

## Financial Accounting - I

\* Meaning of Accounting - "Accounting means recording, classifying, summarizing, analysing and interpreting monetary transactions."

\* According to R.N Anthony - "Accounting is means of counting, summarizing, analysing and reporting in monetary terms, information about business."

\* American Accounting Association - "Accounting is the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of accounts."

\* Ideal definition - Accounting is a process of identifying, measuring, recording, classifying, summarizing, analysing, interpreting and communicating the financial transactions and event in monetary terms. It is an art as well as science also.

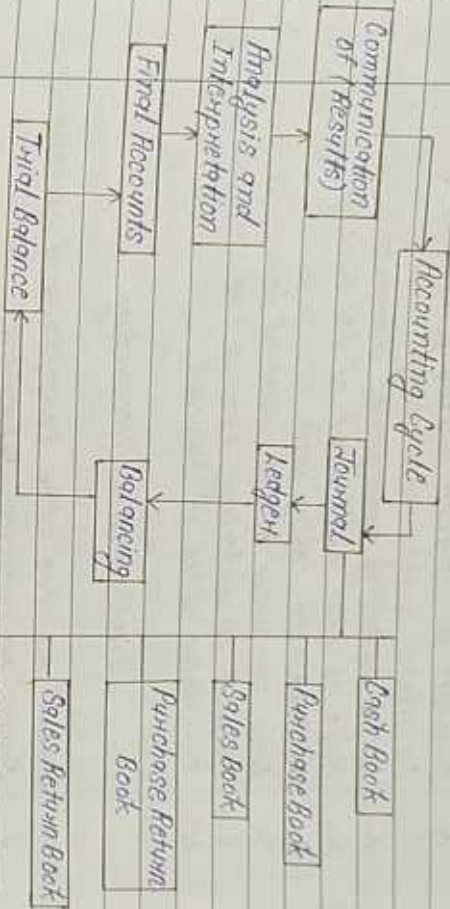
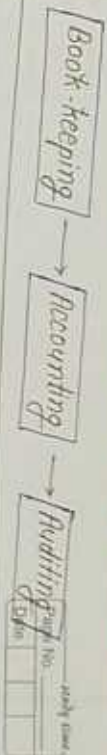
\* Book keeping - Book keeping is the art of recording business terms in Journal and ledger.

Book keeping is the art & science according to which all business transactions are recorded in proper books in a clear and regular manner.

It is also called ledger.

## Difference between Book-keeping and accounting:-

Basis of difference	Book keeping	Accounting
Transactions	In this business transactions are written in the preliminary book.	In this the entries made in permanent book of transaction are examined.
Posting	Posting is done in the journal and subsidiary book.	In this the posting is checked whether it is correct or not.
Sum & Balance	In this the journal & ledger A/c are totaled and the balance of various account is calculated.	Table is prepared from the Account balance.
Final Accounts	Preparation of final A/c does not fall within its scope.	It is main function is to prepared final A/c.
Adjustment and correction of errors	Adjustment & correction of error A/c are not included in this.	A/c included in that.
Simplicity of work	This work is very simple.	This work is relatively difficult.
Beginning and end	After its completion the accounting work start.	In this the material prepared under book keeping is analysed.
Responsibility	A book keeper is not responsible for accounting.	An accountant is responsible for book keeping because book keeping takes place under his supervision.



\* Objectives of Accounting

Control on errors. Calculation of Net Profit & Loss To Make adjustment To know financial Position	Determination of taxable income The legal objects To give information to related parties Basis of Auditing
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\* Advantages of Accounting

1. Provides complete and systematic records.
2. Provides information about profit or loss.

3. Provides information regarding financial position.
4. Facilitates comparative study.
5. Helps in taking managerial decisions.
6. Helps in the settlement of tax liability.
7. Facilitates in taking loan.
8. Acts as proof in the court of law.
9. Helpful in detecting errors and frauds.
10. Facilitates sale of business.

### Limitations of Accounting

1. Based on accounting concepts and conventions.
2. Based on personal judgement.
3. Based on historical costs.
4. Lacks qualitative information.
5. Suffers from window dressing.
6. Depicts unrealistic information.
7. Not suitable for forecasting.

### Generally Accepted Accounting Principles or GAAP

Accounting assumption, concepts and conventions are called generally accepted Accounting Principles or GAAP.

### Meaning of Accounting Principles.

The GAAP fundamental belief and rules of action and conduct of accounting are called accounting principles.

A group of generally accepted, concept, assumption and theoretical rules that helps in accounting for business transaction and preparing financial statement

are called accounting principles.

### Classification of Accounting Principles

Accounting principle can be divided into following two parts

(A) Basic Accounting Concepts OR Basic Assumptions or concepts of principles of Accounting

Fundamental Accounting concepts refers to the assumption, rules and conditions on the basis of which accounting principles are formulated

(i) Accounting periods concept -

Accountant had developed the accounting period concepts to show the progress of business operations. Generally the accounting period is considered to be one year

Calendar year - 1 Jan to 31 Dec

Financial year or accounting year - 1 April to 31 March

(ii)

Dual Aspect - According to this principle the total assets of business are equal to its liability every transaction has two aspect namely Dr and Cr seen every transaction has an equal and together signification effect on assets and liability total assets always equal to total liabilities.

(iii) Money Measurement Concept - According to this concept only those transactions are recorded in the books of accounts, which are capable of being expressed in the terms of money.

(iv) Realisation Concept - This is an important principle of measuring business income (Revenue). This principle clearly states that the business point of view, income is recognized when the following three conditions are fulfilled -

- (A) An exchange of goods and services has taken place.
- (B) The earning process is completed.
- (C) No significant uncertainty exist regarding the amount of consideration.

(v) Separate entity concept - According to this concept both the businessman and the business have their own separate, complete, independent and separate and legal existence.

(vi) Cost concept - According to this principle assets are shown in accounting books at the price paid to acquire them (cost price). Even if their market value may increase or decrease.

(vii) Going Concern Concept - According to this concept business will continue and its activities will continue in future unless the business closes down and goes bankrupt or is insolvent.

(viii) Accounting Equivalent Concept - According to this concept both sides of a transaction are equivalent (unrecorded) for in such a way that these effects remains balanced and the rules of the accounting equation are also followed. If this concept did not exist the double entry system would never have come into existence.

Assets = Equities

Assets = Owner's equity + outsider's liability/Equities.

(ix) Verifiable objective, Evidence concept - This is most essential concept of accounting. According to this concept every business record must be based and supported by documentary evidence and certificate. This are business contracts, salary bill, commercial letter, B/R, etc.

(x) Capital concept - According to this concept, capital is recorded separately in a sole proprietorship or partnership business. The profit of each accounting year is transferred to the capital account where as in a public company it is not done.

(xi) Matching of cost and Revenue concept - According to this concept income and cost (including of loss) are matched to know the business progress on matching if the income is more then the cost then the difference is net profit or if the cost is more then income then the difference is net loss.

(xii) Accrual concept - According to this concept income is recognized when it is earned and not

when it is realised, similarly expenses are recognised when they are due and not when they are paid. According to this principle transaction should be recorded at the time of occurrence.

### Accounting Convention

According to accounting convention refers to the custom that accountant follow while preparing accounting statement.

### Accounting Conventions

Convention of conservation	Convention of full Disclosure	Convention of Consistency
Anticipate No profit and provisions for all possible losses	Disclose the all Material Information	Continuance of Accounting Practices Regularly

Convention of Materiality

Recording of Material facts

① Convention of Conservatism:

According to this convention anticipate no profit but make <sup>provision</sup> arrangement for all possible losses. Hence this convention works a modification in the cost concept.

Example: ① According to cost concept the material should be valued at cost price but according to convention of conservatism of the closing stock cost valued at lower of purchase price or cost price.

② Depreciation is provided for as assets but appreciation in value of assets is not shown.

② Convention of Full Disclosure: - According to this convention the accountant is required to disclose all the necessary information and details in his accounts (record). The final A/c should be prepared honestly and <sup>should</sup> completely true.

③ Convention of consistency - According to this convention the same accounting method, processes or working system should be adopted every year in any organisation and it should not be change in any time the method or system chosen by the accountant in accounting the depreciation, accruals, provision and planning, of <sup>different</sup> <sup>various</sup> assets should not be change in the coming years as far as possible so <sup>as</sup> <sup>to</sup> show that consistency of comparability is maintain in the accounts.

④ Convention of Materiality - According to convention only those fact and event should be mention   
 (which are not beyond their <sup>own</sup> <sup>value</sup>)

In accounting which are important and useful and such an important events and fact should be known which do not affect the financial decision.

### Accounting Standard

Accounting Standards (AS) are written statements of uniform accounting rules and guidelines issued by the accounting body of the country (Institute of Chartered Accountants of India) to be followed while preparing and presenting the financial statements.

### AS - Accounting Standard

#### Rules of Journalising

#### Rules of Debit and Credit

#### ① For Personal Accounts -

Debit to the receiver  
Credit to the giver.

#### ② For Real Accounts

Debit what comes in  
Credit what goes out.

#### ③ For Nominal A/c

Debit all the expenses/losses  
Credit all the gain/income.

#### Important entries

#### ① On starting business by cash

Cash A/c Dr.  
To Capital A/c  
(Being cash brought in as capital)

- ② In starting a business by investing cash, goods, machinery  
Cash A/c Dr.  
Goods A/c Dr.  
Machinery A/c Dr.  
To Capital A/c  
(Being cash, goods, machinery brought for commencement of business)
- ③ With drawn cash by owner from business.  
Drawing A/c Dr.  
To Cash A/c  
(Being cash withdrawn for personal use)
- ④ Withdrawal of cash from the bank for by a trader for personal use.  
Drawing A/c Dr.  
To Bank A/c  
(Being cash withdrawn from bank for personal use)
- ⑤ Withdrawal of goods from business for personal use  
Drawing A/c Dr.  
To goods A/c  
(Purchase)  
(Being goods taken for personal use)
- ⑥ Giving free samples of goods for Advertising  
Advertisement A/c Dr.  
To Purchase A/c (or Stock A/c)  
(Being goods given away as free samples)
- ⑦ For donated goods

Charity A/c Dr.  
To purchase A/c  
(Being charity given)  
Cash/goods stolen by employee  
Theft A/c Dr.  
To cash A/c  
To purchase A/c  
(Being cash and goods stolen by employee)

③  
When goods are destroyed in fire  
loss by fire A/c Dr.  
To purchase A/c  
(Being goods destroyed in fire)  
Transactions relating to purchase of Assets and  
Depreciation.

Journalise the following transactions in the books  
of Tejodhan Singh 2021-22

1. Purchased from Kasba Iron Store, Kathiwar : Machinery  
₹ 40,000, Plant ₹ 20,000 and loose tools ₹ 10,000
2. Expenses incurred on conveyance and installation of  
Machinery : ₹ 800 and ₹ 1200.
3. Expenses incurred on conveyance and installation of  
Plant 400 and 3600
5. Spent on repairing : Machinery 700, Plant 600  
Loose tools 50
6. Final payment made by cheque to Kasba ... Kathiwar
31. Depreciation charged on Machinery, Plant and  
loose tools 24% per annum.

Journal Entries in the books of  
Tevorhan Singh

Date	Particulars	Dr.	Cr.
2001	Machinery A/c	Dr.	40,000
Jan 1	Plant A/c	Dr.	20,000
	Loose tools A/c	Dr.	10,000
	To Kasba Iron store's A/c		70,000
Jan 2	(Being assets purchased on credit)		
	Machinery A/c (800+3200)	Dr.	8000
	To cash A/c		8000
	(Being payments of carriage and installment machinery)		
Jan 3	Plant A/c (400+3600)	Dr.	4000
	To cash A/c		4000
	(Being payment for carriage & install of machinery)		
Jan 5	Repairing expenses on machinery A/c	Dr.	700
	" " Plant A/c	Dr.	600
	" " Loose & Tool A/c	Dr.	50
	To cash A/c		1350
	(Being Repairing expenses paid)		
Jan 6	Kasba Iron store A/c	Dr.	70,000
	To Bank A/c		70,000
	(Being Amt paid)		
Jan 31	Depreciation A/c	Dr.	1640
	To Machinery A/c		360
	To Plants A/c		980
	To Loose & Tools A/c		200
	(Being Depreciation charged)		

### Calculation of Depreciation -

Machinery - Value = 40000 + 8000 = 48000  $\times \frac{24^2}{100 \times 12}$

= 9600

Plant - Value = 20000 + 4000 = 24000  $\times \frac{24^2}{100 \times 12}$  = 4800

Loose tools =  $10000 \times \frac{24^2}{100 \times 12} \times \frac{1}{2}$  = 2000

Journal Entries of some other specific Transactions -

\* Outstanding Expense -

Particular's Expense A/c Dr.

To outstanding Expense A/c

(Being outstanding expense brought in to A/c)

\* Prepaid or unexpired Expenses -

Prepaid Particular's Expenses A/c Dr.

To Particular's Expenses A/c

(Being expenses paid in Advance)

\* Accrued Income -

Accrued Income A/c Dr.

To Particular's Income A/c

(Being income earned but not received)

\* Unaccrued/Advance Income :-

Particular's Income A/c Dr.

To unaccrued/Advance Income

(Being income received in advance)

\* Interest of Capital  
Interest on Capital A/c Dr.  
    To Capital A/c  
(Being interest charged on capital)

\* Recovery of Stolen goods -  
Purchase A/c                      Dr.  
    Loss by theft A/c            Dr.  
    To theft of goods A/c  
(Being stolen goods recovered the balance being  
    lost by theft)

\* Cheque Received  
Cheque in hand A/c            Dr.  
    To particular Person A/c  
(Being cheque received from xyz)

\* Received cheque deposited into bank :-  
Bank A/c                                      Dr.  
    To cheque in hand A/c  
(Being cheque deposited into bank)

\* If cheque deposited in the bank on the same day  
its received:  
Bank A/c                                      Dr.  
    To particular person A/c  
(Being cheque received and deposited into bank  
    same day)

\* Bank informed about the dishonoured of the  
Cheque —

Particular person A/c Dr.  
To Bank A/c  
(Being cheque dishonoured by the bank)

\* Discount -  $\frac{\text{दर}}{100} \times \text{मूल्य}$

The deduction given on the price of goods sold is called discount. It is of two types -

1. Trade Discount
2. Cash Discount

\* In case of Depreciation Assets  
Depreciation A/c Dr.  
To Assets A/c  
(Being depreciation charged on Assets)

\* Interest on loan  
Interest on loan A/c Dr.  
To loan A/c  
(Being interest charged on loan)

\* Livestock  
Business started with livestock  
Livestock A/c Dr.  
To Capital A/c  
(Being Business started with livestock)

\* In case of Death of livestock  
Loss of live stock A/c Dr.  
To Livestock A/c  
(Being loss by dead of live stock)

\* In case of receiving cash from selling the body  
of livestock  
Cash A/c Dr.  
Loss of live stock Dr.  
To Livestock A/c  
(Being loss of live stock and cartage body)

\* In case of Insurance claim on livestock

① Insurance claim Co. A/c      Dr.  
 To livestock A/c  
 (Being claim for loss)

② Cash A/c      Dr.  
 To Insurance claim/Co A/c  
 (Being claim received)

\* Bad Debts - ग्राहकों से नु. वसूल नहीं पायी की रकम  
 हटा कर है।

① ग्राहक की अपार आर्थिक स्थिती या क्षीयता होने  
 की स्थिति में -  
 ② ग्राहक द्वारा वातुसकार या वदनिधन से कारण

① In case of Damage by non-recoverable Amount  
 Bad Debts A/c      Dr.  
 To Debtor's A/c  
 (Being the Amount written off)

② In case of Received of partial Amount of Bad Debts  
 Cash A/c      Dr.  
 Bad Debts A/c      Dr.  
 To Debtor's A/c  
 (Being cash Received and Bad Debts written off)

In case of Insured goods  
 Dr.      Cr.  
 ① Entry for loss for insured goods  
 Insurance claim/Co A/c      Dr.  
 To purchase A/c  
 (Being loss on insured goods due to fire)

\* Payment of claim   
 Cash A/c Dr.   
 To Insurance claim/Co. A/c   
 (Being receipt of claim amount from insur-   
 -ance company).

\* If claim Party Received   
 Bank/cash A/c Dr.   
 Profit & Loss A/c Cr.   
 To Insurance claim/Co. A/c   
 (Being same amount received and remaining   
 transfer to P/L A/c)

\* Discount

① Trade discount — The discount given by the manufacturer of product or by the whole seller to the retailer on the list price of the product is called trade discount.

Note →

(i) Journal entries are not made for Trade discount.   
 (ii) Sells entries are made after deducting trade discount.

② Cash discount — The discount given by the seller to the ~~buyer~~ for making timely payment is called cash discount.

$$\text{Cash discount} = \left[ \text{List price} - \text{Trade discount} \right] \times$$

Rate of cash disc

100

(SMT of 5% on 1000 = 50)

Cash A/c                      Dr.  
Discount A/c                Dr.  
To Sales A/c

(Being sales amount received and discount given)

Difference between Trade Discount and Cash Discount

Basis

Trade Discount

Cash Discount

Trade discount is allowed by the manufacturer or wholesaler to the retailer as a deduction of a fixed percentage rate from the list price of the goods.

Cash discount is allowed by the seller to its customers inducing the latter to make prompt payment or within a fixed point of time.

Object

It is usually allowed to retailers so that they may goods sell at the list price to the customer and still earn profit.

It is allowed to customers to make prompt payment within a fixed period of time.

Treatment in the books of a/c

Trade discount is directly deducted from the cash memo invoice of the bill and no separate entry is passed.

Cash Discount is deducted only if the buyer of the goods makes payment within a fixed period of time so entry for discount is passed in the books of accounts.

Allowance

It is a sort of allowance from the list price of the goods.

It is an allowance from the amount due.

Timing

It is allowed at the time of sale of goods.

It is allowed at the time of making payment.

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### Practical - ①

From the following transactions pass necessary journal entries in the books of Sudhir & Co. post them into ledger and prepare a trial balance according to all the methods:

Date	Particulars	L.F.	Dr (₹)	Cr (₹)
2020				
April 1	Sudhir commenced business		40,000	
May 5	Purchased goods		25,000	
May 20	Sold goods			30,000
Aug. 10	Purchased goods from Sohan		18,000	
Sept. 25	Sold goods to Ramesh			20,000
Sept. 25	Cash given to Sohan		18,000	
Sept. 28	Cash received from Ramesh			20,000
Nov. 2	Purchased goods for cash from Dinesh		19,000	
" 29	Withdrawal for personal use			500
2021				
Jan. 10	Purchased goods from Dinesh		17,000	
Feb. 20	Paid cash to Dinesh Discount allowed by him		16,980	
May. 31	Paid salaries		500	
Apr. 1	To Capital A/c (Being business started)			40,000
May 5	Purchase A/c To Cash A/c (Being goods purchased)		25,000	25,000
May 20	Cash A/c To Sales A/c (Being goods sold)		30,000	30,000
Aug 10	Purchase A/c To Sohan A/c		18,000	18,000

Date	Particulars	Dr.	Cr.
Sept 25	Ramesh's A/c To Sales A/c	20,000	20,000
Sept 26	Cash A/c To Ramesh's A/c	2,000	2,000
Sept 28	Sohan's A/c To Cash A/c	18,000	18,000
Nov 2	Purchase A/c To Cash A/c	19,000	19,000
Nov 29	Drawings A/c To Cash A/c	500	500
Jan 1	Purchase A/c To Dinesh A/c	17,000	17,000
Feb 30	Dinesh A/c To Cash A/c To Discount A/c	17,000	16,980
May 31	Salary A/c To Cash A/c	500	500
① Total Method			
Trial Balance			
as of 31 March 2021			
	L.F	Dr.	Cr.
		4,000	4,000
		19,000	19,980
		19,000	—
		16,980	16,980

Ramesh's A/c	20000	20000
Drawing A/c	50	—
Dinesh's A/c	17000	17000
Discount A/c	—	20
Salaries A/c	—	—
	<u>22500</u>	<u>22500</u>

II Method  
Balance method. Trial Balance (qs at 31st March 2021) Dr Cr

Ledger A/c	L.F	Balance Dr	Balance Cr
Capital Account		—	40000
Cash Account		10020	—
Purchase A/c		79000	—
Sales A/c		—	50000
Sohan's A/c		—	—
Ramesh's A/c		—	—
Drawing's A/c		500	—
Dinesh's A/c		—	—
Discount A/c		—	20
Salaries A/c		500	—
		<u>90020</u>	<u>90020</u>

III. Method - Total and Balance Method

Trial Balance qs at 31st March 2021

Ledger A/c	L.F	Dr. Total (₹)	Cr. Total (₹)	Dr. Balance (₹)	Cr. Balance (₹)
Capital A/c		—	40000	—	40000
Cash A/c		20000	79980	10020	—
Purchase A/c		79000	—	79000	—
Sales A/c		—	50000	—	50000
Sohan's A/c		20000	20000	—	—
Ramesh's A/c		18000	18000	—	—

Drawing's A/c	50	—	500	—
Dinesh's A/c	17000	17000	—	—
Discount A/c	—	20	—	20
Salaries A/c	500	—	500	—
	225000	225000	90020	90020

IV. Method - Omitting Accounts of equal total Method.  
 Total Balance  
 (as of 31 March, 2021)

Ledger A/c	L.F	Dr. Total A/c	Cr. Total A/c
Capital A/c		—	40000
Cash A/c		90000	99980
Purchase A/c		98000	—
Sales A/c		—	50000
Drawing A/c		500	—
Discount A/c		—	20
Salaries A/c		500	—
Total		170000	170000

Note - Balance method is the best among all these methods.

Suspense Account A/c → If there is difference (347.24) in the totals of both sides of the T.B and the error is not corrected even after trying then difference can be put in the suspense A/c but the point of view of auditing it is very important to reconcile the difference of the T.B.

The following balances appeared in the books of Ashok as on 1st March, 2021 :

Assets - Cash ₹ 50,000, Stock ₹ 30,000  
Debtors ₹ 50,000, Machinery ₹ 60,000

Liabilities - Creditors : Rajesh ₹ 30,000

Following transactions took place in March 2021 :

March 4 Sold goods for cash ₹ 7000 and on credit ₹ 3000 to Ram.

" 6 Ram returned goods for ₹ 1,000

" 10 Purchased goods from Rajesh list price ₹ 10,000 valued at ₹ 9000.

" 15 Bought goods of the list price of ₹ 15000 from Rakesh less 10% Trade discount and 5% cash discount and paid 40% price immediately.

March 20 Paid to Rajesh ₹ 38600 in full settlement of his A/c, and paid ₹ 500 for the life insurance premium of the proprietor.

31. Received for commission ₹ 2000

Pass Journal Entries for the above transactions and post into ledger. Balance the A/c and prepare a Trial Balance.

Date	Particular	L.F.	Dr. (₹)	Cr. (₹)
2021	Cash A/c	Dr.	50,000	
March 1	Stock A/c	Dr.	30,000	
	Debtors A/c	Dr.	50,000	
	Machinery A/c	Dr.	60,000	
	To Creditors A/c (Rajesh)			30,000
	To Capital A/c			1,60,000
	(Being business started)			
	opening balances of A/c (recorded)			

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March	Ram's A/c	Dr.			
	Cash A/c	Dr.	7000		
	To Sales A/c				10,000
	(Being goods sold for cash and credit)				
March 6	Sales Return A/c	Dr.	1000		
	To Cash A/c				1000
	(Being sold goods returned by Ram)				
March 10	Purchase A/c	Dr.	19,000		
	To Rajesh's A/c				19,000
	(Being goods purchased from Rajesh)				
March 15	Rajesh Purchase A/c	Dr.	13,500		
	To Rajesh A/c				13,500
	(Being goods bought $\frac{15000 \times 20}{100} = 13500$ )				
	Rajesh's A/c	Dr.	13,500		
	To Cash A/c (5900 - 240)				5,900
	To Discount Received A/c				240
	Cash Payment = 5900 $\times \frac{100}{100} = 5900$				
March 31	Cash A/c	Dr.	2,000		
	To Commission A/c				2,000
	(Being commission received)				
March 20	Rajesh's A/c	Dr.	39,000		
	To Cash A/c				39,000
	To Discount A/c				400
March 25	Durgaing A/c	Dr.	500		
	To Cash A/c				500
	(Being cash paid for payment of owner's IP)				

Cash A/c

Date	Particulars	Dr (₹)	Cr (₹)
Nov 1 2021	To Balance b/d	5000	
Nov 4 2021	To Sales A/c	7000	
Nov 25 2021	To Comm. A/c	2000	
1 April 2021	To Balance b/d	14770	
		59000	
			59000

Stock A/c

Date	Particulars	Dr (₹)	Cr (₹)
May 1 2021	To Balance b/d	30000	
1 April 2021	To Balance b/d	30000	
		30000	
			30000

Debtors A/c

Date	Particulars	Dr (₹)	Cr (₹)
May 4 2021	To Balance b/d	50000	
1 April 2021	To Balance b/d	50000	
		50000	
			50000

Machinery A/c

Date	Particulars	Dr (₹)	Cr (₹)
1 Apr. 2021	To Balance b/d	60000	
		60000	
			60000

**Rajesh's A/c**

Date	Particular	₹	(P)	(D)	Date	Particular	₹	(P)	(D)
Apr 30	To Balance b/d		5000		2021	By Balance c/d			5000
May 20	To Cash A/c		3600		May 10	By Purchase A/c			900
	To Discount A/c		400						
	Total		3900			Total			3900

**Capital A/c**

Date	Particular	₹	(P)	(D)	Date	Particular	₹	(P)	(D)
31 May	To Balance b/d		16000		31 May	By Balance b/d			16000
			16000						
					Apr 1	By Balance b/d			16000

**Rajm's**

Date	Particular	₹	(P)	(D)	Date	Particular	₹	(P)	(D)
1 May	To sales A/c		3000		May 6	By Sales Return			1000
			3000		May 31	By Balance c/d			2000
Apr 1	To Balance b/d		2000						
									3000

**Sales A/c**

Date	Particular	₹	(P)	(D)	Date	Particular	₹	(P)	(D)
May 31	To Balance c/d		10000		2021	By Cash A/c			7000
	OR		10000		May 31	By Rajm's A/c			3000
	(To Trading A/c)				1 Apr	By Balance b/d			10000
	(Balance transferred)								

**Sales Return A/c**

Date	Particular	₹	(P)	(D)	Date	Particular	₹	(P)	(D)
6 May	To Rajm's A/c		1000		31 May	By Balance c/d			1000
			1000						
Apr	To Balance b/d		1000						1000

Purchase A/c

Date	Particulars	Jr	(Rs)	Date	Particulars	Jr	(Rs)
2021				2021			
15.11	To Rajesh A/c		9000	31.12	By Balance c/d		22500
	To cash A/c		5130				
	To Discount A/c		270				
	To. Pankesh A/c		6100				
1.12	To Balance b/d		22500				22500

Rajesh A/c

Date	Particulars	Jr	(Rs)	Date	Particulars	Jr	(Rs)
2021				2021			
31.12	To Balance b/d		8100	15.11	By Purchase A/c		8100
			8100	1.12	By Balance b/d		8100

Discount A/c

Date	Particulars	Jr	(Rs)	Date	Particulars	Jr	(Rs)
2021				2021			
31.12	To Balance c/d		670	15.11	By Purchase A/c		270
			670	20	By Rajesh A/c		400
				31.12	By Balance b/d		670

Drawings A/c

Date	Particulars	Jr	(Rs)	Date	Particulars	Jr	(Rs)
2021				2021			
31.12	To cash A/c		500	31.12	By Balance c/d		500
			500				500

11 April To Balance b/d

Date	Particulars	Jr	(Rs)	Date	Particulars	Jr	(Rs)
2021				2021			
11.4.21	To Balance c/d		2000	31.12	By Cash A/c		2000
			2000	1.12	By Balance b/d		2000

Trial Balance (Balance method)  
qs of 31.01 March 2021

	L.F.	Dr. Balance (₹)	Cr. Balance (₹)
Ledger A/c			
Capital A/c		16000	
Cash A/c		1470	
Stock A/c		30000	
Debtors A/c		50000	
Machinery A/c		60000	
Byesh A/c			
Bym A/c		2000	
Sales A/c			10000
Sales Return A/c		1000	
Purchase A/c		22500	
Rekash A/c			2100
Discount A/c			670
Drawing A/c		500	
Commission A/c			2000
		160770	160770

③ Mohan is not very efficient in book-keeping. He has prepared the following trial balance and has requested you that if it is correct accept it and if it is wrong correct it and prepare it again:

Dr.	Cr.
Ledger A/c Particulars	
Mohan's Capital	1555
Mohan's Drawings	564
Leasehold Premises	741
Sales	
Due from Customers	530
Purchases	1268
Purchased Returns	
Loan from Bank	
Creditors	269
	250
	528

Trade & office Expenses  
 Cash at Bank  
 Bill Payable  
 Salaries and wages  
 Opening Stock  
 Rent and Taxes  
 Sales Returns

784	—
112	—
100	100
598	—
269	—
165	—
98	—
<u>5954</u>	<u>5954</u>

Final Account

(Journal)  
 ↓  
 (Ledger)  
 ↓  
 (Trial Balance)  
 ↓  
 (Final A/c)

Analysis and Interpretation

\*

The accounting is done to derive annual conclusion and to find out the profit and loss and business position is called Final Account.  
 The accounts prepared at the end of the year are called Final Accounts.  
 These includes -

- ① Manufacturing A/c
- ② Trading A/c
- ③ Profit & Loss A/c
- ④ Balance Sheet

Final Accounts



\* Trading Accounts

Trading Accounts - Trading A/c is part of profit & loss. The addition of using Trading A/c title separately, has come very less now in present time only. Trading and Profit & Loss A/c and one Profit & Loss account title is used.

In this types of accounts the first parts of the account work as trading a/c and second part as profit & loss A/c.

The A/c prepared to calculate the gross profit or loss incurred from the purchase and sell of goods in a given periods called Trading Account.

Format of Trading Account

Trading A/c  
for the year ended.....

Dr.	Particulars	(₹)	Cr.	Particulars	(₹)
	To opening stock	.....		By Sales	.....
	To purchases	.....		(-) P.T or S.R	.....
	(-) Purchase or Retort	.....			.....

	By closing stock
To wages	
To Motive-power	
To Oatrol and cartage	
To Couriage	
To cleaning charges	
To Rack charges	
To stores consumed	
To Royalty	
production	
To Manufacturing Exp	
To Gross Profit trans-ferred to Profit & Loss A/c (Balancing Figure)	

\*

Manufacturing Accounts :-

Some traders in addition to buying & selling goods also manufacture goods they buy raw materials on semi-manufacture goods, make them consumable and then sell them.

The manufacturing A/c is prepared by such traders to find out the cost of goods.

Manufacture this is a part of Trading Account, in such a situation the trading A/c is divided into the following 2 parts:-

- ① Manufacturing A/c
- ② Trading A/c

Manufacturing Account  
(for the year ended....)

Wages	
Motive-power	
Oatrol and cartage	
Couriage	
Cleaning charges	
Rack charges	
Stores consumed	
Royalty	
production	
Manufacturing Exp	
Gross Profit trans-ferred to Profit & Loss A/c (Balancing Figure)	

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
To opening stock :-		By closing stock :-	
① Raw material		① Raw materials	
② Work in Progress		② WIP	
To Purchase of Raw materials		By Trading A/c	
less Return outward		(Cost of finished goods)	
To wages		(Balancing fig)	
To gas and water			
To factory Rent			
To Roadery			
To factory insurance			
To Consumable Stores			
To freight			

Trading A/c  
(for the year ended)

Dr.		Cr.	
Particulars	Amount	Particulars	Amount
To opening stock of finished goods		By sales of FG	
To Manufacture A/c (Cost of goods (F.G))		By closing stock of FG	
To Purchase of F.G		By Gross loss transferred to P/L A/c (B.F)	
Return outward			
To Direct expenses on FG			
To Gross Profit transferred to P/L A/c (Balancing F)			

We can give this format of Trading A/c in the place of above two accounts :-

Trading Account  
(for the year ended)

Particulars	Amount	Particulars	(₹)
To opening stock	—	By closing stock	—
Raw material —	—	Raw material —	—
W.I.P	—	W.I.P	—
To Purchases of Raw material	—	By cost of F.G. sold	—
less: Return outward	—	(Balance Figure)	—
To wages	—		
To freight, power, coal, gas	—		
To import duty and octroi	—		
To cost of F.G. b/d	—	By sales of F.G. —	—
To opening stock of F.G.	—	less - Return inward	—
To purchase of F.G.	—		
less: Return outward	—	By closing stock of F.G.	—
To Direct Expenses of F.G.	—		
To Gross profit transfer to P&L A/c (B.F.)	—	By Gross loss transfer to P&L A/c (B.F.)	—

FORMAT OF PROFIT AND LOSS

Definition → Profit/Loss A/c means the A/c in which all the income and expenditure are collected so that the excess of income over expenditure or income can be noted.

Net Profit = Income - Expenses  
Net Loss = Expenses - Income

Note - (1) All the revenue expenses except direct expenses are written on the debit side of P&L A/c.

(2) All Direct expenses are shown on Dr. side of Trading A/c.

(3) Following items are written in the Cr. side of P&L A/c.  
 \* Income received, Discount received, Interest on investment, Int. on Bank deposit, Bad debt recovered, etc.

Dr. Profit & Loss A/c For the year ended. Cr.

Particular	(₹)	Particular	(₹)
To Gross loss/bld		By Gross Profit bld	
To Salaries and wages		By Interest Received	
To Rent, Rates and Taxes		By Rent Received	
To Printing and Stationery		By Commission Received	
To Postage and Telegrams		By Discount Received	
To Insurance premium		By Profit on sale of Investment	
To office light		By Profit on sale of Assets	
To Repairs and maintenance		By Miscellaneous Income	
To Depreciation		By Net loss Transferred to Capital A/c	
To Audit fees		(Balancing figure)	
To Bank charges			
To legal charges			
To Discount Allowed			
To Carriage outward			
To Freight outward			
To Advertisement			
To Bad debts			
To Entertainment Exp.			
To Travelling Exp.			
To Int. on loan			
To Int. on Capital			
To sales promotion Exp.			
To Loss by theft			

To Loss by fire  
To Packing Expenses  
To Miscellaneous Expenses  
To Net Profit transferred to Capital A/c  
(B.F.)

Trading, Profit & Loss A/c  
For the year ended...

Dr.		Cr.	
Particulars	(₹)	Particulars	(₹)
To opening stock	---	By sales of finished goods	---
To Raw materials	---	less: Return inward	---
W.T.P. ---	---	By closing stock	---
Finished goods	---	By Raw materials	---
To purchase -	---	By W.T.P.	---
① Raw materials	---	By Finished goods	---
less - Return outward	---		
To freight	---		
To Carriage	---		
To fuel	---		
To Motor power, octroi and import duty	---		
To Clerking charges	---		
To Stores consumed	---		
To Dock charges	---		
To Manufacturing Expenses	---		
To all gas and water	---		
To Depreciation and Repairs on plant & mach used in manufacturing	---		

To Gross Profit old (Transferred to Profit & Loss A/c)	By Gross Loss Profit (Transferred to Profit & Loss A/c)
To Gross Loss b/d	By Gross Profit b/d

### Balance Sheet

Balance sheet means a statement which reveals the financial position of business on a specified date. This specified date is the date of preparation of final A/c.

### Format of Balance Sheet

(A) In order to liquidity :-

Balance Sheet (as at)	
Liabilities	Assets
Bond overdraft	Cash in hand
Bills payable	Cash at Bank
Trade Creditors	Money at call and short notice
Loan Creditors	Investment (Short-term)
Out lgs. Expenses long term loans	Debtors
Advance Receipts of income	B/R
Reserve and funds	Stock (Closing)
Capital	Stores (closing)
Add - Net Profit	Furniture, patterns, spares
less - Drawings	Copy right
Surplus/Deficit	Live stock
Net Profit	- Exits
Net Profit	Investment of very long term

## Chapter-1 Royalty Accounts

Page No. \_\_\_\_\_  
Date \_\_\_\_\_

Meaning of Royalty - An individual firm, company or any other institutions pay a certain amount as per agreement for acquiring a special rights for using other properties. This amount which is paid other as a consideration for the use of special rights is called royalty.

Definition of Royalty -

- \* According to William Pickles - "Royalty is the remuneration payable to a person in respect of the use of an asset, whether hired or purchased from such person, calculated with reference to and varying with quantities produced or sold as a result of the use of such asset."
- \* According to J.R. Balliboi :- "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 certain articles or to work a mine."

Types of Royalty :- There are many types of royalty but following types royalty are very popular.

- ① Mining Royalty
- ② Brick Royalty
- ③ Oil wells Royalty
- ④ Patent Royalty
- ⑤ Copy right Royalty

⑥ Royalties in connection with machines, Technical knowledge etc.

- ⑦ Royalty on sales of production.
- ⑧ Trade mark Royalty
- ⑨ Other royalty.

Explanation of technical term use of writing -

Royalty - A royalty payment is a payment made by one party to another that owns a particular asset, for the right to ongoing use of that asset.

$$\text{Royalty} = \text{Production} \times \text{Rate}$$

Minimum Rent - It is the amount that has to be paid by the lessee to the lessor whether or not he has derived benefit from the asset. Hence, it is called Dead Rent or Rack Rent. Minimum rent can be a fixed sum for every year as per the terms of the agreement.

Amount of short working -

The amount by which the minimum rent exceeds the net royalty is known as short working.

Short working is also called 'royalty suspense' by lessor.

$$\text{Shortworking} = \text{minimum rent} - \text{Royalty}$$

Surplus - If the actual royalty exceeds minimum rent, it is known as surplus.



## Accounting system of Royalty Accounts -

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Date \_\_\_\_\_

(i) Accounting in the books of Lessee - There are 3 types of books prepared in the books of Lessee.

(A) On the Royalty due -

Royalty A/c .... Dr.  
Shortworking A/c ... Dr.  
    To Landlord's A/c  
(Being Royalties & S/W due)

(B) (On the payment of due Amount)

Landlord's A/c .... Dr.  
    To Cash A/c  
    To S/W A/c (Recovery)  
(Being shortworking recovered & Balance paid to landlord).

(C) At the end of each year

Profit & Loss A/c .... Dr.  
    To Royalty A/c  
    To S/W A/c  
(Being Royalty and transfer to P/L A/c)

Necessary accounts of in the books of Lessee -

Landlord A/c  
Royalty A/c  
Shortworking A/c

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Lessee के Book में इन खातों के अलावा प्रश्न में कहा जाता है तो कुछ अन्य खाते भी बताए जाते हैं।

- (i) Profit & loss A/c
- (ii) Minimum Rent A/c

Minimum Rent A/c — यह Account उन्ही years में बनाएँ। जिस years में Shortworking हुई हो।  
जिन-जिन years में यह accounts बनाया जाता है उस years में Lessee के Book में पहली entry ना करके स्थान पर following entry कि जायेंगी।

First Entry

Royalty A/c      Dr  
S/W A/c      Dr  
    To Landlord's A/c  
(Being Royalty & S/W due)

- ① When minimum rent due

Minimum Rent A/c      Dr  
    To Landlord's A/c  
(Being minimum rent payable to Landlord's)

- ② Minimum rent Amount transfer to Royalty A/c and S/W A/c

Royalty A/c      Dr  
S/W A/c      Dr  
    To Minimum Rent A/c  
(Being minimum rent A/c transfer to Royalty A/c and S/W A/c.)

After that do following entry in the books of lessee.

### Accounting in the Books of Landlord:-

(1) When royalty of due -

Lessee A/c      Dr.  
    To Royalty A/c  
    To Royalty Reserve A/c  
(Being Royalty & Royalty Reserve due)

(2) When amount was received.

Cash A/c      Dr.  
    Royalty Reserve A/c Dr.  
    To Lessee's A/c  
(Being Royalty Reserve recovered and balance amount received from lessee)

(3) At the end of its year

Royalty A/c      Dr.  
    Royalty Reserve A/c Dr.  
    To Profit & Loss A/c  
(Being Royalty and recovered Royalty Reserve transfer to P/L A/c)

Note - Landlord कि Books में Journal entries करते time 'slav' की जगह Royalty Reserve word का use करते हैं।

Necessary ledger accounts in the books of land/land:-

- ① Lessee A/c
- ② Royalty A/c
- ③ Royalty Reserve A/c

Mining Royalty :- खदान सम्बन्धी अधिकार शुल्क में प्रथम पक्षकार को land/land तथा दूसरे पक्षकार को Lessee कहा जाता है।

Amount of slw accoyped in sum year of less:-

अभिन्व कौल कम्पनी लिमिटेड ने 1 जन एन 2020 को 1 टन प्रति टन अधिकार शुल्क तथा 5000 Minimumment के आधार पर एक कोयले के खान पट्टे पर ली लघु कार्यकारी को पट्टे के प्रथम तीन 3 वर्षों में पुरा किया जा सकता है।

कोयले का उत्पादन पहले 5 वर्षों में क्रमशः 3000 टन, 4000 टन, 6000 टन, 10000 टन और 12500 टन था।

पट्टेदार की पुस्तकों में आवश्यक Journal entries कीजिए और Ledger बनाइये।

Year	Output in Tons	Royalty @ 5%	Minimum Rent ₹	Slw ₹	Surplus Slw R (₹)	Unslw ₹	Payment to Land/land
2020	3000	3000	5000	2000	—	—	5000
2021	4000	4000	5000	1000	—	—	5000
2022	6000	6000	5000	—	1000	1000	5000
2023	10000	10000	5000	—	5000	—	10000
2024	12500	12500	5000	—	7500	—	12500

Amount accoyped

Q) When Shortworking recovered last year.  
Practical - ①

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A colliery company took lease of a coal fill for a period of 25 years from 1 Jan 2002, on a royalty of Rs 5 per tonne of coal rise with a minimum rent of 25000 per year with power to recover shortworking during first 5 years of the lease the annual raising scheme is as follows

Year	2002	2003	2004	2005	2006
Production (in tons)	4000	4200	5000	5500	6000

Pass journal entries in the books of colliery company (in the books of leasee)

### Analysis Table

Year	Output (tons)	Royalty @ 5 p/ton	Minimum Rent (Rs)	S/W (Rs)	Surplus (Rs)	S/W (Rs) Received	UR S/W Payment to Landlord p/2 A/c	Payment to Landlord
2002	4000	20,000	25,000	5000	—	—	—	25,000
2003	4,200	21,000	25,000	4,000	—	—	—	25,000
2004	5,000	25,000	25,000	—	—	—	—	25,000
2005	5,500	27,500	25,000	—	2,500	2,500	—	25,000
2006	6,000	30,000	25,000	—	5,000	5,000	1,500	25,000

Unrecovered amount last yr  
= 2000 - 7500 = 5000

$$\begin{aligned}
 \text{S/W} &= 5000 + 4000 \\
 &= 9000 - 7500 = 1500 \rightarrow \text{Unrecovered Amt.} \\
 &\quad \downarrow \\
 &\quad \text{recovered Amount}
 \end{aligned}$$

Journal Entries in the books of Lessee  
(Colliery Company Ltd.)

Page No. \_\_\_\_\_  
Date \_\_\_\_\_

Date	Particular	L.F.	Dr. (£)	Cr. (£)
2002	Royalty A/c	Dr.	20,000	
Dec-31	S/W A/c	Dr.	5,000	25,000
	To Landlord's A/c (Being Royalty S/W due)			
Dec-31	Landlord's A/c	Dr.	25,000	25,000
	To cash A/c (Being cash paid to land lord)			
Dec-31	Profit & loss A/c	Dr.	20,000	20,000
	To Royalty A/c (Being Royalties amount transfer to P/L A/c)			
2003	Royalty A/c	Dr.	21,000	
Dec-31	S/W A/c	Dr.	4,000	25,000
	To Landlord's A/c (Being Royalty S/W due)			
Dec-31	Landlord's A/c	Dr.	25,000	25,000
	To cash A/c (Being cash paid to land lord)			
Dec-31	Profit & loss A/c	Dr.	21,000	21,000
	To Royalty A/c (Being Royalties Amt. transfer to P/L A/c)			

2004	Royalty A/c	Dr.	25,000	
Dec-31	To Landlord's A/c			25,000
	(Being royalty due)			
Dec-31	Landlord's A/c	Dr.	25,000	
	To cash A/c			25,000
	(Being cash paid to land lord)			
Dec-31	Profit & loss A/c	Dr.	25,000	
	To Royalty A/c			25,000
	(Being royalty amt trans- fer to P/L A/c)			
2005	Royalty A/c	Dr.	27,500	
Dec-31	To Landlord's A/c			27,500
	(Being royalty due)			
Dec-31	Landlord's A/c	Dr.	27,500	
	To cash A/c			25,000
	To S/W A/c			2,500
	(Being cash paid to land lord & S/W recovered)			
Dec-31	Profit & loss A/c	Dr.	27,500	
	To Royalty A/c			27,500
	(Being royalty transfer P/L A/c)			



### Analysis Table

Year	output (in ton)	Royalty @ 2% p.a	M. R. (₹)	Slab (₹)	Supplies	Slab (₹)	DR. Slab (₹)	Payment
2011	3,000	6,000	10,000	4,000	—	—	—	10,000
2012	4,000	8,000	10,000	2,000	—	—	—	10,000
2013	5,500	11,000	10,000	—	1,000	1,000	5,000	10,000
2014	7,000	14,000	10,000	—	4,000	4,000	1,000	14,000

### Journal Entries on the books of lease landlord's (Kashal Ltd.)

Date	Particulars	L.F	Dr (₹)	Cr (₹)
2011	Kashal Ltd.'s A/c	Dr.	10,000	
Dec-31	To Royalties A/c			6,000
	To Royalties Reserve A/c			4,000
	(Being royalty & royalty reserve due)			
Dec-31	Cash A/c	Dr.	10,000	
	To Kashal Ltd's A/c			10,000
	(Being cash received from Kashal Ltd.)			
Dec-31	Royalty A/c	Dr.	6,000	
	To Profit & loss A/c			6,000
	(Being royalty transfer to P/L A/c)			

2012	Kaushal Ltd's A/c	Dr.	10,000	
Dec-31	To Royalties A/c			8,000
	To Royalties Reserve A/c			2,000
	(Being Royalty & Royalty Reserve due)			
Dec-31	Cash A/c	Dr.	10,000	
	To Kaushal Ltd's A/c			10,000
	(Being cash received from Kaushal Ltd)			
Dec-31	Royalties A/c	Dr.	8,000	
	To Profit & Loss A/c			8,000
	(Being Royalty transfer to P/L A/c)			
2013	Kaushal Ltd's A/c	Dr.	11,000	
Dec-31	To Royalties A/c			11,000
	(Being Royalty & Royalty Reserve due)			
Dec-31	Cash A/c	Dr.	10,000	
	Royalty Reserve A/c	Dr.	1,000	
	To Kaushal Ltd's A/c			11,000
	(Being cash received & s/w Recouped)			
Dec-31	Royalty A/c	Dr.	11,000	
	Royalty Reserve A/c	Dr.	5,000	
	To P/L A/c			16,000
	(Being Royalty & Royalty Reserve transfer to P/L A/c)			

2014					
Dec 31	Kaushal Ltd's A/c	Dr.	14,000		
	To Royalties A/c			14,000	
	(Being Royalty due)				
Dec 31	Cash A/c	Dr.	14,000		
	To Kaushal Ltd's A/c			14,000	
	(Being cash received from Lessee)				
Dec 31	Royalty A/c	Dr.	14,000		
	To P/L A/c			14,000	
	(Being Royalty transfer to P/L A/c)				

Kaushal Ltd 'A/c (Lessee)

Dt.		Kaushal Ltd 'A/c (Lessee)		Cr.	
Date	Particular	Amount	Date	Particular	Amount
2011	To Royalty A/c	6000	2011	By Cash A/c	10,000
Dec-31	To Royalty Reserve A/c	4000	31 Dec		
		<u>10,000</u>			<u>10,000</u>
2012	To Royalty A/c	8,000	2012	By Cash A/c	10,000
31-Dec	To Royalty Reserve A/c	2,000	31 Dec		
		<u>10,000</u>			<u>10,000</u>
2013	To Royalty A/c	11,000	2013	By Cash A/c	10,000
31 Dec			31 Dec	By Royalty Res A/c	1,000
		<u>10,000</u>			<u>10,000</u>
2014	To Royalty A/c	14,000	2014		
31-Dec			31 Dec	By Cash A/c	14,000
		<u>14,000</u>			<u>14,000</u>

Royalty A/c

Date	Particulars	Amount	Date	Particulars	Amount
2011 31 Dec	To Profit & Loss A/c	6,000	2011 31 Dec	By Kaushal Ltd's A/c	6,000
		6,000			6,000
2012 31 Dec	To Profit & Loss A/c	8,000	2012 31 Dec	By Kaushal Ltd's A/c	8,000
		8,000			8,000
2013 31 Dec	To Profit & Loss A/c	11,000	2013 31 Dec	By Kaushal Ltd's A/c	11,000
		11,000			11,000
2014 31 Dec	To Profit & Loss A/c	14,000	2014 31 Dec	By Kaushal Ltd's A/c	14,000
		14,000			14,000

Royalty Reserve A/c

Date	Particulars	Amount	Date	Particulars	Amount
2011 31 Dec	To Balance c/d	4,000	2011 31 Dec	By Kaushal Ltd's A/c	4,000
		4,000			4,000
2012 31 Dec	To Balance c/d	6,000	2012 Jan 1	By Balance b/d	4,000
		6,000	2012 31 Dec	By Kaushal Ltd's A/c	2,000
					6,000
2013 31 Dec	To Kaushal Ltd's A/c	1,000	2013 Jan 1	By Balance b/d	6,000
	To P/L A/c	5,000			6,000
		6,000			6,000

Journal Entries in the Books of Lessee  
(Abhinav Coal Company Ltd.)

Page No. \_\_\_\_\_  
Date \_\_\_\_\_

Date	Particulars	L.F.	Dr (₹)	Cr (₹)
2020	Royalty A/c	Dr.	3,000	
31 Dec	SLW A/c	Dr.	2,000	
	To Landlord's A/c			5,000
	(Being Royalty & SLW due)			
31 Dec	Landlord's A/c	Dr.	5,000	
	To cash A/c			5,000
	(Being cash paid to landlord)			
31 Dec	Profit/Loss A/c	Dr.	3,000	
	To Royalty A/c			3,000
	(Being Royalties amount transfer to P/L A/c)			
2021	Royalty A/c	Dr.	4,000	
31 Dec	SLW A/c	Dr.	1,000	
	To Landlord's A/c			5,000
	(Being Royalty & SLW due)			
31 Dec	Landlord's A/c	Dr.	5,000	
	To cash A/c			5,000
	(Being cash paid to landlord)			
31 Dec	Profit/Loss A/c	Dr.	4,000	
	To Royalty A/c			4,000
	(Being Royalty amount transfer to P/L A/c)			
2022	Royalty A/c	Dr.	6,000	
31 Dec	To Landlord's A/c			6,000
	(Being Royalty due)			

31 Dec	Landlord's A/c	Dr	6,000	5,000
	To cash A/c			1,000
	To S/W A/c			
	(Being cash paid & S/W recovered)			
31 Dec	Profit & loss A/c	Dr	8,000	6,000
	To Royalties A/c			2,000
	To S/W A/c			
	(Being Royalty & S/W transfer to P/L A/c)			
2023	Royalty A/c	Dr	10,000	10,000
31 Dec	To Landlord's A/c			
	(Being royalty due)			
31 Dec	Landlord's A/c	Dr	10,000	10,000
	To cash A/c			
	(Being cash paid to landlord)			
31 Dec	Profit & loss A/c	Dr	10,000	10,000
	To Royalty A/c			
	(Being royalty transfer to Profit and loss account)			

## Landlord's A/c

Page No. \_\_\_\_\_  
Date \_\_\_\_\_

Date	Particular	Amount	Date	Particular	Amount
2020 31 Dec	To cash A/c	5,000	2020 31 Dec	By Roy A/c	3,000
		5,000		By S/W A/c	2,000
2021 31 Dec	To cash A/c	5,000	2021 31 Dec	By Roy A/c	4,000
		5,000		By S/W A/c	1,000
2022 31 Dec	To cash A/c	5,000	2022 31 Dec	By Roy A/c	6,000
	To S/W A/c	1,000			6,000
		6,000			
2023 31 Dec	To cash A/c	10,000	2023 31 Dec	By Roy A/c	10,000
		10,000			10,000
2024 31 Dec	To Cash A/c	12,500	2024 31 Dec	By Roy A/c	12,500
		12,500			12,500

### Royalty A/c

Date	Particular	Amount	Date	Particular	Amount
2020 31 Dec	To landlord's A/c	3,000	2020 31 Dec	By Profit & Loss A/c	3,000
		3,000			3,000
2021 "	To landlord's A/c	4,000	2021 "	By Profit & Loss A/c	4,000
		4,000			4,000
2022 "	To landlord's A/c	6,000	2022 "	By Profit & Loss A/c	6,000
		6,000			6,000
2023 "	To landlord's A/c	10,000	2023 "	By Profit & Loss A/c	10,000
		10,000			10,000
2024 "	To landlord's A/c	12,500	2024 "	To landlord's A/c	12,500
		12,500			12,500

Note → जब किसी प्रश्न में recovered करने का कोई विषय न होगा तो Direct P/L A/c में Transfer कर देंगे।

Short Working

Date	Particulars	Amount	Date	Particulars	Amount
2020 31 Dec	To Landlord's Alc.	2000	2020	By Balance c/d	2000
		2000	"		2000
2021 Jan-1	To Balance b/d	2000	2021		
Dec-31	To Landlord's Alc.	1000	31 Dec	By Balance c/d	3000
		3000			3000
2022 Dec-31	To Balance b/d	3000	2022	By Landlord's Alc	1000
Jan-1		3000	31.6	By Profit & Loss Ac	2000
					3000

Half yearly payment of royalty - अगर प्रश्न में Minimum rent का amount half yearly दी गई हो तो उसे आधी करके अर्धवार्षिक न्यूनतम किराये में बदल देना चाहिए।

उदा  
शुभम कोयला कम्पनी ने 1 जनवरी एन 2011 को 10 वर्ष के लिए एक कोयले की खान पट्टे पर ली न्यूनतम किराया 16000 रुपये प्रतिवर्ष है और अधिकार शुल्क निकाले हुए कोयले पर 50 पैसे प्रति टन की दर से अर्धवार्षिक 30 जून और 31 दिसम्बर को प्रति वर्ष देय है। लघु कार्य शर्तों को पट्टे के केवल प्रथम तीन वर्षों में अपलियत किया जा सकता है। अधिकार शुल्क की शर्तों को शर्तों 31 दिसम्बर 2012 को देय थी उसका मुगतान 10 जनवरी 2013 को किया गया। शुभम कम्पनी अपनी पुस्तकें प्रतिवर्ष 31 दिसंबर को बन्द करती है, कोयले की निकासी निम्न प्रकार है - Half year ending at 30th June 2011 - 12000

"	"	31st Dec 2011	- 16000
"	"	30 June 2012	- 20000
"	"	31 Dec 2012	- 20000
"	"	30 June 2013	- 18000
"	"	31 Dec 2013	- 14000

Topic-3 The time for received, the amount of shortworking is different for each years and Minimum rent i/c preparation

On 1 Jan 2020 the Aman mines lease some landload for a minimum rent of 3000 Rs. for the first year Rs 5000 in the 2nd year and there after 10000 p.a. Manging into Royalty of 50 paise per ton with power to received shortworking even two years after receiving of shortworking the output were as follow -

Year	2020	2021	2022	2023
Output in tons	3000	8000	22000	50000

Prepare necessary accounts with minimum rent A/c in the books of Aman mines.

### Analysis Table

Year	Output in tons	Royalty @ 50p	M.R	S/W	Surplus	S/W Rec (Unrec)	S/W Rec (Settled)	Paym'ts Recd
2020	3000	1,500	3,000	1500	—	—	—	3000
2021	8000	4,000	5,000	700	—	—	—	5000
2022	22,000	11,000	10,000	—	1000	1000	500	10,000
2023	50,000	25,000	10,000	—	15,000	700	—	24,300

Journal Entries in the books of

Aman Mines (Lessee)

3112 question 11 - Minimum Rent 2020 2021 2022 2023  
 Entry at 4 entry. Entry 1

Date	Particulars	L.F	DH (₹)	CH (₹)
2020	Minimum Rent A/c	DH.	3,000	
31 Dec	To landlord's A/c (Being MIR amount due)			3,000
31 Dec	Royalty A/c	DH.	1,500	
	S/w A/c	DH.	1,500	
	To Minimum Rent A/c (Being M.R Amount transfer to Roy. and S/w A/c)			3,000
31 Dec	Landlord's A/c	DH.	3,000	
	To cash A/c (Being cash paid to landlord)			3,000
31 Dec	P/L A/c	DH.	1,500	
	To Royalty A/c (Being Royalty amount transfer to P/L A/c)			1,500
2021	Minimum Rent A/c	DH.	5,000	
31 Dec	To landlord's A/c (Being MIR amount due)			5,000
31 Dec	Royalty A/c	DH.	4,300	
	S/w A/c	DH.	700	
	To Minimum Rent A/c (Being M.R Amount transfer to Roy. & S/w A/c)			5,000
31 Dec	Landlord's A/c	DH.	5,000	
	To cash A/c (Being cash paid to landlord)			5,000

		study time	
		Page No.	Date
31-Dec	P/L A/c	Dr.	4,300
	To Royalty A/c		4,300
	(Being Royalty Amount transfer to P/L A/c)		
2022	Royalty A/c	Dr.	11,000
31-Dec	To Landlord's A/c		11,000
	(Being Royalty due)		
31-Dec	Landlord's A/c	Dr.	11,000
	To Cash A/c		10,000
	To S/W A/c		1,000
	(Being cash paid & S/W Recouped to landlord)		
31-Dec	P/L A/c	Dr.	11,500
	To Royalty A/c		11,000
	To S/W A/c		500
	(Being Royalty & S/W Amt transfer to P/L A/c)		
2023	Royalty A/c	Dr.	25,000
31-Dec	To Landlord's A/c		25,000
	(Being Royalty due)		
31-Dec	Landlord's A/c	Dr.	25,000
	To Cash A/c		24,300
	To S/W A/c		700
	(Being cash paid & S/W Recouped to landlord)		
31-Dec	P/L A/c	Dr.	25,000
	To Royalty A/c		25,000
	(Being Royalty Amt. transfer to P/L A/c)		

Landlord's A/c

Dr.				Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
2020 31 Dec	To cash A/c	3000	2020 31 Dec	By Minimum Rent A/c	3,000
		3000			3,000
2021 31 Dec	To cash A/c	5,000	2021 31 Dec	By Minimum Rent	5,000
		5000			5000
2022 31 Dec	To cash A/c	10,000	2022 31 Dec	By Royalty A/c	11,000
	To S/W A/c	1000			11,000
		11,000			11,000
2023 31 Dec	To cash A/c	24,300	2023 31 Dec	By Royalty A/c	25,000
	To S/W A/c	700			25,000
		25,000			25,000

Royalty A/c

Dr.				Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
2020 31 Dec	To minimum rent A/c	1500	2020 31 Dec	By profit & loss A/c	1,500
		1500			1500
2021 31 Dec	To minimum rent A/c	4300	2021 31 Dec	By Profit & loss A/c	4300
		4300			4300
2022 31 Dec	To Landlord A/c	11,000	2022 31 Dec	By profit & loss A/c	11,000
		11000			11000
2023 31 Dec	To Landlord A/c	25000	2023 31 Dec	By Profit & loss A/c	25000
		25000			25000

## Shortworking A/c

Dr.	Particular	Amount	Date	Particular	Amount
2020	To M.R. A/c	1500	2020	By balance c/d	1500
31 Dec			31		
		<u>1500</u>			<u>1500</u>
2021			2021		
Jan 1	To balance b/d	15.00			
31 Dec	To M.R. A/c	700	31 Dec	By balance c/d	2200
		<u>22,000</u>			<u>2200</u>
2022			2022		
Jan 1	To Balance b/d	2200	31 Dec	By Landlord A/c	1,000
31 Dec			" "	By PLZ A/c	500
		<u>2200</u>	" "	By Balance c/d	700
					<u>2,200</u>
2023			2023		
Jan 1	To Balance b/d	700	31 Dec	By Landlord's A/c	700
		<u>700</u>			<u>700</u>

Dr.	Minimum Rent A/c		Date	Particular	Cr.
	Particular	₹			₹
2020			2020		
31 Dec	To Landlord A/c	3,000	31 Dec	By Royalty A/c	1500
				By S/W A/c	1500
		<u>3000</u>			<u>3000</u>
2021			2021		
31 Dec	To Landlord A/c	5000	31 Dec	By Royalty A/c	4300
				By S/W A/c	700
		<u>5000</u>			<u>5000</u>

Next-

The lessee will start production after some time and will have two rates of minimum rent. If the lessee is taken in the middle of the year then amount of minimum rent for the year shall be adjustment in the year of the production in the time.

यह हमेशा ध्यान रखना चाहिए कि अधिकार शुरू का भुगतान पहले की तारीख से देय होता है ना कि उत्पादन की तारीख से ऐसी स्थिति में विधेयण तानिका पहले की तारीख से बनाई जाती है -

Question- Rastogi coal company took a mine on lesse 1 April 2011 its book are closed on 31 Dec every year the minimum rent was agreed upon as follows -

Up to the compartment of work Rs. 24000 annually  
After the compartment of work Rs 36000 annually  
The Rent of Royalty was Rs. 1 per tone. \$100 of any year could be ascertained the subsequent two years. the actual work compensation on 1 Jan 2013 and the output was as follows.

Year	2013	2014	2015	2016
Production in (Tons)	30000	50000	40000	60000

Prepare royalty calculation table.

Calculation table

$$\frac{24000 \times 9}{12} = 2000 \times 9 = 18000$$

Year	Output in (Tons)	Royalty @ 1% (₹)	M.R	Gift	Surplus	₹/₹ Recovered	Unrecovered ₹/₹	Payment to Landlord
2011	—	—	18000	18000	—	—	—	18000
2012	—	—	24000	24000	—	—	—	24000
2013	30000	30000	36000	6000	—	—	18000	36000
2014	50000	50000	36000	—	14000	14000	10000	36000
2015	40000	40000	36000	—	4000	4000	2000	36000
2016	60000	60000	36000	—	24000	—	—	60000

Question (2)

Radha coal company took a mine on lease on 1 April 2020. Its books are closed on 31 Dec every year the minimum rent was agreed upon as follows.

Up to the commencement of work 12000 annually  
After the commencement of work 18000 annually.

The rate of royalty was ₹ 1 per ton short working of the any year could be recovered during the subsequent two years the actual work commencement on 1 Jan 2022 and the output was as under.

Year	2022	2023	2024	2025
Production in (Tons)	15000	25000	20000	30000

Prepare journal entry and necessary A/c in the books of Radha's coal company.

$$\frac{1}{12} \times 12000 \times \frac{9}{12} = 9000 \text{ Minimum Rent (2020)}$$

Year	Output (m(Tons))	Royalty @ 1% (m)	m.R	SLA	Surplus	SLA- Received	Unpaid amount to SLA	Payment to Landlord
2020	—	—	9000	9000	—	—	—	9000
2021	—	—	12000	12000	—	—	—	12000
2022	15000	15000	18000	9000	—	—	9000	18000
2023	25000	25000	18000	—	7000	7000	5000	18000
2024	20000	20000	18000	—	2000	2000	1000	18000
2025	30000	30000	18000	—	12000	—	—	30000

Journal Entries in the books of Radha coal company

Date	Particulars	L/F	Dr (₹)	Cr (₹)
2020	SLA- A/c	Dr	9,000	
31/Dec	To landlord's A/c (Being short working due)			9,000
31/Dec	Landlord A/c	Dr	9,000	
	To cash A/c (Being cash paid to landlord)			9,000
2021	SLA- A/c	Dr	12,000	
31/Dec	To landlord's A/c (Being short working due)			12,000
31/Dec	Landlord's A/c	Dr	12,000	
	To cash A/c (Being cash paid to landlord)			12,000

Date	Particular	L.F.	DH (₹)	CH (₹)
2022	Royalty A/c			
31 Dec	SIW A/c	DH	15,000	
	To Landlord's A/c	DH	3,000	
	(Being SIW & Roy due)			18,000
31 Dec	Landlord's A/c	DH	18,000	
	To cash A/c			18,000
	(Being cash paid to landlord)			
31 Dec	P/L A/c	DH	24,000	
	To Royalty A/c			15,000
	To SIW A/c			9,000
	(Being Roy & SIW transfer to P/L A/c)			
2023	Royalty A/c			
31 Dec	To Landlord's A/c	DH	25,000	
	(Being Royalty due)			25,000
31 Dec	Landlord's A/c	DH	25,000	
	To cash A/c			18,000
	To SIW A/c			7,000
	(Being cash & SIW paid to landlord)			
31 Dec	P/L A/c	DH	30,000	
	To Royalty A/c			25,000
	To SIW A/c			5,000
	(Being Roy & SIW transfer to P/L A/c)			

2024				
31 Dec	Royalty A/c	Dr	20,000	
	To Landlord's A/c			20,000
	(Being royalty due)			
31 Dec	Landlord's A/c	Dr	20,000	
	To cash A/c			20,000
	To S/W A/c			1,000
	(Being cash & S/W <sup>recovered</sup> paid to Landlord)			
31 Dec	PL A/c	Dr	20,000	
	To Royalty A/c			18,000
	To S/W A/c			2,000
	(Being Roy & S/W transfer to PL A/c)			
2025				
31 Dec	Royalty A/c	Dr	30,000	
	To Landlord's A/c			30,000
	(Being royalty due)			
31 Dec	Landlord's A/c	Dr	30,000	
	To cash A/c			30,000
	(Being cash paid to Landlord)			
31 Dec	PL A/c	Dr	30,000	
	To Royalty A/c			30,000
	(Being Royalty transfer to PL A/c)			

Landlord's A/c

Date	Particulars	Amount	Date	Particulars	Amount
2020 31 Dec	To cash A/c	9000	2020 31 Dec	By s/w A/c	9000
		9000			9000
2021 31 Dec	To cash A/c	12000	2021 31 Dec	By s/w A/c	12000
		12000			12000
2022 31 Dec	To cash A/c	18000	2022 31 Dec	By Royalty A/c	15000
		18000		By s/w A/c	3000
		18000			18000
2023 31 Dec	To cash A/c	18000	2023 31 Dec	By Royalty A/c	25000
	To s/w A/c	7000			
		25000			25000
2024 31 Dec	To cash A/c	18000	2024 31 Dec	By Royalty A/c	20000
	To s/w A/c	2000			
		20000			20000
2025 31 Dec	To cash	30000	2025 31 Dec	By Royalty A/c	30000
		30000			30000

Short Working A/c

Dr		Cr			
Date	Particulars	Amount	Date	Particulars	Amount
2020 31 Dec	To landlord's A/c	9000	2020 31 Dec	By balance c/d	9000
		9000			9000
2021 1 Jan	To balance b/d	9000	2021 31 Dec	By balance c/d	21000
2021 31 Dec	To landlord's A/c	12000			21000
		21000			21000
2022 1 Jan	To balance b/d	21000	2022 31 Dec	By s/w A/c	9000
2022 31 Dec	To landlord's A/c	3000		By balance c/d	15000
		24000			24000

Date	Particular	Amount	Date	Particular	Amount
2023 1-Jan	To balance b/d	15000	2023 31-Jan	By landlord's Alc	7000
			31-Jan	By P/L Alc	5000
			" "	By balance c/d	9000
		15000			15000
2024 1-Jan	To balance b/d	3000	2024 31-Dec	By landlord's Alc	2000
31-Dec	To balance b/d	1000		By P/L Alc	2000
		4000			4000

Royalty Alc

Date	Particular	Amount	Date	Particular	Amount
2022 31-Dec	To landlord's Alc	15000	2022 31-Dec	By P/L Alc	15000
		15000			15000
2023 31-Dec	To landlord's Alc	25000	2023 31-Dec	By P/L Alc	25000
		25000			25000
2024 31-Dec	To landlord's Alc	20000	2024 31-Dec	By P/L Alc	20000
		20000			20000
2025 31-Dec	To landlord's Alc	30000	2025 31-Dec	By P/L Alc	30000
		30000			30000

Reduction in production due to strike or Lockout

If in any year there is a strike and lockout of employee then the production is decrease in that respective years in such a situation the minimum ment for the year of strike or lockout should be worked out in the same proportion and many term and conditions follow for decreasing in minimum ment.

- ① The property owner either assets this amount and does not in strike on the minimum ment.

- ② The fair is deducted from the minimum rent in proportion to the number of month or days the strike continues.
- ③ The minimum rent amount is reduced by 9 certain percent.

Practical - ①

Ajzy coal company lesse a coal mine on 1 Jan 2011 which provided for the payment of Royalty at 50 paise per ton with minimum rent of 27000 per year each year short working can be recouped during the subsequent 3 year in any year the normal rent was not attempted due to strike the minimum rent was to have recorded as having been reduced proportion having record to the length of strike the out was as follow -

Year	2011	2012	2013	2014	2015	2016
Production in (ton)	37500	42000	57000	61500	51000	66000

During the year 2015 there was strike for two month. prepared short working A/c, Minimum Rent A/c, Landlord's A/c and Journal entry in the books of Ajzy coal company.

Analysis Table

Year	Output in (T)	Pay sup (P/T)	M.R	S/W	Surplus	S/W(R)	DR for A/c	Payment to Landlord
2011	37500	18750	27000	8250	—	—	—	27000
2012	42000	21000	27000	6000	—	—	—	27000
2013	57000	28500	27000	—	1500	1500	—	27000
2014	61500	30750	27000	—	8750	3750	3000	27000
2015	51000	25500	22500	—	3000	3000	3000	27000
(Strike)								
2016	66000	33000	27000	—	6000	—	—	33000

$$\frac{4500}{12.6} = \frac{27000 \times 5}{12.6} = 4500 \times 5 = 22500$$

Journal Entry in the Ajay coal company

Date	Particulars	L.F.	Dr (₹)	Cr (₹)
2011 31 Dec	Minimum Rent A/c To Landlord's A/c (Being MIR amount due)	Dr	27,000	27,000
31 Dec	Royalty A/c S/W A/c To Minimum Rent A/c (Being MIR amount transfer to Royalty)	Dr Dr	18,750 8,250	27,000
31 Dec	Landlord's A/c To cash A/c (Being cash paid to landlord)	Dr	27,000	27,000
31 Dec	Profit & Loss A/c To Royalty A/c (Being Royalty amount transfer to P/L A/c)	Dr	18,750	18,750
2012 31 Dec	Minimum Rent A/c To Landlord's A/c (Being MIR amount due)	Dr	27,000	27,000
31 Dec	Royalty A/c S/W A/c To Minimum Rent A/c (Being MIR amount transfer to R/S/W)	Dr Dr	21,000 6,000	27,000
31 Dec	Landlord's A/c To cash A/c (Being cash paid to landlord)	Dr	27,000	27,000
31 Dec	Profit & Loss A/c To Royalty A/c (Being Royalty amt trans to P/L A/c)	Dr	21,000	21,000

2013					
31 Dec	Royalty A/c	Dr	28500		
	To Landlord's A/c			28500	
	(Being royalty due)				
31 Dec	Landlord's A/c	Dr	28500		
	To cash A/c			27000	
	To S/w A/c			1500	
	(Being cash paid & s/w recovered to landlord)				
31 Dec	Profit & loss A/c	Dr	28500		
	To Royalty A/c			28500	
	(Being Royalty amount transfer to P/L A/c)				
2014					
31 Dec	Royalty A/c	Dr	30750		
	To Landlord's A/c			30750	
	(Being royalty due)				
31 Dec	Landlord's A/c	Dr	30750		
	To cash A/c			27000	
	To S/w A/c			3750	
	(Being cash paid & s/w recovered to landlord)				
31 Dec	Profit & loss A/c	Dr	30750		
	To Royalty A/c			27000	
	To S/w A/c			3750	
	(Being Royalty amount transfer to P/L A/c)				
2015					
31 Dec	Royalty A/c	Dr	25,500		
	To Landlord's A/c			25,500	
	(Being royalty due)				

31 Dec Landlord's Alc Dr 25,500  
 To cash Alc 22,500  
 To slw Alc 3000  
 (Being cash paid & slw recovered to landlord)

31 Dec Profit & loss Alc Dr 25,500  
 To Royalty Alc 22,500  
 To slw Alc 3000  
 (Being royalty & slw amount transferred to P/L Alc)

2016  
 31 Dec Royalty Alc Dr 33000  
 To landlord's Alc 33000  
 (Being royalty due)

31 Dec Landlord's Alc Dr 33000  
 To cash Alc 33000  
 (Being cash paid to landlord)

31 Dec Profit & loss Alc Dr 33000  
 To Royalty Alc 33000  
 (Being royalty Alc amount transferred to P/L Alc)

Dr.		Minimum Rent		Cr.	
Date	Particular	Amount	Date	Particular	Amount
2011 31 Dec	To landlord's Alc	27,000	2011 31 Dec	By Royalty Alc	18,750
				By slw Alc	8,250
		27,000			27,000
2012			2012		
31 Dec	To landlord's Alc	27,000	31 Dec	By Royalty Alc	21,000
				By slw Alc	6,000
		27,000			27,000

Dr.

## Landlord's A/c

Page No.   
 Date C.Y.

Date	Particular	Amount	Date	Particular	Amount
2011 31 Dec	To cash A/c	24,000	2011 31 Dec	By Minimum Rent A/c	24,000
2012 31 Dec	To cash A/c	24,000	2012 31 Dec	By Minimum Rent A/c	24,000
2013 31 Dec	To cash A/c	24,000	2013 31 Dec	By Royalty A/c	28,500
	To S/W A/c	1,500			
		28,500			
2014 31 Dec	To cash A/c	24,000	2014 31 Dec	By Royalty A/c	30,750
	To S/W A/c	3,750			
		30,750			
2015 31 Dec	To cash A/c	22,500	2015 31 Dec	By Royalty A/c	25,500
	To S/W A/c	3,000			
		25,500			
2016 31 Dec	To cash A/c	33,000	2016 31 Dec	By Royalty A/c	39,000
	To S/W A/c	3,000			
		33,000			

Dr.

## Shortworking A/c

Date	Particular	Amount	Date	Particular	Amount
2013 31 Dec	To balance b/d	1,500	2013 31 Dec	By Landlord's A/c	1,500
		1,500			
2014 31 Dec	To balance b/d	2,000	2014 1 Jan	By balance c/d	1,500
		5,250		By Landlord's A/c	3,750
		5,250		By Profit Loss A/c	5,250
					3,750
		2,000			2,000
2015 31 Dec	To balance b/d	15,000	2015 1 Jan	By balance c/d	2,000
		15,000	2015 31 Dec	By Landlord's A/c	3,000
				By P/L A/c	3,000
					15,000

### Shortworking A/c

Dr.

Date	Particular	Amount	Date	Particular	Amount
2011 31 Dec	To M.R A/c	8250	2011 31 Dec	By balance b/d	8250
		8250			
2012 Jan 1	To Balance b/d	8250	2012 31 Dec	By Balance c/d	14250
	To M.R A/c	6000			14250
		14250			
2013 Jan 1	To Balance b/d	14250	2013 31 Dec	By Landlord's A/c	1500
			" "	By balance c/d	12750
		14250			14250
2014 Jan 1	To Balance b/d	12750	2014 31 Dec	By Landlord's A/c	3750
			" "	By P/L A/c	3000
			" "	By balance c/d	6000
		12750			12750
2015 Jan 1	To Balance b/d	6000	2015 31 Dec	By Landlord's A/c	3000
			" "	By P/L A/c	3000
		6000			6000

(Practical - 1)

The Bihar coal company limited hold a lesse of coal mine for a periods of 20 year. commencing from 1 Jan 2020. According to the lesse term the company is to pay 1 Rs per tons as royalty with a M/R of Rs 20000 per year each year SLW can be recovered out of surplus in next 2 years. In the event of stick M/R is to be reduce to 60% the output for the 6 years ending 31 Dec 2025 has been as follows.

Year	2020	2021	2022	2023	2024	2025
Output	10000	12000	28000	25000	90000	15000

The years 2025 was strike years.  
Journal, and A/c of Landlord, SLW/Royalty, M/R.

इस question में ये कहा जा रहा है M/R कम होके 60% बना है इसलिए =

Analysis Table

Year	Output (Tons)	Royalty (Rs)	M/R	Slu <sup>r</sup>	Surplus	Slu <sup>r</sup> (R)	Div. slu <sup>r</sup> to land	Payment to Landlord
2020	10,000	10,000	20,000	1,000	—	—	—	20,000
2021	12,000	12,000	20,000	8,000	—	—	—	20,000
2022	28,000	28,000	20,000	—	8,000	8,000	2,000	20,000
2023	25,000	25,000	20,000	—	5,000	5,000	3,000	20,000
2024	40,000	40,000	20,000	—	2,000	—	—	40,000
2025 (Strike)	15,000	15,000	12,000	—	3,000	—	—	15,000

$20000 \times \frac{60}{100} = 12000$

Journal Entries in the books of Bihar Coal Company

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020 31 Dec	Minimum Rent A/c To Land Land's A/c (Being M/R amount due)	Dr.	20,000	20,000
31 Dec	Royalty A/c Slu <sup>r</sup> A/c To M/R A/c (Being M/R transfer R/Slu <sup>r</sup> )	Dr. Dr.	10,000 10,000	20,000
31 Dec	Land Land's A/c To cash A/c (Being cash paid to Landlord)	Dr.	20,000	20,000
31 Dec	P/L A/c To Royalty A/c (Being Royalty transfer to P/L A/c)	Dr.	10,000	10,000

2021				
31 Dec	Minimum Rent A/c To landlord's A/c (Being MIR amount due)	Dr.	20000	20000
" "	Royalty A/c S/w A/c To MIR A/c (Being MIR transfer to R/S/w)	Dr. Dr.	12000 8000	20000
" "	Landlord's A/c To cash A/c (Being cash paid to landlord)	Dr.	20000	20000
" "	P/L A/c To Royalty A/c (Being Royalty transfer to P/L A/c)	Dr.	12000	12000
2022				
31 Dec	Royalty A/c To landlord's A/c (Being royalty due)	Dr.	28000	28000
" "	Landlord's A/c To Royalty A/c To S/w A/c (Being cash paid & S/w(R))	Dr.	28000	20000 8000
" "	P/L A/c To Royalty A/c To S/w A/c (Unre) (Being roy & S/w transfer to P/L)	Dr.	30000	28000 2000
	2023 Same			

2024	Royalty A/c	Dr.	10,000	
31-Dec	To Landlord's A/c (Being royalty due)			40000
" "	Landlord's A/c	Dr.	40000	
	To cash A/c (Being cash paid to landlord)			40000
" "	PLI A/c	Dr.	40000	
	To Royalty A/c (Being royalty transfer to PLI A/c)			40000
	2025 Same			

Minimum Rent A/c

Date	Particular	Amount	Date	Particular	Amount
2020	To Landlord's A/c	20,000	2020	By Royalty A/c	10,000
31-Dec			31-Dec	By S/W A/c	10,000
		20,000			20,000
2021	To Landlord's A/c	20,000	2021	By Royalty A/c	12,000
31-Dec			31-Dec	By S/W A/c	8,000
		20,000			20,000

Landlord's A/c

Date	Particular	Amount	Date	Particular	Amount
2020	To cash A/c	20,000	2020	By M-R A/c	20,000
31-Dec			31-Dec		20,000
		20,000			
2021	To cash A/c	20,000	2021	By M-R A/c	20,000
31-Dec			31-Dec		20,000
		20,000			
2022	To cash A/c	20,000	2022	By Royalty A/c	28,000
31-Dec	To S/W A/c	8,000	31-Dec		
		28,000			28,000

2023 31 Dec	To cash A/c	20000	2023 31 Dec	By Royalty A/c	25000
	To S/W A/c	5000			
		25000			25000
2024 31 Dec	To cash A/c	40000	2024 31 Dec	By Royalty A/c	40000
		40000			40000
2025 31 Dec	To cash A/c	15000	2025 31 Dec	By Royalty A/c	15000
		15000			15000

Royalty A/c

Date	Particular	Amount	Date	Particular	Amount
2020 31 Dec	To Minimum Rent A/c	10,000	2020 31 Dec	By Profit & loss A/c	10,000
		10,000			10,000
2021 31 Dec	To Minimum Rent A/c	12,000	2021 31 Dec	By Profit & loss A/c	12,000
		12,000			12,000
2022 31 Dec	To landlord's A/c	28,000	2022 31 Dec	By Profit & loss A/c	28,000
		28,000			28,000
2023 31 Dec	To landlord's A/c	25,000	2023 31 Dec	By Profit & loss A/c	25,000
		25,000			25,000
2024 31 Dec	To landlord's A/c	40,000	2024 31 Dec	By Profit & loss A/c	40,000
		40,000			40,000
2025 31 Dec	To landlord's A/c	15,000	2025 31 Dec	By Profit & loss A/c	15,000
		15,000			15,000

## Shortworking A/c

Page No. \_\_\_\_\_  
Date \_\_\_\_\_

Date	Particulars	Amount	Date	Particulars	Amount
2020 31 Dec	To MIR A/c	10000	2020 31 Dec	By Balance c/d	10000
		10000			10000
2021 31 Dec	To MIR A/c	8000	2021 31 Dec	By Balance c/d	18000
1 Jan	To Balance b/d	10000			18,000
		18,000			18,000
2022 1 Jan	To Balance b/d	18,000	2022 31 Dec	By Landlord's A/c	8,000
		18,000		By Profit & Loss A/c	2000
				By Balance c/d	8,000
		18,000			18,000
2023 1 Jan	To Balance b/d	8,000	2023 31 Dec	By Landlord's A/c	5,000
		8000		By Profit & Loss A/c	3,000
					8000

### Government Subsidy, Lock-out and Limit of Short-workings.

In some cases, the government decides that some financial assistance should be given to the lessee in some years of the lease period so that the loss incurred due to short working can be reduced. When the shortworking amount which cannot be recovered is transferred to the profit and loss account, the government gives a subsidy equal to a certain % of it. Thus, after deducting this assistance from the unrecovered short-workings, the remaining unrecouped amount is transferred to the clean loss a/c. This assistance can either be a fixed amount or can be in the form of a percentage of the amount. This financial assistance (subsidy) is for those years which the government wants to increase through incentives.

Illustration -

Mr. A took a lease for 15 years. The rate of short-working is Rs. 10 per ton. The minimum rent is Rs. 1,00,000 per annum. The S/W amount of each year may be written off in the next 2 years but the write off should not exceed Rs. 40,000 in any year. The production is as follows: 7000 tons in the 1st year, 3000 tons in the 2nd year, 15000 tons in the 3rd, 13500 in the 4th year and 2000 tons in 5th year. There was a strike for 3 months in the 4th year and a lockout for 3 months in the 5th year. In the year of lockout, the lessee is entitled to a rebate in the M/R equal to 40% of the periods of lockout and in the year of strike the M/R will be proportionate based on the actual working months. The government gives financial assistance equal to 20% of the unrecovered small work amount.

Prepare the landlord's A/c, the government's A/c, and the small work A/c in the books of A. A closes his A/c on 31st March every year.

Note

\* The following entries relating to this gov subsidy were made in the books of Lessee.

① When government subsidy is payable :-

Government's A/c      Dr  
    To S/W A/c  
(Being subsidy due from government)

② On receipt of Financial subsidy from the government :-

Cash A/c      Dr  
    To govt's A/c  
(Being subsidy received from the govt.)

\* 3 month strike in 4th year  
 $1,00,000 \times \frac{9}{100} = 9000$

$\frac{160000 \times 9}{25000 \times 12} = 75000$

\* 5th year = 3 month Lockout

40% Discount for Lockout =  $25000 \times \frac{40}{100} = 10,000$   
 $100000 \times \frac{3}{12} = 25000$

M.R =  $100000 - 10000 = 90000$

Year	Output in Tons	Royalty %	M.R	S/w	Supply	S/w %	Unacc. S/w	P/L
I	7000	70.000	100000	30000	—	—	—	10000
II	3000	30.000	100000	70000	—	—	—	100000
III	15000	150,000	100000	—	50000	40000	—	110000
IV	13500	1,35,000	75000	—	60000	40000	20000	75000
V	2000	90000	20000	—	—	—	16000	90000

\* 4th year = Unaccouped S/w = 20,000  
 less - 20% Cr.S Received = 4000  
 Unaccouped S/w transfer to P/L A/c 16000

Journal Entries in the books of A

Date	Particulars	L.F	Dr ₹	Cr ₹
1 Year				
31 March	Royalty A/c			
	S/w A/c	Dr	70000	
	To landlord's A/c	Dr	30000	
	(Being Roy & s/w due)			1,00,000
" "	Landlord's A/c			
	To cash A/c	Dr	100,000	
	(Being cash paid)			100,000

" "	PLA A/c	Dr	70,000	
	To Royalty A/c			70,000
	(Being roy transfer to PLA A/c)			
II 31.12.19	Same			
III 31.12.19	Royalty A/c	Dr	150,000	
	To Landlord's A/c			150,000
	(Being royalty due)			
" "	Landlord's A/c	Dr	150,000	
	To cash A/c			1,10,000
	To S/W A/c			40,000
	(Being cash paid and unresw to Landlord A/c)			
" "	PLA A/c	Dr	150,000	
	To Royalty A/c			150,000
	(Being royalty tran to PLA)			
IV Year	Royalty A/c	Dr	135,000	
	To Landlord's A/c			135,000
	(Being royalty due)			
" "	Landlord's A/c	Dr	135,000	
	To Cash A/c			95,000
	To S/W A/c			40,000
	(Being cash paid & S/W unresw to Landlord)			
" "	PLA A/c	Dr	151,000	
	To Royalty A/c			135,000
	To S/W A/c			16,000
	(Being S/W & R tran to PLA A/c)			
" "	Grovet A/c	Dr	4,000	
	To S/W A/c			4,000

" "	Cash A/c				
	To Govt. A/c	Dr.	4000		4000
I Year	Royalty A/c				
	To Landlord's A/c	Dr.	90000		90000
	(Being Royalty due)				
	Landlord's A/c	Dr.	90000		90000
	To cash A/c				
	(Being cash paid to landlord)				
	P/L A/c	Dr.	90000		90000
	To Royalty A/c				
	(Being Royalty transferred to P/L A/c)				

Dr.		Landlord's A/c		Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
I 31 March	To cash A/c	100,000	I 31 March	By Royalty A/c	70,000
				By Govt. A/c	30,000
		100,000			100,000
II			II 31 March	By Royalty A/c	30,000
31 March	To cash A/c	100,000		By Govt. A/c	70,000
		100,000			100,000
III	To cash A/c	110,000	III		
31 March	To Govt. A/c	40,000	" "	By Royalty A/c	150,000
		150,000			150,000
IV			IV		
31 March	To cash A/c	95,000	" "	By Royalty A/c	135,000
	To Govt. A/c	40,000			
		135,000			135,000
V	To cash A/c	90,000	V	By Royalty A/c	90,000
		90,000			90,000



### Shortworking A/c

Dr.		Cr.			
Date	Particular	Amount	Date	Particular	Amount
I 31 March	To Landlord's A/c	30,000	1 March	By Balance c/d	30,000
		30,000			
II 1 Jan	To Balance b/d	30,000	31 Dec	By Balance c/d	1,00,000
31 Mar	To Landlord's A/c	70,000			1,00,000
		1,00,000			
III 1 Jan	To Balance b/d	100,000	31 March	By Landlord's A/c	40,000
				By Balance c/d	60,000
		100,000			100,000
II 1 Jan	To Balance b/d	60,000	IV 31 March	By Landlord's A/c	40,000
				By Profit/Loss A/c	16,000
				By Balance c/d	4,000
		60,000		By Government A/c	4,000
					60,000

Dr.		Cr.			
Date	Particular	Amount	Date	Particular	Amount
IV 31 March	To Short working A/c	4,000	IV 31 March	By Cash A/c	4,000
		4,000			4,000

### Practical-2

Raman took a lease for 10 years. Royalty is Rs 1 per Ton. M/R is ₹ 10,000 per year. Each year's S/W can be recovered in the next 2 years, but this recovery should not be more than ₹ 3,000 in any year. Output is as under - 1st year 6,000 Tons  
2nd " 8,000 3rd " 15,000 4th " 8,500  
and 5th year 7,500 Tons. There was a strike for 3 months in the 4th year and lock-out for 3 months in the 5th year. There is provision of 40% concession in M/R for the periods of lock-out, in the year of lock-out and in the year of strike M/R will be pro-rated on the basis of actual working months.

Government grants subsidy equal to 30% of the unrecouped S/W - Преправе Landland's A/c. S/W A/c and Govt A/c in the

Books of Raman - Raman closes his books every year on 31st December.

\* 3 month strike in the 4th year

$$\frac{10,000 \times 3}{12} = 2500$$

\* In 5th year 3 month lockout

$$\frac{10,000 \times 3}{12} = 2500$$

$$40\% \text{ discount on lockout } \frac{2500 \times 40}{100} = 1000$$

$$M.R = 10,000 - 1,000 = 9,000$$

### Calculation Table

Year	Output in tons	Royalty	M.R	S/W	Surplus	S/W - net	Unrec. P/L	Payment received
I	6000	6000	10,000	4000	—	—	—	10,000
II	8000	8000	10,000	2000	—	—	—	10,000
III	15000	15,000	10,000	—	5000	3000	$\frac{1000 - 300 - 700}{100}$	11,000
IV	8500	8500	7,500	—	1000	1000	$\frac{1000 - 300 - 700}{100}$	8,500
V	7500	7500	9,000	2500	—	—	?	9,000

\* 3rd year Unrecouped S/W = 1000  
less - 30% revised G.S

$$\frac{1000 \times 30}{100} = 300$$

4th year " " = 1000

$$\frac{1000 \times 30}{100} = 300$$

Unrecouped S/W transfer to P/L A/C

1000 - 300

= 700

study time		
Page No.		
Date		

Journal Entries in the books of Raman

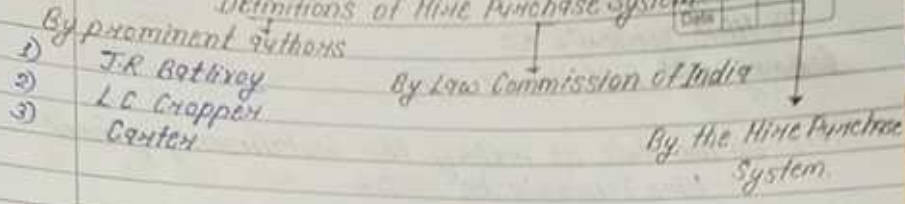
## Hire Purchase System

Important - The Hire-Purchase Act, 1972 was enacted to regulate the rights and duties of parties to hire-purchase agreements but this Act was never brought into force and it was finally repealed by the Hire-Purchase (Repeal) Act, 2005.

Hire-purchase system is a special system of buying and selling of goods. According to this system there is such a contract between the buyer and the seller that the buyer undertakes to pay the price of the goods in installments. These installments within which it is necessary to pay these installments. Under this system the goods handed over to the buyer as per the contract, but the ownership of it remains with the seller. Since, the goods is not paid to the seller, the buyer cannot become its owner. When all the installments are paid, the purchase is completed and if all the installments are not paid then the installments paid are considered as rent for the use of the goods. Hence this method is called hire purchase system.



Definitions of Hire Purchase System



\* Definition of Hire - Purchase System according to various Authors -

- Fixed Ledger provided
- Assets A/c
- Hire - Vendor A/c
- Interest A/c
- Depreciation A/c

Accounting Record in the books of Hire Purchase

Journal entry in the books of Hire purchase

- (A) First Year:-
- (i) On the date of Assets Purchase
    - Assets A/c Dr.
    - To Hire Vendor's A/c
    - (Being payment on delivery due)
  - (ii) On the payment of delivery Amount
    - Hire Vendor's A/c Dr.
    - To Cash A/c
    - (Being amount paid on delivery)
- (B) (iii) On the date of installment paid / payment

Assets A/c Dr.  
Interest A/c Dr.  
To Hire Vendor's A/c  
(Being 1st installment due)

(iv) On the date of making the installment payment  
Hire Vendor's A/c Dr.  
To Cash A/c  
(Being 1st installment paid to Hire Vendor)

(c)(v) On the last date of every year  
Entries related to Depreciation

Depreciation A/c Dr.  
To Assets A/c  
(Being Depreciation charged on Assets)

(vi) Total interest and depreciation amt. transfer  
to P/L A/c  
Profit/Loss A/c Dr.  
To Interest A/c  
To Depreciation A/c  
(Being int & Dep. Amount transferred to P/L A/c)

Note → Only for 1st year record 6 journal entry  
After that next year record of 4 entry (int & Dep.)  
in the books of Hire purchased.

\* Necessary journal ledger A/c in Hire purchased A/c.

- (i) Assets A/c
- (ii) Hire Vendor's A/c
- (iii) Interest A/c
- (iv) Depreciation A/c

(Journal Entry in the books of Hire Vendor)

(A) First year :-

(i) On the date of Assets sales :-  
 Hire purchaser A/c Dr. (Total cash value of assets)  
 To Hire Sales A/c  
 (Being assets sold to hire purchaser)

(ii) If the delivery amount has been received, then from that amount :-  
 Cash A/c Dr. (Delivery Amount)  
 To Hire Purchaser A/c  
 (Being amount received on delivery)

(B) On received of any installment and payment received.

(iii) (i) On the date of received of Installment  
 Hire purchaser A/c Dr. (Only for interest amt)  
 To Interest A/c  
 (Being Interest due in 1st installment)

(ii) On the date of receipts of Installment payment  
 Cash A/c Dr. (Total value of install)  
 To Hire purchaser's A/c  
 (Being 1st installment Received)

(C) (v) On the last date of every year: (Total value of int)  
 Int. A/c Dr  
 To P/L A/c  
 (Being int. transf to P/L A/c.)

① On the last date of 1st year:

Hire sales A/c Dr.  
To Trading A/c  
(Being transfer to Hire sales to Trading A/c)

Note → (first only for 6 journal entries for 1st year after that only 3 journal entries for next year.)

The characteristics of Hire Purchase System

- ① Purchase is credit purchase
  - ② Purchase price is paid in installments
  - ③ Goods are delivered to the buyer
  - ④ Buyer has a right to use these goods
  - ⑤ Seller remains the owner of the goods up to the time of payment of the last installments.
- \* Interest is included in the installment paid. Under Hire purchase system

On 1st Jan, 2000 Shyam purchased a Machi from Tri-  
ni machinery Ltd. on Hire purchase system. The cash  
price of the machinery was 11200. Shyam paid ₹  
3000 immediately and 3 other annual install-  
ment of ₹ 3000 each. The Hire vendor charges int @ 5%  
p.a. The H. Buyer written off depre on that Mach @  
10% p.a. under the diminishing balance method.  
Show Journal Entries and Ledger A/c,  
Profit & loss A/c and Balance Sheet in the  
Books of Shyam.

(Analysis Table)

Particulars	Cash value (₹)	Installment (in ₹)			Depreciation (in ₹)
		Principal	Interest	Total value	
Cash value	11,200				
(-) Payment on delivery 1-1-2000	3000	3000	—	3000	
(-) paid 1st Installment 1-1-2001	8200				
	2590	2590	410	3000	1120
	5610				
(-) II) installment paid 1-1-2002	2719	2719	281	3000	1008
(1-1-2002)	2891				
(-) III) installment paid	2891	2891	109	3000	907
Total	X	11200	800	12000	

Note -

Interest

(i)  $\frac{8200 \times 5}{100} = 410 \quad (3000 - 410) = 2590$

(ii)  $\frac{5610 \times 5}{100} = 280.50 \text{ or } 281$   
 $3000 - 281 = 2719$

(iii)  $3000 - 2891 = 109$

Depreciation 10%

(i)  $\frac{11200 \times 10}{100} = 1120$

(ii)  $11200 - 1120 = 10080 \times \frac{10}{100} = 1008$

(iii)  $10080 - 1008 = 9072 \times \frac{10}{100} = 907.2$

Journal Entries in the books of  
Hire-Purchaser (Shyam)

Date	Particulars	L.F.	Dr.	Cr.
2000 Jan-1	Machinery Alc To Triyene Machinery Ltd Alc (Being Amount due on delivery)	Dr.	3,000	3,000
" "	Triyene Machinery Ltd's Alc Dr. To cash Alc (Being Amount paid on deli.)		3000	3000
31 Dec	Machinery Alc Interest Alc To Triyene's Alc (Being 1st instalment due)	Dr. Dr.	2590 410	3000
" "	Triyene's Alc To cash Alc (Being 1st instalment paid)	Dr.	3000	3000
" "	Depreciation Alc To Machinery Alc (Being depreciation charged on machinery)	Dr.	1120	1120
" "	P/L Alc To Int Alc To Depreciation Alc (Being Int & Dep Amt transfer to P/L Alc)	Dr.	1530	410 1120
2001 31 Dec	Machinery Alc Interest Alc To Triyene's Alc (Being II st instalment due)	Dr. Dr.	2719 281	3000

31 Dec	Thivene Machinery Ltd Alc To cash Alc (Being Amount paid on <sup>II</sup> installment delivery)	Dr.	3,000	3,000
" "	Depreciation Alc To Machinery Alc (Being depreciation charged on machinery)	Dr.	1008	1008
" "	Profit & Loss Alc To Interest Alc To Depreciation Alc (Being Int and Dep amt transfer to P/L Alc)	Dr.	1289	281 1008
2002				
Dec 31	Machinery Alc Interest Alc To Thiven's Alc (Being II st installment due)	Dr.	2891	109 3000
" "	Thivene's Alc To cash Alc (Being III installment paid)	Dr.	3000	3000
" "	Depreciation Alc To Machinery Alc (Being depreciation charged on machinery)	Dr.	907	907
" "	Profit and Loss Alc To Int. Alc To Depreciation Alc (Being Int and dep amt transfer to P/L Alc).	Dr.	1016	109 907

Machinery A/c					
Dr.		Cr.			
Date	Particulars	(₹)	Date	Particulars	(₹)
2000			2000		
Jan 1	To Tivene's A/c	3000	31st Dec	By Depreciation A/c	1120
31 Dec	To " "	2590	" "	By Balance b/d	4470
		<u>5590</u>			<u>5590</u>
2001			2001		
Jan 1	To balance b/d	4470	31 Dec	By Deprec A/c	1008
31 Dec	To Tivene's A/c	2719	" "	By Balance c/d	6181
		<u>7189</u>			<u>7189</u>
2002			2002		
Jan 1	To Balance b/d	6181	31 Dec	By Deprec A/c	907
31 Dec	To Tivene's A/c	2891	" "	By Balance c/d	8165
		<u>9072</u>			<u>9072</u>
2003					
Jan 1	To Balance b/d	8165			

Hire Vendor A/c (Tivene Machinery Ltd)					
Dr.		Cr.			
Date	Particulars	(₹)	Date	Particulars	(₹)
2000			2000		
Jan 1	To cash A/c	3000	Jan 1	By Machinery A/c	3000
31 Dec	To cash A/c	3000	31 Dec	By Machinery A/c	2590
		<u>6000</u>		By Interest A/c	410
					<u>6000</u>
2001			2001		
31 Dec	To cash A/c	3000	31 Dec	By Machinery A/c	2719
		<u>3000</u>		By Interest A/c	281
					<u>3000</u>
2002			2002		
31 Dec	To cash A/c	3000	31 Dec	By Machinery A/c	2891
		<u>3000</u>		By Int A/c	109
					<u>3000</u>

### Interest A/c

Dr	Particulars	(₹)	Date	Particulars	(₹)
2000			2000		
31-Dec	To Trivene's A/c	410	31-Dec	By Profit & Loss A/c	410
		410			410
2001			2001		
31-Dec	To Trivene's A/c	281	31-Dec	By P/L A/c	281
		281			281
2002			2002		
31-Dec	To Trivene's A/c	109	31-Dec	By P/L A/c	109
		109			109

### Depreciation A/c

Dr	Particulars	(₹)	Date	Particulars	(₹)
2000			2000		
31-Dec	To Machinery A/c	1120	31-Dec	By P/L A/c	1120
		1120			1120
2001			2001		
31-Dec	To Machinery A/c	1008	31-Dec	By P/L A/c	1008
		1008			1008
2002			2002		
31-Dec	To Machinery A/c	907	31-Dec	By P/L A/c	907
		907			907

Interest is not included in the installment given Under Hire-purchase system.

A Coal Company agrees to purchase wagons from the fire-vendor on the H.P.S for Rs 4600, 600 whene paid when wagon aquired On 1 Jan 2000. And the Balance was to paid by annual insta of Rs 800 plus interest 5% p.a

open the Necess. ledger and Journal Entries in the books of ACC. and depreciation charge on wagon at rate of 10% p.a on original cost per year.

Particulars	Cash/Debit (in ₹)	Total Installment paid			Deprecia- (@ 10% Original Cost)
		Principles	Inte. 5% PA	Total value	
Cash Price	4,600				
(-) Pay on delivery	600	600		600	
31-12-2000	4,000				
(-) I Installment	800	800	200	800 + 200 = 1000	160
31-12-2001	32,00	800	160		
(-) II Install	800			960	460
31-12-2002	24,00				
(-) III install	800	800	120	920	460
31-12-2003	16,00				
(-) IV inst	800	800	80	880	460
31-12-2004	800				
(-) V inst	800	800	40	840	460
Total	X	4600	600	5200	

Note - Interest 5% p.a

$$\textcircled{1} \text{ year} = 4000 \times \frac{5}{100} = 200$$

$$\textcircled{2} \text{ year} = 3200 \times \frac{5}{100} = 160$$

$$\textcircled{3} 2400 \times \frac{5}{100} = 120$$

$$\textcircled{4} 1600 \times \frac{5}{100} = 80$$

study time  
Page No. \_\_\_\_\_  
Date \_\_\_\_\_

$4600 \times \frac{10}{100} = 460$  each year  
Depreciation on Original value  
Journal Entries in the books of  
Hire-Purchaser (Abhinav Coal Company)

Date	Particulars	L.F.	Dr (₹)	Cr (₹)
2000 Jan 1	Wagons Alc To Hire Vendor's Alc (Being amt due on delivery)	Dr.	600	600
Jan 1	Hire Vendor's Alc To cash Alc (Being amt paid on delivery)	Dr.	600	600
31 Dec	Wagons Alc Int. Alc To Hire-Vendor Alc (Being 1st instalment due)	Dr. Dr.	800 200	1000
" "	Hire Vendor's Alc To cash Alc (Being 1st install paid)	Dr.	1000	1000
" "	Depreciation Alc To Machine/Wagons Alc (Being depn charged on wagons)	Dr.	460	460
" "	P/L Alc To Int. Alc To Depreciation Alc (Being Int & Dep Amt transferred to P/L Alc)	Dr.	660	200 460

बाकी साल में I & II entire नहीं करते हैं।

		Page No.		Date	
2001	Wagons A/c				
31 Dec	Interest A/c	Dr.	800		
	To Hire Vendor A/c	Dr.	160		
	(Being 1st installment due)				960
31 Dec	Hire-vendor's A/c	Dr.	960		
	To cash A/c				960
	(Being 1st installment paid)				
" "	Depreciation A/c	Dr.	460		
	To Wagons A/c				460
	(Being depreciation charged on wagons)				
" "	Profit & Loss A/c	Dr.	620		
	To Interest A/c				160
	To Depreciation A/c				460
	(Being int & Depn Amt transfer to P/L A/c)				
2002					
31 Dec	Wagons A/c	Dr.	800		
	Interest A/c	Dr.	120		
	To Hire Vendor A/c				920
31 Dec	Hire Vendor A/c	Dr.	920		
	To cash A/c				920
31 Dec	Depreciation A/c	Dr.	460		
	To Wagons A/c				460
31 Dec	Profit & Loss A/c	Dr.	580		
	To Interest A/c				120
	To Depreciation A/c				460

# Wagon's Alc

Date	Particulars	Amount	Date	Particulars	Amount
2000 31 Dec	To Hire vendor's Alc	600	2000 31 Dec	By Balance b/d	540
	To Hire vendor Alc	800		By Depreciation Alc	460
		1400			1400
2001 1 Jan	To Balance b/d	540	2001 31 Dec	By Depreciation Alc	460
31 Dec	To Hire Vendor Alc	800		By Balance b/d	880
		1340			1340
2002 1 Jan	To Balance b/d	880	2002 31 Dec	By Depreciation Alc	460
31 Dec	To Hire Vendor Alc	800	" "	By Balance b/d	1220
		1680			1680
2003 1 Jan	To Balance b/d	1220	2003 31 Dec	By Depreciation Alc	460
31 Dec	To Hire Vendor Alc	800	31 Dec	By Balance b/d	1560
		2020			2020
2004 1 Jan	To Balance b/d	1560	2004 31 Dec	By Depreciation Alc	460
31 Dec	To Hire Vendor Alc	800	31 Dec	By Balance b/d	1900
		2360			2360
2005 1 Jan	To Balance b/d	1900			
	Hire Vendor Alc				
	Depreciation Alc				
	Interest Alc				

M. Vijay & Co. has a branch at Yamansi. Branch sales only for cash prepared branch A/c for the following particulars:-

Goods sent to Branch → 25,000  
 Opening Stock → 500  
 Cash sent to Branch →  
 Rent → 500  
 Other expenses - 1000 = 1500  
 Cash sales = 27,500

Closing stock could not be given the manager is given 10% commission on gross profit before charging such commission branch sales goods at cost + 25%

Branch A/c			
Dr. Yamansi		Cr.	
Particular	₹	Particular	₹
To opening stock	500	By cash A/c :	
To goods sent to Branch	25,000	Cash sales	27,500
To Cash A/c		By closing stock	3,500
Rent - 500			
Other - 1000	1,500		
To Manager's Commission	400		
To General Profit & Loss A/c	3,600		
Working Note	31,000		31,000

(i) Cost of goods sold =

(A) Cost of goods sold = 22,000 ₹  

$$\frac{\text{Total Sales} - \text{Total Sales} \times A}{100 + A}$$

$$= 27500 - \left( 27500 \times \frac{25}{100+25} \right)$$

$$= 27500 - \left( 27500 \times \frac{25}{125} \right)$$

$$= 27500 - 5500$$

$$= 22000$$

② Calculation of Closing Stock :-

opening stock + Goods sent to Branch - (Cost of goods sold)

$$= 500 + 25000 - 22000$$

$$= 25500 - 22000$$

$$= 3500 \text{ ₹}$$

③ Manager Commission :-

Manager Commission =  $\left[ \frac{\text{Earned Profit before charging such commission}}{\text{D.H.}} \times \frac{10}{100} \right]$

$$= \frac{(500 + 25000 + 1500) - (27500 + 3500)}{\text{D.H.}}$$

$$= \frac{27000 - 31000}{\text{D.H.}}$$

$$= 4000$$

$$= 4000 \times \frac{10}{100} = 400$$

D.H.	C.H.
27400	31000
	27400
	<u>3600</u>

② Prepared Branch A/c from the following particulars  
 branch make only cash sales

opening stock 24500  
 opening petty cash 70  
 outstanding salary for previous year - 250  
 Goods sent to Branch = 48000  
 Cash sales - 58500  
 Cash sent for Branch Expenses - 3750  
 Closing balance of petty cash - 70

Closing stock could not be given the manager is given  
 10% commission on earn profit before charging such  
 such commission branch sales goods at cost plus 25%

Particulars	(₹)	Particulars	(₹)
To opening Balance		By balance b/d	
Stock 2450		o/s salary	250
Petty cash 70	2520		
To Goods sent to Branch	48000	By cash A/c:	
		Cash sales	58500
To cash A/c	3750	By closing balance	
To Manager comm	820	of petty cash 70	70
To General P&L No	7380	Closing stock	3650
	62470		62470

Cost of goods sold = 46800

$$T.S - \left( T.S \times \frac{A}{100+A} \right)$$

$$58500 - (58500 \times \frac{25}{100+25})$$

$$58500 - \frac{11700}{175} \times 25$$

$$= 58500 - 11700$$

$$= 46800$$

Calculation of Closing stock :-

Opening stock + Goods sent to branch - (Cost of goods sold)

$$= 2450 + 48000 - 46800$$

$$= 50450 - 46800$$

$$= 3650 \text{ ₹}$$

Manager's Commission

$$\text{Cr.} \quad 250 + 58500 + 3650 + 70 \quad \text{Dr.} \quad (2450 + 70 + 48000 + \frac{3750 \times 10}{100})$$

$$= 62470 - 54270 \times \frac{10}{100}$$

$$= \frac{8200 \times 10}{100} = 820$$

## Insolvency Accounts

\* Meaning of insolvency:- In common parlance insolvent refers to a person or a sole business man, firm or joint Hindu family whose actual liabilities are more than the actual receivable value of assets. Legally insolvent refers to a person or a sole business man firm or joint Hindu family who fulfills the following two conditions:-

- ① The total of its actual liabilities exceeds the realisable value of its total assets.
- ② He has been declared insolvent by the High court under the insolvency act has gone.

### Insolvency Act in India:-

There are different act to solve problems related to various subject in the business sector. There are two acts in india to solve problems related to insolvent which are mentioned below-

- ① Presidency towns insolvency Act 1909 - This act applies to presidency towns declared during the british rule i.e. Kolkata, Mumbai, Chennai.
- ② Provincial insolvency Act 1920 - This act applies to the rest of india except the cities of Kolkata, Mumbai and Chennai.

Difference Between Presidency towns insolvency Act 1909 and Provincial insolvency Act 1920

Base of difference	Presidency towns Insolvency Act	Provincial Insolvency Act
① Year	This act was passed in the year 1909	This act was passed in the year 1920
② Scope	This act is applicable in the Presidency towns of Chennai, Mumbai, Kolkata	The act applicable to the whole of India except the Presidency Towns of Kolkata, Chennai & Mumbai.
③ Government official	The government officer appointed under this act is called "official Assign"	The government officer appointed under this act is called "official Receiver".
④ Protection order	After a insolvency order is issued a protection order can be given according to which the debtor can not be imprisoned for recovery of money	This order can be issued at any time after the application for declaration of insolvency is filed.
⑤ Free Properties	Wearing clothes, cooking utensils, furniture up to Rs. 300 of the borrower or his family member are exempt i.e. they do not come under the assets of the borrower.	Such properties which are exempt from attachment as per the civil procedure code such as silver, jewellery, bed, clothes, kitchen, utensils.
⑥ Preference conditions	one of the rules made in this regarding pref creditors is that four month labour work done in the employe of an insolvent is not considered to be more than ₹ 300 for each clerk and Rs 100 for each servant.	In the case of all clerks, servant and labourers four month salary and wages are not considered to be more than ₹ 20 as prior remuneration.