 5*d*. is expected to rank.

Of the book debts, A states that £144 are bad and £365 doubtful; he estimates the value of the latter at £178.

Of the bills receivable, he estimates that the sum of £283 3*s*. 7*d*. is bad.

A has private debts, amounting to £389 5*s*. 3*d*., and has private assets consisting of the above-named policy and household furniture valued at £585.

SUMMARY OF ASSETS AND LIABILITIES.

Liabilities	£	*s.*	*d.*	*Assets*	£	*s.*	*d.*
Sundry Creditors ..	23,598	7	6	Cash in Hand	29	2	7
Bank Loan	6,897	3	6	Petty Cash in Hand ..	2	13	9
W. Smith, Loan	589	2	6	Stock at Cost	9,852	8	7
H. Jones, 9 months' rent to 29th September 1937 ..	150	0	0	Fixtures and Fittings ..	329	7	2
Rates, 6 months' to 31st March 1937	32	3	6	Office Furniture	262	8	0
				Horses and Carts	682	5	0
				Sundry Debtors	5,289	3	5
				Bills Receivable	4,283	3	7
				Freehold Property ..	6,589	2	7
£	31,266	17	0	£	27,319	14	8

(Chartered Accountants.) 399

(Total of Statement of Affairs £24,756-8-8; *Deficiency* £5,084-7-2.)

CHAPTER XVIII.

TABULAR OR COLUMNAR BOOK-KEEPING.

The term Tabular or Columnar Book-keeping does not mean any special system of accounting as different from the system of Double Entry Book-keeping. What it really means is that it is a method of book-keeping utilised in certain undertakings where some of the books are ruled with many analytical columns with the object of grouping together numerous items of a similar nature and thus enabling them to be posted in total instead of in detail, thereby effecting a considerable saving of time and labour. Where, however, the columnar system is used, it must not be understood that all the books necessary to record the transactions must be of a columnar type. Any one or more books may be ruled with additional columns to meet the special requirements of a particular business, and at the same time, there may be other books with ordinary rulings as may be found convenient. Thus, a columnar Cash Book or a columnar Journal or a columnar Purchases or Sales Book may be used together with an ordinary Ledger; or a Ledger or Ledgers may be of a columnar type and all or some of the subsidiary records may be with the usual rulings. The fact remains, however, that the principles of Double Entry are strictly observed even while recording the transactions under the Tabular or Columnar Book-keeping.

COLUMNAR CASH BOOKS.

The simplest form of Columnar Cash Book is the one with Cash, Bank and Discount columns on each side, the advantages of which have already been explained on page 12. Columnar Cash Books would also be used with advantage in a business with several departments or with several branch establishments, to facilitate departmental or branch postings to be done in total. A more elaborate form of Columnar Cash Book can be imagined in a concern where the Ledgers are kept on the self-balancing system, in which case, additional columns would be provided for each of the Trade Ledgers on either side of the Cash Book over and above the Cash, Bank and Discount columns. The form of such a Cash Book has also been shown in Self-Balancing System, in Chapter V. Further typical illustrations of Columnar Cash Books have been given on pages 723 and 724 which the student would do well to study. The form of Petty Cash Book indicated on page 19 provides another illustration of a Columnar Cash Book.

COLUMNAR JOURNALS.

Ordinary Purchases and Sales Books with additional columns for each Department or Branch so as to facilitate the preparation of Departmental or Branch Trading Accounts are instances of Columnar Journals (*see* page 664). Purchases or Sales Books provided with extra columns for each of the Bought or Sold Ledgers for the purpose of posting the Adjustment Accounts in totals under the self-balancing system, are other instances of Columnar Journals (*see* Self-Balancing System, Chapter V). The ordinary forms of Bills Receivable and Bills Payable Books are further examples of Tabular Journals (*see* page 22).

Further illustration of a combined Purchase and Expense Journal of a Departmental Business which provides a classified record not only of the purchases but also of the expenses incurred, is given on page 725. The

Purchase Journal for Hotels illustrated on the same page is also worth studying. It will be noted that the Personal Accounts from these Journals would be credited individually, but the respective Purchase or Expense Accounts would be debited in monthly totals.

CASH BOOK FOR HOSPITALS.

Receipts Side.

Date.	Particulars.	Rec. No.	L. F.	Bank.	Annual Subscription.	Donations.	Legacies.	Collection Boxes.	Entertainments.	Interest and Dividend.	Probationers' Fees.	Patients' Payments.	Other Receipts.

Payments Side.

Date.	Particulars.	Voucher No.	L. F.	Bank.	Provisions.	Surgery and Dispensary.	Domestic Expenses.	Establishment Charges.	Repairs.	Petty Cash.	Miscellaneous Expenses.

CASH BOOK FOR HOTELS.

Receipts Side.

Date.	Particulars.	Rec. No.	L. F.	Discount.	Bank.	Visitors' Account.	Restaurant.	Bar.	Billiards.	Sundry Receipts.	Ledger Accounts.

Payments Side.

Date.	Particulars.	Voucher No.	L. F.	Discount.	Bank.	Mineral Waters.	Wines & Spirits.	Cigars & Cigarettes.	Grocery & Provisions.	Salaries.	Wages.	Rent.	Taxes.	General Expenses.	Petty Cash.	Ledger Accounts.

CASH BOOK OF A NEWSPAPER CONCERN.

Receipts Side.

Date.	Particulars.	Rec. No.	L. F.	Discount.	Bank.	Advertisements.			Subscriptions.		Cash Sales.	Sundry Receipts.
						Short.	Casual	Contract	Daily.	Weekly.		

Payments Side.

Date.	Particulars.	Voucher No.	L.F.	Discount.	Bank.	Salaries.	Wages.	Commission.	Contribution.	Rent.	Petty Cash	Ledger Accounts.

GENERAL CASH BOOK OF AN ELECTRIC COMPANY.

Receipts Side.

Date.	Particulars.	Rec. No.	L. F.	Discount.	Bank.	Current.			Rentals or Hire.			Other Receipts.
						Private consumers.	Public Lighting.	Motors.	Meters.	Fittings.	Motors.	

Payments Side.

Date.	Particulars.	Voucher No.	L. F.	Discount.	Bank.	Stock.		Other Payments.
						Stores and Materials.	Fuel.	

PURCHASE AND EXPENSE JOURNAL OF A DEPARTMENTAL BUSINESS.

Data.	Particulars.	Inv. No.	L. F.	Total.	Goods Purchased.			Rent, Rates & Taxes.	Printing & Stationery.	Advertisement.	General Expenses.	
					Jewellery Dept.	Fancy Goods Dept.	Toys Dept.					

PURCHASE JOURNAL FOR HOTELS.

Data.	Particulars.	Inv. No.	L. F.	Total.	Meat, Fish, Poultry.	Fruits and Vegetables.	Bread.	Provisions.	Coal and Fuel.	Wines and Spirits.	Ice and Minerals.	Cigars and Cigarettes.	Utensils.	Furniture & Fixtures.	Cutlery & Plate.	Glass and China.	Bed and Table Linen.	Sundries.

TABULAR LEDGER OF A GAS COMPANY.

Number.	Consumer's		Gas consumed.		Meter Rent.	Stove Rent.	Other Debits.	Arrears.	Total due.	Date paid.	C. B. Folio	Amount paid.	Discounts and Allowances.	Balance c/fd.
	Name.	Address.	Cubic feet.	Amount.										

CONSUMERS' LEDGER.
(Suitable for a Water Co.)

No. of Assessment.	Situation of Property.	Rateable value.	Arrears brought forward.	Half year's charges.	Extras.	Total Amount due.	Date received.	Receipt No.	Amount received.	Allowances.	Arrears carried forward.	Total.

SALES BOOK OF DAIRY AND FARMING TRADE.

Date.	Customer's Name.	Address.	Outward Invoice Number.	Ledger Folio.	Total Amount.	Milk.	Cheese	Cream	Butter	Ghee	Eggs.	Cattle.	Poultry.	Agricultural Produce.	Sundries.

SALES BOOK OF A CLOTH MERCHANT.

Date.	Customer's Name.	Address.	Outward Invoice No.	Ledger Folio.	Total Amount.	Woollens.	Silks.	Cotton Material.	Fancy Stuff.	Sundries.

SALES BOOK OF A DISPENSING CHEMIST AND DRUGGIST.

Date	Customer's Name.	Address.	Outward Invoice Number.	Ledger Folio.	Total Amount.	Prescriptions dispensed.	Patent medicines.	Drugs.	Own productions.	Photo materials.	Fancy articles.	Sundries.

SALES BOOK UNDER THE SELF-BALANCING SYSTEM.

(Where the Sales Ledgers are divided alphabetically.)

Date.	Customer's Name.	Address.	Outward Invoice Number.	Ledger Folio.	Amount.	Sales Ledgers.				
						A to D	E to H	I to M	N to R	S to Z

PURCHASES BOOK OF PRINTERS AND STATIONERS.

Date.	Supplier's Name.	Address.	Inward Invoice Number.	Led. Folio.	Total Amount.	Paper.	Ink.	Type.	Stereos.	Binding Materials.	Stationery.	Office equipment.	Packing material.	Sundries.

SALES BOOK OF A MOTOR CAR DEALER.

Date.	Customer's Name.	Address.	Outward Invoice Number.	Led. Folio.	Total Amount.	Motor Cars.	Motor Cycles.	Repair Work.	Accessories.	Hiring of Cars.	Petrol and Lubricants.	Sundries.

COLUMNAR LEDGERS.

Tabular or Columnar Ledgers are usually utilised in connection with personal accounts. There are certain undertakings, where on account of the particular nature of their business, the number of personal accounts to be kept is very considerable, but at the same time, only one transaction occurs with each person during a particular period. The concerns that answer such conditions are Gas Companies, Water Companies, Electric Lighting Companies, Rates and Taxes Ledger of Municipal Authorities, etc. It is quite evident that in undertakings of such a nature, if a Ledger Account of each customer or consumer were opened in the ordinary way, it would involve an enormous amount of unnecessary labour without serving any good purpose. Under such circumstances, therefore, a Tabular Ledger ruled with suitable columns can be made to serve the purpose of a Day Book as well as a Ledger, thus effecting considerable economy in time and labour. The rulings are usually so arranged that the addition one way represents all the transactions with one person, and the addition the other way represents all the transactions of a particular description. The form of Consumers' Ledger generally utilised by an Electric Light and Power Company as shown on page 726 serves as a good illustration of a Tabular Day Book and Ledger combined. This book will be written up immediately the monthly bills are sent out to the consumers. The monthly total of the columns headed "Charge for Current" and "Rental" would be credited to their respective Nominal Accounts in the General Ledger. On receipt of cash from the consumers, entries are made on the debit side of the Cash Book from where postings are made in this book in the column headed "Account paid". Any allowance made to a consumer is shown in the "Allowances" column and the monthly total of this column is debited to Allowances Account. In the case of any Bad Debt, the amount is entered in the "Bad Debts" column against the name of the particular consumer and the monthly total of this column is debited to Bad Debts Account. At the end of the financial period, the total as shown by the last column represents the total amount then owing by the consumers.

The Tabular Ledger of a Gas Company illustrated on page 727 is written up on the same lines as above explained and serves the purpose of an analytical Day Book and Ledger combined.

Visitors' Ledger or Window Ledger used by Hotels.—The Visitors' Ledger for Hotels can always conveniently be kept on the Tabular Form as the nature of the business requires this book to be kept written up to date —in fact up to the very last hour. In this case, the book is so ruled as to take the place not only of a Ledger but also of an analytical Day Book. As will be seen from the illustration (pages 732 and 733), a page or a number of pages are used for recording each day's transactions. A separate column is provided for each visitor's account, the number at the top denoting the

[*Continued on page* 734

VISITORS' OR WINDOW LEDGER

Room No.	1	2	3	4	5	6
Name.	Brown.	Allan.	Jones.	Banerji.	Sen.	Smith.
DEBITS.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.	Rs. a. p.
Balance brought forward	11 0 0	...	5 8 0	...	7 4 0	8 0 0
Boarding and Lodging ..	7 0 0	5 0 0	6 0 0	9 0 0	...	...
Apartments	...	...	...	...	...	...
Attendance	...	0 8 0	...	0 12 0	...	0 12 0
Breakfasts	2 0 0	...	2 0 0	4 0 0	2 0 0	...
Tiffins	...	...	...	...	...	...
Dinners	...	3 0 0	...	...	...	3 0 0
Tea and Coffee ..	0 4 0	...	0 8 0	0 4 0	0 12 0	...
Sandwiches	...	...	...	...	...	...
Servant's Board ...	2 0 0	...	...	2 0 0	...	2 0 0
Suppers	...	...	...	...	...	...
Ale, Stout, etc. ..	...	...	...	...	...	...
Spirits and Liquors ..	1 8 0	...	0 12 0	...	...	2 0 0
Wines	...	...	...	...	...	...
Mineral Waters ..	0 10 0	0 8 0	0 6 0	0 12 0	1 0 0	0 6 0
Cigars and Cigarettes ...	1 0 0	0 6 0	0 4 0	0 8 0	...	...
Billiards	4 0 0	...	8 0 0	6 0 0	...	10 0 0
Washing	2 0 0	1 0 0	...	3 0 0	...	...
Cartage	...	0 4 0	0 6 0	0 8 0	0 4 0	...
Boat Hire	0 8 0	1 0 0	...	0 6 0	0 12 0	...
Postage and Telegrams ..	0 4 0	1 0 0	...	...	1 0 0	0 8 0
Carriage Account ..	...	...	0 10 0	0 12 0	...	...
Sundries :—						
Breakage	...	2 0 0	...	...	0 10 0	...
Total Rs.	32 2 0	14 10 0	24 6 0	27 14 0	13 10 0	26 10 0
CREDITS.						
Over-charges	1 0 0	...	0 6 0	0 12 0	0 8 0	...
Cash received ...	21 2 0	7 10 0	12 0 0	...	13 2 0	26 10 0
Ledger Accounts ...	10 0 0	...	12 0 0	...	...	...
Balance carried forward ..	...	7 0 0	...	27 2 0	...	...
Total Rs.	32 2 0	14 10 0	24 6 0	27 14 0	13 10 0	26 10 0

FOR HOTELS. *Saturday, 23rd April 1938.*

7 Grey.	8 Chinoy.	—	Daily Total	Brought forward.	Carried forward	Folio.
Rs. a. p.	Rs. a. p.	DEBITS.	Rs. a. p.	Rs. a. p.	Rs. a. p.	
...	9 0 0	Balance brought forward	40 12 0	...	40 12 0	
10 0 0	...	Boarding and Lodging ...	37 0 0	45 0 0	82 0 0	
...	...	Apartments	...	...	...	
1 0 0	0 12 0	Attendance	3 12 0	15 0 0	18 12 0	
...	6 0 0	Breakfasts	16 0 0	48 0 0	64 0 0	
...	...	Tiffins	...	...	...	
3 0 0	...	Dinners	9 0 0	36 0 0	45 0 0	
...	1 0 0	Tea and Coffee ..	2 12 0	8 0 0	10 12 0	
...	...	Sandwiches	...	...	...	
2 0 0	...	Servant's Board ..	8 0 0	16 0 0	24 0 0	
...	...	Suppers ...	...	24 0 0	24 0 0	
...	...	Ale, Stout, etc. ...	...	10 0 0	10 0 0	
1 12 0	...	Spirits and Liquors ..	6 0 0	12 0 0	18 0 0	
...	...	Wines	...	6 0 0	6 0 0	
...	0 8 0	Mineral Waters ...	4 2 0	10 0 0	14 2 0	
...	...	Cigars and Cigarettes ..	2 2 0	8 0 0	10 2 0	
4 0 0	...	Billiards	32 0 0	20 0 0	52 0 0	
1 0 0	...	Washing	7 0 0	10 0 0	17 0 0	
...	...	Cartage	1 6 0	...	1 6 0	
...	2 0 0	Boat Hire	4 10 0	6 0 0	10 10 0	
0 6 0	...	Postage and Telegrams .	3 2 0	5 0 0	8 2 0	
0 4 0	1 0 0	Carriage Account ..	2 10 0	3 0 0	5 10 0	
...	...	Breakage	2 10 0	6 0 0	8 10 0	
23 6 0	20 4 0	Total Rs.	182 14 0	288 0 0	470 14 0	
		CREDITS.				
...	...	Over-charges ...	2 10 0	4 0 0	6 10 0	
...	...	Cash received ...	80 8 0	65 0 0	145 8 0	
...	...	Ledger Accounts ...	22 0 0	...	22 0 0	
23 6 0	20 4 0	Balance carried forward...	77 12 0	219 0 0	295 12 0	
23 6 0	20 4 0	Total Rs.	182 14 0	288 0 0	470 14 0	

Continued from page 731]

number of the room occupied by each visitor during the day. The opening item of debit represents the balance, if any, due by the visitor brought forward from the previous day. The further debits incurred in the course of the day in respect of the various nominal items as shown on the left are entered in the special column of each visitor concerned, and the vertical total of each column represents the total amount due by each visitor to date.

As cash is received from visitors from day to day, it is first entered in a subsidiary book, called Visitors' Receipts Book from where it is immediately entered in the Visitors' Ledger to the credit of the particular visitors who have paid their accounts. It will be noted that these credits are ruled underneath the debits for the sake of convenience. The allowances made, if any, would be shown to the credit of the particular visitors. The horizontal total of the allowance is carried forward from day to day till the end of the month, when a Journal entry is passed debiting Allowances Account and crediting Total Visitors' Account. The total of the cash received from the visitors in the course of the day, as shown by the Visitors' Receipts Book is entered in one lump amount in the General Cash Book from where it is posted to the credit of the Total Visitors' Account opened in the General Ledger.

The balances owing by the visitors at the end of the day are carried forward and shown in the respective columns on the next date. The daily horizontal totals of the debits in respect of each heading are carried forward from day to day till the end of each month, when a Journal entry is passed therewith debiting the Total Visitors' Account and crediting the various Nominal Accounts representing the different sources of earning.

If it is desired to transfer the account of any visitor from this Ledger in the Personal Ledger, the same is done by a Journal entry debiting the Personal Account of the visitor and crediting Total Visitors' Account. At the same time, the amount thus transferred in the Personal Ledger is shown on the credit in the particular column of the Visitors' Ledger together with the Journal Folio, the account in the Visitors' Ledger being thus closed. Care must be taken to see that when cash is received from any visitor whose Personal Account has been opened in another Ledger, the amount must be credited to that Personal Account from the Cash Book, and not to the Total Visitors' Account.

The debit balance as shown by the Total Visitors' Account at the commencement of each month would represent the total amount then due from all the visitors whose accounts are in the Visitors' Ledger and must tally with the opening total at that date as shown in the Brought Forward Column of the Visitors' Ledger.

EXAMINATION QUESTIONS.

1. What do you understand by the Tabular or Columnar System of Book-keeping? Mention the advantages attaching to this system.

2. Give suitable form of a Tabular Invoice Book for Hotels.

3. Give forms of Columnar Cash Books suitable for (*a*) Hotels, (*b*) Hospitals, (*c*) Newspaper Companies, and (*d*) Electric Lighting Companies.

4. What purpose does a Visitors' or Window Ledger serve in a Hotel? Explain carefully the Double Entry working of this book.

5. What is meant by the term 'Columnar Book-keeping'? Prepare a form of a Columnar Ledger suitable for use in a small hotel, and enter the following details:—Tuesday, 18th January 1938, Visitors' Accounts. J. Hughes (Room 1) Balance from previous day £1 12*s.* 6*d.*, apartments 7*s.* 6*d.*, breakfast 2*s.* 6*d.*, lunch 3*s.* 6*d.*, dinner 5*s.*, wine 8*s.* 6*d.*, spirits 9*s.*, cigars 1*s.*, postages 6*d.*, laundry 3*s.* 4*d.* F. J. Griffiths (Room 5) apartments 5*s.*, breakfast 2*s.* 6*d.*, tea 1*s.* 6*d.*, supper 2*s.*, liquors 9*d.*, minerals 1*s.*, baths 1*s.*, fire 1*s.* J. E. Elliot (Room 3) Balance from previous day £2 10*s.* 6*d.*, breakfast 2*s.* 6*d.*, bus to station 6*d.*, cash received in settlement of Bill £2 13*s.* 6*d.*

(London Chamber of Commerce.)

6. Briefly explain the principles of the 'Columnar' or 'Tabular' system of book-keeping. Illustrate the advantages of this system by means of *pro forma* rulings of a cash book, or other book of first entry, suitable for use in a small hotel.

(London Chamber of Commerce.)

CHAPTER XIX.

BANK ACCOUNTS.

The business of a Bank usually consists of:—

(a) Receiving money on deposit for a fixed or indefinite periods at moderate rates of interest;

(b) Conducting cash transactions of customers who have current accounts with it;

(c) Attending to bills and drafts of customers;

(d) Acting as agents for customers in respect of collection of dividends and interests, and purchase and sale of securities, etc.;

(e) Receiving for safe keeping deeds, securities, jewels, plate, or any similar property of great value in return for a moderate charge;

(f) Granting loans and advances;

(g) Issuing letters of credit, circular notes and remitting money from one place to another;

(h) Discounting bills of exchange of customers and bill-brokers;

(i) Financing shipments by advancing money on shipping documents;

(j) Acting as referees to customers; etc., etc.

The principal sources from which a bank derives its income are:—

1. Interest on loans granted. It may be noted that a bank always charges a much higher rate of interest to borrowers than the one it allows to customers.

2. Discounts on bills purchased by the bank before maturity.

3. Commission charged for conducting current accounts, for accepting and endorsing bills payable abroad, for keeping valuables in safe custody and for other services rendered to the customers.

4. Dividends and interest on its own investments.

5. Profit from buying and selling of Bullion.

As the transactions of a Bank chiefly relate to moneys received, moneys paid, moneys lent, interest received and allowed, discounts and commissions earned, and office establishment charges, the system of Bank book-keeping naturally resolves itself into an elaborate analysis of moneys received and paid.

Current Accounts.—A customer's Current Account at a bank is the account to which he pays in money daily, or at intervals, and upon which he draws cheques as required for his business or other purposes. On opening a Current Account, the customer is supplied with a Pass Book, a Paying in Book, and a Cheque Book. The Pass Book is made up by the banker and sent to the customer whenever required with a view to its being checked by the latter with his own record. It contains detailed entries of various sums paid in and withdrawn from the Current Account from day to day. The Paying in Book is filled in and presented by the customer at the counter whenever he pays in any amount. The counterfoil of this book is initialled by the receiving cashier and serves as an acknowledgment of the amount paid in. The Cheque Book is used by the customer whenever he wants to withdraw any amount from the Current Account. A Current Account may be overdrawn by arrangement with the bankers.

Deposit Account.—A Deposit Account is one which is used by a customer for the lodgment of money which is not likely to be required for some time. When money is left on deposit with a bank, the depositor gets a much higher rate of interest on the same than when lodged on Current Account. These deposits represent loans to bankers and may be either:

(*a*) lodged with the bank for a fixed period; or
(*b*) withdrawable on specific notice; or
(*c*) withdrawable at call or on demand.

The amount of each deposit is acknowledged by the bank in a Deposit Receipt given to the depositor.

Having received moneys on current accounts and on deposits from customers, a banker would invest the same by granting loans at call or short notice, or fixed periods, or by way of overdrafts on current accounts, or cash credits. A bulk of the surplus money would also be utilised by him for discounting bills, i.e., buying up bills before their due dates, or in sound investments.

Money at Call and Short Notice.—This item always appears on the assets side of a Bank Balance Sheet and represents temporary loans to Bill Brokers, Stock Brokers, etc., and also temporary advances on Consignments, Shipping Documents, etc.

Overdraft on Current Accounts.—A banker, on being satisfied as to the financial standing of his customer or after receiving proper securities, will allow the customer to overdraw his current account, in which case, the overdraft would be a sort of temporary advance by the banker.

Cash Credits.—Cash Credit is a term used to describe an arrangement under which a customer is allowed an advance upto a certain limit. The whole amount need not be drawn at once, but as required. The customer may be either required to deposit securities to partially or fully cover the credit or to enter into a bond with two or more sureties. The effect of such a bond is practically to make all the parties debtors to the bank although the person in whose name the account stands is the principal debtor.

Securities for Loans.—As the enormous funds at the disposal of bankers are utilised chiefly in financing industrial and commercial concerns, it is usual for them to obtain from borrowers security to entirely or partially cover the risk of the loans granted. This security may take various forms as hereunder:—

(*a*) Mortgage of the customer's property.
(*b*) Deposit of title deeds of the customer's property.
(*c*) First-class Stock Exchange Securities.
(*d*) Bills of Exchange and Promissory Notes.
(*e*) Insurance Policies to the extent of surrender values.
(*f*) Documentary Bills carrying a legal title to the goods.

Clearing.—A clearing house is an institution set up by the bankers of each town, for the purpose of settling and clearing their reciprocal debts, by exchanging among themselves bills, drafts or cheques drawn on one another.

Bills Discounted.—This item represents the total of the bills discounted which have not yet matured and are in hand at the date of the Balance Sheet. It appears as an asset.

Rebate on Bills Discounted.—When a Bank discounts a bill of exchange, the full amount of the discount is credited to Discount Account. At balancing time, however, some of the bills discounted may not have matured, and consequently, the total discount credited in respect of such bills cannot be said to have been earned during the current period. The unexpired portion of such discount is, therefore, carried forward by debiting Discount Account and crediting Rebate on Bills Discounted. The latter account is shown on the liabilities side of the Balance Sheet. At the commencement of the next period, the account is closed by transfer to Discount Account.

Liability of Customers for Acceptances and Endorsements.—This item represents bills accepted or endorsed by the bank on behalf of its customers. This is usually done in the case of foreign bills to facilitate negotiation. The bank is liable to the parties abroad but will have a corresponding claim on the customers for the same, and the risk is generally covered by the customers being required to pledge securities to the full extent. On any bill being accepted or endorsed in this manner, full details thereof would be entered in the Bills Accepted Register together with particulars of securities lodged. A majority of banks treat this book as outside the system of accounts and no further record is made of this transaction until the bill is paid, when the account of the customer for whom it is paid will be debited. At balancing time, however, the bank's liability in respect of such bills not due, has to be brought into account. This is done by showing the total of such unmatured bills on the liabilities side of the Balance Sheet under the heading of "Acceptances for Customers" or "Liability by Acceptances or Endorsements for Customers". At the same time, the corresponding liability of the customers on such bills is shown on the assets side, under the heading of "Liability of Customers on Acceptances per *contra*". The figure being the same on both the sides, the agreement of the Balance Sheet is not affected.

Banks of Issue are those banks which issue their own notes payable to bearer on demand. In London and for sixty miles around, this privilege is exclusively enjoyed by the Bank of England, whose notes are called Bank Notes, the notes of other banks of issue being known as Country Notes.

Bank Returns.—This is a weekly statement issued by national banks for public information, showing the amount of gold, silver and bullion in hand, the value of bills discounted, the amount of notes in circulation, the value of securities held and all other particulars of interest as showing a bank's exact position at date.

Bank Post Bills.—These are bills issued by the Bank of England payable seven days or sixty days after sight, and serve as an easy means of transmitting money from one part of the kingdom to another. The bills are accepted at the time they are drawn so that they begin to run from that date. No charge is made for them and they may be obtained for any sum from £10 to £1,000 payable to order, upon depositing with the Bank or any of its branches, the amount for which the bills are required. These bills are not subject to days of grace.

Letter of Credit.—This is a letter from a banker or a mercantile house addressed to his agent or correspondent either at home or abroad requesting him to advance the bearer a certain or an unlimited sum of money, upon the credit of the writer, and charge the amount advanced to the account of the latter, or draw upon him as may be detailed in the letter.

Circular Notes.—Letters of Credit payable by and addressed to a number of houses at different foreign towns, issued for the convenience of travellers and accompanied by letters of introduction are known as Circular Notes. These notes are issued for £10 and upwards and may be obtained from most of the London Banks upon depositing with them the amount for which the credit is required.

The principal Books kept by a Banker are:—

1. Daily Counter Receipts Book.
2. Daily Counter Payments Book.
3. Sectional Cash Book.
4. Cash Balance Book.
5. General Cash Book.
6. Bill Journals or Diaries.
7. Bills Discounted Book.
8. Short Bills Book.
9. Acceptances Book.
10. Securities Register.
11. Journals.
12. Current Account Ledgers.
13. Deposit Ledgers.
14. Loan Ledgers.
15. Agency Ledger.
16. Investment Ledger.
17. Private Ledger.
18. General Ledger.
19. Standing Orders Book.
20. Signature Book.

Daily Counter Receipts Book is kept by the receiving cashier and written up by him as he receives over the counter, cheques, notes, coins, etc. from the customers to be placed to the credit of their accounts. The receiving cashier acknowledges the amount by initialling the customer's paying in book.

Daily Counter Payments Book is kept and written up by the paying cashier as he pays over the counter, cheques drawn on the bank by the bank's customers. Full details as to the name of the customer, number and amount of notes and coins issued are entered by him in this book.

Received Waste Book is utilised for the analysis of the various cheques received so as to facilitate clearing.

Sectional Cash Books are utilised for analysing the daily receipts and payments for the purpose of posting.

Cash Balance Book starts with the opening balance of cash and notes in hand at the commencement of the day. It is debited with the total cash received in the course of the day and credited with the total cash and notes paid away during the day, the balance representing the cash in hand at the end of the day.

Bill Journals or Diaries are utilised for the purpose of keeping a complete and exhaustive record of the names of the parties to all bills receivable and payable, the amounts of such bills and their dates of maturity.

Short Bills Book or Bills Received for Collection Register is kept to record the bills deposited by customers for collection.

Acceptances Book is used to record the bills actually accepted by the bank on behalf of its customers.

Securities Register contains a detailed record of all the securities held by the bank against loans.

Current Account Ledgers contain an account of each customer who has deposited money on Current Account. The Ledgers are generally ruled with columns for principal, interest, and daily balance. Each amount in these Ledgers is headed with the full name of the customer, his address, designation and any particulars regarding signing upon the account. If it is an overdrawn account, the amount of the sanctioned limit, the date when granted and the date when it will expire are entered so that these particulars may always be under the eye of the Ledger-keepers when posting the account.

The **Deposit Ledgers** contain an account of each depositor, the rate of interest and the date of repayment being recorded therein.

The **Loans Ledger** contains a separate account of each customer to whom a loan has been granted. The rate of interest, the terms of repayment, the securities lodged, etc., are also recorded in each account.

The **Agency Ledger** keeps an account of each branch or agency.

The **Investment Ledger** contains a separate account of the bank's own investments containing columns for face value, principal and interest on either side.

The **Private or Profit and Loss Ledger** contains Capital Account and Real and Nominal Accounts.

The **General Ledger** practically contains Total Accounts of all the entries in the other Ledgers. Thus, in the General Ledger will be found Total Current Account, Total Fixed Deposit Account, Total Bills Receivable Account, Total Bills Payable Account, Total Loans Account, Total Expenses Account, Total Revenue Account, etc. This Ledger is kept on the self-balancing system and is sometimes known as the Check Ledger. It contains full materials for the preparation of a complete Trial Balance from which the Profit and Loss Account and Balance Sheet are prepared.

Standing Orders Book is kept for a record of standing instructions received from customers as to periodical and other payments and collections.

The above brief explanation of the various terms and Books of Accounts that are peculiar to a banking business will, it is hoped, enable the reader to understand a Bank Balance Sheet.

Full particulars of Book Debts in Balance Sheet.—The Indian Companies Act, 1913 amended to 1936, requires every Banking Company to clearly distinguish in its Balance Sheet between debts as are considered good and in respect of which the Bank is fully secured, and those considered good for which the Bank holds no security other than the debtor's personal security, distinguishing at the same time between debts considered good and debts considered doubtful or bad.

Internal Control and Check.—As the accuracy of the record of the transactions of any bank would depend so much on the system of Internal Control and Check in use, it is indispensably necessary that its internal working must be highly organised. The main features of any such system must necessarily be as under:—

(1) The Cashiers should have no access to the Ledgers, nor should the Ledger-keepers have anything to do with the Cash Books.

(2) The duties of the clerks should be shifted about from time to time.

(3) There must be a system of calling over of the record of the whole of each day's transactions by sets of clerks independently of those who wrote them up.

(4) There should be a day to day check of the Clearing House transactions.

(5) The Bills Department should be under the control of an inspector whose duty would be to closely scrutinise the daily incomings and outgoings of bills.

(6) At short periodical intervals, the balances on Current and Deposit Ledgers as also Loan Ledgers should be checked by responsible officials.

(7) There should be a regular checking of the Pass Books with their corresponding Ledger Accounts by special inspectors, and neither the Cashiers nor the Ledger-keepers should have anything to do with such checking.

(8) There should be a complete Internal Control over the whole of the Securities lodged with the bank either in respect of Overdrafts, Cash Credits, Fixed Loans or any other account, and these should be verified by inspection by some authorised person from time to time.

(9) The Securities lodged by customers in Safe Custody should also be verified by some person in authority from time to time.

(10) There should be a constant reconciliation of the Current Account Ledgers, Fixed Deposit Ledgers, Loan Ledgers and Security Registers with their corresponding Control Accounts in the General Ledger by the internal audit staff.

(11) Branch Offices should be given surprised visits by travelling auditors or inspectors who should report periodically to the Head Office.

(12) A day to day complete record should be maintained of the checkings and inspections performed by the internal audit staff.

(13) All discrepancies discovered should be immediately set right.

(14) Any irregularities detected should at once be reported to the chief manager so that immediate investigation may follow.

ILLUSTRATION 170.

From the following Trial Balance of the Kensington Bank, Ltd., prepare a Profit & Loss Account for the year ended 31st December 1937, and a Balance Sheet as on that date:—

	£	£
Share Capital, Authorised and Issued 100,000 Shares of £10 each, £1 paid up ..		100,000
Reserve Fund		50,000
Current Accounts		1,510,000
Deposit Accounts		346,000
Acceptances and Endorsements for Customers ..		77,000
Cash at Head Office and Branches ..	11,300	
Bank of England	100,600	

	£	£
Foreign Agents	10,000	
Money at Call and Short Notice	324,000	
Investments	441,000	
Reserve Fund Investments	50,000	
Loans and Advances to Customers	772,800	
Bills Discounted	312,000	
Bank Premises (at cost less depreciation) ..	12,700	
Customers for Acceptances and Endorsements	77,000	
Net Interest, Commission and Discount after allowing for Bad and Doubtful Debts ..		20,100
General Expenses, Salaries, etc.	9,100	
Profit & Loss Account balance		11,400
£	2,123,500	2,123,500

Reserve £3,000 for Rebate on Bills Discounted. The Profit & Loss Account balance is the balance left after paying an Interim Dividend of £10,000.

Solution.

THE KENSINGTON BANK, LIMITED.

PROFIT AND LOSS ACCOUNT.

For the year ended 31st December 1937.

	£		£
To General Expenses, Salaries, etc. ..	9,100	By Profit b/fd. on 1st January 1937 ..	21,400
" Rebate on Bills Discounted ...	3,000	" Net Interest, Dividends and Commission, after allowing for Bad and Doubtful Debts ..	29,100
" Balance carried forward ...	38,400		
£	50,500	£	50,500

THE KENSINGTON BANK, LIMITED.

BALANCE SHEET.

As at 31st December 1937.

Capital and Liabilities		£	*Property and Assets*	£
Authorised Capital— 100,000 Shares of £10 each		1,000,000	Cash at Head Office and Branches ...	11,300
			Cash at the Bank of England ..	100,600
			Money at Call and Short Notice ...	324,000
Issued and Subscribed Capital— 100,000 Shares of £10 each, £1 paid up ..		100,000	Investments—General ...	441,000
Reserve Fund ..		50,000	Reserve Fund Investments ...	50,000
Current Accounts ..		1,510,000	Bills Discounted .	312,000
Deposit Accounts .		346,000	Loans and Advances to Customers .	772,800
Acceptances and Endorsements for Customers as per *contra* ..		77,000	Customers for Acceptances and Endorsements as per *contra* ...	77,000
Rebate on Bills Discounted ..		3,000	Foreign Agents ...	10,000
Profit and Loss Account balance ...	£ 38,400		Bank Premises at cost *less* depreciation ...	12,700
Less Interim Dividend ...	10,000			
		28,400		
	£	2,114,400	£	2,114,400

ILLUSTRATION 171.

From the following balances of the Asiatic Bank, Ltd., as on 31st December 1937, prepare a Profit & Loss Account and Balance Sheet:—

The authorised Capital consists of 20,000 Shares of Rs. 100 each, Rs. 50 per share called up and paid. Provide Rs. 8,000 for Depreciation on Buildings, Rs. 3,500 on Furniture, Rs. 25,000 for Investment Reserve Fund, Rs. 20,000 further by way of Bad Debts Reserve. The Rebate on Bills not due amounted to Rs. 15,000. An *Ad Interim* Dividend at the rate of 7 per cent per annum was paid for the half year ended 30th June 1937.

	Rs.
Paid up Capital	10,00,000
Buildings (Cost Rs. 3,00,000)	2,05,000
Profit and Loss Appropriation Account, 1st January 1937	40,000
Advertising	1,700
Current Accounts	34,13,000
Cash with other Banks	16,05,000
Directors' and Auditors' Fees	5,900
Cash at Head Office and Branches	4,16,000
Furniture and Fixtures (Cost Rs. 50,000)	37,000
Fixed Deposits	58,99,000
Interest, Exchange, etc.	3,17,000
Investments (at cost)	2,78,000
Investment Reserve Fund	35,000
Bills Discounted	9,00,000
Loans to Customers	45,00,000
Liabilities for Expenses	46,000
Cash Credits and Overdrafts	30,00,000
Postage and Telegrams	2,000
Unexpired Insurance	500
Printing and Stationery	3,000
Stamps on hand	200
Rent, Taxes and Insurance	8,700
Reserve Fund	2,65,000
Salaries	57,000
Reserve for Bad Debts	40,000

Out of the total Debts, debts for Rs. 5,18,000 were considered doubtful, and the balance was considered good, of which debts amounting to Rs. 43,50,000 were fully secured, and for debts amounting to Rs. 6,99,000 the Bank held guarantees of one or more persons over and above the personal securities of the debtors. Debts due by Directors jointly with other persons amounted to Rs. 2,00,000. For the balance, the Bank held no other security except the personal security of the debtors. There were acceptances and endorsements given on behalf of customers outstanding to the sum of Rs. 2,00,000, in respect of which the Bank was fully secured.

Solution.

THE ASIATIC BANK, LTD.

PROFIT AND LOSS ACCOUNT.

For the year ended 31st December 1937.

	Rs.	Rs.		Rs.
To Salaries		57,000	By Interest, Exchange, etc.	3,17,000
„ Rent, Taxes and Insurance		8,700		
„ Printing and Stationery		3,000		
„ Postage and Telegrams		2,000		
„ Advertising		1,700		
„ Directors' and Auditors' Fees		5,900		
„ Rebate on Bills Discounted		15,000		
„ Bad Debts Reserve		20,000		
„ Depreciation on :—				
Buildings	8,000			
Furniture	3,500			
		11,500		
„ Investment Reserve Fund		25,000		
„ Balance, being Net Profit carried to Balance Sheet		1,67,200		
Rs.		3,17,000	Rs.	3,17,000

THE ASIATIC BANK, LTD.

BALANCE SHEET.

As at 31st December 1937.

Capital and Liabilities	Rs.	Rs.
Authorised Capital :—		
20,000 Shares of Rs. 100 each ..		20,00,000
Issued and Subscribed Capital :—		
20,000 Shares of Rs. 100 each ..		20,00,000
Called up Capital :—		
20,000 Shares of Rs. 100 each, Rs. 50 per share Called up and paid ..		10,00,000
Reserve Fund		2,65,000
Investment Reserve Fund ..		60,000
Reserve for Doubtfull Debts ...		60,000
Fixed Deposits		58,99,000
Current Accounts		34,13,000
Acceptances or Endorsements on behalf of Customers (as per *contra*)		2,00,000
Liabilities for Expenses		46,000
Rebate on Bills Discounted ...		15,000
Profit and Loss Account :— Balance as per last year...	40,000	
Add Net Profit during the year ...	1,67,200	
	2,07,200	
Less Interim Dividend ...	35,000	
		1,72,200
Rs.		1,11,30,200

Property and Assets	Rs.	Rs.
Cash at Head Office and Branches ...	4,16,000	
Cash with other Banks ...	16,05,000	
		20,21,000
Investment (at cost)		2,78,000
Bills Discounted ...	9,00,000	
Cash Credits and Overdrafts ..	30,00,000	
Loans to Customers ..	45,00,000	
		84,00,000
(Particulars as required by Act VII of 1913) :—		
1. Debts considered good and fully secured ...	43,50,000	
2. Debts Secured by guarantees of third parties over and above the personal securities of the debtors ...	6,99,000	
3. Debts considered good, in respect of which the Bank holds no security except the personal liabilities of the debtors ..	26,33,000	
4. Debts due by Directors jointly with other persons, considered good ...	2,00,000	
5. Debts considered doubtful ...	5,18,000	
Rs.	84,00,000	
Customers for Acceptances or Endorsements (as per *contra*)		2,00,000
Stamps on hand		200
Unexpired Insurance		500
Furniture at cost ...	50,000	
Less Depreciation to date ..	16,500	
		33,500
Buildings at cost	3,00,000	
Less Depreciation to date	1,03,000	
		1,97,000
Rs.		1,11,30,200

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. Mention the principal Books of Accounts maintained by a bank.

2. What is the business of a bank, and what are the sources of its revenue?

3. How would you distinguish a Fixed Loan from a Loan on Cash Credit?

4. Explain the difference between a Current Account and a Fixed Deposit Account.

5. Describe the different types of Loans granted by a banker.

6. What information would you find from the Investment Ledger of a bank? Give its rulings.

7. How would a banker record Acceptances and Endorsements on behalf of its customers?

8. How does Rebate on Bills Discounted arise, and how is it brought into record? What entry is made in this connection immediately at the commencement of the succeeding period?

9. How are bank book debts required to be disclosed in its published Balance Sheet, under the Indian Companies' Act, 1913 to 1936?

10. Prepare the Profit & Loss Account of the Northern Bank, Ltd., for 1937 from the following particulars:—

	Rs.		Rs.
Interest on Loans	2,59,000	Rent and Taxes	18,000
Interest on Fixed Deposits ..	2,75,000	Interest on Overdrafts ..	54,000
Rebate on Bills discounted ..	49,000	Directors' and Auditors' Fees ..	4,200
Commission charged to customers	8,200	Interest on Savings Bank Deposits	68,000
Establishment	54,000	Postages and Telegrams ..	1,400
Discount on Bills discounted ..	1,95,000	Printing and Advertisement ..	2,900
Interest on Cash Credit Accounts	2,23,000	Sundry Charges	1,700
Interest on Current Accounts ..	42,000		

(G. D. A.) 400

(*Net Profit Rs.* 2,23,000; *Profit and Loss Account Total Rs.* 3,05,200.)

11. From the following balances of the Commercial Bank, Ltd., as at 31st December 1937, prepare Profit & Loss Account and Balance Sheet. The Authorised Capital consists of 20,000 Shares of Rs. 100 each. The whole Capital has been subscribed, but only 50 per cent has been called up. The Bank has accepted Rs. 2,00,000 worth of Bills (without consideration) on behalf of Customers, the Securities lodged against these amounting to Rs. 3,00,000 Provide Rs. 8,000 for Depreciation on Buildings, Rs. 3,500 on Furniture, Rs. 25,000 for Investment Reserve Fund and Rs. 20,000 by way of Bad Debts Reserve. An *ad interim* dividend at the rate of 7 per cent per annum was paid for the half-year ending 30th June 1937. Profit as per previous Balance Sheet was Rs. 1,80,333. In the item of interest, exchange, etc. is included a sum of Rs. 5,900 for Rebate on Bills Discounted.

	Rs.		Rs.
Paid up Capital	10,00,000	Cash at Head Office and Branches	4,16,324
Buildings (Cost Rs. 3,00,000) ..	2,05,000	Furniture and Fixtures (Cost Rs. 50,000)	37,280
Balance of Profit & Loss Appropriation Account (on 1st Jan. 1937)	40,333	Fixed Deposits	58,98,554
Advertising	1,650	Interest, exchange, etc. ..	3,12,223
Current Accounts	34,12,829	Investments (at cost) ..	2,78,125
Cash with other Banks ..	16,05,125	Investments Reserve Fund ..	35,000
Directors' and Auditors' Fees ..	5,980	Loans to Customers	50,00,000

	Rs.		Rs.
Liabilities for expenses ..	46,894	Stamps on hand	183
Cash Credits and Overdrafts	34,00,520	Rent, Taxes and Insurance ..	8,577
Postage and Telegrams ..	1,156	Reserve Fund	2,65,000
Unexpired Insurance ..	437	Salaries	52,150
Printing and Stationery ..	3,390	Reserve for Bad Debts, etc. ..	40,000

(*B. Com.*) 401

(*Balance Sheet Total Rs.* 1,11,31,500 ; *Net Profit Rs.* 1,76.990 ; *Profit and Loss Account Total Rs.* 3,06,323)

12. The Trial Balance of the New National Bank, Limited as on 31st December 1937 stood as follows:—

	Rs.		Rs.
Paid up Capital	10 00,000	Fixed Deposits	20,00,000
Local Bills Discounted ..	9,00,000	Profit & Loss Account Credit Balance	1,10,000
Reserve Fund	3,85,000	Stamps and Stationery ..	5,000
Cash Credits and Overdrafts ..	14,00,000	Cash in hand	2,50,000
Unclaimed Dividends ..	5,000	Cash at Banks	6,50,000
Loans	23.00,000	Investments at cost	4,75,000
Current and Savings Deposits	25,00,000		
Furniture	20,000		

Out of the Total Debt- Debts for Rs. 2,85,000 were considered doubtful, and the balance was considered good. Out of the Debts considered good, debts amounting to Rs. 24,00.000 were fully secured, and for debts amounting to Rs. 4,00,000 (including Rs. 1,15 000 due by a director) the Bank held personal securities of one or more persons over and above the personal securities of the Debtors, and for the balance the Bank held no other security than the personal security of the debtors.

The Directors require the Bank's Investments to be shown in the Balance Sheet at market value on 31st December, 1937, which is Rs. 5,25.000.

Prepare the Balance Sheet of the Bank as on 31st December 1937 in the form prescribed under the Indian Companies Act. (*G. D. A.*) 402

(*Balance Sheet Total Rs.* 60.50,000.)

13. Two pearl merchants, Mr. AB and Mr. XY borrow from the Western Bank Ltd., Bombay, on 30th June 1936 a sum of four lakhs of rupees on their joint and several Promissory Note, depositing as collateral security pearls valued at Rs. 4,50,000 How will this loan appear in the Bank's Balance Sheet of 30th June 1936?

They are charged interest at 6 per cent per annum with yearly rests. The pearls are valued at Rs. 3,49 440 on 30th June 1938. How will this Loan appear in the Bank's Balance Sheet of 30th June 1938 :—

(*a*) If Mr. AB becomes insolvent on 30th September 1937, while Mr. XY continues solvent ;

(*b*) If both become insolvent on 30th September 1937 ? (*G. D. A.*) 403

14. The following particulars are taken out from the different statements of balances due to a Bank on the date of the Balance Sheet :—

	Balance on 31st December 1937. Rs. a. p.	Securities.	Market values of the securities. Rs. a. p.	Remarks.
Loan No. 1	40,318 6 8	Joint promissory note, and stock exchange securities ..	30,205 13 6	
" " 2	1,33,699 13 1	Shares of various companies ..	1.60,000 0 0	
" " 3	20,600 10 0	Second mortgage on property ..	60,000 0 0	First mortgage for Rs. 35,000.
" " 4	50,899 4 6	Joint and several promissory notes...	...	One of the signatories is a director.
" " 5	10,679 2 6	Single promissory note ...	...	
Overdraft No. 9	567 4 8	Credit balance of saving bank account ...	1,400 7 0	
" " 10	200 0 0			Temporary.
" " 11	6,789 10 6	Bank's own Shares ...	7,500 0 0	
" " 12	30,796 8 9	Shares and Railway Debentures ..	20,850 0 0	Insolvent.

Prepare a statement classifying these book debts in accordance with the requirements of the Indian Companies Act, giving reasons for your classification; also write out the form in which these book debts ought to be shown in the bank's Balance Sheet.

(G. D. A.) 404

15. (*a*) What do you understand by:—

(1) Rebate on Bills Discounted;

(2) Money at Call and Short Notice;

(3) Liability of Customers for acceptances and endorsements?

(*b*) While closing the books of a Bank on 31st December 1936, you find in the Loan Ledger an unsecured balance of rupees two lacs in the account of a merchant whose financial condition is reported to you as bad and doubtful. Interest on the same account amounted to Rs. 20,000 during the year. How would you deal with this item of interest in 1936 accounts?

During the year 1937, the Bank accepts twelve annas in the rupee on account of the total debt to 31st December 1936.

Prepare the necessary accounts showing the ultimate effect of the transaction in the 1937 books of accounts. *(G. D. A.)* 405

16. Prepare a statement showing the Book Debts of a Bank (half a dozen items) in the form in which they ought to be shown in the Balance Sheet, in accordance with the requirements of the Indian Companies Act. Also state from what books the necessary materials would be obtained for the same. *(B. Com.)* 406

17. From the following figures taken from the books of the Camberwell Banking Co., Ltd., you are requested to draft as at 31st December 1937 (*a*) a Trial Balance, (*b*) a Balance Sheet, and (*c*) a Profit & Loss Account.

	£
Current and Deposit Accounts	7,731,450
Acceptances on behalf of Customers	1,200,000
Capital subscribed 50,000 shares of £40 each, £25 per share paid	1,250,000
Reserve Fund (invested in Consols)	600,000
Profit & Loss Account Balance to Credit, 1st January 1937 ..	15,300
Interest accrued and paid	25,500
Current Expenses, Salaries, Rent, etc.	71,250
Amount added to Staff Retirement Fund	3,000
Premises Account—amount written off	22,500
Gross Profit for the year, after providing for Bad and Doubtful Debts	244,500
Cash in hand and at Bank of England	1,584,750
Money at Call and Short Notice	274,250
Consols (Reserve Fund)	600,000
Consols and Securities guaranteed by British Government ..	825,000
Colonial and Railway Stocks	637,500
English Corporation Stocks	235,500
Bills discounted	379,500
Loans and Advances	4,665,000
Bank Premises Furniture, etc.	337,500
Freehold and Leasehold Properties	180,000

(National Union of Teachers) 407

(*Trial Balance Total* £11,041,250; *Balance Sheet Total* £10,919,000; *Net Profit* £122,250.)

18. The following is the Trial Balance of the Institute Bank, Ltd. at 31st December 1937:—

	£	£
Subscribed Capital 50,000 Shares, £20 each, on which £10 per share is paid up		500,000
Reserve Fund (invested in Consols)		360,000
Loans and Advances	1,500,000	
Bank Premises	100,000	
£450,000 Consols at 80% (Reserve Fund Investments) ..	360,000	
British Government Securities	540,000	
Current and Deposit Accounts		3,400,000
General Expenses, Directors' Fees, Salaries and Rent ..	35,000	

	£	£
Pension Fund Account		50,000
Depreciation of Premises	10,000	
Profit undivided at January 1st 1937		16,000
Interest Account (balance at credit for unexpired period of bills discounted)		15,000
Interest, Discount, etc., Account		120,000
Money at Call and Short Notice	100,000	
Income Tax paid	2,500	
Bills discounted	420,000	
Interim Dividend paid, 31st July 1937	30,000	
Colonial Securities	500,500	
Cash in hand and at Bank of England	803,000	
	£4,461,000	4,461,000

Prepare a Balance Sheet and a Profit & Loss Account.

(Institute of Bankers) 408

(Balance Sheet Total £4,383,500 ; *Net Profit* £72,500.)

19. Prepare from the following particulars, the Balance Sheet of the London and South Coast Banking Company, Ltd. as at 30th June 1937.

	£		£
Authorised Capital	10,000,000	Endorsements on Bills Negotiated	100,000
Subscribed Capital 400,000 Shares of £20 each, £5 paid	2,000,000	Reserve	3,000,000
Investments	7,000,000	Current & Deposit Accounts ..	56,000,000
Bills discounted	15,000,000	Investments Depreciation Account	100,000
Bank Premises	1,000,000	Bills Negotiated	100,000
Acceptances for Customers ..	5,000,000	Cash in hand and at Bank of England	10,000,000
Rebate on Bills not due ..	50,000	Cash at Call and Short Notice	9,000,000
Circular Notes and Letters of Credit	2,000,000	Profit & Loss Account—Credit Balance	850,000
Advances to Customers ..	22,000,000		
Liability of Customers for Acceptances	5,000,000		

(C. *A.* *A.*) 409

(Balance Sheet Total £69,100,000.)

CHAPTER XX.

SALE OR RETURN, HIRE-PURCHASE AND ROYALTY ACCOUNTS.

Goods are sometimes sent out on approval, the customers being given the option of buying or returning the same within a specified time. Such transactions evidently cannot be regarded as actual sales until the customers have approved of the goods, and in consequence, they cannot be entered in the Day Book. A record, however, has to be kept of the goods having gone out, and the method of recording will vary with the nature and volume of such transactions.

Where such transactions are not very numerous, a Sale or Return Day Book may be used as shown on the next page.

When the goods are sent out, particulars thereof will be entered in the *first group of columns as shown in the illustration. No posting, however* will be made of the entries in these columns.

On any customer accepting the goods, the second group of columns wil be entered up. The amount of goods sold will be posted to the debit of *Customer's Account in the Sales Ledger, and the monthly total of su* sales will be credited to Sales Account.

On the goods being returned, the third group of columns will be fi in. The amount, however, will not be posted to any Ledger account as posting was made when the goods were first sent out.

At the time of balancing, any outstanding items will have to be exten in the Balance Column. To verify the accuracy of the book, the total of Goods Sent Out column must be agreed with the totals of the Goods So Goods Returned and Balance Columns.

The Goods Outstanding on Sale or Return must be valued at cost pri and will be shown on the credit side of the Trading Account and the side of the Balance Sheet as stock lying with the customers.

In a business where such transactions are numerous and the involved are large, it is often advisable to maintain a separate set of boc viz., a Sale or Return Day Book, a Sale or Return Journal and a Sale Return Ledger.

The Sale or Return Day Book will, in this case, be ruled as an Day Book. All goods sent out on sale or return will be entered therein posted in detail to the debit of Personal Accounts opened in the Sale Return Ledger, the monthly total of this Day Book being credited to a C sent on Sale or Return Account in the same Ledger.

When the goods are accepted by a customer, the particulars wi entered in the "Goods Sold" columns of the Sale or Return Jo illustrated on the next page. The amount will be posted to the debit of Customer's Account in the ordinary Sales Ledger and to the credit of temporary account in the Sale or Return Ledger. The monthly to this amount column will be debited to Goods sent on Sale or Return A in the Sale or Return Ledger, and credited to the Sales Account Nominal Ledger.

	£	£
Pension Fund Account		50,000
Depreciation of Premises	10,000	
Profit undivided at January 1st 1937		16,000
Interest Account (balance at credit for unexpired period of bills discounted)		15,000
Interest, Discount, etc., Account		120,000
Money at Call and Short Notice	160,000	
Income Tax paid	2,500	
Bills discounted	420,000	
Interim Dividend paid, 31st July 1937	30,000	
Colonial Securities	500,500	
Cash in hand and at Bank of England	803,000	
	£4,461,000	4,461,000

Prepare a Balance Sheet and a Profit & Loss Account.

(Institute of Bankers.) 408

(Balance Sheet Total £4,383,500; Net Profit £7[illegible],500.)

7250

19. Prepare from the following particulars, the Balance Sheet of the London and South Coast Banking Company, Ltd. as at 30th June 1937.

	£		£
Authorised Capital	10,000,000	Endorsements on Bills Negotiated	100,000
Subscribed Capital 400,000 Shares of £20 each, £5 paid	2,000,000	Reserve	3,000,000
Investments	7,000,000	Current & Deposit Accounts ..	56,000,000
Bills discounted	15,000,000	Investments Depreciation Account	100 000
Bank Premises	1,000,000	Bills Negotiated	100,000
Acceptances for Customers ..	5,000,000	Cash in hand and at Bank of England	10,000,000
Rebate on Bills not due ..	50,000	Cash at Call and Short Notice	9,000,000
Circular Notes and Letters of Credit	2,000,000	Profit & Loss Account—Credit Balance	850,000
Advances to Customers ..	22,000,000		
Liability of Customers for Acceptances	5,000,000		

(C. A. A.) 409

(Balance Sheet Total £69,100,000.)

SALE OR RETURN DAY BOOK.

Goods Sent Out.			Goods Sold.			Goods Returned.		Balance.
Date.	Particulars.	Amount.	Date.	Sales Ledger Folio.	Amount.	Date.	Amount.	Amount.

SALE OR RETURN JOURNAL.

Goods Sold.					Goods Returned.			
Date.	Particulars.	Sales Ledger. Folio.	Sale or Return Led. Folio.	Amount.	Date.	Particulars.	Sale or Return Led. Folio.	Amount.

When any goods are returned, the particulars will be entered in the "Goods Returned" columns of the Sale or Return Journal. Each individual amount will be posted to the credit of the respective Customer's Account in the Sale or Return Ledger and the monthly total of the amount column will be debited to the Goods sent on Sale or Return Account in the same Ledger.

The accuracy of the Sale or Return Ledger can be tested any day by the agreement of the credit balance of the Goods sent on Sale or Return Account with the total debit balances to the various Customers' Accounts in the same Ledger.

At periodical balancing, the Goods Outstanding on Sale or Return will have to be valued at cost and treated as stock, being thus shown on the credit side of the Trading Account and also on the assets side of the Balance Sheet.

Occasionally, **where it is quite unusual to send out goods on sale or return,** such transactions are passed through the ordinary Day Book with a note that they are sent out on approval. They are then naturally treated as sales and debited to the Customer's Account in the Sold Ledger. On the goods being returned, they are passed through the Returns Inwards Book and credited to the Customer's Account in the Sold Ledger in the usual way.

At the time of periodical balancing, if there are any such goods outstanding, an adjustment will have to be made in regard to these, as otherwise the sales of the period would be wrongly inflated. A Journal entry will, therefore, have to be passed with the total amount of such goods sent on sale or return and outstanding at balancing time, as ascertained from the Day Book, debiting Sales Account and crediting Debtors on Sale or Return Account. The latter account will be shown by way of deduction from the item Sundry Debtors on the assets side of the Balance Sheet, and will be carried forward in the next year's books. The goods outstanding will, no doubt, have to be valued at cost, and treated as stock.

In the next period, when a customer approves of the goods which were outstanding at the time of the last balancing, the record of the same will be made through the Journal debiting Debtors on Sale or Return Account and crediting Sales Account. When, however, any of such outstanding goods are returned by a customer, the same would be recorded through the Journal by debiting Debtors on Sale or Return Account and crediting the Personal Account of the customer.

The above method only serves to indicate how to adjust outstanding items in relation to goods on approval wrongly passed through the Day Book and treated as ordinary Sales. It must, however, be made clear that it is not desirable to pass transactions relating to goods sent out on approval through the Day Book, whether such transactions are voluminous or otherwise.

HIRE-PURCHASE SYSTEM.

There are certain classes of undertakings where most of the sales are made on the hire-purchase system. Under this system, goods are delivered to a person who agrees to pay the owner by equal periodical instalments, such instalments to be treated as the hire of those goods until a certain fixed amount has been paid, when those goods become the property of the hirer.

The total amount to be paid under a hire-purchase agreement includes, therefore, the cash price of the goods and interest for the extended term of credit given. Under such a circumstance, it would be improper for the hirer to charge the whole of the periodical instalments to the Asset Account, for if this were done, when all the instalments have been paid, the account of the asset bought on the hire-purchase system would stand debited in his books at a price highly in excess of its intrinsic value. In order, therefore, that the Profit and Loss Account each year may be charged with the proper amount of interest, each periodical instalment paid will have to be carefully apportioned between the price of the goods and the interest. In this manner, the Asset Account will be debited only with the actual amount of its intrinsic value, and the interest will be charged to Revenue Account of the period.

On the other hand, the vendor of the article cannot treat the transaction as a sale to the extent of the aggregate amount of the instalments, inasmuch as these instalments are inclusive of interest. The only proper method for him to record such transactions would be to debit the purchaser's Personal Account and credit Sales Account with the *present value* of these future payments. In order to ascertain this figure, it is of course necessary to know

(*a*) the number of instalments agreed upon,

(*b*) the period within which they are payable,

(*c*) the amount of each instalment, and

(*d*) the rate of interest which the vendor intends charging for the delayed payments.

To the Personal Account of the hirer, interest at the fixed rate, calculated on the unpaid balance for the time being, will be debited as each instalment becomes due and Interest Account will be credited. On receipt of each instalment, Bank Account will be debited and the hirer's Personal Account will be credited. Thus, when all the instalments have been paid, the account of the hirer will not show any balance.

Depreciation.—Even when an asset is acquired on the hire-purchase system, the question of depreciation cannot be ignored during the continuance of the hire-purchase agreement. There are several methods of writing off depreciation, but the one most simple is to write off a fixed percentage annually on the diminishing balance of the cash value of the asset in question.

ILLUSTRATION 172.

On 1st January 1931, the New Colliery Co. bought wagons on the hire-purchase system. The Cash price of the wagons was Rs. 11,175, and the payment was to be made as follows:—

Rs. 3,000 was to be paid on signing of the agreement and the balance in three instalments for Rs. 3,000 each at the end of each year. 5% interest is charged by the Wagon Co., per annum. The Company has decided to write off 10% annually on the diminishing balance of the value. Make the entries in the books of the Colliery Co., recording the three years' transactions. Show also how these transactions would be recorded in the Wagon Co.'s Books.

Solution.

JOURNAL ENTRIES.

THE NEW COLLIERY CO.'S BOOKS.

			L. F.	Rs. a. p.	Rs. a. p.
1931 Jan. 1	Wagon Account	Dr.		3,000 0 0	
	To Bank				3,000 0 0
	(For the amount paid on delivery of the wagons).				
1931 Dec. 31	Wagon Account	Dr.		2,591 4 0	
	Interest Account	„		408 12 0	
	To Wagon Co.				3,000 0 0
	(For the first instalment due).				
„ „	Wagon Co.	Dr.		3,000 0 0	
	To Bank				3,000 0 0
	(For the payment of the first instalment).				
1932 Dec. 31	Wagon Account	Dr.		2,720 13 0	
	Interest	„		279 3 0	
	To Wagon Co.				3,000 0 0
	(For the second instalment due).				
„ „	Wagon Co.	Dr.		3,000 0 0	
	To Bank				3,000 0 0
	(For the payment of the second instalment).				
1933 Dec. 31	Wagon Account	Dr.		2,862 15 0	
	Interest	„		137 1 0	
	To Wagon Co.				3,000 0 0
	(For the third instalment due).				
„ „	Wagon Co	Dr.		3,000 0 0	
	To Bank				3,000 0 0
	(For the payment of the third instalment).				

WAGON ACCOUNT.

		Rs. a. p.			Rs. a. p.
1931 Jan. 1	To Bank ...	3,000 0 0	1931 Dec. 31	By Depreciation on Rs. 11,175 at 10% ...	1,117 8 0
Dec. 31	„ Wagon Co. ...	2,591 4 0	„ „	„ Balance c/d. ...	4,473 12 0
	Rs.	5,591 4 0		Rs.	5,591 4 0
1932 Jan. 1	To Balance b/d. ...	4,473 12 0	1932 Dec. 31	By Depreciation on Rs. 10,057-8 at 10% ..	1,005 12 0
Dec. 31	„ Wagon Co. ...	2,720 13 0	„ „	„ Balance c/d. ...	6,188 13 0
	Rs.	7,194 9 0		Rs.	7,194 9 0
1933 Jan. 1	To Balance b/d. ...	6,188 13 0	1933 Dec. 31	By Depreciation on Rs. 9,051-12 at 10% ...	905 2 10
Dec. 31	„ Wagon Co. ...	2,862 15 0	„ „	„ Balance c/d. ...	8,146 9 2
	Rs.	9,051 12 0		Rs.	9,051 12 0
1934 Jan. 1	To Balance b/d. ...	8,146 9 2			

INTEREST ACCOUNT.

Date	Particulars	Rs. a. p.	Date	Particulars	Rs. a. p.
1931 Dec. 31	To Wagon Co. ...	408 12 0	1931 Dec. 31	By Profit and Loss Account ...	408 12 0
1932 Dec. 31	To Wagon Co. ...	279 3 0	1932 Dec. 31	By Profit and Loss Account ...	279 3 0
1933 Dec. 31	To Wagon Co. ...	137 1 0	1933 Dec. 31	By Profit and Loss Account ...	137 1 0

WAGON CO.'S ACCOUNT.

Date	Particulars	Rs. a. p.	Date	Particulars	Rs. a. p.
1931 Dec. 31	To Bank ...	3,000 0 0	1931 Dec. 31	By Sundries ...	3,000 0 0
1932 Dec. 31	To Bank ...	3,000 0 0	1932 Dec. 31	By Sundries ...	3,000 0 0
1933 Dec. 31	To Bank ...	3,000 0 0	1933 Dec. 31	By Sundries ..	3,000 0 0

WAGON CO.'S BOOKS.

JOURNAL ENTRIES.

Date	Particulars	L. F.	Dr. Rs. a. p.	Cr. Rs. a. p.
1931 Jan. 1	Colliery Co. ... ... Dr. To Sales (For Sale of Wagons at cash price).		11,175 0 0	11,175 0 0
" "	Bank ... ... Dr. To Colliery Co. (For the payment received on signing of the agreement).		3,000 0 0	3,000 0 0
1931 Dec. 31	Colliery Co ... ... Dr. To Interest (For one year's interest on unpaid balance).		408 12 0	408 12 0
" "	Bank ... ... Dr. To Colliery Co. (For the first instalment received).		3,000 0 0	3,000 0 0
1932 Dec. 31	Colliery Co. ... ... Dr. To Interest (For one year's interest on unpaid balance).		279 3 0	279 3 0
" "	Bank ... ... Dr. To Colliery Co. (For the second instalment received).		3,000 0 0	3,000 0 0
1933 Dec. 31	Colliery Co. ... ... Dr. To Interest (For one year's interest on unpaid balance).		137 1 0	137 1 0
" "	Bank ... ... Dr. To Colliery Co. (For the third instalment received).		3,000 0 0	3,000 0 0

COLLIERY COMPANY'S ACCOUNT.

		Rs.	a.	p.			Rs.	a.	p.
1931					1931				
Jan. 1	To Sales	11,175	0	0	Jan. 1	By Bank ...	3,000	0	0
Dec. 31	„ Interest ...	408	12	0	Dec. 31	„ „ ...	3,000	0	0
						„ Balance c/d. ...	5,583	12	0
	Rs.	11,583	12	0		Rs.	11,583	12	0
1932		Rs.	a.	p.	1932		Rs.	a.	p.
Jan. 1	To Balance b/d. ...	5,583	12	0	Dec. 31	By Bank ...	3,000	0	0
Dec. 31	„ Interest ...	279	3	3	„ „	„ Balance c/d. ...	2,862	15	0
	Rs.	5,862	15	0		Rs.	5,862	15	0
1933		Rs.	a.	p.	1933		Rs.	a.	p.
Jan. 1	To Balance b/d. ...	2,862	15	0	Dec. 31	By Bank ...	3,000	0	0
Dec. 31	„ Interest ...	137	1	0					
	Rs.	3,000	0	0		Rs.	3,000	0	0

INTEREST ACCOUNT.

		Rs.	a.	p.			Rs.	a.	p.
1931					1931				
Dec. 31	To Profit and Loss Account ...	408	12	0	Dec. 31	By Colliery Co. ..	408	12	0
1932		Rs.	a.	p.	1932		Rs.	a.	p.
Dec. 31	To Profit and Loss Account ...	279	3	0	Dec. 31	By Colliery Co. ...	279	3	0
1933		Rs.	a.	p	1933		Rs.	a.	p.
Dec. 31	To Profit and Loss Account ...	137	1	0	Dec. 31	By Colliery Co. ...	137	1	0

INSTALMENT SYSTEM.

Goods are sometimes sold also under an agreement to pay by instalments. The difference between a hire-purchase agreement and an agreement to purchase and pay by instalments will, however, have to be carefully noted. Under the hire-purchase agreement, the goods do not become the property of the purchaser till after the final instalment has been paid, whereas under an agreement to purchase and pay by instalments, the goods become the property of the purchaser immediately he receives delivery of the same.

Goods purchased on Instalment System will, therefore, need different treatment in accounts to the one necessary to record a purchase under a hire-purchase agreement, as already explained.

The purchaser, in this case, on receipt of goods will debit the Asset Account with the cash price of the asset, and Interest Suspense Account with the total amount of interest payable, and credit the Vendor's Account. On payment of each instalment, the Vendor's Account will be debited and Bank credited. At the end of each year, the proportion of interest included in the instalment for the year will be transferred from the Interest Suspense Account to Interest Account, by debiting the latter account and crediting the former. Thus, the Interest Suspense Account will be closed when all the instalments have been paid, the Asset Account will appear in the books at its intrinsic value less any reasonable depreciation that may have been written off the same, and each year's Revenue Account will be made to bear its fair proportion of the interest for delayed payment.

The vendor, on the other hand, will debit the Purchaser's Account with the total amount of the instalments and credit Sales Account with the cash price of the asset and Interest Suspense Account with the total amount of interest recoverable. On receipt of each instalment, Bank Account is debited and the Purchaser's Account is credited. At the end of each year, the proportion of Interest included in the instalment for the year will be transferred from Interest Suspense Account to Interest Account by debiting the former account and crediting the latter.

A careful comparison of the following illustration with the one that has preceded it will serve to show the exact difference between the record of the Instalment System and that of Hire-Purchase.

ILLUSTRATION 173.

On 1st January 1935, the New Colliery Co. bought wagons on the Instalment System. The cash price of the wagons was Rs. 11,175 and the payment was to be made as follows:—

Rs. 3,000 was to be paid on signing of the agreement and the balance in three instalments of Rs. 3,000 each at the end of each year. 5% Interest is charged by the Wagon Co., per annum. The company has decided to write off 10% annually on the diminishing balance of the cash value. Show the necessary accounts in the books of the Colliery Co., and also of the Wagon Co.

Solution.

THE NEW COLLIERY CO.'S BOOKS.

WAGON ACCOUNT.

Date	Particulars	Rs.	a.	p.	Date	Particulars	Rs.	a.	p.
1935 Jan. 1	To Wagon Co. ...	11,175	0	0	1935 Dec. 31	By Depreciation Account ...	1,117	8	0
					"	" Balance c/d. ...	10,057	8	0
	Rs.	11,175	0	0		Rs.	11,175	0	0
1936 Jan. 1	To Balance b/d. ...	10,057	8	0	1936 Dec. 31	By Depreciation Account ...	1,005	12	0
					"	" Balance c/d. ...	9,051	12	0
	Rs.	10,057	8	0		Rs.	10,057	8	0
1937 Jan. 1	To Balance b/d. ...	9,051	12	0	1937 Dec. 31	By Depreciation Account ...	905	2	10
					"	" Balance c/d. ...	8,146	9	2
	Rs.	9,051	12	0		Rs.	9,051	12	0
1938 Jan. 1	To Balance b/d. ...	8,146	9	2					

11175+013--1

WAGON COMPANY'S ACCOUNT.

Date	Particulars	Rs.	a.	p.	Date	Particulars	Rs.	a.	p.
1935					1935				
Jan. 1	To Bank ...	3,000	0	0	Jan. 1	By Sundries ...	12,000	0	0
Dec. 31	" " ...	3,000	0	0					
"	" Balance c/d. ...	6,000	0	0					
	Rs.	12,000	0	0		Rs.	12,000	0	0
		Rs.	a.	p.			Rs.	a.	p.
1936					1936				
Dec. 31	To Bank ...	3,000	0	0	Jan. 1	By Balance b/d. ...	6,000	0	0
"	" Balance c/d. ...	3,000	0	0					
	Rs.	6,000	0	0		Rs.	6,000	0	0
		Rs.	a.	p.			Rs.	a.	p.
1937					1937				
Dec. 31	To Bank ...	3,000	0	0	Jan. 1	By Balance b/d. Rs.	3,000	0	0

INTEREST SUSPENSE ACCOUNT.

Date	Particulars	Rs.	a.	p.	Date	Particulars	Rs.	a.	p.
1935					1935				
Jan. 1	To Wagon Co. ...	825	0	0	Dec. 31	By Interest Account—Transfer ...	408	12	0
					" "	" Balance c/d. ...	416	4	0
	Rs.	825	0	0		Rs.	825	0	0
		Rs.	a.	p.			Rs.	a.	p.
1936					1936				
Jan. 1	To Balance b/d. ...	416	4	0	Dec. 31	By Interest Account—Transfer ...	279	3	0
					" "	" Balance c/d. ...	137	1	0
	Rs.	416	4	0		Rs.	416	4	0
		Rs.	a.	p.			Rs.	a.	p.
1937					1937				
Jan. 1	To Balance b/d. ...	137	1	0	Dec. 31	By Interest Account—Transfer ...	137	1	0

WAGON CO.'S BOOKS.

COLLIERY COMPANY'S ACCOUNT.

Date	Particulars	Rs.	a.	p.	Date	Particulars	Rs.	a.	p.
1935					1935				
Jan. 1	To Sundries ...	12,000	0	0	Jan. 1	By Bank ..	3,000	0	0
					Dec. 31	" " ..	3,000	0	0
					" "	" Balance c/d. ...	6,000	0	0
	Rs.	12,000	0	0		Rs.	12,000	0	0
		Rs.	a.	p.			Rs.	a.	p.
1936					1936				
Jan. 1	To Balance b/d. ..	6,000	0	0	Dec. 31	By Bank ...	3,000	0	0
					" "	" Balance c/d. ...	3,000	0	0
	Rs.	6,000	0	0		Rs.	6,000	0	0
		Rs.	a.	p.			Rs.	a.	p.
1937					1937				
Jan. 1	To Balance b/d. ..	3,000	0	0	Dec. 31	By Bank ...	3,000	0	0

INTEREST SUSPENSE ACCOUNT.

		Rs. a. p.			Rs. a. p.
1935 Dec. 31	To Interest Account—Transfer ...	408 12 0	1935 Jan. 1	By Colliery Co. ...	825 0 0
	„ Balance c/d. ...	416 4 0			
	Rs.	825 0 0		Rs.	825 0 0
		Rs. a. p.			Rs. a. p.
1936 Dec. 31	To Interest Account—Transfer ..	279 3 0	1936 Jan. 1	By Balance b/d. ...	416 4 0
	„ Balance c/d. ..	137 1 0			
	Rs.	416 4 0		Rs.	416 4 0
		Rs. a. p.			Rs. a. p.
1937 Dec. 31	To Interest Account—Transfer ..	137 1 0	1937 Jan. 1	By Balance b/d. ...	137 1 0

ROYALTIES AND DEAD RENTS.

Royalty.—The term Royalty expresses an amount payable by one person in return for some special right or privilege conceded to him by another person, such as the right to publish a book, or to manufacture and sell a patented article, or to work a mine.

Dead Rent is the minimum rent payable annually by the lessee of a mine to the landlord, for the privilege of obtaining minerals therefrom, irrespective of whether the quantity of minerals raised during each year justifies it or not. In fact, the Dead Rent would be payable even if the mine were not worked at all. A Dead Rent usually merges into a Royalty of a fixed amount per ton of minerals raised, and consequently, the sum payable by the lessee each year is either the Dead Rent or the Royalty *whichever is greater*. The object of fixing the Minimum or Dead Rent is that a Landlord may not get less than a certain amount per year even where there is no output or a very small output. On the other hand, however, in times of increased output, the landlord secures for himself a rent proportionate to the working of the mine by charging a Royalty of a fixed amount per ton of minerals raised.

Short Workings are the amounts paid to the landlord of a mine when the Royalty of any particular year does not amount to the Minimum or Dead Rent. Short Workings are usually recoverable by the lessee in later years when the Royalties are in excess of the Minimum Rent, and are therefore also known as **Redeemable Dead Rents.** The right of recouping these Short Workings out of future Royalties is usually limited to a given period from the commencement of the Lease, and in consequence, it is essential to look into this clause as appearing in the Lease in order to see to what extent Short Workings may be treated in the accounts as a temporary asset.

Treatment in Accounts.—(*a*) Where the Royalties are less than the Dead Rent and Short Workings are recoverable out of future Royalties when the latter exceed the Dead Rent, the following entries are necessary;—

1. Debit Royalties Account with the actual amount of Royalties earned, debit Short Workings Account with the difference between the Dead Rent and the Royalties, and credit the Landlord's Account with the amount of Dead Rent.

2. Close the Royalties Account by transfer to Profit & Loss Account.

3. The debit balance of the Short Workings Account (during such period within which the right of recouping the same exists) will be shown as an asset in the Balance Sheet.

(b) Where the Royalties *exceed* the Dead Rent, the entries will be as follows :—

1. Debit the Royalties Account and credit the Landlord's Account with the actual Royalties earned.

2. Transfer the Royalties Account to Profit & Loss Account.

3. Debit the Landlord's Account and credit the Short Workings Account with any balance on the latter Account, provided the Landlord gets credit for at least the Minimum Rent.

4. After the right of recouping Short Workings out of future Royalties is time-barred, the Short Workings Account must be written off by the Profit & Loss Account.

5. After the Short Workings Account has been wiped off, the Royalties Account will be debited and the Landlord's Account credited each year with the full amount of the Royalties.

Occasionally, a Minimum Rent Account is required to be opened while working out such problems, in which case, the entries would be as follows :—

(a) Where the Royalty is *less* than the Dead Rent :—

(1) Debit Minimum Rent Account and credit Landlord's Account with the Minimum Rent.

(2) Debit Royalties Account and credit Minimum Rent Account with the actual Royalty.

(3) Transfer the debit balance of Minimum Rent Account to Short Workings Account.

(b) Where the Royalty is *more* than the Dead Rent :—

(1) Debit Royalties Account with the actual Royalty, credit Short Workings Account with any Short Workings recouped, and credit Landlord's Account with the balance.

ILLUSTRATION 174.

A leased a colliery. The Dead Rent was Rs. 1,200 a year merging into a Royalty of four annas per ton of coal raised, with the right of recouping Short Workings out of Royalties during the first four years. The quantities raised were: first year, 2,000 tons; second year, 3,600 tons; third year 6,000 tons; fourth year 12,000 tons; fifth year, 25,000 tons. Give the Journal entries and Ledger Accounts for each of the five years.

Solution.

JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
FIRST YEAR. Royalties Account	Dr.		500	
Short Workings Account	"		700	
To Landlord				1,200
(Being Royalties earned and Short Workings to be paid to the landlord).				
Landlord	Dr.		1,200	
To Bank				1,200
(Cash paid to landlord).				
Profit and Loss Account	Dr.		500	
To Royalties Account				500
(Amount of Royalties transferred to Profit and Loss Account).				
SECOND YEAR. Royalties Account	Dr.		900	
Short Workings Account	"		300	
To Landlord				1,200
(Being Royalties earned and Short Workings payable to the landlord).				
Landlord	Dr.		1,200	
To Bank				1,200
(Cash paid to landlord).				
Profit and Loss Account	Dr.		900	
To Royalties Account				900
(Being Transfer of amount of Royalties to Profit and Loss Account).				
THIRD YEAR. Royalties Account	Dr.		1,500	
To Landlord				1,500
(Being Royalties earned and payable to the landlord).				
Landlord	Dr.		300	
To Short Workings Account				300
(Being Short Workings of former years recoverable from Royalties in excess of Dead Rent).				
Landlord	Dr.		1,200	
To Bank				1,200
(Payment to the landlord).				
Profit and Loss Account	Dr.		1,500	
To Royalties Account				1,500
(Amount of Royalties transferred to Profit and Loss Account).				
FOURTH YEAR. Royalties Account	Dr.		3,000	
To Landlord				3,000
(Being Royalties earned and payable to the landlord).				
Landlord	Dr.		700	
To Short Workings Account				700
(Being balance of Short Workings of former years recouped from Royalties in excess of Dead Rent).				
Landlord	Dr.		2,300	
To Bank				2,300
(Payment to the landlord).				

JOURNAL ENTRIES.—(*Contd.*)

		L.F.	Rs.	Rs.
Profit and Loss Account	Dr.		3,000	
To Royalties Account				3,000
(Amount of Royalties transferred to Profit and Loss Account).				
FIFTH YEAR.				
Royalties Account	Dr.		6,250	
To Landlord				6,250
(Being Royalties earned and payable to the landlord).				
Landlord	Dr.		6,250	
To Bank				6,250
(Payment to the landlord).				
Profit and Loss Account	Dr.		6,250	
To Royalties Account				6,250
(Transfer of Royalties to Profit and Loss Account)				

ROYALTIES ACCOUNT.

		Rs.		Rs.
1st year	To Landlord's Account ...	500	By Profit and Loss Account ..	500
		Rs.		Rs.
2nd year	To Landlord's Account ...	900	By Profit and Loss Account ...	900
		Rs.		Rs.
3rd year	To Landlord's Account ...	1,500	By Profit and Loss Account ..	1,500
		Rs.		Rs.
4th year	To Landlord's Account ..	3,000	By Profit and Loss Account ..	3,000
		Rs.		Rs.
5th year	To Landlord's Account ..	6,250	By Profit and Loss Account ...	6,250

SHORT WORKINGS ACCOUNT.

		Rs.		Rs.
1st year	To Landlord's Account ...	700	By Balance c/d.	700
		Rs.		Rs.
2nd year	To Balance b/d. ...	700	By Balance c/d.	1,000
	,, Landlord's Account ..	300		
	Rs.	1,000	Rs.	1,000
		Rs.		Rs.
3rd year	To Balance b/d. ...	1,000	By Landlord's Account	300
			,, Balance c/d.	700
	Rs.	1,000	Rs.	1,000
		Rs.		Rs.
4th year	To Balance b/d. ..	700	By Landlord's Account	700

LANDLORD'S ACCOUNT.

			Rs.		Rs.
1st year	To Bank ...		1,200	By Royalties Account	500
				„ Short Workings Account ...	700
		Rs.	1,200	Rs.	1,200
			Rs.		Rs.
2nd year	To Bank ..		1,200	By Royalties Account	900
				„ Short Workings Account ..	300
		Rs.	1,200	Rs.	1,200
			Rs.		Rs.
3rd year	To Short Workings Account		300	By Royalties Account	1,500
	„ Bank ...		1,200		
		Rs.	1,500	Rs.	1,500
			Rs.		Rs.
4th year	To Short Workings Account ...		700	By Royalties Account	3,000
	„ Bank ...		2,300		
		Rs.	3,000	Rs.	3,000
			Rs.		Rs.
5th year	To Bank ...		6,250	By Royalties Account ..	6,250

The following would be the Journal Entries, if the above illustration is worked under the second method:—

JOURNAL ENTRIES.

	L.F.	Rs.	Rs.
FIRST YEAR.			
Minimum Rent Account ... ... Dr.		1,200	
To Landlord			1,200
(Being Minimum Rent payable to the landlord).			
Royalties Account ... ... Dr.		500	
To Minimum Rent Account			500
(Being the actual Royalty on the output).			
Short Workings Account ... ... Dr.		700	
To Minimum Rent Account			700
(Being the transfer of the debit balance of Minimum Rent Account).			
SECOND YEAR.			
Minimum Rent Account ... ... Dr.		1,200	
To Landlord			1,200
(Being the Minimum Rent payable to the landlord).			
Royalties Account ... ... Dr.		900	
To Minimum Rent Account			900
(Being the actual Royalty on the output).			
Short Workings Account ... ... Dr.		300	
To Minimum Rent Account			300
(Being the transfer of the debit balance of Minimum Rent).			

JOURNAL ENTRIES.—(*Contd.*)

		L.F.	Rs.	Rs.
THIRD YEAR.				
Royalties Account	Dr.		1,500	
To Landlord				1,200
" Short Workings Account				300
(Being the actual Royalty on the output, the Minimum Rent payable to the landlord and the balance utilised in recouping Short Workings).				
FOURTH YEAR.				
Royalties Account	Dr.		3,000	
To Short Workings Account				700
" Landlord				2,300
(Being the actual Royalty on the output, and the balance payable to the landlord after recouping Short Workings).				
FIFTH YEAR.				
Royalties Account	Dr.		6,250	
To Landlord				6,250
(Being actual Royalty on the output payable to the landlord).				

NOTE—Every year, Royalties Account will be closed by transfer to the Profit and Loss Account, and the Landlord's Account will be debited on his being paid cash. Short Workings Account will be closed by balance until the Short Workings are recouped.

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. How are Goods sent out on Sale or Return recorded when such transactions are few?

2. Would it make any difference in recording of Sale or Return transactions, if these were numerous?

3. Where Goods on Sale or Return are treated as Sales, what adjustments would be needed at the end of each financial period?

4. Mention the entries necessary in the books of the buyer as well as the seller when goods are sold on the Hire-Purchase System.

5. Explain how the Hire-Purchase System differs from the Instalment System

6. What entries are made in the books of the buyer as well as the seller when goods are sold on the Instalment System?

7. Explain the terms (*a*) Royalty, (*b*) Dead Rent, and (*c*) Short Workings.

8. Explain how the Short Workings Account is maintained in the books of the lessee.

9. Distinguish between Goods on Consignment and Goods sent out on Sale or Return, and describe shortly the best way of dealing with each class of transaction.

(*Incorporated Accountants.*)

10. The Birchets Mineral Water Co., Ltd. sends out cases of aerated water to chemists in various parts of the country "on sale or return". Each chemist is at once debited in the Company's books with the water supplied at the price he is to obtain for it when sold, and is allowed to deduct 10% from the value when accounting for his sales. The personal accounts of all chemists so supplied are included in the ledger balances at the end of the year. How would you deal with these accounts when preparing the Co.'s Profit & Loss Account and Balance Sheet?

(London Chamber of Commerce.)

11. Upon being appointed book-keeper to the Whirlwind Automobile Co., Ltd., you find that 10 cars have been sent to various people for trial purposes, "on sale or return". These transactions, however, have been passed through the Company's books as actual sales at full list prices amounting to £3,750. Is this correct? If not, what rectification of the accounts would be necessary? How should such transactions be treated in the Company's annual accounts as prepared for publication?

(London Chamber of Commerce.)

12. On 1st March 1936, the B. S. Coal Co. obtained wagons on the hire-purchase system. The price of wagons was £1,150. Payment was to be made, as to £150 down, as to the balance at £250 per year with 5% interest.

The B. S. Coal Co. write off 10 per cent depreciation each year. Construct the necessary ledger accounts in the books of the Co showing in detail the entries.

(Incorporated Accountants.)

13. A Landlord leased his Collieries to a Company for 30 years at a dead rent of £600 a year merging into a Royalty of 6*d* a ton, with power of recoupment over the period of the lease.

The Company's output for the first seven years was as follows:—

1st year, 5,000 tons; 2nd year, 15,000 tons; 3rd year, 20,000 tons; 4th year, 24,000 tons; 5th year 25,000 tons; 6th year, 26,000 tons; 7th year, 24,000 tons.

How will these workings be shown in the annual Profit & Loss Accounts and the Balance Sheets of the Company? *(Chartered Accountants.)*

14. The S. G. Collieries Co., Ltd. took from the Duke of D. a lease of a coal-field for a period of 25 years from 1st January 1932 on a Royalty of 6*d*. per ton of coal got with a "Dead Rent" of £250 and power to recoup "Short Workings" during the first five years of the lease.

The annual outputs were as follows:—

1932, 6,000 tons; 1933, 9,000 tons; 1934, 11 000 tons; 1935, 12,000 tons; 1936, 15,000 tons.

Write up the "Royalties" "Short Workings" and "Landlord's" Accounts for the five years, in the Colliery Company's Ledger. *(Chartered Accountants.)* 410

15. The R. Colliery Co., Ltd., leased a property from A at a Royalty of 1*s*. 6*d*. per ton with a minimum rent of £2,000 per annum. Each year's excess of minimum rent over Royalties is recoverable out of the Royalties of the next five years.

In the event of a strike and the minimum rental not being reached, the Lease provided that the actual Royalties earned for the year discharged all Rental obligations for that year.

The results of the working were as follows:—

First year of the Co. ended 31st December 1931. Actual Royalties nil.

	Actual Royalties. £
Year ended 31-12-1932	650
" 1933	1,850
" 1934	2,250
" 1935	2,800

	Actual Royalties. £
Year ended 31-12-1936	3,500
" (Strike) 1937	1,900
" 1938	3,000

Write up the Minimum Rent Account and the Royalties Account showing the amount charged to Profit & Loss Account each year. (*Chartered Accountants.*) 411

16. The Hard Coal Colliery Co, Ltd. agreed to purchase from the International Wagon Co., Ltd., 100 railway wagons, at the price of £50 per wagon, paying for the same, by half-yearly instalments of £300, such instalments to include interest on the unpaid purchase money at the rate of 7% per annum.

The date of the purchase was 1st January 1935, and the first half-yearly instalment was due on 1st July 1935.

Write up the Hard Coal Coillery Co.'s Account in the Wagon Co.'s books for 3 years, and also write up the Wagon Account in the Colliery Co.'s books for the same period. (*Chartered Accountants.*)

17. On 1st January 1933, the New Colliery Co. bought Wagons on the *Hire-Purchase System*. The cash price of the wagons was £745 and the payment was to be made as follows:—

£200 was to be paid on signing of the agreement and the balance in three instalments of £200 each at the end of each year. 5% Interest is charged by the Wagon Co., per annum. The Company has decided to write off 10% annually on the diminishing balance of the cash value. Make the entries and open the necessary accounts in the books of the Colliery Co. and also of the Wagon Co. 412

18. On 1st January 1933, the New Colliery Co. bought Wagons on the *Instalment System*. The cash price of the wagons was £745 and the payment was to be made as follows:—

£200 was to be paid on signing of the agreement and the balance in three instalments of £200 each at the end of each year. 5% Interest is charged by the Wagon Co, per annum. The Company has decided to write off 10% annually on the diminishing balance of the cash value. Make the entries and open the necessary accounts in the books of the Colliery Co. and also of the Wagon Co. 413

19. The Bengal Coal Co. are lessees of a mine on a Royalty of eight annas per ton of coal raised, with a "Dead Rent" of Rs. 40,000 per annum, and power to recoup "Short Workings" during the first five years of the lease. The output for the first five years was as follows:—

1st year, 10,000 tons; 2nd year, 48,000 tons; 3rd year, 80,000 tons, 4th year, 1,20,000 tons; 5th year, 1,20,000 tons.

Write up the "Dead Rent", the "Royalties", the "Short Workings", and the "Landlord's" Accounts in the Company's Ledger. Rs. 11,000 (*G. D. A.*)

20. A Colliery Co. hires Wagons on the Hire-Purchase System over a term of two years, starting on 1st January 1937. The instalments of Rs. 4,000 each are payable half-yearly. The present Cash Value of the Wagons is Rs. 14,870 and the Wagon Co. charge interest at the rate of 6% per annum, working on half-yearly rests.

Draft the necessary Journal Entries to record these transactions in the books of the Colliery Company. Prepare also the Wagon Account for the four half-years. (*G. D. A.*)

21. A Motor Car Company sends out its Cars to dealers on "Sale or Return." All such transactions are, however, treated like actual sales and are passed through the Day Book. Just before the end of the financial year, two Cars, which had cost Rs. 5,500 each, have been sent on "Sale or Return" and have been debited to customers at Rs. 7,500 each. How would you adjust these transactions for the purpose of the Company's Profit & Loss Account and Balance Sheet? (*B. Com.*) 414

22. A Gas Company sends out its Gas Stoves to dealers on "Sale or Return." All such transactions are, however, treated like actual sales and are passed through the Day Book. Just before the end of their financial year, 100 Stoves, which cost them Rs. 150 each, have been sent to a dealer on "Sale or Return" and have been debited to his account at Rs. 200 each; out of which only 20 Stoves are sold at Rs. 230 each.

How would you adjust this transaction for the purpose of the Company's Profit & Loss Account and Balance Sheet? (*B. Com.*)

23. A. B. Co., Ltd. hold a lease of minerals from R. S. for a period of 40 years from 1st January 1935; under this lease there is payable a Royalty of 6*d*. a ton merging in a minimum rent of £1,000 a year, payable half-yearly on 30th June and 31st December. They granted a sub-lease for 20 years from 1st July 1935 to X. Y. Co., Ltd., of one-half of the area for a Royalty of 9*d*. a ton merging in a minimum rent of £750 a year, payable half-yearly on 30th June and 31st December.

A. B. Co., Ltd., are entitled under the lease from R. S. to recoup short workings out of subsequent excess workings throughout the term of the lease, but the sub-lease only allows X. Y. Co., Ltd. to recoup short workings out of excess workings in any of the three half-years immediately following that in which the short workings accrued.

Minerals were worked as follows:—

Output

	By A. B. Co., Ltd.	By X. Y. Co., Ltd.
Half-year ended 30—6-35	5,000 tons	..
„ „ 31-12-35	5,000 „	5,000 tons
„ „ 30—6-36	20,000 „	6,000 „
„ „ 31-12-36	30,000 „	6,000 „
„ „ 30—6-37	25,000 „	12,000 „

Show the Royalties Account and the Short Workings Account under the lease from R. S. and the sub-lease to X. Y. Co., Ltd., in the books of A. B. Co., Ltd., which are balanced on 30th June. (*Chartered Accountants.*) 415

By P. & L. A/c

Yrs	Tons	Royalty	Short working	Sub	Short working re-
30-6-35	5,000	125	375	250	
31-12-35	10,000	250	250	125	
30-6-36	26,000	650		125	125
31-12-36	36,000	900		75	150
30-6-37	37,000	1050			350

CHAPTER XXI.

LIQUIDATOR'S ACCOUNTS.

Voluntary Liquidation.—The Liquidator's duty is to pay the debts of the Company and adjust the rights of the contributories amongst themselves. In the case of a Voluntary Liquidation, the Liquidator has to make up an account of the liquidation showing how the winding-up has been conducted, what amounts were realised from the properties and assets of the company, and how such realisations were distributed. He has to present such a statement before a General Meeting of the Shareholders at the end of the first year and at the end of each succeeding year till the winding-up is completed. The statement will take the form of a Receipts and Payments Account.

Distribution of Assets.—The amounts realised from the assets should be distributed by the Liquidator in the following order:—(1) In paying the Secured Creditors from the proceeds of their securities. (2) In paying the Expenses of the Liquidation, including the Liquidator's Remuneration. (3) In paying Preferential Creditors. (4) In paying Unsecured Creditors. (5) In distributing the surplus, if any, amongst the contributories according to their respective rights and interests.

Where between one class of shareholders the shares are called in unequal proportions, the Liquidator should see that the Capital contribution by all such shareholders is the same as between themselves. Thus, if the issue has been in Rs. 10 Ordinary Shares, but if the shares of some have been called up to the extent of Rs. 6 and those of others to the extent of Rs. 4, and if the amounts already realised are not sufficient to meet the Company's Liabilities and the Liquidator's Expenses and Remuneration, it may become necessary for him to make a call of Rs. 2 per share on the latter body of shareholders in order to bring their contribution on a level with that of the other Ordinary Shareholders. A subsequent call, if necessary, would then be made equally on all the shareholders.

Preferential Payments.—These have been laid down under Section 230 of the Indian Companies Act, 1913, amended to 1936, as follows:—

(1) In a winding-up, there shall be paid in priority to all other debts:—

(*a*) all revenue taxes, cesses and rates, whether payable to the Crown or to a local authority, due from the company at the date hereinafter mentioned and having become due and payable within the twelve months next before that date;

(*b*) all wages or salary of any clerk or servant in respect of services rendered to the company within the two months next before the said date, not exceeding one thousand rupees for each clerk or servant;

(*c*) all wages of any labourer or workman, not exceeding five hundred rupees for each, whether payable for time or piecework, in respect of services rendered to the company within the two months next before the said date;

(*d*) compensation payable under Workmen's Compensation Act, 1923, in respect of the death or disablement of any officer or employee of the company;

(*e*) all sums due to any employee from a provident fund, a pension fund, a gratuity fund or any other fund for the welfare of the employees maintained by the company; and

(*f*) the expenses of any investigation held in pursuance of clause (*iv*) of Section 138 of this Act.

(2) The foregoing debts shall:—

(*a*) rank equally among themselves and be paid in full, unless the assets are insufficient to meet them, in which case they shall abate in equal proportion; and

(*b*) so far as the assets of the company available for payment of general creditors are insufficient to meet them, have priority over the claims of holders of debentures under any floating charge created by the company, and be paid accordingly out of any property comprised in or subject to that charge.

(3) Subject to the retention of such sums as may be necessary for the cost and expenses of the winding up, the foregoing debts shall be discharged forthwith so far as the assets are sufficient to meet them.

(4) In the event of a landlord or other person distraining or having distrained on any goods or effects of the company within three months next before the date of a winding-up order, the debts to which priority is given by this Section shall be a first charge on the goods or effects so distrained on, or the proceeds of sale thereof:

Provided that in respect of any money paid under any such charge, the landlord or any other person shall have the same rights of priority as the person to whom the payment is made.

Preferential Creditors in England.—The Preferential Creditors in English Bankruptcy are the same as per the (English) Companies Act, (1929).

Cost of Winding up.—All costs, charges and expenses properly incurred in the winding up, including the remuneration of the liquidator, shall, subject to the rights of secured creditors, if any, be payable out of the assets of the company in priority to all other claims.

Distribution of Surplus.—When all the Company's debts and liabilities as also the Liquidator's Costs have been paid and there remains any surplus in the hands of the Liquidator, the same will have to be distributed amongst the shareholders in accordance with their respective rights as laid down in the Company's Memorandum and Articles of Association. When there happens to be several classes of shareholders, the return of capital to the shareholders will have to be made in due order of their preferential rights. If there are no shareholders with any prior rights in regard to return of capital, the surplus will be distributed *pro rata* amongst all the shareholders.

Where the Preferential Shares give a priority as to refund of Capital and if the Ordinary Shares are partly called, the Liquidator may have to make a call on the Ordinary Shareholders and the amount thus realised will have to be used in refunding the Capital to Preferential Shareholders. This will be, of course, after all the Company's Liabilities have been satisfied in full.

The position of the Preference Shareholders will naturally depend upon the actual wording of the Articles of Association describing their preferential rights. After all paid-up Capital has been returned and if there happens to be any Capital surplus, the Preference Shareholders will stand to share therein equally with the Ordinary Shareholders, unless there is anything in the Company's Memorandum and Articles depriving them of the right to share in any surplus.

If the surplus be attributable to profits, and if the Preference Shareholders have already received all their dues in respect of dividend, such surplus should, in the absence of definite provisions in the Company's regulations, belong wholly to the Ordinary Shareholders.

Where Cumulative Preference Shares are issued and if such dividend is in arrears, the Preference Shareholders are entitled to claim the arrears of such dividend from the surplus, if no dividend was declared before the winding-up.

ILLUSTRATION 175.

The X. Co., Ltd., went into Voluntary Liquidation with the following Liabilities:—

	Rs.	Rs.
Trade Creditors		1,20,000
Bank Overdraft		2,00,000
Capital—1,00,000 Preference Shares of Rs. 10, Rs. 7 called		7,00,000
1,00,000 Ordinary Shares of Rs. 10, Rs. 9 called	9,00,000	
less Calls in arrears	20,000	
		8,80,000
Calls in Advance received—On Preference Shares ..	2,40,000	
„ Ordinary Shares ..	40,000	
		2,80,000

The Assets realised Rs. 20,00,000. Prepare a general Liquidation Account allowing Rs. 20,000 as expenses of liquidation. The Preference Shares have no prior rights as to refund of capital.

Solution.

THE X. CO., LTD. (IN LIQUIDATION).

LIQUIDATOR'S STATEMENT OF ACCOUNT.

	Rs.		Rs.	Rs.
To Realisation from Assets ...	20,00,000	By Liquidator's Expenses ...		20,000
		„ Trade Creditors ..		1,20,000
		„ Bank Overdraft ...		2,00,000
		„ Calls in Advance:—	Rs.	
		Preference Shares ...	2,40,000	
		Ordinary Shares ...	40,000	
				2,80,000
		„ Ordinary Shares,		
		Rs. 2 per share ...	2,00,000	
		Less Calls in arrears ...	20,000	
				1,80,000
		„ Ordinary Shares, Rs. 6 per share ...		6,00,000
		„ Preference Shares, Rs. 6 per share		6,00,000
Rs.	20,00,000	Rs.		20,00,000

ILLUSTRATION 176.

The A. B. C. Co., Ltd. went into Voluntary Liquidation, and following are the facts relating to such liquidation:—

The Share Capital consisted of 10,000 Preference Shares of Rs. 10 each (Fully Paid), 40,000 "A" Ordinary Shares of Rs. 10 each (Fully Paid), 30,000 "B" Ordinary Shares of Rs. 10 each, Rs. 8 paid up, and 10,000 Deferred Shares of Rs. 10 each, Rs. 8 paid up.

Under the Company's Articles, the Preference Shares have a priority over the Ordinary Shares and the Ordinary Shares priority over the Deferred Shares in regard to repayment of Capital, the "A" and "B" Ordinary Shares having equal rights.

The Creditors were Rs 2,74,900 which sum included Rs. 10,900 Preferential Creditors and Rs. 54,000 fully secured creditors.

The Assets realised Rs 3,74,000 including those sold on behalf of the fully secured creditors.

The Costs of Liquidation amounted to Rs. 12,000 and the Liquidator's Remuneration was fixed at 5 per cent on the amount realised, and 3 per cent on the amount distributed to unsecured creditors.

The following Calls were made by the Liquidator:—Rs. 2 per share on the Deferred Shareholders, which was fully paid. Re. 1-8 per share on the "B" Ordinary Shares, which was duly paid by all except one shareholder holding 2,000 shares, which were accordingly forfeited. Prepare the Liquidator's Final Statement of Account.

Solution.

THE A. B. C. CO., LTD. (IN LIQUIDATION).

LIQUIDATOR'S STATEMENT OF ACCOUNT.

	Rs.		Rs.	Rs.
To Realisation of Assets	3,74,000	By Secured Creditors		54,000
" Amount realised on Calls—		" Liquidation Expenses ...		12,000
10,000 Deferred Shares at Rs. 2 each	20,000	" Liquidator's Remuneration—		
28,000 "B" Ordinary Shares at Re. 1/8	42,000	5% on Rs. 3,20,000 ...	16,000	
		3% on Rs. 2,10,000 distributed ...	6,300	
				22,300
		" Preferential Creditors ..		10,000
		" Unsecured Creditors ...		2,10,000
		" Preference Shareholders—Refund of Capital ...		1,00,000
		" "A" Ordinary Shareholders on 40,000 Shares ...		24,000
		" "B" Ordinary Shareholders on 28,000 Shares ...		2,800
Rs.	4,36,000	Rs		4,36,000

ILLUSTRATION 177.

The M. Co, Ltd. went into Voluntary Liquidation on 1st June 1937. at which date the dividend on its Preference Shares was two years in arrears. The Capital of the Company was 10,000 6 per cent Preference Shares of Rs. 10 each fully paid, giving preferential rights as to both dividend and capital; 20,000 Ordinary Shares of Rs. 10 each (Rs 6-4 per share called and paid up); 15,000 Ordinary Shares of Rs. 10 each (Rs. 7-8 per share called and paid up). The Assets realised Rs. 2,62,750. the Costs and Expenses of Liquidation were Rs. 11,500 and the Liabilities amounted to Rs. 2,20,000 Prepare the Liquidator's Final Statement of Account as it would appear assuming that all necessary calls made by him were duly received. There is no mention in the Memorandum or the Articles that arrears of Preferential Dividend were due to be paid in the event of winding up

Solution.

THE M. CO., LTD. (IN LIQUIDATION).

LIQUIDATOR'S FINAL STATEMENT OF RECEIPTS AND PAYMENTS.

	Rs.		Rs.
To Sale Proceeds of Assets ..	2,62,750	By Liquidation Costs and Expenses ..	11,500
„ Call on Ordinary Shares, 20,000 shares at Rs. 2/8 per share ..	50,000	„ Creditors	2,20,000
„ Call on Ordinary Shares, 15,000 shares at Re. 1/4 per share ..	18,750	„ Preference Shares—Capital refunded, 10,000 shares at Rs. 10	1,00,000
Rs.	3,31,500	Rs.	3,31,500

NOTE.—The Cumulative Preferential Shareholders cannot claim to be paid arrears of dividend.

ILLUSTRATION 178.

P. Setna, Liquidator of X. Y. Z. Co., Ltd., in voluntary liquidation, having paid all the creditors in full, with all interest due, finds that he has a surplus in hand. How will the Liquidator deal with this surplus? The Statement of Affairs disclosed the following facts:—10,000 7 per cent Cumulative Preference Shares of Rs. 10 each, fully paid (having a preference as to capital and dividend); 5,000 6 per cent Second (Non-cumulative) Preference Shares of Rs. 10 each, fully paid (having a preference as to capital); 20,000 Ordinary Shares of Rs. 10 each, Rs. 5 paid up.

Solution.

The amount of surplus that is left in the hands of the Liquidator will be distributed as follows:—As regards Dividend on Preference Shares, whether Cumulative or Non-cumulative, the Shareholders have no right to the same out of the surplus unless such dividend has been declared by the Company as a going concern, in the absence of special provisions in the Articles. If a Dividend has been declared and is unpaid, then it must be paid as a deferred debt. Any surplus now left must be applied towards repayment of Capital to those who have preference as to Capital, the first class of Preference Shares being repaid in priority to the second. If the surplus is not sufficient to do this, the Liquidator must make a call on the Ordinary Shareholders to the extent of their uncalled holdings, in order to provide the necessary funds. If there is sufficient surplus, the Ordinary Shareholders will be repaid. Any further surplus, remaining after payment to the Ordinary Shareholders will have to be divided amongst all the classes of Shareholders in proportion to their holdings, provided the Preference Shareholders are not debarred from the right in distribution of such surplus by the Co.'s Articles.

COMPULSORY LIQUIDATION.

In case of compulsory Liquidation of an English Company, a Statement of Affairs in the Form prescribed under the Companies Act, 1929, must be presented within a short time from the date of the winding-up order. The form is practically the same as that of the Statement of Affairs in case of Bankruptcy except for the difference that in this case, the statement is divided into two sections. The first section indicates the position as to the Creditors and the second section the position as regards the Contributories.

The following is the Form of Statement of Affairs prescribed under the Companies Act, 1929 (English).

FORM OF STATEMENT OF AFFAIRS.
As regards Creditors.

Statement of Affairs on the .... day of .... 19 ...., the date of the Winding-up Order (or such other date as the Official Receiver has for special reasons directed).

Gross Liabilities £ s. d.	Liabilities	£ s. d.	Expected to rank. £ s. d.
	Debts and Liabilities, viz.:—		
	(a) ... Unsecured creditors as per List "A" ...		
	(b) ... Creditors fully secured (not including debenture holders) as per List "B" ...		
	Estimated value of securities ...		
	Estimated surplus ... £		
	Carried to List "C" £		
	Balance to *contra* (d) £		
	(c) ... Creditors partly secured as per List "C" £		
	Less estimated value of securities ...		
	Estimated to rank for dividend		
	(d) ... Liabilities on Bills discounted other than Company's own acceptances for value, as per List "D" of which it is expected will rank for dividend		

Assets	£ s. d.	Estimated to produce. £ s. d.
(a) Property as per List "H", viz.:—		
(a) Cash at Bankers		
(b) Cash in hand		
(c) Stock-in-trade (Estimated cost £) ...		
(d) Machinery ...		
(e) Trade fixtures, fittings, utensils, etc. ...		
(f) Investments in shares, etc. ...		
(g) Loans on mortgage		
(h) Other property, viz.:—		
(b) Book debts (debtors) as per List "I", viz.:		
Good		
Doubtful		
Bad		
Estimated to produce		
(c) Bills of exchange, or other similar securities on hand as per List "J"		
Estimated to produce		
(d) Surplus from securities in the hands of creditors fully secured (per *contra*) (b) ...		

(e) Other liabilities as per List "E", of which it is expected will rank for dividend ...	(e) Unpaid calls (debtors) as per List "K" ... ...
(f) Preferential Creditors for rates, taxes, wages, etc. as per List "F" deducted *contra* £	Estimated to produce ... ...
(g) Loans on debenture bonds as per List "G" deducted *contra* (holders)	Estimated total assets ... ...
	Deduct Preferential Creditors as per *contra* (*f*)
£	Estimated amount available to meet claims of Debenture-holders ... ...
Estimated surplus (if any) after meeting liabilities of Company subject to cost of liquidation ..	*Deduct* loans on debenture bonds secured on the assets of the Company as per *contra* (*g*) ...
	Estimated amount available to meet unsecured Creditors subject to cost of liquidation ...
	Estimated deficiency of assets to meet liabilities of the Company, subject to cost of liquidation ...
£	£

The nominal amount of unpaid capital liable to be called up is £............which is [available to meet above deficiency] or [charged to debenture-holders] or as the case may be.

FORM OF STATEMENT OF AFFAIRS.

As regards Contributories.

	£	s.	d.	£	s.	d.		£	s.	d.
Capital issued and allotted, viz.:—							Estimated surplus as above (if any) subject to cost of Liquidation			
Founders' Shares of £...... per share (Shareholders)										
*Issued as fully paid										
Amount called up at £......per share as per List										
Ordinary Shares of £...... per share (Shareholders)										
*Issued as fully paid										
Amount called up at £......per share as per List										
Preference Shares of £......per share (Shareholders)										
*Issued as fully paid										
Amount called up at £......per share as per List										
†Amount (if any) paid in advance of call £										
Less unpaid calls estimated to be irrecoverable ... ... £										
Add deficiency to meet liabilities as above	...		...				Total deficiency as explained in statement ...			
			£				£			

* Where capital is issued as partly paid up the form should be altered accordingly. † Add particulars of any other capital.

The following points are worth noting:—

(1) Unpaid Calls are treated as an asset to the extent of the estimated realisable amount.

(2) Uncalled Capital is not included as an asset, but is shown by way of a foot-note underneath the Statement of Affairs.

(3) The liability in respect of Debentures giving a floating charge on the assets of the Company is not dealt with under the heading of Secured Creditors but is deducted from the assets left after deduction of Preferential Creditors.

(4) The deficiency as appearing from the first section of the statement relating to the Creditors is transferred to the second section relating to the Contributories. The total deficiency will be ascertained when the amount of the paid-up capital is added thereto.

ILLUSTRATION 179.

From the following particulars prepare, in the prescribed form, a Statement of Affairs of the Fast and Loose Co., Limited, in liquidation, as at 31st March 1938.

The Capital of the Company consisted of 20,000 Ordinary Shares of £1 each, 15s. per share called up; and, of this amount calls to the extent of £200 are in arrears.

	£		£
Debtors—Good	5,000	Bills Receivable (all good) ..	600
„ Doubtful £3,000 estimated to produce ..	1,500	Bank Overdraft	100
„ Bad £600		Cash in hand	20
Stock-in-Trade £7,000 estimated to produce	5,500	Managing Director's Salary (3 months) unpaid	200
Freehold Building, Fixed Plant, etc., estimated value ..	10,000	Liability on Bills discounted, £500, expected to rank ..	250
Fully Secured Creditor (holding Mortgage on Building, Plant, etc.)	6,000	Weekly Wages unpaid ..	100
Partly Secured Creditors (estimated value of Securities held £1,500)	4,000	400 Unsecured Creditors ..	15,000
		Calls in arrears, £200, estimated to produce	100

Solution.

[*For Statement of Affairs as regards Creditors see next page.*

(2) AS REGARDS CONTRIBUTORIES.

	£	£		£
Capital, issued and allotted, viz. 20,000 Ordinary Shares of £1 each, amount called up at 15s. per share	15,000		Total deficiency as explained by Statement "O" ...	16,330
Less unpaid calls estimated to be irrecoverable ...	100			
		14,900		
Add Deficiency to meet Liabilities above ...		1,430		
£		16,330	£	16,330

IN THE MATTER OF THE COMPANIES ACT, 1929 *AND IN THE MATTER OF THE FAST AND LOOSE CO., LTD.*

STATEMENT OF AFFAIRS.

As at 31*st March* 1938, *the date of the Winding-up Order.*

(1) As Regards Creditors.

Gross Liabilities.	Liabilities.		Expected to rank.
£		£	£
15,300	Unsecured Creditors as per List A ...		15,300
6,000	Creditors fully secured as per List B ...	6,000	
	Estimated value of Securities ...	10,000	
	Estimated surplus to *contra*	4,000	
4,000	Creditors partly secured as per List C	4,000	
	Estimated value of Securities	1,500	
	£ Estimated to rank for dividend ...		2,500
500	Liabilities on Bills discounted other than the Co.'s own acceptances for value as per List D ...	500	
	Of which it is expected will rank for dividend ...		250
100	Preferential Creditors for weekly wages as per List F, deducted *contra* ...	100	
25,900		£	18,050

Assets.		Estimated to produce.
	£	£
Property as per List H :—		
Cash in hand. ...		20
Stock-in-trade (Cost) 7,000		5,500
Book Debts as per List I :—		
Good		5,000
Doubtful	3,000	
Bad	600	
	3,600	
Estimated to produce ...		1,500
Bills of Exchange as per List J ...		600
Surplus from Securities in the hands of fully secured creditors as per *contra* ...		4,000
Unpaid calls (debtors) as per List K	200	
Estimated to Produce ...		100
Estimated total assets ...		16,720
Deduct Preferential Creditors as per *contra* ...		100
Estimated amount available to meet unsecured creditors subject to cost of liquidation ...		16,620
Estimated deficiency of assets to meet liabilities of the company subject to cost of liquidation ...		1,430
	£	18,050

The nominal amount of unpaid Capital liable to be called up is £5,000 which is available to meet the above deficiency.

ILLUSTRATION 180.

The following particulars were extracted from the books of the Reckless Manufacturing Co., Ltd., on 31st January 1938, on which day a Winding-up Order was made:—

	£
Ordinary Share Capital, 20,000 Shares of £1 each, 10s. paid up	10,000
6% Preference Share Capital, 20,000 Shares of £1 each fully paid	20,000
5% First Mortgage Debentures, secured by a floating charge upon the whole of the Assets of the Company, exclusive of uncalled Capital	15,000
Fully secured Creditors (value of Securities £3,500)	3,000
Partly secured Creditors (value of securities £1,000)	2,000
Preferential Creditors for rates, taxes, wages, etc.	600
Bills Payable	10,000

	£
Unsecured Creditors	7,000
Union Bank Ltd., Overdraft ..	1,000
Bills Receivable, in hand ..	1,500
Bills Receivable, discounted (one Bill for £1,000 known to be bad)	4,000
Book Debts (Good)	1,000
Book Debts (Doubtful, estimated to produce 10s. in the £) ..	700
Book Debts (Bad)	600
Land and Buildings (estimated to produce £10,000)	15,000
Stock-in-Trade (estimated to produce £4,000)	5,000
Machinery, Tools, etc. (estimated to produce £200)	500
Cash in hand	10

Make out a Statement of Affairs (1) as regards Creditors, and (2) as regards Contributories.

Solution.

IN THE MATTER OF THE COMPANIES ACT, 1929 AND IN THE MATTER OF THE RECKLESS MANUFACTURING CO., LTD.

STATEMENT OF AFFAIRS.

As at 31st January 1938, the date of the Winding-up Order.

(1) As Regards Creditors.

Gross Liabilities £	s.	Liabilities	£	Expected to rank £	Assets	£	Estimated to produce £	s.
18,000	0	Unsecured Creditors as per List A ...		18,000	Property as per List H :—	£		
					Cash in hand ...		10	0
3,000	0	Creditors fully secured as per List B (not including Debenture holders) ...	£ 3,000		Stock-in-trade ...	5,000	4,000	0
					Machinery and Tools	500	200	0
					Land and Buildings..	15,000	10,000	0
		Estimated value of Securities ...	3,500		Book Debts as per List I :—			
					Good ...		1,000	0
		Surplus to *contra* ...	500		Doubtful ...	700		
					Bad ...	600		
2,000	0	Creditors partly secured as per List C	2,000			1,300		
		Less estimated value of Securities ...	1,000		Estimated to produce ..		350	0
					Bills of Exchange as per List J		1,500	0
		Expected to rank for dividend ...		1,000	Surplus of Securities in hands of Creditors fully secured, as per *contra* ..		500	0
4,000	0	Liabilities on the Bills discounted as per List D	4,000		Estimated total assets other than unpaid calls ..		17,560	0
					Deduct Preferential Creditors as per *contra* ..		600	0
		Of which it is expected will rank for dividend		1,000	Estimated amount available for Debenture-holders ..		16,960	0
600	0	Preferential Creditors for Rates, Taxes, Wages, etc., as per List F, deducted *contra* ...	600		*Deduct* First Mortgage Debentures secured on the Assets of the Co., as per *contra*		15,062	10
15,062	10	First Mortgage Debentures with one month's Interest, deducted *contra*	15,062 10		Estimated amount available for Unsecured Creditors subject to costs of liquidation ..		1,897	10
					Estimated Deficiency of Assets		18,102	10
42,662	10		£	20,000		£	20,000	0

Note.—(1) The uncalled Capital £10,000 is available to meet the claims of unsecured creditors. (2) It is assumed that Interest on Debentures is paid up to 31st December 1937.

(2) As Regards Contributories.

		£	s.		£	s.
Capital, Issued and Called up :—	£			Total Estimated Deficiency as explained in Statement "O" ...	48,102	10
20,000 Ordinary Shares of £1 each, 10s. per share called	10,000					
20,000 6% Preference Shares of £1 each, fully called up	20,000					
		30,000	0			
Deficiency as per Statement of Affairs ...	...	18,102	10			
	£	48,102	10	£	48,102	10

ILLUSTRATION 181.

The Tin Toys Co., Ltd., went into Compulsory Liquidation on July 31st, 1937. From the following particulars, prepare Statements of Affairs as regards: (1) Creditors, and (2) Contributories.

Subscribed Capital:—10,000 Ordinary Shares of £1 each fully paid, and 5,000 6% Cumulative Preference Shares of £1 each fully paid. The Dividend on the Preference Shares is twelve months in arrears.

Freehold Land and Buildings—book value, £5,000, estimated value £6,500. The Deeds of this property are lodged with the Bank as security for the Overdraft. Bills Receivable £200. discounted. It is expected that one Bill for £100 will not be met.

	£		£
Sundry Debtors—Good ..	4,800	Creditors—Unsecured Cash Creditors	1,200
Doubtful (estimated to produce 10s. in the £)	800	Fully Secured Creditors ..	2,000
Bad	500	Estimated value of Securities held	2,500
Stock-in-Trade £6,000, estimated to produce 60%		Partly Secured Creditors ..	500
Plant and Machinery £3,500, estimated to produce	2,000	Estimated value of Securities held	200
Creditors—Unsecured Trade Creditors	5,000	Preferential Creditors ..	100
		Bank for Overdraft (secured by deposit of Deeds of Freehold Property)	2,500

Solution.

IN THE MATTER OF THE COMPANIES ACT, 1929 AND IN THE MATTER OF THE TIN TOYS CO., LTD.

STATEMENT OF AFFAIRS.

As at 31st July 1937.

(1) AS REGARDS CREDITORS.

Gross Liabilities.	Liabilities.		Expected to rank.	Assets.		Estimated to produce.
£			£			£
6,200	Unsecured Creditors as per List A ...		6,200	Property as per List H :—	£	
4,500	Fully secured Creditors as per List B ...	4,500		Stock-in-Trade ...	6,000	3,600
	Estimated value of Securities ...	9,000		Plant and Machinery ...	3,500	2,000
	Surplus to *contra* ...	4,500		Book Debts as per List I :— Good ...		4,500
				Doubtful ...	800	
				Bad ...	500	
500	Partly secured Creditors as per List C ...	500			1,300	
	Less estimated value of Securities ...	200	300	Estimated to produce ...		400
200	Liabilities on Bills discounted as per List D ...	200		Surplus of Securities in the hands of Creditors fully secured as per *contra* ...		4,500
	Expected to rank for dividend ...		100	Estimated Total Assets ...		15,300
100	Preferential Creditors as per List F, deducted *contra*	100		*Deduct* Preferential Creditors		100
			6,600	Estimated amount available for Unsecured Creditors ...		15,200
	Estimated Surplus after meeting Liabilities of the Co. ...		8,600			
11,500		£	15,200		£	15,200

(2) As Regards Contributories.

	£		£
Capital, Issued and Called up :—		Estimated Surplus after meeting claims of Co's Creditors, as above	8,600
10,000 Ordinary Shares of £ 1 each, fully called	10,000	Total Deficiency as explained in Statement "O"	6,400
5,000 6% Cumulative Preference Shares of £ 1 each, fully called ...	5,000		
£	15,000	£	15,000

ILLUSTRATION 182.

From the following particulars, prepare a Statement of Affairs as regards Creditors, in the liquidation of the Steel Equipment Co., Ltd., as at 31st March 1938, the date of the winding-up order.

Issued Capital, 3,000 Ordinary Shares of Rs. 10 each, Rs. 8 called up and paid.

1,000 Preference Shares of Rs. 10 each, fully paid, except a call of Rs. 2 per share on 100 shares (expected to realise Rs. 100).

5 per cent Debentures Rs. 10,000 having a floating charge on all the assets of the company, except the land and buildings and investments, interest paid to 30th September 1937.

Land and buildings valued at Rs. 12,000 mortgaged for Rs. 8,000. Plant at cost Rs. 30,000, estimated to realise Rs. 13,000. Tools at cost Rs. 2,000, estimated to realise Rs. 400. Patents at cost Rs. 15,000, estimated to realise Rs. 1,500. Stock at cost Rs. 8,750, estimated to realise Rs. 7,400.

The Company holds investments (estimated to realise Rs. 17,000) which are deposited with the Bank to secure an overdraft of Rs. 15,000, and which are subject to a second charge in favour of another creditor for a loan of Rs. 4,000. The debtors amount to Rs. 12,250 of which Rs. 7,000 are good; Rs. 2,500 are estimated to realise eight annas in the rupee and the remainder are bad. The trade creditors amount to Rs. 26,550, and Rs. 100 is owing for wages. The Secretary's salary (Rs. 500 a month) has been in arrears for six months and other salaries amounting to Rs. 1,000 due to 31st March are unpaid. [*For Solution see page* 780.

ILLUSTRATION 183.

The following particulars were extracted from the books of the Indian Products, Ltd., on 31st January 1938, on which day a winding-up order was made :—Ordinary Share Capital 20,000 Shares of Rs. 10 each, Rs. 5 paid up Rs. 1,00,000; 6% Preference Share Capital 20,000 Shares of Rs. 10 each fully paid Rs. 2,00,000 ; 5% First Mortgage Debentures, secured by a floating charge upon the whole of the Assets of the Company, exclusive of uncalled Capital, Rs. 1,50,000 ; Fully Secured Creditors (value of Securities Rs. 35,000) Rs. 30,000 ; Partly Secured Creditors (value of Securities Rs. 10,000) Rs. 20,000 ; Preferential Creditors for Rates, Taxes, Wages, etc., Rs. 6,000 ; Bills Payable Rs. 1,00,000; Unsecured Creditors Rs. 70,000 ; Union Bank Ltd., Overdraft Rs. 10,000 ; Bills Receivable, in hand Rs. 15,000, discounted (one Bill for Rs. 10,000 known to be bad) Rs. 40,000 ; Book Debts—Good Rs. 10,000, Doubtful (estimated to produce 8 annas in the Rupee) Rs. 7,000, Bad Rs. 6,000 ; Land and Buildings (estimated to produce Rs. 1,00,000), Rs. 1,50,000 ; Stock-in-Trade (estimated to produce Rs. 40,000), Rs. 50,000 ; Machinery, Tools, etc. (estimated to produce Rs. 2,000), Rs. 5,000 ; Cash in hand Rs. 100.

Make out a Statement of Affairs (1) as regards Creditors, and (2) as regards Contributories.

[*For Solution see page* 781.

Solution to Illustration 182.

IN THE MATTER OF THE STEEL EQUIPMENT, CO., LTD.

STATEMENT OF AFFAIRS.

On 31st March 1938, the date of the Winding-up Order.

Gross Liabilities.	Particulars of Liabilities.		Expected to rank	Particulars of Assets.		Examined to produce
Rs.			Rs.			Rs.
28,550	Unsecured Creditors as per List A ...		28,550	Property as per List F :—	Rs.	
		Rs.		Plant Cost ...	30,000	13,000
23,000	Fully Secured Creditors as per List B ...	23,000		Tools " ...	2,000	400
				Patents " ...	15,000	1,500
				Stock " ...	8,750	7,400
	Estimated value of Securities ...	29,000				22,300
		6,000		Book Debts as per List G :—		
	Less Amount thereof carried to List C ...	2,000		Good ...		7,000
				Doubtful ...	2,500	
				Bad ...	2,750	
	Balance to *contra*	4,000			5,250	1,250
4,000	Partly Secured Creditors as per List C ...	4,000		Surplus from Securities in the hands of fully secured Creditors (as per *contra*) ...		4,000
	Less Estimated values of Securities	2,000	2,000	Uncalled Capital :—		
2,100	Preferential Creditors for Salaries, Wages, etc. as per List D, deducted per *contra* ...	2,100		Rs. 2 per share on 3,000 Ordinary Shares ...		6,000
10,250	Loans on Debenture Bonds as per List E, and interest, deducted per *contra* ...	10,250		United calls (Preference Shares) ...	200	100
						40,650
				Deduct Preferential Creditors as per *contra* ...		2,100
				Estimated amount available to meet claims of Debenture-holders ...		38,550
				Deduct Loans on Debenture Bonds secured on the assets as per *contra*		10,250
						28,300
				Estimated deficiency of assets to meet liabilities of the Company, subject to cost of liquidation ...		2,250
Rs. 67,900		Rs.	30,550		Rs.	30,550

NOTE.—There is no prescribed form for the presentation of this Statement under the Indian Companies Act, and the form as applicable to insolvencies has been followed with certain modifications.

Solution to Illustration 183.

IN THE MATTER OF THE INDIAN COMPANIES ACT, 1913, AND IN THE MATTER OF THE INDIAN PRODUCTS, LTD.

SATEMENT OF AFFAIRS.

(1) As Regards Creditors.

Gross Liabilities.	Liabilities.		Expected to rank.	Assets.		Estimated to produce.
Rs.			Rs.			Rs.
2,20,000	Unsecured Creditors as per List A ...		1,90,000	Property as per List E :—	Rs.	
				Land and buildings ...	1,50,000	1,00,000
30,000	Fully secured Creditors as per List B ...	Rs. 30,000		Stock-in-Trade ...	50,000	40,000
	Estimated value of Securities ...	35,000		Machinery, Tools, etc.	5,000	2,000
				Cash in hand ...		100
				Total as per List E ...		1,42,100
	Surplus carried to *contra* ...	5,000		Book Debts as per List F :—		
				Good ...		10,000
20,000	Creditors partly secured as per List C	20,000		Doubtful ...	7,000	
	Less estimated value of Securities ...	10,000		Bad ...	6,000	
				Estimated to produce ...		3,500
			10,000	Bills of Exchange as per List G ...		15,000
6,000	Creditors for Rates, Taxes, Wages, etc., payable in full as per list D, deducted per *contra* ...	6,000		Surplus from Securities in the hands of Creditors fully secured as per *contra* ...		5,000
						1,75,600
1,50,000	Loans on Debenture Bonds, deducted per *contra*	1,50,000		*Deduct* Preferential Creditors, as per *contra* ...		6,000
				Estimated amount available to meet claims of Debenture-holders ...		1,69,600
				Deduct Loans on Debenture Bonds secured on the assets of the Company (including uncalled Capital) as per *contra*		1,50,000
				Estimated amount available to meet unsecured creditors, subject to cost of liquidation ...		19,600
				Estimated deficiency of Assets ...		1,80,400
4,26,000		Rs.	2,00,000		Rs.	2,00,000

Note.—(1) The uncalled Capital of Rs. 1,00,000 is available to meet the claims of unsecured creditors. (2) Interest on Debentures is not taken into account.

(2) As Regards Contributories.

		Rs.		Rs.
Capital, Issued and Called up :—			Total Deficiency as explained in Deficiency Account ...	4,80,400
20,000 Ordinary Shares of Rs. 10 each, Rs. 5 per share paid up	Rs. 1,00,000			
20,000 6% Preference shares of Rs. 10 each, fully paid	2,00,000			
		3,00,000		
Add Deficiency to meet Liabilities as above ...		1,80,400		
	Rs.	4,80,400	Rs.	4,80,400

ILLUSTRATION 184.

The Shareholders of the Pioneer Company, Limited, passed an Extraordinary Resolution for voluntary winding-up on the 15th of December 1937, which was confirmed by a Special Resolution on 31st December 1937. A Liquidator was appointed on a remuneration of Rs. 5,000.

The Capital of the Company was 500 Preference Shares of Rs. 100 each, 20,000 Ordinary Shares of Rs. 50 each fully paid up and 5,000 shares of Rs. 50 each, Rs. 40 paid up on each share. A floating charge on the Assets of the Company was created by an issue of 6 per cent Debentures of Rs. 1,00,000 the interest on which was paid up to 30th June 1937. The other creditors were as follows:—

	Rs.
Creditors for goods supplied as at 31st December 1937	32,500
Salary of Managing Director from 1-9-37 to 31-12-37 at Rs. 1,000 per month	4,000
Salary of the Accountant from 1-9-37 to 31-12-37 at Rs. 250 per month ..	1,000
Wages of Labourers & Workmen from 1-10-37 to 31-12-37 at Rs. 500 per month	1,500

Cash in hand at the commencement of the winding-up amounted to Rs. 3,000.

Machinery and Stock realised Rs. 4,41,000, and Book Debts Rs. 25,000.

The Debentures were paid off on 30th June 1938 and a first and final dividend distributed to creditors. The cost of the Liquidation amounted to Rs. 1,500.

With the exception of the provision that 5,000 Preference Shares have a preference as to Capital as well as to Dividends, there are no special provisions in the Memorandum and Articles of Association as to the distribution of the assets in the winding-up.

Draw up a scheme showing the order in which the Liquidator should apply the realised funds and state the mode in which he should adjust the rights of different classes of Shareholders among themselves showing the actual results in figures.

Solution.

The following is a Statement showing the realisation of the assets and the distribution of funds in the legal order.

Assets Realised.	Rs.	Rs.	Rs.
Cash in hand		3,000	
„ realised from Machinery and Stock		4,41,000	
„ „ „ Book Debts		25,000	
Total			4,69,000
Less Liabilities to be paid in the following order :—			
Fully Secured Creditors :—			
Mortgage Debentures	1,00,000		
Interest on same from 30-6-37 to 30-6-38	6,000	1,06,000	
Liquidation Expenses :—			
Liquidators' Remuneration	5,000		
Cost of Liquidation	1,500	6,500	
Preferential Creditors :—			
Accountant's Salary	500		
Wages of Labourers and Workmen	1,000	1,500	
Creditors Unsecured :—			
For Goods Supplied	32,500		
Salary of Managing Director	4,000		
Further Salary of Accountant	500		
Further Wages of Workmen	500	37,500	
Total ...			1,51,500
Balance to be distributed amongst members in the following order			3,17,500
Preference Shareholders to be paid up in full			50,000
Balance distributed amongst Ordinary Shareholders in the following proportion Rs.			2,67,500
Rs. 63-8-0 per every 5 shares to the holders of 20,000 fully paid shares			2,54,000
Rs. 13-8-0 per every 5 shares to the holders of 5,000 shares on which only Rs. 40 per share is paid up			13,500
Rs.			2,67,500

NOTE.—In the above distribution, Rs. 10 per share is first returned to holders of 20,000 Ordinary Shares, and then a general distribution of Rs. 13-8 per 5 shares is made among holders of 25,000 shares.

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. In what order should a Liquidator distribute the proceeds from the sale of assets?

2. What are Preferential Creditors under the Indian Companies Act?

3. Under what circumstance would a Liquidator have to make a call on partly paid shares?

4. What is the position of Preference Shareholders in regard to refund of capital?

5. Discuss the position of Preference Shareholders in regard to surplus left in the hands of the Liquidator after all the shareholders have been paid back their capital.

6. The Over-confident Co., Ltd., went into liquidation having the following liabilities:—

(a) Secured Creditors Rs. 20,000 (Securities realized Rs. 25,000),

(b) Preferential Creditors Rs. 6,000,

(c) Unsecured Creditors Rs. 30,500.

Liquidator's out of pocket expenses amounted to Rs. 252.

The Liquidator is entitled to a remuneration of 3% on the amounts realized and of 1½% on the amounts distributed to unsecured creditors. The various assets (excluding securities in the hands of fully-secured creditors) realized Rs. 26,000.

Prepare Liquidator's Account, showing the composition given to the unsecured Creditors. **455**

(Unsecured Creditors get a dividend of 12 annas in the rupee; Total of Liquidator's Account Rs. 51,000.)

7. The Capital of the Delta Co., Ltd., was as follows:—

(a) 4,000 Ordinary Shares of Rs. 100 each, fully paid.

(b) 3,000 Ordinary Shares of Rs. 100 each Rs. 80 per share paid up.

(c) 1,000 Preference Shares of Rs. 100 each, fully paid (these shares, under the Articles of Association of the Company, have preference as to Capital).

(d) 1,000 Deferred Shares of Rs. 100 each, Rs. 80 per share being paid up (these shares, under the Articles, are to be paid after satisfying the claims of Ordinary Shareholders).

The various creditors amounted in all to Rs. 1,00,000, including the Liquidator's remuneration of Rs. 2,500. The Liquidator made a call of the remaining Rs. 20 per share on the Deferred Shares which was paid in full. He also realized all the assets amounting to Rs. 1,91,000.

A call of Rs. 15 per share was made on the Ordinary Shares which were partly paid-up. This was paid in full, with the exception of that on 100 shares.

Prepare the Liquidator's Account showing the return to the Shareholders. **456**

(Rs. 5 per share are first paid on 4,000 Ordinary Shares, and then Rs. 5 per share are paid on 6,900 Ordinary Shares; Total of Liquidator's Account Rs. 2,54,500.)

8. A Company went into voluntary liquidation on 31st December 1937, when the following Balance Sheet was prepared:—

Liabilities		Rs.	Assets	Rs.
Capital:—			Goodwill	30,000
Nominal—			Leasehold Property	25,000
20,000 Ordinary Shares of Rs. 10 each		2,00,000	Plant and Machinery	37,400
			Stock	58,550
Issued—			Sundry Debtors	46,220
14,520 Ordinary Shares of Rs. 10 each fully paid ..		1,45,200	Cash	500
Sundry Creditors:—	Rs.		*Profit & Loss Account* —Balance	59,080
Preferential ..	4,050			
Partly Secured ..	29,180			
Unsecured ..	77,160			
		1,10,390		
Bank Overdraft (unsecured) ..		1,160		
	Rs.	2,56,750	Rs.	2,56,750

The Liquidator realised the assets as follows:—

	Rs.
Leasehold Property, which was used in the first instance to pay the partly secured creditors *pro rata*	18,000
Plant and Machinery	25,000
Stock	31,000
Sundry Debtors	43,500
Cash	500

The expenses of the liquidation amounted to Rs. 500, and the Liquidator's remuneration was agreed at 2½% on the amount realised and 2% on the amount paid to unsecured creditors.

You are required to prepare the Liquidator's Final Accounts, showing the distribution. 457

(Shareholders receive Re. 0-1-4 per share; Total of Liquidator's Final Account Rs. 1,18,000.)

9. A Limited Company went into voluntary liquidation with Liabilities amounting to Rs. 30,000 and Assets which eventually realized Rs. 1,78,000. The Capital of the Company consisted of 10,000 Preference Shares of Rs. 10 each of which Rs. 7 per share was called and paid up. The holders of 8,000 shares had, however, paid up the full Rs. 10 in advance of calls. There were also 10,000 Ordinary Shares of Rs. 10 each on which Rs. 9 per share had been called. Holders of 2,000 shares had, however, only paid up Rs. 8 per share while holders of 4,000 shares had paid up the full Rs. 10 in advance of calls. Assuming the Preference Shares have no prior rights as to Capital, show in the form of a Liquidator's Account of Receipts and Payments, how you would divide the available balance among the shareholders, assuming that the costs of the winding-up amount to Rs. 2,000 and that calls in arrears are duly collected. 458

(Preference Shareholders receive Rs. 5-4-0 per share and Ordinary Shareholders receive Rs. 6-12-0 per share.)

10. The Suburban Builders and Contractors, Ltd., went into voluntary liquidation on 1st January 1938, at which date the dividend on its Preference Shares was two years in arrears. The subscribed capital of the Company consisted of:—

10,000 6% Cumulative Preference Shares of Rs. 10 each fully paid, which were preferential both as regards Dividend and Capital.

20,000 Ordinary Shares of Rs. 10 each (Rs. 6-4 per share called and paid up).

15,000 Ordinary Shares of Rs. 10 each (Rs. 7-8 per share called and paid up).

The assets realised Rs. 2,62,750, the costs and expenses of liquidation came to Rs. 11,500, and the liabilities amounted to Rs. 2,20,000.

Prepare the Liquidator's final Statement of Account as it would appear assuming that he was able to get in all the cash due from shareholders in respect of such calls as he found it necessary to make. (*Note.*—It is not stated in the Memorandum or Articles that the arrears of preference dividend were due to be paid in the event of winding up). 459

(A Call of Rs. 2-8-0 per share is made on 20,000 Ordinary Shares and Re. 1-4-0 per share on 15,000 Ordinary Shares; Preference Share Capital is returned in Full; Total of Liquidator's Final Statement of Receipts and Payments Rs. 3,31,500.)

11. The American Transport Company, Ltd. (in Voluntary Liquidation), has paid off its creditors in full, and the Liquidator is in a position to make a return to the shareholders.

The position is as follows:—

Share Capital issued:

100 Preference shares of Rs. 10 each (fully paid).

400 Ordinary shares of Rs. 10 each (fully paid).

300 Ordinary shares of Rs. 10 each (Rs. 8 paid).

100 Deferred shares of Rs. 10 each (Rs. 8 paid).

The Articles of the Company provide that the preference shares shall have priority over the ordinary shares and the ordinary shares priority over the deferred shares as to repayment of capital.

The costs of liquidation are Rs. 140. Creditors amount to Rs. 2,225. The assets realised Rs. 3,740. A call of Rs. 2 per share on the deferred shares was fully paid. A call of Rs. 2 per share on the partly paid ordinary shares (to adjust the rights of shareholders *inter se*) was duly paid except in the case of one shareholder owning 100 shares.

Prepare Liquidator's final statement of account. (B. Com.) 460

(A Call of Rs. 2 per share is made on Deferred Shares and Rs. 2 per share on 300 Ordinary Shares; Rs. 10 per share are returned on 100 Preference Shares and Re. 1-10-0 per share on 600 Ordinary Shares; Total of Liquidator's Final Account Rs. 4,340.)

12. The Karachi Company, Limited, went into voluntary liquidation on 31st December 1937, with the undermentioned assets and liabilities. The Capital of the Company consisted of 1,000 shares of Rs. 500 each fully paid.

Assets.	Rs.
Cash on hand	750
Stock-in-trade which realised	29,600
Book Debts which realised	49,200
Furniture which realised	1,050
Investments lodged with Bankers against overdraft account which were sold by the Bankers for ..	4,900
Liabilities.	Rs.
Unsecured Creditors	53,775
Preferential Creditors	5,295
Bank Overdraft	4,000
6 per cent Debentures, secured by a floating charge on the undertaking, the interest on which was paid to 30th June 1937	44,000

The excess amount realised by the sale proceeds of the investments were remitted by the Bankers to the Liquidator. The Debentures were paid off on 30th June 1938 together with interest to date of winding up and a first and final dividend distributed to the creditors. The Liquidator's remuneration is to be calculated at the rate of 3 per cent on the net amount realised, i.e., excluding the amount paid to the secured Creditor out of the proceeds of his security, and 2 per cent on the amount distributed to the unsecured Creditors. The expenses of winding-up amounted to Rs. 1,014-12-0. Prepare the Liquidator's final statement of account showing the rate and the amount of the final dividend payable to the unsecured Creditors. 461

(A first and final dividend of 8 annas in the Rupee is paid to Unsecured Creditors; Total of Liquidator's Statement of Account Rs. 85,500.)

13. A Limited Company, having carried out its business objects, went into voluntary liquidation with the following liabilities:—

	Rs.	Rs.
Trade Creditors		12,000
Bank Overdraft		20,000
Capital:—		
10,000 Preference Shares of Rs. 10, Rs. 7 called		70,000
10,000 Ordinary Shares of Rs. 10, Rs. 9 called	90,000	
Less calls in arrears	2,000	
		88,000
Cash received in anticipation of calls—		
On Preference Shares	24,000	
On Ordinary Shares	4,000	
		28,000

The assets realised Rs. 2,00,000 and the expenses of liquidation amounted to Rs. 2 000. The Preference Shareholders have no prior capital rights. Prepare the Liquidator's final statement of account. 462

(*Preference shareholders are returned Rs. 6-2-0 per share and Ordinary shareholders are returned Rs. 7-14-0 per share; Total of Liquidator's Final Statement of Account Rs.* 2,02,000.)

14. The financial position of the Asian Patents Co., Ltd. at 31st December 1937, was as under:—

Liabilities.	Rs.	*Assets.*	£
Authorised & Issued Share Capital—		Preliminary Expenses ..	5,000
15,000 Shares of Rs. 10 each		Patent Rights	1,50,000
(fully paid)	1,50,000	Plant and Machinery ..	40,000
Sundry Creditors	1,40,000	Stock	20 000
		Debtors	60,000
		Cash	250
		Profit & Loss Account ..	14,750
Rs.	2,90,000	Rs.	2,90,000

It was found necessary to reconstruct the Company owing to shortage of working Capital and depreciated value of the Patent Rights. The following scheme was submitted to the Shareholders and Creditors:—

(1) The Company to be wound up voluntarily, the assets and liabilities being taken over by the Asiatic Patents (1938), Ltd., formed, with a nominal Capital of Rs. 3,00,000, for the purpose.

(2) Preferential Creditors amounting to Rs. 1,500 to be paid in full, and as to the remainder, Rs. 60,000 to receive eight annas in the Rupee in full settlement and Rs. 78,500 to receive 6% Debentures to be issued at par (fully paid).

(3) The shareholders of the old Company to receive 15,000 shares of Rs. 10 each in the new Company credited with Rs. 5 per share paid up, the balance of Rs. 5 being payable on allotment.

(4) The Liquidator's remuneration of Rs. 1,000 and his costs and expenses Rs. 900 to be paid by the new Company as part of the purchase consideration.

The foregoing proposals were agreed to by all the unsecured Creditors, but holders of 1,000 shares dissented and required their interests to be purchased. The price of Rs. 3-12 per share was agreed upon, which was duly paid to the Liquidator by T. Shivdasani in return for the allotment of such shares.

Prepare the Liquidator's Account of receipts and payments for presentation to the shareholders at the final meeting. 463

(*Total of Liquidator's Statement of Account Rs.* 1,90,710.)

15. The Capital of the Motor Company, Ltd. (in Voluntary Liquidation), consists of 2,000 Preference Shares of Rs. 100 each fully paid up, 8,000 Ordinary Shares of Rs. 100 each fully paid up, 6,000 Ordinary Shares of Rs. 100 each, Rs. 80 per share paid up, 2,000

Deferred Shares of Rs. 100 each, Rs. 80 per share paid up. Under the Articles of Association the Preference Shares have priority as to repayment of Capital over the Ordinary Shares, and the Ordinary Shares have priority over the Deferred Shares.

The cost of liquidation including the Liquidator's remuneration amounted to Rs. 14,000 and the creditors to Rs. 1,78,000.

The assets realised Rs. 3,74,000. The call made by the liquidator on the Deferred Shareholders for the adjustment of the rights of shareholders (as between themselves) was fully paid. A call of Rs. 15 per share was made on the partly paid Ordinary shareholders, which was duly paid, with the exception of that on 200 shares which was irrecoverable.

Prepare the Liquidator's final statement of account. (B. Com.) 461

(Preference shareholders are refunded in full; Ordinary shareholders receive Rs. 10 per share on 8,000 Ordinary Shares and Rs. 5 per share on 5,800 Ordinary Shares; Total of Liquidator's Final Statement of Account Rs. 5,01,000.)

16. The Balance Sheet of the Trading Company, Ltd. at 30th September 1937, was as follows:—

Liabilities.	£	£	*Assets.*	£
To Share Capital issued:—			By Plant	1,500
500 Ordinary Shares of £5 each, fully paid	2,500		„ Sundry Debtors	1,200
500 Ordinary Shares of £5 each, £3 per share paid up ..	1,500		„ Stock	1,000
		4,000	„ Profit & Loss Account —Loss to date ..	4,300
„ Bank Overdraft (secured by Mortgage Debentures for £1,000) ..		500		
„ Sundry Creditors ..		3,500		
		£ 8,000		£ 8,000

The Company having decided to go into Voluntary Liquidation, appoint you Liquidator. You sell the Plant for £1,200, collect the Book Debts which realise £1,000, and dispose of the Stock for £750; the Company's Bankers who hold the Debentures for £1,000 having agreed to leave the realization of the Assets in your hands. You ascertain that there is a deficiency of Assets to meet Claims of Creditors, and you make a Call on those Shareholders who are liable as Contributories. On 31st March 1938, having realised all the Assets and received payment in full of the Call made upon Contributories, you proceed to distribute the Funds in your hands as Liquidator. The Creditors include £100 Rates for the half-year ending 30th September 1937; £200 Wages and Salaries of employees for September 1937; and the costs of the Liquidation, including your Remuneration, amount to £500. Prepare, for issue to Creditors and Contributories, a Statement of your Receipts and Payments as Liquidator, showing how you would distribute the Funds in your hands on the 31st March 1938, and the amount of Dividend in the £ to Unsecured Creditors. Interest accrued on Bank Overdraft to date when it was paid off amounted to £50. (Chartered Accountants.) 465

(Unsecured Creditors are paid 16s. 3d. in the £; Total of Liquidator's Receipts and Payments Account £3,950.)

17. John Smith, Liquidator of T. B. & Co., Ltd., in Voluntary Liquidation, having paid all the creditors in full, with all interest due, finds that he has a surplus in hand. How will the Liquidator deal with this surplus? The Statement of Affairs disclosed the following facts:—

10,000 7% Cumulative Preference Shares of £1 each, fully paid (having a preference as to capital and dividend).

5,000 6% Second (Non-cumulative) Preference Shares of £1 each, fully paid (having a preference as to capital).

20,000 Ordinary Shares of £1 each 10s. paid. (Chartered Accountants.) 466

CHAPTER XXII.

GOODWILL IN ACCOUNTS.

Definition of Goodwill.—There are so many varying classes of businesses which carry Goodwill and there are so many varied factors which give rise to Goodwill in each individual business that it is not possible to compress within one definition the very extensive significance of this term. For a thorough comprehension of the subject, therefore, it seems necessary to quote the following various definitions which have been given from time to time by the ablest exponents of Law and Accounting:—

Lord Eldon has said, "Goodwill is nothing more than the probability that the old customers will resort to the old place."

Lord Lindley defines Goodwill thus: "The term Goodwill can hardly be said to have any precise signification. It is generally used to denote the benefit arising from connection and reputation, and its value is what can be got for the chance of being able to keep that connection and improve it. Upon the sale of an established business, its goodwill has a marketable value, whether the business is that of a professional man or of any other person. But it is plain that goodwill has no meaning except in connection with a continuing business; and the value of the goodwill of any business to a purchaser depends in some cases entirely, and in all very much, on the absence of competition on the part of those by whom the business has been previously carried on."

Story has defined Goodwill thus: "Goodwill is the advantage or benefit which is acquired by an establishment beyond the mere value of the capital stock, funds, or property employed therein in consequence of the general public patronage and encouragement which it receives from constant or habitual customers on account of its local position, or common celebrity, or reputation for skill, or affluence, or punctuality, or from the accidental circumstances and necessities, or even from partialities or prejudices."

Lord Macnaghten has said: "What is goodwill? It is a thing very easy to describe, very difficult to define. It is the benefit and advantage of the good name, reputation and connection of a business. It is the attractive force which brings in custom. It is the one thing which distinguishes an old established business from a new business at its first start. The goodwill of a business must emanate from a particular centre or source. However widely extended or diffused its influence may be, goodwill is worth nothing unless it has power of attraction sufficient to bring customers home to the source from which it emanates. Goodwill is composed of a variety of elements. It differs in its composition in different trades and in different businesses in the same trade. One element may preponderate here and another there. . . . For my part, I think that if there is one attribute common to all cases of goodwill, it is the attribute of locality, for goodwill has no independent existence. It cannot subsist by itself. It must be attached to a business. Destroy the business and the goodwill perishes with it, though elements remain which perhaps may be gathered up and be revived again. No doubt, where the reputation of a business is very widely spread, or where it is the article produced rather than the producer of the article that has won popular favour, it may be difficult to localise goodwill."

Mr. T. M. Stevens, D.C.L., summarises the various definitions of Goodwill thus: "All that can be gathered from the various definitions is that where the locality of the business premises makes the trade, goodwill represents the advantage derived from the chance that customers will frequent the premises in which the business has been carried on; that where the business is one which depends upon the reputation of a firm, the goodwill consists of the advantage which the owner derives from being allowed to represent himself as such; that where the business is due to the individuality of the owner, and where its reputation cannot be separated from his, the goodwill is all but non-existent, and where the value of the business depends upon the business connections, the goodwill consists of the right to be properly introduced to those connections."

Prof. Dicksee, M.COM., F.C.A., while discussing Goodwill, says that —"When a man pays for goodwill, he pays for something which places him in the position of being able to earn more money than he would be able to do by his own unaided efforts."

Mr. E. Guthrie, F.C.A., says as follows: "The term Goodwill is a very natural one, and, I think, indicates what is meant better than any other word would do. It represents the good will with which the person, the place, the name, or the association is regarded. It assures the direction of the footsteps of customers towards the customary place—that involuntary cerebration, as the philosopher puts it, whereby the act of walking is performed without conscious exertion of the will. It is a magnetism generated in and about a person and his entourage; sometimes exerted solely from within, sometimes exerted solely from without, but, most generally, partly from within and partly from without. . . . And what is the measure of value in pecuniary terms of this intangible thing? I state it as the difference between the value of the normal results of the working of any business or profession which may be established by, and as worked by, any person in any place, and the results of working any individual business of a similar character. Thus, given a business, the goodwill of which is for disposal, there would be no valuable goodwill if anyone could do just as well by establishing a business *de novo*. To start a business has its risks, which may often be described as very serious risks, but apart from the more perilous risks of failing to take proper root, there is the often weary time, sometimes a long term of years, during which a sufficient connection is being got together to bring the business up to a standard paying basis which will give it a goodwill value, or bring a goodwill value into sight. To be spared this period of what I may call perilous probation is something worth paying for, even though its maintenance from this point needs the continued energy and industry by which it was built up by the original proprietor. Time, money and anxiety saved is money made. This is what is worth paying for, and in this degree, a goodwill value attaches to an established business."

To venture on a definition—Goodwill may be described as the extra-saleable value attaching to a prosperous business beyond the intrinsic worth of the net assets (i.e., assets *minus* liabilities) employed therein, because of its good reputation, established connections, continued prosperity and the hope that the business will maintain in the future the same profit-earning capacity that it has hitherto enjoyed by reason of the old customers continuing to deal with the firm despite the change in proprietorship.

General Considerations.—From these definitions, it must be clear that any one or more of the varied factors mentioned above may account for the existence of goodwill in any particular business. The class of the business in question, the public favour in which such business is held, the name and reputation of the business, its location, the nature and quality of the goods dealt in, the monopolised conditions, if any, enjoyed by the business, the annual earnings, the necessary capital involved, the state of the money market, all these and many more contingencies enter into its existence. These factors vary greatly in importance dependent upon the peculiar conditions attaching to each business in question, but the *prospective earning capacity* of the business should always be the *prime factor* in determining the value of goodwill, as the buyer of an established business is more concerned with what the business is likely to yield him in the future than what it has returned in the past.

Goodwill may be said to belong to the class of "intangible capital assets", the class to which also belong items such as patents, trade marks, copyrights, mining concessions, etc. The peculiarity of this asset as compared to the other fixed assets of the business needs to be understood. It does not suffer wear and tear, and under the circumstance, the question of depreciation does not arise as in the case of other assets. It is non-visible, it does not become obsolete and does not get used up in course of business operations. But while goodwill does not depreciate, it is liable to constant fluctuations. It is always present as a silent asset in a business where there are super-profits, but declines in value co-extensively with decline in earnings. Where the profits are unusually large and constant, the value of goodwill once paid for and brought into record will be deemed to exist, and although it may then seem desirable to write it off from surplus profits, the very fact that there are earnings sufficient to wipe it off would justify its retention in the books. On the other hand, when the profits are on the decline, goodwill will co-extensively diminish in value. Whereas, that would be just the occasion when it would be thought desirable to reduce its book value, there would then hardly be sufficient profits from which to write it off. Further, there are so many diverse factors that affect its value from time to time and there is so much uncertainty as to its exchangeable value on any one date, that it has always been thought advisable not to attempt any adjustment in its book value from year to year. For these reasons, where the goodwill of a business is acquired by purchase, the usual practice is to leave it at its original cost from year to year, despite fluctuations in the profit-earning capacity of the concern. There can, however, be no argument against building up a specific reserve out of surplus profits in prosperous years to provide against future decline in the value of goodwill.

There is no legal obligation on any concern to wipe off the account of goodwill as a purchased asset within any stated number of years, although concerns preparing their annual accounts on most conservative basis usually wipe it off from out of profits within five to ten years. It must be clearly understood, however, that the question as to at what amount goodwill shall stand in the Balance Sheet is a matter for those in management to decide, but when it does appear, it must be shown clearly under its distinct heading and not mixed up with other tangible assets, and must never be shown at anything beyond its actual cost.

It can hardly be denied that succession to an old established business that has been yielding super-profits in the past coupled with the probability that equally profitable conditions will obtain in the future has an asset value. The building up of Goodwill involves considerable efforts on the part of those who initiated the business and it is but natural that the proprietors of a well-established business should seek to be compensated before parting with the whole or a portion of the income they have been enjoying in the past. Evidently, therefore, when an amount is paid for goodwill on the acquisition of a running business, the same should be debited to Goodwill Account and be treated as an asset. Goodwill is thus usually brought into the books of account as a purchased asset. But the creation of an asset by a going concern under the name of Goodwill should always be deprecated in as strong terms as possible, for by so doing, whereas on the one hand, no benefit would accrue by bringing into record an asset which can only be realised on the sale of the business and on the ultimate negotiable value of which no one can rely, on the other hand, the credit thus brought into account is open to misuse by those in management or may be misunderstood by the investing public. In any case, where such an asset has been set up, the corresponding credit should be shown under a special *Capital Fund,* so that it may not be utilised for the purpose of distribution in the shape of dividend.

FACTORS DETERMINING THE VALUE OF GOODWILL.

The various factors which enter into a computation of goodwill may now be considered briefly.

Capital required.—The average *normal* net earning of a business over a period of years having been determined, the average amount of capital necessarily required for the purpose of earning such profits will have to be ascertained. A highly profitable concern that can be run with a small amount of capital will naturally find many purchasers and will consequently realize a decent amount for goodwill; but it would be difficult to sell a business however profitable, that would require a large amount of capital to work, as few persons would be found willing to risk a large sum in any one business. Thus, taking two separate businesses yielding an equal percentage of profit, the one requiring less capital will be more in demand and will realise a higher amount for goodwill.

Nature of Business.—The nature and class of the business is an important factor. It must be looked to whether the articles dealt in are the daily necessities of life or whether the business is dependent on popular taste, fashion or public fancy; for, if the latter, it is often likely that the profits will diminish once the public fancy dies out. Or it may be that the business in a particular article may be ousted by a new and more attractive product appearing in the market.

Risks involved.—It must be enquired to what extent the business is open to risks, for the greater the risks involved, the higher the percentage of *return on capital the purchaser must expect.* Further, if the business happens to be of a very risky or speculative character, its goodwill will have very little value, as few persons will be found prepared to risk the loss of capital.

Skill in Management.—It may be that the business calls for exceptional skill and ability for its success and that such skill was provided in the past by the former owner of the business. If such be the case, the purchaser must make sure whether the services of the owner will still continue to be enjoyed by the concern in the future. It goes without saying that the value of goodwill will be considerably enhanced, if the vendor agrees to continue his connections with the business for some time after the sale and thus give the new proprietor the benefit of his skill, experience and influence.

If the cost of such skilled supervision was not formerly charged against profits due to such services having been rendered by the former proprietor, now that the business is being disposed of and that such services will have to be paid for, a provision will have to be made in regard to the estimated cost of such management in order to arrive at a fair estimate of the profits likely to be earned in the future. It must be noted, however, that a business which calls for much personal skill and supervision for producing a certain income will be less in demand than a business yielding similar income without such skill in management, and its goodwill value will therefore shrink in proportion.

Established Location.—Location of the business sometimes counts for more than all other factors put together. This would specially happen in case of an established shop or large stores located in a prominent position. In such a case, location will form a very vital question in assessing its goodwill. If the premises are held under a long lease, the purchaser would undoubtedly reap the benefit of past connections, as the old customers would naturally resort to the old place. If, however, the leasehold in which the business had so far been carried on is likely to expire shortly, the purchaser must enquire whether a renewal would be obtainable on reasonable terms, for if he fails to secure a renewal of the lease or some other equally suitable place in close vicinity, the removal of the business to some other locality would mean loss of old connections, and goodwill will suffer in value accordingly.

Future Competition.—The possibility of future competition is another factor to be carefully considered, for if there is any likelihood of the vendors competing with the purchaser, goodwill will diminish in value. It is always necessary in the interest of the purchaser to see that the agreement for the sale of goodwill to him contains a clear declaration that the vendor is restrained from setting himself up in the same class of business. The more restrictive such an agreement is, the more valuable the goodwill of the business will be to the purchaser.

Monopolised Business.—If the past success is due to any trade monopoly, it should be enquired whether the benefit of such monopoly is likely to continue. It should further be seen whether the patents hitherto enjoyed are expiring, or whether the success of the business is likely to be affected in the near future by new inventions or by new rivals setting up in the same line of trade.

Trade Name.—Sometimes, the goods dealt in may have a world-wide reputation and may be recognised everywhere by a trade name or a trade mark. Under such a circumstance, the right to use such a trade name or trade mark will be a valuable factor in assessing goodwill.

Profits from Exceptional Contracts.—If during the period of years on the profits of which the goodwill is based, there appear to be exceptionally profitable contracts or other special circumstances which have helped in producing results which are not likely to recur, such profits will have to be eliminated for the purpose of arriving at the average normal yield from the business.

Pending Contracts.—If there are pending orders or contracts of a recurring nature likely to result in substantial profits, these will necessarily enhance the value of goodwill.

Personal Business.—The goodwill of a purely personal business such as that of a solicitor or a doctor is always of a doubtful value, unless the continued co-operation of the person who built up the business is secured for say at least 2 to 3 years after the sale of the business.

Declining Profits.—A business might have shown good resulting profits during the last several years, but if such profits have been on the decline from year to year, its goodwill, if at all there be any, will have to be valued on a very conservative basis. In any case, the cause of such decline must be traced to see if the defect can be remedied.

Old Machinery and Onerous Leasehold.—If the assets of the business to be acquired consist of very costly machinery, it should be seen that the same is not out-of-date, as otherwise an additional amount of capital will become immediately necessary to equip the works with up-to-date plant. Further, it should be seen that the business is not burdened with some onerous leasehold, as this would adversely affect the value of goodwill.

Money Market Conditions.—The state of the money market must necessarily affect the negotiable value of goodwill, for it can hardly be denied that when money is easy, more buyers will be found willing to acquire established concerns and pay higher value for goodwill than when money is scarce.

Mode of Payment.—The value of goodwill will also be considerably affected by the mode of payment. Thus, if the goodwill amount is to be paid to the vendors by the issue of fully-paid deferred or ordinary shares in a Company newly registered, where such shares will have hardly any marketable value, the vendors may expect a larger amount to be paid in respect thereof than if such payment was to be made in cash.

Goodwill of a Competitive Business.—It occasionally happens that a trader or a company may desire to acquire a competitive business in order to kill competition which would otherwise have to be faced. Under this circumstance, the purchaser would certainly be prepared to pay a large amount for goodwill in spite of the fact that such business may not be yielding super-profits and there may be no probability of the same being earned in the future.

It must be apparent from the above, how difficult it is to formulate any general rules as to the proper valuation of goodwill, as each individual case would possess its special features, and these would have to be fully considered before arriving at any fair estimate of its value.

VALUATION OF GOODWILL.

As has already been seen, there are so many factors which enter into a computation of the goodwill of a business and its value depends on so many varying contingencies, that a good deal of care and consideration must be devoted before arriving at a fair value thereof. Again, so many different methods are employed in arriving at the value of goodwill, that it becomes difficult to lay down any hard and fast rules as to the precise basis for its valuation.

business of his own. But, unforeseen contingencies might crop up as would upset his most sanguine expectations and most careful calculations, and bearing this in mind, he would always be wise to err on the side of under-valuation in the matter of this asset of the most fluctuating and unreliable character.

RIGHTS OF THE PURCHASER OF GOODWILL.

The sale of the goodwill of a business carries with it all the advantages attached to that business, viz., the trade name, trade marks, the benefit of all trade connections and reputation, and the benefit of all patent rights, copyrights and existing contracts, agreements, leases, etc.

The purchaser of the goodwill of a business thus acquires the following rights:—

(1) He can represent himself as being the successor to the old business.

(2) He can use the trade name by which the business is known, provided the same is not used in a manner as would render the vendor liable for any debts incurred by the purchaser.

(3) He can prevent the vendor from continuing to trade in his own name, if it was in that name that he formerly carried on the business.

(4) He can prevent the vendor from setting up another business under any name which might lead the public to believe that he was still carrying on the old business.

(5) He can prevent the vendor from soliciting the customers of his former business either personally or by circular.

It must be clearly understood, however, that a trader who has sold his goodwill is under no obligation to retire from the field. He may commence a new business in the very same line of trade, unless he has bound himself to the purchaser by special agreement to the contrary. In order, therefore, to avoid any possible misunderstanding as to the future position of the vendor, it is highly desirable on the part of the purchaser to enter into an agreement with the vendor expressly restraining him from competing against him in the same trade. Such a restraint in order to have a legal effect must be limited to a particular area or a given number of years.

GOODWILL IN PARTNERSHIPS.

In the absence of any agreement to the contrary between the partners, Goodwill is always a partnership property and it goes with the business. But although it may exist in every well-established business, it always remains an unrecorded asset and is never brought into visible shape unless an occasion arises when it becomes necessary to value it. It is, in fact a silent asset which always jointly belongs to the partners, and its valuation forms an important item of adjustment amongst them whenever there is any change in the constitution of the firm. It is thus brought into account (*a*) on the admission of a new partner; (*b*) on the retirement or death of an existing partner; (*c*) on the dissolution of the business piecemeal; or (*d*) on sale of the business to a Limited Company.

It is quite open to the partners to make an express agreement definitely excluding goodwill from being brought into account under any circumstance. It is equally competent for the partners to exclude by agreement any one or more of their members from having any share in the goodwill.

Goodwill on Admission of a Partner.—Goodwill is frequently valued when a new partner is admitted in an old established business. It is quite natural that before surrendering a portion of their future profits to an outsider, the old proprietors would like to see that they are amply compensated by the incoming partner for the skill, energy and money that they may have expended in bringing the business to its present stage of reputation. Thus, the prospective partner is usually required to pay a certain amount for goodwill or premium, over and above his bringing in some capital, in order to entitle him to a certain share in the future profits of the firm. The amount thus received by way of goodwill would be shared by the old proprietors in their profit-sharing proportions.

Before entering into a partnership, the person desirous of taking a share in an existing firm must enquire into the following points:—

(1) The reasons which prompt the present proprietors to take an additional partner.

(2) Where the new partner is required to step into the place of a retiring or deceased partner, it is necessary to ascertain how far the business is likely to suffer in future due to the loss of the skill, expert knowledge or influence possessed by the retiring or deceased partner, and how far such loss is likely to be made good by the continuing partners. If the new partner as also the remaining partners do not possess the requisite skill, technical knowledge or influence, the fact must necessarily affect the future profits of the business and the value of goodwill would diminish accordingly.

(3) He should ascertain whether the capital to be introduced by him is to be utilised in paying off the old liabilities, or whether it is going to serve as additional working capital for the expansion of business and thus tend to increase its earning capacity.

(4) Where the capital to be brought in by him is required to meet the present liabilities of the firm, he should enquire whether the working capital left after payment of the pressing liabilities would be sufficient to meet all future demands of the business.

(5) He should ascertain whether the amount to be introduced by him as his share of goodwill is to be retained in the business as additional capital of the former proprietors or whether the same is to be immediately withdrawn by the latter.

(6) He should determine how far in view of the profit-sharing arrangements, the capital that he is asked to contribute compares with the capitals of the other partners.

(7) He should try to estimate on most careful scrutiny the probable amount of profits that would fall to his share, and whether, in view of such share and all other facts, the goodwill amount he is asked to bring in is reasonable.

(8) He should make sure that the business is not financially embarrassed, and it is not sought to burden him with the share of loss arising from any existing unprofitable contracts.

(9) He should examine the last Balance Sheet on the basis of which the partnership is going to be arranged in order to ascertain that there are no assets shown at inflated values and no liabilities under-stated or omitted.

(10) He should inspect a copy of the proposed Partnership Deed to make sure that all the usual and necessary clauses including those relating

to the ascertainment of the share of each partner in case of retirement, death or dissolution are included, and that there is nothing objectionable or detrimental to his interests.

Goodwill on Retirement or Death of a Partner.—The mere fact that goodwill was not valued and included amongst the assets in the periodical Balance Sheets of the partnership whilst it was a going concern, would be no argument on the part of the continuing or surviving partners to refuse to give to the retiring partner or the representatives of a deceased partner his due share of the value of goodwill, whatever that value may be. In normal circumstances, a distinction must necessarily be drawn between the annual accounts of a partnership firm and the final accounts made for the purpose of dissolution. Ordinarily, Goodwill does not appear in the books of a firm of a going concern, and yet at the time of dissolution, the value of Goodwill has to be appraised in order that the retiring partner or the representatives of the deceased partner may get a fair allowance in respect of his share of goodwill.

But if the articles of partnership expressly provide that on the death or retirement of any partner during the continuance of the partnership, the amount of his share and interest in the partnership should be taken on the basis of accounts as prepared annually without any adjustment in regard to goodwill, the retiring partner or the estate of the deceased partner must stand by such an arrangement, even if the annual Balance Sheets did not include goodwill.

It is invariably provided in the partnership deed as to how the accounts are to be adjusted in the case of death of one of the partners. Experience has shown that in a majority of businesses, a great deal of inconvenience is entailed, and the progress of the trade hampered, by being compelled to take stock on the date of the death of a partner, in order to ascertain the proportionate share of profits accruing to the estate of the deceased partner. Besides, the question of depreciation of assets, the basis of valuation of the stock and such other matters will always be bones of contention between the surviving partners and the representatives of the deceased partner. In order to avoid all this, it is desirable that the manner in which the profits for the period elapsing since the last-signed balance sheet and the date of the decease are to be computed must be laid down in the agreement in most clear and definite terms. The amount payable in respect of the share of a deceased partner is generally spread over a number of years, in order that the business may not be overburdened with an immediate payment.

Goodwill on Dissolution of Partnership.—Upon a dissolution of partnership, every partner has a right to have the Goodwill of the firm realised along with the other assets for the common benefit of all the partners, irrespective of whether Goodwill appeared in the annual Balance Sheet or not. This will be, of course, subject to any agreement the partners may have entered into amongst themselves.

The question of record and adjustment of Goodwill on the admission, retirement or death of a partner as also on dissolution of the partnership business arising from the sale of the business has already been discussed herein on pages 212, 231 and 284 and it has, therefore, been thought unnecessary to reiterate the same here.

GOODWILL IN JOINT STOCK COMPANIES.

Even with Limited Companies, although Goodwill exists in every prosperous undertaking yielding super-profits, it is brought into record and made to take a visible shape only when any consideration has been paid for it.

Once Goodwill is brought into record, it is classed as a fixed asset and it is not necessary to value it at its realisable price at each balancing period for Balance Sheet purposes. Evidently, therefore, there is no necessity to bring into account the temporary fluctuations in its value arising from any increase or decrease in the average profits of the Company. But the fact that needs to be emphasised is that no company can ever be expected to yield super-profits in perpetuity, as a result of ordinary trade competition. No Goodwill can, therefore, ever be considered as eternal, and it is a fallacy to treat even purchased goodwill as representing a permanent value.

It would thus seem advisable to provide against its probable shrinkage in value out of surplus profits, in times of prosperity. But the provision in this respect should not fall on the Profit and Loss Account as that would tend to obscure the actual trading results of the undertaking, but must come as a charge on the Profit and Loss Appropriation Account by means of an allocation of divisible profits. Whereas the extinction of Goodwill from the books of account will in no way affect its actual value in a profitable concern, the financial position of the company will be considerably strengthened by the retention of a portion of the legally divisible profits. It need only be pointed out now that however prudent, expedient and commendable such a practice may be from the view-point of finance, there is no legal obligation on a company to provide for the decline in the value of its goodwill before declaring a dividend Even when it is thought desirable to diminish the book value of goodwill gradually, the best method of dealing with the item will be not to wipe off goodwill absolutely from the books, but to retain it in the Balance Sheet at its original cost and to credit the provision made for its reduction or elimination to a "Provision for Redemption of Goodwill" Account. The credit balance in respect of this provision can best be shown as a deduction from the item Goodwill on the assets side of the Balance Sheet.

A Joint Stock Company formed with the object of taking over an established business and which issues a Prospectus inviting subscriptions for its share or debentures must separately state the amount of purchase-money which is being paid for Goodwill. Besides, in the prescribed form of Balance Sheet under the Indian Companies Act, the item of purchased Goodwill, if any, is required to be shown distinctly among the Fixed Assets of the Company.

When a Joint Stock Company takes over a running business, and the value of Goodwill has not been fixed specifically, the difference between the total purchase consideration and the assets at the agreed valuation *less* any liabilities taken over from the vendors will represent the price for Goodwill.

If a Company issues its shares at a premium, such premium can well be applied towards the reduction or elimination of Goodwill from the books. This process is sometimes objected to on the ground that the Balance Sheet fails to set out the fact of the Company having received premium on shares. Such an objection can, however, be overcome by showing the amount of premium on shares in the inner column of the liabilities side of the Balance Sheet with a note underneath that the amount has been applied towards reduction or elimination of Goodwill, as the case may be.

When a Company takes over a business as and from a date prior to the Company itself being registered, the profits, if any, made by such an undertaking prior to the date of the Company's Incorporation or Commencement Certificate cannot be treated by the Company as divisible profits but must be regarded as of capital nature, since a Company cannot be deemed to have earned profits before it came into existence. Such a profit after providing for Interest on purchase consideration from the date of the purchase agreement to the date of the Company's Incorporation or Commencement Certificate, can well be utilised in reducing or wiping off Goodwill. Similarly, in the event of a loss having been sustained prior to the date of Incorporation or Commencement Certificate, the same can be capitalised by being charged to Goodwill Account.

There are occasions when a Company expends an abnormally heavy amount with the object of *creating a goodwill.* Thus, heavy expenditure may be incurred in experimenting which may ultimately result in the securing of a patent and a consequent monopolised business, or abnormal amounts may be expended on introducing a new invention or product in the market, or an enormous amount may be spent on advertising in the initial stages of the business, or a loss may be suffered by a newspaper concern in its initial stages. If those in management seek to capitalise such expenses or losses under the heading of goodwill on the argument that they helped towards the success of the concern, it should be seen that the item is clearly stated in the Balance Sheet in a manner so as not be mistaken for purchased goodwill.

Lastly, it should further be seen that no improper items are ever debited to Goodwill Account, and in no case is the value of goodwill ever written up.

EXAMINATION QUESTIONS.

1. How would you define Goodwill?
2. Explain the incidence of Goodwill in a well established business.
3. What are the main factors to be enquired into for the purpose of ascertaining the value of Goodwill?
4. On what points should an incoming partner base his enquiries when asked to pay for his share of Goodwill?
5. How should Goodwill be determined in the case of retirement of one of the partners?
6. Are the legal representatives of a deceased partner always entitled to claim the latter's share of Goodwill in the firm?
7. Mention the different methods of computing the value of Goodwill.
8. On what occasions will Goodwill Account have to be opened in Partnership Books?
9. When does it become necessary to open Goodwill Account in the books of a Company?
10. Should Goodwill Account be depreciated, year after year?
11. Under what circumstances would it become desirable to create a Goodwill Account?
12. How should any future loss in the value of Goodwill be provided for?

CHAPTER XXIII.

FACTORY ORGANIZATION.

Need for Factory Organization.—The advancement of our country depends to a considerable extent on its industrial activities, and economical production of manufactures is more essential for national prosperity now than ever before, if India is to play her part worthily in the international competition. With increasing competition in every branch of industry coupled with a stern demand for better quality and reduced prices, the importance of efficiency in industrial organization has never been more widely recognised and keenly felt as at the present time, and the subject presents an unlimited field for development in the future. Since the selling price of any product is controlled by competitive influences, the vital problem before our manufacturer to-day is how to cheapen the cost of his products so as to enable him to secure a fair share of the business by cutting his sale prices and yet ensure for himself a reasonable margin of profit.

To supply manufactures at prices as would defy foreign competition, involves not only the most up-to-date scientific methods of manufacture, efficient planning and design work and judicious purchasing of raw material and supplies, but a thorough organization of all the controlling forces of manufacture as would reduce the cost of production to its lowest possible level. It is only by an intelligent appreciation of economies in working that a degree of efficiency can be maintained under keen competition. In large manufacturing and industrial businesses where vast sums are expended in the purchase of raw materials and payment of wages, it is essential that each lb. of raw material and each hour of labour should be traceable so as to eliminate all possible leakage and waste and thus secure high efficiency and economy in management. It is equally necessary to organize the works in a manner as would bring into constant scrutiny and control all the numerous and varied works expenses and establishment charges so as to keep the expense at the lowest possible percentage of the cost of output.

What Factory Organization means.—Factory Organization may be defined as a systematic co-ordination and combination of efforts with the aid of men, material, machinery and methods in a manner as would result in maximum manufacturing efficiency with minimum cost.

It must resolve itself into formulation of a sound financial and commercial policy for the business, efficient planning of works building and plant equipment, judicious buying, effective conduct of productive operations, proper direction, supervision and control of its personnel, well-equipped marketing and distribution of products and a co-ordination and corelation of the productive as also the non-productive forces into a harmonious whole.

ESSENTIALS FOR A WORKABLE SYSTEM OF ORGANIZATION.

The factors essential for bringing a sound workable system of organization into being may briefly be summed up as under:—

(1) The Board of Directors, as the supreme head, would set up the financial as well as the commercial policy of the business. The Board would necessarily be supported by the General and the Works Managers who must

not only be highly qualified technical experts, but must also be thoroughly conversant with the practical phase of the industry in question.

(2) The policy having been formulated and the instructions for the direction of the management having been laid down, it will be the duty of those in management to see that they are duly carried out. It will be their further duty to keep those in ultimate control duly informed as to the results of such policy from time to time, so as to enable the latter to decide if any revision or modification is necessary.

(3) There should be a continuous struggle towards new ideas, new processes, new patents, new products and fresh markets, coupled with a ceaseless effort at greater economy.

(4) In order to help the activities of the productive departments, there should be regular conferences of the General Manager, the Works Manager, the Chief Engineer, the departmental heads, the heads of planning and progress departments and the foremen to discuss problems appertaining to processes or products or to suggest improvements of productive methods. There would thus be a systematic and deliberate effort at improvement by constant research, discussion and critical inquiry.

(5) There should be proper division of work and responsibility so as to avoid any overlapping of duties or conflict of authority. Every individual must know his exact duty and scope of work so as to be able to handle routine matters and to receive instructions in case of need.

(6) With the assignment of duties, there would also be a system of organized supervision to ensure due performance of the work assigned according to a pre-arranged plan.

(7) Once a standard of quality of the product is decided upon, the organization must provide for some system of inspection to make sure that such standard is uniformly maintained.

(8) The buying, handling and transport of raw materials and stores should be so devised as to have a continuous supply at most economical rates.

(9) The organization must provide for the selection of the right type of workers, a judicious allocation of work, an adequate system of wage payment and an ample scope for advancement. It must also provide for welfare work for the benefit and contentment of the workers.

(10) Instruction Cards detailing appropriate rules and regulations relating to individual responsibility should be issued for the guidance of the workers, and Organization Charts showing methodical flow of work and lines of supervision should be drawn up for the information of the foremen and supervisors.

(11) There should be a system of regular supply of reports on well defined forms, from the subordinates to the executives, so that the exact significance of the facts disclosed may be grasped at a glance by those in higher control. The periodical Reports and Charts should be so framed that any failure to work according to a planned programme of production or within budgetted limits may immediately be brought to light.

(12) The system should aim at fulfilment of orders within the time promised for delivery.

(13) There should be a highly efficient sales organization based on an accurate knowledge of market conditions.

(14) An adequate system of records including cost accounts should be provided for and the recorded facts should be systematically utilised.

It need hardly be pointed out that the form of organization most suitable to any manufacturing concern must necessarily depend on the particular nature of the industry and the scope and requirements of the business. The important point that needs to be stressed, however, is that the system should be economical in its working, should aim at corporate efficiency, should be adaptable and capable of revision and expansion, and must provide for a close and proper inter-locking of all the activities.

Preliminary Consideration in a New Undertaking.—The question of efficient organization and control should be brought into play from the very outset when the scheme for any proposed works is being first mooted and not left over till the works are constructed and equipped, as experience has shown that industrial enterprises launched on haphazard and ill-conceived estimates of capital and other costs have often come to grief. In the case of any new industrial undertaking, therefore, it is highly essential that the entire scheme should first be most carefully thought out in every detail, if best results are to be achieved. Each section of the works or factory should be properly designed by skilled engineers with due regard to the immediate proposed output of the product that can be profitably marketed and the ultimate capacity of the works, and cost estimates of each such section should be most scrupulously prepared. It is equally important to have estimates of the working costs, maintenance charges, and administration and selling expenses prepared on most careful and accurate basis in order to make sure that the venture will justify its existence.

It is only after an accurate estimate of the probable capital cost of the whole scheme inclusive of the cost of land, works buildings, works equipment, power plant, etc., and the necessary working capital has been most carefully determined, that the question of how much capital should be obtained be considered. The necessary financial arrangements having been made as to the successful floating of the capital, the next step should be the acquisition of a suitable site for the proposed new works.

Choice of a Suitable Site.—The selection of a site should call for the greatest possible care and enquiry. The usual practice of first purchasing a site and then trying to fit the works to the site already acquired is most undesirable as it often militates considerably against the chances of success of the enterprise. While making a choice of a suitable site for a proposed factory, the following factors must be most searchingly considered with due regard to the nature of the industry:—

(1) The total area required inclusive of likely future extension, its probable cost, and the terms of its tenure.

(2) The location of the works in relation to the sources of raw materials and the placing of finished products into suitable markets.

(3) Whether suitable labour will be available locally at economical rates.

(4) Whether the required supply of water, fuel, power, etc. will readily be available at economical rates.

(5) Whether there are satisfactory Railway communications and other facilities for the transport of the in-coming raw materials or semi-manufactured goods, and the out-going finished products by land or water.

(6) Probable rates, taxes, and transport charges payable.

(7) What town-planning schemes and building bye-laws of Local Authorities there are as would affect construction of works, sanitary conveniences, drainage, etc.

(8) Whether the proposed site and its surroundings are healthy, and would admit of proper housing and recreation arrangements for the workers.

The above suggestions only serve to indicate on broad lines what important factors need be consulted while choosing a suitable location for factory purposes. It need hardly be stated that the nature of the industry and its special requirements must necessarily be the prime factor in the choice of a site.

Construction and Equipment of Works.—Factory design and construction of works structure are so closely related to factory administration and efficiency that a few words relating to the care and skill required in the initial lay-out will not be out of place. The importance of efficiency in this direction has long been recognised in America, England, Japan and the Continent, and this is one of the chief reasons why there exist today so many vast industrial enterprises successfully able to put their products on the world market at competitive prices.

From the very inception, the whole scheme of design and construction should be convinced from the view-point of industrial efficiency coupled with financial economy and must embody within itself the consideration of every problem likely to arise in the working of the proposed undertaking, including the provision for future extension, if need be. The plan in regard to the construction of the several sections of the factory buildings must necessarily depend upon the nature of the industry and must have close relation to the several manufacturing processes that the component parts will have to undergo, as also their final assemblage into finished products. Evidently, therefore, the relative position of the various sections or departments of the factory must be most carefully thought out and arranged in a manner as would allow of the product in its several stages of production to pass from one section of the factory to the other in a natural sequence so as to eliminate any wastage of material, labour or time.

The equipment of each department of the factory with the most up-to-date machines and the arrangement of these machines within each department in a sequential order must necessarily follow. The acquisition and proper installation of the right type of machinery and plant in the production departments as also of the various time and labour-saving devices in the auxiliary departments must call for the highest skill and specialised technical knowledge and must necessarily be left in the hands of skilled experts. Each department or section should be made to work as a distinct entity and yet these departments or sections should be so closely interlinked one with the other that the entire factory may run as one cohesive whole and in most complete harmony.

ORGANIZATION OF AUXILIARY SERVICES.

The Factory having been carefully designed and well equipped, Departmentalisation of works on sound and rational lines must follow, and the more carefully this is done, the more effective will be the supervision and control. In order to ensure increased efficiency in handling the work, the lay-out of a factory necessarily demands also the departmental organization of the several auxiliary services which are all so very essential for the fulfilment of the functions of a factory and which are so closely inter-related to the main business of production. In addition, therefore, to the sections actually engaged upon production work, the auxiliary services may be broadly divided as under:—

(1) **Estimating Department** for the original handling of inquiries and for preparing estimates in framing tenders; also for maintaining data of how the actual costs compare with the estimates.

(2) **Planning Department supported by Drawing Office** for preparing specifications and arranging for requisite materials to provide for the prompt execution of urgent orders.

(3) **Inspection and Progress Department** to watch over and superintend the conduct of the productive operations and to test all products in the shape of finished articles and finished parts to see that they conform to specifications. Where the products have to undergo several processes, this Department will have to test the products in their various stages of production.

(4) **Buying Department** to see to the ordering out of the right type of materials and stores at favourable terms and in due time.

(5) **Labour Department** whose duty it would be to engage the right type of men required for the production work at best rates and to maintain a proper record of the engagement and discharge of workers.

(6) **Stores Department** to handle the incomings and outgoings of stores and to maintain stocks to meet orders on hand.

(7) **Tools Department** for manufacturing and repairing the tools used in production and to maintain a correct record of the tools issued out, returned and those in stock.

(8) **Laboratory or Testing Department** with complete equipment for testing materials or for tests and research work carried out to secure new designs or new and more economical methods of manufacture.

(9) **Maintenance Department** to provide for and supervise the maintenance, repairs or renewal of factory buildings, machinery and plant.

(10) **Costing Department** to help towards the factory organization and the ascertainment of true costs of the products.

(11) **Internal Check Department** to supervise and maintain an efficient check on the proper functioning of the accounts and the costing departments and also to maintain a thorough check on materials, stores and finished products by means of continuous stock-taking.

(12) **Export or Shipping Department** for efficient transportation of Finished Orders.

(13) **Welfare Department** to look after the well-being of the employees during the working hours and to see to their proper housing and recreation.

Supplementary to the above, but outside the works proper, will also be needed the following:—

(14) **Publicity Department** to organize and efficiently conduct the advertising of the products for reaching a wider public so as to influence prospective customers.

(15) **Finance and General Administration Department** to supervise and control finance, to secure a proper record of financial transactions, to

maintain reliable statistical data of Costs and Progress Reports, and to conduct correspondence and other secretarial work.

It need hardly be stated that the particular needs of the business must be the main guidance in the division of these auxiliary services.

WORKS ROUTINE.

The success of a manufacturing business is considerably influenced by the efficiency of its Works Routine. To begin with, all Factory Production is done through **Works Orders** which are written instructions authorising the manufacture of one or a quantity of articles. Works Orders are necessary to control the distribution of work of the factory amongst the workers, and carry definite numbers to identify the expenditure of material and labour on each of the orders. The first steps taken for the fulfilment of a Works Order are the specifying of the material requirements and the issuing of the necessary instructions to the works for manufacturing. This work of requisitioning material and issuing manufacturing instructions is done usually by a technical department, probably the Works Manager's Office or the Drawing or Design Office, as the case may be.

WORKS ORDER.

Order No.... ..... Office Reference... ..	Date handed over to works.	Date fixed for delivery.	Design No.

Particulars..............................

....

Quantity of Material Required.	Class of Material Required.	Date Order Commenced.	Date Order Completed.	Department No. ......

Finally tested by............. Date of advice to Office..................

An **Estimating Department** has a place in most of the well-organized works and is particularly indispensable in case of Engineering Works where an estimate of cost has to be presented before any production order is secured. In these days of keen competition, since any under-estimate would result in securing unprofitable work and an over-estimate would lead to loss of profitable orders, greatest possible care should be exercised by this department in tendering Estimates. Evidently, therefore, the men in charge of this Department should be those best acquainted with the processes and technical details of the particular industry and should keep themselves well-informed with the latest market quotations of material, piece-work and time rates of labour as also the expense rates. Cost Sheets representing the *actual cost of similar work previously done will necessarily form the basis for framing any estimate, after due modifications in regard to any or all of* the factors resulting from altered circumstances, if any. The Planning Department and the Drawing Office will supply material specifications and detailed drawings. A further duty of those in charge of this Department would be, *on completion of each Job, to ascertain how far the actual costs* compare with the estimates given.

Before commencing to manufacture, the **Planning Department** in conjunction with the **Drawing Office**, will issue, in respect of each Production Order, a fully detailed Works Order with drawings, complete instructions and material specifications. A separate drawing or shop sheet is got out for every part and a name and section number are assigned to it. When all these necessary details are completed, they are forwarded to the Works Manager's Department, where the orders are given out for the work to be put in hand. Requisitions for necessary material may accompany the Works Orders or may be issued by the foreman and will be drawn from stores or may have to be specially purchased, as the case may be.

Where an efficient Planning Department is in existence, the requisition for raw material and parts will be made out by that department and issued to the foreman with the Works or Standing Orders, and the quantities specified will be such as would be sufficient for the jobs. In such cases, Storekeepers have instructions to honour only the requisitions signed by the Planning Department. The advantage of such a system is that in case of any material being spoilt or wasted in the process, the foreman concerned must report it to the Planning Department before additional material can be secured from the stores, and this will act as a check on any misuse of material.

Requisitions for consumable stores (such as oil, waste, etc.) are made out by the foremen, but are generally printed on paper of a different colour from that used for raw materials.

In departments, where the work is of a repetition character, *foremen will prepare their own requisitions for supplies to keep their machines running.*

A running number is given to each Works Order, Contract or Job, the same number also being used to denote the corresponding Cost Account. The materials requisitioned, the labour expended and the expense burden are then all charged to their corresponding Cost Accounts indicated numerically. This arrangement ensures that the costs will be entered in the right place and to the proper Cost Accounts.

BUYING DEPARTMENT.

For the efficient and economical working of a factory, there should be a strict control over the purchase and use of materials and stores. The fact that money and material mean the same thing to the business does not seem yet to have been fully realised by our manufacturers, for, in innumerable instances, whereas a great deal of attention is paid and considerable staff is employed upon the recording and checking of workers' time and wages, very little care is devoted to the handling, recording and control of materials and stores even where the cost of the materials consumed is far in excess of the wages paid. A well-organized Buying Department is, therefore, highly essential in a large manufacturing concern for the efficient fulfilment of the following functions, viz.:—

(1) That all purchases are based on properly authorised requisitions, stating the purpose for which the goods are required;

(2) That all materials or stores requisitioned are duly ordered out from the right suppliers;

(3) That the right type and quality of goods are bought in the cheapest market on most favourable terms of payment; and

(4) That deliveries of all such goods are received within the stipulated periods.

An **Index of Prices** including record of quotations as well as orders placed should be maintained by this Department and kept written up from day to day. All purchases whether by contract or to definite material requisitions must be effected after receipt and comparison of suppliers' quotations.

All **Contracts with Suppliers** should be carefully recorded and purchase orders issued against the contracts should be entered accordingly. The position regarding undelivered balances can thus be determined at any time including all contracts arranged for the same material. The record should contain provision for comparing contract prices with prices current throughout the duration of contracts.

To fulfil these functions satisfactorily, it is necessary that the man at the head of this Department should have an intimate knowledge and experience of the particular industry and the class of material and stores dealt in, and must possess sound knowledge of finance and efficient business methods.

PURCHASE ROUTINE.

It is not always necessary for the Buying Department to await receipt of actual requisitions for ordering material before purchasing. The Buying Office is supposed to make an intelligent anticipation of material and stores normally required by the business and must enter into advance contracts for a definite quantity to be delivered over a specified period. The method most conducive to economy of capital employed in the business is to fix in advance the minimum as also the maximum quantity of each kind of material or store to be kept in stock, for, whereas, on the one hand, it would mean injudicious locking up of capital to stock materials and stores as would not be needed for some long time to come, it would be poor economy, on the other hand, to have the machines kept waiting for want of supplies.

The minimum quantity is often fixed with due regard to the normal consumption of the factory, the source of supply and the time required for delivery, etc. As soon as the stock of any particular item falls below the minimum quantity fixed, it will be the duty of the store-keeper to notify the fact to the purchasing department.

To ensure efficient control over purchases, it is highly essential that the Buying Office, the Stores Department and the Planning Department or the Works Managers' Department who handle the orders should all work in complete harmony. The usual routine in this connection is that the Planning Department, having prepared a complete specification on receipt of each order, will issue a copy of material specification to the chief store-keeper. The latter will indicate on this copy material available in his stores, and material not available that will have to be ordered out. The specification is then returned to the Planning Department who will issue Purchase Requisitions to the Buying Office for ordering material supplies. The Stores Department will also ascertain from their Stores Records as to what items are falling below their fixed minimum, and will issue Purchase Requisitions accordingly to the Buying Department.

Purchase Requisitions are generally made out in triplicate. One is retained by the person making the requisition, i.e. either the store-keeper, foreman, departmental manager or any other person. The two copies are forwarded to the Buying Department, which will proceed to place the purchase order after due sanction from the General Manager. The order having been placed and the date of delivery having been ascertained, the purchase order number, the date of delivery and name of supplier are then entered on one of the Requisition Forms and filed under the name of the requisitioner or his department. The second copy is returned to the requisitioner after the insertion of the probable date of delivery. The requisitioner would file these in order of date so that he may know when to expect delivery.

The **Purchase Order** issued to suppliers and based on the corresponding requisition is made out in triplicate, two copies going to the supplier and one being retained by the purchaser. The issuing of this in duplicate allows one of these copies to be returned to the purchaser as an acknowledgment that the order has been received. If the purchase price and delivery date have not previously been arranged, the suppliers are expected to fill in these particulars while returning the acknowledgment form to the purchasers.

The triplicate copy of the official order is an ordinary carbon copy with a consecutive number. The acknowledgment form returned can be temporarily filed according to date of delivery promises contained therein. After being thus used as reminders until delivery is completed, they can be finally filed alphabetically according to supplier's name and will then give a complete record of all orders executed by each supplier. If the actual delivery dates are added to these acknowledgment forms, they become not only a complete summary of all purchases from the supplier, but a record of the time taken to execute these orders.

Effective Control over Purchases.—The following regulations may be suggested for an effective control over purchases of materials and stores:—

(1) Only certain responsible officials should be authorised to sanction orders for the purchase of goods.

(2) With the exception of small sundry purchases which are urgently required, no goods should be obtained without a written order being issued, signed by the responsible official authorising the same.

(3) The head of each department, branch or section of the business should be supplied with a **Purchase Requisition Book** to be filled in by him whenever he wishes any goods to be ordered. The Requisition Note would indicate (*a*) the department requisitioning the goods, (*b*) the description of the goods, (*c*) whether they are required for stock or sale, (*d*) the price within which the supplies should be obtained, and (*e*) the time within which delivery is required.

(4) All such Purchase Requisition Notes must be submitted to the head of the Buying Department, whose duty it would be to determine when,

in what quantity and from which supplier the purchase should be made. These Requisition Notes would be counter-signed by the General Manager.

(5) The Purchase Requisitions as also the Purchase Orders should be dealt with as fully described above under the head "Purchase Routine".

(6) Immediately on receipt of an invoice, it should be examined by the Buying Office with the view of ascertaining whether the general conditions of the order have been complied with, and the price charged is as stipulated.

(7) Should an Invoice be found correct, it would be numbered and sent to the department which received the delivery of the goods to be certified as to the correctness or otherwise of their quantity and quality. After comparison, the copy of the order should be so marked or ticked as to show that the corresponding Invoice has been received.

(8) All supplies should be examined or tested as soon as possible after receipt. If there are deficiencies in supplies or defects in them, they should be reported to the Office so that the matter may at once be taken up with the suppliers.

NOTE.—Very often, it is desirable that the department receiving the goods should not be informed as to the source of supply or the price paid, and the original Invoice is not sent to the Stores Department but is retained by the office. It is equally preferable that quantities, etc. expected should not be advised to the Store-keeper in advance. The Receiving Department, in this case, should be asked to make out a **Goods Received Note** or a **Goods Received Sheet** giving details as to the quantity and quality of goods actually received daily. On receipt of this Note by the office, the items will be checked off in the corresponding Invoices.

This method of check has found much favour with large establishments as it ensures an independent count and inspection of the goods by those receiving them rather than depending on their honesty and carefulness in checking off the items from the original Invoices. If the Invoices are sent to those receiving the goods for the purpose of the quantity and quality being certified by them, the chances are that they might be returned to the office as correct, without the necessary count or examination being made.

(9) The prices charged in the Invoice must necessarily be checked by some one in authority who should initial the same. The clerk checking the extension should also put his initials on the Invoice indicating the checking done by him.

(10) Each Invoice having thus been checked and certified as to the goods having been received as per the order and in good condition, as to the prices charged and the calculations and extensions being correct, should now be passed on to the counting house for being entered in the Purchases Book.

(11) Each Invoice must be given a consecutive number and the same would be indicated against its corresponding entry in the Purchases Book for facility of reference and verification.

(12) No Invoice should be passed for payment except for goods properly ordered and received in good condition and correct to specification.

(13) A rubber stamp should be impressed on invoices, which would permit of initials being shown of those officials who have verified the invoice

particulars, and the stamp can also be arranged to show the Cost Account debits, in case materials have been purchased specifically for any job.

(14) The Requisition Notes which created the orders, the Purchase Orders, the Purchase Invoices and the Goods Received Notes would all bear reference to each other and would be properly filed, thus considerably facilitating ready access to any of these forms for detailed information, whenever desired.

MATERIAL ISSUE REQUISITIONS.

An important rule which should be rigidly followed is not to allow any material or stores to pass from the Stores Department into the Works except upon the authority of written requisitions. These Material Issue Requisitions are demands upon the store-keeper signed by the authorised persons to issue to bearer or to despatch to a particular department or place a stated quantity of material or stores described therein, to be charged to a particular job or department signified therein. Such Requisitions are made out in duplicates from bound books, with printed consecutive numbers and with every alternate sheet perforated, supplied to each department, and contain the date, the necessary particulars of the stores requisitioned, such as Quantity and Description, Order or Job No. to which the material is to be charged, Department No., signature of the party making it, space for the initials of the issuing store-keeper, and the signature of the person receiving the material. Whereas the perforated copy will be torn off and issued to the Stores, the carbon duplicate will remain with the maker in a bound form by way of a permanent record.

STORES OR MATERIAL ISSUE REQUISITION.

Date............ No..............

To

The Store-keeper,

Please issue the undermentioned goods for Job No.. ....

Quantity.					Description of items required.	Rate.	Amount.			Entered on Stock Cards by
Dimensions.	No.	Weight.								
		cwt.	qrs.	lbs.			Rs.	as.	p.	
					Signature..............................					

Materials issued by ....

Received by ....

Cost Department Entered in Materials Issue Analysis by ....

In a properly organized business, the Stores Requisition or Issue Notes for stores required for different purposes are printed on paper of different colours so as to facilitate allocation. Thus, there are requisitions for:—

(1) **Production Orders**, for supplies of productive material for (*a*) Customers' Orders, or for (*b*) Standard Parts required for stock purposes.

(2) **Plant Maintenance Service**, for supplies of Material for plant repairs and renewals chargeable to Works Expenses.

(3) **Tools or Patterns Service**, for Materials required for production of Tools or Patterns either for special jobs or for general use.

(4) **Consumable Stores**, for supplies of non-productive material such as Beltings, Oils, Lubricants, Cotton Waste, etc., chargeable to Works Expenses.

(5) **Material for Spoilt Work**, for productive material required to replace the original quantity issued, but chargeable to "Defective Work Account" and not to the job in respect of which it is issued.

The use of different coloured forms will not only facilitate the work in the Cost Department, but upon their presentation to the store-keeper, the latter can see at a glance what type of material is required.

ORGANIZATION OF STORES DEPARTMENT.

As thefts and wastage of stores by those charged with their custody are common especially in large industrial concerns, some system of internal control as will reduce these to a minimum will necessarily have to be devised. The fact that they are as much responsible for the articles in their keeping as the cashier is for the cash should be thoroughly impressed on those in charge of this department.

The functions of the Stores Department must be:—

(1) To efficiently requisition material and stores and to see that the stock of no item is allowed either to fall below the fixed minimum or to go above the fixed maximum quantity.

(2) To check all goods and materials on receipt, and to store the same properly.

(3) To see to the proper distribution of the materials and stores to the factory departments and to control waste; and

(4) To maintain efficient quantity records of all goods received and issued.

Efficient Handling and Control of Stores.—For an effective control over materials and stores, the following rules are highly essential and should be rigidly enforced:—

(1) The Stores Department should be in charge of some responsible official and only persons having business should have access to its interior.

(2) The entire arrangement and handling of the Stores must tend towards saving of time and labour in receipt and distribution. There should be a proper classification and grouping of similar articles, a proper arrange-

ment of racks and bins, and the whole department must present an orderly appearance.

(3) All items of stores should be known by definite numbers so as to facilitate immediate reference and location of any particular article. The Bin Cards and the Stock Record Cards must bear the same numbers.

(4) Heavy and cumbersome materials and stores should be located as near the place of consumption as possible, so as to reduce labour in handling to a minimum.

(5) All necessary replenishments of stores should be by means of written Purchase Requisitions made out by the Store-keeper from the Purchase Requisition Book supplied to him, the purchases being made by the Buying Department.

(6) Easy access to the stores should not be made possible for every one.

(7) No material should be allowed to pass out except upon the written request of some one in authority.

(8) The Stores Department must maintain a complete record of quantities of stores received and issued out by means of Bin Cards attached to each rack or bin.

(9) The Stores Record Cards as maintained independently by the Stores Accountant attached to the Cost Department must confirm the accuracy of the record as indicated by the Bin Cards written up by the Stores Department. This would help towards ascertainment of leakages or errors which would otherwise remain undetected.

(10) There should also be a constant check on the balance quantities of stores on hand by means of continuous stock-taking by the Internal Check Department.

Record of Materials and Stores Received.—On arrival of the goods at the factory, the receipts should be accurately recorded by the store-keeper. As already pointed out, in order to secure a good check on the actual receipt of stores, it is desirable that the store-keeper should not be advised in advance by being sent the Invoices. The checking of the Invoices should be left to the Buying Office and the Accounts Department.

All materials and stores received from day to day will be recorded by the store-keeper on Goods Received Sheets which are numbered serially and are prepared in triplicate. One copy will be retained by the store-keeper, one will be forwarded to the Stores Accountant and one by way of advice to the Buying Department to enable them to compare how the deliveries are being made to time. Loose sheets are preferable to bound books on account of the greater ease with which entries can be made and circulated to the departments concerned. Such Goods Received Sheets or Notes should be supplied to each department where delivery is taken of raw materials, stores or other goods purchased so that these be written out and the necessary departments may be advised on the arrival.

Goods Received Sheets must contain the following details:—(1) Date of Receipt, Supplier's Name, Purchase Order No., by Railway or Deliv—

Carriage Paid or To Pay, No. of Packages, Class of Package, Description of Material, Quantity or Net Weight received, Quality, Bin Card No., Stores Ledger Folio or Stores Card No., Invoice No. and Date. The last two columns will be filled in by the Stores Accountant. The Store-keeper will check the quantity of goods received and certify to the effect. The quality will be examined by the Inspection Staff, and if the goods are defective in quality, the Purchase Department will be informed of the same and the latter will take the matter up with the suppliers concerned.

The Buying Office will check the details from the Goods Received Sheets against the corresponding Invoices and will insert the number of the job, if the goods are required specially for any job, and ascertain if the price charged is correct, and will then forward the Sheets after inserting the prices to the Stores Accountant for entry of debits to the Cost Accounts concerned. An extra copy of Goods Received Sheets provided with money column may be used to replace the entry of separate invoices in the Purchase Analysis in order to arrive at the record of Total Value of Materials and Stores Purchased to serve as a check on the total Invoices entered in the Purchase Journal for the same period.

These Goods Received Notes or Sheets are then entered by the Stores Accountant in the Stores Record Cards, the receipts of stores being debited to their respective accounts.

Experience has shown that it is desirable to eliminate from the Stores Department all clerical work necessarily involved in the accounting of materials and stores. This work is now transferred to a Stores Accountant in the Cost Department who is free from handling of goods and is engaged independently on clerical work. Being thus detached from the Stores Department, he is apt to make cleaner and more accurate records in less time. The further advantage of having the stock transactions recorded apart from the stock material department is to secure more efficient checking of the incomings and outgoings of the stores.

Bin Cards.—The clerical duties which must necessarily be done in the Stock and Stores Departments would be restricted to writing up of purchase requisitions, completing foremen's requisitions, entering up Goods Received Sheets and filling in the Bin Cards. On receipt of the materials in stores, the store-keeper will place them in the bin or rack provided for it, and will then enter on the relative Bin Card the quantity received and adjust the balance column. The Bin Card is hung on a hook outside each bin, rack, division or receptacle, as this card must be available for entry whenever goods are placed in or taken out of the bin. The maximum and minimum stock of each item necessarily required is stated clearly on the record, and as a result of the quantity record of all inward and outward transactions appertaining to each item of stores on these Bin Cards, the stock is easily and accurately controlled by the Stock Department. The Stock Bin Card balances signify the actual stock in hand of each particular item from day to day, and these balances must agree with the balances as indicated by the corresponding Stores Record Cards maintained by the Stores Accountant, who has nothing to do with the handling of the goods. When the balance on any card shows the stock to be nearing the minimum quantity, a purchase requisition should be issued by the store-keeper.

BIN CARD.

Bin No.................. Minimum Quantity ....

Article........................ Maximum Quantity ....

Date.	Quantity received.	Quantity issued.	Balance.	Date.	Quantity received.	Quantity issued.	Balance.	Date.	Quantity received.	Quantity issued.	Balance.

Checked by .... Date .... Date ....

Actual count .... Initials .... Initials ....

Stock or Stores Record Cards.—In a business where the number of individual items of stores is small, a convenient method of recording the receipts and issues of quantities would be by means of a Stores Ledger; where, however, there is a large number of items and there is constant incoming or outgoing of stores and materials, a card system of record would be found more suitable. A full description of the item of store or material is inserted at the head of each card together with the number of the bin or rack in which the material is stored.

A separate Card is allotted to each item of Stores and each such card will contain information as under:—

(1) Quantity and value of stores received

(2) Quantity and value of goods requisitioned and issued.

(3) Balance of quantity on hand.

[*For a specimen form of the Stock Record Card see the next page.*]

Duties of the Stores Accountant.—The duties of the Stores Accountant engaged upon the writing up of Stores Record Cards will thus chiefly consist of:—

(1) Posting particulars of all goods received in stores as shown by the Goods Received Sheets into the Stock Record Cards.

(2) Posting particulars of all goods issued as represented by the Stores Requisitions.

(3) Checking and comparing the Stores Records with the actual quantities in stock and the Bin Cards at frequent intervals.

There will thus be two distinct records of quantities:—

(1) The **Stores Record Cards** which are maintained by the Stores Accountant attached to the Cost Department.

(2) The **Bin Cards** written up in the Stores Department by way of record of all the items of stores handled.

The detailed record of Stores received and issued out by means of Stores Record Cards and the Stock Bin Cards may entail considerable clerical labour, but is indispensable in an extensive manufacturing business as it will undoubtedly result in enormous benefits being secured by way of safeguarding against pilfering, controlling waste and providing means of taking an inventory without closing down the works.

STOCK OR STORES RECORD CARD.

Bin No. ....

Reference No. .... Description ....

....

Maximum............................ Remarks ....

Minimum............................

Purchase Order. No.	Date of Order.	Name of Suppliers.	Rate.	Quantity.	Date.	In.	Requisition No.	Out.	Balance.	Date.	In.	Requisition No.	Out.	Balance.

Dates Checked ....

....

Balance Quantity Checked with Bin Cards by

....

Record of Materials and Stores Issued.—In well-organized Stores, the store-keeper has strict instructions not to issue any materials, unless a Stores Requisition in writing signed by a responsible works official is presented to him. Such Requisition Note must indicate the quantity and nature of materials or stores and the Works Order number or the department for which the goods are required. The store-keeper on receipt of such requisition issues the materials and receives the signature of the person receiving the material. He then enters on the Bin Card, the date, requisition number and the quantity issued, and adjusts the Balance Column. The Stores Requisition is then initialled by him and passed on to the Cost Department for entry by the Stores Accountant. The entry showing the issue of quantity will then be made in the Stores Record Card bearing the same Bin Number. The Stores Accountant then inserts on the Stores Requisition the price of the material issued which he ascertains from the Stores Card. The object of inserting the price is to enable the issue of materials to be charged/to the different jobs or departments at the actual price paid.

Materials or Stores Returned from Jobs.—Material or Stores supplies issued for jobs or departmental use and not required and returned to the store-keeper must be properly recorded so that they may be duly entered up in the stores records and their values may be credited to the accounts of the jobs or departments concerned by the Cost Department. For this purpose, **Materials Returned Notes** are written out which are similar to foremen's requisitions but printed in red and bear serial numbers. They are made out in triplicate, two copies being sent to the store-keeper along with the returned material. One of these is returned to the foreman with the store-keeper's acknowledgment. The copy retained by the store-keeper is entered by him on the Bin Cards and then passed on to the Stores Accountant to be entered by him in the Stores Cards. It will then be priced and dealt with by the Cost Department, the Account of the Job or Department concerned being given credit in respect thereof.

Materials Transferred from one Job to Another.—Instances occur of materials issued originally to one job being transferred to another job or order without passing through the stores. In such a case, the foreman transferring such material will make out a **Materials Transfer Note** indicating the job number to which the materials are transferred. These Notes are also numbered serially and are made out in triplicate, two copies being sent to the receiving foreman. One of these will be returned to the issuing foreman by way of an acknowledgment from the receiving foreman and this will then be sent to the Cost Department for the purpose of a credit being given to the Job Account issuing such material and a debit to the one receiving the same. As a transaction of this description will not in any way affect the Stores Department, no record thereof is necessary either in the Bin Cards or the Stores Cards.

Continuous Stock-Taking.—In large manufacturing concerns, the usual method of stock-taking at the end of each financial year is often dispensed with, and in place thereof is adopted a method of stores inspection throughout the year, by which not only is a constant check maintained on the whole of the stock, but waste or leakage of material and stores is immediately brought to light and all discrepancies are soon set right. Under this method, the contents of several bins or racks are counted or weighed, from day to day, and the actual quantities on hand as ascertained on count are checked with the Bin Cards or Stock Record Cards. Such an inspection, in order to have any real value, should be done by persons independently of those in charge of the stores. All discrepancies detected should be adjusted on the Bin Cards as also on the Stock Record Cards under proper authority and duly initialled. A further check on stores is also secured when the storekeeper finds any item in the stock has fallen below the minimum quantity, when he must necessarily see that the actual balance on hand tallies with the quantity as shown by the respective Bin Card before re-ordering. A continuous and efficient check is thus maintained on the enormous quantities of material and stores dealt in, which would not be possible under the ordinary system of stock-taking at periodical intervals.

FACTORY LABOUR.

In the case of manufacturing concerns, the preparation of the Wages Sheets as also the subsequent payment of Wages call for a most carefully planned system of internal check, as a large number of defalcations have their origin in the payment of wages. The fundamental points to be observed while devising any system of internal control in this connection should be:—

(1) That the engagement and rates of pay shall be duly authorised by the management;

(2) That there should be a proper record as to the employment of each workman, his trade, department, date of starting and leaving, and any intermediate changes;

(3) That accurate records shall be kept of the workmen's attendance from day to day and the actual time spent on each job so as to constitute the basis for ascertainment of wages;

(4) Where payment is made by result as in piece-work and premium systems, the same shall be accurately computed according to the viewer's certificates and the authorised piece-work price;

(5) That all overtime and working at exceptional hours shall be authorised;

(6) That wages having been computed accurately shall be made up accurately and paid out to the correct persons;

(7) That as many clerks and officials as possible should be engaged in the preparation and checking of the Wages Sheets and the payment of Wages so as to avoid chances of discrepancies and to prevent collusion;

(8) That the system must provide for a detailed record of the time put in by each workman on each separate Works Order, and the Job Cards or Piece-Work Cards must clearly specify the job numbers on account of which the work was done, so that the labour cost of each job or process may be easily and definitely ascertained;

(9) That the total amount spent by way of periodical wages as ascertained by the Costing Department must be capable of being reconciled with the record as obtained from the financial books so as to ensure that all wages paid for are duly charged to some Department, Process, Job or Standing Order No., either directly or as forming part of the Factory Oncost.

LABOUR ROUTINE.

The following details will serve to give a clear understanding of the steps usually taken to ensure proper organization and working of the Labour Section in any large Works:—

Engagement of Labour.—In a large manufacturing concern, the work of proper selection of workers and their engagement in the right departments is assigned to a separate Labour Section. All prospective workers before being interviewed by this Department are required to fill in an Application Form giving full details as to name, age, address, married or single, previous employers, duration of previous services, class of labour, rate of pay previously enjoyed, etc. On their being selected, the particulars as embodied in the Application Form are copied on a Worker's History Card. Each worker is then given a specific number by which he would be known, and further details as to date of commencing service, class of work, rate of pay, location in the factory, etc. would be filled in. The same Card would contain particulars of changes of address, changes in the rate of pay, promotion, and date and reason for leaving.. Each Card would thus contain a full history of each separate worker and would be filed in an alphabetical or numerical order.

Time Recording.—Any efficient system for the accounting of labour must necessarily compromise correct recording of time as also the value of wages. The system of recording the time spent by the workmen in the works has undergone considerable changes in recent years. In days gone bv, the time recording was left to the gate-keeper who was provided with a Time Book in which he would record the name of each workman as he entered the factory. The Time Book was then passed on to the Wages Clerk each day for entering up the attendance of each workman in the Wages Book. But this method was soon found to be unsatisfactory in case of large works where it was not thought possible for the time-keeper to remember the names of all the workmen. Besides, there always used to arise innumerable disputes, as the correctness of the time-keeper's record was often challenged by the workmen.

Metal Discs.—Later on, as an improvement upon the above method, each workman was provided with a metal disc stamped with a number corresponding with his own. All these discs were hung in a numerical order on boards placed outside the time-keeper's office at the entrance of the factory. On entering the factory, each worker would lift from the board the disc bearing his own number and drop it through a slot into a box placed nearby. From two to five minutes after starting time, this box would be removed and replaced by an empty one in which the late-comers would drop their respective discs. These discs would then be removed from the boxes by the time-keeper and entered by him in his Time Book, a special tick being placed against the late arrivals. The discs left out on the boards would represent the absentees, and would be marked as such in the Time Book. After all the discs in the box have been recorded, they would be hung again in their proper places on the boards. The time-keeper's record would then be sent to the Wages Clerk for entries into the Wages Book. But here again, the method was found wanting, inasmuch as, in the absence of any reliable written record of the times each workman entered or left the factory, disputes still continued to arise between the workmen and the time-keeper as to the correctness of the record, for which one had to depend absolutely on the integrity and care of the time-keeper. Besides, experience soon showed that it was easy for any workman to favour his absent co-worker by dropping the latter's disc into the box along with his own, on entering the factory.

Mechanical Time Recorder.—The failure of the Metal Disc Method to secure an indisputable and accurate record of workmen's attendance has brought into use Mechanical Time Recorders which are now coming more and more into favour. Under this method, each workman on entering the works takes the Time Card bearing his own number from the rack on one side of the clock where the cards are arranged numerically and inserts the same through a slot in the Time Recording Clock which is installed at the entrance of the factory. The exact time of punching is thus automatically stamped on the Time Card which is then placed in a rack on the other side of the clock. The times of entering and leaving the works are thus registered upon these Cards by the workmen themselves so as to obviate any doubt or dispute. Besides, as the time is punched on the cards, there is no chance of its being altered in the future. The number of hours put in by each workman as disclosed by these Time Cards would then be summarised on the cards at the end of each day by the time-keeper.

Even in the case of automatic clock-recording, the time-keeper should be present at the time the cards are punched by the worker in order to make sure that no workman punches any other card besides his own. A strict supervision should also be provided to see that no workman passes out of the works before the scheduled time without a written authority. A further duty of the time-keeper would be to make out a list of absentees at the end of each day and forward a copy thereof to the Works Manager's office.

The **Gate Cards** or **Time Cards**, as above explained, should be so printed as to accommodate the timings of each week or month according to whether the wages are paid weekly or monthly. At the end of the week or the month, as the case may be, these Cards are sent to the Wages Clerk for calculating and making up the Workmen's pay and are replaced by new Cards on the racks.

Job Cards.—Besides the Time Cards or Gate Cards, every worker is supplied with a Job Card for each week, which is kept and written up by him from day to day. The Job Card will serve to record not only the time expended by each workman but will also indicate the Job, Department or Process on which he worked each day so as to ensure correct allocation of the time spent on each job, process or department. The entries on the Job Cards are initialled by the respective foremen as evidence of their authenticity. These Job Cards are also known as **Work Tickets** or **Operation Cards.**

The total time worked by each workman as shown by the Gate Card during each week must necessarily tally with the total time as shown by his Job Card for the same week. Thus, the summary of the total time as made from the Gate Cards will tally with the total time summary as obtained from the Job Cards to ensure the correctness of the records.

Where the nature of the business is such that all the workmen of each section or department of the factory are engaged on the same type of work, separate Job Cards are not issued to each worker, but the foreman of each department prepares a weekly summary indicating the nature of work done by the men under him.

Piece-Work Cards.—When the workmen are employed on piece-work, they should, when starting on it, be supplied with a Piece-Work Return Form or Card which will contain not only the number of the workman, a full description and quantity of work to be done by each workman, but will also contain the Works Order Number and the Piece-work Rate to be paid. The time when the job was commenced and when finished is then recorded on the card, the entries being duly initialled by the foreman. After the completion of the work, the quantity and quality of the work done will also be checked and initialled by the viewer. All such completed Piece-work Cards are passed on to the Wages Clerk, who completes the calculations for ascertaining the amount of piece-work wages and bonus earnings on each job.

PIECE-WORK CARD.

Works Order No.	Workman's No.	Time allowed.	Dept. or Section No.

Rate Fixed.	Date Commenced.	Date Completed.

Operations	Viewed and passed by
....	....
....	

Particulars of Time Taken.				Works Expenses.	Price.			
Days.	Hours.	Over-time.	Total.	Machine Nos.		Rs.	a.	p.
				Machine Rates	Amount of Piece-work Price			
				Hours Machines Worked	Time			
					Bonus			
				Shop Rate...............	Total Wages			

Piece-Work Register.—In factories where a substantial portion of work is obtained on piece-work basis, the maintenance of a *Piece-work Register* would prove to be of considerable advantage. Such a Register would be written up from the Piece-work Returns or Cards and will serve to afford most valuable information as to whether any particular type of piece-work is favourable or otherwise to the employers and would help considerably towards the fixing up of piece-work rates. Besides, from the data thus obtained, most useful comparisons can be drawn between the result of piece-work rates and the day-rates obtaining in the same departments or sections of the factory.

Overtime Slips.—All overtime to be put in by workmen should be duly sanctioned in advance on overtime slips by some one in authority, usually the foreman in charge, and these slips after being initialled by him should be passed on to the time-keeper to be forwarded to the Wages Office. Such slips should specify the workman's No., the date, the overtime put in and also indicate the Job or Department or Process on which such overtime was worked.

Pass-Out Slips.—Great care should be taken to ensure that once the workmen have entered the factory they cannot leave it before the scheduled time without a written authority. Such authority would take the shape of a Pass-Out Slip which must bear the foreman's initials and which should be handed over to the gate-keeper. The slip should indicate whether the worker is going out on his own or on the firm's account. A carbon copy of this slip is simultaneously sent to the Wages Office, and if the worker happens to go out on his own account, the gate-keeper should initial it as an indication of the man having been timed out. At the time of making up the wages, the Pass-Out Slips as initialled by the Gate-keeper should be checked with their corresponding copies received by the Wages Office to ensure proper deduction of the timings of the men having gone out before time.

Preparation of Pay Roll and Payment of Wages.—At the end of each week or month, the following steps should be taken for the compilation of the Pay Roll and the subsequent payment of wages:—

(1) The total time provided by the Time-keeper's Book from the time-board where metal discs are in use, or that punched on the time cards by the mechanical recorder, is checked off and agreed with the time as indicated by the corresponding Job Cards or Piece-work Cards written up by the workmen themselves and signed by their respective foremen or with the foremen's summaries.

(2) In case of a large factory, the Pay Roll should consist of loose sheets so that the work may be capable of being distributed amongst the Wages Office Staff and can thus be performed with greater despatch than would be possible if the Pay Roll is in the form of a book. Further, it would be desirable to make up the wages of each Department separately as this would help considerably towards the ascertainment and checking of departmental labour cost.

(3) The Pay Roll should comprise details as to each workman's number, time worked, description of work, rate, amount of wages, bonus, total amount payable, deductions (if any), and the net amount payable.

(4) A set of clerks should be engaged to enter up from the Job Cards and Piece-work Cards the numbers of the workmen, the number of hours worked by each of them, the rates of pay and the particulars of any deductions to be made. These should then be checked by some other clerks.

(5) The total amount of wages due to each workman would now be worked out and the Wages Sheets cast by another set of clerks.

(6) These Sheets should then be checked by some responsible clerks as to the rates, calculations, and casts.

(7) The Job Cards of time-workers and the Piece-work Cards would also be sent to the Costing Department in order that the wages chargeable to each job, process or department may be ascertained, and for this purpose, the whole of the wages for the week or the month would be analysed and duly classified.

(8) The total amount of wages for each week or month as ascertained by the Counting House must necessarily tally with the total of the Wages Analysis Sheets for the corresponding week or month as prepared by the Costing Department.

(9) Every person concerned in the preparation of the Wages Sheets should put his initials thereon indicating the nature of the work done by

him, and these should finally be countersigned as a whole by the Works Manager or some other responsible official.

(10) The total wages of the week or the month in question having been made up and checked, one cheque should be drawn for the whole amount. The payment of the wages should be made by the cashier, who should have no hand in the preparation of the Wages Sheets, as described above.

(11) The payment should be made to the men of each department in the presence of their respective foremen, who would also be made to initial the Wages Sheets.

(12) The Works Manager should also be present at the time of payment and should sign the total wages of the week or the month as an indication that such wages were duly authorised.

It will be seen from the foregoing, that if the above rules are rigidly followed in the compilation of the Wages Sheets and payment of the wages, there would hardly be any chance for clerical mistakes to creep in and remain undetected; whilst the number of persons through whose hands the returns pass, each acting as a check on the others, should prevent peculation and fraud.

Advances to Workmen.—The common practice for workmen to be paid advances against wages should be discouraged, as far as possible, as it complicates the making up and paying of wages. Besides, innumerable instances occur of workmen leaving their jobs after receiving advances and before earning these in wages, and this would entail a loss to the concern. If, however, advances are unavoidable, the method to be employed would be for such payments to be made through the petty cash, and on the petty cashier presenting a statement of such advances to the Wages Clerk, the latter to repay the amount from the workmen's wages.

METHODS OF REMUNERATING LABOUR.

There are various methods of remunerating labour, and it would not be out of place to review these briefly here. These different methods of remuneration may be classified as under:—

(1) Time or Day Rates;
(2) Piece-Work Rates;
(3) Combination of Time Rate and Piece-Work;
(4) High Wage Plan;
(5) Premium or Efficiency Bonus Methods;
(6) Output Bonus;
(7) Profit-sharing Schemes.

Time or Day Rate System.—Under this system, the employees are paid at the rate of so much per day or per hour of work done, irrespective of the quantity of work performed. This was one of the first methods of payment used in factories, but experience soon showed that this system of payment was unsatisfactory as it hardly left any incentive for a skilled or conscientious worker to produce more work than his neighbour who was paid at the same rate as himself. This led to the remuneration of skilled employees on the Piece-Work Method. In present days, therefore, the Day Rate System of remuneration is generally used as the basis of calculating the amount payable to indirect workers such as Foremen, Supervisors, Time-keepers, Cleaners, Enginemen, Boilermen, Store-keepers, Gate-men, etc., as the nature of their work is such that "time" alone can be taken as the basis on which to remunerate them. Besides, Time Rates are essential in certain industries where the work cannot be standardised or classified into suitable grades for piece rating.

Piece-Work Method.—Under this method, the rate of payment is correlated to the quantity of work done, i.e., each workman who is engaged on direct production work is remunerated at the rate of so much per certain piece of work finished, irrespective of the time taken. Thus, by stimulating skilled workmen to extra efforts, this method would naturally result in enhancing the amount of wage payable to them and at the same time would serve to increase the factory output. It need hardly be stated that the quality of work done must reach an agreed standard.

The Piece-Work System is very simple in its working. Let us assume that a workman, whose Time Rate is Rs. 20 for a week of 48 hours, is given 20 pieces of work to be done at the rate of Re. 1 per piece. If it takes him exactly one week to complete, his wages for the work would amount to Rs. 20, and he has then earned his ordinary time rate. If, however, he completes the allotted work within 40 hours, he would still earn Rs. 20 for the quantity of work done irrespective of the time taken. In this case, the workman has earned an increased rate, for he has made Rs. 20 in 40 hours and not in 48 hours. Apart from the enhanced output, the advantage to the employer here lies in the reduction of supervision cost which would otherwise have to be entailed if the men were engaged on the Day Rate System. Besides, the increased output within a given time results in considerable saving in the running cost of machines, more especially in case of large and expensive plant. It needs to be mentioned, however, that as a precaution against bad work likely to be put in by workmen in their anxiety to earn more, all piece-work must be certified by viewers or checkers before it would be accepted for the purpose of calculation of piece-work wages.

But the Piece-Work Rate System would work satisfactorily only provided the rates are correctly fixed at the outset. Bearing in mind the natural inclination on the part of the workmen to earn as high an amount of wage as possible and an equal desire on the part of the management to obtain as low a cost per unit of production as possible, any subsequent cutting in the price once fixed is sure to result in constant friction between the employers and the employed. It so happens usually, that a certain price is fixed for a definite piece of work, and when the workmen by putting in their best efforts have earned a high return by way of wages, the management would feel to have over-rated the piece-work price and would seek to reduce it. Such a step would naturally be resented by the workmen who would regard the system with suspicion, and all confidence between the employers and the employed which is essential to good work would be lost. Greatest possible care should, therefore, be taken to ensure that the rates once fixed are likely to be more or less constant, for once any cutting in the rates takes place, the system would fail to work harmoniously. It would thus require a highly competent rate fixer who should not only have a thorough technical knowledge of the work, but must also possess considerable skill and foresight to reconcile these clashing interests.

With all its apparent advantages, however, the system is found deficient for the reason that the whole of the benefit of extra wages earned goes to the workmen. Another disadvantage of fixing the wage cost per piece of work is that the system does not bring into account the length of time taken, and in cases where an unduly longer time is taken to complete a given piece of work, the employer would stand to suffer the extra shop and machine charges, which would certainly not help towards economical production.

Combination of Day Rate and Piece-Work.—There is yet another system of payment which combines within itself the Time Rate as also the Piece-Work Method. Under this system, a minimum weekly wage is fixed which the workman would receive irrespective of the work done by him provided he has worked for the full week. If he has worked less number of hours, his weekly wages would abate proportionately. Thus, assuming that a week consists of 48 hours of work and the minimum weekly wage is fixed at Rs. 24, if the workman has put in 40 hours of work only, he will get Rs. 20. So far the system is based on the Time Rate. But combined with the Time Rate basis, there is also the piece-work arrangement with the worker. The Job Card of each worker would clearly indicate the price of each piece of work fixed by the rate-fixer, and the workman is assumed to do sufficient work at the prices fixed as would make up his minimum weekly wage. If the wages calculated on piece-work basis come to more than the time rate, the workman earns the excess; if, however, the piece-work wages fall short of the time rate, he would still get the weekly wage, but then he will have to make good the excess paid to him out of subsequent wages he would earn. This system has been found to have answered well in certain classes of work; but here, again, the rate-fixing will require to be most carefully done so as to obviate all chances of any subsequent cutting in the rates.

Following up the above illustration, if we further assume that each piece of work allotted to the above worker is priced at Rs. 3 by the rate-fixer, the former is supposed to complete at least 8 pieces within the week to entitle him to his minimum weekly wage of Rs. 24. Now, if he completes 10 pieces within the 48 hours, he earns Rs. 30. If, however, he works only 7 pieces at the end of the week, he will still be paid his minimum weekly wage of Rs. 24, but as he has earned Rs. 21 on the piece-work basis, he will have to make good the excess Rs. 3 paid to him out of his subsequent wages.

The one disadvantage to the employer under this system is that the whole of the benefit of extra pay as an inducement to extra output goes to the workers. This has given rise to several Premium or Bonus Methods of payment which provide for a portion of the savings in wages to pass to the employer and thus serve to unify the apparently opposite interests of the employer and the employed. Besides, under the Premium or Bonus Systems, as the basis of contract between the management and the workers is in terms of time, a considerable amount of time-saving is effected by a larger quantity being turned out per hour. This would naturally result in reduction of shop and machine charges and thus help towards economical production.

Premium or Bonus Methods.—The more modern methods of payment known as the Premium or Bonus Systems have been devised so as to combine within themselves all the following advantages, viz.:—

(1) To stimulate production by encouraging workers to earn more than average wages;

(2) To obviate the tendency of cutting down of Rates by combining the workmen's bonus with some benefit in the savings of wages to the employers;

(3) To help towards economical production by reducing the wage and production cost per unit; and

(4) To unify the conflicting interests of the employers and the employed so as to promote and sustain increased efficiency and smooth working.

Under these methods, the quantity of work to be turned out is correlated to the time to be taken to complete it, each workman receiving a bonus or premium on the time saved by him, over and above his day rate for the actual time put in by him. Thus, a rate is fixed for a certain type of work in quality and quantity to be completed within a definite time, and if the workman happens to finish the work quicker, he receives a premium or bonus on the time saved in addition to his day rate as already fixed.

For example, if a workman's time rate is fixed at Rs. 3 per day of 8 hours and if the job given to him is timed to be completed within 3 days, evidently the piece-work rate as computed by the rate-fixer is Rs. 9. Now, if the worker completes the job within 2 days, he receives his day rate wages Rs. 6 for the time he actually worked, plus, say, half the time saved, i.e., Rs. 1-8, which brings him a total wage of Rs. 7-8. Thus, the wages cost of the job which was estimated by the rate-fixer at Rs. 9 has now actually cost Rs. 7-8 and at the same time, the worker has earned a higher day rate, viz., Rs. 3-12 per day. It will be clear from the above that by this method the employer has also shared in the benefit arising from the reduction in the wage cost. But the more important factor which needs to be emphasised is that under Premium or Bonus Systems, as the basis of the contract between the management and the workers is in terms of time, a large output per hour thus stimulated results not only in the direct reduction of the wage-cost but also in the ultimate cost of production due to reduction in shop and machine charges.

There are several methods used for calculating the premium or bonus earned by the workmen, but they all differ in either the amount or the percentage allowed by way of bonus on the time saved. Thus, whereas under the Halsey System, 50 per cent of the time saved is usually allowed as a bonus, under the Rowan System, the workman receives a percentage increase equal to the percentage of time saved. Thus, if a workman is given a piece-work to be completed within 25 hours at the rate of Re. 1 per hour, and if he finished the job within 20 hours, his remuneration will be calculated as follows:—

Under the Halsey System:

		Rs.	a.	p.
Time taken	= 20 hours @ Re. 1 per hour	20	0	0
Time allowed	= 25 hours			
Less time taken	= 20 hours			
Time saved	= 5 hours			
50 per cent of the time saved	= $2\frac{1}{2}$ hours @ Re. 1 per hour	2	8	0
Wages due to the workman	= Rs.	22	8	0
Amount saved by the Employer	= Rs.	2	8	0

Under the Rowan System:

		Rs. a. p.
Time allowed	= 25 hours	
Time taken	= 20 hours @ Re. 1 per hour	20 0 0
Time saved	= 20 per cent of the time allowed	
∴ the Bonus	= 20 per cent of the time taken	4 0 0
	Wages due to the workman = Rs.	24 0 0
	Amount saved by the Employer = Re.	1 0 0

Gantt System of Differential Payment.—This system provides for a time-rate for a certain amount of production, and if the standard is reached, a bonus is paid in the shape of an increased rate to the extent of 25% to 33 1/3% of the regular wages.

A peculiar feature of the Gantt System is the payment of bonus to the foreman in respect of every man under him who earns bonus. The foreman of each department is thus directly interested to see that the men under his charge bring up their work to the bonus standard.

There are several other Bonus or Premium methods which are modifications of one or other of the above methods, but they differ only in details devised to meet particular conditions. They are all, however, mainly based on the assumption that if the employer wishes to secure maximum production by the workmen putting in their best efforts, the latter must be paid something more than the ordinary day wage.

High Wage Plan.—Under this system, the day or time wage is fixed at rates varying from 20 to 40 per cent above those ruling in the district, on the distinct understanding that the workmen should put in their utmost efforts with a view to attain the highest possible standard of efficiency.

Profit-Sharing Schemes.—Several profit-sharing schemes have lately been introduced in large manufacturing concerns with the object of making the employees take a personal and direct interest in the business by entitling them to participate in the distribution of profits earned. With a view to secure a permanency of skilled service, the distribution of such profits is usually made in the shape of bonus shares with restrictions on transfer, and is generally based on merit and length of service. Although this system has worked satisfactorily in some few cases, it does not seem to have found so much favour with the workmen as the Premium or Bonus methods.

The reasons that may be adduced against this system of profit-sharing by the workers are:—

(*a*) In the case of loss or diminished profits, no bonus would be payable to the workmen, and yet such results may be due to excessive "oncost" burden, defective salesmanship, adverse trade conditions or bad finance for which the workmen cannot be held to be directly responsible.

(*b*) Even in the case of profits, the distribution of bonus can only be done once in a year which would be deemed too long a period by the workmen.

(*c*) As the books of the business cannot be laid open to inspection of the employees, the latter must necessarily accept the amount of profit as declared by the management to be available for distribution as bonus amongst them.

(*d*) Workers would sooner prefer to have their bonus in cash than in the shape of shares.

(*e*) Bonus payable to the individual worker by way of his share of profits may be too negligible to act as a stimulant to increased efforts.

(*f*) Profits may have resulted from causes outside the manufacturing business, and under such a circumstance, it may not be deemed fair on the part of the workers to share in the same.

(*g*) The system helps to reward mass efforts, but fails absolutely to recognize extra work turned out by really deserving workers.

Output Bonus Plan.—The Pristman Plan presents a good example of the Output Bonus Method. Under this scheme, the standard weekly output is agreed upon between the employers and the workmen's representatives, such output being based either on a fixed number of employees or a definite number of working hours per week. On the number of workmen or the number of working hours for any week being increased or reduced, the standard output would necessarily be adjusted accordingly. At the end of each week, the total production is measured in definite units, and in the case of an increase over the standard output, a bonus becomes payable to every employee at the percentage the increased output bears to the agreed standard.

It need hardly be pointed out that different methods may be found suitable under varying circumstances, and whereas on the one hand, such group bonuses like the above as also those arising from profit-sharing schemes would hardly seem to offer any incentive to the individual worker to exert his best skill and effort, there are industries, on the other hand, where group organization and mass efforts would help more towards production of maximum output than individual skill.

THE PERSONNEL.

General Manager.—It need hardly be pointed out that with all its internal organized forces, no manufacturing business can expect to be successful unless it has at its helm of affairs a highly skilled financier and an able administrator. The principal executive must, therefore, possess a thorough knowledge of facts and theories concerning industrial and commercial economics and finance as would enable him to capably grasp the many complex problems that must necessarily arise in the conduct of the organization. Apart from high technical qualification and practical knowledge of the particular industry, he must have considerable initiative and organizing ability and must be capable of directing and controlling the activities of the entire undertaking.

He must secure an effective co-operation of all the sub-executives and departmental managers so that all may give their best towards a common objective. Further, he should see that the contact of all the sub-executives with the workers is real and sympathetic. He must be receptive to the suggestions of subordinate technicians and must encourage ability and initiative.

He must know how to create demand for new products and how to produce them by the best and cheapest methods so as to baffle competition. He must carry out a ceaseless effort towards economic production by the introduction of efficient operative processes, and securing co-ordination of all the productive forces. He must decide upon the most suitable methods of wage payment, and most effective ways of material and expense control.

Works Manager.—The foremost qualification for the Works Manager must be a thorough specialised training in production engineering relative to the particular industry concerned. He must be capable of designing the factory building and equipping it with the most up-to-date and efficient operating plant in consultation with the Chief Engineer. He should so plan the entire factory including the Engineering Shops and the service departments that there may be a constant flow of production without the least friction and without any undue wastage of time, labour or material.

He must possess knowledge, energy and ability to direct, control and utilise to the fullest advantage men, material and machines towards efficient production. He must be capable of selecting the right type of men as departmental or functional chiefs, each being placed in a position for which he is best fitted. He must infuse in them a sense of responsibility and goodwill so that each may give his best in efforts and intelligence.

His constant endeavour should be towards efficient designs, productive efficiency and reduction of the cost by simplification and standardization. It should be his duty to compare the actual results of production and other activities as frequently as possible with the preconceived programme and ascertain how far the estimates have been attained.

Departmental Manager.—It would be up to each departmental manager to see that he regulates the smooth running of his section by arranging production ahead and by loading his plant uniformly with a judicious distribution of labour and material. It is by keeping himself in the closest possible contact with the minutest details of his section that he would be able to control operations as also the quality and volume of his turn-out. He should see that there is no wastage of material or labour and that no machine is left idle. He should keep a constant eye on the rapidity of production by securing maximum output from men and machines, and maintain the working of his department always to the schedule.

Foreman.—The foreman of each section or department of the works should be most carefully chosen. Apart from being a superior worker possessing an expert knowledge of the work carried on, he must be a strict disciplinarian. He must be able to organize labour and select the right type of workers and know how to handle them. He must be able to direct and control his men and at the same time foster effective co-operation amongst them.

Each foreman must be made entirely responsible for a particular line of effort and his results must be duly recorded and compared. It should be seen that in each section of the works the business gets the utmost return for the expenditure.

He must be thoroughly conversant with the requisite quality and class of material, and must be a good judge of superior workmanship and design. He must possess tact, discretion and kindness, and must always be open to receive new ideas from his men.

Workers.—The most vital factor in bringing an industrial organization to success is a thorough knowledge of the type of workmen employed and the ability to direct and control them.

It should be seen that the workers are supplied with the best available equipment, that they are made to work under most satisfactory conditions, and that they are paid on most equitable basis with due regard to the time occupied and the quantity and quality of the work turned out.

Continual attention should be paid to make the workers feel happy and contented with their surroundings. Ample provision should be made for their proper housing, education, sanitation and recreation.

It should be the prime duty of those in management to infuse a spirit of co-operation amongst staff members as would ensure the existence of most harmonious relationships between those in higher authority, subordinate officials and workers. It would equally be their duty to create ambition, encourage incentive and efficiency, and to reward by promotion those who have proved competent and loyal.

With a view to afford opportunities of advancement to energetic and willing workers, there should be a regular system of training for subordinate positions to enable them to fill vacancies when they arise. This will not only ensure a regular supply of trained assistants, but will also serve to act as an incentive to workers to give their best.

Every individual worker must be made to feel that he in some measure contributes towards a planned objective and benefits to some extent from the result of combined efforts. If the workers are trusted and made to feel a personal interest in their work, they are sure to cheerfully respond and co-operate by giving their employers a full measure of their efforts.

SALES MANAGEMENT.

Successful management of a manufacturing concern would depend as much on a thorough knowledge of the needs and conditions of the markets with a view to developing the sales, as on the reduction of the cost of production by efficient organization. The chief sales executive must investigate the trend of market conditions to find out the best markets for his goods and how he can best reach the likely customers.

He should keep himself well informed as to how the quality and price of the products manufactured compare with similar articles offered by competitive concerns. He should investigate into how far the quality of the products, their price, size, design and packing satisfy the present demand and whether there is any direction in which the article can be made more attractive or useful, or the cost to the customer may be minimised. He should enquire into what type of customers utilise the existing products and in what way and how far the business can be developed by the introduction of the goods in fresh markets.

Constant efforts should be made by means of advertising propaganda to stimulate demand for the product where there appear to be marketing possibilities, and the results of such efforts should be studied to ascertain in what trading centres they have proved fruitful. Greater efforts should then be expended in the direction in which the sales promotion efforts have proved effective. Where any existing market discloses a diminishing demand, most careful enquiries should be instituted to ascertain the causes of the fall in trade. It may be the result of general trade depression, or the product may be faulty and not up to the tastes or requirements of the customers, or it may be that a similar article less costly or more attractive offered by a competitive enterprise is gradually ousting the present products.

Having determined the best market centres for the products, most careful consideration needs to be given to packing, in order to avoid breakage in transit due to rough handling. Where the products manufactured sell more due to attractive packing than the intrinsic worth of the contents, special attention should be devoted to make the packing attractive. It should also be seen that the container is not unnecessarily heavy or cumbersome as it would affect the ultimate cost to the customer.

Rapidity and cheapness of transport should be looked to, as the freight cost is usually the main factor in competition between different producing areas. The fact that rapid transport would be appreciated by the wholesale or retail customer, as it would reduce the necessity for local stocking, must not be lost sight of.

The Sales Manager must keep in touch with the seasonal requirements in order that the necessary supplies may be available at the time they are wanted. If possible, he must prepare an annual forecast of probable sales so that the production may be planned to meet this forecast. There should be constant endeavours to ascertain how far the actual sales position in each district or territory compares with the forecast.

A careful and comparative study of the competitors' products, their marketing efforts, packing methods and modes of transport will yield most valuable information as to how best to meet competition.

In order to reduce the costs of marketing by eliminating the profits of middlemen, it is in some cases thought desirable for the manufacturer to undertake the distribution of his own products direct to the customers. In such a circumstance, the question of additional capital required to maintain stocks and the consequent additional risks involved will have to be considered.

An important link in the chain of sales organization is the appointment of right type of sales representatives. Apart from having a thorough knowledge of the products they are out to offer, they must be highly persevering, tactful and sociable. In order to stimulate best efforts and promote personal efficiency amongst sales representatives, they should be given long agreements after their abilities have been sufficiently tested. Experience has shown that the best mode of remuneration is giving them a direct interest in the results of their efforts by means of extra commission on a graded scale over and above a fixed salary and travelling expenses.

STATISTICAL REPORTS AND CHARTS.

In a large industrial enterprise, so many complex and varied problems arise and so many functions take place from the time the raw material is purchased and the labour is engaged till the products are finished and sold, that the Chief Executive must necessarily depend upon the statistical reports presented from time to time by the different departments, in order to keep himself in constant touch with the realities of the whole of the organization. Accurate and comprehensive statistical reports, therefore, play an important part towards efficient factory management and control, for without statistical data, it is not possible for those responsible to have any reliable idea as to the real trend of the business.

Presentation of a comparative summary of vital facts can also be effected by means of charts or graphs which would enable a clear and ready grasp of the situation at a glance and would thus offer a vital contribution to factory control. Activities relating to planning, budgetting, movement of machines, movement of material, employment and movement of labour, production control, expense control, turnover, survey of factory orders, departmental progress, all these and many more matters can be expressed either in the shape of statistical tables or in the form of charts presented at fixed intervals to the executive concerned.

Whether the required information is presented in the form of statistical assembly of facts or in the shape of charts, the following points need to be borne in mind, if the facts submitted are to serve any useful purpose:—

(*a*) The data must be accurate and reliable, as otherwise the information conveyed would be misleading and, in some cases, might prove disastrous.

(*b*) The records maintained must help towards a prompt ascertainment and presentation of facts and figures.

(*c*) The information must be conveyed in a simple and readable form as would readily present a comparative idea of things so that useful deductions may be drawn therefrom and acted upon.

(*d*) The Forms used must be standardized when found suitable and each such form should be known by a definite number.

(*e*) The tabulated reports or charts should be presented at regular intervals.

The *Chief Executive* would require periodical statistical information on the following matters:—

(1) Volume of production and sales, and the rate of output as compared to the rate of orders.

(2) Stock of raw materials as compared to periodical consumption.

(3) Increase or decrease in employment of labour and the corresponding increase or decrease in production.

(4) Changes in price level of material and labour.

(5) Fluctuations in market value of products.

(6) Available working capital showing details of liquid assets and current liabilities.

(7) Likely expenditure on additions and improvements to plant and other equipment as also on repairs and maintenance.

(8) Amounts actually expended periodically in respect of material and labour cost as also detailed factory and administration expenses as compared to the amounts estimated or budgetted.

(9) The gross profit represented by the margin between the factory cost and the selling price.

(10) The net profit determined after deduction of distribution and administration cost, etc., etc.

The *Works Manager* will have to be supplied with the following reports or charts dealing with the functioning of the factory:—

(1) Survey of Factory Orders.

(2) Departmental Progress Sheets indicating the functioning of each section of the works.

(3) Movement of material in each department.

(4) Employment and cost of labour by each department and the work done by each department, section or type.

(5) Progress of each individual product or a group of products.

(6) Running time of machines and the work done by machines in each department.

(7) Material or labour wasted by each department.

(8) Cost of power and incidental and miscellaneous shop charges of each department.

(9) Cost Sheets showing actual cost of each product or group of products as compared to their corresponding estimated costs.

(10) Comparisons drawn between orders and production, orders and deliveries and how these compare with the average trend.

(11) Amount of work ahead of machines, etc., etc.

The *Departmental Manager* will each be supplied with statistical data relating to his own department as to:—

(1) The running time and running cost of machines.

(2) Time put in by labour divided into sections and types.

(3) Over-time, spoiled time, or short-time by workers.

(4) Material consumed and spoiled.

(5) The amount of work turned out.

(6) Indirect labour and indirect material expense.

(7) Work-in-progress and work awaiting to be taken in hand, etc., etc.

To the *Sales Manager* periodical statistical information on the following matters would prove valuable:—

(1) The total sales of each type of product, in quantity and value divided into the territories concerned.

(2) The total distribution and selling expenses.

(3) Sales Expense by products and territory.

(4) Publicity costs and publicity results.

(5) Comparative results of the salesmen's efforts.

(6) Unexecuted orders ahead, etc., etc.

It will be noticed from the above that different statistical reports and charts will have to be submitted to different departmental executives with due regard to their individual responsibilities, whilst the chief executive must have placed before him the fullest data of the functioning of the whole of the undertaking, indicating the manufacturing, trading and financial trend from time to time.

The charts or tabulated reports must be so drawn as to indicate a normal base line so that any variation from the standard average may be clearly brought out and immediate attention may be drawn to results better or worse than the normal. They must also embody a comparison of the current results with those of the past for a similar period.

It is by a constant and accurate measure and record of the performance of men, material, machines and methods with relation to a scheduled production that factory operations can be controlled. By the preparation of statistical data and charts in suitable forms, those in control can have a comprehensive survey of the functioning of the several operations and stages of production, of the shortcomings disclosed therefrom and of the trading and financial position of the concern as a whole.

TOOL SERVICE.

An indispensable adjunct to any productive activity would be a good tool service. The tool room must be equipped with all the necessary tools of the highest quality required by the class of manufacture concerned. It would be the duty of the man in charge of this department to maintain all the tools in a state of highest efficiency and to supply these to the different departments as and when called for.

The stock of tools must be maintained with due regard to the full requirements of the works. The manufacture of special tools, if required for any particular job, should receive immediate attention of the department. All repairs and replacements must be carefully attended to, and bearing in mind the fact that the tools service should help production and not dislocate it, every tool must be kept in proper working condition and must be available on demand.

There should be a *Register of Tools* keeping a detailed record of all tools issued out to the different sections of the works, those returned to the tool room for repairs or replacement and those on hand.

In connection with the manufacture of new tools, special or otherwise, the Tools Department must receive orders from the Planning and Progress Department who would issue the necessary specifications with full instructions as to the design and type of the tool, classification, etc. Each such order will be issued on a form marked New Tool Order bearing a serial number for reference.

The Planning Department will also maintain a close watch over the cost of all tools manufactured as also on the cost of all repairs and replacements of tools. For this purpose, a periodical List should be supplied by the Tools Service to the Planning Department detailing the new tools manufactured during the period, the cost thereof, the tools repaired and their cost and the tools on hand for repairs or for manufacture. This will enable a close supervision to be maintained on the work by the Tool Room.

LABORATORY AND RESEARCH SERVICE.

A fully equipped laboratory must be maintained having due regard to the class of industry, and there should be continuous experimental work carried out to search for new and cheaper raw materials, new designs of articles or absolutely new type of products. There should be a continuous effort towards attainment of new production processes or improvement in existing processes as would eliminate waste of material, time and efforts and thus tend to lower production cost.

The establishment of a laboratory calls for not only most efficient and up-to-date plant and tools equipment but also the appointment of a highly skilled personnel to conduct scientific investigations. They must be persons who have been trained in the particular industry and who have acquired an intimate knowledge by actual experience. They must be men who are imbued with a spirit of critical inquiry and research and who possess a creative bent of mind.

DRAWING AND DESIGN SERVICE.

It should be the duty of the Designing Department to see to the simplicity of the designs not only from the manufacturing view-point but also from the commercial value of the products. Whenever new designs and drawings are made or a need arises for modifications in any existing designs, the work should be carried out in close consultation with the Commercial Department in order to ensure the easy marketability of the product. The designs while attractive in quality and finish should be such as would call for the use of the most economical material and involve cheap and ready manufacturing processes. Where a variety of products is under manufacture, due attention should be paid to the standardization and interchangeability of the component parts, wherever possible, as this would tend considerably towards minimising production costs. It would follow, therefore, that the Designing Department must always work in closest co-operation with the Planning and the Buying Departments as also with the Sales Department, in order to successfully achieve the end.

A list should always be made of all standard drawings made for parts usually stocked. Each such standard drawing covering a number of parts for small details, must be given an alphabetical letter to which numbers may be added to specify the several component parts thereof. This considerably facilitates reference to any specification or drawing whenever needed. A separate list should also be made of new designs and new drawings, and the latter should also be known by distinctive letters, a different number being added thereto bearing reference to each component part thereof.

A record must be maintained of all the blue prints of specifications, drawings and designs issued to the factory from time to time so that the Drawing Office may know precisely at any time where any particular one is to be found. Once when any alteration or modification is made in the original design and a new drawing is issued in place of the old one, it is highly desirable to recall the original blue print from the factory before the issue of new one in order to avoid any possibility of mistake.

Where a supply of novel products is an integral part of the business, continuous efforts of the Drafting Department should be directed towards new ideas, new patterns and new designs for the purpose of improving the existing lines as also for creating new demands and launching new products upon the market. But the guiding factor in all these activities must be the most efficient and economic production so as to keep the cost within marketable limits.

PROGRESS AND INSPECTION SERVICE.

A continuous check must be maintained on manufacturing operations to make sure that all machines and men work at their maximum productive capacity. It should be seen that all Works Orders are taken in hand and made to progress in order of their relative importance and promised time of delivery, and Progress Charts must be provided to enable the day to day movement of men, material and machines to be seen at a glance.

The Progress Department should maintain a proper record of the manufacture and disposal of Finished Stock and of the components ready for assembly. It will also be the duty of this department to issue orders for the manufacture of requisite standard parts in bulk with due regard to immediate requirements, to see that their stock does not fall below the minimum quantity fixed for each type, to appropriate Finished Stores against orders on hand, and to make sure that there is no over-production of any parts.

There should be a regular system of inspection of products by inspectors and viewers not only when the products are in a finished state but also while they are undergoing several operations and processes. Such inspectors must be highly qualified by the necessary technical training and experience and must be fully appreciative of their responsibility. They must be sufficiently tactful so as to avoid creating any unnecessary bitterness, but must be firm in their decision. If the work is faulty, they must not hesitate to reject it.

COSTING SERVICE.

Factory Organization and Costing may be said to be indissolubly interlinked one with the other. Whereas, on the one hand, it is impossible to imagine a highly organized factory without a suitable system of Cost Accounting being installed therein, it is equally futile, on the other hand, to expect any system of Cost Accounting to give reliable results unless it is supported by sound internal organization. A highly efficient costing service is, therefore, indispensable to factory organization.

In a trading business where goods are sold practically in the same form as when purchased, the cost becomes a known factor, and little difficulty is then experienced in fixing the selling price, as the process resolves itself into a mere addition of a percentage to the purchase price sufficient to cover establishment expenses, which are more or less known and which keep fairly constant, and leave a reasonable margin of profit. With a manufacturing concern, however, before the commodity emerges as a finished and saleable product, so many varied factors enter into its cost of production by way of raw materials and stores consumed, productive and non-productive labour, direct factory expenses, works organization and management cost, as also the selling, distribution and office administration charges, that it becomes a matter of considerable difficulty to ascertain the true cost of products. It is here that a sound system of Cost Accounting becomes indispensable for securing works organization, expense control and the ascertainment of accurate final costs. Under a suitable costing method, the numerous factors of production are systematically localised and apportioned, and waste of material as also payment of unremunerative labour and expense, if any, are brought to light.

Ascertainment of accurate costs is thus directly related to factory efficiency and stability. A manufacturer who has equipped himself with a sound system of Cost Accounts knows exactly what part of his business is profitable and what part is not, so that he is able to direct his energies in profitable channels, leaving unprofitable work to others. He is able to make any adjustment of prices which may seem desirable under stress of competition with the full knowledge of what the result of that adjustment will be.

WELFARE DEPARTMENT.

In a concern of large scale production, the old idea of "master and servant" should be superseded by that of "fellow worker." In other words, in order to secure the most harmonious working and efficient productive results, the fullest co-operation of the men behind the machines must be enlisted. This can best be brought about by the employer recognising the fact that the employees in his concern are his fellow-workers. There should thus exist in an industrial undertaking excellent working conditions, good wages, reasonable working hours, and facilities for recreation, sports, education and free medical aid. There should also be provided ample opportunities for advancement by training and development of initiative. It is with this object in view that welfare schemes are organized in big undertakings, so that the workers may be made to realise that their own welfare is inseparably coupled with the welfare of the business. Such activities can best be managed by committees made up mostly from the staff members and workers.

The activities of the Welfare Department will comprise the following:—

Supervision of Working Conditions.—The work rooms should be supervised from the standpoint of health and cleanliness in order that the work may be performed under healthy and congenial environment. The temperature, light and ventilation in work rooms must receive careful consideration. The supply of protective clothing will also form an important function.

Housing Accommodation.—In case of shortage of suitable house accommodation for the factory labourers, or where there happens to be any dissatisfaction with the existing housing conditions, the Welfare Department can render very valuable service in improving these.

Transport to and from Factory.—Where the works are located far from the workmen's cottages, and the available means of transport are inadequate or unsatisfactory by being either slow or too expensive, efforts should be directed to provide buses or lorries to carry the workers to and from the works.

Health Functions.—Well-stocked First-Aid Boxes may be placed about the works in prominent positions. In a large concern, an Ambulance Room fully equipped with all first-aid appliances, and, if possible, with an Ambulance Car with a trained nurse in attendance may be maintained. This section will also maintain Sickness Records and may arrange for the medical examination of new employees.

Canteen and Dining Room Facilities.—The welfare committee can with advantage run this department under their control and supervision. The object will be to provide wholesome meals at very low rates usually covering the cost of the food only. A portion of the running costs, if borne by the employers, will go a great way to impress the employees favourably.

Training Facilities.—If these are not provided by the internal organization, the Welfare Department may undertake to give specialised training in the particular industry to those who are anxious to fit themselves for better positions.

Educational Facilities.—Where there do not happen to be any cheap local facilities for education, regular classes and schools may be conducted for the general education of the members of the Staff and their children, the attendance at which may be voluntary.

Recreation Grounds and Sports Clubs.—Recreation grounds and sports clubs should be provided to encourage physical fitness and foster team spirit. Such work can best be organized and supervised by committees elected from among the staff members.

Medical Aid.—There should also be the provision for an arrangement for free hospital treatment or other medical assistance for sick workers. This should include arrangement for visiting sick absentees and dental and ophthalmic treatments.

Profit-sharing or Co-partnership Scheme.—The introduction of any such scheme will help considerably towards strengthening the *esprit de corps* of the enterprise as a whole.

Gymnastics, gardening, musical entertainments, works library and many more things can be added to mitigate the burden of hard work and make the lives of workpeople worth living. Strictest discipline, no doubt, should obtain, but the same should be tempered with kindness and fair dealing.

ORGANIZATION OF THE COUNTING HOUSE.

No system of factory organization can pretend to be complete without the introduction of sound internal checks and control in the Counting House. It must, therefore, be seen that this department is also properly organized and made to work in complete harmony with the buying, labour, production, costing and other departments of the factory.

The objects to be aimed at in any such system are:—

(1) To render the chances of successful fraud on the part of any member of the staff more difficult.

(2) To ensure the speedy detection of any dishonesty or irregularity.

(3) To provide for the detection of errors at the earliest possible moment so as to reduce to its minimum the inconvenience or loss thus occasioned to the owner of the business.

(4) To make it possible to place indisputable responsibility for each detail of the work on a definite person.

(5) To make sure that all facts or transactions that affect the financial position of the undertaking are duly and promptly recorded in the books of prime entry; and that the entries thus made are afterwards properly dealt with in the Ledgers so as to ensure their true effect being brought into record.

(6) To so shape the system of accounting as to enable an easy balancing of the books and the preparation of the financial statements.

Fundamental Principles.—In framing any system of business organization with a view to discourage fraud by rendering its early detection inevitable, the following fundamental principles should be borne in mind:—

(1) No one person should have absolute control over operations of an important and far-reaching character. Thus, the general business manager should be relieved of all responsibility in connection with accounts; and the Accounts Department should be independent of every operating department, but at the same time, in close and direct touch with the head of the management.

(2) The same person should not be allowed to manipulate uncontrolled the financial operations of the concern or to certify year after year the value of stock-in-trade or book debts. A scrutiny of the most notable frauds in recent years reveals one outstanding fact, viz., that they have been the result of placing too much confidence and trust in one person. Nearly all frauds are committed by "trusted" officials or employees; in fact their opportunities for fraud have arisen through their being trusted.

(3) All officials and employees who have the handling of cash or securities, or who are concerned with the keeping of accounts should be required

to take an annual holiday so as to prevent their having uninterrupted control of any part of the work.

(4) The respective duties of each member of the staff should be properly arranged and clearly defined so as to be able to fix definite responsibilities on each person.

(5) Wherever possible, the work of the members of the staff should be varied from time to time. Such a shifting of duties is a very important part of any sound system of organization, as it is the only effective safeguard against collusion.

(6) All modern mechanical devices such as cash registers, recording clocks, duplicating office methods, calculating machines, etc. should be introduced so as to place difficulties in the way of fraud.

(7) It should be so arranged that the work of each employee is checked by others. If this is done, fraud cannot take place without the complicity of several persons, and collusion seldom works successfully. Besides, if such checking is done at frequent intervals, fraud or errors cannot remain long undetected.

(8) Method and thoroughness must characterise the whole working of the business, and laxity or procrastination should on no account be tolerated.

(9) Every transaction should pass through several hands in a well-defined manner, and there should be a written record of the part played by each employee.

(10) All the books, vouchers and documents should be so classified, filed and linked together as to admit of easy reference.

(11) The integral sections of the business should be so interlinked one with the other that the entire business may run with the least possible friction and in most complete harmony.

(12) The clerical labour involved should be reduced to a minimum, and the system introduced should be simple, workable and effective.

It must be made clear at the outset that no set of rules for internal organization and control may be framed so as to be made equally applicable to every concern, as so much would depend upon the nature, size and scope of each business. The following general rules may, however, be employed in any undertaking with necessary modifications so as to suit the particular requirements of each business.

Cash Transactions.—Probably, the most numerous frauds committed by the employees are by way of defalcations by cashiers and petty cashiers, and it is necessary, therefore, that the system of control in this direction should be carefully planned and most rigidly followed. Experience has shown that where a cashier is permitted to receive money, retain it for an indefinite period, and use it, if necessary, to pay accounts, etc., and at the same time, is allowed to make entries in the other subsidiary books or Ledgers, there would be ample opportunities for him to falsify the accounts, if he be so minded.

It would be easy for him in such circumstances to receive money from a customer and not record it, misappropriate the amount and write off the debit balance on the customer's account as a discount or a bad debt or an allowance for overcharge; or to make an entry of a fictitious purchase in the Invoice Book, credit the amount to a Personal account in the Ledger, enter a fictitious payment in the Cash Book, and misappropriate the sum. Such items of fraud cannot, of course, remain long undetected as they would surely be discovered by a careful auditor. But, as it always pays a businessman to prevent fraud rather than allow it to be perpetrated and then seek to discover it, it would be worth while to consider by what means such defalcations by the cashier can be prevented, or, in any case, rendered more difficult.

The following rules may, therefore, be laid down to be observed in connection with cash receipts and payments.

Cash Receipts.—(1) All letters should be opened by or in the presence of some responsible persons, and all cheques or postal orders enclosed therein should be crossed in the name of the firm and marked "Not Negotiable." A list should be made of all such remittances before handing them over to the cashier, and the same should be compared at frequent intervals with the Cash Book.

(2) All cash, cheques, etc. received should be forthwith entered in the Cash Book and paid intact into the Bank from day to day.

(3) Specially printed Receipt Books with counterfoils should be used to acknowledge all amounts received; and no receipt should be given on invoices or statements.

(4) The following rules should be observed to secure the best advantage from the use of Counterfoil Receipt Books:—

(*a*) All unused Receipt Books should be kept under lock and key.

(*b*) The receipt forms and counterfoils should bear printed consecutive numbers.

(*c*) Spoilt or cancelled receipts should not be destroyed, but must be attached to their respective counterfoils.

(*d*) After a receipt is made out and before it is torn off from the book, it must be presented to the person authorised to sign such receipts, whose duty it would be to compare the contents with the counterfoil, and initial the same.

(*e*) Any alteration of the amount or the name on the counterfoil should bear a further initial of some authorised person.

(*f*) Customers should be requested to make payments by cheques drawn in favour of the firm and crossed, and notice should be given that no receipt would be valid unless given on the firm's printed form.

(5) The Receipt Numbers should be given against their respective entries in the Cash Book in a special column provided for the purpose.

(6) Whenever the size of the business warrants it, the actual handling of cash and securities and the signing of cheques should be done by a different person from the one who writes up the Cash Book.

(7) The cashier should not be allowed to make entries in any of the Ledgers or in any book of original entry other than the Cash Book.

Cash Payments.—(1) All payments beyond a certain amount, say Rs. 20, should be made by cheques, and payments of sums less than that be made out of Petty Cash.

(2) A proper acknowledgment should be obtained in support of every payment, and each such voucher should bear a consecutive number.

(3) All such vouchers should be pasted in a separate file in a serial order so as to facilitate verification.

(4) The number of each voucher must appear against the respective entry for payment in the Cash Book in a special column provided for the purpose.

(5) No cheque should be drawn for payment to a creditor for trade supplies, unless the periodical statement received from him is verified with the Ledger Account and initialled as correct by the one who did the checking.

(6) Each such statement should then be passed for payment by one of the partners, the managing director or some one in authority.

(7) The Cash Book should be verified with the Bank Pass Book and a Reconciliation Statement prepared and entered in a book provided for the purpose, at least once a month. This can preferably be done by some one other than the cashier.

(8) The Office Cash Balance, if any, should be counted at irregular intervals and verified with the Cash Book by some responsible official.

(9) All cheques should be signed by one of the partners or by some authorised person. The person signing the cheques should also initial their corresponding counterfoils.

(10) In large undertakings, it is often highly desirable to have cheques countersigned. But the countersignature should not be done in a perfunctory manner. It would be a flagrant disregard of responsibility, if one of the parties signs blank cheques in advance as is often done, for the sake of convenience.

Petty Cash Transactions.—(1) All petty disbursements under say Rs. 20, should be made by the petty cashier.

(2) The Petty Cash Book should be maintained on the Imprest System with analytical columns for the usual heads of expenditure. The amount of petty cash to be kept in the office should be limited to the reasonable requirements of the business for a period not exceeding a month.

(3) Every payment must be evidenced by a proper voucher. In cases where acknowledgments for payments cannot be obtained, a list should be made out of such items at the end of each day and presented to some authorised person for initial.

(4) The Petty Cash Vouchers should be numbered consecutively and must be pasted in a serial order, in a separate file. The number of each voucher must also be shown against the entry in the Petty Cash Book for facility of checking and reference.

(5) The Petty Cash Book should be examined with the vouchers by the cashier at least once a month, before he issues the imprest cheque for the total amount of disbursements.

(6) The petty cashier should not be allowed on any account to receive any sum, however small, other than the imprest cheques he receives from the cashier.

Purchase Invoices.—The proper handling and record of materials and stores have already been dealt with at great length in the earlier portion. It need, therefore, only be mentioned here that the purchase invoices having been checked as to proper receipt of goods, the rates charged, the calculations and extensions, must duly be numbered and filed before being entered up in the invoice book. These numbers would also be shown against their corresponding entries in the purchases book for facility of reference and verification. An important duty of the Accounts Department would be to make sure that no invoice is passed for payment, except for goods certified as properly ordered, received in good condition and correctly charged.

Wage Records.—The different methods of wage payment and the record in connection therewith have been discussed in the earlier part of this Chapter at considerable length. The principal duties of the Accounts Department in this connection would be to see that the Wages Sheets have been made up accurately, the payments relating thereto are duly made and recorded, and that the various summaries as obtained from the wages analysis sheets tally with the corresponding summaries as prepared by the Costing Department.

To help towards the proper ascertainment of true costs and to serve as a check upon the Costing Department, it will be necessary for the Accounts Department to classify the wages of each month as under:—

(*a*) Wages expended on the direct production of articles, and known as *Productive* or *Direct Wages*;

(*b*) Wages not directly connected with the production of manufactured articles, but expended on maintenance and supply of services auxiliary to the main function of production, such as wages to foremen, supervisors, boilermen, enginemen, cleaners, store-keepers, time-keepers, wages for repairs to Buildings, Plant, Tools, etc. These are known as *non-Productive* or *Indirect Wages*;

(*c*) *Selling and Distribution Wages,* such as wages to packers, vanmen, packing case makers, office cleaners, etc., etc.; and

(*d*) Wages expended on construction of buildings, erection of machinery or manufacture of plant, tools, etc. These will have to be capitalised.

CLASSIFICATION AND CONTROL OF EXPENSE.

The account-keeping should be so framed and the various factors entering into Factory Expenses and Office Establishment charges should be so systematically and scientifically classified and sub-divided as to serve the purposes of checking and useful comparison with the results as shown by the Cost Accounts. Factory Expenses commonly known as "Works Oncost" must be properly organized and controlled with great care and skill. As the term covers within itself all the expenses involved in running and maintaining the whole of the works including the productive departments and the auxiliary services, and as the whole of it must ultimately reflect itself in the Total Costs of Production, most rigid economy in management must be the vital concern of those in factory control.

INWARD ORDERS.

Whatever system of dealing with Sales Orders is adopted, the main object to be attained is that goods should be checked before being packed, and that no goods should leave the premises without their being properly charged.

(1) As soon as an order for stock articles is received, it is numbered and entered in a book styled "Register of Orders Received", giving details as

to the date of order, order number, customer's name, date invoiced and the invoice number. If the order is for articles to be manufactured, the same must be passed on to the Works Manager and dealt with as already explained.

(2) Either the original order or a copy of the same with necessary particulars and instructions as to packing, etc., should be handed to the Despatch Department.

(3) After the goods ordered have been sent off, the original orders or the duplicate copies will be returned by the Despatch Department to the office for the purpose of invoicing to the customers.

(4) If the prices are not stated on the order, some responsible person must price the same.

(5) On the outward invoice being made out, the particulars stated therein should be compared with the original order, and after the prices are charged and the calculations are checked, the invoice should be entered in the Sales Book.

(6) The original orders after being executed should be numbered consecutively and filed, each outward invoice bearing its corresponding order number.

(7) In a business where a large number of orders are executed each day involving numerous Day Book entries, it is found more convenient to provide two sets of Day Books, to be used on alternate days, to enable postings to be done uninterruptedly without inconveniencing either the invoice or the day book clerks or the ledger-keeper.

(8) The goods having been placed together by an assistant are compared item by item by the head of the Sales Department with the order.

(9) The outward invoice is then made out on a Manifold Invoice Book. One copy of the Invoice is torn out and sent to the customer and the duplicate carbon copy remaining in the book is used for entry in the Day Book.

(10) Prompt attention to orders and timely despatch of goods must not be overlooked.

(11) All Sales Contracts should be entered up in a special book, and orders executed against these from time to time should be properly recorded therein.

(12) Where sales are effected by travellers, each traveller should be supplied with a Triplicate Sale Note Book in which would be entered the particulars of each sale. One copy of this would be given or sent to the customer, another would be sent to the Office, and the third would remain in the book for reference.

(13) Each Cash Sale must be evidenced by a Cash Memo with carbon duplicate, the latter being torn off and given to the purchaser, the original memo remaining in the bound Cash Memo Book supplied to each salesman. Every Cash Memo must have a consecutive number printed thereon.

Travellers.—Where travellers are authorised to collect payments from customers, each traveller should be supplied with two counterfoil receipt books, one being forwarded to the Head Office each week.

It is also advisable that a guarantee insurance policy be taken out for each traveller.

Travellers should not be allowed to defray their expenses out of the takings which should be remitted intact to the Head Office. On receipt of

Statement of Expenses from each traveller, the Head Office will send him a cheque for the same.

Branch Establishments, if any, should be asked to remit their receipts intact to the Head Office at regular intervals or bank the same daily in an account opened in the name of the Head Office.

Branch expenses should be met by the Head Office by cheques.

To meet small disbursements, a petty cash balance should be kept at each Branch on the Imprest System.

In order to keep the Head Office well informed as to the transactions of each Branch, full details of business done by each Branch should be sent to the Head Office daily, weekly or at convenient intervals. Such information can well be conveyed by means of the following statements:—

(a) *A Receipts and Payments Account*, showing the opening balance of cash on hand, if any, cash receipts and payments during the period, and the closing balance of cash on hand, if any.

(b) *A Statement of Trade Debtors*, showing the opening balance, total credit sales during the period, total cash and bills received, discount, allowances and returns during the period, and the closing balance.

(c) *A Statement of Trade Creditors*, showing the opening balance, total credit purchases during the period, total cash and bills paid; discounts, allowances and returns during the period, and the closing balance.

(d) *A Statement of Stock* on hand in a summarised form.

LEDGERS.

No hard and fast rules can be laid down as to the proper sub-division of Ledgers, as each case must stand on its own merits. The following arrangement of Ledgers, however, has been found to work satisfactorily:—

All Customers' accounts should be kept in a separate Ledger or Ledgers.

All Creditors' accounts should be kept in another Ledger or Ledgers.

All Impersonal accounts should be opened in a Ledger styled General Ledger.

A Private Ledger should be kept in which would be opened Capital accounts, Drawing accounts, Loan accounts, Stock accounts, accounts of Fixed Assets, and such other accounts of a private nature in regard to which it may not be desirable for every member of the staff to have information.

Each Ledger should be made self-balancing so as to facilitate the location of clerical errors.

The detailed postings from all the Subsidiary Books into Ledgers should be checked by some one independent of the Ledger-keepers.

Where practicable, the clerks in charge of the various Trade Ledgers may be changed about, so that no irregularity can remain for long undetected without implicating several persons.

No Ledger-keeper should have access to the Cash Book.

Periodical Statements.—For the successful management of a business, it is essential that those in charge of its affairs shall be informed at frequent intervals of the financial results of that business and how these results compare with those of the previous periods.

The statements that are usually prepared for such a purpose are:—

(1) A Statement of Receipts and Payments;

(2) A Statement of Trading; and

(3) A Statement of Floating Assets and Liabilities.

In the preparation of the Cash and Trading Statements, four money columns are usually employed with a smaller column to the left of each for percentages. The first column is used for the figures relating to the period under review, the second for the total from the date of previous stock-taking, and the third and fourth for the same figures respectively relating to the previous year.

The Statement of Floating Assets and Liabilities is usually provided with two cash columns only—one for the balance at the date of the statement, and the other for the balance of each item at the same date in the previous year.

A fund of valuable information would, no doubt, be conveyed in this manner to those in management by the disclosure of the following important facts from the above Statements:—

1. Whether the purchases have been discriminate.

2. Whether the sales are increasing or decreasing.

3. How the various Departments of the business are progressing, and whether any department is working at a loss.

4. Whether there has been increase or decrease in any business expense, and the reasons thereof.

5. Whether the desired rate of gross profit is actually earned or not.

6. In a manufacturing business, how the wages as well as the materials consumed stand in relation to the output.

7. Whether there has been any theft or leakage of stock.

8. Reasons for any increase or decrease in total debtors or creditors.

9. Whether the business is hampered for want of adequate capital, or whether there is an excess of floating capital in the business, and if this excess could not be more profitably employed.

10. Whether the cash resources of the business are used in obtaining full benefit of discounts.

Debtors and Creditors.—At regular intervals, separate lists of Debtors and Creditors should be submitted to one of the partners or directors for instructions. Monthly statements must be made out and sent to the customers regularly. This will not only act as a gentle reminder to customers that the money is due from them, but will evoke a protest from them in case the money is already paid by them or if there is any discrepancy. Similarly, monthly statements must be urged from the creditors, and the same when received must be checked with the Ledger Accounts and the discrepancies, if any, should be rectified.

Bad and Doubtful Debts.—Book Debts should be constantly supervised to ascertain if any debts are overdue, so that no loss is incurred through carelessness or dishonesty.

Overdue and doubtful debts should be transferred to a separate Ledger so that special attention may be given to the recovery of the same.

No account should be allowed to be written off as bad debt, unless the same has been properly authorised by some responsible person, who must initial the Journal Entry.

Discounts and Allowances.—Every unusual item of discount or allowance must be properly authorised.

Filing System.—A good filing system should be introduced, the essential features of which ought to be—

(1) The referencing of the various forms and documents one to another; (2) Certainty of obtaining any particular papers whenever required; (3) Rapidity of obtaining filed papers; (4) Simplicity of filing; and (5) Cheapness of operations.

Erasures.—There should be no erasure allowed in the books of account. If any entries have been erroneously made or any figures wrongly entered, the same should not be erased or scratched out, but should be neatly ruled out in red ink and duly initialled, and the correct ones entered over them. As far as possible, all rectifications of errors should be done by means of Journal entries.

In conclusion, it would not be out of place to mention here that in order to make a system of internal check and control as indicated above a success, it is important that every detail thereof should be rigidly enforced, and it would be the duty of those enjoying higher positions to take a keen interest in seeing that each link in the system works in perfect harmony without any friction. There is a further duty which the proprietors of the business or those in management owe to those employed under them, and that is, not to place unnecessary temptation in the way of others through their own slackness. Further, it is equally the duty of the employers to see that every member of the staff is well paid and thus, by promoting the welfare of the employees, to ensure their personal interest and co-operation in the success of the business.

The above are the barest outlines of what a sound plan of Factory Organization should mean, as innumerable other points which naturally called for inclusion had to be omitted for want of space. Enough, however, has been given as would help accountant students towards a proper understanding of the next Chapter on Cost Accounting which is so inseparably linked with Factory Organization. The main object of any good system of Factory Organization must be to provide for a close and proper inter-locking of all the activities of the business, viz., the productive, non-productive, commercial and financial. Its true success can only be measured from the following achievements:—

(1) Improvement of productive methods as would help towards reduction of costs;

(2) Complete elimination of waste in every direction;

(3) Utilisation of the productive skill of the workers to best advantage;

(4) Successful marketability of the products; and, finally,

(5) Creation and maintenance of most cordial relationship between the employers and the employed.

EXAMINATION QUESTIONS.

1. Explain the vital necessity of Factory Organization.

2. Enumerate the important factors underlying a sound system of Factory Organisation.

3. What do you understand by services auxiliary to the main service of production? Name a dozen of these.

4. What advantages accrue from giving most careful consideration to the initial planning and lay-out of a factory?

5. What considerations should weigh with you while selecting land for a proposed factory?

6. What in your opinion should be the qualifications of the General Manager and the Works Manager of a large factory?

7. What rules would you lay down for the organization of the Labour Department of a fairly extensive works?

8. Describe a good system of record of wages payable to Time-Workers and Piece-Workers.

9. What are the main heads for dissection of wages for costing purposes as also for the financial record?

10. What are the principal points to be borne in mind for the contentment of workers?

11. Describe the different systems of wage payment.

12. What is the chief advantage of any Premium or Bonus System of wage payment?

13. How should the Buying Service be conducted in a large manufacturing enterprise?

14. Describe the necessary steps in connection with the buying, receipt, inspection and subsequent entering up of factory purchases of raw materials and stores.

15. What restrictions should be imposed on the issue of raw materials and stores?

16. What are the different classes into which Material Issue Requisitions are divided?

17. Describe the steps in connection with the entering up of Goods Received Notes.

18. What are Bin Cards and what purpose do they serve?

19. Who maintains Stock Record Cards and what benefit would accrue from the use of these?

20. What do you understand by perpetual stock-taking?

21. What steps need be taken in regard to the checking, passing and recording of Inward Invoices?

22. How would you organize the Stores Service of a large manufacturing business so as to have an effective control over the incomings and the outgoings?

23. How is a Works Order ordinarily dealt with?

24. In what respects does the Piece-Work system of wage payment fail?

25. What are the functions of the Planning and Design Service?

26. What are the principal duties of the Tools Service?

27. Give forms of the following:—

(a) Bin Card;

(b) Stock or Stores Record Card;

(c) Goods Received Note;

(d) Stores Issue Requisition; and

(e) Piece-Work Ticket.

28. How do Time Cards differ from Job Cards?

29. What checks and counter-checks would you suggest for the preparation of Wages Sheets and the subsequent payment of wages?

30. What should be the functions of the Research Service in a manufacturing enterprise?

31. Explain how a good Costing Service is closely interlinked with any sound system of Factory Organization.

32. Describe the functions of the Sales Department in a highly organised factory.

33. How can effective control be secured in the Counting House of a large factory?

34. How should Designs and Drawings be dealt with?

35. What should be the duties of the Planning and Progress Department?

36. What rules would you lay down for the handling of Cash Receipts and Payments?

37. What is the best method of dealing with Petty Cash?

38. Explain the purposes to which Statistical Reports and Charts can be utilised in a large manufacturing concern.

39. What charts, reports or graphs would the following require for their information from time to time as to the trend of progress:—

(a) The General Manager,

(b) The Works Manager,

(c) The Departmental Manager, and

(d) The Foreman?

40. What rules would you lay down for a close check on the account of Customers and Creditors?

41. What should be the guiding factors in forming a set of rules for the internal check and control of the Counting House?

42. Explain the system of Mechanical Record of time put in by workmen.

43. What should be the principal duties of the Sales Chief in large manufacturing business?

CHAPTER XXIV.

COST ACCOUNTING.

What are Cost Accounts ?—Cost Accounts may be defined as a set of accounts as will systematically and accurately record most equitable and scientific apportionment of the materials and stores consumed, the labour expended, and the works and establishment charges incurred in an industrial enterprise, so as to indicate the true cost of a job or the production cost per article, per ton, per barrel, or other standard quantity, not only on completion of the products but in their various stages of production. They deal with the practical administration of a factory and are, therefore, quite distinct from the purely financial accounts, although the results shown by both these sets of accounts should be brought into as close an agreement as practicable. In order to ensure this relative agreement and accuracy, it is necessary that both the cost and the financial accounts should be written up from the same original vouchers and records, and constructed in a manner as would facilitate comparison.

Cost Accounts resolve themselves into an analysis, most minute and scientific dissection and sub-dissection of items in the aggregate into items in their most elemental stage. They serve to present an analytical view of the same transactions as are recorded in the financial books, so as to show the actual cost of production per unit of work turned out. As to what such a unit should be would naturally depend on the nature of works. The unit may be a ton of coal at a colliery, a ton of steel at a steel works, a ton of oil at an oil mill, or a sack of flour in a flour mill. In the case of Railways and Tramways, the unit will be a train mile or a car mile, and with a builder or contractor, it will be each contract or job undertaken. It will be a lb. of yarn in a spinning mill and a yard of cloth in a textile factory.

The main object of Cost Accounts, irrespective of the branch of industry to which they are applied, should always be to express faithfully and accurately the actual cost, and the most important characteristic of any efficient costing system should be that the burden of material, labour and direct and indirect expense falls where it should fall, and that no one department, process or product is made to bear charges and expenses which should have been more equitably charged to another. To instal a system of cost finding that would be of the highest value to the manufacturer, a thorough technical knowledge of the product as well as complete commercial and organising ability are necessary. It is impossible to make the working of any business fit into a ready-made costing system. The system must be adapted to suit the requirements of the business; but while introducing a system in any business it is desirable to proceed with caution at the outset and to extend the system as circumstances would necessitate.

Essentials of a good System of Cost Accounting.—To secure the fullest benefits from any good system of cost accounting, the following conditions are absolutely essential, and cannot be too strongly emphasised:—

(1) For the ascertainment of accurate costs, *Departmentalisation of Works* is absolutely essential, and the more perfectly this is done, the more effective will be the supervision and control, far simpler will be the process of allocation and distribution of expense and more reliable will be the costs.

As has already been explained in the preceding Chapter, the production work of any factory is always supported by a variety of auxiliary services which are all so very necessary for the fulfilment of the functions of a factory and which are closely interlinked with the main business of production. Before attempting to instal a costing system, it is essential, therefore, to split up "Manufacturing" and "Service" into two main sections. The "Manufacturing" activities may then be dissected into as many Departments or Divisions as may be determined by the nature of the processes and the articles manufactured, and the "Services" may be divided into the different types of functions rendered.

(2) If Cost Accounts are to serve any real purpose and to warn and guide those in management, the records should be *accurate in every detail,* as any laxity in this respect will tend to give wrong and misleading results: hence, all persons responsible for these records should be impressed with the fact that correctness in cost accounting is as important as in recording financial transactions.

(3) *Prompt Cost Information* is another factor in securing efficiency and is found to be of considerable value for the purpose of preparing estimates for repeat jobs, even under different market conditions, or when a special order or job is worked and the cost is desired immediately on completion of work. The cost of manufacturing material issued out to the various departments or jobs should be promptly reported and allocated. For this purpose, the internal manufacturing and stores departments will have to be instructed to complete their monthly records of all supplies of stores and raw material issued for manufacturing, within a few days of the end of each month. Similarly, the labour and oncost abstracts for the period will have to be promptly completed. Strict instructions should be issued whereby the necessary returns come regularly to the Costing Department regarding all the cost elements, for prompt and accurate entries to the various Cost Accounts, in a systematic manner.

(4) Cost records should act as a guide for future transactions, and *statistical data of manufacturing cost and of expense fluctuations* must be maintained for the correct guidance and control of every department of the factory, and to serve as a guide for future estimates, quotations and for fixing prices.

(5) All *instructions and orders* should be committed to *writing,* and specially drafted schedules for accounts and printed forms should be used to suit the circumstances in each case.

(6) The *cost of running the system* should be kept *within reasonable limits* and should not be allowed to outweigh the advantages and economies it will effect. The important point to bear in mind, in every case, is that the system should not be unnecessarily elaborate and that the rules must be workable as well as equitable They must be simple, convenient and also a little pliant, that is, capable of re-adjustment as and when required.

(7) *Greatest possible care* should be taken *in adjusting the allocations and distribution of Factory Expenses* over the products, and the motive that must always be kept in mind is that each product is made to bear as nearly as possible its fair share.

(8) The *method of presentation of cost results* is also very important. In order to secure best information, there must be a periodical tabulation of results; i.e., comparisons of actual cost of jobs with their corresponding

estimates, and comparisons of the cost of similar jobs with one another. These should always be supplemented by periodical reports from the Works Manager explaining any extraordinary fluctuations.

(9) The whole system should be so arranged as to provide means of controlling in detail and in total all expenditure incurred in connection with production and administration, and form basis of *reconciling the cost results with* those reflected by the *financial records.*

Advantages of Cost Accounts.—The advantages of Cost Accounts may be summarised as under :—

(1) They help to determine the true cost of each article, process or contract.

(2) They enable true comparisons to be made of the different classes and quantities of materials used, and also of the various methods of manufacture.

(3) They conduce towards operative efficiency of the products.

(4) They help towards the prompt preparation of Cost Estimates and fixing of Selling Prices in accordance with any altered market conditions.

(5) They serve as a means of reducing cost by improving organization and effecting economies in methods and equipment, or by obtaining increased output.

(6) They act as a means of control and check on the employees by detecting leakages or waste of material, both intentional and accidental, and losses by way of unremunerative expense.

DIFFERENT METHODS OF COST ACCOUNTING.

Just as it is impossible to devise a set of financial records as would be equally suitable to a banker, a railway company or a retailer, it is equally hard to construct a model set of cost accounts which would be serviceable alike to a builder, a manufacturer of engineering specialities or a chemical food products company. Various methods of cost finding are thus used in practice, depending upon the nature of the industry and the class of products made, among these being the following:

Multiple Costs.—This system of cost accounts is applicable to undertakings where a variety of products are manufactured, which bear little or no apparent relation to each other in cost, in kind, and in th[illegible] variety of processes necessary for completion, and in which [illegible] in parts is carried to a high degree of specialisation in manufacturing. Manufacturers of engineering specialities, agricultural implements, cycles, boots, furniture, hosiery industries, gramophones, clothing industries, type-writers, etc., apply this method of costing.

Terminal Costs or *Job* or *Order Costs* are employed to show the cost of each separate contract or job or order for definite work to be done and in which the costing is definite and terminating on completion of the work. This form of costing is adopted by Builders, Contractors, Ship-builders, etc.

Departmental Costing is used where a standard product is manufactured and where it is desired to ascertain the cost of the output of each department separately. The method is correlated to *Job* or *Process Costing.*

Single or Output Costing or *Unit Costs* is applied to the method of costing employed in undertakings which supply a uniform product rather than a variety of products, and where it is desired to find the actual cost of one unit, weight, measurement, or container, such as per ton, per yard, per barrel, or per sack. It is applicable to mines, quarries, collieries, breweries, etc.

Process Costs are applied where the material has to pass through several processes or operations before obtaining a final product or result, where there are by-products in many cases at different stages and where it is desired to ascertain the cost of each process of manufacture. They are applicable to chemical industries, food products, etc.

Operating Costs is the term denoting the method employed by transport undertakings and by other public utility concerns, where services are rendered rather than products manufactured, such as railways, tramways, electric, gas and water undertakings. A railway company may ascertain cost per ton mile or passenger mile; an electric company per unit of electricity generated.

Whichever method of cost finding is employed, it is of the utmost importance that the cost accounts should contain accurate records of all the amounts consumed by the concern during any given period, whether such consumption is represented by cash, materials, or consumable expenses incurred. The total revenue expenditure of a manufacturing concern during any one financial period would then represent the cost of the products (finished or partly-finished) manufactured during the same period. The system adopted must result in this total expenditure being distributed over the whole of the work executed (whether completed or in progress) by a process of most minute and critical analysis of each distinct head of expenditure. The result will then be the true cost of each article or a group of products.

MAIN ELEMENTS OF COST.

The various elements which go to make up the total cost of any product may be divided into three main heads:—

(1) Material,

(2) Labour, and

(3) Expense.

Material.—There are two kinds of material which enter into the factory cost of an article.

Direct Material is the material of which the article is made and which can be charged directly to the job, works order or process. Material used in running of machinery as oil, cotton waste, etc., which, though used in manufacture, does not form part of the product manufactured and which is not capable of being allocated to specific work is known as **Indirect Material** in costing. Thus, whereas direct material forms a part of the product itself, indirect material does not enter into the constitution of the product.

Labour.—Two distinct classes of labour enter into the production of a manufactured article. There is the **Productive or Direct Labour** which means labour applied to a particular manufacturing operation or job, and which can be measured and directly charged to the separate products. There is also the **non-Productive or Indirect Labour** engaged upon general services connected with the running of a factory as a whole, and which it is not possible to charge directly to any specific jobs, such as labour of foremen, supervisors, men in charge of power plant, builders and carpenters who do the factory repairs, store-keepers, time-keepers, etc. Whereas Direct Labour forms part of the Prime Cost of a product, Indirect Labour forms part of the overhead expenses of the factory. There are thus the direct and indirect producers. The direct producers are workers engaged in the main business of production, whereas the indirect producers are those who are engaged in supplying and maintaining services which, though essential, are nevertheless auxiliary to the main function of a manufacturing business.

Expense.—In cost accounting, Expense is variously described as **Oncost, Burden** or **Overhead Charge.** This element comprises all expenses essential to the production and distribution of manufactured goods, but of so general a nature that none of it can be charged to the direct cost of any particular product or group of products.

Direct Expenses, Works Expenses, Factory Oncost or **Works Oncost** is the term referring to all items of expenses which are incurred in the works proper and which are concerned with the running of the factory or plant and are embraced in the cost of production. They also include expenses relating to works management and administration.

Indirect Expenses or **Office Oncost** is the term applied to all expenses which are incurred in selling the manufactured products and comprise all office and administration charges including upkeep of warehouse. These are expenses with which the factory organization is not concerned, and over which it has frequently no control. They are also known as **Selling and Distribution Expenses.**

TERMS USED IN COST ACCOUNTING.

Prime Cost of any product comprises only the direct material and direct labour consumed in that product. It is also known as **Flat Cost** or **Basic Cost.**

Works Cost is the sum of all items of expenses incurred in the manufacturing of any article or a group of articles, i.e., material, labour and factory expenses. It is Prime Cost *plus* the proportion of Works Expenses properly chargeable against the production of an article. Works Cost is also known as **Cost of Production, Factory Cost** or **Manufacturing Cost.**

Total Cost is the sum of all items of expenditure incurred in producing or manufacturing and distributing any product. It comprises Works Cost *plus* a proportion of Office Oncost properly chargeable to that product. It is also known as **Gross Cost** or **Selling Cost.**

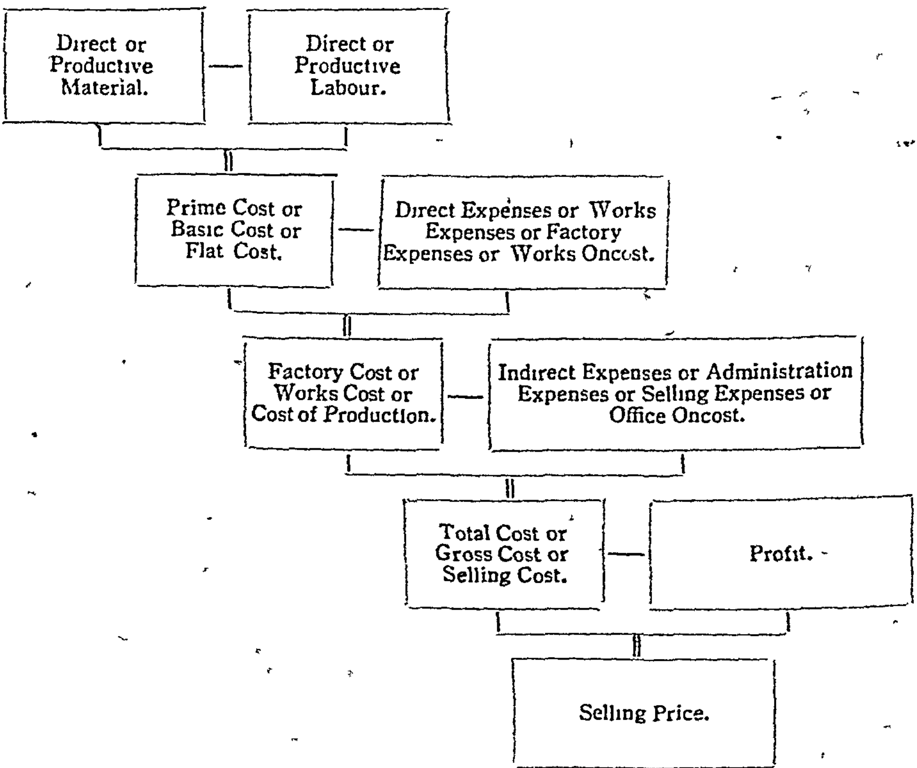
Chargeable Expenses are those expenses which can be allocated and charged directly to specific jobs.

Works Oncost is the charge made to the Prime Cost of any article or product to cover Works Expenses, and which serves to give the Factory or Works Cost of the product.

Office Oncost signifies the charge which is added to the Factory Cost of a product to cover Management, Selling and Distribution Expenses, so as to give the Final Cost of the product.

Production Unit would signify a common standard in terms of which the output of a works or department may be measured.

The **Relation of Cost Elements to Selling Price** can best be seen by the following diagram:—



WORKS ONCOST OR FACTORY EXPENSES.

Items usually included in Works Oncost:—

Indirect Material—Oil, Waste, rags, etc.

Indirect Labour—Wages of Foremen, Store-keepers, Time-keepers, Care-takers, Crane Drivers, Yard Labourers, Transport Labourers, Watchmen, Cleaners, Enginemen, Plant and Building Repairers, etc.

do. —Salaries of Works Clerical, Technical and Cost Clerks.

Steam and Electric Power.
Factory Heating.
Factory Lighting.
Factory Rent and Insurance.
Water.
Repairs and Renewals to—
Works Buildings, Plant, Machinery and Loose Tools.
Works Stationery.
Experimental and Research Expenses.

Drawing Office Expenses.
Depreciation of Works Building, Plant and Tools.
Stores Adjustments—Deficiencies, Shrinkage in weight, etc.
Welfare and Ambulance Expenses.
Wastage of material, defective work, etc.
Cost of small tools.
Works Administration and Management salaries, etc., etc.

OFFICE ONCOST.

Items usually included in Office Oncost or *Indirect Expenses* will include :—

Office and Warehouse Staff Salaries.
Office and Warehouse Rent, Taxes and Insurance.
Office and Warehouse Heating and Lighting.
Advertising and Stationery.
Telephone and Telegrams.
Travellers' Salaries and Commission.
Agency and Branch Expenses.
Depreciation of Office and Shop Fittings, Fixtures, etc.
Catalogues, etc.
Directors' Fees.
Carriage.
Discount, Interest and Bad Debts.
Sundry Office Expenses.
Warehouse Upkeep.

CHARGING MATERIAL ISSUES TO COST.

After all Material Issue Requisitions have been numbered sequentially and properly priced by the Stores Accountant, the daily or weekly totals of these should be ascertained and entered in a Stores Issued Book. These Requisitions are then handed over to the Cost Department for costing purposes. Suitable rulings must be provided in the Stores Issued Book for an analysis of total stores issued distinguishing between direct and indirect material, for it must be remembered that material issued from the stores is not *all* chargeable to the prime cost of articles produced. Materials may be issued in connection with additions to plant or extensions to buildings which will be capitalised, or indirect material and stores such as oil, cotton waste, etc., may be issued which form part of the factory oncost.

All stores and material requisitions for each Works Order must be charged to the Cost Account bearing the Job or Works Order number. This is absolutely necessary in order to ascertain the cost of direct materials on each order. This can be done by taking each Stores Requisition as it is received in the Cost Department and posting the values to the particular Works Order number. When, however, a large number of orders is dealt with simultaneously, a better procedure would be to deal with the requisitions at the end of each week or month by summarising them under their Works Order Numbers on *Material Issue Analysis Sheets* and then posting the total as indicated by such summary to the individual Job Account in the Job Cost Ledger.

The periodical total of the material and stores allocations as ascertained from the Material Issue Analysis Sheets must agree with the total of the Stores Issued Book for the same period.

Return of Materials to Stores.—When any portion of materials issued out to a job has remained unused, the same should be returned to the Stores. Such returns are usualy accompanied by a **Stores Returned Note** made out by the foreman of the job who retains a carbon copy of the same with him.

On receipt of the goods, the Store-keeper will check the quantities actually received with those entered in the Stores Returned Note, and after making the necessary entry in the Stores Received Book and pricing the above Note, he will pass the same\on to the Cost Clerk.

In order that Stores Requisition Notes may not get mixed up with the Stores Returned Notes, it is desirable that the latter should be printed on paper of a different tint from that of the former.

Where goods are issued for replacing old or worn-out parts or tools, it must be seen that the discarded articles are returned.

Transfer of Material from one Job to another.—Direct transfer of materials from one job to another should be strictly forbidden, unless where it is found that, if the goods were to pass from one job to another through Stores, this will cause unnecessary expense and inconvenience. If, therefore, such transfers are found necessary, the foreman of the job transferring the goods should make out a **Stores Transfer Note** from a bound book with a carbon duplicate and send it to the foreman receiving the goods. The latter after checking the materials received with the quantities as indicated on this Note, will sign this form and send it to the Cost Clerk.

The Stores Returned Notes and the Stores Transfer Notes should be checked and analysed in the same manner and credited to the various jobs to which they relate in the Materials Analysis Book.

The difference between the total of the Requisitions charged to each job and the Goods Returned Notes and Transfer Notes credited thereto will indicate the net value of the materials issued and charged to each job.

Pricing of Materials issued to Jobs.—The pricing of materials issued to Jobs often becomes a complicated affair where materials have been bought from time to time at different prices. If, however, a proper record is maintained of the quantities purchased from time to time and the actual cost thereof, there should be no difficulty in charging the materials out at cost, such cost bing calculated on the assumption that the earliest purchases are used first. A simple illustration will explain this :

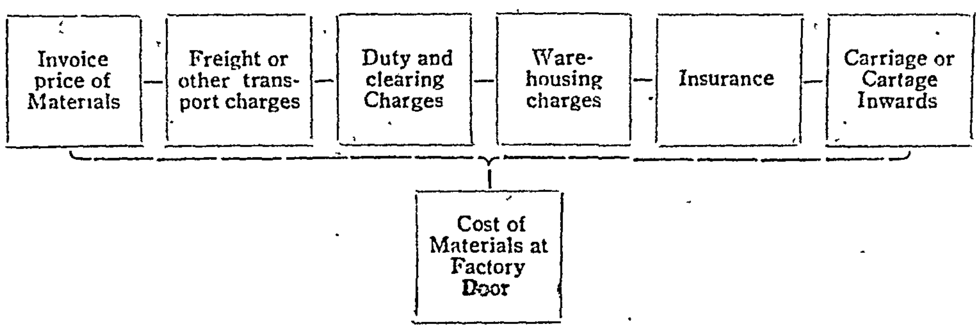
Quantity Received.			Quantity Issued.		
Date.	Quantity.	Price.	Date.	Quantity.	Price.
February 5	300	Rs. 2/8	February 7	200	Rs. 2/8
			„ 12	40	„ 2/8
March 10	400	„ 3/-	March 11	200	60 @ 2/8 140 @ 3/-

Occasionally, an average price of the materials in stock from time to time is ascertained and the materials issued are charged out at the average price. Bearing in mind, however, that the object of Cost Accounts is to record the actual cost and not to estimate it, the averaging of the purchase price should not be resorted to as far as possible, as it will fail to give the true material cost.

A question is often raised as to whether it would not be most desirable to charge materials to the jobs at current market values instead of at cost. If this were done, the Cost Accounts rather than giving the true cost of which any particular job is done will indicate as to what the cost would have been, if all materials were purchased as and when required. Besides, if the stores are charged out at prices other than the cost, the stores accounts will show profit or loss, and this will tend to render the agreement between the Cost Accounts and the Financial Accounts more difficult and complicated. Another argument that can be adduced against the charging out of stores at the current market prices is that Cost Accounts should not be made to include the profit or loss as may arise from the efficiency or otherwise of the Buying Department. In all circumstances, therefore, it seems desirable that the issues of materials must be charged out to the jobs at actual cost.

Cost of Material.

It shoud be noted that the cost of any material is not represented by its Invoice Price only, but must include all expenses thereon, such as freight, duty, clearing charges, cartage, etc., necessarily incurred before such material reaches the works. It is at this actual cost that the materials issued out to the jobs will be charged.



CHARGING DIRECT LABOUR TO COSTS.

The record of labour as an element of cost must claim equal attention to that accorded to the record of materials, and the following method might serve as a guide.

To begin with, two distinct records are maintained in respect of the time put in by each workman, one with the object of ascertaining the amount of wages payable to each workman at the end of each week or month, and the other to determine how much of such wages is chargeable to each job, process or department. The record of Time or Gate Cards forms the basis for compiling the Wages Sheets at the end of each week or month, whereas the Job Cards or the Foremen's summaries form the basis of wages analysis for the purpose of allocating the weekly or monthly wages to each job, process or department. Besides these, there would be the piece-workers whose work done and the wages payable would be recorded on their Piece-Work Cards. These will also have to be similarly analysed in order to ascertain the labour cost chargeable to each job or process.

At the end of each week or month, the Job Cards as also the Piece-Work Cards having been passed on to the Cost Department will be analysed to ascertain the amount of direct labour to be charged to the respective job accounts concerned. The indirect labour will form part of the Works Oncost, whereas the labour paid in regard to extension of Works Building or addition to Factory Plant or manufacture of tools will be capitalised. Where a separate Job Card is not issued to each workman, the foreman of each Department or Section prepares a summary indicating the time employed by his men on the different jobs for the purpose of helping the Cost Department to allocate direct labour weekly or monthly to the Job Accounts concerned.

The correct amount of the weekly Direct Labour that has been consumed on the respective works orders, departments or processes, will thus be ascertained and debited by the Cost Department to the accounts of the jobs, departments or processes concerned, just as the value of the direct materials consumed as ascertained from the Stores Requisitions are charged out to the respective Job Accounts for the same period.

With a view to differentiate between Direct Labour and Indirect Labour, and to facilitate the handling of Job Cards by the Cost Department, all indirect labour is usually provided with cards of a different colour from those of the direct labour.

It is important to note that the total amount of direct wages incurred during a particular period, as shown by the Direct Wages Account in the Financial Ledger, must correspond with the total wages charged out for the same period to the different jobs, processes or departments as shown by the *Wages Analysis Sheets*.

ALLOCATION OF ONCOST OR EXPENSE BURDEN.

The correct allocation of Oncost or the Expense Burden to the various products manufactured is of vital importance in any system of Cost Accounting. It is very evident that although oncost may be correctly enumerated, any improper allocation of this factor to the prime cost of products will leave unfulfilled the principal object of costing and will give results far from accurate. So far as direct materials and direct labour are concerned, the exact amount consumed or expended in the production of any one product or a group of products can be definitely [illegible] most accurately determined, and as the items can [illegible] to particular jobs or products, the allocation in this respect can be easily made weekly or monthly as found suitable.

The question of oncost presents several difficulties. The first problem is to ascertain the actual oncost expenditure for any given period. The term Oncost comprises in its widest sense all the expenses (excepting direct material and direct labour) incurred in production and distribution, including repairs to plant, buildings, tools and provisions in respect of depreciation, bad debts, etc. Now, it is evident that items like taxes, repairs, bad debts, etc., cannot be exactly ascertained till the end of the financial period, and yet for the purposes of getting at the total cost of each product on its completion, it becomes necessary to charge to the prime cost of that product a percentage in respect of factory oncost and another in regard to office oncost. Besides, the items covered by oncost are so numerous and varied in their nature that they will not all admit of being dealt with in the same manner. Further, the items relate to general services auxiliary to the main function of production and are, therefore, not specifically expended upon any particular item of production or job. In most cases, it becomes difficult even to say definitely the exact portion of each class of overhead burden which is attributable to each process, operation or department of the factory, let alone to each job. Evidently, therefore, the ascertainment and allocation of the oncost burden resolves itself into a matter of estimate, but such estimate must be done on most scientific and efficient lines so as to give results bearing closest approximation to actual conditions. It is in the distribution and apportionment of these Overhead Expenses, therefore, that the most difficult problems in Costing are met.

To begin with, a careful classification of all the overhead expenses of the business must be done on systematic and natural lines of division, as this would help considerably towards the ascertainment of the total oncost as also its subsequent apportionment. It is equally important to note that the division of the nominal accounts indicating the heads of expenditure in the financial books should be made on similar lines so as to admit of useful comparisons.

Having prepared a classified statement of expenses, the amounts actually expended during the immediate preceding year under each of those heads should be set out. Necessary adjustments should then be made to any of these items in respect of any anticipated increase or decrease during the current year, and the result will be the *estimated probable oncost expenditure of the period based on a definite output.* These expenses may then be sub-divided into shorter periods, say weeks or months, and the weekly or monthly oncost burden thus ascertained should be distributed over the different departments of the works on some reasonable and consistent basis with due regard to the actual facts and circumstances. But these figures should then be subjected to a close scrutiny and tested in the light of actual facts to see how far they are in agreement with the amounts actually expended under each head at the close of the financial period, and, if possible, at shorter intervals.

In a manufacturing business where there are several distinct departments working under different conditions, it is absolutely essential for an equitable division of oncost to ascertain the works expense attributable to each such department. Each department should be treated as a distinct entity, and the particular conditions obtaining in each and the class of the work done therein should be closely examined and taken into account before deciding upon the method of allocation of each [illegible]t. There are instances where different methods of oncost [illegible]nd necessary in different departments of the same business.

To facilitate the allocation of Oncost Burden in costs, the expenses of a manufacturing concern are divided into two main classes: (1) Works Expenses and (2) Office Expenses. Now, to illustrate the question of subdivision, what is generally known as Factory Oncost or Works Expenses may usually be classified into the following heads:—

(1) Building Expense,

(2) Power Expense,

(3) Plant Expense,

(4) Stores Expense,

(5) Tools Expense,

(6) Laboratory Expense,

(7) Works Supervision Expense, and

(8) Works Administration Expense.

Building Expense.—Under this head will be grouped all expenses necessary towards the maintenance of the Factory Building and running it for production purposes, such as:

(1) Factory Rent and Taxes; (2) Factory Building Repairs, Insurance and Depreciation; (3) Factory Lighting, Heating, cleaning and painting; (4) Water consumed; (5) Maintenance of Elevators; and (6) Sundry Expenses appertaining to works building.

The total expense thus ascertained in making the building useful for manufacturing business will be of considerable value for comparison purposes. Even where the Factory Building belongs to the manufacturer, a fair rate of interest should be calculated on the capital outlay on factory land and building and the same should be included as rent cost.

The total Building Expense, having been ascertained, may then be distributed over the departments according to the respective floor space occupied.

Power Expense will include: (1) Cost of Fuel, Oil, etc.; (2) Motive Power consumed; (3) Stoking; (4) Labour and attendance; (5) Repairs to Power House; (6) Depreciation to Power House and on power producing plant; (7) Insurance of Power House and Power Plant; (8) Water consumed; and (9) Sundries.

Where the manufacturer generates his own power, the total expense of power production will help him to compare the cost per unit produced with the cost of unit supplied from an outside source. Besides, useful comparison can be made of the charge under this head from period to period.

The total Power Expense may be allocated according to the horse-power employed in each shop or section of the factory, or in accordance with the actual consumption, if this can be measured.

Plant Expense comprises (1) Plant Maintenance Expenses; (2) Beltings, Oil, Cotton-waste, rags, etc.; (3) Plant Repairs; (4) Plant Insurance; and (5) Depreciation of Plant and Machinery.

For costing purposes, an amount representing the actual shrinkage in the value of the plant from year to year should be brought into account. In a large factory employing costly machinery, the question of Depreciation which naturally becomes a vital factor can be most satisfactorily dealt with by maintaining a Plant Register, wherein should be recorded full details of each and every machine or section of machinery as and when acquired. The percentages of depreciation on the different sections once decided upon should be reviewed from time to time in the light of actual experience, and necessary adjustments must be made to set right any inadequate or excessive depreciation.

In the case of any abnormal repairs taking place, such a charge should be spread over the number of years likely to benefit in order to ensure that each year bears its fair proportion.

The total Plant Expense may be apportioned over the different departments according to the nature and value of the machinery and plant in each department.

Stores Expense would cover (1) Wages of store-keepers; (2) Lighting and heating of stores; (3) Maintenance of stores fixtures and fittings; (4) Insurance of Stores; (5) proportion of Building Expense fairly attributable to the space occupied by the Stores Department; and (6) Salaries of Store Clerks.

The total Stores Expense may be distributed over the several departments of the factory in proportion to the value of stores consumed by each department.

Tools Expense will comprise the Salaries and Wages of Clerks and others employed in the tools section, cost of materials and labour consumed in tool repairs, and all Sundry Expenses incurred in running this service.

Laboratory Expense will include Salaries and Wages of Laboratory Staff, all labour and material consumed in experimental and research work, laboratory heating, power consumed. etc.

Works Supervision Expense will include wages and salaries of overseers, foremen, etc.

Works Administration Expense will comprise salaries of Works Managers, Superintendents, costing staff, design and lay-out work staff, etc.

It needs to be pointed out, however, that the above presents the barest outline of the manner in which any sub-division of expense can be made, but the actual method to be employed in any business for the purpose of classifying and apportioning the expense burden must be determined upon after a very close and critical study of the nature of the business and the actual conditions obtaining therein.

METHODS OF ALLOCATION OF FACTORY ONCOST.

The following are the several methods used for the purpose of allocating Factory Oncost:—

(1) On the basis of direct (productive) wages paid.

(2) On the basis of direct (productive) hours worked.

(3) On the basis of the running time of the machines, i.e., machine hour rate.

(4) A combination of the machine hour rate for machine expenses and of man-hour rate for other works expenses

(5) On the basis of prime cost of the products.

(6) On the basis of output of each department.

Direct Wages or Direct Labour Cost Method.—By this method, the amount of direct wages expended on any job is adopted as the standard of measure for the charge in respect of works oncost. It is most commonly used on account of its extreme simplicity.

The Direct Wage Rate is obtained by first ascertaining the percentage that the estimated works oncost attributable to a department bears to the amount of its productive wages for the year. Each job is then charged with this percentage on its direct wage cost to obtain its work cost.

Subject to proper departmentalization, this method will give fairly accurate results only where all the work is done by hand, where the rate of pay received by workers is fairly uniform and where the use of machinery is more or less negligible. Thus, it can only be applied with advantage in a business where the same class of labour is employed on all the jobs, e.g., entirely skilled labour or entirely unskilled labour of the same class, or where the general proportion of skilled and unskilled labour employed on all the jobs is similar. Building Contracts, Road Works, etc. would be good examples. Where, however, it appears that the relative amount of wages varies materially as between one job and another, as where some jobs employ only skilled labour, others partly skilled and partly unskilled, and others unskilled, in continually varying proportions, it will be found that the allocation of works oncost based on the amount of wages paid would unduly burden such jobs which employ skilled labour, whilst it would fall unduly lightly on other jobs employing unskilled labour. For it is evident that if highly skilled and unskilled operators are employed in the same department, allocation of supervision expense should be in inverse proportion to the rate of wages, for the latter would need more supervision than the former. The result would be that the works cost of each individual job arrived at on the basis of direct wages would be misleading. In such a circumstance, the allocation based on the number of labour hours would meet the case more equitably.

Again, where the work is done partly by hand and partly by machinery, true costs are not possible by this method, as the job requiring the use of expensive machinery and the job requiring all hand-work will both have to bear the same percentage of works expense calculated on their relative direct wages. This will lead to wrong results, as it is evident that a job which requires the use of machinery should be charged with a larger measure of works expense than the one which requires little use or no use at all of machinery. It need hardly be pointed out that rent, power, plant maintenance and depreciation and indirect material are all expenses which have a direct bearing on the size and nature of the machines and not on the rate of pay received by the workers.

Direct Labour-hour Method or Man-hour Method.—Under this method, instead of fixing the rate upon the total amount paid in wages, the oncost is allocated on the basis of the *number* of hours worked by the direct wage earners. The total number of direct labour hours of each department is ascertained and divided into the total works expenses attributable to that department, the resultant figure being what is called the Direct Labour Hour Rate. This method gives more accurate results than the percentage on direct wages, because it takes into account the element of time taken by the workers and the amount of oncost is not affected by difference in rates of pay. Thus, if two workers paid on piece-work method, are engaged upon similar work, and whereas one takes 20 hours to complete the job, the other takes 25 hours, the latter would use more power, supervision, plant maintenance and depreciation, light, etc. than the former. As the amount of oncost charged under this method would be in proportion to the labour hours, it would follow that the latter job will bear a larger measure of oncost than the former. This method thus provides against some of the anomalies which arise with the direct wages method.

The drawback of this method is that it fails to take account of the [illegible] in size of the machines, and, therefore, it provides fairly accurate results in a business where the use of machinery is subordinate to the use of hand labour.

It must be noted that for the purpose of this method, only *direct labour hours* (i.e., number of hours the productive workers were engaged) are taken, and the number of hours worked by indirect labour is excluded. As a matter of fact, the amount of indirect labour will form one of the component items of Works Oncost.

Machine Rate or Machine-hour Method.—Where the nature of the business is such that the whole of the machinery is continually employed in manufacturing operations, it is evident that, in that case, the time occupied by the machines would be a guide to the general works expenses incurred, and an hourly burden based on the number of working hours of the machines can in that case be more appropriately adopted. This method is thus found to be equitable and is particularly used in highly organised engineering businesses, where most of the work is done by costly machines. In such cases, from the standpoint of costing, the machines stand to become the controlling factor rather than the operators, as a large part of the total oncost expense centres round the machines and not the operators. The direct labour cost in such a concern being relatively a small proportion of the direct manufacturing cost in which the machinery maintenance and depreciation, tools and cost of running the machines are predominant, the machine-hour rate yields more accurate results.

Under this method, the total works expenses are first analysed into departments and the amount of expenses attributable to each department is then distributed over the number of machines or group of machines in that department. This gives the proportion of expense per machine or a group of machines, and the figure is then divided by the number of productive hours it is estimated each machine or group of machines will run throughout the year at its full normal capacity. The result will be a machine hour rate.

The most difficult part of the work in this connection is the ascertainment of the correct amount of expenses attributable to each machine or group of machines. In order to arrive at a correct allocation of expenses in this direction, the amount of works cost of each department will have to be most carefully and scientifically analysed. There are some items which are directly governed by the nature of the machines, such as power consumed, repairs, maintenance and depreciation of plant and indirect materials consumed. There are other items which will bear allocation on the basis of the floor space occupied by the machines, such as maintenance, repairs and depreciation of building, insurance, rent and taxes of buildings.

The power expense will be apportioned on the basis of power consumed by each machine. Plant depreciation, repairs and maintenance in connection with each machine can be easily ascertained separately.

Miscellaneous supplies such as oil, beltings, cotton-waste can also be separately ascertained, where the machines are costly, by maintaining a record of stores issued to each machine, otherwise the same would be apportioned over the machines on some sound and reasonable basis.

In regard to expenses other than the above which are not so direct and cannot be definitely attached to particular machines, such as works management, organization and other indirect labour such as wages of watchmen, caretakers, shop cleaners, crane drivers, etc., the same may be allocated on some equitable basis having due regard to the nature of the business.

A great bulk of the factory expenditure is thus brought into complete control and is allocated most equitably. Besides, the ascertainment of the machine-hour rates provides clear and detailed information as to the expense of operating each machine.

Records will have to be maintained in this case by the operators of the machines to indicate the time occupied by the machines on each job and the Job Account is then charged with this number of hours at the hourly machine rate.

Combined 'Machine-hour' and 'Direct Labour' Method.—Where the work is done partly by machines and partly by hand labour, a combination of Machine-hour and Direct Labour Hour Method is used for the purpose of allocating the oncost charges. Such expenses as are inseparable from the running of the machines are allocated on the basis of the Machine-hour rate, and the other expenses which are not directly attached to the machines are allocated on the basis of the direct labour hour.

Percentage on Prime Cost Method.—This method is most inaccurate and unreliable of all, and yet it is the most popular on account of its simplicity. Under this method, the percentage which the works oncost bears to the total prime cost (i.e. direct material and direct labour) is ascertained and each job is then charged with that percentage on its prime cost as its share of burden in respect of works oncost. As a rule, works expenses seldom, if ever, have any direct relation to the value of direct material used, and by applying to total prime cost a uniform percentage in respect of works oncost burden, a manufacturer opens himself to serious risks of getting altogether wrong information as to the ultimate costs.

The following illustration will serve to clearly indicate the fallacy of this method. If we assume that during a given period the total direct material consumed in manufacture of articles amounted to Rs. 50,000, the direct wages to Rs. 75,000 and the factory expenses to Rs. 1,00,000, the total factory oncost works out at 80% of the total prime cost. We may further assume that included in the articles manufactured was a product whose material cost came to Rs. 800 and direct labour Rs. 200 and there was another whose material and labour cost worked out at Rs. 200 and Rs. 800 respectively.

Now, if the percentage of the factory oncost is calculated on the prime cost basis, the amount of oncost chargeable in both these cases will be the same as shown below:—

First Article		Rs	*Second Article.*		Rs
Direct Material	=	800	Direct Material	=	200
Direct Labour	=	200	Direct Labour	=	800
Prime Cost	=	Rs. 1,000	Prime Cost	=	Rs. 1,000
Factory Oncost 80 p.c.		800	Factory Oncost 80 p.c.		800
Factory Cost	=	Rs. 1,800	Factory Cost	=	Rs. 1,800

It is a matter of common knowledge that the Factory Expense of manufacturing any article has a direct relation to the number and nature of the manufacturing operations through which the material passes. Evidently, therefore, it may reasonably be inferred that, in the second case, where the labour cost forms an important factor, the material must have undergone a considerable number of manufacturing processes. It would equally follow, therefore, that it must have consumed factory rent, lighting, heating, power, depreciation of plant and supervision in a larger measure than in the case of the first article. It is clear, therefore, that this method of allocation of Factory Oncost by way of a percentage on the Prime Cost is incorrect and misleading in a case where material and labour cost of each individual product are considerably in varying proportions.

In view of the above facts, it may seem that the allocation of the Factory Expenses on the basis of labour cost of each article would be more appropriate in the cases quoted. Allocating the Works Expenses on the basis of the wages paid, the works cost of each article would work out as under:—

As the direct wage for the period amounted to Rs. 75,000, and the total Factory Expenses covering the same period amounted to Rs. 1,00,000, the Factory Expense amounts to 133-1/3 per cent of the direct labour cost. The total cost in each case would appear thus:—

First Article.

		Rs.	a.	p.
Direct Material	..	800	0	0
Direct Labour	..	200	0	0
Prime Cost	= Rs.	1,000	0	0
Factory Oncost—133-1/3% of the Labour Cost	..	266	10	8
Factory Cost	= Rs.	1,266	10	8

Second Article.

		Rs.	a.	p.
Direct Material	..	200	0	0
Direct Labour	..	800	0	0
Prime Cost	= Rs.	1,000	0	0
Factory Oncost—133-1/3% of the Labour Cost	..	1,066	10	8
Factory Cost	= Rs.	2,066	10	8

Comparing these figures with the cost as ascertained under the first method, we find that the first article was over-valued to the extent of Rs. 533-5-4 and the second article was under-valued to the extent of Rs. 266-10-8.

We will now take the case of a third article which cost Rs. 400 in material and Rs. 600 in direct labour, the Factory Expenses being 133-1/3% of the wages cost, the same as above. In this case the Factory Cost will work out thus:—

		Rs.
Direct Material	=	400
Direct Labour	=	600
Prime Cost	=	Rs. 1,000
add Factory Expenses 133-1/3% of Labour Cost		800
Factory Cost	=	Rs. 1,800

The result obtained in this case is the same as in the first method. This is because the material cost of the article in question bears the same proportion to its labour cost as the *total material cost of the period* bears to its *total labour cost.* It follows, therefore, that under the method of allocating the Factory Expense on the Prime Cost basis, only those articles in which the proportions of material and labour costs are approximately the same as the proportions between the total material and total labour would be said to be properly priced; whereas those in which the proportion of material cost happens to be higher would be over-priced by being unnecessarily burdened with a larger measure of factory expense, and those in which the proportion of labour cost happens to be higher would be under-priced by being charged with a lower proportion of Factory Expense than would be deemed equitable.

Output Basis Method.—This method consists in allocating the oncost at the rate of so much per ton or other unit of production. The rate per unit of production is obtained by dividing the total estimated oncost by the total estimated output of units. In order to ascertain the oncost charge applicable to a job, the rate as above ascertained is multiplied by the output of units appertaining to that job.

This method can be usefully employed in a case where the class of output is constant, where the products have to undergo several chemical or other processes in the course of production, and where the workers have to attend to more than one job at a time.

Allocation of Office Oncost.—Office Expense is generally sub-divided into (1) Administration Expenses, i.e. expenses relating to Business Management, and (2) Selling and Distribution Expenses, i.e. those incurred in disposing of the finished products. All these expenses relate to trading and not manufacturing, and evidently, therefore, will not form part of the Factory Oncost, and will have to be treated separately.

Administration Expenses will include:—

Office Staff Salaries
Office Management Salaries
Directors' Fees
Office Printing and Stationery
Office Rent, Taxes and Insurance
Postages and Telegrams
Telephone and Other Charges, and
Depreciation of Office Furniture.

Selling and Distribution Expenses will include:—

Salaries of Salesmen
Commission to Salesmen
Travelling Expenses of Salesmen
Advertising
Cost of Catalogues and Price Lists
Branch and Agency Expenses, etc.

Ordinarily, the burden in respect of Office Oncost is allocated towards the different jobs or departments or processes on the basis of a percentage on the Works Cost. This method, however, will give accurate results only where the products are of such a nature as are capable of being disposed of in the same market and by means of the same sales organization. If, however, the nature of the business is such that the products of one department ...quire more costly advertising organization than those of another, then, in such cases, the Administration Oncost must be separated from the Selling and Distribution Oncost, and whereas the former may be distributed over the different jobs by way of a flat rate on their respective Works Cost, the Selling Oncost may be distributed over the different departments on some other fair and equitable basis having due regard to the circumstances of the case.

SOUND ORGANIZATION INDISPENSABLE TO GOOD COSTING.

With a view to enable the student to fully realise what sound organization means and to what considerable extent it helps to secure economy in costs, it has been thought necessary to briefly recapitulate here what has been elaborately explained in the previous chapter.

It can hardly be sufficiently stressed that any system of cost accounts to be sound and reliable must be supported by an equally sound system of works organization and control. In any factory, efficient organization must materially assist in efficient costing; but accurate and economical costs must be the basis of the organization, and unless this fact is kept in mind, organization is obviously of no avail. To a manufacturer, the question of cost is ever to the fore, and scientific organization must help him in keeping his own costs down to the lowest level proportionate to his production. The question before him is not to produce at any cost, but at a price as would defy competition and yet leave him a margin of profit. It is impossible for cost accounts to indicate to the management any inefficiencies, and the extent of the various forms of waste, or reveal the sources of economies in production, unless they are linked with a suitable system of works organization based on scientific and intelligent lines.

As economy in production should be the key-note to success in any manufacturing business, the whole organization must strive towards scientific planning, sound direction and efficient co-ordination and control of men, machines and methods. The economical use of machines, control of methods, the determination of most suitable material, equipment and economical process, standardization of products, constant experimentation towards improvement in design and methods of production are all highly essential towards stimulating and aiding more profitable development. There should be a complete inter-locking of the activities of the various individuals and groups of individuals carrying out the objects of the establishment in such a manner as would enable them all to co-operate for the common good, promptly, harmoniously and economically. There should also be definite lines of supervision and delegation of authority.

Economy of operation must depend on the supply of raw materials, fuel or power at favourable rates, an adequate local supply of efficient labour, the nature and cheapness of transportation and the proximity of markets. All these factors, therefore, need to be most critically examined before selection of a site for manufacturing purposes.

The Planning Department must determine the machinery and plant necessary for producing a good output, and must see to the most efficient lay-out of the machinery for this purpose, by a proper disposition of the processes and machines, with due regard to the nature of the industry and with ample provision for future expansion. While co-operating with the Design Department with a view to economy in manufacture, the Planning Department should also prepare and issue necessary instructions with regard to the proper performance of jobs and routine work through the various sections of the Factory.

The Design Department must design the products to best advantage and ascertain the most up-to-date and economical methods of manufacture. In view of the fact that the relation of design to cost is of prime importance, simplicity in design should receive most careful consideration, and standardisation should be resorted to wherever possible.

The Progress and Inspection Department will see that the instructions issued by the Planning Department are being strictly complied with. They would also ensure that the capabilities of all the manufacturing departments and machining operations are utilised to their fullest extent, and would control departmental progress and transport. This department must further examine and pass: (1) Raw materials by quality tests; (2) productive operations; (3) efficiency of machines; (4) running cost of machines; (5) finished parts acquired from outside sources; (6) sub-assemblies; (7) final erection; and (8) loose accessories. The work must be done systematically and expeditiously so as to facilitate production and not to retard progress, and thus help towards economical manufacture by intelligent supervision and elimination of waste.

As proper selection and economical buying of raw materials must help considerably towards efficient production, the Buying Department should be organized on sound lines. All purchases should be effected through authorised channels, and the authority to issue purchase requisitions should be strictly defined and rigidly adhered to. There should be a precise system adopted for checking the receipt of materials and stores and the subsequent payment therefor. A system of critical inspection of the materials purchased to determine how far the quality supplied agrees with the purchase orders should be rigidly applied. An efficient system of material record is highly essential for ascertaining the material cost of every finished product or job, and for locating and preventing leakage or wastage arising from defective work, pilferage, or lack of appreciation of the value of by-products. There should be frequent comparison of actual consumption of material in finished products against standard consumption. Such a procedure will at once bring to light any leakage or wastage.

There should also exist a system of Stores Organization and control which would always ensure a sufficient quantity of materials and spare parts on hand so as to help towards continuous production without any hitch, and would at the same time prevent any unnecessary locking up of capital. The methodical arrangement and proper handling of stores, the control over the receipts and issues as would prevent waste, pilfering and the accumulation of duplicate and obsolete stores, and a perpetual inventory system must all form part of a good system of Stores Organization.

Labour being the most vital element in manufacturing, the working force must be directed and controlled in a manner as would secure most efficient individual as well as total efforts. Experience has shown that sympathetic handling of labour must be taken as an essential factor in contributing towards success in this direction. Any one of the different forms of wage payment may be employed as would offer to the workers most satisfactory form of incentive towards giving their best and would tend towards equity and economy. The system of wage records must ensure that each job or standing order is charged with its correct wage cost. The labour efficiency of the works will have to be continuously measured at definite intervals by regular comparisons of labour cost per unit. An atmosphere of mutual trust and good understanding between the employers and the employees, sufficiency of wages, good working conditions, proper housing, recreation and educational facilities, medical relief, etc., will all go a great way towards promoting highly efficient labour conditions.

There should be an excellent system of Plant Maintenance as will maintain the plant in a high standard of efficiency so as to ensure smoothness and regularity of the flow of production, improve the quantity and quality of the output, and reduce delays resulting from break-down to a minimum.

The Tools Organization will keep a complete record of the stock of tools and also of all tools issued to the different sections of the works and those returned to the tool room for repairs or replacements. The tool room should be kept in a well-arranged form and the tools store should be properly classified so as to enable the issues to be made to the several manufacturing departments immediately on requisition. This department is also responsible for maintaining all the tools in an excellent workable condition. It should further see that all repairs and alterations are carried out without any delay, and any special tools, if required, are immediately taken in hand for manufacturing.

The Estimating Department must provide estimates to be filled in tenders or quotations, and unless the work is done on most careful and scientific lines, any under or over-estimate must result in a loss to the concern. On completion of a group of products or a job, the costs must be compared with their relative estimates so that the accuracy or otherwise of the predetermined figures may be revealed. Where previously ascertained costs are utilised as a guide for future estimates, they must be adjusted in the light of current fluctuations in the cost of material, wages or expenses.

Accurate, comprehensive and comparative Statistics, Reports and Charts appertaining to the diverse activities of the works are indispensable towards scientific administration of any business. Thus, Statistical Reports and Charts relating to current material prices, wage rates, operating efficiencies, amount of over-time, short-time or spoiled time, comparative material, wage and expense burden, comparison of estimates with actual costs, progress of production and varied other matters must necessarily be supplied to the executives to keep them well informed with the numerous activities of the business. But statistical data and reports will be helpful only to the extent to which they supply accurate information. Great stress should therefore be laid on the care and accuracy with which they are compiled.

Records are indispensable to the successful administration and control, and must cover all the aspects of the business including material records, wage records, production quantities and costs, expense records, sales statistics, finance, etc.

No organization would be complete unless it embraces within itself Sales Function. The Sales Organization must include advertising, display of products and all other means of publicity so as to bring the goods to the notice of prospective purchasers. It must also make constant efforts in the direction of investigating fresh and potential markets for the distribution of products. The varied activities involved in the process of advertising, marketing, selling, distribution and transport should be carefully devised and co-ordinated so as to give highly efficient results. The Transport Organization must function in order to convey the finished goods to the customers by most economical and expeditious means.

In order to secure maximum efficiency, each section of work should be assigned to most suitable individuals or group of workers. Each unit of Organization must be made self-sufficient with a highly qualified official at its head, who would be solely responsible for all the functions affecting his Department. All these departmental heads will in their turn be under the direct control and able guidance of the works manager who must undoubtedly be an expert in the particular line of industry, and whose whole endeavour should be to secure the closest co-operation and co-ordination of all the varied activities of the factory in order to achieve economic and efficient results by means of well regulated administration and control.

It is only when a costing system is thus inter-linked with a thorough organization of the varied functions of a Factory as summarised above, that it will give the most satisfactory and reliable results. A good costing system thus proves a very valuable investment inasmuch as it not only helps to ascertain the true cost of any job, a product or a group of products, but provides valuable data for future estimates, detects inefficiencies and waste, whether of materials, time or expense, or in the use of machinery, equipment and tools. With the help of highly efficient organization, it should also reveal sources of economies in production having regard to methods, equipment, design and output, and should further provide a reliable check on the periodical manufacturing, trading and profit and loss accounts.

A mistake is often made of planning a costing system on an elaborate and a disproportionately costly scale from the very commencement, and attempts are then made to so align the business as to fit it in with the system already installed. As a result of such faulty procedure, cost accounts are naturally found to be too expensive and cumbersome for practical purposes. Any costing system to be of real service should be allowed to evolve gradually with due regard to the requirements of the business, and once the system is introduced, any subsequent changes therein should be effected as experience may demand after most careful consideration and without undue disturbance to the existing routine, so that the necessary alterations may be fitted into the organization already set up.

RECONCILIATION OF COST ACCOUNTS WITH FINANCIAL BOOKS.

No system of Cost Accounting would be complete if it fails to provide means for reconciliation of Cost figures with the figures of corresponding items as disclosed by the Financial Books.

Material.—The issues of direct materials and stores to the different jobs, departments or processes would be analysed from the Stores Issue Requisitions and debited by the Costing Department to the accounts of the jobs, departments or processes concerned, weekly or monthly, as the case may be. Similarly, the direct material and stores returned, if any, would be analysed from the Stores Returned Notes and credited weekly or monthly to the accounts of the various jobs or departments concerned from the Returned Stores Analysis Sheets or Book, by the Costing Department. *The total* of these Direct Material Issue Abstracts or Analyses *less* the total of the Stores Returned Notes would serve to indicate the total value of direct material consumed and charged to the Cost Accounts during any particular period.

The Issues of Indirect Material and Stores would be evidenced by Requisition Notes of quite a different colour so as to obviate any chance of these being mixed up or taken for Direct Material Issue Requisitions. These would also be analysed weekly or monthly and would be included in the Works Oncost.

In order to facilitate comparison with the record of similar items in the financial books, two separate accounts must be maintained in the General Ledger—one for Direct Material and another for Indirect Material. All purchases of productive material would be debited to the Direct Materials Account and those of Indirect Material to the latter account. Both these accounts would be credited with returns to suppliers, if any. No entries would be made in the financial books in regard to the issues thereout. At balancing time, the stock on hand of Direct and Indirect Materials would be separately taken and valued at cost. If from the total purchases of the period *plus* the Opening Balance, if any, the closing stock is deducted, the balance would represent the value of materials consumed of each different type during the period. These figures should necessarily tally with the corresponding totals of all the Direct Material and Indirect Material Abstracts for the period as made out by the Costing Department from the Material Issue Requisitions. In actual practice, there will always be a small difference on account of leakages or breakage, but this should not exceed a certain small percentage. In this manner, a most useful and necessary check will be maintained on the direct and indirect materials dealt with.

Chargeable Expenses.—In order to maintain a check on expenses specially incurred and directly attributable to any jobs or departments, a separate Nominal Account headed "Chargeable Expenses" must be opened in the General Ledger. These expenses would be analysed weekly or monthly by the financial department and passed on to the Costing Department in order that the accounts of the Jobs or Departments concerned may be charged therewith.

Direct or Productive Wages.—As already explained, these would be independently analysed by the Costing Department weekly or monthly from the Job or Piece-Work Cards or Productive Wages Abstracts as made out by the Foreman of each department, and from there each Job Account, Department Account, Process Account or Standing Order No. will receive its respective debit in the Job Cost Ledger. The total of these Productive Wages Analysis for each week or month must tally with the total of Productive Wages for the same period as ascertained from the financial books. Similarly, an abstract will be made out of Indirect Labour for the same period by the Cost Department and agreed with the total Indirect Labour incurred as shown by the financial books. The analysis of direct labour as made by the Costing Department will be with a view to ascertain how much of it is chargeable individually to the products worked during the period. The analysis of the indirect labour will be with a view to find out what wages were incurred in running the different services subsidiary to the main function of production, so that they may be included in the Works Oncost under their legitimate heads. Here again, to serve the important purpose of reconciliation of the cost figures with their corresponding items in the financial books, the total amount of wages for the week or the month debited to Wages Account from the Cash Book in the first instance will have to be subsequently analysed. The analysis, in this case, will be with a view to ascertain the wages payable under each of the following heads:—

Direct or Productive Wages

Wages for erection or extension of Building	to be capitalised.
do. do. of Plant	
Wages for manufacture of Tools.	

Labour in respect of repairs to Buildings
do. do. do. to Plant
do. do. do. to Loose Tools
Sundry Indirect Labour.

The analysis will then be journalised, debiting each of the above accounts with their respective amounts and crediting Wages Account.

This will facilitate the comparison of the weekly or monthly amounts of the Direct and Indirect Labour as analysed by the Costing Department with the figures appearing under their corresponding heads in the financial books for the same period. It need hardly be mentioned that inasmuch as both the Costing Department and the Financial Department compile their necessary data from the same original records, viz., the Time Cards, the Job Cards, the Piece-Work Cards or the Foremen's Abstracts of Wages, it automatically follows that the periodical totals of the Direct Labour and Indirect Labour as ascertained by each of these departments independently must necessarily tally.

Works Oncost.—As already explained, the Works Expenses attributable to each department or section of the factory, for the current period, would be estimated in the first instance with due regard to the amounts actually expended in the immediate preceding year, *based on a normal output*. These figures would be subjected to necessary adjustments, in view of the intended increased or decreased output and then distributed over the departments as already explained. Each Departmental Oncost would spread over its various products complete or incomplete, by any one of the several methods of oncost allocation, as already discussed. It must be noted, however, that these estimated figures of works oncost must be compared at periodical intervals with the amounts actually expended as disclosed by the financial books, and any discrepancies thus brought to light by way of an over or an underestimate must be immediately set right.

Office Oncost.—For costing purposes, the selling and distribution and office administration expenses coming under the category of Office Oncost will also have to be similarly estimated on the basis of past experience and then compared at periodical intervals with the sums actually expended as shown by the financial books, to find out how far they agree or disagree, so that this information may prove most valuable for future estimates.

The comparison of the Works Oncost and the Office Oncost will be greatly facilitated, if the accounts of expenses are opened in the Financial Ledger in a manner as would enable an easy grouping of the items under either Works Expenses or Office Expenses.

Further, in order to enable an intelligent and reliable comparison to be drawn at the end of each financial period between the figures used in Costing and the figures as appearing in the Financial Books, the Expenses Side of the Trading and Profit & Loss Account should be drafted on the following lines:—

To Direct Expenses :—	
Direct Materials	..
Stores	..
Wages	..
Chargeable Expenses	..
Prime Cost = Rs.	..
„ Works Expenses :—	
Indirect Materials	..
Indirect Wages	..
Factory Rent and Taxes	..
Motive Power	..
Factory Lighting and Heating	..
Works Repairs	..
Factory Insurance	..
Plant and Works Depreciation	..
Works Cost = Rs.	..
„ Office Expenses :—	
Office Salaries and Wages	..
Office Rent and Taxes	..
Printing and Stationery	..
Office Lighting and Insurance	..
Office Repairs	..
Telephone Charges	..
Postages, Telegrams	..
Depreciation on Office Furniture	..
Cost of Production = Rs.	..
„ Selling Expenses :—	
Carriage Outwards	..
Advertising	..
Travellers' Expenses	..
Net Discounts	..
Bad Debts	..
Interest on Capital	..
Total or Selling Cost = Rs.	..

JOB COST LEDGER.

In the Job Cost Ledger, a separate account will have to be opened for each Job undertaken. The Ledger is so ruled as to contain the detailed cost of each Job or Order Number under each of the main heads of expenditure as also to indicate the total cost. In this manner, there will be columns for Direct Material, Direct Wages and Chargeable Expenses. At the end of each week or month, postings will be made through the Cost Journal in respect of Direct Materials consumed, Direct Wages expended and Chargeable Expenses attributable to each Job in their appropriate columns, the corresponding credits being given to Direct Materials Account, Direct Wages

Account and Chargeable Expenses Account. There will be another Ledger known as the **Cost Ledger** in which would be opened all the necessary Cost Control Accounts which form a sort of connecting link between the Cost Accounts and the Financial Accounts. The Accounts to be found in the Cost Ledger would be completed Jobs Account, Work-in-Progress Account, Direct Materials Account, Direct Wages Account, Stores Account, Chargeable Expenses Account, Works Oncost Account, Office Oncost Account, etc.

CLOSING ENTRIES.

When each Job or Contract is completed, the proportionate Works Oncost and Office Oncost to be chargeable to such Job or Contract will be ascertained in any one of the methods above explained, and would be debited to such Job Account, the corresponding credits being given to Works Oncost Account and Office Oncost Account.

At the end of each financial period, the proportion of Works Oncost and Office Oncost attributable to incomplete Contracts would be debited to Works Oncost on Work-in-Progress and Office Oncost on Work-in-Progress Accounts, the corresponding credits being given to Works Oncost and Office Oncost Accounts. At the commencement of the next period, this entry would be reversed.

Work-in-Progress Account.—At each financial closing, a list will have to be made of all incomplete Jobs as appearing from the Cost Ledger and the total of the amounts debited thereto in respect of Direct Materials, Direct Wages and Chargeable Expenses would be transferred to Work-in-Progress Account. It must be noted that the proportionate Oncost in respect of Works Expenses as also Office Expenses will be charged to each Job Account only when the Job is completed.

Completed Jobs.—On a Job or a Contract having been completed and delivered, such Job Account will be credited with the Contract Price and the corresponding debit will be given to an Account styled "Completed Jobs Account". On such an entry being passed, the Account of each Job that has been completed will show either profit or loss. Each such Job Account will then be closed by transfer to an Account styled "Profit or Loss on Completed Jobs Account."

It may be that a Job Account may relate to the manufacture of some work which is to form part of some other Job Account. Under such a circumstance, a transfer entry should be passed through the Cost Journal when the first Job is completed and the subject-matter thereof has been transferred to the second Job, debiting the Account of the Job to which the manufactured article is transferred and crediting the Account of the Job representing the manufactured article.

When any Job Account relates to articles required for purposes of Stock, then on completion of such Job and on such articles being transferred to Stock, an entry should be passed through the Cost Journal debiting Finished Goods Account and crediting the Job Account. Care must be taken, however, to see that such transfer entry is made after such Job Account has been given its legitimate debit in respect of Works Oncost and Office Oncost.

In the Financial Books, all goods delivered against Works Orders should be debited to the customers concerned and credited to an Account called Completed Jobs Account. This is necessary in order that the credit on this Account may tally with the debit to a similar Account in the Cost Ledger.

Finished Goods Account.—To this Account would be debited from time to time all articles that are transferred from the Works for the purpose of Stock, as above said. On any of these articles being subsequently utilised on any other Job, such Job Account would be debited and this Account would be credited.

At the close of the financial period, the actual Stock on hand of Finished Goods would be ascertained by stock-taking and will be brought in at cost price by debiting Stock of Finished Goods Account and crediting Finished Goods Account. Any Debit Balance now left on the Finished Goods Account will represent the Cost Price of Finished Goods sold from Stock. The Finished Goods Account will now be closed by this balance being brought down. Against this debit will be set off the Sales from Stock at selling price as ascertained from the Financial Books, the corresponding debit being given to an Account styled "Sales from Stock Account." Any balance now shown on the Finished Goods Account will represent profit or loss on Sales from Stock and will, therefore, be transferred to such an Account. This will close the Finished Goods Account.

In the Financial Books, it is necessary to distinguish between Sales against Works Orders and Sales from Stock. This can be managed either by having special columns in the Day Book headed Works Orders Sales and Sales from Stock or by passing the Sales from Stock through the Day Book and journalizing all Sales in respect of Works Orders.

The Entries to be passed through the Cost Journal as described above may be summarised as under:—

(1) For charging the relative amount of Direct Materials, Direct Labour and Chargeable Expenses to each Job Account as per the weekly or monthly allocation Sheets:—

Each particular Job Account .. *Dr.*
To Direct Materials Account
„ *Direct Labour Account*
„ *Chargeable Expenses Account*

(2) For charging proportion of Factory Oncost and Office Oncost to each job when it is completed:—

Each particular Job Account .. *Dr.*
To Factory Oncost Account
„ *Office Oncost Account*

(3) For crediting each completed Job with its corresponding Contract Price:—

Completed Jobs Account .. *Dr.*
To each particular Job Account

(4) For transferring profit on each Completed Job:—

Each particular Job Account .. *Dr.*
To Profit or Loss on Completed Jobs Account

(5) For transferring the Cost of a Job which forms part of another Works Order No. to the latter account:—

Particular Works Order No. .. *Dr.*
To each particular Job Account

(6) When a product which is manufactured for stock purposes is completed:—

Finished Goods Account .. Dr.
To Stock Order No.—

(7) For closing each incomplete Job Account:—

Work-in-Progress Account .. Dr.
To each Job Account (incomplete)

(8) For bringing into account the proportion of Factory and Office Oncost attributable to incomplete Jobs carried forward:—

Works Oncost on Work-in-Progress Account Dr.
Office Oncost on Work-in-Progress Account „
To Works Oncost Account
„ *Office Oncost Account*

(9) For bringing into account the Stock of Finished Goods at cost price:—

Stock of Finished Goods Account .. Dr.
To Finished Goods Account

(10) For bringing into record Sales from Stock as ascertained from the financial books:—

Sales from Stock Account .. Dr.
To Finished Goods Account

(11) For closing the Finished Goods Account by transferring the profit as shown thereon:—

Finished Goods Account .. Dr.
To Profit or Loss on Stock Sales Account

As a result of all the above entries being passed, the following accounts will be left open in the Cost Ledger:—

(1)	Direct Materials Account	(credit balance)
(2)	Direct Labour Account	do.
(3)	Chargeable Expenses Account	do.
(4)	Works Oncost Account	do.
(5)	Office Oncost Account	do.
(6)	Work-in-Progress Account	(debit balance)
(7)	Works Oncost on Work-in-Progress	do.
(8)	Office Oncost on Work-in-Progress	do.
(9)	Stock of Finished Goods	do.
(10)	Completed Jobs Account	do.
(11)	Profit or Loss on Completed Jobs	(Cr. or Dr. balance)
(12)	Sales from Stock Account	(debit balance)
(13)	Profit or Loss on Stock Sales	(Cr. or Dr. balance)

Items No. (6), (7), (8) and (9) represent assets and the accounts concerned will be closed by balance. The balances on all the other accounts will be transferred to a Manufacturing Account and thus closed. The Manufacturing Account will be closed by balance and will help towards the completion of the Cost Ledger Trial Balance.

It must be observed that in the Manufacturing Account which is thus prepared in the Cost Ledger, the items would appear on the reverse sides of those occupied by the corresponding items in the Manufacturing or Trading

Account as prepared from the Financial Books. The reason is that two separate series of Double Entries have been passed from the same information in two distinct Ledgers, Financial and Cost, and therefore, a double Double Entry has come into existence. If, while giving the debits to each of the Jobs concerned in respect of Direct Materials, Direct Wages, Chargeable Expenses, Works Oncost and Office Oncost, the corresponding credits (instead of being given to these Accounts in the Cost Ledger) were given to the respective Accounts in the Financial Ledger, the result would have been that all those Nominal Accounts in the Financial Ledger would have been closed and then there would have been no materials left in the Financial Ledger for the preparation of an independent Manufacturing or Trading and Profit and Loss Account from the Financial Books.

ILLUSTRATION 185.

The following particulars are extracted by the Costing Department of an Engineering concern for the 6 months ended 31st December 1937. You are required to write up the Cost Journal and the Cost Ledger for the period, and prepare a Manufacturing Account and a Trial Balance.

Three Jobs were undertaken during the period, out of which Jobs Nos. 1 and 2 have been completed. Two orders for manufacturing articles for stock were also given, of which Order No. 1 was completely executed. The following are the particulars of expenses.

—	Job 1.	Job 2.	Job 3.	Stock Order No. 1.	Stock Order No. 2.
	Rs.	Rs.	Rs.	Rs.	Rs.
Direct Materials	1,200	1,500	600	900	300
Materials from Stores	8,400	10,500	7,200	6,300	3,600
Direct Wages	4,800	6,000	2,400	3,600	1,200
Other Chargeable Expenses ...	600	750	240	450	120

The Works Oncost is to be taken at 100% of Wages, and Office Oncost at 20% of Works Cost. The contract price of Jobs Nos. 1 and 2 is fixed at Rs. 26,000 and Rs. 33,000 respectively. Sales from Stock during the period amounted to Rs. 10,500, and Stock of Finished Goods on 31st December 1937 was valued at Rs. 9,500.

Solution.

COST JOURNAL.

			L. F.	Rs.	Rs.
(1)	Job No. 1 Account	Dr.		1,200	
	" " 2 "	"		1,500	
	" " 3 "	"		600	
	Stock Order No. 1 Account	"		900	
	" " " 2 "	"		300	
	To Direct Materials Account				4,500
	(Being the amount of direct materials bought for the various Jobs, as per Direct Materials Analysis).				
(2)	Job No. 1 Account	Dr.		8,400	
	" " 2 "	"		10,500	
	" " 3 "	"		7,200	
	Stock Order No. 1 Account	"		6,300	
	" " " 2 "	"		3,600	
	To Stores Account				36,000
	(Being the amount of materials supplied from Stores to the various Jobs, as per Store Analysis).				

COST JOURNAL—*Contd.*

			L. F.	Rs.	Rs.
(3)	Job No. 1 Account	Dr.		4,800	
	" " 2 "	"		6,000	
	" " 3 "	"		2,400	
	Stock Order No. 1 Account	"		3,600	
	" " " 2 "	"		1,200	
	To Direct Wages Account				18,000
	(Being the amount of productive Wages paid in respect of the various Jobs as per Wages abstract).				
(4)	Job No. 1 Account	Dr.		600	
	" " 2 "	"		750	
	" " 3 "	"		240	
	Stock Order No. 1 Account	"		450	
	" " " 2 "	"		120	
	To Chargeable Expenses Account				2,160
	(Being the amount of chargeable expenses incurred for the various Jobs as per analysis of chargeable expenses).				
(5)	Job No. 1 Account	Dr.		4,800	
	" " 2 "	"		6,000	
	Stock Order No. 1 Account	"		3,600	
	To Works Oncost Account				14,400
	(Being the amount of Works Oncost chargeable to Jobs and Stock Order completed, at 100% on Wages).				
(6)	Job No. 1 Account	Dr.		3,960	
	" " 2 "	"		4,950	
	Stock Order No. 1 Account	"		2,970	
	To Office Oncost Account				11,880
	(Being the amount of Office Oncost chargeable to the Jobs and Stock Order completed, at 20% on Works Cost).				
(7)	Completed Jobs Account	Dr.		59,000	
	To Job No. 1 Account				26,000
	" " " 2 "				33,000
	(Being the contract price of jobs completed credited to the Jobs Account).				
(8)	Job No. 1 Account	Dr.		2,240	
	" " 2 "	"		3,300	
	To Profit or Loss on Completed Jobs Account				5,540
	(Being the profit made on Jobs completed, transferred).				
(9)	Finished Goods Account	Dr.		17,820	17,820
	To Stock Order No. 1 Account				
	(Being the Total Cost of Stock Order No. 1 transferred to the former account, as the goods are manufactured for Stock).				
(10)	Sales from Stock Account	Dr.		10,500	10,500
	To Finished Goods Account				
	(Being the Sales made from Finished Stock).				
(11)	Stock of Finished Goods Account	Dr.		9,500	9,500
	To Finished Goods Account				
	(Being the adjustment for the closing stock of finished goods).				
(12)	Finished Goods Account	Dr.		2,180	2,180
	To Profit or Loss on Finished Stock Account				
	(Being profit on Sales from Stock transferred).				
(13)	Work In Progress Account	Dr.		15,660	
	To Job No. 3 Account				10,440
	" Stock Order No. 2 Account				5,220
	(Being the transfer of incomplete Jobs and Stock Order to Work in Progress).				

COST JOURNAL—*Contd.*

			L. F.	Rs.	Rs.
(14)	Works Oncost on Work-in-Progress Account	Dr.		3,600	
	To Works Oncost Account				3,600
	(Being the proportion of Works Oncost on incomplete jobs and orders brought into account).				
(15)	Office Oncost on Work-in-Progress Account	Dr.		3,852	
	To Office Oncost Account				3,852
	(Being the proportion of Office Oncost on incomplete jobs and orders brought into account).				
(16)	Direct Materials Account	Dr.		4,500	
	Stores Materials Account	,,		36,000	
	Direct Wages Account	,,		18,000	
	Chargeable Expenses Account	,,		2,160	
	Works Oncost Account	,,		18,000	
	Office Oncost Account	,,		15,732	
	To Manufacturing Account				94,392
	(Being the transfer of all credit balances on the Nominal Accounts to Manufacturing Account).				
(17)	Manufacturing Account	Dr.		69,500	
	To Completed Jobs Account				59,000
	,, Sales from Stock Account				10,500
	(Being the transfer of all debit balances on Nominal Accounts to Manufacturing Account).				
(18)	Profit or Loss on Completed Jobs Account	Dr.		5,540	
	Profit or Loss on Finished Stock Account			2,180	
	To Manufacturing Account				7,720
	(Being profits transferred to Manufacturing Account).				

COST LEDGER.
JOB NO. 1 ACCOUNT.

—	Materials.	Wages.	Chargeable Expenses.	Total.	—	—
	Rs.	Rs.	Rs.	Rs.		Rs.
[1] To Direct Materials	1,200			1,200	[7] By Completed Jobs Account ...	26,000
[2] ,, Stores ...	8,400			8,400		
[3] ,, Direct Wages ...		4,800		4,800		
[4] ,, Chargeable Expenses			600	600		
		Prime Cost	=	15,000		
[5] To Works Oncost, 100% on Wages				4,800		
		Works Cost	=	19,800		
[6] To Office Oncost, 20% on Works Cost				3,960		
		Gross Cost	=	23,760		
[8] To Profit or Loss on Completed Jobs Account—Transfer				2,240		
			Rs.	26,000	Rs.	26,000

JOB NO. 2 ACCOUNT.

—	Materials	Wages	Chargeable Expenses	Total	—	—
	Rs.	Rs.	Rs.	Rs.		Rs.
[1] To Direct Materials	1,500			1,500	[7] By Completed Jobs Account ...	33,000
[2] „ Stores ...	10,500			10,500		
[3] „ Direct Wages ...		6,000		6,000		
[4] „ Chargeable Expenses ...			750	750		
		Prime Cost =		18,750		
[5] To Works Oncost, 100% on Wages				6,000		
		Works Cost =		24,750		
[6] To Office Oncost, 20% on Works Cost				4,050		
		Gross Cost =		20,700		
[8] To Profit or Loss on Completed Jobs Account—Transfer				3,300		
			Rs.	33,000	Rs.	33,000

JOB NO. 3 ACCOUNT.

—	Materials.	Wages.	Chargeable. Expenses.	Total.	—	—
	Rs.	Rs.	Rs.	Rs.		Rs.
[1] To Direct Materials	600			600	[13] By Work-in-Progress Account—Transfer ..	10,440
[2] „ Stores ..	7,200			7,200		
[3] „ Direct Wages ...		2,400		2,400		
[4] „ Chargeable Expenses ...			240	240		
			Rs.	10,440	Rs.	10,440

STOCK ORDER NO. 2 ACCOUNT.

—	Materials.	Wages.	Chargeable Expenses.	Total.	—	—
	Rs.	Rs.	Rs.	Rs.		Rs.
[1] To Direct Materials	300			300	[13] By Work-in-Progress Account—Transfer ...	5,220
[2] „ Stores ...	3,600			3,600		
[3] „ Direct Wages ...		1,200		1,200		
[4] „ Chargeable Expenses ...			120	120		
			Rs.	5,220	Rs.	5,220

STOCK ORDER NO. 1 ACCOUNT.

		Mate-rials.	Wages.	Charge-able Expen-ses.	Total.			
		Rs.	Rs.	Rs.	Rs.			Rs.
[1]	To Direct Materials	900			900	[9]	By Finished Stock Account—Transfer	17,820
[2]	„ Stores ...	6,300			6,300			
[3]	„ Direct Wages ...		3,600		3,600			
[4]	„ Chargeable Expenses ..			450	450			
			Prime Cost	=	11,250			
[5]	„ Works Oncost, 100% on Wages				3,600			
			Works Cost	=	14,850			
[6]	„ Office Oncost, 20% of Works Cost				2,970			
		Gross Cost	=	Rs.	17,820		Rs.	17,820

DIRECT MATERIALS ACCOUNT.

		Rs.		Rs.
(16)	To Manufacturing Account—*Transfer* ...	*4,500*	By Sundry Jobs and *Stock Orders*	*4,500* (1)

STORES ACCOUNT.

		Rs.		Rs.
(16)	To Manufacturing Account—Transfer ...	36,000	By Sundry Jobs and Stock Orders	36,000 (2)

DIRECT WAGES ACCOUNT.

		Rs.		Rs.
(16)	To Manufacturing Account—Transfer ...	18,000	By Sundry Jobs and Stock Orders	18,000 (3)

CHARGEABLE EXPENSES ACCOUNT.

		Rs.		Rs.
(16)	To Manufacturing Account—Transfer ...	2,160	By Sundry Jobs and Stock Orders	2,160 (4)

WORKS ONCOST ACCOUNT.

	Rs.		Rs.
(16) To Manufacturing Account—Transfer ..	18,000	By Sundry Jobs and Orders ..	14,400 (5)
		„ Works Oncost on Work-in-Progress	3,600 (4)
Rs.	18,000	Rs.	18,000

OFFICE ONCOST ACCOUNT.

	Rs.		Rs.
(16) To Manufacturing Account—Transfer ...	15,732	By Sundry Jobs and Orders ...	11,880 (6)
		„ Office Oncost on Work-in-Progress	3 852 (15)
Rs.	15,732	Rs.	15,732

COMPLETED JOBS ACCOUNT.

	Rs.		Rs.
(7) To Sundry Jobs ...	59,000	By Manufacturing Account—Transfer	59,000 (17)

PROFIT OR LOSS ON COMPLETED JOBS ACCOUNT.

	Rs.		Rs.
(18) To Manufacturing Account—Transfer ...	5,540	By Sundry Jobs	5,540 (8)

FINISHED GOODS ACCOUNT.

	Rs.		Rs.
(9) To Stock Order No. 1 Account ...	17,820	By Sales from Stock	10,500 (10)
(12) „ Profit or Loss on Finished Stock Account—Transfer ...	2,180	„ Stock of Finished Goods Account	9,500 (11)
Rs.	20,000	Rs.	20,000

SALES FROM STOCK ACCOUNT.

	Rs.		Rs.
(10) To Finished Stock Account	10,500	By Manufacturing Account—Transfer	10,500 (17)

STOCK OF FINISHED GOODS ACCOUNT.

	Rs.		Rs.
(11) To Finished Stock Account ...	9,500	By Balance c/d.	9,500
„ Balance b/d. ...	9,500		

PROFIT OR LOSS ON FINISHED STOCK ACCOUNT.

		Rs.		Rs.	
(18)	To Manufacturing Account—Transfer ..	2,180	By Finished Stock Account	2,180	(12)

WORK-IN-PROGRESS ACCOUNT.

		Rs.		Rs.
(13)	To Sundry Jobs and Orders ...	15,660	By Balance c/d. ...	15,660
	To Balance b/d. ...	15,660		

WORKS ONCOST ON WORK-IN-PROGRESS ACCOUNT.

		Rs.		Rs.
(14)	To Works Oncost Account ..	3,600	By Balance c/d. ...	3,600
	To Balance b/d. ...	3,600		

OFFICE ONCOST ON WORK-IN-PROGRESS ACCOUNT.

		Rs.		Rs.
(15)	To Office Oncost Account ...	3,852	By Balance c/d. ...	3,852
	To Balance b/d. ...	3,852		

MANUFACTURING ACCOUNT.

		Rs.			Rs.
(17)	To Completed Jobs ...	59,000	By Direct Materials	(16)	4,500
(„)	„ Sales from Stock ...	10,500	„ Stores	„	36,000
	„ Balance c/d. ...	32,612	„ Direct Wages	„	18,000
			„ Chargeable Expenses	„	2,160
			„ Works Oncost	„	18,000
			„ Office Oncost	„	15,732
			„ Profit or Loss on Completed Jobs	(18)	5,540
			„ Profit or Loss on Sales from Stock	„	2,180
	Rs.	1,02,112	Rs.		1,02,112
			By Balance b/d. ...		32,612

TRIAL BALANCE.

As at 31st December 1937.

	Rs.	Rs.
Stock of Finished Goods Account	9,500	
Work-in-Progress Account	15,660	
Works Oncost on Work-in-Progress Account	3,600	
Office Oncost on Work-in-Progress Account	3,852	
Manufacturing Account		32,612
Rs.	32,612	32,612

NOTE.—The figures in brackets in the Ledger give reference to the corresponding Journal Entries. These have been given for the guidance of the students.

ILLUSTRATION 186.

From the following figures ascertain the

(a) Cost of Materials used,

(b) Value of output of manufactured goods, and

(c) Percentage of gross profit on sales.

TRADING ACCOUNT.

	Rs.	Rs.		Rs.	Rs.
To Stock :—			By Sales	...	8,40,000
Finished Goods ...	80,000		" Closing Stock :—		
Raw Materials ...	24,000		Finished Goods ...	70,000	
		1,04,000	Raw Materials ...	28,000	
" Purchases	...	2,40,000			98,000
" Wages	...	4,00,000			
" Carriage	...	20,000			
" Gross Profit ...	...	1,74,000			
	Rs.	9,38,000		Rs.	9,38,000

Solution.

(a) Cost of Materials used :—

	Rs.
Opening Stock	24,000
Purchases	2,40,000
Carriage	20,000
	2,84,000
Less Closing Stock	28,000
	Rs. 2,56,000

(b) Value of Output of Manufactured Goods :—

	Rs.
Materials (consumed as per "a")	2,56,000
Wages	4,00,000
	Rs. 6,56,000

(c) Percentage of Gross Profit (Rs. 1,74,000) on Sales (Rs. 8,40,000) = 20.71%.

ILLUSTRATION 187.

The Accounts of the Modern Engineering Co., Ltd., show for 1937 :—

	Rs.
Materials used	17,50,000
Manual and Machine Labour Wages directly chargeable	13,50,000
Works Overhead Expenditure	3,71,250
Establishment and General Expenses	2,32,500

Show the Works Cost and Total Cost, the percentage that the Works Overhead Cost bears to the Manual and Machine Labour Wages and the percentage that the Establishment and General Expenses bear to the Works Cost.

What price should the Company quote to manufacture a machine which, it is estimated, will require an expenditure of Rs. 7,500 in material and Rs. 6,000 in wages so that it will yield a profit of 25% on the total cost or 20% on the selling price?

Solution.

MODERN ENGINEERING CO., LTD.

Summary of Expenditure for 1937		Rs.	*Estimate for Machine.*		Rs.
Materials used	..	17,50,000	Material ..	.. ..	7,500
Manual and Machine Labour Wages (direct)	..	13,50,000	Wages (direct)	.. ..	6,000
Prime Cost	Rs.	31,00,000			13,500
Works Overhead Expenses	..	3,71,250	Works Oncost—27.5% of Direct Wages	.. ..	1,650
Works Cost	Rs.	34,71,250			15,150
Establishment and General Expenses ..	..	2,32,500	Office Oncost—6.70% of Works Cost	.. ..	1,014-12
Total *Cost*	Rs.	37,03,750			16,164-12
			Profit—25% on total cost	..	4,041- 3
			Selling price giving profit thereon 20%	Rs.	20,205-15

Works Overhead Cost = 27.5% of Manual and Machine Labour Wages.
Establishment and General Expenses = 6.70% of Works Cost.

ILLUSTRATION 188.

In some Industries, a certain percentage of defective products is a normal factor. In the case of 10 000 articles being manufactured at a cost of Rs. 80 000 of which Rs. 50,000 are Wages and Indirect Charges and Rs. 30,000 Material, and 1,500 articles turn out defective, their only value being in the used metal of which they are composed, amounting to Rs. 1,500, what is the unit cost of the saleable products, in total, and in Wages and Indirect Charges, and Materials respectively?

Solution.

	Output, 8,500		Cost per unit of Saleable Article.
	Rs.	Rs.	Rs.
Materials	30,000		
Less Metal in defective articles ..	1,500		
		28,500	3- 5-7.76
Wages and Indirect charges		50,000	5-14-1.41
	Rs.	78,500	Rs. 9- 3-9.17

ILLUSTRATION 189.

An Ironmaster produces 40,000 tons of Pig Iron in a year at certain furnaces.

From the following figures, prepare Production Account, showing the cost per ton of the various items of the expenditure, and after crediting the Production Account with Rs. 1,60,000, the amount received on the sale of Slag, show the cost per ton of Pig Iron produced.

	Stocks at beginning of the year.	Purchases during the year.	Stocks at end of the year.
	Rs.	Rs.	Rs.
Coal	95,000	4,00,000	80,000
Coke	73,000	5,70,000	65,000
Limestone	30,000	1,20,000	35,000
Ironstone	82,000	3,50,000	64,000
Sundries	56,000	1,60,000	60,000

Works General Charges are to be taken at Rs. 95,000 and Wages at Rs. 3,50,000.

Solution.

PRODUCTION ACCOUNT FOR THE YEAR.

OUTPUT 40,000 TONS.

	Cost per ton. Rs. a. p.	Rs.		Cost per ton. Rs. a. p.	Rs.
To Materials Consumed:—			By Sale of Slag ...	4 0 0	1,60,000
Coal ...	10 6 0	4,15,000	" 40,000 Tons Output ...	47 14 9.6	19,17,000
Coke ..	14 7 2·4	5,78,000			
Limestone ...	2 14 0	1,15,000			
Ironstone ...	9 3 2·4	3,68,000			
Sundries ..	3 14 4·8	1,56,000			
" Wages ...	8 12 0	3,50,000			
" Work General Charges ...	2 6 0	95,000			
Rs.	51 14 9·6	20,77,000	Rs.	51 14 9.6	20,77,000

The *Net Cost* per ton of Pig Iron is, therefore, Rs. 47-14-9.6

ILLUSTRATION 190.

The following particulars relate to certain contracts carried out by a firm of Engineers, during the month of December 1937.

	Rs.		Rs.
Direct Wages, paid during the month on Work-in-Progress ..	6,400	Additions to Plant, Materials ..	260
Materials used as per Materials Day Book	5,900	Patterns, Time	490
Materials charged direct ..	2,800	" Materials	150
Direct payments for materials ..	610	Unchargeable, Time ..	380
Cost of completed work as per Sales Journal:		" Materials	20
Time	5,900	Uncompleted work for customers at close of month:	
Materials	6,800	Time	1,990
Cost of Time and Materials on:—		Materials	2,820
Finished Stock, Time ..	1,800	Time and Materials on Work-in-Progress at beginning of month as shown by Cost Ledger, Time ..	4,600
" " Materials ..	3,060	do do. Materials ..	3,800
Additions to Plant, Time ..	440		

Write up Work-in-Progress Account.

Solution.

WORK-IN-PROGRESS ACCOUNT.

	Labour. Rs.	Material. Rs.	Total. Rs.		[illegible]	[illegible]	Total. Rs.
To Balance b/fd. ..	4,600	3,800	8,400	By Completed Contracts ..	..	..	700
" Direct Wages ...	6,400		6,400	" Amounts transferred to:—			
" Stores ..		5,900	5,900	Finished stock			860
" Materials (Direct)		2,800	2,800	Plant ..	440	260	700
" " (Cash)		610	610	Patterns ...	490	150	640
				Unchargeable	380	20	400
				" Balance c/d. ...	1,990	2,820	4,810
Rs.	11,000	13,110	24,110	Rs.	11,000	13,110	24,110
To Balance b/d. ..	1,990	2,820	4,810				

NOTE.—Unchargeable Material may represent such stores as Oil, Grease, etc.; Labour unallocated or indirect Labour; both these items must, therefore, be taken into Account when charging Works Oncost.

ILLUSTRATION 191.

From the following particulars, write up the debit side of Contract No. 101 Account, and pass entries for charging Oncost:—

	Rs.
Materials used	1,095
Productive Wages	1,200
Chargeable Expenses	60

Provide 60 per cent on Productive Wages for Works Oncost and 12½ per cent on Works Cost for Office Oncost.

Solution.

CONTRACT NO. 101 ACCOUNT.

	Rs. a. p.		Rs. a. p.
To Materials ...	1,095 0 0	By Completed Contracts Account	..
„ Wages (Productive) ..	1,200 0 0	„ Loss (if any)	...
„ Chargeable Expenses ..	60 0 0		
Flat Cost ...	2,355 0 0		
„ Works Oncost :— 60% on Productive Wages ...	720 0 0		
Works Cost ...	3,075 0 0		
„ Office Oncost :— 12½% on Works Cost ...	384 6 0		
Gross Cost ..	3,459 6 0		
„ Profit (if any) ...	.. ...		
Rs.		Rs.	

NOTE.—In practice, there will be found separate columns on either side for Materials, Wages and Chargeable Expenses.

ENTRIES IN COST JOURNAL.

		L. F.	Rs.	Rs.
1.	Contract No. 101 Account ... ... Dr. To Works Oncost Account (Being a charge of 60% on Productive Wages of Rs. 1,200 for Indirect Works Expenses).		720 0 0	720 0 0
2.	Contract No. 101 Account ... ... Dr. To Office Oncost Account (Being a charge of 12½% of Works Cost of Rs. 3,075 for Indirect Office Expenses).		384 6 0	384 6 0

ILLUSTRATION 192.

Write up Contract Account No. 75 from the following particulars and Pass Journal entries where necessary:—

	Rs.		Rs.
Direct Materials	18,000	Cost of Tractor—	
Wages	12,000	Running Material	1,000
Special Plant	8,000	Wages of Driver, etc. ..	1,600
Stores Issued	3,200	Expenses of Workmen, etc. ..	1,200
Loose Tools	1,500		

The Contract was completed in 20 weeks, at the end of which period the Plant was returned subject to a depreciation of 20% on the original cost. The values of Loose Tools and Stores Returned were Rs. 1,000 and Rs. 400 respectively. The value of the Tractor was Rs. 19,500 and depreciation was to be charged to this contract at the rate of 20% per annum.

You are required to provide for Administration Expenses at the rate of 7½ per cent on Works Cost.

Solution.

CONTRACT NO. 75 ACCOUNT.

	Rs.	Rs.		Rs.
To Direct Materials ...		18,000	By Plant (returned) ...	6,400
„ Wages ...		12,000	„ Loose Tools (returned) ...	1,000
„ Special Plant ...		8,000	„ Stores (returned) ...	400
„ Stores (issued) ...		3,200	„ Balance—being Net Works Cost c/d. ...	40,200
„ Loose Tools ...		1,500		
„ Cost of Tractors :—				
Running Material ...	1,000			
Wages of Drivers, etc. ...	1,600			
		2,600		
„ Depreciation of Tractor :— 20% per annum on Rs. 19,500 for 20 weeks ...		1,500		
„ Expenses of Workmen, etc. ...		1,200		
Rs.		48,000	Rs.	48,000
To Balance—being Works Cost b/d. ...		40,200	By Gross Cost c/d. ...	43,215
„ Administration Expenses :— 7½% on Works Cost ...		3,015		
Rs.		43,215	Rs.	43,215
To Gross Cost b/d. ...		43,215		

ILLUSTRATION 193.

Prepare Manufacturing Account in the Cost Ledger from the following particulars, and give the Trial Balance, as it would appear after closing the Cost Ledger :—

	Rs.		Rs.		Rs.
Direct Wages ...	40,000	Office Oncost ...	5,200	Work-in-Progress ...	13,000
Stores ...	24,000	Works Oncost Suspense Account ...	2,000	Finished Stock ...	18,000
Direct Goods ...	4,000	Office Oncost Suspense Account ...	1,400	Completed Contracts ...	47,800
Chargeable Expenses ...	2,000			Sales from Stock ...	6,000
Works Oncost ...	8,000				

Solution.

COST LEDGER.

MANUFACTURING ACCOUNT.

For the year ending ....

	Rs.		Rs.
To Completed Contracts ...	47,800	By Direct Wages ...	40,000
„ Sales from Stock ...	6,000	„ Stores ...	24,000
		„ Direct Goods ...	4,000
	53,800	„ Chargeable Expenses ...	2,000
„ Balance c/d. ...	34,400	„ Works Oncost ...	8,000
		„ Office Oncost ...	5,200
			83,200
		„ Profits ...	5,000
Rs.	88,200	Rs.	88,200
		By Balance b/d. ...	34,400

TRIAL BALANCE (after closing the Cost Ledger).

	Rs.	Rs.
Work-in-Progress Account	13,000	
Works Oncost Suspense Account	2,000	
Office Oncost Suspense Account	1,400	
Finished Stock Account	18,000	
Manufacturing Account		34,400
	Rs. 34,400	Rs. 34,400

ILLUSTRATION 194.

From the following particulars, prepare a Statement of Cost per Gross of "Black" and "Coloured" pencils:—

Output during the year was "Black" 24,000 gross and Coloured 8,400 gross.

	Rs.		Rs.
Raw Materials—Factory-Opening Stock ..	38,150	Finishing Wages—Black ..	20,000
Purchases during the year ..	1,07,100	—Coloured ..	5,600
Closing Stock ..	49,400	Raw Materials—Finishing Opening Stock	7,200
Factory Wages —Black ..	42,000	Purchases during the year ..	33,700
—Coloured ..	13,650	Closing Stock ..	8,900
Factory Charges	37,100	Finishing Charges	19,200
		General Expenses	36,450

Raw Materials in the Factory and General Expenses are to be apportioned in the ratio of output; Factory Charges in the ratio of Factory Wages; Finishing Raw Materials and Finishing Charges in the ratio of Finishing Wages.

Also state what profit per gross is made if "Black" is sold at Rs. 10 per gross and "Coloured" at Rs. 9-8 per gross.

Solution.

[For *Statement of Cost per Gross* see next page.

	Black.				Coloured.			
	Cost per Gross.			Amount.	Cost per Gross.			Amount
	Rs.	a.	p.	Rs.	Rs.	a.	p.	Rs.
Factory Process	5	14	0	1,41,000	5	10	8	47,600
Finishing Process	2	8	0	60,000	2	0	0	16,800
General Expenses								
Black—36,450 × $\frac{24,000}{32,400}$ ...	1	2	0	27,000				
Coloured—36,450 × $\frac{8,400}{32,400}$ ..					1	2	0	9,450
Total Cost Rs.	9	8	0	2,28,000	8	12	8	73,850

Profit on Sale per Gross for Black is Rs. 10 minus Rs. 9-8 = As. 8.

Profit on Sale per Gross for Coloured is Rs. 9-8 minus Rs. 8-12-8 = As. 11 pies 4.

STATEMENT OF COST PER GROSS OF "BLACK" AND "COLOURED" PENCILS.

—		Black. Output–24,000 Gross.		Coloured. Output—8,400 Gross.	
		Factory.	Finishing.	Factory.	Finishing.
Factory Raw Materials :—	Rs.	Rs.	Rs.	Rs.	Rs.
Opening Stock	38,150				
Purchases	1,07,100				
	1,45,250				
Less Closing Stock	49,400				
	Rs. 95,850				
Black $-95,850 \times \frac{24,000}{32,400}$		71,000			
Coloured $-95,850 \times \frac{8,400}{32,400}$				24,850	
Factory Wages :—		42,000		13,650	
Factory Charges :—					
Black $-37,100 \times \frac{42,000}{55,650}$		28,000			
Coloured $-37,100 \times \frac{13,650}{55,650}$				9,100	
Finishing Wages :—			20,000		5,600
Finishing Raw Materials :—	Rs.				
Opening Stock	7,200				
Purchases	33,700				
	40,900				
Less Closing Stock	8,900				
	Rs. 32,000				
Black $-32,000 \times \frac{20,000}{25,600}$			25,000		
Coloured $-32,000 \times \frac{5,600}{25,600}$					7,000
Finishing Charges :—					
Black $-19,200 \times \frac{20,000}{25,600}$			15,000		
Coloured $-19,200 \times \frac{5,600}{25,600}$					4,200
	Rs.	1,41,000	60,000	47,600	16,800

ILLUSTRATION 195.

From the following particulars, prepare (1) a statement of Cost of Manufacture for the year 1937, (2) a statement of Profit as per Cost Accounts; and (3) Profit and Loss Account in the financial books, and show to what you attribute the difference in the profits as shown by (2) and (3).

	Rs.		Rs.
Opening Stock of Raw Materials	60,000	Stock of Raw Materials at end	90,000
do. Finished Articles	1,20,000	Stock of Finished Articles at end	30 000
Purchase of Raw Materials	3,60,000	Wages	1,50,000

Calculate Factory Oncost at 25% on Prime Cost and Office Oncost at 75% on Factory Oncost.

Actual Works Expenses amounted to Rs. 1,16,250 and Actual Office Expenses amounted to Rs. 91,500.

The selling price was fixed at 25% above cost price.

In statement (1) also show what percentage each individual item of cost bears to the Total Cost.

Solution.

(1) STATEMENT OF COST OF MANUFACTURE (1937).

Percentage on Total Cost.		Rs.	Rs.
	Raw Materials—Opening Stock	60,000	
	Do. —Purchases	3,60,000	
		4,20,000	
	Less Stock-at-end	90,000	
47.8	Materials Consumed	3,30,000	3,30,000
21.8	Wages		1,50,000
17.4	Factory Oncost—25% on Rs. 4,80,000		1,20,000
13.0	Office Oncost —75% on Rs. 1,20,000		90,000
100%		Rs.	6,90,000

(2) PROFIT AS PER COST ACCOUNTS.

	Rs
Finished Articles—1st January 1937	1,20,000
Do. —31st December 1937	30,000
	90,000
Cost of Manufactured Articles during the year ..	6,90,000
Total Cost of Finished Articles Sold Rs.	7,80,000
Selling Price (= Cost + 25%)	9,75,000
Less Cost as above	7,80,000
Profit Rs.	1,95,000

(3) PROFIT AND LOSS ACCOUNT (Financial Books)

		Rs.			Rs.
To Stock—1st January 1937 :—	Rs.		By Sales ...		9,75,000
Raw Materials ...	60,000		„ Stock-at-end :—	Rs.	
Finished Articles ...	1,20,000		Raw Materials ...	90,000	
		1,80,000	Finished Articles ...	30,000	
„ Purchases ...		3,60,000			1,20,000
„ Wages ...		1,50,000			
„ Works Expenses ...		1,16,250			
„ Office Expenses ...		91,500			
„ Profit ...		1,97,250			
	Rs.	10,95,000		Rs.	10,95,000

The difference between the two profits is due to an overcharge in Cost Accounts of Rs. 3,750 in respect of Factory Oncost and an undercharge in respect of Office Oncost of Rs. 1,500, the net excess charge being Rs. 2,250.

ILLUSTRATION 196.

From the following particulars, prepare (in comparative form) Cost Sheet and Working Account for the months of January and February, the output for these months being 12,000 and 11,500 tons respectively:—

	January Rs.	February Rs.		January Rs.	February Rs.
Wages underground ...	7,800	7,950	Horse and Stable Expenses	1,200	1,125
„ Colliers ...	19,500	18,750	Repairs and Renewals ...	1,260	1,275
„ Surface ...	4,500	4,200	Depreciation ...	2,190	2,100
Timber ...	1,950	1,875	Rent, Rates and Taxes ...	1,290	1,275
Stores ...	900	825	Salaries and Management ...	2,700	2,700
Royalties ...	3,750	3,675	Bad Debts and Discount ...	600	525
			Sundry Expenses ...	540	450

[For *Solution* see next page.

ILLUSTRATION 197.

Prepare a Statement showing Cost per Cabinet and Profit per Cabinet sold, from the following particulars:—

The Cabinets manufactured are classed into "No. 1" and "No. 2." There is no Opening or Closing Stock of the Cabinets.

		Rs.		Rs.
Materials	No. 1	2,400	No. 2	3,232
Labour	No. 1	4,560	No. 2	5,656

Works Oncost to be 100% on Labour, and Office Oncost to be 25% on Works Cost.

120 No. 1 Cabinets were sold during the year at Rs. 150 per Cabinet, whereas the price per No. 2 Cabinet was Rs. 110 and the number of No. 2 sold was 202.

What is the total Profit for the year as per the above particulars?

Also prepare a Profit and Loss Account for the year in the financial books of the Company, the following being the additional particulars given:—

Works Expenses .. Rs. 9,920 Office Expenses Rs. 6,760

How would you account for the difference between the two figures of profit?

[For *Solution see page* 894.

Solution for Illustration 196.

COST SHEET AND WORKING ACCOUNT FOR JANUARY AND FEBRUARY.

Cost per ton.	Jan.	——	Cost per ton.	Feb.	Cost per ton.	Jan.	——	Cost per ton.	Feb.
Rs. a. p.	Rs.	To Wages :—	Rs. a. p.	Rs.	Rs. a. p.	Rs.	By Cost of Production :—	Rs. a. p.	Rs.
0 10 4.8	7,800	Underground ...	0 11 0.73	7,950			12,000 tons @		
1 10 0	19,500	Colliers ...	1 10 1.04	18,750	4 0 2.88	48,180	Rs. 4-0-2.88 per ton ...		
0 6 0	4,500	Surface ...	0 5 10.11	4,200			11,500 tons @		
		To Expenses in Production:—					Rs. 4-1-0.1 per ton ...	4 1 0.1	46,725
0 2 7.2	1,950	Timber ..	0 2 7.3	1,875					
0 1 2.4	900	Stores ..	0 1 1.77	825					
0 5 0	3,750	Royalties ..	0 5 1.35	3,675					
0 1 7.2	1,200	Stable Expenses ...	0 1 6.78	1,125					
0 1 8.16	1,260	Repairs and Renewals	0 1 9.31	1,275					
0 2 11.04	2,190	Depreciation ..	0 2 11.06	2,100					
		To Establishment Charges:—							
0 1 8.64	1,290	Rent, Rates, etc. ...	0 1 9.31	1,275					
0 3 7.2	2,700	Salaries, etc. ..	0 3 9.07	2,700					
0 0 9.6	600	Bad Debts and Discount	0 0 8.76	525					
0 0 8.64	540	Sundry Expenses ...	0 0 7.51	450					
4 0 2.88	48,180		4 1 0.1	46,725	4 0 2.88	48,180		4 1 0.1	46,725

Solution for Illustration 197.

STATEMENT SHOWING COST PER CABINET AND PROFIT PER CABINET SOLD.

	No. 1 Rs.	No. 2 Rs.
Material	2,400	3,232
Labour	4,560	5 656
PRIME COST Rs.	6,960	8,888
Works Oncost—100% on Labour	4,560	5,656
WORKS COST Rs.	11,520	14,544
Office Oncost—25% on Works Cost ..	2,880	3,636
TOTAL COST Rs.	14,400	18,180
Sale Price No. 1—120 Cabinets sold ..	18,000	
do. 2—202 " "		22,220
PROFIT Rs.	3,600	4,040
PROFIT PER CABINET Rs.	30	Rs. 20

PROFIT AND LOSS ACCOUNT (IN THE FINANCIAL BOOKS).

	Rs.		Rs.
To Materials	5,632	By Sales	40,220
" Wages	10,216		
" Works Expenses	9,920		
" Office Expenses	6,760		
" Net Profit	7,692		
Rs.	40,220	Rs.	40,220

	Rs.
Profit as per P. & L. Account	7,692
" as per cost Account	7,640
Difference accounted as follows Rs.	52

	Rs.	Rs.	
Works Oncost as per Cost Accounts	10,216		
" Expenses as per P. & L. Account	9,920	296	Overcharged in Cost Accounts
Office Expenses " " "	6,760		
Office Oncost " Cost Accounts	6,516	244	Undercharged " "
Net Excess in Cost Accounts	Rs.	52	

ILLUSTRATION 198.

From the following figures, prepare Finished Stock Account of the Advance Manufacturing Co., Ltd., showing distinctive accounts for different classes of finished products :—

Summary Totals :	A. Rs.	B. Rs.
Production—small forgings	22,500	
— " castings		18,000
Returns from customers	2,250	
Transfers "B" to "A" Rs. 3,750 Finished Castings Sales	42,000	33,000
Issues to Operating Departments	3,000	3,750
Value of Closing Stock	5,250	6,000
Value of Finished Stock at the beginning of the period	10,500	9,000

Solution.

THE ADVANCE MANUFACTURING CO., LTD.

FINISHED STOCK ACCOUNT.

	A Rs.	B Rs.	Total. Rs.		A Rs.	B Rs.	Total. Rs.
To Opening Stock	10,500	9,000	19,500	By "A" Dept. transfer		3,750	3,750
,, Production A/c.	22,500	18,000	40,500	,, Operating Depts.	3,000	3,750	6,750
,, Sundry Debtors (Returns)	2,250		2,250	,, Closing Stock c/d.	5,250	6,000	11,250
,, "B" Dept. transfer	3,750		3,750	,, Balance, being cost price of goods sold	30,750	13,500	44,250
Rs.	39,000	27,000	66,000	Rs.	39,000	27,000	66,000
To Balance, being cost of Sales	30,750	13,500	44,250	By Sundry Debtors (Sales)	42,000	33,000	75,000
,, Balance, being profit on Sales	11,250	19,500	30,750				
Rs.	42,000	33,000	75 000	Rs.	42,000	33,000	75,000
To Stock b/d.	5,250	6,000	11,250				

ILLUSTRATION 199.

Two fitters, a labourer and a boy, undertake to work up 200 articles on piece-work basis for Rs. 900. The time spent by each of them is 220 ordinary working hours, and the rates of pay are for the two fitters Re. 1-2 each per hour, for the labourer 12 annas per hour, and the boy 6 annas per hour.

Ascertain the amount of the piece-work premium and show the amount of it which each worker will receive when it is divided proportionately to the wages paid, and show in each case the percentage the premium bears to the wages payments at ordinary rates.

To the amount paid for working up, add cost of Material Rs. 1,800, proportion of "Oncost" Rs. 675, of selling expenses Rs. 450 and for Carriage charges Rs. 300, and give the total Cost.

To return the manufacturer 20% on the total cost, at what price must he sell, and what will the profit be reckoned on the selling price?

Solution.

	Rate per hour.	Wages for 220 hours.	Proportion to Total Wages.	Premium.	Percentage of Premium to Wages.
	Rs. a. p.	Rs. a. p.		Rs. a. p.	
1st Fitter	1 2 0	247 8 0	1/3.	52 8 0	21.21
2nd ,, ...	1 2 0	247 8 0	1/3.	52 8 0	21.21
Labourer	0 12 0	165 0 0	2/9.	35 0 0	21.21
Boy	0 6 0	82 8 0	1/9.	17 8 0	21.21

		Rs. a. p.	Rs. a. p.
Total Wages ...	...	742 8 0	157 8 0
Premium ...	...	157 8 0	
Piece-Work Price ...	Rs.	900 0 0	

	Rs.			Rs.	
Wages	900		Total Cost	4,125	Profit reckoned on Selling Price
Materials	1,800		20% profit		
Oncost	675		Oncost	825	
Selling Expenses	450				= 16⅔%
Carriage	300				
Total Cost	Rs. 4,125		*Selling Price*	Rs. 4,950	

ILLUSTRATION 200.

From the following figures, you are requested to prepare a Production Account for the quarter ended 31st December, 1938, assuming stock of finished goods at end of period to be valued at cost, showing:—

(a) The value of materials consumed;
(b) Cost of production;
(c) Cost of Stock sold;
(d) Profit on Stock sold; and
(e) Profit for the period.

	at 1st October Rs.	Rs.	*at* 31 December Rs.
Stock—			
Raw Materials	2,00,000		2,47,000
Finished Goods	1,43,000		84,000
Work-in-Progress	62,000		69,000
Purchases of Raw Materials ..		1,76,000	
Wages—Direct		1,40,000	
Indirect		5,000	
Works Charges		74,000	
Administration Expenses		26,000	
Selling Expenses		30,000	
Sales		5,68,000	

[For Solution see page 897.

ILLUSTRATION 201.

From the understated Trial Balance, prepare (a) Working Account showing the cost of commodity X ; (b) Trading and Profit & Loss Account; and (c) Balance Sheet:—

TRIAL BALANCE as at 31st December, 1938.

	Rs.	Rs.
Wages X.	2,00,000	
Stock (Raw Materials), 1|1|1938, X. ..	57,100	
Purchases X.	8,82,740	
Carriage Inwards X.	36,860	
Repairs X.	60,000	
Salaries X.	21,000	
" General	10,000	
Rates and Taxes	22,400	
Travelling Expenses	35,500	
Insurance X.	7,000	
" General	800	
Bad Debts	4,100	
General Expenses	29,420	
Carriage Outwards	94,240	
Sales		17,40,000
Profit & Loss Balances, 1|1|38 ..		1,20,000
Capital		13,00,000
Various Assets	11,38,840	
Stock 1|1|38 (Finished Goods) ..	5,60,000	
Rs.	31,60,000	31,60,000

The closing Stock was Rs. 3,43,240 (Finished Goods) and Rs. 52,720 (Raw Materials Commodity X.).

[For Solution see page 898

Solution for Illustration 200.

PRODUCTION ACCOUNT.

Quarter ended 31st *December* 1938.

	Rs.		Rs.
To Stock of Raw Materials, 1st October 1938 ..	2,00,000	By Sales	5,68,000
„ Purchases	1,76,000		
	3,76,000		
Less Stock of Raw Material, 31st December 1938 ..	2,47,000		
(*a*) Raw Materials consumed =	1,29,000		
„ Wages—Direct	1,40,000		
Prime Cost =	2,69,000		
„ Works Charges	74,000		
„ Indirect Wages	5,000		
	3,48,000		
„ Work-in-Progress, 1st October 1938 ..	62,000		
	4,10,000		
Less Work-in-Progress, 31st December 1938 ..	69,000		
Works Cost =	3,41,000		
„ Administration Expenses ..	26,000		
(*b*) Cost of Production =	3,67,000		
„ Stock of Finished Goods, 1st October 1938 ..	1,43,000		
	5,10,000		
Less Stock of Finished Goods, 31st December 1938 ..	84,000		
(*c*) Cost of Stock Sold =	4,26,000		
(*d*) Profit on Stock Sold, c/d. =	1,42,000		
Rs.	5,68,000	Rs.	5,68,000
„ Selling Expenses	30,000	By Profit on Stock Sold b/d.	1,42,000
(*e*) Profit for Period ..	1,12,000		
Rs.	1,42,000	Rs.	1,42,000

NOTE.—Work-in-Progress has been assumed to have been valued at Works Cost, and the Stock of Finished Goods at Cost of Production.

Solution for Illustration 201.

WORKING ACCOUNT.

For the year ended 31st *December* 1938.

	Rs.		Rs.
To Stock of Raw Materials, 1st January 1938 ..	57,100	By Cost of Production, Commodity X., carried to Trading Account ..	12,11,980
" Purchases	8,82,740		
" Carriage Inwards	36,860		
	9,76,700		
Less Stock, 31st December 1938	52,720		
Raw Materials Consumed	9,23,980		
" Wages	2,00,000		
Prime Cost	11,23,980		
" Insurance	7,000		
" Repairs	60,000		
" Salaries	21,000		
Rs.	12,11,980	Rs.	12,11,980

TRADING AND PROFIT & LOSS ACCOUNT.

For the year ended 31st *December* 1938.

	Rs.		Rs.
To stock of Finished Goods, 1st January 1938 ..	5,60,000	By Sales	17,40,000
" Cost of Production, Commodity X. ..	12,11,980		
	17,71,980		
Less Stock, 31st December 1938	3,43,240		
Cost of Finished Goods Sold	14,28,740		
" Gross Profit c/d.	3,11,260		
Rs.	17,40,000	Rs.	17,40,000
To Salaries	10,000	By Gross Profit c/d. ..	3,11,260
" Rates and Taxes	22,400		
" Insurance	800		
" Travelling Expenses ..	35,500		
" General Expenses ..	29,420		
" Carriage Outwards ..	94,240		
" Bad Debts	4,100		
" Net Profit c/d. ..	1,14,800		
Rs.	3,11,260	Rs.	3,11,260
To Balance c/fd. ..	2,34,800	By Balance b/fd. ..	1,20,000
		" Net Profit b/d. ..	1,14,800
Rs.	2,34,800	Rs.	2,34,800

BALANCE SHEET as at 31st December 1938.

	Rs.		Rs.
Capital	13,00,000	Various Assets	11,38,840
Profit & Loss Account ..	2,34,800	Stocks:—	
		Raw Materials ..	52,720
		Finished Goods ..	3,43,240
Rs.	15,34,800	Rs.	15,34,800

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. Why are Cost Accounts necessary, and in what respects do they differ from the ordinary Final Accounts? **416**

2. What are the various classes of Cost Accounts, and to what manufactures or industries are they applicable? **417**

3. State briefly what records you would keep of the receipt of goods. Illustrate your answer by a specimen ruling of a Goods Received Book. **418**

4. Describe the method you would recommend in regard to charging out Stores. **419**

5. If it is found that material in excess of actual requirements had been drawn out of stores by one department, but that it is required for use in another department, what should be the Cost record in regard to the same? **420**

6. Explain the procedure of continuous stock-taking and its advantages over an annual stock-taking. **421**

7. Tabulate the "Elements of Cost" showing the usual items of expenditure appertaining to each. **422**

8. Describe the various methods of calculating "Oncost." Explain their respective advantages and disadvantages. **423**

9. How would you satisfy yourself that the amounts appearing under the head of Materials and Stores allocated to works, repairs and standing orders were substantially correct? **424**

10. Give what you consider, in any business known to you, are the most suitable rulings and headings for the form whereby material is withdrawn from the Stores for manufacturing purposes.

By what name is the form known? **425**

11. How would you deal with the following items in your calculations of costs of production of given articles, and where would you include the total figures, for *a*, *b* and *c*, in your Trading Account statements:—

(*a*) Freight and cartage inwards;
(*b*) Freight and cartage outwards;
(*c*) Discounts received on purchases and discounts allowed on sales? **426**

12. Discuss the inclusion of the following in the costs of a manufacturing concern:—

Interest on Capital outlay in fixed assets; Bad Debts; Income-tax; Discounts allowed on Purchases; Discount allowed on Sales. **427**

13. Briefly state the arguments for and against the inclusion of interest on capital as a charge against cost of production, and discuss circumstances and cases in which the inclusion of such interest is (*a*) desirable, and (*b*) not desirable. Give reasons for your answer. **428**

14. In the business of an electrical engineer it is found practically impossible to return to the Store-room at the conclusion of each operation all the nuts, screws, bolts, etc., remaining over. What system would you recommend which would, in your opinion, meet the requirements of such a case? **429**

15. What are the advantages and disadvantages of the adoption of the Card System for costing purposes? **430**

16. "A Cost-keeping System," says a modern writer, "that simply records costs for the purpose of fixing sale prices has accomplished only a small part of its mission."

What other functions does Costing achieve? **431**

17. The charges attributable to a particular department having been ascertained, on what basis should they be apportioned over the work done in that department? Give reasons for your answer. *(Incorporated Accountants.)* 432

18. Explain a method of procedure in respect of stores from the time of their being ordered to the time of their being used in the manufacturing department. Give a ruling of one of the forms described in your answer. 433

19. State briefly the main features of a suitable system for the Stock records of a factory, including the relations between these and the costing and general Financial records. 434

20. Explain the Bonus or Premium System of paying wages, and contrast it with the ordinary Time System. Are there any disadvantages attaching to the former system? 435

21. What precise service do Cost Accounts render in respect of:—(*a*) Estimating and Tendering; (*b*) Buying and Selling; (*c*) Periodical comparisons; (*d*) Materials; (*e*) Departmentalisation; (*f*) Management; and (*g*) Work-in-Progress? 436

22. In costing, materials may be charged out to jobs at cost price or at market price. Explain which method in your view is preferable, giving your reasons, and state how, under the respective methods, fluctuations in the costing accounts will arise, and under what heading they will appear. *(Chartered Accountants.)* 437

23. A Factory using a number of machine tools generates its own electric power for the purpose of driving the tools. What items of Expenses will comprise the "Power Cost," and how would this cost be ascertained and apportioned?
(Incorporated Accountants.) 438

24. Various methods of remunerating labour have been devised with the object of saving Indirect Charges. Give details of any two methods with which you are familiar and explain the system necessary to ensure that the labour cost of the output is properly recorded and paid for. *(Incorporated Accountants.)* 439

25. From the following particulars available for the half-year ended 30th June 1937, from the Costing Department of a manufacturing concern, you are required to write up Journal Entries and Ledger Accounts in the Cost Books and prepare therefrom a Trial Balance and a Manufacturing Account.

During the period, five Jobs were undertaken out of which Nos. 1, 2 and 3 were completed whereas Nos. 4 and 5 were still under progress. The amount of Direct Labour expended on each Job as per the Direct Wages Abstract was No. 1 Rs. 3,200; No. 2 Rs. 4,000; No. 3 Rs. 2,400; No. 4 Rs. 1,600; and No. 5 Rs. 800. The Materials bought specifically for each of the five Jobs as per the Direct Materials Analysis were Rs. 800, Rs. 1,000, Rs. 600, Rs. 400 and Rs. 200, respectively. Stores Issued Analysis shows the following amount of materials issued to each Job:—No. 1 Rs. 5,600; No. 2 Rs. 7,000; No. 3 Rs. 4,200; No. 4 Rs. 4,800 and No. 5 Rs. 2,400. The Direct Chargeable Expenses as per the Chargeable Expenses Analysis are to be allocated as follows:—No. 1 Rs. 400; No. 2 Rs. 500; No. 3 Rs. 300; No. 4 Rs. 160 and No. 5 Rs. 80. It is estimated that Works Overhead Expenses amount to 80% of the Direct Wages. The Office Oncost is to be taken at 10% on the Works Cost of each Job. Jobs Nos. 1 and 2 were taken up at the contract price of Rs. 15,000 and Rs. 19,000 respectively. Job No. 3 was for the purpose of Factory Stock, out of which goods amounting to Rs. 7,000 were sold during the period. The Stock of Finished Goods at the time of closing was valued at Rs. 5,000. 440

(Total of Manufacturing Account Rs. 59,596;
Total of Trial Balance Rs. 18,596.)

26. An article which is used in manufacture and which forms an important item in Costing appears in the Stores Ledger as under:—

1937		(A)	Rs. a.	Rs.	1937		(A)	Rs. a.	Rs.
Jan. 1	Stock ...	2,000	2 0	4,000	Jan. 26	Issues ...	4,400	2 0	8,800
" 20	Received ...	4,200	2 4	9,450	Feb. 26	" ...	3,800	2 4	8,550
Feb. 10	" ...	3,600	2 6	8,550	Mar. 23	" ...	4,200	2 6	9,975
Mar. 12	" ...	500	2 8	1,250		Balance ...	600	5 9¼	3,350
" 16	" ...	2,700	2 12	7,425					
		13,000		30,675			13,000		30,675

Quantities are shown in the column headed (A) on the debit side, at cost per unit; on the credit side at the value as charged in the Cost Sheets.

The practice has been to price the issues at the average cost price of the preceding month. Upon preparation of the annual accounts, the valuation of stock in hand is adjusted in accordance with the usual principle. State whether, in your opinion, the method adopted in preparation of costing statements is correct, and, if not, what modifications are required.

Recast the account accordingly. 441

27. X and Co. are invited to give their quotation for 60,000 tons of a particular commodity. The firm's total cost of production is ascertained at Rs. 550 per ton. but they are informed by the contractees that the Contract cannot be placed at more than Rs. 520 per ton. The overhead charges of X and Co. (included in the total cost of production) amount to Rs. 50 per ton, and these include Management and Depreciation charges. Would X and Co. be justified in reducing their quotation to Rs. 520 per ton, and if so, under what circumstances? 442

28. On the 30th April 1936, a carpet manufacturer desired to quote for a contract for the supply of 2,500 carpets. From the following data, prepare a statement showing the price to be quoted to give the same percentage of net profit on turnover as was realized during the six months to 31st March 1936:—

	Rs.
Stock of Materials 1st October 1935	*50,000*
Stock of Materials 31st March 1936	7,000
Purchases of Materials six months to 31st March 1936 ..	75,000
Factory Wages " " " ..	1,50,000
Indirect Charges " " " ..	25,000
Sales " " " ..	2,70,000
Completed Stock in hand 1st October 1935	*Nil.*
" " " 31st March 1936	50,000

The number of carpets manufactured during the six months was 6,000, including those sold and those in stock at the close of the period. The carpets to be quoted for are of uniform size and quality and similar to those manufactured during the six months to 31st March 1936. As from 1st April 1936, the cost of factory labour has increased by 10 per cent. 443

(*Amount of Estimate Rs.* 1,42,592-9-6.)

29. Below is enumerated expenditure in the manufacture of X:—

	Three months ended 31-12-1935. Rs.
Raw Materials	28,000
Fuel	6,900
Electric Power	1,340
Process and General Wages	63,500
Repairs	2,400
Haulage	1,060
Light and Water	400
Rent	2,000
Rates and Insurance	300
Salaries and General Expenses	7,000
Administration	5,000
Depreciation	2,500
Rs.	1,20,400

Tons Manufactured 17,200

Prepare a Cost Sheet showing the cost per item and total cost, per ton, for the period. 444

(*Prime Cost Rs.* 91,500; *Works Cost Rs.* 1,15,400; *Final Cost Rs.* 1,20,400; *Cost per Ton Rs.* 7.)

30. Two types of articles A and B are produced in a factory, in which the materials used are identical and in which each undergoes two processes, factory and finishing. The wages are separately recorded; materials used and general expenses are divided in output ratio; factory and finishing charges are apportioned in the labour ratio of each process.

You are required to prepare a statement of process cost per hundred articles from the following particulars, and to show the percentage of profit, if the selling price of article A is 4 annas and of article B, 5 annas.

Output A .. 3,18,600 Output B .. 1,27,440

	Rs.
Factory Materials—	
Opening Stock	9,600
Purchases	27,200
Closing Stock	7,400
Finishing Materials—	
Opening Stock	3,800
Purchases	9,200
Closing Stock	3,200
Factory Wages, A	15,600
" " B	11,400
Finishing Wages, A	6,400
" " B	2,400
Factory Charges	5,400
Finishing Charges	2,200
General Expenses	12,600 445

(*Factory Process: A Rs.* 39,720, *B Rs.* 22,080; *Finishing Process: A Rs.* 15,000, *B Rs.* 5,800; *Total Cost: A Rs.* 63,720, *B Rs.* 31,480; *Cost per* 100 *Articles: A Rs.* 20, *B Rs.* 24-11-3; *Percentage of profit on cost: A* 25%, *B* 26.5%.)

31. The following details are extracted from the costing records of an Oil Mill for the year ended 31st March 1937:—

Purchase of 5,000 tons of Copra, Rs. 2,00,000.

	Crushing Plant.	Refining Plant.	Finishing.
	Rs.	Rs.	Rs.
Cost of Labour ..	2,500	1,000	1,500
Electric Power ..	600	360	240
Sundry Materials ..	100	2,000	..
Repairs to Machinery & Plant	280	330	140
Steam	600	450	450
Factory Expenses ..	1,320	660	220
Cost of Casks		Rs. 7,500	

3,000 tons Crude Oil were produced. 2,500 tons of Oil were produced by the refining process. 2,480 tons of Refined Oil were finished for delivery.

Copra Sacks sold	Rs. 400
1,750 tons of Copra Residue sold	" 11,000
Loss in Weight in Crushing	250 tons
450 tons of by-products obtained from refining process	Rs. 6,750

You are required to show the Accounts in respect of each of the following stages of manufacture for the purpose of arriving at the cost per ton of each process, and the total cost per ton of the finished oil:—

(*a*) Copra crushing process, (*b*) Refining process, (*c*) Finishing Process, including Casking. 446

(Crushing Process: Cost per ton Rs. 64-10-8; Refining Process: Cost per ton Rs. 76-13-1; Total cost of finished and casked oil per ton Rs. 81-7-10.)

32. The following are the balances, of the Impersonal Ledger of a Colliery, relating to revenue at the end of the year:—

	Rs.
Wages paid for Coal Production	5,80,000
Coal for Colliery Consumption	45,000
Timber used in Coal Production	64,000
Ropes do. do.	12 000
Stores do. do.	76,000
Royalties paid	42,000
General Charges chargeable to Coal Production ..	70,000
Salaries chargeable to Coal Production	36,000
Coal sold (including Colliery consumption), 1,12,000 tons	8,84,000
Wages paid for coke-making	50,000
Stores used for coke-making	37,000
Salaries chargeable to coke-making	8,000
Coke sold 43,500 tons	5,40,000

The stock of Coal at the beginning of the year amounted to 7,000 tons valued at Rs. 5 per ton, and at the end of the year 15,000 tons valued at a similar rate. The stock of Coke at the beginning of the year amounted to 2,000 tons valued at Rs. 10 per ton, and at the end of the year 500 tons valued at a similar rate.

The total production of the Colliery was 1,85,000 tons of Coal and 42,000 tons of Coke; 65,000 tons of Coal being used for coke-making.

Prepare separate Production Accounts for Coal and Coke showing the cost of each item of expense per ton of coal and coke respectively, taking Coal used for Coke-making at Cost price, working to two places of decimals only. (*G. D. A.*) 447

(Total of Coal Production Account Rs. 12,84,000; Total of Coke Production Account Rs. 5,45,000.)

33. What do you understand by (1) Oncost, (2) Factory Oncost, and (3) General Oncost?

From the following particulars you are required to prepare a statement showing (*a*) the cost of materials used; (*b*) the works cost; (*c*) total cost, (*d*) the percentage of works oncost to productive wages, and (*e*) the percentage of general oncost to works cost:—

	Rs.
Stock of Finished Goods, 31st December 1936 ..	56,000
Stock of Raw Materials, 31st December 1936	25,600
Purchases	5,84 000
Productive Wages	3,97,600
Sales of Finished Goods	11,84,000
Stock of Finished Goods, 31st December 1937	60 000
Stock of Raw Materials, 31st December 1937	27,200
Works Overhead Charges	87,472
Office and General Expenses	71,048

The Company is about to send a tender for a large plant. The Costing Department estimates that the materials required would cost Rs. 40,000 and the wages to workmen for making the plant would cost Rs. 24,000. The tender is to be made at a net profit of 20 per cent on the selling price. Show what the amount of the tender would be if based on the above percentages. (*G. D. A.*) 448

(Cost of materials used Rs. 5,82,400; Works Cost Rs. 10,67,472; Total Cost: Rs. 11,38,520; Percentage of Works Oncost to Productive Wages 22% Percentage of General Oncost to Works Cost 6.6%; Amount of Tender Rs. 92,315.)

34. The Accounts of Zenith Manufacturing Company for the year ended 31st December 1937, show the following:—

	Rs.
Drawing Office Salaries	6,500
Counting House Salaries	12,600
Cash discounts allowed	2,900
Carriage and Cartage outwards	4,300
„ „ inwards	7,150
Bad Debts written off	6,500
Repairs of Plant, Machinery and Tools	4,450
Rent, Rates, Taxes and Insurance, Factory	8,500
„ „ „ Office	2,000
Sales	4,61,100
Stock of Materials, 31st December 1937	62,800
„ „ 1st January 1937	48 000
Materials Purchased	1,85,000
Travelling Expenses	2,100
Travellers' Salaries and Commission	7,700
Productive Wages	1,26,000
Depreciation written off Plant, Machinery and Tools ..	6,500
Depreciation written off Office Furniture	300
Directors' Fees	6,000
Gas and Water, Factory	1,200
„ „ Office	400
Manager's Salary (¾ths Factory, ¼th Office)	10,000
General Expenses	3,400

Prepare a Statement giving the following information:—

(a) Materials Consumed.

(b) Prime Cost.

(c) Factory Oncost and the percentage on Wages.

(d) Factory Cost

(e) General Oncost, and the percentage on Factory Cost.

(f) Total Cost.

(g) Net Profit. (B. Com.) 449

(*Materials Consumed Rs.* 1,70,200 ; *Prime Cost Rs.* 3,03,350 ; *Factory Oncost: Rs.* 34,650 ; *Percentage on Wages* 27.5% *Factory Cost Rs.* 3,38,000 ; *General Oncost Rs.* 50,700 ; *Percentage on Factory Cost* 15% ; *Total Cost Rs.* 3,88,700 ; *Net Profit Rs.* 72,400.)

35. From the following information, prepare Pig Iron Production Account showing cost per ton of each class of expenditure and of the Pig Iron produced:—

—	Coal.	Coke.	Limestone.	Iron Ore.	Sundries.
	Rs.	Rs.	Rs.	Rs.	Rs.
Stock on 1st January 1937	4,720	3,580	1,450	3,930	2,700
Purchases during the year	21,880	29,470	5,080	18,690	7,810
Stock, 31st December 1937	3,600	2,050	1,530	3,620	3,010

The total production of Pig Iron amounted to 32,000 tons ; Sales of Slag, Rs. 10,500 ; General Works Charges, Rs. 4,500, Wages Rs. 17,000. 450

(*Cost per ton: Coal consumed Re.* 0-11-6, *Coke consumed Re.* 0-15-6, *Limestone consumed Re.* 0-2-6, *Iron Ore consumed Re.* 0-9-6, *Sundries consumed Re.* 0-3-9, *Wages consumed Re.* 0-8-6, *General Works Charges consumed Re.* 0-2-3 ; *Total cost of Pig Iron Produced Rs.* 1,07,000.)

36. In a factory two types of Pianos are manufactured, viz. No. 1 and No. 2. From the following particulars, prepare a statement showing cost per Piano and profit per Piano sold. There is no opening or closing stock.

	No. 1 Rs.	No. 2 Rs.
Materials	36,000	48,400
Labour	63,000	83,600

Works Oncost is charged at 100% on Labour, and Office Oncost is taken at 25% on Works Cost.

No. 1 Pianos sold during the period are 180 at Rs. 1,450 each, and No. 2 Pianos sold were 220 at Rs. 1,600 each. Ascertain the total profit as per Cost Books from the above particulars.

Also prepare a Profit & Loss Account for the period in the Financial Books, the actual Works Expenses being Rs. 1,42,000 and Office Expenses being Rs. 95,700. Prepare a reconciliation statement to explain the difference in profits as per the two sets of books. 451

(Cost per Piano: No. 1 Rs. 1,125; No. 2 Rs. 1,225; Profit per Piano; No. 1 Rs. 325, No. 2 Rs. 375; Total profit as per Cost Books Rs. 1,41.000; Profit & Loss Account Total Rs. 6,13,000; Net Profit as per Profit & Loss Account Rs. 1,44,300.)

37. The following particulars are extracted from the books of Alpha Manufacturing Company, Ltd., for the year ended 31st December 1937:—

	Rs.
Stock of Materials, 31st December 1937	31,400
" " 1st January 1937	24,000
Materials Purchased	92,500
Carriage and cartage outwards	2,150
" " inwards	3,575
Drawing Office Salaries	3,250
Counting House Salaries	6,300
Cash discounts allowed	1,450
Bad Debts written off	3,250
Repairs of Plant, Machinery and Tools	2,225
Rent, Rates, Taxes and Insurance—Factory	4,250
" " " " —Office	1,000
Sales	2,30,550
Travelling Expenses	1,050
Travellers' Salaries and Commission	3,850
Productive Wages	63,000
Depreciation off Plant, Machinery and Tools ..	3,250
" " Office Furniture	150
Directors' Fees	3,000
Gas and Water, Factory	600
" " Office	200
Managers' Salary (¾ths Factory; ¼th Office)	5,000
General Expenses	1,700

Prepare a Statement giving the following information:—

(a) Materials Consumed.

(b) Prime Cost.

(c) Factory Oncost and percentage on Wages.

(d) Factory Cost.

(e) General Oncost (and percentage on Factory Cost.

(f) Total Cost.

(g) Net Profit. 452

(Materials consumed Rs. 88,675; Prime Cost Rs. 1,51,675; Factory Oncost Rs. 17,325; Percentage on Wages 27.5%; Factory Cost Rs. 1,69,000; General Oncost Rs. 25,350; Percentage on Factory Cost 15%; Total Cost Rs. 1,94,350; Net Profit Rs. 36,200.)

38. The following figures are disclosed by the books of a Contractor for the year ending 31st December 1937:—

	Rs.	Rs.
Work-in-Progress as on 31st December 1936 ..	1,70,000	
Less Advances from Contractees as on 31st December 1936	1,10,000	
		60,000

TRANSACTIONS DURING THE YEAR

	Rs.
Materials supplied to contracts directly by merchants ..	12,000
Materials issued from Store	21,000
Wages	17,000
Working Expenses	3,000
Administration expenses (of which Rs. 500 are chargeable to general Profit and Loss Account)	2,500
Plant issued	5,000
Materials returned from contracts directly to merchants	900
Materials returned to Store	1,100
Contracts finished	45,000
Work certified	30,000
Profit taken upon contracts	23,000
Advances from contractees	80,000

Prepare the Contract Ledger Account (as in the General Ledger) and the Total Contractees' Account, and show how the Work-in-Progress would appear in the Balance Sheet as on 31st December 1937. (*B. Com.*) 453

(Total of Contract Ledger Account Rs. 2,53,000; Profit as per Contract Ledger Account Rs. 23,000; Total of Contractees' Account Rs. 1,90,000; Credit Balance on Contractees' Account Rs. 1,15,000.)

39. The following details appear in the Contract Ledger of the National Building Company, Limited:—

Contract No.	Stores issued. Rs.	Plant issued. Rs.	Wages. Rs.	Dr. Total. Rs.	Cr. Works Certified. Rs.
1 ..	12,000	7,000	6,000	25,000	20,000
2 ..	17,000	9,000	8,000	34,000	28,000
3 ..	11,000	6,000	5,000	22,000	16,000
4 ..	19,000	12,000	11,000	42,000	36,000
5 ..	14,000	10,000	9,000	33,000	24,000

The following Balances are extracted from the General Ledger:—

	Rs.
General Wages (including Rs. 1,000 for Improvement to Business Premises)	3,000
Salaries (including Rs. 800 for salaries of a new draftsman chargeable to a new customer, Messrs. Nelson & Co.)	3,540
Repairs to Plant at Works (including Rs. 500 chargeable to the suppliers of a new plant, under a letter of Guarantee, Messrs. Napoleon & Co.)	2,250
Office Expenses (including Rs. 10 paid as Income-tax on the Fees of a Director, Mr. Kitchner)	1,110

	Rs.
Fuel, Light and Water	1,200
Office Rent, Rates and Taxes	700
Rent, Rates and Taxes of Works	1,100
Travelling Expenses	1,700
Carriage on Stores purchased	1,800
Depreciation of Plant on Works	1,900

All the Contractees have paid 75 per cent of work certified. Draft the Journal Entries to transfer the above items to proper accounts, opening separate accounts for Works Expenses and Administrative Expenses and allocating the same over the various contracts on the basis you think best for the allocation of such Indirect Expenses with a view to ascertain the exact cost of each contract.

Show also how the "Work-in-Progress" would appear in the Balance Sheet (Rs. 17,000 being the amount of profit to be taken credit for, on the abovesaid contracts).

(G.D.A.) 454

CHAPTER XXV.

INSURANCE COMPANIES' ACCOUNTS.

Insurance is a contract between two parties whereby the *insurer* undertakes, in consideration of a certain periodical fixed amount called *premium*, to indemnify the other called the *insured* against a certain amount of loss arising from the happening of a specific contingency, such as the destruction of property by fire or loss arising from accidents, etc. **Life Assurance** is a contract under which an Assurance Company in consideration of certain payment, either made yearly, half-yearly or monthly, undertakes to pay to the person for whose benefit the assurance is effected, a certain sum of money, on the death of the person whose life is assured or to the assured himself after the lapse of a specified number of years. The document containing such a contract is called a **Policy.** The consideration paid to the company for undertaking the risk is called **Premium,** and the person on whose life the policy is effected is called the **Assured.**

The chief forms of insurance comprise Life, Fire and Marine. A large number of insurances, however, are now-a-days effected to cover risk of loss arising out of personal accident, employers' liability, burglary, embezzlement, etc.

LIFE ASSURANCE ACCOUNTS.

The first step towards the taking out of a life assurance policy is the completion of a **Proposal** for the same, which has to be made on a form provided by the office. The life is medically examined, and the proposal and the medical report are considered together by the directors of the company. If the proposal is accepted, the policy is prepared and forwarded to the assured on payment of the first premium, if this has not already been paid. Further premiums are then payable yearly, half-yearly or quarterly, as may have been laid down in the policy.

The forms of life assurance are very numerous, and novel methods are being continually introduced, owing to the competition between various companies. The usual policies issued, however, are either Whole Life or Endowment. A **Whole Life Policy** is one under which a definite sum is payable on the death of the assured to his executors, administrators or assigns. An **Endowment Policy** provides that the sum insured shall be paid at the end of a fixed term of years, if the life insured is in existence, or immediately at death should this occur before the expiration of the fixed term. The premium is naturally much higher in the case of endowment policies than in that of ordinary whole life policies.

The policies granted by most insurance companies fall into two main classes. They are either *with profits* or *without profits*. Under the former class, the premiums are higher than in the latter, in consideration of the right of the policyholders to share in the profits of the company, a privilege which is denied to the holders of "without profit" policies.

Annuities.—This is another form of assurance. A substantial amount is paid to the company which in return pays to the *annuitant* an annual sum during his or her lifetime. The amount thus received by the company is called *Consideration for Annuities granted*, and is shown in the Revenue

Account of the year in which it is received. The *annuities* paid are shown each year on the expenditure side of the Revenue Account.

Surrender Value.—When a certain number of premiums has been paid under a policy, usually three or sometimes two, the company that granted the policy will pay a sum of money, called a cash surrender value, to the holder, in the event of the policy being discontinued by non-payment of the premiums. In the first few years, the surrender value of a policy bears a small proportion to the premiums paid, but this proportion increases in latter years.

Loans on Policies.—After a policy has acquired a surrender value, the company would grant a loan on the policy of an amount not exceeding the surrender value, if such be needed by the assured. Loans on policies are also often made by companies to enable the assured to pay premiums falling due, rather than allow the policies to lapse.

Re-insurance.—Every office, no matter of what financial strength, has a limit beyond which it will not retain liability upon any one risk. When an insurance company has taken a risk beyond this limit, it re-insures with other companies, so that the possible loss may be distributed.

Assignment.—A policy can be assigned either by endorsement on the policy or by a separate instrument, and the assignee can sue in his own name. A written notice of the assignment must be given to the insurance office, and the insurer must, upon receiving notice, give a certificate acknowledging the receipt.

Claims by Death.—When a claim arises by death, the claimant is required to prove his title to the satisfaction of the office, and also the fact of the death of the life assured. The former will be probate of will or letters of administration, or if the policy has been dealt with, the deed of assignment. Evidence of death is usually supplied by a registrar's certificate of death and a certificate of the medical attendant. If everything is in order, the claim is usually paid immediately.

Books of Account.—The peculiar nature of Life Insurance business requires it to maintain numerous subsidiary books of a statistical nature which are not usually to be found in other businesses. Every office has its own set of books so framed as to meet its own requirements.

The following, however, are the principal books kept by large assurance companies:—

1. Proposal Register.
2. New Premiums Cash Register.
3. Renewal Premiums Cash Register.
4. Agency and Branch Cash Book.
5. Petty Cash Book.
6. Claims Cash Book.
7. General Cash Book.
8. Agency Debit Journal.
9. Agency Credit Journal.
10. Register of Policyholders (*now compulsorily required*).
11. Register of Claims Advised (do. do. do.).

12. Lapsed and Cancelled Policies Book.
13. Chief Journal.
14. Commission Book.
15. Agency Ledger.
16. Policy Loan Ledger.
17. Investment Ledger.
18. General Ledger.
19. Register of Licensed Insurance Agents (*now compulsorily required*).

The specimen forms of some of these books given at the end of the Chapter can be usefully employed with necessary modifications to suit the particular needs of the business.

Proposal Register.—On receiving the Proposal Form duly filled in, the details thereof are usually recorded in the Proposal Register, giving particulars as to the proposal number, the name of the proposer, agency, class and amount of policy and such other details as may be required. After the proposal is placed before the management, its fate is recorded in the "Remarks" column.

New Premiums.—As the strength of a life insurance company is judged by the outside public largely by the amount of the new business it secures each year, it is usual for sound concerns to show the amount of New Premiums received during each year quite apart from the Renewal Premiums. When premiums are paid half-yearly or quarterly, the whole of the first year's payments are treated as new premiums. The prescribed Form of Revenue Account under the New Insurance Act requires that the First Year's Premium should be shown distinctly from the Renewals.

New Premiums Cash Register records in details the various amounts received by the Head Office direct, in course of each day, in respect of new business. Full particulars are given in this book as regards the name of the assured, the number and class of the policy, the date of the policy, the amount assured, the name of the agent through whom the business has been secured, the annual premium and how the same is payable, the amount received, date received, and folio of the Policyholders' Register where the account of the particular assured is opened. The daily total of this book is then entered in one amount in the General Cash Book in the New Premiums column and the monthly total of the latter is posted to the New Premiums Account in the General Ledger.

Renewal Premiums Cash Register.—This book records full details of renewal premiums received each day by the Head Office direct, in the same manner as new premiums. The daily total of this book is entered in one amount in the General Cash Book in the Renewal Premiums column, from where it is posted to the credit of Renewal Premiums Account once a month.

Agency and Branch Cash Book.—This book is provided with a column for each branch or agency. Entries are made in this book of moneys received from each branch or agency, and the daily total of this book is entered in the General Cash Book in the particular column headed "Branch and Agency Remittances." The monthly total of each column in the Agency and Branch Cash Book is posted to the credit of the particular branch or agency account in the Agency Ledger, whereas the monthly total of the

"Branch and the Agency-Remittances" column in the General Cash Book is posted to the credit of the Branches and Agencies Account in the General Ledger.

The **Petty Cash Book** is ruled with various analytical columns usually headed Medical Fees, Commissions, Policy Stamps, Advertisements, Printing and Stationery, Postages, etc., and is kept on the imprest System.

Claims Cash Book.—In large businesses, a separate book is kept giving full details of each claim as is paid, the daily total of this book being shown on the credit side of the General Cash Book in the "Claims Paid" column, the monthly total of which is posted to the debit of Claims Account in the General Ledger.

General Cash Book.—The General Cash Book is specially arranged with columns for the usual heads of receipts and expenditure so as to minimize labour in posting, as far as possible. A study of the form as illustrated herein will show that it provides columns, on the debit side, for New and Renewal Premiums, the Remittances from Branches and Agencies, Loans on Policies repaid and Investments realized, Interest on Investments and Loans, Considerations for Annuities granted, and Miscellaneous Receipts. On the credit side are provided columns for Surrenders, Claims, Annuities, Re-assurances, Bonuses, Policy-loans, Investments, Management Expenses and Miscellaneous Payments. The monthly totals of these columns are posted to their respective accounts in the General Ledger.

In very large concerns, a separate subsidiary book is kept called Policy-loans Received Book to record full details of each loan as is repaid, the daily total only of this book being entered in the General Cash Book.

In a like manner, separate subsidiary books may have to be kept for bonuses, surrender values, annuities and re-assurances paid, and only the daily totals of these books would then be recorded in the General Cash Book.

Agents.—Almost all life assurance companies obtain the greater part of their new business through the activities of their agents, distributed practically all over the country. Usually, branches are established in the large towns with an organisation of agents attached to each. The remuneration to these agents generally takes the shape of a commission on the business secured, a much larger percentage of commission being allowed on new business than upon renewals. It is necessary, therefore, that assurance companies should keep a detailed and exhaustive record of their dealings with each agency or branch.

All Insurance Companies are henceforward required by the New Act to employ only Licensed Agents for the purpose of canvassing business. The maximum percentage of commission payable to them is fixed by the Act as shown herein, and every company is compulsorily required to maintain a Register of Licensed Insurance Agents employed for canvassing business, giving full particulars as to their appointment, etc.

Agency Debit Journal.—This book contains a record of all premiums and other moneys which have to be collected by the agents and branches. The account of each individual agent or branch is debited in the Agency Ledger and the monthly total of each of the nominal columns is credited to its respective account in the General Ledger. The monthly total of the "Total Column" of this book is debited to the "Branches and Agencies Account" in the General Ledger.

Agency Credit Journal.—This book is written up from periodical statements sent by each branch or agency to the Head Office. The postings from this book are to the credit of each individual agency or branch in the Agency Ledger, the monthly total of the nominal columns being debited to the respective nominal accounts in the General Ledger. The monthly total of the "Total Column" of this book is posted to the credit of the "Branches and Agencies Account" in the General Ledger.

Branch and Agency Accounts.—The student must have noted that whereas in the Branch and Agency Ledger there is a separate account of each branch or agency to which postings are made from the Agency Debit and Credit Journals and the Branch and Agency Cash Book as described above, the General Ledger, contains a controlling account styled "Branches and Agencies Account" to which postings are made of the monthly totals from the Agency Debit and Credit Journals and also of the Branch and Agency column in the General Cash Book. The debit balance of the Branches and Agencies Account in the General Ledger on any one date will thus always agree with the total debit balances of all the Branch and Agency Accounts as ascertained from the Agency Ledger at that same date.

Commission Book.—The object of this book is to keep in the form of a Ledger Account a detailed record of the amount of commission due to each agent on each individual policy secured through him and to show against this the several payments made to him or deducted by him from the premiums collected. Such a Book not only serves to show how each agent stands in respect of his commission account, but is also very useful in arriving at the total outstanding commission due at the time of balancing. At the head of each account, a note is usually made as to the terms of commission, travelling, office or any other allowance, etc., that may have been agreed upon.

Register of Claims Advised.—Each claim is entered in this book immediately it is intimated, whereas full particulars as to when each such claim was admitted and paid are also recorded therein from time to time. This book serves the useful purpose of showing at the end of the financial period:—

(*a*) Claims intimated but rejected,

(*b*) Claims admitted but not paid, and

(*c*) Claims in course of settlement.

This information is very useful in estimating the company's liability in respect of outstanding claims at balancing time.

The New Act requires a compulsory maintenance of this Register by every company, in respect of every class of Insurance business.

Lapsed and Cancelled Policies Book.—In this book are recorded full details of each policy as it lapses or is cancelled.

Register of Policyholders.—This is the most elaborately ruled book containing a record of each policy, giving the date, number, amount, and class of the policy, the name of the assured, the annual premium and how the same is payable, date of expiry, and all necessary details regarding each and every policy issued by the company.

The New Act requires a compulsory maintenance of this Register by every company, in respect of every class of Insurance business.

The **Policy Loan Ledger** contains an account of each policyholder to whom a loan has been granted.

The **Investments Ledger** is kept in the same manner as the one kept in a bank having an account for each class of investments, with columns for face-value, market-value and interest. This book serves the useful purpose of showing how the periodical interest or dividend on each Investment is brought into account, and also helps towards the ascertainment of Outstanding Interest and Dividends at the end of each financial period.

THE INSURANCE ACT, 1938.

The working of Insurance Companies in India is now regulated by the Insurance Act, 1938, which embodies stringent provisions affecting the promotion, management and accounts of Insurance Business in British India. The New Forms of Revenue Accounts and Balance Sheets as prescribed under the Act are given on pages 922 to 931, and would need to be closely studied.

FORM A relates to the Balance Sheet of the business. Where a Company carries on other classes of insurance business along with Life Assurance, it must prepare a separate Balance Sheet of the Life Business. So far as other insurance businesses are concerned, their respective assets and liabilities may be embodied in the General Balance Sheet with columns on either side for each class of business, or separate Balance Sheets may be prepared. Two columns one for life other for general ins.

FORM D is for the Revenue Account of the Life Assurance Business, wherein separate details have to be shown of Business within India and Business out of India.

FORM E is for the Revenue Account of Marine Insurance Business.

FORM F is the Revenue Account applicable to Fire, Accident, Workmen's Compensation, Motor Car and other miscellaneous Insurance businesses.

FORM B is the Profit and Loss Account, wherein the profit or loss of the several departments would be aggregated. To this account would also be credited items like Interest, Dividends and Rents, Profit on Sale of Investments, Transfer Fees and such other items of gain as do not belong to and are not credited to any particular Revenue Account. Similarly, the account would be charged with such expenses of management as are not applicable to any particular class of business, Loss on Sale of Investments or Depreciation of Investments which do not belong to any particular Fund and, therefore, not already charged to the Revenue Account of any class of business.

FORM C is the Profit and Loss Appropriation Account. The balance of the Profit and Loss Account would be transferred to this account. It would then be charged with any appropriations of Profit such as Dividends to Shareholders, transfers to any Funds or Accounts, and its ultimate balance will appear in the General Balance Sheet.

FORM AA represents the classified summary of Indian Investments and assets of Life Business, showing against each item its book value and the market value, to be submitted within 31 days from the beginning of each year to the Superintendent of Insurance, by every company carrying on Life Insurance business.

The Regulations for the preparation of the above Revenue Accounts and the Balance Sheets, which are given along with the Forms, need to be carefully followed, as they embody instructions for the compilation of these statements.

IMPORTANT PROVISIONS IN THE NEW ACT.

Amongst the several important provisions embodied in the New Act, the following may be mentioned :—

(1) Compulsory registration of every company carrying on Insurance Business in British India and obtaining of a Certificate of Registration from the Superintendent of Insurance (*Sec.* 3).

(2) Requirement of a minimum working capital of at least Rs. 50,000 exclusive of the Deposit to be made on registration and preliminary expenses, for companies carrying on Life Assurance business (*Sec.* 6).

(3) Deposits to be lodged with the Reserve Bank of India not only by Life Assurance Companies but also by companies carrying on Fire, Marine, Accident, Workmen's Compensation, Motor Car and any other Insurance business in India, as under :—

		Rs.
(*a*)	For Life Business only	2,00,000
(*b*)	For Fire Business only	1,50,000
(*c*)	For Marine Buiness only	1,50,000
(*d*)	For Accident Business including Workmen's Compensation and Motor Car Insurance ..	1,50,000
(*e*)	For Life and any one of (*b*), (*c*) or (*d*) ..	3,00,000
(*f*)	For Life and any two of (*b*), (*c*) or (*d*) ..	4,00,000
(*g*)	For Life and (*b*), (*c*) and (*d*)	4,50,000
(*h*)	For any two of (*b*), (*c*) or (*d*) without Life Business	2,50,000
(*i*)	For (*b*), (*c*) and (*d*) without Life Business ..	3,50,000
(*j*)	Marine Insurance relating to Country Craft ..	10,000

The above deposits have to be paid in certain stated instalments (*Sec.* 7).

(4) Separate accounts to be maintained for each class of Insurance Business, and the Life Insurance Fund to be kept intact absolutely as security for Life Policyholders (*Sec.* 10).

(5) Preparation of Revenue Accounts and Balance Sheets in respect of the different classes of Insurance Business at the end of each calendar year, in accordance with the New Regulations and Forms as prescribed in the First, Second and Third Schedules to the Act (*Sec.* 11).

(6) Audit of Annual Accounts by qualified Auditors (*Sec.* 12).

(7) The Certificates to be given by the Directors, the Actuary and the Auditors of the Company at the foot of every Balance Sheet issued by the Company, the forms of which are embodied in the Regulations given in the First Schedule to the Act. (*See* pages 933 and 934)

(8) Actuarial Valuation to be made of the Life Business once at least in every five years, and the Actuary's Report and Statements to be submitted in accordance with the New Regulations and Forms as prescribed in the Fourth and Fifth Schedules to the Act (*Sec.* 13).

(9) Compulsory maintenance of separate Register of Policyholders and Register of Claims in respect of every class of Insurance business (*Sec.* 14).

3. (10) Filing of four copies of Audited Accounts and Statements with the Superintendent of Insurance within six months from the end of the financial period (*Sec.* 15). 3 copies with Registrar

4. (11) Furnishing the Superintendent of Insurance with a certified copy of every Report on the affairs of the company soon after its submission to the members or policyholders of the Company (*Sec.* 18).

(12) Filing of an Abstract of the proceedings of every General Meeting of Shareholders within 30 days from the holding of such meeting (*Sec.* 19).

(13) Compulsory investment of Assets to the extent of 55 per cent of the liabilities in respect of Life Insurance business in Government and other approved securities (*Sec.* 27).

(14) Submission by every Life Assurance Company of a certified statement, within 31 days from the beginning of each year, to the Superintendent of Insurance showing how the above 55 per cent of the Investment has been made (*Sec.* 28).

(15) Prohibition of any Loan or temporary advance either on hypothecation of property or on personal security to any Director, Manager, Managing Agent, Actuary, Auditor or Officer of the Company except by way of loans on life policies within their surrender value, any such existing loan to be repaid within one year from the commencement of the Act (*Sec.* 29).

(16) The holding of all assets and investments in the name of the Company, except in so far as they are required to be vested in trustees (*Sec.* 31).

(17) Prohibition of appointment of Managing Agents after the commencement of this Act; existing Managing Agency to cease within three years, and no existing Managing Agent to receive more than Rs. 2,000 a month by way of salary, commission and allowances put together (*See* 32).

(18) Power of Superintendent of Insurance to investigate the affairs of a Company under certain circumstances (*Sec.* 33).

(19) Employment of only licensed agents in future for procuring insurance business and the remuneration to be paid to them by way of commission not to exceed the following percentages:—

40% on First Year's Premium in Life Business,
5% on Renewals,
15% on Premium from any other business.

In case of new Life Assurance Companies:—

55% on First Years' Premium, and
6% on Renewals

during the first ten years of business (*Sec.* 40).

(20) Prohibition of any rebate on premium being allowed in future by any canvassing agent to the insured (*Sec.* 41).

(21) Compulsory maintenance by every Insurance Company of a Register of Licensed Insurance Agents employed by them giving full details as to their names, addresses, dates when appointed, and dates when appointment ceased (*Sec.* 43).

(22) Compulsory election on the Board of every Life Assurance Company of not less than one-fourth of the whole number of Directors from the policyholders, after one year from the commencement of this Act (*Sec.* 48).

(23) Restriction on declaration of any dividend to shareholders or any bonus to policyholders by a Life Insurance Company, except out of a surplus ascertained as a result of actuarial valuation (*Sec.* 49).

The Act also contains several new and important provisions relating to Provident Societies.

REVENUE ACCOUNT OF LIFE BUSINESS.

The New Form of Revenue Account of the Life Assurance business provides for separate presentation of Business within India and Business out of India. Contrary to the Old Form, the Income is required to be shown on the credit and the Expenditure on the debit side. The Account naturally begins on the credit with the Balance of Life Fund at the commencement of the year, and ends with the Balance of Life Fund at the end of the year, on the debit. It may be pointed out that the Life Fund on any date represents the accumulated excess of Revenue over the Expenditure of the Life Business left after the periodical appropriations made thereout in respect of Bonus to Policyholders, Dividends to Shareholders, Depreciation in value of Investments, etc. The Life Fund at the end of any financial period must always show a credit balance, and representing as it does a liability to the existing Policyholders, necessarily appears on the Liabilities side of the Balance Sheet of the Life Department. In the first few years' working of a new company, however, the expenses of management may exceed the premium and other income, in which case, there will be a deficiency on Life Fund, and the latter will then show a debit balance.

The detailed headings under which the Revenue and the Expenditure items are required to be shown are specified in Form D on pages 928 and 929.

The Regulations for the preparation of Revenue Accounts as embodied in the Third Schedule to the Act clearly set out instructions as to the compilation of these accounts, and the same have been inserted herein on pages 935 and 936.

The following are the important points to be noted in connection with the preparation of Life Revenue Account:—

Life Assurance Fund.—Having regard to the peculiar nature of the Life Business, the excess of revenue over expenditure of any particular year, as shown by its Revenue Account, cannot be said to be the profits made in that period. A mistake is sometimes made of supposing that the accumulated funds of a life insurance company are profits made out of the business and held undivided. This, however, is not the case. If the company ceased to accept new policyholders and simply allowed the existing contracts to work off by death or maturity, the funds would gradually be drawn upon for the purpose of paying claims, which the annual income received by way of renewal premium alone during the time would be unable to meet. The difference represented by the excess of income over expenditure is called Life Fund, and is carried forward on this account from year to year. The profits of any period are ascertained by an Actuarial Valuation every three or five years. The object of such a valuation is to arrive at the net liability of the company under the various policies as at the date of valuation, and this amount the company must have in hand if it is solvent. The net liability of the company on all its policies in force, thus ascertained, is compared with the then Life Assurance Fund, and the excess of the latter over the former is called "surplus" and is available for dividend, whilst the balance the other way is called the "deficiency".

The first item, viz. *Life Assurance Fund* on the credit side of the Revenue Account, is the same as the last item shown in the previous year's Revenue Account and also as appearing on the liabilities side of the previous Balance Sheet.

Premiums.—Under this heading will be included all premiums received during the year either through the agents or by the head office, as well as all premiums outstanding at the end of the year.

Outstanding Premiums are brought into account by means of a Journal entry:—

Outstanding Premiums .. .. .. *Dr.*
To Premiums Account

These Outstanding Premiums, being moneys owing to the Company, will appear as an asset in the Balance Sheet.

In valuing Outstanding Premiums, care should be taken to see that they do not include premiums due on lapsed policies. Further, from the gross amount of these outstandings, the commission payable to the agents as also the amount of re-assurance, if any, should be deducted, and the above entry should be made of the net amount. Or, a better method would be to take the outstanding premiums at the gross figure and bring into account the outstanding liability in regard to commission, re-assurance, etc., payable by another Journal entry.

It must be noted that under the heading "Outstanding Premiums" should be included only such instalments as have become due and payable before the end of the financial year.

The Revenue Account under the New Act requires the item of Premiums to be shown on the credit as under:—

Premiums *Less* Re-insurance.

(*i*) First Year Premiums.

(*ii*) Renewal Premiums..

(*iii*) Single Premiums.

Consideration for Annuities granted.—These are lump sums received by the company, during the year, from persons desirous of securing a fixed annual income in return, i.e., persons who have taken up annuity policies with the company. The item appears on the credit side of the Revenue Account *less* any Re-insurance in this behalf. The annual payments made by the company to the annuitants appear on the debit side of the Revenue Account under the heading of *Annuities.*

Interest, Dividends and Rents.—This item will comprise not only all the Interest, Dividends and Rents actually received, but will also include any income either "outstanding" or "accrued" under this head and belonging to the period under review. Outstanding and accrued Interest, Dividends, etc., are brought into account by means of the Journal Entry:—

Outstanding Interest, Dividends and Rents .. .. *Dr.*
Accrued Interest, Dividends and Rents .. .. ,,
To Interest, Dividends and Rents Account

The above debits will appear as assets in the Balance Sheet.

It will be noticed that the Form requires Interest, Dividends and Rents to be shown at the gross figures and the Income-tax paid as a deduction therefrom, the net Interest, etc., appearing in the outer column. In order, therefore, to enable the gross figure of Interest, etc., to be shown in the Revenue Account, it would be necessary to pass a Journal entry with the amount of Income-tax whenever Interest and Dividends are received less Income-tax thus:—

Income-tax Account .. .. *Dr.*
To Interest, Dividends and Rents Account

The exact difference between the term "outstanding" and "accrued" does not appear to have been clearly understood by many, and the following definitions are therefore thought necessary.

Outstanding Interest, etc. means such Interest, etc. as has actually become due and payable prior to the date of closing, but has not been received.

Accrued Interest, etc. is the proportion of income from the last due date to the date of closing, allocated and brought into account, as being the income earned during the period under review.

For instance, if interest on any investment is receivable on 1st June and 1st December, and the date of the financial closing is 31st of December, and assuming that the Interest due on 1st December is not received till after 31st December—six months' interest due upto 1st December will appear as "outstanding" and the interest for the month of December will appear as accrued.

Where Office Premises belong to the Company.—Where the office premises form part of the Life Assurance Fund, a fair rent for the premises must be included under the heading Interest, Dividends and Rents on the credit of the Life Insurance Revenue Account, and the Revenue Account for every class of business for which the premises are used should be made to bear a proportionate charge in respect of such rent as also all the other expenses incurred in connection with the maintenance of such property.

Other Receipts to be specified.—Under this heading will appear items such as Fines, Policy Assignment Fees, etc.

Claims under Policies Paid and Outstanding.—This is the first item to appear on the debit side. Under this heading will be included not only the claims actually paid, but also those outstanding. *Outstanding Claims* would include:—

(*a*) Claims notified to the office and actually admitted by the company but not paid; and

(*b*) Claims intimated to the company in respect of which the company has received notice of death, but which may not have been admitted by the company, the necessary formalities not having been carried out by the claimants.

All such Outstanding Claims having been ascertained, a Journal entry is passed to bring them into account:—

Claims Account .. .. *Dr.*
To Outstanding Claims Account

Outstanding Claims Account, being a credit balance, will appear as a liability in the Balance Sheet.

Claims by Death and Claims by Maturity are required to be separately shown.

Claims by Maturity represent amounts which become payable under endowment policies.

Annuities.—These have already been dealt with while explaining Consideration for Annuities.

Surrenders.—These would include all sums paid by the company to policyholders desirous of terminating their contracts with the company.

Where loans have been advanced by the company on security of policies, and if any of such policies have been allowed to lapse, the amount of such loans together with interest thereon, should be transferred to surrenders by means of a Journal entry :—

Surrenders Account .. .. *Dr.*
  To Loans on Policies Account

The item of Surrenders must include also Surrenders of Bonus, if any.

Bonuses.—As has already been explained above, the profits of an insurance company cannot be ascertained every year from the preparation of Revenue Account. In order to ascertain profits, periodical valuations have to be made by the company's actuary who finds out the exact liability of the company upon all policies in force. The balance of Life Assurance Fund, after allowing for such liability and all other contingencies, is then utilised in declaring dividends to shareholders, bonuses to policyholders, and transfers to reserve funds, etc.

Policyholders are usually given the option of receiving their bonus in any one of the following ways :—

(*a*) In Cash ;
(b) In reduction of premiums ; or
(*c*) In the form of reversionary bonus, that is the bonus becomes actually receivable when the policy becomes a claim.

When a policyholder utilises his bonus in reduction of his premium, the entry necessary to give effect to this would be :—

Bonus Account .. .. *Dr.*
  To Premium Account

Expenses of Management.—Under this heading, the various items of expenditure incurred during the period under review will have to be shown under their distinct sub-heads as classified in the prescribed Form.

Great care should be taken to see that these include not only the expenses actually paid but also all expenses incurred and relating to the period under review and remaining unpaid at balancing time.

Salaries.—The New Form requires the salary paid to the Managing Agent or the Managing Director to be shown separately from the total amount paid as salaries to the remaining staff.

Common Expenses.—When a Company carries on Life Assurance business along with other classes of insurance, the Life Assurance Revenue

Account must on no account be charged with more than a reasonable proportion of the common expenses. Further, the Life Department should not also be charged more than its fair share of the office rent, when the premises happen to belong to the company.

BALANCE SHEET OF LIFE BUSINESS.

The Balance Sheet of Life Insurance Business must be prepared as a separate statement, in the prescribed **Form** marked **'A'**. The Balance Sheets of other classes of business may be prepared separately or their assets and liabilities may be incorporated by means of additional columns in the General Balance Sheet. In any case, where there are several classes of business, a General Balance Sheet will have to be prepared incorporating the total fund of each class of business as also the shareholders' undivided profits, outstanding liabilities and such other items of a general nature, so as to indicate the financial position of the business as a whole.

The following items need specific mention:—

Life Assurance Fund.—The amount shown against this item will be the same as the last item in the Life Revenue Account for the period, as already explained.

Annuity Fund.—This item represents the liability of the company to its annuitants, which is ascertained by periodical actuarial valuation. Usually, Annuity Business is mixed with the Life Assurance Business, in which case, there is no separate Annuity Fund but the same is merged into the Life Assurance Fund.

Loans on Life Interests and Reversions.—These are loans granted to persons having either a life interest in certain properties or assets under a will or trust, or the reversion to certain properties or assets upon the death of the life tenant.

Investments.—These will have to be shown under their specific heads as indicated in the Prescribed Form of Balance Sheet. The requirements of Section 27 in regard to 55% of the company's liability to its policyholders being held in approved Securities should be rigidly followed.

Subsidiary Companies.—Particulars of holdings in and loans to and from subsidiary companies are required to be shown quite distinctly from other assets and liabilities.

Debts owing by Directors and Officers.—Amounts due from directors and officers are required to be shown separately.

Guarantee in respect of Policies in other Companies.—Where any guarantee has been given by a Company in respect of policies of any other company, the Balance Sheet of the Company giving such guarantee must clearly specify the name of such company and the extent of such guarantee.

Sundry other Assets.—Assets such as Goodwill, office furniture as also balances on accounts like Preliminary Expenses, Organization and Development Expenses, Discount on Issue of Debentures and such other items are required to be shown last on the assets side, until written off.

Contingent Liabilities.—Under 'Contingent Liabilities' will have to be included liabilities in respect of Bills Discounted, partly-called shares held in subsidiaries and in other companies as investments.

All other requirements as to the preparation and certification of Balance Sheets are specified in the **Regulations** contained in the **First Schedule** to the Act as also in the **Notes** embodied at the foot of the prescribed **Form A** of Balance Sheet, and these have been included bodily herein, so as to facilitate reference.

INVESTMENT FLUCTUATION FUND.

As Life Assurance Companies invest their surplus funds to a considerable extent in Public Funds and other gilt-edged Securities, it is an invariable practice with them to build up a very substantial reserve to sufficiently provide for the loss by way of fluctuations in the money market, which affect very largely the value of their investments. This is done by bringing into account the difference between the cost and market price of the investments and charging the Revenue Account with the same, at the same time crediting an Investment Fluctuation Fund Account. The Investments would appear at cost on the assets side, while the Investment Fluctuation Fund would appear on the liabilities side.

ASCERTAINMENT OF PROFITS BY LIFE ASSURANCE COMPANIES.

Although a Life Assurance Company is required to prepare a Revenue Account and a Balance Sheet every year, it must be noted that these Statements of Accounts alone would not indicate the true annual financial position of the company inasmuch as the profits or losses of a Life Business cannot be determined by ordinary commercial methods. In a Life Office, the Revenue Account would serve only to indicate the savings of the year represented by the excess of the current year's income over the expenditure, and the Balance Sheet would disclose the nature of the Securities and other Assets held by the Company as also its Liabilities (exclusive of the company's current liability on all the policies in force) at each balancing time. The reason is that an Assurance Company receives money by way of Premiums from year to year and promises to pay in exchange a lump sum represented by the face value of the Policies in certain events happening in the future, and consequently, the savings of any year cannot by any means be regarded as the year's profit.

The true profit or loss made by a Life Office can only be ascertained by what is called a **Valuation**, and the Officer entrusted with such work is called an **Actuary**.

The position of a Life Office, on any one given date, may shortly be stated as follows :—

(*a*) It possesses a certain invested fund known as Life Fund, made up of the accumulated excess of income over expenditure.

(*b*) It expects a certain future income by way of premiums on policies then on its books.

(*c*) It is under an obligation to pay the amounts assured by these policies on the happening of the events assured against.

[*Continued on page* 932

FORM

Form of

BALANCE SHEET ....

—	Life and Annuity Business. (1)	Other Classes of Business. (2)*	Total.
	Rs. a. p.	Rs. a. p.	Rs. a. p.
SHAREHOLDERS' CAPITAL (each class to be stated separately)			
Authorised:			
... .Shares of Rs ....each Rs.			
Subscribed:			
....Shares of Rs............each Rs.			
Called up:			
....Shares of Rs. ....each Rs.			
Less Unpaid calls Rs.			
RESERVE OR CONTINGENCY ACCOUNTS (*a*):			
Investment Reserve Account ...			
Profit and Loss Appropriation Account Balance ...			
BALANCES OF FUNDS AND ACCOUNTS:			
Life Insurance Fund			
Fire Insurance Business Account			
Marine Insurance Business Account ...			
Accident and Miscellaneous Insurance Business Account (*m*) ...			
Other Accounts (if any) to be specified (*l*) ...			
Pension or Superannuation Accounts (*b*) ...			
DEBENTURE STOCK per cent ...			
LOANS AND ADVANCES (*c*)			
BILLS PAYABLE (*c*)			
ESTIMATED LIABILITY IN RESPECT OF OUTSTANDING CLAIMS, WHETHER DUE OR INTIMATED (*d*) ...			
ANNUITIES DUE AND UNPAID (*d*) ...			
OUTSTANDING DIVIDENDS ...			
AMOUNTS DUE TO OTHER PERSONS OR BODIES CARRYING ON INSURANCE BUSINESS (*c*) ..			
SUNDRY CREDITORS (INCLUDING OUTSTANDING AND ACCRUING EXPENSES AND TAXES) (*c*) ...			
OTHER SUMS OWING BY THE INSURER (PARTICULARS TO BE GIVEN) (*c*)			
CONTINGENT LIABILITIES (TO BE SPECIFIED) (*c*) ...			
Carried over Rs.			

A. *(The First Schedule).*

Balance Sheet.

.... *of* 194 .

—	Life and Annuity Business. (1)	Other Classes of Business. (2)*	Total.
	Rs. a. p.	Rs. a. p.	Rs. a. p.
LOANS:			
On Mortgages of property within British India ...			
On Mortgages of property outside British India ...			
On Security of municipal and other public rates ...			
On Stocks and Shares ...			
On Insurer's policies within their surrender value ...			
On Personal Security ...			
To Subsidiary Companies (other than Reversionary) (*f*) ...			
Reversions and Life Interests purchased ...			
Loans on Reversions and Life Interests ...			
Debentures and Debenture Stocks of Subsidiary Reversionary Companies (*f*) ...			
Ordinary Stocks and Shares of Subsidiary Reversionary Companies (*f*) ...			
Loans to Subsidiary Reversionary Companies (*f*) ...			
INVESTMENTS: ...			
Deposit with the Reserve Bank of India (Securities to be specified) ...			
Indian Government Securities ...			
Provincial Government Securities ...			
British, British Colonial and British Dominion Government Securities ...			
Foreign Government Securities ...			
Indian Municipal Securities ...			
British and Colonial Securities ...			
Foreign Securities ...			
Bonds, Debentures, Stocks and other Securities whereon Interest is guaranteed by the Indian Government or a Provincial Government ...			
Bonds, Debentures, Stocks, and other Securities whereon Interest is guaranteed by the British or any Colonial Government ...			
Bonds, Debentures, Stocks, and other Securities whereon Interest is guaranteed by any Foreign Government ...			
Debentures of any railway in India ...			
Debentures of any railway out of India ...			
Preference or guaranteed Shares of any railway in India ...			
Preference or guaranteed Shares of any railway out of India ...			
Railway Ordinary Stocks (*i*) in India (*ii*) out of India ...			
Other Debentures and Debenture Stock of Companies incorporated (*i*) in India (*ii*) out of India ...			
Other guaranteed and Preference Stocks and Shares of Companies incorporated (*i*) in India (*ii*) out of India ...			
Other Ordinary Stocks and Shares of Companies incorporated (*i*) in India (*ii*) out of India			
Holdings in Subsidiary Companies (*f*) ...			
House property (*i*) in India (*ii*) out of India ..			
Freehold and Leasehold ground rents and rent charges ...			
Carried over Rs.			

FORM

	Life and Annuity Business. (1)	Other Classes of Business. (2)*	Total.
	Rs. a. p.	Rs. a. p.	Rs. a. p.
Brought over			
Rs.			

* Assets and Liabilities, Shareholders' Capital and Reserves, not allocated to any class of business specified in column (1) must be shown in column (2).

NOTES.

(*a*) The Reserves or Contingency Accounts must be separately stated.

(*b*) If the insurer has not full and unrestricted control of the assets constituting the Pension or Superannuation Accounts, either those Accounts and the assets and liabilities relating thereto must be omitted from the Balance Sheet or the assets of which the insurer has not such control must be clearly indicated on the face of the Balance Sheet.

(*c*) If the insurer has deposited security as cover in respect of any of these items, the amount and nature of the securities so deposited must be clearly indicated on the face of the Balance Sheet.

(*d*) These items are or have been included in the corresponding items in the Revenue or Profit and Loss Account. Outstanding and accruing interest, dividends and rents must be shown after deduction of income-tax or the income-tax must be provided for amongst the liabilities on the other side of the Balance Sheet.

(*e*) Such items as amount of liability in respect of bills discounted, uncalled capital of subsidiary companies, uncalled capital of other investments, etc., must either be shown in their several categories under the heading "Contingent Liabilities" or the appropriate items on the assets side must be set out in such detail as will clearly indicate the amount of the uncalled capital.

(*f*) As respects life and annuity businesses full particulars of holdings in and loans to subsidiary companies must be stated, giving the name of each company, the number and description of each class of shares held, the amount paid up thereon, and the value at which the holdings in each company stand in the Balance Sheet.

A.—*Contd.*

—	Life and Annuity Business. (1)	Other Classes of Business. (2)*	Total.
	Rs. a. p.	Rs. a. p.	Rs. a. p.
Brought over			
AGENTS' BALANCES ...			
OUTSTANDING PREMIUMS (g) (d)			
INTEREST, DIVIDENDS AND RENTS OUTSTANDING (d)			
INTEREST, DIVIDENDS AND RENTS ACCRUING BUT NOT DUE (d)			
AMOUNTS DUE FROM OTHER PERSONS OR BODIES CARRYING ON INSURANCE BUSINESS (h) ...			
SUNDRY DEBTORS (i) ...			
BILLS RECEIVABLE ...			
CASH:			
At Bankers on Deposit Account ...			
At Bankers on Current Account and in hand ...			
At Call and Short Notice (j) ...			
Other Accounts (to be specified) (k) ...			
Rs.			

(g) Either this item must be shown net or the commission must be provided for amongst the liabilities on the other side of the Balance Sheet.

(h) The aggregate amount owing by a subsidiary company or subsidiary companies is to be shown separately from all other assets and the aggregate amount owing to a subsidiary company or subsidiary companies is to be shown separately from all other liabilities.

(i) Amounts due from directors and officers must be shown separately.

(j) No amounts must be entered under this heading unless fully secured. If not fully secured, the amounts must be included under the heading "Sundry Debtors."

(k) Under this heading must be included such items as the following, which must be shown under separate headings suitably described:—office furniture, goodwill, preliminary, formation and organisation expenses, development expenditure account, discount on debentures issued, other expenditure carried forward to be written off in future years, balance being loss on Profit & Loss Appropriation Account, etc. The amounts included in the Balance Sheet must not be in excess of cost.

(l) Under the head "other accounts (if any) to be specified" on the left hand side, fines realized from the staff and their contribution towards the provident fund, if any, should be shown under separate sub-heads.

(m) Where the insurer is required to maintain a separate account in respect of any sub-class of miscellaneous insurance business, this heading is to be split up accordingly.

FORM AA. (*The First Schedule*).

CLASSIFIED SUMMARY OF THE ASSETS IN INDIA OF THE ....
COMPANY ON 19 .

Class of Asset.	Book value as per (a) below.	Market value as per (b) below.	Remarks as per (c) below.
	Rs.	Rs.	Rs.
(1) Government of India Securities			
(2) Indian Provincial Government Securities			
(3) Indian Municipal Port and Improvement Trust Securities including Debentures			
(4) Debentures of Indian Railways			
(5) Guaranteed and Preference Shares of Indian Railways			
(6) Annuities of Indian Railways			
(7) Ordinary Shares of Railways in India			
(8) Other Debentures of concerns in India			
(9) Other guaranteed and Preference Shares of concerns in India ...			
(10) Other Ordinary Shares of concerns in India			
(11) Loans on the Company's policies effected in India and within their surrender value			
(12) Loans on Mortgage of property in India			
(13) Loans on Personal Security to persons domiciled and resident in India			
(14) Other Loans granted in India (particulars to be stated)			
(15) Land and House property in India			
(16) Cash on Deposit in Banks in India			
(17) Cash in Hand and on current accounts in banks in India			
(18) Agents' Balances and Outstanding Premiums			
(19) Interest, Dividends and Rents either outstanding or accrued but not due			
(20) Other Assets in India (to be specified.)			

The statement shall show—

(a) the value for which credit is taken in the balance sheet for each of the abovementioned classes of assets,

(b) the market value of such of the abovementioned classes of assets as has been ascertained from published quotations after deduction of accrued interest included in market prices in those cases where accrued interest is included elsewhere in the balance sheet,

(c) how the value of such of the abovementioned classes of assets as has not been ascertained from published quotations has been arrived at, and

(d) the rates of exchange at which the values of the assets other than in rupee currency have been converted into rupees.

The market values need not be shown separately where they are not less than the book values and a certificate to that effect is appended to the statement.

No amounts on account of any of the following items may be entered in the statement:—

Goodwill.

Preliminary, formation, organization or development expenses.

Commission or discount on shares or debentures issued.

Commuted Commission.

Expenditure carried forward to be written off in future years.

FORM B. (*The Second Schedule*).

Form of Profit and Loss Account.

PROFIT & LOSS ACCOUNT OF...........FOR THE YEAR ENDED..........194 .

	Rs.	a.	p.		Rs.	a.	p.
British Indian Taxes on the Insurer's Profits (not applicable to any particular Fund or Account) ...				Interest, Dividends and Rents (not applicable to any particular Fund or Account) Rs. *Less* Income-tax thereon Rs.			
Expenses of Management (not applicable to any particular Fund or Account)* ...				Profit on Realisation of Investments (not credited to Reserves or any particular Fund or Account) ...			
Loss on Realisation of Investments (not charged to Reserves or any particular Fund or Account) ...				Appreciation of Investments (not credited to Reserves or any particular Fund or Account) ...			
Depreciation of Investment (not charged to Reserves or any particular Fund or Account) ...				Profit transferred from Revenue Accounts (details to be given) ...			
Loss transferred from Revenue Accounts (details to be given) ...				Transfer Fees ...			
Other Expenditure (to be specified)				Other Income (to be specified) ...			
Balance for the year carried to Appropriation Account ...				Balance being loss for the year carried to Appropriation Account			
Rs.				Rs.			

* If any sum has been deducted from this item and entered on the assets side of the Balance Sheet, the amount must be shown separately.

FORM C. (*The Second Schedule—The Third Schedule.*)

Form of Profit and Loss Appropriation Account.

PROFIT & LOSS APPROPRIATION ACCOUNT OF.........

FOR THE YEAR ENDED............194 .

	Rs.	a.	p.		Rs.	a.	p.
Balance being loss brought forward from last year ...				Balance brought forward from last year Rs. *Less* Dividends since paid in respect of last year (to be specified and if "free of tax" to be so stated)* Rs.			
Balance being loss for the year brought from Profit and Loss Account (as in Form B) ...				Balance for the year brought from Profit and Loss Account (as in Form B) ...			
Dividends paid during the year on account of the current year (to be specified and if "free of tax" to be so stated) ...				Balance being loss at end of the year as shown in the Balance Sheet ...			
Transfers to any particular Funds or Accounts (details to be given)							
Balance at end of the year as shown in the Balance Sheet ...							
Rs.				Rs.			

* NOTE.—This item may be shown on the other side of the account if preferred.

FORM

Form of Revenue Account applicable

REVENUE ACCOUNT OF

IN RESPECT OF LIFE

—	Business within India.	Business out of India. (a)	Total.
	Rs. a. p.	Rs. a. p.	Rs. a. p.
Claims under Policies (including provision for Claims due or intimated) *less* Re-insurances:			
By Death ...			
By Maturity ...			
Annuities, *less* Re-insurances ...			
Surrenders (including Surrenders of Bonus), *less* Re-insurances			
Bonuses in cash, *less* Re-insurances ...			
Bonuses in Reduction of Premiums, *less* Re-insurances ...			
Expenses of Management (*b*): ...			
1. (*a*) Commission to Insurance Agents (*less* that on Re-insurances) ...			
(*b*) Allowances and Commission (other than commission included in sub-item (*a*) preceding) ...			
2. Salaries, etc. (other than to Agents and those contained in item No. 1)			
3. Travelling expenses ...			
4. Directors' fees ...			
5. Auditors' fees ...			
6. Medical fees ...			
7. Law charges ...			
8. Advertisements ...			
9. Printing and Stationery ...			
10. Other expenses of management (accounts to be specified)			
11. Other payments (accounts to be specified) ...			
12. Rents for offices belonging to and occupied by the insurer ...			
13. Rents of other offices occupied by the insurer ...			
Bad Debts ...			
United Kingdom, British Indian, Dominion and Foreign Taxes			
Other Expenditure (to be specified) ...			
Profit transferred to Profit and Loss Account ...			
Balance of Fund at the end of the year as shown in the Balance Sheet ...			
Rs.			

NOTES.

(*a*) These columns apply to business the premiums in respect of which are ordinarily paid outside India. If any question arises whether any premiums are ordinarily paid outside India, the Superintendent of Insurance shall decide the question and his decision shall be final.

(*b*) If any sum has been deducted from this item and entered on the assets side of the Balance Sheet, the amount so deducted must be shown separately. Under this item the salary paid to the managing agent or managing director shall be shown separately from the total amount paid as salaries to the remaining staff.

(*c*) All single premiums for annuities whether immediate or deferred, must be included under this heading.

(*d*) British Indian, United Kingdom, Foreign and Dominion income-tax on Interest, Dividends and Rents must be shown under this heading, less any rebates of income-tax

D. *(The Third Schedule).*

to Life Insurance Business.

FOR THE YEAR ENDED 194 .

BUSINESS.

—	Business within India.	Business out of India (a)	Total.
	Rs. a. p.	Rs. a. p.	Rs. a. p.
Balance of Fund at the beginning of the year			
Premiums, *less* Re-insurances :			
(i) First year's premiums			
(ii) Renewal premiums			
(iii) Single premiums			
Consideration for annuities granted *less* Re-insurances (c)			
Interest, Dividends and Rents			
Less Income-tax thereon (d)			
Registration Fees			
Other Income (to be specified) (e)			
Loss transferred to Profit and Loss Account			
Transferred from Appropriation Account			
Rs.			

recovered from the revenue authorities in respect of expenses of management. The separate heading on the other side of the account is for United Kingdom, British Indian, Foreign and Dominion taxes, other than those shown under this item.

(e) Under the head "other income" fines, if any, realised from the staff must be shown separately. All the amounts received by the insurer directly or indirectly whether from his head office or from any other source outside India shall also be shown separately in the revenue account except such sums as properly appertain to the capital account.

(f) In the case of an insurer having his principal place of business outside British India, the expenses of management for business out of India and total business need not be split up into the several sub-heads, if they are not split up in his own country.

FORM E. *(The Third Schedule).*

Form of Revenue Account applicable to Marine Insurance Business.

REVENUE ACCOUNT OF FOR THE YEAR ENDED 194 .

IN RESPECT OF MARINE INSURANCE BUSINESS.

—	Current year.	Last Preceding year.	Previous years.	Total.	—	Current year.	Last Preceding year.	Previous years.	Total.
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
*Claims paid (*less* Salvages and Re-insurances) (*a*) (*c*) ...					Balance of Marine Insurance Business Account at beginning of the year ...				
*Commission ...					Balances ...				
*Expenses of Management (*b*)					Additional Reserve (if any)				
*Bad Debts ..					* Premiums (*less* Returns, Re-insurances, Brokerages and Discount) (*c*) ...				
United Kingdom, British Indian, Dominion and Foreign Taxes ...					Interest, Dividends and Rents Rs. ...				
*Other Expenditure (to be specified)					*Less* Income-tax thereon Rs.				
Profit transferred to Profit and Loss Account ...					*Other income (to be specified) (*d*) ...				
Balance of Marine Insurance Business Account at end of year as shown in the Balance Sheet ...					Loss transferred to Profit and Loss Account ...				
Balances ...					Transferred from Appropriation Account ...				
Additional Reserve (if any) ...									
Rs.					Rs.				

NOTES.

(*a*) This heading must include all expenses directly incurred in settling claims.

(*b*) If any sum has been deducted from this item and entered on the assets side of the Balance Sheet the amount so deducted must be shown separately.

(*c*) Where the account is furnished under the provisions of Section 11 of the Insurance Act, 1938, separate figures for claims paid to claimants in India and claimants outside India, and for premiums derived from Business effected in India and effected outside India must be given.

(*d*) All the amounts received by the insurer directly or indirectly whether from his head office or from any other source outside India shall also be shown separately in the revenue account except such sums as properly appertain to the capital account.

* Where the account is furnished under the provisions of clause (*b*) of sub-section (2) of Section 16 of the Insurance Act, 1938, by an insurer to whom that Section applies, separate figures for business within India and business out of India must be given at the items marked with an asterisk. Against all other items the total amount business as a whole may be given.

FORM F. *(The Third Schedule).*

Form of Revenue Account applicable to Fire Insurance Business and to Accident and Miscellaneous Insurance Business including Workmen's Compensation and Motor Car Insurance Business.

REVENUE ACCOUNT OF FOR THE YEAR ENDED 194 .
IN RESPECT OF BUSINESS.

	Rs.		Rs.
**Claims under policies less Re-insurances (a) (d):* Paid during the year Rs. Total estimated liability in respect of outstanding claims at end of the year whether due or intimated Rs. Total Rs. *Less* Outstanding at end of previous year (*b*) Rs.		*Balance of Account at beginning of the year:* Reserve for Unexpired Risks Rs. Additional Reserve (if any) Rs.	
*Commission ...		*Premiums, *less* Re-insurances (*d*)	
*Expenses of Management (*c*) ..		Interest, Dividends and Rents Rs. *Less* Income-tax thereon Rs.	
*Bad Debts ...		*Other Income (to be specified) (*e*) ...	
United Kingdom, Foreign and Dominion Taxes		Loss transferred to Profit and Loss Account ...	
*Other Expenditure (to be specified) ...		Transferred from Appropriation Account ...	
Profit transferred to Profit and Loss Account ...			
Balance of Account at the end of the year as shown in the Balance Sheet: Reserve for Unexpired Risks, being per cent of premium income of year Rs. Additional Reserve (if any) Rs.			
Rs.		Rs.	

NOTES.

(*a*) This heading must include all expenses directly incurred in settling claims.

(*b*) If in any year the claims actually paid and those still unpaid at the end of that year in respect of the previous year or years are in excess of the amount included in the previous year's Revenue Account as provision for outstanding claims, then the amount of such excess must be shown in the Revenue Account.

(*c*) If any sum has been deducted from this item and entered on the assets side of the Balance Sheet the amount so deducted must be shown separately.

(*d*) Where the account is furnished under the provisions of Section 11 of the Insurance Act, 1938, separate figures for claims paid to claimants in India, and claimants outside India, and for premiums derived from business effected in India and effected outside India, must be given.

(*e*) All the amounts received by the insurer directly or indirectly whether from his Head Office or from any other source outside India shall also be shown separately in the Revenue Account except such sums as properly appertain to the Capital Account.

* Where the account is furnished under the provisions of clause (*b*) of sub-section (2) of Section 16 of the Insurance Act, 1938, by an insurer to whom that section applies, separate figures for business within India and business out of India must be given against the items marked with an asterisk. Against all other items the total amount for the business as a whole may be given.

Continued from Page 921.]

The business of the Actuary is to estimate the "present value" of the total future premiums receivable by the company on its policies in force. He has also to determine the "present value" of the Company's total Liabilities represented by the current policies in force. The excess of the *present liability* on these policies over the *present value* of their *future premium income* is known as *Net Liability*. This "Net Liability" is then compared with the total value of the Securities and other Assets constituting the Life Fund. Any excess of the Life Fund over the Net Liability represents the real *Surplus*, i.e., the true profit derived from Life Business. If the present Net Liability exceeds the Life Fund, the result is a "Deficiency," i.e., a loss on Life Business. It will thus be seen that a valuation consists not only of the figures embodied in the books of account, but it also takes into account a critical survey of the whole past and future financial history of the policies then actually in force. It should also be borne in mind that the figures of at least three to five years' working are necessary in order to arrive at a fair and reliable valuation of a Life Office.

On a *surplus* having been ascertained as above, the same will be dealt with in accordance with the Company's Articles. In a public company consisting of shareholders, a certain proportion of the surplus would be utilised in distribution as dividends amongst the shareholders and the remainder would be allocated towards bonuses on "with profits" policies.

ASCERTAINMENT OF PROFITS OF FIRE, MARINE AND OTHER INSURANCES.

In fire, marine and other insurance business, the policies issued are of a year's duration, and consequently, the profit or loss made each year can be easily determined after providing for the liability on such policies as have not expired and are in force at the end of the financial year.

The annual profit of such companies is thus ascertained by setting against the annual premium and other income, the claims paid and all other losses and expenses incurred in earning such income. It is, however, the practice of all first-class companies to set aside usually from 30 to 40% of the net premiums as a provision for *unexpired risks* on policies running at the time of balancing, before ascertaining the net profits.

THE FIRST SCHEDULE.

REGULATIONS FOR THE PREPARATION OF BALANCE SHEET.

Part I.

1. The Balance Sheet required to be prepared in respect of every class of business carried on by an insurer is, in the form in which it is set out in Part II of this Schedule (Form A), appropriate to a case where the insurer maintains a separate fund in respect of life insurance business.

2. The Balance Sheet of life insurance business shall be prepared as a separate document. The Balance Sheet of any class of business may be prepared as a separate document instead of being incorporated by the addition of columns and headings in the general Balance Sheet, but the total of each such separate Balance Sheet (showing the total assets of the class of business, the balance at the credit of the life insurance fund or other separate

fund or account, the amount of shareholders' undivided profits, and outstanding liabilities) must in any case be incorporated in the general Balance Sheet.

3. If any combined Balance Sheet is for any purpose issued by an insurer, it shall be in accordance with the Form set out in this Schedule, and there shall not be included among the assets shown in any such combined Balance Sheet any amount in respect of any holding in or advance to any insurer whose assets and liabilities have been incorporated therein. Every combined Balance Sheet must show clearly on the face thereof that it is a combined Balance Sheet and must set out fully the name of every insurer whose assets and liabilities have been incorporated therein; if the assets and liabilities of any person not being an insurer are included in a combined Balance Sheet the fact must be stated thereon.

4. Where any guarantee has been given by an insurer (otherwise than in the ordinary course of re-insurance business) in respect of the policies of any other insurer, the Balance Sheet of the insurer by whom the guarantee was given must show clearly the name of every insurer whose policies have been so guaranteed and the extent of the guarantee:

Provided that this regulation shall not apply where a combined Balance Sheet is issued incorporating the assets and liabilities of the insurer whose policies are guaranteed.

5. Where any part of the assets of an insurer is deposited in any place outside British India as security for the owners of policies issued in that place, the Balance Sheet shall state that part of the assets has been so deposited, and, if any such part forms part of the life fund, shall show the amount thereof and the place where it is deposited. Where any combined Balance Sheet is issued by an insurer for any purpose, the information required by this regulation shall be shown in the aggregate in respect of all the insurers whose assets and liabilities have been incorporated in the Balance Sheet.

6. There shall be appended to the Balance Sheet a statement in Form AA as set out in Part II of this Schedule showing the market value and the book value of the assets.

6 7. Every Balance Sheet shall contain the following certificates, namely:—

(a) a certificate signed by the same persons as are required by this Act to sign the Balance Sheet explaining how the values as shown in the Balance Sheet of the Investments in Stocks and Shares have been arrived at, and how the market value thereof has been ascertained for the purpose of comparison with the values so shown;

(b) a certificate signed by the same persons as are required by this Act to sign the Balance Sheet and signed also, so far as respects the value of any items shown in the Balance Sheet under the heading of "Reversions and Life Interests", by an actuary, certifying that the values of all the assets have been reviewed as at the date of the Balance Sheet, and that in their belief the assets set forth in the Balance Sheet are shown in the aggregate at amounts not exceeding their realisable or market value under the several headings "Loans", "Reversions and Life Interests", "Investments", "Agents' Balances and Outstanding Premiums", "Interest, Dividends and Rents outstanding", "Interest, Dividends and Rents accruing but not due", "Amounts due from other Persons or Bodies carrying on Insurance Business", "Sundry Debtors", "Bills Receivable", "Cash" and the several items specified under "Other Accounts":

Provided that if the persons signing the certificate are unable to certify that the assets set forth in the Balance Sheet are so shown as aforesaid, a full explanation of the basis upon which the values shown in the Balance Sheet have been assessed shall be given in the certificate;

(c) a certificate signed by the same persons as are required by this Act to sign the Balance Sheet and by the auditor certifying that no part of the assets of the life insurance fund has been directly or indirectly applied in contravention of the provisions of this Act relating to the application and investment of life insurance funds; and

(*d*) certificates signed by the auditor (which shall be in addition to any other certificate or report which he is required by law to give with respect to the Balance Sheet) certifying:—

(*i*) that he has verified the cash balances and the securities relating to the insurer's loans, reversions and life interests, and investments;

(*ii*) to what extent, if any, he has verified the investments and transactions relating to any trusts undertaken by the insurer as trustee; and

(*iii*) in the case of a combined Balance Sheet that he has audited the Balance Sheet and accounts of every insurer whose assets and liabilities are incorporated therein, or that any such balance sheet and accounts which have not been audited by him have been certified by independent auditors. The said certificate shall contain a reference to such reservations, if any, as may have been made by any auditor upon any report or certificate given by him with respect to the Blance Sheet and accounts of an insurer whose assets and liabilities are incorporated in the combined Balance Sheet.

8. If the values shown in the Balance Sheet in respect of "Holdings in Controlled Companies" or "House Property (*a*) in India (*b*) out of India" have been increased since the last previous Balance Sheet, the certificate required by paragraph (*b*) of the last foregoing regulation shall state the amount of every increase not solely due to the cost of subsequent additions or, as respects holdings in controlled companies, to increased profits, and shall contain an explanation of the reason therefor.

9. For the purposes of this Schedule, the following expressions have the meanings hereby respectively assigned to them, namely:—

(*a*) "combined Balance Sheet" includes any combined statement made by an insurer of assets and liabilities in the form of a Balance Sheet which includes the assets and liabilities of any other insurer; and

(*b*) "market value" means as respects any asset the market value thereof as ascertained from published market quotations, or, if there be no such value, its fair value as between a willing buyer and a willing seller.

THE THIRD SCHEDULE

REGULATIONS FOR THE PREPARATION OF REVENUE ACCOUNT.

PART I.

1. Form D is, as set out in Part II of this Schedule, appropriate for life insurance business, but a separate revenue account must be prepared for every class of business in respect of which the insurer is required to maintain a separate account.

2. Form F is, as set out in Part II of this Schedule, appropriate for fire insurance business. A separate Revenue Account in the same form must be prepared for accident and miscellaneous insurance including workmen's compensation and motor car insurance. Form E is, as set out in Part II of this Schedule, appropriate for marine insurance business.

3. If any combined revenue account is for any purpose issued by an insurer, it must be in accordance with the forms specified in this Schedule and must clearly show on the face thereof that it is a combined revenue account, and must set out fully the name of every insurer required to make separate returns under this Act whose revenue and expenditure have been included therein; if the revenue and expenditure of any person not being an insurer are included in a combined revenue account, the fact must be stated thereon.

4. The items on the income side of the revenue account must relate to income whether actually received or not, and the items on the expenditure side must relate to expenditure whether actually paid or not.

5. Re-insurance premiums whether on business ceded or accepted, are to be brought into account gross (i.e., before deducting commissions) under the head of premiums.

6. As respects life insurance business the following statements shall be furnished to the Superintendent every year showing details provided for in a Form pertaining thereto :—

(a) A statement in Form DD as set forth in Part II of this Schedule.

(b) A statement in Form DDD as set forth in Part II of this Schedule.

(c) A statement in Form DDDD as set forth in Part II of this Schedule.

7. The following information shall be supplied in addition to the revenue account, namely, the Gross premium written in India for life, fire, marine and accident and miscellaneous insurance business.

8. Any office premises which form part of the assets of a life insurance fund must be treated as an interest earning investment, and accordingly, in the Revenue Account for life insurance business a fair rent for the premises must be included under the heading "Interest, Dividends and Rents" and in the Revenue Account for every class of business for which the premises are used proper charges for the use thereof must be included under the heading "Expenses of Management".

9. When an insurer carries on business of Life Insurance in conjunction with any other class of insurance business, the expenses of management charged to the life insurance Revenue Account must not include more than a reasonable proportion of the common expenses and in particular, no such account must be charged with more than a fair sum for the use of any office premises having regard to the income from the various classes of business carried on and to the extent to which premises are used for the purposes of each class of business.

10. Deductions from Interest, Dividends and Rents in respect of income-tax must include all income-tax charged on such income whether or not it has been or is to be deducted at source or paid direct; the income-tax to be shown as so deducted in the Life Insurance Revenue Account is British Indian, United Kingdom, Foreign and Dominion Income-tax, but the Income-tax to be shown as deducted in Revenue Accounts of any other classes of business is British Indian Income-tax only.

THE SECOND SCHEDULE.

REGULATIONS FOR THE PREPARATION OF PROFIT AND LOSS ACCOUNT.

Part I.

1. The items on the income side of the Profit and Loss Account and Profit and Loss Appropriation Account must relate to income, whether actually received or not, and the items on the expenditure side must relate to expenditure whether actually paid or not.

2. Deductions from Interest, Dividends and Rents to be shown in respect of Income-tax must include all amounts in respect of British Indian Income-tax whether or not it has been or is to be deducted at source or paid direct.

3. The Interest, Dividends and Rents less income-tax thereon shown in the Revenue Accounts for any classes of business other than life insurance business, including annuity business may, if the insurer so desires, be included with the corresponding items to the Profit and Loss Account.

FORMS OF SPECIAL RECORDS.

PROPOSAL REGISTER (*Life Department*).

Number of proposal.	Proposer's Name.	Address.	Sum proposed.	Age.	Class of policy.	Annual premium.	How payable.	Agency.	Friend's Report.	Agent's Report.	Medical Examiner.	Date of Medical Report.	Policy No.	Date of issue of policy.	Remarks.

RENEWAL PREMIUM REGISTER.

Policy No.	Name.	Sum.	Premium Payable.				Premium Paid.				
			How payable.	Amount.	Due Date.	Agency.	1938	1939	1940	1941	1942
	Ramsay	400/-	cheque	400/-	1.3						

CLAIMS REGISTER.

Serial No.	Date Notice received	Date of Death or Maturity	Policy No.	Policyholder's Name.	Claimant's Name.	Sum Assured.	Bonus.	Date Claim admitted.	Amount Paid.	C. B. or Journal Folio.	Remarks.

INVESTMENT LEDGER.

Particulars of Securities................ Due Dates of Interest............

Date	Particulars.	Face Value.	Cost.			Interest Due.			Date	Particulars.	Face Value.	Cost.			Interest Received.		
			Rs.	a.	p.	Rs.	a.	p.				Rs.	a.	p.	Rs.	a	p.

AGENCY DEBIT JOURNAL.

Month.........................

Date.	Particulars.	Agency L. F.	New Premiums.	Renewal Premiums.	Loans recovered.	Interest on policy Loans.	Miscellaneous.	Total.

AGENCY CREDIT JOURNAL.

Month.........................

Date.	Particulars.	Agency L. F.	New Premiums not taken up.	Renewal Premiums lapsed.	Commission.	Allowance	Travelling Expenses.	Loans Paid.	Surrender Value Paid.	Miscellaneous Expenses.	Total.

POLICY HOLDERS' REGISTER.

Name..............................	Occupation..............................	Address..............................
Policy No..............................	Class..............................	Agent's Ledger Fol..............................
Date of Proposal..............................	Date of Policy..............................	Renewal Date ....
Sum Insured..............................	Annual Premium..............................	Ref. No..............................
Agent..............................	Date Lapsed..............................	Remarks..............................

Year.	Premium.	Folio New Premium or Renewal Register.	Remarks.	Year.	Premium.	Folio New-Premium or Renewal Register.	Remarks.

GENERAL CASH BOOK.

Receipts Side.

Date.	Particulars.	Counterfoil Rec. No.	Bank.	Premiums.		Consideration for Annuities granted.	Branch and Agency Remittances.	Amount realised.				Interest received.		Gen. L. F.	Miscellaneous Receipts.
				New Direct.	Renewal Direct.			Invest. L. F.	Invest-ments.	Loans. L. F.	Loans on Policies repaid.	Invest-ments.	Loans.		

Payments Side.

Date.	Particulars.	Voucher No.	Bank.	Investments.		Policy Loans.		Claims Paid.		Surrenders.	Annuities paid.	Bonuses.	Re-assurances.	Gen. L. F.	Management Expenses.	Miscellaneous Payments.
				Invest. L. F.	Amount.	Loans. L. F.	Amount.	by Death.	by Maturity.							

ILLUSTRATION 202.

From the following Trial Balances for the year ended 31st December 1937, prepare Final Accounts of the Indo-Burma Insurance Co., Ltd.

TRIAL BALANCE OF THE LIFE DEPARTMENT.

	Rs.	Rs.
Claims by Death (paid)	3,38,000	
" " Maturity (paid)	2,20,000	
Premiums Received		22,10,650
Bonus in Reduction of Premiums	3,000	
Agents' and Canvassers' Allowances	28,000	
Salaries	45,000	
Travelling Expenses	2,500	
Directors' Fees	8,700	
Auditors' Fees	2,500	
Medical Fees	40,000	
Commission	2,10,000	
Income-tax on Interest and Dividends	4,750	
Law Charges	500	
Advertising	4,300	
Printing and Stationery	12,200	
Postage and Telegrams	2,100	
General Charges	1,800	
Surrenders	35,000	
Re-assurance Premium	30,000	
Interest and Dividends		2,70,000
Policy Renewal and Assignment Fees		1,700
Life Assurance Fund (1-1-1937)		26,85,000
Investments:—		
3½ per cent Government Paper Deposited with Comptroller General ...	2,00,000	
4 per cent 1960/70 Loan	15,00,000	
5 per cent 1945/55 Bonds	10,00,000	
5½ per cent Indian War Bonds	5,00,000	
4 per cent B. P. T. Bonds	3,00,000	
5 per cent Bombay Municipal Bonds	2,00,000	
Furniture and Fixtures	10,000	
Agents' Balances	40,000	
Cash at the Imperial Bank	15,000	
Cash at Office	3,500	
Loans on Company's Policies	55,000	
Annuities	30,000	
Considerations for Annuities granted		75,000
Unpaid Dividends		12,000
Investment Fluctuation Fund		5,70,000
Mortgage on Freehold Property in India	10,00,000	
Sundry Creditors		17,500
Rs.	58,41,850	58,41,850

The following adjustments are necessary, and you are required to incorporate these:—

	Rs.	Rs.
Outstanding Premium		21,000
Claims Outstanding:—		
By Death	15,000	
By Maturity	12,000	
		27,000
Commission due to Agents		8,000
Allowances due to Agents		1,700

	Rs.	Rs.
Interest Outstanding	14,700	
Less Income-tax	1,500	
		13,200
Interest accrued but not payable ..	8,500	
Less Income-tax	700	
		7,800

Depreciate Fixtures & Fittings by 5 per cent.
Provide Rs. 20,000 for Investment Fluctuation Fund.

TRIAL BALANCE OF OTHER DEPARTMENTS.

	Rs.	Rs.
Fire Department—		
Premiums		3,81,600
Claims Paid and Outstanding	1,40,000	
Commission	21,400	
Expenses of Management	1,13,800	
Employers' Liability Department—		
Premiums		8,02,400
Claims Paid and Outstanding	1,52,400	
Commission	90,000	
Expenses of Management	3,01,900	
Marine Department—		
Premiums		36,02,800
Claims Paid and Outstanding	14,15,800	
Commission	3,02,400	
Expenses of Management	8,61,900	
Accident Department—		
Premiums		52,000
Claims Paid and Outstanding	4,800	
Commission	9,800	
Expenses of Management	12,400	
Share Capital		12,31,500
Claims admitted but not paid		9,01,400
Cash at Bank	1,60,000	
Mortgage on Properties	15,00,000	
Cash in hand	2,900	
Indian Government Securities	10,05,200	
Foreign Government Securities	15,62,900	
Agents' Balances	12,62,900	
Sundry Debtors	21,000	
Investment Fluctuation Fund		3,37,400
Amount due to other companies		80,000
Sundry Creditors		41,000
Depreciation in value of Securities	1,22,400	
Fire Department Fund, 1-1-1937		1,04,200
Employers' Liability Department Fund, 1-1-1937		2,62,400
Marine Department Fund, 1-1-1937		6,21,400
Accident Department Fund, 1-1-1937		10,000
Profit and Loss Account, Balance, 1-1-1937		2,92,800
Interest and Dividends		2,00,000
Furniture and Fittings	15,000	
Outstanding Interest	12,000	
Directors' and Auditors' Fees	10,000	
Rs.	91,00 900	91,00 900

You are required to maintain a Reserve for unexpired Risks at 40% of the Premium Income in each of the Departments.

Solution.

THE INDO-BURMA INSURANCE CO., LTD.

LIFE DEPARTMENT.

REVENUE ACCOUNT.

For the year ended 31st December 1937.

	Rs.	Rs.		Rs.	Rs.
To Claims paid and outstanding :—			By Life Assurance Fund, 1-1-1937		26,85,000
By Death ...	3,53,000		„ Premiums ...	22,31,650	
„ Maturity ...	2,32,000	5,85,000	*Less* Re-assurance Premium ...	30,000	22,01,650
„ Surrenders		35,000	„ Consideration for Annuities granted		75,000
„ Bonus in Reduction of Premiums ...		3,000	„ Interest and Dividends	2,93,200	
„ Annuities		30,000	*Less* Income-tax thereon ...	6,950	2,86,250
„ Management Expenses:—			„ Policy Renewal and Assignment Fees		1,700
Commission ...	2,18,000				
Agent's and Canvassers' Allowances ...	29,700				
Salaries ...	45,000				
Travelling Expenses ...	2,500				
Directors' Fees ...	8,700				
Auditors' Fees ...	2,500				
Medical Fees ...	40,000				
Law Charges ...	500				
Advertising ...	4,300				
Printing & Stationery ...	12,200				
Postage & Telegrams ...	2,100				
General Charges ...	1,800	3,67,300			
„ Depreciation on Furniture ...		500			
„ Investment Fluctuation Fund ...		20,000			
„ Life Assurance Fund at the end of the year		42,08,800			
Rs.		52,49,600	Rs.		52,49,600

FIRE DEPARTMENT.

REVENUE ACCOUNT.

For the year ended 31st December 1937.

	Rs.		Rs.
To Claims Paid and Outstanding ...	1,40,000	By Fire Fund at the beginning of the year	1,04,200
„ Commission	21,400	„ Premiums	3,81,600
„ Expenses of Management ...	1,13,800		
„ Reserve for Unexpired Risks—40% of Premium Income	1,52,640		
„ Profit and Loss Account—Transfer	57,960		
Rs.	4,85,800	Rs.	4,85,800

EMPLOYERS' LIABILITY DEPARTMENT.
REVENUE ACCOUNT.
For the year ended 31st December 1937.

	Rs.		Rs.
To Claims Paid and Outstanding ..	1,52,400	By Employer's Liability Fund at the Commencement of the year ...	2,62,400
„ Commission	90,000	„ Premiums	8,92,400
„ Expenses of Management ..	3,01,900		
„ Reserve for Unexpired Risk—40% of Premium Income	3,56,960		
„ Profit and Loss Account—Transfer	2,53,540		
Rs.	11,54,800	Rs.	11,54,800

MARINE DEPARTMENT.
REVENUE ACCOUNT.
For the year ended 31st December 1937.

	Rs.		Rs.
To Claims Paid and Outstanding ...	14,15,800	By Marine Fund at the commencement of the year	6,21,400
„ Commission	3,02,400	„ Premiums	36,02,800
„ Expenses of Management ...	8,61,900		
„ Reserve for Unexpired Risk—40% of Premium Income	14,41,120		
„ Profit and Loss Account—Transfer	2,02,980		
Rs.	42,24,200	Rs.	42,24,200

ACCIDENT DEPARTMENT.
REVENUE ACCOUNT.
For the year ended 31st December 1937.

	Rs.		Rs.
To Claims Paid and Outstanding ...	4,800	By Accident Fund at commencement of the year	10,000
„ Commission	9,800	„ Premiums	52,000
„ Expenses of Management ...	12,400		
„ Reserve for Unexpired Risk—40% of Premium Income	20,800		
„ Profit and Loss Account—Transfer	14,200		
Rs.	62,000	Rs.	62,000

PROFIT AND LOSS ACCOUNT.
For the year ended 31st December 1937.

	Rs.		Rs.	Rs.
To Depreciation on Securities ..	1,22,400	By Balance from last year ...		2,92,800
„ Directors' and Auditors' Fees ...	10,000	„ Interest and Dividends ...		2,90,000
„ Balance carried to Profit and Loss Appropriation Account ...	9,79,080	„ Profit transferred—		
		Fire Department ...	57,960	
		Employers' Liability Department ...	2,53,540	
		Marine Department	2,02,980	
		Accident Department	14,200	
				5,28,680
Rs.	11,11,480	Rs.		11,11,480

THE INDO-BURMA INSURANCE CO., LTD.

BALANCE SHEET.

As at 31st December 1937.

Liabilities	Rs.	Assets		Rs.
Life Assurance Fund	42,08,800	Mortgage on Freehold Property in India		10,00,000
Claims admitted or intimated but not paid ..	27,000	Loans on Co.'s Policies within their surrender values		55,000
Investment Fluctuation Fund ...	5,90,000	Investments :—		
Sundry Creditors ..	27,200	3½% Government Paper deposited with Comptroller General ...	Rs. 2,00,000	
Unpaid Dividends ..	12,000	4% 1960/70 Loan ...	15,00,000	
		5% 1945/55 Bonds ...	10,00,000	
		5½% Indian War Bonds	5,00,000	
		4% B.P.T. Bonds ...	3,00,000	
		5% Bombay Municipal Bonds ...	2,00,000	37,00,000
		Agents' Balances ...		40,000
		Furniture and Fixtures ...		9,500
		Outstanding Premiums ...		21,000
		Interest Outstanding ...		13,200
		Interest accrued but not payable ...		7,800
		Cash :—		
		At the Imperial Bank ...	15,000	
		In hand ...	3,500	18,500
Rs.	48,65,000	Rs.		48,65,000

THE INDO-BURMA INSURANCE CO., LTD.

GENERAL BALANCE SHEET.

As at 31st December 1937.

Capital & Liabilities	Rs.	Assets	Rs.
Liabilities of Life Fund ...	36,56,200	Total Life Assets ...	48,65,000
Life Fund ...	12,08,800	Mortgages on Properties ...	15,00,000
Share Capital ..	12,31,500	Investments :—	
Fire Fund ...	1,52,640	Indian Government Securities ...	10,05,200
Employers' Liability Fund ...	3,56,960	Foreign Government Securities ...	15,62,900
Marine Fund ...	14,41,120	Agents' Balances ...	12,62,900
Accident Fund ...	20,800	Sundry Debtors ...	21,000
Investment Fluctuation Fund ...	3,37,400	Furniture and Fittings ...	15,000
Amounts due to other Companies ...	80,000	Outstanding Interest ...	12,000
Sundry Creditors ...	41,000	Cash at Bank ...	1,60,000
Claims admitted but not paid ...	9,01,400	" at Office ...	2,900
Profit and Loss Appropriation Account—Balance	9,79,030		
Rs.	1,01,06,900	Rs.	1,01,05,200

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. Mention some of the important Statistical Records which a Life Assurance Company would usually maintain.

2. What Registers are now compulsorily required to be maintained by every Insurance Company in India, under the new Insurance Act of 1938?

3. Give entries necessary to bring the following into account, at the end of each financial period:—

(a) Outstanding Premiums,
(b) Outstanding Claims, and
(c) Outstanding Interest.

4. Explain what you understand by Life Fund, and where it appears in the Final Accounts.

5. What are the important provisions in regard to Life Insurance Companies, under the Insurance Act of 1938?

6. What are the requirements in regard to the preparation of annual Balance Sheets and Revenue Accounts of a company carrying on Life and other classes of Insurance Business, under the New Act?

7. What provision should be made by a Fire Insurance Company in regard to Unexpired Risks at the end of each financial period?

8. State what you understand by the following items and where each of them will appear in the Final Accounts:—

(a) Re-insurances.
(b) Surrenders.
(c) Bonus to Policyholders.
(d) Fire Fund.
(e) Claims by Maturity, and
(f) Loans on Reversions.

9. Explain the difference between Interest Outstanding and Interest Accrued.

10. What items would appear in the Profit and Loss Account of an Insurance Company?

11. The following figures for the year 1937 are extracted from the General Ledger of the Southern Life Assurance Company. Prepare a Revenue Account from them in the form required by the Indian Insurance Act, 1938:—

	Rs.	a.	p.
Claims by Death paid and outstanding	3,38,467	0	0
Claims by Maturity paid and outstanding	2,18,417	0	0
Premiums	20,66,115	14	0
Bonus in reduction of Premiums	1,025	12	0
Agents' and Canvassers' Allowances	26,419	10	0
Salaries	44,224	4	0
Travelling Expenses	1,261	6	6
Directors' Fees	8,740	0	0
Auditors' Fees	1,000	0	0
Medical Fees	52,324	4	0
Commission	2,18,505	8	1
Rent	2,860	0	0
Income Tax on Interest and Dividends	5,745	0	0
Law Charges	204	13	0

	Rs.	a.	p.
Advertising	4,340	13	5
Printing and Stationery	13,936	14	1
Postages and Telegrams	14,323	9	0
Receipt Stamps	2,390	0	0
Bank Charges	1,609	13	5
General Charges	2,080	2	7
Surrenders	47,617	4	0
Re-assurance Premiums	40,962	8	0
Interest and Dividends	2,74,686	7	4
Policy Renewal Fees	9,630	0	0
Assignment and Alteration Fees	545	0	0
Endorsement Fees	695	0	0
Transfer Fees	1,450	0	0

The Life Assurance Fund at the beginning of the year was Rs. 63,31,438-10-8. Provide Rs. 1,200 for depreciation on Furniture and Rs. 2,00,000 for depreciation on Investments. 467

(*Amount of Life Assurance Fund at the end of the year Rs.* 74,36,905-5-11; *Total of Revenue Account Rs.* 86,37,853-8-0.)

12. From the following particulars, make out the Balance Sheet of the Western Life Assurance Company, Limited, Bombay, as on 31st December 1937, and subjoin the auditors' certificate, as well as the directors' declaration, in accordance with the requirements of the Insurance Act, it being given that the actuarial valuation is to be made as on that date.

The company has deposited 3½ per cent Government Paper of the face value of two lakhs of rupees with the Comptroller-General, and has on hand 4 per cent Bombay Port Trust Bonds of the face value of Rs. 1,50,000 and 5½ per cent Indian War Bonds of the face value of Rs. 3,00,000 and has lent Rs. 45,000 on the security of the surrender values of the Company's Policies. The securities are valued at the market rates of 31st December 1937, viz. 3½ per cent Government Paper at Rs. 70, Port Trust Bonds at Rs. 84, and War Bonds at Rs. 99; the Directors create an investment reserve fund to provide in full for the depreciation of the securities.

The company's Agents collect premiums Rs. 2,50,000, deduct therefrom Rs. 25,000 on account of commission due to them, and remit to the company in 1937 Rs. 1,85,000 and the balance in 1938.

The company's Furniture and Fittings were worth Rs. 10,000 on 31st December 1937 and they had cash on hand Rs. 2,250 and cash in bank Rs. 15,000.

	Rs.
Premiums due in December 1937, but collected in January 1938 ..	50,000
Commission due on the above paid in February 1938	5,000
Premiums received on Policies in 1937 after the expiry of the days of grace	3,500
Commission earned by Agents in 1937, but paid in 1938	15,000
Salaries and charges of 1937 paid in 1938	12,500
Half-yearly interest on Securities:—	
Due on 1st December 1937, collected in January 1938 ..	3,000
Due on 1st March 1938, collected in March 1938	8,250
Due on 1st April 1938, collected in April 1938	3,500
Due on 1st June 1938, collected in June 1938	3,000
Shareholders' Paid-up capital (5,000 shares of Rs. 100 each on which Rs. 50 per share has been paid up)	2,50,000

Particulars of claims:—

Intimated in	Admitted in	Paid in	Rs.
1936	1936	1937	17,000
1936	1937	1938	15,000
1936	1938	1938	10,000
1937	1937	1937	50,000
1937	1937	1938	25,000
1937	1938	1938	18,000

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(*Amount of Life Assurance Fund Rs.* 3,85,500; *Balance Sheet Total Rs.* 8,23,000.)

13. Given below is the Trial Balance abstracted from the Books of the Madras Mutual Life Assurance Association, Limited, on 31st December 1937 :—

	Rs.	Rs.	Rs.
Charges met out of life Assurance Fund—			
Claims Paid and Outstanding	11,520		
Surrender values paid	330		
Reversionary bonus paid and outstanding	1,230		
		13,080	
Charges met out of Reserve Fund—			
Establishment Charges	2,350		
Commission to Agents	4 850		
Medical Fees	1,010		
Directors' and Auditors' Fees	2,400		
Stationery and Printing	480		
Postages and Telegrams	105		
Office Rent	420		
Sundry Expenses	80		
Bank Charges and Commission	95		
		11,790	
Investments		4,04,740	
Loans on Policies		17,470	
Outstanding Interest		6,980	
Outstanding Premium		2,320	
Cash at Bank		2,960	
Fines and Fees received			30
Interest and Dividends received and accrued			22,530
Premium received and outstanding			33,080
Premium received in advance			900
Claims admitted but not paid			21,000
Claims intimated but not admitted			2,000
Sundry Creditors			1,800
Funds—	Rs.		
Life Assurance Fund	3,38,000		
Reserve Fund	40,000		
			3,78,000
	Rs.	4,59,340	4,59,340

It is provided in the Articles of Association that the Reserve Fund shall be credited with Interest at 5 per cent per annum, from the Interest and Dividends on Investments, and with one-fifth of the net premium (i e., after deducting from premiums, Claims paid and outstanding, Surrender Values paid, and Reversionary Bonus paid and outstanding), and debited with all the expenses to be met out of the Reserve Fund as stated in the Trial Balance.

Four-fifths of the net premiums, the Fines and Fees received, and the balance of the Interest and Dividends from Investments, are to be credited to the Life Assurance Fund, from which are to be met out the various charges as stated in the Trial Balance.

Prepare the Revenue Account of the Association for the year ended 31st December 1937, and the Balance Sheet as on that date (in the form prescribed under the Insurance Act, 1938) showing full details of apportionments between the Life Assurance Fund and the Reserve Fund as stated above. 469

(*Amount of Life Assurance Fund at the end of the year Rs. 3,74,560; Total of Revenue Account: Life Assurance Fund Rs. 3,87,640, Reserve Fund Rs. 46,000; Balance Sheet Total Rs. 4,34,470.*)

14. The Revenue Account of a Life Insurance Company shows the Funds at the end of the year 1937 at Rs. 48,78,000 before taking into account the following items :—

(a) Claims intimated but not admitted Rs. 65,500.

(b) Bonus utilised in reduction of Life Insurance Premium Rs. 6,500.

(c) Interest accrued on Securities Rs. 19,500.

(d) Outstanding Premiums Rs. 18,000.

(e) Claims covered under re-insurance Rs. 27,000.

Pass the necessary Journal Entries, giving effect to the above omissions and show the Funds at the end of the year 1937, after making the above adjustments. 470

(Balance of Life Assurance Fund on 31-12-1937 Rs. 48,77,000.)

15. The following figures are extracted from the General Ledger of the Swadeshi Life Assurance Co., Ltd., for the year 1937 :—

	Rs.		Rs.
Cash in hand	1,900	British Government Securities	5,69,517
Cash at Bank	9,020	Annuities due but not paid ..	427
Life Fund on 1st January 1937 ..	55,56,148	Premiums received in advance	575
Share Capital	1,00,000	Development Loan	4,15,000
Interest accrued but not receivable	69,613	Stamps in hand	269
Investment Reserve Fund ..	88 000	Mortgages out of British India	3,94,360
Outstanding Premiums ..	77,651	Claims by death	3,37,955
Premiums (*less* Re-assurance)	3,55,674	Claims by survivance ..	32,226
Loans on Security of Policies	4,25,360	Mortgages in British India ..	9,02,956
Consideration for annuities granted	11 338	Surrenders	37,303
Railway Shares and Debentures	20,42,477	Income-tax on Profits ..	8,594
Interest & Dividends (*less* tax)	2,23,535	Annuities	38,688
Municipal Securities	8,50,320	Bonus in reduction of premiums	11,156
Fines for revival of Policies ..	358	Commission	11,417
Foreign Government Bonds	1,72,760	Interest and Dividends to Shareholders	9,878
Claims announced but not paid	76,135	Expenses of Management ..	40,070
Bank Loan	50,000	Interest outstanding on Investments	3,700

You are required to make out the Revenue Account of the Company for the year 1937 and the Balance Sheet as on 31st December 1937 from the above figures after making adjustments for the following :—

(*a*) Further Bonus utilised in reduction of Life Insurance Premium, Rs. 6,500.

(*b*) Claims covered under re-insurance, Rs. 27,000. 471

(Amount of Life Assurance Fund on 31-12-1937 Rs. 56,46,766; Total of Revenue Account Rs. 61,53,553; Balance Sheet Total Rs. 59,61,903.)

16. From the following figures relating to the Devonshire Life Assurance Co., compile its Revenue Account and Balance Sheet for the year ending 31st December 1937, in the prescribed form; Shareholders' Capital, £250,000 in 2,500 shares of £100 each with £10 paid up on each :—

	£		£
Shareholders' undivided Profits	33,786	Mortgages in U. K. ..	172,332
Life Assurance Fund on 1st Jan. 1937, including paid up Capital and Undivided Profits ...	1,825,412	Loans on Company's Policies ..	90,152
Claims by death	93,067	Freehold Ground Rents ..	1,218,310
Claims matured by survivance	47,466	Claims admitted but not paid ..	5,846
Surrenders	8,636	Claims announced but not admitted	22,846
Commission	8,224	Colonial Government Securities	147,259
Premium	134,872	Railway Shares, etc. ..	74,145
Interest, Dividends and Rents received	72,563	House Property	105 292
Management Expenses ..	25,860	Agents' Balances outstanding ..	19,976
Dividends to Shareholders ..	3,265	Outstanding Interest and Rents receivable	16,968
Fines and Fees	201	Outstanding Premiums—Head Office	1,465
Income-tax	3,525	Sundry Creditors	142
Written off Securities upon Revaluation	17,089	Cash in hand and at Bank ..	5,994
		Furniture and Fittings ..	2,857

(National Union of Teachers) 472

(Amount of Life Assurance Fund at the end of the year £1,770,[illegible]; Total of Revenue Account £1,974,262; Balance Sheet Total £1,854,750.)

17. From the following figures, make out the Revenue Account and Balance Sheet of the Commonweal Life Assurance Co., for the year ended 31st December 1937 :—

	£
Funds at beginning of year ..	5,744,148
This amount includes Shareholders' paid up capital £87,500 and Investment Reserve Fund £40,000 ..	
Premiums *less* Re-assurances ..	355,674
Consideration for annuities granted	11,338
Interest and Dividends ..	223,535
Fines for Revival of Policies ..	358
Claims announced but not paid	76,135
Annuities due but not applied for	427
Bank Loan	50,000
Premiums paid in advance ..	575
Claims by death ..	337,955
Claims by survivance ..	32,226
Surrenders	37,303
Annuities	38,688
Commission	11,417
Expenses of Management ..	43,770

	£
Interest and Dividends to Shareholders	9,878
Bonuses in reduction of Premiums	11,156
Income-tax	8,594
Mortgages in United Kingdom	902,956
Mortgages out of United Kingdom	394,360
Loans on Company's Policies ..	415,269
Colonial Government Securities	569,517
Foreign Government Securities	172,760
Colonial Municipal Securities ..	850,320
Railway Shares and Debentures	2,042,477
Loans on Security of Public Rates	425,360
Outstanding Premiums ..	77,651
Interest accrued but not yet payable	69,613
Cash in hand and on Current Account	10,920

(National Union of Teachers). 473

(Amount of Life Assurance Fund at the end of the year £5,676,566; *Total of Revenue Account* £6,198,959; *Balance Sheet* £5,931,203.)

18. From the following Trial Balance, prepare Balance Sheet and Revenue Account of the "L[illegible]".

	£	£
Mortgages on property within the United Kingdom ..	400,000	
Mortgages on property out of the United Kingdom ..	50,000	
Loans on Life Interests	100,000	
" Reversions	200,000	
" Society's Policies within their surrender values ..	600,000	
Investments:—		
[illegible] United Kingdom	500,000	
Government Securities ..	1,000,000	
Freehold Ground Rents	800,000	
Reversions	500,000	
Outstanding Premiums	50,000	
" Interest, Dividends and Rents	10,000	
Surrenders on business within the United Kingdom ..	20,000	
Surrenders on business outside the United Kingdom ..	1,000	
Cash in hand	50,000	
Claims admitted but not paid		10,000
Claims on business within the United Kingdom ..	200,000	
Claims on business outside the United Kingdom ..	10,000	
[illegible]		15,000
Amount of Life Assurance Fund at beginning of year ..		4,000,000
[illegible] paid	20,000	
Premiums on business within the United Kingdom ..		480,000
Premiums on business outside the United Kingdom ..		6,000
£	4,511,000	4,511,000

NOTE.—£10,000 Indian and Colonial Government Securities have been deposited with the Government of the Cape of Good Hope in respect of Life Assurance Business.

(Incorporated Accountants). 474

(Amount of Life Assurance Fund at the end of the year £4,235,000; *Total of Revenue Account* £4,486,000; *Balance Sheet Total* £4,260,000.)

19. Prepare Revenue Account and Balance Sheet of the Spark Fire Insurance Co., as on 31st December 1937, from the following:—

	£
Dr. Balances:—	
Re-assurances (representing premiums which have been paid to other companies with the object of sharing the losses; the amount must be deducted from the Premiums received) paid and outstanding	69,000
Losses by Fire	480,000
Expenses of Management	120,000
Commission	119,000
Foreign State Taxes	11,000
Shareholders' Dividends paid and payable	12,500
Mortgages within U. K.	100,000
Mortgages out of U. K.	10,000
British, Colonial and Foreign Securities	155,000
Railway Debentures and Stock	150,000
Railway Preference Shares	33,000
Municipal and County Council, etc. Loans	17,000
Bank Deposits for period	20,000
Deposit with Foreign Companies	17,000
Deposit with United States Trustees	11,000
Agents' and Branch Office Balances	105,000
Outstanding Premiums at Head Office	1,500
Cash at Bank	10,500
Cr. Balances:—	
Premiums	770,000
Losses Recoverable (in respect of re-assurances and must therefore be deducted from Losses by Fire in the Revenue Account)	60,000
Profit & Loss Account	3,500
Fire and General Reserve Funds	280,000
Interest and Dividends (of which £5,000 has not been received)	13,500
Capital	250,000
Outstanding Fire Losses ..	63 000
Outstanding Dividends	6,500

(Chartered Accountants).

(Profit carried to Balance Sheet £44,500; Total of Revenue Account £714,500; Balance Sheet Total £635,000.)

20. From the following figures relating to the Cosmopolitan Life Insurance Company, prepare its Revenue Account and Balance Sheet for the year ended 31st December 1937 in the prescribed form and append your certificate as an auditor as per the requirements of the Insurance Act, 1938:—

	Rs.
Shareholders' Capital, Rs. 5,00,000 in 20,000 Shares of Rs. 25 each Rs. 10 per share paid up	2,00,000
Claims under policies paid and outstanding *less* received on Re-assurance	45,00,000
Life Assurance Fund on 1st January 1937	4,80,00,000
Investment Reserve Fund on 1st January 1937 ..	50,00.000
Expenses of Management	15,00,427
Investments	5,10,00,000
Freehold and Leasehold Property	25,00,000
Unpaid Dividends	51,790
Outstanding Premiums (Net)	6,03,200
Claims admitted or intimated but not paid	30,00,000
Outstanding Interest	5,90,000
Surrenders	3,58,950
Annuities	30,000
Premiums *less* Re-assurances	75,00,000
Consideration for Annuities granted	50,500
Bonuses in reduction of premiums	4,000
Gain on Redemption of Debentures (to be carried to Investment Reserve Fund)	20,000
Interest, Dividends and Rents received	32,00.337
Interest Accrued but not Payable	3,17,000

	Rs.
Income Tax	2,80,149
Transfer and other Fees	6,430
Agents' Balances outstanding	1,45,904
Furniture and Fittings	90,500
Loans on the Company's Policies within their surrender values	49,00,000
Cash in hand and at Banks	3,64,000
Stamps in hand	7,322
Cheques paid into Banks and in course of realisation	49,000
Cheques issued but not presented for payment ..	66,520
Sundry Creditors	44,875
Premiums received in advance	1,00,000

476

(*Amount of Life Assurance Fund at the end of the year Rs.* 5,20,83,741 ;
Total of Revenue Account Rs. 5,87,57,267 ;
Balance Sheet Total Rs. ~~6,05,00,406~~.)
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21. From the following Trial Balance, prepare Revenue Account for the year ending 31st December 1937 and Balance Sheet as at that date of the Progressive Life Assurance Co., Ltd.:—

	Dr. Rs.	Cr. Rs.
Life Assurance Fund		2,84,02,550
Contingencies Reserve Fund		1,72,160
Investment Reserve Fund		19,23,300
Building Fund		38,930
Shareholders' Capital (Paid up)		75,000
Dividend (for the year 1936)	22,500	
Bonus in cash	5,930	
Bonus in Reduction of Premiums	1,500	
Gratuities and Special Allowance to ex-employees ..	18,070	
Premiums		42,02,620
Re-assurance Premiums	20,660	
Consideration for Annuities granted		1,02,310
Annuities	12,130	
Interest and Net Rents		16,59,540
Profit on Sale or Redemption of Debentures		5,160
Surrenders	1,88,570	
Claims paid and outstanding (*less* re-assurance claims)		
By Death	14,55,510	
By Maturity	12,65,410	
Income-tax and Super-tax	1,70,000	
Transfer and other Fees		2,200
Commission	2,93 140	
Agents' and Canvassers' Allowances	54,220	
Salaries (including Bonus and Allowances	3,55,560	
Company's Contributions to Staff Pension Fund ..	18,090	
General Charges	17,380	
Travelling Expenses	11,170	
Directors' Fees	14 900	
Auditors' Fees	6,000	
Medical Fees	73,770	
Rents of Company's Offices	22,520	
Law Charges	1,490	
Advertising	5,860	
Printing and Stationery	30,200	
Postages and Telegrams	22,310	
Receipt Stamps	4,380	
Policy Stamps	3,780	
Agency Remittance and Bank Charges	10,700	
Depreciation on Furniture	6,190	
Bad Debts (for Rents)	1,080	
Premiums, etc., Deposits		78,640
Outstanding Claims		13,45,700
Unclaimed Surrender Values		29,100
Unpaid Dividends		2,150

	Dr. Rs.	Cr. Rs.
Outstanding Premiums (Net)	3,01,390	
Outstanding Interest	3,75,710	
Sundry Creditors		30,970
Sundry Debtors (including Doubtful Rs. 720) ..	12,530	
Interest accrued but not payable	2,05,380	
Security Deposits		14,380
Cash and Stamps in hand	5,570	
Security Deposits in Bank and in Government Paper ..	14,380	
Cash in Bank on Current Account	77,630	
Agents' Balances	26,060	
Loans on Co.'s Policies within their Surrender values ..	29,11,010	
Furniture, Fittings and Safes	55,710	
Deposit with the Controller of Currency (3½% Government Paper of Rs. 2,00,000)	1,40,000	
Other Investments (to be specified)	2,84,80,610	
Freehold House Property in India	10,23,310	
Freehold House Property out of India	45,120	
Leasehold House Property in India	2,97,280	
Rs.	3,80,84,710	3,80,84,710

The amount of Shareholders' Capital and the credit balance of Contingencies Reserve Fund remain unaltered at the end of the year. The investment Reserve Fund is to be reduced to Rs. 10,25,000 and the Building Fund increased to Rs. 45,250. The balance of the Total Fund will stand to Life Assurance Fund Account. 477

(*Amount of Life Assurance Fund at the end of the year Rs.* 3,11,53,340.
Total of Revenue Account Rs. 3,65,63,110;
Balance Sheet Total Rs. 3,39,71,690.)

22. A Life Assurance Company allows as Surrender Value 40 per cent of the premiums paid on policies in force for three years or more, no such value being allowed on those of less than three years' duration. The policy contracts provide that if the premiums due be not paid before the expiry of the days of grace, the policies will lapse subject to the Non-Forfeiture clause whereby it is provided that "If a policy has acquired a surrender value and such surrender value has an uncharged balance sufficient to cover the premium due, that policy will not be allowed to lapse by reason of non-payment of such premium but will be kept automatically in force subject to the charge of the unpaid premium with interest at 6 per cent per annum."

The following information is extracted from the books of the Company and you are required to make the necessary adjusting entries as at 31st December 1937 in respect of the same giving explanatory narration for each :—

Policy No.	Sum Assured.	Date of Commencement of policy risk.	Number of Premiums paid.	Annual Premium.	Debt on policy on 31st December 1936.	Remarks.
	Rs.			Rs.	Rs.	
10	1,000	1- 7-23	10	50	200	1937 premium due.
370	5,000	7-10-24	11	150	300	Do.
1030	1,000	6- 5-26	9	40	80	Do.
1507	6,000	7- 8-31	6	260	Nil	1937 permium due and claim on 22nd August 1937.
2010	7,000	2- 2-36	1	300	Nil	1937 permium due.

N.B.—Interest on the debt against the respective policies is paid as it became due. 478

CHAPTER XXVI.

SOLICITORS' ACCOUNTS, CONTRACT ACCOUNTS, VOYAGE ACCOUNTS, INVESTMENT ACCOUNTS, FIRE CLAIM ACCOUNTS, Etc.

SOLICITORS' ACCOUNTS.

Solicitors usually receive money from their clients either as an advance against a law suit or other legal matters, or for the purpose of being used in a specific manner, e.g., an advance to be paid to vendors for the purchase of business or property from them. Solicitors are in the position of Trustees for all such moneys received from their clients, and as such, it is necessary that they should maintain separate records for all cash received from their clients as distinct from their own office cash. It is evident, therefore, that a separate Bank Account called "Clients' Bank Account" should be opened, and all cash received from the clients as advance should be banked in this account. Payments on behalf of the clients should be made by cheques drawn on this account. Transfers may sometimes be made from the Clients' Bank Account to the Office Bank Account in respect of actual out-of-pockets expended on behalf of the clients as also in respect of settlement of accounts with clients.

The following books of account should be kept:—

(1) A Cash Book; (2) Petty Disbursements Book; (3) Bills of Costs Book; (4) Journal; (5) Clients' Ledger; (6) Clients' Disbursements Ledger; and (7) General Ledger.

Cash Book.—The following are the rulings for the Cash Book:—

CASH BOOK.

Receipts.						Payments.					
Date.	Particulars.	Receipt No.	L. F.	Office Bank Account.	Clients' Bank Account.	Date.	Particulars.	Voucher No	L. F.	Office Bank Account.	Clients' Bank Account.

It should be a rule that all cash received should be banked intact from day to day, and all payments above a certain amount should be made by cheques. Daily small and sundry disbursements would be made from Petty Cash balance maintained in the office on the Imprest System.

Petty Disbursements Book.—This book is just like a Petty Cash Book, but with an additional column for Clients' Disbursements. The form of this book is given below:—

PETTY DISBURSEMENTS BOOK.

Amount received.	Date.	Particulars.	Voucher No.	Salaries.	Stamps and Stationery.	Conveyance.	General Expenses.	Sundry Accounts.	L. F.	Clients' Disbursements.

Petty disbursements made on account of the clients and chargeable to them will be entered in the special column headed "Clients' Disbursements" kept for the purpose, and the postings from this column will be made individually to the accounts concerned in the Clients' Disbursements Ledger. The postings of the other columns will be made in monthly totals, excepting the Sundry Accounts column the items from which will be posted individually. As and when the cashier issues cheques for Petty Disbursements, the Petty Cashier or the Disbursements Clerk will enter the amounts in the receipt column. A Petty Disbursements Account will be opened in the General Ledger, which will be debited from the Cash Book each time the cheque is issued for Petty Cash. At periodical intervals, the totals of the nominal columns will be debited from this book to their respective accounts, and the total Petty Cash expended will be credited to Petty Disbursements Account.

Clients' Disbursements Ledger.—In this Ledger will be opened an account for each separate *matter* entrusted by the clients so that if there are three or four different matters appertaining to one client, there will be three or four separate accounts in the Clients' Disbursements Ledger. The accounts in this Ledger will be debited with the actual out-of-pocket expenses incurred on behalf of the clients from the "Clients' Disbursements Column" in the Petty Disbursements Book. It is thus possible to see at a glance what amounts have been expended on account of each matter. There will be no credits on these accounts except in respect of rectification or transfers.

When a Bill is required to be delivered in respect of any particular matter, the debit side of that particular account in the Clients' Disbursements Ledger will be added up and the details of this account will be entered in the Bill of Costs. The account in the Ledger will be closed by giving reference to the particular Bill number in which such out-of-pockets are included. The Clients' Disbursements Ledger is, therefore, only useful for assembling under proper heads all the innumerable out-of-pocket expenses incurred from day to day in respect of the different matters, and it also indicates the Bill numbers in which these expenses are embodied.

Bills of Costs Book.—This book will be ruled with various columns as follows:—

BILLS OF COSTS BOOK.

Bill No.	Date.	Clients' Name.	Matter.	L. F.	Out-of-pockets.	Fees.	Total.	Date paid.	C. B. Folio.	Amount paid.	Rebate allowed.	Remarks.

The Bills rendered to the Clients will have two columns, one for out-of-pockets and the other for fees. The out-of-pockets column will be written up from the Clients' Disbursements Ledger as stated above. The Bills are usually submitted when the matter is completed, but in case of long matters, they may be submitted at intermediate stages. Each Bill of Costs will be given a consecutive number and no Bill is allowed to be issued before being entered in the Bills of Costs Book.

The posting from the Bill of Costs Book would be to debit the amount of each Bill to the account of the Client concerned in the Clients' Ledger. The periodical total of the "Fees" or "Costs" column will be credited to the Fees or Costs Account in the General Ledger. At the time of balancing the books, the Fees or Costs Account will be transferred to Profit and Loss Account as the chief source of income.

Clients' Ledger.—In this Ledger there will be an account for each client, and it will be ruled with three money columns on the debit side, viz. (1) Out-of-pockets, (2) Fees, and (3) Total. The debit side of each account will be posted from the Bill of Costs Book, while on the credit side will appear cash received from the client either by way of advance or in part or full settlement of the bills rendered. If any rebate or allowance is made to a client, a Journal Entry will be made debiting Allowances or Rebate Account and crediting the Client's Account. At the time of balancing, the debit or credit balance on the various accounts in this Ledger will be shown as an asset or a liability respectively in the Balance Sheet.

The General Ledger will contain the accounts of all assets and liabilities, Capitals of the partners, and all other Nominal Accounts, which will be treated in the usual way.

Outstanding Balances in Clients' Disbursements Ledger.—At the time of balancing the books, there will be several debit balances on the various accounts in the Clients' Disbursements Ledger, representing Out-of-pockets which have not been billed. A list will be prepared of all such balances and the total of the list will be shown as an asset in the Balance Sheet under the heading of "Out-of-pockets Recoverable" or "Clients' Disbursements Ledger Balances".

Incomplete Matters.—At the time of preparing the Final Accounts, generally the Fees earned in respect of incomplete matters for which no bills have been rendered are not brought into account. But if any change in the constitution of the partnership is in view whereby the profit-sharing proportions of the partners are likely to be altered, it is absolutely necessary to make an adjustment as regards Fees earned on incomplete matters. A list will then have to be prepared of all pending matters and the estimated Fees earned on each such matter will have to be ascertained. A Journal Entry would then be made with the total of the list debiting Outstanding Fees or Outstanding Costs Account and crediting Costs or Fees Account. The former account will appear as an asset in the Balance Sheet.

ILLUSTRATION 203.

The following are the balances extracted from the books of Messrs. A. B. & Co., Solicitors as on 31st March 1938. The partners share profits and losses in the proportions A 3|5ths and B 2|5ths. Prepare a Profit & Loss Account for the year ended 31st March 1938 and a Balance Sheet as at that date. The partners have agreed to change their profit-sharing proportions as from that date.

	Rs.	Rs.
Balance at Bank (Office)	5,800	
" " " (Clients)	12,100	
Bills of Costs rendered		75,000
Disbursements Ledger Balances	6,000	
Clients' Ledger Balances	23,000	18,100
Office Furniture and Fittings	5,400	
Library Books	4,200	
Rent, Taxes, etc.	2,800	
General Office Expenses	1,700	
Printing and Stationery	4,200	
Salaries and Wages	14,300	
Petty Cash	200	
A's Capital		4,000
B's "		2,000
A's Drawing	12,600	
B's "	8,200	
Creditors for Expenses		1,400
Rs.	1,00,500	1,00,500

Costs not made up on 31st March 1938 amounted to Rs. 21,000. The partners are entitled to interest on Capital at 5%. Write off depreciation on Furniture and Fittings at 5% and on Library Books at 10%.

Solution.

A. B. & CO., SOLICITORS.
PROFIT & LOSS ACCOUNT.
For the year ended 31st March 1938.

		Rs.		Rs.
To Salaries and Wages		14,300	By Costs ...	96,000
" Printing and Stationery... ...		4,200		
" Rent, Taxes, etc.		2,800		
" General Office Expenses ...		1,700		
" Depreciation on :—	Rs.			
Furniture ...	270			
Library Books ...	420			
		690		
" Interest on Capital :				
A ...	200			
B ...	100			
		300		
" Net Profit transferred to :—				
A ...	43,206			
B ...	28,804			
		72,010		
Rs.		96,000	Rs.	96,000

BALANCE SHEET.

As at 31st March 1938.

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Creditors:			Petty Cash ...	200	
For Expenses ...	1,400		Balance at Bank (Office) ...	5,800	
Clients' Ledger ...	18,100		Balance at Bank (Clients)	12,100	
		19,500			18,100
A's Capital:— ...	4,000		Debtors:—		
Add Interest ...	200		Clients' Ledger ...	23,000	
,, Net Profit ...	43,206		Disbursements Ledger ...	6,000	
	47,406				29,000
Less Drawings ...	12,600		Costs not made up ...		21,000
		34,806	Library Books ...	4,200	
B's Capital ...	2,000		*Less* Depreciation ...	420	
Add Interest ...	100				3,780
,, Profit ...	28,804		Furniture and Fittings ...	5,400	
	30,904		*Less* Depreciation ...	270	
Less Drawings ...	8,200				5,130
		22,704			
	Rs.	77,010		Rs.	77,010

CONTRACT ACCOUNTS.

When a contractor has several contracts on hand, he would naturally be anxious to know how each contract has resulted, and in order to ascertain the profit or loss on each such contract, it is necessary to open a separate account for each contract undertaken. Each contract account should be debited with the cost of materials purchased specifically for the purpose or supplied from stores. The wages and other direct expenses incurred on each particular contract should also be debited to that account. If any special plant and tools have been supplied for the purpose of the contract, the full value of such plant and tools should be debited to the contract account. On completion of the contract, if the plant and tools used thereon are still useful for other purposes, they will be revalued, and that value will be *credited* to the contract account, the corresponding debits being given to Plant Account and Tools Account with their respective values. Thus, the Contract Account will stand debited with the depreciation in the value of the plant and tools due to their use. The amounts received from the contractee on account of the contract should be credited to the Contractee's Personal Account.

If the contract is completed in the same accounting year in which it is commenced, the full contract price will be credited to the Contract Account as soon as the contract is completed, and debited to the Contractee's Personal Account. The balance on Contract Account will now show profit or loss on the completed Contract, which will be transferred to Profit & Loss Account.

It needs to be pointed out that no entries need be passed in regard to the values of the Certificates received from the Architect from time to time except when it is desired to ascertain profit or loss on a Contract. These Certificates on account of each Contract should be numbered consecutively and filed carefully for reference. The usual arrangement in this respect is that the work done by the contractor is measured by the contractee's architect at fixed intervals, and the contractor is to be paid by the contractee 80 or

90% of the value of each such Certificate, the balance being retained as a guarantee against fulfilment of the Contract within the stipulated time and to be paid on completion. Entries will, therefore, be made by the contractor only in respect of the actual cash received from the contractee, which amounts will be credited, not to the Contract Account, but to the personal account of each contractee.

The Contractee's Account being credited from time to time with the amounts received, and debited with the full contract price on completion of the contract, will now show a debit balance representing the balance due by him to the Contractor.

Profit on Incomplete Contracts.—Where some contracts are not completed in the same accounting year in which they are commenced, a question arises whether or not profit on incomplete contracts should be taken into account at the time of closing the books for the year. Theoretically, it may not be advisable to take into consideration profit on incomplete contracts, but in practice, this rule cannot be rigidly followed inasmuch as some contracts may take several years to complete, and it will not be equitable to take credit for the profit only in the year in which the contract is finished. As such, the profit on incomplete contracts is ascertained by one of the following methods, and the Profit & Loss Account is credited with the amount of profit thus disclosed.

In the first place, it must be noted that when only a very small portion of the work has been done, it is neither desirable nor sound to take into account profit on the work done, and the Contract Account must then be closed by balance. In such a case, the amount expended on account of the contract to the date of balancing will be shown as Work-in-Progress on the assets side of the Balance Sheet, and any cash received from the contractee on account of the work, as shown by the credit balance on the Contractee's Account, will be shown by way of deduction therefrom.

If a contract is nearly complete and only a small portion of the work remains to be done, an estimate will be made of the further expenditure on the portion remaining to be done, and an allowance will also be made for the margin of profit on that portion. This estimate should be added to the amount already expended to the contract, and the total will represent the cost of finishing the whole work. This cost should be compared with the contract price, and, if the latter exceeds the former, the excess will represent profit on the completed portion of the contract.

If a contract has not reached a sufficient stage as to enable one to make a reasonable estimate of the remaining portion of the work, the profit or loss on the portion already completed is ascertained thus. The cost of the work completed will be represented by the total of the debit side on the Contract Account, less the cost of stores, materials and plant on hand. This net cost should be compared with the amount of work certified by Contractee's Architect plus the cost of work done but not certified. If the latter exceeds the former, the excess represents profit and may be taken into account. It is not advisable, however, to take full credit for the whole of the profit thus ascertained, but to reserve a portion of it for contingencies, such as a likely rise in the price of materials or labour. A sound method, therefore, is to transfer to Profit & Loss Account only two-thirds or three-fourths of the profit ascertained, and to carry forward the balance to the next year's account by debiting Contract Account and crediting Work-in-Progress

Account. At the commencement of the next year, the above entry will be reversed.

No definite rule can be laid down as to at what stage of the work it would be safe to take credit for the profit on incomplete contracts, as so much would depend on the nature of the contract and the actual facts and circumstances. The general rule, however, that can safely be laid down is that no profit should be ascertained unless at least one-third of the whole work has been completed.

There are several adjustments which are always required to be made before ascertaining profit or loss on a Contract, and they are as under:—

Materials lying on Site unconsumed.—(*a*) Where it is desired to find out profit or loss on an *incomplete contract*, and there are materials (already charged to the Contract) lying on site unconsumed, these will have to be valued at cost and brought into account by debiting Work-in-Progress Account and crediting the particular Contract Account. The entry will be reversed immediately at the commencement of the succeeding period.

(*b*) In the case of *completion of a contract*, if there are any such materials, the entry necessary to adjust these would be to debit Materials Account (as these will have to be returned to the Stores), and credit the Contract Account.

The excess debit to the Contract Account in regard to the materials supplied and not utilised will thus be adjusted.

Certificates received from Architects showing Value of Work done.—(*a*) In the case of an *incomplete contract*, when it is desired to bring into account the profit or loss made on the portion of work done, the total value of Certificates received to the date of balancing will be ascertained and adjusted by means of an entry debiting Work-in-Progress Account and crediting the particular Contract Account. The entry will be reversed at the commencement of the succeeding period.

(*b*) In the case of a *completed contract*, the total value of the Certificates representing the full contract price will be brought into account by debiting the Contractee's Personal Account and crediting the Contract Account.

(*c*) No entries need be passed in respect of these Certificates as and when received. Their values will only be brought into adjustment at the time of ascertaining profit or loss on a Contract.

Additional Work done subsequent to Last Certificate.—It may be that the last Certificate measuring and valuing the work done may not coincide with the date of balancing, and a substantial amount of work done on an *incomplete contract* may have remained uncertified. Before ascertaining the profit on such incomplete contract, it will be necessary to value the work done and not certified on a conservative basis and bring the same into account by debiting Work-in-Progress Account and crediting the Contract Account. The entry will then be reversed at the commencement of the next period.

Special Plant or Tools employed on a Contract.—(*a*) The full cost of such plant or tools is debited to the Contract Account in the first instance. At the time of balancing, when it is desired to bring into account profits on an *incomplete contract*, such Plant and Tools will have to be revalued, and with the depreciated value thus ascertained, Work-in-Progress Account will be debited and the Contract Account will be credited. The Contract Account will thus stand charged with the depreciation on plant and tools occasioned by their use on the contract. As the same plant and tools would still be used on the contract, the above entry will be reversed at the commencement of the succeeding period.

(*b*) In the case of a *completed contract*, the depreciated value of such specific plant and tools will be adjusted by debiting Plant Account and Tools Account with their respective values (as these will now be returned to the works), and crediting the Contract Account concerned.

Transfer of Material from One Contract to Another.—When any such transfer takes place, the contract transferring such material will be credited with the cost thereof, and the contract receiving the same will be debited.

Material once supplied returned to Stores.—In case any material once supplied and charged to the contract is returned to the Stores, the same must be adjusted by debiting Materials Account and crediting the particular Contract Account.

Adjustment of Profit on Incomplete Contract.—With the amount of profit in respect of an *incomplete contract* which it is decided should be taken credit for, the adjustment would be to debit the Contract Account and credit the Profit & Loss Account.

It need hardly be mentioned that the profit on an incomplete contract should always be brought into account on most conservative basis leaving sufficient amount to meet unforeseen contingencies that might arise in respect of the portion of work remaining to be done. Such a contingency is usually provided for by not taking credit for the full amount of profit ascertained but taking only two-thirds or three-fourths of it and carrying forward the balance in the next year's accounts.

The adjustment in regard to the portion of profit on an incomplete contract, which it is decided is not to be taken credit for but to be carried forward in the next year's books, would be made by debiting the Contract Account and crediting Work-in-Progress Account. This entry will then be reversed immediately at the commencement of the succeeding period.

Work-in-Progress Account.—To this account will be made all the several adjustments in regard to incomplete contracts at the time of balancing, *provided it is desired to bring into account profit or loss on the portion of work done.* These various entries will then be immediately transferred to the respective Contract Accounts at the commencement of the next period, as already explained.

There will be only one Work-in-Progress Account on which all the above adjustments will be made. This account will generally show a debit balance, and will appear on the assets side of the Balance Sheet after deduction therefrom of the amounts received from the contractees on account of incomplete contracts, (which amounts will be appearing on the credit of the respective contractees' personal accounts), thus :—

	Rs.	Rs.
Work-in-Progress Account	..	
Less Amount received on account	..	
		....

NOTE.—It needs to be pointed out that no adjustment should be made in respect of depreciation on specific plant and tools or in regard to materials on site, or additional work done subsequent to receipt of Architect's Certificate, *when it is not desired to ascertain profit on an incomplete contract.* In such a case, the debit balance on the Contract Account will be added to the debit balance on the Work-in-Progress Account, and the whole total will appear under the latter heading on the Balance Sheet. The Contract Account will then be closed by balance, and the same will be its opening debit balance of the succeeding period.

ILLUSTRATION 204.

Swami & Co. undertook a contract on 1st January 1932 for Rs. 3,00,000 and completed the same on 30th April 1934. The Contract Account showed the following at 31st December of each year. The amount of work certified at the end of 1932 was Rs. 75,000 and at the end of 1933 Rs. 2,25,000. 80 per cent of the certified work was received in cash.

Prepare Accounts in respect of the contract at the end of each year showing the proportion of profit the Company would be justified to take to the credit of Profit & Loss Account. Show also how the Work-in-Progress will appear in the Balance Sheet from year to year, and give the necessary Journal Entries for each of the years.

Depreciate Plant at 10 per cent on the original cost annually.

On 31st December 1932, Materials issued were valued at Rs. 35,000; Wages Rs. 25,000; Other direct charges Rs. 2,000; Materials on site Rs. 5,000.

On 31st December 1933, Materials issued were valued at Rs. 75,000; Wages Rs. 45,000; Other direct charges Rs. 4,000; Special Plant Rs. 90,000; Materials on site Rs. 15,200; and work completed but not certified was estimated at Rs. 25,000.

On 30th April 1934, Materials issued were valued at Rs. 5,000; Wages Rs. 12,250; Direct Charges Rs. 1,270.

Solution.

JOURNAL ENTRIES.

		L.F.	Rs.	Rs.
1932 Dec. 31	Contract Account ... ... Dr.		62,000	
	To Materials Account			35,000
	" Wages "			25,000
	" Direct Charges Account			2,000
	(Being the materials supplied and the wages and direct charges expended on the contract during the year).			
" "	Work-in-Progress Account ... ... Dr.		80,000	
	To Contract "			80,000
	(Being the value of Architect's Certificates received during the year and the value of materials lying unconsumed on site at the end of the year).			
" "	Contract Account .. .. Dr.		4,800	
	To Profit and Loss Account			4,800
	(Being one-third of the profits taken credit for, on cash basis).			
" "	Contract Account ... ... Dr.		13,200	
	To Work-in-Progress Account			13,200
	(Being the balance of profit not brought into account but carried forward to next year's books).			
1933 Jan. 1	Contract Account ... ... Dr.		80,000	
	To Work-in-Progress Account			80,000
	(Being the reverse entry in respect of work certified and materials on site taken credit for last year).			
" "	Work-in-Progress Account ... ... Dr.		13,200	
	To Contract Account			13,200
	(Being the reverse entry in regard to the portion of profits brought over from previous year).			

JOURNAL ENTRIES.—(*Contd.*)

			L. F.	Rs.	Rs.
1933 Dec. 31	Contract Account	Dr.		1,24,000	
	To Materials Account				75,000
	" Wages Account				45,000
	" Direct Charges Account				4,000
	(Being the materials supplied and the wages and direct charges expended on the contract during the year).				
" "	Contract Account	Dr.		90,000	
	To Plant and Machinery Account				90,000
	(Being the cost of specific plant taken for use on the contract).				
" "	Work-in-Progress Account	Dr.		2,65,200	
	To Contract Account				2,65,200
	(Being the value of the Architect's Certificates received up-to date, the work done and not certified and the value of materials lying unconsumed on site at the end of the year).				
" "	Work-in-Progress Account	Dr.		81,000	
	To Contract Account				81,000
	(*Being the depreciated value of the special Plant* transferred to Work-in-Progress Account).				
" "	Contract Account	Dr.		39,240	
	To Profit and Loss Account				39,240
	(Being $\frac{2}{3}$ths of the Profit taken credit for on cash basis).				
" "	Contract Account	Dr.		26,160	
	To Work-in-Progress Account				26,160
	(Being the balance of Profit not brought into account but carried forward to next year's books).				
1934 Jan. 1	Contract Account	Dr.		2,65,200	
	To Work-in-Progress Account				2,65,200
	(Being the reverse entry in respect of work certified as well as uncertified and materials on site taken credit for last year).				
" "	Work-in-Progress Account	Dr.		26,160	
	To Contract Account				26,160
	(Being the reverse entry in regard to the portion of profit brought over from previous year).				
" "	Contract Account	Dr.		81,000	
	To Work-in-Progress Account				81,000
	(Being the reverse entry in respect of the special Plant).				
April 30	Contract Account	Dr.		18,520	
	To Materials Account				5,000
	" Wages "				12,250
	" Direct Charges Account				1 270
	(Being the value of further materials supplied and direct charges and the wages expended on the Contract).				
" "	Plant and Machinery Account	Dr.		78,000	
	To Contract Account				78,000
	(Being the entry to record the transfer of Plant on completion of the Contract).				
" "	Contract Account	Dr.		39,440	
	To Profit and Loss Account				39,440
	(Being the final balance of Profit made on the Contract transferred to general Profit and Loss Account).				

1932
CONTRACT ACCOUNT.

		Rs.			Rs.	Rs.
1932 Dec. 31	To Materials issued ...	35,000	1932 Dec. 31	By Work-in-Progress :—		
	„ Wages	25,000		Work certified...	75,000	
	„ Other Direct Charges ...	2,000		Materials on site ...	5,000	
„ „	„ Profit & Loss A/c.—1/3rd of Profit on cash basis ...	4,800				80,000
„ „	„ Work in-Progress—Balance of Profit not taken credit for ...	13,200				
	Rs.	80,000		Rs.		80,000

WORK-IN-PROGRESS ACCOUNT.

		Rs.	Rs.			Rs.
1932 Dec. 31	To Contract Account :—			1932 Dec. 31	By Contract Account :— Balance of Profit not taken credit for ...	13,200
	Work certified ...	75,000		„ „	„ Balance c/d. ...	66,800
	Materials on site ...	5,000	80,000			
	Rs.		80,000		Rs.	80,000
1933 Jan. 1	„ Balance b/d. ...		66,800			

CONTRACTEE'S ACCOUNT.

		Rs.			Rs.
1932 Dec. 31	To Balance c/d. ...	60,000	1932 Dec. 31	By Bank	60,000
			1933 Jan. 1	„ Balance b/d.	60,000

(NOTE.—As only one-fourth of the Contract has been certified for, it will not be sound to take credit for more than 1|3rd of the profits ascertained on the Cash Basis).

The debit balance of the Work-in-Progress and credit balance of the Contractee's Account will appear on the Assets side of the Balance Sheet as follows :—

	Rs.	Rs.
Work-in-Progress	66,800	
Less Cash received on account ..	60,000	
		6,800

1933
CONTRACT ACCOUNT.

		Rs.	Rs.			Rs.	Rs.
1933 Jan. 1	To Work-in-Progress transfer :—			1933 Jan. 1	By Work-in-Progress transfer :— Balance of Profit not taken credit for ...		13,200
	Work certified ...	75,000		Dec. 31	„ Work-in-Progress :—	Rs.	
	Materials on site ...	5,000	80,000		Work certified	2,25,000	
Dec. 31	„ Materials issued ...		75,000		Materials on site	15,200	
	„ Wages ...		45,000		Work completed but not certified ...	25,000	
	„ Other Direct Charges ...		4,000		Plant *less* depreciation ...	81,000	3,46,200
	„ Special Plant ...		90,000				
Dec. 31	„ Profit & Loss A/c.—2/3ths of Profit on cash basis ...		39,240				
„ „	„ Work-in-Progress—Balance of profit c/f. ...		26,160				
	Rs.		3,59,400		Rs.		3,59,400

WORK-IN-PROGRESS ACCOUNT.

Date	Particulars	Rs.	Rs.	Date	Particulars	Rs.	Rs.
1933 Jan. 1	To Balance b/d. ...		66,800	1933 Jan. 1	By Contract Account transfer:—		
" "	„ Contract Account transfer—Balance of profit not taken credit for ...		13,200		Work certified	75,000	
Dec. 31	„ Contract Account—				Materials on site	5,000	80,000
	Work certified	2,25,000		Dec. 31	„ Contract Account—Balance of profit c/f. ...		26,160
	Materials on site ...	15,200			„ Balance c/d. ...		3,20,040
	Work completed but not certified	25,000					
	Plant *less* depreciation	81,000	3,46,200				
	Rs.		4,26,200		Rs.		4,26,200
1934 Jan. 1	To Balance b/d. ...		3,20,040				

CONTRACTEE'S ACCOUNT.

Date	Particulars	Rs.	Date	Particulars	Rs.
1933 Dec. 31	To Balance c/d. ...	1,80,000	1933 Jan. 1	By Balance b/fd. ...	60,000
				„ Bank ...	1,20,000
	Rs.	1,80,000		Rs.	1,80,000
			1934 Jan. 1	By Balance b/d. ...	1,80,000

NOTE.—As only three-fourths of the Contract is certified for, three-fourths of the Profit ascertained has been taken to the credit of Profit and Loss and that too on the Cash Basis, balance being carried forward to the next year as a provision against contingencies.

The debit balance of the Work-in-Progress and the credit balance of Contractee's Account will appear on the Assets side as under:—

	Rs.	Rs.
Work-in-Progress	3,20,040	
Less Cash received on account ..	1,80,000	
		1,40,040

1934 CONTRACT ACCOUNT.

Date	Particulars	Rs.	Rs.	Date	Particulars	Rs.
1934 Jan. 1	To Work-in-Progress transfer:—			1934 Jan. 1	By Work-in-Progress transfer:—	
	Work certified	2,25,000			„ Balance of Profit not taken credit for ...	26,160
	Materials on site	15,200		April 30	„ Contractee's Account —	
	Work completed but not certified	25,000			Total contract price ...	3,00,000
	Plant *less* Dep.	81,000	3,46,200		„ Plant *less* depreciation ...	78,000
Dec. 31	„ Materials issued ...		5,000			
	„ Wages ...		12,250			
	„ Direct Charges ...		1,270			
April 30	„ Profit and Loss Account—Balance transferred ...		39,440			
	Rs.		4,04,160		Rs.	4,04,160

WORK-IN-PROGRESS ACCOUNT.

1934		Rs.	1934		Rs.
Jan. 1	To Balance b/fd. ...	3,20,040	Jan. 1	By Contract Account transfer :— Rs. Works certified 2,25,000 Materials on site 15,200 Work completed but not certified 25,000 Plant *less* Dep. 81,000	3,46,200
	„ Contract Account transfer—Profit not taken credit for ..	26,160			
	Rs.	3,46,200		Rs.	3,46,200

CONTRACTEE'S ACCOUNT.

1934		Rs.	1934		Rs.
April 30	To Contract Account— Total Contract Price ..	3,00,000	Jan. 1	By Balance b/fd. ...	1,80,000
				„ Bank ...	1,20,000
	Rs.	3,00,000		Rs.	3,00,000

VOYAGE ACCOUNTS.

When a steamship company owns one or more steamers, the profit or loss from carrying on the business as a whole can be ascertained by preparing a regular Profit & Loss Account for the period in question. But in order to obtain the exact result of each voyage made, it will be necessary to open a separate account for each voyage, and know each voyage by a consecutive number.

Each voyage Account will be debited with expenses incurred in connection with that voyage and will be credited with the freight, passage and other income attributable to that voyage. There are certain indirect expenses of the business which cannot be wholly attributed to any particular voyage, such as Insurance Premium, Manager's Salary, etc., and these will have to be apportioned on the basis of time. The balance on the Voyage Account will represent Profit or Loss made on the voyage, and will be transferred to General Profit & Loss Account.

ILLUSTRATION 205.

The South Coast Steamship Company, Ltd. has got several steamers, of which one steamer "Hawaijahaj" was chartered on 17th January 1938, as follows:—

From Chandranagar to Yanon with Copra at Rs. 11-8-0 per ton (address commission 2% on the freight and brokerage at 5%).

Yanon to Panjim with Maize at Rs. 9-8-0 per ton (address commission 2% on the freight and brokerage at 5%).

The voyage commenced on 23rd January and the following particulars are available from the books in respect of the voyage:—

Copra loaded from Chandranagar	2,900 tons
Maize „ „ Yanon	2,750 tons

Coal supplied 59 tons at Rs. 20 per ton at Chandranagar, and 52 tons at Rs. 18 per ton at Yanon.

	Rs.
Stores supplied	2,100
Port Charges—Chandranagar	700
Harbour Wages, etc.	350
Discharging at Yanon	425
Captain's Account for expenses at Yanon ..	150
Agents' Disbursements—Yanon ..	250
Loading Charges, 2,750 tons Maize at Yanon	1,625

	Rs.
	850
Despatch money	250
Port Charges—Yanon	228
Captain's Expenses, Panjim	40
Interest on Advance	2,700
Discharging and Despatch money at Panjim	750
Captain's Portage Bill	

The steamer is insured for one year on the 24th of June 1937; the premium paid was Rs. 7,200. The Managing Director is entitled to a commission of 1½% on the gross freight. The voyage terminated on 16th of March 1938.

Prepare a Voyage Account from the above particulars, making apportionments in months.

Solution.

s.s. HAWAIJAHAJ.

VOYAGE NO..... ACCOUNT.

17th January 1938 *to* 16*th March* 1938.

	Rs.	Rs.		Rs.
To Coal supplied:			By Freight:—	
59 Tons @ Rs. 20	1,180		2,900 tons of Copra from Chandranagar to Yanon @ Rs. 11/8 per ton ...	33,350
52 " @ Rs. 18	936	2,116		
" Stores supplied ...		2,100	2,750 tons of Maize from Yanon to Panjim @ Rs. 9/8 ...	26,125
" Port Charges—Chandranagar ...		700		
" Harbour Wages, etc. ...		350		
" Discharging at Yanon ...		425		
" Captain's Account—Expenses at Yanon ...		150		
" Agent's Disbursements at Yanon ...		250		
" Loading Charges at Yanon ...		1,625		
" Despatch Money ...		850		
" Port Charges at Yanon ...		250		
" Captain's Expenses at Panjim		228		
" Interest on advance ...		40		
" Discharging and Despatch money at Panjim ...		2,700		
" Captain's Postage Bill ...		750		
" Address Commission:—				
2% on Rs. 33,350	667			
2% on Rs. 26,125	522-8	1,189-8		
" Brokerage:—				
5% on Rs. 33,350	1,667-8			
5% on Rs. 26,125	1,306-4	2,973-12		
" Insurance Premium for 2 months, 1/6 × 7,200 ...		1,200		
" Managing Director's Commission, 1½% on Rs. 59,475 ...		892-2		
" Net Profit transferred to General Profit and Loss A/c.		40,685-10		
Rs.		59,475	Rs.	59,475

INVESTMENT ACCOUNTS.

In the case of concerns holding a large number of Investments, it is desirable that a detailed record of these should be maintained. This is done by having an Investment Ledger in which a separate Account will be opened for each class of Securities dealt in. Each such Account would be ruled with three columns on either side: (1) for nominal amount of the Securities dealt in, (2) for the actual amount of cash received or paid, and

(3) for Income received. The three columns will be thus headed Nominal, Capital and Income.

The object of having Income columns is to enable one to see at a glance the periodical interest or dividend received from each particular Investment. Where the interest or dividend is payable on fixed dates, such dates are usually recorded at the head of the Investment Account.

On the purchase of Securities, an entry would be made on the debit side, the face value thereof being shown in the first column and the actual amount paid in the second column. When, however, Securities are purchased "Cum. Div." or "Cum. Int.", the purchase price paid will have to be carefully apportioned between Capital and Revenue. In the Capital Column will then have to be shown the actual market price of the Investments, and in the Income Column would be shown the amount paid for the Interest or Dividend that had accrued due and that was included in the purchase consideration.

Similarly, when Investments are sold "Cum. Div." or "Cum. Int.", the Dividend or Interest that has accrued to the date of sale and that has been included in the sale price will have to be credited in the Income Column of the Investment Account and the balance only will have to be credited in the Capital Column.

Expenses by way of Brokerage, Stamps, etc. represent an additional charge against the capital value of the Investments purchased and must, therefore, be considered as part of the purchase price and debited in the Capital Column.

On receipt of Income out of any investment, the amount is posted from the Cash Book to the credit of the Investment Account in the Income column.

At the end of each financial period, the Interest accrued and not received from each such Investment will have to be brought into account by debiting an account called Outstanding Interest Account and crediting the amount in the Income column of each such Investment. The debit to the Outstanding Interest Account will be shown as an asset in the current year's Balance Sheet and will be carried forward in the next year's books. Immediately at the commencement of the next period, a reverse entry will be passed, debiting the Income column of the particular Investment Account and crediting Outstanding Interest Account.

The balance as appearing from the Income Column of each Investment Account at the close of the period will be credited to an Account called Interest and Dividend Account, the corresponding debit being given in the Income column of the particular Investment Account.

When the whole of an Investment has been sold, the difference between the Capital columns will represent profit or loss on the transaction. When only a part of an investment is realised, the balance of the portion on hand must be brought down at cost. Any difference then shown by the Capital columns will represent profit or loss on the sale.

Any profit or loss on sale of Investments is transferred to an Account styled "Profit or Loss on Sale of Investments", which account is closed by transfer to Profit & Loss Account.

ILLUSTRATION 206.

The Universal Insurance Co. had on hand on 1st January 1937 Rs. 50,000 of Government of India Loan 5% (Free of Tax), the cost of which as shown in the books is Rs. 53,000. The interest on these securities was last received upto 30th September

On 31st May, the Company purchases Rs. 36,000 worth of Loan at 6% premium. On 30th June Rs. 20,000 worth of Loan is sold at 7% premium and on 31st August a further Rs. 24,000 worth is sold at 7½% premium. A brokerage of 4 as. on Rs. 100 has to be paid while buying and selling. Interest is receivable on 31st March, and 30th September. On 31st December 1937, the market price was Rs. 107.

Prepare a Ledger Account for the year 1937, as it would appear in the Investment Ledger, making apportionments of Interest in months.

Solution.

GOVERNMENT OF INDIA LOAN FIVE PER CENT (FREE OF TAX).

(*Interest payable 31st March and 30th September*).

Date.	Particulars.	Nominal Value.	Income.	Capital.	Date.	Particulars.	Nominal Value.	Income.	Capital.
1937		Rs.	Rs.	Rs.	1937		Rs.	Rs.	Rs.
Jan. 1	To Balance b/fd.	50,000		53,000	April 4	By Bank—Interest on Rs. 50,000 payable 31st March ...		1,250	
	" Outstanding Interest A/c. —Transfer ...		625		June 30	" Bank — Sale proceeds of Rs. 20,000 at 7% premium *less* ¼% brokerage ...	20,000		21,350
May 31	" Bank—Cost at 6% premium of 36,000 *plus* ¼% brokerage	36,000		38,250	" "	" Bank — Interest to date of sale on Rs. 20,000 ...		250	
" "	" Bank—Interest to date of purchase ...		300		Aug. 31	" Bank — Sale proceeds of Rs. 24,000 at 7½% premium *less* ¼% brokerage ...	24,000		25,740
Dec. 31	" Profit on Investment ...			360	" "	" Bank — Interest to date of sale on Rs. 24,000 ...		500	
" "	" General Interest A/c.—Balance transferred ...		2,650		Oct. 3	" Bank — Interest on 42,000 payable 30th September ...		1,050	
					Dec. 31	" Outstanding Interest A/c. Interest on 42,000 for 3 months ...		525	
					" "	" Balance c/d.—at Cost 6% premium ...	42,000		44,520
	Rs.	86,000	3,575	91,610		Rs.	86,000	3,575	91,610
1938									
Jan. 1	To Balance b/d.	42,000		44,520					
" "	" Outstanding Interest A/c. —Transfer ...		525						

FIRE CLAIM ACCOUNTS.

The following Illustrations will serve to explain the necessary entries to be made and the accounts to be opened in respect of claims under insurance arising from destruction of Stock, Fixtures, Plant, Building, etc. as also claims relating to Loss of Profit resulting from fire.

ILLUSTRATION 207.

A severe fire occurred on 21st May 1937 in the factory of Narandas & Co., Ltd. The following particulars are obtained as regards the costs and book values of the various assets affected by the fire, the amounts claimed and admitted by the Peoples' Insurance Co., Ltd. :—

	Book Value. Rs.	Claimed. Rs.	Admitted. Rs.
Buildings	50,000	60,000	45,000
Plant and Machinery ..	70,000	75,000	60,000
Fittings ..	12,000	15,000	13,500
Stock damaged	28,000	30,000	17,000
Stock destroyed	45,000	50,000	40,000
Loss of Profit		55,000	37,000
Fire Expenses		1,200	1,200

The Buildings, Plant and Machinery and Fittings were completely destroyed by fire and most of the stock lying in a godown adjacent to the factory was also destroyed. The damaged goods saved were sold for Rs. 13,000. The claim made for Loss of Profit was Rs. 9,000 in respect of the profit for the remaining portion of the year ended 30th September 1937, and Rs. 28,000 for the 6 months thereafter when a new factory was built. The actual fire expenses incurred were Rs. 1,200. The Insurance Company paid the amount for all claims on 27th September 1937.

Make Journal Entries and open the necessary Ledger Accounts in the books of Narandas & Co., Ltd. to record the above particulars, including Cash entries.

Solution.

JOURNAL ENTRIES.

		L. F.	Rs.	Rs.
	Peoples' Insurance Co., Ltd ... ... Dr.		2,13,700	
	To Buildings Account			45,000
	,, Plant and Machinery Account			60,000
	,, Fittings Account			13,500
	,, Damaged Stock Account			17,000
	,, Stock Destroyed Account			40,000
	,, Profit and Loss Account			9,000
	,, Profit and Loss Suspense Account			28,000
	,, Fire Expenses Account			1,200
	(Being the amount of claims admitted by the Insurance Company).			
	Stock Destroyed Account ... ... Dr.		45,000	
	Stock Damaged Account ... ... ,,		28,000	
	To Trading Account			73,000
	(Being the cost of damaged and destroyed stock brought into account at book values in order to show normal trading results).			
	Fire Expenses Account ... ... Dr.		1,200	
	To Bank			1,200
	(Being fire expenses paid).			
	Bank Account		13,000	
	To Damaged Stock Account			13,000
	(Being the sale proceeds of damaged stock).			

JOURNAL ENTRIES.—(*Contd.*)

		L. F.	Rs.	Rs.
Damaged Stock Account	Dr.		2,000	
To Profit and Loss Account				2,000
(Being profit on Damaged Stock Account transferred to the latter account).				
Profit and Loss Account	Dr.		5,000	
To Destroyed Stock Account				5,000
(Being the loss on stock destroyed, transferred to Profit and Loss Account).				
Loss by Fire Account	Dr.		15,000	
To Buildings Account				5,000
,, Plant and Machinery Account				10,000
(Being the loss on fixed assets represented by Buildings and Plant and Machinery destroyed by fire, transferred to a special account).				
Fittings Account	Dr.		1,500	
To Loss by Fire Account				1,500
(Being the credit balance on the Fittings Account transferred to the latter Account thus reducing the loss on other fixed assets).				
Bank Account	Dr.		2,13,700	
To Peoples' Insurance Co., Ltd.				2,13,700
(Being the amount received from the Insurance Company in full settlement of the claim).				

NOTES.—(1) Rs. 28,000 of the claim in respect of the Loss of Profit have been credited to Profit and Loss Suspense Account, as the amount relates to the subsequent period and should not be credited to the Profit and Loss Account of this year. In the next year, an entry will be made transferring this amount from Profit and Loss Suspense Account to Profit and Loss Account.

(2) In order that the percentage of gross profit on the turnover of the year ended 30th September 1937 may not be affected by the loss of stock by fire, it is necessary to credit the Trading Account with the cost of Stock damaged and destroyed, and debit separate accounts for damaged and destroyed stock with the relevant amounts. The profit or loss on the latter accounts will be transferred directly to Profit and Loss Account.

(3) The profit on Fittings Account will not be credited to the Profit and Loss Account as it is a profit on a fixed asset, but should be utilised in reducing the loss suffered on other fixed assets.

(4) The loss on Buildings and Plant and Machinery Accounts has been transferred to a separate account called "Loss by Fire Account". This Account is then credited with the profit on Fittings. The net loss should be spread over two or three years, as it represents a capital loss.

PEOPLES' INSURANCE CO., LTD. ACCOUNT.

	Rs.		Rs.
To Sundries:—		By Bank ...	2,13,700
Buildings Account ...	45,000		
Plant and Machinery Account ...	60,000		
Fittings Account ...	13,500		
Damaged Stock Account ...	17,000		
Profit and Loss Account ...	9,000		
Profit and Loss Suspense Account	28,000		
Stock Destroyed Account ...	40,000		
Fire Expenses Account ...	1,200		
Rs.	2,13,700	Rs.	2,13,700

BUILDINGS ACCOUNT.

		Rs.			Rs.
To Balance b/fd.	...	50,000	By Peoples' Insurance Co., Ltd. Account	..	45,000
			,, Loss by Fire Account	..	5,000
	Rs.	50,000		Rs.	50,000

PLANT AND MACHINERY ACCOUNT.

		Rs.			Rs.
To Balance b/fd.	...	70,000	By Peoples' Insurance Co., Ltd. Account	...	60,000
			,, Loss by Fire Account	...	10,000
	Rs.	70,000		Rs.	70,000

FITTINGS ACCOUNT.

		Rs.			Rs.
To Balance b/fd.	..	12,000	By Peoples' Insurance Co., Ltd. Account	.	13,500
,, Loss by Fire Account	...	1,500			
	Rs.	13,500		Rs.	13,500

STOCK DESTROYED ACCOUNT.

		Rs.			Rs.
To Trading Account	..	45,000	By Peoples' Insurance Co., Ltd. Account	...	40,000
			,, Profit and Loss Account—Transfer	.	5,000
	Rs.	45,000		Rs.	45,000

DAMAGED STOCK ACCOUNT.

		Rs.			Rs.
To Trading Account	.	28,000	By Peoples Insurance Co., Ltd. Account	...	17,000
,, Profit and Loss Account—Transfer	.	2,000	,, Bank	..	13,000
	Rs.	30,000		Rs.	30,000

FIRE EXPENSES ACCOUNT.

		Rs.			Rs.
To Bank	...	1,200	By Peoples' Insurance Co., Ltd. Account	...	1,200

LOSS BY FIRE ACCOUNT.

		Rs.			Rs.
To Buildings Account	...	5,000	By Fittings Account	...	1,500
„ Plant and Machinery Account	...	10,000	„ Balance		13,500
	Rs.	15,000		Rs.	15,000

NOTE.—The net Loss on Fixed Assets of Rs. 13,500 as indicated by the account is a Capital Loss inasmuch as it arises from under-insurance of fixed assets. It should not, therefore, be transferred bodily to Profit and Loss Account but must be spread over a period of two or three years. The annual amount thus charged to Profit and Loss Account must, however, be shown under the distinct heading "Loss on Capital Assets," so as to indicate its nature. The unwritten off balance which in the meantime will appear in the Balance Sheet will also have to be shown on the assets side thus:—"Loss on Capital Assets—balance not written off."

BANK ACCOUNT.

		Rs.			Rs.
To Damaged Stock Account	...	13,000	By Fire Expenses Account	...	1,200
„ Peoples' Insurance Co., Ltd. Account	...	2,13,700			

TRADING ACCOUNT.

					Rs.
			By Stock Destroyed Account	...	45,000
			„ Damaged Stock Account	...	23,000

NOTE.—As a result of the closing stock figures having been brought in here at book values, the above Trading Account when filled in with other usual items of debits and credits will serve to indicate normal gross profit, which will be useful for comparison purposes.

PROFIT AND LOSS ACCOUNT.

		Rs.			Rs.
To Stock Destroyed Account	..	5,000	By Peoples' Insurance Co., Ltd. Account	...	9,000
			„ Damaged Stock Account	..	2,000

NOTE.—The above items will get merged with all the other items of debits and credits which usually find their place in the Profit and Loss Account and the ultimate net gain or net loss will be thus arrived at.

PROFIT AND LOSS SUSPENSE ACCOUNT.

		Rs.			Rs.
To Balance c/d.	...	28,000	By Peoples' Insurance Co., Ltd. Account	...	28,000

ILLUSTRATION 208.

On 9th May 1938, the premises and stock of Behramji and Jagjivan were totally destroyed by fire, the books of accounts however being saved. In order to make a claim on their Fire Policies in respect of the stock, they ask your advice and you are able to obtain the following information. The Stock on hand has always been valued at 5% less than cost:—

—	1935	1636	1937	1938
	Rs.	Rs.	Rs.	Rs.
Opening Stock as valued	22,800	30,400	36,100	39,900
Purchases *less* returns	91,000	1,10,000	1,20,000	41,000
Sales *less* returns	1,40,000	1,70,000	1,86,000	75,000
Wages	28,400	31,200	34,200	12,000
Closing Stock	30,400	36,100	39,900	...

Prepare a Statement for submission to the Fire Insurance Company in support of the Claim for Loss of Stock.

Solution.

STATEMENT OF CLAIM BY MESSRS. BEHRAMJI AND JAGJIVAN.

To be submitted to the Insurance Company for Goods lost by fire on 8th May 1938

	Rs.
Stock on hand on 1st January 1938	39,900
Add 1/19th of Rs. 39,900 to make up the cost ..	2,100
	42,000
„ Net Purchases from 1st January to 8th May 1938	41,000
„ Wages	12,000
Rs.	95,000

The Percentages of Profit on Sales.

For the year 1935	20.4%
„ „ 1936	20.5%
„ „ 1937	19.2%
	60.1%

Note.—The percentage in each case has been calculated after adjusting the Stock figures.

The average percentage would therefore be about 20% on sales.

	Rs.
Net Sales from 1st January to 8th May 1938	75,000
Less Estimated profit at 20%	15,000
Cost of Goods Sold Rs.	60,000

	Rs.
Stock on hand on 1st January 1938, purchases *less* returns upto 8th May 1938, and Wages	95,000
Less Cost of Goods sold	60,000
Stock on 8th May 1938, lost by fire Rs.	35,000

Consequential Loss Insurance.—Consequential Loss Insurance or Loss of Profit Insurance is a type of insurance under which the underwriters agree to indemnify the insured against any fall in or entire loss of profit suffered by the insured consequent on the destruction or damage of business properties by fire.

Under an ordinary Fire Insurance, the insured is indemnified against the loss of property, machinery, stock, etc. resulting from the fire, and consequently, the insured can only recover the actual damage suffered by him as a result of the fire. But usually after a fire, a loss is suffered due to the entire or partial stoppage of work until such time the business is established in new premises. This loss of profit is not recoverable under an ordinary fire insurance, and a separate insurance covering this consequential loss is therefore effected. The insured is able to recover the whole of the profit that he may have lost as a result of the fire, and the insurance also extends to certain standing expenses, like Rent, Salaries, Wages, Directors' and Auditors' Fees, Loan and Debenture Interest, Cost of Removal, etc. which have to be paid in any case. By effecting this insurance, the proprietors of a business are assured of their normal dividends or profits even if the business is temporarily brought to a standstill on account of a fire.

LOOSE-LEAF AND CARD SYSTEMS.

As every day finds additions to the number of firms adopting Loose-Leaf and Card Systems in connection with their business records, it has been found necessary to give a short description of what these systems consist of.

Loose-Leaf Ledger.—The Loose-Leaf Ledger or the Perpetual Ledger, as it is sometimes called, consists of a substantially made cover or binder, with means provided for expanding the back so as to hold a varying number of leaves. A wide margin is provided on the left-hand side of each leaf with punched holes by means of which the leaves are bound together in the binder. There is a great variety of such binders upon the market, but each and all of them provide a means of locking the Ledger, so that a leaf or account cannot be taken out or put in without the knowledge of the person possessing the key of the binder.

It will thus be clear that although the word loose-leaf unfortunately suggests a state of continuous looseness in the leaves forming the ledger, they are for all practical purposes, as firmly bound together as the leaves of an ordinary bound Ledger.

Any form of Ledger ruling can be utilised. A separate sheet is given to each account and larger accounts can certainly be made to run on several sheets. The accounts can be arranged and re-arranged in any order desired —alphabetical, numerical, or geographical, and Index Sheets can be inserted where desired.

A transfer binder is used with each Ledger, for the purpose of transferring thereto filled leaves as well as all dead or closed accounts, and these transferred accounts are so indexed as to take the same position in the transfer binder as they occupied in the Current Ledger.

It will be seen from the above that the chief characteristic of "Loose-Leaf" System is that any and every leaf can be readily taken out and any number of new leaves may be inserted whenever desired, and once the Ledger is securely locked, no leaf can be removed except by tearing or unless the Ledger be unlocked.

Card Ledger.—The Card Ledger is merely a collection of cards arranged on edges in a tray or series of trays, or in the drawers of a specially made cabinet. Each card is used for writing up a separate account. Any style of ruling suitable to the business may be used. For convenience of handling, the size of the cards is usually smaller than the pages of an ordinary Ledger. Each card has a hole punched through it, and the trays or drawers are fitted with a metal rod which can be inserted through the cards and automatically locked into position, so that when the Ledger is not in use, the cards cannot be removed by unauthorised persons, and so get lost or misplaced. The cards may be arranged in any suitable way, either alphabetically, numerically or geographically. For the purpose of indexing and sub-indexing, extra cards with projecting tabs of different colours are provided.

Cards as have been filled or which relate to accounts, which have been closed, are transferred to a separate tray or drawer kept for the purpose, and these are indexed in just the same manner as the current drawer of cards.

Advantages of Loose-Leaf and Card Ledgers.—The following are the advantages of Loose-Leaf and Card Ledgers :—

(1) Dead or closed accounts may be removed at any time, thus keeping only active accounts in the Current Ledger.

(2) The Ledger is not burdened with unnecessary blank leaves, as would be the case in the bound books. New leaves are inserted as and when necessary.

(3) The Loose-Leaf Ledgers are continuous and permanent, and it is not necessary to open new Ledgers and Index at the commencement of each balancing period.

(4) The order of arranging accounts in the Ledger when once fixed is not disturbed in spite of frequent insertions of new leaves or removal of dead and closed accounts.

(5) At the time of balancing, the Ledger may be divided between several clerks, so that the work of extracting balances may be expedited. This is not possible in the case of bound Ledgers.

(6) Since dead and old accounts are removed from the Ledger, the work of extracting balances and submitting statements of accounts is much facilitated.

(7) As a transfer binder is used for keeping old records, and if the order of arrangement of accounts is the same as in the Current Ledger, a continuous record of each account is thus obtained for the whole period of its existence. This is not posssible in the case of bound Ledgers, and when it is desired to refer to the complete records of an account, several old Ledgers will have to be turned up, wherein the record is distributed in widely separate pages.

There are, however, certain disadvantages of Loose-Leaf or Card Ledgers as follows :—

(a) The leaves or cards may be lost or misplaced unintentionally, in which case it would be necessary to re-write the records from the Subsidiary Books.

(b) The leaves or cards may be intentionally destroyed or substituted in order to commit some fraud or conceal some fraud already committed.

Precautions against Misuse.—In order to prevent or minimise these disadvantages, the following precautions may be taken :—

(1) The key of the binder or the card locker should be kept by the principal or some responsible official, so that it may not be possible to remove or insert a leaf or card without the knowledge of the person keeping the key. It is also necessary that the principal or the responsible official should be present at the time of removal or insertion of leaves or cards.

(2) If possible, the name of the business should be printed or water-marked on the face of each leaf or card, so that any substitution by leaves or cards sold on the market may be detected. The printers or manufacturers of the leaves or cards should be instructed not to supply new leaves or cards used by the particular business, excepting on an order signed by one of the principals or a responsible official.

(3) The Stock of unused leaves or cards should be kept under the control of the principal and complete records of their issue or return should be kept under his supervision.

Card System for Costing Purposes.—In large undertakings, the Card System of Costing Records is now utilised to a considerable extent in place of bound books, due to the enormous saving in time in the compilation of the necessary data from specially tabulated cards. Specially printed Cards are employed to record the data required, e.g., stores requisitions, time cards, job cards, stock cards, etc., such cards being made to embody the necessary information for costing purposes.

As a result of the Card System being employed in costing, the subdivision of work between members of the staff is greatly facilitated, thus considerably expediting the work. Besides, the costing records are easily capable of being referred to by several members of the staff simultaneously for different purposes, which is not practicable when bound records are utilised. The cards recording each type of information are then duly filed and serve as a ready means of reference.

SUSPENSE ACCOUNT.

A Suspense Account is an account to which items in suspense are temporarily posted pending the ascertainment of their correct destination. It happens sometimes that an amount is received, but the name of the person remitting the amount cannot be ascertained, or an amount is expended but the account to which the same should be charged is not decided upon, and in either case, Suspense Account may be found useful. Further, when there is a disagreement in the Trial Balance, the difference may be temporarily debited or credited to Suspense Account in order to agree the Trial Balance, until the error has been discovered.

The following entries will serve to illustrate the mode of dealing with Suspense Account :—

(1)

		L.F.	Rs.	Rs.
Bank Account	Dr.		50	
To Suspense Account				50
(Being the receipt of the amount unaccompanied by explanatory letter, temporarily credited to this account).				
Suspense Account	Dr.		50	
To Ram Ratan & Co.				50
(Being the adjustment of the amount now ascertained to have been received from the latter).				

(2) The Trial Balance having disagreed by Rs. 140 wanting on the credit, Suspense Account is credited by a single entry for the time being to help towards the temporary balancing of the books. Subsequently, on its being ascertained that an item of Rs. 140 received on account of commission was omitted to be posted, the rectifying entry would be :—

		L. F.	Rs.	Rs.
	Suspense Account ... ... Dr.		140	
	To Commission Account			140

(3)

		L. F.	Rs.	Rs.
	Suspense Account (Legal Charges) ... ... Dr.		200	
	To Bank			200
	(Being the costs in connection with the Law Suit No... temporarily held over).			

The amount having been finally ascertained, as a result of the above Law Suit, to be recoverable from James & Co., the following entry will be made :—

		L. F.	Rs.	Rs.
	James & Co. ... ... Dr.		200	
	To Suspense Account (Legal Charges)			200

(4)

		L. F.	Rs.	Rs.
	Advertising Suspense Account ... ... Dr.		3,600	
	To Bank			3,600
	(Being the total amount expended on an advertising propaganda, to be spread over a number of years).			

On its being decided that the above expenditure should be distributed equally over a period of three years, the following entry will be passed at the end of each financial period :—

		L. F.	Rs.	Rs.
	Advertising Account ... ... Dr.		1,200	
	To Advertising Suspense Account			1,200
	(Being the adjustment of one-third of the total amount expended as per Resolution dated.........).			

It needs to be pointed out that the balance on Suspense Account will always appear in the Balance Sheet in accordance with whether it is a debit or a credit balance, until it is finally dealt with.

EXAMINATION QUESTIONS.

Note.—The figures in bold type at the end of most of the problems indicate their corresponding numbers in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

1. Mention the principal books of accounts to be maintained by a firm of solicitors.

2. Explain the double-entry working of the Clients' Disbursements Ledger.

3. Explain the working of the Clients' Ledger and the Bills of Costs Register.

4. Under what circumstances should Fees on matters outstanding and not billed be brought into account, while preparing periodical accounts?

5. Describe the working of each Contract Account in the books of a contractor.

6. How should special Plant utilised on a contract be dealt with?

7. How are moneys received from the contractee, from time to time, brought into record, and what adjustment should be made on the Contractee's Personal Account on completion of a contract?

8. How would you deal with values as shown by the Architect's certificates from time to time?

9. How is profit on an Incomplete Contract brought into account?

10. Explain fully the working of the Work-in-Progress Account, describing the adjustments to be made in respect of (*a*) depreciation of special plant, (*b*) further work done since last certificate, (*c*) materials lying on site unconsumed, and (*d*) proportion of profits not taken credit for but carried over to next year's accounts, in case of a partly completed contract.

11. Discuss the desirability or otherwise of bringing profit on an incomplete contract into account.

12. What is a Suspense Account and where would it appear in the Final Accounts?

13. Describe the advantages of Loose-Leaf or Card Ledgers over bound books.

14. What is the best method of recording Investments in a concern where they are largely dealt with?

15. How would you deal with interest accrued due to the date of the purchase of Investments?

16. State briefly what you understand by "Loss of Profits Insurance." What is its main advantage and what items would normally be covered by such an insurance? **479**

17. Dawson, Ltd., suffered loss by fire. Following is a statement of claims made against and admitted by the Progressive Insurance Co., Ltd., and of expenditure incurred:—

	Claimed. Rs.	Admitted. Rs.	
Loss of Profits	60,000	40,000	
Stock damaged	40,000	20,000	
Stock destroyed	50,000	40,000	
Building damaged ..	12,000	10,000	repairs cost Rs. 11,000.
Fittings destroyed ..	10,000	9,000	renewal cost Rs. 9,500.
Fire expenses	800	800	cost Rs. 800.

The amounts claimed and admitted for loss of Profits were half in respect of loss of Profits in 1935 and 1936, and half in respect of advertising expenditure put to suspense in 1934, which it was proposed to write off equally during the 3 years 1935, 1936 and 1937, and which had been rendered partly useless.

Renewals of Fittings (which originally cost Rs. 6,000 and had not been written down) and repairs to Buildings were completed by and paid for on 31st December 1935; on that date the expenses also were paid. The amount admitted was paid by the Insurance Company on 1st November 1935.

Journalise the above in the books of Dawson, Ltd. 480

18. A severe fire occurred on the 1st March 1938, at the factory of Byramji & Co., Ltd., by which practically the whole of the buildings and contents were destroyed, with the exception of the offices.

The Insurance Company paid a lump sum of Rs. 1,00,000 in respect of the Buildings, Rs. 15,000 for the Machinery and Plant, and Rs. 1,20,000 for the Stock, the Salvage being sold to Byramji & Co., Ltd., for Rs. 10,000 and deducted from the insurance money on settlement. Byramji & Co., Ltd., realised Rs. 20,000 from the Salvage.

In Byramji & Co's books, Land and Buildings stood at Rs. 1,75,000 and the value of the buildings not destroyed was Rs. 10,000, the land being valued at Rs. 50,000. Machinery and Plant stood at Rs. 16,000 and was all destroyed. The Stock at the date of the last Balance Sheet, 30th June 1937, stood at Rs. 1,35,000.

The sales for the eight months amounted to Rs. 3,00,000 and the purchases and expenses for the period to Rs. 2,60,000. Expenses in connection with the fire claim were Rs. 2,000.

Show how the above matters should be dealt with in the books of Byramji & Co., Ltd. *481*

(*Trading and Profit & Loss Account Total Rs.* 4,40,000 ; *Net Profit Rs.* 17,000.)

19. J. Karaka has fully insured against all loss by fire. A fire occurs on part of the premises, and the Insurance Company settles the claim for Rs. 19,400 as follows:—

		Rs.
Plant and Machinery		5,000
Buildings		7,000
Stock Destroyed		3,000
Stock Damaged 50% of value ..		1,800
Consequential loss:	Rs.	
Wages paid to retain men .	700	
Incidental outlay	400	
Loss of Profit	1,500	
		2,600
	Rs.	19,400

The Plant and Machinery lost was old, and had been entirely written off. Karaka decided not to replace it, as his other machinery was ample for his trade. The Buildings were repaired at a cost of Rs. 4,500. By expending Rs. 500 on the Damaged Stock, he was able to sell it at the full price. Set out the accounts to record the above, showing how you would finally deal with the various differences. 482

20. Mr. Richardson undertook a contract for Rs. 75,00,000 on an arrangement that 80 per cent of the value of the work done, as certified by the architects of the Contractee should be paid immediately, and that the remaining 20 per cent be retained until the Contract was completed.

In 1936 the amounts expended were:—Materials Rs. 9,00,000, Wages Rs. 8,50,000, Carriage Rs. 30,000, Cartage Rs. 5,000, Sundry Expenses Rs. 15,000. The work was certified for Rs. 18,75,000 and 80 per cent of this was paid as agreed.

In 1937 the amounts expended were:—Materials Rs. 11,00,000, Wages Rs. 11,50,000. Carriage Rs. 1,15,000, Cartage Rs. 10,000, Sundry Expenses Rs. 20,000. Three-fourths of the Contract was certified as done by the 31st December and 80 per cent of this was received accordingly. The value of the unused stock and Work-in-Progress uncertified was ascertained at Rs. 1,00,000.

In 1938 the amounts expended were:—Materials Rs. 6,30,000, Wages Rs. 8,50,000, Cartage Rs. 30,000, Sundry Expenses Rs. 15,000, and on 30th June the whole contract was completed.

Show how the Contract Account, Work-in-Progress Account and the Contractee's Account would appear each of these years in the books of the Contractor, assuming that the balance due to him was received on completion of the Contract.

21. The following was the expenditure on a Contract for Rs. 6,00,000 commenced in February 1937:—

	Rs.
Materials	1,20,000
Wages	1,64,400
Plant	20,000
Business Charges	8,600

Cash received on account to 31st December amounted to Rs. 2,40,000, being 80 per cent of the work certified; the value of materials on hand at 31st December was Rs. 10,000. Prepare an account showing the position at the end of the year and the proportion of the profit which might reasonably be taken to Profit and Loss Account after allowing 10 per cent depreciation on plant. 484

22. Manufacturers, Ltd., began to trade on 1st January 1937. During 1937 the Company was engaged on only one contract, the contract price of which was fixed at Rs. 1,50,000. Of the plant and materials charged to the contract, plant which cost Rs. 1,500 and materials which cost Rs. 1,200 were lost.

On 31st December 1937, plant which cost Rs. 1,500 was returned to the stores; the cost of work done but uncertified was Rs. 600 and materials costing Rs. 1,200 were in hand on site.

Charge 10% depreciation of plant, reserve one-third of profit received and prepare Contract Account and Balance Sheet from the following Trial Balance as at 31st December 1937:—

	Rs.	Rs.
Share Capital		36,000
Creditors		3,000
Cash received on Contract (80% of work certified) ..		60,000
Land and Buildings	12,900	
Bank Balance	7,500	
Charged to Contract:—		
Materials	27,000	
Plant	7,500	
Wages	42,000	
Expenses	2,100	
	Rs. 99,000	99,000

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(*Total of Contract Account Rs. 84,900;*
Total of Balance Sheet Rs. 39,660.)

23. Three Contracts, beginning on 1st January, 1st July and 1st October respectively, were undertaken by the Contractors, Ltd., in 1937. Their Accounts on 31st December showed the following position:—

—	Contract No. 1.	Contract No. 2.	Contract No. 3.
	Rs.	Rs.	Rs.
Contract Price	4,00,000	2,70,000	3,00,000
Expenditure—Materials	72,000	58,000	20,000
Wages	1,10,000	1,12,400	14,000
General Expenses	4,000	2,800	1,000
Plant Installed	20,000	16,000	12,000
Materials on Hand	4,000	4,000	2,000
Wages accrued	3,400	3,600	1,600
General Expenses accrued	600	400	200
Work certified	2,00,000	1,60,000	30,000
Cash Received in respect thereof	1,50,000	1,20,000	27,000
Work finished but uncertified	6,000	8,000	2,100

On respective dates of the Contracts, the plant was installed, depreciation thereon being taken at 10% per annum. You are required—

(*a*) to prepare accounts in the Contract Ledger; and

(*b*) to give suitable entries in the Company's Balance Sheet. Use Columnar Forms and omit dates. 486

24. The following particulars are drawn out from the Costing books of a Contractor, for the month of March 1938:—

		Rs.	Rs.
(1)	Stores Abstract:—		
	Balance, 28th February ..	52,865	
	Purchases	10,900	
	From Job 751	855	
			64,620
	To Job 755		5,280
	Balance, 31st March 1938		Rs. 59,340
(2)	Wages Abstract:—		
	Job 751	575	
	Job 755	7,190	
			7,765
	Establishment		640
			Rs. 8,405

The respective Job Accounts showed the following balances in the Contract Ledger on 28th February:—

	Rs.
Job 751	3,21,580
Job 755	1,41,865

A certificate of completion was obtained for Job 751; of the balance on this account standing on 28th February, Rs. 61,500 was in respect of Plant and Machinery, the remainder consisting of Wages and Materials. A machine costing Rs. 5,500, specially bought for this contract, was sold during March for Rs. 2,000. Of the remainder of the balance on Plant and Machinery, Rs. 40,000 worth had been utilised on the Job for eight months and the rest for six months. Of the former, half was transferred to Job 755, and the balance thereof returned to Stores. The Contract price for Job 751 was fixed at Rs. 3,75,000.

Prepare Contract Accounts and state the profit made on Job certified as completed, allowing depreciation on machinery at 15% per annum. Assume 10% for Establishment Charges on Wages and Materials. 487

(Total of Contract Account No. 751 Rs. 4,28,655; Profit Rs. 80,520; Total of Contract Account No. 755 Rs. 1,72,335.)

CHAPTER XXVII.

HINTS TO EXAMINEES.

As the author has had fairly long experience as a teacher and examiner in Advanced Accounting, it has been thought that the following few suggestions from him might prove helpful to examination candidates, firstly in acquiring the necessary knowledge of the subject, and secondly in utilising the knowledge thus acquired to best advantage in the examination room.

It cannot be too strongly urged, at the very outset, that in order to pass the test of advanced examinations on the subject, of any body of recognized standing, the student should set himself to work earnestly and methodically from the commencement and should always supplement his studies by the expert guidance of a qualified teacher.

Length of Preparation.—The length of time to be devoted to preparation is a matter upon which it is difficult to give an opinion, as so much would depend on the individual intellect and capacity of each student. Speaking generally, however, with regard to average intelligence, and taking the B. Com. examinations of the Bombay University for a standard, I should recommend, for the Inter at least six months' study at the rate of two hours a day increasing it to three hours a day during the last two months, and for the Final, one year's work at the rate of three hours a day increasing it to four hours a day during the last three months.

Reading.—The selection of text-book would naturally rest with your teacher, but I would advise you not to confine yourself to one prescribed text-book. You should study two or three standard treatises dealing with this subject. It is not desirable to read hurriedly right through a treatise from beginning to end. Take each chapter at a time, say Partnership Accounts, and study it thoroughly. Study the chapter devoted to the same subject from other standard works before you pass on to the next. By comparing the different ways adopted by different authors in stating the same thing, a flood of light would be thrown on a number of points that would otherwise remain obscure.

Do not be a passive reader, but take an intelligent interest, and make a constant effort to understand the reason underlying every phase of the subject you handle, Once the principles underlying the subject are grasped in this manner, you will find yourself capable of working out any problem without much difficulty.

A critical study of every printed statement of accounts that comes under his notice, as also a regular reading of lectures and articles in such publications as the *Accountant*, and the *Incorporated Accountants' Journal*, would prove of incalculable benefit to the serious student who means to taste success in the fullest measure.

Notes.—The best method of digesting the contents of each chapter is to take full notes of what you read. Summarise the essential points of each chapter in your own words under their appropriate heads and sub-heads. These notes, if complete and carefully prepared, will be found of great value while revising the subject. This method of note-making will also tend to give you the requisite practice of putting down *in writing* a clear and concise answer that will carry good marks upon examination.

Text-Book Problems.—*Pay particular attention to the illustrative problems in the text-book.* These should not merely be read but must be actually worked out and the results must then be compared. Many points would arise in course of actual working which would otherwise be totally missed.

Test Questions.—A text-book would, no doubt, discuss certain principles and show in a limited way the application of those principles. But a thorough and comprehensive knowledge and grasp of the subject would only be acquired by working the numerous problems relating to each chapter. Work out, therefore, as many problems of different types as you can secure the time for, so that the practice will not only give a clear understanding of the subject, but will also give you the necessary confidence in the examination room and will considerably help you to complete the examination paper in time. In the author's opinion, at least half the time set apart for the preparation of Accounting should be devoted to the solution of practical problems.

Revision.—No matter how carefully and systematically the subject has been studied, the last two months before the examination must be devoted absolutely to revision. The revision work should be, of course, combined with practical work, consisting of the working out of the papers set at the previous examinations.

In answering these papers, it is advisable that you should note the length of time occupied, so that you may increase your speed, if it should be necessary. These questions should be answered with the same care and pains as they would be in the examination room, and attention should be paid to neatness and accuracy in your own work; by doing so, you will be acquiring orderly methods and habits; and neatness, accuracy and quick work are all chiefly a matter of habit.

It is also useful to form the habit of using concise narration in making Journal entries, of always heading and dating accounts and statements properly, of grouping the assets and liabilities in Balance Sheet and making the division between Trading Account and Profit & Loss Account on a logical and intelligent plan.

There seems to be a general belief amongst examinees that an examination paper is, as a rule, unfairly long. In the author's opinion, such a conviction is, in a majortiy of cases, unjustifiable, and the inability on the part of a very large percentage of candidates to complete their paper within the time limit is chiefly due to lack of methodical study.

Examination Room.—In order that the acquired knowledge may be used to best advantage in the examination room, it is of the utmost importance that the examinations should have no terror for the examinee. On the contrary, the examinee should enter the examination room with the fullest confidence in his ability to satisfy the examiners, and he may rest assured that, whether he passes or fails, he will be justly and even generously dealt with.

Examination Papers.—Read through the whole paper first carefully to find out what you are required to do. *Select the questions about which you feel most confident and answer them first.* It is preferable to do the short and easy questions first, since they carry *proportionately* more marks than the longer and more difficult problems. Every question answered will make you more confident, and having once got over nervousness, you can tackle the more difficult questions with better chances of success. On the . . .

hand, should you commence with the long and difficult questions first on the ground that they carry more marks, and should you fail to do them within the allotted time, or should they prove to be much more troublesome than you anticipated, then you are bound to lose some of your nerve, and you cannot afford to do this at examinations.

Read each question thoroughly and carefully. Make sure that you understand the question before you start answering it. Do not omit to completely answer all the points covered by the question, at the same time do not drag in irrelevant matter. Your answers should be full, yet concise and to the point. Before attempting to answer any question not involving figures, always plan the exact order in which you porpose to discuss the various points.

A mere "yes" or "no" for an answer would not be entitled to any marks at all, as it might be taken as the result of a pure guess on the part of the student. Do not "have a shot" at questions of which you have no definite knowledge, as this might sometimes prejudice the remainder of the paper.

Neatness and Legibility.—Some candidates seem to think that neatness, legibility and a methodical arrangement of answers are unnecessary. In the opinion of the author, tidiness and a methodical lay-out of the work are essential. They would certainly carry more marks than the slovenly and disconnected answers so often sent in by examinees.

Where any question is ambiguous so that two different interpretations can be placed upon it, state your reading, and append a note to show how the question would have been dealt with in the light of the other interpretation.

Where differences are asked for.—Where differences between two accounts or statements or methods are asked for, define these first before you draw contrasts.

Questions involving differences of opinion.—Where a student is asked to state his opinion on a question on which strongly opposed views are held, the best way to answer would be to discuss it from both the standpoints, and then to express his own opinion giving reasons why he favours a particular view. It is not necessary that the views of the student should coincide with those of the examiner, but if the former has expressed himself sensibly and with moderation, there is no reason why his answer must not carry the full marks he is entitled to.

Where a question merely asks for entries required in the books.—Where a question asks for entries in the books, it really becomes doubtful as to whether Journal Entries or Ledger Accounts, or both are required. There can be little doubt that a complete answer to such a question would be to give Journal Entries as well as Ledger Accounts. The student, however, should not attempt such a full answer unless he has solved the other questions to his satisfaction. In such a case, Journal Entries would quite suffice as they would serve to show the student's knowledge of all the points covered by the question. It is not necessary to give Ledger Accounts unless you are expressly required to do so.

Again, where a question asks for entries, the student is rather puzzled, and does not know whether to give Journal entries or the entries in subsidiary records. It may safely be assumed that unless entries in subsidiary records are particularly asked for, Journal entries are all that the examiner requires.

Where a question asks for Ledger Accounts.—Where Ledger Accounts are required, only the more important ones should be given. Thus, if the question relates to dissolution of partnership, Realisation Account, Bank Account and Capital Accounts would quite suffice. Under no circumstance, should Journal Entries or entries through subsidiary records be given, where only Ledger Accounts are asked for.

Do not leave the examination room until the last minute, even if you have answered all the questions you are able to do to your satisfaction. Read and re-read your answers, and in so looking over the work you might discover some serious errors, or omissions of important points, or it might occur to you that a certain answer can be considerably improved by re-writing. A careful revision of your work before handing over the papers will, in any case, help considerably to your success.

Conclusion.—In conclusion, it need only be said that if the examinee has studiously worked upon the lines above indicated, and has dealt justly and fairly with himself and the subject he has set himself to study, he may have the author's assurance that he will be equally justly and generously dealt with by his examiners.

REVISIONAL PROBLEMS.

Note.—The figures in bold type at the end of each problem indicates its corresponding number in the Author's "TYPICAL PROBLEMS IN ADVANCED ACCOUNTING" where full solutions of these will be found.

RECTIFICATION OF ERRORS

1. The Trial Balance of the Hopeful Co., Ltd., having disagreed, the difference was temporarily placed on a Suspense Account. Subsequently, the following errors were discovered, and you are requested to pass the necessary rectifying entries:—

(1) A sale of Rs. 30 was wrongly entered in the Sales Returns Book, but the posting therefrom was correctly made to the debit of the customer's account.
(2) A sale of Rs. 12-9-6 was posted to the customer's account as Rs. 9-12-6.
(3) The additions of the Sales Day Book for the month of June were undercast by Rs. 100.
(4) An item of Rs. 40 was wrongly credited to the supplier's account from the Returns Outwards Book.
(5) An item of Rs. 105-10-0 was posted as Rs. 110-5-0 from the Purchases Book.
(6) A Cash discount of Rs. 20 had remained unposted to the Customer's Account from the receipts side of the Cash Book. **488**

SELF-BALANCING SYSTEM

2. In the absence of Self-Balancing System, you are requested to compile Total Debtors' and Total Creditors' Accounts from the following information:—

	Dr.	Cr.
Balances on 1st October 1942	Rs.	Rs.
Debtors' Ledger	35,700	500
Creditors' "	300	27,800

Figures for the year ended 30th September 1943:—

	Rs.
Cash received from Customers	1,60,400
Discount and Allowances allowed to them ..	4,500
Bad Debts written off	6,000
Tansfers from Debtors' Ledger to Creditors' Ledger to settle Customers' Accounts ..	4,000
Payments to creditors	95,000
Discounts and Allowances by them	2,700
Payments to customers	125
Credit Purchases	1,10,000
Credit Sales	1,85,000
Purchase Returns	1,400
Sales Returns	2,600
Bills Receivable received	7,500
Bills Payable granted	5,000

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3. Assuming that the system of Self-Balancing has been introduced, show how the General Ledger Adjustment Account will appear in the Debtors' as well as the Creditors' Ledgers, from the same figures as given above. **490**

CONSIGNMENT ACCOUNTS

4. The Perfect Sound Boxes, Ltd. of Calcutta, dispatched 1,000 Radio Sets costing Rs. 60 each to Ramlal & Co. of Bombay, on 25th March 1943. The following expenses were paid by the Company on the consignment:—

Freight Rs. 750, Cartage Rs. 45 and Insurance Rs. 250. The Pro-forma Invoice to the Agents was for Rs. 90,000 and the remuneration was fixed at 5% on the gross Sale Proceeds. The Agents accepted a Bill for Rs. 20,000 drawn on them as an advance.

On 30th June 1943, 100 sets were totally destroyed by fire and Rs. 900 were duly received by the Consignors from the Insurers in full settlement of the claim. On 31st December 1943, the Company received an Account Sales from the Agents as under:—

	Rs.	Rs.
Sale Proceeds 600 Sets		60,000
less Custom Duties	10,000	
Dock dues and clearing	500	
Warehousing and Insurance	450	
Sales Expenses	600	
Agents' Commission	3,000	
		14,550
Net Proceeds = Rs.		45,450

They remitted a Sight Draft for the balance after deducting the amount of the Bill already accepted. It was reported by the Agents that some of the Sets had got damaged and the cost of putting them in repairs was estimated at Rs. 600.

Show the Ledger Accounts as they would appear in the books of the consignors as also the consignees. 491

5. From the following Trial Balance of the Swadeshi Education Society as at 31st December 1943, prepare an Income and Expenditure Account and a Balance Sheet:—

	Rs.	Rs.
Furniture & Fittings	10,000	
" " " —Additions	2,500	
Library Books	15,700	
" " —Additions	3,500	
Society's Building	75,000	
General Investments	2,00,000	
Investment Fluctuation Fund		20,000
Sundry Debtors & Creditors	3,000	12,500
Entrance Fees		4,600
Examination Fees		2,200
Subscriptions received		18,000
Certificate Fees		600
Hire of Society's Hall		5,600
Interest realised on Investments		7,300
Sundry Receipts		400
Rent from subletting of Building		3,600
Staff Salaries	12,800	
Printing, Stationery & Advertising	1,100	
Taxes & Insurance	900	
Examination Expenses	750	
Subscriptions to Periodicals	1,200	
Prize Trust Fund		18,000
" " Investment	17,875	
" " Income		850
Prizes awarded	600	
Prize Trust Fund, Bank Balance	375	
Donations received (to be capitalised)		16,000
General Expenses	475	
Capital Fund		2,43,825
Cash at Bank	7,500	
Cash in Office	200	
Rs.	3,53,475	3,53,475

The following further information is supplied to enable you to make the necessary adjustments :—

		Rs.
Subscriptions to be received	.. ..	2,400
" received in advance	.. ..	350
Interest on General Investment accrued	..	450
Taxes & Insurance paid in advance	.. ..	250
Staff Salaries outstanding	.. .. ..	1,200
Library Books to be depreciated by		15%
Furniture & Fittings " "		5%
Building " "		1½%

The market value of General Investments on 31-12-1943 was Rs. 1,70,000, but you are not required to bring down the book value to this level. Ignore Income-tax. 492

SINGLE ENTRY

6. The books of Swan and Simpson showed the following figures :—

	31-12-42 Rs.	31-12-43 Rs.
Cash at Bank and in hand	3,400	19,950
Stock-in-Trade	22,000	25,000
Sundry Debtors	30,000	35,000
" Creditors	23,400	18,500
Fixtures & Fittings	2,000	
Office Car	1,000	

The Capital of Swan on 31-12-1942 was more than that of Simpson by Rs. 2,000. On 31-12-1943 an analysis of the Cash Book for the year showed as under :—

	Rs.		Rs.
Receipts from Customers ..	1,35,000	Printing & Stationery	800
" from Cash Sales ..	16,000	Drawings—Swan	3,600
Discount allowed to Customers	1,400	" Simpson	3,000
Further Capital brought in by Simpson on 1-7-43	2,000	Payments to Trade Creditors ..	1,12,000
Salaries to 30-11-43	11,000	Discount allowed by them ..	1,200
Office Rent to 30-11-43	2,200	Travelling Expenses	700
Advertising	900	Samples	300
Motor up-keep	1,350	General Expenses	600

There were bills outstanding for Petrol Rs. 25, Advertising Rs. 75 and Printing Rs. 45. Reserves of 5% on Debtors for Doubtful Debts and 2½% on Creditors for Discounts are to be provided, and Motor Car and Fixtures are to be depreciated by 20% and 5% respectively. 5% Interest is to be calculated on the Capital of each partner.

From the above information, you are required to construct a Cash Statement, a Trading and Profit & Loss Account and a Balance Sheet as at 31st December 1943. 493

7. The following facts and figures have been obtained from the books of Ramji Bhagwan, which were maintained under Single Entry, and you are required to prepare the necessary statement to show his business position, as on 30th June 1943 :—

(1) The Sales Receipts were all banked after meeting business and personal expenses, and all business payments were made through the bank. There were no cash purchases and cash sales.

(2) His Bank Pass Book showed that he had paid in Rs. 80,500 and withdrawn Rs. 65,700 during the year ended 30th June 1943.

(3) He had placed Rs. 5,000 at Fixed Deposit on 1st August 1935, at 6% interest which he realised on 31st July 1942.

(4) He had bought 5% Free of Tax Bonds of Rs. 10,000 on 1st October 1942, at 10% premium, Interest on same being receivable on 31st March and 30th September.

(5) The Office Rent paid by cheques for the year amounted to Rs. 1,200

(6) On inquiry, the assets and liabilities on 30th June 1943, were ascertained as under:—

	Rs.
Bank Balance	15,500
Stock-in-Trade	12,400
Sundry Debtors	20,500
„ Creditors	7,800
Freehold Property	35,000

You are further given to understand that:—

(1) The Sundry Creditors on 1st July 1942 were Rs. 4,500, the Sundry Debtors Rs. 16,000, Stock Rs. 10,000, and Cash at Bank Rs. 700.

(2) The Business Expenses amounted to Rs. 4,500 and Personal Expenses to Rs. 3,600 during the year, and

(3) The Net Rent from Freehold Property Rs. 1,500 was also utilized by him towards his Personal Expenses in addition to the above amount. 494

JOINT VENTURES

8. A and B entered into a joint venture for the purchase and sale of Rs. 20,000 worth of hosiery goods. Profits and losses were to be shared equally. A financed the venture and B undertook the sales on a commission of 7½% on the sale proceeds. A paid for the goods, less 3¾% cash discount, and advanced Rs. 400 to B for expenses. He received from B cheques on account for Rs. 5,000, Rs. 10,000 and Rs. 3,000. B expended for Travelling Expenses Rs. 1,450, Packing & Carriage Rs. 516, Storage Rent Rs. 300, Advertising Rs. 1,140, and Sundries Rs. 128. He sold the whole of the goods for Rs. 16,000 and placed the proceeds in his bank account. Show how the transactions would be recorded in the books of both the parties. 495

9. P. Krishna bought fancy goods for Rs. 23,000 which he consigned to S. Sitaram for sale, the profits to be shared equally. Krishna spent Rs. 400 for carriage and insurance on the goods. He drew a three months' Bill on Sitaram for Rs. 10,000 and discounted the same for Rs. 9,880.

On receipt of the goods, Sitaram paid Rs. 200 for freight and Rs. 50 for storage. He sold the whole of the goods for Rs. 30,000, his disbursements in connection therewith being Rs. 150. Immediately on realization of the sale proceeds, he renderd an Account Sales to Krishna enclosing a sight draft for the amount due to him.

Write up the accounts in the books of both the parties. 496

10. Messrs. P and Q agreed to enter upon joint adventure to promote and underwrite a public issue of shares in connection with a limited company to be called the Investment Trusts, Ltd.

The company was formed and duly registered on the 1st of January 1943, with a Share Capital of Rs. 14,00,000, divided into 1,25,000, 6 per cent Cumulative Preference Shares of Rs. 10 each and 15,000 Ordinary Shares of Rs. 10 each. It was agreed between the partners that they should share the Profits and Losses of the venture as to three-fifths and two-fifths respectively.

Messrs. P and Q contracted with the company.

(1) To bear all expenses of registration of the company,

(2) To bear all expenses of the public issue of the Preference Share Capital except the underwriting commission due to them,

(3) To underwrite the whole of that issue,

the consideration for such services being an allotment to the partners of 15,000 Rs. 10 Ordinary Shares as fully paid at par, and an underwriting commission of 8 annas per Share in connection with the Preference Share issue. The Ordinary Shares were duly allotted to the partners on 2nd January 1943, and the underwriting commission was paid to them on 15th March 1943.

As between themselves the partners agreed to finance the partnership as follows:—

P provides the cash necessary to meet the expenditure entailed by the public issue as follows:—

			Rs.
1943.			
Feb.	1	Printing and Despatch of Prospectuses	3,500
„	1	Advertising Prospectus	30,000
„	26	Professional Charges *re*: Expert's Report and Valuation	7,500
Mar.	1	Printing Allotment Letters and Share Certificates ..	450
„	5	Solicitors' Charges *re*: Prospectus and Public Issue of Capital	5,250
„	5	Brokerage of 4 annas per share on 75,000 of the Preference Shares.	

Q provided the cash for all other expenses as follows:

			Rs.
1943.			
Jan.	1	Capital Duty	14,000
„	1	Solicitors' Charges *re*: Formation of Company ..	1,050
„	1	Printing Memorandum and Articles	350
„	20	Printing Books of Accounts and Statutory Books ..	950
Mar.	31	Office Rent and Rates to 31st March 1943	500
„	31	Salaries of Office Staff to 31st March 1943	2,500
„	31	Sundry Petty Expenditure to 31st March 1943	350

The issue of Preference Shares was under-subscribed by the public and Messrs. P and Q were called upon, under the terms of their Underwriting Agreement, to take up the balance of 5,000 Preference Shares in respect of which on the 1st of March 1943 P provided cash for the payment of 3,000 of the Shares and Q paid for the balance. The 5,000 Preference Shares and 15,000 Ordinary Shares held by the partners were sold at Rs. 8 and Rs. 9 each respectively, and the sale expenses amounted to Rs. 500. Prepare Joint Venture Account, Cash Account, and the Capital Accounts, assuming that the venture terminated on 31st March 1943. 497

PARTNERSHIP ACCOUNTS

11. P, Q and R were partners in a firm, the Trial Balance of which on 31st December 1943, was as follows:—

	Rs.	Rs.
Sales		82,000
Purchases	38,000	
Wages	16,000	
Salaries	4,000	
Rent, Rates & Taxes	1,600	
General Expenses	3,400	
Discounts	600	
Stock, 1st January 1943	36,000	
Life Policy (Surrender Value 31st December 1942) ..	2,800	
Life Premium	240	
Office Fixtures, etc.	1,200	
Bank	400	
Cash	100	
Sundry Creditors		15,940
Sundry Debtors	11,280	
Drawings Account (P)	2,400	
„ „ (Q)	1,600	
„ „ (R)	2,320	
Capital Account (P)		8,000
„ „ (Q)		8,000
„ „ (R)		8,000
Rs.	1,21,940	1,21,940

Interest on Capital and drawings, taking six months as an average, is to be calculated at 5% per annum.

Stock in hand, 31st December 1943, was Rs. 38,000.

Surrender value of Life Policy, 31st December 1943, was Rs. 2,960, and Profits and Losses were divided equally.

You are required to prepare Trading and Profit and Loss Account for the year, Interest Account, Drawings Account of each partner, and Balance Sheet at 31st December 1943. 498

12. A, B and C were in partnership, and towards the end of 1943 most of their books and records were destroyed in a fire. The Balance Sheet at 31st December 1942 was as follows:—

Liabilities	Rs.	Rs.	*Assets*	Rs.
Sundry Creditors ..		11,000	Cash at Bank	4,800
Capital Accounts:—			Sundry Debtors	7,200
A	9,000		Stock-in-Trade	13,000
B	6,000		Machinery & Plant	2,880
C	3,000		Fixtures & Fittings	1,200
		18,000	Advance Payments	70
Current Accounts:—			Current Account:—	
A	290		C	340
B	200			
		490		
	Rs.	29,490	Rs.	29,490

The partners' drawings during 1943 were A, Rs. 2,800; B, Rs. 2,000 and C, Rs. 1,300. On 31st December 1943, the Cash at Bank was Rs. 6,400; Debtors Rs. 8,050; Stock Rs. 11,800; Advance Payments Rs. 50 and Creditors Rs. 12,080. Machinery is to be depreciated at 10 per cent per annum and Fixtures and Fittings at 7½ per cent. Five per cent Interest is to be allowed on Capital, and Partners share profits in the respective proportions of one-half, one-third and one-sixth.

You are required to prepare a statement showing the Net Trading Profit for the year 1943, and the division of same between the Partners, together with the Balance Sheet as at 31st December 1943, and the Partners' Current Accounts for the year. 499

13. Sen, Das and Roy were in partnership sharing profits in proportions of half, one-third and one-sixth respectively. They had taken out a joint-survivorship Policy for Rs. 15,000 on 1st January 1942, the annual premium of Rs. 600 on which was charged off to Revenue each year.

The Balance Sheet of the firm on 31st December 1941 was as under:—

Liabilities	Rs.	Rs.	*Assets*	Rs.
Sundry Creditors ..		22,000	Cash at Bank	6,000
Current Accounts:—			Sundry Debtors	30,000
Sen	2,000		Stock-in-Trade	25,000
Roy	1,000		Premises	50,000
		3,000	Current Account:—	
Capital Accounts:—			Das	4,000
Sen	40,000			
Das	30,000			
Roy	20,000			
		90,000		
	Rs.	1,15,000	Rs.	1,15,000

It was provided by the Partnership agreement that on the déath of any of the partners, his share of Goodwill was to be computed at twice the average of his share of the previous three years' profits as shown by the Profit and Loss Account. The payment of the deceased partner's share to his Executors was to be extended over a period of three years as under:—Rs. 12,000 each at the end of the first and second years respectively and the balance at the end of the third year, 5% interest being calculated on the unpaid balance in the mean time. The Premises to be revalued on death.

Roy died on 31st December 1943. The net Profits and the Drawings of the partners were as under:—

	Net Profits.	Drawings. Sen	Das	Roy
	Rs.	Rs.	Rs.	Rs.
Year 1941	24,000	10,000	6,500	3,500
Do. 1942	30,000	15,400	9,000	4,000
Do. 1943	18,000	8,500	5,000	2,500

On 31st December 1943, the assets other than Bank balance were—Debtors Rs. 30,000, Stock Rs. 35,000 and Premises Rs. 50,000. The Creditors were Rs. 27,000. The Premises were valued at Rs. 59,000 and the Capitals remained unaltered.

Show the Balance Sheet of the firm as at 31st December 1943, prior to adjustments arising from Roy's death, Roy's Capital Account and Roy's Executors' Account assuming that all the payments were duly made. No interest is to be calculated on Capitals and Drawings. 500

14. L and M are in partnership sharing profits and losses in proportion to their Capitals. On 31st December 1943, the following balances stood to the credit of the partners:—

	Capital Account.	Current Account.
	Rs.	Rs.
L	12,000	720
M	6,000	360

P was admitted into partnership, and a new partnership deed was executed which provided that:—

(a) At 31st December in each year the following partnership Salaries were to be credited:—

M .. Rs. 800; P .. Rs. 500.

(b) P was to be entitled to one-twelfth of the profits after charging salaries and interest, such share to be borne by L.

(c) Interest at 5% per annum was to be allowed on Capital and Current Accounts.

On 1st January 1944, L paid Rs. 6,000 further Capital into the business. The partners' drawings were:—L, Rs. 1,600 (Interest to be charged thereon Rs. 80); M, Rs. 1,000 (Interest to be charged thereon Rs. 20); P, Rs. 300 (Interest *Nil*). The net profit for the year 1944, before charging interest on Capital and partnership Salaries, was Rs. 5,744.

Prepare an account showing the division of profits among the partners as at 31st December 1944. 501

15. Jayker, Gupte and Modi are partners, sharing profits in the proportions 2:3:1 respectively. At 31st December 1943, they decided to dissolve partnership, their Balance Sheet at that date appearing as under:—

Liabilities	Rs.	Rs.	*Assets.*	Rs.
Sundry Creditors		18,000	Freehold Property	8,000
Bank overdraft (Guaranteed by Jayker)		8,000	Plant & Machinery	14,400
Capital Accounts:—			Stock-in-Trade	9,600
Jayker	4,800		Debtors	2,400
Gupte	6,000		Current Accounts:—	
Modi	4,000		Gupte	4,400
		14,800	Modi	5,200
Jayker's Current Account ..		3,200		
		Rs. 44,000		Rs. 44,000

The Freehold Property realised Rs. 5,600, the Plant and Machinery Rs. 10,800, the Stock-in-Trade Rs. 6,000 and the Debtors Rs. 2,400. Jayker paid off the Bank Overdraft. Expenses of realisation amounted to Rs. 480; Gupte and Modi both become bankrupt, the estate of the former paying 4 annas in the rupee and of the latter 1 anna in the rupee.

Make the necessary entries in the books of the partnership in respect of the transactions referred to, including the closing entries of the partnership. 502

16. P, Q and R were partners in a Radio business with Capitals of Rs. 4,800, Rs. 2,400 and Rs. 1,600 respectively and sharing profits in proportions to Capitals. They agreed to amalgamate their business with M and N, Wireless Dealers, with a total Capital of Rs. 3,200 and sharing profits equally.

In order to equalise the future position of all the partners in every respect, P agreed to transfer to R, M and N each one-sixth of his share in P, Q and R, on the basis of three years' purchase of his share of the firms' average profits calculated on those of the four previous years. R, M and N, on their part agreed to bring in Cash equally in order to pay P, for the sale of a part of his share to them.

The profits of P's firm for the previous four years were Rs. 15,000, Rs. 12,500, Rs. 16 000 and Rs. 14,008. The profits of the new firm at the end of the first year were Rs. 20,000 and the drawings of each partner during the period amounted to Rs. 2,500.

You are required to prepare Capital and Current Accounts of each partner, assuming that the required Cash passed through the new firm's books. 503

17. X, Y and Z were partners in a glassware business and shared profits in half, one-third and one-sixth respectively. On 1st January 1943, their Balance Sheet showed as under :—

Liabilities	Rs.	Rs.	*Assets*	Rs.
Sundry Creditors		3,000	Goodwill	10,000
Capital Accounts :—			Sundry Assets	12,000
X	14,000		Cash at Bank	11,000
Y	10,000			
Z	6,000			
		30,000		
	Rs.	33,000	Rs.	33,000

Immediately after the preparation of the above Balance Sheet, the following changes took place :—

(1) Z retired from the business, and his Share valued at Rs. 8,000 was taken over by X and Y who paid the former in their profit-sharing proportions, from their personal resources.

(2) S was then introduced in the business as a one-sixth partner on condition that a further sum of Rs. 6,000 is allowed to be credited to X and Y in their respective proportions, and that he contributed such a sum as would make his Capital equal to one-fourth of the total Capital of X and Y after all the above adjustments.

(3) The new firm was converted into a Company named the Enterprisers, Ltd. which took over the whole of the assets except cash and no liabilities for Rs. 34,000 payable in fully paid Ordinary Shares of Rupee one each.

The Bank Balance of the firm was utilised in payment to creditors and the partners. You are required to show the Capital Accounts of all the partners. 504

18. X and Y were equal partners as hosiery manufacturers, and they arranged to sell their business to X and Y, Ltd., at 31st December 1943, at which date their Balance Sheet was as follows :—

Liabilities	Rs.	Rs.	*Assets*	Rs.
Mortgage on Freehold Property		27,500	Sundry Debtors	35,600
Trade Creditors		22,100	Stock-in-Trade	8,400
Bank Overdraft		9,400	Motor Vehicles	7,500
Capitals—X ..	26,000		Plant & Machinery	25,000
Y	21,500		Freehold Building	30,000
		47,500		
	Rs.	1,06,500	Rs.	1,06,500

The authorised Capital of X and Y, Ltd., was Rs. 1,20,000 divided into 12,000 shares of Rs. 10 each, and the sale agreement provided that the Company should purchase the freehold buildings (subject to the mortgage), plant, motors, stock and goodwill for Rs. 80,000, to be satisfied by an allotment of 7,500 fully paid shares and Rs. 5,000 in cash.

The Company undertook on behalf of the vendors to collect the book debts and pay the creditors, including the overdraft, the net proceeds to be applied in taking up shares. The Company issued 7½% mortgage Debentures for Rs. 20,000 and 1,000 shares to the public. The debentures and shares were fully called and the amount duly received.

You are required to prepare a Realization Account of the old business and the commencing Balance Sheet of the Company, assuming that all the arrangements have been completed and that the debtors and creditors are cleared at the figures at 31st December 1943. Reserve should be made for expenses amounting to Rs. 2,500 payable by the new Company.

Open also the necessary accounts in the books of the Company dealing with the realization of book debts and payments to creditors of the vendors. 505

19. E and F, partners, took out a partnership policy for Rs. 18,000 without profits at an annual premium of Rs. 700. The premium was charged against the Firm's profit, which were shared as to E two-thirds and as to F one-third. E died on 31st March 1943. Three years' premiums had then been paid. E's share of profits from 1st January 1943 was Rs. 1,500. Partnership Deed provided for:—

(a) Interest at 5% on the balance of Capital at the date of last Balance Sheet (E's Capital was Rs. 12,000).

(b) Goodwill (in case of death) on basis of two years' purchase of average profits of the last three years, after charging interest on Capital, but excluding the insurance premiums.

The net profits for the three years, after charging interest on Capital and insurance premiums, were Rs. 6,000, Rs. 7,600 and Rs. 7,400. E's drawings for the three months to 31st March amounted to Rs. 1,800.

Prepare E's Capital Account as at the date of death for a settlement with his Executors. 506

20. Jack and Jones having Capitals of Rs. 16,000 and Rs. 10,000 respectively and sharing profits in proportions to Capitals, admit Brown into partnership upon his introducing Rs. 8,000 as Capital and paying Rs. 8,000 for his share of goodwill; the latter amount is not to be brought into the firm. The profits of the new firm are to be distributed in proportions to the new figures of Capital, and each partner is to receive 4% interest on Capital. The profits of the first year (before charging interest on Capital) amounted to Rs. 6,800, and the actual drawings were as follows:—Jack Rs. 3,200, Jones Rs. 2,000 and Brown Rs. 1,600. At the end of the first year Jack retired from the firm and was paid his Capital and Rs. 20,000 for his share of goodwill by Jones and Brown, who found money in proportions of their respective Capitals.

Prepare the Distribution Account for the first year and the necessary Journal entries for the opening Balance Sheet of the new firm of Jones and Brown at the beginning of the second year. 507

21. The Balance Sheet of Gupta and Asar, practising as dentists, at 31st December 1943 was as under:—

Liabilities	Rs.	Rs.	*Assets*	Rs.
Sundry Creditors		800	Lease (at cost)	4,000
Current Accounts:—			Sundry Debtors	45,000
Gupta	17,200		Cash at Bank	4,500
Asar	5,650		Cash in hand	150
		22,850		
Capital Accounts:—				
Gupta	20,000			
Asar	10,000			
		30,000		
	Rs.	53,650	Rs.	53,650

Profits are shared in the ratio of 2/3rds Gupta and 1/3rd Asar. At that date Gupta retired from business and Asar decided to continue with Roy, his assistant, as partner.

For the purpose of the dissolution, it was decided to adjust the values of the firm's assets as under:—

(a) Reserve Rs. 3,000 for Bad and Doubtful Debts.
(b) Value Work-in-Progress at 31st December 1943 at Rs. 12,000.
(c) Value of Goodwill at Rs. 30,000.

Gupta agreed to leave his share in the business for the time being as a loan at 5% per annum interest. Roy bought one-quarter share of the profits from Asar for Rs. 10,000 and the Goodwill Account was adjusted accordingly. He introduced Rs. 5,000 in cash as working Capital. They then agreed to eliminate Work-in-Progress from their books.

Give the Capital Accounts of Gupta, Asar and Roy and the opening Balance Sheet of Asar and Roy. 508

22. Shanker and Shiva were equal partners and their partnership deed provided for interest on Capital at 5%, and for a valuation of goodwill on death at two years' purchase of the average profit for the last three completed years.

An Assurance Policy for Rs. 16,000 on their joint lives was taken out for the purpose of paying out a deceased partner, and at the date of Shanker's death on 30th November 1943, the surrender value appearing in the Balance Sheet was Rs. 5,800. The profits for the three years ended 30th June 1943 were Rs. 6,000, Rs. 7,200 and Rs. 5,700 respectively.

At 30th June 1943 Shanker's Capital was Rs. 4,800 and his share of profit since was ascertained to be Rs. 1,800 and his drawings Rs. 4,000.

Prepare Shanker's Capital Account and show the amount due to his Executors. 509

23. Kumar and Binod sharing profits equally in a sundry manufacturing business, wanted to convert their partnership into a Limited Company. Their Balance Sheet, on 31st December 1942, was as under:—

Liabilities	Rs.	Rs.	*Assets*	Rs.
Sundry Creditors		24,000	Sundry Debtors	30,000
Loan Creditor		20,000	Bills Receivable (Exclusive of Bills discounted amounting to Rs. 1,000)	5,000
Bank Overdraft		8,000	Stock-in-Trade	18,000
Reserve Fund		3,000	Patents	4,000
Capital Accounts:—			Plant and Machinery ..	8,000
Kumar	20,000		Land and Buildings ..	30,000
Binod	20,000	40,000		
	Rs.	95,000	Rs.	95,000

(1) The goodwill of the firm was to be valued on the basis of twice the average profits calculated on the previous three years' profits.

(2) The Loan Creditor of the firm has agreed to take up 7½% Redeemable Preference Shares to the value of the Loan.

(3) The Land and Buildings and Plant were taken over at a re-valuation of Rs. 50,000 and Rs. 12,000 respectively.

(4) 8% First Mortgage Debentures of Rs. 1,00,000 were issued to a Syndicate at a discount of 4%.

(5) The past working results of the partnership showed the following profits:— Rs. 15,000 in 1940, Rs. 18,000 in 1941 and Rs. 21,000 in 1942, after setting aside Rs. 1,000 to Reserve Fund each year and charging Rs. 1,000, Rs. 1,200 and Rs. 1,400 respectively in respect of Income-tax.

(6) Trade Creditors and Bank Overdraft are paid off.

You are required to give:—

(a) The statement showing how the purchase consideration is arrived at;

(b) The opening Balance Sheet of the Company, assuming that all the transactions are duly completed; and

(c) The Realization Account. 510

24. Smith, Kapadia and Chinoy entered into partnership on 1st October 1941, sharing profits in proportions of 4, 3 and 2 respectively and with Capitals of Rs. 30,000, Rs. 20,000 and Rs. 10,000.

Their assets and liabilities on 1st October 1942, the date on which they decided to wind up their affairs, were as follows:—

Office Fixtures Rs. 1,000, Debtors Rs. 28,000, Bills Receivable Rs. 5,000 and Stock-in-Trade Rs. 45,000. Sundry Creditors were Rs. 20,000. Bills Payable Rs. 4,000.

Smith agreed to take over the Stock at a discount of 10% and pay off the Bills Payable.

Kapadia agreed to take over the Book Debts at a discount of 20% and pay off the Creditors.

Chinoy took over the Bills Receivable at Rs. 4,877 and Office Fixtures at a depreciation of 10%.

5% interest is to be credited to each partner on his Capital.

Prepare Realization Account, Bank Account, Capital Accounts of the partners and a statement showing adjustment of profit or loss in the business. 511

25. Sorab and Rustom carried on business as merchants in partnership sharing profits and losses in proportions of 2/3rds and 1/3rd respectively. They dissolved partnership as on 31st December 1943, when their Balance Sheet was as under:—

Liabilities & Capital	Rs.	Rs.	*Assets*	Rs.	Rs.
Trade Creditors:—			Cash in hand ..	60	
Perfumery Dept. ..	8,000		,, at Bank ..	7,000	7,060
Drugs Dept. ..	6,000		Debtors:—		
	14,000		Perfumery Dept. ..	14,000	
Less Reserve for Discount ..	350	13,650	Drugs Dept. ..	10,000	
Loan Creditor		1,400		24,000	
Capitals:—			*Less* Reserve for Discount ..	600	23,400
Sorab	26,400		Bills Receivable		1,000
Rustom	20,270	46,670	Stock:—		
			Perfumery Dept. ..	16,000	
			Drugs Dept. ..	13,600	29,600
			Fixtures:—		
			Perfumery Dept. ..	360	
			Drugs Dept. ..	300	660
Rs.		61,720	Rs.		61,720

Sorab took over the Perfumery Dept. and Rustom took over the Drugs Dept. along with the departmental assets and liabilities respectively.

The fixtures were reduced by 20% and the stock by 10%.

The partners had taken out a Joint Life Assurance Policy, the premiums on which had been charged to Profit and Loss Account. On 31st December 1943, the total premiums paid amounted to Rs. 4,200 of which Rs. 2,400 was attributable to the life of Sorab and Rs 1,800 to that of Rustom. It was agreed that the policy should be valued at Rs. 4,200 and that each partner should take over his respective proportion on the basis of premiums paid. The Assurance Company issued two new policies to cover the position.

The debtors and departmental creditors were transferred at their full amounts, less 5% on the gross figures of Debtors to provide for bad debts and allowances.

The Loan Creditor was paid out of the firm's bank account.

Rustom took over the Bills Receivable at their face value less 4%.

The Goodwill of the Perfumery Dept. was valued at Rs. 3,000 and that of the Drugs Dept. at Rs. 1,800, and these figures were adopted for the purpose of dissolution.

You are required to show by means of Cash, Bank and Ledger Accounts how the books of the partnership would be closed. 512

COMPANY ACCOUNTS

26.

THE WEEKLY BANNER, LIMITED
TRIAL BALANCE
As at 31st March..........

	£	s.	d.	£	s.	d.
Cash Sales (Newspapers)				642	6	2
Agents' Sales				4,397	13	3
Advertisements charged				6,869	18	7
Cash in hand	53	5	5			
Agents' Returns	359	2	4			
Sundry Printing Sales				12	15	3
Advertisers' Prepayments, unexhausted				37	9	0
Copyright	2,000	0	0			
Machinery and Plant, 1st April	9,000	0	0			
Freehold Property	4,000	0	0			
Office Furniture	120	0	0			
Bank	3,630	8	0			
Revenue Surplus, 1st April				1,530	7	1
£7,000 Consols 2½ per cent at cost	5,869	0	4			
Reserve Fund Account				400	0	0
Discounts allowed	103	11	1			
Paper, Ink, etc. Account	2,960	13	8			
Trade Expenses	170	6	10			
Wages	4,845	13	0			
Discounts received				379	4	3
Bad Debts	90	17	6			
Interest on Consols (9 months received)				123	11	11
Advertisements in other papers	76	7	4			
Fuel, etc.	157	2	4			
Repairs	206	16	5			
Rent of Branches, Rates and Taxes	129	8	8			
Correspondents' Fees	368	2	4			
Printing and Stationery	108	15	6			
New Plant bought, 1st October	400	0	0			
Telephone	78	8	11			
Bill posting and Carriage	225	16	9			
Insurance	48	10	0			
Postage and Telegrams	187	12	2			
Travelling Expenses	195	16	10			
Share Capital, 4,660 £10 Shares, £5 called up				23,300	0	0
Bank Interest				125	6	0
Creditors				850	0	10
Agents' Debit Balances	579	1	5			
Subscribers' Debit Balances	38	4	4			
Advertisers " "	2,758	12	5			
Sales to Subscribers				84	1	7
Credit Balances				10	19	8
Subscribers' 10 £1 Shares "Yellow Press Co., Ltd.", no value	2	0	0			
£	38,763	13	7	38,763	13	7

Wages owing, £95 16*s*. 4*d*.

3 months' interest *less* Tax at 1*s*. 2*d*. in £ on Consols.

The Stocks at 31st March, are: Paper, Ink, etc., £324 10*s*.; Fuel £3 10*s*. Telephone £25 is prepaid. Reserve £150 for estimated costs in Libel Action. Reserve £50 for Bad Debts.

Depreciation on Plant 7½ per cent per annum. Depreciation on Furniture 5 per cent per annum. Provide 10 per cent for Allowances on Advertisers' Debts. Write down Consols to 79½ per cent. Provide Manager's Commission 5 per cent on year's profits before crediting any interest or charging loss on Investments.

Prepare Balance Sheet and Trading Account for year ending 31st March........

27. The Eastern Engineering Company, Ltd., was registered with a nominal capital of Rs. 10,00,000 divided into 5,000 Ordinary Shares of Rs. 100 each and 5,000 7 per cent Cumulative Preference Shares of Rs. 100 each. The whole of the Preference Shares were issued and fully subscribed and paid up. 2,000 of the Ordinary Shares were issued as fully paid in payment for the Goodwill of the established business taken over by the Company. The balance of the Ordinary Shares were offered to the public and fully subscribed. Rs. 75 per share had been called and paid up, with the exception of the second call of Rs. 25 per share on 100 shares, which remained unpaid as on 31st December 1943. 200 6 per cent Debentures of Rs. 1,000 each had been issued at Rs. 1,050 and were fully paid.

In addition to the accounts necessary to record the above transactions, the following Ledger Balances were extracted from the books of the Company as on 31st December 1943 :—

	Rs.		Rs.
Machinery & Plant	1,58,400	Transfer Fees	80
Preliminary Expenses	5,730	Factory Expenses	13,840
Manufacturing Wages	3,78,410	Bonus to Factory work people ..	20,000
Purchases .. .	18,97,420	Do. to Office Staff ..	5,000
Do. Returns	11,240	Office Expenses	4,720
Sales	26,08,360	Office Furniture	6,000
Do. Returns	9,240	Directors' Fees	10,000
Staff Pension Fund	95,000	Discount Account (Cr. Balance)	1,270
Investments (Staff Pension Fund)	94,950	Stock (1st Jan. 1943)	3,29,860
Advertising	37,500	Sundry Debtors	2,29,400
Factory Fuel & Lighting ..	28,620	Sundry Creditors	2,17,840
Machinery Repairs	7,410	Bad Debts	7,240
Salaries of Factory Managers ..	23,000	Audit Fee	1,250
Do. of Office Staff ..	32,610	Freehold, Factory & Office ..	3,85,000
Debenture Interest	12,000	Cash at Bank	99,900
Motor Lorries	28,000	Cash in hand	9,860
Petrol & Running Expenses of Lorries	3,760	Apprentices' Premiums received	6,500
		Apprentices (Salaries and Commission)	33,670

You are required to prepare Manufacturing and Profit & Loss Accounts for the year ended 31st December 1943 and a Balance Sheet on that date.

When preparing these accounts, the following adjustments are necessary:—

(a) Provide depreciation on Machinery & Plant 10%, Motor Lorries 15% and Office Furniture 5%. (b) Wages for one week Rs. 7,380 and Office Salaries for one month Rs. 2,750 were due and had not been passed through the books. (c) The Vendors were liable for one-third of the Preliminary Expenses. (d) A Reserve for Bad Debts is to be created amounting to Rs. 14,000. (e) The Stock on hand, as on 31st December 1943 was valued at Rs. 4,69,420. (f) On 28th December 1943, a claim was received for Rs. 2,500 for non-delivery of goods in the time specified under a contract. The claim was admitted, but no entries had been made in the books. (g) A contribution of Rs. 6,000 is to be made from profits to the Staff Pension Fund. (h) Rs. 50,000 is to be carried to Reserve Account. (i) Rs. 2,500 of the apprentices' premiums is to be carried forward to next year.
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28. From the balances and other information given below, prepare Manufacturing, Trading and Profit & Loss Accounts for the year ended 31st December 1943, and a Balance Sheet as at that date of X, Y Manufacturing Company, Ltd.

The nominal Capital of the Company is Rs. 10,00,000 divided into 90,000 Ordinary Shares and 10,000 6% Preference Shares of Rs. 10 each.

Balances at 31st December 1943

		Rs.		Rs.
Called up Share Capital:—			Debenture Discount Account ..	4,000
Rs. 7½ per share on Ordinary Shares	76,000	5,70,000	Sundry Debtors (including Rs 15,000 owing by Directors)	1,42,000
Rs. 10 per share on Preference Shares	10,000	1,00,000	Sundry Creditors	92,100
5% Debentures ..		2,00,000	Reserve for Doubtful Debts ..	5,450

	Rs.		Rs.
Stocks, 1st January 1943:—		Dividends paid:—	
Finished Goods	1,03,300	Final for the year 1942—Preference	3,000
Raw Materials	1,30,000	Final for the year 1942—Ordinary	14,250
Stores	4,000	Interim for the year 1943—Preference	3,000
Loose Tools	9,400	Interim for the year 1943—Ordinary	28,500
Work-in-Progress	39,600	Purchases of Raw Materials	7,08,800
Machinery and Plant (1st January 1943)	3,57,400	Sales	14,31,600
Machinery and Plant, additions during 1943	10,000	Manufacturing Wages	4,49,300
Machinery and Plant Sales	8,000	Fuel and Lighting (Factory)	9,750
Profit & Loss Account (1st January 1943) (Cr. Balance)	45,700	Fuel and Lighting (Offices)	1,300
Bank Overdraft	31,750	Stores purchased for use in Manufacture	8,400
Goods on Consignment	22,700	Office Expenses	14,200
Investments at Cost	37,000	Office and Travellers' Salaries	32,100
Land and Buildings (1st January 1943)	2,40,000	Cash Discounts	21,600
Debenture Interest	5,000	Carriage Outwards	7,800
Directors' Fees	10,000	Carriage Inwards	5,200
Rates and Insurance (three-fourths Factory)	15,100	Commission on Sales	15,200
Taxes	5,900	Motor Delivery Vans (1st January 1943)	12,800
Motor Running Expenses	14,000		

The Stocks on hand on 31st December 1943 were: Raw Materials Rs. 1,57,200; Finished goods Rs. 1,31,800; Stores Rs. 5,500; Work-in-Progress Rs. 44,000; Loose tools Rs. 8,700. Reserve against loss on consignment Rs. 1,300 and against Doubtful Debts a further Rs. 2,000, and provide for discount on the Debtors' accounts Rs. 3,500. Rates are paid in advance to the amount of Rs. 1,500. Ignore Income-tax.

Write off Rs. 1,000 from the Debenture Discount Account; make provision for one half year's interest accrued on the Debentures and write off depreciation on the book values as at 1st January 1943 of the following assets, viz.:—Land and Buildings at the rate of 2%, Machinery and Plant at the rate of 5%, Motor Vans at the rate of 20% per annum. 515

29. The following is the Trial Balance of the Acme Manufacturing Company, Ltd., as at 31st March 1944:—

		Rs.		Rs.
Authorised Capital—1,00,000 shares of Rs. 2 each, of which 50,000 shares are issued and fully paid up		1,00,000	Returns (Purchases)	1,000
Reserve Fund		20,000	Discounts Allowed	2,000
Goodwill		20,000	Discounts Received	1,000
8% Debentures, 1st April 1943		30,000	Manufacturing Wages	32,000
Freehold Land and Buildings, 1st April 1943		47,000	Freight and Cartage on Raw Materials	1,000
Machinery and Plant, 1st April 1943		30,000	Factory Wages and Expenses	9,000
Stocks:—	Rs.		Salaries: Factory, Rs. 5,000; Office, Rs. 3,000	8,000
Materials and partly manufactured goods	30,000		Repairs and Renewals	2,000
Manufactured goods	16,000		Royalties	500
		46,000	Bad Debts	1,500
Debtors		45,000	General Office Expenses	1,500
Creditors		16,000	Directors' Fees	1,200
Bills Receivable		8,000	Interest on Debentures	1,200
Bills Payable		5,490	Interest on Government Bonds	480
Union Bank		6,000	Interim Dividend at 10% per annum paid 31st October	5,000
6% Government Bonds		8,000	Appropriation Account, 1st April 1943	7,630
Purchases, Raw Materials		88,000	Stock values at 31st March 1944:—	
Sales		1,83,700	Materials and partly manufactured goods	24,000
Returns (Sales)		2,400	Manufactured goods	14,380

The following provisions have to be made:—

(1) Interest on Debentures;

(2) Depreciation: Plant and Machinery, 10 per cent;

(3) Reserve for Doubtful Debts, 3 per cent on Debtors.

You are required to draw up Manufacturing Account, showing (a) Prime Cost, and (b) Cost of Production, and Trading and Profit & Loss Accounts for the year ended and Appropriation Account and Balance Sheet as at 31st March 1944. (B. Com.) 516

30. The Metal Toys Company, Ltd., was formed to acquire the business of P. Byramji, whose Balance Sheet at the date of purchase was agreed as follows:—

Liabilities	Rs.	*Assets*	Rs.
Creditors	25,000	Cash in Hand	1,750
Capital	1,30,000	„ at Bank	8,250
		Debtors	31,000
		Stock-in-Trade	50,000
		Fixtures, etc.	5,000
		Machinery	39,000
		Leasehold Premises	20,000
Rs.	1,55,000	Rs.	1,55,000

The agreement entered into provided that the purchase price should be Rs. 1,80,000 payable as to Rs. 1,20,000 in cash, and as to Rs. 60,000 by the allotment of 600 fully paid shares of Rs. 100 each in the company. The nominal capital of the company was Rs. 3,00,000 divided into 3,000 shares of Rs. 100 each, of which 2,000 shares of Rs. 100 each were allotted on 1st July 1944, payable as to Rs. 50 on application and Rs. 50 on allotment. The whole of the cash due in respect of the shares was duly received. The cash consideration was paid by the company on 20th July, and the vendor's shares were allotted on that date. The preliminary expenses amounted to Rs. 4,000. You are required to open the books of the company, recording the above transactions, and prepare the Balance Sheet as at 20th July 1944. 517

31. P, Q and R decide to convert their business into a Limited Liability Company on 1st January 1944 with a nominal capital of Rs. 10,00,000, divided into 1,00,000 shares of Rs. 10 each.

The firm's Balance Sheet at 31st December 1943, is as follows:—

Liabilities	Rs.	Rs.	*Assets*	Rs.
Creditors		2,00,000	Book Debts	3,00,000
Bank Overdraft		55,000	Plant and Machinery ..	1,00,000
Capital:—			Property	2,00,000
P	2,50,000		Stock	2,50,000
Q	2,00,000		Cash in Hand	5,000
R	1,50,000			
		6,00,000		
Rs.		8,55,000	Rs.	8,55,000

The profits for the three years ended 31st December 1943, were Rs. 60,000, Rs. 70,000 and Rs. 80,000 respectively. The following arrangements were agreed:—(1) to create goodwill equal to the aggregate of the last three years' profits; (2) to credit the goodwill to the partners in proportion to their capitals; (3) to transfer to the Company the Plant and Machinery, Property and Stock only; (4) the Book Debts to be collected by the new Company on behalf of the vendors and the liabilities of the firm to be discharged by the Company also on behalf of the vendors; (5) the Company takes charge of the Cash on behalf of the vendors; (6) P and Q to take Rs. 50,000 6% Preference Shares each and the balance of their capital in Ordinary Shares, and R to take the whole of his capital in 6% Preference Shares.

The preliminary expenses, amounting to Rs. 10,000, were borne by the Company and were to be written off in three years' time if profits allowed. The following figures were extracted from the Company's books for the purpose of making up interim accounts of June 30th, 1944:—

	Rs.		Rs.
Purchases	4,00,000	Drawings on Account of Dividends:— P	7,500
Wages	50,000	Q	7,500
Carriage	10,000	R	5,000
Discount (Dr.)	11,000	Bank	2,500
Repairs	2,500	Cash	500
Rates and Insurance	3,500	Debtors	2,40,000
Coal	5,000	Sales	5,92,000
General Expenses	15,000	Discount (Cr.)	8,000
Preliminary Expenses	10,000	Creditors	1,20,000

The Stock at June 30th, 1944, amounted to Rs. 2,20,000.

The Debtors at June 30th, 1944, included Rs 40,000 belonging to the Vendors, Rs. 10,000 of which were irrecoverable, and should be written off. All the liabilities of the old firm had been discharged. Discounts allowed and received included Rs. 5,000 and Rs. 2,000 respectively in connection with the Vendors' debts.

Draw up Trading and Profit & Loss Account and Balance Sheet at June 30th, 1944, allowing 2½% discount off the Company's Debtors and 1¼% off Creditors. Allow 5% depreciation on Plant and Machinery. 518

32. The Balance Sheet of the firm A, B and Co. stood as under on 31st December 1943:—

Liabilities	Rs.	*Assets*	Rs.
Trade Creditors	30,000	Sundry Debtors	45,000
Loans	40,000	Furniture	6,000
Partners' Capital (Fixed)	80,000	Leasehold Property	18,000
		Horses and Carts	4,000
		Stock	70,000
		Cash at Bank	7,000
Rs.	1,50,000	Rs.	1,50,000

The Bombay Trading Co., Ltd. is registered on 17th May 1944, with a Capital of Rs. 1,50,000 divided into 1,500 Shares of Rs. 100 each. On 4th August 1944, it was decided by the Company to buy up the above business as from 1st July 1944. Six months' regular accounts had to be prepared, but as it was not possible to take stock on 30th June 1944 it was arranged to estimate the same on the basis of the last five years' average percentage of gross profit which was 33-1/3% of the turnover.

The following figures represent the six months' transactions:

Purchases.	Rs.	Sales.	Rs.	Departmental Expenses. Rs.
Cash	13,000	Cash	20,000	5,000
Credit	34,000	Credit	37,000	

The rent, rates, taxes and establishment charges amounted to Rs. 7,600 (including therein personal expenses of partners to the extent of Rs. 600). Partners' drawings amounted to Rs. 1,400.

Interest was to be allowed on Loan and Capital accounts at five per cent per annum; Furniture and Leasehold property were to be depreciated by 2½ per cent, and horses and carts at 10 per cent.

On 30th June 1944, Debtors stood at Rs. 39,000, Creditors at Rs. 23,000 and Loans at Rs. 40,000.

Work out the Stock and Cash Balances. Draw up Trading and Profit & Loss Account for the half year ended 30th June 1944 and prepare a Balance Sheet as on that date.

The Company acquired the above concern on the basis of the Balance Sheet as on 30th June 1944, it being agreed to value the goodwill at five years' purchase of the excess earned above 8 per cent on partners' fixed Capital as per abovesaid six monthly Profit & Loss Account (which averaged same as past five years' profits).

The Vendors are allotted Fully Paid Shares as purchase consideration of their concern and its goodwill.

The remaining shares are taken up and fully paid for by the public. Show the details of working out the goodwill and prepare also the Company's Balance Sheet. 519

33. Criticism is sometimes made that Audited Balance Sheets of Joint Stock Companies do not show clearly the appropriation of the Balances at the credit of Profit & Loss Accounts. Show how you deal with the same in the Balance Sheet as on 31st December 1943 to be placed before the shareholders in the following case :—

	Rs.	Rs.
Called up Capital as per last Balance Sheet on 31st December 1942	5,00,000	
Less Calls in arrears	10,000	
		4,90,000

Appropriation of the profit for the year ending 31st December 1942, as resolved by the shareholders at their meeting on 7th March 1943 :—

Rs. 10,000 to be carried to Reserve Fund.
" 5,000 to Employees' Provident Fund.
" 3,000 to be distributed as Bonus to Staff.
" 7,000 to be carried to Dividend Equalisation Fund, and a dividend of 12 per cent to be declared for the half year ending 31st December 1942 (a dividend for the first half year ending 30th June 1942 having already been declared).

All the Calls in arrears were paid in March 1943. On the 9th of August 1943, it was resolved to declare a dividend of 8 per cent for the first half year ending 30th June 1943. The profit made during the year amounting to Rs. 98,000.

On 31st December 1943, the Profit & Loss Account in the Ledger showed a credit balance of Rs. 79,500 after being credited for the balance as per last balance sheet and for the current year's profit and after being debited for appropriations as per resolutions of 7th March 1943 and 9th August 1943. 520

34. The Calcutta Co., Ltd. was registered with a Nominal Capital of Rs. 20,00,000 divided into 25,000 Ordinary Shares of Rs. 40 each, and 25,000 Deferred Shares of Rs. 40 each. 20,000 Ordinary Shares were issued and fully paid with the exception of 400 shares in respect of which a call of Rs. 10 was outstanding, since 6 months.

All the Deferred Shares were issued, Rs. 30 having been called and paid. Sundry Deferred Shareholders had paid calls in advance to the extent of Rs. 20,000 since 6 months.

In addition to the provision in Table "A" (including those regarding Interest on calls paid in advance and on calls in arrears), the Company's Articles contained the following regulations as to Dividends :—

(*a*) The Ordinary Shares to receive a Dividend upto 5 per cent per annum, and to rank for a further dividend on the terms mentioned below, after the Deferred Shares have received a Dividend of 12½ per cent per annum.

(*b*) The Deferred Shares to receive a Dividend upto 12½ per cent as above, and to rank equally with the Ordinary Shares for a Dividend not exceeding a further 7½ per cent per annum.

(*c*) The shareholders may resolve in General Meeting to award a Bonus to the Directors of 1 per cent on the surplus profits, if any, after the Ordinary and Deferred Shares have received Dividends of 5 per cent and 12½ per cent respectively.

(*d*) The remaining profits, if any, to be appropriated to a Dividend Equalization Account, upto Rs. 1,00,000, the balance to be carried to General Reserve.

The profits for the year ended June 30th, 1944, amounted to Rs. 6,13,550.

You are required to prepare the Appropriation Account, assuming that the Directors were awarded the 1 per cent Bonus. 521

35. How would you deal with the undermentioned items when preparing the annual accounts of a limited Co. :—(1) Transfer of £5,000 to Reserve Fund. (2) £750 commission and expenses incurred on the issue of £8,000 4 per cent Debentures repayable in 8 years from the date of issue. (3) Transfer of £3,500 to the Company's own Marine Insurance Fund. (4) An issue of 100 5 per cent Debentures of £100 each at £95, repayable in 10 years from the date of issue at par?

(*London Chamber of Commerce.*) 522

36. The following items appeared in the Balance Sheet of the Sound Investments Co., Ltd., on the 31st December 1942 :—

		Rs.	Rs.
Interest and Dividends outstanding	.. ..	5,312	
Less Income-tax	.. ..	332	
			4,980
Interest accrued but not due	.. ..	71,040	
Less Income-tax	.. ..	4,440	
			66,600

The Company purchased during the year 1943, Securities for Rs. 5,00,000, the accrued interest included in the purchase price being Rs. 2,128 (gross), tax thereon Rs. 133. It sold during the same period Securities for Rs. 2,50,000, the accrued interest included in the sale price being Rs. 944 (gross), tax thereon Rs. 59.

The amount of interest and dividends that fell due to be paid during 1943 but was not paid, was Rs. 2,09,000 (gross), tax thereon Rs. 13,100.

The following figures were extracted from the Company's Cash Book for the year ending 31st December 1943:—Securities sold Rs. 2,50,000; interest and dividends (gross), Rs. 2,07,520; Income-tax on interest and dividends Rs. 12,970; Securities purchased Rs. 5,00,000.

The interest accrued but not due on the 31st December 1943 was estimated to be Rs. 75,200 (gross), tax thereon Rs. 4,700.

Make the necessary Journal entries and draw up the Interest and Dividends and Income-tax Accounts as they would appear in the Company's General Ledger.

(*G.D.A.*) 523

37. How would you deal with the following, if called in to prepare the annual Balance Sheet of a Company as at 31st December ——, the Company being registered in Bombay:—

(*a*) Income-tax to be paid on the year's Profits.

(*b*) Two shares of Rs. 100 each upon which the holders had paid Rs. 30 and Rs. 20 respectively were forfeited by the directors and were re-allotted by them to A B the Secretary of the Company. The directors resolved that on A B paying Rs. 90 per share, they should be considered as fully paid-up.

(*c*) Livestock Account Rs. 3,250. You ascertain that this represents the value of five horses; that in the previous Balance Sheet Livestock stood at Rs. 3,500 and that there were then seven horses, two having since died during the year under review.

(*d*) Expenditure on an incomplete contract for installing sprinklers in an up-country mill:—

	Rs.
Wages	5,000
Materials	15,000
Travelling Expenses	500
Plant and Tools	700
Bombay Salaries, Rent, and Expenses—proportion ..	800

524

38. How would you treat the following items in preparing a Balance Sheet?:—

(*a*) You are to take Rs. 5 lacs out of a Bank's profits and place to Secret Reserve undisclosed to shareholders.

(*b*) Donations received by a Club to build a new Tennis Court (not commenced).

(*c*) Debenture Redemption Fund, the debentures having all been paid off out of cash.

(*d*) Interest received by a New Company on Share Capital invested, business not having commenced.

(*e*) Remittances in transit between Head Office and Branches. 525

39. The following adjustments were necessary to complete the Final Accounts of a Newspaper Company, as at 31st December 1943:—

(*a*) Rs. 3,750 for Salaries and Rs. 1,800 for Directors' Fees were to be brought into account; (*b*) Rs. 1,200 were paid as Fire Premium for the year ended 31st March 1944; (*c*) Rs. 900 were received for subscriptions, and Rs. 1,200 for advertisement appertaining to 1944; (*d*) Rs. 1,275 spent on the purchase of a new Machine were wrongly debited to Machinery Repairs Account; (*e*) Outstanding Subscriptions and Advertisements receivable were Rs. 1,800 and Rs. 4,200 respectively; (*f*) Rs. 480 spent in erecting some new plant were included in the General Wages Account; (*g*) Paper amounting to Rs. 1,500 was received on 27th December 1943 and taken into stock but the corresponding purchase entry was omitted to be made. Pass the necessary entries to adjust the books. 526

40. As an accountant to a Company, how would you record the following transactions in the Company's Journal:—

(*a*) The Company buys a Building worth Rs. 20,000 from Messrs. Dalal & Co. who are given 120 fully paid Shares of the Company of the nominal value of Rs. 100 each in full payment of the purchase consideration. These Shares are quoted in the Market at Rs. 190 each.

(*b*) The Company had bought Machinery for Rs. 1.00,000 including a Boiler worth Rs. 10,000. The Machinery Account had been credited for Depreciation on the Reducing Instalment System for the past four years at the rate of 10%. During the fifth, i.e. the present year, the Boiler became useless on account of damage to some of its vital parts. The damaged Boiler is sold for Rs. 2,000 which amount is credited to the Machinery Account. The Machinery Account is to be adjusted by taking into consideration the loss on account of the damaged Boiler. (*B. Com.*) 527

41. The Royal Engineering Co., Ltd. desiring to extend their premises obtained an option on certain land adjoining their works, for which they paid Rs. 1,000. The Company did not exercise the option, as the opportunity occurred for the purchase of the Assets of the Bombay Motor Company, Ltd. (in liquidation), whose works adjoined those of the Royal Engineering Co., Ltd.

The Assets purchased consisted of Freehold Land and Buildings Rs. 2,00,000; Fixed Plant and Machinery Rs. 50,000; and Loose Plant and Tools Rs. 30,000. The Stock-in-Trade was to be taken at a valuation to be made by Valuers, one appointed by each party; or, failing agreement, the value was to be fixed by an Umpire to be appointed by the Valuers. The Valuers disagreed, and the Umpire fixed the value of the Stock at Rs. 2,50 000. The purchasers also agreed to pay Rs. 1,20,000 for Goodwill. The expenses of taking the Inventory of the Stock were Rs. 1,000, which was paid by the Royal Engineering Co., Ltd., and one-half charged to the Bombay Motor Co., Ltd. The expenses of Stock Valuation amounted to Rs. 10,000, each side paying one-half. The Stamp Duties and Legal Expenses of the Royal Engineering Co., Ltd. in connection with the matter were Rs. 10,000.

To enable them to carry the matter through, the Royal Engineering Co., Ltd., obtained a loan of Rs. 7,00,000 from their Bankers.

For the purpose of preserving the Goodwill of the Bombay Motor Company's name, the Royal Engineering Co., Ltd., decided to carry it on as a Branch.

Pass the necessary entries in the books of the Royal Engineering Co., Ltd., recording the above transactions; and show the account with the Vendors and the Branch Account. 528

42. The Engineering Company, Ltd. have works in a suburb of London, the Head Office being in the City, where all orders for the Company's goods are taken. The goods are manufactured at the Works, and are invoiced to Head Office at "cost", made up of materials, productive labour, and an agreed rate of 125 per cent on productive labour to cover "oncost" or overhead charges, viz. 5 per cent Interest on Capital employed, Depreciation, and all expenses of the Works. One-fourth of any surplus on "Oncost Account" is credited to the Works Manager as extra remuneration, and the remainder is transferred to Head Office as Profit. The Balances in the Ledger of the Works on 1st January 1943 were as follows:—

	£	£
Plant and Machinery (Depreciation $7\frac{1}{2}$ per cent) ..	50,000	
Loose Tools (do. 15 do.) ..	8,000	
Cash in Hand	200	
Freehold Land	5,000	
Buildings (Depreciation 2 per cent)	16,000	
Stock on hand and Work-in-Progress	23,800	
Head Office		103,000

The Head Office pays all accounts and furnishes the Works with cash required for Wages, etc.; the debits to the Works for the year 1943 were:—

	£
Purchases chargeable to jobs	52,000
Do. not chargeable to jobs	6,000
Cash for Productive Wages	28,000
Do. Unproductive Wages	5,500
Work Salaries	4,100
Other Works Expenses	6,500
	£ 102,100

In addition to the amounts mentioned above, the Trial Balance of the Head Office on 31st December 1943 consisted of the following:—

	£	£
5 per cent First Mortgage Debentures		50,000
Ordinary Share Capital		100,000
Creditors		23,850
Goodwill	40,000	
Cash at Bankers and in Hand	19,300	
General Reserve		30,000
Profit and Loss Balance from 1942		7,400
Investments	26,500	
Sales		133,500
Debtors	36,500	
Salaries and Travelling	3,800	
Rent	1,200	
Directors' Fees	2,000	
Other Expenses	4,600	
Debenture Interest for Year	2,500	
Interim Dividend on Ordinary Shares	5,000	
Interest and Dividends on Investments		1,750

The Works Invoices to Head Office for the year amounted to £111,500, and the Stock-on-hand and Work-in-Progress on 31st December 1943 was £27,300.

Show the Works "Oncost Account" for the year, the Balance Sheet of the Company as at 31st December 1943, and Profit and Loss Account for the year. Ignore Income-tax. *(Chartered Accountants.)* 529

43. In June 1943, a professional body entered into a contract for the purchase of a building for a sum of Rs. 1,90,000, and a further Rs. 10,000 was earmarked for furnishing, etc. The necessary funds were derived from the following sources, viz. Bank Deposit, Rs. 10,000; Realization of Investments, Rs. 50,000; Proceeds of Debenture Issue, Rs. 1,40,000. Assume the following to have been the details of the transactions:—

Deposit. Rs. 19,000 paid June 1st, 1943 (Rs. 10,000 taken from Bank Deposit Account and Rs. 9,000 borrowed from Bank); balance of purchase money, Rs. 1,71,000, paid October 15th, 1943, from realisation of securities and debenture moneys received (see below) and Rs. 1,000 borrowed from Bank; Furniture purchased October 31st, 1943, Rs. 10,000, with moneys borrowed from Bank; Bank loan repaid June 1st, 1944, with balance of debenture moneys received. The Securities which were sold for Rs. 50,000 stood in the books at, say, Rs. 51,680.

Rs. 1,40,000 was raised on 5 per cent Debentures, and the terms of the issue were 5 per cent deposit payable on application (July 1st), and the balance payable on October 1st, 1943, or at the option of the subscriber in four equal instalments on October 1st, 1943 (*less* deposit), December 1st 1943, March 1st 1944, and June 1st 1944; interest payable half-yearly, January 1st and July 1st. The total subscription for the Debenture issue was, say, Rs. 4,20,000, *viz* Rs. 3,60,000 for completion on October 1st and Rs. 60,000 for completion in instalments. All applicants received one-third of the Debentures applied for, the excess deposit being retained on account of the balance.

Prepare Journal entries for all the transactions involved to June 30th, 1944, including interest payable; also give the Cash Book entries to that date assuming that all amounts were received and paid on due dates. Calculate interest on Bank Loan 5½% per annum.

44. The Bombay Cotton Mills, Ltd., was started with a nominal capital of Rupees One Crore divided into 50,000 ordinary shares of Rs. 100 each and 50,000 7% cumulative preference shares of Rs. 100 each. Out of these 34,000 ordinary and 17,000 preference shares were taken up and the amount of Rs. 100 in all was called per each share. A sum of Rs. 12,59,655 however remained unpaid as at March 31st, 1944, on allotment and calls from several shareholders and the Secretary of the Company. During the year, the company issued debentures (secured on the Land, Building and Machinery) of the nominal value of Rs. 12,00,000 out of which Rs. 8,00,000 were taken up and Rs. 4,00,000 were paid to the company as a loan on the security of the debentures. Out of the sundry creditors of Rs. 17,62,612, Rs. 14,977 were due to merchants on account of stores supplied, Rs. 62,838 on account of wages, etc., Rs. 1,36,580 due to Imperial Bank of India on account of Overdraft against the security of the investments and Rs. 5,93,680 due to the Indian Bank, Ltd., on account of Cash Credit secured on the hypothecation of stock. The Preference Dividend amounting to Rs. 1,06,600 was not paid as the mills made a loss.

The following are the further Ledger balances of the company as at 31st March 1944:—

	Rs.
Sundry Creditors	17,62,612
Land and Buildings (Cost Rs. 28,23,064)	26,23,064
Plant and Machinery (Cost Rs. 32,68,081)	24,88,719
Book Debts	65,531
Unexpired Insurance	7,063
Investments 6% Bonds of the nominal value of Rs. 2,05,000 at cost	2,05,062
Profit & Loss Account (debit)	99,339
Cash with Banks and in hand	42,740
Stores and spare gear at cost	90,560
Stock-in-Trade at cost	11,78,616
Furniture	2,263

From the above particulars, prepare a Balance Sheet in the form prescribed by the Indian Companies Act. 531

45. A Company was formed to acquire the business of X and Y as a going concern on 1st January.

The amounts standing to the credit of X and Y were Rs. 9,786 and Rs. 7,644 respectively on this date, and the purchase agreement provided that 900 fully paid shares should be allotted to X and 700 to Y in part consideration for the sale, and that each partner should receive in cash 1/3rd of the amount standing to his credit as additional consideration. The Company had a nominal capital of Rs. 50,000 divided into 5,000 shares of Rs. 10 each of which 2,200 were issued (at a premium of annas eight per share and fully subscribed) in addition to the shares allotted to X and Y.

The agreement for sale further provided that any bad debts incurred during the first year of the Company's existence should be borne as to one-third by the Company and one-third each by X and Y.

In addition to any balances represented by the above information, the following balances were extracted from the books of the Company on 30th December:—

	Rs.		Rs.
Stock, 1st January	12,752	Works Wages	12,815
Rates, Taxes and Insurance ..	983	General Expenses	2,621
Freehold Premises	9,645	Motors	3,700
Purchases	47,862	Manufacturing Expenses ..	2,195
Purchase Returns	951	Audit and Legal Charges ..	327
Bad Debts	348	Advertising Charges	6,718
Plant and Machinery	3,950	Fuel and Power	415
Factory Cash Imprest	50	Carriage on Purchases	912
Sales	98,310	Carriage on Sales	315
Sales Returns	1,214	Sundry Debtors	16,940
Discount Account (Debit) ..	872	Sundry Creditors	5,340
Furniture and Fittings ..	1,440	Bills Payable	1,920
Managing Director's Salary ..	2,000	Cash at Bank	3,815
Office Salaries	6,403	Cash in Hand	89

You are required to prepare Trading and Profit & Loss Accounts for the year ended 31st December, and a Balance Sheet as on that date.

The adjustments necessary are:—

(a) 10 per cent depreciation to be written off Plant and Machinery, 15 per cent off Motors, and 5 per cent off Furniture and Fittings.

(b) A reserve for Bad Debts is to be created amounting to 5 per cent of the Sundry Debtors and reserve for Discounts of 2½ per cent on the Debtors (before deducting the reserve for Bad Debts) and of 2½ per cent on the Creditors.

(c) Stock on hand on 31st December was valued at Rs. 6,486. 532

46. What is meant by the terms "Working Capital" and "Capital Debt". Re-arrange the following Balance Sheet and state the Working Capital or Capital Debts, after carrying out the recommendation of the Directors of a declaration of dividend of Rs. 25 per share. What difference would it make if no dividend were declared?

BALANCE SHEET.

Liabilities	Rs.	*Assets*	Rs.
Reserve Fund	5,00,000	Cash at Bank	4,00,000
Depreciation Fund	3,00,000	Land	4,00,000
Sundry Creditors	4,00,000	Buildings	6,00,000
Dividend Equalisation Fund ..	4,40,000	Stock-in-Trade	4,00,000
Loans Unsecured	8,00,000	Machinery	28,00,000
Profit & Loss Account	*7,00,000*	*Debtors*	*5,40,000*
Share Capital—20,000 shares of Rs. 100 each .. .	20,00,000		
Rs.	51,40,000	Rs.	51,40,000

533

47. The Hind Engineering Company obtained the Suburban District Electric license at a cost of Rs. 6,300. The Suburban Electric Supply Co., Ltd. was registered with a Capital of Rs. 6,00,000 divided into 20,000 shares of Rs. 30 each payable at Rs. 6 on application, Rs. 15 on allotment and Rs. 9 on call. The Company issued 15,000 shares to the public which were all subscribed for and duly allotted. The Company took over the abovesaid license along with other concessions from the Hind Engineering Company for a consideration of 1,000 shares of Rs. 30 each issued as fully paid and of the payment for out-pocket expenses incurred in obtaining the license which were not to exceed Rs. 6,000. By the 30th June 1944 all the Calls were made and the construction work was over. The Preliminary expenses were estimated at Rs. 15,000 and any excess over that was to be borne by the Hind Engineering Company. The Directors decided to allocate all expenditure upto 30th June 1944 over Building and Transmission Lines in proportion of the total expenditure on the same. Given below is the Trial Balance as on 30th June 1944:—

	Rs.		Rs.
Allotment	24,000	Share Capital	4,80,000
Call Account	18,000	Hind Engineering Co. ..	45,000
Stamp and Stationery	3,300	Broadway Company ..	18,000
Buildings (Cash payments Rs. 9,000)	96,000		
Salaries	8,400		
Transmission Line (Cash payments Rs. 45,000)	1,89,000		
Establishment Charges	2,700		
Cost of License and Concessions	30,000		
Rent	3,600		
Preliminary Expenses	16,800		
Government Paper at Cost (Deposited with Government) ..	55,200		
Fixed Deposit at Bank	90,000		
Cash at Bank	5,400		
Cash on hand	600		
Rs.	5,43,000	Rs.	5,43,000

The building materials are supplied by Broadway Co. who have been already credited and Buildings Account debited for bills amounting to Rs. 87,000 and bills for Rs. 24,000 are still outstanding. The transmission lines materials are supplied by the Hind Engineering Company who have been credited and Transmission Lines Account debited for bills amounting to Rs. 1,44,000 and bills for Rs. 51,000 are still outstanding. All these outstanding bills are required to be adjusted.

From the details given above, prepare the statement of Receipts and Payments account for insertion in the Statutory Report.

Prepare also a Balance Sheet after making due adjustments in the account of the Hind Engineering Company in respect of Preliminary Expenses and out-pocket expenses incurred in obtaining the license.

48. A Limited Company issued £50,000 Redeemable Preference Shares at par on 1st June 1938, redeemable at the option of the Company on or after 31st December 1940, in whole or in part. The following redemptions were made out of profits:—

On 31st December 1940, £10,000.

On 31st December 1941, £15,000.

On 31st July 1942, the Company issued £50,000 worth Ordinary Shares and redeemed the remaining Redeemable Preference Shares from the proceeds thereof.

Give the Journal Entries and the Ledger Accounts concerned, and show how the items will appear in the Balance Sheets of each of these years. 535

49. The X, Y, Z Co., Ltd., did not provide Depreciation on their plant and machinery (which formed a costly asset) in their accounts for the year ended 31st December 1943 and the reasons adduced by the Board for so doing were as under:—

(1) That the assets had been maintained in a highly efficient condition, and that all repairs and renewals had been charged to revenue;

(2) That the present cost of similar machinery had considerably gone up, and the book value of the asset appeared at far beneath its current market price; and

(3) That the net profit made in the year would not admit of any dividend being declared, if any depreciation were charged.

What arguments would you bring forth to refute the above reasonings? 536

50. Give brief arguments for and against the issue of Bonus Shares by a Limited Company, (a) from the view-point of the company, (b) from the view-point of the shareholders. 537

51. The Board of Directors of a company desirous of approaching bankers for a Loan, seek to know from you as to the lines on which the bank would ask for information. Draft a report on the same. 538

52. The Bharat Soap Company, Ltd. issued 7½% Debentures for Rs. 7,50,000 at a discount of 5% on 1st January 1940, repayable by annual drawings of Rs. 1,50,000. The repayments were duly made by means of drawings on 31st December each year. You are required to allocate the discount on Debentures to each of the years in such a manner as would make each year bear its burden in due proportion to the moneys utilised in that year. 539

53. Discuss briefly how you would deal with each of the following items:—

(a) Premium paid on the acquisition of a lease.

(b) Accrued dividend on the purchase of an investment cum. dividend.

(c) Amount paid as compensation for loss of goodwill to a business, on acquisition of property for road widening.

(d) Compensation for loss of office to the directors of a company being absorbed by another.

(e) Interest paid over delay of completion of purchase of landed property.

(f) Cost incidental to the raising of mortgage loan.

(g) Cost of pulling down an old factory in order to build a new one in its place. 510

54. Fashions, Ltd. was incorporated on 1st August 1913 for the purpose of taking over as a going concern the business of sunshade manufacturers carried by Davis and Dawsell. The purchase price was determined on the basis of a Balance Sheet drawn

up as on 1st February 1943 and the sale agreement provided that the vendors should be entitled to 50% of the profits earned prior to incorporation in lieu of interest on the unpaid purchase money.

Accounts were prepared for the year to 1st February 1944, the summarised trading results being as follows:—

	Rs.		Rs.
To Materials Consumed ..	57,000	By Sales *less* returns ..	1,02,000
„ Manufacturing Wages ..	15,000		
„ Gross Profit c/d. ..	30,000		
	Rs. 1,02,000		Rs. 1,02,000
To General Expenses ..	18,300	By Gross Profit b/d. ..	30,000
„ Net Profit ..	11,700		
	Rs. 30,000		Rs. 30,000

Further enquiry shows that:—

(*a*) The general expenses included Directors' Fees of Rs. 750 and formation expenses Rs. 900.

(*b*) Sales to the value of Rs. 33,000 were made during the first six months of the trading period.

You are required to prepare a statement showing the profits earned prior to and since incorporation and the proportion thereof due to the vendors, and to state how the Company may deal with the profits earned in the respective periods. 541

55. A Limited Company had issued 7½% Mortgage Debentures of the sum of Rs. 10,00,000 on 1st February 1932 at a discount of 5% redeemable in twenty years at par, but with the right to redeem at any time after ten years at premium of 5% upon three months' notice being given. The Company gave due notice to exercise its option on 1st February 1942. The Sinking Fund Investments by them amounted to half the amount of the liability and were realised at a premium of 10%. The whole of the Debentures were paid off on 1st May 1942, half the amount required being satisfied by a Loan on mortgage from the Industrial Bank, Ltd. Show the entries relating to the redemption and the necessary Ledger Accounts. 542

56. Explain briefly how you would deal with the following:—

(*a*) Conversion of Gas Plant to Oil Fuel Plant for generation of electricity;

(*b*) Structural alterations to Buildings; and

(*c*) Stock and machinery appearing in the books at Rs. 60,000 and Rs. 36,000 having been destroyed by fire, Rs. 65,000 and Rs. 38,000 respectively were received by way of insurance money. 543

AMALGAMATION & RECONSTRUCTION

57. On December 31st, 1943, the Balance Sheet of the M. Co., Ltd., was as follows:—

Liabilities.	£	£	*Assets*	£
Nominal Capital, £20,000 divided into 10,000 6% Cumulative Preference Shares of £1 each, and 10,000 Ordinary Shares of £1 each			Land and Buildings	2,000
Paid up Capital—			Plant and Machinery	5,000
6,000 Ordinary Shares ..	6,000		Tools and Utensils	1,000
6,000 Preference Shares ..	6,000		Stock	7,000
		12,000	Sundry Debtors	3,000
5 per cent Debentures		3,000	Bills Receivable	900
Sundry Creditors		5,000	Cash	100
Bills Payable		3,000	Profit & Loss Account:— Dr. Balance	8,000
Bank Overdraft		4,000		
		£ 27,000		£

It was decided to reconstruct the Company, and for this purpose, another Company, called the M. (1944) Co., Ltd., was registered with a Capital of £20,000, divided into 8,000 Ordinary Shares of £1 each, and 12,000 7 per cent Preference Shares of £1 each to take over Assets and Liabilities of the M. Co., Ltd.

The Debenture-holders in the M. Co., Ltd., agreed to accept 7 per cent Cumulative Preference Shares in the M. (1944) Co., Ltd., in exchange for their Debentures.

The Preference Shareholders in the M. Co., Ltd., were to receive one Preference Share in the M. (1944) Co., Ltd., for every three shares held by them in the M. Co., Ltd.

The Ordinary Shareholders were to be allotted one Ordinary Share, 15*s.* paid, in the M. (1944) Co., Ltd., in exchange for every four shares held by them in the M. Co., Ltd.

The Costs of the liquidation of the M. Co., Ltd., were paid by the M. (1944) Co., Ltd.

Give the Journal entries necessary to record the above transactions in the books of the M. Co., Ltd. (*Chartered Accountants.*) 544

58. On 1st January 1944, the "A" Co., Ltd., took over the Assets and Liabilities of the "B" Co., Ltd., on the following terms:—

For every £1 share fully paid in the "B" Co., one £1 share, 15*s.* paid, in the "A" Co., was to be allotted, and for every £100 Debenture in the "B" Co., £90 4% Debenture Stock in the "A" Co.

The Balance Sheet of the "B" Co., on 1st January 1944 was:—

Liabilities	£	*Assets*	£
Paid up Capital—		Land and Buildings	5,000
25,000 Shares of £1 each ..	25,000	Plant, Machinery & Tools ..	17,500
150 4% 1st Mortgage Debentures		Stock-in-Trade	10,000
of £100 each	15,000	Sundry Debtors and Bills	
Sundry Creditors	6,000	Receivable	13,500
Profit & Loss Account, Balance ..	200	Cash in hand and at Bank ..	200
	£ 46,200		£ 46,200

Draft the Journal entries for recording these transactions in the books of the "A" Co., and also of the "B" Co., and close the books of the "B" Co. All expenses, including liquidation of the "B" Co., were paid by the "A" Co.

(*Chartered Accountants.*) 545

59. The Albert Co., Ltd., and the Brown Co., Ltd., (both Private Companies) amalgamate their business in the following manner:—

A holding company called the Xavier Co., Ltd. was registered on 1st July 1943 with a capital of Rs. 30,00,000 divided into 2,00,000 shares of Rs. 15 each to purchase all the ordinary shares of both companies. Martin, the Managing Director of the Albert Co., Ltd., and Newton, the Managing Director of the Brown Co., Ltd., each took up and paid for 1,000 shares.

The issued capital of the Albert Co., Ltd., consisted of 75,000 ordinary shares of Rs. 15 each fuly paid, and 60,000 preference shares of Rs. 15 each fully paid. The issued capital of the Brown Co., Ltd., consisted of 40,000 ordinary shares of Rs. 15 each fully paid.

The Albert Co., Ltd. shareholders received one 15 rupees share fully paid in the Xavier Co., Ltd., in exchange for each of their ordinary shares.

The Brown Co., Ltd. shareholders received one and a half shares of Rs. 15 each fully paid in exchange for each of their ordinary shares.

The formation expenses of the Xavier Co., Ltd., which amounted to Rs. 21,000 were paid out of Cash received from Martin and Newton for shares taken up by them.

Make the entries in the books of the Companies (where necessary) to give effect to the above arrangements, and set out the Opening Balance Sheet of the Xavier Co., Ltd. 546

60. Two Companies carrying on similar business decided to amalgamate as and from 1st January 1944.

Their respective agreed Balance Sheets were as follows:—

S. COMPANY LIMITED, BALANCE SHEET

As on 31st December 1943

Liabilities	Rs.	*Assets*	Rs.
750 Ordinary Shares of Rs. 100 each	75,000	Freehold Land & Buildings ..	12,000
Sundry Creditors	3,500	Plant & Machinery (*less* Depreciation)	19,500
Reserve Fund	5,500	Stock	15,000
Profit & Loss Account	2,000	Sundry Debtors	8,000
		Cash in hand and at Bank ..	1,500
		Goodwill	30,000
	Rs. 86,000		Rs. 86,000

R. COMPANY LIMITED, BALANCE SHEET

As on 31st December 1943

Liabilities	Rs.	*Assets*	Rs.
500 Ordinary Shares of Rs. 100 each	50,000	Plant and Machinery	25,000
Sundry Creditors	3,500	Stock	12,000
Depreciation Fund	2,500	Sundry Debtors	6,000
Profit & Loss Account ..	2,500	Cash in hand and at Bank ..	500
		Goodwill	15,000
	Rs. 58,500		Rs. 58,500

In the case of S. Company, Limited, which has been in existence for several years, Plant and Machinery have been regularly depreciated, but in the case of R. Company, Limited, which only commenced business on the 1st January 1943, Plant and Machinery stand at cost, and depreciation has been provided by means of Depreciation Fund.

It is agreed that the combined Company shall take over the assets (including Goodwill) and discharge the liabilities of each Company on the basis of figures in their respective Balance Sheets as shown above.

The Capital of the combined Company was Rs. 2,00,000 divided into 10,000 Ordinary Shares of Rs. 10 each and 10,000 6 per cent Cumulative Preference Shares of Rs. 10 each.

The combined Company issued 1,500 Ordinary Shares at par for cash, and agreed to allot to each shareholder in the S. and R. Companies five Ordinary and five Preference Shares of Rs. 10 each fully paid, in exchange for each Rs. 100 Share held by them, and to discharge the balance in Cash.

Draw up the Balance Sheet of the combined Company, after the above transactions have been completed, and show what each shareholder in the S. and R. Companies would receive in shares of the new Company and in cash. 547

61. On 1st January 1944, the Swadeshi Company, Limited, took over the Assets and Liabilities of the Foreign Company, Limited, on the following terms:—

For every Rs. 100 share fully paid in the Foreign Company, Limited, one Rs. 100 share, Rs. 75 paid, in the Swadeshi Company, Limited, was to be allotted and for every Rs. 100 Debenture in the Foreign Company, Limited, Rs. 90 4% Debenture Stock in the Swadeshi Company, Limited (which the Debenture-holders of the Foreign Company, Limited, agree to accept in full settlement of their Debentures).

The Balance Sheet of the Foreign Company, Limited, on 1st January 1944, was:—

Liabilities	Rs.	*Assets*	Rs.
Paid up Capital— 250 Shares of Rs. 100 each ..	25,000	Land and Buildings	5,000
150 4% 1st Mortgage Debentures of Rs. 100 each	15,000	Plant, Machinery and Tools ..	17,500
Sundry Creditors	6,000	Stock-in-Trade	10,000
Profit & Loss Account—Balance ..	200	Sundry Debtors and Bills Receivable	13,500
		Cash in hand and at Bank ..	200
	Rs. 46,200		Rs. 46,200

Draft the Journal entries for recording these transactions in the books of the Swadeshi Company, Limited, and also of the Foreign Company, Limited. All expenses including liquidation of the Foreign Company, Limited, were paid by the Swadeshi Company, Limited. 548

62. On 31st December 1943, the Balance Sheet of the National Engineering Company, Limited was as follows:—

Capital & Liabilities	Rs.	*Assets*	Rs.
Nominal Capital—		Goodwill	1,20,000
1,500 6% Cumulative Preference Shares of Rs. 400 each	6,00,000	Land and Building	1,20,000
1,500 Ordinary Shares of Rs. 400 each	6,00,000	Plant and Machinery	1,80,000
	Rs. 12,00,000	Loose Tools	20,000
		Stock	4,20,000
	Rs.	Sundry Debtors	2,20,000
Paid up Capital—		Bills Receivable	54,000
1,200 Cumulative Preference Shares fully called	4,80,000	Cash at Bank	6,000
800 Ordinary Shares fully called	3,20,000	Profit & Loss Account—Dr. Balance	4,80,000
5 per cent Debentures	4,00,000		
Sundry Creditors	3,50,000		
Bills Payable	70,000		
	Rs. 16,20,000		Rs. 16,20,000

It was decided to reconstruct the Company, and for this purpose, another company called the New United Engineering and Building Company, Limited, was registered with a Capital of Rs. 12,00,000 divided into 2,000 7 per cent Cumulative Preference Shares of Rs. 400 each, and 1,000 Ordinary Shares of Rs. 400 each, to take over the assets and liabilities of the National Engineering Company, Limited.

The Debenture-holders in the National Engineering Company, Limited, agreed to accept 7 per cent Cumulative Preference Shares in the New United Engineering and Building Company, Limited, in exchange for their Debentures.

The Preference Shareholders in the National Engineering Company, Limited, were to receive one Preference Share in the New United Engineering and Building Company, Limited, for every three shares held by them in the National Engineering Company, Limited.

The Ordinary Shareholders were to be allotted one Ordinary Share Rs. 300 paid in the New United Engineering and Building Company, Limited, in exchange for every four shares held by them in the National Engineering Company, Limited.

The cost of Liquidation of the National Engineering Co., Ltd., was paid by the New United Engineering and Building Co., Ltd.

Give the Journal entries necessary to record the above transactions in the books of the National Engineering Company, Limited; show also the opening Balance Sheet of the New United Engineering and Building Company, Limited. (*B. Com.*) 549

63. The Balance Sheet of the Coasting Trade Co., Ltd., as at 31st December 1943 was as follows:—

Liabilities	Rs.	*Assets*	Rs.
Share Capital:—		Freehold Works, Plant and Machinery	36,02,474
1,00,000 Preference Shares of Rs. 10 each	10,00,000	Freehold Estate	1,06,760
2,00,000 Ordinary Shares of Rs. 10 each	20,00,000	Shares in other Companies	1,34,807
Debentures	12,00,000	Steamers	1,64,453
Creditors	1,45,523	Rolling Stock	1,28,721
Insurance Reserve	5,577	Furniture	1,216
General Reserve	1,08,823	Stocks	1,37,051
Profit & Loss Account	47,770	Debtors	93,657
		Bank	1,37,216
		Cash	1,338
	Rs. 45,07,693		Rs. 45,07,693

A scheme for the reduction of the capital, approved by the court was adopted by which Rs. 4 per share was to be written off the preference shares, and Rs. 6 per share off the ordinary shares. The scheme provided for the undermentioned reductions in the assets :—

Freehold Works by Rs. 15,72,013; Freehold Estate by Rs. 6,761; Shares in other companies by Rs. 62,610; Steamers by Rs. 40,453; Rolling Stock by Rs. 33,721; and that the General Reserve should be extinguished and the difference be transferred *from* Profit and Loss Account. You are required to draft the Balance Sheet of the Company, after carrying out the terms of the scheme, as set out above. 550

64. The Balance Sheets of the Aeroplanes, Ltd., for the three years ended 31st December 1943, were as follows :—

Liabilities	31-12-41	31-12-42	31-12-43	*Assets*	31-12-41	31-12-42	31-12-43
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Share Capital ...	10,00,000	10,00,000	10,00.000	Building & Plant ...	3,80,000	4,00,000	4,00,000
Creditors ...	30,000	30,000	30,000	Debtors ...	1,10,000	1,20,000	80,000
Reserves ...	2,00,000	2,20,000	2,40,000	Stock-in-Trade	6,30,000	6,20,000	7,00,000
Profit & Loss Account ...	60,000	60,000	60,000	Goodwill ...	1,40,000	1,40,000	1,20,000
				Cash ...	30,000	30,000	30,000
Rs.	12,90,000	13,10,000	13,30,000	Rs.	12,90,000	13,10,000	13,30,000

Net Profits after providing for Depreciation, Taxation *and Directors' Fees, but before appropriation to* Reserve	Rs. 2,00,000	Rs. 1,90,000	Rs. 2,50,000

Upon a scheme for amalgamation, the Buildings and Plant and Stocks are to be valued by independent Valuers while Goodwill is to be valued by ascertaining the true Capital "employed" in the business during the three years and the Goodwill calculated upon the super profits after allowing 9 per cent on the average Capital "employed."

The valuations were as follows :—

	Rs.	Rs.	Rs.
Buildings and Plant ..	5,95,000	6,18,000	6,20,000
Stock-in-Trade	6,50,000	6,40,000	7,40,000

(*a*) Adjusting the Balance Sheet figures by those of the Valuations show the Capital "employed" during each of the three years.

(*b*) Ascertain the Goodwill on the basis of seven years' purchase of the average super profit on the 9 per cent basis (assuming no adjustments of the profits to have been necessary).

(c) Show the total value of the business for the purpose of the amalgamation as at 31st December 1943. 551

65. The following are Balance Sheets of two Companies, A and B, on 30th June 1944 :—

	£	£
(*A*) Share Capital, fully paid	149,500	
Forfeited Shares Account	125	
Debentures	40,000	
Plant and Machinery		37,500
Freehold Property		43,000
Bank Account		2,000
Goodwill		40,000
Sundry Creditors	5,875	
Sundry Debtors		25,000
Stock		68,000
Profit and Loss Account	20,000	
	£ 215,500	215,500

	£	£
(B) Share Capital	40,000	
Debentures	3,000	
Calls in arrears		500
Plant and Machinery		2,500
Freehold Property		2,000
Debtors and Creditors	25,000	22,500
Stock		18,000
Profit and Loss Account		16,500
Goodwill		6,000
	£ 68,000	68,000

Company "A" decides to take over Company "B" and agrees to discharge the liabilities and debentures and take over all the assets, the consideration being £1,200 cash and £30,000 shares in Company "A" issued as fully paid up The calls in arrears are worthless, and the shares were forfeited by the directors of Company "B" prior to amalgamation. Company "B" is to pay costs of liquidation.

Draw up a Balance Sheet of the new company as the result of the incorporation.
(*Incorporated Accountants.*) 552

66. You are instructed to open the books of J. J. Halliburton (1944) Limited, who purchased the asset of J. J. Halliburton, Limited, for £15,000, as to £10,000 in cash and as to £5,000 by allotment of 5,000 £1 fully paid shares.

The assets purchased were:—

	£
Freehold Premises	4,050
Stock	5,800
Book Debts	5,950
Patents	750
Goodwill	1,450

The Company allotted £12,000 Ordinary Shares (included in which were the 5,000 Shares to the Liquidator of the old Co.). The shares allotted for cash were paid for as to 10*s.* on application and 10*s.* on allotment.

The Company raised £2,500 on Mortgage of the Premises, and £2,500 upon Debentures secured by a floating charge.

Journalise and open the books of the Company.
(*Incorporated Accountants.*) 553

67. The following are the Balance Sheets on 31st December 1943, of the Metropolitan Company, Ltd., and the Neopolitan Company, Ltd., respectively.

METROPOLITAN CO., LTD.

Liabilities	Rs.	*Assets*	Rs
Capital, 1,00,000 Shares, Rs. 20 each fully paid	20,00,000	Freehold Premises	4,50,000
Sundry Creditors	3,31,380	Machinery and Plant ..	6,53 180
Reserve	1,71.200	Sundry Debtors	4,93,640
Profit & Loss, balance ..	3,28,800	Stock	7,72,800
		Cash in Bank and in hand ..	4,61,760
	Rs. 28,31,380		Rs. 28,31,380

NEOPOLITAN CO., LTD.

Liabilities	Rs.	*Assets*	Rs.
Capital, 6,000 Shares, Rs. 100 each fully paid	6,00,000	Machinery and Plant at cost ..	4,44,800
Sundry Creditors	2,05,400	Sundry Debtors	1,24 980
		Stock	1,88,460
		Cash at Bank	2,580
		Profit & Loss, balance ..	44,580
	Rs. 8,05,400		Rs. 8,05,400

It is agreed that the business shall be amalgamated by the Metropolitan Company purchasing the Neopolitan Company as on 31st December 1943, on the following basis:—

(1) A dividend of 15 per cent to the shareholders of the Metropolitan Company to be declared prior to the amalgamation.

(2) The Metropolitan Company to take over the assets of the Neopolitan Company, the consideration being:—(*a*) The payment of the liabilities of the Neopolitan Company; (*b*) the payment of the costs of amalgamation; (*c*) the issue to the Shareholders of the Neopolitan Company of seven fully paid shares of Rs. 20 each in the Metropolitan Company for every two fully paid shares in the Neopolitan Company.

The costs of amalgamation amounted to Rs. 24,120. The floating assets of the Neopolitan Co. were worth the values stated on the Balance Sheet. Draft the Journal entries recording the purchase in the books of the Metropolitan Co., and set out the Balance Sheet of the Metropolitan Co., after the amalgamation, valuing Neopolitan Co.'s machinery at a figure as would maintain the intrinsic value of the Metropolitan Co.'s shares after amalgamation same before the amalgamation but after the declaration of the Dividend. Give also Neopolitan Company's closing entries taking Metropolitan Co.'s shares at their intrinsic value as per the Balance Sheet on 31st December 1943, after the declaration of the abovesaid dividend of 15 per cent. 554

68. The Statement of Liabilities and Assets of a Company under liquidation is as follows:—

Liabilities	Rs.	*Assets*	Rs.
Preference Share Capital, 5,000 Shares of Rs. 15 each ..	75,000	Freehold Property	50,000
Ordinary Share Capital, 10,000 Shares of Rs. 15 each ..	1,50,000	Leasehold Property	25,000
Mortgage Debentures	50,000	Stock	75,000
Trade Creditors	75,000	Debtors (estimated to produce)	1,15,000
Loan Creditors (secured by charge on Investments) ..	25,000	Investments valued at ..	35,000
			3,00,000
		Deficiency	75,000
Rs.	3,75,000	Rs.	3,75,000

It is proposed to reconstruct the company and the following are the main lines of reconstruction:—

(1) The creditors holding Investments as security are proposed to be paid off in cash, but the Investments held by them are not to be realised.

(2) The trade creditors agree to receive 8 annas in the rupee in cash and the balance in fully paid preference shares in the reconstructed company.

(3) Cash Working Capital to the extent of Rs. 9,250 is considered sufficient. Further cash has to be provided by the reconstructed company to meet the Liquidation and Reconstruction Expenses amounting to Rs. 3,250.

(4) The holders of Preference and Ordinary Shares have agreed to take up the respective shares of the reconstructed company which are to be issued to them as partly paid, and to pay the remaining balance in cash (to make up the cash required for carrying out the scheme) and thus make up their shares fully paid up. Show the method of reconstruction by which the scheme should be framed, involving the raising of necessary cash.

Draw up the Balance Sheet of the reconstructed company. 555

69. The Balance Sheet of the Q Company, Ltd., as at 30th June 1943, stood as follows:—

Liabilities	Rs.	*Assets*	Rs.
Authorised Capital:—		Freehold Land & Buildings ..	2,50,000
2,500 7% Cumulative Preference Shares of Rs. 100 each	2,50,000	Plant	1,00,000
7,500 Ordinary Shares of Rs. 100 each	7,50,000	Stock	1,50,000
		500 Ordinary Shares in the L Co., Ltd.	50,000
		Debtors	3,00,000
Rs.	10,00,000	Cash at Bank	1,00,000

	Rs.		Rs.
Subscribed and paid-up Capital:—			
1,000 7% Cumulative Preference Shares of Rs. 100 each	1,00,000		
5,800 Ordinary Shares of Rs. 100 each ..	.. 5,80,000		
	6,80,000		
Less calls in arrears ..	5,000		
	6,75,000		
Loans Secured ..	.. 15,000		
Mortgage Debentures	.. 1,00,000		
Trade Creditors ..	.. 60,000		
Profit & Loss Account	.. 1,00,000		
	Rs. 9,50,000		Rs. 9,50,000

On the same date the following was the position of the L Company, Ltd., and of M and N:—

	L Co., Ltd. Rs.	M & N Rs.		L Co., Ltd. Rs.	M & N Rs.
Capital:—		2,50,000	Freehold Land and Buildings ...	30,000	10,000
500 8% Preference Shares of Rs. 100 each ...	50,000		Plant ...	40,000	60,000
500 Ordinary Shares of Rs. 100 each ...	50,000		Stock ...	70,000	80,000
Reserve Fund ...	15,000		Debtors ...	70,000	50,000
Bank Overdraft ...	25,000		Cash ...		60,000
Creditors ...	60,000	10,000			
Profit and Loss Account ...	10,000				
	Rs. 2,10,000	2,60,000		Rs. 2,10,000	2,60,000

The 8% Preference Shares of the L Co., Ltd. had preference as to Capital, but did not participate in the profits beyond the fixed 8% dividend. All the ordinary shares are held by the Q Co., Ltd. The Capital of M and N was, M Rs. 1,50,000 and N. Rs. 1,00,000.

The market values of the shares were:—

		Rs. a. p.
Q Company, Limited, Preference	..	112 8 0
Do. Ordinary	..	150 0 0
L Company, Limited, Preference	..	125 0 0
Do. Ordinary	..	Not quoted

The Q Co., Ltd. absorbed the other two concerns on the following terms:—

L Co., Ltd.—They bought the whole of the assets, other than the freehold land and buildings, for Rs. 1,15,000, payable as to Rs. 55,000 by the issue of 550 Preference Shares, and as to the balance by cash. The Q Co., Ltd. had to discharge the liabilities of L Co., Ltd. in addition to the above consideration. By agreement, the holders of the 500 Preference Shares in the L Co., Ltd. were to receive in exchange 550 Preference Shares in the Q Co., Ltd., referred to above (each holder of ten 8% Preference Shares in the L Co., Ltd., to get eleven 7% Preference Shares in the Q Co., Ltd.).

M and N.—They acquired the whole of the assets of M and N (other than cash) for Rs. 2,30,000, M and N had out of this sum to discharge their own liabilities.

The Rs. 2,30,000 was to be paid as to Rs. 80,000 in cash, the balance as to Rs. 90,000 by the issue of 800 Preference Shares of Rs. 100 each (the market value of these was Rs. 112-8-0), and as to the balance of Rs. 60,000 by the issue of 400 Ordinary Shares of Rs. 100 each (whose market value was Rs. 150).

The Q Co., Ltd., took the opportunity at the same time to offer the balance of 150 Preference Shares *pro rata* to their existing shareholders at Rs. 110 per share, payable Rs. 60 (including the premium) on application and Rs. 50 on allotment. 170 shares were applied for and 150 allotted, the deposits received on the 20 shares being returned.

You are required to (1) Show the entries necessitated by the above in the books of the Q Co., Ltd.; (2) Draft the Balance Sheet of the Q Co., Ltd., after the above absorption;

and (3) Close the books of the L Co., Ltd., assuming that the freehold property realised Rs. 25,000, and that the cost of liquidation amounted to Rs. 5,000. 556

DEPARTMENTAL AND BRANCH ACCOUNTS

70. The Metal Toys, Ltd., has a Nominal Capital of 30,000 Shares of Rs. 10 each, and a Subscribed Capital of 16,000 Shares, fully paid up. It manufactures goods for sale at its two branches at Calcutta and Delhi, which sell no goods other than those of the company's manufacture. From the following Trial Balances extracted from the books of the Head Office in Bombay and branches as on 30th September 1943, prepare for submission to the directors, Trading and Profit and Loss Accounts for the Head Office and for each of the branches for the year ended 30th September 1943, and a Balance Sheet of the Company as a whole as on that date.

NOTES.—Stocks on hand valued as on 30th September 1943, were :—

	Rs.
Head Office—Bombay	21,054
Branch—Calcutta	6,050
„ —Delhi	3,854

Write off the following depreciations :—

Head Office Plant and Machinery	10%
Furniture and Fixtures, Head Office ..	5%
„ „ Calcutta Branch ..	5%
„ „ Delhi Branch ..	5%

Create a reserve for Bad Debts of 2½% on the Sundry Debtors. Write off Rs. 10,000 from Goodwill and carry Rs. 20,000 to Reserve. All carriage on the goods sent to branches is paid by the Head Office.

THE METAL TOYS, LTD.

TRIAL BALANCE *as at 30th September* 1943

	Bombay Rs.	Calcutta Rs.	Delhi Rs.	Bombay Rs.	Calcutta Rs.	Delhi Rs.
Freehold Premises :—						
Bombay	80,000					
Calcutta	20,000					
Delhi	20,000					
Goodwill	60,000					
Plant & Machinery, Bombay ...	16,000					
Furniture and Fixtures :—						
Bombay	1,000					
Calcutta	1,400					
Delhi	1,600					
Cash at Bank	13,580					
Cash in hand	28	166	76			
Stock in hand, 1st Oct. 1942 ...	22,490	5,624	3,990			
Purchases *less* returns ...	1,30,180					
Wages	79,302	4,838	5,244			
Salaries	3,000	496	552			
Carriage to Branches ...	3,034					
Taxes	646	884	658			
General Expenses	1,034	4,032	3,592			
Goods from Head Office ...		1,88,334	88,534			
Bad Debts		3,106	1,404			
Sundry Debtors		19,240	10,740			
Income-tax	886					
Directors' Fees	2,000					
Audit Fees	210					
Calcutta Current Account ...	604					
Delhi „ „ ...	6,706					
Share Capital				1,60,000		
Sundry Creditors				22,491	1,082	1,094
Goods to Calcutta				1,88,334		
„ „ Delhi				88,534		
Sales *less* returns					2,25,034	1,07,050
Profit and Loss Account—balance				4,348		
Head Office Current Account ...					604	6,706
Rs.	4,63,710	2,26,720	1,14,880	4,63,710	2,26,720	1,14,880

557

71. A business is carried on in three separate departments. Expenses not directly chargeable to any department are apportioned, one-half to A, three-tenths to B and one-fifth to C. From the following particulars, prepare Trading and Profit and Loss Accounts of the three departments (in columnar form), showing the gross and net profits, and the percentages thereof and of the totals to turnover, exclusive of inter-departmental transactions:—

	A. Dept.	B. Dept.	C. Dept.
	Rs.	Rs.	Rs.
Stock on hand, 1st January ..	17,820	5,600	1,250
Do. 31st December ..	19,360	4,710	3,160
Outside Sales for the year ..	1,11,740	56,130	48,510
Wages	27,400	13,280	9,150
Outside Purchases	40,410	15,370	12,560
Salaries	9,450	5,720	4,160

Inter-Departmental Sales—A to B. Rs. 9,040; A to C, Rs. 4,820; B to A, Rs. 11,260; B to C, Rs. 2,190 and C to A, Rs. 3,480. Management Salaries, Rs. 12,000; Rent and Taxes, Rs. 14,600; Insurance, Rs. 2,100; Horses, Vans, etc. Expenses, Rs. 8,700; Postage and Telegrams, Rs. 1,100; Bad Debts: A, Rs. 2,760, B, Rs. 1,430, C, Rs. 2,240; Sundry Expenses, Rs. 5,300; Depreciation written off, Rs. 7,400; Stationery and Printing, Rs. 2,600; and Advertising, Rs. 4,500. 558

72. The Calcutta Iron Works, Ltd. had two departments: (1) a Manufacturing Department and (2) a Retail Department for the sale of general engineering sundries.

The Company was a private one, the shares being held by M and his family, with the exception of 1,000 shares each held by N and O.

The Capital of the Company was Rs. 2,00,000 divided into 20,000 shares of Rs. 10 each, all issued and fully paid.

M was chairman of the Company, and N and O were directors and managers.

The Articles provided that M should have Rs. 5,000 per annum remuneration, and that N's salary should be Rs. 6,000, and O's Rs. 4,500 per annum.

The net profit of each year, after paying the above salaries, was to be applied as follows:—(1) In payment of a dividend of 4% on the paid up capital of the company; (2) of the balance, 20% to N and 15% to O, as additional remuneration; (3) the balance then remaining to be applied as decided by the shareholders in General Meeting.

The following were the balances standing in the books of the company on 31st December 1943. Prepare therefrom Trading Accounts of the two departments, and Profit and Loss Account for the year ended 31st December 1943 showing the percentages which the gross and net profits bear to the turnover of each department and the total together with the Balance Sheet as at that date:—

		Rs.			Rs.
Capital:—		2,00,000	Purchases	(Retail) ..	2,80,000
Machinery, Fixed & Loose Plant, Tools and Stock-in-Trade (Works) at 1st January ..		60,000	Carriage	(") ..	10 000
Stock-in-Trade (Retail) 1st Jan.		50,000	Wages	(") ..	8,000
Sundry Debtors		1,00,000	Office Salaries	(") ..	3,000
Sundry Creditors		15,000	Office Expenses	(") ..	3 000
Rents & Insurance	(Works) ..	4,800	Rent & Insurance	(") ..	2,500
Purchases	(") ..	80,000	Income-tax		3,500
Carriage & Freight	(") ..	5,000	Interest on Investments ..		1,500
Wages	(") ..	65 000	Bank Interest *less* commission ..		2 000
Office Salaries	(") ..	3,000	Profit & Loss Account (Cr. Bal.)		12,000
Office Expenses	(") ..	1,200	Reserve Fund		50,000
Sales	(") ..	1,98,000	Investments—War Loan at cost		50,000
Sales	(Retail) ..	*3,50,000*	Cash in hand		1,500
			Cash at Bank		98,000

The value of the Machinery, Fixed and Loose Plant, Tools and Stock at the Works at 31st December 1943, as taken and certified by N, was Rs. 61,500. The value of the Stock-in-trade of the Retail Department, as taken and certified by O, was Rs. 52,000. 559

73. The Nagpur Branch of the India Manufacturers, Ltd., sent the following Trial Balance to its Head Office on 30th June 1944:—

	Rs.	Rs.
Sundry Debtors	24,000	
Sundry Creditors		17,200
Cash in hand	3,800	
Fixtures, Furniture, etc.	12,500	
Stock at 1st July 1943	4,500	
Goods from Head Office	68,000	
Goods returned to Head Office		4,500
Purchases	1,32,900	
Sales		2,25,000
Wages and Salaries	11,000	
Trade Expenses	10,500	
Head Office Account		20,500
	Rs. 2,67,200	2,67,200

—The closing Stock on 30th June 1944 was Rs. 5,200. Pass necessary Journal entries to incorporate the above figures in the Head Office books and show the Branch Account and the Branch Trading and Profit and Loss Account. 560

74. An Ahmedabad Firm has a retail branch at Bombay which is mostly supplied with goods by the Ahmedabad Head Office. The Bombay Branch keeps its own books. The entire cash received by the Bombay Branch is remitted every week to Ahmedabad Office after making all payments and keeping in balance not more than Rs. 500. Given below are the particulars relating to the Branch:—

	Rs.
Cash on hand on 1st July 1943	490
Debtors, 1st July 1943	12,270
Stock, 1st July 1943	7,200
Local Creditors, 1st July 1943	500

Transactions during the six months ending 31st December 1943:—

	Rs.
Local Purchases	1,000
Local Returns Outwards	200
Payments to Local Merchants	950
Credit Sales	23,870
Returns Inwards	200
Cash received on Ledger Accounts ..	23,840
Cash Sales	12,140
Goods received from Head Office	21,780
Rent and Office Expenses	3,750
Wages	3,960
Bad Debts	250
Allowances to Debtors	350
Cash remitted to Ahmedabad Office ..	27,350
Stock on 31st December 1943	11,210

Journalise the above transactions and prepare therefrom Cash Account, Debtors' Account, Local Merchants' Account, Profit and Loss Account and the Ahmedabad Office Account after incorporating therein all the final figures. 561

75. A Joint Stock Company having its Head Office at Baroda, has Branches at Ahmedabad and Surat. The following are the Trial Balances as on 31st December 1943:—

BARODA TRIAL BALANCE.

	Rs.
Capital	2,00,000
Stock on 31st December 1943	1,20,000
Unclaimed Dividends	1,000
Debtors	40,000
Creditors	11,000
Cash at Bank	42,800
Profit and Loss Account—Credit Balance	26,600
Calls in arrears	10,000

BARODA TRIAL BALANCE (*Contd.*)

	Rs.
Ahmedabad Current Account—Credit Balance (after being debited with Rs. 1,000 for goods sent on 30th December 1943 received at Ahmedabad on 2nd January 1944.)	1,400
Surat Current Account—Debit Balance (after being debited with Rs. 1,400 for Cash sent on 29th December 1943 received at Surat on 2nd January 1944)	27,200

AHMEDABAD TRIAL BALANCE

Stock on 31st December 1943	5,800
Debtors	3,800
Creditors	3,400
Cash on hand	600
Surat Current Account—Credit Balance	8,600
Baroda Current Account—Debit Balance (after being credited with Rs. 600 received from a shareholder in Ahmedabad against his calls in arrears in November 1943 not intimated to the Baroda Office till 1st January 1944)	1,800

SURAT TRIAL BALANCE

Stock on 31st December 1943	14,400
Debtors	3,400
Creditors	2,400
Cash on hand	1,600
Ahmedabad Current Account—Debit Balance	8,600
Baroda Current Account—Credit Balance (after being debited for Rs. 200 paid on Unclaimed Dividend Warrants to Surat Shareholders on 27th October 1943 not intimated to Baroda Office till 1st January 1944) ..	25,600

Pass the necessary adjusting entries in the Baroda Journal, for reconciling the Current Accounts with Ahmedabad and Surat, and for taking into account the moneys received on calls in arrears, and moneys paid on Unclaimed Dividends.

Prepare also a combined Balance Sheet of the Company as on 31st December 1943.
562

76. On the 31st December 1943, the Trial Balance of the books kept at the Head Office of the Commercial Colliery Co., Ltd., was as follows:—

TRIAL BALANCE, 31st *December* 1943.

	Rs.	Rs.
Subscribed Capital, 16,000 Shares of Rs. 50 each		8,00,000
Colliery Account	8,00,000	
Remittance Account		40,000
Sundry Debtors	25,000	
Reserve Fund		10,000
Transfer Fees		500
Office Expenses	2 500	
Directors' Fees	1,500	
Cash at Bank	17,500	
Profit and Loss Account		3,500
Interest		375
Sundry Creditors		2,125
5% War Bonds (free of tax) Interest, 31st March & 30th Sept.	10 000	
Rs.	8,56,500	8,56,500

The books at the Colliery are balanced upto the same date, and the following Trial Balance is in due course despatched to the Head Office :—

TRIAL BALANCE, 31st *December* 1943.

	Rs.	Rs.
Head Office Account		8,00,000
Remittance Account	40,000	
Capital Expenditure to 31-12-1942	7,50,000	
Additional Capital Expenditure during 1943	1,00,000	
Reserve for Depreciation		75,000
Wages	1,75,000	
Stores Consumed	25,000	
Stocks and Stores on hand, 31-12-1943	12,500	
Trade Creditors		7,500
Creditors for Rents, Royalties, etc.		2,500
Redeemable Dead Rents	2,000	
Miscellaneous Colliery Expenses	10,000	
Royalties	7,500	
Cash in hand	500	
Depreciation	12,000	
Coal Sales		2,50,000
Rs.	11,35,000	11,35,000

You are required to show (*a*) Journal entries incorporating the Branch figures in the Head Office Books; (*b*) the Accounts of the Company for the year ended 31st December 1943, as they would be submitted to the Shareholders assuming them to be framed on the Double Account System. 563

77. The branches of a Multiple Shop Co. are supplied from the Head Office with goods at cost. The branches pay wages and minor items of petty cash, but otherwise all expenses are paid by the Head Office. From the weekly returns of the branches, the following summaries are prepared :—

CASH ACCOUNT (Branches), *Year* 1943

		Rs.			Rs.
1943 Jan. 1	To Balance b/fd. ...	1,200	1943 Dec. 31	By Cash Purchases ...	4,360
Dec. 31	,, Cash Sales ...	4,13,680	,, ,,	,, Wages ...	1,12,500
,, ,,	,, ,, on Ledger Accounts	12,350	,, ,,	,, Expenses ...	2,320
			,, ,,	,, Amounts banked ...	3,06,550
			,, ,,	,, Balance c/d. ...	1,500
	Rs.	4,27,230		Rs.	4,27,230
1944 Jan. 1	To Balance b/d. ...	1,500			

DEBTORS' ACCOUNT (Branches), *Year* 1943

		Rs.			Rs.
1943 Jan. 1	To Balance b/fd. ...	890	1943 Dec. 31	By Cash received ...	12,350
Dec. 31	,, Sales ...	14,350	,, ,,	,, Allowances ...	480
			,, ,,	,, Balance c/d. ...	2,410
	Rs.	15,240		Rs.	15,240
1944 Jan. 1	To Balance b/d. ...	2,410			

Branches Current Account (in Head Office books) appears in summarised form as follows :—

1943		Rs.	Rs.	1943		Rs.
Jan. 1	To Balance b/fd. :—			Jan. 1	By Balance b/fd. :—	
	Cash ...	1,200			„ Rent and rates ...	4,340
	Debtors ...	890		Dec. 31	„ Bank ...	3,06,550
	Stock ...	16,380		„ „	„ Balance c/d. ...	60
	Fittings ...	10,000				
			28,470			
Dec. 31	To Goods ...		2,26,500			
„ „	„ Cash—rent and rates ...		20,200			
	„ „ —Salaries ...		32,300			
	„ „ —sundry expenses ...		2,480			
	„ „ —fittings ..		1,000			
		Rs.	3,10,950		Rs.	3,10,950
1944						
Jan. 1	To Balance b/d. ...		60			

On 31st December 1943, Stock at the branches was Rs. 20,400; liabilities were, for rent and rates Rs. 6,320 and for salaries Rs. 1,000.

Prepare statement of branches trading for the year 1943 (writing off 10% on fittings) and complete the Current Account. 564

78. A and B are Dry Fruit Merchants carrying on business in Bombay, Madras, Calcutta and Rangoon.

The total sales during the year amount to Rs. 2,25,000 of which 30% is effected at Bombay, 20% at Madras, 40% at Calcutta and 10% at Rangoon.

The direct cost of the goods sold amounts to Rs. 1,35,000 of which 25% is due by Bombay, 15% by Madras, 50% by Calcutta and 10% by Rangoon. Rents chargeable to the business amount to Rs. 3,600 and administration and other charges to Rs. 7,200, both chargeable as regards 20% to Bombay, 15% to Madras, 50% to Calcutta and 15% to Rangoon.

Of the stocks in hand amounting to Rs. 60,000 it is necessary to write off 20%. Of the amount so written off, 25% arises at Bombay, 20% at Madras, 40% at Calcutta and 15% at Rangoon.

Show the total profit made, the amounts arising in the different towns, and the percentage on the turnover in each town, and on the whole. 565

79. The following is the Trial Balance extracted from the books of A. B. Dias, Outfitter, at 31st July 1943 :—

TRIAL BALANCE

	Rs.	Rs.
Stock at 31st July 1943—		
Tailoring Department	2,800	
Hosiery Department	2,000	
Fancy Goods Department	2,100	
Sales—		
Tailoring Department		17,500
Hosiery "		8,000
Fancy Goods Department		18,080
Purchases—		
Tailoring Department	10,000	
Hosiery "	6,400	
Fancy Goods Department	12,000	

TRIAL BALANCE—*Contd.*

	Rs.	Rs.
Packing and Delivery Expenses	700	
Wages—Tailoring Department	4,700	
Discounts		600
Rates and Water	225	
Lighting and Insurance	300	
Advertising	550	
Bad Debts	1,000	
Repairs	300	
Trade Expenses	500	
Salaries	4,000	
Interest on Bank Loan	250	
Interest on Mortgage	850	
Bank Overdraft		3,000
Trade Creditors		8,000
Mortgage on Freehold Property		17,000
Capital Account		11,000
Cash in Hand	5	
Book Debts	12,000	
Freehold Property at cost	18,000	
Drawings	2,500	
Furniture and Fixtures	2,000	
Rs.	83,180	83,180

You are required to prepare Departmental Trading Account and Profit and Loss Account for the year ended 31st July 1943, and Balance Sheet at that date, after making provision for the following:—

	Rs.
Rates and Water paid in Advance	75
Insurance paid in Advance	30
Lighting owing	180
Trade Expenses owing	300

Reserve 50% on Book Debts and 2½% on Trade Creditors for Discounts.
Interest on Capital at 5%. Ignore interest on drawings.
Depreciation of Furniture and Fixtures, 10%.

Stock at 31st July 1943—	Rs.
Tailoring Department	3,000
Hosiery Department	2,500
Fancy Goods Department	2,200

Any departmental apportionment, you may deem necessary, may be made on the basis of 40% each for Tailoring and Fancy Goods Departments and 20% for Hosiery Department. 566

80. The *Daily Needs, Ltd*, has a Nominal Capital of 5,000 Shares of Rs. 10 each and a Subscribed Capital of 4,000 Shares, fully paid. The Company manufactures goods for sale at its own branches A and B, which confine their sales to the company's own products.

From the following Trial Balance extracted from the books of the Head Office and branches as at 31st December 1943, prepare, for submission to the directors, Trading and Profit ond Loss Accounts for the Head Office and for each of the branches for the year ended 31st December 1943, and a Balance Sheet of the Company as a whole as on that date:—

THE DAILY NEEDS, LTD.

TRIAL BALANCE, 31st *December* 1943.

	H. O. Rs.	Branch A Rs.	Branch B Rs.		H. O. Rs.	Branch A Rs.	Branch B Rs.
Freehold Premises—				Share Capital ...	40,000		
Head Office ...	30,000						
Branch A ...	5,000			Sundry Creditors ...	6,500	700	400
„ B ...	7,000						
Goodwill ...	4,000			Goods to Branch A ...	55,000		
Plant & Machinery— Head Office ...	3,000			„ „ „ B ...	36,000		
Fixtures & Fittings—							
Head Office ...	600			Sales (*less* Returns) ...		63,750	40,140
Branch A ...	200						
„ B ...	200			Profit & Loss Account			
Cash at Bank ...	1,200			(Balance) ...	8,450		
„ in Hand ...	50	60	40				
Stock in hand—1st January 1943 ...	3,500	1,200	1,000	Head Office Current Account ...		650	2,200
Purchases (*less* Returns) ...	48,000						
Wages ...	32,400	1,700	1,400				
Salaries ...	2,000	500	400				
Carriage to Branches	2,500						
Rates & Taxes ...	350	200	170				
General Expenses ...	650	1,600	1,300				
Goods from Head Office ...		55,000	36,000				
Bad Debts ...		640	330				
Sundry Debtors ...		4,200	2,100				
Income tax ...	600						
Directors' Fees ...	1,500						
Audit Fees ...	350						
Branch A—Current Account ...	650						
„ B—Current Account ...	2,200						
Rs.	1,45,950	65,100	42,740	Rs.	1,45,950	65,100	42,740

Stock in hand valued as on 31st December 1943 was:—

Head Office Rs. 6,000; Branch A, Rs. 1,500; Branch B, Rs. 1,200.

Write off following Depreciation—

Head Office plant and Machinery 10%; Fixtures and Fittings 5%.

Create Bad Debts Reserve Rs. 500.

Write Rs. 500 off Goodwill. All carriage on the goods sent to Branches is paid by Head Office. 567

81. A firm of retail Hat dealers has six branches. All goods are ordered and paid for by the Head Office, with instructions for direct deliveries of the goods; further, goods are also transferred from one branch to another when necessary. Draft out in detail a system for the proper recording of purchases and transfers of goods at all the branches, and give the rulings of any special books you would like to suggest, assuming that goods are supplied to the branches marked at Selling Price. 568

BANKRUPTCY ACCOUNTS

82. Mafatlal, on 31st March 1944, unable to meet his engagements, requires a Statement of Affairs for submission to his creditors. Prepare the same from the following:—

Leasehold Premises held for 99 years, subject to a ground rent Rs. 1,000 per year, Book Value Rs. 1,00,000. Estimated to realise Rs. 90,000.

		Rs.			Rs.
Book Debts Good ..	Book Value	66,500	Estimated to realise		60,000
" Doubtful	"	5,000	"	"	2,500
" Bad	"	7,500	"	"	Nil.
Fixed Plant and Machinery	"	40,000	"	"	30,000
Stock-in-Trade	"	20,000	"	"	14,000

Cash in hand, Rs. 100. Life Insurance Policy for Rs. 25,000 at death, subject to a premium of Rs. 500 a year due and paid on 28th February 1944, and held by the Insurance Co., for a loan of Rs. 2,000; Surrender Value Rs. 5,000. Household Furniture and effects, Rs. 3,600. Private and household debts Rs. 2,900. 600 shares in the Burmah Co., Ltd., of Rs. 10 each Rs. 5 paid up, now quoted in the market at Rs. 6-4-0 per share. Loan of Rs. 50,000 secured by a First Mortgage on Leasehold at 4½ per cent, the interest on same being paid to 31st March 1944. Unsecured Creditors, Rs. 1,50,000, Bankers for overdraft and Interest Rs. 50,000 holding as a security a Second Mortgage on leasehold of Rs. 40,000. Loan from H. Kikabhoy Rs. 4,000 at 5 per cent per annum, interest being paid to 31st March 1944, who holds as security Second Charge on Life Insurance Policy. Ground Rent of Leasehold accrued since 31st December 1943. Prepare Deficiency Account. On the 1st April 1941, he had a capital of Rs. 1,20,000 in addition to household furniture. His private drawings as shown in the Cash Book, were as follows:—For the year ended 31st March 1942. Rs. 49,800; 1943, Rs. 40,000; 1944, Rs. 50,000. He made a profit in his business in 1942 of Rs. 50,000 and in the subsequent years losses of Rs. 30,000 and Rs. 9,350 respectively. 569

83. Haridas Mafatlal files his petition in bankruptcy on 30th June 1943, and you are instructed to prepare his Statement of Affairs. The information you are able to obtain as to his position is as follows:—

The Stock-in-Trade at cost is Rs. 72,000 of which Rs. 6,000 worth is in the hands of a creditor for Rs. 10,000 who is entitled to exercise a lien; Book Debts: Good Rs. 97,500, Doubtful Rs. 1,200 worth 5 annas 4 pies in the rupee, Bad Rs. 1,500; Fixtures and Fittings (after depreciation) Rs. 2,300; Cash in hand Rs. 100; Bills Receivable Rs. 11,000 (held by bankers against overdraft of Rs. 40,000 the balance of which is secured by a second charge on Debtor's freehold property and by the guarantee of his brother). Customers' bills under discount Rs. 15,000 of which Rs. 2,000 is ascertained to be bad, and Rs. 1,000 is doubtful. Freehold property Rs. 30,000 subject to a first mortgage of Rs. 20,000. The Unsecured Creditors amount to Rs. 2,98,000 in addition to claims for rates, taxes and wages amounting to Rs. 2,400. The Stock-in-Trade and the Book Debts (outside the bills) are estimated to be worth 75 per cent of their face value, and the freehold property, which cost Rs. 28,000 is valued at Rs. 22,000. Subject to the modifications stated above, the assets are worth their book values.

You learn that the Debtor had a surplus of assets of Rs. 50,000 on 1st January 1941, since when he has withdrawn Rs. 30,000 per annum in equal monthly instalments. His profits for the year ended 31st December 1941 were Rs. 21,000 and for 1942 Rs. 4,200, since which time he has not made up his books.

From these details, you are required to prepare as nearly as may be in statutory form (a) a statement of affairs, and (b) a deficiency account. 570

84. Himatlal Dhirajlal finds, by the following summary of Assets and Liabilities of his business, that he is insolvent, and on 15th October 1943, files his own petition in bankruptcy. Prepare his Statement of Affairs for presentation to his Creditors.

The Bank's Overdraft is secured by the deposit of deeds representing his freehold property (valued for the purpose of the statement at Rs. 60,000), and dock warrants for stock of the value of Rs. 23,835.

B. Salebhoy's loan is secured by an assignment of a policy on Himatlal's life valued at Rs. 1,000.

There are contingent liabilities on bills discounted amounting to Rs. 5,900 of which a sum of Rs. 2,300 is expected to rank.

Of the Book Debts, Himatlal states that Rs. 1,440 are bad and Rs. 3,650 doubtful. He estimates the value of the latter at Rs. 1,780.

Of the Bills Receivable, he estimates that the sum of Rs. 2,832 is bad. Himatlal has private debts, amounting to Rs. 3,892 and has private assets consisting of the above-named policy and household furniture valued at Rs. 5,850.

SUMMARY OF ASSETS AND LIABILITIES

Liabilities	Rs.	*Assets*	Rs.
Sundry Creditors	2,36,000	Cash in hand	300
Bank Loan	68,975	Petty Cash in hand	27
B. Salebhoy's Loan	5,900	Stock at Cost	98,525
S. Byramji, 9 months' rent to 30th September 1943	1,500	Fixtures and Fittings	3,295
Rates, 6 months to 31st March 1943	320	Office Furniture	2,620
		Horses and Carts	6,820
		Sundry Debtors	52,890
		Bills Receivable	42,830
		Freehold Property	65,890
	Rs. 3,12,695		Rs. 2,73,197

571

85. A business carried on under the style of Fast and Loose finds itself in difficulties and the partners instruct you to prepare a Statement of Affairs for submission to private Meeting of the Creditors.

The following particulars are obtained from the Books, as at 1st February 1944.

	Rs.	Rs.
Unsecured Creditors		2,30,000
Loan from Arthur		20,000
Creditors partly secured	46,000	
Estimated value of Security	40,000	
		6,000
Preferential Claims		2,400
Stock-in-Trade		15,000
Cash at Bank		2,700
Cash in hand		650
Fixtures		4,000
Debtors—Good		8,200
Bad		725
Doubtful		412

As regards the separate Estates, Fast had no creditors nor assets, and Loose was a partner with Rs. 10,000 in the business. With respect to the Loan, Arthur had lent Rs. 20,000 without security, and under an arrangement whereby he was to receive interest varying with the profits.

(a) Prepare Statement of Affairs allowing 15% off Stock, 10% off good Book Debts (assuming that the bad and doubtful debts realised nil), and 50% off Fixtures.

(b) Append to the statement any comments upon transactions which, in your opinion, require special consideration. 572

86. A Liverpool merchant, trading on the West Coast of Africa, finding himself on 1st July, unable to meet his engagements, asks you to make up a Statement of Affairs for submission to his creditors.

You find his books disclose:—

	£
Unsecured Creditors	8,830
Fully-secured Creditors	2,352
Who hold security of the cost value of £2,630.	
Partly-secured Creditors	37,697
Who hold securities of the cost value of £18,098.	
Preferential Creditors	822
Bills Payable	20,066
„ Receivable (discounted)	5,833
Book Debts in England (Good)	1,341
„ „ (Doubtful) £170 estimated to produce	85
„ „ (Bad) £34 of no value.	
Stock in Liverpool at cost, £1,306 estimated at	1,200
„ and Book Debts, less Sundry Liabilities, at four Stations on the coast	36,584
Of which it is estimated there will be a loss on realisation of Stock of £5,638, and Book Debts of £7,586.	

	£
Four Station Buildings, Plant, Steamers, and Carrying Craft, £40,000 expected to realise	20,000
Office Furniture, £289, estimated to realise ..	200
Cash in hand	4
„ at Bankers	80

Show his position, and make out his Deficiency Account from 1st July, five years ago, when he had a Capital of £42,000. Profits appear from the books to have been made in first and second years of £5,000 and £4,000 respectively, and losses in the three subsequent years £2,100, £2,600, and £3,031 respectively, after allowing £2,000 a year for Interest upon Capital, and his withdrawals having been at the rate of £4,500 a year.

(Chartered Accountants.) 573

87. Fred Jackson, on 31st March 1944, unable to meet his engagements, requires a Statement of Affairs for submission to his creditors. Prepare the same from the following:—

	£
Leasehold premises for 99 years, subject to payment of ground rent, £100 per year, book value £10,000 estimated to realise	9,000
Book Debts Good value £6,650 estimated to realise ..	6,000
„ Doubtful value £500 estimated to realise ..	250
„ Bad value £750 estimated to realise ..	Nil
Fixed Plant and Machinery £4,000 estimated to realise ..	3,000
Stock-in-Trade, book value £2,000 estimated to realise ..	1,400

Cash in hand £10. Life insurance policy for £2,500 at death, subject to a premium of £50 a year due and paid 28th February 1944, and held by the Insurance Co., for a loan of £200; Surrender value £500. Household Furniture and effects, £360. Private and household debts, £290. 600 Shares in Cooper & Co., Ltd., of £1 each, 10s. paid up, now quoted at 12/6 per share. Loan of £5,000 secured by first mortgage on the leasehold at 4½ per cent, the Interest on same being paid to the 31st March 1944. Unsecured Creditors, £15,000. Bankers for overdraft and interest, £5,000, holding as security a second mortgage on leasehold of £4,000. Loan from T. Taylor, £400 at 5 per cent per annum, interest being paid to 31st March 1944, who holds as security second charge on life Insurance policy. Ground Rent of leasehold accrued since 31st December 1943.

Also prepare Deficiency Account. On the 1st April 1941, he had a capital of £12,000 in addition to household furniture. His private drawings, as shown in the Cash book, were as follows:—For the year ended 31st March 1942, £4,980; 1943, £4,000; 1944, £5,000. He made a profit in his business in 1942, of £5,000 and in the subsequent years losses £3,000 and £935 respectively.

(Lancashire & Cheshire Institute.) 574

88. Catchem and Cheetam filed their petition in bankruptcy on 31st December 1943.

Their books showed that they owed £50,000 to Unsecured Creditors, £30,000 to Creditors holding lien on goods for £10,000, £10,000 Mortgage on the Works and £1,000 for Salaries and Rates. Bills of Exchange for £10,000 had been discounted with their Bankers, and it was estimated that there was a liability in respect of them of £3,000. Their Assets were:—

Consignments £20,000, estimated to realise £2,000. Good Book Debts £18,000. Doubtful Debts £6,000, estimated to realise £3,000. Bad Debts £15,650.

Works cost £100,000 (depreciated out of Profit and Loss to £75,000), estimated to realise £50,000.

Furniture and Fittings £2,000, estimated to realise £1,000. Stocks and Work-in-Progress £25,000, estimated to realise £18,000.

Cash and Bills £1,350.

They commenced business on 1st January 1939, with a Capital of £83,000. After charging annually £5,000, for depreciation of the Works, £4,000 for Interest on Capital and £1,500 for Partners' Salaries, the trading showed profits of £6,500 in 1939, and £5,000 in 1940, and Losses of £6,000 in 1941, £7,000 in 1942 and £9,500 in 1943, while the withdrawals of the partners averaged £5,500 a year.

Draw up a Statement of Affairs, and prepare Deficiency Account.

(Chartered Accountants.) 575

COST ACCOUNTS

89. From the following figures ascertained from the costing Department of the Perfect Radios, Ltd., for the six months ended 30th September 1943, you are required to pass the necessary Journal entries to close the books and to prepare Ledger Accounts and Trial Balance:—

	31st March 1943 Rs.	30th Sept. 1943 Rs.
Work-in-Progress Account	1,24,000	89,200
Stock of Finished Goods	97,400	1,02,500
Stores on hand	64,000	90,100
Purchases		3,00,000
Carriage Inwards		4,500
Stores Issued		2,76,000
Productive Wages		2,66,400
Unproductive Labour		93,600
Works Oncost		2,68,000
Materials used in repairs		2,400
Cost of Completed Jobs		9,85,100
„ Finished Goods sold		9,80,000
Selling Expenses		22,500
Office Administration		53,000
Works Oncost allocated to Work-in-Progress ..		3,65,300
Office Oncost allocated to Work-in-Progress ..		52,600

576

90. You are required to ascertain from the following figures what percentages of the total cost of the goods sold arises from the (a) Manufacturing, (b) the Selling, and (c) the Management Costs. You are further required to ascertain by what percentage the average Selling Price should be raised in order to double the Net Profit.

	Rs.
Opening Stock	1,12,500
Work-in-Progress at Commencement	1,30,000
Purchase of Direct Material	3,60,000
Direct Wages	4,50,000
Factory Oncost	2,40,000
Selling Costs	80,000
Management Costs (applicable to goods sold) ..	1,10,000
Sales	15,70,000
Closing Stock	1,25,000
„ Work-in-Progress	1,60,000
Sales of Scrap	2,000
Carriage on Direct Material	6,800

577

91. N. Robert commenced business on 1st January 1942 as a perambulator manufacturer, making three standard types which he designates A, B and C. The following is his Trading and Profit & Loss Account for the year 1942:—

	Rs.	a.	p.			Rs.	a.	p.
To Materials charged out ..	27,272	3	0	By Sales		71,940	0	0
„ Direct Labour ..	16,535	0	0	„ Stock of finished perambulators ..		2,790	10	0
„ Works Expenses ..	15,720	0	0	„ Work-in-Progress on unfinished perambulators:—	Rs.			
„ Gross Profit c/d. ..	19,903	7	0	Materials ..	3,100			
				Labour ..	800			
				Works Oncost	800			
						4,700	0	0
	Rs. 79,430	10	0			Rs. 79,430	10	0
To Office Expenses ..	11,150	0	0	By Gross Profit b/d.		19,903	7	0
„ Net Profit	8,753	7	0					
	Rs. 19,903	7	0			Rs. 19,903	7	0

He has kept Cost Accounts in respect of each type charging out materials and labour at actual cost, "Works Oncost" at 100 per cent on labour and "Office Oncost" at 20 per cent on "Works Cost". From the following information and the above particulars, you are required to prepare (1) Statement showing profit per perambulator sold and total profit per Cost Accounts; (2) Works Oncost Account; (3) Office Oncost Account; (4) Reconciliation of profits per Cost Accounts with Profit and Loss balance of Rs. 8,753-7-0.

—	A	B	C
	Rs. a. p.	Rs. a. p.	Rs. a. p.
Average cost of materials per finished perambulator ...	15 6 0	16 12 0	11 6 6
Average cost of labour per finished perambulator ...	9 8 0	11 0 0	8 12 0
Sale price per perambulator	47 0 0	52 0 0	40 0 0
Number of finished perambulators manufactured ...	845	470	290
Perambulators sold	820	450	250

(*B. Com.*) 578

92. The elements *comprising* the cost of a factory output for the three years 1941, 1942 and 1943 were as under :—

—	1941	1942	1943
	Rs.	Rs.	Rs.
Materials	1,20,000	1,00,000	1,40 000
Labour	61,000	60,000	62,000
Works Oncost and Power	24,000	20,000	28,000
Administration Cost	16,000	16,000	16,000
Selling and Distribution Costs	8,800	8,000	5,600
Output (*in tons*)	7,500	6,250	8,750

Following an examination of the figures, you are required to state on what basis you would allocate oncost in quoting for a contract to supply 10,000 tons of the commodity representing the whole output for the year 1944.

What price would you quote, assuming there was no change in the organisation and that a profit of 10 per cent on works cost is considered adequate? 579

93. The Cost Accountant of the Constructional Contractors, Ltd., Bombay, has prepared from his books the following "*Manufacturing Account*" and "*Cost Summary*":—

MANUFACTURING ACCOUNT (Costing Department.)

	Rs.		Rs.
Completed Contracts ..	26,250	Wages	10,000
Completed Stock	8,000	Direct Goods	2,500
Balance, Work-in-Progress ..	11,220	Stores	20,000
		Chargeable Expenses	1,200
		Works Oncost	7,500
		Office Oncost	4,270
	Rs. 45,470		Rs. 45,470

COST SUMMARY

—	Cost	Sale or Contract price	Profit
	Rs.	Rs.	Rs.
Completed Contracts	26,250	34,000	7,750
Sales from Stock	5,000	7,000	2,000
Profit as per Cost Accounts		Rs.	9,750

The General Trading Account as prepared by the Accountant stands as follows:—

TRADING ACCOUNT (General Accounts)

	Rs.	Rs.		Rs.
Productive Wages		10,000	Completed Contracts ..	34,000
Direct Goods		2,500	Sales from Stock	7,000
Stores Purchased	25,000		Finished Stock on hand ..	3,000
Less Stock in hand	4,800		Work-in-Progress	11,220
		20,200		
Chargeable Expenses		1,200		
Balance Carried down ..		21,320		
		Rs. 55,220		Rs. 55,220
To Works Expenses:—			By Balance brought down ..	21,320
Rent, Rates, etc.	1,800			
Supervision Charges	2,500			
Fuel	950			
Repairs	600			
Depreciation	1,000			
General Expenses	1,200			
		8,050		
To Office Expenses:—				
Rent, Rates, etc.	500			
Salaries	1,700			
General Expenses	1,500			
		3,700		
To Balance, being Profit as per General Accounts ..		9,570		
		Rs. 21,320		Rs. 21,320

It will be observed from the above information that the profits as shown by the General Accounts, viz., Rs. 9,570, is less than the profit as revealed by the Cost Accounts, viz., Rs. 9,750, by Rs. 180.

You are required to prepare a statement reconciling the two sets of figures showing where the difference arises. 580

94. The following extract of costing information relates to Commodity X for the half-year ended 31st December 1943.

	Rs.
Purchases of Raw Materials	60,000
Direct Wages	50,000
Rent, Rates, Insurance and Works Oncost ..	20,000
Carriage Inwards	720
Stock:—1st July 1943	
Raw Materials	10,000
Finished Product—1,000 tons	8,000
Stock:—31st December 1943	
Raw Materials	11,120
Finished Product—2,000 tons	16,000
Work-in-Progress, 1st July 1943 ..	2,400
Work-in-Progress, 31st December 1943 ..	8,000
Cost of Factory Supervision	4,000
Sales—Finished Product	1,50,000
Advertising, Discounts allowed and Selling Costs—8 annas per ton sold. 16,000 tons of commodity were produced during the period.	

You are required to ascertain:—

(a) The value of the raw materials used.
(b) The cost of the output for the period.
(c) The cost of the turnover for the period.
(d) The net profit for the period.
(e) The net profit per ton of the commodity. 581

95. Product X yields by-products Y and Z.

The joint expenses of manufacture are:—

	Rs.
Materials	5,000
Labour	4,000
Oncost	4,500
Rs.	13,500

Subsequent expenses are as follows:—

	X	Y	Z
Materials	1,000	800	900
Labour	1,200	700	850
Oncost	1,300	500	750
Rs.	3,500	2,000	2,500
The Selling Prices are ..Rs.	21,000	10,000	9,000
The Estimated Profits on Sales are	50%	50%	33 1/3%

Show the manner in which you would apportion the joint expenses of manufacture. 582

96. The information given below is extracted from the Cost Accounts of a Factory producing a commodity in the manufacture of which three processes are involved. Prepare Process Cost Accounts showing the cost of the output and the cost per unit at each stage of manufacture.

(1) The operations in each separate process are completed daily.

(2) The value at which units are to be charged to Processes "B" and "C" is the cost *per unit of Processes "A" and "A" plus "B" respectively.*

Process	A	B	C
	£	£	£
Direct Wages ..	640	1,200	2,925
Machine Expenses ..	360	300	360
Factory Oncost ..	200	225	240
Raw Materials Consumed	2,400		
	Units	Units	Units
Production (gross) ..	37,000		
Wastage ..	1,000	1,500	500
Stock, 1st July 1943 ..		4,000	16,500
Stock, 31st July 1943 ..		1,000	5,500

(Incorporated Accountants) 583

97. A firm manufactures a standard article in three qualities, of which they produced during the year 1943:—

500 articles of quality X
1,000 " " " Y
1,200 " " " Z

The stocks of Finished Goods at 1st January 1943 were:—

Quality X 60 articles; Quality Y 40 articles; Quality Z 76 articles.

Sales during the year 1943 were:—

Quality X 510 articles at Rs. 60
" Y 960 " " " 67-8
" Z 1,248 " " " 75

and the following figures, in respect of the year, were extracted from the books of accounts:—

	Rs.
Work-in-Progress at 1st January 1943	15,000
Work-in-Progress at 31st December 1943	18,000
Cost of Raw Materials used in manufacture	43,500
Cost of Stores used in manufacture	6,000
Manufacturing wages	78,000
Depreciation (Works)	9,000
Works Oncost	16,500

From the above particulars, prepare Manufacturing and Trading Account for the year, showing the amount of Gross Profit carried to Profit & Loss Account; assume that the rate per cent of Gross Profit is the same for all the three kinds of articles. 584

98. The Cost Ledger of Eastern Motors, Ltd., showed the following balances as at 1st January 1943:—

	Rs.	Rs.
Stores Ledger Account	1,05,000	
Work-in-Progress Account	78,400	
Finished Goods Account	55,800	
Works Oncost Account		1,000
Administration Oncost Account	600	
Cost Ledger Control Account		2,38,800
	Rs. 2,39,800	2,39,800

Further balances resulting from the operations for the year ended 31st December 1943 were:—

	Rs.		Rs.
Stores Purchases	3,60,000	Works Oncost allocated to Production Orders	1,79,000
Stores issued to Production Orders	3,93,000	Works Expenses	1,40,000
Stores issued to Works and Repairs Orders	15,000	Administration Expenses ..	18,000
Wages	6,15,000	Administration Oncost allocated to Production Orders ..	18,400
Productive Labour	5,90,000	Goods finished during the year	11,72,000
Unproductive Labour ..	25,000	Finished Goods sold ..	12,00,000
Carriage inwards	6,000	Sales Expenses	13,400

Prepare the necessary accounts in the Cost Ledger, and a Schedule of Balances for the year ended 31st December 1943. Also explain what each balance represents. 585

HOLDING COMPANIES

99. While preparing the annual Accounts and Balance Sheet of the Indian Traders, Ltd., whose business consists of exports and lending of money, the following points arise, and you are requested to state how they should be dealt with:—

(1) The following shares are held in other Companies:—

(a) 50,000 Ordinary Shares of Rs. 10 each fully paid are held in the A. B. C. Co., Ltd., which has a subscribed capital of 75,000 Ordinary Shares of Rs. 10 each and 20,000 Cum. Preference Shares of Rs. 10 each fully paid. The shares were acquired at Rs. 12-8 each, each share carrying one vote and the company does not possess any extraordinary power as to appointment of directors beyond their ordinary right as shareholders.

(b) 50,000 Ordinary Shares of Rs. 10 each, Rs. 7-8 per share paid up in the X. Y. Z. Co., Ltd., with a subscribed capital of 1,20,000 Ordinary Shares of Rs. 10 each, Rs. 7-8 per share paid up with no power to appoint directors beyond the right as shareholders. The shares were acquired at Rs. 6 each.

(c) 15,000 Ordinary Shares also in the X. Y. Z. Co., Ltd., as security only in respect of a loan of Rs. 30,000 granted to one of its constituents.

(2) A loan of Rs. 45,000 in the ordinary course of its business to one of its own directors, which was repaid within the financial period.

(3) Debentures of Rs. 75,000 issued as collateral security against a loan from the Bankers which was repaid. The debentures are still held by the bankers. 586

100. The directors of Holding Company, Ltd., desire to present to the members a Consolidated Balance Sheet as on 31st December 1943, of the whole undertaking, incorporating the Company's interest in the assets and liabilities of X, Ltd., and Y, Ltd.

HOLDING COMPANY

BALANCE SHEET, 31st October 1943.

Capital & Liabilities		Rs.	Assets		Rs.
Authorised Capital:—			Lands & Buildings		25,000
20,000 Shares of Rs. 10 each ..		2,00,000	Plant & Machinery		50,000
			Fixtures & Fittings		5,000
Issued Capital:—			Investments in Subsidiary at cost		
13,500 Shares of Rs. 10 each fully paid		1,35,000	7,500 Shares		90,000
6% Debentures (carrying a floating charge)		30,000	Stock-in-Trade		30,000
Trade Creditors		15,000	Sundry Debtors:—	Rs.	
General Reserve		30,000	Subsidiary Company	10,000	
Profit & Loss Account ..		35,000	Book Debts	20,000	
					30,000
			Cash at Bank		15,000
	Rs.	2,45,000		Rs.	2,45,000

SUBSIDIARY COMPANY

Capital & Liabilities		Rs.	Assets	Rs.
Authorised Capital:—			Land & Buildings	18,000
12,500 Shares of Rs. 10 each ..		1,25,000	Plant	13,000
			Fixtures & Fittings	500
Issued Capital:—			Stock-in-Trade	45,500
10,000 Shares of Rs. 10 each fully paid		1,00,000	Sundry Debtors	50,000
Sundry Creditors:—	Rs.		Bills Receivable	5,000
Holding Co. ..	9,500		Cash at Bank	27,500
Other Trade Creditors	25,000			
		34,500		
Profit & Loss Account ..		25,000		
	Rs.	1,59,500	Rs.	1,59,500

The holding in the Subsidiary was acquired on 1st January 1940 at a premium of Rs. 2 per share, the balance at credit of the Profit and Loss Account of the subsidiary being Rs. 10,000.

Transactions between the Holding and the Subsidiary include the purchase of goods by subsidiary at cost plus 33 1/3%. The Stock of the Subsidiary on 31st October 1943 consisted of

	Rs.
Goods purchased from the Holding Co.	15,008
" " others	30,492

Cash amounting to Rs. 500 was in transit from the Subsidiary, Ltd., to the Holding Company at the close of business on 31st October 1943.

You are required to prepare a Consolidated Balance Sheet to be presented to the Shareholders of the Holding Co. as on 31st October 1943. 588

102. From the following Balance Sheets of the Senior Co., Ltd., and its subsidiaries X, Y, and Z, prepare a Consolidated Balance Sheet as at 31st December 1943:—

Y SUBSIDIARY CO., LTD.
BALANCE SHEET, 31st *December* 1943

Liabilities	Rs.	Rs.	*Assets*	Rs.	Rs.
Capital Authorised, Issued and Fully paid:—			Leasehold Land and Buildings at cost *less* Depreciation ..		68,250
15,000 8% Pref. Shares of Rs. 10 each ..	1,50,000		Plant, Fixtures, etc. at cost *less* Depreciation		58,425
60,000 Ordy. Shares of Rs. 10 each ..	6,00,000		Investments:— Senior Co. Ltd. ..	1,41,000	
		7,50,000			
Sundry Trade Creditors ..		49,299	Shares at cost ..	1,59,000	
Outstanding Creditors for Expenses		57,000	4% Govt. Bonds ..	2,10,000	
Senior Co. Ltd.—Current A/c. ..		141			3,69,000
Profit & Loss Account ..		1,12,287	Stock-in-Trade		1,97,880
			Sundry Trade Debtors ..		1,32,960
			Senior Co., Ltd.—Advance A/c. ..		58,800
			Cash at Bank		83,412
	Rs.	9,68,727		Rs.	9,68,727

Z SUBSIDIARY CO., LTD.
BALANCE SHEET, 31st *December* 1943

Liabilities	Rs.	*Assets*	Rs.
Capital, Authorised, Issued and Fully paid:— 15,000 Ordy. Shares of Rs. 10 each	1,50,000	Goodwill	1,02,600
6% Debenture Stock (secured)	60,000	Development Account ..	26,397
Sundry Trade Creditors ..	44,748	Stock-in-Trade	33,603
Contingency Reserve	29,109	Loan to Associated Company ..	1,00,635
Profit & Loss Account ..	34,968	Sundry Debtors *less* Reserve	52,287
		Cash at Bank	3,303
Rs.	3,18,825	Rs.	3,18,825

589

REORGANIZATION OF SHARE CAPITAL

103. The Share Capital of the Enterprise, Ltd., consisted of 40,000 9% Cumulative Preference Shares of Rs. 10 each, 20,000 7% non-Cumulative Participating Preference Shares of Rs. 5 each and 40,000 Ordinary Shares of Rs. 2-8 each, all fully paid. The dividend on Cumulative Preference Shares was in arrears for the last two years.

The following Scheme of Capital Reduction was duly approved and authorised by the Shareholders:—

(1) The Cumulative Preference Shareholders were to be issued two 7½% Cumulative First Preference Shares of Rs. 10 each, one 8% non-Cumulative Second Preference Share of Rs. 5 and one Ordinary Share of Re. 1 for every four 9% Cumulative Preference Shares held by them.
(2) The non-Cumulative Participating Preference Shareholders are to receive one 8% non-Cumulative Second Preference Share of Rs. 5 and three Ordinary Shares of Re. 1 each for every four shares held by them.
(3) The Ordinary Shareholders are to receive one Ordinary Share of Re. 1 for every 10 Ordinary Shares of Rs. 2-8 each held by them.
(4) One Ordinary Share of Re. 1 is to be issued for every Rs. 10 of accumulated Pref. Dividend.
(5) The sum rendered available by the reduction of Capital as above is to be utilised as under:—

		Rs.
(a)	To reduce the book value of Factory Building by ..	20,000
(b)	do. do. Plant and Machinery by ..	25,000
(c)	do. do. Investments by ..	15,000
(d)	do. do. Furniture and Fixtures by ..	5,000
(e)	To provide for up-to-date Factory equipment ..	40,000
(f)	To wipe off debit balance on Profit and Loss Account.	

Pass the necessary Journal entries to record the above transactions. 590

104. The X. Y. Z. Co., Ltd., decided to reduce its capital with a view to reconstruction, and its Balance Sheet on 30th June 1944, was as under:—

Capital & Liabilities	Rs.	*Assets*	Rs.	Rs.
Share Capital		Freehold Works & Buildings		15,00,000
Authorised & Issued:—		Plant & Machinery		4,50,000
50,000 8% Cum. Pref. Shares of Rs. 10 each fully paid	5,00,000	Patents		75,000
25,000 Ordinary Shares of Rs. 100 each fully paid	25,00,000	Stock-in-Trade		2,50,000
Reserve Fund	70,000	Sundry Debtors		1,20,000
Bank Overdraft on Floating Charge on Stock	1,50,000	Investments		5,00,000
Sundry Creditors	4,80,000	Profit & Loss Account:—		
		Debit balance to 30-6-43	9,95,000	
		Less Profit 1944	2,10,000	
				7,85,000
		Cash at Bank		20,000
Rs.	37,00,000	Rs.		37,00,000

There was a contingent liability in respect of Cum. Pref. Dividend which was in arrears for the last two years. The Market value of Investments was Rs. 6,00,000.

On investigation, you find that the Pref. Shares are preferential also as to return of Capital. The present value of the Freehold Property is Rs. 11,50,000 and of Plant Rs. 3,00,000. The Stock is to be depreciated by 10% and a Reserve of Rs. 30,000 is necessary for Doubtful Debts. The Patents are worth Rs. 20,000 only.

You are requested to prepare your Report on a Scheme of Capital Reduction to be placed before the Board. **591**

105. The following is the Balance Sheet of the Bharat Manufacturing Co., Ltd., as on 31st December 1943:—

Capital & Liabilities	Rs.	*Assets*	Rs.	Rs.
Capital, Authorised & Issued:—		Goodwill		30,000
25,000 7% Cum. Pref. Shares of Rs. 10 each fully paid	2,50,000	Freehold Land & Building		1,30,000
25,000 Ordinary Shares of Rs. 10 each fully paid	2,50,000	Plant & Machinery		1,05,000
6% Debentures giving a Floating Charge on the Assets	1,50,000	Patents		75,000
Interest on Debentures unpaid	18,000	Stock-in-Trade		1,10,000
Bank Overdraft	30,000	Sundry Debtors		1,40,000
Sundry Creditors	14,500	Cash at Bank		2,500
		Profit & Loss Account	1,65,000	
		Less Profit	45,000	
				1,20,000
Rs.	7,12,500	Rs.		7,12,500

The Preference Dividends are three years in arrears.

The working of the Company for the year 1943 having shown considerable improvement yielding a net profit of Rs. 45,000 which profit is likely to be maintained even in the near future, the Directors decide upon a scheme of reconstruction with a reduction of Capital so that regular payment of dividends may be maintained in the future.

With a view to assist in the scheme, the Debenture-holders have agreed to accept Ordinary Shares for half the amount of the Interest due to them and forego the balance and to accept further Debentures for Rs. 60,000 for cash giving a floating charge to help towards repayment of Bank overdraft and to provide working Capital.

While the Preference Shares do not give any Preference as to refund of Capital, any arrears of dividend has a first charge on any surplus in case of winding up. The Preference Shareholders are agreeable to forego half the amount of their accumulated dividend, to accept Ordinary Shares for the remaining half and to reduce the future rate of dividend to 6%.

Draft a suitable scheme as would help the Company to re-organize on the following lines:—

(a) To write off Goodwill;
(b) To write off accumulated Loss;
(c) To depreciate Plant and Machinery by 10%;
(d) To write down Patents by Rs. 45,000;
(e) To provide 5% for Doubtful Debts;
(f) To depreciate Stock by 10%. 592

CRITICISM OF ACCOUNTS

106. Is the Profit and Loss Account, as set out below, properly drawn up? If not, submit the account as you would present it.

PROFIT AND LOSS ACCOUNT, 31*st December* 1943

	Rs.		Rs.	Rs.
To Salaries	8,200	By Stock	1,82,000	
„ Depreciation	14,010	Less Jan 1st ..	1,74,000	
„ Purchases	4,26 000			8,000
„ Returns	3,620	„ Interest on Investments ..	34,000	
„ Discounts	4,210			
„ Dividend paid	38,420	*Less* Loss on Sale of Investments ..	9,000	
„ Directors' Fees	10,000			25,000
„ Trade Expenses	12,000			
„ Dividend (5% for year) ..	62,000	„ Balance from last year's account		43,210
„ Manufacturing Wages ..	32,800	„ Sales		5,99,400
„ Transfer to Reserve Account	40,000	„ Errors in Books		1,200
„ Balance carried to Balance Sheet	28,760	„ Unclaimed Dividends ..		3,210
Rs.	6,80,020	Rs.		6,80,020

593

107. State fully your views as to the correctness or otherwise of the following Balance Sheet of a Limited Company and draw a new Balance Sheet in conformity with those views:—

THE LAND DEVELOPMENT SYNDICATE

BALANCE SHEET, 31*st December* 1943

Capital, Etc.	Rs.	*Assets*	Rs.	Rs.
Share Capital	75,000	Land Account:—		
Profit & Loss Account ..	75,000	Purchase Money, viz. 100 acres @ Rs. 750	75,000	
		Add Increase in value	75,000	
			1,50,000	
		Deduct Sales of 25 acres @ Rs. 3,000 ..	75,000	
				75,000
		Development Account:— Cost of Street Making, etc. on the whole Estate ..		15,000
		Cash in hand		60,000
Rs.	1,50,000	Rs.		1,50,000

594

108. The following is a copy of the published Accounts of a Trade Union. Criticise the form, and extract from them an Income and Expenditure Account and a Balance Sheet:—

GENERAL BALANCE SHEET, *for the year ending 31st December* 1943

Dr.	£	s.	d.	*Cr.*	£	s.	d.
To Cash in Treasurer's hands, 31st Dec. 1942 ..	35	7	6	By Lock-out Pay ..	908	17	6
,, Property & Furniture ..	1,632	1	9	,, Out-of-Work Pay ..	1,119	15	2
,, Cash in Bank ..	8,675	0	0	,, Sick Pay ..	306	5	8
,, Contributors, Fees & Fines	2,431	11	6	,, President, Treasurer and Committee ..	40	5	0
,, From Branch No. 1 net	7	0	0	,, Secretary	109	15	0
,, ,, ,, 2 ,, ..	38	0	0	,, Shop Stewards ..	22	10	4
,, ,, ,, 3 ,, ..	77	0	0	,, Sick Stewards ..	1	0	0
,, Interest from Bank ..	288	10	3	,, Auditors	3	2	0
,, Rent from Property ..	85	0	0	,, Rail and Tram Fares ..	3	4	9
,, Cards and Rules ..	0	0	7	,, Treasurer—Special Work	2	17	1
				,, Printing, Post, etc. ..	48	16	3
				,, Telephone ..	8	17	0
				,, Trades' Congress Fees and Delegates ..	4	13	3
				,, Trades' Council Fees ..	9	7	6
				,, Workers' Municipal Federation ..	10	0	0
				,, National Labour Party Fees	9	0	4
				,, Delegations ..	4	5	9
				,, Grants	11	5	6
				,, Membership Social Club	40	0	0
				,, Secretary's and Treasurer's Bonds ..	1	2	0
				,, Solicitors' & Architect's Fees	89	10	3
				,, Remitted to Branch No. 4 net	9	0	0
				,, Payments on Rooms Account	12	18	2
				,, Property	1,701	0	0
				,, Furniture, Fittings, etc.	563	9	11
				,, Cash in Bank, 31st Dec. 1943	8,200	0	0
				,, Cash in Treasurer's hands, 31st Dec. 1943	28	13	2
	£ 13,269	11	7		£ 13,269	11	7

The funds in the hands of Branch Secretaries (not included in the above Account) at the beginning and end of the year were:—Branch No. 1, £3-15-4 and £8-12-6; No. 2, £3-9-2 and £4-12-8; No. 3, £4-18-5 and £5-12-10; No. 4, £2-19-11 and £10-18-8.

(Incorporated Accountants.) 595

109. Criticise the Balance Sheet set out hereunder.

UPRIGHT, LIMITED

BALANCE SHEET, *for the year ending 31st December* 1943

	Rs.	Rs.		Rs.
Ordinary Share Capital	86,000		Stock on hand	32,000
Less Forfeited Shares	400		Uncompleted Contracts ..	1,68,992
		85,600	Cash	2,210
Preference Share Capital ..		1,00,000	Goodwill and Trade Marks ..	56,000
Depreciation Fund		2,500	Plant and Machinery ..	24,600
Debentures—1,000 Debentures of Rs. 100 each at 5%, issued at 90		90,000	Sundry Debtors	10,200
Bank Overdraft and Sundry Creditors		15,862	Unpaid Calls	1,500
Profit for the year ..	12,850			
Balance from last year	2,250			
	15,100			
Less Preference Dividend and proposed Ordinary Dividend ..	13,560			
		1,540		
		Rs. 2,95,502		

110. The Ramshackle Motor Co. Ltd., acquired the undertaking of Messrs. Smith Bros. Ltd., as at the end of 1942. The following Statement of Accounts, made up to the 30th June 1943, is submitted to you for audit. Criticise the statement, taking at least six points (three on the Balance Sheet and three on the Trading and Profit and Loss Account).

BALANCE SHEET

	£	£		£
To Capital		250,000	By Freehold and Buildings ..	87,650
„ £30,000 5% Mortgage Debentures issued at 10% Discount		27,000	„ Goodwill, Patents, Patterns, Plant & Work-in-Progress	74,342
„ Creditors :—	£		„ Fixtures & Fittings (Office)	232
On Open Accounts	16,444		„ Investments	4,732
Debenture Interest	1,500		„ Cash at Bank and in hand	12,411
		17,944	„ Capital unissued ..	25,770
„ Reserve for Bad Debts ..		279	„ Debtors	2,075
			„ Stock	84,784
			„ Suspense Account ..	3,227
		£ 295,223		£ 295,223

TRADING AND PROFIT & LOSS ACCOUNT

	£		£
To Stock acquired from Vendors	21,441	By Sales	10,418
„ Purchases	58,937	„ Amounts paid on Forfeited Shares ..	385
„ Wages	4,392	„ Appreciation in Value of Securities	219
„ Rates and Taxes	1,174	„ Stock, 30th June 1943 ..	84,784
„ Debenture Interest ..	1,500	„ Balance carried to Suspense Account	392
„ Fuel and Lighting ..	1,052		
„ Cartage	589		
„ Office Expenses	3,441		
„ Bad and Doubtful Debts ..	279		
„ Preliminary Expenses ..	2,143		
„ Directors' Fees	1,250		
	£96,198		£96,198

(*Chartered Accountants.*) 597

111. The Agra Cotton Mill, Ltd., presents its Balance Sheet for audit as follows. What alterations are required to bring it in exact accordance with the form prescribed by the Indian Companies Act?

BALANCE SHEET, 30*th June* 1944

	Rs.	Rs.		Rs.	Rs.
Share Capital :—			Land		20,000
Authorised and Subscribed, 100 Shares of Rs. 1,000 each		1,00,000	Buildings at 1st Jan. 1944	1,40,000	
			Additions ..	20,000	
Loans—Secured		4,00,000		1,60,000	
			Less further depreciation	10,000	
Creditors :—					1,50,000
Fixed deposits ..	1,50,000		Machinery—revalued ..		4,90,000
For cotton stores and expenses ..	23,000		Book Debts		12,000
For unclaimed wages & dividends ..	3,000		Stores, Spare Parts and Cotton ..	18,000	
			Coal, Yarn, etc. ..	2,000	
					20,000
		1,76,000	Preliminary Expenses (still to write off)		2,000

BALANCE SHEET—(*Contd.*)

	Rs.		Rs.	Rs.
Profit & Loss Account—Balance ..	84,000	Cash and Investments:—		
		War Bonds ..	10,000	
		Cash at Mill ..	2,000	
		Cash at Office and in Bank including Fixed Deposits, Rs. 40,000	54,000	66,000
Rs.	7,60,000		Rs.	7,60,000

598

112. Redraft the following Balance Sheet:—

.... & *CO., LTD.*

BALANCE SHEET, *for the year ended 30th June 1944.*

	Rs.		Rs.
7. To Capital	7,50,000	1. By Freehold Premises, Goodwill, Fixtures, etc.	5,00,000
8. „ Mortgage	10,000	2. „ Investments at cost ..	50,000
9. „ Sundry Creditors ..	97,500	3. „ Stock	1,00,000
10. „ Reserve Fund ..	50,000	4. „ Sundry Debtors ..	2,00,000
		5. „ Cash	7,500
		6. „ Profit & Loss Account ..	50,000
Rs.	9,07,500	Rs.	9,07,500

The items are made up as follows:—

	Rs.
1. Freehold Premises ..	15,000
Goodwill	4,82,500
Fixtures	2,500
Rs.	5,00,000

	Rs.
2. 500 Shares of Rs. 100 each Rs. 50 paid up	25,000
500 Shares of Rs. 50 each fully paid up	25,000
Rs.	50,000

Note.—Stock Exchange value 30th June 1944 was Rs. 37,500.

	Rs.
3. Stock at Manager's valuation	75,000
Stationery	2,500
Trade Utensils	22,500
Rs	1,00,000

	Rs.
4. Sundry Debtors' Trade Accts.	1,50,000
Temporary Loans to Directors	4,500
C/o.	1,54,500
4. (*Contd.*) b/o.	1,54,500
Goods sold on approval ..	25,000
Advances to X Co., Ltd. ..	20,000
Rates and Taxes and Fire Insurances paid in advance	500
Rs.	2,00,000

	Rs.
5. Cash in hand	4,000
Bills Receivable	2,000
At Bank	1,500
Rs.	7,500

	Rs.
7. Capital, Nominal ..	10,00,000
Capital, Subscribed and called up	9,00,000
Calls in arrears	1,50,000

	Rs.
8. Mortgage on Freehold Premises Rs.	10,000

	Rs.
9. Bank Advance on Security of investments	5,000
Trade Creditors ..	92,500
Rs.	97,500

NOTE.—There is an action pending against the Company on a claim for damages amounting to Rs. 50,000.

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LEDGER BALANCES—*Contd.*

	Rs.
Profit and Loss Account, Balance brought forward	1,14,670
Interest paid	80,260
General Expenses	91,210
* Bad Debts written off	64,355

NOTE.—Reserve Rs. 32,190 for Rebate on Bills Discounted. The Profit and Loss Account balance is the balance left on that Account after the payment of Interim Dividend amounting to Rs. 1,00,000. It is not deemed desirable in the interest of the Bank to make public the totals of Revenue items marked (*). 602

116. From the following figures taken from the books of the Indian Banking Company, Limited, you are requested to prepare Balance Sheet and Profit and Loss Account and then append, as Auditor, your certificate for publication and presentation to the shareholders:—

	Rs.		Rs.
Current & Deposit Accounts ..	7,73,14,500	Current Expenses, Salaries, Rent, etc.	7,12,500
Acceptances on behalf of Customers	1,20,00,000	Amount added to Staff Retirement Fund	30,000
Capital subscribed, 50,000 shares of Rs. 400 each, Rs. 250 per share paid	1,25,00,000	Premises Account, amount written off	2,25,000
Reserve Fund (Invested in 5% War Loan)	60,00,000	Gross Profit for the year after providing for Bad and Doubtful Debts	24,45,000
Profit & Loss Account, 1st Jan.	1,53,000	Cash in hand & at Reserve Bank	1,58,47,500
Interest accrued and paid ..	2,55,000	Money at Call & Short Notice	27,42,500
5% War Loan (Reserve Fund)	60,00,000	Bills Discounted	37,95,000
Securities guaranteed by Indian Government	82,50,000	Loans and Advances	4,66,50,000
Railway Shares and Stocks ..	63,75,000	Bank Premises, Furniture, etc.	33,75,000
Foreign Govt. Securities ..	23,55,000	Freehold and Leasehold Properties	18,00,000

NOTE.—Make provision for Rebate on Bills Discounted amounting to Rs. 24,500. 603

INSURANCE ACCOUNTS

117. From the following figures of the Asiatic Insurance Co., Ltd., you are required to prepare Revenue Account, Profit and Loss Account and Balance Sheet as at 31st December 1943:—

TRIAL BALANCE

	Rs.	Rs.
Fire Insurance Department:—		
Claims paid and outstanding	1,40,000	
Expenses of Management	1,13,800	
Commission	21,400	
Premiums		3,81,600
Employers' Liability Department:—		
Claims	1,52,400	
Expenses of Management	3,01,900	
Commission	90,000	
Premiums		8,92,400
General Insurance Department:—		
Claims paid and outstanding	14,62,800	
Expenses of Management	8,61,900	
Commission	3,02,400	
Premiums		36,02,800
Interest and Dividends		47,000
Accident Insurance Department:—		
Claims paid and outstanding	4,800	
Expenses of Management	12,400	
Commission	9,800	
Premiums		52,000
Share Capital		52,31,500
Claims admitted but not paid		9,01,400
Cash at Bank	15,60,000	
Cash in hand	2,900	
Indian Government Securities	50,05,200	
Foreign Government Securities	15,62,900	

TRIAL BALANCE—*Contd.*

	Rs.	Rs.
Agents' Balances	12,02,900	
Sundry Debtors	21,000	
Amounts due to other Companies		3,37,400
Sundry Creditors		2,41,000
Amount written off Securities	22,400	
Employers' Liability Insurance Fund at 1-1-1943 ..		2,62,400
General Insurance Fund at 1-1-1943		6,21,400
Accident Insurance Fund at 1-1-1943		10,000
Fire Insurance Fund at 1-1-1943		1,04,200
Profit and Loss Account Balance 1-1-1943		3,92,800
Interest and Dividends		35,000
Investments deposited with the Controller-General of Currency	2,62,000	
Rs.	1,31,12,900	1,31,12,900

You are required to create a Specific Reserve of 40% on the Premiums received in respect of risks. **604**

118. From the following Trial Balance of the Globe Insurance Company, Ltd., prepare Final Accounts for the year ended 31st December 1943:—

	Rs.	Rs.
Share Capital (*6,90,000 Shares of Rs. 10 each, Rs. 5 per Share paid up*)		34,50,000
Cash received on Forfeited Shares		1,000
Premiums received:—		
Fire, less reinsurances		3,52,000
Accident and General, *less* reinsurances		9,19,000
Marine, less Commission and reinsurances		12,27,000
Claims paid: Marine	3,53,000	
Claims paid and Outstanding:—		
Fire	71,000	
Accident and General	2,55,000	
Claims Admitted but not paid:—		
Fire		17,000
Accident and General		14,000
Commission:—		
Fire	37,000	
Accident and General	1,66,000	
Expenses:—		
Fire	86,000	
Accident and General	1,83,000	
Marine	1,13,000	
General	4,04,000	
Due to reinsurers:—		
Fire		3,57,000
Accident and General		8,41,000
Marine		5,000
Preliminary Expenses	4,10,000	
Investments	20,50,000	
Freehold and Leasehold Premises	9,62,000	
Agents' Balances	12,83,000	
Sundry Debtors	2,70,000	
Sundry Creditors		1,89,000
Office Furniture, Fittings, etc.	75,000	
Interest and Dividends *less* tax		1,05,000
Interest accrued but not payable	14,000	
Miscellaneous Receipts		5,000
Cash on hand and at Bankers	7,50,000	
Rs.	74,82,000	74,82,000

The following adjustments are to be made before the preparation of the Final Accounts:—Freehold and Leasehold Premises are revalued on 31st December 1943 and an increase of Rs. 1,98,000 is shown over cost of Rs. 9,62,000. This increase is to be credited to Capital Reserve; write off Preliminary Expenses Rs. 1,10,000 and Depreciation of Investments Rs. 39,000 against Capital Reserve. The Balance of Marine Account is carried forward; upon both Fire Account and Accident and General Account provision for unexpired risks is made of 35 per cent of premiums received, *less* reinsurances, and the balances of these accounts are carried to Profit and Loss Account. The year under review being the first year of the Company, the balance of Profit and Loss Account is carried to Establishment and Organisation Account. 605

119. Given below is the Trial Balance of the General Insurance Co., Ltd., as at 31st December 1943. You are required to prepare (1) Fire Revenue Account, (2) Marine Revenue Account, (3) Profit and Loss Account, and (4) Balance Sheet therefrom.

TRIAL BALANCE, *as at 31st December* 1943

	Rs.	Rs.
Fire Fund (1-1-1943)		8,56,900
Marine Fund (1-1-1943)		19,000
Fire Premium (Net)		32,62,400
Marine Premium (Net)		1,26,900
Management Expenses (Fire)	2,03,000	
Management Expenses (Marine)	17,500	
Claims—paid and outstanding (Fire)	16,40,300	
Claims—paid and outstanding (Marine)	58,000	
Commission (Fire)	11,12,900	
Commission (Marine)	17,800	
Interest, Dividends, etc.		1,74,500
Loss on sale of old Motor Car	1,300	
Outstanding Interest (accrued)	50,800	
Investment Reserve Fund		76,900
Provident Fund		6,500
Transfer Fees		600
Auditors' Fees	2,000	
Directors' Fees	1,300	
Depreciation on Furniture		5,400
Motor Car	3,300	
Furniture (original cost Rs. 24,300)	25,100	
Debts due from other offices, Chief Agents, etc. (including Rs. 3,000 due from an Officer of the Company) (All considered good)	6,68,700	
Debts due from the Random Bank, Ltd. (in Liquidation) (Considered Doubtful)	10,700	
Preference Share Capital		4,99,700
Ordinary Share Capital		18,75,000
Forfeited Shares Account		100
Fire Claims Outstanding		4,09,300
Marine Claims recoverable	1,600	
Amounts due to other offices		2,36,200
Sundry Creditors		45,400
Investments (to be specified)	36,36,900	
Cash at Bankers	1,72,200	
Cash in hand	13,200	
Profit and Loss Account (Balance)		600
Managing Agents' Commission		41,200
Rs.	76,36,600	76,36,600

The Authorised Capital of the Company is 1,00,000 Cum. Preference Shares of Rs. 50 each and 1,50,000 Ordinary Shares of Rs. 100 each. Half of Preference Share Capital and 1,25,000 Ordinary Shares are issued and subscribed. The directors have forfeited 30 Preference Shares for non-payment of calls. The calls made are Rs. 10 per Preference Share and Rs. 15 per Ordinary Share. Provident Fund is to be increased to Rs. 13,200. The credit balance of Managing Agents' Commission Rs. 41,200 (for previous year) is not payable, as the same is foregone by them. It is necessary, however, to bring in the liability to the Managing Agents in respect of Commission for the current year—Rs. 56,000 (for Fire) and Rs. 4,900 (for Marine). The Fire Fund at the end of the year must be such figure as is equal to 40% of the current Net Fire Premium. Provide additional depreciation on Furniture Rs. 2,500 and depreciate Motor Car by 10%. There is a Contingent Liability in respect of Preference Share Dividend upto 31st December 1943, amounting to Rs. 1,27,500. 606

ROYALTIES & SHORT WORKINGS

120. On 1st January 1940 the Swadeshi Collieries, Ltd. leased a piece of land for a minimum rent of Rs. 1,000 in the first year, Rs. 2,000 in the second year and thereafter Rs. 3,000 per annum, merging into a royalty of 4 annas per ton, with power to recoup short-workings over the first three years only. The annual output for the four years ending with 31st December 1943 was 1,000, 6,000, 16,000 and 24,000 tons respectively. Show how the accounts would appear in the books of the colliery. 607

HIRE-PURCHASE SYSTEM

121. A firm of Coal Merchants purchased wagons on a hire-purchase system, over a period of four years. Rs. 6,000 was payable on delivery, 1st January 1939, and the balance by annual instalments of Rs. 6,000 each on 31st December in each year. The vendors charged 5 per cent per annum interest on the yearly balances. The Cash value of the Wagons on delivery was Rs. 27,300. Depreciation at the rate of 10 per cent on diminishing balances was written off in each year.

Write up the accounts concerned in the purchasers' books and show how they would appear in the firm's Balance Sheet on 31st December 1940.

(Calculations to be made to the nearest rupee. Journal entries are not required.) 608

CONTRACT ACCOUNTS

122. The Contract Ledger of Ramlal & Co. showed the following expenditure in connection with the contract for the erection of an Ice Factory:—

	Rs.
Materials	80,000
Wages	40,000
Overhead Expenses	15,000
Plant (special)	30,000

The contract price was Rs. 3,50,000 and it was estimated that the contract would take one more year to complete. The work certified so far was Rs. 1,60,000 and 80% of the Architect's Certificates was received in cash. At the end of the first year, the work done and not certified was estimated at Rs. 10,000 and Materials lying on site was valued at Rs. 4,000.

You are required to show how the Contract Account would appear after all the necessary adjustments are made and what profit you deem it desirable to bring into credit. *The Plant is to be depreciated by 10%.* 609

123. The All-India Construction, Ltd. was registered on 1st April 1943 and their Trial Balance a year hence was as under:—

	Rs.	Rs.
2,000 6% Preference Shares of Rs. 100 each		2,00,000
4,000 Ordinary Shares of Rs. 100 each		4,00,000
Land and Buildings	50,000	
Plant and Stores	60,000	
Sundry Debtors	4,500	
Sundry Creditors		18,000
Investments	4,00,000	
Contract No. 1 Account:—		
Materials	80,000	
Wages	75,000	
Plant (specially acquired)	12,000	
Overhead Expenses	3,000	
Contractee's Account—80% of Work Certified Realised ..		1,60,000
Office Salary and Wages	3,600	
Sundry Expenses	1,500	
Bank Balance	85,000	
Cash Balance	3,400	
Rs.	7,78,000	7,78,000

Interest on Investments amounting to Rs. 12,500 is outstanding. The cost of work done and not certified amounted to Rs. 10,000 and there were materials of the value of Rs. 2,000 lying unconsumed on site. Of the *Plant used on the contract, Rs. 1,500* was returned to the stores which remains to be adjusted, and the balance is to be depreciated by 12½%. *You are to depreciate Land and Building by 2% and the Plant and Stores by 5%.* As the entire contract is for Rs. 3,00,000 you are required to bring into credit only three-fourths of the profit ascertained on the work done and that too on the cash basis. Show the Contract Account, Work-in-Progress Account, the Profit and Loss Account and the Balance Sheet as at 31st March 1944. Ignore Income-tax.

DOUBLE ACCOUNT SYSTEM

124. The following balances are extracted from the books of the Gangapur Electric Light and Power Co., Ltd., as at 31st December 1943. Prepare therefrom Final Accounts under the Indian Electricity Act.

		Rs.
Share Capital:—		
8,000 Ordinary Shares of Rs. 100 each to 31-12-42		8,00,000
2,000 Ordinary Shares issued during the year		2,00,000
4,000 Ordinary Pref. Shares of Rs. 100 each to 31-12-42		4,00,000
Cost of Licence		30,000
Leaseholds		1,00,000
Preliminary Expenses		20,000
Buildings (Balance to 31-12-42 Rs. 1,00,000)		1,10,000
Plant (" " " 3,00,000)		4,20,000
Mains (" " " 3,50,000)		4,60,000
Transformers, Motors, etc.		50,000
Meters (Balance to 31-12-42 Rs. 18,000)		24,000
Stores		1,000
Dead and Live Stock (Balance to 31-12-42 Rs. 10,000)		15,000
Public Lamps (" " " 50,000)		60,000
Loose Tools (" " " 6,000)		8,000
Fuel consumed		30,000
Oil, Waste and Engine Room Stores		4,000
Salaries of Engineers, Superintendents and Officers (Generation)		7,200
Salaries of Engineers, Superintendents and Officers (Distribution)		4,800
Power House Salaries and Wages		6,000
Management Expenses		9,600
Establishment Charges		7,200
Sale of energy for lighting purposes		1,00,000
Sale of energy for power		70,000
Public Lighting		70,000
Rent of Meters		5,000
Miscellaneous Receipts		3,000
Rents Receivable		1,200
Transfer Fees		100
Sale of Ashes		500
Reconnection and Disconnection Fees		400
Interest on Bank Deposits		6,000
Repairs and Maintenance of Buildings		500
Repairs and Maintenance of Plant		1,500
Distribution Wages		1,200
Repairs and Maintenance of Mains		200
Repairs and Maintenance of Public Lamps		1,820
Repairs to Transformers		100
Repairs to Switches, Cut-outs, etc.		50
Street Lighting Wages		1,200
Rent Payable		1,680
Rents and Taxes		350
Directors' Fees		1,200
Auditors' Fees		1,600
Legal Expenses		50
Bad Debts		100
Depreciation:—		
Land (Leasehold)	2,000	
Buildings	4,000	
Plant	20,000	
Mains	24,000	
		50,000
Income-tax		1,000
Dividend on Ordinary Shares for 1942		48,000
Dividend on Preference Shares for 6 months to 30-6-43		12,000
Revenue Account Balance forward		80,000
Reserve Fund		10,000
Depreciation Fund		70,000
Investments at Cost		1,31,000
Interest accrued thereon		6,140

BALANCES—(*Contd.*)

	Rs.
Stock of Stores, 31-12-42	81,000
Sundry Consumers' Accounts	37,000
Amount transferred to Reserve Fund	10,000
Creditors for goods supplied	24,000
Unclaimed Dividends	3,000
Expenses prepaid	5,000
Fixed Deposits with Bankers	80,000
Cash on Current Account	10,000
Cash in Office	4,850
Interest on Investments	11,140

611

125. The following are the balances of the Ballarpur State Railway for the year ended 31st December 1943. Make out in the prescribed form:—(1) Capital Account, (2) Revenue Account, (3) Net Revenue Account and (4) General Balance Sheet.

	Rs.
Ordinary Share Capital	51,95,600
4% Preference Share Capital	27,03,825
Loan from State	15,37,000
Premium on Shares	5,36,828
Expended upon Permanent Way to 31st December 1942 ..	71,22,290
" " the above during 1943	45,214
" " Rolling Stock to 31st December 1942 ..	12,41,500
" " Rolling Stock during 1943	41,209
" " Buildings and Stations to 31-12-1942 ..	14,37,340
" " Buildings and Stations during 1943 ..	51,380
Maintenance of Permanent Way	70,330
Upkeep of Locomotives	99,090
Receipts from Passenger Traffic	1,84,180
Receipts from Parcel Traffic	40,780
Rates and Taxes	20,560
Rent charges and chief rents paid	5,330
Receipts from Mail Service	6,690
Receipts from Goods Traffic	2,79,990
Traffic Expenses	92,350
Rent paid on Leased Lines	20,620
Carriage and Wagon Repairs	25,800
Interest on Loan	42,170
Balance of Net Revenue Account, 1st January 1943 ..	5,760
Compensation Fund	5,970
Debts due to other companies	5,690
Preference Dividend	26,020
Sundry Accounts Payable	1,19,940
Compensation Fund Investments	5,020
General Stores—Stock on Hand	1,06,530
Cash at Bankers	1,10,380
Bank Interest received	800
Fire Insurance Fund	17,160
Traffic Accounts due to the Company	72,690
Legal Charges	4,390

612

MISCELLANEOUS

126. State how you would deal with the following while preparing Final Accounts of a business for the year ended 31st December 1943, on 31st March 1944.

(a) Rs. 4,500 owing by a Customer which amount was considered good on 31st December 1943, but was found to be irrecoverable on 15th February 1944.

(b) A contract for Sale of Goods to be delivered on 15th March entered into before 31st December 1943. The contract was duly fulfilled.

(c) A difference of Rs. 600 represented by an amount wanting on the debit of the Trial Balance. 613

127. A fire occurred on 15th April 1944, and destroyed the business premises of Johnson & Co. The books of account and Stock amounting to Rs. 18,000 were saved, and the following information was rendered available from the books:—

	Sales. Rs.	Gross Profit. Rs.
Year ended 31st December 1939	8,60,000	2,15,000
do. do. do. 1940	7,10,000	2,13,000
do. do. do. 1941	6,00,000	2,00,000
do. do. do. 1942	5,50,000	1,87,000
do. do. do. 1943	4,80,000	1,60,000

The Stock on 31st December 1943 was valued at Rs. 97,000. The Purchases, Sales and Productive Wages from 1st January 1944 to 14th April 1944 were ascertained at Rs. 75,000, Rs. 1,59,000 and Rs. 30,000 respectively. You are required to prepare a statement in support of your claim against the Insurance Company, together with any comments you may deem necessary to make. 614

128. The average profits of a business for the last three years amounted to Rs, 2,20,000, but on an adjustment of certain items being carried out for the purposes of goodwill valuation, the same were found to be Rs. 2,30,000 as representing the average normal profits. 7½% represented a fair commercial return on the average capital employed. The book value of the Capital employed worked out at Rs. 13,45,000, but upon a proper valuation having been made, the capital usefully employed was ascertained to be worth Rs. 14,50,000. Valuing the Goodwill on the basis of five years' super profits, you are required to find out the purchase price of the business, on the basis of the figures as adjusted. 615

129. The Eastern Insurance Company, Ltd., carries on Fire, Marine and Accident Insurance Business. You are requested to prepare Revenue Account of the Fire Insurance Department from the following figures, and also state how certain items not included therein will be shown in the Profit and Loss Account for the year ended 31st December 1943:—

	Rs.
Profit and Loss Account Balance, 1st January 1943 ..	2,50,000
Reserve for unexpired Risks, 1st January 1943 ..	1,65,000
Fire Insurance Premiums	4,00,000
" " Claims Paid and Outstanding ..	2,10,000
" " Commission	8,000
" " Expenses of Management	85,000
" " Contribution to Fire Brigades ..	2,800
Additional Fire Insurance Reserve, 1st January 1943 ..	1,55,000
Dividends to Shareholders	50,000
Transfer Fees	30
Sundry General Expenses	12,000
Interest and Dividends less Income-tax	25,000
Interest and Dividends less (Fire Insurance Fund) ..	10,000

Make provision for unexpired risks on the basis of 40% of the Fire Premium Income and carry forward the additional reserves. 616

130. The Directors of the New Products, Ltd. find themselves in a very awkward situation, and consult you in regard to the ways and means of reorganizing the financial position of the Company. The Profit and Loss Account for the year ended 31st December 1943, showed a clear net profit of Rs. 45,000 but the equivalent Cash for the payment of Dividend was not available. They find a temporary loan from the bankers to be necessary for this purpose and are anxious to know how the profits have been merged in the business.

You are presented the following two Balance Sheets for the purpose of placing before them the whole position in the shape of a Report:—

BALANCE SHEET.

As at 31st December 1942

Capital & Liabilities	Rs.	*Assets*	Rs.	Rs.
Share Capital, Authorised, Issued and Paid up	3,00,000	Freehold Land and Buildings ..	1,50,000	
Redeemable Debentures ..	50,000	*less* Depreciation ..	3,000	1,47,000
Sundry Creditors	60,000			
Reserve Fund	50,000	Plant and Machinery ..	1,70,000	
Profit and Loss Appropriation Account	40,000	*less* Depreciation ..	17,000	1,53,000
		Work-in-Progress		60,000
		Stock of Materials		35,000
		Sundry Debtors		75,000
		Cash at Banks		30,000
Rs.	5,00,000	Rs.		5,00,000

BALANCE SHEET.

As at 31st December 1943

Capital & Liabilities		Rs.	*Assets*	Rs.	Rs.
Share Capital: Authorised, Issued and Paid up		3,00,000	Freehold Land & Bldgs.	1,47,000	
Redeemable Debentures ..		45,000	*less* Depreciation ..	2,940	
Sundry Creditors		90,000			1,44,060
Reserve Fund		50,000	Plant and Machinery ..	1,53,000	
Bank Overdraft		3,060	Additions ..	67,000	
Profit & Loss Appropriation A/c.—				2,20,000	
Balance on 1st Jan. 1943	40,000		*less* Depreciation ..	22,000	
Less Dividend ..	36,000				1,98,000
	4,000		Work-in-Progress		55,000
Net Profit during the year	45,000		Stock of Materials		45,000
		49,000	Sundry Debtors		95,000
	Rs.	5,37,060		Rs.	5,37,060

The additions to Plant and Machinery are made up of Rs. 15,000 ordinary replacements and the balance represents actual additions to Plant. The Freehold Land and Buildings cost originally Rs. 2,00,000 when acquired ten years back. 617

COST ACCOUNTS

131. From the following figures, ascertain the
   (*a*) Cost of Materials used,
   (*b*) Value of output of manufactured goods, and
   (*c*) Percentage of gross profit on sales.

TRADING ACCOUNT.

	Rs.	Rs.		Rs.	Rs.
To Stock:—			By Sales		8,40,000
Finished Goods ..	80,000		„ Closing Stock:—		
Raw Materials ..	24,000		Finished Goods ..	70,000	
		1,04,000	Raw Materials ..	28,000	
„ Purchases		2,40,000			98,000
„ Wages		4,00,000			
„ Carriage		20,000			
„ Gross Profit		1,74,000			
	Rs.	9,38,000		Rs.	9,38,000

618

132. The Accounts of the Modern Engineering Co., Ltd., show for 1943:—

	Rs.
Materials used	17,50,000
Manual and Machine Labour Wages directly chargeable	13,50,000
Works Overhead Expenditure	3,71,250
Establishment and General Expenses	2,32,500

Show the Works Cost and Total Cost, the percentage that the Works Overhead Cost bears to the Manual and Machine Labour Wages and the percentage that the Establishment and General Expenses bear to the Works Cost.

What price should the Company quote to manufacture a machine which, it is estimated, will require an expenditure of Rs. 7,500 in Material and Rs. 6 000 in Wages so that it will yield a profit of 25% on the total cost or 20% on the selling price? 619

133. In some industries a certain percentage of defective products is a normal factor. In the case of 10,000 articles being manufactured at a cost of Rs. 80,000 of which Rs. 50,000 is Wages and Indirect Charges and Rs. 30,000 is Material and 1,500 articles turn out defective, their only value being in the used metal of which they are composed, amounting to Rs. 1,500, what is the unit cost of the saleable products, in total, and in Wages and Indirect Charges, and Materials respectively? 620

134. An Ironmaster produces 40,000 tons of Pig Iron in a year at certain furnaces.

From the following figures, prepare Production Account, showing the cost per ton of the various items of expenditure, and after crediting the Production Account with

Rs. 1,60,000, the amount received on the sale of Slag, show the cost per ton of Pig Iron produced.

	Stocks at beginning of year Rs.	Purchases during year Rs.	Stocks at end of year Rs.
Coal	95,000	4,00,000	80,000
Coke	73,000	5,70,000	65,000
Limestone	30,000	1,20,000	35,000
Ironstone	82,000	3,50,000	64,000
Sundries	56,000	1,60,000	60,000

Works General Charges are to be taken at Rs. 95,000 and Wages at Rs. 3,50,000. 621

135. The following particulars relate to certain contracts carried out by a firm of Engineers during the month of December 1943.

	Rs.
Direct Wages paid during the month on Work-in-Progress	6,400
Materials used as per Materials Day Book	5,900
Materials Charged direct	2,800
Direct Payments for Materials	610
Cost of completed work as per Sales Journal:—	
Time	5,900
Materials	6,800
Cost of Time and Materials on:—	
Finished Stock, Time	1,800
Materials	3,060
Additions to Plant, Time	440
Materials	260
Patterns, Time	490
Materials	150
Unchargeable, Time	380
Materials	20
Uncompleted work for customers at close of month:—	
Time	1,990
Materials	2,820
Time and Materials on Work-in-Progress at beginning of month as shown by Cost Ledger:—	
Time	4,600
Materials	3,800

Write up Work-in-Progress Account. 622

136. From the following particulars, write up the debit side of Contract No. 101 Account and pass entries for charging Oncost:—

	Rs.
Materials used	1,095
Productive Wages	1,200
Chargeable Expenses	60

Provide 60% on Productive Wages for Works Oncost and 12½% on Works Cost for Office Oncost. 623

137. Write up Contract Account No. 75 from the following particulars:—

	Rs.
Direct Materials	18,000
Wages	12,000
Special Plant	8,000
Stores Issued	3,200
Loose Tools	1,500
Cost of Tractor—	
Running Material	1,000
Wages of Driver, etc.	1,600
Expenses of Workmen, etc.	1,200

The Contract was completed in 20 weeks, at the end of which period Plant was returned subject to a depreciation of 20% on the original cost. The values of Loose Tools and Stores returned were Rs. 1,000 and Rs. 400 respectively. The value of the Tractor was Rs. 19,500, and depreciation was to be charged to this contract at the rate of 20% per annum.

You are required to provide for Administrative Expenses at the rate of 7½% on Total Works Cost. 624

138. Prepare Manufacturing Account in the Cost Ledger from the following particulars and give the Trial Balance as it would appear after closing the Cost Ledger:—

	Rs.		Rs.
Direct Wages	40,000	Works Oncost Suspense Account	2,000
Stores	24,000	Office Oncost " "	1,400
Direct Goods	4,000	Work-in-Progress	13,000
Chargeable Expenses	2,000	Finished Stock	18,000
Works Oncost	8,000	Completed Contracts	47,800
Office Oncost	5,200	Sales from Stock	6,000

625

139. From the following particulars, prepare a Statement of Cost per Gross of "Black" and "Coloured" pencils:—

Output during the year was "Black" 24,000 Gross and "Coloured" 8,400 Gross.

	Rs.
Raw Materials—Factory—Opening Stock	38,150
Purchases during the year	1,07,100
Closing Stock	49,400
Factory Wages—Black	42,000
Coloured	13,650
Factory Charges	37,100
Finishing Wages—Black	20,000
Coloured	5,600
Raw Materials—Finishing—Opening Stock	7,200
Purchases during the year	33,700
Closing Stock	8,900
Finishing Charges	19,200
General Expenses	36,450

Raw Materials in the Factory and General Expenses are to be apportioned in the ratio of output; Factory Charges in the ratio of Factory Wages; Finishing Raw Materials and Finishing Charges in the ratio of Finishing Wages.

Also state what profit per gross is made if "Black" is sold at Rs. 10 per gross and "Coloured" at Rs. 9-8 per gross. 626

140. From the following particulars, prepare (1) a statement of Cost of Manufacture for the year 1943; (2) a statement of Profit as per Cost Account; and (3) Profit and Loss Account in the financial books, and show to what you would attribute the difference in the profits as shown by (2) and (3):—

	Rs.
Opening Stock of Raw Materials	60,000
Opening Stock of Finished Articles	1,20,000
Purchase of Raw Materials	3,60,000
Stock of Raw Materials at end	90,000
Stock of Finished Articles at end	30,000
Wages	1,50,000

Calculate Factory Oncost at 25% on Prime Cost and Office Oncost at 75% on Factory Oncost.

Actual Works Expenses amounted to Rs. 1,16,250 and actual Office Expenses amounted to Rs. 91,500.

The Selling Price was fixed at 25% above Cost Price.

In statement (1) also show what percentage does each individual item of cost bear to the Total Cost. 627

141. From the following particulars, prepare in comparison from Cost Sheet and Working Account for the months of January and February, the output for these months being 12,000 and 11,500 tons respectively:—

	January Rs.	February Rs.
Wages, Underground	7,800	7,950
Wages, Colliers	19,500	18,750
Wages, Surface	4 500	4,200
Timber	1,950	1,875
Stores	900	825

	Rs.	Rs.
Royalties	3,750	3,675
Horse and Stable Expenses	1,200	1,125
Repairs and Renewals	1,260	1,275
Depreciation	2,190	2,100
Rent, Rates and Taxes	1,290	1,275
Salaries and Management	2,700	2,700
Bad Debts and Discount	600	525
Sundry Expenses	540	450

628

142. Prepare a Statement showing Cost per Cabinet and Profit per Cabinet sold, from the following particulars:—

The Cabinets manufactured are classed into "No. 1" and "No. 2". There is no Opening or Closing Stock of the Cabinets.

Materials	No. 1	.. Rs. 2,400	No. 2	.. Rs. 3,232
Labour	No. 1	.. Rs. 4,560	No. 2	.. Rs. 5,656

Works Oncost to be 100% on Labour, and Office Oncost to be 25% on Works Cost.

120 No. 1 Cabinets were sold during the year at Rs. 150 per Cabinet whereas the price per No. 2 Cabinet was Rs. 110 and the number of No. 2 sold was 202.

What is the total profit for the year as per the above particulars?

Also prepare a Profit and Loss Account for the year in the financial books of the Company, the following being additional particulars given:—

Works Expenses	Rs. 9,920
Office Expenses	Rs. 6,760

How would you account for the difference between the two figures of Profit? 629

143. From the following figures, prepare Finished Stock Account of the Advance Manufacturing Co., Ltd., showing distinctive accounts for different classes of finished products:—

Summary Totals:—

	A Rs.	B Rs.
Productions—Small Forgings	22,500	
„ Castings ..		18,000
Returns from Customers	2,250	
Transfers "B" to "A" Rs. 3,750		
Finished Casting. Sales	42,000	33,000
Issues to Operating Departments	3,000	3,750
Value of Closing Stock	5,250	6,000
Value of Finished Stock at the beginning of the period	10,500	9,000

630

144. Two fitters, a labourer and a boy, undertake to work up 200 articles on a piece-work basis for Rs. 900. The time spent by each of them is 220 ordinary working hours, and the rates of pay are for the two fitters Re. 1-2 each per hour, for the labourer 12 annas per hour, and the boy 6 annas per hour.

Ascertain the amount of the piece-work premium and show the amount of it, which each worker will receive when it is divided proportionately to the wages paid, and show in each case the percentage the premium bears to the wages payments at ordinary rates.

To the amount paid for working up, add cost of Material Rs. 1,800, proportion of "Oncost" Rs. 675, of selling expenses Rs. 450 and for the Carriage charges Rs. 300, and give the Total Cost.

To return the manufacturer 20% on the total cost, at what price must he sell, and what will the profit be reckoned on the selling price? 631

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