CMA Foundation

Principles and Practice of Accounting Part 2

Sahasri Singar academy
Empire Education
93451 22645 / 93453 96855

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CONTENT

1 BILL OF EXCHANGE AND PROMISSORY NOTES

Creditor		$\rightarrow$ *Goods Sold in credit* $\rightarrow$		Debtor
Drawer	**A**	$\rightarrow$ *Bill drawn and sent* $\rightarrow$	**B**	Drawee
Acceptor		$\leftarrow$ *Bill accepted and return* $\leftarrow$		Acceptee

Options

1 Keep till maturity

$$\rightarrow Bill\ sent\ on\ maturity\ \rightarrow$$

$$\leftarrow Cash\ remitted \leftarrow$$

2 Bill Discounting

$$\rightarrow On\ discount: Bill \rightarrow BANK \rightarrow On\ Maturity: Bill$$

$$\leftarrow Cash\ on\ discount \leftarrow BANK \leftarrow Cash\ on\ maturity \leftarrow$$

3 Bill endorsement

$$\rightarrow On\ discount: Bill \rightarrow \boldsymbol{CREDITORS} \rightarrow On\ Maturity: Bill$$

$$\leftarrow Cash\ on\ discount \leftarrow \boldsymbol{CREDITORS} \leftarrow Cash\ on\ maturity \leftarrow$$

Bill of Exchange	
₹1,000[1]	**01.02.2020**[2]
	Trichy
A sum ₹1,000 for **value received**[3] is payable in **three months**[4] from the date of bill to the **bearer**[5] of the bill	
	Acceptor's Sign
KYPSS Global Ltd[6]	**XYZ Ltd**[7]
Trichy	Chennai

[1] Value of the Bill
[2] Date of Bill (in case of bill after sight, the date of bill is the date of acceptance)
[3] Trade Bill (if value not subsumed then it is accommodation bill)
[4] Term of Bill
[5] Unregistered Bill (if name of the payee is given, then it is registered bill)
[6] Drawer of the bill | Acceptee of the bill
[7] Drawee of the bill | Acceptor of the bill

	Particulars				
	Date of bill	01.02.2020	31.01.2020	01.02.2020	
+	Term of bill (3 months)	00.03.0000	00.03.0000	**90.00.0000**	**← if term of bill is 90 days**
	Expiry / Due date of bill	01.05.2020	28.04.2020	01.05.2020	
+	Grace days	03.00.0000	03.00.0000	03.00.0000	
	Date of maturity of Bill	04.05.2020	03.04.2020	04.05.2020	

Bill at sight (grace days not applicable): on demand (for cheque) | at sight | on presentation

After Date: after a period | on a specific day | after sight | on happening certain event

If due date is public holiday: the preceeding business day will be the due date

If due date is emergency holiday: the next following day will be the due date

Question: Write note on Promissory Notes[8]

{CMA foundation J08, 4 marks}

Distinguish between a bill of exchange and a promissory note

Basis	Bill of Exchange	Promissory Note
Number of Parties	Drawer, drawee and payee	Maker and payee
Promise / order	Order	Promise
Nature of Liability	Secondary and conditional for drawer	Primary and absolute for maker
Acceptance	Need	No need
Payable to bearer	Yes	No
Protest for Dishonour	Require	Not required
Notice of Dishonour	Required	Not required

TYPES OF PRACTICAL PROBLEMS

1. Honouring
2. Dishouring: (noting | bill value includes noting charges)

1. Keep till maturity
2. Discounting of bill
3. Endorsement of bill
4. Renewal of bill
5. Retirement of bill and rebate
6. Bill sent for collection
7. Accommodation bill (includes mutual accommodation & insolvency)

[8] Promise by debtor to pay the dues

Formats

	In the books of A				In the books of B			
On sale	B A/c	Dr.	××		Purchases A/c	Dr.	××	
	To Sales			××	To A A/c			××
On Drawing	BR A/c	Dr.	××		A A/c	Dr.	××	
	To B A/c			××	To BP A/c			××
Discounting of Bill	Bank A/c	Dr.	××		No entry			
	Discount A/c	Dr.	××					
	To BR A/c			××				
Endorsement of Bill	C A/c	Dr.	××		No entry			
	To BR A/c			××				
On Maturity	(Honoured)							
(if held)	Bank A/c	Dr.	××		BP A/c	Dr.	××	
	To BR A/c			××	To Bank A/c			××
(if Discounted)	No Entry				-do-			
(if endorsed)	No Entry				-do-			
On Maturity	(Dishonoured)							
(if held)	B A/c	Dr	××		BP A/c	Dr.	××	
	To BR A/c			××	Noting Charges	Dr.	××	
(noting charges)	To Bank A/c			××	To A A/c			××
(if discounted)	B A/c	Dr	××		-do-			
(noting charges)	To Bank A/c			××				
(if endorsed)	B A/c	Dr	××		-do-			
(noting charges)	To C A/c			××				
Insolvent	Bad Debts A/c	Dr.	××		A A/c	Dr.	××	
	Cash (any collection)	Dr.	××		To Bank A/c			××
	To B A/c			××	To Deficiency A/c			××

Practical Problems

Question 1:

Balance sheet of A as on 31.03.2017			
Liabilities	**₹**	**Assets**	**₹**
Capital	6,000	Fixed Assets	7,000
Reserves	2,990	Stock in Trade	2,000
Creditors: C A/c	1,010	Debtor: B A/c	
		BR A/c	
		Cash A/c	1,000
	10,000		**10,000**

On 01.04.17 A sold ₹800 worth stocks to B for ₹1,000 in credit. On the same date A drew a three month bill for ₹1,000 on B and acceptance received from him. Pass journal entries under the following each situations along with the impact on balance sheet

1. A keeps it till maturity and met by B on the due date
2. A discounted with bank for ₹940 and met by B on the due date
3. A endorsed in favour of C for the due and met by B on the due date
4. A keeps it till maturity and on due date the bill was sent to bank by A for collection and met by B on the due date
5. A keeps it till maturity and dishonoured on due date and A paid noting charges ₹50
6. A discounted with bank for ₹940 and dishonoured on due date and banker paid noting charges ₹50
7. A endorsed in favour of C for the due and dishonoured on due date and C paid noting charges ₹50
8. A keeps it till maturity and on the due date B accepted renewed bill for two months together with interest @ 12% p.a. On the due date the bill was met by B
9. A keeps it till maturity and on the due date B accepted renewed bill for two months together with interest @ 12% p.a. On the due date B became insolvent and 60 pasie per rupee was realised from him.
10. B pays for the bill in two month from the date of bill and rebate allowed @ 12% p.a.

Answer:

(1) A keeps the bill till the maturity and met by B on the due date

(1)	**In the books of A**				**In the books of B**			
01.04.2017	B A/c	Dr.	1,000		Purchases A/c	Dr.	1,000	
On Sale	To Sales			1,000	To A A/c			1,000
01.04.2017	BR A/c	Dr.	1,000		A A/c	Dr.	1,000	
On Drawing	To B A/c			1,000	To BP A/c			1,000
04.07.2017	Bank A/c	Dr.	1,000		BP A/c	Dr.	1,000	
On maturity	To BR A/c			1,000	To Bank A/c			1,000

(2) A discounted with bank for ₹940 and met by B on the due date

(2)	**In the books of A**			**In the books of B**		
01.04.2017	B A/c	Dr.	1,000	Purchases A/c	Dr.	1,000

On Sale	To Sales			1,000	To A A/c		1,000
01.04.2017	BR A/c	Dr.	1,000		A A/c	Dr. 1,000	
On Drawing	To B A/c			1,000	To BP A/c		1,000
01.04.2017	Bank A/c	Dr.	940		No Entry		
On Discounting	Discount A/c	Dr.	60				
	To BR A/c			1,000			
04.07.2017	No Entry				BP A/c	Dr. 1,000	
On maturity					To Bank A/c		1,000

(3) A endorsed in favour of C for the due and met by B on the due date

(3)	**In the books of A**				**In the books of B**			
01.04.2017	B A/c	Dr.	1,000		Purchases A/c	Dr.	1,000	
On Sale	To Sales			1,000	To A A/c			1,000
01.04.2017	BR A/c	Dr.	1,000		A A/c	Dr.	1,000	
On Drawing	To B A/c			1,000	To BP A/c			1,000
01.04.2017	C A/c	Dr.	1,010		No Entry			
On Endorsing	To Discount A/c			10				
	To BR A/c			1,000				
04.07.2017	No Entry				BP A/c	Dr.	1,000	
On maturity					To Bank A/c			1,000

(4) A keeps it till maturity and the bill was sent for collection and met by B on the due date

(4)	**In the books of A**				**In the books of B**			
01.04.2017	B A/c	Dr.	1,000		Purchases A/c	Dr.	1,000	
On Sale	To Sales			1,000	To A A/c			1,000
01.04.2017	BR A/c	Dr.	1,000		A A/c	Dr.	1,000	
On Drawing	To B A/c			1,000	To BP A/c			1,000
04.07.2017	BR sent for collection	Dr.	1,000		No Entry			
Sent for Collection	To BR A/c			1,000				
04.07.2017	Bank A/c		1,000		BP A/c	Dr.	1,000	
On maturity	BR sent for collection			1,000	To Bank A/c			1,000

(5) A keeps it till maturity and dishonoured on due date and A paid noting charges ₹50

(5)	**In the books of A**				**In the books of B**			
01.04.2017	B A/c	Dr.	1,000		Purchases A/c	Dr.	1,000	
On Sale	To Sales			1,000	To A A/c			1,000
01.04.2017	BR A/c	Dr.	1,000		A A/c	Dr.	1,000	
On Drawing	To B A/c			1,000	To BP A/c			1,000

04.07.2017	B A/c	Dr.	1,050		BP A/c	Dr.	1,000	
Dishonour	To BR A/c			1,000	Noting Charges	Dr.	50	
	To Bank A/c			50	To A A/c			1,050

(6) A discounted with bank for ₹940 & dishonoured on due date and banker paid noting charges ₹50

(6)	**In the books of A**				**In the books of B**			
01.04.2017	B A/c	Dr.	1,000		Purchases A/c	Dr.	1,000	
On Sale	To Sales			1,000	To A A/c			1,000
01.04.2017	BR A/c	Dr.	1,000		A A/c	Dr.	1,000	
On Drawing	To B A/c			1,000	To BP A/c			1,000
01.04.2017	Bank A/c	Dr.	940		No Entry			
On Discounting	Discount A/c	Dr.	60					
	To BR A/c			1,000				
04.07.2017	B A/c	Dr.	1,050		BP A/c	Dr.	1,000	
On maturity	To Bank A/c			1,050	Noting Charges	Dr.	50	
Dishonouring					To Bank A/c			1,050

(7) A endorsed in favour of C for the due and met by B on the due date

(7)	**In the books of A**				**In the books of B**			
01.04.2017	B A/c	Dr.	1,000		Purchases A/c	Dr.	1,000	
On Sale	To Sales			1,000	To A A/c			1,000
01.04.2017	BR A/c	Dr.	1,000		A A/c	Dr.	1,000	
On Drawing	To B A/c			1,000	To BP A/c			1,000
01.04.2017	C A/c	Dr.	1,010		No Entry			
On Endorsing	To Discount A/c			10				
	To BR A/c			1,000				
04.07.2017	B A/c	Dr.	1,050		BP A/c	Dr.	1,000	
On maturity	To C A/c			1,050	Noting Charges	Dr.	50	
Dishonouring					To Bank A/c			1,050

(8) A keeps it till maturity and on the due date B accepted renewed bill for two months together with interest @ 12% p.a. On the due date the bill was met by B

(8)	**In the books of A**				**In the books of B**			
01.04.2017	B A/c	Dr.	1,000		Purchases A/c	Dr.	1,000	
On Sale	To Sales			1,000	To A A/c			1,000
01.04.2017	BR A/c	Dr.	1,000		A A/c	Dr.	1,000	
On Drawing	To B A/c			1,000	To BP A/c			1,000
04.07.2017	B A/c	Dr.	1,000		BP A/c	Dr.	1,000	
On maturity	To BR A/c			1,000	To A A/c			1,000

04.07.2017	BR A/c	Dr.	1,020		A A/c	Dr.	1,000	
Renewal	To B A/c			1,000	Interest	Dr.	20	
	To Interest			20	To BP			1,020
	$1{,}000 \times \frac{12}{100} \times \frac{2}{12}$							
07.09.2017	Bank A/c	Dr.	1,020		BP A/c	Dr.	1,020	
On Maturity	To BR A/c			1,020	To Bank A/c			1,020

(9) A keeps it till maturity and on the due date B accepted renewed bill for two months together with interest @ 12% p.a. On the due date B became insolvent & 60 pasie per rupee was realised from him.

(9)	**In the books of A**				**In the books of B**			
01.04.2017	B A/c	Dr.	1,000		Purchases A/c	Dr.	1,000	
On Sale	To Sales			1,000	To A A/c			1,000
01.04.2017	BR A/c	Dr.	1,000		A A/c	Dr.	1,000	
On Drawing	To B A/c			1,000	To BP A/c			1,000
04.07.2017	B A/c	Dr.	1,000		BP A/c	Dr.	1,000	
On maturity	To BR A/c			1,000	To A A/c			1,000
04.07.2017	BR A/c	Dr.	1,020		A A/c	Dr.	1,000	
Renewal	To B A/c			1,000	Interest	Dr.	20	
	To Interest			20	To BP			1,020
	$1{,}000 \times \frac{12}{100} \times \frac{2}{12}$							
07.09.2017	B A/c	Dr.	1,020		BP A/c	Dr.	1,020	
On Maturity	To BR A/c			1,020	To A A/c			1,020
07.09.2017	Bank A/c	Dr.	612		A A/c	Dr.	1,020	
Collection	Bad Debt	Dr.	408		To Deficiency			408
	To B A/c			1,020	To B A/c			612

(10) B pays for the bill in two month from the date of bill and rebate allowed @ 12% p.a.

(10)	**In the books of A**				**In the books of B**			
01.04.2017	B A/c	Dr.	1,000		Purchases A/c	Dr.	1,000	
On Sale	To Sales			1,000	To A A/c			1,000
01.04.2017	BR A/c	Dr.	1,000		A A/c	Dr.	1,000	
On Drawing	To B A/c			1,000	To BP A/c			1,000
01.06.2017	Bank A/c	Dr.	990		BP A/c	Dr.	1,000	
On payment	Rebate A/c	Dr.	10		To Rebate A/c	Dr.		10
	To BR A/c			1,000	To Bank A/c			1,000

Keep till Maturity | Discounting of Bill | Noting Charges | Renewal of Bill with Interest

Question 2: BABAI sold goods to KACHARI for ₹90,000 on 1st April, 2014 for which the later accepted three bills of ₹30,000 each due respectively in 1, 2 and 3 months. The first bill is retained by Babai and is duly met. The second bill was discounted (discount being ₹600) and is met in due course. The third bill is also discounted (discount being ₹900) and is dishonoured, the nothing charges being ₹150.

New arrangements were duly made whereby Kachari pays Cash ₹10,150 and accepts a new bill due in 2 months for the balance of the amount with interest at 15% p.a. The bill is retained. On due date the same is dishonoured, noting charges being ₹180. Kachari declared insolvent on 15th Sept. 2014 and 35 paise in a rupee were received from his estate.

{CMA inter J15, 8 marks}

Required: Pass journal entries in the Books of BABAI

In the book of Babai

Journals

Date	Particulars		₹	₹
01.04.14	Bills Receivable A/c	Dr.	90,000	
	To Kachari A/c			90,000
	(Acceptance received for 3 bills for ₹30,000 each)			
	Bank A/c	Dr.	29,400	
01.04.14	Discount on Bills Receivable A/c	Dr.	600	
	To Bills receivable A/c			30,000
	(Second bill discounted)			
	Bank A/c	Dr.	29,100	
01.04.14	Discount on Bills Receivable A/c	Dr.	900	
	To Bills Receivable A/c			30,000
	(Third bill discounted)			
04.05.14	Bank A/c / Cash A/c	Dr.	30,000	
	To Bills Receivable A/c			30,000
	(Payment of first bill received)			
04.07.14	Kachari A/c	Dr.	30,150	
	To Bank A/c			30,150
	(Third bill dishonoured and nothing charges paid by Bank)			
04.07.14	Cash A/c	Dr.	10,150	
	To Kachari A/c			10,150
	(Cash received from Kachari under new arrangement)			
04.07.14	Kachari A/c	Dr.	500	
	To Interest A/c [20,000 ×15% ×2/12]			500
	(Interest charged on renewal of bill)			
04.07.14	Bills Receivable A/c	Dr.	20,500	
	To Kachari A/c			20,500
	(Acceptance received for new bill)			

07.09.14	Kachi A/c	Dr.	20,680	
	To Bills Receivable A/c			20,500
	To Cash A/c (noting charges)			180
15.07.14	Cash A/c (20.680 × 0.35)	Dr.	7,238	
	Bad debts A/c	Dr.	13,442	
	To Kachari A/c			20,680

Renewal of Bill with interest

Question 3: Mr. A draws on Mr. B a bill of exchange for ₹5,000 on 1st January, 2008. Mr. A endorses the bill in favour of Mr. C. Before maturity, Mr. B approaches Mr. A with the request that the bill be renewed for a further period of 3 months at fifteen percent interest per annum. Mr. A pays the sum to Mr. C on due date and agrees to the proposal of Mr. B. Pass the journal entries in the books of Mr. A assuming that the second bill is duly met.

{CMA foundation D08, 6 marks}

Answer:

Date	Particulars		₹	₹
01.01.08	Bills Receivable A/c	Dr.	5,000	
	To B A/c			5,000
	(Being the Bill of Exchange Received from B)			
01.01.08	C A/c	Dr.	5,000	
	To Bills Receivable A/c			5,000
	(Being the endorsement of bill C)			
04.04.08	B A/c	Dr.	5,000	
	To C A/c			5,000
	(Being the cancellation of bill received from B endorsed to C)			
04.04.08	C A/c	Dr.	5,000	
	To Bank A/c			5,000
	(Payment of amount due to C)			
04.04.08	B A/c	Dr.	188	
	To Interest A/c			188
	(interest due from B on ₹5,000 for 3 months @ 15% p.a.)			
04.04.08	Bills Receivable A/c	Dr.	5,188	
	To B A/c			5,188
	(Being the new bill for B for the amount due)			
07.07.08	Bank A/c	Dr.	5,188	
	To Bills Receivable A/c			5,188
	(Due amount received from B in respect of the renewed bill)			

Question 4: Big owes Fast ₹12,000 for which the former accepts a three months bill drawn by the latter. Fast immediately discounts the bill with his banker, Strong Bank, at 12% p.a. On the due date the bill is dishonoured and Strong Bank pays ₹40 as noting charges. Big pays ₹2,360 including interest of ₹400 and gives another bill at three months' for the balance. Fast endorses the bill to his creditor Thin in full settlement of his debt for ₹10,200. Thin discounts the bill with banker Strong Bank who charges ₹80 as discount. Before maturity Big becomes bankrupt and first and final dividend of 20 paise in a rupee is realized from his estate.

Show the journal entries in the books of Thin and Strong Bank and the ledger account of Big in the books of Fast.

{CMA inter J14, 6 marks}

Answer:

In the books of Thin Journal				**In the books of Strong Bank**			
Journal		**Debit (₹)**	**Credit (₹)**	**Journal**		**Debit (₹)**	**Credit (₹)**
Bills Receivable A/c	Dr.	10,080		Bills Discounted A/c	Dr.	12,000	
Discount Allowed A/c	Dr.	120		To Fast's Current A/c			11,640
To Fast A/c			10,200	To Discount A/c			360
				Nothing Charges A/c	Dr.	40	
Bank A/c	Dr.	10,000		To Cash A/c			40
Discount A/c	Dr.	80		Fast's Current A/c	Dr.	12,040	
To Bills Receivable A/c			10,080	To Bills Discounted A/c			12,000
Fast A/c	Dr.	10,200		To Noting Charges A/c			40
To Bank A/c			10,080	Bills Discounted A/c	Dr.	10,080	
To Discount Allowed A/c			120	To Thin's Current A/c			10,000
				To Discounted A/c			80
				Thin's Current A/c	Dr.	10,080	
				To Bills Discounted A/c			10,080

In the books of Fast Big Account

To	**Particulars**	**₹**	**By**	**Particulars**	**₹**
	Balance b/d	12,000		Bills Receivable A/c	12,000
	Strong Bank A/c	12,040		Cash A/c	2,360
	Interest A/c	400		Bills Receivable A/c	10,080
	Thin A/c	10,080		Cash A/c	2016
				Bad Debt A/c	8,064
		34,520			**34,520**

Mutual Accommodation Bill

Question 5: GOURU and GYANI were friends and in need of funds. On 1st April, 2015 Gouru drew a bill for ₹2,00,000 for three months on Gyani. On 4.4.15 Gouru got the bill discounted at 15% per annum and remitted half of the proceeds to Gyani. On the due date, Gyani could not meet the bill, instead, Gouru accepted Gyani's bill for ₹1,20,000 on 4th July, 2015 for two months. This was discounted by Gyani at 15% per annum and out this ₹19,500 was paid to Gouru after deducting ₹500 discounting charges. Due to financial crisis, Gouru became insolvent and the bill drawn on him was dishonoured and his estate paid 40%. Days of grace for discount purpose may be ignored.

Required: Give Journal Entries and Prepare Gyani's Account – in the books of Gouru.

{CMA inter D15, 8 marks}

Answer:

In the Books of Gouru					In the books of Gyani				
Date	**Particulars**		**₹**	**₹**	**Date**	**Particulars**		**₹**	**₹**
1.4.15	B/R A/c	Dr.	2,00,000		1.04.15	Gouru A/c	Dr	2,00,000	
	To Gyani			2,00,000		To B/P			2,00,000
4.4.15	Bank A/c	Dr.	1,92,500						
	Discount A/c	Dr.	7,500						
	To B/R			2,00,000					
4.4.15	Gyani A/c	Dr.	1,00,000		4.04.15	Bank A/c	Dr.	96,250	
	To Bank			96,250		Discount A/c	Dr.	3,750	
	To Discount			3,750		To Gouru			1,00,000
4.7.15	Gyani A/c	Dr.	1,20,000		4.07.15	B/R A/c	Dr.	1,20,000	
	To B/P			1,20,000		To Gouru			1,20,000
					4.07.15	Bank A/c	Dr.	1,17,000	
						Discount A/c	Dr.	3,000	
						To B/R A/c			1,20,000
4.7.15	Discount A/c	Dr.	500		4.07.15	Gouru A/c	Dr.	20,000	
	Bank A/c	Dr.	19,500			To Bank A/c			19,500
	To Gyani			20,000		To Discount			500
7.9.15	B/P A/c	Dr.	1,20,000		7.09.15	Gouru A/c	Dr.	1,20,000	
	To Gyani			1,20,000		To Bank A/c			1,20,000
					7.09.15	B/P A/c	Dr.	2,00,000	
						To Bank A/c			2,00,000
7.9.15	Gyani A/c	Dr.	1,20,000		7.09.15	Bank A/c	Dr.	48,000	
	To Bank			48,000		Bad –Debts	Dr.	72,000	
	To Deficiency			72,000		To Gouru			1,20,000

In the books of Gouru: Gyanies A/c

	Particulars	₹		Particulars	₹
To	Bank	96,250	By	B/R	2,00,000
	Discount	3,750		Discount	500
	B/P	1,20,000		Bank	19,500
	Bank	48,000		B/P	1,20,000
		3,40,000			**3,40,000**

2 CONSIGNMENT ACCOUNTING

	Consignment			
Consigner			**Consignee**	
Principal			Agent	
Risk Taker			No risk taker	
	→→→→			
	Goods sent (passion transferred)			
	[At cost price / invoice price]	**I**	**Sold**	×××
Expenses Spent		**II**	**Reimbursement**	
		1	Expenses (non-recurring)	×××
			Expenses (recurring)	×××
		2	Commission	
			Normal	×××
			Del credere (accept bad debt)	×××
			Over-riding (sale over IP)	×××
	←←←←	**III**	**Payment**	×××
	Account Current	**IV**	$(I - II - III)$	×××
	Payment sent			

1. **Normal loss / abnormal loss**

	Particulars	**Units**	**₹ p.u.**	**₹ total**	
	Cost of goods	××××	××	××××	
+	Consignor's expenses			××××	
+	Consignee's non-recurring exp.			××××	
	(If incurred before the loss)				
		××××	××	××××	
-	Normal Loss (NL)	××××	NA	NA	NL ↓ units
		××××	××	××××	NL ↑ unit price
-	Abnormal Loss (AL)	××××	××	××××	AL ↓ units and total
		××××	××	××××	AL NOT changes unit price

2. **Valuation of closing stock**

	Particulars	**Units**	**₹ p.u.**	**₹ total**
	Cost of goods	××××	××	××××
+	Consignor's expenses			××××
+	Consignee's non-recurring exp.			××××
	Total	××××	××	××××
(a)	Proportionate cost for unsold stock	××××	××	××××
(b)	Market value			××××
	Value of unsold stock: WEH (a) or (b)			××××

Consignment Account (Nominal A/c)

Consignment A/c

To	**Dr.**	**₹**	**By**	**Cr.**	**₹**
	Opening Stock	×××		Sale Proceeds	×××
	Cost of Goods Consigned	×××		Abnormal Loss	×××
	Consignor's Expenses	×××		Closing Stock	×××
	Consignee's Expenses [R/NR]	×××		Cost of Goods Returned	×××
	Consignee's Commission	×××			
	Unloading: Goods returned	×××		Unloading: Goods sent	
	Unloading: on Closing stock	×××		Unloading: on Opening Stock	×××
	Profit on Consignment	×××		Loss on Consignment	×××
		×××			×××

Note: Item not considered: Discount Charges on discounting a Bill Receivable accepted by consignee.

Dr.	**Consignee A/c**				**Cr.**
		₹			₹
To	Consignment (Sales)	×××	By	Bills receivable	×××
				Consignment (expenses)	×××
				Consignment (Commission)	×××
				Bank –bank draft (balancing figure)	×××
		×××			×××

Goods sent on Consignment A/c

To	Purchase / trading A/c	×××	By	Consignment A/c	×××
		×××			×××

In the Books of Consignee

Dr.	**Consignor A/c**						**Cr.**
		₹	₹			₹	₹
To	Bills payable		×××	By	Bank (Sales)	×××	×××
	Bank – Godown rent	×××			X & Co. (sales)	×××	×××
	Advertisement	×××					
	Salaries	×××	×××				
	commission		×××				
	Bank-Bank draft (final pay)		×××				
			×××				×××

Practical Problems

Valuation of Unsold Stock with Normal Loss

Question 1: Answer the following questions (give working wherever required):

From the following particulars, calculate the value of unsold goods on consignment:

Particulars	₹
Goods sent on consignment (1500kgs).	3,30,000
Consignor's expenses	13,000
Consignee's non-recurring expenses	7,000
Consignee's recurring expenses	3,500
Goods sold by consignee (1000kgs).	3,50,000
Wastage treated as normal (100kgs).	-

{CMA inter D13, 2 marks}

Answer: Value of unsold goods:

	Particulars	Units	₹
	Goods sent	1,500	3,30,000
+	Consignor's Expenses		13,000
+	Consignee's Non-recurring Expenses		7,000
-	Normal Loss	100	NA
		1,400	3,50,000
	Value of Closing Stock $\mathbf{3,50,000 \times \frac{400}{1,400}}$	**400**	**1,00,000**

Valuation of Unsold Stock with Abnormal Loss

Question 2: ₹3,25,000 is total cost of 6500 units, consignor's expenses are ₹65,000, units lost in transit was 700 units and consignee's non-recurring expenses amounted to ₹4,300, what will be the value of stock?

{CMA inter D14, 2 marks}

Answer:

	Particulars	Unit	₹
	Cost	6,500	3,25,000
+	Consignor's expenses		65,000
			3,90,000
-	Abnormal Loss (assumed) $\left(3,90,000 \times \frac{700}{6,500}\right)$	700	42,000
		5,800	3,48,000
+	Consignee's non-recurring expenses		4,300
	Total Value of Stock	5,800	3,52,300

Question 3: Ramesh consigned 2,000 MT of chemicals at a cost of 800 per MT to John. Ramesh paid freight and insurance charges of ₹20,000. Of the above 500 MT of chemicals were destroyed by fire during transit. John cleared the balance of 1,500 MT of chemicals and sold 1,000 MT at an average price of ₹1,000 per MT. John incurred the following expenses; Godown Rent ₹5,000. Insurance ₹3,000. Clearing Charges ₹4,500. Insurance claim received against fire ₹4,00,000 after admitting the salvage value of stock destroyed by fire at ₹10,000. John was entitled to a commission of 10% on sale proceeds. John sends the balance to Ramesh after adjusting his commission and expenses out of sale proceeds.

Prepare a consignment Account and John's Account in the books of Ramesh.

{CA foundation J93}

Answer: In the Books of Ramesh

Consignment Account

Dr	Particulars		₹	Cr	Particulars	₹
To	Goods sent on Consignment A/c		16,00,000	By	John's A/c – Sales	10,00,000
	Bank A/c – Freight & Insurance		20,000		Abnormal Loss A/c (WN1)	3,95,000
	John's A/c – 10% Commission		1,00,000		Consignment Stock A/c (WN2)	4,16,500
	John's A/c					
	Godown Rent	5,000				
	Insurance	3,000				
	Clearing Charges	4,500	12,500			
	Profit & Loss A/c		79,000			
			18,11,500			**18,11,500**

John's Account

Dr	Particulars	₹	Cr	Particulars	₹	₹
To	Consignment A/c – Sales	10,00,000	By	Consignment A/c		
				Ground rent	5,000	
				Insurance	3,000	
				Clearing Charges	4,500	12,500
				Consignment		1,00,000
				Bank A/c – Balance		8,87,500
		10,00,000				**10,00,000**

Working Note

1 **Abnormal Loss**

	Particulars	MT	₹ p.u.	₹
	Cost of goods sent on consignment	2,000	800	16,00,000
	Freight and Insurance		10	20,000
	Cost of abnormally lost 500 MT chemicals	500	810	4,05,000
Less	Salvage value			10,000
				3,95,000

2		**Valuation of Stock**			
		Cost per MT as per working note(1)	500	810	4,05,000
	Add	Clearing charges per MT $\left(\frac{500}{1,500} \times 4,500\right)$			1,500
		Cost of 500 MT @ ₹813			4,06,500
	Add	Salvage value of damaged stock			10,000
					4,16,500

Question 4: Rahim of Mumbai consigned to Raju of Chennai goods to be sold at invoice price which represents 125% of cost. Raju is entitled to a commission of 10% on sales at invoice price and 25% of any excess realised over invoice price. The expenses on freight and insurance incurred by Rahim were ₹10,000. The account sales received by Mr. Rahim shows that Raju effected sales aggregating to ₹1,00,000 in respect of 75% of the consignment. His selling expenses to be reimbursed were ₹8,000. 10% of the consignment goods of the value of ₹12,500 were destroyed in fire at the Chennai godown and the insurance Company paid ₹12,000 net of salvage. Raju remitted the balance in favour of Mr. Rahim.

Prepare consignment Account and the Account of Mr. Raju in the books of Mr. Rahim along with necessary workings.

{CA foundation J94}

Answer:

In the Books of Mr. Rahim

Consignment Account

Dr	**Particulars**	**₹**	**Cr**	**Particulars**	**₹**
To	Goods sent on Consignment A/c[9]	1,25,000	By	Raju A/c- sales effected	1,00,000
	Bank a/c – Freight & Insurance	10,000		Abnormal Loss A/c[10]	13,500
	Raju A/c – Selling expenses	8,000		Goods sent on consignment A/c	25,000
	Raju A/c Commission[11]	10,938		(unloading)	
	Stock Reserve[12]	3,750		Stock on consignment[13]	20,250
	Profit and Loss A/c	1,062			
		1,58,750			**1,58,750**

Raju Account

Dr	**Particulars**	**₹**	**Cr**	**Particulars**	**₹**
To	Consignment A/c – Sales	1,00,000	By	Consignment A/c - Selling expenses	8,000
				Consignment A/c – Commission	10,938
				Bank A/c – Balance received	81,062
		1,00,000			**1,00,000**

[9] $10\%\ Abnormal\ loss\ being\ 12,500\ hence = \frac{12,500}{10\%} = 1,25,000$

[10] $Cost + 10\%\ of\ freight\ and\ insurance = 12,500 + \frac{1}{10} \times 8,000$

[11] $1,25,000 \times \frac{3}{4} \times 10\% + \left(1,00,000 - 1,25,000 \times \frac{3}{4}\right) \times 25\%$

[12] $(1,25,000 - 75\% - 10\%) + \frac{25}{125}$

[13] $(1,25,000 - 75\% - 10\%) + 10,000 \times 15\%$

Question 5: X of Delhi purchased 10,000 meters of cloth for ₹2,00,000 of which 5,000 metres were sent on consignment to Y of Agra at the selling price of ₹30 per meter. X paid ₹5,000 for freight and 500 for packing etc. Y sold 4,000 meters at ₹40 per meter and incurred ₹2,000 for selling expenses. Y is entitled to a commission of 5% on total sale proceeds plus further 20 percent on any surplus price realised over ₹30 per meter. 3,000 metres were sold at Delhi at ₹30 per meter less ₹3,000 for expenses and commission. Owing to fall in market price, the stock of cloth in hand is to be reduced by 10 percent.

Prepare the consignment Account and Trading and Profit & Loss Account in Books of X and his account in the books of Y.

{CA foundation M95}

Answer:

In the Books of X

Consignment Account

Dr	Particulars	₹	Cr	Particulars	₹
To	Goods sent on consignment	1,50,000	By	Y Account	
	Bank A/c: Freight	5,000		Sales (4,000×40)	1,60,000
	Bank A/c: Packing etc.	500		Goods sent on consignment (unloading)	50,000
	Y A/c: Selling expenses	2,000			
	Y A/c: Commission[14]	16,000		Stock on Consignment[15]	27,000
	Stock Reserve (w.n.2)	9,000			
	P & L A/c	54,500			
		2,37,000			**2,37,000**

Trading and Profit & Loss Account for the year ended……

Dr	Particulars	₹	Cr	Particulars	₹	₹
To	Purchases	2,00,000	By	Sales (3,000 meters @ ₹30)		90,000
	Gross profit c/d	26,000		Goods sent on consignment		1,00,000
				Stock (cost – 10%)		36,000
		2,26,000				**2,26,000**
	Expenses & Commission	3,000		Gross profit b/d		26,000
	Net Profit	77,500		Consignment A/c (Profit on consignment)		54,500
		80,500				**80,500**

In the books of Y

X A/c

Dr	Particulars	₹	Cr	Particulars	₹
To	Cash A/c – Selling expenses	2,000	By	Cash A/c Sale proceeds	1,60,000
	Commission	16,000			
	Balance c/d	1,42,000			
		1,60,000			**1,60,000**

[14] $5\% \times 1{,}60{,}000 + 20\% \times 4{,}000 \times (40 - 30)$

[15] $WEL\ (Cost\ or\ NRV) = (1{,}50{,}000 + 5{,}500) \times \frac{1}{5} or 1{,}00{,}000 \times \frac{1}{5} \times (1 - 10\%) + 50\%\ loading$

Question 6: D of Delhi appointed A of Agra as its selling agent on the following terms;

a. Goods to be sold at invoice price or over.
b. A is to be entitled to a commission of 7.5% on the invoice price and 20% of any surplus price realised.
c. The principal to draw on the agent a 30 days bill for 80% of the invoice price.

On 1st February, 2018, one thousand cycles were consigned to A, each cycle ₹640 including freight and invoiced at ₹800.

Before 31st March, 2018 (when the principal's book are closed) A met his acceptance on the due date; sold off 820 cycles at an average price of ₹930 per cycle, the sale expenses being ₹12,500; and remitted the amount due by means of Bank Draft.

Twenty of the unsold cycles were to be valued at a depreciation of 50%. Show by means of ledger accounts how these transactions would be recorded in the books of A, and find out the value of closing stock with A at which value D will account for the balance stock.

{CA foundation M98}

Answer:

D's Account

Date	Dr.	Particulars	₹	Date	Cr.	Particulars	₹
01.02.18	To	Bills Payable A/c	6,40,000	31.03.18	By	Bank A/c (820 × 930)	7,62,600
		(80% of ₹8,00,000)					
31.02.18		Cash A/c (Expenses)	12,500				
		Commission A/c[16]	70,520				
		Bank A/c	39,580				
			7,62,600				**7,62,600**

Bills Payable Account

Date	Dr	Particulars	₹	Date	Cr	Particulars	₹
04.03.18	To	Bank A/c	6,40,000	01.02.18	By	D's A/c	6,40,000
			6,40,000				**6,40,000**

Note: Closing stock at cost = 160 cycles × ₹640 + 20 cycles × ₹640 × 50% = 1,08,800

Overriding Commission

Question 7: On 1st July, 2013 B.Dutta of Kolkata consigned 250 Computers costing ₹28,000 each to T.Ramasami, Chennai. Expenses of ₹17,000 were met by the consignor. T.Ramasami spent ₹14,500 for clearance on 31st July, 2013 and selling expenses were ₹1,500 per computer as and when the sale made by consignee. T.Ramasami sold on 4th September, 2013, 150 computers at ₹40,000 per computer and again on 21st September, 75 computers at ₹42,500. Mr.Ramasami was entitled to a commission of ₹1,500 per computer sold plus one-fourth of the amount by which the gross sale proceeds less total

[16] $820 \times ₹800 \times 7.5\% + 820 \times (₹930 - ₹800) \times 20\%$

commission there on exceeded a sum calculated at the rate of ₹35,000 per computer sold. T.Ramasami sent the account sale and the amount due to B.Dutta on 30th September, 2013 by bank demand draft.

You are required to show the consignment account and T.Ramasami's account in the books of B. Dutta.

{CMA inter J14, 8 marks}

Answer:

Books of B. Dutta of Kolkata

Consignment to Chennai Account

Date		**Particulars**	**₹**	**Date**		**Particulars**	**₹**
01.07.13	To	Good sent on Consignment A/c	70,00,000	04.09.12	By	T.Ramasami (Sales)	60,00,000
01.07.13		Bank A/c (Exp)	17,000	21.0913		T.Ramasami (Sales)	31,87,500
31.07.13		T.Ramasami (Clearance Exp.)	14,500	30.09.13		Stock on consignmentA/c	7,03,150
04.09.13		T.Ramasami (Selling Exp.)	2,25,000				
21.09.13		T.Ramasami (Selling Exp)	1,12,500				
30.09.13		T.Ramasami (Commission)	5,32,500				
30.09.13		Profit & Loss A/c	19,89,150				
			98,90,650				**98,90,650**

T.Ramaswami Chennai A/c

Date	**Dr.**	**Particulars**	**₹**	**Date**	**Cr.**	**Particulars**	**₹**
	To	**Consignment A/c**			**By**	**Consignment A/c**	
04.09.13		(Sale)	60,00,000	31.07.13		(Clearance Expenses)	14,500
21.09.13		(Sale)	31,87,500	04.09.13		(Selling Expenses)	2,25,000
				21.09.13		(Selling Expenses)	1,12,500
				30.09.13		(Commission)	5,32,000*
				30.09.13		Bank A/c	83,03,000
			91,87,500				**91,87,500**

Working Notes: (i) Calculation of Commission

Let 'x' be total commission

$$X = (225 \times 1{,}500) + \frac{1}{4}[60,00,000 + 31,87,500 - X - (35{,}000 \times 225)]$$

$$X = 3{,}37{,}500 + \frac{1}{4}(91{,}87{,}500 - X - 78{,}75{,}000)$$

$$X = 3{,}37{,}500 + 3{,}28{,}125 - \frac{X}{4} = 5{,}32{,}500$$

Working Notes: (ii) Valuation of stock on consignment

Particulars	**₹**
Valuation of stock on consignment:	
250 – 150 – 75 = 25 computers @ ₹28,000	7,00,000

Add	Consignor's Expenses = 17,000 × $\frac{25}{250}$	1,700
Add	Share of Consignee's Clearing Exp. 14,500 × $\frac{25}{250}$	1,450
	Value of unsold stock	**7,03,150**

Del-credere Commission

Question 8: The Ramesh Oil Mills, Bombay, consigned 40,000 litres of castor oil (in 10 litre tins) to Rajesh, Calcutta, on 1st April, 2017. The cost of oil was ₹200 per litre. The consignor paid ₹10,00,000 as freight and insurance. During transit 50 tins were totally destroyed for which the insurance company paid directly to the consignor ₹90,000 in full settlement of the clam.

Rajesh took delivery of the consignment on 10th April and accepted a bill drawn on him by the Ramesh Oil Mills for ₹20,00,000 for three months. On June 30, 2017 Rajesh reported that 35,000 litre were sold @ ₹300 per litre; the expenses were as follows.

Godown rent ₹40,000; Advertisement ₹2,00,000; Salaries of Salesmen ₹4,00,000.

Rajesh charged a commission of 3% plus 3% Del Credere. He sold ₹19,00,000 worth of oil, the remaining stock, to X & Co., who were declared bankrupt after two months and only 50 paise per rupee was realized from them.

Show accounts in the books of both the parties assuming that the consignee paid the amount due by bank draft.

Answer:

Ledger of Ramesh Oil Mills Consignment Account

Dr						**Cr**
			₹			₹
To	Goods sent on consignment		80,00,000	By	Rajesh (35,000 litre × ₹300)	1,05,00,000
	Bank (freight and insurance)		10,00,000		Rajesh (Sales)	19,00,000
	Rajesh A/c				Abnormal Loss	1,12,500
	Godown rent	40,000				
	Advertisement	2,00,000				
	Salaries	4,00,000	6,40,000			
	Commission (3%+3%)		7,44,000			
	on ₹1,24,00,000					
	General P&L a/c		21,28,500			
			1,25,12,500			**1,25,12,500**

	P&L A/c - abnormal Loss (Cost of 500 litre lost)	1,00,000
Add	Direct expenses[17]	12,500
	Total Cost for abnormal loss	1,12,500
Less	Bank (insurance claims)	90,000
	Abnormal Loss	22,500

[17] $\frac{500\ litre}{40,000\ litre} \times ₹10,00,000$

Dr.		Rajesh			Cr.
		₹			₹
To	Consignment (Sales)	1,05,00000	By	Bills receivable	20,00,000
	Consignment (sales)	19,00000		Consignment (expenses)	40,000
				Consignment (Commission)	7,44,000
				Bank –bank draft (balancing figure)	90,16,000
		1,24,00000			**1,24,00,000**

Goods sent on Consignment Account

To	Purchase / Trading a/c	80,00,000	By	Consignment	80,00,000

Ramesh Oil Mills

			₹			₹
To	Bills payable		20,00,000	By	Bank (Sales)	1,05,00,000
	Bank – Godown rent	40,000			X & Co. (sales)	19,00,000
	Advertisement	2,00,000				
	Salaries	4,00,000	6,40,000			
	commission 6% of ₹1,24,000		7,44,000			
	Bank-Bank draft (final settlement)		90,16,000			
			1,24,00,000			**1,24,00,000**

Dr.		X & Co			Cr.
		₹			₹
To	To Ramesh Oil Mills	19,00,000	By	Bank ½ x ₹19,00,000	9,50,000
				Bad debts	9,50,000
		19,00,000			**19,00,000**

B.N. Chatterji suffers a net loss of ₹2,06,000 on this consignment as he receives as total commission of ₹7,44,000 and bears a bad debt loss of ₹9,50,000.

3 JOINT VENTURE ACCOUNTS

Joint Venture: a temporary partnership between two or more persons for limited purpose and has a definite life.

Features:

1. It is not a partnership under Indian Partnership Act.
2. It does not follow Going Concern Assumption.
3. The relation between co-venturers is that of co-owners.

Methods of Recording Joint Venture Transactions

1. Separate Set of Books Method:
2. Recording of all Joint Venture transactions only by One Co-venturer Method
3. Memorandum Joint Venture A/c Method

Items not considered: Abnormal Loss | bad debts

Separate Set of Books Method:

Joint Venture Account

	Dr.	₹		Cr	₹
To	Joint Banks (Expenses)	×××	By	Joint Bank A/c (Income)	×××
	A's Capital A/C (expenses by A)	×××		A's Capital A/C (income by A)	×××
	B's Capital A/c (expenses by B)	×××		B's Capital A/c (income by B)	×××
	A's Capital A/C (Profit)	×××			
	B's Capital A/c (Profit)	×××			
		×××			×××

Joint Bank Account

		₹			₹
To	A's Capital A/C (Contribution)	×××	By	Joint venture a/c – cost	×××
	B's Capital A/c (Contribution)	×××		A's Capital A/C (Final Payment)	×××
	Joint venture a/c – sale proceeds	×××		B's Capital A/c (Final Payment)	×××
		×××			×××

Joint Venturers A/c Account

	Dr.	A	B		Cr.	A	B
To	Joint venture a/c – (Income)	×××	×××	By	Joint Bank A/c – (Contribution)	×××	×××
	Joint bank a/c – (Final Payment)	×××	×××		Joint venture A/c – (expenses)	×××	×××
		×××	×××		Joint venture A/c – (profit)	×××	×××
		×××	×××			×××	×××

Recording of all Joint Venture transactions only by One Co-venturer Method

Books of A

Joint Venture A/c

	Dr.	**₹**		**Cr.**	**₹**
To	Bank Account (Expenses by A)	×××	By	Bank (Collection by A)	×××
	B A/c (Expenses by B)	×××		B A/c (Collection by B)	×××
	Profit (for A)	×××			
	B A/c (Profit of B)	×××			
		×××			×××

B's Account

	Dr.	**₹**		**Cr.**	**₹**
To	Joint venture A/c (Collection by B)	×××	By	Joint venture (Payment by B)	×××
				Joint venture (Profit of B)	×××
	Bank A/c (Payment by A)	×××	***or***	*Bank A/c (Payment by B)*	×××
		×××			×××

Memorandum Method

Memorandum Joint Venture Account

	Dr.	**₹**		**Cr.**	**₹**
To	Cost by A	××	By	Revenue by A	××
	Cost by B	××		Revenue by B	××
	Profit – A	××			
	Profit – B	××			
		××			××

A's ledger

Joint Venture With B Account

	Dr.	**₹**		**Cr.**	**₹**
To	Bank (Expenses)	××	By	Bank (Income)	××
	Bank (Purchase)	××		Bank (Sale)	××
	Bank (expenses)	××		Bank (Final settlement)	××
	Interest account	××			
	Profit Share	××			××
		××			××

Practical Problems

Separate Set of Books Method

Question 1: X and Y entered into a joint venture for purchase and sale of some household items. They agreed to share profits and losses in the ratio of their respective contributions. X contributed ₹10,000 in cash and Y ₹13,000. The whole amount was placed in a Joint Bank Account. Goods were purchased by X for ₹10,000 and expenses paid by Y amounted to ₹2,000. They also purchased goods for ₹15,000 through the Joint Bank Account. The expenses on purchase and sale of the articles amounted to ₹6,000 (including those met by Y). Goods costing ₹20,000 were sold for ₹45,000 and balance were lost in theft. Prepare Joint Venture Account, Joint Bank Account and the Venturers' Accounts for closing the venture.

{CMA inter D14, 8 marks}

Answer:

Joint Venture Account

Dr.	Particulars		₹	Cr.	Particulars	₹
To	X (Goods)		10,000	By	Joint Bank A/c (Sales)	45,000
	Y (Expenses)		2,000			
	Joint Bank A/c (Goods)		15,000			
	Joint Bank A/c (Expenses)		4,000			
	Profit shared in (4:3)					
	X	8,000				
	Y	6,000	14,000			
			45,000			**45,000**

Thus, profit sharing ratio between X and Y is 20,000: 15,000, i.e., 4:3 or $\frac{4}{7}$ and $\frac{3}{7}$ respectively.

Joint Bank Account

Dr.	Particulars	₹	Cr.	Particulars	₹
To	X	10,000	By	Joint Venture A/c (Expenses)	4,000
	Y	13,000		Joint Venture	15,000
	Joint Venture A/c (Sales)	45,000		X	28,000
				Y	21,000
		68,000			**68,000**

X A/c

Dr.	Particulars	Amount (₹)	Cr.	Particulars	Amount(₹)
To	Joint Bank A/c	28,000	By	Joint Bank A/c	10,000
				Joint Venture A/c (Goods)	10,000
				Joint Venture A/c (Profit)	8,000
		28,000			**28,000**

Dr.	Particulars	₹	Cr.	Particulars	₹
		Y A/c			
To	Joint Bank A/c	21,000	By	Joint Bank A/c	13,000
				Joint Venture A/c (Expenses)	2,000
				Joint Venture A/c (Profit)	6,000
		21,000			**21,000**

Recording of all Joint Venture transactions only by One Co-venturer Method

Question 2: Ruhit and Rahul enter into a Joint Venture to take a building contract for ₹28,80,000. They provide the following information regarding the expenditure incurred by them:

Particulars	Ruhit (₹)	Rahul(₹)
Materials	8,16,000	6,00,000
Cement	1,56,000	2,04,000
Wages	----	3,24,000
Architect's fee	1,20,000	-----
Licence fees	----	60,000
Plant	----	2,40,000

Plant was valued at ₹1,20,000 at the end of the contract and Rahul agreed to take it at that value. Contract amount of ₹28,80,000 was received by Ruhit. Profit or Loss to be shared equally.

You are asked to show:

1. Joint Venture Account and
2. Rahul's Account in the books of Ruhit.

{CMA foundation D07, 6 marks}

Answer:

In the Books of RUHIT

Joint Venture Account

Dr.	Particulars	₹	₹	Cr	Particulars	₹
To	Bank A/c:			By	Bank A/c	28,80,000
	Materials	8,16000			Rahul's A/c (Plant)	1,20,000
	Cement	1,56,000				
	Architect's Fees	1,20,000	10,92,000			
	Rahul's A/c:					
	Materials	6,00,000				
	Cement	2,04,000				
	Wages	3,24,000				
	Licence fees	60,000				
	Plant	2,40,000	14,28,000			
	Net profit					

Rahul's A/c	2,40,000			
Profit & Less A/c	2,40,000	4,80,000		
		30,00,000		**30,00,000**

Rahul's Account

Dr.	Particulars	₹	Cr.	Particulars	₹
To	Joint Venture A/c (Plant)	1,20,000	By	Joint Venture A/c (Sundries)	14,28,000
	Balance C/d	15,48,000		Joint Venture A/c (Profit)	2,40,000
		16,68,000			**16,68,000**

Memorandum Method

Question 3: JIBAN and MITRIK decided to work in joint venture with the following scheme, agreeing to share profits in the ratio of 2/3 and 1/3: They guaranteed the subscription at par of 50 lakhs shares of ₹10 each in RAINBOW Ltd. and to pay all expenses up to allotment in consideration of RAINBOW Ltd. issuing to them 3,00,000 other shares of ₹10 each fully paid together with a commission @5% in cash which will be taken by JIBAN and MITRIK in 3:2.

Co-ventures introduced cash as follows:

JIBAN	Stamp charges, etc.	₹1,65,000
	Advertising Charges	₹1,35,000
	Car expenses	₹1,54,000
	Printing charges	₹1,88,000
MITRIK	Rent	₹1,30,000
	Solicitor's charges	₹ 80,000

Application fell short of the 50lakhs shares by 1,20,000 shares and MITRIK introduced ₹12,00,000 for the purchase of those shares.

The guarantee having been fulfilled, Rainbow Ltd. handed over to the venturers 3,00,000 shares and also paid the Commission in cash. All their holdings were subsequently sold by the venturer MITRIK receiving ₹12,50,000 and JIBAN ₹25,00,000

You are required to prepare the:

(i) Memorandum Joint Venture Account and

(ii) Joint Venture Account with MITRIK – in the Books of JIBAN.

{CMA inter D15, 8 marks}

Answer:

Memorandum Joint Venture A/c

Dr.	Particulars	₹	Cr.	Particulars	₹
To	**Mitrik:** Cost of Shares	12,00,000	By	**Jiban:** Commission(3/5)	15,00,000
	Jiban: Stamp changes	1,65,000		**Mitrik:** Commission (2/5)	10,00,000
	Jiban: Advertising charges	1,35,000		**Jiban:** Sale proceeds of shares	25,00,000

Jiban: Printing Charges	1,88,000	**Mitrik:** Sale proceeds of shares	12,50,000
Jiban: Car expenses	1,54,000		
Mitrik: Rent	1,30,000		
Mitrik: Solicitor's charges	80,000		
Profit on Venture			
Jiban (2/3) 27,98,667			
Mitrik (1/3) 13,99,333	41,98,000		
	62,50,000		**62,50,000**

In the Books of Jiban

Joint venture with Mitrik A/c

Dr.	**Particulars**	**₹**	**Cr.**	**Particulars**	**₹**
To	Bank: Stamp, Adv, Car exp. & Printing	6,42,000	By	Bank (Commission)	15,00,000
	Share of Profit	27,98,667		Bank (Sale of shares)	25,00,000
	Bank (Remittance)	5,59,333			
		40,00,000			**40,00,000**

Conversion of Consignment into Joint Venture with Retrospective Effect

Question 4: On 1st January, 2017 Messrs. Alpha radios of madras consigned 300 radios to Beta agencies of Port Blair. The cost price of each ratio is ₹250 but invoiced pro forma to give a profit of one sixth on invoice price. The consignees were entitled to a commission of 7% on gross sales plus a special commission of 20% on the excess sale price over invoice price after charging all commission. The consignors paid ₹400 by way freight and ₹200 by way of insurance.

The consignment was duly received by Beta agencies on 1st February and they incurred the following expenses:

	₹
Import duties	900
Unloading and carriage	300
Selling and Establishment	600

The consignors drew a bill for ₹50,000 at 3 months after sight and the same was accepted by Beta agencies. The consignors realized ₹49,895 by discounting the bill on 31st March. For period ending 30th June 2017. Beta agencies sold 250 sets at ₹400 each and sent a cheque to Messrs. Alpha Radios for the amount due.

After preparing the annual accounts on 30th June 2017, it was however decided that Messrs. Beta agencies should be treated as co-venture with retrospective effect from 1st January, 2007 subject to the following considerations:

1. The cost of each ratio to be taken at ₹275.
2. Beta agencies to be entitled to a commission of 5% on sales.
3. Messrs. Alpha radios Entitled to interest at 10% p.a. on their investment, after taking into account the gross value of acceptance received from Beta agencies.

4. Profits or losses after charging interest and commission to be shared equally.

Show the adjustment journal entries to be passed by both the parties necessitated by the conversion.

Answer:

Messrs. Alpha Radios Consignment to Port Blair Account

	Dr	₹		Cr	₹
To	Goods sent on consignment account	90,000	By	Beta agencies-sales (250x400)	1,00,000
	Bank – Expenses	600		Goods sent on consignment loading	15,000
	Beta agencies – expenses	1,800		Consignment stock account	15,300
	Selling commission	7,000		$\frac{50}{300} \times (90{,}000 + 600 + 1{,}200)$	
	Stock reserve	2,500			
	Overriding commission	3,000			
	Profit on consignment	25,400			
		1,30,300			**1,30,300**

$$Overriding\ commission = \frac{20}{120} \times (1{,}00{,}000 - 7{,}000) - (300 \times 250) = ₹3{,}000$$

Beta Agencies (Consignee)

	Dr	₹		Cr		₹
To	Consignment to Port Blair A/c		By	Bills receivable		50,000
	Sales	1,00,000		Consignment to Port Blair account		
				Expenses	1,800	
				Commission	7,000	
				Special commission	3,000	11,800
				By Bank-Balance received		38,200
		1,00,000				**1,00,000**

Under the revised arrangement:

Memorandum Joint Venture Account

	Dr.	₹	₹		Cr.	₹
To	Alpha radios cost of radios (275×300)		82,500	By	Sales	1,00,000
	Freight and insurance		600		Stock	14,050
	Interest and discount		3,010		$\frac{50}{300}(82{,}500 + 600 + 1{,}200)$	
	Beta agencies:					
	Expenses		1,800			
	Commission		5,000			
	To Profit on Venture:					
	Alpha radios	10,570				
	Beta agencies	10,570	21,140			
			1,14,050			**1,14,050**

	Interest due to Alpha Radios:	₹
	On ₹83,100 for 6 months @ 10%	4,155
Less:	On ₹50,000 for 3 month @ 10%	1,250
	Interest	2,905
	Discount	105
	Total	3,010

Total income of Beta agencies:			
Consignment basis	₹	Joint Venture basis	₹
Commission	7,000	Commission	5,000
Special Commission	3,000	Share of profits	10,570
Total	**10,000**	**Total**	**15,570**

Journal of Alpha Radios		**₹**	**₹**
Profit and Loss Account (25,400 – 10,570)	Dr.	14,830	
To Trading account (275-250)x250			6,250
To Interest and discount			3,010
To Beta agencies (15,270-10,000)			5,570

Journal of Beta Agencies		**₹**	**₹**
Alpha agencies account	Dr.	5,570	
To Profit and loss Account			5,570

FUNDAMENTALS OF COST ACCOUNTING
4 CLASSIFICATION OF COSTS

Classification of Cost by

1. **Nature of element**
   a) **Material:** Cost of material used in production
   b) **Labour:** Cost of Workers
   c) **Expenses:** Costs other than Material and Labour
2. **Traceability to object**
   a) **Direct Cost:** Which can be allocated directly to the product
   b) **Indirect Cost:** Which cannot be directly allocated to the product
3. **Functions**
   a) **Production Costs:** Cost of whole process of Production
   b) **Selling Costs:** Cost for creating demand of the product produced.
   c) **Distribution Costs:** starting from packing cost till reconditioning of empty products
   d) **Administrative Costs:** Cost of formulating policy, managing the organisation,
   e) **Development Costs:** Development Costs for trial Run
   f) **Pre-Production Costs:** Costs incurred up to the commencement of the production process.
   g) **Conversion Costs:** Cost of converting RM in to FG (DL + DE + FOH)
4. **Variability / Changes in Activity or Volume**
   a) **Fixed Costs:** Cost which remains constant in total.
      i. Committed costs
      ii. Policy and managed costs
      iii. Discretionary costs
      iv. Step costs
   b) **Variable Costs:** Cost which changes with production.
   c) **Semi-Variable Cost:** Cost which are partly fixed and partly variable
5. **Controllability**
   a) Controllable costs –can be influenced by the action of the management. e.g. direct costs.
   b) Uncontrollable costs – cannot be influenced. e.g. overhead
6. **Normality**
   a) Normal Costs: Costs which are expected to be incurred in normal routine
   b) Abnormal Costs: Costs which are over and above normal costs.
7. **Accounting period:**
   a) Capital Cost
   b) Revenue Cost
8. **Time**
   a) Historical Cost (incurred cost)
   b) Pre-determined cost. (standard cost)
9. **Planning**
   a) Budgeted cost: projection cost for planning
   b) Standard cost: scientifically predetermined cost for controlling cost
10. **Association with the product**

a) **Product costs:** variable cost
b) **Period costs:** fixed cost

11. **Managerial decisions**
    a) **Marginal cost:** increased cost for increase cost of producing one unit (variable cost)
    b) **Out of pocket cost (explicit costs):** involves cash outflow
    c) **Differential cost:** incremental cost or decremental cost in case change in size of production
    d) **Sunk cost:** cost incurred in the past and irrelevant for decision making
    e) **Imputed or notional cost (implicit cost | economic cost):** involves no cash outflow
    f) **Opportunity cost:** benefit foregone on the second best alternative
    g) **Replacement cost:** current market price
    h) **Avoidable and unavoidable cost**

Relevant costs / irrelevant costs:

a) **Relevant Costs:** Costs which are relevant and useful for decision making. E.g. Marginal Costs, Differential Costs, Opportunity Costs, Out of Pocket
b) **Irrelevant Costs:** Costs which are not relevant or useful to decision making. E.g. Sunk Costs, Committed costs, fixed costs

Direct expense

- Direct expenses are directly identifiable and chargeable to a product process, job, contract and service
- They form a major part of prime cost
- Example: cost of patent rights, hire charges of special plant, experimental costs, Royalty paid in mining, costs of special layouts and designs, etc.

{CMA inter J03 & J07}

Match the following[1]

(i)	Total fixed cost	1	What cost should be?
(ii)	Total variable cost	2	Incurred cost
(iii)	Unit variable cost	3	Increase in proportion to output
(iv)	Unit fixed cost	4	Cost of conversion
(v)	Standard cost	5	What costs are expected to be?
(vi)	Period cost	6	Decreases with rise in output
(vii)	Actual cost	7	Remains constant in total
(viii)	Labour and overhead	8	Remains constant per unit
(ix)	Incremental cost	9	Cost not assigned to products
(x)	Budgeted cost	10	Added value of a new product.

{CA inter}

[1] **Question**	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)
Answer	7	3	8	6	1	9	2	4	10	5

Question: Indicate whether the following statements are true or false:

1. All costs are controllable.
2. Conversion cost is equal to direct wages plus factory overhead.
3. Variable cost per unit varies with the increase or decrease in the volume of output.
4. Depreciation is an out of pocket cost.
5. An item of cost that is direct for one business may be indirect for another
6. Fixed cost per unit remains fixed.

Question	(i)	(ii)	(iii)	(iv)	(v)	(vi)
Answer	False	True	False	False	True	False

Cost Centre

1. A location, person or an item of equipment (or group of these) for which cost may be ascertained.
2. A cost centre is the smallest sub-unit for which separate cost allocation can be done.
3. It is used for controlling costs.

Types of Cost Centres:

1. Personal Cost Centre: it consists of a person or a group of person
2. Impersonal Cost Centre: it consists of location or an item of equipment

Cost unit: It is a unit of production, service time or a combination of these, in relation to which may be ascertained or expressed. A cost unit is a unit of product or unit of service to which costs are ascertained by means of allocation, apportionment and absorption.

Industry or Product	**Cost unit**
Nuts & bolts	Gross
Power	KWH
Chemicals	Litre. Gallon, KG, etc.

{CA inter M95, M97 & N02, 4 marks | CMA inter 10, 5 marks}

Type of Costing

1. **Uniform Costing:** Standardised principles and practices of costing are used by a number of different industries.
2. **Marginal Costing:** Only variable costs directly linked are charged to the product or process.
3. **Standard Costing:** Standard Costs are compared with actual costs, to determine variances.
4. **Historical Costing:** Where costs are compared with actual costs, to determine variances.
5. **Direct Costing:** Direct Costs are charged to the product or process, Indirect Costs are charged to the profit from the product or process.
6. **Absorption Costing:** All Costs (variable and Fixed) are charged to the product or process.

Methods of costing + applicable industry

1. **Job Costing:** Cost is ascertained for each job order using a job card. This method of costing is used in printing press, foundries and general engineering workshops, advertising etc.
2. **Batch Costing:** is used where small components but same kind are required to be manufactured in large quantities.
3. **Contract Costing:** If a job is very big and takes a long time for its completion, then method used for costing is known as Contract Costing. It is suitable for firms engaged in the construction of bridges, roads, buildings etc.

4. **Operating Costing:** used in service industry like transport, supply of water, telephone services, hospitals, nursing homes etc.
5. **Single or Output:** Cost ascertainment for a single product.
6. **Process Costing:** The cost of production at each stage is ascertainment separately.
7. **Operation Costing:** a refined process costing where cost for each operation is identified.
8. **Multiple Costing:** Combination of two or more methods of costing

{CA inter N99, 4 marks}

	Industry	Method of costing	Unit of cost
1	Nursing Home / hospital	Operating	Per Bed per week or per day
2	Road transport	Operating	Per Tonne Kilometer or per mile
3	Steel	Process	Per Tonne
4	Coal	Single	Per unit
5	Bicycles	Multiple	Each unit
6	Bridge construction	Contract	Each contract
7	Interior Decoration	Job	Each Job
8	Advertising	Job	Each Job
9	Furniture	Multiple	Each unit
10	Ship building	Contract	Per ship
11	Toy making	Batch	Per batch
12	Radio	Mulitple	Per radio or per batch
13	Brick-works	Single or output	1,000 bricks
14	Sugar company	Process	Per Quintal / Tonne
15	Oil refining mill	Process	Per tonne
16	Textile mills	Process Costing	Kg of yarn or Meters of cloth
17	Electricity undertaking	Service Costing	KWH
18	Automobile repair work shop	Job Costing	Each vehicle
19	Cement manufactures Costing	Single of Output	per tonne or Kg.
20	Passenger bus service	Service Costing	Passenger-kilometer

{CA inter N97 & N98, 2 & 3 marks}

Technique of Costing: Marginal Costing | Standard Costing | Budget and Budgetory control

Cost reduction and Cost control

{CA inter N02, M03, M04, N04,& N07, 4 & 3 marks | CMA inter D09, J11, J12 & D15, 4 05 marks}

	Cost Reduction	Cost Control
1	Reducing cost of production	Cost not to exceed pre-determined cost
2	by waste reduction, expense reduction and increased production	By investigating the variances and taking remedial measures.
3	It is a corrective function.	It is a preventive function

5. FORMAT OF COST SHEET

Example for various element for furniture manufacturer

	Material	**Labour**	**Expenses**
Direct	Wood, Steel, Glass	Carpenter wages	Curving, job charges
Indirect (overhead)			
Factory	Material for machines	Workman salary	
Administration	Material for office equipment	Office manager's salary	
Selling & Dist.	Packing materials	Salesman salary	

Statement of Cost Sheet

		₹
	Opening Stock of Raw Materials	×××
Add	Purchase of Raw Materials	×××
		×××
Less	Closing Stock of Raw Materials	×××
	Cost of Raw materials consumed	×××
	Direct Labour	×××
	Direct Expenses	×××
	Prime Cost	×××
	Factory Overheads	×××
	Total Factory / Works / Manufacturing Cost	×××
Add	Opening Work-in-progress	×××
		×××
Less	Closing work-in-progress	×××
	Works / Factory / Manufacturing Cost	×××
	Administration Expenses	×××
	Cost of Production	×××
Add	Opening Stock of Finished Goods	×××
	Cost of Goods Available for Sale	×××
Less	Closing Stock of Finished Goods	×××
	Cost of Goods Sold	×××
	Selling Overheads	×××
	Cost of Sales	×××
	Profit	×××
	Sales	×××

Question 1: A factory uses a job costing system. The following cost data are available from the books for the year ended 31st March, 2012:

Particulars	₹	Particulars	₹
Direct Material	9,00,000	Selling and Distribution Overhead	5,25,000
Direct Wages	7,50,000	Administrative Overhead	4,20,000
Profit	6,09,000	Factory Overhead	4,50,000

Required: Prepare a Cost Sheet indicating the prime cost, works cost, production cost, cost of sales and sales.

Question 2: Following information has been obtained from the records of a Manufacturing company:

Particulars	1-1-2012	31-12-2012
Stock of Raw Materials (₹)	40,000	50,000
Stock of Finished Goods (₹)	1,00,000	1,50,000
Stock of Work-in-progress (₹)	10,000	14,000

Transactions during the year:

Indirect Labour	50,000	Power	32,000
Lubricants	10,000	Direct Labour	3,00,000
Insurance on Plant	3,000	Property Tax on Factory Building	11,000
Purchase of Raw Material	4,00,000	Depreciation on Machinery	50,000
Sale Commission	60,000	Sales	12,00,000
Factory Rent	60,000	Salaries of Salesmen	1,00,000
Admn. Expenses	1,00,000	Realisation from the scrap	2,000
Carriage Outward	20,000		

Prepare a statement of Cost and Profit showing: Cost of Raw Materials Consumed, Prime cost, Total Manufacturing Cost, Factory Manufacturing Cost, Cost of Production, Cost of Goods Sold, Cost of Sales and Profit.

Answer:

Statement of Cost and Profit for the year ended 31-12-2012			
	Opening Stock of Raw Materials	40,000	
Add	Purchase of Raw Materials	4,00,000	
		4,40,000	
Less	Closing Stock of Raw Materials	50,000	
	Cost of Raw materials consumed		**3,90,000**
	Direct Labour		3,00,000
	Prime Cost		**6,90,000**
	Factory Overheads:		
	Indirect Labour	50,000	

	Lubricants	10,000	
	Insurance on Plant	3,000	
	Power	32,000	
	Depreciation on Machinery	50,000	
	Factory Rent	60,000	
	Property Tax on Factory Building	11,000	
Less	Realisation from scrap	(2,000)	2,14,000
	Total Manufacturing Cost		**9,04,000**
Add	Opening Work-in-progress		10,000
			9,14,000
Less	Closing work-in-progress		14,000
	Factory (Manufacturing) Cost		**9,00,000**
	Administration Expenses		1,00,000
	Cost of Production		**10,00,000**
Add	Opening Stock of Finished Goods		1,00,000
	Cost of Goods Available for Sale		11,00,000
Less	Closing Stock of Finished Goods		1,50,000
	Cost of Goods Sold		**9,50,000**
	Selling Overheads:		
	Sale Commission	60,000	
	Salaries of Salesmen	1,00,000	
	Carriage Outward	20,000	1,80,000
	Cost of Sales		**11,30,000**
	Profit		70,000
	Sales		**12,00,000**