

UNIT - 1

DEPARTMENTAL ACCOUNTS

Departmental accounts are the accounts relating to several departments or divisions of a business under one management. It helps the managements to know the performance of the various departments and decide about the desirability or otherwise of continuing a particular department.

From the following details prepare departmental trading account:

	Dept A	Dept B
	Rs.	Rs.
Opening Stock	9,000	8,400
Total Purchase	27,000	21,600
Total Sales	42,000	36,000
Closing Stock	10,800	4,800
Credit Purchase	17,000	10,600
Credit sales	5,000	6,000

Solution:

Dr Departmental Trading Account Cr

Particulars	Dept A	Dept B	Particulars	Deapt A	Dept B
	Rs.	Rs.		Rs.	Rs.
To Opening Stock	9,000	8,400	By Sales	42,000	36,000
To Purchase	27,000	21,600	By Closing Stock	10,800	4,800
To Gross Profit c/d	16,800	10,800			
	52,800	40,800		52,800	40,800

UNIT - 3

HIRE PURCHASE AND INSTALMENT SYSTEM

In certain types of business, it is usual that businessmen sell the goods by collecting the money from the buyer on instalment basis payable either monthly or yearly. This method is found beneficial to both the buyer and seller. The seller considerably increases the sales, and the buyer can purchase the product without financial strain. This can be done in two ways.

1. Hire Purchase system
2. Instalment system

1.Hire Purchase system

Under this system, the owner of the goods, article enters into an agreement with the prospective buyer by which the latter agrees to pay for the article at periodic intervals. In this type of agreement, though the goods is taken delivery by the hirer(buyer), the ownership of the goods, if the hirer fails to pay his hire at any stage.

1.Instalment System

In this system also, the payment for goods purchased is paid by instalments. Here the ownership of the goods passes immediately on signing the agreements. But, if the buyer fails to pay any due later the seller cannot recover possession of goods. But he can sue the buyer for any unpaid amount.

Example:

On 1st April 1991 Goodworth & Co. purchased a machine from Visal industries on hire purchase basis. The cash price of the machine was Rs.25,000. The payment was to be made Rs.5,000 on the date of contract and the balance in 4 instalments of Rs.5,000 plus interest 5% per annum payable on 31st December each year. The first instalment being payable on 31.12.1991.

Solution:

Table showing calculation of interest

Date	Particulars (1)	Total Case Price (2)	Instalment paid (3)	Interest Paid (4)	Cash Price paid (5)
		Rs.	Rs.	Rs.	Rs.
01.04.91	Cash price	25000			
	Down payment	5000	5000	-	5000
		20000			
31.12.91	1 st Instalment	5000	5750	750	5000
		15000			
31.12.92	2 nd Instalment	5000	5750	750	5000
		10000			
31.12.93	3 rd Instalment	5000	5500	500	5000
		5000			
3.12.94	4 th Instalment	5000	5250	250	5000
	Total	Nil	27250	2250	25000

Hint: 1st instalment interest is only for 9 months.

UNIT - 4

ROYALTY ACCOUNTS

Royalty is the remuneration payable to the owner of an asset by the user of the asset. That is, it is a periodic payment to the owner of an asset for the use of his ownership rights.

Problem:

Karan took out a lease under a royalty agreement from Kavitha which provides as follows:

The minimum rent is agreed at Rs.5000 p.a. The actual royalties for the first four years were Rs.2000, Rs.3000, Rs.6000 and Rs.10000. Short workings can be recouped only during the first three years. Write up the journal entries and necessary ledger accounts in the books of Karan.

Solution:

Table showing Calculations

Year	Minimum Rent	Royalty	Short workings	Short workings Recouped	Short working Un recouped Trans.to P&L a/c	Amount Payable
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
I	5000	2000	3000	-	-	5000
II	5000	3000	2000	-	-	5000
III	5000	6000	-	1000	4000	5000
IV	5000	10000	-	-	-	10000

IN THE BOOKS OF KARAN

Journal Entries

Date	Particulars	Debit	Credit
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Ledger Accounts:

Dr Royalty Account

I Year	To Kavitha	2000	I Year	By Profit & Loss a/c	2000
		<hr/>			<hr/>
		2000			2000
II Year	To Kavitha	3000	II Year	By Profit & Loss a/c	3000
		<hr/>			<hr/>
		3000			3000
III Year	To Kavitha	6000	III Year	By Profit & Loss a/c	6000
		<hr/>			<hr/>
		6000			6000
IV Year	To Kavitha	10000	IV Year	By Profit & Loss a/c	10000
		<hr/>			<hr/>
		10000			10000

Dr

Shortworkings Account

I Year	To Kavitha	<u>3000</u> <u>3000</u>	I Year	By Balance c/d...	<u>3000</u> <u>3000</u>
II Year	To Balance b/c To Kavitha	3000 <u>2000</u> <u>5000</u>	II Year	By Balance c/d...	<u>5000</u> <u>5000</u>
III Year	To Balance b/d	<u>5000</u> <u>5000</u>	III Year	By Kavitha By Profit & Loss a/c	1000 <u>4000</u> <u>5000</u>

Dr

Kavitha Account

(Lessor)

I Year	To Bank	5000 <u>5000</u>	I Year	By Royalty a/c By Shortworkings a/c	2000 <u>3000</u> <u>5000</u>
II Year	To Bank	5000 <u>5000</u>	II Year	By Royalty a/c By Shortworkings a/c	3000 <u>2000</u> <u>5000</u>
III Year	To Bank To Shortworkings	5000 1000 <u>6000</u>	III Year	By Royalty a/c	6000 <u>6000</u>
IV Year	To Bank	<u>10000</u> 10000	IV Year	By Royalty a/c	<u>10000</u> 10000

INSOLVENCY ACCOUNTS

Unit 5

The term 'Insolvency' refers to the state of inability of a debtor to pay his debts when they fall due. In other words, 'insolvency' arises to an individual or trader when his affairs are in deficit condition. The term 'bankrupt' is also used in the same sense as insolvency.

Illustration : 1

Surendar of Madurai filed his insolvency petition on 31.12.2003. The particulars of his financial position are as follows :

Creditors – fully secured by lien on Stock	20,000
Creditors – Partly secured by lien on Shares	80,000
Creditors – Unsecured	1,50,000
Mortgage on Buildings	20,000
Creditors payable in full	6,000
Bills Receivable	2,800
Value of buildings fully realisable	22,000
Machinery (Estimated to produce 24,000)	30,000
Furniture (Estimated to produce 90,000)	13,000
Debtors (Good 40,000'; Doubtful 20,000, Estimated to produce 4,000)	60,000
Stock (Estimated to produce 90,000)	1,30,000
Shares (Estimated to realise fully)	32,000
Cash	200

You are required to prepare his statement of affairs.

Solution:

STATEMENT OF AFFAIRS

As on 31 Dec 2003

Gross Liabilities	Liabilities	Expected to Rank	Assets	Book Values	Estimated to produce
1,50,000	Unsecured creditors As per List – A	1,50,000	Property as per List – E:		
	Fully secured Crs. as per List – B		Cash	200	200
40,000	(20,000+20,000)40,000		Machinery	30,000	24,000
	<u>Less</u> Est. value of secure <u>1,12,000</u> (90,000+22,000)		Furniture	13,000	9,000
	Surplus to contra <u>72,000</u>	-----	Book Debts as per List – F		
	Party Secured Crs		Good	40,000	40,000
80,000	Per List – C 80,000		Doubtful	20,000	4,000
	Less Value of securities <u>32,000</u>	48,000	Bills of Exchange as per List – G		
	Perferential Crs		Bills Receivable	2,800	<u>2,800</u>
6,000	as per List – D 6,000		Add Surplus from contra		<u>72,000</u>
	less Deducted as per contra <u>6,000</u>				1,52,000
		1,98,000	Less Preferential Creditors deducted contra		6,000
			Deficiency as per List - H		1,46,000
					52,000
					1,98,000

