ACCOUNTING

DAVAR'S
HIGHER ACCOUNTING

BY

SOHRAB R. DAVAR, BARRISTER-AT-LAW,

ADVOCATE, H. M.'S HIGH COURT, BOMBAY, PRINCIPAL AND FOUNDER OF THE DAVAR'S COLLEGE OF COMMERCE, LAW AND BANKING, BOMBAY, HOLDER OF THE FINAL EXAMINATION CERTIFICATES OF THE SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS OF LONDON AND THE CHARTERED INSTITUTE OF SECRETARIES OF PUBLIC COMPANIES OF LONDON. TWENTY EIGHT YEARS AS A PIONEER PROFESSOR OF COMMERCE; LATELY GOVERNMENT PROFESSOR IN MERCANTILE LAW AND BUSINESS ORGANIZATION B. COM. (FINAL); AUTHOR OF INDIAN MERCANTILE LAW (5TH EDN.); INDIAN COMPANY LAW (2ND EDN.), BUSINESS ORGANIZATION (2ND EDN.), ETC.

SECOND EDITION.

ASSISTED BY

C. **CORNELIUS**, F. S. A. A., & **D. R. DAVAR**, A. S. A. A.

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Dedicated

TO

MY REVERED EX-PROFESSOR

FRED NIXON, ESQUIRE,

F.C.A., F.C.I.S.,

TITUDE FOR HIS INVALUABLE ASSISTANCE

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PREFACE TO THE SECOND EDITION.

The whole book has been revised and thoroughly overhauled on most modern ideas. The Indian requirements both of practical Accountancy and Accountancy Law have been particularly considered and added in great detail. Indian Income Tax Practice and Law have received a special treatment in a separate Chapter and the Chapter on Cost Accounts and Miscellaneous Accounts added. Auditing and Accountancy Law are dealt with in form of easy notes in Appendix A, whereas Appendix B embraces Examination Papers, in extenso, by University and Professional Boards. Each Chapter is followed by a series of graded exercises to be worked in addition to nearly 300 questions in Appendix C. All throughout the special incidents of Account Keeping are liberally illustrated with model examples and solutions with explanation which is both easy in language and technic. These elaborate additions and alterations have considerably increased the size of the volume which runs up to nearly nine hundred pages. The requirements of the Syllabuses of both Indian and English Examinations by the Universities as well as Professional Boards have been particularly kept in view in connection with the revision of this work.

My thanks are due to Mr. J. C. Cornelius, F.S.A.A., Incorporated Accountant (London) and a former Accountancy Professo[illegible] College and to Mr. Dorab R. Davar, A.S.A.A., Incorpor[illegible]ountant (London), the present Senior Accountancy [illegible]or as well as ex-pupil of this College, for valuable a[illegible] rendered in preparation of this work. Acknowledgm[illegible] also due to Mr. D. C. Sutaria, L.A.A., F.I.S.A., a [illegible]urer of long experience as well as an old boy of this [illegible]r valuable work done in connection with the Miscella[illegible]ell as Cost Accounts Chapters and the [illegible]neral assis[illegible]ered in connection with the preparation [illegible] Index, etc.

DAVAR'S CO[illegible] COMMERCE, } SOHRAB R. DAVAR.
Bombay, 1st [illegible] *1928.*

PREFACE TO THE FIRST EDITION.

In the following pages I have tried to deal with the subject in its advanced stage in a style most easy to the Indian student of Accountancy, studying for the Examinations by the Professional Examination Boards of England as well as for the London Chamber of Commerce, the Accountancy Diploma Board, the University Specialized Accountancy Examination Degrees, &c. My aim has been to follow the generally accepted teaching and for that purpose I have made use of my long experience both as a teacher of commercial subjects and as an old practitioner, who, though no longer a Practicing Accountant, has kept himself in close touch with his subject ever since his call to the Bar. A combination of accountancy and legal training, added to the successful teaching experience of sixteen years, is my apology for placing this work before the commercial public.

Besides dealing with English law and practice, I have exhaustively dealt with the Indian legal and professional principles and by appending a separate chapter on auditing on each of the important branches of accountancy, I have attempted to make this work a useful guide in auditing also. That branch of mercantile law which an accountancy student must particularly master, both for his examinations and practice, has been dealt with in a style which I trust would be found easy by the Indian student. The illustrations on various accountancy problems have been specially framed with a view to explain the principles as clearly as possible. A large number of examination questions from the various papers set by the Institute of Chartered Accountants, London; the Society of Accountants and Auditors, London; the Chartered Institute of Secretaries, London; the Incorporated Secretaries' Association, London; the Central Association of Accountants, London; the London Chamber of Commerce; the National Union of Teachers, London; the Midland Counties Union of Institutes, Birmingham; the Royal Society of Arts, Manufacture and Commerce, London, &c., &c., are also included and in some cases actually solved to guide the student as to how they are to be dealt with.

While dealing with both the theoretical and practical sides of accountancy I have mainly thought of the students and practitioners in India who it is hoped may find this work useful and easy to follow. Many points of importance and of interest to the profession here, which are not to be found in English publications are treated at some length.

My thanks are due to my students Mr. V. B. Chhaya, Mr. Vasu Deva Rao, B. A., and Mr. Mohamed Hamid Ali, as well as to my assistant Mr. H. J. Dastur, B. A., for material assistance given to me in the preparation of the index, the correction of proofs and the solution of exercises.

DAVAR'S COLLEGE OF COMMERCE, LAW AND BANKING.
Bombay, 13th October 1916.

SOHRAB R. DAVAR.

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Appendix C.

SOME REVIEWS AND OPINIONS ON PROF. DAVAR'S BOOKS.

Capital : Calcutta, 17th October 1919—

"Mr. Sohrab R. Davar, the brilliant and versatile Parsi Barrister-at-Law, who founded and made a success of Davar's College of Commerce, Law and Banking at Bombay, has crystalised his experience as a teacher and operator in a book he calls *Business Organisation*. In his modest preface he tells us that 'the book is particularly meant to be a student's book, though incidentally it is hoped that an intelligent business-man anxious to learn all he can about the complicated machinery of the commercial world during his leisure hours, may also find pleasing recreation within its pages.' We are sure that such a seeker of light will find something more than recreation, namely substantial profits. In the present company-promoting boom in Bombay, Mr. Davar's chapter on 'Company Work and Practice,' will be found most useful to the investor, even to the speculator. In existing circumstances it is the most arresting portion of the work, but the other chapters are just as lucid and comprehensive."

Late Principal Percy Ansty, B. Sc. *(Economics), London,* of the Sydenham College of Commerce : 6th May, 1919.

"As for the contents of your book you already know how very highly I think of them, and how proud I am to have the work dedicated to me in such exceedingly kind terms. It will always be a source of genuine gratification to me that an important treatise of this kind should have originated in a course of lectures at my College which I had the good luck to suggest to you. You have indeed, acquitted yourself of the task entrusted to you in a manner which exceeds all my expectations, great though they have, of course, always been. Your book is, I believe, the first of its type in India, and I imagine, it is destined to be recognised as authoritative and to remain for many a long day *hors de concours*."

The Hindu (Madras).

While reviewing the Elements of Indian Mercantile Law, says :—

"The object of this book is to furnish students of Commerce and Accountancy as well as Businessmen and Professional Accountants with a hand-book in which the various branches of Law with which they should be acquainted is dealt with in as simple, non-technical and brief a style as possible. Prof. Davar's work in the field of commercial education is too well-known to need mention. Besides, he is a Barrister-at-law. Thus a not very common combination of the exact idea of the requirements of the businessman and legal knowledge has enabled Prof. Davar to write a hand-book of Mercantile Law which is at once accurate and acceptable to the mercantile public. The texts of the Indian Contract Act of 1872, and the Indian Companies Act 1913, have been given owing to their supreme importance, while the Law relating to partnerships, negotiable instruments, shipping mortgages, limitation, stamp, etc , is treated in separate chapters, the sections, Acts and the leading cases having been freely cited for convenience of reference. The book is in use in the Sydenham and Davar's Colleges of Commerce. We have no doubt it will be of great use to Indian businessmen and students.

Alfred Nixon, Esq., F. C. A., F. S. A. A., (*Author of a large number of standard text-books on Accountancy & Commerce) Principal of the Manchester Municipal School of Commerce* :—

" I am in receipt of your book on Higher Accounting. I cannot imagine a better book written for the use of Indian Accountants and Businessmen. The problems discussed are most illuminating."

W. Turner Green, Esqr., F. C. A. (Chartered Accountant, and the Senior Partner of Messrs. Fergusson & Co., in Bombay).

" I keep it (Indian Mercantile Law) and your book on Higher Accounting with Auditing Notes on my table for ready reference."

Sir S. B. Billimoria, Kt. (*One of the most Prominent Bombay Accountants and one of the Auditors of the Bank of Bombay*).

" You seem to have handled the subject with great ease and precision. The chapter on Indian Income Tax is illuminating. I have no doubt the book will be found useful in an Accountants' library as well as to the students of Accountancy."

D. F. Mulla, Esq., M.A., LL.B., Advocate, High Court, (*Author of Mulla's Civil Procedure Code and numerous other prominent Legal Publications.*)

" I have to thank you for the copy of your excellent book on Higher Accountancy and to congratulate you on producing a work which a layman can follow without any difficulty. I mean to use it to-day in a case before the Commissioner if it becomes necessary to do so."

Principal Percy Ansty, B. Sc. (London) *of the Sydenham College of Commerce.*

" It seems to be most admirably arranged, and—coming from one with your great experience, acuteness and knowledge—will no doubt prove a most valuable help to students."

Late Sir Asutosh Mukerji *(Ex-Vice Chancellor of the Calcutta University.)*

" I am not an expert in this line and cannot venture to pronounce an opinion upon the merits of technical books brought out by a scholar of your distinction ; but on looking into the books they strike me as extremely well-written, lucid and concise.

H. Manjundayyer, Esq., M. A. M. L. *(Vice-Chancellor of the Mysore University.)*

From the perusal of the contents, I see that they must be of very great use to students and businessmen, especially on account of the new interest in commercial subjects."

SOME REVIEWS & OPINION ON PROF. DAVAR'S COMPANY LAW (2nd Edn.)

Prof. B. N. Chatterji, Head of the department of Economics & Lecturer on Mercantile Law. Faculty of Commerce, Lucknow University.

"I have gone through the Book and I have much pleasure in stating that it will admirably suit the requirements of B. Com. and G. D. A' students, who require a compact and handy book. I will certainly recommend it to my Students."

F. J. Coltman Esq., Barrister-at-Law,

HIGH COURT, BOMBAY.

"It is most useful for ready reference,"

Prof. B. N. Das Gupta, Dean,

FACULTY OF COMMERCE,

LUCKNOW UNIVERSITY, LUCKNOW.

"This edition is particularly useful to the students and to us as well. The additions that have been made in this volume do enhance the value of the book considerably. Every now and then I go through it and I find it is an excellent handbook. I have requisitioned it for the library and recommended it to the students."

Prof. C. R. Reddy, Dean,

ANDHRA UNIVERSITY,

BEZWADA.

"......which I am sure is a most valuable publication Though I am no specialist in the subject, I think it is a very exhaustive and Interesting treatise. It is very good of you to have remembered me in this connection and I take this opportunity to thank you for the various ways in which you are helping young Andra University in these, the initial states of its organisation."

The Hon. Mr. Justice R. S. Rangnekar,

HIGH COURT, BOMBAY.

"I am sure I shall find it useful whilst dealing with Company Law Cases."

The Hon. Krishnalal M. Jhaveri.—

CHIEF JUDGE, SMALL CAUSES COURT, BOMBAY.

"You have treated this somewhat complicated system of law very lucidly in the small compass at your disposal. The fact that it has now reached a second edition is itself a proof of its utility."

The Hon. Mr. Justice J. D. Davar.—

HIGH COURT, BOMBAY.

"It is a very handy size for one thing, and it is an advantage to have a publication where the cases are noted up-to date."

The Bombay Law Journal, October 1927—

"This is a well thought out, well arranged well written and reliable book on this branch of the law.................."

"The present edition has been thoroughly revised and enlarged to more than double its original size. It is recognised by Government and recommended by several Universities to its B. Comm. and Accountancy students. It will also serve as a handy book of reference for legal practitioners."

The "Associated Accountant", December 1927.—

"We welcome this up-to-date issue which should be of very great interest to those who are connected with Indian finance and to those who are studying for the Accountancy Examinations in India,.................."

"We congratulate Mr. Davar on the "get-up" of his book, which is very well printed and contains a very complete Table of Cases and is particularly well indexed."

The Bombay Chronicle, November 1927.

"The book under review is the second and enlarged edition of his book on the Company Law. The book will prove very useful to those for whom it is meant and also to the 2nd LL. B. students and to the general legal practitioner for a rough and ready reference. To the Officers of Limited Companies it is indispensable. This edition appears to be thoroughly revised and brought up-to-date and bespeaks very highly of the authors' thorough mystery and grasp of the subject."

The Bombay Law Reporter, January 1928.

"The Indian Companies Act now figures in the syllabus of law studies of Indian Universities and of examinations in Commerce held in different parts of India..........

The needs of both these classes have been admirably served by Principal Davar in this compact work. The elements of the Company Law together with important sidelights thrown on them by reported decisions, English and Indian, have been ably discussed in the first Part which covers more than 300 pages. This Part furnishes not only an excellent summary of law and cases, but the racy style in which it is written is calculated to interest lay people in comprehending the essentials of the Company Law. The Indian Companies Act is set out in full in Part II. Thus this is a most useful and serviceable hand-book on the subject."

ERRATA.

Page	Indication	For	Read
5	last but 7th line	and all debit balances	and all credit balances
6	last but 9th line	Journal Prope	Journal Proper
21	Assets	Stock 23,000	Stock 2,300
21	July 29th	Paid to Ramrao & Co.	Received from etc.
21	Below the Exercise VI	(omission)	Extract a Trial Balance after journalising and posting the above
22	Jan. 20	Sold for cash	Sold for cash coffee
22	Jan. 31	Value of Stock	Value of Stock Rs. 1,500 each for Tea & Coffee
22	Below the Exercise VII	(omission)	Extract a Trial Balance after journalising and posting the above
37	Exercise III	Carriage and Freight 21,000	Carriage & Freight 2000
38	Ex. V	Sundry debtors 18000	Sundry debtors, 14800
		Plant & Machinery 20000	Plant & Machinery 2000
		Creditors 15000	Creditors 36200
40	Ex. VII	Office Salary 9670	Office Salary 9760
50	line 3	To B. R. 1010	To B. R. 1000
56	A/s	Net Proceeds 777-10-0	net proceeds 7772-10
57	line 2	£ 4870-12	£ 4872-10
68	Ex. 1 Entry (4)	(omission)	*add* for Rs. 1000
72	Line 16	Walsh	Bejanji
72	Line 19	*after* renewed	*Read* Bill
74	Ex. XII line 5	on	an
74	,, line 6	at £ 17250 tons	For £ 17250
74	,, line 6	at £ 16-10-0	*omit this*
74	,, line 8	cleaning	Cleanng
74	,, line 9	draft	draft for the balance

Page	Indication	For	Read
74	Ex. XII line 11	sale	rate
75	Feb. 26	....	*omit* Sugar *after* "*Haridas*"
75	April 15	....	*omit* Sugar *after* "*and Son*"
82	last but 1st line	Rs. 30	Rs. 80
86	line 20 para 2 sub para (a)	unequally	equally
98	line 6	his	is
99	line 5	1924	1923
100	line 1	1924	1925
,,	line 11	Ex. IV	Ex. V
101	line 12	Ex. V	Ex VI
101	line last but 6th	Equal	Equivalent
111	1st a/c.	By A's Capital	By B's Capital
116	P & L adj. a/c	Discounts 2220	Discounts 2200
137	B/S	Cash 970	Cash 9070
186	line 8	400 shares	300 Shares
189	Liabilities side	10,00,000	10,00,000
	,,	4,00,000	4,00,000
	,,	Cash in arrear	Calls in arrear
211	last but 3rd line		*Omit* Capital
236	Ex. 11	*last item*, 10,000	20,000
244	B/S	*Nominal Capital* 30,000	30,000
248	B/S	*Preliminary Exp.* 25000	2,500
251	B/S	(*Nominal Capital*) 1000 shares of Rs. 100 each 1,00,000	1000 shares of Rs. 50 each 50,000
267	B/S	*Preliminary Exp.* £406	£ 416
269	B/S	*Under Nominal Capital*	*omit the words* fully paid
269	B/S	*Creditors* 4,00,000	40,000
269	B/S	*Cash* 1,500	15,000

PAGE	INDICATION	FOR	READ
270	1st B/S	*Cash* 13,000	3,000
270	2nd B/S	*Cash* 30,000	3,000
272	line 11	*Begin a new Exercise*	IV
274	Ex. VI B/S	*Issued Capital* 75,000 shares	7,500 shares
274	Ex. VI B/S	*Cash at Bank* 1,50,000	15,000
275	last but 6th line	Rs. 100	Rs. 1000
283	First line	insert in debit column	2750
283	Second line	insert in credit column	2750
283	B/S	*C. Lion & Sons* 350-12-0	350-12-6
308	line 13		*Omit* VI
313	Credit Side	*C Dept Stock* 1000	1,500
344	Trial Balance	Head Office 6870	Head Office 1530
		Cash at Bank 1530	Cash at Bank 6870
344	"	*Stock 31st Dec. Surat Branch* Credit Column 14580	Debit Column 14680
349	line last but 2	1926. Prepare	1926, prepare
349	Trial Balance	Surat Branch	Poona Branch
		Poona Branch	Surat Branch
394	line 3	Pages	Page 403
	line 4	Pages	Page 410
	line 5	Pages	Page 410
422	last line	*add*	Interest and dividends £2,23,535; Fines for revival of Policies £358
427	line 16	or	and

APPENDIX C.

PAGE			
xxv		Creditors	Creditors 1,200
xxix		*Debtors* 6,000	6,200
xxxi	line 5	Interest and mortgage	Interest on mortgage
xxxi	line 26	Begin new Exercise	72 (a)
xlvi	line 8	Bond	Bonus
lxxiii	line 2	£13,647-12-10	£1,13,647-12-10
lxxviii	T/B.	Rent received etc.	*Place amount in credit column.*

HIGHER ACCOUNTING.

CHAPTER I.

Methods of Recording Business Transactions.

Accountancy or Book-keeping is the art or system of recording the transactions of a merchant in a set of books with a view to give him a proper and correct idea as to his obligations and assets from time to time, and at the same time to enable him to ascertain periodically his profit or loss.

Thus a proper system ought to fulfil the following three objects:—

1. To keep a systematic permanent **record** of all business transactions,
2. To ascertain periodically the **Profit or Loss,** and
3. To show clearly the **financial position** at a given moment of time by enabling the merchant to ascertain his total obligations and assets.

All transactions are dealings between two persons or set of persons, the relationship of the one being that of a debtor and the other that of a creditor. The system of accounts which aims at recording both the Debtor and Creditor aspects of each transaction is called the Double Entry System of Book-keeping, which is the only system now universally in use.

It has been agreed by custom that all debit aspect of transactions should be entered on the left hand side and credit aspects on the right hand side of the account. The former being preceded by the preposition "To" and the latter by "By." Records are kept strictly in order of date and the same has to be analysed under proper headings.

Books which record transactions in the order of date are called "**Journals.**"

Books which record transactions in an analytical form collecting them under convenient headings or "Accounts" are called "**Ledgers.**"

Illustration:

The following transactions of Raman are to be recorded in books of account.

		Rs.
1.	Raman buys Goods of Laxman ...	100
2.	Raman sells Goods to Haridas ...	75
3.	Raman pays Laxman ...	100
4.	Cooper works as a clerk for one month	150
5.	Raman pays Cooper his clerk's Salary.	150
6.	The Landlord allows the use of Premises for	120
7.	Paid Landlord his rent	120
8.	Buys Furniture of Govind	250

Journal Entries for the above transactions.

1.	Raman (Goods) debtor ...	100	
	To Laxman		100
2.	Haridas debtor	75	

		Rs.	Rs.
	To Raman (Goods)		75
3.	Laxman debtor	100	
	To Raman (Cash) ...		100
4.	Raman (Salaries) debtor ...	150	
	To Cooper		150
5.	Cooper debtor	150	
	To Raman (Cash)		150
6.	Raman (Rent) debtor	120	
	To Landlord		120
7.	Landlord debtor	120	
	To Raman (Cash) ...		120
8.	Raman (Furniture) debtor ...	250	
	To Govind		250

Ledger.

Raman's Account.

To Laxman (Goods)	100	By Haridas (Goods)	75
To Cooper (Salaries)	150	By Laxman (Cash)	100
To Landlord (Rent)	120	By Cooper (Cash)	150
To Govind (Furniture)	250	By Landlord (Cash).	120

Laxman's Account.

To Cash	100	By Goods	100

Haridas's Account.

To Goods	75		

Cooper's Account.

To Cash	150	By Salaries	150

Landlord's Account.

To Cash	120	By Rent	120

Govind's Account.

By Furniture	250

All the above accounts relate to persons and so are called Personal Accounts.

Raman, the trader whose transactions are being recorded above naturally figures in all the journal entries so that in his account there is either a debit or a credit entry with reference to each of the above transactions. This shows that "Raman's Account" will be equal in bulk as well as total to all the other personal accounts put together. Accountants have found it more convenient in practice to sub-divide Raman's Personal Account and substitute instead several impersonal headings, such as, Salaries, Rent, Cash, Furniture and so on as already indicated in the above illustration.

Impersonal Accounts are divided into two classes:— 1. Real accounts representing assets (*e.g.*, Furniture, Cash, etc.) and 2. Nominal accounts representing losses (*e.g.*, Salaries, Rent, etc.)

Personal Accounts are those relating to persons such as the debtors and creditors of the firm.

Impersonal Accounts are those which do not relate to persons but to various impersonal headings such as Goods, Bills Payable, Bills Receivable, Insurance, Salaries, etc.

Real Accounts are those accounts which deal with items which make up the assets of the firm such as Business Premises, Cash, Goods, Bills Receivable, etc.

Nominal Accounts are accounts relating to expenditure, profits and losses, such as, Expenses Account, Discount Account, Sales Account, etc.

The following diagram will illustrate the division.

ACCOUNTS.

- **Personal**
  - Debtors
  - Creditors
- **Impersonal**
  - Real — *e.g.*, Premises, Plant, Stock, Cash, etc.
  - Nominal — *e.g.*, Rent, Salaries, Postages, Interest, etc.

Rules as to debiting and crediting of these accounts are as follows :—

1. In case of **Personal Accounts** they are to be debited for all they receive and credited for all they give.

2. **Impersonal Real Accounts** are to be dealt in a similar fashion, *i.e.*, they are to be debited for all that is to be added to them and credited for all that is deducted or taken away from them.

3. **Impersonal Nominal Accounts** are debited for all losses and credited for all profits.

Generally all **debit** balances are either **assets** or **losses** and all **debit** balances are either **liabilities** or **profits**.

Journal.

Journal is a book which is compulsory in Continental countries where Code Napolean prevails, and in its original form was used all over England, and is still used in India and on the Continent, to record each and every entry of debit and credit before posting it into the Ledger. In other words there was a debit and a credit for each individual item. It would be easily seen that this system of journalising every item in form of debit and credit has outlived itself in countries, where large number of transactions are effected. To-day in the gigantic business houses which have grown up in England they have sub-divided the journal into various other books, called subsidiary books, so as to collect together transactions such as credit sales, credit purchases, etc., with a view to minimise labour, both as to recording the original entries and also posting them into the Ledger, and also with a view to make the record more easy for reference. In India, specially in business houses in Bombay, the practice followed is to use the various books of original record side by side with journal, and entries from these books of original record after being summarised are journalised and then posted into the Ledger. It would thus be seen that Journal in these cases acts as a medium between the original and final record books.

The following are the chief kinds of Journals in common use:—

(*a*) **Journal Proper** is used for recording:

1. Opening and closing entries,
2. Transfer entries,
3. Adjusting entries,
4. Other entries which cannot be conveniently recorded in any of the books of original record.

Where the nature of the transaction recorded by a Journal entry is not quite clear or where an explanation is needed or an authority for the transaction has to be cited this is done by a statement after the entry and is called a "**narration.**"

(*b*) **Purchases Journal** or **Invoice Book** used for recording credit purchases. The total from this book should be debited to an account called "Purchase Account" in the Ledger, individual personal accounts being credited.

(*c*) **Sales Journal** or **Day Book** used for recording credit sales. The total from this book should be credited to an account called "Sales Account" in the Ledger, individual personal accounts being debited.

Illustration :

1925		Rs.
Jan. 1	Vithaldas Parekh started business with	3,500
2	Bought Goods of Cooper & Co. ...	200
3	Bought Goods of K. G. Haridas ...	1,000
	Sold Goods to P. M. Mehta ...	750
	Sold Goods to R. C. Das ...	300
	Sold Goods to Irani & Co. ...	400
4	Bought Goods of Devji & Morarji ...	750
5	Paid Cooper & Co. ...	200
	Paid K. G. Haridas ...	500
6	Received from P. M. Mehta ...	750
7	Sold Goods to H. M. Pandit ...	600
	Bought Goods of Jayram & Co. ...	500
	Paid Stationery Stores for Printing and Stationery ...	75
	Paid Furnishing Co. for Furniture	750
	Paid Oscilating, Ltd. for Fans and Lights ...	300
9	Received R. C. Das ...	300

	Paid K. G. Haridas	...	500
10	Paid General Expenses	...	15
12	Bought Goods of K. G. Haridas	...	1,200
14	Sold Goods to P. M. Mehta	...	400
15	Received of Irani & Co.	...	400
18	Paid Devji & Morarji	...	750
20	Received of H. M. Pandit	...	300
23	Bought of Devji & Morarji	...	500
25	Paid Jayaram & Co.	...	300
29	Paid Warehouse Rent	...	125
31	Paid Office Rent	...	150
	Paid Clerk's Salaries	...	350
	Paid Newspapers, Ltd. Advertising.		600
	Paid Postages during the month	...	10

Record the above transactions in a Journal, post in Ledger and draw out a list of accounts.

Journal Entries for Purchases.

			Rs.	Rs.
	Purchases Account	... Dr. ...	4,150	
	To Sundries :			
Jan. 2	Cooper & Co.	... ...		200
3	K. G. Haridas	... ...		1,000
4	Devji & Morarji	... ...		750
8	Jayaram & Co.	... ...		500
12	K. G. Haridas	... ...		1,200
23	Devji & Morarji	... ...		500

Journal Entries for Sales.

Date	Particulars		Rs.	Rs.
	Sundries	Dr.		
	To Sales Account	... ...		2,450
Jan. 3	P. M. Mehta	... ...	750	
	R. C. Das	... ...	300	
	Irani & Co.	... ...	400	
8	H. M. Pandit	... ...	600	
14	P. M. Mehta	... ...	400	

Journal Entries for Cash Received.

Date	Particulars		Rs.	Rs.
	Cash Account	Dr. ...	5,250	
	To Sundries :			
Jan. 1	Vitaldas Parekh: Capital Account			3,500
6	P. M. Mehta	... ...		750
9	R. C. Das	... ...		300
15	Irani & Co.	... ...		400
20	H. M. Pandit	... ...		300

Journal Entries for Cash Payments.

Date	Particulars		Rs.	Rs.
	Sundries	Dr.		
	To Cash Account	... ...		4,625
Jan. 5	Cooper & Co.	... ...	200	
	K. G. Haridas...	... ...	500	
8	Printing and Stationery	...	75	
	Furniture	... ...	750	
	Fans and Lights	... ...	300	
9	K. G. Haridas	... ...	500	
	General Expenses	... ...	15	
18	Devji & Morarji	... ...	750	
25	Jayaram & Co.	... ...	300	
29	Warehouse Rent	... ...	125	

31	Office Rent	... ...	150
	Salaries	... ...	350
	Advertising	... ...	600
	Postages	... ...	10

Vitaldas Parekh : Capital Account.

					Rs.
			Jan. 1	By Cash ...	3,500

Furniture & Fittings Account.

		Rs.			
Jan. 8	To Cash ...	750			
	,, ,, : Fans, etc. ...	300			

R. C. Das.

		Rs.			Rs.
Jan. 3	To Goods ...	300	Jan. 9	By Cash ..	300

Irani & Co.

		Rs.			Rs.
Jan. 3	To Goods ...	400	Jan. 15	By Cash ...	400

P. M. Mehta.

		Rs.			Rs.
Jan. 3	To Goods ...	750	Jan. 6	By Cash ...	750
,, 14	,, ,, ...	400			

H. M. Pandit.

			Rs.				Rs.
Jan. 8	To Goods	...	600	Jan. 20	By Cash	...	300

Cooper & Co.

			Rs.				Rs.
Jan. 5	To Cash	...	200	Jan. 2	By Goods	...	200

Devji & Morarji.

			Rs.				Rs.
Jan. 18	To Cash	...	750	Jan. 4	By Goods	..	750
				,, 23	,, ,,		500

K. G. Haridas

			Rs.				Rs.
Jan. 5	To Cash	...	500	Jan. 3	By Goods	...	1,000
,, 9	,, ,,	...	500	,, 12	,, ,,		1,200

Jayaram & Co.

			Rs.				Rs.
Jan. 25	To Cash	...	300	Jan. 8	By Goods	...	500

Cash Account.

			Rs.				Rs.
Jan. 31	To Sundries	...	5,250	Jan 31	By Sundries	...	4,625

Purchases Account.

		Rs.				
Jan. 31	To Sundries ...	4,150				

Sales Account.

						Rs.
				Jan. 31	By Sundries ...	2,450

Rent Account.

		Rs.				
Jan. 29	To Cash ...	125				
" 31	" " ...	150				

Salaries Account.

		Rs.				
Jan. 31	To Cash ...	350				

Printing and Stationery Account.

		Rs.				
Jan. 8	To Cash ...	75				

General Expenses Account.

		Rs.				
Jan. 9	To Cash ...	15				

Advertising Account.

		Rs.			
Jan. 31	To Cash ...	600			

Postages Account.

		Rs.		
Jan. 31	To Cash ...	10		

The list of accounts could now be made out in either of the two methods as shown below :—

(1) by taking out the totals of the two sides of each account, or

(2) by extracting only the net balances of each of the accounts.

List of accounts under the first method.

	Rs.	Rs.
Vitaldas Parekh : Capital Account ...		3,500
Furniture and Fittings Account	1,050	
R. C. Das	300	300
Irani & Co.	400	400
P. M. Mehta	1,150	750
H. M. Pandit	600	300
Cooper & Co.	200	200
Devji & Morarji	750	1,250
K. G. Haridas	1,000	2,200
Jayaram & Co.	300	500
Cash Account	5,250	4,625
Purchases Account	4,150	

Sales Account		2,450
Rent Account	275	
Salaries Account	350	
Printing and Stationery Account	75	
General Expenses Account ...	15	
Advertising	600	
Postages	10	
Total ...	16,475	16,475

This list is called a "Gross Trial Balance." As each debit has a corresponding credit in the ledger, the total debits must be equal to the total credits, thus proving the arithmetical accuracy of the accounts.

The advantage of this gross total method is that the total of each of the two sides of the Trial Balance will agree with the totals of the various journals taken together as shown below:—

Total of Cash Receipts Journal	5,250
Total of Cash Payments Journal	4,625
Total of Purchases Journal ...	4,150
Total of Sales Journal	2,450
	16,475

The list of accounts under the second method, known as the "Net Trial Balance" is as follows :—

Vitaldas Parekh : Capital Account		3,500
Furniture and Fittings Account	1,050	
P. M. Mehta	400	
H. M. Pandit	300	
Devji & Morarji		500

K. G. Haridas		1,200
Jayaram & Co.		200
Cash Account	625	
Purchases Account	4,150	
Sales Account		2,450
Rent Account	275	
Salaries Account	350	
Printing and Stationery Account	75	
General Expenses Account ...	15	
Advertising Account	600	
Postages	10	
Total	7,850	7,850

Here also the debit and credit totals agree though they do not help to prove the Journal totals. The advantage here is that labour is saved through the exclusion of dead accounts.

A Trial Balance may be defined as a list of balances of all Ledger Accounts, Personal, Real and Nominal outstanding in the Books of Accounts kept on complete double entry principle so drawn up as to show the debit balances in the left hand column and the credit balances on the right hand side. Besides proving the arithmetical accuracy of the books as above illustrated, it forms a convenient basis for preparing Trading and Profit and Loss Accounts from the Nominal Account balances, and Balance Sheet from the Personal and Real Accounts.

It should be noted, however, that the agreement of the two columns of a Trial Balance does not always afford a conclusive proof of the accuracy of the books for there are the following kinds of errors which are not disclosed by a Trial Balance.

(1) **Compensating errors**, that is two errors of like amount, one on the debit and another on the credit which will either increase or decrease both sides of the Trial Balance by an equal amount.

(2) **Errors of omission**, where both debit and credit of a particular transaction has been omitted.

(3) **Errors of principle**, where the credit or the debit has been given to the wrong account.

Exercises on Chapter I.

I. Ramchandra commenced business on 1st July 1924 with a Capital of Rs. 5,000.

The following were his transactions during the month :—

July			Rs.	a.	p.
1	Bought goods from Krishna worth		1,500	0	0
2	Sold goods to Byramji		700	0	0
4	Bought of Sundardas goods		500	0	0
5	Sold to Hiralal		1,300	0	0
6	Paid to Krishna on account		1,000	0	0
7	Received from Byramji		700	0	0
8	Sold to A. Abdulla goods worth		600	0	0
9	Received from A. Abdulla		600	0	0
10	Received from Hiralal		250	0	0
11	Bought from K. Swamy		1,000	0	0
12	Paid him Cash		800	0	0
,,	Paid to Sundardas		400	0	0
14	Bought goods and paid in Cash		500	0	0
,,	Sold to Jivanji goods		600	0	0
16	Bought goods of Krishna		1,000	0	0
18	Paid him on account		800	0	0
20	Paid Trade Exp. (Stamps & Stationery)		50	0	0
24	,, Rent		150	0	0
,,	Paid Clerks' Salary		100	0	0
26	Bought of Hurmasji		600	0	0
29	Sold to Framji		1,000	0	0
	Value of Stock on hand	2,000			

Journalise the above transactions, post them into the Ledger and extract a Trial Balance.

II. Madhavdas Raghunathdas, a Cotton Merchant, commenced business on 1st August 1924 with a Capital of Rs. 80,000.

The following were his transactions during the month:—

Aug.		Rs.	a.	p.
1	Bought Cotton for Cash	50,000	0	0
2	,, of A. Hurmasji Cotton	40,000	0	0
4	Sold to Cooverji	60,000	0	0
6	Paid into Bank	20,000	0	0
7	Paid to A. Hurmasji on a/c.	20,000	0	0
8	Bought Stationery	5,000	0	0
9	Bought from S. Chhaganlal	10,000	0	0
10	Paid to S. Chhaganlal	10,000	0	0
12	Drew from Bank	15,000	0	0
13	Bought Cotton and paid for	10,000	0	0
14	Paid Labourers' Wages for July 24	300	0	0
15	,, *Times of India* for Advertisement	25	0	0
17	Sold Cotton for Cash	25,000	0	0
19	Bought from Dalal & Co.	20,000	0	0
21	,, ,, Samuel & Co....	15,000	0	0
22	Sold to Haridas Brothers	40,000	0	0
23	Paid to Dalal & Co.	20,000	0	0
25	,, Travelling Exps.	100	0	0
27	Received from Cooverji	50,000	0	0
28	Paid to S. Chhaganlal	5,000	0	0
29	Paid Rent	400	0	0
30	Paid Clerks' Salaries	500	0	0
	Value of Stock on hand... 80,000			

Record the above in Journal and Ledger and draw out a Trial Balance.

III. Enter the following transactions in the Journal of P. Byramji, post them into Ledger and prepare a Trial Balance.

1920 Jan.		Rs.	a.	p.
1	P. Byramji's Capital consisted of goods in hand	5,000	0	0
	Cash in hand	2,000	0	0
	Cash at Bank ... — ... —	700	0	0
	Transactions during the month :			
3	Bought goods of Atmaram	1,500	0	0
5	Sold to George and Company...	2,000	0	0
6	Paid to Atmaram... — —	1,500	0	0
7	Received from George & Co.	1,000	0	0
8	Bought of Hiralal goods worth	5,000	0	0
9	Paid Hiralal on account...	1,000	0	0
10	Sold goods for Cash	6,000	0	0
11	Paid Trade Exps. (Stamps & Stationery)	50	0	0
12	Paid in Bank ... ... —	2,000	0	0
14	Paid to Hiralal on account ... —	2,000	0	0
15	Received from George & Co.	1,000	0	0
18	Paid Insurance premium	300	0	0
20	Bought of Shankarlal & Co.	2,500	0	0
24	Sold to Sutharia Brothers ... —	1,500	0	0
26	Received Cash from them	1,500	0	0
27	Drew from Bank — —	1,700	0	0
28	Sold for Cash ... — ... —	1,000	0	0
30	Paid rent...	150	0	0
29	Paid Clerks' Wages — ... ... — ..	200	0	0
„	Drew for personal Exps.	250	0	0
	Value of Stock ... — 3,500			

IV. The following are the transactions of Kishanlal Keshavalal for the month of March 1924 which you are required to Journalise, post and extract Trial Balance.

March		Rs.	a.	p.
1	His Capital consisted of			
	Goods in hand	15,000	0	0
	Cash in hand	2,500	0	0
	Cash at Bank	1,800	0	0
	Due from Hamchandra	800	0	0
	Due from Bhalchandra	900	0	0
	Transactions :			
3	Sold goods to Kothari & Co.	7,000	0	0
4	Received from Hamchandra	800	0	0
6	Bought from Haridas & Co.	4,000	0	0
7	Sold to Krishna Gopal for Cash...	5,000	0	0
8	Drew from Bank	1,200	0	0
9	Paid Trade Exps.	100	0	0
10	Bought furniture for Cash	700	0	0
,,	Bought goods of Royal Trading Co.	4,000	0	0
11	Paid to Royal Trading Co.	4,000	0	0
13	Paid into Bank	2,000	0	0
16	Sold to Bhalabhdas & Co....	1,000	0	0
,,	,, Haridas & Co.	2,000	0	0
,,	,, Khare & Co.	1,500	0	0
18	Paid Insurance premium	175	0	0
20	,, Rates and Taxes	60	0	0
22	Bought goods of Haridas & Co.	3,000	0	0
24	Sold to Krishna Gopal	2,000	0	0
26	Received from Khare & Co.	1,000	0	0
27	Paid to Haridas & Co.	1,500	0	0
28	Sold goods and received Cash	700	0	0
29	Drew for personal Exps.	250	0	0
30	Paid rent	150	0	0
31	,, Salaries	400	0	0
	Value of Stock on hand 10,000			

V. Journalise the following transactions of A. Ahmed an Iron Merchant, post in Ledger and prepare a Trial Balance. At commencement his Assets were :—

		Rs.	Rs.
Stock	...	4,500	
Cash at Bank	...	1,500	
Cash in hand	...	500	
Furniture	...	800	
Due from A. Jone	...	800	
Due from Kapadia & Co.		700	8,800

His Liabilities were :—

	Rs.	Rs.
To British Trading Co.	1,500	
To Hormasji & Co.	1,500	3,000

Transactions during the month :—

1925 Jan.		Rs.	a.	p.
2	Advanced to petty Cash	100	0	0
3	Sold to Bharat Trading Co.	3,000	0	0
4	Received from A. Jone on account	500	0	0
5	Bought of British Trading Co.	5,000	0	0
7	Sold for Cash	2,500	0	0
,,	Bought Machinery and Plant from Marshall & Sons	3,000	0	0
8	Bought Stationery	150	0	0
9	Drew from Bank	1,000	0	0
11	Bought of Hormasji & Co.	00	0	0
	,, ,, Sitaram Brothers	1,000	0	0
	,, ,, Joshi Brothers	800	0	0
14	Sold to Manekji & Co.	2,000	0	0
	,, Kantilal & Co.	1,000	0	0
	,, for Cash	500	0	0
18	Paid Insurance premiums	125	0	0
19	,, *Bombay Chronicle* for Advertisement out of petty Cash	20	0	0
21	Bought of Hormasji & Co.	3,000	0	0
24	Paid to Hormasji & Co....	4,000	0	0
26	Received from Kapadia & Co.	700	0	0
	,, ,, Kantilal & Co.	500	0	0
	,, ,, Manekji & Co.	1,500	0	0
28	Paid to Sitaram Brothers	1,000	0	0
29	Paid Rent	250	0	0
30	Drew for personal Exps...	300	0	0
31	Paid Clerks' Salary	200	0	0
	Value of Stock on hand 7,500			

VI. Assets and Liabilities of S. Chimanlal, a General Merchant were as follows on 30th June, 1924.

	Rs.	Rs.
Cash in hand	500	
Cash at Bank of India	1,500	
Machinery & Plant ...	1,500	
Stock	23,000	
Furniture & Fittings.	500	
Due from Hiralal ...	800	
Due from Shankarlal.	1,900	9,000
Liabilities:		
Central Bank of India.	500	
To Khare & Co. ...	1,000	
To Haridas Brothers...	500	2,000

Transactions during month :—

1924 July		Rs.	a.	p.
1	Advanced to petty Cash	50	0	0
2	Bought of Mahadeo Brothers...	2,000	0	0
3	Sold to Ramrao & Company	1,500	0	0
4	Paid to Khare & Co.	1,000	0	0
6	„ Advertising charges out of petty Cash ...	20	0	0
7	Received from Shankar & Co....	1,500	0	0
9	Paid to Central Bank of India ... ... —	500	0	0
„	Bought Plants from British Engineering Co. ...	1,500	0	0
11	Bought goods for Cash ... ... — ...	1.000	0	0
„	Bought two tables for Cash	175	0	0
13	Drew from Bank of India ... —	800	0	0
15	Paid travelling exps. out of petty Cash — ..	20	0	0
16	Bought goods from Haridas Brothers	2,000	0	0
18	Paid Electric current charges...	7	0	0
20	Sold goods for Cash —	2,500	0	0
22	Paid Insurance premium —	100	0	0
24	Bought Stationery	150	0	0
26	Sold to Kapadia & Co.	3,000	0	0
27	„ for Cash	500	0	0
„	Paid British Engineering Co....	1,500	0	0
28	Bought goods of Khare & Co....	2,000	0	0
29	Paid to Ramrao & Co.	1,500	0	0
30	Paid Rates & Taxes	35	0	0
	„ Rent	125	0	0
31	Salaries	250	0	0
	Drew from personal Exps.	200	0	0
	Value of Stock on hand 4,000			

VII. A. Ruttanji Trading as Tea and Coffee Merchant finds his Assets and Liabilities as follows on 31st December 1924.

Assets :—Cash Rs. 2,000; Cash at Bank, Rs. 3,000; Tea, Rs. 1,500; Coffee, Rs. 1,000; Due from A. Hurmasji, Rs. 1,200; Mullan & Co., Rs. 2,000; Mulraj Brothers, Rs. 500.

Liabilities:—To Hunsraj & Co., Rs. 1,000; Haridas, Rs. 500; Loan, 1,200; Kalyandas and Gokaldas, Rs, 500.

Transactions during the month are as follows:—

1925 Jan.		Rs.	a.	p.
1	Advanced to petty Cash	200	0	0
3	Sold to Prince of Wales Hotel Tea	500	0	0
,,	,, ,, ,, ,, Coffee	800	0	0
,,	Bought Machinery from A. Mabler & Co.	2,500	0	0
4	Received from Mullan & Co.	1,500	0	0
,,	,, ,, Prince of Wales Hotel ... —	800	0	0
6	Bought Tea from Brooke Bond Tea Co.	1,000	0	0
,,	,, ,, ,, British Trading Co.	800	0	0
7	Bought Coffee from Lalji Brothers	1,500	0	0
8	Paid to Brooke Bond Tea Co.	1,000	0	0
10	Sold Coffee to Abraham & Co...	600	0	0
,,	,, ,, for Cash	700	0	0
,,	Bought furniture for Cash	750	0	0
12	Paid Advertising charges out of petty Cash ...	20	0	0
,,	Bought Stationery from Bombay Stationery Mart.	250	0	0
14	Received Cash from Mulraj Bros.	500	0	0
,,	Drew from Bank	1,500	0	0
16	Bought Coffee for Cash	1,000	0	0
18	Sold Tea to Hindustan Trading Co....	2,200	0	0
20	Paid Insurance premium out of petty Cash ...	50	0	0
,,	Sold for Cash ... ... — ...	2,500	0	0
22	Bought Coffee from Shankarlal & Co.	2,000	0	0
24	Paid to Hunsraj & Co.	500	0	0
,,	,, ,, Gokaldas	500	0	0
26	,, Rates and Taxes out of petty Cash	15	0	0
28	Received from Mulraj Brothers ... — —	500	0	0
29	,, ,, Hindustan Trading Co. ... —	700	0	0
30	Paid godown rent out of petty Cash	20	0	0
31	,, office rent	150	0	0
,,	,, Paid Clerks' Salaries	250	0	0
,,	Drew for personal Exps...	400	0	0
	Value of Stock 3,000			

CHAPTER II.

Periodical Closing of Books.

Trading and Profit and Loss Accounts and the Balance Sheet.

In every well regulated concern, whether a private firm or a Public Company, the books of accounts are balanced periodically to ascertain the total profit or loss made during the period under review, and to get an idea of the Assets and Liabilities of the concern at the end of the period as shown by the Balance Sheet.

Before the accounts are balanced finally for the purpose of preparing Profit and Loss Account and Balance Sheet, a Trial Balance as explained in the previous chapter has to be made out—assuming of course that the books are kept as per Double Entry System, as is the case with every concern of importance.

From the Trial Balance all the nominal accounts are collected in a Revenue Account called Profit and Loss Account. As some of the balances would include payments made for a period longer than the one covered by the accounts, as where Insurance premium is paid for a whole year while the accounts cover only six months, it would be correct to charge in the accounts an amount proportionate to the period covered and to carry forward as an asset the proportion representing the unexpired portion. Conversely there may be expenses incurred but not paid. These will have to be taken into account and shown in the Balance Sheet as a liability. The adjustments above stated may be grouped as follows :—

I. Items appearing on the Trial Balance.

(a) **Debits on Nominal Accounts**: From this the proportion of the expenditure which relates to the period subsequent to the closing date should be credited and Payments in Advance Account debited. The last named will then appear on the Balance Sheet as an Asset, *e.g.*, Insurance premiums, Telephone charges, etc., paid in advance.

(*b*) **Debits on Real Accounts**: A permanent shrinkage in value of an asset having taken place, the figure at which that asset is represented on the Books has to be reduced by the estimated loss. These fall under headings such as depreciation, bad debts, etc. The Real Account affected is credited and a nominal account, such depreciation account, representing that particular class of loss is debited and finally transferred to the Profit and Loss Account.

(*c*) **Credits on Nominal Accounts**: Proportion of Profit covering a period subsequent to the closing date not earned within the period under review should be debited, carried forward and shown on the "Liabilities side" of the Balance Sheet, *e.g.*, Discounts on Bills, Premium for apprenticeship, etc.

II. Items such as Expenses and Losses not shown on the Trial Balance.

(a) **Expenses** which have been actually incurred but not paid should be debited to the respective nominal accounts and credited to an "Outstanding Liabilities Account" this latter account being shown on the Balance Sheet as "Unpaid Rent," "Salaries," etc.

(*b*) **In case of Losses** which have not been ascertained but may take place and are capable of being estimated such as "Reserve for discounts," "Reserve for doubtful debts," etc., the nominal account concerned such as discount or bad debts should be debited and a "Special Reserve Account" should be credited. The latter is shown on the Balance Sheet either deducted from the Asset concerned or on the Liabilities side under a separate heading, *e.g.*, Reserve for Discounts, Reserve for Doubtful Debts, etc.

Having made the necessary adjustments in the accounts appearing in the Trial Balance, we can now proceed to prepare the Trading and Profit and Loss Account. All the Nominal Accounts directly concerned with the trading are collected together in a Trading Account which shows the gross working results of the concern, and comprises of stock at commencement, total purchases less Returns and direct expenditure on its debit side, and total sales less Returns and stock on hand on its credit side. It thus takes the place of the Goods Account, which is generally used in small concerns to answer the purpose of a Trading Account. The amount of stock appearing in the Trial Balance is the stock at commencement. The total Purchases are taken from Invoice Book or Purchase Journal plus cash purchases as per Cash Book. The right expenditure to be included in Trading Account is the direct expenditure incurred, such as, Carriage Inward, factory wages, fuel, etc. Sales are taken from Sales Journal, or Day-Book as it is sometimes called, while Cash Book gives the total cash sales. The stock of goods on hand at the end of the period is ascertained from schedules prepared by stock-taking.

The general principle followed in stock-taking is to value the stock at the closing time, at the lowest price, and thus we value it at the cost or market price, whichever is the lower. Under no circumstance should the stock be valued at a price higher than the cost. In case where the market price has fallen below cost price, and if such a fall is only temporary, the question of taking the stock at cost may be favourably considered.

In case of manufacturing concerns, the stock is generally made up of raw materials, goods in course of manufacture, and goods fully manufactured. They should always be valued at cost. In cases where invoices show different costs in case of raw materials, owing to market fluctuations, an average may be arrived at, at which the stock may be valued.

In case of goods in course of manufacture, these can be valued by adding to the cost of raw material, the actual cost of manufacture expended upon the goods, which may be arrived at from the cost sheets of the departments through which they have passed.

In case of finished goods, they also should be taken as per the cost accounts, to which a reasonable percentage of indirect expenses may be added. If the cost, after adding the reasonable percentage, exceeds the market price, the stock should be taken at the market price. To put it briefly, under no circumstance should the stock be valued at a price higher than the market price, either in case of a manufacturer, or a trader.

The next account to be worked out is the Profit and Loss Account. The balance of gross profit or loss from Trading Account brought down to this account, which is debited with the indirect expenses which are grouped as follows :—

I. Commercial Expenses :

(*a*) Periodically recurring amounts *e.g.*, **Rent**, Salaries, etc.

(*b*) Other commercial expenses, *e.g.*, Travelling, Advertising, etc.

II. Financial Expenses :

Expenses incurred in obtaining or maintaining Capital: *e.g.*, Interest, Discount, etc.

III. Estimated Losses :

Depreciation, Doubtful Debts, Reserve, etc.

IV. Expenses of the Nature of Appropriations.

Amounts Payable out of Profits to those who are not Proprietors: *e.g.*, Income Tax, Commission on Net Profits payable to Managing Agents, etc.

V. Appropriations charged as Expenses.

Amounts payable to proprietors under Expense Headings : *e.g.*, Salaries to Partners, Interests on Capital, etc., and the balance of profit or loss is then divided among the partners or proprietors of the firm in case of private partnerships, whereas, in case of companies, the profit would be taken to the Profit and Loss Appropriation account, to be used in payment of dividends or in such other manner as the directors may recommend.

Illustration.

Prepare Trial Balance and Trading and Profit and Loss accounts from the following ledger balances of John Combine, Steel Merchant, on 31st December 1924. Stock valued at £3,500. Bad Debts £400. A Reserve of 5% on Debtors must be maintained. Depreciate Plant 10%. Charge 5% interest on Capital. Combine introduced an extra £500 Capital on 1st December.

Dr. Balances.	
Stock	9,600
Wages	3,200
Railway Charges, etc.	500
Purchases	12,000
Interest on Overdraft	20
Bills Receivable	600
Rents, Rates, etc.	200
Plant and Machinery	2,000
Travelling Expenses	500
Repairs to Plant	160
Cash	200
Trade Discount on Sales	500
Returns	100
Dr. Balances.—(*continued*).	
Sundry Debtors	3,500
Office Expenses	500
Income Tax	50
Drawings as against Profits	500
Cr. Balances.	
J. Combine's Capital	5,000
Bills Payable	500
The Consolidated Bank	400
Sales	25,000
Reserve for Bad Debts	500
Trade Discount on Purchases	400
Sundry Creditors	2,330

Mr. John Combine.

Trial Balance as on 31st Dec. 1924.

	Dr.	Cr.
Stock	9,600	
Wages	3,200	
Railway Charges, etc..	500	
Purchases	12,000	
Interest on Overdraft	20	
Bills Receivable	600	
Rents, Rates, etc.	200	
Plant and Machinery	2,000	
Travelling Expenses	500	
Bills Payable		500
The Consolidated Bank		400
Repairs to Plant	160	
Cash	200	
Trade Discount on Sales	500	
Returns	100	
Sales		25,000
Reserve for Bad Debts		500
Sundry Debtors	3,500	
Office Expenses	500	
Sundry Creditors		2,330
Trade Discount on Purchases		400
Income Tax	50	
Drawings	500	
J. Combine's Capital		5,000
	£ 34,130	34,130

Trading and Profit and Loss Account of Mr. John Combine.

For the year ending 31st December 1924.

	£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d
To Stock at Commencement				9,600	0	0								
,, Purchases	12,000	0	0				By Sales		25,000	0	0			
Less Discount	400	0	0				*Less* Discount	500						
				11,600	0	0	,, Returns	100	600	0	0			
,, Wages				3,200	0	0						24,400	0	0
,, Gross Profit c/d				3,500	0	0	,, Stock at end					3,500	0	0
				27,900	0	0						27,900	0	0
To Rents, Rates, etc.				200	0	0								
,, Travelling Expenses				500	0	0	By Gross Profit b/d					3,500	0	0
,, Repairs to Plant				160	0	0								
,, Office Expenses				500	0	0								
,, Railway Charges, etc.				500	0	0								
,, Interest on Overdraft				20	0	0								
,, Reserve for Bad Debts	155	0	0											
,, Bad Debts	400	0	0											
	555	0	0											
Less Previous Reserve for Bad Debts	500	0	0	55	0	0								
,, Depreciation on Plant				200	0	0								
,, Income Tax				50	0	0								
,, Interest on Capital				227	1	8								
,, Net Profit transferred to Capital Account				1,087	18	4								
				3,500	0	0						3,500	0	0

It will be noticed that of all the items that were on the Trial Balance only the Liabilities, Capital, Real and Personal accounts have not yet been dealt with. We shall now proceed to prepare from these a classified statement called the **Balance Sheet.** This may be **defined as**, a classified Summary of all balances outstanding on the Books of account, after all nominal accounts have been transferred to a Revenue account, and including the balance of such revenue account, so drawn up as to show all the debits arranged in a certain order on the one side and the credits on the other. The debit balances are arranged in the order in which they are readily convertable into cash in the normal course of business as a going concern and the credits in the order in which they become due and payable. It is also sometimes defined as, a Statement made out from the books, after the profit and loss items are adjusted, to display the financial position of a concern at a given date, assets being grouped together on one side and liabilities and capital on the other. There are other items on the Balance Sheets which are either debit or credit balances from the ledger which do not strictly speaking represent either assets or liabilities, such as Reserves, Preliminary Expenses, etc.

The Balance Sheet for the illustration worked out above would be as follows :—

Balance Sheet of Mr. John Combine as at 31st December 1924.

Liabilities.	£	s.	d.	£	s.	d.	Assets.	£	s.	d.	£	s.	d.
Sundry Creditors . . .				2,330	0	0	Cash				200	0	0
							Bills Receivable				600	0	0
The Consolidation Bank . .				400	0	0	Sundry Debtors	3,500	0	0			
							Less Bad Debts . . .	400	0	0			
Bills payable				500		0							
								3,100	0	0			
J. Combine Capital . . .	5,000	0	0				*Less* Reserve for Bad Debts	155	0	0	2,945	0	0
Add interest on Capital .	237	1	8				Stock on hand				3,500	0	0
„ profit	1,087	18	4				Plant and Machinery . . .	2 000	0	0			
	6,315	0					*Less* depreciation. . .	200	0	0			
Less drawings . . .	500	0	0	5,815	0	0					1,800	0	0
				9,045	0	0					9,045	0	

MODEL EXERCISE.

James Thomson took over the business of an iron proprietor, the lease of the mines having 15 years to run on 1st January 1924 and carried on the business for 6 months. Make up his Profit and Loss Account and Balance Sheet from the following figures, without taking account of Interest upon Capital, but providing for the wasting of the lease, and writing off depreciation at the rate of 5 per cent. per annum from Machinery and Plant, providing £445 for bad debts, and allowing a discount of 2½ per cent. from the debtors and creditors :—

	£	s.	d.
James Thomson Capital	20,000	0	0
,, ,, withdrawals	800	0	0
Machinery and Plant	3,522	0	0
Ore Sales	36,700	0	0
Cash at Bankers	5,709	0	0
,, in Hand	9	0	0
Allowances and Returns	500	0	0
Salaries	979	0	0
Wages	12,684	0	0
Discount received	75	0	0
Damages for breach of contract	100	0	0
Unpaid Wages	286	0	0
Sundry Creditors	8,000	0	0
Unexpired Insurances	40	0	0
Rent, Rates and Taxes	2,330	0	0
Bank charges	200	0	0
Discounts allowed	850	0	0
Royalty	5,000	0	0
Lease	16,500	0	0
Coal	1,260	0	0
Sundry Debtors	6,800	0	0
Candles and oil	390	0	0
Repairs	360	0	0
Powder	372	0	0
Office furniture	100	0	0
Carriage and freight	913	0	0
Stock 1st Jan.	4,860	0	0
Ropes	53	0	0
Timber	1,280	0	0

The Stock at 30th June amounted to £5,000

TRADING AND PROFIT AND LOSS ACCOUNT OF JAMES THOMSON

For the half-year ending 30th June 1924

	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
To Stock Jan. 1st				4,850	0	0	By Sales	36,700	0	0			
,, Wages				12,68[illegible]	0	0							
,, Royalty				5,000	0	0	*Less* returns and allowances	500	0	0	36,200	0	0
,, Carriage and freight				913	0	0							
,, Ropes				53	0	0	,, Stock June 30th				5,000	0	0
,, Timber				1,280	0	0							
,, Candles and oils				390	0	0							
,, Coal				1,260	0	0							
,, Powder				372	0	0							
,, Gross Profit c/d.				14,398	0	0							
				41,200	0	0					41,200	0	0
To Rent, Rates and Taxes				2,330	0	0							
,, Salaries				939	0	0	By Gross Profit b/d.				14,398	0	0
,, Repairs				360	0	0							
,, Damages for breach of contract				100	0	0	,, Reserve for discount @ 2½% on Creditors	200	0	0			
,, Bank Charges				200	0	0	*Less* @ 2½% on Debtors	157	10	0			
,, Discount				775	0	0					42	10	0
,, Reserve for Bad Debts				445	0	0							
,, Depreciation :—													
Lease	550	0	0										
Plant and Machinery	88	1	0										
				638	1	0							
,, Net Profit carried to Capital a/c				8,653	9	0							
				14,440	10	0					14,440	10	0

JAMES THOMSON.

Balance Sheet as at 30th June 1924.

Liabilities.		£	s.	d.	£	s.	d.
Sundry Creditors :—							
On open accounts . . .		8,000	0	0			
Less Reserve for Discount .		200	0	0			
					7,800	0	0
Outstanding Creditors for Wages, etc.					286	0	0
Capital account :—							
Balance January 1st	20,000						
Less drawings . .	800						
		19,200	0	0			
Add Profit		8,653	9	0			
					27,853	9	0
					35,939	9	0

Assets.		£	s.	d.	£	s.	d.
Cash in hand		9	0	0			
,, at Bank		5,709	0	0			
					5,718	0	0
Unexpired insurances. . .					40	0	0
Sundry Debtors . .	6,300						
Less Reserve for Bad Debts . . .	445						
		5,855	0	0			
Less Reserve for Discount .		157	10	0			
					5,697	10	0
Stock on Hand					5,000	0	0
Office furniture					100	0	0
Machinery and Plant . . .		3,522	0	0			
Less depreciation . . .		88	1	0			
					3,433	19	0
Lease		16,500	0	0			
Less depreciation . . .		550	0	0			
					15,950	0	0
					35,939	9	0

EXERCISES ON CHAPTER II.

Exercise No. I.

From the following Trial Balance prepare Trading and Profit and Loss Account of Jamshedji Naroobhoy for the year ending 31st March 1924, and Balance Sheet as at that date. Stock on 31st March 1924 was valued at Rs. 5,000.

	Rs.		Rs.
Stock : 1st April 1923 ...	6,000	Sales	28,000
Purchases	15,000	Sundry creditors	5,000
Wages	4,500	Bank of India Ltd. ...	3,500
Debtors	12 000	J. Naroobhoy's Capital ...	6,900
Jamshedji Naroobhoy : Drawings	500		
General Expenses... ...	1,000		
Salaries	2,500		
Rent, Rates and Taxes ...	500		
Office furniture	800		
Cash	600		
	43,400		43,400

Exercise No. II.

Prepare Trading and Profit and Loss Account of a city merchant for the year ending 31st December 1924 and a Balance Sheet as at that date. Stock worth Rs. 9,000.

	Rs.		Rs.
Stock : 1st January 1924..	6,700	Sales	25,000
Purchases	19,000	Discount received ...	1,000
Premises	9,500	Interest	50
Salaries	4,500	Sundry creditors	8,300
Carriage (inward) ...	800	Capital	25,000
Rent, Rates and Taxes ...	1,500		
General Expenses ...	2,000		
Cash in hand	500		
Bank of India Ltd. ...	1,500		
Advertisements	50		
Discounts allowed ...	1,200		
Fixtures and Fittings ...	1,500		
Sundry Debtors	10,000		
Travelling Expenses ...	500		
Insurance	100		
	59,350		59,350

Exercise No. III.

From the following Trial Balance extracted from the books of M. Raghunathdas on 30th June 1924 you are required to prepare Trading and Profit and Loss Account for the year ending 30th June 1924, and Balance Sheet as at that date after carrying out instructions given at the foot of the Trial Balance. Stock on 30th June 1924 was Rs. 10,000.

	Rs.		Rs.
Stock on 1st July 1923 ...	12,000	Sales...	50,000
Purchases	26,000	Rent from sublettings ...	250
Manufacturing Wages ...	7,500	Sundry creditors ...	15,000
Plant and Machinery ...	10,000	Creditors on mortgage of freehold premises ...	10,000
Returns inwards	2,500	Bank overdraft	2,350
Rent, Rates and Taxes ...	1,500	M. Raghunathdas's Capital	30,000
Office Salaries	3,500		
Travelling Expenses ...	1,200		
Discount	800		
Sundry debtors	17,500		
Carriage and freight ...	21,000		
Drawings	1,200		
Loose Tools	2,000		
Petty Cash	100		
Freehold Building ...	20,000		
Interest on Loan	500		
Insurance premium ...	300		
	107,600		107,600

Depreciate Plant and Machinery at the rate of 10% p. a., Loose Tools 15% p. a., allow interest on Capital at 5% p. a., and no interest to be charged on drawings.

Exercise No. IV.

The Trial Balance of Ramchandra who trades as the Impressionist Decorating Company, was on 31st December 1924, as following :—

	Rs.		Rs.
Freehold premises ...	20,000	Works executed	1,56,200
Plant and Machinery ...	30,000	Sundry Creditors	31,740
Sundry Debtors	28,000	Apprenticeship fees ...	1,000
Stock at January 1st 1924	36,000	Capital	68,760
Wages	42,000	Cash on account of progress	30,000
Rent	3,750		
Work-in-progress January 1st, 1924	75,000		
Materials	39,450		
Rates	1,500		
General Expenses... ...	6,000		
Cash at Bank	11,000		
	2,87,700		2,87,700

Prepare Manufacturing and Profit and Loss Account for the year ended 31st December 1924 and Balance Sheet as at that date. Depreciate Plant and Machinery 10 per cent. for the year. Reserve Rs. 1,250 for rent due but not paid, and create a reserve of Rs. 4,000 for bad and doubtful debts. The stock at 31st December 1924 was valued at Rs. 22,020 and work in progress at Rs. 50,630. The terms of apprenticeship for 5 years from 1st January 1924 at a premium of Rs. 1,000.

Exercise No. V.

Prepare Trading and Profit and Loss Account and Balance Sheet from the following Trial Balance extracted from the books of A. Robinson on 31st March 1925.

Dr. Balances.	Rs.	Dr. Balances—*continued.*	Rs.
Stock on 1st April 1924 ...	8,500	Travelling charges... ...	900
Purchases	26,000	Cash at Bank	1,900
A. R. Drawings	5,000	Petty Cash	80
Rent, Rates and Taxes ...	2,000	Manager's Commission ...	570
Wages	6,000	**Cr. Balances.**	
Discount and Allowances	800	Sales	36,000
Advertising Charges ...	450	Creditors	15,000
Law charges and Audit fee	300	Loan	10,000
Carriage	600	Wages owing	500
Sundry Debtors	18,000	Reserve for bad and doubtful debts	1,000
Fixtures and Fittings ...	1,500	Capital	10,000
Plant and Machinery ...	20,000		
Interest on Loan	500		
Bad debts	600		

Stock on hand was valued Rs. 14,000. Depreciate Plant and Machinery at 10 per cent., furniture and fittings at 5 per cent. Make provisions for bad and doubtful.debts at 3 per cent. Charge interest on capital at 5% per annum.

Exercise No. VI.

From the following Trial Balance, prepare Trading and Profit and Loss Account for the year ending 30th June 1924, and Balance Sheet as at that date :—

	Rs.		Rs.
Capital	85,000	Interest on Loan	600
Stock on 1-7-23	9,000	Sales	52,000
Purchases	32,000	Carriage	1,000
Wages	9,500	Creditors	16,000
Commission (Credit) ...	600	Petty Cash	50
Returns Inwards	2,500	Cash at Bank	1,300
Bank Charges	50	Loan account	10,000
Bad debts	1,200	Insurance	500
Debtors	19,000	Furniture	1,275
Loose Tools...	5,000		
Plant and Machinery ...	16,000		
General Expenses	7,500		
Salaries	6,300		
Printing and Stationery ...	250		
Audit fees	125		
Bad debts reserve	750		
Rent, Rates and Taxes ..	1,200		

Stock on 30th June 1924 was valued at Rs. 12,500. Make provision for rates and Insurance unexpired Rs. 200 and 125 respectively. Interest at the rate of 5 per cent. to be charged on capital. Provide for reserve on debtor at 5 per cent. and depreciation on plant and machinery and loose tools at a uniform rate of 7½ per cent.

Exercise No. VII.

Prepare Trading and Profit and Loss Account of A. Mullan, Boot Manufacturer for the year ended 31st December 1924 and Balance Sheet at that date. Before closing the books the following adjustments are necessary :—One month's carriage is owing and has not been passed through books Rs. 600; rent due to Landlord but not provided for Rs. 250; value of unexpired insurance premium Rs. 250; wages paid in advance Rs. 200; reserve to be created for bad debts Rs. 1,200. Write off the following depreciations:—Machinery and plant 10%; horse and vans Rs. 257; land and buildings $2\frac{1}{2}$ per cent.; stock 31st December 1924. Finished goods Rs. 10,750; raw materials and unfinished goods Rs. 21,790.

Dr. Balances.	Rs.	Dr. Balance—*continued.*	Rs.
Investments	7,000	Repairs	6,300
Stable expenses	750	Debtors as per list	28,750
Machinery and Plant ...	15,000	Bad debts	1,760
General Expenses	2,300	Factory Wages	9,760
Bank Charges	55	Postage and Stationery ...	2,300
Gas, Electricity and Water.	5,700	Horses and Vans	1,057
Manager's Salary	3,500	Rent, Rates Taxes and Insurance	8,500
Purchase	59,000	Office Salaries	9,670
Auditor's fees	400	Advertising	933
Boxes and packing	2,200	Freehold Building	20,000
Discount allowed	3,575	Cash at Bank	5,600
Sales returns	1,935	Cash in hand	60
Carriage	5,640	**Cr. Balance.**	
Stock of finished goods on 1-1-24	12,650	Creditors as per List ...	39,500
Materials and unfinished goods on 1-1-24	9,360	Loan	15,000
		Sales	90,000
		Discount received	1,200
		Interest on Investments ...	55
		Capital	70,000

Exercise No. VIII.

Prepare Trading and Profit and Loss Account of A. C. Mackenzie for the year ending 30th June 1924 from the Trial Balance given below and Balance Sheet as at that date. Stock on 30th June 1924 was valued at Rs. 10,500.

	Rs.		Rs.
Drawings	950	Sales	50,000
Purchases	27,800	Sundry Creditors... ...	14,700
Machinery	20,000	Loan account	8,000
Fixtures	3,500	Capital account	25,000
Stock	7,500	Wages owing	365
General expenses including Rs. 300 for Telephone Charges paid for year ending 31-12-24	600		
Carriage	2,500		
Wages	10,600		
Salaries	2,700		
Insurance premiums for twelve months to 30-11-24	750		
Rent, Rates, Taxes ...	1,500		
Debtors as per List ...	16,730		
Balance at Bank ...	1,600		
Petty Cash...	35		
Travelling Exps.	1,300		
	98,065		98,065

Depreciation Plant and Machinery at 5 per cent., fixtures at 7½ per cent. Allow interest at 5 per cent. on capital and on Loan at 6 per cent. from 1st February 1924. Provide for discount on debtors and creditors at 3 per cent. and for bad and doubtful debtors at 5 per cent.

CHAPTER III.

Account Keeping and Entries with respect to Bills of Exchange, Consignment and Joint Account Transactions.

"**A Bill of Exchange**" is an instrument **in writing** containing an **unconditional** order, signed by the maker, directing a **certain** person to pay **a certain** sum of **money** only to, or to the order of a **certain** person or to the **bearer** of the instrument (S. 5. N. I. Act).

The Parties to a bill are (1) The **Drawer,** the person who draws the bill. He is known as the 'Maker' in case of a Promissory Note. (2) The **Drawee,** the person on whom the bill is drawn. He becomes the Acceptor after he has signified his assent to the order of the drawer by writing the word 'accepted' right across the face of the bill with his signature and date. (3) The **Payee** is the person to whom the bill is payable. The drawer may make the bill payable to himself or may name another person in the bill to whom it has to be paid. (4) The **Holder** of the bill may be the original payee named in the bill or one to whom the bill is endorsed over by this original payee. In case of a Bill or a Promissory Note payable to bearer, the bearer is the holder. (5) When payee endorses the bill he is also known as the **Endorser,** and the person to whom it is endorsed is the **Endorsee.**

Negotiability:—Bills of Exchange and Promissory Notes are known as Negotiable Instruments. An Instrument is negotiable either by Law or by custom of trade. Bills of Exchange and Promissory Notes have long been held to be Negotiable Instruments all over the Commercial world. By "Negotiability" is meant, that not only is the instrument transferable by endorsement or delivery, but that apart from its transferability, the 'holder in due course' of a Bill, who has received it complete and regular on the face of it, for value, and without any notice as to the defect in title of a previous holder, acquires a good title, notwithstanding any defect in a previous holder's title, *e. g.*, A gave a bearer cheque to B dropped on the road. C picked it up and gave it to D in settlement of money due by C to D. C then disappeared. D cashed the cheque. In this case neither A nor B can ask D to refund the money because D can plead that he was 'a holder in due course' of a Negotiable Instrument.

Dishonor:—A bill is said to be dishonored when the drawee refuses to accept it when duly presented, or when it has been accepted and the acceptor fails to meet it on due date. A bill must be presented for payment to the acceptor on the due date, at his business place, and at a reasonable hour. If he has no place of business it may be presented at his residence. The presentment must be made to the acceptor or his agent duly appointed.

As soon as a bill is dishonored, the holder must give notice of dishonor to the drawer and all previous endorsers. The notice, though not required to be in writing at Law, must be a written notice for safety. The notice must be given within a reasonable time *i.e.*, if both the giver and the receiver of the notice reside in the same place, it should be given the day after dishonor. If, on the other hand they live in different places, the notice must be posted the day after dishonor. Any how, the holder must give notice of dishonor within a reasonable time. Of course, if, for some reason, the notice could not be given, or did not reach any of the parties, through no fault of the giver of the notice, he would be excused. Otherwise, failure to give notice within reasonable time would release all endorsers previous to the party failing to give notice, as well as the drawer.

Besides giving the notice as above referred to, the holder must get the bill "**Noted.**" This is done through a Notary, who presents the bill, notes down in his register the fact of its dishonor and the reason, if any, given by the acceptor for so doing. When the bill is a Foreign Bill, it requires also to be "**Protested**." The Protest includes a copy of the bill signed by the Notary making it, and states the name of the person at whose request the protest is made, the cause and reason of protesting, the demand made and the answer given, or if the drawee or the acceptor could not be found, that fact is stated in the protest. In case of Inland Bills noting alone is sufficient.

Lost Bill:—When a bill is lost, the holder can, on giving proper security to indemnify the drawer and acceptor against all persons who may claim from him, in case the bill be found, force the drawer to give him another bill of the same tenor.

Accommodation Bills:—Often bills are drawn, accepted and endorsed, for the accommodation of one or more of the parties concerned, though no value has passed on them. These are known as **Accommodation Bills** or "**Kites.**" *e. g.*, A, B and C each are in want of £100 and they arrange that A should draw a bill for £300, which

B should accept. That A should then endorse over this bill to C, who in his turn should discount same with his Bank. They then divide the proceeds among themselves. This bill is an Accommodation Bill because here A, B and C, the parties to the bill, are accommodated, whereas, the Banker is a holder for value. The holder for value can, therefore, recover the amount of the bill on due date from the acceptor "B," and failing him, he can sue C and A in turn. Here the fact that the Bill was an Accommodation Bill, and that full consideration for it was not received by B the acceptor, would not affect the Banker as a holder for value. With regard to the accommodated parties, the party who accepted or endorsed a bill, without receiving value, may raise that question successfully, and plead it against any of the parties to the accommodation.

For further and detailed information as to the Law relating to Negotiable Instruments the student is referred to Davar's Elements of Indian Mercantile Law, where there is a special chapter dealing with the subject as well as the full text of the Act itself in the Appendix.

The following are some of the Principal forms of Bills.

1. A Bill Receivable.

London, 20th July, 1924.

Stamp.	One month after date pay to me or my order the sum of Pounds One Hundred and Fifty sterling, for value received.

£ 150-0-0.

(Sd.) B.

To Mr. A.

The above draft when accepted by A, would bear across the face of it the following writing :—

Accepted.

(Sd.) A.

2. A Promissory Note.

London, 20th July, 1924.

Stamp.	On demand (or at three months after date) I promise to pay Mr. B the sum of (£100) Pounds One Hundred, for value received.

(Sd.) A.

£100-0-0.

London, 10th June, 1904.

3. A Bank Draft.

Bombay, 11th Sept. 1924.

Pay A. B. Carter, Esq. or order the sum of Rupees Five Hundred only.

Rs. 500-0-0. For the National Bank, Ltd.

To J. Jones.

The Chartered Bank, Madras.

4. A Cheque.

The Central Bank, Ltd. Bombay, 15th Oct. 1924.

Pay H. Hunter, Esq. or order Rupees One Thousand only.

Rs. 1,000-0-0 L. Macky.

The difference between the various forms could be set out in tabular form as follows :—

Drawer.		Drawee.		Payee.	
A	...	B	...	C	Bill of Exchange.
A	...	A	...	C	Promissory Note.
Bank	...	Bank	...	C	Bank Draft.
A	...	Bank	...	C	Cheque.

We shall now proceed to deal with account keeping in connection with these documents. Two separate books *viz.*, Bills Receivable Book and Bills Payable Book are maintained with a view to keep a record of the minute details with regard to Bills Receivable *i. e.*, the Bills for which we are to receive money, and Bills Payable, *i. e.*, Bills accepted by us which are to be paid by us on their due dates. These books contain separate columns where particulars as to date of the Bill, its receipt, acceptance, term, and the due date are to be recorded. Various entries relating to these bills would have to be journalized and posted into the Ledger after they are entered into Bills Receivable and Bills Payable Books.

Forms of the two Books with convenient rulings and specimen entries are given below :—

Bills Receivable Book.

No. of Bill	Date Received.	From whom Received.	Drawer.	Acceptor.	Where payable.	Date of Bill.	Term.	Date due including Days of Grace.	L. F.	Amount of Bill. Rs.	a.	p.	How Disposed of.
	1925					1925							
1	Jan. 4	H. Rustumji	Self	H. Rustumji	Mercantile Bank, Bombay.	Jan. 8	1 Month	Feb. 3		1,500	0	0	
2	,, 14	Mulji Damji	Self	Mulji Damji	National Bank of India, Bombay.	,, 12	15 Days	Jan. 30		1,000	0	0	Cash received 30th Jan.
3	,, 23	N.B. Jones & Co.	Self	N.B. Jones & Co.	Allahabad Bank, Bombay.	,, 20	1 Month	Feb. 23		450	0	0	
										2,950	0	0	

Bills Payable Book.

No. of Bill	Date given.	To whom given	Drawer.	Payee.	Where payable.	Date of Bill.	Term.	Date due including Days of Grace.	L. F.	Amount of Bill. Rs.	a.	p.	How Disposed.
	1925					1925							
1	Jan. 4	William Brown	William Brown	William Brown	Imperial Bank of India, Bombay.	Jan. 2	1 Month	Feb. 5		12,000	0	0	
2	,, 11	William Green	William Green	William Green	Central Bank, Bombay.	,, 10	17 Days.	Jan. 30		4,500	0	0	Paid 30th Jan.
										16,500	0	0	

Journal entries for Bills of Exchange are as follows:—

Entries for Bills Receivable :—

Received acceptance of John Smith of our draft for Rs. 500

Entry.

Bills Receivable account	Dr.	Rs. 500		
To John Smith			Rs.	500

Discounted Bill of John Smith with our Bankers; discount charged Rs. 50.

Entry.

Bank Account	Dr.	Rs. 450		
Discount account	,,	,, 50		
To Bills receivable account			Rs.	500

Bill Receivable given by William Green endorsed over to Thomas John in payment of debt.

Entry.

Thomas John	Dr.	Rs. 1,000		
To Bill Receivable			Rs.	1,000

Received cash for George Hardy's Bill.

Entry.

Cash account	Dr.	Rs. 400		
To Bills Receivable account			Rs.	400

N. Ladha's bill for Rs. 1,000 fell due to-day which he dishonoured, noting charges Rs. 10.

Entry.

N. Ladha	Dr.	Rs. 1,010		
To Bill Receivable			Rs.	1,010
,, Cash			,,	10

N. Ladha paid his bill including noting charges and interest Rs. 1,025.

Entry.

Cash account	Dr.	Rs. 1,025		
To N. Ladha account			Rs.	1,010
,, Interest account			,,	15

Bankers inform us that John Smith's bill which was discounted with them was not paid on maturity, and they claim Rs. 510 including Rs. 10 for noting charges.

Entry.

John Smith	Dr.	Rs. 510		
To Bank account			Rs.	510

John Smith having turned an insolvent his trustees in insolvency paid 8 annas in the Rupee on the above amount.

Entry.

Cash	Dr.	Rs. 255		
Bad debts account	,,	,, 255		
To John Smith			Rs.	510

Entries for Bills Payable.

Accepted Robinson's draft for Rs. 600.

Entry.

Robinson & Co.	Dr.	Rs.	600		
To Bills payable				Rs.	600

Paid William Brown cash for bill payable Rs. 600.

Entry.

Bill Payable account	Dr.	Rs.	600		
To cash				Rs.	600

Retired our bill payable for Rs. 1,000 earlier than its due date, thereby earning discount of Rs. 50.

Entry.

Bill Payable account	Dr.	Rs.	1,000		
To cash account				Rs.	950
,, discount account				,,	50

Instructed Bankers to retire bill payable of Radhabai & Co. for Rs. 10,000 falling due to-day.

Entry.

Bill Payable account	Dr.	Rs.	10,000		
To Bank account				Rs.	10,000

Entries with respect to accommodation Bills *i. e.*, Bills which are drawn, accepted and endorsed by persons for temporary accommodation of themselves or their friends, would be as follows under circumstances narrated.

If A and B are in want of Rs. 1,000 each and they arrange that a bill for Rs. 2,000 should be drawn by A, and accepted by B, the entries in the respective books of A and B would be as follows :—

Books of A.

Bills Receivable account	Dr.	Rs.	2,000	
To B				Rs. 2,000

(When the bill is accepted and returned by B).

Bank	Dr.	Rs.	1,950	
Discount	,,	,,	25	
B's account	,,	,,	25	
To Bills Receivable account				Rs. 2,000

(The bill being discounted with the Bankers).

Note :—

Here B is debited for his share of discount charged on the discounting of his bill.

B	Dr.	Rs.	975	
To cash				Rs. 975

(Being half of the proceeds of the bill given to B).

Note :—

This entry is passed when actual cash is paid to B against his share of the Bill.

B	Dr.	Rs.	1,000	
To cash				Rs. 1,000

(Being the amount paid by A to B on maturity).

Note :—

This entry is passed by A when he pays his own share of Rs. 1,000 on the Bill on the date of its maturity to enable B to pay same away.

Entries in B's Books.

A	Dr.	Rs. 2,000	
To Bills Payable account			Rs. 2,000

(When the bill is accepted and sent to A).

Cash	Dr.	Rs. 975	
Discount	,,	,, 25	
To A			Rs. 1,000

(On receipt of half the net proceeds of the bill).

Note :—

Entry when B receives Rs. 975 on account of a commodation, and is informed that his share of discount is Rs. 25.

Cash	Dr.	Rs. 1,000	
To A			Rs. 1,000

(Being the amount received from A on maturity).

Note :—

Entry when A pays his share of Rs. 1,000 on the bill to enable B to meet it on its due date.

Bill Payable	Dr.	Rs. 2,000	
To Bank			Rs. 2,000

(Bill being met by B.)

Note :—

When B finally pays his acceptance.

Outward Consignments.

A merchant hearing of a good market for his goods in some other town or country, consigns some of his goods, either by rail or by steamer, to that country, to some other merchant there, who works, as the Consignor's Agent for sale of these goods. When, therefore, the consigning merchants, whom we shall for the purpose of our illustration call Robinson & Co., of Liverpool, send their goods per S. S. "Sumatra" to Australia to the care of Messrs. New Zealander & Co., they would first of all enter the transaction for Record, in a subsidiary book, called Outward Consignments Book. This subsidiary book would be ruled as follows :—

Outward Consignment Book.

Date.		No.	L. F.	To whom Consigned.	Particulars.	Amount as per *pro. forma* Invoice. £	s.	d.	Amount received in Advance. £	s.	d.	Remarks.
1924												
Feb.	10	3	4	New Zealander & Co., Australia.	200 bales of Cotton Goods @ £ 29 each.	5 955						Sold as per Account Sales received on 1st May 1924

They would, after entering the transaction as shown above, pass an entry in their journal with regard to this consignment for the amount of the invoice. It may be mentioned here that the invoice made out in this case is known as a *Pro-forma Invoice*, and that the prices mentioned therein indicate those which the consignor is expected to realise. In this case supposing that the *Pro-forma Invoice* including freight, duty and charges amounts to £ 5,955, the Journal Entry would be as follows :—

Consignment of Cotton goods to
New Zealander & Co. Dr. £ 5,800.
To Goods sent out on Consignment account £ 5,800.

Note :—

The above entry indicates the actual Invoice value of the goods, and a further entry would be passed for actual cash paid for freight, duty, etc., as follows :—

Consignment of Cotton Goods to
New Zealander & Co. Dr. £ 155
To cash £ 155

Note :—It may be noted here that in case more than one consignments are sent to the same party the consignments would be numbered, as Consignment of Cotton goods to New Zealander & Co., Australia No. 1, ditto No. 2, and so on, and separate accounts for each of the consignments would be opened in the ledger.

Now, supposing that it is arranged between Messrs. Robinson and New Zealander & Co., Australia, as is usually the case, that former are to draw on the latter for say half the value of the consignment, the entry on receipt of the Consignee's acceptance of the draft would be as follows :—

Bills Receivable account Dr. £ 2,900.
To New Zealander & Co. 2,900.

Note :—

It may be noted here that New Zealander & Co.'s separate personal account is opened and credited with the amount of the draft because in case of consignments, consignees do not undertake any responsibility as to the value of consignment. They are only liable to pay the actual amount realised on sale, otherwise the goods would remain with them entirely on consignor's account and risk.

When New Zealander & Co., Australia, sell the consignment, they would make out an Account Sales giving particulars as to realisation of the Consignment, less commission charged, charges and expenses incurred by the consignees on the consignment. This Account Sales is then sent to the Consignors, Robinson & Co., together with a remittance for the balance due. The Account Sales would run as follows :—

Account Sales of 200 bales of cotton goods received per S. S. "Sumatra" and sold on account and risk of Messrs. Robinson & Co., Liverpool.

Nos. & Co.			per bale	£	s.	d.	£	s.	d.
1/100	100	Bales of Cotton Goods (1st March, 1921).	£40	4,000	0	0			
101/150	50	Bales of " " (20th March, 1924).	42	2,100	0	0			
151/200	50	" " " (15th April, 1924).	43	2,150	0	0	8,250	0	0
		—Charges—							
		Insurance		40	0	0			
		Cartage and Storage .		190	0	0			
		Commission 3% . . .		247	10	0	477	10	0
		Net proceeds . . .					7,772	10	0
		Less Amount of our acceptance paid in advance					2,900	0	0
		Amount due . . .					4,872	10	0
		E. & O. E.							

From the above it may be noted that the consignment has realised £ 7,772–10s. net after deducting all charges met with by Messrs. New Zealander & Co. at Australia, and also after taking into account the commission charged by them at 3%. As Messrs. Robinson's draft for £ 2,900 was already accepted by Messrs. New Zealander & Co. they would now remit, the balance *viz.*, £4,870-12s. On receipt of the Account Sales the following entry would be passed :—

Entry.

New Zealander & Co. Dr. £7,772-10s.
To Consignment of cotton goods to
New Zealander & Co . . . £7,772-10s.

Note :—

The above entry is posted for the full amount of the Account Sales for the purpose of adjusting the Consignment Account. Now, supposing that according to agreement Messrs. New Zealander & Co. were to accept a draft for the balance, the entry on receipt of the acceptance would be as follows :—

Bills Receivable account Dr. £4,872-10s.
To New Zealander & Co. . . £4,872-10s.

The consignment account in Robinson's Book (ledger) now shows a profit of £1,817-10s. which would be transferred at the time of periodical closing of books to the profit and loss account, for which a transfer entry would be passed in the journal as follows :—

Consignment of cotton goods to
New Zealander & Co. account Dr. £1,817-10s.
To Profit and Loss Account £1,817-10s.

When the whole stock sent out on consignment has been sold the "Goods sent out on Consignment" Account will be transferred to Sales or Trading account. The journal entry for this transfer being.

Goods sent out on Consignment account Dr.
To (Sales or) Trading account.

If at the time of periodical closing of the books a certain quantity of the stock still remains unsold then the stock on hand should be debited to "Goods sent out on Consignment" account and credited to "Consignment to New Zealander & Co." at Invoice price this entry being reversed in next period. The stock should be included in the stock list at cost or market price whichever is the lower.

The procedure followed in the above entries may be summarised as below:—

(1) Consignment account is debited with the cost of the goods and "Goods sent on Consignment Account" credited.

(2) Consignment account is debited with charges and expenses incurred thereon such as Freight, Insurance packing, etc. and Cash or personal account concerned is credited.

(3) Cash or Bills Receivable account is debited with advance, if any, that may be received from the consignees and personal account of the consignee is credited.

(4) When the consignee sends the Account Sales the Consignees is debited and the Consignment account is credited with gross proceeds of the sale.

(5) With respect to the expenses met with by the consignee and his commissions as shown by the Account Sale received, the consignment account is debited and the consignee's account is credited.

(6) The Consignment Account will now show the actual profit or loss made on it when balanced. The same is transferred to Profit and Loss Account.

(7) The account of the consignee will show a balance; if any, due from him which is closed when a remittance is received by either cash or B. R. account being debited and consignee's account credited as the case may be.

(8) The "Goods sent on Consignment Account" may now be closed by a transfer to Trading Account.

(9) In case where a consignment is partly sold the balance on hand at cost price is credited to the Consignment Account and debited to "Goods sent on Consignment Account."

Inward Consignments.

In case of Inward Consignments an Inward Consignments Book would have to be kept, which would be a subsidiary book, and in which the details of all consignments received would be entered for the purpose of record. The Inward Consignments Book would be ruled as follows:—

Inward Consignments Book.

Date.	No.	From whom received.	Particulars.	Amount as per *pro-forma* Invoice.	Amount paid in Advance.	Remarks.

It may be mentioned that inward consignments are consignments of goods received by a merchant from his constituents. These constituents send the consignments to be sold by the Consignee on account of the Consignors, the Consignee's remuneration being the commission charged by him on total amount of sale. Here the Consignee acts as the agent for sale of the Consignor and is responsible for value of the goods only when he sells them. By special arrangements sometimes, in consideration of the Agent being paid an extra percentage of commission, known as *Del Credere Commission*, an undertaking is given by the Consignee Agent to the consignor that nothing would be lost by the latter through insolvency of the person to whom the goods are sold by the former. In such cases the Consignee is liable to make good such a loss. In other cases the Consignee acts as a simple agent for sale, and, therefore, if any loss occurs through the failure of the party to whom he sells goods, the loss would have to be borne by the consignor.

Entries with respect to Inward Consignments are as follows :—

Consignment of 50 Boxes of Long Cloth 5,000 Yds. received from Nixon & Co., Lancashire, by Messrs. Rawlins of Australia.

Entry.

Nixon & Co. Dr.	£10	
To Cash		£10

Note:—The above entry is passed in cash book in respect of expenses paid in cash by Messrs. Rawlins on account of the consignment. No entry with regard to the value of the consignment is passed in the Financial Books because the consignee is not, as described above, responsible for same till the consignment is realised.

Sold to Messrs. Perkins & Co. 30 boxes of Long Cloth received on consignment from Nixon & Co. at £ 20 per box.

Entry.

Perkins & Co. Dr.	£ 600	
To Nixon & Co.		£ 600

(Being the Sale of Long Cloth on account of Nixon & Co.)

Sold for cash the balance of 20 boxes of Long Cloth received on consignment from Nixon & Co. at £ 18 per box.

Entry.

Cash Dr.	£ 360	
To Nixon & Co.		£ 360

(Being the Sale for Cash of Long Cloth on account of Nixon & Co.)

Allowed Messrs. Perkins & Co. for two damaged pieces on the goods sold to them £5.

Entry.

Nixon & Co. Dr.	£5.	
To Perkins & Co.		£5.

(Being the amount allowed on long cloth sold on account of Nixon & Co.

Received cash £200 and a Bill of Exchange for £395 from Messrs. Perkins & Co. in full settlement of goods sold to them.

Entry.

Cash Dr. . . .	£200	
Bills Receivable ,, . . .	£395	
To Perkins & Co.		£595

Our commission charged on the total sales at 3% as per our Account Sales.

Nixon & Co. Dr. . . . . £28-16s.

To commission account . . . . £28-16s.

(Being Commission charged on sale of long cloth.)

Remitted through our Banker to Messrs. Nixon & Co., Manchester the balance due to them on their consignment as per our Account Sales.

Entry.

Nixon & Co. Dr. . . . . £916-4s.

To Bank account . . . . £916-4s.

The procedure as regards Inward consignments may be summarised as follows :—

(1) No entry is made in the books of account when consignment is received, a record being kept in an inward consignments stock book.

(2) Consignor's personal account is debited with charges and expenses incurred thereon and cash or personal account is credited.

(3) For advance, if any that may be sent to the consignor, the Personal Account of the consignor is debited and cash or Bills Payable Account is credited.

(4) When the stock is sold cash, bill receivable, or the buyer's personal account as the case may be is debited and the consignor's account is credited.

(5) With regard to commission and brokerage on sale, consignors account is debited and commission and brokerage account is credited.

(6) The balance on consignors account will be closed by a remittance of cash or bill.

Note :—The old method was to open a separate consignment account in case of inward consignments also and pass all the above entries through that account instead of as at present, through the personal account of the consignor. Then in the above illustration instead of Nixon & Co., account an account called "consignment from Nixon & Co. account would be opened.

Joint Accounts.

Besides the Outward and Inward Consignments as already dealt with, the traders often enter into what are known as joint ventures. In this case two or more merchants join hands and enter into short partnership arrangements for some particular transactions. It may be, for example, arranged that a merchant in Bombay should purchase and send goods to another in Calcutta, on joint account of both, the capital being contributed by each of the parties in agreed proportion the net profits or losses arising from such transactions are divided between the parties concerned. These special type of transactions would necessitate the keeping of special accounts of these joint transactions in books of both the parties. Let us therefore take each of the two classes of transactions separately and see what entries would be necessary in each case.

Inward Joint Accounts.

Received advice from Messrs. Kurkbride & Co., Singapore of the shipment of 300 chests of tea which they have shipped per S. S. "Rajputana" valued at £1,000.

No entry passed on this advice.

The Consignee insures the above shipment in London with the United Kingdom Marine Insurance Company, and pays cash £20.

Tea on Joint Account with Kurkbride & Co.

Dr. £20

To cash account £20

The consignee accepts Kurkbride & Co.'s draft for £500 being half the value of their shipment of Tea on Joint Account.

Kurkbride & Co. Dr. . . . £500

To Bills Payable Account £500

S. S. "Rajputana" arrived with the consignment of Tea on Joint Account, and the consignee retires his acceptance to Kurkbride & Co.

Tea on Joint Account with Kurkbride & Co.

Dr. £1,000

To Kurkbride & Co. £1,000

Note (entry to record the transaction).

Bills Payable Account Dr. . . £500

To cash or Bank account £500

Note.—Entry for the retirement of draft.

Paid freight by the consignee on consignment of Tea *ex* S. S. "Rajputana" £60.

Tea on Joint Account with

Kurkbride & Co. Dr. . . £60

To cash account . . . . , . £60

The consignee pays landing charges on the above shipment, £8.

Tea on Joint Account with
Kurkbride & Co. Dr. . . £8
To cash account £8

Sold to Messrs. Woodland & Co. the Tea *ex* S. S. "Rajputana" and received their cheque for £1,500.

Bank account Dr. . . . £1,500
To Tea on Joint Account with
Kurkbride & Co. . . . . . £ 1,500

The consignee adjusts and closes the above account of tea on joint account with Messrs. Kurkbride & Co. charging his commission £15

Tea on Joint Account with
Kurkbride & Co. Dr. . . £ 15
To commission account £15

Tea on Joint Account Dr. £ 397.
To Kurkbride & Co. . . . . £ 198-10s.
To Profit and Loss Account . . . £ 198-10s.

Note :—Being the profit made on Joint Account.

Remitted to Messrs. Kurkbride & Co., the balance due to them on consignment of tea *ex* S. S. "Rajputana" by a draft purchased from our Bank.

Kurkbride & Co. Dr. . . £698-10s.
To Bank account . . . . . £698-10s.

Outward Joint Account.

For the same joint venture Messrs. Kurkbride & Co. of Singapore would pass the following entries in their books, it being in their case an Outward Joint Account.

9

Purchased for £ 1,000, 300 chests of Tea to be shipped on Joint Account *ex* S.S. "Rajputana" to Messrs. Moriarti & Co. of London, the arrangement with them being that they are to accept a bill for half the value and charge their commission on sales and to share profits on the venture equally.

Tea on Joint Account with
Moriarti & Co. Dr. . . £1,000
To Bank account . . . . . £ 1,000

Shipped the above goods per S. S. "Rajputana" and advised Messrs. Moriarti & Co. of London of same, they having arranged to pay freight as well as effect insurance on their side on receipt of a wire from Messrs. Kurkbride & Co. No entry is to be passed except for the amount of telegram, we shall ignore in this case.

Drew upon Messrs. Moriarti & Co. of London at two weeks after sight draft for £ 500.

Bills receivable account Dr. . £500
To Moriarti & Co. £505

Received from Messrs. Moriarti & Co. their account sales showing the net profits after charging their commission and expenses to be £397.

Moriarti & Co. account Dr. £1,198-10s.
To tea on Joint Account with Moriarti
& Co. . . . . . . £1,198-10s.
(Being the net proceeds of sales after charging expenses, commission and ½ share of Moriarti & Co.)

Received remittance from Moriarti & Co., for the balance due on tea *ss* S. S. "Rajputana."

Bank account Dr. . .	£698-10s.	
To Moriarti & Co . . .		£698-10s.

Transferred the balance of profit on the Joint Account transaction per S. S. "Rajputana" to Profit and Loss Account.

Tea on Joint Account with Moriarti & Co. Dr.	£198-10s.	
To Profit and Loss Account . . .		£198-10s.

EXERCISES ON CHAPTER III.

Bills of Exchange.

I. Record the following in Journal and Cash Book of P. Byramji.

(1) A. Hurmasji gave a promissory note for Rs. 500 for two months.

(2) Accepted draft at 3 months after date by Framji in favour of Kalyanji Rs. 800.

(3) Gave Bombay Stationery Mart a bill for Rs. 250 at 2 months.

(4) Handed Manekji and Sons acceptance for two months.

(5) Received from Dastoor and Company H. Dadabhoy's acceptance for Rs. 600.

(6) Discounted N. Laloobhoy's acceptance for Rs. 600, discount charged Rs. 30.

(7) Drew on Green and Company for Rs. 1,950 allowing them discount Rs. 50.

(8) Sold goods to Harilal Chimanlal and received in payment our own acceptance to Haridas and Company for Rs. 570.

(9) Our promissory note to A. Mohdally for Rs. 350 redeemed to-day.

(10) Received Bakubhoy Ambalal and Company's bill at 3 months for Rs. 1,025 including Rs. 25 interest.

II. Enter the following particulars in conveniently ruled Bills Receivable and Payable Books and pass to proper Ledger accounts :—

N. B.—All acceptances will be made payable at our Bankers, Central Bank of India Limited.

1924 Dec. 2. Drew on Harilal Samaldas at 1 month for Rs. 1,520 allowing him discount Rs. 80. Bill No. 129.

" 3. Harilal Samaldas accepted same.

" 3. Accepted Chandabhoy and Son's draft of 2nd instant at 2 months in favour of Kalyanji and Son for Rs. 500. Bill No. 95.

" 9. Received of Sutharia Brothers. J. Ramchandra's acceptance to them for Rs. 850.

" 12. Gave Sri Ram Brothers acceptance dated 11th instant for 1 month for Rs. 1,250.

" 12. Received Khare and Company's acceptance of our draft of yesterday at 3 months for Rs. 1,200 payable at Bank of India Limited.

" 16. A. Jones and Company forward B. Kantilal's acceptance to them for Rs. 1,850 payable at National Bank of India Ltd.

" 21. Received Wadia and Sons draft on us of 19th instant at 1 month for Rs. 1,650, discount allowed Rs. 50. Returned same duly accepted.

" 22. Drew on Nusservanji and Co. at 4 months for Rs. 2,140, allowing discount Rs. 100.

" 23. Received Nusservanji and Company's acceptance payable at National Bank of India Limited.

" 27. Received A. Mahler and Company's drafts on us of 26th instant for Rs. 3,150 with interest at 5 per cent. at 3 months. Returned same duly accepted.

1924 Dec. 30. Returned duly accepted T. Krishna's draft on us, dated 29th at 4 months for Rs. 660.

" 31. B. Ardeshar forwards us D. Khanolker's acceptance for Rs. 1,160. Bill dated 29th October at 2 months and payable at Eastern Bank Ltd.

" " Accepted G. Bhalchandra's draft on us, dated 21st December 90 days after sight for Rs. 1,340, discount allowed Rs. 60.

III. A draws upon his customer B at two months from July 1st 1924 for Rs. 5,000 and three days after its date discounts with the Allahabad Bank Limited at 5 per cent. per annum. On the day of its due date B intimates that he cannot meet the bill, but pays A on account Rs. 3,000 and accepts a fresh bill for a like period for the balance upon the condition that A returns the original bill which he dues. Pass the necessary journal entries in the books of A.

IV. Cavasji buys from Hoormasji goods worth Rs. 2,500, he is allowed a discount of 5 per cent. and gives Hoormasji a bill for the amount. Hoormasji having bought goods from Kantilal and Company to the value of Rs. 7,000 pays Cavasji's bill and cash for the balance. At maturity the bill is dishonored. Pass necessary journal entries in the books of Cavasji, Hoormasji and Kantilal and Company.

V. For the mutual accommodation of Maganlal and Chhaganlal, Maganlal draws a bill on Chhaganlal for Rupees 2,000. Chhaganlal accepts the bill and returns the same to Maganlal. Maganlal discounts the bill with his bankers received Rupees 1,950. The proceeds are shared equally between Maganlal and Chhaganlal. On the due date, Maganlal remits his proportion to Chhaganlal who meets the bill. Pass necessary journal entries in the books of both the parties.

VI. Ramachandra for the mutual and temporary accomodation of himself and Laxmana draws upon the latter a bill of exchange at three months for Rs. 2,400, dated 1st January 1924. Ramachandra discounts this bill immediately at his bankers, rate of discount being 5 per cent. and hands half the proceeds to Laxmana.

Laxmana for a similar purpose, and at the same time, draws a bill at 3 months on Ramachandra for Rs. 1,200. This he discounts with his bankers at 5 per cent. and hands half the proceeds to Ramchandra. Laxmana becomes a bankrupt on 31st March, and a first and final dividend of annas 4 in the rupee is paid on his estate on 30th June 1924.

Pass necessary journal entries in the books of Ramchandra, and show Laxmana's account as it would appear after the final dividend has been received.

VII. Ahmed and Benjanji are the acceptors of a bill of 4 months date for Rs. 7,000, due on the 24th January 1925. A few days before it matured, Ahmed and Benjanji found they could not meet it, and wrote to drawers Messrs. Chandabhoy and Hoormasji, requesting them to renew the bill for 3 months, adding interest at 5% per annum. The drawers (Chandabhoy and Hoormasji expressed their willingness to do so conditionally upon Ahmed and Benjanji lodging security with them for the amount of the renewed bill. Messrs. Ahmed and Benjanji offered five customers' bills, *viz*:—

(1) Kantilal and Company's bill Rupees 2,090, due 14th February.

(2) Nanavati and Company's bill Rs. 1,730, due 26th February.

(3) Jahangir Ardesher's bill Rs.890, due 25th March.

(4) Ganesh Brother's bill Rs. 820, due 19th April.

(5) Shankarlal's bill Rs. 1,120, due 26th April.

Each of the above five bills was discounted by Chandabhoy and Hoormasji's bankers and Ahmed and Benjanji's renewed bill was paid into the bank one month after its acceptance. Bills 1, 2, and 4 were duly honored. Bill 3 was dishonored and returned to Chandabhoy and Hoormasji who drew a cheque for its amount, plus Rupees 5, noting expenses. Ahmed and Walsh on being called upon, made good this amount ten days later.

Bill 5 reached maturity same day as Ahmed and Benjanji's renewed, and both were dishonored.

(*a*) Show Ahmed and Benjanji's account in the books of Chandabhoy and Hoormasji's ledger.

(*b*) Pass necessary journal entries in the books of Chandabhoy and Hoormasji.

Consignments.

VIII. On March 1st 1925, A. Cawasj, a merchant in Bombay consigned goods worth Rs. 12,500 per S. S. "Malta' to an agent in Calcutta. A. Cavasji incurred the following expenses in cartage Rs. 75, cooly charges Rs. 10, shipping charges Rs. 325 and for Insurance Rs. 250. On 15th April 1925, the consignee sent an account sale of goods realising

Rs. 17,000. Consignee deducted for Dock dues Rs. 50, go-down rent Rs. 200, and remitted the balance in full after deducting his commissions at the rate of 5 on gross sale. Prepare Account Sale and show journal entries in the books of both the parties.

IX. Kalyandas Samaldas of Bombay shipped goods to his agent at Calcutta, on 1st November, 1924 and sent therewith a *pro forma* invoice for Rs. 6,000 (goods Rs. 5,400, freight Rs. 400 and Insurance Rs. 200). On 28th December, consignee sent an account sale from which it appeared that a portion of the goods had realised Rs. 4,300. Consignee paid Rs. 50 for clearing the goods, Rs. 20 to coolies and Rs. 100 for storage. He remitted Rs. 2,000 cash and a 3 months draft on National Bank of India for the balance after deducting his commission @ 4½% on gross sales. The unsold stock was valued at Rs. 2,900. Pass necessary journal entries in the books of the consignor and prepare Consignment Account

X. On 1st December 1924, P. Byramji forwarded to Henny Crichton and Son on consignment 25 chests at Rs. 500 per chest, paying Rs. 120 for freight. On 18th May he received an account sales dated 20th April showing that goods had realised gross Rs. 12,460, and that the following expenses had been incurred :—

Dock dues and Insurance, Rs. 80 ; cartage, Rs. 20 ; storage, Rs. 30 ; Commission at 3% ; *del credere* commission 2½% and enclosing a bill at three months for the amount due. Record these transactions in the books of Consignor and Consignee and show also the Account Sales.

XI. Sundardas and Son consigned goods valued Rs. 8,500 to Chimanlal and Company their Calcutta Agents, on 21st February 1924 and drew on them at 4 months after date for that amount. They discounted the bill on the same day, being charged Rs. 140 for discount. On 31st March, Chimanlal and Company advised that they had paid Rs. 280 for freight and landing charges on account of consignment. On 31st May Chimanlal and Company remitted Rs. 4,500 on account of proceeds and on 31st August they forwarded an Account Sale showing that the goods had realised gross Rs. 10,560 and charging their commission of 3% on that amount. Sundardas and Son retired Chimianlal and Company's acceptance at maturity. Record the above transactions in the books of Sundardas and Son's books and show Ledger accounts.

XII. On 1st June 1924, a merchant trading in Bombay consigned goods to an Agent at London 2,000 tons of wheat invoiced *proforma* at Rs. 200 per ton. He paid freight and other charges amounting to Rs. 5,000. On 1st September he received on Account Sales showing that 1,200 tons had been sold at £17,250 tons at £16-10 s. and the remaining at £16-15s. London merchant incurred £100 for cleaning, storing and other charges. He deducted his commission at 4% and remitted a 60 days draft in sterling payable at Eastern Bank Limited. Record these transactions in Bombay books taking the sale of exchange @ 1s. 4d. to the rupee.

Joint Accounts.

XIII. A. Byramji and P. Hoormasji engaged in a joint speculation in sugar. On 15th January, Byramji advanced Rs. 4,500 and Hoormasji Rs. 5,500 which amounts were paid in a joint Banking Account. The following business was transacted :—

January 20. Bought sugar from A. Kalyanji Rs. 7,240, less 5% discount and accepted his draft at three months for the amount.

" 23. Paid expenses of Loading Rs. 25.

" 31. Paid freight to Calcutta Rs. 350.

February 21. Sold Sitaram Brothers sugar Rs. 6,000 and received cash less 2½% discount.

" 26. Bought sugar from Samaldas Haridas sugar for cash Rs. 5,000.

March 25. Paid shipping charges and freight Rs. 450.

" 27. Sold to Kustoorchand and Company, sugar for Rs. 4,000, and received his acceptance at two months.

April 15. Sold sugar to Lalloobhoy and Son, sugar for Rs. 3,000, and received cash for the same.

The speculation was closed and the stock of sugar was valued at Rs. 3,463 and taken over by A. Byramji at the agreed figure. Prepare necessary accounts in the books of both parties and divide the profits in ratio of 2 : 1.

XIV. Chimanlal Mehta of Calcutta and Dennison and Company of Rangoon, agree to have a joint venture in rice. The rice is to be shipped by Dennison and Company from Rangoon to Calcutta, to the care of Chimanlal Mehta.

		Rs.
1.	Received shipment of 250 bags of Rangoon rice on joint account from Dennison and Company at cost	5,000
2.	C. Mehta paid freight and insurance on same	350

3.	Remitted by Chimanlal Mehta his share of half the cost	2,675
4.	Paid rent and insurance on above by Chimanlal Mehta	250
5.	Sold part of the above shipment to Indian Flour Mill and who gave their acceptance for	3,500
6.	Discounted the bill with Bank of India at 5% Sold to Mathuradas Haridas for and received cash less discount @ 2½% , . . .	2,000
7.	Remaining stock was valued at which was taken over by Chimanlal Mehta . .	1,000

Record the above transactions in the books of Chimanlal Mehta and show necessary Ledger Accounts.

XV. On 20th June, 1924 P. Shapoorji of Bombay consigned to A. Mahler and Company, Calcutta, goods worth Rs. 10,000 on a joint speculation, who agreed to share profits and losses in the ratio of 2 : 1. On the same day he paid freight Rs. 300, insurance Rs. 100, and drew a bill on A. Mahler and Company at 3 months for Rs. 5,200, which was discounted with the Punjab National Bank on 23rd June 1924. A. Mahler and Company received the goods and paid the following charges : Dock dues, Rs. 100; Government duties and insurance, Rs. 125; godown rent, Rs. 200. On first of September 1924 A. Mahler and Company forwarded an Account Sale showing that the goods had realised Rs. 14,500 gross, and that A. Mahler and Company's expenses were, Brokerage Rs. 50 and expenses of Sales Rs. 25.

Write up Accounts in the Ledgers of P. Shapoorji and A. Mahler and Company respectively.

XVI. Gopichand and Karamchand enter into a joint speculation ship goods abroad. Gopichand sends goods worth Rs. 25,000, pays freight Rs. 2,500, insurance Rs. 500 and sundry expenses Rs. 1,975. Karamchand sends goods to the value of Rs. 15,750 and pays freight and insurance Rs. 2,000 and other expenses Rs. 1,000. Karamchand gives his acceptance to Gopichand for Rs. 10,000 on account of the venture. Gopichand receives advice and remittance of net proceeds for the whole of the goods amounting to Rs. 55,600. Show how these transactions would appear in the books of Gopichand and Karamchand, assuming that final settlement is made between them.

CHAPTER IV.

Partnership Accounts, Part I.

In the previous chapters we have dealt with the accounts of a Sole Trader or Merchant who carries on a business on his own account. It is the experience of businessmen that in certain class of businesses, co-operation of more than one proprietor adds to the efficiency of work and produces better results. Besides, it enables a man of experience and ability, devoid of capital, or with a small capital, to start a large undertaking, in co-operation with one or more persons who are in a position to finance the business.

Partnership is defined by Sec. 239 of the Indian Contract Act of 1872 as "the relation which subsists between persons who have agreed to combine their property, labour or skill in some business and to share the profits thereof between them."

Persons who have entered into partnership with one another are called collectively a "Firm."

By the English Partnership Act of 1890 partnership is defined as the relation which subsists between persons who carry on business in common with a view to profit.

It is not necessary for the agreement between the partners to be in writing. An oral agreement will also be sufficient, but this might give rise to disputes and expensive litigations, and in such cases the only guide to the book-keeper or accountant who has to adjust their accounts, is the adjustment of the previous years. It is therefore highly desirable to lay down clearly in a memorandum in writing the terms of the agreement between the partners, especially with regard to the following points which have a direct bearing on the preparation of the partnership accounts.

1. The amount to be contributed by each partner towards the capital of the business.

2. The proportion in which Profits or Losses are to be shared by the partners.

3. The amount of remuneration, if any, to be paid to any or all of the partners for taking part in the management of the business.

4. The limit to the total amount of drawings in anticipation of profits.

5. The Rate of Interest, if any, to be allowed on capital and charged on drawings.

6. Provisions as regards the periodical closing of Books, Audit, and treatment of capital and partners' current accounts.

7. Basis on which good-will is to be valued.

8. The method of ascertaining the amount due to a partner or his estate in the event of such partner's retirement or death as regards capital, share of Profits or Losses from the date of the previous balance sheet to the date of death or retirement and the share of good-will.

9. The arbitration clause providing for certain disputes and difference between partners to be settled by a reference to arbitration.

10. The right of a partner to get books of account independently examined by an expert of his own choice apart from the usual periodical audit.

Where an agreement in writing exists the terms of the contract can be annulled or altered by consent of all the partners which consent may be either expressed or implied from a uniform course of dealing.

In the absence of any contract to the contrary the relations of partners to each other are determined by the following rules laid down by Sec. 253 of the Indian Contract Act.

(1) All partners are joint owners of all property originally brought into the partnership stock, or bought with money belonging to the partnership, or acquired for purposes of the partnership property. The shares of each partner in the partnership property is the value of his original contribution, increased or diminished by his share of profit or loss;

(2) all partners are entitled to share equally in the profits of the partnership business, and must contribute equally towards the losses sustained by the partnership;

(3) each partner has a right to take part in the management of the partnership business;

(4) each partner is bound to attend diligently to the business of the partnership, and is not entitled to any remuneration for acting in such business;

(5) when differences arise as to ordinary matters connected with the partnership business, the decision shall be according to the opinion of the majority of the partners; but no change

in the nature of the business of the partnership can be made, except with the consent of all partners ;

(6) no person can introduce a new partner into a firm without the consent of all the partners ;

(7) if from any cause whatsoever, any member of a partnership ceases to be so, the partnership is dissolved as between all the other members ;

(8) unless the partnership has been entered into for a fixed term, any partner may retire from it at any time ;

(9) where a partnership has been entered into for a fixed term, no partner can, during such term, retire, except with the consent of all the partners, nor can he be expelled by his partners for any cause whatever, except by order of Court ;

(10) partnerships, whether entered into for a fixed term or not, are dissolved by the death of any partner.

The peculiar position of the members of a partnership firm is that, unlike a limited liability company, partners of a firm are liable to their utmost extent as regards the whole of the partnership debt. This makes it most important that previous to a person being admitted in partnership, great care and caution should be exercised otherwise a partner with speculative tendencies might enter into risky transactions, with disastrous results both to the firm and his brother partners.

It will be noticed that the Act does not provide for the allowance of any interest on capital nor for any remuneration to the partners for acting in the partnership business. In order to get same there must be, as we have already noticed, an express agreement.

The peculiarity of partnership accounts lies mainly in the adjustment of capital accounts of partners, their drawings and good-will adjustments. In other particulars partnership accounts are worked on lines similar to those of individual traders.

In case of sole traders "Capital" represents the excess of assets over liabilities at book values, in Partnership the individual Partners Capital Accounts taken collectively represents such excess and when taken separately show the proportion in which such excess is to be divided between the partners on dissolution.

Every partner's capital account has to be maintained separately in his name and should be credited with the total amount of capital that he brings into the firm. These Capital Accounts are adjusted periodically by a transfer of the balance of the respective Current Accounts, which are separately kept, and to which the share of profit and loss, as arrived at, at the closing period, is taken and to which accounts the drawings are posted.

Illustration.

A, B and C are partners with Capitals of Rs. 5,000, Rs. 4,000 and Rs. 3,000 respectively on 1st January 1924. During the year they draw, according to their agreement, respectively Rs. 120, Rs. 30 and Rs. 40 at the end of each quarter. Make out their Drawing and Capital Accounts.

The firm has made a profit of Rs. 2,000 during the year, and the partners share profits in the proportion of ½, ¼ and ¼ respectively.

A's Current Account.

1924			Rs.	1924			Rs.
Mar.	31	To Bank . . .	120	Dec.	31	By Profit and Loss Account (½ share of profits) . .	1,000
June	30	,, ,, . . .	120				
Sept.	30	,, ,, . . .	120				
Dec.	31	,, ,, . . .	120				
,,	,,	A's Capital Account (transfer)	520				
			1,000				1,000

A's Capital Account.

1924			Rs.	1924			Rs.
Dec.	31	To Balance . .	5,520	Jany.	1	By Balance . .	5,000
				Dec.	31	,, A's Current Account (transfer)	520
			5,520				5,520
				1925			
				January	1	By Balance .	5,520

Note.—If separate "Drawing Accounts" are maintained instead of "Current Accounts" for partners, their drawings would be debited to these accounts, the balances being transferred to their respective Capital Accounts at the end of the trading period. In this case the shares of profits are directly transferred to Capital Accounts.

Illustration.

A's Drawing Account.

1924		Rs.	1924		Rs.
March	31 To Bank . .	120	December	31 By A's Capital Account (transfer) .	480
June	30 " " . .	120			
Sept.	30 " " . .	120			
Dec.	31 " " . .	120			
		480			480

A's Capital Account.

1924		Rs.	1924		Rs.
December	31 To A's Drawings Account (transfer) .	480	January	1 By Balance .	5,000
"	31 To Balance c/d.	5,520	Dec.	31 " Profit and Loss Account (½ share of profits) . .	1,000
		6,000			6,000
			1925		
			Jan.	1 By Balance b/d.	5,520.

"Drawings Account" pure and simple, as distinguished from "Current Account" is merely an account used for collecting together all withdrawals by partners during a financial period in anticipation of Profits and is a debit balance which is transferred periodically to the respective Partners' Capital Accounts and no balance appears on the Balance Sheet in respect of this.

"Current Account" on the other hand contains debits and credits. It is a running account between each of the partners and the business. In this account all transactions such as share of Profit, Interest on Capital, etc., of the partner concerned are entered and the balance on this account is in some cases transferred periodically to Capital Account. There are cases however where the Articles of Partnership provide that the amount of capitals of each of the Partners should be kept up at a fixed amount or that they should be maintained at a specified ratio to one another, the balances on the current accounts should not be transferred to the Capital Account at balancing time, but should be carried forward on the same account. They are then shown on the Balance Sheet separately as Partners' Current Account, as distinct from Capital or Loans.

The last described method *viz.*, that of the Current Account, is preferable and is now generally followed in view of the *Garner* v. *Murray*, decision with which we have dealt later at some length, as it helps to keep the figures of capital distinct from that of undrawn profits. Interest is sometimes allowed or charged on the balance of the current accounts which in such a case would be passed through the same account.

Law does not provide for Interest on Capital and therefore unless there is an agreement to that effect, partners are not entitled to any interest on their Capital. In case such an interest is allowed in accounts and the partners have connived at it, such an agreement may be inferred. The same rule applies even in cases where a partner has agreed to bring in a certain capital and fails to do so *i. e.*, in that case the partner bringing in his capital would not be entitled to interest in winding up in absence of agreement or inference from accounts. The further rule is that where such interest on capital is payable by agreement such interest stops running from the date of dissolution unless otherwise agreed. The practice of charging interest on capital to the Profit and Loss Account can be supported from two points of view, *viz.*, (1) it serves to show the actual balance of working profits after the usual interest on capital invested is deducted, and at the same time, (2) the financing partner who brings in the largest amount by way of capital has the satisfaction of securing a proportionate benefit of interest on his capital besides his agreed share of profits.

Where interest is not allowed on capital the following will be the result on the division of profits.

1. *Where Partners' capitals are equal* and,

   (*a*) they share profits equally there will be no difference in the ultimate amount credited ;

   (*b*) they share profits unequally the partners with the larger share of profits will gain at the expense of the others.

2. *Where Partners' capitals are unequal* and,

   (*a*) they share profits ~~un~~equally, the partners with smaller capital get an advantage ;

   (*b*) they share profits unequally, the actual ratios of the capitals and the proportion in which the profits are shared should be considered before the result could be stated.

If, in the above illustration, the partnership agreement allows interest on Capital of each of the partners at a fixed rate of 5 per cent as well as interest on their drawings at the same rate, their accounts would appear as under :—

A's Current Account.

1924		Rs.	1924		Rs.
March 31	To Bank . .	120	December 31	By Interest Account (Interest on Capital) .	250
June 30	,, ,, . .	120	,, ,,	By Profit and Loss Account (½ share of profit) . .	1,000
Sept. 30	,, ,, . .	120			
Dec. 31	,, ,, . .	120			
,, ,,	,, Interest Account . .	9			
,, ,,	,, A's Capital Account (transfer) .	761			
		1,250			1,250

A's Capital Account.

1924		Rs	1924		Rs.
December 31	To Balance c.d.	5,761	January 1	By Balance .	5,000
			Dec. 31	,, A's Current Account (transfer) .	761
		5,761			5,761
			1925		
			January 1	By Balance b/d.	5,761

Frequently by special agreement, a partner who devotes more of his time to the management of the business is allowed a share independently of his agreed share of profits.

"Salaries to partners" differ from "Drawings" in that the former are remuneration for services rendered while the latter are merely withdrawals in anticipation of profits. Salary to a partner is an expense connected with the business as otherwise an outside manager would have to be employed to do the work attended to by the partner. When such salaries are debited to Profit and Loss Account the net profit shown by the Profit and Loss Account indicates the return on the Capital employed as distinct from compensation for services.

Here if the salary is regularly drawn out, the salary paid to a partner is debited to the "Salaries account," the "Cash account" receiving the corresponding credit. Otherwise the firm's salaries account would be debited and the current account credited.

To summarise, salaries are paid to partners either (1) when a partner or partners devote more attention to the firm's business than the rest, or (2) where a junior partner, who is virtually speaking a salaried employee, is encouraged by being allowed a nominal share in the profits over and above his salary, or (3) where the partners think it desirable that the net profits should not include that figure which could be earned by partners by personal services elsewhere.

The following illustration worked with the partner's shares as in the first problem would illustrate the principle taking for granted that in case of these three partners shares to be paid a salary of Rs. 300 a year to be paid half-yearly, and Rs. 200 a year also to be paid at the same interval. We shall here assume that the partners concerned did not draw anything against their salaries :—

B's Current Account.

1924		Rs.	1924		Rs.
March 31	To Bank . .	80	June 30	By Salaries Account . .	150
June 30	,, ,, . .	80	Dec. 31	,, Salaries Account . .	150
Sept. 30	,, ,, . .	80	,, ,,	,, Interest Account (Interest on Capital) .	200
Dec. 31	,, ,, . .	80	,, ,,	,, Profit and Loss Account (¼ share of profits) . .	500
,, ,,	,, Interest Account . .	6			
,, ,,	,, B's Capital Account (transfer) . .	674			
		1,000			1,000

B's Capital Account.

1924.		Rs.	1924.		Rs.
December 31	To Balance c/d.	4,674	January 1	By Balance .	4,000
			Dec. 31	,, B's Current Account .	674
		4,674			4,674
			1925		
			January 1	By Balance b/d.	4,674

There are occasions when partners have to bring in money by way of advances over and above their agreed capital. In such cases the amount so advanced by any partner is treated as a loan from that partner, on which he is entitled to interest at the rate of 6 % or more as may be agreed between partners.

An agreement to pay a different rate may also be inferred by the custom of the particular trade. This loan is not to be mixed up with his usual capital but a separate loan account has to be opened in the name of the partner. Interest on this loan is to be either credited to the loan account itself, and debited to the firm's interest account, or it may be credited to the current account of the partner concerned.

The following illustration would explain the point :—

Following the same illustration as above suppose that A, one of the partners, had advanced a loan to the firm of Rs. 2,000 at 5% interest. His "Loan account" would appear as under :—

A's Loan Account.

	Rs.		Rs.
To Balance c/d. . .	2,100	By Bank	2,000
		,, Interest . . .	100
	2,100		2,100
		By Balance b/d. . .	2,100

Good-Will.

Good-will is the advantage that a firm or a company enjoys through the established reputation and the business connection which it has established through previous dealings, advertisements, etc. If a new partner joins a firm with an established reputation, he no doubt obtains a ready benefit of the firm's reputation which was established through the exertions of the old partners ; or where the firm's business is sold, the new owners of the business would benefit through its established reputation, thereby gaining a ready connection which would otherwise have to be established through incessant work for a number of years.

Mr. Justice Warrington defines good-will as follows :—"The good-will of a business is the advantage, whatever it may be, which a person gets by continuing to carry on, and by being entitled to represent to the outside world, that he is carrying on, a business which has been carried on for some time previously."

It was defined by another learned Judge, Lord Eldon as :—

"The probability that the old customers will resort to the old place."

While Lord Macnaghton puts it in a nut-shell as " The attractive force which brings in custom."

Hence *good-will* may be **defined** as the value attached to a business on the presumption that custom will continue to be attracted by the concern in the future as in the past. The following are some of the reasons why custom is so attracted :—

1. Quality of the articles dealt in.
2. Locality.
3. Business connections.
4. Organisation for sale and distribution.
5. Partial monopolies of all kinds such as Sole agencies, Patents, Trade Marks, etc.
6. Qualifications of the Partners.

In case of partnerships it has been held as settled law that in the absence of expressed agreement, good-will is the common property of the firm's partners. It would thus be seen that where a partner retires from the firm or when he dies, he or his heirs would be entitled to see that the figure of good-will is included in the calculation of capital.

The value of good-will is usually based upon the calculation of average profits of three to five years, or in case of retail shops on the out-turn. In many businesses, the personal element, *i. e.*, the ability of a particular partner, or his personal influence, may count a good deal and in such a case his retirement from business may seriously affect the good-will of the business. There are various methods of calculating good-will, and it is always wise to insert provisions in partnership agreements as to the principle on which the good-will of a partnership business is to be calculated on death or retirement of a partner ; otherwise unnecessary litigation and annoyance may result. We shall now deal with the various methods employed in calculation of the good-will and their treatment in accounts.

1. When an old partnership takes in a new partner, it is frequently agreed that the new partner shall, pay over and above the amount of capital he agrees to bring in, a certain amount in cash by way of good-will. In this case the whole of the cash brought in by way of good-will would be debited to the cash account of the firm, and credited to the original partners in the proportion in which they share profits in their respective capital accounts, if the money is to be retained in the business, or in their current accounts if it is to be drawn out by them.

A and B are partners with capitals of Rs. 20,000 and Rs. 10,000 respectively. They share profits and losses in proportion of 2 to 1. They consent to take in C, who is to bring in Rs. 20,000 as capital and a further sum of Rs. 9,000 as good-will.

A's Capital Account.

	Rs.		Rs.
To Balance c/d. . . .	26,000	By Balance . . .	20,000
		,, Good-will . . .	6,000
	26,000		26,000
		By Balance b/d. . .	26,000

B's Capital Account.

	Rs.		Rs.
To Balance c/d. . . .	13,000	By Balance . . .	10,000
		,, Good-will . . .	3,000
	13,000		13,000
		By balance b/d. . .	13,000

Good-will Account.

	Rs.		Rs.
To A's Capital Account .	6,000	By Cash	9,000
To B's ,, ,, .	3,000		
	9,000		9,000

(*Note.*—It is assumed that the amount paid is to be used in the business).

2. If on the other hand it is agreed that the new partner should bring in his capital, but instead of paying a certain amount by way of good-will in cash, a fixed amount mutually agreed upon, should be debited to a

separate "Good-will account" and credited to the capital accounts of the original partners in proportion in which they shared profits, the "Good-will account" itself would stand in the books as an asset, which would have to be gradually written off in the agreed proportion, out of the profits of the future years, before the division of such profits among partners. If the latter arrangement of writing off the figure of good-will is not made, the advantages which the original partners would have are (*a*) that the figure of their capitals would be increased by the addition of the good-will, and thus, the interest calculation on the capitals concerned would give them a larger share in the profits; (*b*) as capitals represent the proportion in which "net assets" of the business are to be shared by the partners, the share of the original partners will thus be increased in the event of dissolution.

The following illustration worked out on the question of good-will would explain the point :—

A and B are partners with Capitals respectively of Rs. 40,000 and Rs. 35,000 and sharing profits in proportion to 2 to 1. They agree to take in a new partner C who is to bring in a capital of Rs. 30,000 in cash. It is further agreed that a good-will account for Rs. 15,000 should be raised. The partners' Capital Accounts and the Good-will Account would appear as under :—

A's Capital Account.

	Rs.		Rs.
To Balance c/d. . .	50,000	By Balance . . .	40,000
		,, Good-will Account .	10,000
	50,000		50,000
		By Balance b/d. . .	50,000

B's Capital Account.

To Balance c/d. . .	40,000	By Balance . . .	35,000
		" Good-will Account .	5,000
	40,000		40,000
		By Balance b/d. . .	40,000

C's Capital Account.

To Balance c/d. . .	30,000	By Balance . . .	30,000
	30,000		30,000
		By Balance b/d. . .	30,000

Good-will Account.

To A's Capital Account .	10,000	By Balance c/d. . .	15,000
" B's " " .	5,000		
	15,000		15,000
To Balance b/d. . .	15,000		

It is desirable to write off the debit balance on Good-will Account over a period of years.

In case of an outgoing or deceased partner the calculation of good-will gives rise to difficulties in case the partnership agreement does not include clauses clearly stating the lines on which good-will is to be calculated. Under these circumstances the only method of arriving at good-will is by valuation, and the proportion to be credited to the deceased partner's capital account, is the proportion of the valuation, according to his share of the profits of the partnership. The partnership agreement generally provides for calculation on the basis of so many years' average profit, or as is often the case, it is agreed that for a certain number of years a fixed annuity, or a fixed share of net profits, should be paid to the outgoing partner or his representative.

It is not necessary to bring into account the balance of good-will being the share of the remaining partners until occasion arises.

Illustration.

A, B and C are in partnership sharing profits and losses in the ratio of 3 : 2 : 1, respectively. A wishes to retire as from 31st December 1924. It is agreed that good-will should be taken at three years' purchase of the average profits of the past five years less 10 per cent. The net result of the previous five years were as follows :—

		Rs.
1920	Profit of	30,000
1921	,,	20,000
1922	,,	5,000
1923	Loss of	10,000
1924	Profit of	15,000

Compute the share that will fall to A in respect of good-will on his retirement.

		Rs.
The average profits	$= \frac{70,000 - 10,000}{5} =$	12,000
Less 10 per cent. ...		1,200
		10,800
		Rs.
Total value of good-will	$= 3 \times 10,800 =$	32,400
A's share being	Rs.	16,200

Illustration.

Nibb, Potts and Pen are in partnership who share profits and losses in the ratio of 4 : 2 : 1 respectively. When Pen joined the firm Rs. 7,000 was debited to good-will account which remains unaltered still. The articles of partnership provides that on the event of death of one of the partners the deceased partner's share of the good-will shall be twice the average of profits credited during the three preceding years to his account. On the death of Nibb what further amount should be credited to his account in respect of good-will assuming the profits of the partnership for the previous three years were Rs. 20,350, Rs. 22,700, and Rs. 21,000 respectively. Potts and Pen have agreed not to bring into account their shares. Give the necessary journal entry.

		Rs.
Amount credited to Nibb during the last three years	$= \frac{64{,}050 \times 4}{7}$	= 36,600
Nibb's share of good-will is ...	$\frac{36{,}600 \times 2}{3}$	= 24,400
At present there is a balance of Rs. 7,000 on good-will account of which $\frac{4}{7}$ths or Rs. 4,000 is Nibbs share		4,000
Hence the further amount to be credited is		20,400
When good-will account will stand at ...		27,400

Journal Entry.

		Rs.	Rs.
Good-will account ...	Dr.	20,400	
To Nibbs capital account			20,400
being amount required to bring in Nibbs full share of good-will.			

Exercises on Chapter IV.

I. Hari Singh, Sham Singh, and Gulab Singh who are cigarette manufacturers, share profits and losses in the ratio of 2 : 1 : 1. The Partnership Deed provides that interest at the rate of 5% *P. A.* is to be allowed on the capital of the partners which amount to Rs. 8,000, Rs. 6,000 and Rs. 2,000 respectively. Gulab Singh is also to receive Rs. 500 per annum as salary over and above his share of the profits. The firm's profit amounts to Rs. 5,000 for the year ending 30th June 1924 before charging interest on capital and partners' salary. You are required to show capital accounts and current accounts of the partners. Hari Singh had drawn in anticipation of profits during the year Rs. 600, Sham Singh Rs. 500 and Gulab Singh had drawn his whole salary but did not draw anything against his share of profits.

II. Mondker, Khadilker and Kelker are trading in partnership as provision merchants. On 1st January 1924 their capital stood as Rs. 30,000, Rs. 20,000 and Rs. 10,000 respectively. Interest at 6% is allowed on capital and is to be charged on drawings. Mondker and Kelker are to receive 2% of net profits as commission being remuneration for devoting more of their time to business than the third partner. The partners drawings were Rs. 7,500, Rs. 6,000, and Rs. 4,500 respectively. The profits for the year ending 31st December 1924, amounted to Rs. 18,000 after charging partners' commission but before charging interest on capital and drawing. The first Rs. 10,000 of divisible profit is to be shared in ratio of 5 : 3 : 2 and the balance to be shared equally. Show partners' capital accounts and current accounts after giving effect to above arrangements.

III. Sham, Krishan and Moorar who are General Stationers and paper merchants, share profits and losses in the ratio of 9 : 7 : 4. Interest at the rate of 5% is allowed on capital and charged on drawings. Their capitals on 30th September 1924 were Rs. 16,000, Rs. 12,000 and Rs. 8,000. Moorar is entitled to receive a sum of Rs. 250 per mensem by way of salary which he had not drawn.

Their drawings during the year had been as follows:—

Date	Sham	Krishan	Moorar
31st December 1923 ...	250	350	150
31st March 1924 ...	150	200	400
30th June 1924 ...	200	275	150

Profits for the year ending 30th September 1925 were Rs. 9,500. Show the partners' capital and current accounts.

(1) When the articles of partnership require the capitals to be kept up at the original amounts without variation; (2) when no such provision is made.

IV. Balance Sheet of Anderson and Mullan who share profit and loss in ratio of 6 : 4 stood as under on 31st December 1924.

Anderson and Mullan.

Balance Sheet on 31st December 1924.

	Rs.	Rs.		Rs.
Creditors—			Petty Cash	25
On open account ...		... 12,400	Central Bank of India Ltd.	5,395
On Bills payable ...		... 7,000	Debtors	27,500
Capitals—			Stock	12,700
Anderson	36,000		Machinery	13,780
Mullan ...	... 24,000		Land and Building	20,000
		60,000		
		79,400		79,400

On 1st January 1926, they agree to take Haridas as their partner by giving him $\frac{1}{5}$th share of profit on payment of Rs. 5,000 as good-will and Rs. 16,000 as his capital which he has agreed to bring in cash which amount is to be credited to partners' capital accounts in the same proportion in which they share profits and losses.

Draft the necessary journal entries giving effect to above arrangement and prepare the Balance Sheet of the new firm; and show also the present profit sharing proportions of Anderson and Mullan.

XV. Patel and Mehta who are partners in a Drapery Business share profits, two-third and one-third respectively.

Their Balance Sheet on June 30th 1924 showed the following position:—

Balance Sheet on 30th June 1924.

	Rs.	Rs.		Rs.
Creditors on open account...		10,000	Cash in hand	325
Loan from Mehta		5,000	" at Bank	5,375
			" Debtors	27,960
Capital accounts—			" Stock	35,750
Patel	40,000		" Fixtures	3,590
Mehta	20,000		" Investments	2,000
		60,000		
		75,000		75,000

It is arranged between the old parnters to take Dalal as their third partner on 1st July 1924 by giving him a $\frac{1}{5}$th share of profits who agrees to bring in Rs. 12,000 as his capital. It is further agreed to raise a good-will account to the extent of Rs. 20,000 which is to be credited to the old partners' capital accounts in the same proportion in which they shared profits and losses and to be written back to all partners' capital accounts in the present profit sharing proportions; Patel and Mehta are to share profits in the same ratio as before.

Following adjustments are to be made in the books of the old firm. Investments are re-valued at Rs. 2,250. Fixtures and stock are to be depreciated by 5% and a reserve on sundry debtors at 5% is to be credited.

Pass necessary journal entries giving effect to above arrangements. Show also the working of good-will account in the books of the new firm and draw Balance Sheet of the new firm showing full details in the capital accounts.

VI Shah and Dalal who shared profits and losses in the proportion of 7 : 3 had the following Balance Sheet on 30th June 1922:—

LIABILITIES.	Rs.	ASSETS.	Rs.
Capital Accounts—		Freehold Buildings ...	8,000
Shah	14,300	Plant and Machinery ...	6,000
Dalal	7,100	Investments	1,500
Creditors	2,875	Stock in Trade	4,400
Reserve Fund	2,000	Book Debts	11,050
Loan Account (Shah) ...	2,500	Cash in hand	560
Bank of India Ltd.	1,387	Cash at Bank...	452
Profit and Loss Account	1,800		
	31,962		31,962

The firm made a profit of Rupees 3,800 to 30th June 1923, before charging interest on capital at 5 per cent. On 1st July 1923 it was decided to admit Mr. Sutharia into partnership on the conditions that he pays Rs. 2,000 for a fifth share of good-will (which he acquires in equal proportions, from partners who withdraw the cash for same) and brings in Rs. 5,000 as his share of capital. In 1924 the profits were Rs. 4,200. Prepare the capital accounts of each partner on 30th June 1924, and show "Good-will Account" as it will appear in the books.

CHAPTER V.

PARTNERSHIP ACCOUNTS—PART II.

Dissolution, Absorption and Amalgamation of Partnerships.

A partnership may be dissolved (1) voluntarily or (2) by the order of the Court. Voluntary dissolution arises under the following circumstances :—

(1) By mutual consent of partners ;

(2) If the partnership entered into for a fixed term at the expiration of that term ;

(3) If the partnership was entered into for a fixed enterprise at the termination of that enterprise ;

(4) If the partnership is at will any partner can by giving reasonable notice terminate the partnership.

In the following circumstances the Court will order dissolution on application of one or more partners as per Sec. 254 of the Indian Contract Act :—

(1) When a partner becomes of unsound mind ;

(2) When one of the partners becomes insolvent ;

(3) When one of the partners assigns his share in the partnership to an outsider ;

(4) When a partner becomes incapable of performing his part of the partnership contract ;

(5) When a partner is guilty of gross misconduct in the affairs of the partnership business ;

(6) When the business of a partnership can only be carried on at a loss.

It may be further added that death of a partner dissolves partnership *ipso facto* and no application to the Court is necessary.

During the course of dissolution the authority of the partners and their rights and liabilities continue on the same footing as before for the purposes of dissolution *i. e.*, they cannot enter into fresh transaction (unless necessary for the purpose of dissolution) but should close or carry out transactions already entered into before the commencement of dissolution. In case of an insolvent partner the firm is not bound or liable for his private debts or debts incurred outside the partnership business but his creditor would be entitled to see that his share of capital as per assets made out up to the date of dissolution is handed over to the Official Assignee in Insolvency.

Voluntary Dissolution.

We shall first take up the case of retirement of one of the partners from the firm and deal with adjustment of accounts in connection with same.

Here the proper course to be adopted in ascertaining the amount due to a retiring partner or the estate of a deceased partner in respect of capital is, to take stock on the date of retirement or death and prepare accounts and Balance Sheet as at that date. Then the amount shown to the credit of the capital accounts of each of the partners by such Balance Sheet will be the amount due and payable to them subject to adjustments of Reserves and Book values of assets. The following illustration will explain the procedure :—

Illustration.

D'Costa, D'Silva and D'Souza are general outfitters and tailors. D'Costa wishes to retire on 31st January 1925 on which date the Balance Sheet is as follows :—

LIABILITIES.		Rs.	ASSETS.	Rs.
Sundry Creditors... ...		10,000	Machinery...	8,000
Reserve		25,000	Furniture	9,000
Capital Accounts—	Rs.		Stock	60,000
D'Costa ...	50,000		Debtors	54,000
D'Silva	30,000		Bills Receivable	1,000
D'Souza ...	20,000		Bank	3,000
		1,00,000		
		1,35,000		1,35,000

They share profits and losses in the proportion of 5 : 4 : 3 respectively. Machinery has been over depreciated in the past to the extent of Rs. 2,000, on the other hand debtors amounting to Rs. 3,000 are known to be bad. What will be the amo[illegible]able to D'Costa on his retirement in resp[illegible]is capital?

Pro[illegible]nd Loss Adjustment Account.

		Rs.		Rs.
To Bad Debts		3,000	By Machinery	2,000
,, *Capital Accounts*—	Rs.		,, Reserve	25,000
D'Costa ...	10,000			
D'Silva ...	8,000			
D'Souza ...	6,000			
		24,000		
		27,000		27,000

D'Costa : Capital Account.

1925	Rs.	1925	Rs.
Jan. 31 To Transfer to Loan account	60,000	Jan. 31 By Balance ...	50,000
		P. & L. adjustment	10,000
	60,000		60,000

Hence Rs. 60,000 will be payable to D'Costa in respect of his capital.

Where it is not possible to close the books on the date of retirement or death of a partner it is usual to work on the basis of the last Balance Sheet accepted by the partners. In such a case the share of profits accrued since the date of the last Balance Sheet to the date of retirement or death has to be allowed for. This is usually arrived at by one of the methods explained and illustrated below :—

1. After completion of the current financial period when the profits for the whole period is ascertained an apportionment is made on the basis of either the turnover or according to time if the turnover is steady over the whole period.
2. An apportionment may be made on the basis of the profits of the previous year or on the average profits of a stated number of past years.
3. Interest in lieu of profits may be allowed on the capital shown by the last Balance Sheet at a rate agreed upon or fixed according to the return the business has been making in the past on the capital invested. It should be noted that this Interest would be in addition to any Interest on capital usually allowed for in the accounts.

Illustration: *Method No. 1.*

R. Das, K. Basu and M. Mukerji who are partners in a business share the partnership Property, Profits and Losses in the proportion of 2 : 1 : 5. The annual accounts are made up to 30th June every year.

R. Das dies on the preceding 31st December 1923. Basu and Mukerji continue the business, without paying out R. Das's share of the partnership Assets, or settling accounts with his estate until the close of the year—30th June 1924.

The previous year's Balance Sheet showed R. Das's capital to be Rs. 50,000.

The partners' drawings during the year have been as follows :—R. Das, Rs. 3,000; K. Basu, Rs. 1,000; and M. Mukerji, Rs. 5,000.

No interest is to be allowed on capital and partners Das and Basu are to be credited with a salary at the rate of Rs. 1,000 per annum. Subject to this charge, the profits for the year ending 30th June 1924 are Rs. 25,000. Show the balance of capital profits and salary due by Basu and Mukerji to Das's estate at 30th June 1924.

Das, Basu and Mukerji : Profit and Loss Account

For the six months ending 31st December 1923.

Dr. *Cr.*

	Rs.	Rs.	a.	p.		Rs.
To Partners Salaries—					By apportionment of profits for six months ending 31st December 1923 ...	12,500
R. Das ...	500					
K. Basu ...	500	1,000	0	0		
To Balance ...		11,500	0	0		
		12,500	0	0		12,500
To R. Das one-fourth		2,875	0	0	By Balance ...	11,500
K. Basu one-eighth ...		1,437	8	0		
M. Mukerji five-eighths		7,187	8	0		
		11,500	0	0		11,500

Basu and Mukerji : Profit and Loss Account

For the six months ending 30th June, 1924.

Dr. *Cr.*

	Rs.	a.	p.		Rs.	a.	p.
To Partners Salary— K. Basu	500	0	0	By apportionment of profit for six months ending 3rd June, 1924.	12,500	0	0
,, Interest R. Das 5 % per annum on Rs. 50,375 balance of capital and current accounts ...	1,259	6	0				
,, Balance c/d. ...	10,740	10	0				
	12,500	0	0		12,500	0	0
To K. Basu one-sixth	1,790	1	8	By Balance b/d ...	10,740	10	0
To M. Mukerji five sixths	8,950	8	4				
	10,740	10	0		10,74	10	0

R. Das' Current Account.

Dr. *Cr.*

	Rs		Rs.
To drawings	3,000	By Salary	500
Balance to Capital ...	375	Profits	2,875
	3,375		3,375

R. Das' Capital Account.

Dr. *Cr.*

	Rs.	a.	p.		Rs.	a.	p.
To Balance ...	51,634	6	0	By Balance ...	50,000	0	0
				Current a/c ...	375	0	0
				Interest	1,259	6	0
	51,634	6	0		51,634	6	0
				By Balance, being total amount due to Das' estate...	51,634	6	0

Illustration: Method No. 2.

Capital accounts of Shri Krashan and Govind, who shared profits and losses in the proportion 5 : 4 : 3, on 30th June 1924 were Rs. 25,000, Rs. 20,000 and Rs. 15,000 respectively.

Krashan died on 30th September 1924. According to the partnership agreement executors of the deceased are entitled to receive the following :—

(1) Capital as at the date of last Balance Sheet,

(2) Amount of good-will which is to be calculated on the basis of last three years' average profits,

(3) Share of profit to the date of death calculated on the basis of the profit of the previous year.

Profits for the past three years were as follows :— 1922, Rs. 17,000; 1923, Rs. 16,000 and 1924, Rs. 12,000.

Show the amount due to the executors of the deceased by the firm.

Krashan's Share of Good-will $\frac{17{,}000 + 16{,}000 + 12{,}000}{3}$ = Rs. 15,000

Three months' Profits $\frac{12{,}000}{4}$ = Rs. 3,000

Krashan's Share $\frac{3{,}000}{3}$ = Rs. 1,000

The Executors of Krashan Deceased.

	Rs.			Rs.
To Balance c/d . . .	36,000	1924 June	By Capital a/c Balance transferred.	20,000
			,, Good-will 1/3 share	15,000
			,, Share of profit	1,000
	36,000			36,000
		1924 Sep. 30th	By Balance b/d.	36,000

Illustration: Method No. 3.

Kurshedji and Muncherji carried on business in partnership, sharing profits and losses in ratio of 3 : 2. Muncherji died on 31st March 1925 and the Balance Sheet showed the following position on 31st December 1924.

Balance Sheet on 31st December 1924.

Liabilities—		Rs.	Assets—	Rs.
Creditors		15,000	Plant and Machinery	36,000
Capital accounts . .			Stock	17,000
Kurshedji .	30,000		Debtors	8,000
Muncherji . .	20,000		Cash	4,000
		50,000		
		65,000		65,000

Partnership agreement provided that in case of death or retirement of a partner, his estate or he is entitled to receive the amount of capital standing to his credit as per last Balance Sheet, plus interest at the rate of 15% P. A. on his capital in lieu of profits over and above usual interest which is to be calculated at 5% P. A.

Work out the capital account of Muncherji and the amount due to his estate.

Muncherji's (Deceased) a/c.

	Rs.		Rs.
To Balance c/d . . .	21,000	By Balance . . .	20,000
		,, Interest in lieu of profits.	750
		,, ,, on Capital to date of death	250
	21,000		21,000

Retired or Deceased Partner's Capital as a Loan.

The law generally assumes that when a partner retires or dies, his capital, Profits and good-will calculated as above stated should be handed to him, or his representative, in cash and that interest at the rate of 6% per annum runs from the date of his death or retirement on any balance due to him. As he is no longer a partner his liability naturally ceases so far as the future debts incurred after his death or retirement are concerned, of course granting that in case of his retirement, he has given the usual public notice. In practice, however, it is found inconvenient to have to pay the amount of the partner's capital in one lump sum, because it may happen that such payment to a principal partner who has brought in the largest amount of capital in the firm, may deprive the firm of a large sum, which is very difficult to be replaced by other partners within a short time. Many partnership agreements, therefore, provide for this contingency, by arranging that an outgoing, or a dead partner's capital, should be calculated up to the date of his retirement or death and placed to the credit of a separate account opened under the heading of a Loan account, in his own name if he is alive, or in the name of his executor or representative if he is dead. The loan account is credited from year to year with interest as arranged in the partnership deed and is debited with the amount paid against it in instalments yearly or half-yearly as arranged. The following illustration of a case in which this method is followed would explain the point :—

Illustration.

B, a partner, of the firm composed of A, B and C retires on the 1st of January 1924. His Capital, which, as calculated up to the date of retirement, was Rs. 40,000 is agreed to be paid to him in two half-yearly instalments, interest being calculated @ 5% per annum on the outstanding balance.

B's Loan Account (first half-year).

1924	Rs.	1924	Rs.
June 30 To Bank . .	21,000	Jan. 1 By A's Capital Account (transfer)	40,000
" " " Balance c/d. .	20,000	June 30 " Interest . .	1,000
	41,000		41,000

B's Loan Account (second half-year).

1924	Rs.	1924	Rs.
Dec. 31 To Bank . .	20,500	July 1 By Balance b/d. .	20,000
		Dec. 31 " Interest . .	500
	20,500		20,500

Joint Life Partnership Policies.

In order to facilitate the payment of a partner's Good-will and Capital in case of his death, Insurance Policies are taken out on the lives of the respective partners jointly or severally, the premiums for which are paid out of the firm's profits and are charged yearly to Profit and Loss Account. Thus on the death of a partner, the policy of insurance of that particular partner in the hands of the firm, provides for so much ready cash which may be utilised towards this payment. Of course, the deceased partner's capital account is here entitled to be credited with his share, in the proportion in which he shared profits, with regard to this amount of life policy, but the idea is that the cash received on the policy falling due, forms a liquid sum in cash which comes very handy in meeting such a payment. The following illustrations would explain the point :—

Illustration No. 1.

A, B and C are partners in a firm with Capitals of Rs. 40,000, Rs. 45,000 and Rs. 40,000 respectively, sharing profits and losses equally. To provide against the death of any of the partners they had effected an Insurance Policy for Rs. 60,000 in their joint and several names. A died on the 1st January 1925 when the Policy amount was realised. Show the adjustments necessary on the receipt of the amount due under the Policy.

Policy Account.

	Rs.		Rs.
To A's Capital Account .	20,000	By Bank	60,000
,, B's ,, ,, .	20,000		
,, C's ,, ,, .	20,000		
	60,000		60,000

A's Capital Account.

	Rs.		Rs.
To Bank	60,000	By Balance . . .	40,000
		,, By Policy Account .	20,000
	60,000		60,000

B's Capital Account

	Rs.		Rs.
To Balance (After A's death)	65,000	By Balance (Before A's death) . . . ,	45,000
		,, Policy Account . .	20,000
	65,000		65,000

C's Capital Account.

	Rs.		Rs.
To Balance (After A's death)	60,000	By Balance (Before A's death)	40,000
		,, Policy Account . .	20,000
	60,000		60,000

Illustration No. 2.

X and Y are partners in a concern sharing profits and losses in proportion of two-thirds and one-third respectively, and to facilitate the payment of amount in respect of Capital and good-will in the event of death, an assurance was effected on their lives jointly for Rs. 75,000, at an annual premium of Rs. 2,500, premium being charged to Profit and Loss Account every year.

X dies on 30th April, 1924, four months after the annual accounts had been prepared, and, in accordance with the partnership Deed in lieu of profits an interest at 15% was allowed on capital standing to his credit to the date of death. In addition to this the Deed of Partnership provided for interest on capital at 5% per annum on the balance standing to the credit of the Capital Account at the date of last Balance Sheet, and also for good-will, which was to be brought into account at three years purchase of the average profits for the last five years, prior to charging the above-mentioned insurance premiums, but after charging interest on Capi l.

X's Capital on 31st Decen'·er 1923, stood at Rs. 100,000, and his drawings from then to the date of death amounted to Rs. 7,500. The net profits of the business for five years ending 31st December 1919–20–21–22–

23, amounted to Rs. 25,000, 30,000, 32,000, 34,000 and 36,000 respectively, after charging interest on capital and insurance premium.

You are instructed to adjust X's Capital Account as at the date of death for a settlement with his Executors.

X's Capital Account.

	Rs.	a.	p.		Rs.	a.	p.
To Drawings . .	7,500	0	0	By Balance . .	1,00,000	0	0
Balance (to be transferred to X's Estate Account) . .	2,16,960	10	8	,, Interest on Capital @ 5% for 4 months . .	1,660	10	8
				,, Interest on Capital @ 15% in Lieu of Profits.	5,000	0	0
				,, Good-will . .	67,800	0	0
				,, Insurance Policy, ⅔ of Rupees 75,000 . .	50,000	0	0
	2,24,460	10	8		2,24,460	10	8

The figure for good-will is arrived at as follows:—

Profits 1919	Rs. 25,000 +	Insurance Premium	Rs. 2,500	=	27,500
,, 1920	,, 30,000 +	,, ,,	,, 2,500	=	32,500
,, 1921	,, 32,000 +	,, ,,	,, 2,500	=	34,500
,, 1922	,, 34,000 +	,, ,,	,, 2,500	=	36,500
,, 1923	,, 36,000 +	,, ,,	,, 2,500	=	38,500
				5)	1,69,500
		F[illegible]t year's average profit	...		33,900
		Total amount of good-will	...		3
					1,01,700

X's share = ⅔ of 1,01,700 = 67,800.

Interest on footing of Actual Realisation.

We have noticed that on retirement the retiring partner is entitled to his capital as on date of retirement. In actual practice, however, the assets representing the capital have to be realised and it is not fair to compel the continuing partners to pay interest on the whole amount shown by the books as due to the retiring partner until actual realisation in cash. It is, therefore, frequently provided for in the partnership agreement that the interest is to be allowed on the different items according to the merits of the case. For this purpose a current account is maintained and worked as illustrated below :—

Illustration.

A. Appadurai and L. Munuswamy share profits and losses equally in a business carried on by them at Conjeevaram. Munuswamy wishes to retire as from 30th September 1924 on which date the Balance Sheet was as follows :—

Liabilities.	Rs.	*Assets.*	Rs.
Sundry Creditors ...	... 20,000	Machinery	... 14,500
Capital Accounts—		Book Debts	... 52,500
A Appadurai ...	... 33,100	Bank	... 7,200
L. Munuswamy ...	... 21,100		
	74,200		74,200

It is agreed that machinery should be written down by Rs. 2,500, the outgoing partner's share of good-will be valued at Rs. 15,000, and interest be calculated at the rate of 5 per cent P. A.

Debts to the extent of Rs. 2,300 proved bad, the balance was realised subject to a discount of Rs. 2,200 at an average date of four months while the creditors were paid off at an average date of three months and discount at 4 per cent was taken advantage of.

Appadurai pays Rs. 6,000 every month to Munuswamy commencing from 31st October 1924. Prepare an account current showing the final amount that will be payable on 31st March 1925.

Profit and Loss Adjustment Account.

	Rs.		Rs.
To Machinery	2,500	By Discounts...	800
,, Bad Debts	2,300	,, Loss—	
,, Discounts	2,220	A. Appadurai	3,100
		L. Munuswamy ...	3,100
	7,000		7,000

Final Balance Sheet as Agreed.

Liabilities.	Rs.	*Assets.*	Rs.
Sundry Creditors	19,200	Machinery	12,000
Capital Account—		Book Debts	48,000
A. Appadurai	30,000	Bank	7,200
L. Munuswamy	18,000		
	67,200		67,200

As partners' capital accounts represent the proportion in which the net assets of the business are shared it follows that the actual Assets and Liabilities should also be shared in that proportion, in this example as 5 : 3.

L. MUNUSWAMY IN ACCOUNT CURRENT WITH A. APPADURAI.

Date.		Months.	Interest.	Amount.	Date.		Months.	Interest		Amount.
1924			Rs.	Rs.	1924			Rs.	a.	Rs.
31 Oct.	To Cash	5	125	6,000	1 Oct.	By Machinery (3/8 of 12,000).	6	112	8	4,500
30 Nov.	,, ,, ...	4	100	6,000		,, Bank (3/8 of 7,200).	6	67	8	2,700
31 Dec.	,, ,, ...	3	75	6,000		,, Good-will (as agreed).	6	375	0	15,000
1925					1925					
1 Jan.	,, Creditors 3/8 of 19,200.	8	90	7,200						
31 ,,	,, Cash	2	50	6,000	1 Feb.	,, Book Debts (3/8 of 48,000).	2	150	0	18,000
28 Feb.	,, ,, ...	1	25	6,000						
31 Mar.	,, Interest Transfer	...	240	...	31 Mar.	,, Interest ...	...	...		240
	,, Balance due ...	...	...	3,240						
			705	40,440				705	0	40,440

Amount due to L. Munuswamy on retirement was Rs. 33,240 made up as follows :—

Capital ... ... —	Rs.	18,000
Good-will	,,	15,000
Interest	,,	240
	,,	33,240

Distribution of Assets.

The Indian Contract Act does not lay down the rules as to distribution of assets on dissolution of partnership but the principles of the English Act are followed. They are as follows (Partnership Act 1890 S. 44) :—

In settling accounts between the partners after a dissolution of partnership, the following rules shall, subject to any agreement, be observed :—

(*a*) Losses, including losses and deficiencies of capital, shall be paid first out of profits, next out of capital, and lastly, if necessary, by the partners individually in the proportion in which they were entitled to share profits.

(*b*) The Assets of the firm including the sums, if any, contributed by the partners to make up losses or deficiencies of Capital, shall be applied in the following manner and order :—

1. In paying the debts and liabilities of the firm to persons who are not partners therein.
2. In paying to each partner rateably what is due from the firm to him for advances as distinguished from capital.
3. In paying to each partner rateably what is due from the firm to him in respect of capital.
4. The ultimate residue, if any, shall be divided among the partners in the proportion in which profits are divisible.

It may however be added here that in case where partners have agreed to share equal profits, but to bring in unequal capitals, a deficiency of capital on dissolution would be treated as an ordinary loss in the absence of some other agreement. On the same principle if there are enough assets to pay out outside creditors, but there are not sufficient assets to pay off advances made by one or more partners over and above their agreed capital, such a deficiency would also be treated as a loss and met with by all partners in the same proportion as they pay other losses.

On the dissolution of Partnership different methods as to adjustment of accounts in connection with Profits and Losses on the realisation of Assets on winding up are applied which are dealt with below :—

Method No. 1.

Where the business is taken over by one of the partners the assets being revalued, a "Profit and Loss on Adjustments" account is opened to which the differences between book values and agreed values of assets are transferred and thereafter the resultant profit or loss is shared by all partners in the usual profit sharing proportion, when the total of the outgoing Partners' Capital Account will represent the purchase consideration to be paid to those partners. The following illustration will explain the procedure to be adopted.

Balance Sheet of the firm of A, B, C and Co., was on the 31st of December 1924 as follows :—

Balance Sheet.

Liabilities.	Rs.	*Assets.*		Rs.
Sundry Creditors . .	2,050	Freehold Land and Buildings		10,000
A's Capital Account . .	20,000	Plant and Machinery .		5,000
B's " " . .	10,000	Furniture and Fixtures .		500
C's " " . .	9,000	Stock		20,000
		Sundry Debtors . . .		3,500
		Cash at Bank .	2,000	
		Cash on Hand .	50	
				2,050
	41,050			41,050

A and B wishing to retire from the business agreed to C taking over the concern at the following valuation :—

Freehold Land and Buildings	20% *less* than book value.		
Plant and Machinery	10%	,,	,,
Furniture and Fixture	25%	,,	,,
Stock	5% *more* than book value.		

Sundry Debtors subject to a reserve of 500 rupees for Doubtful Debts. The Cost of Dissolution was Rs. 500 to be borne by the firm.

Draft the necessary journal entries and show the Profit and Loss on adjustment account.

Profit and Loss on Adjustment ... Dr. 3,625

To Sundries—

Freehold Land and Building	...	2,000
Plant and Machinery	...	500

Furniture and Fixtures	...		125
Bad Debts Reserve	...		500
Cost of Dissolution	...		500

being adjustment of difference between book values and that at which C has agreed to take over the respective assets.

Stock Account	... Dr.	1,000	
To Profit and Loss on Adjustments			1,000

being adjustment of difference between book values and that at which C has agreed to take over the Stock.

Sundries	... Dr.		
To Profit and Loss on Adjustments Account	...		2,625
A's Capital Account	...	875	
B's ,, ,,	...	875	
C's ,, ,,	...	875	

being transfer of the share of Loss on Dissolution to Capital Accounts.

Profit and Loss on Adjustment.

		Rs.			Rs.
To Sundries :			By Stock		1,000
Freehold Land and Building .	2,000		,, Capital Account—		
Plant and Machinery . .	500		A . . .	875	
Furniture and Fixture . .	125		B . . .	875	
Bad Debts Reserve . .	500		C . . .	875	
Cost of Dissolution . .	500	3,625			2,625
		3,625			3,625

Method No. 2.

Where the business is to be discontinued and finally wound up a " Profit and Loss on Realisation" account is opened. As each asset is being realised cash is debited and the account of the asset concerned is credited the balance on the asset account will show a profit or loss on sale which should be transferred to " Profit and Loss on Realisation" Account. The final balance on this account will show the Profit or Loss which will be shared by the partners in the usual proportions.

Illustration.

Take the same balance sheet as in the previous example assume A, B and C all retired and discontinued the business and the assets realised in cash :—

		Rs.
Freehold Land and Buildings	...	8,000
Plant and Machinery	...	4,500
Furniture and Fixtures	...	375
Stock	...	21,000
Debtors	...	3,000
The Costs of Realisation being	...	500

Show the respective asset accounts and "Profit and Loss on Realisation" Account.

Freehold Land and Buildings.

		Rs.			Rs.
To Balance	...	10,000	By Cash	...	8,000
			,, P & L on R.		2,000
		10,000			10,000

Plant and Machinery.

		Rs.			Rs.
To Balance	...	5,000	By Cash	...	4,500
			,, P & L on R.		500
		5,000			5,000

Furniture and Fixtures.

		Rs.			Rs.
To Balance	...	500	By Cash	...	375
			,, P & L on R.		125
		500			500

Stock.

		Rs.			Rs.
To Balance	...	20,000	By Cash		21,000
,, P. and L. on R.		1,000			
		21,000			21,000

Debtors.

		Rs.			Rs.
To Balance	...	3,500	By Cash	...	3,000
			,, P & L on R.		500
		3,500			3,500

Realisation Costs.

		Rs.			Rs.
To Cash	...	500	By P & L on R.		500

Profit and Loss on Realisation.

	Rs.			Rs.
To Freehold Land and Building . . .	2, 000	By Stock		1,000
,, Plant and Machinery .	500	,, Capital Accounts		
,, Furniture and Fixtures	125	A . . .	875	
,, Bad Debts . . .	500	B . . .	875	
,, Costs of Realisation .	500	C . . .	875	2,625
	3,625			3,625

This method is advisable in practice where there are a large number of assets to be realised.

Method No. 3.

Where the assets are few in number and especially for Examination purposes the following method may commend itself.

A Realisation Account is opened and debited with all the assets as per book-value, not including cash on hand or at Bank, the Journal entry appearing as follows :—

Realisation Account . . Dr.

To Sundry Assets . .

As these assets are taken at book-value the accounts of the assets are automatically closed by this entry. As these assets are being realised, cash is debited and the realisation account is credited for the actual cash received on realisation. When all the assets are thus realised, the balance of the realisation account would indicate either a loss or profit on realisation, which would be divided among partners in the same proportion in which they share profits or losses. In case of loss, the same is credited to realisation account and debited to the capital account of each of the partners for his respective share of loss. On the other hand, if the realisation proves profitable, as is the case where the assets have been over depreciated, realisation account is debited and the capital accounts of respective partners credited for their share of profits. Out of cash, the liabilities of the firm would be paid first and the money would be next utilised towards the payment of loans advanced if any by partners over and above their agreed capital. Finally, the balances indicated by capital accounts would be paid to the partners in cash. The previous illustration worked out under this method will give the following result.

Realisation Account.

	Rs.			Rs.
To Freehold Land & Buildings	10,000	By Bank (Amount Realised)		
,, Plant and Machinery .	5,000	Freehold Land and Buildings	8,000	
,, Furniture and Fixtures .	500	Plant and Machinery . .	4,500	
,, Stock	20,000	Furniture and Fixtures . .	375	
,, Sundry Debtors . .	3,500	Stock . .	21,000	
,, Cost of Realisation. .	500	Sundry Debtors	3,000	36,875
		,, A's Capital Account (⅓ loss on Realisation)		875
		,, B's ,, ,,		875
		,, C's ,, ,,		875
	39,500			39,500

A's Capital Account.

	Rs.		Rs.
To Realisation Account ($\frac{1}{3}$ loss on realisation)	875	By Balance . . .	20,000
„ Bank	19,125		
	20,000		20,000

B's Capital Account.

	Rs.		Rs.
To Realisation Account ($\frac{1}{3}$ loss on realisation) .	875	By Balance . . .	10,000
„ Bank	9,125		
	10,000		10,000

C's Capital Account.

	Rs.		Rs.
To Realisation Account ($\frac{1}{3}$ loss on realisation) .	875	By Balance . . .	9,000
„ Bank	8,125		
	9,000		9,000

Cash Book.

		Cash. Rs.	Bank. Rs.		Cash. Rs.	Bank. Rs.
To Balance . .		50	2,000	By Bank . . .	50	
„ Cash . . .			50	„ Cost of Realisation .		500
„ Realisation Account				„ Sundry Creditors .		2,050
Freehold Land and Buildings .	8,000			„ A's Capital Account		19,125
Plant and Machinery	4,500			„ B's „ „		9,125
Furniture and Fixture . .	875			„ C's „ „		8,125
Stock . .	21,000					
Sundry Debtors . .	3,000					
			36,875			
		50	38,925		50	38,925

It sometimes happens that when loss on realisation is debited to the capital accounts of the partners, one of these accounts shows a debit balance, *i. e.*, the capital is more than wiped off by loss on realisation ; and in this case, the partner concerned, if solvent, would have to bring in the debit balance. The following exercise would illustrate that point :—

Taking the same illustration as above and supposing that the Capitals of A, B and C were Rs. 28,000, Rs. 10,500 and Rs. 500 respectively, their Capital Accounts and Cash Book would appear as follows :—

A's Capital Account.

	Rs.		Rs.
To Realisation Account ($\frac{1}{3}$ loss on realisation) .	875	By Balance . . .	28,000
,, Bank	27,125		
	28,000		28,000

's Capital Account.

	Rs.		Rs.
To Realisation Account ($\frac{1}{3}$ loss on realisation) .	875	By Balance b/d. . .	10,500
,, Bank	9,625		
	10,500		10,500

C's Capital Account.

	Rs.		Rs.
To Realisation Account ($\frac{1}{3}$ loss on realisation) .	875	By Balance . . .	500
		Bank	375
	875		875

Cash Book.

		Cash. Rs.	Bank. Rs.		Cash. Rs.	Bank. Rs.
To Balance . .		50	2,000	By Bank . . .	50	
,, Cash . . .			50	,, Cost of Realisation.		500
,, Realisation Account :—				,, Sundry Creditors .		2,050
Freehold Land and Buildings .	8,000			,, A's Capital Account		27,125
Plant and Machinery.	4,500			,, B's ,, ,,		9,625
Furniture & Fixture .	375					
Stock . .	21,000					
Sundry Debtors . .	3,000					
			36,875			
C's Capital Account .			375			
		50	39,300		50	39,300

If, on the other hand, the partner with a debit balance, is insolvent, and thus unable to bring in cash, the rule as laid down in Garner *v/s.* Murray by Mr. Justice Joyce seems to indicate that the deficiency of the insolvent partner's capital should be divided among the solvent partners in the proportion in which they have agreed to bring in their capital in the firm, and that they should bring in hard cash for their share of loss on realization. Before this decision it was generally taken for granted that the deficiency would be shared by the solvent partners in the same proportion in which they shared profits. The following illustration would explain the point :—

Once more let us take the same illustration as above where the Capitals of A, B and C are Rs. 28,000, Rs. 10,500 and Rs. 500 respectively ; but in this case let us suppose that C is insolvent and therefore unable to contribute anything towards the loss on realisation. Their Capital Accounts and the Cash Book would be worked as under.

A's Capital Account.

	Rs.	a.	p.		Rs.	a.	p.
To Realisation Account (½ loss on realisation) .	875	0	0	By Balance . .	28,000	0	0
,, C's Capital Account. . .	272	11	8	,, Bank . . .	875	0	0
,, Bank . . .	27,727	4	4				
	28,875	0	0		28,875	0	0

B's Capital Account.

	Rs.	a.	p.		Rs.	a.	p.
To Realisation Account (½ loss on realisation) .	875	0	0	By Balance . .	10,500	0	0
,, C's Capital Account. . .	102	4	4	,, Bank . . .	875	0	0
,, Bank . . .	10,397	11	8				
	11,375	0	0		11,375	0	0

C's Capital Account.

	Rs.	a.	p.		Rs.	a.	p.
To Realisation Account (½ loss on realisation) .	875	0	0	By Balance . .	500	0	0
				,, A's Capital Account . . .	272	11	8
				,, B's ,, ,, .	102	4	4
	875	0	0		875	0	0

Cash Book.

		Cash. Rs.	Bank. Rs.		Cash. Rs.	Bank. Rs.		
To Balance . .		50	2,000	By Bank . .	50			
,, Cash . . .			50	,, Cost of realisation . .		500	0	0
,, Realisation Account :—				,, Sundry Creditors . .		2,050	0	0
Freehold land and Buildings.	8,000			,, A's Capital Account .		27,727	4	4
Plant and Machinery	4,500			,, B's ,, .		10,397	11	8
Furniture & Fixture .	375							
Stock . .	21,000							
Sundry Debtors . .	3,000		36,875					
To A's Capital Account (his share of loss on realisation) . .			875					
,, B's ,, ,, .			875					
		50	40,675		50	40,675	0	0

EXERCISES ON CHAPTER V.

I. The business of Birma Vishnoo and Mahesh who shared profits in the ratio of 5 : 3 : 2, showed the following position on 31st December 1923.

Balance Sheet as at 31st December 1923.

Liabilities.		Rs.	Assets.	Rs.
Creditors		11,000	Freehold Building . .	25,000
Bank Overdraft . . .		5,200	Furniture	2,700
Birma Capital .	25,000		Stock	17,500
Vishnoo ,, .	15,000		Debtors	22,000
Mahesh ,, .	10,000		Cash	500
		50,000		
Undivided Profits . .		1,500		
		67,700		67,700

Birma wishes to retire from the firm on 1st April 1924 and as per the provisions of Partnership Deed Birma is entitled to be credited with interest at 5% from the date of last Balance Sheet, and his share of profit which is to be taken on the basis of last year's Balance Sheet, and for the share of goodwill which is valued on the basis of three years' profits, calculated on an average of the previous five years' profits, less 5%.

Profits for five years were :—

1919,	1920,	1921,	1922,	1923.
8,500	7,000	6,000	3,500	10,000.

Show Birma's capital account and the amount due to him.

II. Sohan and Mohan are trading as cement manufacturers, share profits and losses in the ratio of 2 : 1, and to facilitate the payment of amount due to either of them in case of retirement in respect of both capital and goodwill, an assurance was effected on their lives jointly for Rs. 20,000, at an annual premium of Rs. 700, which was charged every year to Profit and Loss Account.

Sohan retires from the firm on 1st April 1924, three months after the annual accounts had been prepared, and as per Partnership Deed, his share of profit to the date of retirement was estimated on the exact basis of profits of the preceding year. In addition to this, partnership Deed provided for interest on capital at 5% per annum on the balance standing to his credit of Capital Account at the date of last Balance Sheet, and also for goodwill which was to be brought into account at two years' purchase of the average profits for the last three years, prior to charging of above-mentioned insurance premiums, but after charging interest on capital.

Sohan's capital on 31st December 1923 stood at Rs. 24,000 and his drawings from that date amounted to Rs. 2,000.

The net profit of the business for three years ending 31st December, 1921–1923 amounted to Rs. 6,000, Rs. 7,600, Rs. 7,400 respectively after charging interest on Capital and insurance premiums.

Show Sohan's Capital Account and amount due to him.

III. The Balance Sheet of Messrs. Shah, Dalal and Barucha, manufacturers, was as follows on 31st December 1924.

Liabilities.	Rs.	Assets.	Rs.
Creditors on open Account.	84,000	Building	75,000
Bills Payable . . .	28,000	Plant and Machinery. .	90,000
Mortgage on Building .	40,000	Furniture	10,000
Capital Accounts—		Stock	60,000
Shah	1,00,000	Debtors	50,000
Dalal	50,000	Bills Receivable . .	15,000
Barucha	40,000	Banks.	5,000
Drawing Accounts—		Barucha's Drawings. .	45,000
Shah	4,000		
Dalal	4,000		
	8,50,000		3,50,000

Owing to heavy depression in trade the partners decided to dissolve the partnership, and Barucha being insolvent could not contribute anything towards his deficiency. Plant and machinery, furniture, stock, and debtors realised Rupees 1,98,000.

Prepare a final Balance Sheet showing the position of each partners capital account. There is no agreement between the partners as to the distribution of profit or loss.

IV. Capital Accounts of Hari Krishna and Govind who were trading in partnership on equal terms as timber merchants stood on 31st December 1923 as:—

Hari Rs. 80,000 Krishna Rs. 60,000 and Govind Rs. 30,000. Owing to a heavy fall in market price of stock the trading account for the half year ended 30th June 1924, showed a loss of Rs. 1,00,000. During that period Hari's drawings were Rs. 10,000, Krishna's Rs. 7,500 and Govind's Rs. 7,500. It was decided to close down the business and the assets realised Rs. 20,000 less than the value as shown in the Balance Sheet on June 30th 1924. Govind could not bring anything for his share of loss.

Prepare necessary accounts showing the position of each partner at the end of realisation.

V. Two partnership firms having many interests in common, in order to economise decided to amalgamate on 1st January 1925.

Balance Sheets of both the firms on that date stood as follows :—

(1)

Liabilities.		Rs.	Assets.	Rs.
Creditors on open Account .		17,000	Cash at Bank . . .	5,000
Reserve Fund . . .		3,000	Sundry Debtors . . .	27,000
Capital—			Stock	35,000
Shamji . .	50,000		Office Furniture . . .	6,000
Kishanji . .	25,000	75,000	Machinery	22,000
		95,000		95,000

(2)

Liabilities.		Rs.	Assets.		Rs.
Creditors on open Account.		55,000	Cash in hand . . .		1,500
Bank Overdraft . .		20,000	Debtors . .	40,000	
Capital—			Less Reserve .	2,500	
					37,500
Lal . .	60,000		Stock		50,000
Das . .	40,000				
		1,00,000	Investments . . .		10,000
Profit and Loss Account .		7,000	Fixtures		8,000
			Machinery		75,000
		1,82,000			1,82,000

Before amalgamation, the following adjustments are necessary in the Balance Sheet of Shamji and Kishanji.

(1) A reserve of 5% for doubtful debts.

(2) Stock is taken over at Rs. 38,000.

(3) Fixtures and machinery to be depreciated by 5% add 10% respectively.

The following adjustments are to be made in the Balance Sheet of Lal and Das :—

(1) Debtors and stock were taken over at book value.

(2) Investments are taken over at market value *i.e.*, at Rs. 9,500.

(3) Fixtures and machinery are to be depreciated at a uniform rate of 7½ per cent.

Partners' capitals are to remain constant and any decrease or increase resulting from such adjustments is to partners or paid over to them as the case may be—

(1) Pass necessary journal entries in the books of Shamji and Kishanji, and in the books of Lal and Das.

(2) Prepare the Balance Sheet of the new firm after amalgamation.

VI. Cawasji and Hoormasji sharing profits and losses in the ratio of 2 : 1 are trading in partnership as Mill Gin Stores suppliers at Bombay. Cawasji wishes to retire from the business on 30th June 1924 on which date the Balance Sheet was as under :—

Balance Sheet.

Liabilities.	Rs.	Assets.	Rs.
Sundry Creditors . .	30,000	Machinery	50,000
Capital Accounts—		Debtors	25,000
Cawasji	60,000	Stock	40,000
Hoormasji . . .	30,000	Bank	5,000
	1,20,000		1,20,000

It is agreed that machinery should be written up by Rs. 5,000, and the retiring partner's share of goodwill be valued at Rs. 20,000 ; and interest be calculated at the rate of 5 per cent. per annum.

Debtors amounting Rs. 5,000 were irrecoverable and the balance was realised subject to a discount of 1,500 at an average date of three months while creditors were paid off in full at an average date of four months.

Hoormasji pays Rs. 10,000 every month to Cawasji from 31st July 1924. Prepare an account current showing the amount that will be paid on 31st January 1925.

VII. Dias and Pias who are equal partners decided to dissolve partnership on 1st January 1924, and their Balance Sheet after all adjustments, was as under.

Balance Sheet as at 1st January 1924.

LIABILITIES.	Rs.	ASSETS.	Rs.
Creditors	12,770	Cash	970
Dias' Capital . . .	30,000	Sundry Debtors . . .	42,800
Pias' „	20,000	Fixtures and fittings . .	10,900
	62,770		62,770

Pias is to take over the fixtures and fittings at their book value, to allow Dias Rs. 7,000 for his share of goodwill, and to pay him the amount due as and when realised, interest to be brought into account at the rate of 5% per annum. The debtors were realised at an average date of eight months, and the creditors paid at an average date of five months, from the date of dissolution. Pias paid Dias Rs. 8,500 on 15th March 1924, Rs. 8,500 on 15th June, Rs. 10,000 on 15th September and the balance on 31st December 1924. Draw up the account current, and show the final payment made to Dias.

VIII. Rustam and Kapadia are in partnership sharing profits and losses two-thirds and one-third respectively.

On the date of dissolution, the Balance Sheet of the firm was as follows :--

LIABILITIES.		Rs.	ASSETS.	Rs.
Creditors on open Account.		12,000	Cash	900
CAPITAL ACCOUNT—			Book Debts. . . .	4,082
Rustam . .	14,720		Stock	14,320
Kapadia . .	2,462		Furniture	3,080
		17,182	Goodwill	6,800
		29,182		29,182

The assets other than cash realised Rs. 18,600, and the expenses of winding up are Rs. 250. Prepare necessary Ledger accounts in order to close the books of the firm. It is assumed that nothing is recovered from the estate of Mr. Kapadia.

IX. Hirji and Madhavji who are trading as general merchants share profits and losses in the proportion of five-eighths and three-eighths respectively. Their Balance Sheet on 31st December 1924 was as under.

Liabilities.		Rs.	Assets.	Rs.
Creditors		10,500	Cash in hand	500
Bills Payable		5,000	" Bank	2,500
Bank overdrafts		20,000	Debts	20,000
Loan Secured by—				
Mortgage on Building		7,500	Stock	65,000
L. Shivaji Loan: Unsecured		60,000	Furniture	5,000
			Building	10,000
Capital Accounts—				
Hirji	50,000		Goodwill	24,000
Madhavji	30,000			
		80,000	Loss for year	56,000
		1,59,000		1,59,000

The partners decided to dissolve the partnership as from 1st January 1925.

On the date of dissolution the assets realised as follows :—

1. Debts 90 per cent.
2. Furniture realised Rs. 3,000.
3. Building was taken over by fully secured creditors at Rs. 8,000, Goodwill realised nil.

Prepare necessary Ledger accounts showing the position of the partners, assuming that Madhavji is adjudicated bankrupt at the date of dissolution.

CHAPTER VI.

COMPANY ACCOUNTS—PART I.

A company may be defined as an artificial person created by law with a perpetual succession and a common seal. Justice Lindley defines a company in the following terms :—

" An association of members, the shares of which are transferable. As distinguished from partnership I know of nothing else except the transferability of shares."

Companies registered under the Companies Act both in India and in England may be divided into two main headings, *viz* :—

1. PRIVATE COMPANIES

and

2. PUBLIC COMPANIES.

A Private Company according to the Indian Companies Act, 1913, means a company which by its articles restricts the right to transfer its shares and limits the number of its members (exclusive of persons who are in the employ of the company) to 50, and prohibits any invitation to the public to subscribe for its shares or debentures, and continues to observe such restrictions, limitations and prohibitions throughout its existence. In a private company there should not be less than two and more than 50 members. A Private Company, as far as India is concerned, is a new institution created by our Indian Companies Act, 1913 and such a company is exempt from the provisions of the Indian Companies Act as to the filing of a copy of its Balance Sheet and submitting its statutory report to the Registrar. A Private Company in its Articles of Association may enforce all restrictions, limitations and prohibitions, peculiar to a Private Company. A Private Company is also exempt from the requirements of the Indian Companies Act as to its yearly audit, and in case of such Private Companies the auditor, if any, need not possess the qualifications as laid down in Sec. 144 of the Indian Companies Act. Of course no director or officer of a company can be an auditor even in case of a Private Company, and that seems to be the only restriction provided for by law in the case of private companies. The advantage of a private company as claimed by some is that a private company is not compelled to disclose the statements of its accounts to the public. This seems no doubt to be a doubtful advantage, but it is thought by some writers that joint family businesses may take advantage of this act and convert themselves into private companies with limited liability.

A Public Company on the other hand is a company formed under the Companies Act, which offers its shares to public and advertises such offer in a prospectus. Our new Act, in case of the prospectus of a joint stock company, lays down conditions and stipulations as to its contents, and in this particular our act follows the English company law. As per the Indian Companies Act the **Prospectus of a Company** inviting the public to buy shares ought to embrace the following information :—

Contents of the Prospectus.

1. The contents of the Memorandum of Association, including names, description and addresses of the signa-

tories together with the number of shares subscribed for by each.

2. Qualification shares of the directors as laid down by the Articles.

3. Names, addresses and description of the directors and managers.

4. The minimum subscription on which the directors may proceed to allotment, and the amount payable on application and allotment of shares.

5. The names and addresses of the vendors of any property to be purchased or acquired by the Company, and the amount paid or payable as purchase money of such property either in cash, shares or debentures, or otherwise.

6. Under-writing commission, if any, to be paid on the issue of such shares, and the rate of such commission.

7. The amount or estimated amount of preliminary expenditure.

8. Dates, parties and minute particulars as to every material contract entered into by the directors of the Company, and the place at which such a contract can be inspected.

9. Names and addresses of the auditors of the company, if already appointed.

10. Minute particulars as to the interest of every director (if any) in the promotion of, or in the property proposed to be acquired by the company.

11. Where the company wishes to have different classes of shares, a statement as to the right of voting enjoyed by each class of shareholders.

"**Underwriting Commission**" is the commission paid to underwriters, who enter into a contract with the company or its promoters, guaranteeing that the share capital of the company, as offered to the public, would be fully taken up by the public, and that in case any balance were to remain unsubscribed for the same is to be taken up and paid for by them. In consideration of this underwriting a certain commission is agreed to be paid to the underwriters, which is calculated on the whole capital of the company, whether taken up by the public or not.

Any seven or more persons may get themselves incorporated as a company under the Indian Companies Act; but no association of more than ten persons shall be formed for the purpose of carrying on a banking business, or no association or partnership consisting of more than twenty persons shall be formed for the purpose of carrying on any other business, that has for its object acquisition of gain or profit, unless such an association is registered under the Indian Companies Act. It would thus be seen that an association of more than ten persons carrying on a banking business in partnership, or of more than twenty persons carrying on a trading business without such incorporation would be an illegal partnership. The members of an illegal partnership stand in the unenviable position of being unable to sue and recover their claims though they can be sued by their creditors. A company may be incorporated with or without limited liability.

Memorandum of Association.

A Memorandum of Association of a Public Company is the Charter of the Company and has to be drawn out and signed in case of public companies by at least seven persons and in case of a private company by at least two. No company can be registered without its Memorandum of Association. Each subscriber to the Memorandum has to state before his name the number of shares he agrees to take up. The Memorandum of Association should contain the following information :—

(1) the name of the Company (with the word LIMITED if it is going to be a Limited Company);

(2) the place of business of the Company;

(3) the objects for which the Company is formed—a clause which requires to be drafted with great care and ingenuity because, of all the documents, the one which is the most difficult to be altered at law is the Memorandum of Association of a company, and of all the clauses of the Memorandum of Association the clause which is the most difficult and inconvenient to be altered is its "objects" clause. This clause should clearly state in detail all the departments of business to be carried on by the company, otherwise, the directors might find that they are unable to act on some important question in absence of the necessary power;

(4) whether the liability of the members is to be "limited";

(5) the amount of capital of the company, with its proposed division, if any, into shares, classifying these shares under the headings of (*a*) Cumulative Preference, (*b*) Preference, (*c*)—Ordinary and (*d*) Deferred, and stating the amount which is to form the value of each of these shares.

The following is roughly the form in which a Memorandum would appear:—

THE INDIAN COMPANIES ACT, 1913.

Company Limited by Shares.

MEMORANDUM OF ASSOCIATION

OF THE

BOMBAY SPINNING AND WEAVING Co., LIMITED.

1. The name of the Company is the Bombay Spinning and Weaving Company, Limited.

2. The Registered Office of the Company would be situated in Bombay.

3. The objects for which the Company is established are :—

(*a*) To do business as spinners of yarn and weavers of cloth, and for that purpose to purchase and acquire land and other properties and erect factory or factories, mills, etc., containing cisterns, pipes, engines, tanks, machinery and appliances as may be required for business, or expedient for the purposes of the Company, and to purchase, take on lease, or otherwise acquire and hold, use, occupy and otherwise deal with any now existing mills and factories of similar nature.

(*b*) To acquire by purchase, or lease, or otherwise, any lands, hereditaments, rights, privileges, easements, user of water, liberties or licenses, which may be deemed by the Company requisite or expedient for the purposes of the Company.

(*c*) To acquire the rights of Trade Marks by purchase or otherwise, relating to any business of the Company and to turn same to account by using same, or by granting license or otherwise.

(*d*) To raise money by issue of debentures, obligations, bonds, or otherwise, in such manner as the Company may think fit, for the purposes of carrying on the business of the Company.

(*e*) Generally to sell, improve, manage, develope, lease, mortgage, dispose of, turn to account or otherwise deal with all or any of the property of the Company.

(*f*) To do all such other things as are incidental or conducive to the attainments of the above objects.

4. The liability of the Members is limited to the nominal value of shares they hold.

5. The Capital of the Company is to be Rs. 20,00,000 divided into 2,000 shares of Rs. 1,000 each.

We, the several persons whose names and addresses are subscribed, are desirous of being formed into a Company in pursuance of this Memorandum of Association

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and we respectively agree to take the number of Shares in the Capital of the Company set opposite our respective names.

Names, Addresses, and Description of Subscribers.	Number of shares taken by each Subscriber.
Dorab Rustamji Cama, 53, Malabar Hill, Baronet ..	One hundred.
Soloman Issac, 15, Reclamation, Knight	Fifty.
William Jordon, Apollo Bunder, J. P.	Ten.
Thakersey Gordhandas Cubchi, Mandvi Bazar, Rao Bahadur...	Ten.
Ebrahim Ludha, Cumballa Hill, J. P.	Ten.
Janardhan Fadke, Girgaum Road, Doctor of Medicine	Ten.
Chunilal Desai, Walkeshwar Road, Vakil, High Court	Ten.

Dated the 21st of August 1924.

Witness to the above Signatures,

JAMSETJI PESTONJI, SOLICITOR,

OF MESSRS. JAMSHEDJI, HIRALAL & Co.,

BOMBAY.

Articles of Association.

The Memorandum of Association is generally accompanied by the "Articles of Association." These Articles of Association are the bye-laws of the company governing its management and embodying the powers of the directors and officers of the company as well as the powers of the share-holders as to voting, etc. The Articles of Association are not compulsory, and a Company may be formed without possessing the special Articles of Association. In such a case the schedule which is attached to the Companies Act called the "Table A" becomes the Articles of Association of the Company. When, however, a Company possesses its specially framed Articles of Association, but the Articles are silent on some of the points of management, etc., the clauses relating to these points in the "Table A" come into operation. There are instances where some companies do not frame out their own Articles of Association but they draft a few special rules and for the rest provide that "The Table A shall be the Articles of Association of this Company excepting so far as they are modified by the following rules." Now-a-days, however, the company management and work has become so complicated that it is quite difficult, if not impossible, for a company of any magnitude and importance to appropriately adopt the "Table A" as its Articles of Association, and therefore the student may take it that ordinarily every Company of importance gets its own "Articles of Association" specially framed.

After these two documents, *viz.*, the "Memorandum of Association" and the "Articles of Association," together with other necessary documents, are filed with the Registrar of Joint Stock Companies and the necessary fees paid, the Registrar issues a "Certificate of Incorporation" declaring the Company to be duly Incorporated under the Indian Companies Act.

Application and Allotment of Shares.

The Board of Directors, generally composed of some of the signatories to the Memorandum of Association, would appoint a *pro tem* Secretary and receive applications for shares in response to the issue of the Prospectus. Application forms are generally distributed with the Prospectus, which, those desirous of applying for shares are requested to fill in and return with the application money. The form of application would be as under, italics indicating particulars filled in by the applicant :—

Application for Shares.

TO THE BOMBAY SPINNING & WEAVING COMPANY, LIMITED.

GENTLEMEN,

Having paid to the Company's Bankers, the National Bank of India Limited, the sum of Rs. *500* being a deposit of Rs. 50 per share on *ten* shares in the above-named Company, I request you to allot me that number of shares upon the terms of the Company's Prospectus dated the 21st day of August 1924 and I hereby agree to accept the same or any smaller number that may be alloted to me and to pay the balance of Rs. 950, per share, as provided by the said Prospectus, and I authorise you to register me as the holder of the said shares.

NAME IN FULL ... ... *Jivanji Pragji.*
ADDRESS ... ... *15, Church Gate Street.*
DESCRIPTION ... ... *Merchant.*
DATE ... ... *21st August 1924.*
SIGNATURE, ... *Jivanji Pragji.*

A blank receipt is generally annexed to the appliaction form, and as soon as the applicant pays the money either at the company's office or at the office of the company's bankers, the receipt is duly filled in, signed and returned to the applicant. The receipt is in the following form :—

THE BOMBAY SPINNING & WEAVING Co., Ltd.

Banker's Receipt to be retained by the Applicant.

Received this *21st day of August, 1924,* of *Mr. Jivanji Pragji* the sum of Rs. *500* being a deposit of Rs. 50 per share upon *10* shares in the above-named Company.

For the National Bank of India, Limited.

McDonald | Cashier. |

The board meeting of the directors would then be held at a fixed date to consider the applications, at which meeting the directors would decide whether they are to allot all the shares applied for, or in case where a larger number is applied for than available, the directors would decide as to whom the letters of allotment or the letters of regret should be sent. Assuming that the applicant in the above illustration was allotted the shares applied for, the letter of allotment would be in the following form :—

Letter of Allotment.

THE BOMBAY SPINNING & WEAVING Co., Ltd.

Bombay, 27th August, 1924.

To

Mr. JIVANJI PRAGJI.

Dear Sir,

I am directed to inform you that in accordance with your application, the Directors have allotted to you 10 shares of Rs. 1,000 each in the above Company.

The sum of Rs. 100 per share is payable thereon up to and on allotment, making the sum of Rs. 1,000, in respect of which you have paid on application Rs. 500, leaving a balance of Rs. 500 payable by you, which I am instructed to request you to pay to the Bankers of the Company, the National Bank of India, Limited.

It will be necessary for you to produce this Letter of Allotment at the time of payment.

Yours truly,
J. Fernandez,
Secretary, *pro tem.*

After the shares are allotted and the allotment money is paid, the applicant,—who now becomes a shareholder,—gets his share certificate which is made out in the following form :—

Share Certificate.

No. 1234–1243.

THE BOMBAY SPINNING & WEAVING Co., Ltd.

One Anna.

This is to certify that *Mr. Jivanji Pragji of 15, Church Gate Street, Bombay*, is the holder of 10 shares numbered 1234 to 1243 inclusive, in the above Company, subject to the provisions of the Memorandum and Articles of Association of the Company; and that the sum of Rs. 100 per share has been paid in respect of each of the said shares.

Given under the Common Seal of the said Company, this *1st day of September 1924.*

D. R. Cama,		
Soloman Issac,	}	Directors.
Thakersey Gordhandas,		

J. Fernandez, Secretary.

No transfer of any of the above-mentioned shares can be registered without production of this certificate.

The directors may then make calls on account of these shares as may be found necessary and convenient for the working of the company, and after having decided at their board meeting to make a call, they would ask the secretary to send out notices of call, which are generally printed with counterfoils bound in book form and consecutively numbered. The Call Form in the book of the Notices of Call would be as under :—

Notice of Call.

No. 113.	Notice of Call.
The Bombay Spinning & Weaving Co., Ltd.	This form should be sent entire to the Bankers or the Secretary, accompanied by the amount payable.
Notice of Call.	Notice of Call of Rs. 50 per Share.
Shares Nos. 1234-1243.	Making Rs. 150 per Share paid up. No. 113. Shares Nos. 1234–1243.
Date of Call, *1st November 1924.*	
Amount per share Rs. 50.	
Aggregate amount Rs. 500.	

Notice of Call—*contd.*

When due, *15th November, 1924.*

Name of Member,

Jivanji Pragji,

Address: *15, Church Gate Street, Bombay.*

Date of Posting Notice, *1st November, 1924.*

Where posted, *G. P. Office.*

The Bombay Spinning & Weaving Company, Limited. Bombay, 1st November, 1924.

Sir,—I have to inform you that a meeting of the directors of this Company held at Bombay on the 1st November, 1924 it was resolved that a call of Rs. 50 per share be made upon the members of the Company in respect of the moneys unpaid on their shares payable on or before 15th November 1924 and I have to request that you will, on or before that date pay the sum of Rs. 500 (being the amount of such call in respect of the 10 Shares registered in your name in the Books of the Company) to the National Bank of India, Ltd.

I am, Sir,

Your obedient servant,

J. Fernandez,

Secretary.

Notice of Call—*contd.*

To

Mr. JIVANJI PRAGJI,

15, Church Gate Street,

Bombay.

No. 113.

15th November, 1924.

Stamp.

Received of Jivanji Pragji the sum of Rs. 500 being the amount of a call of Rs. 50 per Share on 10 shares in the Bombay S. & W. Co., Ltd.

DOSABHAI FRAMJI,

Rs. 500.

The applications and Allotments would then be entered in the Application and Allotment Books which are ruled as under :—

Application and Allotment Book.

No. of letter.	Applicant's name.	Residence.	Profession.	Date of Application.	No. of shares Applied for.	No. of shares Allotted.
37	Jivanji Pragji.	15 Church Gate Street.	Merchant.	1914 August 21.	10	10

The entry made in the Share Ledger on a separate page allotted to the name of the particular shareholder is as follows:—

SHARE LEDGER.

Name, ***Jivanji Pragji,***

Address, 15, ***Church Gate Street,***

Occupation, ***Merchant.***

Dr. For Shares Held.										For Shares Transferred.						Cr.
Date.	Particulars of Debts.	No. of Shares.	Distinctive Numbers.		Amount payable per share.	Total due.	Date paid.	Total Amount paid.	Date.	To whom Transferred.	No. of Shares.	Distinctive Numbers.		Folio of Transferer's account.	Total paid Transferred.
			From	To								From	To		
1924					Rs.	Rs.	1924	Rs.	1924						
Aug. 21	Application	10	1234	1243	50	500	21 Aug.	500	1st Dec	K. Ganguli.	5	1234	1238		
,, 27	Allotment .	10	,,	,,	50	500	27 Aug.	500							
1st Nov.	Call . .	10	,,	,,	50	500	15 Nov.	500							

For each of the calls made, a Call Book is made out with rulings as under and filled in as shown below:—

CALL BOOK.

First Call of Rs. 50, made 1st November 1924 making the amount paid up on each share Rs. 150.

Name.	Address.	Occupation.	Share Ledger folio.	No. of Shares held.	Total Amount of Call.	Date Paid.	C. B. Folio.	Interest.
Jivanji Pragji.	15, Church Gate Street.	Merchant.	8	10	Rs. 500	1924 15th Nov.	556	*Nil.*

The above books, *viz.*, the Application and Allotment Book, the Call Books and the Share Ledger are subsidiary books kept simply to keep a minute record of the whole capital of the company as held by the different shareholders, the amount actually paid by them and the amount actually due by them. There is also a subsidiary book called the Share Transfer Book which records all details as to the transfer of shares from one person to another, and is ruled as follows:—

SHARE TRANSFER BOOK.

Date.	No. of Transfer.	Transferer's.				Transferee's.				No. of Shares Transferred.
		Folio in register of members.	Name.	Address.	Occupation.	Name.	Address.	Occupation.	Folio in register of members.	
1924 1st Dec.	97	5	Jivanji Pragji.	Churchgate Street.	Merchant.	K. Gangulji.	Chandan Wady, Bombay.	Railway Guard.	15	5

Letters of Regret.

With regard to those applicants, who are not allotted the shares applied for, "Letters of Regret" are forwarded by the secretary. Shares are not allotted for various reasons. Frequently this course is taken where a larger number of shares than those available are applied for, in which case the directors naturally select those applicants whom they consider desirable shareholders, rejecting the rest. Even where all the shares are not applied for, among those who have applied, there may be some who in the opinion of the directors may not be desirable men to be allowed to buy the shares for one reason or other. Letters of Regret are sent to those whose applications are rejected, and these letters would be in the following form :—

LETTER OF REGRET.

The Bombay Spinning and Weaving Company, Limited.
Registered Office, Esplanade Road,
Bombay, 20th August, 1924.

Karsondas Kanji, Esq.,
Share Bazar, BOMBAY.

Sir,

I regret to inform you that the Directors are unable to allot you any of the Shares of this Company in compliance with your application for 100 Shares.

Please find enclosed a cheque for Rs. 5,000, being the amount paid by you on the above-mentioned application and I shall be glad if you will sign the form of receipt at the foot of the cheque sent herewith, and present the same for payment through your Bankers (with the original form of receipt attached thereto).

As the cheque contains a form of receipt, no further acknowledgment from you will be necessary.

Yours faithfully,
J. Fernandez,
Secretary.

No. 543167 Bombay, 20th August 1924.

Stamp.

To

The National Bank of India, Ltd., BOMBAY.

Pay to Karsondas Kanji Esq., or order, *the receipt below being signed*, the sum of Rupees Five Thousand.

For the Bombay Spinning & Weaving Co., Ltd.,
D. R. Cama, Director.
J. Fernandez, Secretary.

RECEIPT.

24th August 1924.

Received of the Bombay Spinning and Weaving Company, Limited, the sum of Rupees Five Thousand, being the amount deposited by me on application for one hundred Shares in the same.

Rs. 5,000–0–0

Receipt Stamp.

We noticed in the Share Transfer Book that one of the shareholders, Mr. Jivanji Pragji, transferred five shares to Mr. K. Gangulji. This transfer is effected by filling in a Share Transfer form which has to be signed by both, the seller, Mr. Jivanji Pragji and the buyer, Mr. K. Gangulji, thereby the seller transfers his right, title and interest on these five Shares to the buyer Gangulji, and the buyer, on the other hand, agrees to take over the Shares with all the rights on them as well as all the liabilities arising therefrom, where the shares are partly paid or where the liability of the Company is unlimited. The Transfer would appear in the following form :—

Share Transfer.

I, *Jivanji Pragji, of Church Gate Street, Bombay*, in consideration of Rs. 5,500 paid by *K. Gangulji, of Chandan Wadi, Bombay, Railway Guard*, hereinafter called the said transferee, do hereby bargain, sell, assign and transfer to the said transferee :—*Five fully paid Shares of Rs. 1,000 each*, numbered 1234 to 1238 inclusive, of and in the undertaking called the Bombay Spinning & Weaving Co., Ltd., TO HOLD unto the said transferee, his Executors, Administrators and Assigns, subject to the several conditions on which I held the same immediately before the execution hereof ; and I the said Transferee do hereby agree to accept and take the said Shares subject to the conditions aforesaid As WITNESS our Hands and Seals, this first day of December in the Christian Year One Thousand Nine Hundred and *Twenty four*.

Certificate of the within mentioned five Shares has been lodged at the Co.'s Office. *J. Fernandez*, **Secretary.**

Signed, sealed, and delivered, by the above-named Jivanji Pragji, in the presence of *Jivanji Pragji.*

Witness's { Signature, *Tulukchand Mulji,*
Address, *Baker St., Bombay,*
Occupation, *Merchant & Broker.* } Seal

Signed, sealed, and delivered, by the above-named, K. Ganguli, in the presence of K. Ganguli.

Witness's { Signature.....................................
Address.....................................
Occupation..................................... } Seal

Signed, sealed, and delivered, by the above-named, ...
....
in the presence of Seal

Witness's { Signature.....................................
Address.....................................
Occupation..................................... }

Signed, sealed, and delivered, by the above-named, ...
....
in the presence of Seal

Witness's { Signature.....................................
Address.....................................
Occupation..................................... }

The Share Transfer Form requires to be stamped *Ad Valorem*, and in computing the Stamp Duty the consideration paid by the buyer to the seller has to be taken in account. The Transfer states the consideration amount on which the shares are sold. It often happens that the consideration as shown and inserted in the "Transfer Deed" differs from that actually received by the first seller where prior to the effecting of the transfer, the first purchaser sells the shares to a sub-purchaser. In such a case the actual amount paid by the sub-purchaser to the original purchaser would have to be entered as "consideration money" and not the actual amount received by original seller from the original purchaser.

We may add that, in case of well-established companies which have been doing business satisfactorily for a number of years, a subsequent issue of new shares is often made with a view to raise further capital in order to extend the scope of its operations. In such cases the new issue of shares is naturally in great demand, and quoted at a premium in the market. The directors in such cases generally follow the wise plan of giving the old shareholders a prior right to purchase these shares, and in that case this opportunity to purchase an assigned number of shares, in proportion to the number already held, constitutes an asset of some value which can be sold or transferred. The Secretary would be instructed to address letters inviting the shareholders to exercise this right, and attached to these letters are two printed forms, *viz.*, the (1) Form of Renunciation and (2) the Form of Acceptance. If the Shareholder prefers to exercise the right himself in his own name, he fills in the "Form of Acceptance" and sends same to the Secretary. On the other hand, if he wishes to waive his right in favour of some other person, he fills in the second form, *viz.*, the "Letter of Renunciation." The Forms of these letters are given below :—

THE BOMBAY SPINNING AND WEAVING COMPANY, LIMITED.

15, Esplanade Road.

Bombay, 1st September 1924.

To

Naoroji Bamanji, Esqr.,

Tamarind Lane, Fort,

BOMBAY.

Sir,

INCREASE of CAPITAL.

As a member of the Company you are entitled to an allotment at par of 50 new Ordinary Shares about to be issued, in accordance with the Special Resolution passed on the 28th August 1924 being at the rate of two new Ordinary Shares for each four shares now held by you.

Unless I hear to the contrary meanwhile, the 50 Ordinary Shares in question will be allotted to you on the 15th September 1924.

Should you desire to renounce your right to such allotment in favour of some other person, please be good enough to sign the Letter of Renunciation below, and have it forwarded to this office on or before the 10th September. This letter is not to be detached.

Your obedient Servant,

J. Fernandez,

Secretary.

LETTER OF RENUNCIATION.

To

Stamp.

The Bombay Spinning & Weaving Co., Ltd.

Being entitled to an allotment at par of 50 Ordinary Shares of Rs. 1,000 each in the above Company, I hereby renounce my right to such allotment, and request you to allot such shares to :—

(Full Name) Abdul Husain Taki, Esq., Merchant,

(Address) Chuckla Street, Bombay.

(Signature) Naoroji Bomanji.

(Date) 7th September 1924.

Form of Acceptance.

To the Bombay Spinning & Weaving Company, Limited.

I agree to accept the above 50 Ordinary Shares, and to pay the calls thereon, and desire to be entered on the Company's Register of Members in respect thereof.

(Signed) Naoroji Bomanji.

(Address) Tamarind Lane, Fort, Bombay.

(Description) Engineer.

(Date) 7th September 1924.

With regard to the Notice of Call it may be mentioned here that if a Shareholder fails to pay according to the notice, the Director may at their Board Meeting decide to forfeit his shares, and in such a case the defaulting Shareholder would be still liable for the payment of the call that was already made, in spite of the forfeiture. The letter written to the defaulting member mentioned here as to forfeiture would be in the following form :—

The Bombay Spinning and Weaving Company, Limited,

15, Esplanade Road, Bombay.
Bombay, 25th September 1924.

JOHN HARDUP, Esq.,
Elphinstone Circle,
BOMBAY.

Dear Sir,

I regret that you having failed to comply with the notice forwarded to you on the 15th August 1924 in which I stated that your shares were liable to be forfeited in case the first call made on your shares were not paid after the date specified in my last letter, I am directed to inform you that in the meeting held to-day the ten shares, Nos. 2300—2309 inclusive, which were registered in your name have been duly forfeited by the resolution of the Board of Directors. The Directors have reserved to themselves the power either to re-issue the said shares or deal with them in any other manner as they may think fit and in the mean-time I have to point out to you that you are still liable for the payment of the first call, in spite of their forfeiture.

Yours faithfully,
J. Fernandez,
Secretary.

Statement in lieu of Prospectus.

Where a Public Company does not issue a Prospectus, it has to file a statement known as a Statement in lieu of the Prospectus with the Registrar of Joint Stock Companies, which has to be signed by every Director, or proposed Director, and contains practically the same information as in a regular Prospectus issued to the public. The Companies Act gives a form of special statement in the 2nd schedule attached to the Act and states that "a Company which does not issue a Prospectus with reference to its formation, shall not allot any of its shares or debentures, unless, before the first allotment of either shares or debentures there has been filed with the Registrar a statement in lieu of Prospectus, signed by every person who is named therein as a Director or a proposed Director." The section 98 further states that the above rule does not apply "to a Private Company or to a Company which has allotted any shares or debentures before the commencement of the Act" (1913).

With regard to the Prospectus it may be added, that any false statement in the Prospectus, makes the directors and every officer of the Company authorising the issue of the Prospectus, liable to pay compensation to any person, who relying on such a Prospectus, applied for the shares and suffered a loss.

Directors.

The Company Law lays down that every Company registered after the passing of the Act (1913) must have at least two Directors if it is a Public Company. In case ~~there is a default~~ in the appointment of the directors, the subscribers to the Memorandum shall be deemed to be the directors of the Company until the directors shall be appointed by the Company. These directors are to be appointed by the members of the Company in their General Meeting. Any casual vacancy may be filled up by the directors, but the person so appointed shall be subject to retirement at the same time as if he had become a Director on the day on which the Director in whose place he is appointed, was last appointed Director.

The Act further states that a person shall not be capable of being appointed a Director by the Articles, nor shall he be named as a proposed Director of a Company in any Prospectus issued by or on behalf of a Company, unless, before the registration of the Articles and the publication of the Prospectus, he has by himself or by his Agent authorised in writing :—

(1) signed and filed with the Registrar a consent in writing to act as such Director ; and

(2) save in the case of a Company limited by guarantee, not having a capital divided into shares, signs a memorandum for a number of shares not less than his qualification shares or signs and files with the Registrar a contract in writing to take from the Company and pay for his qualification shares (if any).

It may be mentioned here that the number of shares which is to be the qualification of a Director, are laid down in the Articles of Association of every Company, and therefore, as soon as a person is appointed a director he ought, within two months of his appointment, to obtain his qualification shares, otherwise his office would be vacated. The Articles of Association of some companies provide for a period even shorter than two months.

The Directors of a Company are virtually the Company's Managers or Agents, appointed to act in the interests of the members of the Company and stand in a fiduciary position, and therefore, they should not make any undisclosed profits through their office of Directors. It is also held to be illegal for a director to acquire his qualification shares as a present from the vendors or founders of the Company. They have to act within the powers given to them and if they exceed their powers, the Company may ratify their acts if such acts come within the powers of the Company itself. Of course a Company cannot ratify acts of the directors which are beyond the Company's power *i. e.*, *ultra vires* the Company.

So long as the Directors act honestly they are not responsible for damages, unless they have been guilty of gross negligence. They would of course be liable for misfeasance and fraud. Innocent directors would not be liable for the fraud of co-directors, if the books of accounts of the Company have been kept and audited by duly appointed auditors, and if they did not know of the fraud and had no reason for suspecting same.

The remuneration of directors is regulated by the Articles of Association of the Company. The directors are not entitled to be paid out of the assets of the Company their travelling expenses incurred in attending board meetings, if there is no provision in the Company's articles to that effect.

The directors have also the right to appoint the first auditors of the Company, but the subsequent auditors are appointed by the members of the Company in General Meeting. The directors are bound to give all information to the auditors as may be required by them in course of the examination of accounts.

Commencement of Business.

The Indian Companies Act Section 103 states that a Public Company shall not commence any business or exercise any borrowing powers unless :—

(1) Shares held subject to the payment of the whole amount thereof in cash have been allotted to an amount not less in the whole than the minimum subscription ; and

(2) Every director of the company has paid to the company on each of the shares taken, or contracted to be taken, equal proportion in cash as is payable by other members on application and allotment on the shares offered to the public.

(3) A written declaration by the secretary or one of the directors is filed with the Registrar to the effect that the above conditions have been complied with.

On the above conditions being fulfilled the Registrar shall certify that the company is entitled to commence business ; whereas in case of a company which does not issue a Prospectus inviting the public to subscribe its shares, the Registrar would issue the certificate of commencement on filing of a statement in lieu of the Prospectus by such a company.

Statutory Books.

Every Company is bound to keep the following books under the Companies Act :—

(1) **A Register of members** showing the names, addresses and occupations, if any, of the members and in case of a company having a share capital, the statement of the shares held by each member, distinguishing each share by its number, together with the amount paid, or agreed to be paid, or considered as paid on these shares. Also the dates on which each person was entered as a member, and the date on which each person ceased to be a member, has to be stated in the register.

(2) **Register of directors and managers** stating the names, addresses and occupations of the directors and managers.

(3) **Register of mortgages and charges.** A Limited Company must keep a register of mortgages and enter therein all mortgages and charges specifically affecting the property of the company, giving in each case, a short description of the property mortgaged or

charged, the amount of the mortgage or charge, and the names of the mortgagees or persons entitled thereto. (Sec. 123).

(4) **An annual summary** must be made out showing a list of persons who on the day of the first or any Ordinary General Meeting in the year, are members of the Company, and of all the persons who have ceased to be members since the date of the last return, or (in case of the first return) of the incorporation of the Company. The summary shall state the names, addresses and occupation of all the past and present members mentioned therein, together with particulars of the number of shares held by each of the [illegible] members at the date of the summary, specifying shares transferred since the date of the last return or since the date of incorporation as the case may be. Minute particulars as to the contents of this Annual List and the form in which it is to be made out are given later on to which the student's attention is invited.

(5) **The Minute Book.** The Indian Companies Act, Sec. 83 lays down that every Company shall cause minutes of all proceedings of general meetings, and of its directors, to be entered in books kept for that purpose, and that such minutes ought to be signed by the chairman of the meeting at which the proceedings were held, or by the chairman of the

next succeeding meeting and that they shall be evidence of the proceedings. These minutes should not be altered subsequently by additions or subtractions because such alterations are held as irregular.

Books to be kept by a Joint Stock Company.

Besides the above-named Statutory books, the books generally kept by a Joint Stock Company may be divided into two classes, *viz* :

(1) **Statistical Set.**

(2) **Financial Set.**

The Statistical Set of Books may comprise of the following :—

(1) Application and Allotment Books,

(2) Call Books,

(3) Register of Members or Share Ledger,

(4) Register of Transfers,

(5) Seal Register,

(6) Agenda Books,

(7) Debenture Application and Allotment Books,

(8) Debenture Call Books,

(9) Register of Debenture Transfers,

(10) Register of Debenture holders,

(11) Shares Dividend Book,

(12) Debenture Interest Book,

etc., etc., etc.

The forms of Application and Allotment Books, Call Book, Register of Transfers and Shareholders' Register have been already given. The forms of Register of Directors and Managers, Register of Mortgages and Charges, Debenture Application and Allotment Book, Debenture Call Book, and of Register of Debenture holders are given below :—

Register of Directors and Managers.

Name.	Address.	Occupation.	Remarks.

Register of Mortgages and Charges.

No.	Date of Mortgage or Charge.	Short description of Property Mortgaged or Charged.	Amount of Charge created.	Name and Address of Mortgagee or Person entitled to the Charge.	Date of Mortgage or Charge disposed of.

DEBENTURE APPLICATION AND ALLOTMENT BOOK.

No. of Application.	Name.	Address.	Occupation.	No. of Debentures applied for.	Amount paid on Application.	Cash Book Folio.	Date of Allotment.	No. of Debentures allotted.	Distinctive Nos.		Debenture Regr. Folio.	Amount due on Allotment.	Cash paid on Allotment.	Cash Book Folio.	Cash Returned.	Remarks.
									From	To						

DEBENTURE CALL BOOK.

Call of Rs. ________ *per Debenture made* ________ *payable* ________

Debenture Register Folio.	Name.	Address.	No. of Debentures held.	Amount due on Call.	Amount paid on Call.	Date paid.	Cash Book Folio.	Remarks.

REGISTER OF DEBENTURE HOLDERS.

Name ______________________

Address ______________________

Occupation ______________________

Debentures acquired.							Debentures transferred.						Balance paid.	
Date of Allotment.	No. of Debentures.	Distinctive Nos.		Amount paid.	Date paid.	Cash Book Folio.	Date of Transfer.	Folio of Transferee's Account.	No. of Debentures transferred.	Distinctive Nos.		Amount paid.	No. of Debentures.	Amount paid up.
		From	To							From	To			

first out of the specific property which is mortgaged with him.

Company Account-keeping.

Having thus far dealt with the organization, practice and law relating to Joint Stock Companies, we shall now proceed to see how the Account-keeping is worked in case of such companies.

When applications for shares are received and the directors at their Board Meeting have dicided upon allotment, the entries passed would be as follows :—

Journal Entries.

Preference Share Application Account Dr.
To Preference Share Capital Account.
(For the total amount on applications received on preference shares).

Ordinary Share Application Account Dr.
To Ordinary Share Capital Account.
(For the total amount on applications received on ordinary share capital).

Preference Share Allotment Account Dr.
To Preference Share Capital Account.
(For the total amount of allotment money on shares allotted).

Ordinary Share Allotment Account Dr.
To Ordinary Share Capital Account.
(For total allotment amount on ordinary shares).

Preference Share First Call Account Dr.
To Preference Share Capital Account.
(For the total amount of first call on preference share capital made).

Ordinary Share First Call Account Dr.

To Ordinary Share Capital Account.

(For the total amount on first call on Ordinary Capital).

Note :—(So on for 2nd and 3rd calls.)

The above Journal entries are passed for full amounts of application, allotment and call money due, as soon as the applications are received or allotment or calls made. For the actual receipts entries would be made in the cash book, on the debit side, crediting the application accounts concerned for the application money received, allotment accounts for the allotment money received and the respective call accounts for the call money received.

Besides the entries in the Financial set as above discussed, the details of applications, allotments and calls, would have to be entered in the various books, *viz.*, Application and Allotment Book, Share Ledger, Call Book, etc. The rulings of the books have been already dealt with on the previous pages.

Transfer of Application Money to Allotment and Call Accounts. As a rule the applications received are not dealt with till the directors have decided to go to allotment. In this case supposing that William Green pays Rs. 7,500, as application money for 500 shares applied for and is allotted only 250 shares, the application account, through the journal gets a debit for Rs. 3,750 only and Capital account being credited for a like amount; but in the cash book the amount Rs. 7,500 is entered in full as cash received to the credit of application account. This excess may either be refunded to William Green in cash in which case Rs. 3,750, refunded would be entered on the credit side of cash book, debiting the Application Account which would square up the latter account. If, as is often the case, William Green desires that the amount of Rs. 3,750, be transferred to the allotment account on the shares allotted to him, an entry is passed in the Journal debiting the Application Account and crediting the Allotment Account.

This method is the best, as the authorities are against the treatment of this application amount at once in full in the Journal as that would necessitate the debiting of capital account for the transfer of the excess to allotment account, *e. g.*, if the entry were passed in the above illustration of William Green debiting Application Account for Rs. 7,500 in full and crediting Capital Account for Rs. 7,500 for the transfer of the excess of Rs. 3,750, Capital Account would have to be debited and Allotment Account credited.

To illustrate the above we shall take a short example and pass regular entries in the Financial Books.

Illustration No. 1.

The Richard Trading Co., Ltd. was incorporated on January 1st, 1924 with a nominal capital of Rs. 10,00,000 divided into 1,000 shares of Rs. 1,000 each and issued a Prospectus inviting the public to take up shares, of which Rs. 100 were payable on application, Rs. 300 on allotment and the balance of Rs. 600 were to be paid in calls of Rs. 200 each, as and when made by the Directors.

Applications for 400 shares were received with the Application amount of Rs. 100 on each of the shares. The directors allotted shares on January 15th to each of these applicants to the full value of their applications. A First Call of Rs. 200 was made on February 15th which was paid up on 400 shares, whereas the balance of Call money on 100 shares is still due. Make the necessary Journal, Cash Book and Ledger entries in the Financial books of the Company and show how the Capital would stand in the Balance Sheet if we were to make out that statement. Also close Ledger accounts for Applications, Allotment and First Call.

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			Rs.	Rs.
Jan.	1	Application Account . . . . Dr.	40,000	
		To Share Capital Account . . .		40,0
		(Being the total on applications received for 400 shares at Rs. 100 per share) . .		
Jan.	15	Allotment Account . . . . Dr.	1,20,000	
		To Share Capital Account . . .		1,20,000
		(Being the total amount due on allotment of 400 shares at Rs. 300 per share as per Board Meeting dated 15th January) . .		
Feb.	15	First Sall Account . . . . Dr.	80,000	
		To Share Capital Account . . .		80,000
		(Being the total amount of First Call due on 400 shares at Rs. 200 per share as per the resolution of 15th February) . . .		

CASH BOOK.

Dr. | *Cr.*

			Rs.				Rs.
Jan.	2	To Application Account . . .	40,000	Feb.	15	By Balance .	2,20,000
		Being the amount received on 400 shares at Rs. 100 per share.					
Jan.	15	To Allotment Account . . .	1,20,000				
		Being the amount received on 400 shares at Rs. 300 per share.					
Feb.	15	To First Call Account . . .	60,000				
		Being the amount received on 300 shares at Rs. 200 per share. . . .					
			2,20,000				2,20,000
Feb.	16	To Balance . .	2,20,000				

LEDGER.

APPLICATION ACCOUNT.

			Rs.				Rs.
Jan.	1	To Share Capital Account .	40,000	Jan.	1	By Cash . .	40,000
			40,000				40,000

ALLOTMENT ACCOUNT.

			Rs.				Rs.
Jan.	15	To Share Capital Account .	1,20,000	Jan.	15	By Cash . .	1,20,000
			1,20,000				1,20,000

FIRST CALL ACCOUNT.

			Rs.				Rs.
Feb.	15	To Share Capital Account .	80,000	Feb.	15	By Cash . .	60,000
						,, Balance carried down.	20,000
			80,000				80,000
Feb.	16	To Balance brought down.	20,000				

SHARE CAPITAL ACCOUNT.

			Rs.				Rs.
Feb.	1	To Balance .	2,40,000	Jan.	1	By Application Account.	40,000
				Jan.	15	,, Allotment Account .	1,20,000
				Feb.	15	,, First Call Account .	80,000
			2,40,000				2,40,000
				Feb.	16	By Balance .	2,40,000

BALANCE SHEET.

As on 15th February 1916.

Liabilities.		Rs.	Assets.	Rs.
Authorized Capital:—			Cash	0,000
1,000 shares of Rs. 1,000 each... ...	10,00,000			
Issued and Subscribed Capital:—				
400 Shares of Rs. 1,000 each . .	4,00,000			
Paid up Capital:—				
400 Shares of Rs. 1,000 each, Rs. 600 per share called up .	2,40,000			
Less cash in arrear . .	20,000			
		2,20,000		2,20,000

The above transactions would then be entered in the Statistical Books, side by side with the entries in the Financial Books as given above. The details as to Applications and allotments would be entered in the Application and Allotment Books and all particulars as to calls would be entered in the Call Book. In the Register of Members, also called the Share Ledger, special space would be devoted to each of the shareholders and the particulars of the shares applied for by him would be entered under the name of each of the shareholders.

We shall now take an illustration where applications are received for shares, accompanied by application money, and as the directors are unable to allot the whole of the shares applied for, they have allotted proportionately to the applicants with the result that application money paid on those shares which were not allotted are in the hands of the company's cashier. The money will have to be returned in the case of those applicants to whom no shares were allotted, whereas, in case of applicants to whom shares were allotted, in part the amount paid by them as application money is transferred at their request to their allotment accounts. In the illustration given below these items are actually worked out.

Illustration:—The Poona Cotton Manufacturing Company was registered with a capital of Rs. 20,00,000, divided into 4,000 shares of Rs. 500 each. Rs. 50 per share were payable on application, Rs. 150 on allotment and the balance of Rs. 300 on each share was payable in 3 calls of Rs. 100 each. The directors in their Board Meeting held on the 15th February 1916, were informed that applications for 8,200 shares were received with the application money. The directors therefore decided to allot 4,000 shares to the applicants in order of date, each applicant being allotted half the number of shares applied for with the exception of the last applicant for 200 shares, who was not to be allotted anything and his deposit of Rs. 10,000 was ordered to be refunded in cash. With regard to the other applicants, they all agreed that the balance of application money paid by them should be utilised towards writing off Rs. 50 per share on allotment money, they having paid the balance of Rs. 100 per each share towards allotment. On March 15th 1916 the directors decided to make a first call of Rs. 100 per share. By March 31st shareholders holding 2,000 shares paid up their amount of first call. The balance still stands in arrears. On April 15th the directors made a second call of Rs. 100 which was paid up by shareholders holding 1,500 shares by the 30th April. You are requested to pass the Journal and Cash Book entries with regard to those transactions and show how the share capital would appear in the Capital Account.

The Poona Cotton Manufacturing Co., Ltd.

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Date.		Particulars.	L. F.	Debit. Rs.	a.	p.	Credit. Rs.	a.	p.
Feb.	15	Application Account . . Dr.		2,00,000					
		To Share Capital Account .					2,00,000		
		(Being the amount of Application money received on the 4,000 shares allotted).							
,,	15	Allotment Account . . Dr.		6,00,000					
		To Share Capital Account .					6,00,000		
		(Being the amount of Allotment money due on the 4,000 shares allotted).							

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Date.		Particulars.	L. F.	Debit. Rs.	a.	p.	Credit. Rs.	a.	p.
Feb.	15	Application Account . . Dr.		2,00,000					
		To Allotment Account . .					2,00,000		
		(Being the transfer of excess application money paid, towards writing off of Rs. 50 per share, of allotment money due).							
Mar.	15	First Call Account . . Dr.		4,00,000					
		To Share Capital Account.					4,00,000		
		(Being the amount of First Call money due on 4,000 shares).							
April	15	Second Call Account . . .		4,00,000					
		To Share Capital Account.					4,00,000		
		(Being the amount of Second Call money due on 4,000 shares.							

CASH BOOK.

Date.		Particulars.	Rs.	a.	p.	Date.	Particulars.	Rs.	a.	p.
Feb.	15	To Application Account .	4,10,000	0	0	Feb. 15	By Application A/c.	10,000	0	0
Mar.	1	,, Allotment Account .	4,00,000	0	0		,, Balance c/d.	11,50,000	0	0
		,, First Call Account .	2,00,000	0	0					
,,	31	,, Second Call Account .	1,50,000	0	0					
Apl.	30		11,60,000	0	0			11,60,000	0	0
		To Balance c/d	11,50,000	0	0					

SHARE CAPITAL ACCOUNT.

Date.		Particulars.	Rs.	a.	p.	Date.		Particulars.	Rs.	a.	p.
Apl.	30	To Balance c/d.	16,00,000	0	0	Feb.	15	By Application Account .	2,00,000	0	0
						,,	15	,, Allotment Account .	6,00,000	0	0
						Mar.	15	,, First Call Account .	4,00,000	0	0
						Apl.	15	,, Second Call Account .	4,00,000	0	0
			16,00,000	0	0				16,00 000	0	0
						May	1	By Balance c/d . .	16,00,000	0	0

Interest on calls in arrear or those paid in advance. In almost all companies the shareholders are informed by the Secretary, in his Call letter, that the Call is to be paid up on or before a certain date and that in case of default interest at a fixed rate per cent would be chargeable. On the same basis shareholders are also informed that in case they pay up their calls in advance or before the due date they would be allowed interest at a fixed rate per cent. At the periodical closing, the interest on calls in arrear is debited to an account in the Financial Ledger known as the outstanding debtors' account and the interest account is credited. These interest items are collected from the various call books, where in special columns entries are made by the clerk keeping the statistical set of books as to the interest due on calls in arrear. Similarly in case of calls paid in advance, interest account in the Financial Ledger would be debited through a journal entry and the outstanding creditors' account would be credited. This item of interest is also ascertained from the Call Book special interest column.

Preliminary Expenses. In the formation and floating of a Company large expenses are incurred by way of,

(1) Preparing and printing Memorandum and Articles of Association,

(2) Issue of advertisement and printing of the Prospectus,

(3) Registration fees and Stamp duty on nominal Capital,

(4) Law charges in connection with the formation, Preliminary Agreements, etc.,

(5) Fees of experts for valuation and other reports,

(6) Printing of share certificates, debenture certificates, etc.

These expenses run up to a large figure and are allowed to stand in the account books under the heading of "Preliminary Expenses account" and shown on the Balance Sheet on the asset side. The expenditure incurred is sometimes partly paid by the vendors or founders and the other portion is borne by the company. In such a case that portion of expenditure only which falls on the company has to be taken into account. This expenditure though of a capital nature is not represented by any tangible asset and therefore has to be written off from the profits in the subsequent years. Of course it would not be right, nor possible to write same off by debiting this against the first year's profits, as the preliminary expenditure is an expenditure incurred at the floatation of a company, the benefit of which is received by the company during many subsequent years and consequently has to be spread over a number of years. It would be hardly practicable, besides, to debit this expenditure against the first year's profits, for the simple reason that there would be hardly sufficient profits in the first year's working of the company to permit of such a course. Sometimes the preliminary expenses are written off, partly by utilising the balance of calls on forfeited shares, where such a course is possible, or the premium on shares issued, in case such shares are issued at a premium, may also be utilised to write off this account.

The expenditure by way of underwriting commission, brokerage and commission on placing share is generally shown separate and distinct under its own heading.

Illustration.

On 31st December 1923, the Preliminary Expenses Account of a Company showed a balance of Rs. 5,000 and it was decided to write same off in five years. The Profit and Loss Account for 1923 was charged accordingly. During the year 1924, shares to the extent of Rs. 2,000 were fortified, and it was resolved that this amount also should be utilized in writing off the Preliminary Expenses. During 1925, a premium was received on shares, amounting to Rs. 500. This was used in writing off a portion of the Preliminary Expenses, the balance was written off by a debit to the Profit and Loss Account. Show how all these transactions would appear in the Preliminary Expenses Account.

PRELIMINARY EXPENSES ACCOUNT.

Date.	Particulars.	L.F.		Date.	Particulars.	L.F.	
1923			Rs.	1923			Rs.
Dec. 31	To Balance.		5,000	Dec. 31	By Profit and Loss Account.		1,000
					" Balance .	c/d.	4,000
			5,000				5,000

PRELIMINARY EXPENSES ACCOUNT—(*contd.*)

Date.	Particulars.	L.F.		Date.	Particulars.	L.F.	
1924			Rs.	1924			Rs.
Dec. 31	To Balance.		4,000	Dec. 31	By Forfeited Shares .		2,000
					,, Profit and Loss Account .		1,000
					,, Balance .	c/d.	1,000
			4,000				4,000
1925				1925			
Dec. 31	To Balance.		1,000	Dec. 31	By Premium on Shares.		500
					,, Profit and Loss Account .		500
			1,000				1,000

Statutory Meeting.

The first meeting which a joint stock company has to hold under the Companies Act under Section 77, is called the Statutory meeting. This meeting has to be held by every company limited by shares and registered after the commencement of the Act of 1913 within a period of six months from the date on which the company is entitled to commence business. It is further enacted by the same section that, at least ten days before the date on which the same meeting is to be held, the directors shall forward a report to every member of the company and to every person entitled under this act to receive it. This report is called the Statutory Report. From the wording "every company limited by shares" it is clear that companies limited by guarantee and unlimited companies are not subject to this requirement of holding the statutory meeting. It is necessary that the notice convening the meeting should clearly state that the said meeting is a statutory meeting otherwise it will not be considered as a strict compliance with the requirements of the act. (Gardner V. Iredale 1912, I Ch. 700). Of course, private companies are entirely excluded from the requirement as to the forwarding and filing of the Statutory Report, though the Statutory Meeting must be held. (Sec. 77 (11)). The Act requires the report to embrace the following particulars:—

(1) Total number of shares allotted distinguishing those paid for in cash and those allotted as fully paid, together with particulars as to consideration for those allotted as fully or partly paid.

(2) Total amount of cash received on all these shares.

(3) An abstract of cash received from shares and debentures and of payments made thereout, and the balances in hand together with particulars with regard to same.

(4) The estimated amount of Preliminary expenses.

(5) Names, addresses and descriptions of directors, auditors, managers and secretary of the company.

This report has to be certified by not less than two directors of the company and where there are less than two directors by the sole director. Over and above this, the report has to be certified as correct by the auditors of the company so far as it relates to the shares allotted by the company, and to the cash received in respect of such shares, plus the receipts and payments of the company on capital account. A copy of the report has to be filed with the registrar soon after it is sent to members of the company.

The following illustration gives a convenient form of the statement to be included in the Statutory Report and the certificate to be appended.

Illustration.

Prepare from the particulars given below the statement required under Section 77 (3)–C of the Indian Companies Act 1913, for insertion in the Statutory Report.

Total number of shares allotted is 30,000 of Rs. 100, each including 10,000 shares issued to vendors as fully paid in part consideration of the purchase price. On the remaining shares Rs. 25 per share were called up on application and Rs. 25 on allotment. A sum of Rs. 18,000 was due on allotment on the date of closing accounts. One Mr. Hormasji paid in full for his 100 shares on his going abroad.

The following payments have been made :—

Rs.	
8,00,000	paid to vendors for balance of Purchase Money.
5,000	paid to Bird and Company, Stationers and Printers.
25,000	paid to Dalal and Company for underwriting Commission.
15,000	paid for wages and materials for Company's Building under construction.
40,000	paid to Kapadia Brothers as a deposit against supply of plant and machinery.

Rs.

60,000 Deposited with the Central Bank of India Ltd., on Fixed Deposits at 6 per cent.

10,000 paid for office salaries.

5,000 paid for office rent.

The Company has a current account with Lloyd's Bank, Ltd.

The following amounts have been received :—

Rs.

8,000 from Hiralal and Sons for a boiler sold to them for Rs. 10,000.

500 from National Bank of India being interest on a Fixed Deposit of Rs. 40,000 placed with them at 5 per cent for 3 months.

Abstract of Receipts and Payments from the date of formation of the Company to—

	Rs.	Rs.		Rs.	Rs.
To Share Capital Account— Amount called up in respect of			*By Purchase Consideration*— Amount paid to Vendors as per agreement in Cash .	8,00,000	8,00,000
20,000 Shares of Rs. 100 each allotted payable on application and allotment @ Rs. 50 per share .	10,00,000		Amount of Shares issued as fully paid as per contra .	10,00,000	
Less Allotment money unpaid	18,000			18,00,000	
	9,82,000		,, Deposit against purchase of machinery		40,000
Add calls in advance. .	5,000		,, Building Account: Materials and labour to date . .		15,000
	9,87,000	9,87,000	,, Underwriting Commission .		25,000
10,000 Shares of Rs. 100 each allotted as fully paid as part purchase consideration	10,00,000		,, Expenditure (including salaries, rent, stationery, etc.)		20,000
30,000	19,87,000		,, Cash and other balances Central Bank of India, Ltd. (Fixed Deposit) . .	60,000	
To Sundry receipts including interest and sale proceeds.		8,500	,, Balance on Current Account with Lloyds Bank, Ltd. .	35,500	95,500
		9,95,500			9,95,500

We hereby certify that so far as the report relates to the shares allotted by the company and to the cash received in respect of such shares and to the receipts and payments on capital account is correct.

G. D. A., *Auditors.*

Issue of Shares at a Premium.

The Company Law does not allow shares to be issued at a discount, though Debentures can be issued at a discount. There is however no objection to the issue of Shares at a premium *i. e.*, the shares sold at a rate higher than that indicated by their face value.

Apart from speculation there are three main causes which will enable a company to issue its Shares at a Premium.

1. **Intrinsic Value of Shares** Where during Profitable years a company has built up large reserves out of Profits the Net Assets of the company will be worth more than the Face Value of the Shares.

2. **Profit earning Capacity**: Where during the past the company has been paying high rates of dividend there will be a large demand for these Shares because of the return obtained on the capital invested, this will increase the value of the Shares.

3. **Good Prospect**: Also shares of new companies, started by promoters or agents of established reputation gained through successful working of other companies under their control, are in great demand and command a premium in the market.

In these cases the shares are issued at a premium. A special column is provided for the additional amount of premium in the application and allotment books, but if such a premium is payable immediately, the additional column would not be necessary. Generally the premium is made payable with the allotment money. The amount recovered on premium is not a profit made in course of trading, and therefore should not be treated as such, though there is nothing in law to prevent such amount being distributed among shareholders by way of dividend. What is generally done however with regard to the premium is to open a special premium account and credit that account with this amount. The premium may be finally utilized towards writing off any loss that may have been incurred while issuing the debentures at a discount, or in writing off the balance of preliminary expenses. Failing that the balance of Premium on Shares Account may be transferred to the Reserve Fund Account of the Company. The following example would illustrate the treatment of this item of premium on shares :—

Illustration :—

The Mathuradas Spinning and Weaving Company, Limited, offers for subscription 100 shares of Rs. 1,000 each at a premium of Rs. 100 per share. Of these Rs. 100 are payable on application, Rs. 300 on allotment plus Rs. 100 premium to be paid with the allotment, and the balance of Rs. 600 is to be paid in three calls of Rs. 200 each. Show the Journal entries in the books of the Company with respect to these applications, allotment, premium and calls, assuming that the applications were received on January 15th, 1925, the shares were allotted on February 1st, 1925 and the calls were made on 1st March, 1st April, and 1st May, respectively, which were all duly paid. Journalise also the Cash Book items, for simplicity.

1925			Rs.	a.	p.	Rs.	a.	p.
Jan.	15	Cash . . . . Dr.	10,000	0	0			
		To Share Application account.				10,000	0	0
		(Being Cash received on application for 100 shares).						
Feb.	1	Share application account . . Dr.	10,000	0	0			
		To Share Capital account.				10,000	0	0
		(Being the transfer of application account to Capital on allotment of 100 shares applied for.)						
,,	1	Share allotment account . . Dr.	40,000	0	0			
		To Share Capital account.				30,000	0	0
		,, Premium on issues of shares account.				10,000	0	0
		(Being the amount due on allotment.)						
,,	15	Cash . . . . Dr.	40,000	0	0			
		To Share allotment account.				40,000	0	0
		(Being Cash received on allotment.)						
Mar.	1	First Call account . . . Dr.	20,000	0	0			
		To Share Capital account.				20,000	0	0
		(Being the amount due on 1st Call.)						
,,	20	Cash . . . . Dr.	20,000	0	0			
		To First Call account.				20,000	0	0
		(Being Cash received on 1st Call.)						
April	1	Second Call account . . . Dr.	20,000	0	0			

			Dr. Rs.	a.	p.	Rs.	a.	p.
		To Share Capital account.				20,000	0	0
1925		(Being amount due on Second Call)						
April	20	Cash . . . . Dr.	20,000	0	0			
		To Second Call account.				20,000	0	0
		(Being the Cash received for Second Call.)						
May	1	Third and Last Call account . Dr.	20,000	0	0			
		To Share Capital account.				20,000	0	0
		(Being the amount due on Third and Last Call).						
,,	20	Cash . . . . Dr.	20,000	0	0			
		To Third and Last Call account.				20,000	0	0
		(Being Cash received for Third and Last Call.)						

Debenture Issue

With regard to issue of debentures the entries in the Financial books are similar to those passed in case of the issue of shares. Debenture Application Account, Debenture Allotment Account and the Debenture Call Account are here dealt with similarly as the Share Application, Share Allotment and Share Call Accounts. The following illustration where shares and debentures are simultaneously issued by the company would explain how those entries should be made in the Financial books of a Joint Stock Company.

Illustration :—

The Jamnadas Manufacturing Company, Limited, offers for subscription on 1st March 1925, 100 shares of Rs. 1,000 each together with 1,000 debentures of Rs. 500 each. The shares are payable as to Rs. 200 on application, Rs. 200 on allotment and the balance of Rs. 600 in three equal calls of Rs. 200 each. The debentures offered to the public are to be paid for as to Rs. 100 on application, Rs. 100 on allotment and the balance of Rs. 300 is to be paid in equal calls of Rs. 100 each. Assuming that the applications for all these shares and debentures are received on 15th March and are allotted on the 20th March, post the entries in the financial books of the company, assuming that the calls made on debenture as well as on shares were all fully paid. The Calls were made on 15th April, 15th May and 15th June, respectively.

JOURNAL ENTRIES.

Note :—As entries for the issue of shares have been dealt with fully in previous illustrations only entries for the issue of debentures are shown below :—

1925			Rs.	a.	p.	Rs.	a.	p.
Mar.	15	Debenture application a/c . Dr.	1,00,000	0	0			
		To Debentures account.				1,00,000	0	0
		(Being the amount due on application.)						
,,	20	Debentures allotment a/c. . Dr.	1,00,000	0	0			
		To Debentures account.				1,26,000	0	0
		(Being the amount due on allotment.)						
April	15	Debenture 1st Call a/c. . Dr.	1,00,000	0	0			
		To Debentures account.				1,00,000	0	0
		(Being the amount due on 1st Call)						
May	15	Debenture 2nd Call a/c. . Dr.	1,00,000	0	0			
		To Debentures account.				1,00,000	0	0
		(Being the amount due on 2nd Call)						
June	15	Debenture 3rd Call a/c. . Dr.	1,00,000	0	0			
		To Debentures account.				1,00,000	0	0

CASH BOOK (Receipts side.)

1925					Rs.	a.	p.
March	15	To Debenture application a/c .			1,00,000	0	0
,,	30	,, ,, allotment ,, .			1,00,000	0	0
April	30	,, ,, 1st Call ,, .			1,00,000	0	0
May	30	,, ,, 2nd ,, ,, .			1,00,000	0	0
June	30	,, ,, 3rd ,, ,, .			1,00,000	0	0

Debentures Issued at a Premium.

With regard to Debentures issued at a premium, the profit so made should be utilised towards the redemption of these debentures, if they happen to be redeemable debentures, or they may be transferred to the Company's Reserve Fund Account. Under no circumstances it would be wise to treat such an item as profit to be distributed by way of dividends.

Debentures Issued at a Discount.

Debentures are issued at a discount by some companies, and in such cases the loss by way of discount on such an issue is debited to a special account called "Debenture Discount Account" to be written off from the profits of the f[illegible] years as quickly as possible. In cases of Irredee[illegible] Debentures, the Debenture Discount Account is allowed in some cases to stand on, without being written off, but such a course is inadvisable, specially in cases where sufficient profits are made to permit same being written off. In the case however of Redeemable Debentures, the discount on debentures must be written off at least within their period of redemption. As at the time of redemption such Debentures have to be paid in full, the entry at the time of issue, supposing that Rs. 1,50,000 worth of debentures were issued at a discount of 5 per cent. would be :—

Cash account	Dr.	Rs. 1,42,500
Discount on Debenture Account	Dr.	Rs. 7,500
To Debentures Account		Rs. 1,50,000

This discount on debentures is allowed to stand on the Balance Sheet as an asset and has to be written off with the redemption of debentures.

Redemption of Debentures.

When the debentures are redeemable at the termination of a specified period, the provision for such a repayment is made either through a sinking Fund, or by taking out a Sinking Fund Insurance Policy.

In case where a Sinking Fund is created, every year a fixed amount is charged to the Profit and Loss Appropriation Account and the Sinking Fund Account is credited :—

Profit and Loss Appropriation account Dr.
To Sinking Fund Account.

This creates a fund which may be invested in the company itself, or in outside securities, as the directors think fit. If the debentures have been issued at a premium, the money thus gained by way of premium is taken to the credit of the Premium on Debentures account, from whence it is transferred to this Sinking Fund Account, as this amount ought not to be treated as a profit, but ought to be utilised towards the redemption of the debenture debt. When the debentures are paid away the entry is :—

Debentures account Dr.
To Cash.

The Sinking Fund is then transferred to a Reserve Account by the entry

Sinking Fund account Dr.

To Reserve Fund account.

Students are often at a loss to understand why this should be the case as they cannot understand why the Sinking Fund should exist after the Debentures are paid off. We shall therefore go into details :—

Supposing that a company's Balance Sheet exhibits the following figures on 4th December 1919.

Share Capital . .	Rs. 3,00,000	General Assets . .	Rs. 2,25,000
		Cash . .	,, 75,000
	Rs. 3,00,000		Rs. 3,00,000

Now if the Directors think that in case they get Rs. 75,000 more, as working capital, they would, say in the case of a Manufacturing Company, buy further machinery with a view to extend the business. Through this additional machinery they expect to earn large profits, whereby they calculate, that besides paying the interest on debentures regularly, they would be in a position, to save Rs. 15,000 yearly to the credit of the Sinking Fund and thus redeem the debentures in five years. They borrow Rs. 75,000 on Debentures, repayable after five years, and invest the proceeds in machinery. The Balance Sheet after the Debentures are issued fully paid and the machinery purchased out of the cash recovered would appear as follows :—

Share Capital . .	Rs. 3,00,000	General Assets . .	Rs. 2,25,000
Debentures . .	„ 75,000	Cash . . .	„ 75,000
		Machinery. . .	„ 75,000
	Rs. 3,75,000		Rs. 3,75,000

Supposing that the future justified their expectations and the directors created a Sinking Fund out of the profits, by crediting the said fund with Rs. 15,000 yearly which was not invested but kept in cash. At the end of five years *i. e.*, on 31st December 1924 the Balance Sheet would appear thus :—

Share Capital . .	Rs. 3,00,000	General Assets . .	Rs. 2,25,000
Debentures . .	„ 75,000	Cash . . .	„ 1,50,000
Sinking Fund . .	„ 75,000	Machinery. . .	„ 75,000
	Rs. 4,50,000		Rs. 4,50,000

When therefore the debentures are paid out in cash, they disappear from the Balance Sheet and cash on the asset side is reduced by Rs. 75,000 ; but the machinery of Rs. 75,000 for which the debentures were issued still remains with the firm. In other words the accumulation of five years' profits has paid off the loan raised for the purchase of this machinery. This addition of the asset on the asset side of the Balance Sheet is represented, or balanced, by the Fund on the liabilities side and by transferring this Sinking Fund balance to the Reserve Fund account, we are only altering the heading under which this accumulated Fund was allowed to stand previously. The Balance Sheet after the redemption would appear thus :—

Share Capital . .	Rs. 3,00,000	General Assets . .	Rs. 2,25,000
Reserve	„ 75,000	Cash	„ 75,000
		Machinery. . .	„ 75,000
	Rs. 3,75 000		Rs. 3,75,000

Instead of creating a Sinking Fund, the method that finds favour with some Companies is the taking out of an Insurance Policy for the redemption of Debentures. In such cases Profit and Loss Account is debited yearly for the premium due and the Insurance Company concerned credited. When the premium is paid in cash, Insurance Company's account is debited and cash credited. At the expiration of the period the Insurance Policy falling due helps to redeem the Debentures. In fact the Debenture-holders are all paid out directly by the Insurance Company. Here the Company passes an entry transferring the amount on debentures account to a Reserve Account, by an entry:—

Debentures account Dr.

To Reserve account.

Sinking Fund may also be created for providing cash for the purchase of a new Lease on the expiry of the one existing. A proportionate amount is charged yearly to the Profit and Loss account and credited to the Sinking Fund account so that at the end of the period for which the lease is to run the amount is ready for the purchase of a new one.

If instead of this an Insurance Policy for the Lease is taken out the treatment in accounts would be just the same as in the case of the Insurance Policies for the redemption of Debentures.

The following illustration would show how the item of Discount on Debentures is treated both in connection with the opening entries and at the time of the final closing when the redemption is effected.

Illustration :—

The Hiramanek Manufacturing Co., Ltd., issued 500 Debentures of Rs. 1,000 each at a discount of 10 per cent. The Debentures were to be fully paid on application. The whole of the Debentures were applied for and allotted on January 19th, 1924. The Debentures were redeemable within 5 years by instalments of Rs. 1,00,000 each at the end of each year. This redemption was to be effected by drawing numbers at the end of every year for 100 Debentures and the numbers so drawn were to be paid off. At the end of the year 1924, the directors laid aside out of profits Rs. 1,10,000. Of these Rs. 1,00,000 were to be transferred to the Sinking Fund account and the balance of Rs. 10,000 was to be utilized towards writing off the Debenture Discount. You are asked to pass journal entries both at the beginning and end of the first year for this issue of Debentures at a Discount, also the necessary entries to be passed at the time of redemption. You have also to show how these items of Debenture Capital, Sinking Fund and the Debenture Discount would appear in the Financial Books of the Company.

JOURNAL.

1924		Journal.	Rs.	a.	p.	Rs.	a.	p.
Jan.	19	Debenture Application A/c. Dr.	450,000	0	0			
		Debenture Discount A/c. Dr.	50,000	0	0			
		To Debenture Capital A/c.				500,000	0	0
		For the issue of debenture in full.						
Dec.	31	Profit and Loss A/c. Dr.	110,000	0	0			
		To Sinking Fund A/c.				100,000	0	0
		,, Discount on Debentures A/c.				10,000	0	0
		For providing for the redemption of Debentures and writing off of Debenture Discount.						
		Debenture Capital A/c. Dr.	100,000	0	0			
		To Cash.				100,000	0	0
		For Repayment of Debentures. *Note*:—This entry would be passed through the cash book.						

LEDGER.

Debenture Capital Accounts.

1925			Rs.	a.	p.	1925			Rs.	a.	p.
Dec.	31	To Cash . .	100,000	0	0	Jan.	19	By Application and Deb. Discount . .	500,000	0	0
		,, Balance carried down.	400,000	0	0						
			500,000	0	0				500,000	0	0
						1925					
						Jan.	1	By Balance b/d	400,000	0	0

Dr. **Discount on Debentures Account.** *Cr.*

			Rs.	a.	p.				Rs	a.	p.
1924						1924					
Jan.	19	To Debenture a/c . .	50,000	0	0	Dec.	31	By Profit a/c. ⅕ written off.	10,000	0	0
								,, Balance .	40,000	0	0
			50,000	0	0				50,000	0	0
1925											
Jan.	1	To Balance b/d.	40,000	0	0						

Dr. **Sinking Fund Account.** *Cr*

			Rs.	a.	p.				Rs.	a.	p.
1924						1924					
Dec.	31	To Balance .	100,000	0	0	Dec.	31	By P. & L. a/c .	100,000	0	0
						1925					
						Jan.		By Balance .	100,000	0	0

Forfeiture of Shares.

The Articles of Association generally empower the directors to forfeit those shares, the calls upon which are unpaid for specified length of time. Notice is generally given to the defaulting shareholder as to the arrear on his shares and he is warned that if he does not pay within the time specified in that notice, his shares would be forfeited and that in case of such forfeiture, the company reserves to itself the power to recover from the defaulting shareholder the balance due from him on the shares so forfeited. When these shares are forfeited the Share Capital account of the Company has to be reduced to the extent of the amount of such calls in arrear because though the balance is in their favour, in actual practice it is a bad debt. The amount which the shareholders have already paid up by way of application, allotment and call-money, are allowed to stand on a special account called the "Forfeited Shares Account." If the arrears of calls on these shares are also recovered from the defaulting shareholders, that amount would also be credited to the Forfeited Shares Account. The Forfeited Shares Account balance may be either utilized towards the payment of any loss on the re-issue of shares so forfeited, or the same may be utilized to write off preliminary expenses, or transferred to the Reserve Fund Account. The entries passed with regard to the forfeiture of shares is to debit the Share Capital Account for the whole amount called up, and credit the Calls account which are in arrear for the actual amount of calls unpaid and the balance paid up is credited to the forfeited shares account. Supposing that a shareholder holding one share of Rs. 500 has paid up his application and allotment money, amounting to Rs. 125, but fails to pay the first call of Rs. 125, the entry in the journal on forfeiture would be as follows :—

		Rs.	a.	p.	Rs.	a.	p.
Share Capital Account	Dr.	250	0	0			
To Forfeited Shares Account . . .					125	0	0
,, First Call Account					125	0	0

The Forfeited Shares Account is shown on the balance sheet "liabilities side" as a separate item until it is finally transferred to the Reserve Fund account or utilized as stated above for the writing off of the preliminary expenses or the loss on re-issue.

When these forfeited shares are re-issued say at a loss, the loss would be written off from the Forfeited Shares Account. Supposing that the share forfeited in the above instance was re-issued for Rs. 450 instead of Rs. 500 *i. e.*, at a loss of Rs. 50 the entry in the Journal would be as follows:—

Forfeited shares re-issue account Dr. Rs. 500

To Capital Account . . . Rs. 500

Cash Account (forfeited shares) Dr. Rs. 450

Forfeited Shares Account. . . ,, 50

To Forfeited Shares re-issue Account Rs. 500.

Transfers :—In case where a holder of shares transfers them, no entry is necessary in the Financial set of books. The transfer would be first recorded in the Register of Transfers. In the Share Ledger also an account would be opened in the name of the transferee (if there does not exist one already) recording the shares acquired by him, and in the account of the transferer in the same Ledger the fact of his having transferred a part, or whole of his holding, would be entered on "Shares transferred" side. It is usual to charge transfer fees which are credited to "Transfer fees account" and finally transferred to the Profit and Loss account. It is however a better course to utilize such fees in writing off paper assets.

Shares issued as a Bonus :—There are cases where a company which has made large profits and accumulated a Reserve Fund, resolves to present the existing shareholders with Bonus Shares in proportion to their holdings. In such a case if the Bonus Shares are issued fully paid, an entry has to be passed in the financial books, debiting the Reserve Fund Account and crediting the Bonus Account. The Bonus Account would then be debited and the Share Capital Account credited for the shares so issued.

If on the other hand a certain Bonus is to be applied to the payment of a certain call, a similar entry would have to be passed with regard to the Bonus, by which, the Reserve Fund account is debited for the amount utilized as Bonus towards the payment of the Call, and the Bonus Account credited. A second entry would then be passed debiting the Bonus Account and crediting the Capital Account. Sometimes a call account is opened and debited, crediting the Capital and then it is written off by debiting Bonus and Capital Account crediting the Call Account.

Purchase of a going business by a Company :— Freqnently companies are floated to take over a going concern instead of starting a business on its own. In such a case all assets and liabilities of the firm whose business is purchased are taken over and a fixed price, called "Purchase price," is paid to the vendors. This amount of purchase money is usually larger than that represented by the difference between the assets and liabilities taken over, the excess representing the good-will of the business. The purchase price is payable either fully in cash, or as is generally the case, partly in cash and partly in shares. We shall take up a case for illustration and show the Journal entries.

Exercise.

The Raja Manufacturing Co., Ltd., is formed to take over and work the going concern of S. Pestonji and Robert

Green, equal partners, purchase price being Rs. 7,50,000. The assets and liabilities taken over by the company are given below. You are asked to show entries you would pass in the financial books of the company assuming that Rs. 3,00,000 of the purchase money was paid in cash and the balance in ordinary shares of the Company.

Liability.		Assets.	
Sundry Crs. . .	Rs. 1,50,000	Factory Building .	Rs. 3,00,000
Bills Payable . .	,, 75,000	Machinery . .	,, 2,25,000
	2,25,000	Sundry Debtors .	,, 75,000
		Bills Receivable .	,, 45,000
		Stock . . .	,, 1,05,000
		Furniture & Fixtures	,, 7,500
			Rs. 7,57,500

Journal Entries.

Purchase account Dr. Rs. 7,50,000

To Vendors account

(Messrs. B. Pestonji &

R. Green) . . . Rs. 750,000

(The purchase price agreed upon)

Factory buildings account Dr.	Rs.	3,00,000
Machinery account . .	,,	2,25,000
Sundry Debtors account .	,,	75,000
Bills Receivable account .	,,	45,000
Stock	,,	1,05,000
Furniture and Fixture . .	,,	7,500
Goodwill account . . .	,,	2,17,500

To Sundry creditors . .	Rs.	1,50,000
To Bills Payable . .	"	7,500
To Purchase account . .	"	7,50,000

(For assets and liabilities taken over)

Vendors account (Messrs. B. Pestonji & R. Green) . Rs. 4,50,000

To ordinary shares capital a/c Rs. 4,50,000

(For share given in part-payment of purchase price.)

Dr.		Cash-Book.		Cr.
		By Vendors Account Messrs. R. B. Pestonji & R. Green) .	Rs. 3,00,000	

This entry is made in the cash book when cash is paid.

Capital Expenditure and Revenue Expenditure:- In public Companies the question of the distinction between Capital expenditure and Revenue expenditure is of considerable importance because the directors who are proved to have wilfully paid dividends out of capital are held personanlly liable to make good the loss.

All expenditure towards the purchase of assets such as building, machinery, plant, etc., which, when put to use, bring in profits are **Capital Expenditure**. If, however, some assets are purchased to replace old worn out assets the loss on such replacement is to be charged to revenue, whereas all money spent by way of repairs, salaries of clerks, rent of office, etc., which is lost entirely to the company, as well as losses by way of depreciation are **Revenue Expenditure**. The latest decisions lay down that where money is borrowed to construct permanent works, the interest on this money which is payable during the course of construction of such works can be charged or debited to the works (assets) themselves, thus adding same to their value as a capital expenditure. The Sec. 107 of our Indian Companies Act (1913) extends this principle to shares and says that where a Company issues shares specially to raise money in order to extend its works or buildings, or to construct same, which extension is of a nature which cannot be made profitable for some time, they may, on obtaining sanction from the Local Government, pay interest which should not exceed 4% on so much of the Share Capital and may charge the same to Capital as part of the cost of construction of the work or building, etc., instead of charging same to Revenue. The exact wording of the section is given under a special heading of "Payment of Interest out of Capital."

The old idea that, in case of Companies where a part of the fixed capital was lost in course of one particular year the same need not be made good during subsequent years before a dividend can be declared out of profits (*i.e.*, irrespective of previous years' heavy losses if the current year's transactions showed profits dividend may be declared) has been doubted by the House of Lords. In a recent case Farewell, J., decided that the loss arising from the surrender of leases and the pulling down of cottages and the general depreciation of assets arising on a new valuation must be made good out of profits (charged to Revenue) before a dividend can be declared. This loss may be, it is urged by some authorities, spread over several years debiting the Revenue account of each of these years in instalments; but if the loss is too large to be written off out of the profits of a reasonable period the only course is the reduction of capital with the sanction of the Court.

If any of the assets of the Company is sold at a figure lower than the one standing in the books the loss ought also to be charged to revenue.

Profits and Losses prior to Incorporation :—In case a company has taken over a business from a date prior to its incorporation the profits made by that business during the period before incorporation cannot be correctly dealt with as the profits of the company and distributed as dividend. The correct method would be to utilise the profits as capital profits in payment of the purchase price due to vendors, or in writing off good-will or other similar intangible asset, or may be transferred under the Reserve Fund account. It may sometimes happen that a company has taken over a new business and in the first part of its trading period the exact figure of profit made before incorporation cannot be ascertained. In such a case it is usual to ascertain the profits for the whole period at the end of such a period and then to apportion same proportionately.

In the same manner if the period before incorporation shows a loss instead of profits the loss should be capitalised by either adding it to the good-will account, if their is such an account, or failing that the loss may be allowed to stand on the Suspense account and written off gradually out of the profits of the future years, utilising all premiums on shares, if any, or the balance earned on forfeited shares towards the writing off of such an item.

Payment of interest out of Capital.—We have dealt with this point in brief and may now add that the Indian Companies Act of 1913 lays down the following provisions in Sec. 107 as to payment of interest out of capital.

Where any shares of a company are issued for the purpose of raising money to defray the expenses of the construction of any work or buildings or the provision of any plant which cannot be made profitable for a lengthened period, the company may pay interest on so much of that share capital as is for the time being paid up for the period subject to the conditions and restrictions in this section mentioned, and may charge the same to capital as part of the cost of construction of the work or building, or the provision of plant:—

Provided that—

(1) No such payment shall be made unless the same is authorised by the articles or by special resolution;

(2) No such payment, whether authorised by the articles or by special resolution, shall be made without the previous sanction of the Local Government, which sanction shall be conclusive evidence for the purpose of this section that the shares of the company, in respect of which such sanction is given, have been issued for a purpose specified in this section.

(3) before sanctioning any such payment, the Local Government may, at the expense of the company, appoint a person to inquire and report to such Local Government as to the circumstances of the case and may, before making the appointment, require the company to give security for the payment of the costs of the inquiry;

(4) the payment shall be made only for such period as may be determined by the Local Government; and such period shall in no case extend beyond the close of the half-year next after the half-year during which the works or buildings have been actually completed or the plant provided;

(5) the rate of interest shall in no case exceed four per cent. per annum or such lower rate as the Governor-General in Council may, by notification in the Gazette of India, prescribe;

(6) the payment of interest shall not operate as a reduction of the amount paid up on the shares in respect of which it is paid;

(7) the accounts of the company shall show the share capital on which, and the rate at which, interest has been paid out of capital during the period to which the accounts relate;

(8) nothing in this section shall affect any Company to which the Indian Railway Company's Act, 1895, or the Indian Tramways Act, 1902, applies.

Reserves:—To provide against the eventuality of very heavy losses or charges arising which might reduce the profits of the company during any one year or increase its loss, the directors generally lay aside periodically a certain amount during profitable years out of the profits, before declaring dividend, and thus in case of such losses arising they are easily met with out of the Reserve, without disturbing the profits of the year during which they occur. This is done by debiting Profit and Loss account and crediting a Reserve Fund account. It is often called a "Surplus account" or a "rest" as in case of the Bank of England.

Reserves therefore are created under various circumstances and for various purposes. (*a*) In case where in very profitable years a certain proportion of the profits is laid aside for a contingency this would be a *general reserve* and can well be shown on the liability side of the Balance Sheet as the excess of assets over liabilities and the capital of the company. (*b*) If however instead of writing off losses through the depreciation of the assets of a wasting nature a certain sum is debited to the Profit and Loss account and credited to a special Reserve such as "Reserve" for depreciation of "Lease" or "Building" or "Machinery" this should be shown in the Balance Sheet deducted from the various assets for which it is created. The same may be said for the reserve for Bad and Doubtful debts, but these are provided for in the schedule under the Indian Companies Act on the Liabilities side of the Balance Sheet.

The amount thus laid aside out of the profits is generally invested in outside securities, if not it remains in the company either in form of cash or some other asset. Whether the Reserve should be invested outside, or should be invested in connection with the business, depends on the nature of the business. In case of Banks it is best to invest the Reserve in outside marketable securities to be of use in an emergency, such as a run on the Bank; but in case of a trading Company it may be profitable to keep it in use in the business itself as the increased facility afforded by so much ready cash may help the company to take advantage of discounts by prompt cash payments on purchases or in the case of some manufacturing companies it may be thought more profitable to use the reserve on extensions instead of borrowing on heavy interest from outside.

Secret, Hidden or Internal Reserves:—Directors of very successful companies where the profits are very large, besides laying aside a definite amount by way of reserve openly, create a Secret, Hidden, or Internal Reserve by heavily depreciating the Assets such as building, etc. So much so that in course of a few years these assets appear on the Balance Sheet at a figure far below their market value, or do not appear there at all, as in the case of the premises of the Bank of England which are valued at £2,00,000 but are not shown on the Balance Sheet. Courts of law have sanctioned such a course though from an Accountant's point of view this course would hardly be considered right as the balance sheet in such cases would not be representing the exact state of the company's affairs.

Form of Balance Sheet:—Section 132 of the Indian Companies Act requires the balance sheet of every company to be in the form given below prescribed in the third schedule under the act or as near thereto as circumstances admit.

______________________ Limited.

Balance Sheet as at ______________ 19 .

Capital and Liabilities.	Rs.	a.	p.	Rs.	a.	p.	Property and Assets.	Rs.	a.	p.	Rs.	a.	p.
Capital :—							Fixed Capital Expenditure .						
Authorised Capital Shares of Rs. each. . . .							(Distinguishing as far as possible between expenditure upon good-will, land, buildings, leaseholds, railway sidings, plant, machinery, furniture, development of property, patents, trade-marks and designs. Interest paid out of Capital during construction, etc. and stating in every case the original cost and the total depreciation written off under each head).						
Issued Capital Shares of Rs. each . . .													
Subscribed Capital Shares of Rs. each . . .													
Amount Called up at Rs. per share													
Less Calls unpaid.													
Add—Forfeited shares (amount paid up)							Preliminary Expenses . .						
Reserve fund or Development fund							Commission or Brokerage .						
Any Sinking fund . . .							(Commission or brokerage paid for underwriting or placing Shares or debentures until written off).						
Any other fund created out of net profits							Stores and Spare Gear . .						
Any Pension or Insurance fund.							Loose Tools						

Capital and Liabilities.—*contd.*					Property and Assets.—*contd.*				
Provision for Bad and Doubtful Debts					Live Stock.				
Loans on Mortgage or Mortgage Debenture Bonds . .					Stock-in-Trade (stating mode of valuation, *e. g.*, cost or market value) . . .				
Loans otherwise Secured (stating the nature of Security) .					Bills of Exchange . . .				
Loans unsecured :—					Book Debts :— (distinguishing in the case of a bank between those considered good and in respect of which the Bank is fully secured and those considered good for which the Bank holds no security other than the debtors' personal security, and distinguishing in all cases between debts considered good and debts considered doubtful or bad. Debts due by Directors or other officers of the Company or any of them either severally or jointly with any other persons to be separately stated in all cases).				
Interest Accrued on Mortgages, Debentures or other securities.									
Unclaimed dividends . .									
Liabilities for goods supplied .									
,, Expenses . .									
,, Acceptances .									
,, other finance .									
Advanced Payments and unexpired discounts (for the portion of which value has still to be given *e. g.*, in the case of the following classes of Companies :—					Advances :—				
					Recoverable in cash or in kind or for value to be re-				

Capital and Liabilities.—*contd.*

Newspaper, Fire Insurance, Theatre, Club, Banking, Steamship Companies, etc. .

Profit and Loss . . .

Balance as per previous Balance Sheet . . . .

Less-appropriation thereof .

Balance brought forward .

Profit since last Balance Sheet . . . . .

(*N.B.*—These details need not be given if the same be contained in a Profit and Loss Account attached to the Balance Sheet) . . .

Contingent (liabilities):—

Claims against the Company not acknowledged as debts .

Money for which the Company is contingently liable . .

Arrears of Cumulative Preference Dividends . . .

Property and Assets.—*contd.*

covered *e. g.*, Rates Taxes, Insurance, etc.

Investments . . . .

(Nature of investment and mode of valuation *e. g.*, cost or market value) . . .

✓Interest accrued on Investments . . . . .

Cash and other Balances . .

Amount in hand . . .

Balances with Agents and Bankers (in detail showing whether on Deposit or Current account, etc.) . . .

Profit and Loss (giving in the case of a debit balance details as far as possible as in the case of a credit balance).

Profit and Loss Account:—The Indian Companies Act does not specifically provide for the publication of a Revenue Account. However, Table "A" indicates under clauses 106 and 107 how this account is to be prepared and the Articles of Association of most Companies require a Profit and Loss Account laid before the General Meeting along with the Balance Sheet.

Appropriation Account :—This account is opened after the Profit and Loss Account is made out and the net profit as per the latter is credited to this appropriation account. The debits are the dividends decided upon to be paid to each class of shareholders, besides any other appropriation of profits such as for reserves, sinking fund, etc. The interest on debentures however is charged direct to Revenue by debiting the Profit and Loss account itself.

A summary of this account is shown on the Balance Sheet under the heading of Profit and Loss when a separate statement containing these details is not attached to the Balance Sheet.

Dividends :—The dividends out of profits are to be divided among the shareholders in accordance with the provisions in the Memorandum or the Articles. Dividends, as we said above, can only be paid out of the profits and cannot be paid out of capital even where the Memorandum or Articles allow it—except in the cases dealt with in the para on Revenue and Capital Expenditure. Dividends are generally payable as a percentage on the amount actually paid up on the capital. Calls paid in advance do not take a dividend ; but if the articles permit a special percentage by way of interest that interest is allowed which, of course, has nothing to do with the dividend on shares. Frequently the articles provide that "the profits available for dividends" shall be applied in the order laid down in them. These "profits available for dividend" mean:

1. The Net Revenue Profit after the deduction of all Revenue charges, including depreciation on floating assets but not necessarily depreciation on fixed assets and after sufficient reserves have been made by the Directors.
2. Any surplus of Capital Profits that may remain after having made good any capital losses provided the articles of association of the Company give power.
3. Current Revenue Profits even where there is a debit balance on "appropriation account" caused by losses of previous periods.

Where the articles permit and the directors are quite sure of the profits, they may declare a dividend on account of the year's profits before the expiry of the year, say a half-yearly dividend. This is called an "Interim Dividend."

Where the dividends are declared, statements called Dividend Warrants are sent to each of the shareholders entitled to same who can cash them at the Company's Banker or in the Company's office as the case may be. Dividends may be declared free of Income Tax when they are paid in full, if not the Income Tax is deducted from the amount of dividend and the balance paid.

When a dividend is declared Profit and Loss appropriation account is debited and a Dividend account is credited. This Dividend account shows the liability to the shareholders and is closed when paid in cash. But where

Income Tax is to be borne by the shareholders, it has been deducted from the amount of the Dividend. This has to be transferred by debiting the Dividend account and crediting Income Tax account.

The following illustration will help to show how the entries are made.

Illustration:—A company having a share capital of 10,000 ordinary shares of Rs. 10 each fully paid, declares a dividend of Re. 1 per share. Show the entries necessary to record this, calculating Income Tax at 1 anna per rupee.

Profit and Loss appropriation account Dr.	10,000	
To Ordinary shares Dividend account		10,000
(being a dividend of Re. one per share declared as per shareholders' minute.)		
Ordinary shares Dividend account .... Dr.	625	
To Income Tax account		625
(being Income Tax payable on the amount of the dividend.)		

These two entries can be combined into one.

In companies where owing to the large number of shareholders it is not possible for the companies' own staff to cope with the payment of dividends a separate Banking account is opened with the exact amount of the dividend, so that when all the Dividend Warrants are cashed the balance on the Bank Dividend account will be nil. In this case there will be no balance on the books to represent the dividend as the Dividend account will be closed when the Banking account is opened. At the time of the

Balance Sheet the balance on the Dividend account Pass Book will show the amount if the outstanding liability which should be shown as unpaid Dividends on the Balance Sheet on the liability side being represented on the asset side by the Bank Balance.

Reserve for the Equalisation of Dividends:— Companies engaged in seasonal trades or businesses which are likely to fluctuate considerably from year to year will tend to show large profits during one season or period and a small profit or even a loss at other times. As the return on the capital invested is not steady and reliable the companies' shares will not be considered an attractive investment and this will lower the market value of the shares. To get over this condition during good periods a certain amount of the profits is set aside in a Dividend Equalisation Reserve account to be drawn on during bad years so that the shareholders may be given a fairly dependable return on their capital.

Where Dividends on cumulative preference shares are in arrear no entries need be made in the books as the liability to pay the dividend does not arise until sufficient profits have been made. As these arrears will have the first claim on any profits made in the future the ordinary shareholders should be informed of this by a note at the foot of the Balance Sheet.

(For further information regarding company law the student is referred to "Elements of Indian Companies Act" by Principal Sohrab R. Davar.)

Exercises on Chapter VI.

I. The West Coast Steam Navigation Company, Limited, was formed with a nominal Capital of Rupees 60,00,000 divided into 20,000 6% preference shares of

Rs. 100 each and 40,000 ordinary shares Rs. 100 each. 10,000 ordinary shares and 10,000 preference shares were issued to the vendors as fully paid in part payment of purchase consideration which was fixed at Rs. 25,00,000, balance being paid in cash. Remaining shares were allotted to the public payable as follows Rs. 25 on application and Rs. 25 on allotment. A call of Rs. 25 was made one month after the date of allotment which was duly received with the exception of Rs. 25,000 on 1,000 preference shares. Give necessary Journal and Cash Book entries giving effect to above-mentioned transactions.

II. The Diamond Spinning and Weaving Mills Limited was registered with a nominal capital of Rs. 100,00,000 divided into 10,000 shares of Rs. 1,000 each, invited applications, payable Rs. 125 on application, Rs. 250 on allotment and remainder as and when required. On June 1st, 1925, 12,000 shares were applied for and the deposits thereon received. On June 10th following, applications for 8,000 shares were accepted in full and the remaining applicants were allotted half the number of shares they applied for. The balance due on allotment was received in full on the following day. A final call of Rs. 625 was made one month after the date of allotment which was duly received. Make necessary Cash Book and Journal entries.

III. A. Chhagan Lall, a diamond merchant applied for 500 shares of Rs. 100 each in the Colour and Drug Manufacturing Company, Limited which were allotted to him.

He paid Rs. 25 on application and Rs. 20 on allotment. A call of Rs. 35 was made on 15th December 1924 which he failed to pay on its due date, and the Company's Directors decided to forfeit the share. Notice of forfeiture was given on 15th February 1925, and the call still remained unpaid, the shares were forfeited on which date the directors re-issued the shares to another merchant Mr. Tilockchand Harichand for Rs. 20,000. Record the above transactions in the books of the Company and show the forfeited shares account in the Company's Ledger.

IV. H. Sukhtankar applied for 25 shares of Rs. 100 each in Swadeshi Khaki Cloth Manufacturing Company Limited on which he paid Rs. 20 on application and Rs. 25 on allotment, but failed to pay the first call of Rs. 30 made on 1st January 1925. A due notice of forfeiture was given to him by the Company, and still the call being unpaid, the directors forfeited his shares and the directors sold these shares to Mr. Lalji Narayanji for Rs. 70 each as fully paid who duly paid the required sum.

Record the above transactions in the books of the Company and state how you will deal with the balance on forfeited shares account.

V. Patel Manufacturing Company Limited issued Debentures for Rs. 80,000 at a discount of 5 per cent. repayable at par at the end of 10 years, and decides to provide for redemption by setting aside out of profits to sinking fund and to invest the sum outside the business in 5% Bombay Improvement Trust Debentures. Show necessary Ledger accounts at the end of 10th year and state how you will deal with the Sinking Fund balance after the Debentures are paid off.

VI. A Limited Company borrowed Rs. 150,000 on Debentures at a discount of 5% repayable in 5 years at par, and decides to provide for redemption by means of what amount should be charged?

annual Sinking Fund at 6% compound interest. Show the necessary Ledger accounts affected and the procedure you will adopt when the debentures are redeemed at the end of the fifth year.

VII. You are required to prepare from the following particulars a statement for insertion in the statutory Report of the Porebunder Company Ltd., registered on 1st April 1926 as per section 77 (3)–C of the Indian Companies Act 1913.

Nominal Capital of the Company is 100,00,000 divided into 20,000 shares of Rs. 500 each. Of which 10,000 shares were issued to the Vendors as fully paid in part consideration of purchase price, and the remaining shares were offered to the public and were duly applied for, payable as follows: Rs. 200 per share on application and Rs. 150 per share on allotment which sums were duly paid to the Company's bankers with the exception of allotment money on 500 shares. A shareholder paid his 200 shares in full.

The following is the summary of receipts and payments:—

20,00,000 paid to Vendors being balance of purchase price.

5,000 paid to *Times of India* for printing, etc.

6,000 paid to Davar and Co. as underwriting Commission.

10,000 paid office salaries and wages.

5,000 office rent.

50,000 deposited with Central Bank of India.

10,000 received from Jadhavji & Co., being the cost of old meterials sold to them.

VIII. As the auditor of a limited Company you are asked to certify the report pursuant to section 77 (3)–C of the Indian Companies Act 1913. Upon attending at the Company's office, you are given the following particulars which you are asked to include in the Statutory Report.

Prepare the necessary statement and append your certificate as auditor of the Company. The company was entitled to commence business on 1st September 1924.

The nominal capital of the company consists of 10,000 ordinary shares of Rs. 800 each. Number of shares allotted is 8,000 of which 4,000 shares were issued as fully paid to the vendors in part payment of purchase consideration; 2,000 shares were fully called and paid up ; and of the balance of the issue the final call of Rs. 200 per share remains unpaid at the date of closing the accounts.

The payments were as follows : vendors, balance of purchase price, Rs. 100,000 ; office salaries and other expenses, Rs. 10,000 ; printing and stationary, Rs. 5,000 ; preliminary [illegible]s, Rs. 10,000 ; underwriting commission, Rs. 2,000 [illegible]. 50,000 paid to K. S. Dhondy & Company as advance for erecting a new building; Rs. 75,000 paid to Marshall Sons & Co. Ltd., for buying machinery.

IX. The Soordas Manufacturing Company Limited having a share-capital of Rs. 200,000 divided into 1,000 shares of Rs. 200 each fully paid which are quoted in the market at Rs. 500, distributes a bonus out of Reserve Fund at the rate of 15 per cent of the original capital payable in 1,000 fully paid shares at a premium of Rs. 100 per share.

Pass the necessary journal entries recording the above transactions.

X. The Sundardas Manufacturing Company Limited with a nominal and paid-up capital of 2,000 shares of Rs. 1,000 each, having accumulated a Reserve Fund of Rs. 4,00,000 resolve to capitalise whole of it by issuing to the shareholders bonus shares payable in 2,000 shares at a premium of Rs. 125 per share. Give the necessary journal entries to record the above transactions in the books of the Company.

XI. Prepare Trading and Profit and Loss Account for the year ending 31st March 1925 and Balance Sheet as at date from the Trial Balance extracted from the books of Samaldas Laloobhoi and Company Ltd. after making necessary adjustments. Dr.

	Rs.		Rs.
Stock on 1-4-24	30,000	Purchase returns	6,000
Debtors	75,000	Sales	200,000
Office Salaries	7,500	Share Capital, 1,000 shares of Rs. 100 each	100,000
Purchases	120,000	Creditors	40,000
Bad Debts	1,000	Debentures	25,000
Carriage	4,500	Debenture [illegible]emption fund	7,500
Wages	10,000	Calls in advance	500
Discount allowed	3,500	Bank overdraft	9,000
Rates, Taxes and rent ...	7,000	Loan on the security of Freehold property ...	10,000
Legal Expenses	1,200		
Auditors' & Directors' fees	500		
Freehold Property... ...	50,000		
Machinery	75,000		
Fixture and fittings ...	10,000		
Debenture Interest for ½ year	500		
Sales returns	3,500		
Unpaid Calls	1,000		
Petty Cash	300		
Debenture Redemption Fund Investments ...	7,500		
	4,08,000		4,08,000

Stock was valued at Rs. 25,000 ; make a provision for bad and doubtful Debts of 5 per cent on sundry debtors ; depreciate Plant and Machinery by 7½ per cent and furniture by 10 per cent. Directors resolve to transfer Rs. 2,000 to Debenture Redemption fund and Rs. 2,000 to Dividend Equalisation Fund and carry forward the balance to next year's accounts.

XII. From the following Trial Balance extracted from the books of Messrs. Haridas Trading Company Ltd., prepare Trading and Profit and Loss Account for the year ending 30th June 1925 and the Balance Sheet as at that date after making the following adjustments given at the foot of the Trial Balance.

	Rs.		Rs.
Stock on 1-7-25	25,000	Share Capital 5,000 shares of Rs. 40 each fully paid.	200,000
Purchases	95,000	Sales	170,000
Goodwill	60,000	Creditors	17,000
Cash at Bank	6,000	Purchases returns	2,500
Machinery and Plant ...	80,000	Transfer fees	100
Furniture	5,000	Bills Payable	400
Preliminery Expenses ...	8,000		
Wages	15,000		
Carriage	3,000		
Office Salary	7,000		
General Expenses... ...	3,500		
Rent, Rates and Taxes	6,500		
Sales returns	2,600		
Postage and Stationery ...	1,500		
Sales Ledger Balances ...	66,000		
Bad Debts	1,700		
Cash in hand	—		
Discount & Allowances ...	2.500		
Directors' and Auditors' Fees	700		
Total ...	390,000	Total ...	390,000

Write off half of the preliminary expenses; depreciate plant and machinery by 5 per cent and furniture by 10 per cent. Make a reserve of 5 per cent on sundry debtors. Stock was valued at Rs. 25,000.

XIII. A Limited Company having a nominal capital of Rs. 5,00,000 divided into 3,000 6 per cent cumulative preference shares and 2,000 ordinary shares of Rs. 100 each made a profit of Rs. 90,000, and there is also a credit balance of Rs. 10,000 brought forward from last year's Profit and Loss account. It was resolved to appropriate the profit as under :—

(1) Transfer Rs. 10,000 to Debenture Redemption fund account.

(2) Transfer Rs. 15,000 to Dividend Equalisation fund account.

(3) Pay Preference shareholders less tax @ 0–1–6 per rupee.

(4) Pay Ordinary shareholders at the rate of 10 per cent free of Tax.

(5) Managing Agents are to be paid Rs. 7,500 as their commission.

(6) Carry forward the balance to next year's account.

Prepare Profit and Loss appropriation account and Dividend account.

XIV. A Limited Company with an authorised capital of Rs. 15,00,000 divided into 10,000, 5 per cent cumulative preference shares and 5,000 ordinary shares of Rs. 100 each made a profit of 150,000. It was resolved to appropriate the balance as follows :—

(1) To transfer Rs. 5,000 to special reserve account.

(2) To pay cumulative Preference shareholders less Tax at 0–1–6 as well as last year's dividend which was in arrear on account of insufficient profits.

(3) To pay Ordinary shareholders at 8 per cent. free of Income Tax and to carry forward the balance.

Pass the necessary journal entries to carry out the above resolutions.

CHAPTER VII.

Increase or Reduction of Capital, Absorption, Amalgamation and Reconstruction of Joint Stock Companies.

Increase of Capital : Section 50 of the Indian Companies Act 1913 provides for any alteration in the Share Capital of a Company limited by shares. If the Articles of Association of the Company authorise it to do so, it may :—

(a) Increase its share capital by the issue of new shares of such amount as it thinks expedient ;

(b) Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares ;

(c) Convert all or any of its paid up shares into stock and reconvert that stock into paid up shares or any denomination ;

(d) Sub-divide its shares, or any of them, into shares of smaller amount that is fixed by the Memorandum, so, however, that in the sub-division the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived;

(e) Cancel shares which, at the date of the passing of the resolution on that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

The alteration under (*d*) must be made by a special resolution.

Every copy of the Memorandum of a company issued after the alteration carried out under this section should be in accordance with the alteration.

When a company has used up all the capital issued originally and has expanded its activities to such an extent as to be in need of further capital it may by a resolution required by its articles increase its nominal capital. A copy of the resolution should be filed with the Registrar of Joint Stock Companies within fifteen days and an *ad valorem* stamp duty on the increased capital should be paid.

The entries in connection with the new issue of shares will be exactly on the same lines as those of the original issue. It would be preferable to open separate capital account called "Ordinary or Preference Shares New Issue Account" until the shares are fully paid or on par with the original issue when this account could be transferred and merged into the original share capital account.

The Stamp Duty and expenses in connection with this issue should be debited to a "New Issue Preliminary

Expenses Account" and afterwards dealt with in the same way as the original "Preliminary Expenses."

In the case of the other alterations in the share capital under this section no accounting entries will be necessary although the requirement as to filing the notice of alteration should be attended to.

Reduction of Capital : A company may resort to share reduction under the following circumstances :—

(1) Where a company is not likely to need any further capital part of the issued share capital being uncalled it may relieve its shareholders of their liability on the uncalled amount.

(2) Where a company has large losses accumulated in the past on its Profit and Loss Account making it not possible to pay dividend out of profits of the current years it becomes necessary to set off this loss against the capital and where the assets have permanently shrunk considerably in value and the book figures do not represent available assets it is advisable to write this off against capital.

(3) Where there are large amounts of capital accumulated out of profits which are no longer required by the company for its purpose and it is desired that the excess capital should be returned to the shareholders.

As reducing share capital under these conditions affect the security and interests of the creditors vitally sections 55 to 59 of the Act lay down the statutory formalities to be undergone before such reduction could take place.

The company should, in the first instance, have reserved powers in its articles of association to enable it to effect such a reduction and then should pass a special resolution. After this it must apply to the Court by petition for an order confirming the reduction. The court confirming such reduction which involves either the diminution of liability in respect of unpaid share capital, or repayment of any paid up share capital to the shareholders, should see that the creditors of the company who at the date fixed by the Court are entitled to any debt or claim admissible in proof, against the company in liquidation, consent to the reduction. If not, the Court has power either to dispense with such a consent on the company securing payment of such debt, or on payment of the debt to the said creditors, to confirm the said reduction (Sec. 59). For this purpose the Court shall order a list of the creditors who are entitled to object to such a reduction to be made out, which it settles. The reduction of capital, under the circumstances discussed here, may have to be effected for one or more of the following purposes :—

(1) To extinguish or reduce the liability of any of its shares in respect of its share capital not paid up.

(2) With or without extinguishing or reducing the liability of its shares to cancel any paid up capital which is lost or unrepresented by available assets, or

(3) With or without extinguishing or reducing the liability on any of its shares, pay off any unpaid share-capital which is in excess of its wants (Sec. 55).

As soon as this reduction is confirmed by the Court, the company should use the words "and reduced" as the last words in its names for such time as the Court may fix. The Court may however, dispense with this requirement, if it think expedient, particularly where the reduction does not involve either diminution of liability in respect of unpaid capital or the payment to any shareholder of any paid up capital (Sec. 57).

Where the uncalled liability on shares is extinguished there will be no need for any accounting entries as the uncalled capital is not represented in the Financial Books of the company.

When it is sought to write off debit balances on Profit and Loss Account or write down the value of Assets the following journal entries should be used :—

Share Capital Account Dr.
To Share Reduction Account

being reduction of Rs. . . per share on. . . shares of Rs. . . each, as per resolution of the shareholders confirmed by the Court.

Share Reduction Account Dr.
To Good-will
Plant, Machinery, etc.
Profit and Loss Account

being debit balances written off as per share reduction scheme.

When excess Share Capital is returned the following entries will be necessary.

Share Capital A/c Dr.
To Share Reduction

being reduction of Rs. . . per share on. . . shares of Rs. . . each, as per resolution of the shareholders confirmed by the Court.

Share Reduction Account Dr.

To Cash

being repayment of capital not required to shareholders, as per share reduction scheme.

Illustration 1.

Cancelling Paid-up Capital which is lost or unrepresented by available assets.

The following is the Balance Sheet of the James' Manufacturing Company, Limited, on 31st December......

Balance Sheet as at 31st December.

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital—		Good-will	5,000
300 Shares of Rs. 100 each	30,000	Other sundry assets ...	25,000
Subscribed and Paid-up Capital 300 Shares of Rs.100 each fully paid up	30,000	Profit and Loss Account ...	10,000
Sundry creditors	10,000		
	40,000		40,000

It was resolved at a meeting of the shareholders and confirmed by the Court that the 300 shares of Rs. 100 each be reduced to the same number of fully paid shares of Rs. 50 each and the balance thus rendered available be utilised in writing down the good-will a/c and the debit balance of Profit and Loss A/c.

Pass the necessary journal entries giving effect to the above resolution and draw out the Balance Sheet.

Journal Entries.

Share Capital Account ...	*Dr.*	15,000	
To Capital Reduction Account			15,000

being reduction of Rs. 50 per share on 300 shares of Rs. 100 each as per resolution of the shareholders confirmed by the court.

Capital Reduction Account ...	*Dr.*	15,000	
To Good-will Account ...			5,000
,, Profit and Loss Account			10,000

being debit balances on Good-will and Profit and Loss Accounts written off as per share reduction scheme.

Balance Sheet of James Manufacturing Company, Limited (and Reduced).

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital— 300 Shares of Rs. 50 each	15,000	Sundry Assets . .	25,000
Subscribed and paid-up Capital— 300 Shares of Rs. 50 each fully paid .	15,000		
Sundry Creditors .	10,000		
	25,000		25,000

Illustration 2.

Extinguishing the liability on the shares and cancelling paid-up Capital unrepresented by available assets.

Balance Sheet of Iron and Steel Industries, Limited stood as follows on 31st December :—

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital :—		Plant and Machinery .	12,000
500 Shares of Rs. 100 each	50,000	Furniture and Fixtures .	2,000
Issued and Subscribed Capital:—		Stock	18,000
500 Shares of Rs. 100 each Rs. 75 paid .	37,500	Book Debts . . .	17,500
Creditors . . .	12,500	Cash	500
	50,000		50,000

Directors recommended to the Shareholders that the 500 shares of Rs. 100 each, Rs. 75 paid may be reduced to an equal number of shares of Rs. 50 each fully paid and that the values of the Assets in the books be written down as under. This recommendation was duly passed by the shareholders and confirmed by the Court.

	Rs.
(1) To write down the Plant and Machinery to	7,000
(2) Make reserve for doubtful debts to the extent of	3,000
(3) Reduce the Stock by	2,000
(4) Depreciate furniture and fixtures @ 25%	

Pass the necessary journal entries and prepare Balance Sheet giving effect to the above resolutions.

		Rs.	Rs.
Share Capital Account	...*Dr.*	12,500	
To Share Reduction Account...			12,500

(being 500 shares of Rs. 100 each, 75 paid, reduced to an equal number of shares of Rs. 50 paid up as per shareholders' resolution and confirmed by the court dated.......)

		Rs.	Rs.
Share Reduction Account...	*Dr.*	12,500	
To Plant and Machinery	...		7,000
,, Furniture	...		500
,, Stock...	...		2,000
,, Reserve for doubtful debts ...			3,000

(being various assets written down as per share reduction scheme).

The Iron and Steel Industries, Ltd. (and Reduced.)

Capital and Liabilities.	Rs.	*Property and Assets.*		Rs.
Nominal Capital 500 Shares of Rs. 50 each. 25,000		Plant and Machinery	12,000	
		Less dep. written off	7,000	
				5,000
Issued and subscribed Capital 500 Shares of Rs. 50 each.	25,000	Furniture and fixtures	2,000	
		Less dep. written off	500	
				1,500
Reserve for doubtful debts	3,000	Stock	... 18,000	
Sundry creditors	12,500	Less written off	... 2,000	
				16,000
		Book debts ...	...	17,500
		Cash in hand ...	...	500
	Rs. 40,500			Rs. 40,500

Illustration 3.

Cancelling the paid up capital which is lost or unrepresented by available assets but retaining the same liability on the shares.

Balance Sheet of Bengal Coal Company, Ltd. was as follows on 31st December......

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital—			
2,000 Shares of Rs. 100 each	2,00,000	Quarries	50,000
		Plant and Machinery .	60,000
		Furniture, etc. . . .	5,000
Issued and Subscribed Capital :—		Stock of Coal . . .	25,000
2,000 Shares of Rs. 100 each Rs. 75 paid .	1,50,000	Debtors	17,000
		Preliminary Expenditure .	[illegible]
Sundry Creditors . .	10,000	Cash in hand . . .	500
	Rs. 1,60,000		Rs. 1,60,000

A resolution was passed and confirmed by the Court that 2,000 shares of Rs. 100 each, Rs. 75 paid, be reduced to an equal number of shares of Rs. 75 each, Rs. 50 paid, and the balance thus rendered available be utilised in writing down the assets which were not adequately depreciated in the past.

(1) To write off Rs. 20,000 from Quarries.
(2) ,, Depreciate Plant and Machinery at $33\frac{1}{3}\%$.
(3) ,, Write off the Preliminary Expenses entirely.
(4) ,, Depreciate furniture at 10%.
(5) ,, Reduce the Stock by Rs. 5,000.
(6) ,, Reserve for doubtful debts for Rs. 2,000.

Pass the necessary journal entries giving effect to the above resolution and prepare the Balance Sheet as it would appear after the necessary reduction.

		Rs.	Rs.
Share Capital Account	*Dr.*	50,000	
To Share Reduction Account			50,000

Being 2,000 shares of Rs. 100 each, Rs. 75 paid, reduced to same number of shares of Rs. 75, Rs. 50 paid,

as per Shareholders' resolution and confirmed by the Court.

		Rs.	Rs.
Share Reduction Account	... Dr.	50,000	
To Quarries	...		20,000
„ Plant and Machinery	...		20,000
„ Preliminary Expenditure...			2,500
„ Furniture	...		500
„ Stock	...		5,000
„ Reserve for doubtful debts			2,000

being various assets written off as per share reduction scheme.

The Bengal Coal Company Ltd. (and Reduced.)
Balance Sheet as at 31st December :—

Capital and Liabilities.	Rs.	*Property and Assets.*		Rs.
Nominal Capital—		Quarries . . .	50,000	
2,000 Shares of Rs. 75 each . . .	1,50,000	Less written off .	20,000	
				30,000
		Plant and machinery	60,000	
Issued and subscribed Capital—		Less depreciation .	20,000	
				40,000
2,000 Shares of Rs. 75 each, Rs. 50 paid .	1,00,000	Furniture . .	5,000	
		Less depreciation .	500	
Reserve for doubtful debts	2,000			4,500
		Stock . . .	25,000	
Sundry creditors . .	10,000	*Less* written off .	5,000	
				20,000
		Book debts . .		17,000
		Cash in hand . .		500
Rs.	1,12,000		Rs.	1,12,000

Illustration 4.

Cancelling paid up capital which is lost or unrepresented by available assets and reducing the liability at the same time.

Balance Sheet of Bharat Glass Manufacturing Company, Limited was as follows :—

Balance Sheet as at 31st December......

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital—		Good-will	20,000
1,000 Shares of Rs. 100 each	1,00,000	Leasehold premises . .	15,000
Issued and subscribed Capital, 1,000 Shares of Rs. 100 each, Rs. 75 paid	75,000	Plant and Machinery .	25,000
Sundry creditors . .	11,000	Furniture and Fixtures .	3,000
		Stock	12,000
		Debtors	10,000
		Cash in hand . . .	1,000
	Rs. 86,000		Rs. 86,000

It was resolved at a meeting of the shareholders that the 1,000 shares of Rs. 100 each be reduced to an equal number of shares of Rs. 50 each, Rs. 40 paid, and the balance thus made available be utilised in writing down the assets which were not depreciated sufficiently in the past.

To write off the good-will account entirely,
,, depreciate leasehold premises at $33\frac{1}{3}$ per cent.
,, ,, Plant and Machinery at 20 ,,
,, reduce the Stock by ... ...Rs. 3,000.
,, Reserve for doubtful debts ... ...Rs. 2,000.

Pass the necessary Journal entries that would be required to effect the necessary reduction and prepare Balance Sheet.

		Rs.	Rs.
Share capital account	... *Dr.*	35,000	
To Share Reduction account			35,000

Being 1,000 shares of Rs. 100 each, Rs. 75 paid up, reduced to an equal number of shares of Rs. 50 each, Rs. 40

paid, as per shareholders' resolution and confirmed by the court dated.........

	Rs.	Rs.
Share Reduction Account ... *Dr.*	35,000	
To Good-will account		20,000
,, Leasehold premises account		5,000
,, Plant & Machinery ,,		5,000
,, Stock ,,		3,000
,, Debtors ,,		2,000

Being various assets written down as per share reduction scheme.

The Bharat Glass Manufacturing Company, Ltd. (and reduced).

Balance sheet as at 31st December......

Capital and Liabilities.	Rs.	*Property and Assets.*		Rs.
Nominal Capital :—		Leasehold premises	15,000	
1000 Shares of Rs. 100 each	1,00,000	Less depriciation	5,000	10,000
Issued & subscribed Capital :—		Plant & Machinery	25,000	
		Less depreciation	5,000	20,000
		Furniture		3,000
1,000 Shares of Rs. 50 each Rs. 40 paid . .	40,000	Stock	12,000	
		Less written off	3,000	9,000
Reserve for doubtful debts	2,000	Book-debts		10,000
Sundry creditors. . . .	11,000	Cash in hand. . . .		1,000
Rs.	53,000	Rs.		53,000

Illustration 5.

Return of excess paid up capital with extinction of liability on shares.

The Balance Sheet of Swadeshi Cloth Manufacturing Company, Ltd., was as follows :—

Balance Sheet as at 30th June......

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital :—		Sundry assets	50,000
1,000 Shares of Rs. 125 each.	1,25,000	Cash at Bank in Current Account.	5,000
Issued & subscribed Capital :—		Fixed Deposit	70,000
1,000 Shares of Rs. 125 each Rs. 100 paid .	1,00,000		
Sundry creditors. . .	20,000		
Profit and Loss . . .	5,000		
	Rs. 1,25,000		Rs. 1,25,000

Directors having more than sufficient cash required as working capital recommended to shareholders to return the part of paid up capital and to reduce 1,000 shares of Rs. 125 each, Rs. 100 paid, to Rs. 50 as fully paid, which was agreed to by the shareholders.

Pass the necessary Journal entries to carry out the above resolution and prepare the Balance Sheet.

	Rs.	Rs.
Share Capital Account *Dr.* ...	50,000	
To Share Reduction Account.		50,000

Being 1,000 shares of Rs. 125 each, Rs. 100 paid, reduced to same number of shares of Rs. 50 fully paid as per shareholders' resolution dated.........

	Rs.	Rs.
Share Reduction Account ... *Dr.*	50,000	
To Bank Account		50,000

Being return of excess capital at Rs. 50 per share on 1,000 shares of Rs. 125 each, Rs. 100 paid, as per Share Reduction scheme.

The Swadeshi Cloth Manufacturing Co., Ltd.

Balance Sheet as at 30th June.........

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital—		Sundry Assets . . .	50,000
1,000 Shares of Rs. 50 each. , . . .	50,000	Cash at Bank in Current Account . . .	25,000
Issued and subscribed Capital—			
1,000 Shares of Rs. 50 each fully paid . .	50,000		
Sundry Creditors . .	20,000		
Profit and Loss . .	5,000		
	Rs. 75,000		Rs. 75,000

Illustration 6.

Return of excess paid up capital without extinction of liability on shares.

Balance Sheet of the Jute Manufacturing Company, Limited, was as follows.

Balance Sheet as at 30th September.........

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital—		Sundry assets . . .	75,000
2,000 Shares of Rs. 100 each	200,000	Cash at Bank . . .	75,000
Issued and subscribed Capital—		,, in hand . . .	5,000
2,000 Shares of Rs. 100 each, Rs. 75 paid	1,50,000		
Sundry creditors	5,000		
	Rs. 155,000		Rs. 1,55,000

It was resolved at the meeting of the shareholders that Rs. 50,000 be returned to the shareholder as part of paid up capital which is not utilised by the company profitably and 2,000 shares of Rs. 100 each, Rs. 75 paid be reduced to same number of shares of Rs. 75 each, Rs. 50 paid.

Give necessary journal entries giving effect to above resolution and prepare the Balance Sheet of the Company.

	Rs.	Rs.
Share Capital Account ... *Dr.*	50,000	
To Share Reduction Account		50,000

Being 2,000 shares of Rs. 100 each, Rs. 75 paid, reduced to an equal number of shares of Rs. 75 per share, Rs. 50 paid, as per shareholders' resolution dated.........

	Rs.	Rs.
Share Reduction Account *Dr.*	50,000	
To Bank Account		50,000

Being excess capital paid as per share reduction scheme.

The Jute Manufacturing Company, Ltd.

Balance Sheet as at 30th September.

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital—		Sundry assets . . .	75,000
2,000 Shares of Rs. 75 each	1,50,000	Cash at Bank . . .	25,000
Issued and subscribed Capital—		„ in hand . . .	5,000
2,000 Shares of Rs. 75 each, Rs. 50 paid .	1,00,000		
Sundry creditors	5,000		
Rs.	1,05,000	Rs.	1,05 000

Illustration 7.

Return of excess paid up capital and reducing the liability at the same time.

The Balance Sheet of a Limited Company on 31st December......stood as follows :—

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital— 1,000 Shares of Rs. 100 each	100,000	Sundry assets . . .	30,000
1,000 Shares of Rs.100 each, Rs. 75 paid . . .	75,000	Cash at Bank . . .	65,000
Sundry creditors . .	25,000	" in hand . . .	5,000
	Rs. 1,00,000		Rs. 1,00,000

Shareholders at their meeting resolved to reduce 1,000 shares of Rs. 100 each, Rs. 75 paid, to an equal number of shares of 50 each, Rs. 40 paid, and to return such sum as part of paid capital to the shareholders which could not be utilised by the company.

Pass the necessary Journal entries and draw out Balance Sheet.

		Rs.	Rs.
Share Capital Account	... *Dr.*	35,000	
To Share Reduction Account			35,000

Being 100 shares of Rs. 100 each, Rs. 75 paid, reduced to an equal number of shares of Rs. 50 each, Rs. 40 paid, as per shareholders' resolution.

		Rs.	Rs.
Share Reduction Account	*Dr.*	35,000	
To Bank			35,000

Being excess paid up capital returned as per share reduction scheme.

Balance Sheet as at 31st December......

Capital and Liabilities.	Rs.	*Property and Assets*	Rs.
Nominal Capital—		Sundry assets . . .	30,000
1,000 Shares of Rs. 50 each	50,000	Cash at Bank . . .	30,000
Issued and subscribed Capital—		,, in hand . . .	5,000
1,000 Shares of Rs. 50 each Rs. 40 paid . .	40,000		
Sundry creditors	25,000		
	Rs. 65,000		Rs. 65,000

Absorption, Amalgamation and Re-construction of Joint Stock Companies:—It frequently happens that the winding up of a Joint Stock Company is decided upon for the purposes of amalgamation or reconstruction *i.e.*, the amalgamation or reconstruction is brought about for certain definite purposes with a view to enable the Company to carry on its business more economically or more advantageously. The amalgamation may take place in either of the two ways *viz*:—

(1) Where one company takes over the business of another company including its assets and liabilities and thus the two are amalgamated.

(2) By formation of an entirely new company which takes over the business of any two or more companies.

The reconstruction of a company is also effected with a view either to alter the sphere of its operation or for raising more capital by the formation of a new company which takes over the shares of the old company, and in return for these shares of the old company, issues shares in the new company as partly paid shares, or with a view to arrive at a compromise with creditors by giving them shares or debentures in the new company in settlement of their claims. The words "reconstruction" and "amalgamation" are purely commercial terms, and have no exact meaning. In Campany Law itself the old company is liquidated as per the regulation laid down by the Company Act and an entirely new company formed. The liquidation in consideration of the Liquidator receiving shares, etc., in consideration for the sale of the property of the company, is effected under section 213 of the Indian Companies Act, 1913, which runs as follows:—

(1) Where a company is proposed to be, or is in course, of being, wound up altogether voluntarily, and the whole or part of its business or property is proposed to be transferred or sold to another company (in this section called the transferee company) the liquidator of the first mentioned company (in this section called the transferor company) may, with the sanction of a special resolution of that company conferring either a general authority on the liquidator or an authority in respect of any particular arrangement receive, in compensation or part compensation for the transfer or sale, shares, policies, or other like interests in the transferee company, for distribution among the members of the transferor company or may, enter into any other arrangement whereby the members of the transferor company may, in lieu of receiving cash, sg r policies, or other like interests or in addition thereto, participate in the profits of, or receive any other benefit from, the transferee company.

(2) Any sale or agreement in pursuance of this section shall be binding on the members of the transferor company.

(3) If any member of the transferor company who did not vote in favour of the special resolution at either of the meetings held for passing and confirming the same expresses his dissent therefrom in writing addressed to the liquidator, and left at the registered office of the company within seven days after the confirmation of the special resolution, he may require the liquidator either to abstain from carrying the resolution into effect, or to purchase his interest at a price to be determined by agreement or by arbitration in manner hereinafter provided.

(4) If the liquidator elects to purchase the member's interest, the purchase money must be paid before the company is dissolved, and be raised by the liquidator in such manner as may be determined by special resolution.

(5) A special resolution shall not be invalid for the purposes of this section by reason that it is passed before or concurrently with a resolution for winding up the company, or for appointing liquidators; but if an order is made within a year for winding up the company by or subject to the supervision of the Court, the special resolution shall not be valid unless sanctioned by the Court.

Where a company is amalgamated with another company with a view to absorb the selling company, the vending company would have to close its books and would thus be wound up. The purchasing company takes over the assets and liabilities of the selling company at a valuation agreed upon or in some cases it may take over only the assets of the selling company and leave the selling company to pay up its own liabilities. The profits if any standing to the account of the vendor company are usually retained by such company and the liquidator of vendor company generally distributes same among its shareholders.

Closing of the books of the vendor company:—A vendor company when closing its books would proceed on the same basis as a firm would do in case of dissolution. A Realisation Account would be opened and debited with all the assets and the individual assets account would be credited, thereby closing the accounts of all assets. In case of liabilities the accounts of the liabilities would be debited and the realisation account credited. The Realisation Account would then be credited with the total purchase price and the account of the purchasing company would be debited for that amount. The purchase account would then be credited for the actual amount paid by way of cash and shares. The realisation account would also be debited with expenses if any paid by the vendor company on realisation. The realisation account after this would show a balance either of profit or of loss on realisation which has to be transferred to the account of the shareholders of the company, to which is also transferred the balance of the capital account of the vendor company. The shareholders account would then be debited with the assets which are given in consideration of the purchase money by way of cash share, etc., and cash account or shares account respectively would be credited, thus closing the books of the vendor company.

Opening entries in the Purchasing Company's books:—With regard to purchasing company the accounts of the various assets taken over, together with the good-will if any agreed to be paid, would have to be debited and the account of the vendor company credited for the amount. With regard to the liabilities taken over, if any, the liabilities account would be credited and the vendor company account debited. If the figure of good-will is not actually stated it can be ascertained by arriving at the difference between the purchase consideration and the difference of assets and liabilities taken over. In other words the excess of purchase consideration over the difference of assets and liabilities would represent the good-will. When cash or shares are paid by the purchasing company to the vendor company, the vendor company's account would be debited and the share capital account, or cash account, or debenture account would then be credited as the case may be.

Illustration :—

The Hiramaneck Manufacturing Company, Limited, is bought and absorbed by the Vurjeevandas Manufacturing Company, Limited, for the purchase consideration of Rs. 10,00,000 which is to be paid as follows :—

One debenture of Rs. 50 as fully paid plus one fully paid share of Rs. 100 plus Rs. 50 in cash to each shareholder for every share held in old company of Rs. 200. The following is the Balance Sheet of the Hiramaneck Company, Limited, at the date of amalgamation and you are required to pass the journal entries in the books of the Vurjeevandas Manufacturing Company, Limited, to carry out the absorption.

Balance Sheet of the Hiramaneck Manufacturing Company, Limited.—

Liabilities.		Assets.	
To Share Capital :—		By Land and Buildings	2,50,000
		,, Plant and Machinery	3,46,000
,, 5,000 shares of Rs. 200		,, Stock	3,55,000
each fully paid up	10,00,000	,, Sundry Debtors	56,000
,, Sundry creditors	55,000	,, Cash at Bank	69,900
,, Provident Fund	22,000	,, Cash in hand	100
Rs.	10,77,000	Rs.	10,77,000

The Vurjeevandas Manufacturing Co., Ltd.

JOURNAL.

	Dr.	Cr.
Sundries.		
To Sundries :—	Rs.	Rs.
Land and Buildings	2,50,000	
Plant and Machinery	3,46,000	
Stock	3,55,000	
Sundry Debtors	56,000	
Cash at Bank	69,900	
Cash in hand	100	
The Hiramaneck Mfg. Co., Ltd. .		10,00,000
Sundry Creditors		55,000
Provident Fund.		22,000
Being assets and liabilities taken over under the absorption Scheme.		
Hiramaneck Mfg. Co.	10,00,000	
To Debenture Capital . . .		2,50,000
,, Ordinary Share Capital . .		5,00,000
,, Cash		2,50,000
Being discharge of the consideration of absorption.		

Illustration :—

The Mathuradas Manufacturing Company, Limited, and the Gokaldas Manufacturing Company, Limited, decide to amalgamate their business into a new company to be known as the Mathuradas and Gokaldas Manufacturing Company, Limited. It is agreed that the assets of both the companies should be taken over by the new company as per Balance Sheets given below and that the shareholders of the old company should be given fully paid shares of Rs. 100 each in the new company in consideration of each of the shares of Rs. 100 each held by them in either of the old companies. Give the journal entries for closing the books of the old companies and opening those of the new and prepare a Balance Sheet of the new company on carrying out the amalgamation :—

Balance Sheet of the Mathuradas Manufacturing Company, Limited, as on June 30th, 1915 :—

Liabilities.		Assets.	
To Share Capital :—		By Land and Buildings .	50,000
,, 2,000 Shares of Rs. 100 each fully paid up .	2,00,000	,, Plant & Machinery .	82,000
		,, Stock	40,000
,, Sundry Creditors .	6,000	,, Debtors . . .	24,000
		,, Cash	10,000
	Rs. 2,06,000		Rs. 2,06,000

Balance Sheet of the Gokaldas Manufacturing Company, Limited, as on June 30th, 1916 :—

Liabilities.		Assets.	
To Share Capital :—		By Plant and Machinery .	66,000
,, 1,500 Shares of Rs. 100		,, Stock	50,000
each fully paid up .	1,50,000	,, Debtors . . .	18,000
Sundry Creditors . .	4,000	,, Cash . . .	20,000
	Rs. 1,54,000		Rs. 1,54,000

Mathuradas Manufacturing Co., Ltd. closing journal entries :—

		Rs.	Rs.
Realisation Account...	...*Dr.*	2,06,000	
To Sundry Assets ...	...		2,06,000

		Rs.	Rs.
(Being assets transferred to Mathuradas and Gokaldas Manufacturing Co., Ltd.)			
Sundry creditors ...	... *Dr.*	6,000	
To Realisation Account ...			6,000
(Being liabilities assumed by Mathuradas and Gokaldas Manufacturing Co., Ltd.)			
Share Capital Account	... *Dr.*	2,00,000	
To Sundry Shareholders Account			2,00,000
(Being transfer of Capital)			
Mathuradas and Gokaldas Manufacturing Co., Ltd.)...	... *Dr.*	2,00,000	
To Realisation Account ...			2,00,000
(Being purchase consideration as per agreement dated...............).			
Shares in Mathuradas and Gokaldas Manufacturing Co., Ltd.	*Dr.*	2,00,000	
To Mathuradas and Gokaldas Manufacturing Co., Ltd.			2,00,000
(Being shares issued in discharge of the purchase consideration.)			
Sundry Shareholders Account.	*Dr.*	2,00,000	
To Shares in Mathuradas and Gokaldas Manufacturing Co., Ltd.			2,00,000
(Being distribution of the purchase consideration amongst the shareholders.)			

Gokaldas Manufacturing Co., Ltd. closing journal entries:—

		Rs.	Rs.
Realisation Account ...	...*Dr.*	1,54,000	
To Sundry Assets			1,54,000
(Being assets transferred to Mathuradas and Gokaldas Manufacturing Co., Ltd.)			
Sundry Creditors ...	...*Dr.*	4,000	
To Realisation Account ...			4,000
(Being liabilities assumed by Mathuradas and Gokaldas Manufacturing Co., Ltd.)			
Share Capital Account	...*Dr.*	1,50,000	
To Sundry Shareholders Account			1,50,000
(Being transfer of Capital.)			
Mathuradas and Gokaldas Mfg. Co., Ltd.)...	...*Dr.*	1,50,000	
To Realisation Account ...			1,50,000
(Being purchase consideration as per agreement dated..............)			
Shares in Mathuradas and Gokaldas Manufacturing Co., Ltd.	...*Dr.*	1,50,000.	
To Mathuradas and Gokaldas Manufacturing Co., Ld. ...			1,50,000
Being Shares issued in discharge of purchase consideration.			

	Rs.	R
Sundry Shareholders Account *Dr.*	1,50,000	
To Shares in Mathuradas and Gokaldas Manufacturing Co., Ltd.		1,50,000
(Being distribution of purchase consideration amongst the shareholders.)		

Mathuradas and Gokaldas Manufacturing Co., Ltd. Opening Journal Entries :—

Sundries *Dr.*		
To Sundries.		
Land and Buildings... ...	50,000	
Plant and Machinery ...	1,48,000	
Stock	90,000	
Debtors	42,000	
Cash	30,000	
To Creditors		10,000
Mathuradas Manufacturing Co., Ld.		2,00,000
Gokaldas Manufacturing Co., Ld.		1,50,000
Being Assets and Liabilities taken over under the amalgamation scheme.		
Sundries Dr.		
To Share Capital Account ...		3,50,000
Mathuradas Mfg. Co., Ld. ...	2,00,000	
Gokaldas Mfg. Co., Ld.	1,50,000	

Being issue of shares in discharge of purchase consideration.

The Mathuradas and Gokaldas Manufacturing Co., Ltd.
Balance Sheet.

Liabilities.	Rs.	Assets.	Rs.
To Share Capital :—		By Land and Buildings .	50,000
,, 3,500 shares of Rs. 100 each fully paid up .	3,50,000	,, Plant and Machinery .	1,48,000
,, Sundry creditors .	10,000	,, Stock	90,000
		,, Debtors . . .	42,000
		,, Cash	30,000
	Rs. 3,60,000		Rs. 3,60,000

Reconstruction of Companies :—Often companies are reconstructed, *i.e.*, liquidated with a view to sell the old concern to a new company specially formed for that purpose which buys up the whole business of the old company with a view to enable the company to effect alteration either in the objects clause of the Company's Memorandum or with a view to raise more capital by issuing (1) partly paid shares of the new company to the shareholders of the old company or (2) by giving fully paid shares to shareholders of the old company and issuing new shares for the purpose of raising further capital. Reconstruction is also effected with a view to facilitate a compromise with creditors by issuing them new shares or debentures in payment of their claims.

With regard to the issue of partly paid share to the old shareholders it may be mentioned here that the original shareholders cannot be compelled to take up these new shares and therefore those shareholders who do not agree to such a reconstruction have to be paid out. This point has now been finally decided in the case of *Bisgi v. Henderson's Transvaal Estates, Limited, (1908, 1*

654) where the old idea that the shareholders who refused to take up new shares with increased liabilities in payment of the old shares in case of companies where the objects clause of the Memorandum authorised such a sale, would lose the status of the shareholders for such dissenting, is declared to be erroneous, the principle is now finally laid down that a company cannot sell its assets for partly paid shares in another company and force its shareholders to accept such shares.

Illustration.

Below is the Balance Sheet of the Blank Company, Limited, on 31st December 1902 :—

Liabilities.			Assets.	
Nominal Capital :—			Patents at Cost . .	114,663
100,000 Preference Shares of £ 1 each .	100,000		Leasehold Works . .	3,820
100,000 Ordinary Shares of £ 1 each .	100,000		Machinery and Plant .	4,120
		200,000	Sundry Debtors . .	1,241
Issued Capital :—			Stock on hand . .	4,921
74,720 Preference Shares of £1 each fully paid .	74,720		Advertising Suspense Account . . .	2,000
42,633 Ordinary Shares of £1 each fully paid .	42,633		Preliminary Expenses .	406
		117,353	Profit and Loss Account .	1,482
Sundry Creditors . .		14,000	Cash in hand . . .	28
Bank overdraft . . .		1,328		
		£132,681		£132,681

The Company proved unsuccessful, and resolutions were passed to carry out the following scheme of reconstruction :—(1) That the fully paid preference shares be reduced to an equal number of fully paid shares of 10/- each. (2) That the fully paid ordinary shares be reduced to equal number of fully paid shares of 6/8 each. (3) That the amount thus rendered available for the reduction of the assets be apportioned as follows: Preliminary Expenses, Profit and Loss Account and Advertising Suspense Account to be written off entirely, £1,200 of the Leasehold Works; £ 1,400 of the stock; 20% of the Machinery and Plant, and the balance available to be written off patents. Prepare balance sheet giving effect to above.—*(L. C. Com. 1913.)*

The Blank Company, Limited and REDUCED.

Liabilities.			Assets.	
Nominal Capital :—			Patents	56,193
100,000 Preference Shares of 10-s. each .	50,000 0 0		Leasehold Works . .	2,620
100,000 Ordinary Shares of s. 6-8 each .	33,333 6 8		Machinery and Plant .	3,296
			Stock on hand . . .	3,521
Issued Capital :—			Sundry Debtors . .	1,241
74,720 Preference Shares fully paid . . .	37,360		Cash in hand . . .	28
42,633 Ordinary Shares fully paid . .	14,211			
		51,571		
Sundry Creditors . .		14,000		
Bank overdraft . . .		1,328		
		£66,899		£66,899

Exercises on Chapter VII.

I. Balance Sheet of the Bharat Trading Company Limited on 31st December stood as follows :—

Balance Sheet as at 31st December.

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital—		Goodwill	58,000
500 Ordinary Shares of Rs. 400 each, fully paid	2,00,000	Buildings	25,000
Issued and subscribed Capital—		Machinery . . .	55,000
500 Ordinary Shares of Rs. 400 each fully paid	2,00,000	Furniture . . .	5,000
Sundry creditors . .	~~4,00,000~~	Stock	10,000
		Book debts . . .	30,000
		Preliminary Expenses .	7,000
		Cash in hand . . .	~~1,500~~
		Pro0t and Loss . .	35,000
	Rs. 2,40,000		Rs. 2,40,000

Owing to heavy losses made by the company in the past the shareholders decided to reduce the 500 shares of Rs. 400 each to the same number of shares of Rs. 200 each fully paid and to write off the various assets aganist the balance thus made available as under:—

(1) To eliminate the debit balance of Profit and Loss Account and Preliminary Expenses.

(2) ,, depreciate the Building at 20%

(3) ,, ,, Plant and Machinery at 10%

(4) ,, ,, Furniture at 20%

(5) ,, reduce the Stock by Rs. 5,000

(6) ,, make a reserve for bad and doubtful debts at 5% and the balance may be utilised in writing down the figure of goodwill.

Pass the necessary journal entries and prepare the Balance Sheet as it would appear after giving effect to the above resolution.

II. The following are the Balance Sheets of two limited companies on 31st December.

Balance Sheet of the Swadeshi Cloth Manufacturing Company, Limited.

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital 175 shares of Rs. 1,000 each .	1,75,000	Freehold premises . . .	60,000
Issued and nominal Capital 175 shares of Rs. 1,000 each, fully paid . .	1,75,000	Plant and Machinery . .	55,000
4% Debentures	25,000	Stock of raw materials and finished goods	45,000
Sundry creditors	12,000	Debtors	56,000
Profit and Loss	7,000	Cash at Bank	13,000
Rs.	2,19,000	Rs.	2,19,000

Balance Sheet of the Khaki Cloth Manufacturing Company, Limited.

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital, 400 shares of Rs. 100 each . . .	40,000	Leasehold Premises . .	20,000
Issued and subscribed Capital 400 shares of Rs. 100 each, Rs. 80 paid	32,000	Machinery	15,000
Reserve fund	8,000	Stock	12,000
Debentures	10,000	Debtors	10,000
Creditors	7,000	Cash in hand	30,000
Profit and Loss	3,000		
Rs.	60,000	Rs.	60,000

The Swadeshi Cloth Manufacturing Company, Ltd., decides to take the assets and liabilities for the following consideration:—

(1) To discharge the liabilities on debentures at a premium of 10% which debenture-holders agree to accept.

(2) To issue 55 shares of Rs. 1,000 each.

(3) To pay the cost of liquidation which amounts to Rs. 1,000.

Draft the necessary journal entries in order to close the books of the absorbed company and also in the books of absorbing company and the Balance Sheet as it would appear after absorption.

III. The Bombay Saw Mill Company, Limited agreed to purchase as a going concern the Bombay Timber Trading Company, Limited.

Balance Sheet of the Bombay Trading Company, Limited, stood as follows on 31st December.

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital—		Land and Buildings (subject to mortgage) . .	15,000
1,625 shares of Rs. 10 each	16,250	Fixed Plant and Machinery	5,000
Issued and subscribed Capital—		Loose tools . . .	1,500
1,625 shares of Rs. 10 each, fully paid . .	16,250	Stock-in-trade . . .	6,000
Loan on mortgage of Building as contra .	5,000	Book debts . . .	5,250
Creditors . . .	4,000	Cash in hand . . .	250
Bills payable . . .	250		
Bank overdraft . .	7,500		
	33,000		33,000

The purchase consideration was fixed at Rs. 27,500; and, in addition, the Bombay Saw Mill Company Limited, took over the mortgage, and agreed to discharge the liabilities to sundry creditors and upon Bills payable. The purchase price was discharged by issue of 175 ordinary shares of Rs. 10 each and the balance to be paid in cash.

The purchase was completed by payment of cash and allotment of shares.

Draft the necessary journal entries in the books of the Bombay Saw Mill Company, Ltd. and also in the books of the Bombay Timber Trading Company, Ltd., in order to close the books of account of the purchased company.

IV **Balance Sheet of the A Company, Ltd. was as follows on 31st December.**

Capital and Liabilties.	Rs.	*Property and Assets.*	Rs.
Nominal Capital —		Land and Building . .	45,000
1,000 Ordinary shares of Rs. 100 each. . . .	1,00,000	Plant and Machinery. .	20,000
		Furniture	5,000
Issued & subscribed Capital—		Stock	25,000
1,000 Ordinary shares of Rs. 100 each, fully paid.	1,00,000	Book debts	15,000
Debentures	20,000	Cash	1,000
Sundry Creditors . .	3,000	Profit and Loss . . .	12,000
Rs.	1,23,000	Rs.	1,23,000

It was decided to re-construct the company and for this purpose a new company called A Company (1926), Ltd., was formed with a nominal capital of Rs. 100,000 divided into 500 5% Preference shares of Rs. 100 each and 500 Ordinary shares of Rs. 100 each to take over the assets and liabilities of the A Company, Ltd., on the following basis:—

(1) That debenture-holders in the A Co., Ltd. are to accept 200 5% Preference shares of Rs. 100 each and the balance of Preference shares were issued to other shareholders which were fully subscribed.

(2) That the ordinary shareholders are to receive one share of Rs. 100 each in the new company for every two shares held by them in the old company.

(3) The cost of liquidation which amounts to Rs. 1,500 is paid by the A Company, Ltd.

Pass the necessary journal entries in the books of the A Company, Ltd., as well as in the books of the new company and also show the opening Balance Sheet.

V. Balance Sheets of two limited companies carrying on similar business stood as follows who decided to amalgamate in order to avoid competition among themselves.

Balance Sheet of the A Company, Ltd.

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital—		Goodwill	35,000
750 Ordinary shares of Rs. 100 each	75,000	Plant and Machinery ...	25,000
		Furniture	5,000
Issued and subscribed Capital—		Stock	20,000
750 Ordinary shares of Rs. 100 each, fully paid	75,000	Debtors	17,000
Creditors...	25,000	Cash at Bank	3,000
Profit and Loss... ...	5,000		
	1,05,000		1,05,000

Balance Sheet of the B Company, Ltd.

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital—		Goodwill	10,000
500 Shares of Rs. 100 each	50,000	Machinery . . .	15,000
Issued and subscribed Capital—		Stock	18,000
500 Shares of Rs. 100 each fully paid . .	50,000	Debtors	15,000
Creditors	7,000	Cash	1,500
Profit and Loss	2,500		
	Rs. 59,500		Rs. 59,500

For this purpose a new company called the C Company, Ltd. was formed to take over the assets and liabilities of both the companies.

The sum of Rs. 1,50,000 to be paid in shares of Rs. 100 each.

The profit on conversion is to be divided between the shareholders of the A and B Company, Ltd. in the proportion in which their share capital stands.

Pass the necessary journal entries in the books of A and B Companies in order to close their book and also opening journal entries in the books of C Company, Ltd. and show the opening Balance Sheet.

VI. Two Companies carrying on similar business decide to amalgamate as on 1st January.

The Bombay Manufacturing Company, Ltd.

Balance Sheet as at 31st December :—

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital—		Goodwill	2,00,000
7,500 Shares of Rs. 100 each	7,50,000	Freehold Land . .	2,20,000
Issued and subscribed Capital		Plant and Machinery	1,50,000
75,000 Shares of Rs. 100 each	7,50,000	Stock	1,95,000
Reserve Fund . . .	50,000	Book debts . . .	80,000
Sundry creditors . .	40,000	Cash at Bank . .	1,50,000
Profit and Loss . .	20,000		
	Rs. 8,60,000		Rs. 8,60,000

The Bharat Manufacturing Company, Ltd.

Balance Sheet as at 31st December :—

Capital and Liabilities.	Rs.	*Property and Assets.*	Rs.
Nominal Capital :—		Goodwill	1,00,000
5,000 Shares of Rs. 100 each	5,00,000	Plant and Machinery .	2,50,000
Issued and subscribed Capital :—		Stock	1,50,000
5,000 Shares of Rs. 100 each, fully paid	5,00,000	Debtors	80,000
Depreciation fund .	25,000	Cash at Bank . . .	5,000
Sundry creditors . .	35,000		
Profit and Loss . .	25,000		
	Rs. 5,85,000		Rs. 5,85,000

It is agreed that the combined company shall take over the assets (including goodwill) and discharge the liabilities of each company on the basis of the figures in their respective Balance Sheets.

The capital of the combined company was Rs. 20,00,000, divided into 2,000 shares of Rs. 1,000 each.

The combined company issued 150 shares at par for cash, and agreed to allot to each shareholder in the Bombay Manufacturing Company, Limited, and the Bharat Manufacturing Company, Limited one share of Rs. 100 each fully paid in exchange for every 10 shares held by them, and to pay any balance in cash.

Pass the necessary journal entries in the books of both the companies and draw the Balance Sheet of the combined company.

CHAPTER VIII.

Sectional System of Self-Balancing Ledgers.

In a large business the transactions are beyond the scope of a single ledger which would become an unmanageable and unwieldy volume, far beyond the scope of a single ledger clerk. It has, therefore, to be divided into various sections. The accounts of persons or personal accounts are kept in separate Ledgers usually sub-divided into two books *viz.* "Sundry Debtors' Ledger" otherwise called "Sold Ledger," and "Sundry Creditors' Ledger" also called "Bought Ledger." There are also sub-divisions made of these Ledgers as Sundry Debtors' Town Ledger, Sundry Debtors' Country Ledger, Sundry Creditors' Town Ledger and Sundry Creditors Country Ledger, etc. Each of these two main divisions the Ledgers *viz.*, Sundry Debtors' and Creditors' Ledgers are frequently divided alphabetically such as Sundry Debtors' Ledgers A, do. B, etc. The impersonal accounts are entered in a separate ledger known as the General Ledger.

The student would perhaps think that at the closing time a combined **Trial Balance** would be made out from these ledgers. This, however, is not the course adopted because in case such a **Trial Balance** does not agree it would be difficult, if not impossible, to locate the error, and the re-checking of all the ledgers would mean an enormous waste of time. The course adopted in practice is to balance each of these ledgers separately and independently of the other ledgers. This is effected by opening what are called Adjustment Accounts at the end of each of these ledgers, and extra entries are posted in totals to these Adjustment Accounts in order to make the double entry complete as far as each Ledger taken separately is concerned. This we shall now proceed to illustrate and explain in detail.

In the Sundry Debtors' Ledger, also called the Sold Ledger, all persons to whom goods are sold are debited for goods sold to them from time to time as per the (Sales) Day Book and the Sales Account is credited in the General Ledger. Here it would be observed that in the Debtors' Ledger, there is no corresponding credit so as to make it balance. We, therefore, open an Adujustment Account called General Ledger Adjustment Account in the Sold Ledger and credit it with the total of the Sales Day book. In the same way the General Ledger, which has only one entry for goods sold, would be made to balance by opening an Adjustment Account called Sales Ledger Adjustment Account, and debiting it with the total of the Sales Day Book.

With regard to cash sales, the entry is quite easy and as usual *i. e.* the Cash Book receives the debit while the corresponding credit goes to the Sales Account in the General Ledger.

The receipts from Sundry Debtors, however, would have to be considered specially. The Cash Book here would have to be ruled with separate columns for Sundry Debtors' Ledger (Sold Ledger), Sundry Creditors Ledger (Bought Ledger) and General Ledger, besides the usual columns for Cash, Bank and Discount. It would be ruled in the following form :—

CASH BOOK

CASH.									CONTRA.								
Date.	Particulars.	Led. Folio.	Discount.	Cash.	Bank.	"Bought" Ledger.	"Sold" Ledger.	"General" Ledger.	Date.	Particulars.	Led. Folio.	Discount.	Cash.	Bank.	"Bought" Ledger.	"Sold" Ledger.	"General" Ledger.

All cash received from sundry debtors would be entered with all particulars in the Cash Book on the debit side, date in the "date" column, the name of the person in the "particulars" column, and the amount received besides being entered in the Cash or Bank column would also be entered in the "Sundry Debtors' Ledger (Sold Ledger)" column. From here the ledger clerk would post the amount to the credit side of the personal account in the Sundry Debtors' Ledger, since the Cash Book is really an account of the General Ledger. Now in the Sundry Debtors' Ledger the General Ledger Adjustment Account would receive its corresponding debit when the total of the "Sundry Debtors' Ledger" column in the Cash Book (debit side) is posted to the debit of this Adjustment Account.

In the same manner when goods are bought on credit, the person from whom they are purchased is credited in the Sundry Creditors' Ledger, and the Purchase Account in the General Ledger is debited with the total of the Purchase Journal. In Sundry Creditors' Ledger an Adjustment Account is opened under the heading of "General Ledger-Adjustment Account" and debited with the monthly totals of the Purchase Journal, thus giving the corresponding debit. On the other hand, an adjustment account called "Sundry Creditors' Ledger Adjustment Account" in the General Ledger receives a corresponding credit for the same totals.

With regard to cash purchases the ordinary posting from the Credit Side of the Cash Book is made to the debit of the Purchase Account.

The payments to sundry creditors are, however, entered first in the Cash Book credit side, the date in the

"Date" column, the name of the creditor and particulars in the "Particulars" column and the amount is placed in the special column for Sundry Creditors Ledger (Bought Ledger) as well as in the Cash or Bank column according as the payment is made in cash or by cheque. From here the account of the creditor is debited in the Sundry Creditors' Ledger, here also remembering that the Cash Book is really an account of the General Ledger. The corresponding credit in Sundry Creditors' Ledger is effected by posting the total of "Sundry Creditors' Ledger (Bought Ledger)" column to the credit side of the General Ledger Adjustment Account in this ledger. Whereas in the General Ledger the "Sundry Creditors' Ledger Adjustment Account " is debited with the same total.

Besides Bought, Sold and Cash Books there are other books to be considered, *viz.*, the Returns Inward, Returns Outward, Bills Receivable and Bills Payable Books.

In case of the Returns Inward Book the personal accounts of the Debtors in the Sundry Debtors' Ledger are credited for value of the goods received back, the Returns Inwards Account in the General Ledger being debited. The corresponding debit to the "General Ledger Adjustment Account" in the Sundry Debtors' Ledger is the total of this Returns Inward Book, and in the Sundry Debtors' Ledger Adjustment Account in the General Ledger the corresponding credit is the total of the same Returns Inward Book.

In case of the Returns Outward Book the personal accounts of the creditors are debited with the value of goods returned to them in the Sundry Creditors' Ledger, and Returns Outward Account in the General Ledger is credited. The adjusting entries are made by a credit to the "General Ledger Adjustment Account" in the Sundry Creditors' Ledger with the total of the Returns Outward Book, and by a debit to the "Sundry Creditors' Ledger Adjustment Account" in the General Ledger for the same total.

In case of the Bills Receivable Book the persons or debtors are credited for the amount of the Bills received in the Sundry Debtors' Ledger, and Bills Receivable Account in the General Ledger debited for the same amount. The adjusting entries are a debit to the "General Ledger Adjustment Account" in the Sundry Debtors' Ledger for the total of the Bills Receivable Book and a credit to the "Debtors' Ledger Adjustment Account" in the General Ledger for the same total.

In case of the Bills Payable Book the accounts of the persons (creditors) are debited in the Sundry Creditors' Ledger and Bills Payable Account credited in the General Ledger. The adjusting entries would be a credit to the "General Ledger Adjustment Account" in the Creditors' Ledger for the total of the Bills Payable Book and a debit to the "Sundry Creditors' Ledger Adjustment Account" in the General Ledger for the same total.

The Students are recommended to study carefully the illustrations worked out on this system on the following pages.

Illustration No. 1.

Sectional System of Self-Balancing Ledgers.

A firm has in its use Purchases, Sales, and a General Ledger. The following is a summary of a year's transactions.

	Rs.
Purchased goods on credit	2,000
Sold goods on Credit	2,750
Received Cash from Sundry Debtors . . .	1,875
Allowed them discount	25
Paid to Sundry Creditors on account . . .	1,500
Discount allowed to us	30
Gave our acceptances	375
Received acceptances	250
Returns Outwards	75
,, Inwards	55

Give journal entries necessary to record the various adjustment accounts for the purpose of Self-Balancing, and the adjustment accounts as they would stand after the entries are posted.

JOURNAL ENTRIES FOR BOUGHT LEDGER.

	Rs.	Rs.
General Ledger Adjustment Account (*Bought Ledger*) Dr.	2,000	
To Bought Ledger Adjustment Account (*General Ledger*) . (Being the Credit Purchases)		2,000
Bought Ledger Adjustment Account (*General Ledger*) Dr.	1,530	
To General Ledger Adjustment Account (*Bought Ledger*) (Being Cash paid to, and discount allowed by the Creditors)		1,530
Bought Ledger Adjustment Account (*General Ledger*) Dr.	375	
To General Ledger Adjustment Account (*Bought Ledger*) (Being the Amount of Bills Payable)		375
Bought Ledger Adjustment Account (*General Ledger*) Dr.	75	
To General Ledger Adjustment Account (*Bought Ledger*) . (Being Returns Outwards)		75
For Sold Ledger :		[illegible]

	Rs.	Rs.
Sold Ledger Adjustment Account (*General Ledger*) . Dr.	2,750	
To General Ledger Adjustment Account (*Sold Ledger*) (Being the Credit Sales)	~~2,750~~	2,750
General Ledger Adjustment Account (*Sold Ledger*) . Dr.	1,900	
To Sold Ledger Adjustment Account (*General Ledger*) (Being Cash received from, and discount allowed by the Debtors)		1,900
General Ledger Adjustment Account (*Sold Ledger*) . Dr.	250	
To Sold Ledger Adjustment Account (*General Ledger*) (Being the Amount of Bills Received)		250
General Ledger Adjustment Account (*Sold Ledger*) . Dr.	55	
To Sold Ledger Adjustment Account (*General Ledger*) (Being Returns Inwards)		55

GENERAL LEDGER.

Bought Ledger Adjustment Account.

	Rs.	a.	p.		Rs.	a.	p.
To Cash and Discount.	1,550	0	0	By Credit Purchases .	2,000	0	0
,, Bills Payable . .	375	0	0				
,, Returns Outwards .	75	0	0				
,, Balance c/d.	20	0	0				
Rs.	2,000	0	0	Rs.	2,000	0	0
				By Balance b/d. . .	20	0	0

Sold Ledger Adjustment Account.

	Rs.	a.	p.		Rs.	a.	p.
To Credit Sales . .	2,750	0	0	By Cash and Discount.	1,900	0	0
				,, Bills Receivable .	250	0	0
				,, Returns Inwards .	55	0	0
				,, Balance c/d.	545	0	0
Rs.	2,750	0	0	Rs.	2,750	0	0
To Balance b/d. .	545	0	0				

BOUGHT LEDGER.

General Ledger Adjustment Account.

	Rs.	a.	p.		Rs.	a.	p.
To Credit Purchases	2,000	0	0	By Cash and Discount	1,530	0	0
				,, Bills Payable	375	0	0
				,, Returns Outwards	75	0	0
				,, Balance c/d.	20	0	0
Rs.	2,000	0	0	Rs.	2,000	0	0
To Balance b/d.	20	0	0				

SOLD LEDGER.

General Ledger Adjustment Account.

	Rs.	a.	p.		Rs.	a.	p.
To Cash and Discount	1,900	0	0	By Credit Sales	2,750	0	0
,, Bills Receivable	250	0	0				
,, Returns Inwards	55	0	0				
,, Balance c/d	545	0	0				
Rs.	2,750	0	0	Rs.	2,750	0	0
				To Balance b/d	545	0	0

Illustration No. 2.

On the 1st March 1926 the Books of Robert Brothers showed the position of their affairs to be as follows :—

BALANCE SHEET.

Liabilities.	£	s.	d.	Assets.	£	s.	d.
Sundry Creditors :—				Cash in Hand	68	10	6
C. Lion & Sons	350	12	0	,, ,, Bank	581	7	6
G. Rood & Co.	179	10	0	Bills Receivable	185	12	6
W. Moris & Sons	410	5	0	Sundry Debtors :—			
Bills Payable	565	10	0	T. Wills	72	10	6
Capital :—				Jones & Co.	142	7	0
R. Brothers	1,162	8	0	Joseph Brothers	59	2	6
				Brown Brothers	73	5	0
				Stock	1,320	10	0
				Furniture & fixtures	165	0	0
£	2,668	5	0	£	2,668	5	6

In the course of the month their transactions were as follows :—

		£	s.	d.
March 2.	Bought goods of C. Lion & Sons .	50	10	0
,, 3.	Sold to T. Wills, goods . . .	45	5	0
,, 4.	Received from T. Wills, Bills Receivable (term 6 days) . .	40	0	0
	and Cash	20	0	0
	Discount allowed by us . . .	0	10	6
,, 5.	Sold Johnson & Co., goods . .	40	0	0
,, 6.	Paid wages by Cash . . .	15	0	0
,, 7.	Paid Salaries by cheque . . .	20	0	0
,, 8.	Sold Joseph Brothers, goods . .	10	0	0
,, 9.	G. Wood & Co. sold us goods . .	75	0	0
,, 10.	We accepted their draft on us for the amount			
,, 11.	Jones & Co. paid us a composition of 10s. in full settlement of their debt			
,, 12.	Sold Brown Brothers, goods . .	35	15	0
,, 13.	Received Cash for Bill Receivable .	40	0	0
,, 14.	Cash Sales	100	0	0
,, 15.	Paid into Bank	120	0	0
,, 16.	Bought of W. Moris & Sons' goods.	400	0	0
,, 17.	Paid them by cheque . . .	50	0	0
,, 18.	Accepted Moris & Sons' draft . .	300	0	0
,, 19.	Drew from Bank for Office use .	100	0	0
,, 20.	Purchased Stationery for Cash .	25	0	0
,, 21.	Bought furniture and fixtures and gave a cheque	50	0	0

			£	s.	d.
Mar.	22.	Bank met our Bill Payable . .	300	0	0
,,	23.	Sold to J. Child, goods . . .	75	0	0
,,	24.	Sold to W. Bell, goods . .	65	0	0
,,	25.	J. Child accepted our draft. . .	60	0	0
,,	26.	Purchased from G. Heart, goods .	150	0	0
,,	27.	Sold goods to King & Co. . .	26	0	0
,,	28.	Paid Travelling Expenses by cheque	20	0	0
,,	29.	Paid General Expenses by Cash .	10	0	0
,,	30.	Drew for office use from Bank .	200	0	0
,,	,,	Cash Purchases	150	0	0

The firm has in use a Bought Ledger, a Sold Ledger, and a General Ledger. Pass the entries through original record. Post them to respective Ledgers and shew how the Adjustment accounts will appear in each Ledger assuming that the books are kept under the Self-Balancing system.

INVOICE BOOK.

Date.		Particulars.	L. F.	£	s.	d.	Sums Total. £	s.	d.
1926				£	s.	d.	£	s.	d.
March	2	C. Lion & Son . . .Cr.							
		By goods . . .	1				50	10	0
	9	G. Wood & Co. . .Cr.							
		By goods . . .	2				75	0	0
	16	W. Moris & Sons . .Cr.							
		By goods . . .	1				400	0	0
	26	G. Heart . . . .Cr.							
		By goods . . .	2				150	0	0
						£	675	10	0

DAY BOOK.

Date.	L.F.	Particulars.	L.F.	£	s.	d.	Sums Total. £	s.	d.
1926									
March	3	Thomas Wills . . . Dr.							
		To goods . . .	1				45	5	0
	5	Johnson & Co. . . Dr.							
		To goods . . .	2				40	0	0
	8	Joseph Brothers . . Dr.							
		To goods . . .	1				10	0	0
	12	Brown Brothers . . Dr.							
		To goods . . .	2				35	15	0
	23	J. Child . . . . Dr.							
		To goods . . .	11				75	0	0
	24	W. Bell . . . . Dr.							
		To goods . . .	11				65	0	0
	27	King & Co. . . . Dr.							
		To goods . . .	11				26	0	0
						£	297	0	0

BILLS RECEIVABLE BOOK.

Date Received.		No.	From Whom received.	L.F.	Amount. £	s.	d.	Date of the Bill.	Term.	When due.	Remarks.
1926											
March	1		Balance .	1	185	12	6				
	4		T. Wills .	,,	40	0	0	Mar. 4	6 days	Mar. 13	Cashed 13th March.
	25		J. Child .	2	60	0	0				
			Total . .		285	12	6				
			Less Cashed.		40	0	0				
			Balance .		245	12	6				

Bills Payable Book.

Date Received.		No.	To Whom granted.	L.F.	Amount. £	s.	d.	Date of the Bill.	Term.	When due.	Remarks.
1926					£	s.	d.				
March	1		Balance .		565	10	0				
,,	10	1	G. Wood & Co. .	1	75	0	0				
,,	18	2	W. Moris & Sons .	,,	300	0	0				Met by our bankers on 22nd instant.
			Total . .		940	10	0				
			Less bills met .		300	0	0				
			Balance .		640	10	0				

SOLD LEDGER.

T. Wills.

1926				£	s.	d.	1926				£	s.	d.
Mar.	1	To Balance .	1	72	10	6	Mar.	4	By Cash . .	1	20	0	0
	3	,, Goods .		45	5	0			,, Discount .		0	10	6
							,,		,, Bill Receivable . .		40	0	0
							,,	30	,, Balance c/d		57	5	0
			£	117	15	6				£	117	15	6
		To Balance b/d.		57	5	0							

Joseph Brothers.

1926				£	s.	d.	1926			£	s.	d.
Mar.	1	To Balance .	1	59	2	6	Mar. 30	By Balance c/d.		69	2	6
	8	,, Goods .		10	0	0						
			£	69	2	6			£	69	2	6
,,	30	To Balance .		69	2	6						

Jones & Co.

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
1926						1926					
Mar. 1	To Balance .	1	142	7	0	Mar. 11	By Cash . .	1	71	3	6
							,, Bad debts .		71	3	6
		£	142	7	0			£	142	7	0

Brown Brothers.

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
1926						1926					
Mar. 1	To Balance .	1	73	5	0	Mar. 30	By Balance c/d.		109	0	0
,, 12	,, Goods .		35	15	0						
		£	109	0	0			£	109	0	0
April 1	To Balance b/d		109	0	0						

Johnson & Co.

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
1926						1926					
Mar. 5	To Goods .	1	40	0	0	Mar. 30	By Balance c/d.		40	0	0
		£	40	0	0			£	40	0	0
April 1	To Balance b/d		40	0	0						

J. Child.

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
1926						1926					
Mar. 23	To Goods .	1	75	0	0	Mar. 25	By Bill Receivable . .		60	0	0
							,, Balance c/d.		15	0	0
		£	75	0	0			£	75	0	0
April 1	To Balance b/d.		15	0	0						

W. Bell.

1926			£	s.	d.	1926			£	s.	d.
Mar. 24	To Goods .	1	65	0	0	Mar. 30	By Balance c/d.	1	65	0	0
		£	65	0	0			£	65	0	0
April 1	To Balance b/d.		65	0	0						

King & Co.

1926			£	s.	d.	1926			£	s.	d.
Mar. 27	To Goods .	1	26	0	0	Mar. 30	By Balance c/d.	1	26	0	0
		£	26	0	0			£	26	0	0
April 1	To Balance .		26	0	0						

General Ledger Adjustment Account.

	£	s.	d.		£	s.	d.
To Cash . . .	91	3	6	By Balance . .	347	5	0
,, Discount . .	0	10	6	,, Goods . . .	297	0	0
,, Bill Receivable .	100	0	0				
,, Bad Debts . .	71	3	6				
,, Balance c/d. . .	381	7	6				
£	644	5	0		644	5	0
				By Balance b/d. .	381	7	6

BOUGHT LEDGER.

C. Lion & Sons.

1926			£	s.	d.	1926			£	s.	d.
Mar. 30	To Balance c/d.		401	2	6	Mar. 1	By Balance .	1	350	12	6
						,, 2	,, Goods . .	,,	50	10	6
			£401	2	6				401	2	6
						April 1	By Balance b/d.		401	2	6

G. Rood & Co.

1926			£	s.		1926			£	s.	d.
Mar. 30	To Balance c/d.		179	10	0	Mar. 1	By Balance .		179	10	0
			£179	10	0				£179	10	0
						April 1	By Balance b/d.		179	10	0

W. Moris & Sons.

1926			£	s.	d.	1926			£	s	d.
Mar. 17	To Cash . .		50	0	0	Mar. 1	By Balance .	1	410	5	0
,, 18	,, Bill Payable		300	0	0	,, 16	,, goods . .	,,	400	0	0
	,, Balance .		460	5	0						
			£810	5	0				£810	5	0
							By Balance b/d.		460	5	0

G. Wood & Co.

1926			£	s.	d.	1926			£	s.	d.
Mar. 10	To Bill Payable	1	75	0	0	Mar. 9	By Goods .	1	75	0	0
			£ 75	0	0				£ 75	0	0

G. Heat.

			£	s.	d.				£	s.	d.
1926						1926					
Mar. 30	To Balance c/d.		150	0	0	Mar. 26	By Goods .	1	150	0	0
		£	150	0	0			£	150	0	0
						April 1	By balance b/d.		150	0	0

General Ledger Adjustment Account.

			£	s.	d.				£	s.	d.
	To Balance .		940	7	6		By Cash . .		50	0	0
	,, Goods .		675	10	0		,, Bill Payable		375	0	0
							,, Balance c/d.		1190	17	6
		£	1615	17	6			£	1615	17	6
	To balance b/d.		1190	17	6						

GENERAL LEDGER.

Bills Receivable Account.

			£	s.	d.				£	s.	d.
1926						1926					
Mar. 30	To Sundries .	1	245	12	6	Mar. 30	By Balance c/d.		245	12	6
		£	245	12	6			£	245	12	6
April 1	To Balance b/d.		245	12	6						

Bills Payable Account.

			£	s.	d.				£	s.	d.
1926						1926					
Mar. 30	To Balance c/d		640	10	0	Mar. 30	By Sundries .	1	640	10	0
		£	640	10	0			£	640	10	0
						April 1	By Balance c/d		640	10	0

Goods Account.

1926			£	s.	d.	1926			£	s.	d.
Mar. 1	To Balance .	1	1320	10	0	Mar. 30	By Credit Sales	1	297	0	0
,, 30	,, Credit Purchases .	,,	675	10	0	,, ,,	,, Cash do.	,,	100	0	0
,, 30	,, Cash ,, .	,,	150	0	0	,, ,,	,, Balance c/d.		1749	0	0
		£	2146	0	0			£	2146	0	0
April 1	,, Balance b/d		1749	0	0						

Furniture and Fixture Account.

1926			£	s.	d.	1926			£	s.	d.
Mar. 1	To Balance .	1	165	0	0	Mar. 30	By Balance .		215	0	0
,, 21	,, Cash . .	,	50	0	0						
		£	215	0	0			£	215	0	0
	,, Balance .		215	0	0						

General Expenses Account.

1926			£	s.	d.	1926			£	s.	d.
Mar. 29	To Cash .	1	10	0	0	Mar. 30	By Profit and Loss A/c.	1	10	0	0
		£	10	0	0			£	10	0	0

Capital Account.

1926						1926			£	s.	d.
						Mar. 1	By Balance .		1162	8	0

Wages Account.

1926			£	s.	d.	1926			£	s.	d.
Mar. 6	To Cash . .	1	15	0	0	Mar. 30	By Profit and Loss A/c.		15	0	0
		£	15	0	0			£	15	0	0

Salary Account.

			£	s.	d.				£	s.	d.
1926						1926					
Mar. 7	To Bank . .	1	20	0	0	Mar. 30	By Profit and Loss A/c.		20	0	0
		£	20	0	0			£	20	0	0

Bad Debts Account.

			£	s.	d.				£	s.	d.
1926						1926					
Mar. 11	To Jones & Co.	1	71	3	6	Mar. 30	By Profit and Loss A/c.		71	3	6
		£	71	3	6			£	71	3	6

Discount Account.

			£	s.	d.				£	s.	d.
1926						1926					
Mar. 30	To Sundries .	1	0	10	6	Mar. 30	By Profit and Loss A/c.		0	10	6
		£	0	10	6			£	0	10	6

Stationery Account.

			£	s.	d.				£	s.	d.
1926						1926					
Mar. 20	To Cash . .	1	25	0	0	Mar. 30	By Profit and Loss A/c.		25	0	0
		£	25	0				£	25	0	0

Travelling Expenses Account.

			£	s.	d.				£	s.	d.
1926						1926					
Mar. 29	To Cash . .	1	20	0	0	Mar. 30	By Profit and Loss A/c.		20	0	0
		£	20	0	0			£	20	0	0

Bought Ledger Adjustment Account.

		£	s.	d.			£	s.	d.
To Cash	.	50	0	0	By Balance	.	940	7	6
,, Bills Payable A/c	.	375	0	0	,, Goods A/c	.	675	10	0
,, Balance	.	1190	17	6					
	£	1615	17	6		£	1615	17	6
					By Balance	.	1190	17	6

Sold Ledger Adjustment Account.

		£	s.	d.			£	s.	d.
To Balance	.	347	5	0	By Cash .	.	91	3	6
,, Goods A/c	.	297	0	0	,, Discount A/c.		0	10	6
					,, Bills Receivable A/c.		100	0	0
					,, Bad debts	.	71	3	6
					,, Balance	.	381	7	6
	£	644	5	0		£	644	5	0
To Balance	.	381	7	6					

Sold Ledger Trial Balance.

		£	s.	d.	£	s.	d.
T. Wills	.	57	5	0			
Joseph Brothers	.	69	2	6			
Brown	.	109	0	0			
Johnson	.	40	0	0			
J. Child	.	15	0	0			
W. Bell	.	65	0	0			
King & Co.	.	26	0	0			
General Ledger Adjustment Account	.				381	7	6
	£	381	7	6	381	7	6

Bought Ledger Trial Balance.

	£	s.	d.	£.	s.	d.
C. Lion & Sons				401	2	6
G. Rood & Co.				179	10	0
W. Moris				460	5	0
G. Heart				150	0	0
General Ledger Adjustment Account . .	1,190	17	6			
£	1,190	17	6	1,190	17	6

General Ledger Trial Balance.

	£	s	d.	£	s.	d.
Bills Receivable	245	12	6			
Goods	1,749	0	0			
Furniture and Fixtures	215	0	0			
Bills Payable				640	10	0
Capital Account				1,162	8	0
Wages	15	0	0			
Salary	20	0	0			
Stationery	25	0	0			
Travelling Expenses	20	0	0			
General Expenses . . . . . . ,	10	0	0			
Discount	0	10	0			
Bad debts	71	3	6			
Cash	279	14	0			
Bank				38	12	6
Bought Ledger Adjustment Account . . .				1,190	17	6
Sold " " " . . .	381	7	6			
£	3,032	8	0	3,032	8	0

Illustration No. 3.

A large Concern employs the following ledgers *viz*:—Town and Country Bought Ledgers, Colonial and Continental Sold Ledgers and a General Ledger. Assuming that the Ledgers are kept on a Self-Balancing System what are the accounts that will have to be opened especially for the purpose in the General Ledger? Prepare an imaginary Trial Balance of the General Ledger.

The following Accounts would have to be opened in the General Ledger:—

1. Country Bought Ledger Adjustment Account.
2. Town Bought Ledger Adjustment Account.
3. Colonial Sold Ledger Adjustment Account.
4. Continental Sold Ledger Adjustment Account.

	Rs.	a.	p.	Rs.	a.	p.
Plant and Machinery	2,500	0	0			
Free-hold Premises	1,000	0	0			
Cash at Bank	1,500	0	0			
Wages	1,000	0	0			
Salary	250	0	0			
Factory Rent	50	0	0			
Rates, Insurance and Taxes . .	20	0	0			
Coal and Gas	50	0	0			
General Trade Expenses . . .	300	0	0			
Freight	30	0	0			
Carriage	100	0	0			
Fuel	70	0	0			
Interest	40	0	0			
Purchases	5,460	0	0			
Sales				4,900	0	0
Stock	500	0	0			
Repairs	50	0	0			
Discount	40	0	0			
Advertisements	10	0	0			
Bought Led. Adj. Account Town .				610	0	0
,, ,, ,, Country .				3,300	0	0
Sold Led. Adj. Account Colonial. .	1,550	0	0			
,, ,, ,, Continental	350	0	0			
Capital Account				6,060	0	0
Rs.	14,870	0	0	14,870	0	0

Illustration No. 4.

Give rulings of the Day, Invoice and Cash Books suitable to the purpose above-mentioned.

INVOICE BOOK.

Date.	Particulars.	L.F.	Town.	Country.	Total.

DAY BOOK.

Date.	Particulars	L.F.	Colonial.	Continental.	Total.

CASH BOOK.

Receipts. *Dr.*

Date.	Particulars.	L. F.	Discount.	Cash.	Bank.	Sold Ledger.		General Ledger.
						Colonial.	Continental.	

CASH BOOK.

Payments. *Cr.*

Date.	Particulars.	L. E.	Discount.	Cash.	Bank.	Bought Ledger.		General Ledger.
						Town.	Country.	

Total Accounts.

We have thus seen the various adjustment accounts opened in the sectional ledgers concerned. We have, e.g., 'Sundry Debtors' and Sundry Creditors Ledger Adjustment Accounts in the general ledger. These two accounts represent practically speaking the totals of sundry debtors and creditors as per the Sales and Purchases ledgers. These are commonly known as total debtors' account and total creditors' account.

Controlling Accounts : By means of these adjustment accounts or total accounts the Chief Accountant is able to control in total the details contained in the respective ledgers. When mainly used for this purpose, total accounts are termed controlling accounts.

Agreement Account : Where though the ledgers are divided but are not maintained on the self-balancing principle in order to locate an error total accounts are raised at the balancing period in connection with each of these ledgers to see whether they agree. The total accounts in such cases are called agreement accounts.

In raising agreement accounts the following form is followed :

Sold Ledger.

In this case the debit side of the account will contain,

(1) The opening balance, if any.

(2) Transfers.

(3) Sales.

(4) Dishonoured bills and cheques, if any.

(5) Discounts which might have been originally allowed and afterwards disallowed.

(6) Refunds.

And the credit side

(1) Opening credit balance, if any.
(2) Cash received from the debtors.
(3) Discounts allowed to them.
(4) Bills received from them.
(5) Transfers.
(6) Amounts written off as bad debts.
(7) Returns inwards.

Unlike the others (adjustment, total or controlling accounts) the agreement account is only a memorandum statement and does not come within the system of Books maintained on the Double Entry Principle.

Exercises on Chapter VIII.

I. From the particulars given below write up A. Hormasji's Sale Ledger for the month of January 1926. Make it self-balancing and verify the accuracy of your postings by drawing a Trial Balance as at the end of the month.

Debtors' Balances on 1st January 1926 were :

Sita Ram, Rs. 500 ; Hari Ram, Rs. 350 ; Shankarlal, Rs. 750 ; Damodar Ram, Rs. 1,000 ; Cawasji, Rs. 250 ; Dinshaw, Rs. 400 ; Ali Akbar Khan, Rs. 1,300 ; A. Syed, Rs. 300.

His transactions for the month were as follows:—

			Rs.
Jan.	4	Sold goods to Cawasji	400
,,	4	Received from Dinshaw (discount Rs. 15)	385
,,	5	Sold goods to Hari Ram ...	700
,,	7	Damodar returned goods ...	100
,,	9	Shankarlal accepted our draft ...	750

			Rs.
Jan.	10	Received cash from Hari Ram and allowed him discount 25	600
,,	12	Sold goods to Sita Ram	450
,,	13	Received cash from Sita Ram (discount Rs. 25).	475
,,	14	Received cash from Cawasji ...	240
,,	15	Allowed discount to Cawasji ...	10
,,	17	Ali Akbar Khan paid in full settlement	1,250
,,	19	Sold goods to Ali Akbar Khan ...	750
,,	21	Sold goods to A. Syed	200
,,	24	Received cost from A. Syed (discount Rs. 15).	285
,,	26	Sold goods to Damodar Ram ...	150
,,	28	,, Shankar Lal ...	300
,,	30	,, Dinshaw	200

II. A Trader keeps his Sales Ledger upon self-balancing principle.

Prepare the necessary "Adjustment Account" from the undermentioned particulars:—

Jan.	1	Total debtors debit balances at this date were	65,785
,,	31	Total sales as per Day Book ...	89,325
,,	,,	Total cash received from customers	75,000
,,	,,	Total acceptances received from customers	22,300
,,	,,	Goods returned by customers during the month	2,765
,,	,,	Total discount allowed to customers	5,750
,,	,,	Total acceptances dishonoured by customers during the month ...	3,000

III. You are required to prepare the relative "Sale Ledger" and General Ledger Adjustment Account on 31st December from the following particulars extracted from the books of A. Kikabhoy who keeps only one Sales Ledger.

Jan. 1	Debtors' Balances	23,678
Transactions during the year to date :—		
Total sales as per Day Book		66,735
,,	goods returned by customers ...	2,365
,,	cash received from customers ...	43,679
,,	acceptances received from customers	26,783
,,	discount allowed to customers ...	3,679
,,	Bills dishonoured by customers ...	1,250
,,	sundry charges debited to debtors..	85
,,	Bad debts written off	2,085

IV. Pass the necessary journal entries for the following transactions to maintain the Ledger under self-balancing principle.

(1) Transfer Rs. 250 from Customers' Ledger into Creditors' Ledger as per instructions received from A. Byramji.

(2) Transfer Rs. 350 from Cawasji's Account (in Creditors' Ledger) to Dinshaw's Account in Customers' Ledger) as per instructions from Cawasji.

(3) A debit balance of Rs. 500 is to be transferred from Patel Brothers' Account (in Customers' Ledger) to their account in Creditors' Ledger who supplied goods last month.

V. Pass the necessary journal entries to prepare adjustment accounts in the books of Muncherjee and Sons who maintain a Debtors' Ledger, Creditors' Ledger and a General Ledger.

June 1	Opening balances as per Sales Ledger	65,389
	Opening balances as per Purchase Ledger	17,875
December 31	Total sales as per Day book	99,879
,,	,, Purchases as per Invoice book	37,857
,,	Cash received from customers	76,325
,,	Bills receivable from customers	36,371
,,	Cash paid to creditors ...	42,894
,,	Acceptances given to creditors	17,833
,,	Discount allowed to customers	6,235
,,	Bad debts written off ...	3,785
,,	Sundry charges debited to customers	105
,,	Bills receivable dishonoured	3,800
,,	Discount from creditors ...	2,050

VI. On January 1, 1926, A. Hiralal found his state of affairs as follows :—

Assets.	Rs.
Cash at Bank	12,500
Petty cash in hand	60
Due from Jamshedji	1,640
Due from H. Narooji	500
Bills Receivable...	4,000
Stock	24,000
	42,700

Liabilities	Rs.
Due to Jivajee	4,500
" " Cawasji	4,000
Bills Payable	4,200
Capital	30,000
	42,700

	Transactions	Rs.
2	Sold goods to Hormasji	5,500
3	Bought goods of Chaturbhooj ...	8,000
4	Discounted the bill of Rs. 4,000 with the Bank of India, received cash	3,970
"	Discount charged by bankers ...	30
6	Cash paid to Chaturbhooj	7,800
"	Discount allowed to Chaturbhooj ...	200
8	Received cash from Jamshedji on account	1,000
9	Sold goods to Jamshedji	1,400
11	Received acceptance of Hormasji at two months for	5,500
11	Accepted Jeejeebhoy's draft at 4 months	4,500
12	Cash paid, our acceptance, due to-day	4,200
"	" " to Cawasji on account ...	3,000
15	Paid wages	200
"	" out of Petty cash sundry Exps.	15
"	" " " for private Exps.	30
17	" Advanced to Petty cash ...	200
18	" Drew for personal expenses ...	500
19	Sold to Ramchandra goods worth ...	7,500
20	Bills receivable due this day, returned dishonoured by Sarabhai ...	4,000
21	Noting Expenses thereon	10

		Rs.
22	Received cash from Sarabhai on account of his dishonoured bill with noting charges	2,510
25	Purchased of Haridas & Co. ...	7,000
27	Sold to Kikabhoy	4,500
29	Cash received of Kikabhoy	3,000
31	Paid to Lalji Narayanji as rent for the month	450
,,	Paid Salaries	1,500
,,	,, for Stationery	150
,,	Ready cash sales for the month ...	3,500
,,	Cash purchases	750

VI. You are required to record the above transactions in the proper subsidiary books, post to separate Ledgers and make them self-balancing, and to verify the accuracy of your postings by preparing Trial Balances as at the end of the month.

VII. Raise a Total Debtors' Account from the following particulars obtained from the books of F. Kabraji on 31st December :—

Opening Balances as per Customers' Ledger	29,895
Total sales as per Day book	69,879
Cash received from debtors	43,874
Bills receivable from debtors	22,675
Allowances made to customers... ...	1,561
Bad debts written off	1,784
Bills dishonoured	1,890
Sundry charges debited...	275
Transfers from Purchase Ledger ...	2,392
,, to ,, ,, ...	1,876

CHAPTER IX.

Departmental Accounts and Branch Accounts.

For the purposes of the organization a business, a large firm divides itself into separate departments making, to a certain extent, each department display separately its result as to stock, purchases, sales and gross profits. The Branch Accounts are, more or less, based on a similar principle. The branches of a large business are like so many departments carrying on business on behalf of the head office. This idea is easy for a student to follow, if he brings to his imagination a large business house with its Head Office in Fort and branches in Kalbadevi, Parel and Bandra. If the branches instead of being situated in Bombay are working outside the City at places like Karachi, Calcutta and Madras, they are none the less to be treated, for the purposes of account keeping, as so many departments. We have also seen that under the system of self-balancing ledgers, the Sold Ledger, the Bought Ledger and the General Ledger are the subdivisions of one Ledger, each of which is made self-balancing by opening adjustment accounts. The same principle may be employed in case where the business is divided into departments, by sub-dividing the Ledger on the self-balancing principle into Head Office Ledger, Department A Ledger, Department B Ledger, Branch Office Ledger, etc., and making each of these Ledgers self-balancing by means of adjustment accounts.

With regard to a business divided into departments, the most convenient method of work is to keep the Sales Journal and the Purchase Journal on the columnar principle, keeping separate columns for each of the Departments, such as, Crockery Department, Cutlery Department, Fancies Department, Boots Department, and so on. The statement of Profit and Loss accounts of this type of business may be prepared so as to show the gross profits made on each of the Departments separately, in separate columns kept for each of the Departments concerned, on the debit and credit sides respectively, besides the total columns which would show the total trading results.

Allocation of expenses for the purpose of preparing Departmental Trading and Profit and Loss Account.

For the purpose of proper working of Departmental Accounts to ascertain the gross and net profits respectively made by each department separately, the expenditure has to be properly divided and allocated to each department. This is done in various ways. It may be by (1) what is called 'direct analysis,' (2) on the footing of floor space occupied by each department, (3) on that of turnover of each department, or (4) on the basis of actual number of articles sold. Whatever method is followed the allocation would be mostly an approximation as it is impossible in cases like this to come to an accurate division of Rupees, annas and pies.

Rents, Rates and Taxes may be apportioned on the footing of floor space, whereas salaries, wages, postage, repairs, office expenses, etc., can be apportioned on an analysis being made of their application to each department. Discounts including reserve for such discounts are to be apportioned on the footing of total departmental sales of each department. The same rule may be followed in case of depreciation ; an analysis may also be made and a proportion applicable to the department concerned may be directly charged. The other items such as interest on capital, etc., which cannot be separately apportioned, the same may be taken to the departmental profit and loss account. Where it is possible to approximately state what proportion of capital is employed in each department an appropriate division of interest on capital may be safely made and debited to the departmental account concerned.

Illustration.

The following is the Trial Balance of Messrs. Swami Madhav & Co., on 31st December 1926.

The business is divided into three Departments :—*viz.*, Department A, Department B, Department C, and you are requested to prepare a Trading and Profit and Loss Account on departmental basis, and also to show the Balance Sheet of the firm on that date.

	Rs.	Rs.
Capital		75,500
Stock at commencement—		
Dept. A	6,000	
,, B	5,000	
,, C	3,000	
Purchases—		
Dept. A	20,000	
,, B	30,000	
,, C	25,000	
Sales—		
Dept. A		40,000
,, B		35,000
,, C		25,000

		Rs.	Rs.
Carriage and Freight—			
Dept. A	500		
„ B	800		
„ C	700	2,000	
General Expenses—			
Dept. A	3,500		
„ B	900		
„ C	600	5,000	
Salaries—			
Dept. A	7,000		
„ B	2,000		
„ C	1,000	10,000	
Wages—			
Dept. A		1,000	
„ B		500	
„ C		800	
Insurance—			
Dept. A	100		
„ B	60		
„ C	40	200	
Sundry Debtors		8,000	
Bills Receivable		4,000	
Bills Payable			2,000
Business Premises		50,000	
Balance at Bank		10,000	
„ in Office		1,000	
Sundry Creditors			4,000
		1,81,500	1,81,500
Stock on hand—			
Dept. A	2,000		
„ B	4,000		
„ C	1,500		

Provide for Bad Debts Rs. 800 against A Department.

DEPARTMENTAL TRADING AND PROFIT AND LOSS ACCOUNTS.

For the Period ended 31st December 1926.

(1) Direct Analysis.

—	A Dept.	B Dept.	C Dept	Total.	—	A Dept.	B Dept.	C Dept.	Total.
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
To Stock	6,000	5,000	3,000	14,000	By Sales	40,000	35,000	25,000	1,00,000
,, Purchases	20,000	30,000	25,000	75,000					
,, Wages	1,000	500	800	2,300	,, Stock	2,000	4,000	1,000	7,500
,, Carriage and Freight.	500	800	700	2,000					
,, Gross Profit ...	14,500	2,700	...	14,200	,, Gross Loss	...	...	3,000	...
Total ...	42,000	39,000	29,500	1,07,500	Total ...	42,000	39,000	29,500	1,07,500
To Gross Loss	...	...	3,000	...	By Gross Profit ...	14,500	2,700	...	14,200
,, Salaries	7,000	2,000	1,000	10,000					
,, General Expenses ...	3,500	900	600	5,000	,, Net Loss	...	260	4,640	1,800
,, Insurance	100	60	40	200					
,, Bad Debts	800	...	...	800					
,, Net Profit	3,100	...	...	...					
Total ...	14,500	2,960	4,640	16,000	Total ...	14,500	2,960	4,640	16,000

Taking the same example and Presuming no analysis is available as regards Carriage and Frieght, Salaries, General Expenses, Insurance and Bad Debts you are required to allocate these items in proportion to the Sales of the respective Departments.

DEPARTMENTAL TRADING AND PROFIT AND LOSS ACCOUNTS.

For the Period ended 31st December 1926.

(2) *In Proportion to Turnover.*

—	A Dept.	B Dept.	C Dept.	Total.	—	A Dept.	B Dept.	C Dept.	Total.
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
To Stock	6,000	5,000	3,500	14,000	By Sales	40,000	35,000	25,000	1,00,000
,, Purchases	20,000	30,000	25,000	75,000					
,, Wages	1,000	500	800	2,300	,, Stock	2,000	4,000	1,500	7,500
,, Carriage & Freight.	800	700	500	2,000					
,, Gross Profit ...	14,200	2,800	...	14,200	,, Gross Loss ...	...	...	2,800	...
Total ...	42,000	39,000	29,300	1,07,500	Total ...	42,000	39,000	29,300	1,07,500
To Gross Loss	...	...	2,800	...	By Gross Profit ...	14,200	2,800	...	14,200
,, Salaries	4,000	3,500	2,500	10,000	,, Net Loss	...	2,800	6,800	1,800
,, General Expenses...	2,000	1,750	1,250	5,000					
,, Insurance	80	70	50	200					
,, Bad Debts	320	280	200	800					
,, Net Profit	7,800	...	...	...					
Total ...	14,200	5,600	6,800	16,000	Total ...	14,200	5,600	6,800	16,000

Balance Sheet of Messrs. Swami Madhav as on 31st December 1926.

	Rs. a. p.	Rs. a. p.		Rs. a. p.	Rs. a. p.
Sundry Creditors—			Balance at Bank	10,000 0 0	
On open Accounts	4,000 0 0		Cash on Hand	1,000 0 0	11,000 0 0
For Bills Payable	2,000 0 0	6,000 0 0	Bills Receivable		4,000 0 0
Capital—			Sundry Debtors	8,000 0 0	
Balance b/f	75,500 0 0		*Less* Bad Debts Reserve ...	800 0 0	7,200 0 0
Deduct Net Loss	1,800 0 0	73,700 0 0	Value of Stock		7,500 0 0
			Business Premises		50,000 0 0
Total ...		79,700 0 0	Total ...		79,700 0 0

Inter-Departmental Transactions

Frequently one department has to transfer some part of its goods to another department. In other words one department is buying from the other. In such a case, the question arises as to how these inter-departmental transfers are to be dealt with in accounts. The answer is that in case these transfers are done at cost price they are to be treated not as sales or purchases but a separate account has to be opened called "goods transferred to other departments a/c" and the department issuing it is to be credited whereas the department receiving it has to be debited. Where however a fixed percentage of profit is added to the cost so as to enable the departmental manager to get his commission on the sale that may have been arranged to be paid to him, the transaction has to be treated on the footing of purchase and sale as far as the departments are concerned but at the time of stock taking great care has to be taken to see whether these goods purchased by the department has been sold out to outsiders. If the whole or part of them remain unsold care has to be taken to see at the time of preparing final accounts that the stock on hand is reduced to its original cost and that item of departmental profit so far as the unsold goods are concerned are eliminated or reserved for.

Branch Accounts.

With regard to branches the system of account keeping varies according to the circumstances of each case. In some cases business is carried on both by the Head Office as well as by the branch, on the wholesale basis. Whereas there are other instances where though the Head Office deals on wholesale lines, the branches are particularly opened with a view to sell retail. In each of these cases the account keeping would naturally differ. We shall now proceed to deal with each separately.

Wholesale Branches.

Where the branches are selling whole-sale, the most convenient arrangement is to keep all books and records at the Head Office. What the Branches do is to sell whole-sale and the customers are instructed to pay money directly to the Head Office. The Branch Office manager prepares the invoices in triplicate, one of which is handed to the purchaser or customer, the second is sent to the Head Office and the third is kept at the Branch Office for reference. For the expenses of the Branch Office the Head Office allows an imprest amount to the manager and at the end of every month or week, as the case may be, the Branch Manager concerned prepares his expenses schedule and sends same with supporting vouchers to the head office for reimbursement for which he ispaid a cheque from the head office.

Sometimes, where owing to the distance at which the branches are situated from the Head Office it is not possible to keep the books at the Head Office, it then makes it necessary for the branches to maintain all books at their own offices. In this case the branches keep their own ledgers, collect money on sales and remit them to the Head Office weekly. They render monthly accounts of their deals and show expenses and sales at the Branches. The Head Office sends them a cheque on account of the expenditure incurred at the Branch for which the Branches account periodically. All goods are sold to the Branches from the Head Office and are charged for in the Head Office Ledger at cost.

The Head Office opens separate accounts in the Head Office Ledger for each of the branches *viz.*, A, B and C. The A, B and C Branch accounts are debited for all goods supplied to them by the Head Office and an account called "Goods sent out to Branches" is opened and credited either at cost or at an addition of a fixed percentage on cost or at selling price according to the system followed. All expenses paid by the Head office, or remittances to the branches for these expenses are also debited. For all the remittances received the A, B and C Branch accounts are credited. At the closing time the Branch Office sends a statement of its assets and liabilities. The assets, less liablities, are placed on the credit side of these Branch Office accounts concerned, as goods on hand are in case of goods accounts, and the difference shows the profits made at each of the branches to be checked with the Branch account as per the respective Ledgers of the Branches.

Illustration.

Messrs. Merchant and Company of London have three branches one each in Manchester, Liverpool and Glasgow. They purchase goods on their own account as well as are supplied with them from the Head Office, They pay their creditors from the receipts and remit the balance of cash weekly to London. Prepare the Branch accounts as they would appear in the London Office Ledger as well as the combined Trading and Profit and Loss account of the three Branches.

—	Manchester.	Liverpool.	Glasgow.
	£	£	£
Stock at Commencement	1,000	2,000	500
Goods sent from the Head Office	5,000	4,000	2,000
Goods returned to Head Office	20	...	5
Sundry Debtors at the Branches	500	400	200
Sales during the year	9,000	8,000	4,000
Ready Money Sales less paid to Crs. ...	2,700	1,400	600
Cash received from Sundry Drs.	4,000	5,400	2,200
Sundry Drs. at the end...	2,430	985	930
Stock at the end	500	400	600
Bad Debts	50	...	60
Rent, Taxes and Expenses	100	90	80
Discount to Debtors	20	15	10
Creditor at the Commencement	200	100	250
Purchases	500	700	450
Creditors at the end	400	200	300

Head Office Ledger.

Manchester Branch Account.

	£	£		£	£	£
To Stock at Com. ...	1,000		By Cash on Led. Accounts ...		4,000	
,, Sundry Drs. ...	500		,, Cash Sales ...		2,700	
	1,500					6,700
Less Creditors ...	200		,, Returns			20
		1,300	,, Stock c/d.			
,, Goods from H. O. ...		5,000	Goods ...	500		
,, Rents, Taxes, Exp. etc.		100	Drs. ...	2,430		
,, Profit		2,850			2,930	
			Less Crs. ...		400	2,530
Total ...		9,250	Total ...			9,250

	£	£			
To Stock b/d.—					
Goods	500				
Drs.	2,430				
	2,930				
Less Crs.	400	2,530			

Liverpool Branch Account.

	£	£		£	£
To Stock at Com. ...	2,000		By Cash on Led. a/cs.	5,400	
,, Sundry Drs. ...	400		,, ,, Sales ...	1,400	6,800
	2,400		,, ,, Stock c/d—		
Less Creditors ...	100	2,300	Goods ... 400		
,, Goods from H. O. ...		4,000	Sundry Drs.... 985	1,385	
,, Rent, Taxes and Exp. ...		90	*Less* Crs. ...	200	1,185
,, Profit		1,595			
Total ...		7,985			7,985

	£	£			
To Stock b/d—					
Goods	400				
Drs.	915				
	1,385				
Less Crs. ...	200	1,185			

Glasgow Branch Account.

	£			£	
To Stock at Com. ...	500		By Cash on Led. a/cs.	2,200	
,, Sundry Drs. ...	200		,, ,, Sales ...	600	2,800
	700		,, Returns		5
,, *Less* Crs.... ...	250	450	,, Stock c/d.—		
,, Goods from H. O. ...		2,000	Goods ... 600		
,, Rents, Taxes and Exp....		80	Sundry Drs. 930	1,530	
Profit		1,505	*Less* Crs.	300	1,230
		£ 4,035			£ 4,035

	£	£			
To Stock b/d.—					
Goods	600				
Drs.	930				
	1,530				
Less Crs. ...	300	1,230			

Combined Trading and Profit and Loss Account of the three Branches.

—	Manchester.	Liverpool.	Glasgow.	—	Manchester.	Liverpool.	Glasgow.
	£	£	£		£	£	£
To Stock at commencement ...	1,000	2,000	500	By Sales	9,000	8,000	4,000
„ Goods from H. O.	5,000	4,000	2,000	„ Returns	20	...	5
„ Purchases	500	700	450	„ Stock	500	400	600
„ Bad Debts	50	...	60				
„ Rent, Taxes and Expenses...	100	90	80				
„ Discount to Drs.	20	15	10				
„ Profit	2,850	1,595	1,505				
Total ...	9 520	8,400	4,605	Total ...	9,520	8,400	4,605

Profit and Loss Account (Head Office).

By Net Profit Manchester Branch £2,850.
„ Do. Liverpool Do. £1,595.
„ Do. Glasgow Do. £1,505.

In some cases another method is followed by which the Head Office opens a separate account for sundry debtors and stock of each branch separately. Here when the Head Office sends goods to the branches, it debits the Branch Office stock account concerned and credits "goods sent out to branches account," in its own ledger. When the branch sells on credit and periodically supplies the list of sundry credit sales during the period, the Head Office debits the branch sundry debtors' account and credits branch stock account. When the branch remits money which they have collected from these debtors the Head Office debits its own cash and credits the branch debtors' account. When the branches report periodically total sales to the Head Office, the Head Office debits "the goods sent out to branches account" and credits its own Purchases or Stock account. At the balancing period the Branch Office sends to the Head Office the stock list at the rate at which the goods were sent out by the Head Office to it. This stock on hand should be placed on the credit side of the branch stock account concerned and the balance struck which balance will show the gross profit or loss made at the particular branch.

The following illustration will explain these points.

Illustration.

A firm of motor dealers in Bombay has got a branch in Ahmedabad. From the following particulars prepare branch accounts as they would appear in Head Office books.

		Rs.	a.	p.
Goods received from Head Office.		25,000	0	0
Cash Sales ...	...	16,000	0	0
Credit Sales ...	...	29,000	0	0
Stock in the beginning	...	75,00	0	0
Returns to Head Office	...	400	0	0
Allowances to Customers	...	800	0	0
Discount ...	...	600	0	0
Bad debts ...	...	200	0	0
Returns from Customers	...	250	0	0
Salaries and Wages	...	5,000	0	0
Rent, Rates and Taxes	...	1,750	0	0
Debtors in the beginning	...	13,000	0	0
Stock at end ...	...	5,000	0	0
Cash Received from Debtors	...	20,500	0	0
Acceptances from Customers	...	5,000	0	0
Sundry Expenses	...	1,000	0	0
Debtors at the Close	...	14,650	0	0

In Head Office Book.

Branch Debtors' Account.

	Rs.		Rs.
To Balance	13,000	By Cash	20,500
,, Sales	29,000	,, B/R	5,000
		,, Returns	250
		,, Allowances	800
		,, Discounts	600
		,, Bad debts	200
		,, Balance c/d	14,650
Total ...	42,000	Total ...	42,000
To Balance b/d	14,650		

Branch Goods Account.

	Rs.		Rs
To Balance	7,500	By Credit sales	29,000
,, Goods from Head Office	25,000	,, Cash Sales	16,000
,, Returns from customers	250	,, Returns to Head Office...	400
,, Allowances	800	,, Stock	5,000
,, Balance being Gross Profit	16,850		
Total ...	50,400	Total ...	50,400
To Balance b/d	5,000		

Goods sent to Branch Accounts.

	Rs.		Rs.
To Purchases (transfer) ...	20,000	By Goods sent to Branch Account	25,000
,, Balance b/d	5,000		
Total ...	25,000	Total ...	25,000
		By Balance	5,000

Branch Profit and Loss Account.

	Rs.		Rs.
To Salaries and Wages ...	5,000	By Gross Profit	16,850
,, Rent, Rates and Taxes .	1,750		
,, Sundry Expenses ...	1,000		
,, Discounts	600		
,, Bad debts	200		
,, Balance (net profit) ... Transferred to Head Office.	8,300		
Total ...	16,850	Total ...	16,850

Retail Branches.

In case of retail branches, where goods are supplied by the Head Office, the system followed in many cases is either (1) to charge the branches for these goods at selling price ; (this is generally done with a view to keep an efficient check on the stock), or (2) to supply the goods to the branches at cost price or (3) to supply goods at cost plus a fixed percentage of profit. We shall deal with each of these cases separately.

(1) Goods at Selling Price.

In case of retail branches which are supplied with all goods from the Head Office, the branch is in fact nothing more than one of the sales departments of the head office. The principle business of such a Branch is to sell goods that the Head Office supplies it with and therefore separate profit or loss accounts of branches under these circumstances are not of greater importance than a proper and efficient check on the stock and cash. They therefore charge the branch office, for all goods supplied, at selling price. Separate accounts are opened at the Head Office in the Branch ledger for stock, expenses and branch debtors. The branch stock account is debited at selling price for all goods supplied to that particular branch and shows all the sales, either cash or credit, on the credit side. Thus the balance of the stock account at any period would show the value of the stock on hand at that particular branch at selling price. The stock balance, shown by the stock account, is at the closing period checked with the actual stock with the branch as per the inventory taken out by the manager, or other responsible officer, and if there is any difference, that indicates wastage by way of thefts, etc. The balance of the stock account would be carried over to the next period in the usual manner after reducing it to cost from Selling Prices or after making proper adjustments.

These branches generally remit to the H. O. all cash received by them, or pay same in the H. O. Bank account as per instructions of the Head Office. For expenses the Branch Manager is allowed a certain amount, for which he accounts periodically, taking a fresh cheque for the actual amount expended.

The credit sales in case of retail branches do not generally amount to large figures. The branch would send periodical statements showing the credit sales effected and the actual cash received on account of same. The Head Office would, from these statements, write up the branch debtors' account. The statements would also show bad debts incurred, if any, which would also be dealt with in the branch ledger. The cash received by Head Office on account of these credit sales would also be credited to the Debtors' accounts in the Branch Ledger. At the closing time, while ascertaining the Profit and Loss made by each of these branches, the stock on hand would have to be taken at cost.

Illustration.

The following are the transaction, of Byculla Branch for the six months ending 31st December 1926. Show how the accounts should appear in the Head Office Books. The Goods are invoiced out to the branch at Selling Prices.

	Rs.	a.	p.
Goods sent from Head Office ...	10,000	0	0
Cash Sales	6,000	0	0
Credit Sales	2,000	0	0
Cash received from Debtors ...	1,500	0	0

Goods sent to Branch Account.

	Rs.		Rs.
To Trading account ...	8,000	By Byculla Branch ...	10,000
,, Balance c/d	2,000		
Total ...	10,000	Total ...	10,000
		By Balance b/d at S. P.	2,000

Byculla Branch Stock Account.

	Rs.		Rs.
To Goods Sent to Branch ...	10,000	By Sales Cash	6,000
		,, ,, Credit	2,000
		,, Balance	2,000
Total ...	10,000	Total ...	10,000
To Balance at S. P. ...	2,000		

Byculla Branch Debtors' Account.

	Rs.		Rs.
To Sundries...	2,000	By Cash	1,500
		,, Balance...	500
Total ...	2,000	Total ...	2,000
To Balance	500		

Note.—The Balance of Stock at S. P. Rs. 2,000 should be reduced to cost or Market Price whichever is the lower after the list is received from the Branch and should be included in the Trading Account at this lower valuation.

(2) Goods at Cost Price.

Where goods sent to the branches are charged at the cost price, the Head Office may keep in the Branch Ledger, a Branch Goods account, and work same on the usual basis by debiting the Branch Goods account with the stock on hand at commencement as well as the goods supplied from time to time. The Goods account would then be credited for all sales, credit and cash, as per the Branch returns and on ascertaining the stock on hand at the Branch at cost and placing same on the credit side, the goods account would show the gross profit ready to be transferred to the Trading account of the Head Office.

Illustration.

Parel Branch is supplied with goods at Cost Price. The following particulars appear on the summary sent in by the Branch Manager; from these construct the usual accounts to be found at the Head Office.

	Rs.	a.	p.
Opening stock	5,000	0	0
Goods from Head Office ...	15,000	0	0
Cash Sales	9,000	0	0
Credit Sales	5,000	0	0
Ending Stock	8,000	0	0

Goods sent to Branch Account.

	Rs.		Rs.
To Trading account cash ...	9000	By Balance	5,000
,, ,, ,, Credit ...	5000	,, Parel Branch	15,000
,, Balance	8,000	,, Trading a/c	2,000
Total ...	22,000	Total ...	22,000
		By Balance..	8,000

Parel Branch Stock.

	Rs.		Rs.
To Balance...	5,000	By Sales Cash	9,000
,, Goods sent to branch .	15,000	Credit	5,000
,, Gross Profit	2,000	By Stock	8,000
Total ..	22,000	Total ...	22,000

3 Goods at cost plus a percentage.

In this case, generally speaking, the fixed percentage added to the cost represents the selling price at which the branch itself is expected to sell. The result is that the branch stock account or branch goods account is worked in the Head Office ledger by taking into it all sales for cash and credit as per the method described above in No. 1 and placing the stock on hand on the credit side will show neither profit nor loss but adjust itself. If it does not so adjust it means that there is some mistake or leakage somewhere either in connection with stock or the price at which they have been sold which must be immediately investigated. The only point to be noted is that when Branch Office returns the stock the Head Office should deduct from this figure the percentage added in order to reduce it to cost price before treating it in the profit and loss adjustment in connection with the Head Office accounts.

Branch Office trading in the name of the Head Office.

There are cases where the Branch Office trades more or less independently of the Head Office and for that purpose is supplied with a capital. This capital is utilised by the Branch Manager for the purpose of working the branch business and the Branch Office also receives a supply of goods from the Head Office. In such cases the Branch Office would keep two distinct departments for the purpose of differentiating goods received from Head Office and the goods purchased by Branch Office itself. The Invoice Book or the Purchase Journal, in such a case, is divided in two separate columns, one for the Head Office goods and the other for the goods purchased on account of the branch. In the Branch Office books a Head Office account is opened which practically stands on the footing of a capital account of the Branch itself. Periodically the Branch would be remitting money to the Head Office which may be in excess of its requirements, which should be dealt with as the excess capital transferred from the Branch Office to the Head Office. On the other hand, the Head Office would supply cash to the Branch whenever the Branch requires same and for which the Branch would credit the Head Office account in its books. The Branch makes out periodical accounts and closes them with its independent Trial Balance, Profit and Loss account and Balance Sheet, copies of which are forwarded to the Head Office to enable them to incorporate same in its own books. The balance of Profit or Loss made by the Branch Office is finally transferred to the Head Office account by the Branch in its Ledger. In the Head Office they would maintain separate accounts for each of the Branch Offices, which would be debited for all the goods and money supplied by the Head Office. A separate book would also be maintained by the Head Office, to record in separate columns the details as to the goods supplied to the various branches. At fixed periods when the Head Office receives the trial balance, it would incorporate the various items and balances into the Head Office books. The Head Office would then make out the Trading and Profit and Loss account as per the illustration given on previous pages, with separate columns for each of its branches on debit and credit sides, together with a column for its own Profit and Loss, and Trading account items. In case where the arrangement with the Branch Office is that the accounts of fixed capital assets supplied by the Head Office are bought out of the capital of the Head Office and recorded in the Head Office accounts, the depreciation on such assets has to be calculated and adjustment entries made as follows:—

In the Head Office books the asset account concerned will be credited and the particular branch account will be debited. In the Branch Books Profit and Loss account will be debited and the Head Office account will be credited.

Inter Branch Transactions.

Where it is desirable for branches not to maintain current accounts with other branches, all inter-branch transactions have to be passed through the Head Office account. Each Branch gives credit to Head Office for goods, etc., received from other branches and these branches in their turn debit the Head Office for goods, etc., supplied to other branches.

The question of exchange fluctuation in case of Foreign Branches.

Where there are branches in the colonies, or in other parts of the country, with the same currency in use as in case of Head Office, no difficulty as to fluctuation in exchange arises. When the branch accounts are kept in local currency, which is different from Head Office currency, it brings into account the fluctuations in the rate of exchange. The method of treatment in accounts in practice according to circumstances are (1) Fixed Exchange Rate Basis and (2) Fluctuating Exchange Rate Basis. We shall now proceed to deal with them in detail.

(1) Fixed Exchange Rate Basis.

If the branches are situated in a country whose currency does not fluctuate widely in exchange value, the books may be kept and the figures converted into the Head Office currency at a fixed ratio. The Branch office and the Head office books would maintain two separate columns, one each for the Head office and the Branch office currency. All the statements of accounts received from the Branch by the Head office would be incorporated in the Head office books at a fixed rate of exchange. Only in case of the actual remittance by the Branch to the Head Office would the difference of exchange between the fixed and the current rate be taken into account. This difference may be either a gain, or a loss, and would be accordingly debited or credited to a special account known as the exchange account, *e.g.*, Exchange account credited for gain and debited for loss on Exchange. The corresponding entry being credit or debit to the branch account in the head office books.

(2) Fluctuating Exchange Rate Basis.

Where, however, the rate of exchange between the two countries is constantly fluctuating to a large degree, the above rule of working on the basis of a fixed rate of exchange cannot be followed. In that case, while converting the items of the Branch Trial Balance in the Head Office currency for incorporating same in the Head Office book, the following rules should be observed.

1. Fixed assets and liabilities should be converted at the rate in force on the day on which they were acquired or incurred.

2. Floating assets and liabilities on the other hand should be converted at the ruling rate of exchange on the date of the Balance Sheet.

3. Revenue balances should be converted at an average rate of exchange taking the whole period of account in consideration.

4. All remittances should be taken into account at the rate at which they were actually sent.

5. All additions to assets which are of a fixed character should be dealt with at the rate of exchange ruling on the date on which they were acquired and if remittance had to be sent from the Head Office to the Branch, the actual rate at which the amount was so remitted should be taken into account.

The Branch Office Trial Balance when converted into the Head Office currency should be composed of five columns, one indicating the rate of exchange at which the figures were converted, the next two indicating the debit and credit balances in the Branch Office currency and the last two showing the conversion of these debit and credit balances in Head Office currency. On conversion of the Branch trial balance in the Head Office currency, the new trial balance in the converted currency would naturally show a difference, which may be either a debit or a credit balance and which is treated as a difference in exchange and placed on the proper side with a view to bring about the agreement of the Trial Balance. This difference in exchange would then be transferred to the Profit and Loss account.

Illustration.

The following Trial Balance in sterling of the London Branch office of Messrs. Cama & Co. was sent on to the head office in Bombay. You are required to convert this into the Indian currency. The fixed rate at par between the two countries is 1s. 4d. a pound, whereas, the rate on the date of their Balance-Sheet was 1s. 5d. a pound. Average rate for the period is 1s. 4½d.

Trial Balance 31st December 1915.

	£	£
Cash at Bank	1,500	
Cash at Office	50	
Furniture	500	
Premises	2,000	
Goods on hand	4,000	
Debtors	5,000	
Remittances to Bombay...	5,000	
Creditors		8,000
Profit & Loss Account for profit		2,050
Bombay H. O.		8,000
	£ 18,050	£ 18,050

The actual amount in the H. O. books to the debit of the Branch office a/c was Rs. 1,20,500, which amount should be taken in account while converting the H. O. balance in the Branch office Trial Balance.

The actual amount of remittances while converted into rupees at the various rates of exchange existing on the date of remittances as per head office books amounts to rupees 75,200.

—	Rate of Exchange.	Dr.	Cr.	Dr.			Cr.		
		£	£	Rs.	a.	p.	Rs.	a.	p.
Cash at Bank ...	1/5	1,500		21,176	7	6			
Cash at Office ...	1/5	50		705	14	1			
Furniture	1/4	600		7,500	0	0			
Premises	1/4	2,500		37,500	0	0			
Goods on Hand ...	1/5	4,500		56,470	9	5			
Debtors	1/5	5,000		70,588	3	9			
Remittances to Bombay		5,000		75,200	0	0			
Creditors	1/5		8,000				1,12,941	2	10
Profit and Loss Account	1/4½		2,050				29 818	2	11
Bombay Head Office.			8,000				1,20,500	0	0
Difference in Exchange							5,881	13	0
	...	...	Rs.	2,69,141	2	9	2,69,141	2	9

I. From the particulars given below, prepare departmental Trading and Profit and Loss account of A. Cooper, whose business is divided into two departments, viz., " A and B ", for the year ending 30th June 1926.

Undivided Expenses are to be apportioned on the basis of turnover of each department.

	Rs.
Stock on 1st July 1925, A Dept. ...	17,800
,, ,, B ,, ...	8,500
Salaries to Staff	7,650
Sales, A Dept.	49,700
,, B ,, ...	37,000
Returns outward, A Dept.	2,300
,, ,, B ,, ...	1,800
Purchases, A Dept.	25,750
,, B ,, ...	19,690
Returns Inwards, A Dept.	1,500
,, ,, B ,, ...	950
Productive Wages, A Dept.	5,760
,, ,, B ,, ...	4,875
Rates, Taxes and Insurance	3,700
General Expenses	2,360
Discounts allowed, A Dept.	900
,, ,, B ,, ...	600
Bad debts	3,800
Printing and Stationery	1,500
Value of stock on hand as on 30th June 1926, A Dept. ...	8,900
,, ,, ,, B ,, ...	6,790

II. From the following particulars prepare Trading and Profit and Loss Accounts for the year ending 31st March

1926 showing the gross and net profits respectively made by the Plate and Cutlery departments of a business :—

April 1st 1925, Stock Plate, Rs. 10,000; Cutlery, Rs. 17,000; Sales: Plate, Rs. 55,000; Cutlery, Rs. 62,000; Purchases: Plate, Rs. 35,000; Cutlery, Rs. 40,000; Returns Inwards: Plate, 5,000; Cutlery, 2,000; Stock 31st March 1926, Plate, Rs. 11,000, Cutlery, Rs. 12,000, Salaries, Rs. 9,420; Rent, Rates and Taxes, Rs. 4,120; General Expenses, 1,480, Travellers' Commission and Expenses, Rs. 6,980.

Expenses are divided between two departments in the ratio of net turnovers of each department.

III. Rustomji and Bomanji start a weekly Paper called "National News", and publish various books. From the details given below prepare accounts of the publication of the National News and the Books departments for the year ending 30th September 1926, showing the net profit on each. Paper used: the National News, Rs. 5,000, Books department, Rs. 1,500; Wages and Salaries: National News, Rs. 12,500; Books department, Rs. 7,590; Receipts from advertisers: National News, Rs. 28,500, Books department 700; Sales: National News, Rs. 16,850, Books department, Rs. 20,976; Editorial Salaries: National News, Rs. 4,500; Payments to Authors, Book department, Rs. 4,800; Contributors' fees, National News, Rs. 4,800; Office Printing and Stationery, Rs. 1,500; Rent, Rates and Taxes, Rs. 2,400; General Expenses, Rs. 1,950; Printing and Blocks: National News, 6,800, Books department, Rs. 3,965, cost of binding; Books department, Rs. 1,200; Value of stock of copies on hand, 30th September, National News, Rs. 1,150; Books department, Rs. 2,500, Manager's salary and commission, Rs. 3,000.

Note.—Expenses of indirect nature are to be divided in the proportion of the totals of sales and advertisements received for each department.

IV. From the following Trial Balance of Hari and Sham, prepare Departmental Trading Account, showing gross profit made by each department, and the percentage of gross profit on turnover, and also a profit and Loss Account and Balance as at 30th September 1926:—

Trial Balance, 30th September 1926.

	Dr. Rs.	a.	p.	Cr. Rs.	a.	p.
Capital Accounts—						
Hari				25,000	0	0
Sham				15,000	0	0
Drawing Accounts—						
Hari	6,000	0	0			
Sham	4,500	0	0			
Stock October, 1—						
Department A ...	12,000	0	0			
" B ...	10,000	0	0			
" C ...	9,500	0	0			
Purchases—						
Department A ...	29,600	0	0			
" B ...	25,600	0	0			
" C ...	29,750	0	0			
Sales—						
Department A ...				75,000	0	0
" B ...				69,870	0	0
" C ...				57,750	0	0

	Dr.			Cr.		
	Rs.	a.	p.	Rs.	a.	p.
Transfer of stock, between departments—						
From B department...				1,800	0	0
To A „ ...	1,200	0	0			
„ C „ ...	600	0	0			
Returns Inwards—						
Department A ...	3,970	0	0			
„ B ...	3,850	0	0			
„ C ...	2,500	0	0			
Wages—						
Department A ...	9,500	0	0			
„ B ...	6,000	0	0			
„ C ...	5,980	0	0			
Advertising Expenses ...	4,500	0	0			
Sundry debtors ...	8,760	0	0			
Printing and Stationery.	2,500	0	0			
Carriage	3,700	0	0			
Commission	5,700	0	0			
Interest	2,000	0	0			
Postage, Telegrams ...	2,900	0	0			
Travellers' salaries ...	7,950	0	0			
Sundry creditors ...				13,780	0	0
Reserve for bad debts ...				950	0	0
Furniture and fixtures...	4,000	0	0			
Insurance	1,900	0	0			
General Expenses ...	3,980	0	0			
Discount and Allowances.	2,775	0	0			
Bad debts	4,500	0	0			

	Dr. Rs. a. p.	Cr. Rs. a. p.
Rent, Rates and Taxes ...	5,750 0 0	
Buildings	60,000 0 0	
Cash at Bank	8,600 0 0	
Petty Cash	85 0 0	
Mortgage on Buildings.		31,000 0 0
Total ...	2,90,150 0 0	2,90,150 0 0

Before preparing final accounts, the following adjustments are necessary :—

(1) Credit partners with interest on Capitals at 6% per annum ignoring interest on drawings.

(2) Increase the reserve for bad and doubtful debts to Rs. 2,000.

(3) Depreciate the Buildings by 2%

(4) Depreciate Furniture and fittings by 5%.

(5) Insurance and Rates are paid in advance to the extent of Rs. 500 and 700 respectively.

(6) Value of Stock on hand on 30th September 1926.

		Rs.
A	Department	7,800
B	„	6,300
C	„	3,900

V. Himarao and Company carry on business as Chemical and Patent Medicine manufacturers. From the following particulars, prepare departmental Trading and Profit and Loss Accounts for the year ending 31st December 1926 :—

	Rs.
Stock January, I—	
Chemical Department	12,500
Patent Medicines ,, ...	7,500
Purchases of Raw Materials—	
Chemical Department	25,600
Patent Medicines ,, ...	18,900
Wages—	
Chemical Department	15,600
Patent Medicines ,, ...	10,400
Sales—	
Chemical Department	51,024
Patent Medicines	36,000
Manufactured Chemicals supplied by Chemical Department to Patent Medicines Department	8,976
Bottles, Cases and Labels—	
Chemical Department	3,890
Patent Medicines	2,500
Light and Power	1,000
Stock 31st December, 1926—	
Chemical Department	9,875
Patent Medicines	6,980
Office Salaries	3,765
Rent, Rates and Taxes	4,500
Travellers' Commission	2,700
Printing and Stationary	1,200
Advertising	750
General Expenses	250
Bad debts	600
Custom duty	1,800

Note.—Rent, Rates and Taxes, Light and Power, are to be apportioned in the ratio of wages paid. All other expenses are to be divided in proportions of sales of each department.

VI. A Bombay city merchant owns three branches at Girgaon, Fort, and Dadar, which are supplied with goods from Head Office at Colaba. Each Branch keeps its own sales Ledger and pays daily collections in a banking account opened in the name of the Head Office at the National Bank of India Ltd. All the goods supplied to branches are marked 25% above cost. All the expenses are paid by the Head Office.

From the following particulars of the branch transactions prepare Ledger accounts in the Head Office books and prepare an account showing the gross Profit.

	Girgaon.	Fort.	Dadar.
	Rs.	Rs.	Rs.
Goods received from Head office ...	45,000	35,000	25,000
Total Sales	57,000	49,000	37,000
Cash Sales	23,000	22,000	16,000
Cash received from Debtors	30,000	28,000	19,000
Debtors at commencement	17,000	15,000	12,000
" " close	21,000	14,000	14,000
Stock at Commencement	25,000	18,000	23,000
" " close	13,000	11,000	9,500

VII. From the following Trial Balance extracted from the books of Hoormasji, Sarabji & Company, prepare Trading, and Profit and Loss for the year ending 31st December, 1926, and Balance Sheet as at that date.

Trial Balance 31st December 1926.

—	Head Office.		Ahmedabad Branch.		Surat Branch.	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Hoormasji's Capital		25,000				
Sorabjis Capital ...		25,000				
Freehold Building	50,000					
Stock on 1-1-26 ...	28,000		15,000		6,000	
Purchases ...	68,000		12,000		15,000	
Goods supplied from Head Office			13,000		12,000	
Sales		78,000		47,000		35,000
Goods to Branches		25,000				
Salaries and Wages	10,780		7,950		3,290	
Reserve for bad debts		3,800		2,500		1,600
Rent, Rates and Taxes	5,500		1,600		1,800	
Bad debts	750		100		200	
General Expenses.	1,200		500		300	
Advertising ...	500		75		90	
Travellers' Salaries	1,800					
Gas and Electricity	300		200		100	
Postage and Stationery	500		80		90	
Head Office ...			5,970		6,870	
Cash at Bank ...	3,960		1,890		1,530	
Ahmedabad ...	5,970					
Surat	1,530					
Creditors		18,990		8,875		10,670
Rent from subletting		3,000				
Total ...	1,78,790	1,78,790	58,375	58,375	47,270	47,270
Stock 31st Dec. ...	25,690		12,670			14,680

VIII. A Limited Company in Bombay had a Nominal Capital of Rs. 1,50,000, divided into 1,500 Shares of Rs. 100 each; and a subscribed capital of 800 shares fully paid. It manufactures goods for sale at its two branches, Calcutta and Madras, which sell no goods other than those manufactured by the Company. From the following Trial Balance, extracted from the books of Head office and Branches as on 31st December, 1926. Prepare Trading and Profit and Loss Account for the Head office and for each of the branches for the year ending 31st December, and a Balance Sheet of the Company as a whole as at that date.

Trial Balance on 31st December.

Particulars.	Head Office. Dr.	Cr.	Calcutta Branch. Dr.	Cr.	Madras Branch. Dr.	Cr.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Freehold Premises (Head office)	40,000					
,, (Calcutta).	10,000					
,, (Madras).	10,000					
Goodwill	30,000					
Plant and Machinery (Head office)	8,000					
Furniture and fixtures (Head office)	500					
,, (Calcutta).	700					
,, (Madras).	800					
Cash at Bank ...	6,790					
,, in Hand ...	14		104		41	
Stock 1st January .	11,245		2,812		1,994	
Purchases	65,090					
Wages	39,651		2,419		2,622	
Salaries	1,500		247		276	
Carriage to Branches	1,516					
Rates and Taxes ...	323		422		328	
General Expenses.	517		2,016		1,796	
Goods from Head office			94,167		44,267	
Bad debts			1,552		746	
Book debts ...			9,620		5,370	
Income Tax ...	447					
Directors' Fees ...	1,000					
Audit Fees ...	105					
Branch Current a/c (Calcutta).	301					
,, (Madras).	3,353					
Share Capital ...		80,000				
Sundry Creditors.		11,247		541		547
Goods to Branch (Calcutta).		94,167				
,, (Madras.)		44,267				
Sales				1,12,517		53,540
Profit and Loss a/c		2,171				
Head office current account.				301		3,353
	2,31,852	2,31,852	1,13,359	1,13,359	57,440	57,440

Note.—Stocks on hand valued on 31st December were Head office Rs. 10,527, Calcutta Branch Rs. 3,024, Madras Branch Rs. 1927.

Write off the following depreciations:—

Head office, Plant and Machinery at 10%, Furniture and fixtures, Head office and at Branches at 5%. Create a reserve for bad debts at $2\frac{1}{2}\%$ on Book debts. Carry Rs. 10,000 to Reserve Fund.

IX. A Limited Company in Bombay has a branch at Nagpur. Goods sold at Nagpur are supplied by Head office but no charge is made in the books as between the Branch and Head office. On December 31st, Branch Balance Sheet after closing the books was as follows:—

Balance Sheet as at 31st December.

	Rs.		Rs.
Creditors	3,290	Book Debts	46,700
Head Office	44,720	Premises extension account closed to Head Office	...
		Cash in Hand	50
		Cash at Bank	1,260
Rs. ..	48,010	Rs. ...	48,010

In six months to 30th June next, the following transactions took place at the Branch, Sales Rs. 54,180, Purchases Rs. 4,200 ; Wages Rs. 5,700 ; Salaries Rs. 560 ; Directors' fees Rs. 200. Fire insurance premium for one year Rs. 480 ; cash from debtors, Rs. 42,000 ; discount allowed to debtors, Rs. 2,500 ; cash paid to creditors, Rs. 3,800 ; cash sent to Bombay, 29,560 ; Premises extension, further payments to contractors, Rs. 1,500 ; cash in hand, on 30th June Rs. 60, and a bank balance, Rs. 1,450. Set out the Head office account in Nagpur Books on 30th June, to show the entries after the books are closed and also the Branch Balance Sheet as at that date, assuming it to be made up on same lines as on 31st December.

X. A Limited Company in Bombay has a retail branch at Poona, which is supplied with all goods from Bombay. The Branch Shop keeps its own Sales Ledger, receives cash against Ledger accounts, and remits the whole of the cash received daily to the Head office. All wages and Branch expenses are drawn for by cheque weekly from the Head office upon the imprest system.

From the undermentioned particulars, supplied by the Branch Manager, show how the Branch accounts would appear in the Head office books, and prepare a Profit and Loss Account for the Branch shop for the six months to December 31st.

Six months credit sales, Rs. 23,870; Returns Inwards Rs. 200; cash received on Ledger Accounts, Rs. 23,840; cash sales, Rs. 12,140; stock July 1st, Rs. 7,200; stock, December 31st, 11,210; rent, rates, etc., paid Rs. 3,750; wages and sundry expenses paid Rs. 3,960. Debtors, July 1st, Rs. 12,270; goods received from Head office, Rs. 21,780.

XI. Hormasji and Cavasji, trading as Tobacconists and General Merchants, having their office at Colaba, have a branch at Girgaon. Goods are invoiced to the branch at selling price, being cost plus 20%.

The Branch keeps its own sales Ledger, and pays all its cash receipts into the Imperial Bank of India, Girgaon Branch, weekly for transmission to the credit of the Head office current account with the Central Bank of India, Limited. All expenses are paid by the Head office.

From the following details of the Branch accounts prepare a Profit and Loss Account of the Girgaon Branch for the year ending 31st December, 1926: Stock, 1st

January 1926, (at invoice price from Head office being cost to Head office plus 20%), Rs. 12,000; Stock 31st December, 1926 (at invoice price from Head office, being cost to Head office plus 20%), Rs. 16,800; Sundry Debtors, January 1st, 1926, Rs. 12,000; Sundry Debtors 31st December, 1926, Rs. 15,000. Cash sales for the year, Rs. 50,200; Credit sales for the year, Rs. 65,000; Cash received from debtors, Rs. 61,500; Goods invoiced from Head office, (at cost plus 20%) Rs. 1,20,000; Rent, Rates, Taxes paid from Head office, Rs. 3,000.

Salaries and Wages paid from Head office, Rs. 8,500; Sundry expenses paid from Head office, Rs. 1,300; Discount allowed to debtors on payment of accounts, Rs. 500.

Debit interest at 5% per annum against the branch on the average amount of capital employed by the latter during the year; this may be taken at Rs. 33,500.

XII. A retail trading company opens a branch which is supplied with its stock by its Head office. The branch keeps its own customers' Ledger, and pays its daily cash receipts into a local bank for transmission to its Head office. The Head office invoices all goods to its branch at selling price and pays all branch expenses itself.

From the following particulars show the relative entries in the Branch and Head office Books, and prepare an account showing the net profit made at the branch. The branch was opened on 1st June 1926.

Goods supplied by Head office to branch, 1st July 1926 to December 1926, (invoiced at selling price), Rs. 30,500; (cost of these goods being Rs. 24,000) Branch cash sales, Rs. 10,820; Branch credit sales, Rs. 16,010, Cash received from debtors, Rs. 14,920; Debtors at 31st

December 1926, Rs. 1,090; Stock on hand, December 31st selling price, Rs. 3,600 (cost price being Rs. 2850); Branch expenses paid by Head office, Rs. 3,270.

XIII. From the following Trial Balances extracted at June 30th, 1926 from the Head office and the Branch Books of the City Supplying Co., Ltd., prepare a Combined Balance Sheet as at 30th June 1926 :—

—	Bombay Head office.		Poona Branch.		Surat Branch.	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Share Capital ...	...	1,00,000	...	...	...	...
Sundry Debtors ...	51,160	...	31,120	...	21,140	...
Sundry Creditors.	...	51,140	...	34,120	...	6,070
Stock 30-6-1926 ...	62,110	...	41,160	...	31,070	...
Premises ...	...	...	6,250	...	10,240	...
Cash at Bank	16,420	...	1,640	...	1,500	...
Surat Branch ...	43,320	...	490	...	...	...
Poona Branch ...	56,860	...	...	...	...	3,240
Bombay Office ...	...	...	...	41,500	...	51,860
Net Profits for the year ...	...	9,110	...	5,110	...	4,860
Profit and Loss Account Balance 1st July 1925 ...	...	1,110	...	...	...	...
Bills payable ...	...	8,830	...	...	...	...
Bills receivable ...	5,200	...	...	...	2,000	...
Insurance prepaid.	120	...	70	...	80	...
Reserve Fund ...	...	5,000	...	...	...	...
4% Debenture Stock ...	...	60,000	...	...	...	...
	2,35,190	2,35,190	80,730	80,730	66,030	66,030

Notes.—On June 30th, a customer owing Rs. 2,750 to the Poona Branch paid this amount to Surat Branch for transfer to Poona Branch. Surat Branch Credited Poona Branch with this amount, but its advice was not sent to Poona until July 5th.

Surat Branch remitted Rs. 5,000 to Bombay on June 30, but this amount was not received by Bombay office until July 1st.

Bombay forwarded to Poona on June 30th goods invoiced @ Rs. 1,820 debiting Poona Branch therewith. The goods did not reach Poona Branch until July 2nd.

XIV. The Chemical Supply Company, Limited, London, has branches at Calcutta and Bombay. The nominal capital of the company is £20,000, divided into 10,000 Ordinary and 10,000 Preference Shares of £1 each. The accounts of the Indian branches are audited by a firm of Incorporated Accountants, who supplied the following Balance Sheets on 30th June.

LIABILITIES.			ASSETS.		
—	Calcutta.	Bombay.	—	Calcutta.	Bombay.
	Rs.	Rs.		Rs.	Rs.
London office ...	1,36,305	67,110	Stock	1,01,580	63,255
Creditors ...	700	1,780	Debtors	40,830	4,300
Bad debts reserve.	2,550	1,400	Furniture ...	6,350	950
Bombay Branch.	1,950	...	Calcutta Branch.	...	1,950
Profit for the year.	12,280	8,275	Formation Expenses.	...	1,250
			Cash at Bank ...	2,025	6,860
	1,53,785	78,565		1,53,785	78,565

For the purpose of conversion, the rupee may be taken at 1s. 4d.

The Head office Trial Balance on 30th June, was as follows:—

Credit Balances: Sales, £7,775; Bad debts Reserve, £97; Preference Share Capital, £5,000; Sundry Creditors, £6,635; Commission earned, £30; Ordinary Share Capital, £5,500; Bills Payable, £1980.

Debit Balances: Purchases, £6,150; Freight duty and Export charges £ 155; wages and salaries, £ 255;

Trade Expenses, £60; Formation Expenses, £940; Postage, Telegrams, etc., £56; Calcutta Branch, £9387; Directors' fees, £250; cash in Hand and at Bank, £650; Profit and Loss Account Balance 30th June, £2850; stock 30th June, £40; Rent and rates, £30; stationery and Advertising, £75; Bank Interest and charges, £22, Furniture and Fittings, £ 31; Bills Receivable, £45; Bombay Branch, £4,474; Commission paid, £127; sundry Debtors, £1020.

On June 30th the London stock was £150, and stock of stationery £45.

Cash in Transit from Calcutta, £300.

Reserve £170 for commission earned and £120 for bad debts. The Calcutta manager is entitled to a commission on surplus profits of the company in each year, after paying the Preference share dividends, of £10 in respect of each 1% earned on the Ordinary share capital.

Prepare Trading and Profit and Loss account of the company for the year ending 30th June—and the Balance sheet as at that date.

XV. From the following Trial Balance prepare the Balance Sheet of London Trading Syndicate, Limited, as at 30th June, 1926.

Bombay Branch Trial Balance on 30th June 1926.

	Dr.	Cr.
	Rs.	Rs.
Cash at Bank of Baroda, Ltd. ...	7,500	
Stock 30th June 1926 ...	75,500	
Book Debts	68,500	
Bills Payable		17,000

Bombay Branch Trial Balance on 30th June 1926—contd.

	Dr. Rs.	Cr. Rs.
Furniture and fittings, Balance at 31st December 1925 ...	2,000	
Additions during half year ...	1,500	
Profit and Loss Account, Balance being net profit for half year, 30th June		14,000
London Office Account (£7,767)...		124,000
Rs. ...	1,55,000	1,55,000

London Trial Balance, 30th June 1926.

	Dr. £	Cr. £
Share Capital issued, 10,000 Shares of £1 each, 15s. paid ...		7,500
Cash at Bank	85	
Bombay Office Account, (Rs. 1,24,000) at actual remittance rate	7,767	
Profit and Loss Account Balance brought forward		352
Rs. ...	7,852	7,852

Current rate of exchange, December, 31st 15d. per rupee, current rate of exchange, June 30th 16½d. per rupee; Average rate for the first half year 16d. per rupee.

Furniture and Fixtures on hand at 31st December, 1925 were bought at 15d. per rupee, the additions during the first half year, were bought at 16d. per rupee.

CHAPTER X.

Insolvency and Liquidation Accounts.

Insolvency.—When the affairs of a Trader or Partnership get finacially involved, and business is impossible on account of heavy liabilities, Bankruptcy process is generally resorted to. This is done in India under the Presidency Towns Insolvency Act 1909 in the Presidency Towns. In England a person seeking protection under the Insolvency Act is called a Bankrupt, whereas, in the Indian Acts the word Insolvent is used all throughout. If a person, through a series of misfortunes brought about by circumstances over which he had no control, gets hopelessly in debts, and reaches a stage where his liabilities exceed his assets, it is open to him to petition to the Court for Protection under the Insolvency Act, by which he can, on his giving up all his assets for the benefit of his creditors and satisfying the Court that his Insolvency, or Bankruptcy, was brought about not through extravagance or speculation, get a discharge in respect of the unsatisfied portion of his liabilities and can begin life once again with a clean slate.

If, however, as is frequently the case, a person in an insolvent condition does not petition for protection under the Act, but continues to trade in the hope that by some rare chance he would retrieve his fortune, his creditors may petition to the Court to have him declared an Insolvent. The petition may be presented by a creditor or creditors under the Insolvency Act if the debt amounts to Rs. 500, or over, and if the act of insolvency on which the petition has been based was committed within three months of the presentation of the petition.

The Acts of Insolvency.

The debtor is said to have committed an act of Bankruptcy when as per Section 9 of the Insolvency Act,

(1) If, in British India or elsewhere, he makes a transfer of all or substantially all his property to a third person for the benefit of his creditors generally.

(2) If, in British India or elsewhere, he makes a transfer of his property or of any part thereof with intent to defeat or delay his creditors ;

(3) If, in British India or elsewhere, he makes a transfer of his property or of any part thereof which would, under this or any other enactment for the time being in force, be void as a fraudulent preference if he were adjudged an insolvent ;

(4) If, with intent to defeat or delay his creditors,—

(i) he departs or remains out of British India,

(ii) he departs from his dwelling-house or usual place of business or otherwise absents himself,

(iii) he secludes himself so as to deprive his creditors of the means of communicating with him ;

(5) If any of his property has been sold or attached for a period of not less than twenty-one days in execution of the decree of any Court for the payment of money ;

(6) If he petitions to be adjudged an insolvent ;

(7) If he gives notice to any of his creditors that he has suspended, or that he is about to suspend payment of his debts ;

(8) If he is imprisoned in execution of the decree of any Court for the non-payment of money.

Adjudication.

The Courts on presentation of the petition, may if satisfied, make an Order of Adjudication and on making of such an order, the property of the insolvent wherever situated shall vest in the Official Assignee and shall then be divisible among his creditors, and thereafter, except as directed, no creditor to whom the insolvent is indebted in respect of any debt proveable in insolvency shall, during the pendency of insolvency proceedings, have any remedy against the property of the insolvent in respect of the debt, or shall commence any suit or other legal proceedings except with the leave of the Court.

The Debtor's Petition.

With regard to a petition by the debtor himself the Indian Insolvency Act, Section 14, lays down that the debtor shall not be entitled to present an insolvency petition unless :—

(*a*) his debts amount to five hundred rupees, or

(*b*) he has been arrested and imprisoned in execution of the decree of any Court for the non-payment of money, or

(*c*) an order of attachment in execution of such a decree has been made and is subsisting against his property.

The debtor has to submit his statement of affairs on the form prescribed under the rules of the Insolvency Act within 30 days from the date of the Adjudication order if made on his own petition, or within 30 days of the service of the order if made on the creditors' petition.

Under the Insolvency Act Sec. 28, an Insolvent may at any time after the making of an Order of Adjudication, submit a proposal for a composition in satisfaction of his debts or a proposal for a scheme of arrangement of his affairs in the prescribed form, and such proposal shall be submitted by the official assignee to a meeting of creditors.

2. The official assignee shall send to each creditor who is mentioned in the schedule, or who has tendered a proof before the meeting, a copy of the insolvent's proposal with a report thereon, and if on the consideration of such proposal the majority in number and three-fourths in value of all the creditors whose debts are proved resolve to accept the proposal, the same shall be deemed to be duly accepted by the creditors.

3. The insolvent may at the meeting amend the terms of his proposal, if the amendment is, in the opinion of the official assignee, calculated to benefit the general body of creditors.

4. Any creditor who has proved his debt may assent to or dissent from the proposal by a letter in the prescribed form addressed to the official assignee, so as to be received by him not later than the day preceding the meeting and any such assent or dissent shall have effect as if the creditors have been present and had voted at the meeting.

Before the court approves of the scheme of composition it would hear the report of the Official Assignee as to the terms of the composition, any objection on behalf of the creditors, and whether the terms of the proposal are reasonable and beneficial to the general body of the creditors. If the Court is of opinion that the terms of the proposal are not reasonable, or are not calculated to benefit the general body of creditors, the Court may refuse, to approve the composition scheme. If any facts are proved on proof of which the law requires the Court to refuse, suspend or attach conditions to the Debtor's discharge, the Court would make orders accordingly. If on the other hand the Court approves the proposal, the terms of the proposal shall be embodied in the order of the Court and the Court shall make an order annulling adjudication.

Default made in payment of Instalments.

With regard to composition scheme it may be added that the Indian Insolvency Act section 31 clearly lays down, that, if default is made in payment of any instalment due in pursuance of any composition, or scheme, ar proved by the Court, the Court would re-adjudge debtor insolvent and annul the composition schem that the property of the debtor shall re-vest in the O assignee.

An insolvent may at any time after the order judication apply to the Court for an order of dis whereupon, the Court shall appoint a day for b the application which shall be after the public tion of the debtor has taken place. In grant the Court shall take into consideration t Official Assignee as to the insolvent's co and may,

1 Grant or refuse an absolute

or

2 Suspend the operation of time,

or

3 Grant an order of disch ditions with respect to any earning afterwards become due to the insolve his outside properties.

In case the insolvent has committed any offence under section 421–424 of the Indian Penal Code, the Court shall either

1 refuse the discharge, or,
2 suspend the discharge for a specified time, or,
3 suspend the discharge until a dividend of not less than 4 annas in the rupee has been paid to the creditors.

The order of discharge shall not release the insolvent from,

1 any debt due to the Crown;
2 any debt or liability incurred by means of any fraud or fraudulent breach of trust to which he was a party; or
3 any debt or liability in respect of which he has obtained forbearance by any fraud to which he was a party; or
4 any liability under an order for maintenance made under section 488 of the Code of Criminal Procedure, 1898.

Account-keeping.

hedule of Affairs. The debtor has to make out ments, one called the Schedule of Affairs and the Deficiency Account. The former shows all the ts at the book value, with the amount they are alise, together with his liabilities, distin- red, fully secured, partly secured, and tors, liabilities on bills discounted other stances, contingent liabilities &c., ces out losses which are accountable These statements in all important the assistance of Accountants.

as per Schedule given under of the High Courts in India ave given below Bombay, Cal- Burma follows Calcutta closely.

plest. The Calcutta and Burma account forms also.

FORM UNDER BOMBAY RULES.
SCHEDULE.
(TITLE.)

To the Insolvent—You are required to fill up, carefully and accurately, this sheet and the several sheets A, B, C, D, E, F, G and H, showing the state of your affairs on the day on which the order of adjudication was made against you, *viz.*, the day of 19 .

Such sheets, when filled up, will constitute your schedule and must be verified by oath or declaration.

Gross Liabilities.	Liabilities (as stated and estimated by Debtor).	Expected to Rank.	Assets (as stated and estimated by Debtor).	Estimated to Produce.
Rs. a. p.		Rs. a. p.		Rs. a. p.
	Unsecured creditors, as per list (A)		Property as per list (E), *viz* :—	
			(*a*) Cash at bankers	
	Rs. a. p.		(*b*) Cash in hand	
	Creditors fully secured, as per list (B)		(*c*) Cash deposited with solicitor for costs of petition ..	
	Estimated value of securities ..		(*d*) Stock-in-trade (cost Rs.)	
			(*e*) Machinery	
			(*f*) Trade fixtures, fittings, utensils, etc.	
	Surplus		(*g*) Furniture	
	Less—Amount thereof carried to Sheet (C)		(*h*) Life policies	
			(*i*) Other property, *viz* :—	
			Total as per list (E) ..	
	Balance thereof to *contra*		Book debts, as per list (F), *viz* :— Good	
	Creditors partly secured, as per list (C)		Rs. a. p.	
	Less—Estimated value of securities		Doubtful	
			Bad	
			Rs. ..	
	Rs. a. p.		Estimated to produce ..	
	Creditors for rent, rates, taxes, wages, &c., payable in full as per list (D)		Bills of exchange or other similar Securities on hand, as per list (G)	
			Estimated to produce ..	
	Deducted *contra*..		Surplus from securities in the hands of creditors fully secured per *contra*	
			Rs. ..	
			Deduct—Creditors for preferential rent, rates, taxes, wages, etc. (per *contra*)	
			Rs. ..	
			Deficiency explained in statement (H)	
	Rs. ..		Rs. ..	

I, of , of , make oath and say that the above statement and the several lists hereunto annexed marked A, B, C, D, E, F, G and H, are, to the best of my knowledge and belief, a full, true and complete statement of my affairs on the date of the above mentioned order of adjudication made against me.

Sworn / Affirmed at this day of 19 , before me . } (Signature.)

A

Unsecured Creditors.

No.	Name.	Address and Occupation.	Amount of Debt.			Date when contracted.		Considera-tion.
						Month.	Year..	
			Rs.	a.	p.			

(Signature.)

Dated 19 .

NOTES.—1. When there is a contra account against the creditor, less than the amount of his claim against the estate, the amount of the creditor's claim and the amount of the contra account should be shown in the third column, and the balance only to be inserted under the heading "Amount of debt" thus :—

			Rs.	a.	p.
Total amount of claim	...	...			
Less—Contra account	...	...			

No such set-off should be included in sheet "F"

2. The particulars of any bills of exchange and promissory notes held by a creditor should be inserted immediately below the name and address of such creditor.

B

Creditors fully Secured.

No.	Name of Creditor.	Address and Occupation.	Amount of Debt.	Date when Contracted.		Considera-tion.	Particulars of Security.	Date when given.	Estimated value of Security.	Estimated Surplus from Security.
				Month.	Year.					

(Signature.)

Dated 19

C
Creditors partly Secured.

No.	Name of Creditor.	Address and Occupation.	Amount of Debt.	Date when Contracted.		Consideration.	Particulars of Security.	Date when given.	Estimated value of Security.	Estimated surplus from Security.
				Month.	Year.					

Dated 19 . (Signature.)

D
Preferential Creditors for Rent, Rates, Taxes and Wages.

No.	Name of Creditor.	Address and Occupation.	Nature of Claim.	Period during which Claim accrued due.	Date when due.	Amount of Claim.	Amount payable in full.	Difference ranking for Dividend (to be carried to List A).

Dated 19 . (Signature.)

E
Property.

Full particulars of every description of property in possession and in reversion, not in any other list, are to be set forth in this list:—

Full Statement and Nature of Property.	Estimated to produce.		
	Rs.	a.	p.
(a) Cash at Bankers			
(b) Cash in hand			
(c) Cash deposited with Solicitor for Costs of Petition ...			
(d) Stock in Trade at (Cost Rs.)			
(e) Machinery at			
(f) Trade Fixtures, Fittings, Utensils, etc., at			
(g) Household Furniture and Effects at			
(h) Life Policies			
(i) Other property (state particulars), *viz.*			

Dated 19 . (Signature.)

F

Debts due to the Estate.

No.	Name of Debtor.	Residence and Occupation.	Amount of Debt. Good.			Doubtful.			Bad.			Folio of Ledger or other book where particulars are to be found.	When Contracted Month.	Year.	Estimated to produce.			Particulars of any Securities held for Debt.
			Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.				Rs	a.	p.	

Dated 19 . (Signature.)

NOTE.—If any debtor to the estate is also a creditor, but for a less amount than his indebtedness, the gross amount due to the estate and the amount of the contra account should be shown in the third column, and the balance only be inserted under the heading "Amount of Debt" thus:—

	Rs.	a.	p.
Due to estate			
Less contra account			

No such claim should be included in sheet " A ".

G

Bills of Exchange, Promissory Notes, &c., available as Assets.

No.	Name of Acceptor of Bill or Note.	Address &c.	Amount of Bill or Note.	Date when due.	Estimated to produce.	Particulars of any Property held as Security for Payment of Bill or Note.

Dated 19 . (Signature.)

H

Deficiency Statement.

(The Insolvent should here explain the cause for the deficiency.)

Dated 19 . (Signature.)

CALCUTTA RULES.

SCHEDULE OF AFFAIRS.

(Title.)

To the insolvent, you are required to fill up, carefully and accurately, this sheet and the several sheets A, B, C, D, E, F, G, H, I, J and K, showing the state of your affairs on the day of which the order of adjudication was made against you, viz.. the day of . 19 .

Such sheets, when filled up, will constitute your schedule of affairs and must be verified by oath or declaration.

Gross liabilities.	Liabilities (as stated and estimated by debtor).		Expected to rank.	Assets (as stated and estimated by debtor)	Estimated to produce.
Rs. a. p.			Rs. a. p.		Rs. a. p.
	Unsecured creditors as per list (A)	Rs. a. p.		Property as per list (E), viz.—	
	Creditors fully secured, as per list (B)			(a) Cash at bankers	
	Estimated value of securities ...			(b) Cash in hand ... ... —	
				(c) Cash deposited with solicitor for costs of petition	
	Surplus			(d) Stock-in-trade (cost Rs.)	
	Less amount thereof carried to Sheet C			(e) Machinery ... ... — ...	
				(f) Trade fixture, fittings, utensils, etc. ...	
	Balance thereof to contra ...			(g) Agricultural stock	
				(h) Growing crops and tenant right ...	
	Creditors partly secured, as per list (C)			(i) Furniture —	
				(j) Life policies	
	Less estimated value of securities.			(k) Other properties, viz.	
				Total as per list (E) ...	
	Liabilities on bills discounted other than insolvent's own acceptances, for value, as per list (D), *viz* :—			Book debts as per list (F), viz.—	
				Good	

Gross liabilities.	Liabilities (as stated and estimated by debtor).		Expected to rank.	Assets (as stated and estimated by debtor).		Estimated to produce.
Rs. a. p.		Rs. a. p.	Rs. a. p.		Rs. a. p.	Rs. a. p.
	On accomodation bills, as drawer, acceptor or endorser			Doubtful		
	On other bills as drawer or endorser			Bad		
	Of which it is expected will rank against estate for dividend ...			Rs. ...		
	Contingent or other liabilities as per list E			Estimated to produce		
	Of which it is expected will rank against the estate for dividend.			Bills of Exchange or other similar securities, on hand as per list (G) ... ... Rs...		
	Creditors for rent, etc., as per list F			Estimated to produce		
	Creditors for rent, rates, taxes, wages, etc., payable in full as per list (D)			Surplus from securities in the hands of creditors fully secured (per *contra*)		
	Debts due to the Crown or to any local authority			Rs. ...		
	Deducted *contra*			Deduct creditors for preferential rent, rates, taxes, wages, etc. (per *contra*)		
				Rs. ...		
				Deficiency explained in statement (H) ...		
	Rs. ...			Rs. ...		

I, of, of , make oath and say that the above statement and the several lists hereunto annexed marked A, B, C, D, E, F, G, H, I, J and K are, to the best of my knowledge and belief, a full, true and complete statement of my affairs on the date of the abovementioned order adjudication made against me.

Sworn / Affirmed at this day of 19 , before me. (Signature.)

A

Unsecured Creditors.

The names to be arranged in order of the date of the debts and numbered consecutively.

No.	Name.	Address and Occupation.	Amount of Debts.			Date when contracted.	Considera-tion.	Admitted or disputed.
			Rs.	a.	p.			

Dated 19 . (Signature.)

NOTES.—1. When there is a contra account against the creditor, less than the amount of his claim against the estate, the amount of the creditor's claim and the amount of the contra account should be shown in the third column, and the balance only to be inserted under the heading "Amount of debt" thus:—

			Rs.	a.	p.
Total amount of claim	...	...			
Less—Contra account	...	...			

No such set-off should be included in sheet "I"

2. The particulars of any bills of exchange and promissory notes held by a creditor should be inserted immediately below the name and address of such creditor.

B

Creditors fully Secured.

No.	Name of Creditor.	Address and Occupation.	Amount of Debts.	Date when Contracted.		Considera-tion.	Particulars of Security.	Date when given.	Estimated value of Security.	Estimated Surplus from Security.
				Month.	Year.					

Dated 19 . (Signature.)

C

Creditors partly secured.

No.	Name of Creditor.	Address and Occupation.	Amount of Debts.	Date when Contracted.		Consideration.	Particulars of Security.	Month and Year when given.	Estimated value of Security.	Balance of Debt Unsecured.
				Month.	Year.					

Dated 19 . (Signature.)

D

Liabilities of Insolvent on Bills discounted other than his own Acceptances for value.

No.	Acceptor's Name, Address and Occupation.	Whether liable as drawer or indorser.	Date when due.	Amount.		Holder's Name, Address, and Occupation (if known).	Amount expected to rank against estate for dividend.
				Accommodation Bill.	Other Bills.		

Dated 19 . (Signature.)

E

Contingent or other Liabilities.

Full particulars of all liabilities not otherwise scheduled to be given here.

No.	Name of creditor or claimant.	Address and Occupation.	Amount of liability or claim.	Date when liability incurred.		Nature of Liability.
				Month.	Year.	

Dated 19 . (Signature.)

F

Creditors for Rent, etc.

No.	Name of Creditor.	Address and Occupation.	Nature of claim.	Period during which claim accrued due.	Date when due.	Amount of claim.	Amount recoverable as in priority under section 49.	Difference ranking for dividend (to be carried to list A).

Dated 19 . Signature.

G

Preferential Creditors for Rent, Rates, Taxes and Wages.

No.	Name of Creditor.	Address and Occupation.	Nature of Claim.	Period during which claim accrued due.	Date when due.	Amount of claim.	Amount payable in full.	Difference ranking for dividend (to be carried to List A.)

Dated 19 . Signature.

H

Property.

Full particulars of every description of property in possession and in reversion, not in any other list, are to be set forth in this list :—

Full statement and nature of property.	Estimated to produce. Rs.	a.	p.
(a) Cash at Bankers			
(b) Cash in hand			
(c) Cash deposited with solicitor for costs of petition ..			
(d) Stock in trade at (Cost Rs.)			
(e) Machinery at			
(f) Trade fixtures, fittings, utensils, etc., at			
(g) Household furniture and effects at			
(h) Life policies			
(i) Other property (state particulars), viz.			

Dated 19 . (Signature.)

I

Debts due to the Estate.

No.	Name of debtor.	Residence and Occupation.	Amount of Debt.									Folio of ledger or other book where particulars to be found.	When Contracted.		Estimated to produce.			Particulars of any Securities held for Debt.
			Good.			Doubtful.			Bad.				Month.	Year.				
			Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.				Rs.	a.	p.	

Dated 19 . Signature.

Note:—If any debtor to the estate is also a creditor, but for a less amount than his indebtedness, the gross amount due to the estate and the amount of the contra account should be shown in the third column and the balance only be inserted under the heading "Amount of debt" thus:—

	Rs.	as.	p.
Due to estate			
Less—Contra account			

No such claim should be included in sheet "A"

J

Bills of exchange, Promissory Notes, etc., available as Assets.

No.	Name of Acceptor of Bill or Note.	Address &c.	Amount of Bill or Note.	Date when due.	Estimated to produce.	Particulars of any Property held as Security for Payment of Bill or Note

Dated 19 Signature.

47

K.

Deficiency Account

	Rs.	a.	p.	Rs.	a	p.		Rs.	a.	p.	Rs.	a.	p.
Excess of assets over liabilities on the (a) day of 19 (if any) ...							Excess of liabilities over assets on the (a) day of 19 (if any).						
Net profit (if any) arising from carrying on business from the (a) day of 19 to date of adjudication order after deducting usual trade expenses ...							Net loss (if any) arising from carrying on business from the (a) day of 19 to date of adjudication order, after deducting from profits the usual trade expenses						
Income or profit from other sources (if any) since the (a) day of 19							Bad debts (if any) as per schedule (b)						
Deficiency as per statement of affairs							Expenses incurred since the (a) day of 19 other than usual trade expenses, viz., household expenses of self and (c) (d) other losses and expenses (if any)						
							Surplus as per statement of affairs (if any)						
Total amount to be accounted for							Total amount accounted for						

Dated 19 Signature.

Notes.—(a) This date shall be 12 months before date of adjudication order or such other time as Official Assignee may have fixed.

(b) This schedule must show when debts were contracted.

(c) *Add* "Wife and children" (if any) stating number.

(d) Here *add* particulars of other losses or expenses (if any), including depreciation in the value of stock and effects or other property as estimated for realization, and liabilities (if any) for which no consideration received.

(e) These figures should agree.

MADRAS RULES.

SCHEDULE OF DEBTOR'S AFFAIRS.

(CAUSE-TITLE.)

I, A. B. of solemnly and sincerely declare (or make oath and say) that the following statement and the several lists hereto annexed and marked A, B, C and D are to the best of my knowledge and belief, a full, true and complete statement of my affairs on the date of the order of adjudication made against me on the day of 19 .

Liabilities.	—	Assets.	Estimated to produce.
	Rs. a. p		Rs. a. p.
Unsecured creditors as per list A		Property as per list C ...	
Secured creditors as per list B		Book debts as per list D— Good	
		Rs. a. p.	
		Doubtful ...	
		Bad ...	
		Secured debts	
		Deficiency	

Solemnly affirmed this day of 19 (the same having been previously read over to the deponent in). Before me. — A.B.

Note.—If the debtor has no liabilities or is not possessed of any assets mentioned in one of the lists A, B, C or D, he must enter "none" in the above statement, and it shall not be necessary to fill such list.

A
Unsecured Creditors

The names to be arranged in order of the dates of the debts, and numbered consecutively.

Number.	Name.	Address and occupation.	Amount of debt.			Date when contracted.	Considera-tion.
			Rs.	a.	p.		

Date 19 . (Signature.)

B
Secured Creditors.

No	Name of Creditor.	Address and Occupation.	Amount of Debts.			Date when contracted.	Considera-tion.	Particulars of security.	Date when given.	Estimated value of security.	Estimated surplus from security.
			Rs	a	p						

Date 19 . (Signature.)

C
Property.

Full particulars of every description of property in possession and in reversion, as defined by Section 52 of the Presidency Town Insolvency Act, 1909 are to be set forth in this list.

Number.	Full statement and nature of property.	Estimated to produce.		
		Rs.	a.	p.
1	Cash in hand			
2	Cash at Bankers			
3	Stock in trade at (costs Rs.)			
4	Household furniture and effects at			
5	Life polices			
6, 7, 8	Other property. (State particulars and if landed property, the boundaries, extent, survey number and certificate number must be given)			
9	Property exempted by Section 52 (1)			

Date 19 . (Signature.)

D

Debts due to the estates.

Number.	Name of Debtor.	Residence and Occupation.	Amount of Debt.			Good, doubtful or bad.	When contracted.	Estimated to produce.	Particulars of any security.
			Rs.	a.	p.				

Date 19 . (Signature.)

Unsecured debts are to be entered first in order of date, and then secured debts in the same order.

Schedule of Affairs—All assets of the insolvent including his business and private property, with the exception of proporty held by him in trust for others, the tools of his trade and the necessary wearing apparel and bedding of himself, his wife and children, the latter in all not exceeding Rs. 300, would have to be shown on the right hand side of this statement. These assets are shown in the inner column at the value at which they stand in the books of the debtor and the value that is expected to be realised is shown in the outer column.

The liabities are shown on the left hand side, distinguishing the various groups of creditors, *viz.*, Unsecured creditors, Fully Secured creditors, Partly Secured creditors, and Preferential creditors.

Unsecured creditors List (A) are those who hold no securities against their claims . These are shown in full on the left hand side in the outer column.

The **Fully Secured creditors** List (B) are those who hold securities to the full value of their claims or in excess of their claims. In the latter case their claims are shown deducted from the value of the securities held by them, the excess of securities held by them being carried to the right hand side of the Statement and shown there among the assets.

In case of **partly secured creditors** List (C) the value of the securities held by them is shown deducted from their claims and the balance carried to the outer column.

The Preferential creditors List (D) are those who are entitled to be paid in full before the other creditors can be paid.

These are :—

(1) Debts due to the Crown or to any local authority.

(2) All salary or wages of any clerk, servant or labourer in respect of services rendered to the insolvent during four months before the date of the presentation of the petition, not exceeding three hundred rupees for each such clerk, and one hundred rupees for each such servant labourer.

(3) Rent due to a Landlord from the insolvent provided the amount payable shall not exceed one month's rent.

These preferential creditors are shown on the left hand side of the Statements, the amount being shown only in the inner column. This amount is then shown deducted from the total of the estimated values of the assets on the right hand side.

Contingent or other liability.

This item does not appear on the Bombay schedule but the Calcutta and Burma forms include this item. The Calcutta rules in this connection lay down that the special form must contain the acceptor's name, address and occupation, the amount, distinguishing the accommodation and other bills, holder's name and address and amount expected to rank against the estate for dividend. It may be noted, however, that bills receivable of the debtor which he had discounted with his banker or other party will be included here because the insolvent has endorsed them but in case the acceptor is there who would honour them nothing may be stated in the expected to rank column. In case of accommodation bills all should be stated irrespective of the fact whether the debtor is drawer, acceptor. or endorser. If the debtor is the acceptor who is thus primarily liable the amount must be immediately extended to expected to rank column whereas in the other two capacities of drawer and endorser much will depend upon the acceptor's financial position.

Schedule of Creditors.

Besides the above statement a separate schedule has to be prepared giving details in the prescribed form as to unsecured, fully secured, and partly secured creditors together with their names, addresses and occupations, the amount of debt, when contracted and the cousideration given. In case of partly or fully secured creditors the particulars of the security ought also to be stated and the date on which such security was given together with the value of the security ought also to be mentioned.

With regard to liabilities on bills discounted other than Debtor's own acceptances, the separate schedule must show how the debtor's liability arises, *i. e.*, whether he is liable as an acceptor, drawer or endorser, with the name, address and occupation of the holder of the bill. It ought also to be shown what is the exact liability likely to accrue against the debtor in case of each of these bills.

Rent due by the Insolvent.

With regard to the rent due by the insolvent the same may be divided into two classes, *viz* :—

(1) rent due from the insolvent the amount of which is recoverable by distress,

(2) rent due from the insolvent the amount of which is not recoverable by distress.

The former would appear in the Schedule of Affairs among Preferential creditors, whereas the latter would be stated under the Unsecured creditors.

Deficiency Account.

Besides this Schedule of affairs an account has to be made out under the above heading starting, wherever possible, at the period when the debtor was solvent in order to show how his insolvency was brought about and the deficiency arrived at. The date from which the Deficiency Account should start would be in most cases the date fixed by the Official Assignee generally one year prior to the date of the Adjudication order.

This account has to be prepared as per the Prescribed forms under the High Court Rules concerned. The Calcutta and Burma High Court Rules provide a form as given already, while Bombay and Madras do not.

The Deficiency Account would show on its debit side the capital at the beginning of the period at which the

Deficiency Account is made out, the profits and income, if any, made during the period covered by the Deficiency Account, and the Deficiency as per the Schedule of Affairs. On the credit side the Deficiency Account would show the deficiency at the commencement of the period and all losses incurred including bad debts, expenses and other losses on revaluation of assets and drawings of the partners.

It will be noticed from what has been described above that a Schedule of Affairs in Insolvency differs considerably from a Balance sheet.

1. Though the assets are shown on the right hand side as in a Balance Sheet yet all the assets do not appear, those that are charged either fully or partially are deducted from the respective liabilities on the left hand side and only the free surplus from such assets, if any, is brought into account here.

2. The assets are taken at realisable values while on a Balance Sheet they are shown at book figures irrespective of the present market prices.

3. All the belongings of the Debtors, both personal and business, are brought into account here while the Balance Sheet merely summarises the outstanding balance on a set of Books maintained on the Double Entry Principle.

4. Certain of the creditors who are Preferential are deducted from the assets available instead of being shown in the total liabilities expected to rank.

The whole form is set out from the point of view of the unsecured creditors while a Balance Sheet attempts to show the financial position of the business as a going concern.

Illustration.

Shapoorji Bomanji filed his petition in bankruptcy on 31st December 1926 :—

His books showed that he owed Rs. 50,000 to Trade creditors, Rs. 30,000 to creditors holding lien on Stock-in Trade for Rs. 8,000, Rs. 10,000 Mortgage on Works, and Rs. 1,000 to his accountant being his salary for 5 months, Rs. 300, due to labourers being their wages for 3 months, and Rs. 1,500, to Hansraj & Co., as rent for 3 months. Bills of Exchange for Rs. 10,000 had been discounted with his bankers, and it was estimated that there was a liability in respect of them of Rs. 3,000. His assets were consignments Rs. 20,000 estimated to realise Rs. 2,000 ; Good Book Debts Rs. 18,000 ; Doubtful Debts Rs. 6,000, estimated to realise Rs. 3,000 ; Bad debts, Rs. 15,6[illegible] ; Works cost Rs. 1,00,000 (depreciated out of P[illegible] Loss Account to Rs. 75,000), estimated to realise R[illegible] Furniture and Fittings, Rs. 2,000, estimated [illegible] Rs. 1,000 ; Stock-in-trade Rs. 25,000, estimated [illegible] Rs. 8,000 ; Cash in hand Rs. 1,350 ; Cash [illegible] Rs. 1,800.

He commenced business on 1st January 1[illegible] a capital of Rs. 90,000. After charging annually [illegible] for depreciation of works, and Rs. 5,500 for i[illegible] capital, the trading showed profits of Rs. 6,500 [illegible] and Rs. 5,000 [illegible] 1923, and losses of Rs. 6,00[illegible] Rs. 7,00[illegible] [illegible] Rs. 9,500 in 192[illegible] Rs. [illegible] Rs. 4,0[illegible]

P[illegible]

to be s[illegible]

Shapoorji Bomanji.

							Assets (as stated and estimated by Debtor.)		Estimated to produce.		
				Rs.	a.	p.			Rs.	a.	p.
	Unsecured creditors as per List (A)...			54,700	0	0	Property as per List E, *viz.*,				
							(a) Cash in hand		1,350	0	0
							(b) Cash at Bank		1,800	0	0
	0 Creditors fully secured as per List (B)	10,000					(c) Consignments	20,000	2,000	0	0
							(d) Furniture	2,000	1,000	0	0
	Estimated value of securities	50,000					Total as per List E ...		6,150	0	0
							Book Debts as per List F—				
	Surplus carried to contra...	40,000					Good		18,000	0	0
							Doubtful	6,000			
							Bad	15,650			
	editors partly secured as er List (C)	30,000						21,650	3,000	0	0
	Value of securities ...	8,000		22,000	0	0	Surplus from securities in the hands of fully secured creditors, as per contra		40,000	0	0
									67,150	0	0
	ors for rent, salaries, ges, etc., as per List)	1,100					*Less* Preferential creditors as per contra		1,100	0	0
									66,050	0	0
	educted contra						Deficiency explained in statement (H)		10,650	0	0
1,02,800 0 0	Total ...			76,700	0	0	Total ...		76,700	0	0

Deficiency Account.

	Rs.	a	p.			Rs.	a.	p.
Excess of Assets over Liabilities on 1st January 1922	90,000	0	0	Losses arising from business from 1-1-24 to 31-12-1926		22,500	0	0
Net profit arising from business from 1-1-1922 to 31-12-1923	11,500	0	0	Bad Debts as per List F		18,650	0	0
Interest on capital for 5 years at Rs. 5,500 per year	27,500	0	0	Expenses incurred since 1st January 1922 to 31st December 1926, other than usual trade expenses		20,000	0	0
Deficiency as per statement	10,650	0	0	Other Losses—				
				Losses through speculation ...	14,500			
				,, on consignments	18,000			
				,, stock-in-trade	17,000			
				,, works	25,000			
				,, Furniture	1,000			
				,, Loss on Bills discounted ...	3,000	78,500	0	0
Total Rs. ...	1,39,650	0	0	Total Rs. ...		1,39,650	0	0

Partnership Insolvency.

In case of the insolvency of a firm composed of more than one person where all the partners are insolvent, the assets of the firm and the private assets of each of the partners have to be dealt with separately. This is so because the creditors of a partnership are entitled to be satisfied in full out of the partnership property, before the private creditors of the individual partners get anything out of the partnership estate. If after paying all the partnership creditors in full, there is any surplus, that goes towards the settlement of the claims of the separate creditors. On the same principle the separate creditors of individual partners are entitled to be satisfied in full out of the separate estates of individual partners concerned, before their private estates could be utilised for the payment of the firm's debts.

Thus a Schedule of Affairs of the firm showing the Joint Partnership accounts and liabilities would have to be made out and separate schedules of Affairs of each partner showing their individual assets and liabilities would also be made out. The surplus assets, if any, shown by these separate statements would be transferred to the Joint schedule for the benefit of the Joint creditors and vice versa.

Official Assignee's Accounts.

The Official Assignee has to keep accounts of all receipts and payments as per the Bombay and Calcutta High Court Rules who shall open an account with the Imperial Bank of India entitled "the accounts of Official Assignee" either at Bombay or Calcutta as the case may be and monies received by him in the realisation of insolvent's estates, shall after deducting such sum as may be required for immediate payments such as costs, charges, etc., within seven days after the receipt thereof, be paid into the credit of the said account. He is also required to invest all sums to the credit of the insolvent's estate as he does not require for the payment of costs, expenses and dividends into purchase of $3\frac{1}{2}$ per cent Promissory Notes of the Government of India and to deposit such notes with the Imperial Bank of India to the credit of such estate respectively at the expiration of each half year ending on 31st January and 31st July respectively.

Every creditor of the insolvent shall be at liberty to investigate the accounts in connection with the estate in which he is interested at all reasonable times. At the expiration of each half year as referred to above, the Official Assignee shall also prepare a statement of account of each estate not then wound up or fully distributed. In this account he must show the whole receipts and the whole disbursements distinguishing dividends from other payments and the balance remaining on his hand. In connection with this balance he must also show how it is invested. The Chief Justice shall from time to time appoint an auditor who has to check these accounts and report thereon to the Chief Justice. Any difference between the auditor and the official assignee in respect of any payment, receipt, voucher or otherwise or any other question of difference shall be referred to the Chief Justice or to any judge that may be appointed for that purpose by the Chief Justice. Out of the receipts the official assignee has a right to retain his remuneration for duties performed or to be performed by him such amount as may be due to him or he may be entitled under the Act and the High Court Rules. The accounts of the official assignee are published after the auditor has signed them in the local official gazetteer.

With respect to unclaimed dividends, the official assignee is required to open an account "Unclaimed Dividends Account" to which all unclaimed dividends within the year from the date of declaration are to be transferred. Also any balance remaining to the credit of the insolvent's estate in which no further recovery is anticipated and on which no dividend can be declared has to be transferred to the same account in the Imperial Bank.

Liquidators' Accounts.

In case of liquidation of a company under the winding up order a statement of affairs of the company in the prescribed form has to be made out by the director or secretary of the company and submitted. The statement is in a form similar to the one made out in Insolvency. The only difference being that the same is divided into two sections, one treating with creditors and the other with contributories.

The liquidator himself should keep a cash book in the prescribed form which is herewith appended.

Liquidator's Cash Book.

Receipts

Date.	Particulars.	Total.	Drawn from Bank.	Debts collected	Property Realised.	Receipts from securities held by Creditors.	Calls.	Other Receipts.

Payments

Date.	Particulars.	Voucher Nos (in red)	Total.	Paid into Bank.	Costs of Realization. Board of Trade and Court Fees.	Costs of Realization. Law Costs of Petition.	Costs of Realization. Law Costs after Winding up Order.	Costs of Realization. Remuneration of Manager and Liquidator.	Costs of Realization. Official Receiver's commission on Assets Realised and Amount Distributed in Dividend or paid to Contributories.	Costs of Realization. Charges on Auctioneer's A/c. & Shorthand Writer &c as taxes.	Costs of Realization. Notices in Gazette and Local Papers.	Costs of Realization. Incidental Expenses including Possession.	Costs of Realization. Preferential Creditors & Rent.	Payments to Redeem Securities.	Dividends Paid.	Repayments to Contributories.	Other payments.

EXERCISES ON CHAPTER X.

I. Prepare a Statement of Affairs of Manikchand and Company from the following:—

Cash in hand, Rs. 100; Debtors: Good, Rs. 5,000; Bad, Rs. 500; Doubtful, Rs. 10,000, estimated to realise, Rs. 7,500; Creditors unsecured, Rs. 26,000; Creditors partly secured, Rs. 12,000, estimated value of security, Rs. 8,000; Creditors fully secured, Rs. 19,000 estimated value of Security, Rs. 24,000; Landlord for rent, Rs. 2,700, the yearly rent being Rs. 2,400; Manager for Salary, Rs. 1,500, his annual Salary being, Rs. 3,600; Liabilities on Bills discounted, Rs. 6,500; Rs. 5,000 of which are expected to be met on maturity; Stock-in-trade, Rs. 8,500, estimated to realise Rs. 1,800; there is a liability in respect of a contract which the debtors cannot complete, owing to the failure, amount unknown, but estimated at Rs. 3,000; Bills Receivable on hand, Rs. 750, estimated to produce Rs. 200.

II. From the following particulars, prepare schedules of Affairs and Deficiency Account of A. Dane, who became bankrupt on 30th June 1926. Unsecured creditors, Trade Debts, Rs. 85,000; Household Debts, Rs. 1600; Fully secured creditors (holding security estimated to produce Rs. 1,00,000), Rs. 47,180; Partly secured creditors, Rs. 15,000 (estimated value of securities held by them, Rs. 11,000); Liability on bills discounted (of which Rs. 1,000 is expected to rank), Rs. 10,600; creditors for rent, Rs. 1500, creditors for Rates, Rs. 300, Salary of the Accountant for 4 months at the rate of Rs. 150 per month and the wages of a workman for 3 months amounting to Rs. 120 is outstanding on the date of Bankruptcy order; Book

Debts Good, Rs. 11,000, Doubtful, Rs. 10,000, expected to produce Rs. 6,000; Bad Rs. 1,800; Bills Receivable, Good, Rs. 6,500; cash at Bank and in hand, Rs. 150, Stock Rs. 21,000, estimated to realise, Rs. 17,500; Household furniture (estimated to produce Rs. 5,500,) Rs. 7,000; Office furniture, Rs. 1,680, estimated to produce Rs. 1,000.

He commenced business with a Capital of Rs. 74,830, and made a profit of Rs. 20,000 in the year, Rs. 3,000 in the second, and loss of Rs. 10,000; Rs. 6,000, and Rs. 23,000 in the subsequent three years, whereas his annual drawings amounted to Rs. 8,000.

III. The Assets of a merchant on 30th September, 1924, as shown by his books were Rs. 46,000 and his liabilities Rs. 34,000. He filed his petition in Bankruptcy and estimated his deficiency to be Rs. 24,000. After making the above estimate he found that the following items were not passed through his account books.

Interest at 5% on his Capital from 1st January 1924.

A contingent liability for Rs. 2,400 on bills discounted by him Rs. 10,000.

Amounts due as wages Rs. 250, as salaries Rs. 750, as rent Rs. 340, and as rates and taxes Rs. 260.

Prepare his statement of Affairs and his Deficiency Account.

CHAPTER XI.

Accounts of Insurance Companies.

The Contract of Insurance is a Contract between the **Assured** or the **Insured**, on the one side and the Underwriter or the Insurance Company on the other by which the latter, in consideration of a payment called the premium paid by the former, undertakes to indemnify the insured against any loss arising from a contingency upto the sum agreed upon.

The insurance contracts are effected to provide against a number of contingencies ; but three of the most important types of insurance contracts one comes across in business, are, (1) Life Assurance, (2) Fire Insurance, and (3) Marine Insurance.

The essence of the contract of Insurance is that it is a contract of indemnity *i. e.*, it ought not to be entered into for a mere wager, or speculation, but only with a view to provide against the actual monetary loss which the insured is likely to suffer through the happening of the contingency. If for example a person insures his building against loss by fire for an amount higher than the actual value of the building, he cannot in case of distruction of the building by fire recover more than the actual value of the building. On the same principle a person insuring property which does not belong to him, or in which he has no pecuniary interest either as a creditor, or in some other capacity, the insurance contract cannot be enforced for the want of insurable interest. This rule is clear with regard to Fire and Marine Insurance though in case of Life Assurance it cannot be said to be literally accurate. The other peculiarity of the contract of insurance is that they are said to be contracts uberrimæ fidei, *i. e.*, the duty is thrown by Law upon the insured, to make a full and fair disclosure of every material fact that is likely to affect the judgment of the underwriter or Insurance Company in deciding what premium to charge or whether to enter into the contract at all. Thus any nondisclosure, or any statement made fraudulently, negligently, or even innocently through want of knowledge may vitiate the contract.

Life Assurance.

Life Assurance is defined in Smith's Mercantile Law as "a contract by which the insurer, in consideration of a certain premium, either in a gross sum, or by annual payments, undertakes to pay to the person for whose benefit the insurance is made, a sum of money, or annuity, on the death of the person whose life is insured."

Insurable Interest.

With regard to Life Assurance it must also be noted that a person may insure his own life up to any extent, as he is supposed to have an unlimited interest in his own life, or he may insure the lives of those dependent upon him, or through whose death he is likely to suffer a pecuniary loss. In case where Life Assurance is effected for the benefit of a person other than the one whose life is assured, the person for whose benefit the policy is taken out should be mentioned in such a policy and that the amount of assurance should not exceed the pecuniary interests of such a person in the life of the assured at the time of effecting the policy. In the case of Life Assurance the insurable interest should only exist at the time of effecting the policy. Therefore if during the continuance of that life which is assured the interest of the party for whose benefit the policy was effected lapses, he can still recover on the policy. In case of Fire Insurance the insurable interest must exist both at the time the policy is effected and at the time the property is destroyed or damaged by fire. In case of Marine Insurance on the other hand there need not exist any insurable interest at the time when the policy was effected but if the holder of the policy at the time of loss happens to have acquired an Insurable interest he can recover on the policy.

Policies affected for the benefit of persons who have no insurable interest are known as "**Wager Policies**" or "Gambling Policies," and are therefore void even where the underwriter has used words as "Without further proof of interest than the policy" or "Policy proof of interest" or "Interest or no Interest." It may be added that in case of wager policies in Marine Insurance the act of 1909 known as Marine Insurance (Gambling Policies). Act makes effecting of, or under-writing of such policies a criminal offence.

It has been further held that a wife has an insurable interest in her husband's life, and vice versa; but a parent has no insurable interest in the life of his child qua child; nor a child has an insurable interest in the life of his parent, qua parent. A creditor has an insurable interest in the life of a debtor to the extent of his claim and on the same principle a surety can claim to have an insurable interest in the life of his principal debtor &c. It is the practice of Life Assurance Companies to get a declaration signed by persons who wish to insure their lives. A form known as the **Proposal Form** is given to the applicant containing a number of questions which he has to answer accurately. The Life policies also contain a clause expressly stipulating that any misstatement in the declaration, whether intentional or innocent would vitiate the policy. In case of such declarations it has now been held that if an innocent statement is made at the time of assurance say with regard to a person's health after consultation with a particular medical adviser and if the applicant thereafter, during the continuance of the policy consults another medical adviser and gets to know facts to the contrary, on which he immediately reports the fact to the company, that act would not vitiate the policy. If on the other hand he conceals the information which is subsequently obtained it may have the effect of avoiding the insurance.

Assignablity.

The policy of Life Assurance is assignable as a claim under chose in action and it can be assigned in any form as long as it is clear. It is however necessary to give a written notice to the Assurance Company of such an assignment, to make the Assignee's title effective against the company, otherwise if the company makes any payment to the assignor after the assignment, without knowledge of the asignee, the company would be protected. The assignment of the policy carries with it all bonuses and profits.

Proof of Death.

In case of policies payable at death, the death of the insured has to be proved. The death is proved where it is shown that a person who had gone abroad or disappeared is not heard of for seven years. In case where a person was on board a steamer which is proved to have met with a storm and was heared of no more, that fact may be construed to have brought about the death of the person on board.

Premiums.

The premiums, as we have noticed above, are payments made by the assured in consideration of the risk covered by the policy. These payments may be payable either quarterly or half-yearly according to arrangement. They are payable within the days of grace, generally allowed by every Life Assurance Policy or the assured may be required to undergo a second medical examination. On the payment of the first of these premiums the risk on the policy begins and it is covered generally by what is known as the "Covering note" which is a sort of a provisional agreement to run during the period which has necessarily to elapse before a regular policy can be drawn out. The rates of premium payable on lives under various denominations are generally laid down in the Company's Prospectus. In case of what are known as "hazardous occupations" such as the Army and the Navy, Mining &c., extra premium is payable. Extra premium may also be charged on the ground of what is known as "Climate risk" *i.e.*, where a person who lives in a climate which is considered more healthy, changes his residence for what is considered a less healthy climate, extra premium has to be paid.

Reinsurance.

If a policy is taken out by one individual on one risk for a large amount, it is usual for the company to re-insure a portion of that risk with some other insurance company in league with it on a similar arrangement. Thus Insurance Companies generally divide their risks.

Policies.

Policies of Assurance as we have seen above are agreements entered into between the underwriter and the assured. The policy may be a whole life policy under which the policy matures at the end of that life when it is paid for. It may be what is known as an "**Endowment Policy**" under which the agreement is that in consideration of a certain premium paid for a fixed term at fixed intervals, the Company undertakes to pay the amount covered by the policy at the end of a specified period in case the person survives that period. If on the other hand the person before the expiration of the period dies, the policy becomes immediately payable.

With regard to policies it may be further added that the premiums on the policies may be spread over the whole life of the assured, in case of the whole life policies, or it may be payable for a fixed term after which the premiums stop but the policy runs on till death when it is payable. This is known as "**Limited payments policy.**"

There are also "**Ascending Scale policies**" under which premiums of smaller amounts are payable in the beginning and they get larger at the expiration of fixed terms. In cases where the policies are effected by a creditor for a short term of years in order to cover some advance made they are known as "**Short Term Policies.**" Thus a creditor who effects a short term policy on the life of the debtor has not only to pay a premium for a short time but the premium itself is proportionately lower than that usually charged on a whole life policy and he can dispense with the policy at the end of the term stipulated.

We have seen in the Chapter on Partnership that Partners take out "**Joint Life Policies**" in order to cover against the inconvenience caused by the sudden withdrawal of capital by the death of one of the partners.

We have also dealt with the "**Sinking Fund Policies**" in the Chapter on Company Accounts where policies are effected by payment of premiums in order to secure a fund at the end of a certain term for the repayment of debentures &c.

Surrender Value.

This is the value which an Insurance Company assesses and which it is prepared to pay in case the Assured is willing to surrender his policy and extinguish his claim upon same. Assurance Companies generally pay surrender values only on those Policies on which at least three full premiums have been paid. It may however be added that generally speaking the market surrender values of life policies are generally higher by 15 to 20 per cent than those offered by the Company. The surrender values are based upon the actual premiums paid from the reserve set aside with respect to each policy under Acturial calculations. As the duration of the policy increases the Assurance Company allows a larger surrender value than in cases where a policy is surrendered within a shorter time. Formerly it was the tendency among Life Assurance Companies to pay very meagre sums by way of surrender values on the ground that the majority of people who surrendered their polices were of a healthy class and those people who had broken down in health during the currency of a Policy seldom came into surrender same. Now-a-days however owing to competition the tendency is to allow larger values on surrender policies.

Loans on policies.

Assurance Companies offer facilities by way of advances on policies. This is generally done after a certain number of premiums have been paid and within the limit of the surrender value. The loan may be repaid either as agreed upon or at the convenience of the borrower and in case it is not repaid it is kept on and interest is charged against the security of the policy to be deducted when the policy is finally surrendered or falls due.

Indian Life Assurance Companies.

Life Assurance Companies in India are governed by Life Assurance Companies Act of 1912 which extends to the whole of British India inclusive of British Baluchistan, the Santhal Parganas and the Pargana of Spiti. The Policy of Assurance on human life is defined by the Act as any instrument by which the payment of money is assured on death (except death by accident only), or the happening of any contingency dependent on human life, or any instrument evidencing a contract which is subject to payment of premiums for a term dependent on human life. The Act also applies to Companies incorporated under the Indian Companies Act of 1882 and carrying on life assurance business in any part of the world. The only exception is made in case of Societies formed under the Provident Insurance Societies Act, 1912.

It is compulsory for every Life Assurance Company established in India to deposit with the Comptroller General, Government Securities of the face value of Rs. 25,000 before it commences business. In case of Life Assurance Companies formed before the Act they have to deposit a like sum within a year of the commencement of the Act or to deposit Government Securities of a face value equal to one-third of the income derived from life assurance business as per the last Revenue account of such a Company, whichever be the larger. These companies have further to keep on depositing annually, one-third of their income arising from the Life Assurance business as per Revenue account until the face value of such deposits exceeds Rs. 100,000. Thereafter their annual deposits are to amount to one-third of the increase to the Life Assurance Fund, as per their Revenue account of every financial year, till the total deposit with the Comptroller amounts to the face value of Rs. 200,000. These deposits are to be taken in account as a part of the assets of the company.

In case the Company carries on life Assurance business and combines same with some other business, Section 5 of the Act lays down that separate accounts shall be kept of all receipts in respect of the Life Assurance Business which shall form a separate Fund to be called Life Assurance Fund and a separate balance Sheet should be made out for such a business.

It is further provided that the Life Assurance Fund shall absolutely belong to the policy holders and shall not be applied for any other purpose than that of Life Assurance Business.

Requirements of the Act.

Every Life Assurance Company is required to prepare (1) a Revenue account in the form set forth (see form pages (2) a Profit and Loss account in the form set forth (see pages (3) a Balance Sheet or Sheets in the form set forth (see pages and (4) a Statement containing the name of every person who during the year was a member of the board of directors or other governing body or was a manager or a secretary or held any similar office.

Acturial Report and Abstract.

The Act further lays down that at least every five years an investigation by a duly qualified actuary should be made into the financial condition of the Company which should include a valuation of its liabilities. It also requires that an abstract in the prescribed form should be prepared by the Actuary, and printed copies of these statements and abstracts of Revenue account, Profit and Loss account, and the Balance Sheet should be sent to the shareholders and policy holders who apply for same. These abstracts of Revenue Account, Profit and Loss Account and Balance Sheets are to be signed by the chairman, at least two directors and the principal officers of the company, and have to be deposited with the Governor-General in Council within six months. These have also to be audited annually by duly qualified auditors.

Companies Constituted Outside British India.

If a Company constituted outside British India opens an office in British India with a view to do Life Assurance Business, the Indian Agent of such a company has to file within three months with the Registrar, a certified copy of the charter, statute, or memorandum and articles of the company, (2) list of directors, (3) names and addresses of some one or more persons resident in British India authorised to accept service or other notices on behalf of the Company.

With regard to a Company formed in the United Kingdom in accordance with the English Assurance Companies Act of 1909 and desiring to do business in India such a Company has to get itself declared a company "Carrying on business in the United Kingdom" by the Governor-General in Council, and after such declaration, the provisions with regard to depositing separate accounts of Life Assurance Companies' Balance Sheets, Acturial Report, and Abstract, do not apply. These companies are however required to deposit with the Governor-General in Council copies of their Balance Sheet and Abstracts as per the English Assurance Companies Act.

The Law provides heavy penalties for avoiding the requirements as to these statements. It also provides for heavy punishments for the falsification of statements.

Inspectors.

A new departure in the Act is the appointment of Inspectors by the Government, who are to enquire into the affairs of any Life Assurance Company and report thereon as directed, on application of either the Shareholders or the Policy holders. In the former case there should be applying at least one-fifth of the whole number of the shareholders and in the latter at least twenty or more Policy holders holding policies amounting the actual value of Rs. 20,000. The Inspectors may also be ordered by the Government to inspect the accounts of the companies in case the company has failed to furnish a further statement when asked to do so, or when the further statement is insufficient or unsatisfactory.

Books of Account of a Life Assurance Company.

A Life Assurance Company has to keep a large number of subsidiary books peculiar to itself, and the subsidiary books differ a great deal as per the requirements of every particular business. We shall take up some of the most important of these books and deal with them separately.

Proposals Register.

The life assurance business begins with a proposal which is made out on a special form provided by the Company known as the "Proposal form." The proposal form is more or less an offer on part of the person wishing to assure his own life which has to be accepted by the Company to constitute an agreement. Particulars given in the Proposal Register are :—

(1) the number of the proposal,
(2) name of the proposer,
(3) the agency through which the proposal is received,
(4) the nature of the risk or insurance.

Policy Register:—This is a book containing detailed information as to each policy, which is entered in the order in which the policies are effected, with all particulars necessary for the purpose.

The Premium Registers.

The Premium Registers are generally divided into two classes, viz., the New Premium Register, and the Renewal Premium Register.

This is done with a view to ascertain what is the amount of new business effected as distinguished from the old business, the policies for which are periodically renewed. These registers record the various amounts of premiums received from time to time, both for the new business as well as for renewal premiums, and the premium entries are posted directly from the premium columns of a general cash book to the premium accounts. Generally two premium accounts are maintained, viz., (1) New Premium Account, and (2) Renewal Premium Account.

The object of recording separately the new and renewal premiums is for facility of Actuarial calculation and because the Agents' commissions on each are calculated on different basis.

Agents' Ledgers.

These Ledgers deal with the accounts of different agents and distinguish between new business and the renewals introduced through them. The Ledgers are ruled on columner system showing the date, policy number, name of insurer and distinguishing between premiums received on new business and renewals. There is also a column showing the commission due to the agent. The agents are debited for all premiums collected by them for new and old business and credited for their commission. They are also credited for the commissions due to them on business secured by them. With regard to this commission it may be mentioned that various rates are paid to different agents according to circumstances by special agreement. The rate of commission generally paid on new business is much higher than on renewals. The commission on the premiums may be either paid as a percentage on the premium in which case the percentage varies, as we have seen before, in case of the old and new business, or a percentage may be paid on the sum assured and nothing, or very little, by way of commission in such cases has to be paid on renewals. There is also commission paid known as Underwriting Commission to Branch Managers and agents in the districts who introduce sub-agents and this commission is paid to them on the business secured by these sub-agents.

General Cash Book.

Receipt side.

Date.	Particulars of Receipt.	Counterfoil receipt No.	Bank.	Ledger folio.	Premium.		Investment receipts.			Considera-tion for amounts granted.	Agency receipts.	Miscellaneous receipts.
					New.	Renewal	Interest on dividends.	Invest-ments realised.	Loan on Policies repaid.			

Payment side.

Date.	Particulars.	Voucher No.	Bank.	Investments purchased.	Loans on Policies.	Claims paid.	Surrenders.	Annuities paid.	Working Expenses.	Miscella-neous pay-ments.	Remark.

Companies often keep separate ledgers for commission known as **Commission Ledgers** showing details as to the dates, name of agent, name of the town, number of policy, name of the assured, and premium and a separate column showing the total commission paid to each of the agents separately on each of the policies.

General Cash Book.

The General Cash Book of an Assurance Company is ruled in columns with the headings on the receipts and payments side peculiar to the business of a Life Assurance Company. The principal receipts of a Life Assurance Company would be by way of premiums and interest on their investments. The expenditure would be by way of the payment of claims and the general expenses of work and distribution.

It may be added here that columns would vary considerably according to the requirements of business in each particular office. The above form is given to give the student a general idea as to the usual columns to be found in general practice.

Register of claims.

As soon as a claim falls due a notice is generally received by the company as per the requirements to be found in all policies of Assurance. The notice is forwarded within a certain number of days which the company usually requires before deciding whether the claim has actually fallen due and whether a company is prepared to admit same. From the claims the Claims Register is written up and the various particulars supplied are entered in columns and finally when the claim is paid the date of payment is entered there. If the claim is not paid a remark such as "claim unadmitted," or "claim withdrawn" is to be found in the Register in the "Remarks" Column. In large companies a separate book is kept known as the **Claims Cash Book** giving full details as to these claims as they are paid and the total of the claims cash book is finally transferred to the general Cash Book.

General Ledger.

The General Ledger contains all revenue and balance sheet items under separate heads of accounts. The accounts of various branches and agencies would also be noted in the General Ledger and posted there through the journal except the items in the subsidiary books after they are properly summarised. From the general ledger the Revenue Accounts and the Balance sheet would be made out for the purpose of preparing the periodical accounts to be published as per the requirements of law.

The Actuarial Calculation.

The nature of the Life Assurance business is such that the premiums received on the policies, as well as considerations for annuities, are not gross revenue of the company but are items of receipts which have to be collected and accumulated because all policies would in the usual course mature, either at death or on the expiry of the period for which it is taken out and the company would have to pay the claims on these policies. It would thus be seen that minute calculations would have to be gone into to ascertain, from year to year, how much should be set aside on each policy towards the fund, considering the income received from investments as well as premiums and also taking into calculation the various claims that have fallen due and have been paid out. These calculations are made by specially qualified men known as Actuaries who have to ascertain as to whether any profit is made after all these items are provided for and the accountant has to deal with his certificates and report.

Our Life Assurance Companies Act, as we have seen before, provides for the valuation of the liabilities and the assets of the company by an Actuary at least once in every five years, and even at shorter intervals, if the company's regulations so provide and an abstract of the Actuary's report has also to be published with the accounts. Therefore only in cases where the actuary certifies a surplus after his calculations of assets and liabilities of the company that anything by way of dividend or bonus becomes payable to the share-holders or policy-holders.

Balance Sheet.

The Balance Sheet of a Life Assurance Company would show on its liabilities side the Life Assurance Fund. It would then show claims admitted but not paid, reserve fund, if any, advances received on account of premium, sundry creditors and other liabilities, also the capital of the shareholders and other funds. On the assets side would be shown all investments either by way of loans on the Company's policies or on securities. The balances due from agents, the premium due but not paid, outstanding interest on investments etc., and other assets including cash in hand and in bank.

The following are the forms of (1) Revenue account, (2) Profit and Loss account, and (3) Balance sheet required by the Life Assurance Companies Act of 1912.

The First Schedule.

Revenue Accounts of the ____________________ for the year ending ____________________

(A) Life Assurance Account.

	Rs.		Rs.
Amount of Life Assurance fund at the beginning of the year.		Dividends payable on 19 for the year ending 19 . (This is only to be stated here by companies not supplying a Profit and Loss Account).	
Premiums		Claims under policies paid and outstanding :—	
		By death	
Consideration for annuities granted* (see note 1).		By maturity	
		Surrenders, including surrenders of bonus additions.	
		Annuities	
		Bonuses in cash	
Interests, dividends and rents. Rs.		Bonuses in reduction of premiums	
		Expenses of management :—	
		Commission.	
Less income-tax thereon.		Agents' and Canvassers' allowances	
		Salaries, etc. (other than to Agents and Canvassers).	
Other receipts (accounts to be specified).		Travelling expenses.	
		Directors' fees.	
		Auditors' fees.	
		Medical fees.	
		Rents for offices belonging to and occupied by the company.	
		Rents of other offices occupied by the company.	
		Law charges.	
		Advertising.	
		Printing and Stationery.	
		Other expenses of management (accounts to be specified).	
		Other payments (accounts to be specified).	
		Amount of Life Assurance Fund at the end of the year, as per Third Schedule.	
Rs.		Rs.	

Note 1.—Companies having a separate annuity fund with investments separate from those of the life assurance fund to return the particulars of their annuity business in a separate statement, in Form B of the Schedule.

Note 2.—Items in this account to be net amounts after deduction of the amounts paid and received in respect of reassurances of the company's risks.

Note 3.—If any sum has been deducted from the expenses of management account, and taken credit for in the balance-sheet as an asset, the sum so deducted to be separately shown in the above account.

Observations on Revenue Account of Life Assurance.

(FIRST SCHEDULE).

It will be observed that this account is made out in the form which is quite the reverse to that ordinarily found in case of trading companies though in the Ledger of the company concerned this account will appear in the usual form viz., receipts and income on the credit side and payments and expenditure on the debit. In other words though published in form of a cash account it includes only income and expenditure and not the capital items.

To take the debit or left hand side first the explanation of various headings is as follows:—

Amount of Life Assurance Fund. *(beginning of the year).*

This is the first item on the receipts side and is brought from the Revenue Account of the previous year being the last item of that account on the payments side. This item shows the Fund which is available for meeting liability under the policies.

Premiums.

This includes all premiums received and due during the year on the policies but must not include premiums received during the current year but which fell due in the previous year, because they have been already dealt with in that year. On the same principles premiums received in advance for the next year should not be included here but should appear on the balance sheet as a liability. Here it must be noted that when premiums are due this account is credited and the policy holder debited therefore where the policy holder fails to pay this premium due and allows his policy to lapse during the same year all such unpaid premium must be deducted from the total premiums shown under this heading. On the same principle if the premium was due during previous year and naturally included in the figure of premiums of that year and if during the current year the policies lapsed for non-payment the premium unpaid should also be deducted from the premium figure of this year. It will be further noticed from note No. 2 above (given under the form) that the premiums figure should be clear of premiums paid to other companies for re-insurance. When premiums are received through agents who generally deduct their commission an adjustment adding the commission figure to the amount so received and restoring the premiums figure to the original gross figure should be made.

Consideration for Annuities.

Note 1 in this case lays down that in case companies have a separate annuity fund with separate investments they should prepare a separate statement as per Form B given below. Annuities are generally purchased for a lump sum consideration which will appear under this heading otherwise where the consideration is payable in instalments the same are usually treated as premiums.

Interest and Dividends and Rents.

Here Interest dividends and rents both received and accrued due on companies investments must be included taking care not to include interest received during the current year for which credit was already taken during past year. These will also include interest on loans granted to policy holders. Here the schedule provides for income tax being deducted from all these so that only net income may appear. In case of rents it should be noted that a proper deduction for rates, taxes, repairs, etc. should have been made.

Other Receipts. *(account to be specified.)*

These include items such as additional capital paid up, during the year, sundry profits such as fines for the revival of lapsed policies, fees received for transfer of shares, registration of assignments and other documents, etc.

Having thus exhausted dealing with the debit or the left hand side of the Revenue Account we shall now take up the items on the credit or the right hand side.

Dividends payable for the Year ending etc.

The first item of expenditure shown in the prescribed form of Revenue Account, refers to dividends payable to shareholders of the Company and will not appear in the Revenue Account of a Company which has no share capital.

Claims under Policies paid and outstanding.

This represents an important item of expenditure of an Insurance Company. Claims by death and by maturity are required to be shown separately, and the amount to include those claims which are paid, outstanding, admitted or intimated. Claims admitted or intimated during the year form an expenditure of that year, and the unpaid portion of same should be shown as a liability. The claims should also include the amount of the Bonuses payable on policies becoming claims in the course of the year. In short, this heading must be held to include every kind of payment under a policy in accordance with its provisions, except surrenders, loans, bonuses in cash, reduction of premium etc.

Surrenders, including surrenders of bonus additions.

The amount shown under this head should include, not only the amount paid in cash for the surrender of policies but also all amounts owing to the company in respect of policies which have lapsed within the period under review, such as, loans on the security of policies, unpaid interest on same etc., as well as bonus additions where the same were payable along with the policy amount when it became a claim.

Annuities.

The amount shown under this head should include all the annuities that fall due within the period under view the un-paid portion being shown as a liability.

Bonuses in cash.

A bonus or share of profit declared in respect of a policy becomes a claim. When such bonuses are declared payable in cash the present worth of such bonuses are calculated and paid.

Bonuses in reduction of premiums.

Under this head should be shown such of the declared bonuses as are applied towards the reduction of premiums.

Expenses of Management.

Under this head every expense incidental to the business is included...The various items detailed under this head in the specimen Revenue Account are self-explanatory. Commission and allowances to agents and canvassers and salaries to staff form the bulk of the expenditure of an Insurance Company.

Other Payments.

Amounts expended under each separate heading should be specified, e. g., Interest, Income Tax, Policy Stamps, Losses on realization, Revaluation, or failure of securities, etc.

The First Schedule.

(B) Revenue Account applicable to annuity bussiness of those companies having a separate annuity fund, the investments of which are kept separate from those of the life assurance fund.

	Rs.	Rs.		Rs.
Amount of annuity fund at the beginning of the year.			Annuities.	
Consideration for annuities granted.			Surrenders.	
			Expenses of management :—	
Interests, dividends and rents.			Commission.	
Less income-tax thereon.			Other payments (accounts to be specified).	
Other receipts.			Amount of annuity fund at the end of the year as per Balance-sheet.	
Rs.			Rs.	

Note.—Items in this account to be net amounts after deduction of the amounts paid and received in respect of reassurances of the company's risks.

The First Schedule.

(C) General Revenue Account applicable to all classes of business other than the life assurance and annuity transactions.

	Rs.	Rs.		Rs.
Amount of funds at the beginning of the year . . .			Claims less reassurances (accounts to be specified) . .	
Premiums (accounts to be specified.)			Expenses of management :—	
			Commission	
Interests, dividends and rents . . .			Other expenses (to be specified)	
Less income-tax thereon			Losses (accounts to be specified)	
Profits (acccounts to be specified)			Other payments (accounts to be specified).	
Other receipts (to be specified).			Amount of funds at the end of the year as per Balance Sheet	
Rs.			Rs.	

Note 1.—All the items in the above account to be exclusive of life assurance and annuity transactions.

Note 2.—Items in this account to be net amounts after deduction of the paid and received in respect of reassurances of the company's risks.

The Second Schedule.

(D) Statement to be submitted along with the Revenue Account by all life assurance companies.

Class of Policy.	Total New Life Assurances completed in India during the year 19 .			Portion thereof reassured.		
	Sum Assured	Annual Premium.	Single Premium.	Sum Assured	Anuual Premium.	Single Premium.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Whole life . .						
Whole life by limited payments .						
Endowment assurances . . .						
Pure endowments .						
Term assurances .						
Other classes . .						
Total .						

State also:—

New annuities (state number and annual amount).

Total sums assured and bonuses (less reassurances) remaining in force at end of year 19 on lives of residents in India.

Number and amount of annuities (less reassurances) remaining in force at end of year 19 on lives of residents in India.

Largest sum for which the company has granted an assurance on any one life during the year, after deduction of any portion reassured.

Statement of the total investments in India of the life assurance and annuities funds.

The Second Schedule.

(See Section 7.)

Profit and Loss Account of the————for the year ending————19

		Rs.		Rs.
Balance of last year's account			Dividends and bonuses to share-holders payable on 19 , for the year ending 19 .	
Interest and dividends not carried to other accounts.	Rs.		Expenses not charged to other accounts.	
Less income-tax thereon.			Loss realised (accounts to be specified).	
Profit realized (accounts to be specified).			Other payments (accounts to be specified).	
Other receipts (accounts to be specified).			Balance as per Third Schedule.	
Rs.			Rs.	

The Third Schedule.

(See Section 7.)

(A) Balance-sheet————of the————on the————19

Liabilities	Rs.	Assets.	Rs.
Life assurance fund—		Assets of life assurance fund as per separate balance sheet (if any).	
Outstanding liabilities of life assurance fund.		Assets of annuity fund as per separate balance-sheet (if any).	
		Assets of funds other than those shown in the above-mentioned balance sheets.	
Annuity fund (if any) as per separate balance-sheet.		Mortgages on property within India.	
Outstanding liabilities of annuity fund.		Mortgages on property out of India.	
		Loans on public rates.	
		Loans on life interests and reversions.	
Share-holders' capital paid up (if any).		Loans on stocks and shares.	
		Loans on company's policies within their surrender values.	
		Loans on personal security.	

The Third Schedule—*contd.*

(A) Balance-sheet—*(contd.)*

Liabilities.	Rs.	Assets.	Rs.
Profit and Loss Account (if any.)		Investments—	
		Deposit with the Comptroller General (securities to be specified.)	
Funds contained in General Revenue Account (if any) [Schedule I (c).]		Indian Government Securities	
		British and Colonial Government Securities.	
	———	Foreign Government Securities	
		Indian Municipal and Provincial Securities.	
Other sums owing by the Company.		British and Colonial Securities.	
(Accounts to be specified and stated separately under each class of business.)		Foreign & Colonial securities	
		Bonds, debentures, stocks and other securities whereon interest is guaranteed by the Indian Government.	
		Bonds, debentures, stocks and other securities whereon interest is guaranteed by the British or anyColonialGovernment.	
		Bonds, debentures, stocks and other securities whereon interest is guaranteed by any Foreign Government.	
		Ordinary stocks and shares of any Indian Presidency Bank.	
		Debentures of any Railway in India.	
		Debentures of any Railway out of India. . . .	
		Perference or guaranteed shares of any Railway in India	
		Preference or guaranteed shares of any Railway out of India	
		Ordinary stocks and shares of any Railway in India .	
		Ordinary stocks and shares of any Railway out of India .	
		House property in India .	
		House property out of India .	
		Freehold and leasehold ground rents and rent-charges in India . . .	
		Life interests and reversions in India.	

The Third Schedule—*contd.*

(A) Balance-sheet—*contd.*

Liabilities.	Rs.	**Assets.**	Rs.
		Life interests and reversions in India.	
		Other investments in India (to be specified).	
		Other investments out of India (to be specified).	
		Agents' balances.	
		Outstanding premiums*	
		Do. interests, dividends and rents*	
		Interest accrued but not payable*	
		Bills receivable	
		Cash—	
		On deposit	
		In hand and on current account	
		Other assets (to be specified)	
Rs.		Rs.	

*These items are or have been included in the corresponding items in the First Schedule.

Note 1.—When part of the assets of the company are specifically deposited under local laws, in various places out of India, as security to holders of life assurance policies there issued, each such place and the amount compulsorily lodged there, must be specified.

Note 2.—The balance-sheet, must state how the values of the Stock Exchange securities are arrived at, and on the occasions when a statement respecting valuation under the Fourth Schedule is made, a certificate must be appended, signed by the same persons as signed the balance-sheet, to the effect that in their belief the assets set forth in the balance-sheet are in the aggregate fully of the value stated therein, less any investment reserve fund taken into account.

Note 3.—Companies having investments with any uncalled liability shall state separately the full amount thereof.

Note 4.—Particulars must be given of all loans, including temporary advances, except loans on policies within their surrender values, made at any time during the year to any director or officer of a company, or to any other company in which any of the said directors or officers may hold the position either of director or of officer.

The Third Schedule—*contd.*

(B) Balance-sheet of the Life Assurance Fund—————— on the ——————19 , to be completed by companies doing business other than Life Assurance for which they have separate funds.

Liabilities.	Rs.	Assets.	Rs.
Life assurance fund . . .		Mortgages on property within India.	
Claims admitted or intimated* but not paid		Do. do. out of India.	
Other sums owing by the company* (under this class of business)		Loans on public rates . .	
		Do. life interests and reversions . . .	
		Do. stocks and shares .	
		Do. Company's policies within their surrender values . . .	
		Do. personal security .	
		Investments :—	
		Deposit with the Comptroller General (securities to be specified)	
		Indian Government securities.	
		British and Colonial Government securities . . .	
		Foreign Government securities	
		Indian Municipal and Provincial securities.	
		British and Colonial do.	
		Foreign do. do.	
		Bonds, debentures, stocks and other securities whereon interest is guaranteed by the Indian Government.	
		Bonds, debentures, stocks and other securities whereon interest is guaranteed by the British or any Colonial Government . . .	
		Bonds, debentures, stocks and other securities whereon interest is guaranteed by any Foreign Government .	
		Ordinary stocks and shares of any Indian Presidency Bank	
		Debentures of any Railway in India	

* These items are or have been included in the corresponding items in the First Schedule.

The Third Schedule—*contd.*

(B) Balance-sheet of the Life Assurance Fund—*(contd.)*

Liabilities.	Rs.	Assets.	Rs.
		Debentures of any Railway out of India	
		Preference or guaranteed shares of any Railway in India	
		Preference or guaranteed shares of any Railway out of India.	
		Ordinary stocks and shares of any Railway in India . .	
		Do. do. out of India.	
		House property in India . .	
		Do. out of do. .	
		Freehold and leasehold ground rents and rent-charges in India	
		Life interests and reversions in India.	
		Do. do. out of do.	
		Other investments in India (to be specified).	
		Do. do. out of do. (to be specified).	
		Agents' balances . . .	
		Outstanding premiums* . .	
		Do. interests, dividends and rents*	
		Interest accrued but not payable*	
		Bills receivable. . . .	
		Cash	
		On deposit	
		In hand and on current a/c.	
		Other assets (to be specified) .	
Rs.		Rs.	

* These items are or have been included in the corresponding items in the First Schedule.

Note 1.—When part of the assets of the company are specifically deposited under local laws in various places out of India, as security to holders of life assurance policies there issued, each such place and the amount compulsorily lodged therein must be specified.

Note 2.—A balance-sheet in the above form must be rendered in respect of the annuity fund if the investments of that fund are distinct from those of the life Assurance fund.

Note 3.—The balance-sheet must state how the values of the stock exchange securities are arrived at, and on the occasions when a statement respecting valuation under the Fourth Schedule is made, a certificate must be appended, signed by the same persons as signed the balance-sheet, to the effect that in their belief the assets set forth in the balance-sheet are in the aggregate fully of the value stated therein, less any investment reserve fund taken into account.

Note 4.—A certificate must be appended hereto, signed by the same persons as signed the balance-sheet (Form A), and by the auditor, to the effect that no part of any such fund has been applied, directly or indirectly, for any purpose other than the class of business to which it is applicable.

Note 5.—Companies having investments with any uncalled liability shall state separately the full amount thereof.

Note 6.—Particulars must be given of all loans, including temporary advances, except loans on policies within their surrender values, made at any time during the year to any director or officer of a company, or to any other company in which any of the said directors or officers may hold the position either of director or of officer.

Valuation Balance Sheet.

Life Assurance Companies in order to arrive at their periodical profit or loss made in course of their business, have to take the help of actuaries, who value or assess the actual risk or liability of the company, on its "Current" policies, as at a particular date. This risk or liability of the company is compared with the Life Fund built up to-date, the difference representing excess of Life Fund or vice versa, is the profit or loss made by such a company, and out of such an ascertained excess, the company appropriates amounts towards dividends to shareholders, or bonuses to policy-holders. These valuations are held periodically, say every five or seven years, known as quenquennial or septennial valuations.

Valuation Balance Sheet of ____________ as at ____________ 19 .

Dr.	£	*Cr.*	£
To net liability under Life Assurance and Annuity Transactions [as per summary statement provided in Fourth Schedule (A)].		By Life Assurance and Annuity Funds (as per B/S under schedule 3).	
To Surplus, if any ...		By Deficiency, if any ...	
Total ...		Total ...	

Illustration—From the following particulars, prepare the Revenue Account for the year ended 30th June 1927 and Balance Sheet as at that date of .

The Peoples Life Assurance Co., Ltd.

Trial Balance as on 30th June 1927.

	Rs.	a.	p.	Rs.	a.	p.
Share Capital				1,50,000	0	0
Life Assurance Fund (in the beginning) .				2,26,000	0	0
Contingency Reserve Fund				25,000	0	0
Investment Reserve Fund				40,000	0	0
Building Fund				15,000	0	0
Premiums				3,75,000	0	0
Reassurance Premiums	30,000	0	0			
Consideration for annuities granted ...				12,000	0	0
Interest on investments				16,000	0	0
Income tax on above	1,500	0	0			
Transfer and other fees				250	0	0
Dividends paid	12,000	0	0			
Claims by death	90,000	0	0			
,, ,, maturity	1,00,000	0	0			
Surrenders	7,500	0	0			
Annuities paid	15,000	0	0			
Bonuses in cash to policy holders ...	2,000	0	0			
,, in reduction of Premium ..	500	0	0			

Trial Balance as on 30th June 1927—contd.

	Rs.	a.	p.	Rs.	a.	p.
Pension to Company's employees ...	2,000	0	0			
Commission	13,000	0	0			
Agents' and Canvassors' allowances ...	500	0	0			
Salaries	9,500	0	0			
Income tax and Super tax ...	3,000	0	0			
Travelling Expenses	1,000	0	0			
Directors' fees	500	0	0			
Auditors' fees	300	0	0			
Medical fees	6,000	0	0			
Rent for offices	2,000	0	0			
Law Charges	200	0	0			
Advertising	1,000	0	0			
Printing and Stationery ...	4,000	0	0			
Postage and Telegrams	3,000	0	0			
Policy Stamps	400	0	0			
Bank charges	100	0	0			
General charges	600	0	0			
Premiums outstanding	15,000	0	0			
Claims intimated, but not paid... ...				7,000	0	0
Unpaid Dividends				750	0	0
Sundry Creditors				12,000	0	0
Cheques issued, but not presented for payments				5,000	0	0
Cheques sent for collection, and in course of realisation	2,000	0	0			
Property	75,000	0	0			
Agents' Balances	2,000	0	0			
Furniture, etc.	5,000	0	0			
Interest outstanding	3,000	0	0			
,, accrued	500	0	0			
Sundry Debtors	1,000	0	0			
Cash on current account with Imperial Bank of Persia	28,000	0	0			
Cash in hand	500	0	0			
Stamps in hand	100	0	0			
Investments	4,46,300	0	0			
	8,09,000	0	0	8,09,000	0	0
3½% Government paper, nominal value...	2,00,000	0	0	1,40,000	0	0
3% ,, ,, ...	2,30,000	0	0	1,39,300	0	0
4% Bombay Improvement Trust debentures	1,00,000	0	0	90,000	0	0
4% Bombay Port Trust debentures ...	1,00,000	0	0	77,000	0	0
Total ..				4,46,300	0	0

Note.—Allow depreciation on property @ 2% and on furniture @ 10%. Increase the Investment Reserve by Rs. 5,000. Security deposits in Bank and Government paper from Agents and Canvassors, Rs. 15,000

The People's Life Assurance Company, Limited.

Revenue Account for the year ending 30th June 1927.

	Rs.	a.	p.	Rs.	a.	p.
To Life Assurance Fund in the beginning	2,26,000	0	0			
„ Contingency Reserve Fund.	25,000	0	0			
„ Investment Reserve Fund...	40,000	0	0			
„ Building Fund	15,000	0	0	3,06,000	0	0
„ Premiums	3,75,000	0	0			
Less Reassurance Premium.	30,000	0	0	3,45,000	0	0
„ Consideration for Annuities granted				12.000	0	0
„ Interest (Trust Fund) ...	6,000	0	0			
„ „ (other Investments).	10,000	0	0		0	0
	16,000	0	0			
Less Tax paid thereon ..	1,500	0	0		0	0
				14,500		
„ Transfer and other fees ...				250		
Carried over ..				6,77,750	0	0

	Rs.	a.	p.	Rs.	a.	p.
By Dividends				12,000	0	0
„ Claims by Death	90,000	0	0			
„ „ „ Maturity... ...	1,00,000	0	0	1,90,000	0	0
„ Surrenders						
„ Annuities paid				7,500	0	0
„ Bonus in Cash to Policy Holders				15,000	0	0
„ Bonus in reduction of Premiums				2,000	0	0
„ Income Tax				500	0	0
„ Pension to Company's employees				3,000	0	0
				2,000	0	0
„ Expenses of management:—						
Commission	13,000	0	0			
Agents' and Canvassors' Allowances	500	0	0			
Salaries	9,500	0	0			
Travelling Expenses ...	1,000	0	0			
Directors' fees	500	0	0			
Auditors' fees	300	0	0			
Medical fees	6,000	0	0			
Rent for offices	2,000	0	0			
Law charges	200	0	0			
Advertising	1,000	0	0			
Carried over ...	34,000	0	0	2,32,000	0	0

Revenue Account for the year ending 30th June 1927—contd.

	Rs.	a.	p.	Rs.	a.	p.		Rs.	a.	p.	Rs.	a.	p.
Brought forward ...				6,77,750	0	0	Brought forward ...	34,000	0	0	2,32,000	0	0
							Printing and Stationery ...	4,000	0	0			
							Postage and Telegrams ...	3,000	0	0			
							Policy stamps	400	0	0			
							Bank charges	100	0	0			
							General charges	600	0	0	42,000	0	0
							By Depreciation on Furniture ...	500	0	0			
							,, ,, Buildings ...	1,500	0	0	2,000	0	0
							,, Life Assurance Fund at end.	3,16,650	0	0			
							,, Contingency Reserve Fund at end	25,000	0	0			
							,, Investment Reserve Fund at end	45,000	0	0			
							,, Building Reserve Fund at end	15,000	0	0	4,01,650	0	0
Total ..				6,77,750	0	0	Total ...				6,77,750	0	0

Balance Sheet as at 30th June 1927.

LIABILITIES.	Rs.	a.	p.	Rs.	a.	p.
Life Assurance Fund	3,16,650	0	0			
Contingency Reserve Fund ..	25,000	0	0			
Investment ,, ,, ...	45,000	0	0			
Building ,, ,, ...	15,000	0	0			
Shareholders' Capital, paid up...	1,50,000	0	0			
				5,51,650	0	0
Unpaid dividends				750	0	0
Claims admitted not paid ..				7,000	0	0
Sundry Creditors				12,000	0	0
Security Deposits				15,000	0	0
Cheques issued, not presented for payment				5,000	0	0
Total ...				5,91,400	0	0

ASSETS.	Rs.	a.	p.	Rs.	a.	p.
Investments—						
Rs. 2,00,000 deposit with Controller of Currency 3½% Govt. Paper				1,40,000	0	0
Rs. 2,30,000 3% Govt. Paper...				1,39,300	0	0
Rs. 1,00,000 4% Bombay Improvement Trust Debentures.				90,000	0	0
Rs. 1,00,000 4% Bombay Port Trust Debentures... ...				77,000	0	0
Property	75,000	0	0			
Less Depreciation written off ..	1,500	0	0			
				73,500	0	0
Furniture	5,000	0	0			
Less Depreciation written off ...	500	0	0			
				4,500	0	0
Agents Balances				2,000	0	0
Premiums outstanding... ...				15,000	0	0
Interest ,, ...				3,000	0	0
,, accrued				500	0	0
Sundry Debtors				1,000	0	0
Cheques paid into Bank (in course of realisation) ...				2,000	0	0
Security Deposits in Bank and Govt. Paper				15 000	0	0
Cash on Current Account with Imperial Bank of Persia ...	28,000	0	0			
Cash in hand...	500	0	0			
				28,500	0	0
Stamps in hand				100	0	0
Total ...				5,91,400	0	0

EXERCISES ON CHAPTER XI.

I. An Insurance Company holds on account of its Insurance Fund securities of a high class such as Consols, New Three per cents, Metropolitan Board of Works Stock, etc., which are subject to variation in market value mainly in consequence of the fluctuations in the demand for such securities on the part of the public, but are also liable to sudden depreciation in times of panic. How should these be dealt with in the books and in the Balance Sheets of a Company which has a share capital entitled to receive, in the form of dividends, any surplus over the Insurance Fund: firstly, in a time of general prosperity, when the public appreciation of the various stocks has raised them to an inflated price, being considerably in excess of the cost to the company; and secondly, at a time of exceptional depression, when panic on the Stock Exchanges has unduly reduced the quotations? Give your reasons fully. *(Chartered Accountants.)*

II. Prepare the Revenue Account of the Steadfast Assurance Company, Ltd., in the proper statutory form, from the following:—Claims: By Death £94,362; By Maturity, £56,450; Surrenders, £9,876; Commission, £5,624; Expenses of Management, £8,762; Premiums, £121,846; Amount of Life Assurance Fund at the beginning in the year, £2,176,845; Income Tax, £4,982; Annuities paid, £26,842; Consideration for Annuities granted, £86,422; Interest, Dividends and Rents, £79,146; Bonuses in Reduction of Premiums, £682. *(Chartered Accountants.)*

III. Prepare, in the proper statutory form, the Revenue Account of the Minster Assurance Company, Ltd., for the year ended December 31st, from the following figures :—Claims: By Death, £76,140 ; By Maturity, £30,110; Premiums, £705,690; Transfer Fees, £129; Consideration for Annuities granted, £82,127 ; Annuities paid, £53,461; Bonuses paid in Cash, £2,416; Expenses of Management, £31,920 ; Commission, £9,574; Interest, Dividends, and Rents, £97,840; Income Tax thereon, £5,710; Surrenders, £13,140; Bonuses in Reduction of Premiums, £980 ; Dividends paid to Shareholders, £5,500 ; Amount of Life Assurance Fund at the beginning of the year, £1,521,000. *(London Chamber of Commerce.)*

IV. From the following figures make out the Revenue Account and Balance Sheet of the Commonweal Life Assurance Company for the year ended December 31st: Funds at the beginning of the year, £5,744,148 (the above amount includes Shareholders' Paid-up Capital, £87,500, and Investment Reserve Fund, £40,000); Premiums (less Re-assurances), £355,674; Consideration for Annuities granted £11,338; Claims announced but not paid, £76,135; Annuities due but not applied for £427 ; Bank Loan, £50,000 ; Premiums paid in advance, £575; Claims by death, £337,955; Claims by survivance, £32,226 ; Surrenders, £37,303; Annuities, £38,688; Commission, £11,417; Expenses of Management, £43,770; Interest and Dividends to Share-holders £9,878; Bonuses in Reduction of Premiums, £11,156; Income Tax, £8,594; Mortgages in the United Kingdom, £902,956; Mortgages out of the United Kingdom, £394,360 ; Loans on Company's Policies, £415,269 ; Colonial Government Securities, £569,517 ; Foreign Government Securities, £172,760 ; Colonial Municipal Securities, £850,320; Railway Shares and Debentures, £2,042,477; Loans on security of Public Rates, £425,360;

Outstanding Premiums, £77,651; Interest accrued but not yet payable, £69,613; Cash in hand and on Current Account, £10,920. (*National Union of Teachers.*)

V. Prepare accounts in statutory form at December 31, 1919, of the Infallible Assurance Company from the following particulars: Shareholders' Capital, 10,000 Shares at £100 each, £10 paid up; Deposit with the High Court, £20,000; Premiums, £500,000; Agents' Balances, £7,500; Claims admitted but not paid, £50,000; Surrenders, £9,000; Annuities due and unpaid, £2,000; Investments in British Government Securities, £1,600,000; Claims under Policies paid and outstanding; Death, £260,000; Maturity, £175,000; Mortgages on Property within the United Kingdom, £900,000; Mortgages on Property out of the United Kingdom, £100,000; Outstanding Premiums, £4,100; Freehold Ground Rents, £50,000; Commission, £60,000; Annuities, £7,000; Interest, Dividends and Rents, less Income Tax, £300,000; Loans on life Interests, £12,000; Consideration for Annuities granted, £156,000; Loans on Personal Security, £20,000; Investments in Indian and Colonial Government Securities, £600,000; Loans on Companies' Policies, £30,000; Amount of Assurance Fund, January 1, 1914, £4,100,000; Investments in Foreign Government Securities, £900,000; Expenses of Management, £50,000; Railway and other Debentures and Debenture Stock, £400,000; Investments Reserve Fund, £89,700; (*Central Association Accountants.*)

CHAPTER XII.

Double Account System.

This system originally came into use in cases of companies incorporated by Special Acts of Parliament such as the Railway, Gas and Water Companies. Subsequently the decisions of Courts in cases of certain other Companies such as Mining Companies, Tramway Companies, etc., by which they were allowed to ignore the duty of providing for proper depreciation, led to their use of this system of keeping accounts. It has also been used in connection with old Single Ship Companies. In some cases this system works well and may be used with advantage; in other cases it is not considered quite perfect from the accountant's point of view though there may not exist any legal objection to its application. In the latter cases it should in justice be made clear to the shareholder that the dividend paid to him includes a portion of his capital returned to him. The force of these last remarks would be better understood by the student when he carefully follows the working of this system as illustrated in the following pages.

Under the Double Account system the Balance Sheet is divided into two parts. The first part is worked up in the form of a Capital account and is called by that name. In case of Railway Companies it is called "Receipts and Expenditure on Capital Account."

The Receipts and Expenditure on Capital Account shows on its credit side all the receipts on account of capital, *viz.*, receipts from shares and debentures together with the premium if any, on such shares and debentures. On the debit side are entered all the items of capital expenditure, *viz.*, the purchase of assets such as land, buildings, machinery, rolling stock, railway lines laid, etc. The Preliminary Expenditure is also shown here as a Capital Expenditure. The balance of this account is then taken to the liabilities side of the Balance Sheet, where the receipts are in excess of the expenditure as is usually the case, otherwise, it goes on the assets side of the Balance Sheet.

The other items on the Balance Sheet are made up of floating assets such as Cash, Balance at Bank, Bills Receivable, Stores, Sundry Debtors, etc., and the Company's liabilities.

The working of the accounts under this system differs from that in application in an ordinary Joint Stock Company on the following among other points :—

(a) Treatment of Depreciation,

(b) Treatment of Renewals,

(c) Treatment of Preliminary Expenses,

(d) Treatment of Premium on Shares and Debentures.

Depreciation and Renewals.

(a) & (b) The assets are allowed to stand at their original value and the charge to Revenue for the wear and tear as in other concerns are unknown. Expenditure by way of Additions and Extensions is added to the value of these assets but repairs and renewals are charged to revenue. This is said to obviate the necessity of providing for depreciation. Experience has shown that during the first few years of the working of such concerns charges by way of repairs and renewals are very scarce, the plant being entirely new, whereas in the latter years they keep on increasing. To meet this an average proportion is charged to revenue and credited to "Repairs and Renewal Fund account." This account appears as a reserve on the General Balance sheet. The idea in such companies being that after meeting all the regular charges of the concern and paying for repairs and renewals from the revenue, the balance may be taken as net gain to be distributed among shareholders. In Single Ship Companies, *i. e.*, Companies or Associations owning one ship only, this method is applied, as also in some other concerns that have not registered themselves under the Companies Acts. Here the ship is supposed to be divided into 64 equal parts. The cost of the ship is charged to the Capital Account and the revenue receipts, after deduction of expenses, repairs and renewals, are divided among the members of such Associations. Here the ship in course of time may become useless and may be sold as old iron to the breakers, the owners receiving very little towards the return of capital. To put it shortly, in these cases the dividends include a proportional and gradual return of capital.

The Double Accounts system is in many cases applied to mining companies without legal objection. The receipts from sale of the produce of the mine, after deduction of working expenses, are distributed among the shareholders without providing for depreciation of plants. The mine may in course of time get exhausted and shareholders get nothing, or very little, by way of return of Capital.

In Tramway and Railway companies too the Double Account system is applied with satisfactory results.

It may, however, be noted that in cases where such companies hold expensive leaseholds, for which they have paid a fixed amount towards its purchase, a provision is made from Revenue by debiting it and crediting a Reserve account.

Rebuilding and Replacements.

Frequently a portion of the works is either rebuilt or replaced and the question arises as to how the items should be treated in Accounts, *i. e.*, what portion should be charged to Capital representing additional capital value and what portion should be taken to Revenue. The method usually adopted is to estimate the present cost of the replacement of the asset and charge the same to Revenue irrespective of whether that figure is more or less compared to the original cost of the asset. The balance of the expenditure can then be charged to Capital representing the cost or value of Extension. Receipts if any by way of break-up value of asset should be credited to Revenue against the charge to Revenue not separately as an income but by way of deduction. Supposing that the original costs of the asset in the books is shown at Rs. 100,000, and the cost of rebuilding (extension) or replacements come to Rs. 150,000 you will have to estimate the present value of replacing such an asset, say the estimated cost comes to Rs. 120,000, then this estimated cost will be charged to Revenue and the balance of Rs. 30,000 would be debited to Capital. There is another method under which the original book value of the asset is written off by Revenue and the present cost of re-building and replacements is then capitalised. The respective allocations under the two methods are as follows:—

	Capital	Revenue
First method	Rs. 30,000	Rs. 120,000
Second method	,, 150,000	,, 100,000

Preliminary Expenses.

(c) In case of Preliminary expenses they are here allowed to stand as an item of Capital Expenditure and are not written off out of profits, or reduced through the assistance of premiums on shares, or debentures, as in the case of other Joint Stock Companies. It may be mentioned that in case of certain companies incorporated by Special Acts of Parliament such a course has been allowed.

Premium on Shares and Debentures.

(d) Premiums on shares and debentures, in case of this class of companies, are considered capital receipts and as such are not considered available for revenue purposes. They can neither be distributed as profits, or used towards the reduction of Preliminary Expenses as the student has learnt to do in case of Joint Stock Companies incorporated under the Companies Acts. As per section 52 of Indian Railways Act, the accounts are to be made on Forms prescribed by the Governor General-in-Council. The Governor-General-in-Council has adopted the forms prescribed by the English Railway Companies Act. The form as per the English Act of 1911 which is the latest, are given below :—

Statutory forms of Railway Companies' Accounts as per Railway Companies' Accounts and Returns Act 1911 of England.

No. 8 Revenue Receipts and Expenditure of the whole Undertaking.

See Statement.		Gross Receipts.	Expenditure.	Net Receipts.
	Railway			
	Omnibuses, etc., ...			
	Steamboats			
	Canals			
	Docks, Harbour and Wharves			
	Other Separate Businesses			
	Carried on by the Co. (in detail)			
	Miscellaneous Receipts (Net)			
	Rents from Houses and Lands...			
	Rents from Hotels			

See Statement.		Gross Receipts.	Expenditure.	Net Receipt.
	Other Rents including lump sum Tolls ..			
	Interest and Dividends from Investments ...			
	General Interest			
	Transfer fees			
	Special Items			
	Total net income...			

No. 9.—Proposed Appropriation of net Income.

Balance brought forward from last year's account.	
Net Income as per Statement No. 8.	
Appropriation from Reserve.	
Total ...	

Deduct :—Interest, Rentals and other fixed charges :—		
Interest on Superannuation and other Funds		
Rent charges and Annuities		
Chief Rents, wayleaves etc.		
Interest on loans		
Interest on Debenture Stock		
£		
Balance ..		
Appropriation to Reserve and other special purposes		
Dividends on Preference and Guaranteed Stock		
Balance available for Dividends		
£		

No. 4 Receipts and Expenditure on Capital Account.

To expenditure.	Amount expended to …………	Amount expended during the year as per No. 5.	Total.	By receipts.	Amount received to …………	Amount received during the year.	Total.
	£	£	£		£	£	£
Lines open for traffic				Shares and stocks			
Lines not open for traffic :—							
New lines.				Loans			
Widening of existing lines ...							
Lines leased				Debenture Stock			
Lines jointly owned							
Lines jointly leased ...				Premiums on Shares and Stock ...			
Rolling stock							
Manufacturing and repairing works and plant :—				Premiums on Debenture Stock .			
Land and Buildings ..				Total premiums			
Plant and Machinery ...							
Total Capital expended upon Railway.				Discounts on shares and Stocks			
				Discounts on Debenture Stock ...			
Horses							
Road vehicles employed in the collection and delivery of parcels, goods and passengers :—				Total Discounts			
				Balance of Premiums and Discounts.			
(1) Goods and parcels road vehicles.							
(2) Passenger road vehicles.							

No. 4 Receipts and Expenditure on Capital Account (*Continued.*)

To expenditure.	Amount expended to	Amount expended during the year as per No. 5.	Total.	By receipts.	Amount received to	Amount received during the year.	Total.
	£	£	£		£	£	£
Steam boats							
Canals							
Docks Harbours and Wharves ..							
Hotels							
Electric power stations etc. ..							
Land, property etc., not forming part of the railway or stations:—							
(a) used in connection with Railway Working							
(b) not used in connection with Railway Working							
Other industries (to be stated separately):—							
Subscriptions to other companies (for details, see Table No. 4 (a).							
Special items							
Total expenditure				Total receipts ..			
To Balance ...				By balance ..			
Total ...				Total ...			

No. 10 Receipts and expenditure in Respect of Railway Working.

To expenditure.			Year 19 .	Percentage of traffic Receipts. ...	...	By Gross receipts.			Year 19 .	Percentage of traffic receipts. ...	...
		£	£	Per cent.	Per cent.	**See Abstracts.**	£	£	£	Per cent.	Per cent.
See Abstracts.						Passenger train traffic ...					
						Ordinary Passengers :—					
A : Maintenance and renewal of way and works.						First Class					
						Second Class					
						Third Class					
B : Maintenance and renewal of rolling stock :—						Season tickets					
						First Class					
						Second Class					
	£					Third Class					
(1) : Locomotives ..						Workmen's tickets ...					
(2) : Carriages ..						Total receipts from passengers.					
(3) : Wagons ...						Mails					
C : Locomotive running expenses.						Parcels upto 2 cwt. .					
						Parcels post, and excess luggage.					
D : Traffic expenses ...						Other merchandise by passenger trains.					
E : General charges ...						**F.** Less expenses of collection and delivery.					
Law charges ..											

No. 10 Receipts and expenditure in Respect of Railway Working.—(*continued.*)

To expenditure.			Year 19 .	Percentage of traffic receipts. ...	Percentage of traffic receipts. ...
		£	£	Per cent.	Per cent.
Parliamentary expenses.					
Compensation (accidents and losses):—					
Passengers					
Workmen					
Damage and loss of goods, property, etc.					
Rates					
Taxes					
Government duty ...					
G : Running powers (balance, debit or credit).					
Total traffic expenditure ... ... £					
J : Joint lines					
Miscellaneous					
Total expenditure. £					
Net receipts. £					
Total ...					

By gross receipts.			Year. 19 .	Percentage of traffic receipts. ...	Percentage of traffic receipts. ...
	£.	£.	£.	Per cent.	Per cent.
Total passenger train receipts					
Goods train traffic :— £					
Merchandise ...					
F. *Less* expenses of collection and delivery...					
Live-stock					
Coal coke and patent fuel.					
Other minerals.					
Total goods train receipts ..					
Total traffic receipts ..					
H. Mileage, Demurrage wagon hire					
J. Joint lines					
Miscellaneous					
Total ...					

Dr. **No. 18.—General Balance Sheet.** Cr.

		Year 19 .			
	£.	£.		£.	£.
To Capital Account, balance at credit thereof, as per account, No. 4.			By Capital Account, balance at debit thereof as per account No. 4.		
Amount due to bankers.			£. s. d.		
Temporary loans and calls paid in advance.			Cash at Bankers and in hand.		
Llyod's bonds.			Cash on deposit at interest.		
Unpaid interest and dividends.			Investments in Consols and Government Securities.		
Interest and dividends payable or accruing and provided for.			Investment in Stocks and Shares held by the company not charged as capital expenditure.		
Amount due to railway companies and committees.			Investment of Superannuation and other provident funds.		
Amount due to railway clearing houses.			Stock of stores and materials.		
Savings bank.			Outstanding traffic accounts.		
Superannuation and other provident funds.			Amount due by railway companies and committees.		
Accounts payable.					

No. 18.—General Balance Sheet—(*continued*).

		year 19			
Liabilities accrued.			Amount due by railway clearing houses.	£.	£.
Miscellaneous accounts.			Amount due by Post-master General.		
Special items, (to be detailed).			Accounts receivable.		
Fire insurance fund.			Miscellaneous Accounts.		
Depreciation Funds :—			Suspense accounts (if any) to be enumerated.		
Railway.			Special items (to be detailed.)		
Steam-boats (including insurance fund).					
Other business.					
General reserve fund.					
£. s. d.					
Balance available for dividends and reserve as per Account No. 9.					
Less interim dividends paid as per statement No. 9 (a).					

The statutory Forms of Gas Companies Accounts.

Prescribed by the English Gas Works Clause Act, 1871.

C. Capital Account for the year ended ____________.

	Expenditure to date.	Expended this year.	Total to date.		Certified receipts to date.	Received during this year.	Total Receipts.
1 To expenditure to 31st December 19 , since that date.				1 By ordinary shares of £ each.			
2 ,, Lands acquired including law charges.				2 ,, ordinary shares of £ each.			
3 ,, New buildings, Manufacturing Plant, Machines, Storage works, and other structures connected with manufacture.				3 ,, Preference shares of £ each.			
4 ,, New Mains and service Pipes (not being in place of old ones) including laying, fixing, paving, and other works, connected with distribution.				4 ,, Debenture Stock.			
5 ,, New meters (not in place of old ones) including fixing.				5 ,, Mortgages and Bonds.			
6 ,, Cost of Promoting Special Act.				6 ,, Amount received in anticipation of calls.			
7 ,, Special items (if any).							
Total expenditure ...							
To balance of capital Account ...		£		Total ...	£		

Model Form of Accounts prescribed under the Indian Electricity Act, 1910 (for Companies.)

No. III Capital Account for the Year ending 19 .

	Expenditure up to end of previous year.	Expenditure during the year.	total Expenditure to 31-12-19 .		Receipts up to end of previous year.	Received during year.	Total receipts to 31-12-19 .
1. To Preliminary Expenses (to be Specified) .	Rs.	Rs.	Rs.	By Ordinary Shares of Rs. each . . .	Rs.	Rs.	Rs.
2. ,, Lands including Law charges incidental to acquisition . .				,, % Preference shares of Rs. each . .			
3. ,, Buildings . . .				,, Debenture Stock . .			
4. ,, Plant				,, Mortgages and bonds .			
5. ,, Mains							
6. ,, Transformers, motors &c.							
7. ,, Meters, and fees for certifying under the Act				,, Amounts received in anticipation of calls. .			
8. ,, General Stores . .				,, Other receipts to be specified. . . .			
9. ,, Special items (to be specified) . . .							
,, Public Lamps . .							
,, Cost of License . .							
,, Dead and Live Stock .							
,, Tools and Instrument.							
,, Total Expenditure .							
,, Total balance of Capital Account . .							

No. IV.—Revenue Account.

For the year ending 19 .

A.—Generation.					
1. To Fuel			1. By sale of energy for lighting purposes		
2. ,, Oil, waste water and engine-room stores ...			2. ,, sale of energy for power purposes		
3. ,, Proportions of salaries of Engineers, Superintendents and Officers ...			3. ,, sale of energy under special contracts		
4. ,, wages and gratuities ...			4. ,, public lighting		
5. ,, repairs and maintenance as follows:— Buildings ... ... Plant			5. ,, rental of meters and other apparatus on consumer's premises		
,, Special items (to be specified)...					
B.—Distribution.					
1. To proportion of salaries of Engineers, Superintendents and Officers ...			6. ,, rents receivable		
2. ,, wages and gratuities ...			7. ,, transfer fees...		
3. ,, repairs, maintenance and renewals of mains ...			8. ,, other items ... ... (to be specified)		
4. ,, repairs, maintenance and renewals of transformers etc.			Miscellaneous Receipts ...		
5. ,, repairs, maintenance and renewals of meters switches, cut-outs and other apparatus on consumer's premises			Sale of Ashes		
			Reconnection and Disconnection Fees ...		

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C.—Public Lamps.					
1. To attendance and repairs renewals etc.					
D.—Rents, Rates and Taxes.					
1. To rents payable					
2. „ rates and taxes					
E.—Management Expenses					
1. To Directors' remuneration ...					
2. „ Management					
3. „ General establishment charges					
4. „ Auditors of the Company ...					
5. „ Auditors appointed under the provisions of the Act...					
F.—Law Charges.					
To Law Expenses					
G.—Depreciation.					
1. To depreciation in respect of Leaschold works					
2. „ depreciation in respect of buildings					
3. „ „ plants etc ...					
4. „ „ mains etc. ...					
H.—Special Charges.					
To special Items (to be specified) ...					
Bad Debts					
Total Expenditure ...					
Balance carried to net revenue ...					

No. V.— Net Revenue Account.

1.	To interest on Debentures accrued due to date		1.	By Balance from last Account less Dividend paid	
2.	,, Interest on Mortgages and Bonds accrued due to date			,, Amount carried to Reserve Fund... ...	
3.	,, Interest on Temporary Loans accrued due to date		2.	,, Balance brought from Revenue Account (No. 4)	
4.	,, Dividend on Preference Stocks		3.	,, Interest on Money at Deposit	
5.	,, Income Tax				
6.	,, Balance applicable to Dividend on ordinary stock or shares				

No. VI —Reserve Fund Account.

1.	Amount paid out for		1.	By balance brought from last Account ...	
2.	Amount of Balance to next Account		2.	,, Amount brought from net Revenue Account	
			3.	,, Interest on Amount invested (Description of Investment to be specified)	
				Rs. 5,000 Port Trust Bonds	

No. VII.—Depreciation Fund Account.

1. To Balance		1. By Balance from last Account	
		2. ,, Interest on Investments	
		3. ,, Amount brought from Revenue Account (see No. IV. H.)	
		(Description of Investments to be specified).	

Model Form of Accounts prescribed under the Indian Electricity Act 1910 (for Companies).

No. VIII.—General Balance Sheet.

Liabilities.	Rs.	Rs.	Assets.	Rs.	Rs.
1. To Capital Account: amount received as per Account No. III			1. By Capital Account: amount expended for works as per Account No. III ...		
2. ,, Sundry Creditors due on construction of Plant and Machinery, fuel, stores &c.			2. ,, Stores on hand		
3. ,, Sundry Creditors on open Accounts ...			3. ,, Sundry debtors		
4. ,, Net Revenue Account: balance at credit thereof			4. ,, Preliminary expenses awaiting adjustment		
5. ,, Reserve fund Account: balance at credit thereof			5. ,, Securities as held (cost price)... ...		
6. ,, Depreciation Fund Account			6. ,, Special Items (to be specified) ...		
			Interest accrued		
			Expenses prepaid		
7. ,, Special Items (to be specified)			7. ,, Cash at Bankers:—		
			Current Account		
Preference Share Dividends			Fixed Deposit...		
Rs. ...			8. Cash on hand...		

The following form of the Capital Account and the Balance sheet of a Tramway company in the solved exercise would serve as an illustration:—

Exercises.

Q. The figures in the books of the Southend Tramway Co., Ltd., stood on the 31st December 1908 as follows:—

Expenditure:—Permanent way including overhead equipments upto 1907 £30,000, during the year £10,000; Central power Station (1907) £10,000, no expenditure on it during 1908; Depots for cars (1907) £5,000, (1908) £1,000; Rolling Stock (1907) £10,000; (1908) £2,000; Office and other Buildings (1907) £9,000.

Receipts on Capital:—Preference Shares (1907) £40,000; (1908) £10,000; Ordinary shares 1907 £20,000; Preference Cumulative Shares (1907) £10,000; (1908) £5,000; Debentures (1908) £10,000.

Floating Assets:—Stores and stock in hand £21,000; Cash in Bank £8,500; Securities against Reserve Fund £10,000: Cash in hand £500.

Liabilities:—Sundry Creditors £3,000; Reserve Fund £10,000; Dividends due to Shareholders £2,000; Interest due to Debenture holders £1,000; Revenue or Profit and Loss Account Balance £6,000.

Prepare Final Accounts on the Double Account system.

THE SOUTHEND TRAMWAY Co. Ltd.

Capital account for the year ending 31st December 1908.

	Expenditure during 1907.	Expenditure for this year.	Total Expenditure up to 31 Dec. 1908.		Receipts for the year ending 31 Dec. 1907.	Receipts for the current year.	Total receipts 31 Dec. 1908.
Permanent way including overhead equipments	30,000	10,000	40,000	Preference Shares ...	40,000	10,000	50,000
Central power station ...	10,000		10,000	Ordinary Shares	20,000		20,000
Depots for Cars	5,000	1,000	6,000	Preference Cumulative Shares	10,000	5,000	15,000
Rolling stock, &c. ...	10,000	2,000	12,000	Debentures		10,000	10,000
Office and other buildings	9,000		9,000				
	64,000	13,000			70,000	25,000	
Balance carried to the General Balance Sheet.			18,000				
		£.	95,000			£.	95,000

Southend Tramway Co. Ltd.

General Balance Sheet as on 31st December 1908.

	£.		£
Capital Account Balance ...	18,000	Stores, stock, etc. in hand.	21,000
Sundry Creditors	3,000	Cash in hand	500
Reserve Fund	10,000	Cash in Bank	8,500
Dividends due to share-holders	2,000	Securities against Reserve Fund	10,000
Interest due to Debenture holders	1,000		
Revenue or Profits & Loss Account balance... ...	6,000		
	£ 40,000		£ 40,000

EXERCISES ON CHAPTER XII.

I. The following is the T. B. of the Durham Railway Co., after the completion of the Revenue Account for the half-year ended 31st Dec., 1908. During the said half-year there was an issue of £10,000 3½% preference stock which was fully subscribed and paid up at a premium of 5%. The expenditure on lines opened for traffic was £25,000; on lines in course of construction £1,000 and on working stock 15,000. Make out Capital Account and Balance Sheet.

Dr. Balances.	£	**Dr. Balances.**—(*continued.*)	£
Lines opened for Traffic ...	851,950	Sundry Outstanding Accounts	4,000
Lines in course of construction	5,000	**Cr. Balances.**	
Lines not commenced ...	50	3½% Preference Stock ...	300,000
Working Stock (Engines) Carriages etc.	130,000	Ordinary Stock	500,000
Contributions to Joint Lines.	50,000	4% Debenture Stock ...	200,000
Purchase of Guard Canal ...	5,000	Premiums on Stocks issued.	25,000
Cash at Bank	5,000	Debts due to other Companies	2,000
General Stores—Stocks on hand	10,000	Sundry Tradesmen, etc. ...	20,000
Traffic Accounts due to Cos.	10,000	Fire Insurance Fund. ...	5,000
Due from other Companies.	1,000	Cr. Balance of Net Revenue Account	20,000

Answer :—**Balance Capital Account £17,000, Balance Sheet Total £47,000.**

II. What is the Double Account System? Draft with imaginary items Capital Account and Balance Sheet applicable thereto. (Incorporated Accountants, Intermediate, June 1921.)

III. From the following figures of the Townway Railway Co., prepare the Capital Account for the year ended 31st March, 1923, and the General Balance Sheet as at 31st March, 1923.

Expenditure and Receipts 31st March, 1922.

	£
Permanent Way and over-head equipment ...	451,500
Buildings	3,000
Power Station	210,000
Rolling Stock	60,000
6% Debentures	150,000
8% Preference Shares	300,000
Ordinary Shares	300,000

Expenditure and Receipts of the year :—

Permanent Way, etc.	60,000
Power Station	15,000
Rolling Stock	1,800
Ordinary Share Capital	150,000
Reserve Fund	150,000
Creditors	38,000
Depreciation Fund...	75,000
Investments	180,000
Stocks and Stores	28,000
Cash in hand and at Bank	154,220

(Incorporated Accountants, Final, June 1923.)

IV. Under the Railway Accounts and Returns Act of 1911, the General Balance Sheet of a Railway Company is to be set out in prescribed form in Account No. 18.

The following balances are extracted from the books of a Railway Company.

Draw out Trial Balance, and prepare Balance Sheet setting out the headings thereon in the order that seems to you applicable.

	£
Balance to debit of Capital account	4,292,000
Amounts due to other Railway Companies and Committees	258,550
Amounts due to Railway Clearing House ...	24,850
,, ,, by ,, ,, ,, ...	43,231
,, ,, by Postmaster-General	134,833
Investments in Government Securities ...	8,120,000
Amount to credit of Saving Bank Committee ...	2,270,154
,, ,, ,, Superannuation and Other Provident Funds	2,142,908
Account payable by Company	1,119,584
Fire Insurance Fund	507,377
Railway Depreciation Fund, including arrears of deferred Maintenance	9,839,456
Steamboat Depreciation Fund	1,503,013
Depreciation Funds Subsidiary Business ...	514,760
Investments in Stocks and Shares of other Companies	1,343,626
Stock of Stores and Material	1,898,231
Amounts due by other Railway Companies and Committees	534,584
Dividends and Interest unclaimed	81,907
Investments on account of Superannuation and other Funds	1,25,000
General Reserves	750,000
Reserves for Contingencies	1,250,000

	£
Interest and Dividends payable by Company and accruing or provided for	609,660
Interim Dividends paid...	1,855,770
Traffic Accounts Receivable	501,515
Cash on Deposit at Interest	4,920,000
Balance at Bank	1,820,000
Cash in hand	114,525
Liabilities accruing	620,797
Balance of Account No. 9 available for Dividends, and Reserves	5,011,808
Amounts Receivable	801,509

(Incorporated Accountants, Intermediate, December 1924).

CHAPTER XIII.

Bank Accounts.

Like many of the world's great institutions Banking in England had a very humble origin. We have to this day in India shroffs and the village sowcars lending money on interest and carrying on business on large or small scale according to their surroundings and circumstances. In England which is undoubtedly to-day the greatest banking country of the world,—in fact London is the acknowledged Banking centre of the world—the early bankers were, for many years, goldsmiths by trade, who were obliged by the nature of their business to keep strong rooms and boxes in which to store up their jewellery and valuables. People used to deposit their valuables and money with these goldsmiths for safe-keeping, for which they used to get a receipt by which the goldsmiths acknowledged the deposit and promised to return same on demand.

These receipts began to be known as "Goldsmiths' Notes" and gradually circulated in place of coin as they could be cashed on demand. Thus these "Goldsmiths' Notes" were in reality the parent of the present day English bank notes. In early days prior to the introduction of Banking in England, Italians took the lead in Banking in Europe, and the Bank of Venice is said to have been established in 1157. This was followed by the Bank of Medici in Florence in the fourteenth century. Following this the Lombard bankers settled in London and gave the name of the famous street known as the Lombard Street. The Banking centre then shifted to Holland and the Bank of Amsterdam was founded in the year 1609 which thrived for one century and a half. Gradually with the decline of commerce in Holland and the increase of commerce and prosperity of England, the Banking centre of Europe shifted to England. Merchants in England also began to carry on business of bankers, side by side with their legitimate business as merchants,—a system which is still found to be common among our Indian merchants where people deposit their money on a sort of fixed deposit system with important pedhis at a varying rate of interest. Gradually these merchants began to devote their attention exclusively to banking business. Thus sprang up in every town and countryside in England a group of private bankers who were some years ago so familiar in England.

The Bank of England was established in the year 1694 as a Corporation enjoying exceptional privileges and though it was originally established as an expedient for getting a loan for William III, it soon became a powerful central bank. The whole of its original capital of £1,200,000 was lent to the state at 8 per cent interest per annum. In return the bank was to get £4,000 a year for management expenses and was empowered to issue its own notes to the extent of this capital lent to the state.

For a long time the Bank of England enjoyed the monopoly of being the only English Joint Stock Bank, though private bankers grew up and flourished in large numbers. The Act of 1826 allowed the establishment of other Joint Stock Banks with the privilege of note issue, except in London and a certain radius outside London. In 1833 Joint Stock Banks were allowed to be established in London itself, though without the privilege of note issue, with the result that large banks like the London and the Westminster Bank, the London Joint Stock Bank, the Union Bank of London, etc., were established. In 1857 a severe monetary crisis occurred in England which ruined shareholders of many Joint Stock Banks, as the privilege of limited liability was not extended to Joint Stock Banks in those days till 1858. The result of this extension was that Joint Stock Banking developed in England on enormous lines. These Joint Stock Banks largely absorbed the private bankers whose number is now rapidly diminishing.

In India, besides our private banks known as shroffs, large Joint Stock Banks on the modern pattern have been established. They are mostly joint stock companies under the Indian Companies Act 1913. There are also British Colonial Banks doing large business here with head offices in England. Our principal bank, however, is the Imperial Bank of India with whose constitution and working every Indian student of commerce should make himself familiar.

Imperial Bank of India.

The Imperial Bank is a bank incorporated by a special Act of the Indian Legislative Council in the year 1920, which was amended a little later in the year 1924. This Bank was established with a view to take over the assets and liabilities of the Presidency Banks as they existed before this Act came into force. The bank is authorised to carry on business in certain specified types of transactions and is naturally restricted from doing free and unfettered banking business as the other banks do. This is necessary because the Bank acts as the Government Bank, i.e., the Government of India is its customer and as such keeps its deposits and moneys with the bank and gets various accounts paid by and through the bank. The business permitted to be done by this bank may be summarised as follows :—

1. Advancing money on the security of stocks, funds, securities (other than immovable property) in which a trustee is authorised to invest under the Trustees Act.
2. Advance money on the securities issued by State-aided Railways.
3. On debentures or other securities for money issued under the authority of any act of an Indian Legislature or on behalf of a District Board.
4. On goods or documents of title which are deposited with or assigned to the Bank.
5. On accepted Bills of Exchange, promissory notes endorsed by the payees whether by single individuals or by firms or partnerships.
6. On fully paid shares and debentures of limited companies.

The Bank is allowed to lend on security of immovable property or documents of title relating to such property only when the same are given as collateral security and the original security falls under any one of the first five types of securities dealt with above.

It is also permitted to do business in selling or buying gold and silver, making, issuing and circulating Bank Post Bills and Letters of Credit made payable in India or in Ceylon; receiving deposits and keeping cash accounts on such terms as may be agreed on; accept charge of plates, jewels, title-deeds and other valuable goods in safe custody; transacting pecuniary agency business on commission; acting as the executor, administrator or trustee for winding-up of estates; acting as agents on commission in connection with buying, selling, transferring and taking charge of securities and all shares in any public company; borrowing money in India for the purpose of banking business and also borrowing money in England for the same purpose on the security of its assets.

The Bank is not authorised to carry on the following business:—

(1) To advance a loan for longer than a period of six months.

(2) To advance loan on securities of stock or shares of the Bank itself.

(3) Except as stated above to advance money upon any mortgage or otherwise upon the security of immovable property or documents of title relating thereto.

(4) The Bank is also not allowed to advance money on Bills of Exchange above a figure which is prescribed from time to time.

Management and Organization

The Imperial Bank has three local head offices, namely, in Calcutta, Madras and Bombay, and is authorised to open others in British India on sanction of the Governor-General in Council. The affairs of the Bank are managed by a Central Board of Governors, whereas there are local boards established at Calcutta, Madras and Bombay.

The Central Board is authorised with the approval of the Governor-General in Council, to make various regulations and bye-laws as to the maximum amount to be advanced or lent on bills and other securities, as to the particulars contained in the half-yearly balance sheet; as to the keeping of register of shareholders and the branch registers; as to the distribution of business among governors and the members of the local boards, their remuneration, etc.

The Bank is empowered to enter into contracts on the same footing as between private persons and the same law will apply.

The accounts of the Bank have to be audited by three auditors selected by the shareholders. No governor or member of local board or other officer of the Bank is eligible as auditor. Over and above that the governors may appoint such auditors as they think fit to examine and report on the accounts of the Bank.

Government Business.

The Bank is allowed under agreement with the Secretary of State for India in Council to act as banker for the Government and to undertake and transact any other business which the Government may, from time to time, entrust to it.

A Modern Banker's Business.

A modern banker's business consists of the following transactions :—

1. Granting of loans and overdrafts.
2. Receipts of deposits on current account or for fixed periods.
3. Discounting of Bills of Exchange and Promissory notes.
4. Acting as agents on behalf of their customers, for buying or selling stocks, shares, etc., collecting interest and dividends, either local or foreign ; receiving in safe custody customers' valuables, securities, jewelleries, etc.; granting facilities in foreign lands to its customers, in shape of letters of credit, circular notes, or remittances.
5. Receipt of articles for safe custody with or without a special charge.

These transactions make up the main sources of income of a banker. It must not be forgotten that (case 2) a banker always charges a much higher rate of interest to its borrowers than what it allows to its customers. Another source of income being, from its own investments.

We may summarise a banker's daily transaction into cash receipts and payments on account of Current and Fixed Deposits, Loans, Overdrafts, Remittances, etc., interest receivable and payable, discounts and commissions earned, management expenses, etc. Naturally the above require an elaborate and detailed system of book-keeping ; the books should be written up to enable a banker to know his position at any moment. We shall now discuss a few of the most important books maintained by a banker to record his daily transactions.

Cash Department.

In the cash department are kept special day books. The **Receiving Cashiers' Day Book** records the actual cash receipts distinguishing receipts in coins, notes, cheques, etc. A separate book for the actual payments, *i. e.*, cash paid out is also kept known as the "**Paying Cashier's Day Book**." This Paying Cashier's Day Book records all cash paid out, distinguishing between actual cash and notes. At the end of the day the cashier checks the cash balance from these books.

Cheques:—The cheques received from customers to be cleared are entered in a special book known as the "**Clearing Cheques Book**" and from there they are dealt with after they are cleared by the current accounts ledger clerks. The practice with London Bankers is to credit a customer immediately on receipt of cheques for collection and then to send them out to be cleared. The practice in India, however, is to credit the current account only after the cheque is cleared.

Bills :—Bills of Exchange received from customers for collection, are recorded in a special register kept for the purpose known as the "**Deposit Bills Register**", which is ruled with columns stating the date of their receipt, name of the sender, together with the name of the drawer and the drawee, the date on which they are drawn, the due date, and the amount. When these bills are collected on the due date the customers' current accounts are credited. Bills are also received from a customer for being discounted. In fact this forms a very important branch of a bankers' business. For these a special book is kept known as the **"Discounted Bills Register"** which has columns showing the date on which the bills were discounted, the name of the discounter or seller, the acceptor, the drawer, the date of the bill, when due, the amount, rate of discount charged and its final disposal. The customer is then credited for the amount in his current account and debited for the discount charged by the bank.

Loans.

The bankers also advance loans to Bill and Stock Brokers and Merchants at call and short notice, for which separate **Loan Registers** are maintained to record the date on which the loan was given, the name of the party to whom it was given, the amount, the rate of interest charged, and the date on which it must be paid. If the person to whom the loan is advanced is a customer of the bank, the current account of the customer is credited and the amount of the loan is debited to a separate loan account. If on the other hand cash is paid, cash would be credited and loan account debited. In case of securities that are deposited against loans, a separate register of securities is maintained, with the date of deposit, the particulars of the security, the face value, and the date on which they were returned.

Cash credits are also granted to customers, under the terms that the customers are entitled to withdraw amounts as and when required upto a maximum limit which could not be exceeded without the deposit of further security.

In case of advances made by the banker on consignments a separate **Register for Loans on consignments** is maintained, giving particulars as to the consignment, the name of the consignor and the consignee, amount of the bill drawn, the amount of advance, the rate of interest and the date on which the advance was re-paid.

Deposits.

The banker receives money on deposit for various periods and for which he incurs liability of repayment with interest. Fixed deposits are entered in a special register known "**Deposit Register**" giving particulars of the date of receipt of the deposit, the name of the depositor, the rate of interest, amount deposited, the due date and the date of repayment. Besides this the depositor's account is opened in the **Depositors' Ledger** in which he is credited for the amount.

Journal or the Daily Summary Book.

It would thus be seen that in case of a bank, owing to the magnitude and volume of its operations, a large number of record books have to be maintained in which the various items of the daily transactions are entered and the head accountant has to collect all these items from various books, which he does through the medium of debit and credit slips sent up by the various departments and checked and initialled by the responsible officer concerned. These debits and credits are regularly entered in the Journal, the agreement of the totals of which proves the accuracy of the work. The daily work of each of the departments is thus condensed and summarised and then recorded in the **General Ledger** of the bank, through the medium of the **Daily Summary Book** or **Journal.**

General and Subsidiary Ledgers.

The student must have noted that owing to the magnitude of business done in a modern bank a large number of subsidiary books in form of registers are maintained such as Deposit Register, Register for Loans, Bills Received for Discount, Bills Received for Collection, for Re-discount and bills sold, Securities Register, Bills Accepted Register, Securities Purchased for Customers Register, etc. For the same reason a large number of subsidiary ledgers embracing detailed record are maintained side by side with the General Ledger in which totals are posted from these subsidiary Ledgers. To take an illustration the Current Account Ledger is maintained as a subsidiary ledger which contains separate current accounts with all minute details as to debits and credits of all the bank's customers, whereas the General Ledger only holds one account called the "Current Accounts a/c," into which the totals are posted after collecting all the accounts of current account customers in one lump sum, viz., for debits and credits respectively. These Subsidiary Ledgers are mostly posted through the medium of what is known as "slip posting."

The slips handed in with cash or cheques paid in by the customer being the page of the paying in slip is used for posting the item directly to the credit of the customers current account by the current account ledger-keeper. Whereas the cashier's entry in his Receiving Cashier's Cash Analysis book is totalled and dealt with later in the General Ledger Adjustment in form of total cash etc., received. In case where the customer draws out money by a cheque the paying cashier enters same in his Paying Cashier's Cash Analysis and hands same over to the Current Accounts Ledger keeper for being entered on the debit side of the customer's account, the cheque making the use of a separate slip unnecessary. There are other transactions in the day's work such as bills discounted, cost of cheque books supplied, dividend warrants collected, loans advanced, interest charged, tranfers from deposit to current accounts, etc., for which slips are prepared by the bank staff (one being the debit and other the credit slip) which are in due course passed along and dealt with in due course.

The General Ledger itself is a simple record of accounts in abstracts. It naturally contains a large number of adjustment accounts recording the bank's assets, liabilities and profit and loss accounts and is maintained on the sectional system of ledger balancing. In case of banks of smaller dimensions when subsidiary ledgers do not run into large numbers the General Ledger itself maintains those items in detail which would otherwise have been kept in the relevant subsidiary ledger.

BANK BALANCE SHEET.

Assets.

Bank Balance Sheets are prepared in case of Joint Stock Banks on what is known among accountants and book-keepers as the cash or realisability order as far as the assets are concerned.

Cash.

The first item generally on the Assets side is "Cash." This shows cash in hand with the bank, with other bankers in current account, at call and short notice and also bullion in hand. The cash at call and short notice is generally given as a day to day loan to stock-brokers and others against which there is always a deposit of gilt edged securities and treated as cash. Some banks head this item as "Cash and short loan investments."

Investments.

Here our Act wants investments to be stated with their mode of valuation, e. g., cost or market value. These consist mostly in Government of India loans, war bonds, shares, debentures of public companies, etc. It is the practice of all good Banking Institutions to show these investments at or under market value.

Loans and other Advances.

These are loans to customers either in form of a fixed loan or as an overdraft. They are of course advanced on proper security, in form of Government loans, shares, bills of lading, bills of exchange, life policies, mortgages, etc. When a fixed loan is given, a special loan account is opened in the customer's name, which is debited for the full amount of the loan and customer's current account is credited for that amount. In case of overdrafts allowed up to a certain amount only, a note is placed on the customer's current account as to that effect. Interest as it falls due on this loan is debited to the customer's current account and "interest on Loan Account" credited.

These Loans appear under the heading of Book Debts in the Balance Sheet and according to the amended Form applicable to Banking Companies have to be shown as Book Debts (other than bad and doubtful debts of a banker for which provision has been made to the satisfaction of the auditors) distinguishing between those considered good and in respect of which the bank is fully secured, and those considered good for which the bank holds no security other than the debtor's personal security, and distinguishing in all other cases between debts considered good and debts considered doubtful or bad.

The debts due by directors or other officers have also to be shown separately.

Land and Building.

This item generally consists of Bank Premises. The Form requires that original cost, less total depreciation written off, should be shown. In case of many first class banks the premises are depreciated much below their intrinsic value and thus a secret reserve is created.

Acceptances on behalf of Customers.

This item appears both on the "Assets" as well as on the "Liabilities" side. Banks undertake by granting letters of credit etc., to accept bills drawn upon them by foreign and other shippers against shipments made for their customers. The customers secure the banks with shipping documents and other securities, and by the time the bills fall due, furnish the bank with funds to meet their drafts. To take an illustration supposing that a merchant arranges shipments in England from say one of the colonies, the colonial merchant is given a letter by the English Banker at the instance of the English importer, by which the colonial merchant is authorised to draw bills upto a certain limit, within a certain period, which the English Banker undertakes to accept and pay. This arrangement enables the Colonial merchant to draw the bill and discount same in his own colony, thus securing cash against his shipments. Here the bank incurs a liability for which the customer is the debtor guarantor, hence this item appears both among the liabilities as well as the assets.

Bills Discounted.

This forms a very lucrative branch of local banking. As the bills cover the signature of more than one firm they form a very safe type of security to deal in, provided the banker keeps himself in close touch with the fluctuating financial position of various businessmen within his sphere of operations.

Other Assets.

Under this heading items such as furniture, stationery, etc., are displayed.

LIABILITIES.

Capital.

This item has to be shown on lines similar to those of other Joint Stock Companies. It may not be out of place here to state that under Sec. 136 of the Indian Companies Act, 1913, (corresponding Sec. 108 of the English Act) a statement in accordance with Form G has to be prepared and hung up in a conspicuous place in the registered office of the company, every first Monday in February and first Monday in August, showing the nominal capital, its division in shares, shares issued, calls made, cash received as against them, besides debts owing to the bank and the assets of the bank.

Reserve Fund.

This is a fund created in the usual manner out of undistributed profits. In case of Banks the same is invested in first class securities.

Deposits.

These will be either current account deposits, or fixed deposits, and will be shown separately. The total of these two classes of deposits will give the total liability of the bank to its customers which usually runs into figures many times the amount represented by the capital of the bank.

Provident Funds, Pension Funds, etc., for employees follow here, as also the item of unclaimed Dividends. The next item is the "Acceptances for Customers" which has been already dealt with.

Rebate on Bills Discounted.

This item represents that proportion of discount which has been deducted from bills which the bank discounted but which has not been earned during the period represented by the Balance Sheet because the bills are to run over a period to be covered by the next accounting period. In other words this item represents the proportion of discount carried over on "bills not due."

Profit and Loss Account.

This represents the balance of profit available for dividend less actual dividends paid during the accounting period. There are cases where this figure is shown with all details as to deductions by way of reserve fund transfer, etc., on the Balance Sheet.

Contingent Liabilities.

This item is shown on the balance sheets of banking companies in order to comply with the requirement of Form F. They may include unpaid balance on shares bought as investments, claims against the bank not acknowledged, arrears of cumulative preference dividends, etc., the items being shown in body of the balance sheet and not carried over to the amount columns.

The following Balance Sheet of a Bank has been taken from actual Practice.

THE BULLION BANK

Balance Sheet as

LIABILITIES.

	Rs. a. p.	Rs. a. p.
Capital:—		
AUTHORIZED—		
7,00,000 Shares of Rs. 50 each...	3,50,00,000 0 0	
ISSUED AND SUBSCRIBED—		
6,72,528 Shares of Rs. 50 each ..	3,36,26,400 0 0	
PAID UP—		
6,72,528 Shares of Rs. 25 each...	......	1,68,13,200 0 0
Note:—The above number includes 1,744 Shares of the Bullion Bank of India, Limited which remain to be given against 8,4[illegible] Coupons issued by The Bullion Bank of India Limited for a like number of Shares of The Commercial Bank, Ld., which have not yet been submitted for conversion.		
Amount Received on 31 Shares Forfeited	......	530 0 0
Reserve Fund	......	1,00,00,000 0 0
Sinking Fund in respect of Lease hold properties	......	35,761 15 0
Current and Savings Bank Deposits, Bills Payable, and other Sums due by the Bank	......	8,00,45,200 15 9
Fixed Deposits, including Savings Fixed Deposits	......	9,05,27,831 2 3
Debts due to Banks, Agents and Correspondents secured by Bills and Investments per Contra ..	......	2,66,50,622 8 11
Provident Fund	......	10,63,400 10 2
Unclaimed Dividends	......	1,07,830 11 0
Rebate on Bills Discounted ...	......	92,953 7 8
Branch Adjustments	......	2,57,151 8 2
Acceptances for Customers:—		
As per Contra	......	1,04,64,174 4 9
Bills for Collection:—		
Bills Receivable as per Contra ..	......	39,40,236 9 8
Profit and Loss Account:		
Balance as per Balance Sheet as at 31st December 1926	14,22,313 13 10	
Less—Final Dividend @ 10% per annum paid for the half-year ended 31st December 1926 Rs. 8,40,660 0 0		
Amount set aside for Income-Tax and Super-Tax Rs. 1,50,000 0 0		
	9,90,660 0 0	
	4,31,653 13 10	

OF INDIA, LIMITED.

at 30th June 1927.

ASSETS.

	Rs. a. p.	Rs.	a.	p.	Rs.	a.	p.
Cash and Investments :—							
Cash in hand		84,07,662	2	11			
Cash at Bankers		1,93,63,905	4	7			
					2,77,71,567	7	6
Moneys at Call and at Short Notice.		......			13,48,000	0	0
Bullion on hand		......			7,276	0	9
Investments :—							
Government Loans, War Bonds and other Gilt Edged Securities at or under market rate		......			8,95,88,589	3	3
Cumulative Preference Shares and Debentures of Joint Stock Companies at or under market rate..		59,90,208	5	5			
Shares in Public Companies and other Joint Stock Banks, etc., at or under market rate		26,50,012	8	4			
					86,40,220	13	9
Loans and other Advances :—							
Cash Credits, Demand Advances and Loans...		7,52,48,167	0	1			
Bills Discounted and Purchased ...		1,40,47,478	11	4			
					8,92,95,645	11	5
PARTICULARS REQUIRED BY ACT VII OF 1913 :—							
(1) Debts considered good and in respect of which the Bank is fully secured		6,24,68,408	9	5			
(2) Debts considered good secured by the personal liability of one or more parties as under :—							
(a) Debts due on Bills Discounted.	Rs. a. p. 1,40,47,478 11 4						
(b) Debts due on joint and several Pro. Notes	1,03,58,022 14 3						
(c) Debts due on Temporary Overdrafts, Demand Cash Credits and personal security, etc.	24,21,735 8 5						
		2,68,27,237	2	0			
		8,92,95,645	11	5			
(3) Debts due by Directors or other Officers of the Bank. Rs. Nil.							

LIABILITIES.

	Rs. a. p.	Rs. a. p.
Profit for the half-year ended 30th June 1927	9,54,959 5 8	13,86,613 3 6
Contingent Liabilities :—		
Rs. 4,34,210-0-0 of which Rs. 2,70,920 is on Investments in Shares of Joint Stock Companies and Banks		
	Rupees ...	24,13,85,507 0 7

We have examined the above Balance Sheet and Profit and Loss the cash and securities, and beg to report that we have obtained all the Balance Sheet is properly drawn up so as to exhibit a true and correct explanations given us, and as shown by the Books of the Company, and

Dated, .

ASSETS—*contd.*

	Rs. a. p.	Rs. a. p.
(4) Debts due by Directors of the Bank jointly with other persons or on securities and considered good including debts due by Joint Stock Companies guaranteed by their Agents, a Director of the Bank being a member of the firm of Agents 82,51,416 0 2		
(5) Debts Considered Doubtful or Bad... Nil.		
Land and Buildings (including Old Bullion Bank Premises and Standard Buildings) at Cost ...	48,04,652 2 8	
Less—Amount provided for in previous years	11,11,720 14 8	
		36,92,931 4 0
Bank Premises at Bombay, Calcutta, Karachi, Lahore and Asansol at Cost	67,42,227 7 8	
Less—Amount already written off...	11,66,224 1 0	
		55,76,003 6 8
Customers for Acceptances per Contra	......	1,04,64,174 4 9
Bills receivable	......	39,40,236 9 5
Other Assets :—		
Office Furniture and Fittings ...	12,51,319 6 9	
Less—Amount written off for depreciation	4,66,500 3 4	
		7,84,819 3 5
Stamps, Stationery and Stock of Home Savings Safes	......	2,76,042 15 8
	Rupees.	24,13,85,507 0 7

Account with the Books and certified Branch Returns. We have verified information and explanations which we required, and in our opinion the view of the Bank's affairs according to the best of our information and the is drawn up in conformity with the Law.

A. B. & Co.,
C. D. & Co., } *Auditors.*

Statement of Profit and Loss Account for the half-year ended 30th June 1927.

	Rs.	a.	p.		Rs.	a.	p.
To Interest on fixed Deposits	24,39,370	8	9	By Interest, Discount, Exchange, Commission and Transfer Fees, etc. ...	56,84,846	8	11
,, ,, ,, Current Accounts and Savings Bank Deposits	9,60,684	2	2				
,, Salaries at Head Office and Local Branches	4,10,918	5	3				
,, Salaries at Up-country Branches ...	4,23,344	2	1				
,, Directors', Committee Members' and Auditors' Fees	38,420	0	0				
,, Rent, Lighting, Taxes and other Charges	1.57,532	3	2				
,, Postages, Stationery, Advertising, Depreciation, Contribution to Provident Fund, etc.	2,99,617	13	10				
,, Balance (Net Profit)	9,54,959	5	8				
Rupees...	56,84,846	8	11	Rupees...	56,84.846	8	11

J., *Chief Accountant.*

Z., *Chairman.*

E.,
F., } *Directors.*
G.,

H., *Managing Director.*

EXERCISES ON CHAPTER XIII.

I. From the following particulars of the Merchants' Popular Bank Ltd. prepare the Bank's Balance Sheet of the half year ending 30th June 1919.

	Rs.	a.	p.
Subscribed and paid up Capital 20,000 shares of Rs. 1,000 each Rs. 500 per share paid up ...	1,00,00,000	0	0
Reserve Fund...	79,00,000	0	0
Contingency Reserve Fund... ...	1,00,000	0	0
Branch adjustments (debit balance).	13,51,710	11	5
Provident Fund	6,94,811	13	0
Office furniture and Fittings including additions	90,000	0	0
Stamps and Stationery Stock in Hand	13,143	13	6
Cash Credits and Demand Advances	3,18,17,485	1	4
Loans	4,06,19,485	7	2
Bills Discounted	43,17,195	3	9
Balance of Profit and Loss A/C as per Balance Sheet as at 31st December 1918...	2,45,526	3	10
Profit for the half year ended 30th June 1919, after providing for Income Tax and Super Tax Rs. 1,00,000	9,07,725	1	6
Fixed and Savings Bank Deposits ...	6,33,48,786	0	6
Current Deposits	3,53,29,184	10	5
Cash in hand	43,93,045	12	5
Cash at Bankers in current account .	95,36,873	3	9
Investments at or under market value	2,46,72,081	3	2
Bank Premises and other landed properties at cost	11,95,490	13	9

	Rs.	a.	p.
Unclaimed Dividends	62,782	0	0
Rebate on Bills Discounted not due..	17,695	9	0

Doubtful debts provided for Rs. 65,000. Debts considered good and in respect of which the Bank is fully secured Rs. 5,46,19,762-8-10, which amount includes Rs. 10,05,389-6-3 due by Messrs. Pinto & Co. in which Mr. A. G. Fernandez, Director of the Bank, is a partner.

Debts considered good secured by the personal liability of one or more parties Rs. 1,98,23,174-12-9 including debts (guaranteed) due by Joint Stock Companies Rs. 13,21,918-12-3 and debts due by individuals on Joint and Several Pro. Notes Rs. 4,07,826-0-0. Debts due on Temporary Overdrafts, Demand Cash Credits and Personal Security, etc., Rs. 22,46,228-6-8. Debts considered good, unsecured Rs. 22,46,228-6-8.

II. The Gujarat Bank, Ltd., is registered with a Capital of Rs. 30,000 shares of Rs. 100 each on 1st September 1923. From the following particulars prepare the Bank's Trial Balance, Profit and Loss Account and Balance Sheet as at 31st December 1925. Contingent Liabilities on Acceptances on behalf of customers amount to Rs. 20,000. Subscribed and paid up Capital, 24,000 shares of Rs. 100 each, Rs. 50 per share paid up 12,00,000.

Reserve Fund (Invested in Consols) ...	6,00,000
Amount added to staff retirement Fund ...	3,000
Freehold and Leasehold Property	1,80,000
Money on Demand and Short notice	2,74,250
Cash Credits	6,65,000
Loans	40,00,000

Bills Discounted	3,79,500
Interest, Rent, etc.	25,500
Balance of Profit and Loss Account as per Balance Sheet as at 1st January 1925 ...	65,300
Gross profit for the year	2,44,500
Current Expenses	22,500
Other Expenses, Salaries, Rent, Stationery, etc.	71,250
Cash in hand	84,750
Cash at Imperial Bank of India and other Bankers	15,00,000
Investments in Government Loans	6,00,000
Investments in War Bonds	8,25,000
Debentures of other Joint Stock Companies at or under market values	6,37,500
Other Securities	2,35,500
Bank Premises at cost	3,37,500
Current and Deposit Accounts	[illegible]1,[illegible]50
Debts due by Mr. Ambalal and Mr. Sakarl[illegible] Directors, and Mr. Parekh, Manager of the Bank, fully secured ... ... [illegible]	[illegible]5,000
[illegible]ts due by Joint St[illegible] Companies ... [illegible]	1,[illegible]50,000
Debts due on Joint and Several Pro. Notes ...	50,000

III. The Bank of Nobles is registered with a Capital of Rs. 10,000 shares of Rs. 500 each on 1st January 1921. From the following particulars prepare the Bank's Trial Balance, Profit and Loss Account and Balance sheet as at 31st March 1927 as required under the Indian Acts. The item of Investments etc. includes securities worth Rs. 15,00,000 which are lodged against Loans from other Bankers. Contingent Liabilities on shares of Joint Stock Companies amount to Rs. 2,39,100. Bills Receivable for collection, Rs. 1250. The net profit is to be appropriated

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to pay a dividend of Rs. 25 per share (free of Income Tax), to place to Reserve Fund Rs. 50,000, to write down the premises account by Rs. 25,000 and to set aside for Income Tax and Super Tax for the year Rs. 20,000 and to carry forward the balance.

	Rs.	a.	p.
Subscribed and paid up Capital 7,980 shares of Rs. 500 each ...	39,90,000	0	0
Amount received on 20 shares forfeited	5,000	0	0
Reserve Fund...	5,00,000	0	0
Contingency Reserve Fund	1,20,000	0	0
Salaries and Agent's Commission ...	80,253	9	1
Directors' and Auditors' Fees ...	6,625	0	0
Rent, Taxes, Insurances, Depreciation, etc.	18,563	13	0
Office furniture and Fittings including additions	60,965	15	0
Furniture Depreciation Fund ...	35,965	15	0
Stamps and Stationery Stock in Hand	322	10	0
Cash Credits and Demand Advances	6,14,943	2	8
Loans	26,86,348	14	10
Bills Discounted	14,99,200	0	0
Interest, Rent, etc., ...	3,85,405	11	11
Discount (after allowing for rebate).	38,887	13	9
Balance of Profit and Loss Account as per Balance Sheet as at 31st March 1926	3,42,713	11	5
Dividend Paid at Rs. 25 per share for the year ended 31st March 1926 ...	1,99,500	0	0
Amount set aside for Income Tax and Super Tax for the year 1926 ...	8,000	0	0
Stationery, Printing and Advertising	8,022	10	6
Telegrams, Postage and other charges	10,304	15	0

	Rs.	a.	p.
Cash in hand	2,29,579	8	1
Cash at Bankers	3,48,672	7	10
Investments in Govt. Loans, War Bonds, etc., and in Shares and Debentures of other Joint Stock Companies at or under market Value	49,15,172	5	9
Bank Premises at cost	17,35,227	0	6
Building Depreciation Fund ...	12,50,227	0	6
Bills rediscounted	10,00,000	0	0
Liabilities for Fixed, Savings, Current Deposits and other accounts...	32,12,598	5	11
Unclaimed Dividends	32,276	0	0
Rebate on bills Discounted	8,527	5	9
Loans from other banks	15,00,000	0	0

Debts due by Directors or other Officers of the bank nil. Debts due by Directors of the Bank jointly with other persons or on securities and considered good including debts due by Joint Stock Companies guaranteed by their Agents, a Director of the Bank being a member of the Firm of Agents, Rs. 1,03,035-8-0. Bad and doubtful debts, nil.

Debts considered good and in respect of which the Bank is fully secured Rs. 25,40,127 6 as. 4 p. Debts considered good secured by the personal liability of one or more parties as per next four items :—

	Rs.	a.	p.
Debts due on Bills Discounted ...	14,99,200	0	0
Debts due by Joint Stock Companies and other Companies	1,54,574	14	1
Debts due by individuals on Joint and Several Pro. Notes	6,01,123	0	7
Debts due on Temporary Overdrafts, Demand Cash Credits, Personal Security, etc.	5,466	12	6

IV. The General Ledger of the Maharashtra Bank Ltd., contained the undermentioned balances as on December 31st. Explain briefly what the figures represent, and where they would appear in the Balance Sheet of Bank. (1) Current Accounts Account, Rupees 12,674,491; (2) Investments Account, Rs. 78,32,922; (3) Rebate on Bills not due, Rs. 12,466; (4) Short Loans Account, Rs. 54,32,768.

V. Prepare the Profit and Loss Account of the Northern Bank, Ltd., for 1918, from the following particulars:—

	Rs.
Interest on Loans	2,59,000
Interest on Fixed Deposits	2,75,000
Rebate on bills discounted	49,000
Commission charged to customers	8,200
Establishment	54,000
Discount on Bills discounted	1,95,000
Interest on cash credit accounts	2,23,000
Interest on current accounts	42,000
Rent and Taxes	18,000
Interest on Overdrafts	54,000
Directors' and Auditors' Fees...	4,200
Interest on Savings bank deposits	68,000
Postage and Telegrams...	1,400
Printing and Advertisements	2,900
Sundry charges	1,700

(G. D. A.)

VI. The following is the trial balance of the People's Own Bank Ltd., on 31st December 1917. The authorised Capital of the Bank is Rs. Twenty lakhs divided into 20,000 shares of Rs. 100 each. The whole capital is subscribed and 50 per cent is called up. Draw up the Balance Sheet as on 31st December 1917 in accordance with the Companies' Act of 1913, and prepare the Profit and Loss Account of 1917 :—

	Rs.
Advertising	1,650
Balance of P. & L. A/c on 1st January 1917...	40,333
Buildings (cost price Rs. 2,80,000)	2,05,000
Capital paid up	10,00,000
Current accounts	34,12,829
Cash with Banks on Current account	16,05,125
Cash at Head Office and Branches	4,16,324
Directors' and Auditors' Fees	5,980
Furniture (cost price Rs. 50,480)	37,280
Fixed Deposits	58,98,554
Interest, Exchange, Commission, etc. ...	3,12,223
Investments at cost	2,78,125
Investment Reserve Fund	35,000
Loans, Cash Credits and Overdrafts	84,00,520
Liabilities for Expenses	46,894
Postages and Telegrams	1,156
Printing and Stationery	3,390
Rent, Taxes and Insurance	8,507
Reserve Fund	2,65,000
Reserve for Bad and Doubtful Debts	40,000
Salaries	52,150
Stamps on hand	189
Unexpired Insurance	437

Provide Rs. 8,000 for depreciation on buildings, Rs. 3,500 for depreciation on furniture, Rs. 25,000 for Investments Reserve Fund, and Rs.20,000 for Reserve for Bad and Doubtful debts. An ad interim dividend at the rate of 7 per cent per annum was paid for the half year ended 30th June 1917. Profit as per previous Balance Sheet was Rs. 1,80,333.

N.B.—As the necessary classification of loans, cash credits and overdrafts is not given, you are to mention the several sub-headings without mentioning the amounts under each sub-head, the total only being given in the outer column. (G. D. A.)

VII. The following particulars are taken out from the different statements of balances due to a Bank on the date of the Balance Sheet :—

	Balance on 31st December 1917.			Securities.	Market Value of the securities.			Remarks.
	Rs.	a.	p.		Rs.	a.	p.	
Loan No. 1.	40,318	6	8	Joint Promissory note & Stock Exchange securities.	30,205	13	6	
„ „ 2.	1,30,609	13	4	Shares of Various Companies.	1,60,000	0	0	
„ „ 3.	20,600	10	0	Second Mortgage on Property.	60,000	0	0	First mortgage for Rs. 35,000.
„ „ 4.	50,890	4	6	Joint and Several Promissory notes.	...			One of the signatories is a director.
„ „ 5.	10,670	2	6	Single Promissory note.	...			
Over-draft No. 9.	567	4	8	Credit balance of Savings Bank account.	1,400	7	0	
„ 10	200	0	0	......	...			Temporary.
„ 11	6,780	10	6	Bank's own shares	7,500	0	0	
„ 12	30,596	8	9	Shares & Railway Debentures.	20,850	0	0	Insolvent.

Prepare a statement classifying these book debts in accordance with the requirements of the Indian Companies Act of 1913, giving reasons for your classification; also write out the form in which these book debts ought to be shown in the Bank's Balance Sheet. (*G. D. A.*)

CHAPTER XIV.

Cost Accounts.

Costing is a science or method of analysing or tracking intelligently the various prime causes which go to build up the cost of a SIGNIFICANT UNIT of production, JOB or SERVICE, such as Raw Materials, Labour and Direct and/or Indirect expenses.

Cost accounts are a set of accounts particularly maintained with a view to keep the proprietors in close touch with fluctuations in the cost price of the various articles they manufacture, consequent to the fluctuations in the market price of raw material, labour and other items that go to make up the cost. This class of accounts have come into great prominence of late owing to the fluctuations of labour, the increase in the price of raw material and increasing competition in connection with many of the important articles of consumption. The student would realise, that in these days of competition, prices have to be cut down to a figure, where, the low margin of profits should permit of a quotation favourable enough to secure business and in the absence of a proper set of accounts to indicate the exact cost of articles manufactured, the manufacturer may quote a price too high to secure orders, or may quote so low that instead of making a profit he may be selling under his cost price and at a loss. The cost accounts relate to the actual working and administration of the factory and are therefore a set of accounts quite independent of the financial accounts of the business, though of course, they may have some indirect bearing on same. The other advantage afforded by cost accounts is, that a data is established by them, indicating from time to time the fluctuations in the exact cost of the articles manufactured, which might suggest measures with a view to lower the cost. They also afford a means of checking wastage by a careless employee in the factory or workshop and encourage healthy competition among the heads of various departments to work their respective departments at the lowest cost as compared to the produce. There are different classes of establishments where the cost accounts are applied with advantage, and though the principle is the same, the method of organization and work must necessarily differ.

A suitable system of costing should be devised according to the requirements and conditions of the particular business, so as to enable business activities to be conducted profitably consequent to greatest economy coupled with efficiency, which is possible under the system.

Advantages of Costing may be summarised as follows :—

1. It helps to quote competitive prices.
2. It helps to improve judgment.
3. Effective selling prices may be fixed.
4. Production statistics and records are available for comparison.
5. Labour is effectively remunerated without waste.
6. Proper record of material and stock prevents thefts, leakages, etc.
7. Where Stores Ledgers are kept, periodical Inventories could be prepared, and profit and loss made can be assertained with reasonable accuracy.
8. By charging-out material at market price, the effect of bad purchase is nullified to a certain extent.

Costing differs from Accounting in as much as, the former is a system of record based on "Averages," "Estimates" and "Percentages" (though not entirely or always) where Oncost is concerned, and generally keeps a record of Prime, Factory or Works Cost (sometimes Cost of Sales may also be recorded) of a Unit of Production, Job or Service, whereas Accounting is based on facts and figures recording financial aspect of every transaction, *i.e.* absolute money-totals. The latter is not concerned with Cost per Unit of production.

Students ought to make themselves familiar with the following terms and phrases.

Production Order : It is an authoritative order to a particular centre or department to proceed with the work specified therein, i. e., to execute a *Contract* or to manufacture articles for the maintenance of *Stocks*.

Works Orders : Are instructions to Works-departments to keep-up or maintain the efficiency of the various departments, e. g., orders for repairs, renewals or betterment of the internal auxiliary services, such as motor vans, lifts, cranes, or sweeping or cleaning, etc. It facilitates capitalising improvements.

Bill of Material : Is an advice to the Storekeeper as to the immediate requirements of material. It is issued after each Production Order is made, so as to enable the storekeeper to meet the requirements by replenishing his stocks wherever necessary.

Purchase Requisitions : Are requests by the Storekeeper to the Counting-House (Purchase Department) for further purchase of stores as enumerated in the requisition, to maintain his Stock *Quota*.

Talley Cards : Are tickets or tabs, placed or attached on the shelves, bins, dumps, etc., and on which the movement of goods is recorded for ready reference, being a quantity record of receipts and issues.

Dewey Decimal System : (Invented by an American) is the method of coding in order to facilitate reference ; figures are used on left and right of a decimal point, representing main classes and their subdivisions respectively, e. g., N 8.17, N for novels, 8 for shelf number, 17 for author.

Requisition Order : Is an order on the Storekeeper to issue particular materials for a specific *Job* (department or service) made by the Works or Departmental Manager. (After entering same in his books on issue of the materials the storekeeper passes it on to the cost office, to be analysed and charged to specific *Job* or *Orders*).

Stores Account Inventories : Are lists of Stores Ledger Balances.

Perpetual Inventory : Is a continuous record of Stores or Stocks, received and issued, balance as far as possible represents stores or stock on hand at a particular date. Same may be kept in quantities and/or values, being in form of Stores or Stock Ledgers. It facilitates continuous stock-taking.

Deficiency Account : Or Inventory Adjustment Account is an account which helps to reconcile differences between the book (quantity or value) and the physical inventories of Stock or Stores, the difference being written off after due investigation.

General Expenses : Are such expenses as are incurred for the general benefit (works as a whole) and which could not be allocated to any particular *Job* or *Unit of Production.*

NOTE ON DEFICIENCY ACCOUNT.

The differences generally arise, because the book-values are arrived at from the actual record of purchases from the "Purchase Invoices," whereas, the physical value is the value of the stock actually remaining on hand, and the difference may be due to pilferage, damage, accidents, deterioration, etc., or may be due to mistakes in valuations, castings or adjustments for scraps, residuals, obsolescence, etc., made in one and not accounted for in the other.

These differences may be to a greater extent reduced by introducing efficient system :—

1. To make careful purchases, store them properly, amply protected by insurance against risks, where needed.

2. The Scales and "Measures" used should be periodically tested to see that they are in order and upto the mark, in efficiency.

3. Institute a proper Gate-House supervision to prevent leakages and thefts, and

4. Maintaining a Perpetual Inventory of Stores for its control and check.

A trader simply buys goods and sells them at a price higher than his purchase price, the excess over his purchase price being his gross profit, from which when all his expenses are deducted he arrives at his net profit. A manufacturer on the other hand has to buy raw material which has to pass through the various processes of manufacture, which involves special expenditure known as "manufacturing direct expenses." These when added to the cost of the Direct or Content raw materials and Direct or Productive labour give the prime cost or flat cost, to which when the percentage of indirect factory expenses, such as, expenses incurred at the works known as "Departmental Oncost" or "General Works Oncost" is added, we get what is known as the "Factory or Works Cost." To this cost when indirect general expenses are added, like administrative or office expenses, we arrive at the "Cost of Production" also known as Total or Gross Cost ; again when a percentage of selling or distributive expenses is added, "Cost of Sales" is arrived at.

The cost accounts may be divided in the following classes:—

(1) *Terminal cost account or contract cost account* is maintained in business of contractors, builders, etc., who undertake specified contracts for specified work such as building of a bridge or a ship and wish to ascertain the exact cost incurred on each of the contracts together with a profit or loss made on same.

Out-put or Single Cost System is maintained, where the nature of the business is such that the cost of the total out-put for a period is required as in case of businesses of the nature of Mines, Collieries, Breweries, or standardised article of "food" manufacture, where there is standardised unit of production, e. g., a ton of coal raised, barret of beer, etc.

3. *Multiple Cost* records are kept where the cost of each unit produced is required to be known, and where each unit has no apparent relationship, e.g., Toys, Boots and Shoes, Cycle accessories, etc.,

4. *Operating or Working Cost.* Where the exact cost of "working" or Service rendered is to be ascertained, e.g., Train or Car Mile, Gas, Electricity, or Water Concerns, etc.

5. *Process Cost.* Where in process of production, conversion of material takes place and besides obtaining the principal article required, valuable by-products also result. Here the cost at every stage or process through which the goods manufactured pass is required to be known, e.g., Food-stuff, Tanneries, Chemicals, etc.

Terminal or Contract Cost Accounts.

Under the above system a separate contract ledger would be maintained, in which separate accounts of each of the contracts would be opened and the contract would be numbered. The actual cost of every contract would be debited to the particular contract concerned in the Contract Ledger as per the form given below. The cost would consist of materials, labour, carriage and establishment charges. The materials would be made up of those purchased specially for those particular contracts and those supplied from the general stock.

The actual depreciation on the plant and tools in use on the contract is also ascertained and debited to the contract. The wages spent on the particular contract are ascertained from the wages sheets received from the person in charge of that particular department and debited to the contract. The contract account is credited from time to time with the actual amount of work completed as per the terms of contract or according to the Surveyor's certificate obtained from time to time and for which the money is now due from the party who has granted the contract.

CONTRACT LEDGER

Contract No.

Dr. *Cr.*

Date.	Particulars.	Folio.	Materials.	Wages.	Plant.	Establishment charges.	Total Debits.	Date.	Particulars.	Folio.	Total Credits.

Out-put Or Single Cost Accounts.

The object of this output or Single cost account is, as we have seen above, to ascertain the exact cost on the output taking same at a round figure such as 20,000 tons of coal. A special cost sheet is made out in which the actual cost incurred on the output during the period, say the month of August, may be taken. Taking as an illustration the case of a colliery, working in the month of August 1927, during which it produced say 20,000 tons of coal, the cost of these 20,000 tons could be arrived at by ascertaining first of all the actual wages paid to the workmen and adding to this the cost of working, such as, rates, insurance, rent, depreciation, salaries, cartage, &c., to which would be added a fixed proportion of the office expenses paid during the month, and thus, the total cost of 20,000 tons of coal would be arrived at which when divided by 20,000 would give the cost per ton of coal.

OUT-PUT COST SHEET OF AN IRON MINING Co.

Total out-put Raised : 20,000 Tons.

For the Month ending 31st August 1927.

	Total cost of 20,000 tons.	Cost per ton raised.
I. Wages :—		
Under ground		
Surface		
II. Working Expenses :—		
Stores		
Repairs and Renewals		
Timber and Wood		
Rates and Taxes		
Repairs		
Insurance		
Surface Rents		
Royalties		
Cartage		
Wear and tear		
III. Administration Expenses:—		
General Expenses at office ...		

Multiple Cost Accounts.

This system is applicable to undertaking manufacturing a number of articles at one time bearing no apparent relation to each other in cost or selling price, though standardisation in parts is carried to the highest degree of specialisation in manufacturing. To take some examples, Agricultural implements, Engineering tools and specialities, Motor car or Cycle accessories, Hosiery, Boots, Furniture, etc., are the lines where the multiple cost system would be applicable with great advantage.

The manufacture of a number of articles naturally involves constant and regular processes at various stages of their manufacture and also necessitates repetition in every such department. It is not possible therefore to ascertain the actual cost of all different component parts of a single article in order to ascertain the total cost of such article without involving laborious methods and prohibitive costs. What the multiple cost system aims at is to ascertain cost of a given number of articles, at each and every stage of their manufacturing process so as to arrive at the total cost at whatever stage, the given number of articles may have been lying completed, at balancing time.

To take an example of pocket knife, it would not be practicable to cost out every component part separately and thus arrive at the total cost of the knife, but where the manufacture of 10,000 knives is taken in hand, we may know the exact cost not only in aggregate but even at their different stages of manufacture, viz., cutting, machining, fitting, finishing, warehousing, etc. There will be Departmental cost accounts prepared at every process. In short the principle on which this system is based is the realisation of some common standard of measurement in order to admit of the comparison of manufacturing efficiency from time to time and of allocation of costs and expenses.

Operating or Working Cost Accounts.

This method is applicable to Railway or Tramway companies, Electric Lighting, Gas and Water undertakings etc., practically where the cost per unit is to be ascertained from the data of the total cost. All the materials for costing per unit are available from the financial books of accounts. Under this system, the operating cost of a Railway Train per mile or per hour where the total cost and mileage are known is an illustrating example. Similarly the cost of electricity consumed per unit, or the output of refrigerating plant per hour, where total cost of the complete operation or working is known from account books, are examples of the most common type.

Process Cost Accounts.

This method is most useful in Chemical Industries, foodstuffs etc., in which conversion of material takes place and besides the principal products, there are also obtained a number of by-products. This subject is of a highly technical nature but we shall deal with the general principles to explain how this system is employed.

Here when the raw materials are purchased it is very important to know what various component parts, amount of moisture etc., is contained in such materials, and this may be ascertained whenever there are facilities, by chemical examination or analysis. Then the material is put through the manufacturing process, resulting in (1) solids, (2) liquids, and (3) gases, and all these three resulting products are, as far as possible, collected and fully taken advantage of in obtaining various by-products, side by side with the principal product which is made.

Ignoring the technical side of the question which requires very careful handling by experts, we shall concentrate our attention only to cost accounting. Break is made in cost recording, at every stage of individual process, say firstly, concentration of materials, then crystallisation, purification, etc., and a separate account of each process is opened out and debited with its proper share of labour, material, coal, power, depreciation etc., thereby obtaining the total cost under each process.

The previous process cost is transferred as the commencing material to each subsequent process account. By-products, however, are of material value and have therefore a considerable influence on the cost of the principal article manufactured. Where such by-products do exist, their value is ascertained and credited to the process account in which they arise, thus reducing the cost of manufactured product of that particular process. The last process account, it is needles to say, will give the total cost of production of the principal article after all charges, direct and indirect and those of general nature are charged up, the by-products showing their own cost, under their different headings.

General Considerations in Cost Accounting.

(Manufacturing or Factory Costs.)

In case of manufacturers manufacturing articles either on their own account and offering them for sale, either direct or through agents, or manufacturing them on departmental requisitions, the cost account indicates the cost of articles manufactured from time to time. The items of expenditure that have to be carefully taken into account in arriving at the cost are, Materials used, Wages, use of Motive power, Repairs and Depreciation to Machinery and other expenses direct or indirect. We shall now deal with the most important of them.

Materials used.

In all these cases the first item of great importance is the "stores." There are three books kept to record them. The store after they are purchased go to the godown from whence they are issued from time to time to the various departments of the factory as requisitioned. Thus the first book in which they are recorded is the Stores Inward Book or Journal, with details as to the nature of the material, quantity, price and the party from whom it is received. When the stores are issued they are entered in the "Stores issued book" with particulars as to the department to which it is issued, the number of the request, its value, quantity, etc.

Besides these two books of general record of Stores going in and out of the warehouse, a special book called the Stores Ledger is kept in which separate headings are maintained on the same principle as the Ledger accounts. These headings refer to the various materials classified and arranged under separate "heads." Here the items from the stores Inward and Issue books are entered, the former on the left hand side and the latter on the right hand side, the difference showing the actual stock in hand of the particular material. The details recorded on the left hand side are, the date of receipt of the stock, invoice number, quality of stores, invoice book folio, price and value. The right hand side details are, the date of issue, the department to which it is issued, quantity, folio of the Stores Issued Book, the price and the amount.

When any material is issued per "requisition", the Store-keeper after entering same in his Stores Issued Book passes on such "requisitions" to the Cost Office, who in their turn sort out and arrange these requisitions for giving debits to the appropriate Job Cost Accounts. Similar effect being given for stores returned.

Wages.

The next item of importance is "the wages." These run up to a large figure and influence the cost to a great extent, which makes a proper record with checks and counter-checks, absolutely necessary.

There are various types of "Wage Records," and as "Wages" form an important item in "Costing" a proper system with checks and counter-checks suitable for a particular business should be introduced to bring about economy coupled with efficiency. The point to be remembered is that the wages paid are in return for the actual "value received" in services, i.e., Production.

Wages may be paid per "Time Rate" or "Piece Work Rate". Sometimes to give an incentive to the workmen, to co-operate and work efficiently, "efficiency premiums" may be paid, over and above the wages.

Time Workers:—A proper Gate-office record of time, for the preparation of Wages Sheets should be inaugurated. The up-to-date method for recording time is a "Clock" device. Workmen are supplied with cards bearing their names, number, the department in which they work, etc. When entering the works in the morning, they insert these cards into the "Clock Machine" which is placed in a convenient place near the entrance, and by pressing the lever or button the exact time of their entering the works is printed on the card with the date, which they then place in a box provided for collection. Care being taken to see that an absentee's or a late-comer's card is not clocked-on by someone. Similar method is to be followed for clocking-out the workmen when they leave the works or factory. From these cards a detailed record is maintained for the preparation of Wages Sheets or "Pay Rolls."

Departmental time record is also kept by each departmental foreman, and absentees or late-arrivals are reported to the Wage Office daily. It is the duty of the foreman to see that all the workmen are at their places during the work-hours. As a check, the wages-clerks tour the departments and try to reconcile the "departmental time record" with the Gate-office record, and differences if any should be accounted for, e. g., time spent or wasted in between jobs etc., within tolerable limits.

Wage Office prepares weekly summaries of wages to be paid, and prices out the hours put in at the appropriate rates, taking into consideration, fines, defective work, overtime, advances or loans, deductions for National Health Insurances, etc., for each of the workman.

Another method of keeping a "time record" being that each workman is provided with a disc bearing his registered number, which, on entering the Works premises he has to remove from one board where all the discs are hung-up serially and has to hang up same on another board over his own number painted on that board, which is prominently placed specially for that purpose. These boards are removed, after a fixed limit of time allowed to workmen for entering the works premises, by the time-keeper to prepare his time records; late comers having to get their presence marked personally. At the close of the day, a similar method is followed to record time of the workmen leaving the premises.

The workmen may be paid on the basis of piecework *i. e.*, for the actual workdone. In case they are to be paid according to the work done, there ought to be some arrangement by which the quantity of work done gets automatically recorded on the machine on which they work, if not, the foreman or piece-work inspector has to record same. The foreman takes down this record either from the machines, or from his notes, and makes out a wages sheet showing the actual work done by each of the men, which is checked by a clerk from the counting house with the total work done. This record would be entered in the wages book, together with the name, or the number, of each of the workmen, also indicating the amount due to each.

The Pay Roll is prepared on a departmental basis, for Time and Piece work.

When the job time Cards or Tickets showing the amount of time put in by the various workmen on various jobs or contracts are agreed with the gate office records and evaluated, these cards will then form the basis of debits to the various Cost Accounts in the Cost Ledger re: Direct or Productive Labour employed in respect of same.

Oncost:—In simple language Oncost means, indirect expenses or charges, sometimes also known as "Overhead Charges" "Burden" or "Loading". Indirect expenses incurred at the Factory or Works, known as "Shop" or

"General Works" Oncost, is usually made up of items like, wages of general labourers, factory rent, rates, and taxes, etc., salaries of supervisors, managers, technical Directors, expenses for store-keeping, purchase, inspection etc., crane-drivers, yardmen, depreciation of drawing, patterns, plant and tools etc., lighting, power, heating and such other miscellaneous works expenses, which could not be directly charged to any job or contract in hand. Whereas indirect expenses incurred by the office, known as Office (or Administration) Oncost, is usually made up of items like, office salaries, rent, rates and taxes, lighting, heating, printing and stationery, directors' fees, telephone, postages, legal and other professional charges, etc.

These indirect expenses have got to be allocated to the various jobs or contracts which received the benefit therefrom. The basis of allocation may be a (°/₀) percentage on the wages spent on these jobs or contracts as compared to the total wages paid, where wages form an important item of the total cost of the job; or at varying rates for the different items of expenses, as per the benefit that each of the job or contract had derived from same e.g.:—rent, rates, lighting, heating etc., according to the floor space occupied; supervision, time-keeping, etc. according to the number of workmen employed on that job or contract; power, per metered or estimated units, etc. Fixed percentage basis, based on past experience and record, though simple, is inaccurate. Under this method an arbitrary percentage is charged to cover Oncost. Other methods are Labour Hour Rate or Machine Hour Rate, where labour or machine forms a dominant factor.

COST LEDGER.

Job (or Order) No......... ....

			Content Material.								Credits.								On Cost.		
			Stores.			Direct Purchases.					Stores Returned.			Residuals.							
Date.	Particulars.	Productive Wages.	Registration No.	Details.	Amount.	P. J. Folio.	Details.	Amount.	Direct Expenses.	Total Debits.	Credit Note No.	Details.	Amount.	Credit Note No.	Details.	Amount.	Total Credits.	Prime Cost.	Factory.	Office.	Total Cost.

Cost Sheets.

These are made out weekly in cases of manufacturers manufacturing articles on their own account. These sheets are composed of an analysis of the various expenditures, and the cost of the stores consumed as recorded in stores wages and other books. Besides these expenditures a charge for the wear and tear of machinery would be added. These sheets show the quantity of work turned out in the last week, the expenditures in detail, and the total which shows the cost. It also shows the result of the same week last month and the corresponding week of the previous year for comparison. The cost sheet in the case of a yarn spinning mill would be in the following form.

The Indian Yarn Spinning Mills Ltd.

Cost Sheet for the Week-ending............

Heads of Expenditure.	Week under review.			This week last month.			This week last year.		
	Expenditure analysis in detail.	Total Cost.	Total weight of Yarn Spun.	Expenditure analysis in detail.	Total Cost.	Total weight of Yarn Spun.	Expenditure analysis in detail.	Total Cost.	Total weight of Yarn Spun.
	Rs. a. p.	Rs. a. p.		Rs. a. p.	Rs. a. p.		Rs. a. p.	Rs. a. p.	
Material used Wages.									
Use of Motive power & Gas									
Repairs & Depreciation of Machinery.									
Rates and Taxes.									
Other expenditure of manufacture.									

If on the other hand the factory is manufacturing an article on a special contract a special cost sheet is made out for the contract or in case where the articles are of a nature that require more labour and material and run up to a large amount a cost sheet for every article manufactured to order is made out. Supposing that a Foundry of Iron Founders and Engineers make a lathe on order for a firm they would make out a cost sheet by taking the figures of cost from the various books of cost accounts set. It would be made out in something like the following form:—

Cost sheet for a Lathe made for A. B. as per their order No.........contract No............

	Rs.	a.	p.	Rs.	a.	p.
Wrought Iron—lbs. used at						
Steel — " " "						
Casting — " " "						
Brass — " " "						
Steel Iron — " " "						
Other Stores — " " "						
Wages.						
Turning						
Fitting						
Straping...						
Other Sundries						
Prime Cost.						
Add Percentage fixed for Indirect Expenditure ...						
Cost						

EXERCISES ON CHAPTER XIV.

I. What is "Costing"? In what way does it differ from general Accountancy?

II. State the advantages of a Cost System. What are the various types of Costing and in which of the businesses they are utilised?

III. Explain the following terms:—Tally Card; Dewey Decimal System; Purchase Requisition; Works Order; Production Order; Inventory Adjustment Account; Components; Pay Roll; Unproductive Labour.

IV. Give suitable ruling for:—Wages Sheets; Stores Received and Issued Book; Stores Ledger.

V. What are Cost Sheets and when are they prepared? Give a suitable ruling of one with which you are familiar.

VI. In the Nominal Ledger of a firm of contractors you find the following account:—

Cost Book Accounts.

Dr. *Cr.*

		£.			£.
Jan. 1.	To Balance B/d	3,000	Dec. 31.	By Contracts & Charges ...	45,000
Dec. 31.	" Goods and Materials from Stock.	23,000		" Materials returned to Stock ...	2,500
	" Wages ...	16,000		" Balance c/d	3,200
	" Sundry Cash payments ...	200			
	Transfer to P & L A/c	8,500			
		50,700			50,700

Jan. 1. To, Balance B/d £ 3,200

Explain fully the meaning and use of this account.

(*Chartered Accountants.*)

VII. What are the divisions of Cost? Show how they are arrived at.

VIII. State the theory of Overhead Charges or Oncost, saying how they are determined, and how applied. (*Chartered Accountants.*)

IX. Give a specimen ruling of a Cost Ledger. What are "Efficiency Premiums"?

X. Give a brief description of charging-out Oncost under the following methods:—

1. Percentage on Wages and/or Materials.
2. Direct Labour Hour Rate.
3. Machine Hour Rate.
4. Varying Rates.

Which in your opinion would give more accurate results?

XI. Classify the various distinct methods of Costing. Explain the peculiar characteristics of each, and state to what particular class of undertakings each is applicable. (*Chartered Accountants.*)

XII. From the point of view of Cost Accounts, discuss and compare the practice of paying wages: (a) On the piece-work system: (b) On the day-work basis: (c) On the bonus or premium system. (*Chartered Accountants.*)

XIII. State the unit or units of out-put or earning generally in use in preparation of Cost Accounts of the following; (1) Breweries; (2) Brickworks: (3) Collieries; (4) Electric light works; (5) Gas Works; (6) Iron and Steel Manufacturers; (7) Tramways; (8) Waterworks. (*Chartered Accountants.*)

XIV. The Northern Foundry Company, Ltd., are manufacturers of steel castings.

The Company has instituted a system of costing, and you are requested to advise as to the basis on which standing charges and establishment expenses should be charged.

The manufactures of the company vary greatly, some of the castings being of considerable size and weight, and others very small but requiring intricate workmanship.

The points you have to deal with are: (1) Foremen's wages, and wages of labourers and others not directly charged; (2) Rent and rates; (3) Travellers' Salaries and expenses, and expenses of the forwarding department; (4) General office expenses; (5) Salaries of manager and managing director.

What would you advise? (*Chartered Accountants.*)

XV. A firm of Constructional Engineers carry on business which is almost entirely done under contracts. Most of the material required is purchased specially for these contracts, but quantities of general materials are also purchased for stock. They desire to be kept advised of the progress of the cost and the ultimate profit or loss on each contract as completed. State the general outlines of a system of Cost Accounts you would recommend for this purpose! (*Chartered Accountants.*)

CHAPTER XV.

INCOME-TAX ACCOUNTS.

In India the present Act in force is the Indian Income Tax Act 1922. This extends to the whole of British India including British Baluchistan and the Sonthal Paraganas and applies also, within the dominions of Princes and

Chiefs in India, in alliance with His Majesty, to British subjects in those dominions, who are in the service of the Government of India or of a Local Authority established in the exercise of the powers of the Governor-General-in-Council in that behalf, and to all other servants of His Majesty in those dominions. The Act came into force on and from 1st day of April 1922 and is the result of various modifications made since 1886.

Income Tax is a levy made by a Government on the income or profits of individuals, Firms and Companies in consideration of the protection by the Government of the Assets, which earn such profits, of such persons and of trade and commerce in general. The Preamble to this Act is quite clear and very often a tussle takes place between the Authorities and the Assessee to prove an item as of a Revenue character or of a Capital nature.

The Principles of Taxation at the Source.

The guiding principle as far as the collection of tax goes is that the same is to be collected at the source, i. e., the party paying the income to the assessee has to deduct the tax and pay same over to the Government. Thus in case of salaries, Interest on Securities and dividends on shares of joint-stock companies the person responsible for paying any of these must deduct the income tax on the amount paid. In case of salaries it is to be deducted at the rate applicable to the estimated income of the assessee, whereas in case of interest on securities and dividends the same has to be deducted at the maximum rate of one anna and six pies and the person so deducting the tax furnish the person from whose income this tax is deducted a certificate to the effect that he has deducted the tax. The assessee can then put in his claim for refund when he prepares his own return of income in case his total income calls for lower rate of assessment. This application for refund has to be made within one year from the last day of the year to which the claim relates.

The tax is supposed to be paid by every individual, Company, Firm and Hindu Undivided Family resident in British India and the dominions mentioned above on income from properties, Securities, Trade, Profession or Employment accruing, arising or received in British India and the said Dominions.

If an assessee receives an income in India from sources in England he has to pay tax here and at England but as to the question of refund the same is adjusted as per arrangement existing between the two countries.

The tax is payable for the year beginning with 1st April and is always calculated on the basis of the profits of the past year, which may be a Hindu Calendar or Government Year.

Income Not Taxable.

1. Income from Property held in trust for Charitable, Educational or Religious purposes,
2. Income of Religious or Charitable Institutions,
3. Income of Local Authorities such as Municipalities, Port Trust, Improvement Trust, etc.,
4. Interest on any Securities represented by any Provident Fund to which the Provident Fund Act of 1897 applies or held by any Provident Insurance Society,
5. Capital Income received in commutation of Pension, Provident Fund or Policy Money on compensation for death or injury,

6. Any special allowance or perquisite, etc., such as Travelling Allowance, etc.,
7. Legacies and Devices, etc.,
8. Agricultural Income,
9. Casual and non-recurring income such as sale of certain assets like furniture etc., (Sec. 4),
10. A benefit which is not money nor convertible in money.

An Assessee is also not Liable to Pay Tax on.

1. Income received by him as a member of Hindu Undivided Family,
2. Income received by him by way of Dividend of a Company the profits of which have been assessed,
3. Income from a firm as a partner the profits whereof have been assessed as an Unregistered Firm,
4. Any sum paid by way of Insurance Premium on his life provided such premium does not exceed 1/6 of total assessable income, (Sec. 14 & 15).

Taxable Income

The following are incomes liable to tax :—

1. Salaries, Wages, Annuity, Pension, Gratuity and other receipts in lieu of and in addition to Salaries,
2. Interest or Dividend on Securities,
3. Interest on Securities of the Government of India which are not Free of Income Tax,
4. Income from Property,
5. Income from Business, Trade, Profession and Vocation,

6. Income from other sources such as Interest on Mortgage, Loans, Debentures, Fixed Deposit and Current Account, or from Directors' Fees, or from Ground Rent or profits from transactions whether in partnership with others or not, which have not been accounted for elsewhere.

Scale of Rates.

When the total income is less than Rs. 2,000 ... Nil.

When the total income is	Rs. 2,000	But is less than	Rs. 5,000	5 pies in the rupee.
Do.	5,000	,,	10,000	6 ,,
Do.	10,000	,,	20,000	9 ,,
Do.	20,000	,,	30,000	1 anna ,,
Do.	30,000	,,	40,000	1 a. 3 ps. ,,
Do.	40,000	or upward	...	1 a. 6 ps. ,,

It may be added here that in case of Joint Stock Companies and every registered partnership firm the tax at the source will be charged at the maximum rate of 1 anna and 6 pies in the Rupee leaving the shareholders and partners in each individual case to claim a refund on the basis of their own returns for assessment.

Income from Salaries, Wages, etc.

The income taxable under this head includes not only Fees, Salaries, Wages, Annuities or Pensions but it also includes any fees, Commissions, Perquisites or profits received in lieu of or in addition to Salaries, Wages and are paid to a servant or employee by the employer. The right of a person to occupy free of rent as a place of residence any premises provided by his employer is treated as a perquisite for the purposes of income-tax. Salaries paid from Indian Revenues to Government Employees in any part of India as well as those paid by a Local Authority established in exercise of the powers of the Governor-General-in-Council are chargeable provided these public servants are employed in any part of India. Thus salary is taxed at the source, i. e., the employer is expected to deduct same as we have seen above when paying the salary.

Formerly under the Old Act an option was given to the Employee as to the deduction of income-tax at the source, whereas under the present Act the tax must be deducted at the source if the employee's income is found assessable, i. e., Rs. 2,000 or upwards per annum. In default of this, if an employee fails to pay the tax or escapes the assessment the employer is responsible to pay the same to the Authorities.

Such income under the above head amounting to Rs. 2,000 or upwards per annum is assessable. Of course, deduction is allowed for Life Assurance Premium to the extent of 1/6 of total income. The Head of a Government Office, or of a Local Authority or of a Company, Association, Firm, etc., is required to prepare a Return showing the name of every person whose annual income amounts to Rs. 2,000 or upwards per annum, under the present Act. The Statutory Form is reproduced below.

The return to be delivered to the Income Tax Officer under Section 21 of the Act shall be in the following form :—

Serial Number.	Name of Person.	Postal Address of residence.	Appointment or nature of employment.	Total amount of salary, wages, annuity or pension paid during the year ending on 31st March 19 .	Amount of gratuity, fees, commissions, perquisites (including rent-free quarters) or profits in lieu of or in addition to salary or wages.)	Total of columns 5 and 6.	Deductions, section 7 (1) proviso, section 15.	Net amount chargeable.	Amount of tax-payable.	Reduction under section 17.	Amount of tax-deducted.	Remarks.
1	2	3	4	5	6	7	8	9	10	11	12	13

I certify that the above statement contains a complete list of the total amounts paid by . . . . to all persons who were receiving income on the 31st day of March 19 , at the rate of Rs. 2,000 per annum, or have received during the year ended on that day not less than Rs. 2,000, in respect of salary, wages, annuity, pension, gratuity, fees, commissions, perquisites, or profits in lieu of or in addition to salary or wages, and that all the particulars stated are correct.

Signature of person by whom the return is delivered.

Date.

Interest from Securities.

In case of interest receivable by an assessee on any Security of the Government of India or of a Local Government or on Debentures or other Securities for money issued by or on behalf of a Local Authority or a Company is liable to income-tax. The only exception here is, the Securities of the Government of India which are declared to be income-tax free. Even in case of Sterling Securities either of the Government of India which are floated on the English Market or Sterling Securities of English Companies carrying on business in British India, the income will be liable to tax in case the assessee in British India receives such interest in British India within three years of the end of the year in which they accrued or arose. If, however, he does not actually receive same in British India he may be made liable if it could be proved that the interest did accrue or arise in British India. The text applicable in this connection is the question whether the said income was actually received in British India or the assessee has a right to receive same in British India. The interest on Sterling Debentures which are issued by Companies in England are those on which the assessee has a right to receive interest in England if he so desires, are not chargeable with tax here. On the other hand, interest on Promissory Notes of the Government of India which are enfaced for payment in England the same is assessable in India because, here the right to receive payment of interest is a right to receive same in India and the fact that the document is enfaced for payment in England is only a concession.

Income f ... ecurities.

Here generally speaking income-tax is deducted at source. In case of Government Securities the tax is deducted at the maximum rate, viz., one anna and six pies in the Rupee at the source. It may further be mentioned here, that when a Local Government issues Securities free of income-tax, that Local Government pays the tax thereon to the Central Government; for example, Bombay Development Department Loans. In case of Limited Companies dividends are declared either free of income-tax or less income-tax. In case when dividend is declared less tax the income-tax is deducted at the maximum rate and only the net dividend is paid by the Company. In other words, such income-tax deducted by the Company is credited to Income Tax Account in the books of the Company and this will relieve the burden of tax to the Company at the time of assessment of the Company's income.

If on the other hand dividend is declared free of income-tax the whole amount is paid to the shareholder; in other words, the Company will bear the whole tax on its profits, at the time of assessment. In all cases it will be noted that Income-tax, if deducted, is at the maximum rate, viz., 1½ Anna in the Rupee.

An assessee while preparing his statement of income from Securities will have to take Gross income for rate purposes.

Illustration.

A has received the following income from various sources:—

1. 6% (Less Tax) on Rs. 3000 Preference Shares of X. Y. Z. Co., Ltd.,
2. 6% (Free of Income Tax) on Rs. 50,000 Preference Shares of Bombay Petroleum Co., Ltd.,

3. 10% (Less Tax) on Rs. 50,000 Ordinary Shares of the Commercial Bank, Ltd.,
4. 5% War Loan of Rs. 30,000,
5. 5½% War Bonds of Rs. 50,000 (Free of Income Tax),
6. 6% on a Loan advanced to City Oil Mills Co., of Rs. 30,000,
7. Income from Business of Export and Import of Rs. 3,000,
8. Interest on Fixed Deposit of Rs. 20,000 at 6% with Commercial Union Bank, Ltd.,
9. Interest on Current Account with Simplex Bank, Ltd., amount of Interest Rs. 300.

Income Already Taxed.

Securities.	Nett Income.			Tax Paid.			Gross Income.		
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
1. 6% (Less Tax) on Rs. 30,000 Preference Shares of X. Y. Z. Co., Ltd.	1,631	4	0	168	12	0	1,800	0	0
2. 6% (Free of Tax) on Rs. 50,000 Preference Shares of Bombay Petroleum Co., Ltd....	3,000	0	0	310	5	6	3,310	5	6
3. 10% (Less Tax) on Rs. 50,000 Ordinary Shares of Commercial Bank, Ltd. ...	4,531	4	0	468	12	0	5,000	0	0
4. 5% War Loan of Rs. 30,000.	1,359	6	0	140	10	0	1,500	0	0
5. 5½% War Bonds (Free of Tax) of Rs. 50,000 ...	2,750	0	0	*Nil.*			2,750	0	0
	13,271	14	0	1,088	7	6	14,360	5	6

Income to be Taxed.

6% on Loan of Rs. 30,000	1,800	0	0
Business Income	3,000	0	0
Interest on Fixed Deposit of Rs. 20,000, at 6%	1,200	0	0
Interest on Current Account	300	0	0
Total Assessable Income	20,660	5	6

As the total income of A is over Rs. 20,000 he will have to pay Tax at 12 pies in the Rupee on Rs. 6,300. On the other hand he can claim a refund of 6 pies in the Rupee on Rs. 11,610, namely income from items Nos. 1, 2, 3, and 4. In other words he can have a refund of one-third of Rs. 1,088-7-6.

Although the assessee claims a refund he cannot claim a set-off against the tax to be paid. He must pay the tax due first and then send in his claim for refund. Claim for refund of tax deducted at the source should be made within one year of the last day of the year in which the tax was recovered.

Income from Property.

Here tax is payable in respect of bonafide annual value of property consisting of Buildings, or Land or Lands appertaining thereto, of which the assessee is the owner. The bonafide annual value of the building is the full market value at which the building can be let from year to year irrespective of charges by way of Municipal Rates or Taxes though Municipal Rates and Taxes may at the descretion of the Commissioner be taken as a guide in arriving at the actual figure of annual value for Income Tax purposes. Thus there is much difference between the annual value and the actual rent payable in cash on a long lease or a privilege rental. If, however, the owner himself is using the house for the purpose of his own residence, the annual value will be restricted to a maximum of 10 per cent. of the total income of the owner. The annual value is no doubt more or less an approximate sum which is to be ascertained in each case according to the locality and other circumstances and for this purpose the existing lease may no doubt form a rough guide but it is not conclusive as far as the Income Tax Authorities are concerned.

The Income Tax Commissioners however all over India (though not strictly bound by Law) are generally prepared to accept the basis of assessment by Municipalities in the localities where proper Municipal bounds are established and a satisfactory valuation of property is made by the Municipal Assessors in their opinion. Where Municipal valuation is accepted the income-tax is taken upon the gross valuation income of the property arrived at on the basis of the Municipal Bill. The Municipal Bill is based upon the net rateable value of the building or land and in order to arrive at that, the amount of annual rent for which such land or building might reasonably be expected to be let from year to year is first ascertained as gross rateable value. From this gross amount a sum equal to 10 per cent. of the said annual rent is deducted by the Municipality in lieu of all allowances for repairs or on any other account whatever as provided for by the Municipal Acts. Thus the bill represents net valuation and therefore for the income-tax purposes a net rateable value is to be converted again into gross annual rental value. The rateable value as fixed by the Municipality is converted into gross by multiplying by 10 and dividing by 9. Care must be taken to see that the current year's Municipal Bill is taken into account, that is if we are preparing the statement of assessable income for the year ending 31st December 1926 or 31st March 1927 or also Vadi Amas of 1982 the Municipal Bill for April to September 1927 must be taken into account for calculating gross value. Against this the following deductions may be claimed :—

1. 1/6 of Gross Value for Municipal Tax, Repairs, etc.,
2. Nett Insurance Premium,
3. Mortgage Interest, if any,
4. Ground Rent, if any,
5. Collection charges, actual or 6% of the gross value, whatever that is lower,
6. Vacancy allowance, if any, settled by the Officer on the basis of the Municipal Refund.

It may be added here that if vacancy allowance is not claimed from the Municipality we cannot claim the same from the Income Tax Office. We have actually to show the Municipal Bill with the remark of refund or rebate granted while claiming vacancy allowance from the Income Tax Office.

Illustration: A has got two properties, one at Fort and the other at Grant Road, the Municipal Bills of which show nett assessable values of Rs. 3,600 and Rs. 4,500 respectively. Both the properties have been insured and the nett premium payable amounts to Rs. 360 and Rs. 400 respectively per annum. The salary of a Bill Collector is Rs. 20 per month. Besides this the Ground Rent payable per annum on both the properties amounts to Rs. 600. The Fort property has been mortgaged and the interest paid to the mortgaged amounts in all to Rs. 700 per annum. Find the assessable income of A and the amount of tax payable on the same :

Fort property Gross Value			Rs. 4,000
Grant Road Property Gross Value			„ 5,000
			Rs. 9,000
Deductions claimed as under:—			
1/6 for Municipal Tax, Repairs, etc.	Rs.	1,500	
Insurance Premium, Nett.	„	760	
Collection Charges (Actual) ...	„	240	
Ground Rent	„	600	
Mortgage Interest	„	700	
	Rs.	3,800	3,800
A will have to pay Tax on			Rs. 5,200

at 6 pies in the Rupee *i. e.* Rs. 540.

Income from Business, Trade, etc.

With reference to the income or profit of a Business or Profession, it may be mentioned here, that under the old decisions income was defined in such a manner that in the New Act the word profit and gains had to be added. For the purpose of account keeping in this connection, it may be mentioned that the assessee may keep his accounts on either of the two main systems of keeping accounts, viz., (1) the cash basis in which the capital income and capital expenditure are dealt with on the footing of Revenue and Expenditure account, or under the other system where (2) the assessee may maintain his account keeping on what is known as the mercantile account system. Thus the Law leaves the option to the assessee but with this restriction that whatever method is adopted, the same must be one that clearly reflects the income of the assessee in respect of the fixed period of the previous year. The

Commissioner will, however, insist that the method of account keeping once adopted shall be continued and shall not be varied from time to time as it suits the assessee. If the assessee wishes to change the system he has employed in the past, he can only do so with the special permission of the Income Tax Officer who will grant same after taking due care that no profit is allowed to escape taxation on account of change.

Expenses and Depreciation.

The Tax under this head is levied on all income or profits bonafide made in a business, trade or commercial pursuit or adventure etc. While arriving at assessable income all bonafide expenses such as Interest on loans, cost of repairs to premises, Fire Insurance Premium for Building, Plant and Machinery, etc. Revenue expenditure incurred in the ordinary course of regular business such as Rent, Salaries, Wages, Telephone Subscription, Lighting Expenses, Postage and Telegrams, etc., Bad Debts (written off) and depreciation are allowed. In case of repairs the same shall be allowed in case of hired premises where the assessee has undertaken to bear the cost of such repairs. Of course, if a portion of the premises is occupied by the assessee himself a proportionate part of the repairs only will be allowed. In case of Insurance against risk of damage or destruction of Building, Machinery, Plant, Furniture and Stock, used in the business, the premium actually paid on account of business is allowed. But if a sum is laid aside by the Firm or the Company as a sort of Insurance Fund or Reserve the same will not be allowed. In case of premiums paid on account of Insurance against loss of profits the same will be allowed if the owner of the business signifies his intention in writing undertaking to pay tax on any amounts recovered from the Insurance Company. In case of depreciation the assessee is expected to make his claim on a special form furnished by the Income Tax Officer and if allowed the following depreciations are usual :—Buildings, 1st class 2½ per cent. ; Less substantial Buildings 5 per cent.; Temporary erections 10 per cent.; Machinery, Plant and Fixtures 5 per cent. This is the general rate whereas special rates are sanctioned as for example, for Flour Mills, Rice and Bone Mills, Sugar Works, Distilleries, Ice, Aerated, Gas and Match Factories 6¼ per cent ; Paper Mills, Ship-building and Engineering works, Iron and Brass Foundaries, Electric Motor Cars, Patent Stone, Chemical, Soap, Candle, Lime Works, Saw Mill, Dyeing and Bleaching Works and on Furniture and Plant in Hotels and Boarding Houses etc., 7½ per cent.; Shaving Machines for Canvass or leather, 10 per cent ; Motor Cars used for business 15 per cent., Taxies, Motor Lorries and Motor Busses 20 per cent etc. The percentage is allowed on the original cost of Machinery to assessee and if the assessee has bought same from a previous owner, the original cost of the assessee will be taken and not that of the previous owner. In case of Railways no depreciations are allowed on their rolling stock as renewal charges are generally allowed. In case of Securities held as investments, of course no depreciation will be allowed and such capital securities when realised the profits or losses made on them being of a Capital nature shall not be taken into account. Of course if the Firm or Company deals in Securities it will have to be taken into account. An Obsolence allowance is allowed if any Machinery or Plant becomes obsolete and is sold because of that reason but, however, the Income

Tax Commissioner is very particular on this point and no obsolence allowance is made if there is evidence to the effect that the machine is not obsolete. The amount allowed for obsolence is calculated upon the original cost of the owner reduced by depreciation allowance made in the past years and the amount for which the machinery is actually sold or its scrap value.

Provident Fund.

With reference to Provident Fund the Income Tax Act only takes into calculation Provident Funds created in connection with Government or Public servants. It, however, makes one exception in case of private business, viz., that where the employers contribute out of their profits a certain amount towards the Provident Fund created by them for the benefit of their employee the same shall not be allowed as a business expenditure unless and until the said Fund is to be on the footing of an Irrevocable Trust for the benefit of the employees so that under no circumstances the employer who has once contributed towards it can get it back. As long as these Funds remain in the hands or under the control of the employer they shall not be allowed as a business expenditure.

Life Insurance Premium.

Deductions from total income can only be made for insurance premia in respect of insurance on the life of the assessee or on the life of his wife or for a deferred annuity on his life or his wife's. No other deduction is permissible in any other form of insurance except in case of a Hindu Undivided Family where deductions are permissible for insurance premium paid on the life of any male member of the family or of his wife. Income Tax deduction is not allowed while computing Super Tax assessment.

Share of profits of an unregistered firm in the hands of individual partners are not chargeable to super tax as the unregistered firm is assessable to super tax. In fact these profits are excluded from the total income after the assessability to super tax is once ascertained.

Pension.

Where an employer grants a pension to an employee or to his widow or children, it is deductible as trade expense, irrespective of the question whether it is paid monthly or a lump sum payment is made. The only exception is that the recipient of such pension should not have had at any time any share in the profits or interest in the business. A pension to a retiring partner, or to his widow, therefore, is not allowable.

Subscriptions.

Subscriptions to charitable or religious institutions or any other subscriptions of a general nature are not allowed as Trade expenses. Where, however, a specific subscription can be shown to have been given as a practically necessary adjunct to a particular class of business or profession it is allowed to be deducted. Entrance fees, however, to a profession or calling are not allowed as deductions from profits. Annual subscription which is required to be paid to enable to continue such profession or calling as in case of Stock Brokers, Jobbers, Lawyers and other professional men, is allowed as a trade expense.

Books.

Cost of Directories and similar books of reference used in business is deductible. Similarly a lawyer may deduct sums paid for current Law Reports etc. : cost of books purchased for purposes of study are not allowed.

Important Points in Income Tax Rules.

Interest from shareholders of a company on loans and overdue subscriptions are not taxable. Interest accrued due and not received but only added to the principal in accounts is not taxable-income. Rent or Royalty received periodically as per terms of the lease is income, but a lump sum received for granting mining lease for 999 years is not income. Issue of bonus shares to the shareholders representing their share in the accumulated profits, where the shareholders have no option to require payment in cash, is not taxable. Salary earned by a British subject in a Native State as a servant of that Ruler is not taxable. Similarly servants of Native States deputed in British India and receiving salary from their Rulers are not taxable. Any allowance for depreciation in case of securities or War Bonds held by a trading concern by comparing the market value with the value of the books is not permitted. Sum embezzled by a clerk is a loss incidental to the conduct of the business and is allowed to be deducted. Income Tax is not assessable from a resident of one Native State on profits made by him in another Native State unless it is proved that those profits were received in British India.

Agricultural Income.

Agricultural income is exempt from taxation, i. e., it is not brought in either for tax or rate purposes. This exemption applies even if the cultivator keeps a shop or a stall for sale of his produce provided it is sold in its raw state, i. e., if no process has been performed in respect of the produce other than the process of cultivating or raising produce.

Profits of a Mela or Fair held on agricultural grounds is liable to tax, so also is income from Mines. Income derived from sale of tea grown and manufactured by the seller is treated as partly produce and partly trade income and is treated as if growing, manufacture and sale of such tea were a business within the meaning of Income Tax Act and 25 per cent. of such income shall be deemed to have been derived from business and shall be taxed.

Foreign Branches and Agencies.

In case of local businesses keeping their accounts in sterling the Income Tax Officer need not look into sterling accounts and can ask for a return of the transactions in Rupees. In case, however, a Company operating through local branches where the profits of the Indian branch can not be ascertained separately but have to be deducted from the total sterling profit of the Company from all its operations, the net profits of the Company for the purposes of assessment of Income Tax should be converted into Rupees at the rate of exchange ruling on the last day of the year to which the account relates unless by an examination of the account the Officer is able to ascertain the average rate of exchange throughout the year.

Capital Income and Expenses.

The premiums received by a Company on its issue of shares is a capital receipt and is not chargeable with Income Tax and on the same footing the cost of issuing shares is a capital expenditure and is not deducted from the profits.

Specific and Customary Dharmada Deductions.

It is the practice of merchants and businessmen to recover from their customers and clients by way of sukhdi or deductions for charity (viz. "Dharmada" "Pinjara-pole" etc.) at so much per Rupee or so much per bag or proceeds. This recovery is generally devoted out and out towards religious, charitable or educational purposes. The Income Tax Commissioners in the past did not allow this expenditure made out of this recovery to be treated as expenditure and deduct as such from the profits. It is now ordered by the latest communique dated 6th March 1928 that both the receipts recovered as well as the expenditure therefrom shall not in future be taken into Income Tax Assessment Account at all and should be left out of account altogether. It is, however, subject to the qualification that the Income Tax Officer should be reasonably satisfied that the sums in question are really applied for the above purposes.

Items Disallowed.

The Tax however will not be taken on Capital Profit or Losses, such as profits on the sale of an asset, nor can the Tax be taken on casual or non-recurring receipts.

The following expenses or losses are disallowed :—

1. Loss on speculative transactions,
2. Loss on a sale of an asset,
3. Capital expenditure, such as addition to buildings, or Plant and Machinery,
4. Charities, Perquisites, Gifts, etc.,
5. Secret Commission,
6. Goodwill,

7. Any expenditure not incurred in the regular course of business,
8. Interest on Capital,
9. Personal drawings,
10. Income Tax and Super Tax,
11. Bad or Doubtful Debts Reserve,
12. Reserve Fund etc.

Casual Receipts.

In case of casual receipts in order to be exempt from taxation they must not be profits of a profession, vocation or employment or arising from business. In other words, they should not arise from any vocation or concern in the nature of trade, commerce or manufacture and they must not be annual, and a gratuity to an employee for services rendered will not come under this heading. An isolated transaction such as a purchase and sale of a horse at a profit is taxable but the purchase of an investment or a house for residence casually sold at a profit will not come under taxation as far as the profits so made are concerned. A lottery will be a casual receipt but a profit made on a practice of speculation will not be a casual receipt and will be taxable. If a man writes a book, the profits made on it will be taxable. Legacies are exempt from taxation because they are capital receipts and of a casual nature.

In case casual income on the one hand is taken into account for assessment purposes, the losses, if any, should also be taken into consideration. The stock exchange broker who enters into personal speculative transactions is allowed to set off a loss against profits made out of such transactions. But an individual cannot be assessed on speculation gains nor can the loss if any, be set off against his other sources of gains. If, however, it is found that such an individual continuously enters into speculation transactions he can be treated as a Professional Speculator carrying on that trade and the income or loss would be treated on the footing of a business income or loss.

Appropriations not Allowed.

The following items of appropriation cannot be allowed in the calculation of assessable income :—

(a) Interest on Partners' Capitals,

(b) Partners' Management Salaries,

(c) Personal drawings for household expenses or personal use,

(d) Income Tax and Super Tax paid,

(e) Reserves for Bad Debts or Discounts,

(f) Amounts transferred to Reserve or any other funds.

Income Tax is an appropriation of Profits and not an expenditure and therefore the same should be treated as debited to Profit and Loss Appropriation Account and not to Profit and Loss Account. According to a well-known decision of the Bombay High Court (Re : Purushottamdas Harikishandas vs. The Central India Spinning, Weaving and Manufacturing Co., Ltd.) a managing agent's commission should be treated through the profits before income tax is deducted therefrom.

The return of total income of companies required under section 22 (1) shall be in the following form and shall be accompanied by a copy of the profit and loss account referred to therein :—

Income, profits or gains from business, trade or commerce.

	Rs.	as.
Income, profits or gains as per profit and loss account for the year ended 192		
Add any amount debited in the accounts in respect of ...		
1. Reserve for bad debts		
2. Sums carried to reserve for provident or other funds...		
3. Expenditure of the nature of charity or presents ...		
4. Expenditure of the nature of capital		
5. Income Tax or Super Tax		
6. Rental Value of property owned and occupied ...		
7. Cost of additions to, or alterations, extentions, improvements of, any of the assets of the business...		
8. Interest on reserve or other funds		
9. Loss sustained in former years		
10. Losses recoverable under an insurance or contract of indemnity		
11. Depreciation of any of the assets of the business ...		
12. Expenses not incurred solely for the purpose of earning the profits		
Total ...		
Deduct:—Any profits included in the accounts already charged to Indian Income Tax and the interest on securities of the Government of India or of Local Govts. declared to be Income Tax free.		
Balance ...		

Note.—A similar form is to be filled in, in case of private firms or partnerships. In these cases, however, the list of additions will include amounts for—

(a) Drawings of Salary of proprietor or partners.

(b) Interest on the proprietor's or partners' capital.

(c) Private or personal expenses.

Machinery Depreciation.

Illustration : Machinery was bought for Rs. 12,000 in 1924. Profits prior to charging depreciation at 5 per cent thereon were in 1924 Rs. 800 ; 1925 Rs. 100 ; 1926 Rs. 400 and 1927 Rs. 1,900. What would be the amount of Depreciation to be charged against Profit of 1927 ?

Date.	Profits Rs.	Depreciation taken Advantage of	Amount Added to subsequent Depreciation.	Assessable Profit.
31-12-24	800	600	...	200
31-12-25	100	100	500	Nil
31-12-26	400	400	700	Nil
31-12-27	1,900	1,300	Nil	600

The amount of depreciation to be charged against profits of 1927 is Rs. 1,300. It may be added here that provision for Depreciation Fund is not allowed while computing assessable income.

In case of loss owing to obsolescence of Plant and Machinery the following example will illustrate the treatment in account.

Example : A factory machine is bought at Rs. 12,000. After its use for 5 years during which total depreciation was claimed to the extent of Rs. 2,000 the same being obsolete is sold for Rs. 5,000. Show the amount to be claimed against profits.

Machinery Account.

To Original Cost ...	Rs. 12,000	By Depreciation A/C (claimed during 5 years) ...	Rs.	2,000
		„ Cash	„	5,000
		„ P. & L. A/C ...	„	5,000
		Being the loss claimable		
	12,000			12,000

Losses in several heads of Income: Set off.

The Indian Law is wider than the English Law in this respect. Under the latter only the trade losses can be set off. Under Indian Law Profits and Losses under several heads of income could be adjusted.

Loss sustained by an assessee in one year in any business may be set off against the profits made by the same assessee in any other business in the same year.

If the assessee is a registered firm, the whole loss cannot be set off; but each individual partner can set off his proportion of loss against his total income from all sources.

Illustration: A firm of Maneklal and Chotalal has got two branches; Export Department making a loss of Rs. 20,000 in 1926; Import Department making a profit of Rs. 18,000 in 1926. Both the partners share equally.

Maneklal has got a property, the annual assessable income of which comes to Rs. 8,000 in 1926.

The firm as a whole will not be liable to any Tax inasmuch as the same makes a loss of Rs. 2,000. On the other hand Maneklal will be assessed on Rs. 7,000 after deducting his proportionate loss of Rs. 1,000 from his property income of Rs. 8,000.

Registered and Unregistered Firms.

A registered firm is defined by the Act as a firm constituted under an instrument of partnership specifying the individual shares of the partners of which the prescribed particulars have been registered with the Income Tax Officer in the prescribed manner. If a firm wants to be registered an application must be made before the date on which the return of income is due. The income-tax in the case of this registered firm is assessed upon profits at the maximum rate, whatever the amount of the profits may be and each member of the firm on satisfying the Income Tax Officer that the maximum rate is higher than the one which his total income justifies is entitled to get a refund on his share of profits. This maximum rate is levied on profits of a registered firm even where the total profits are less than 2,000 because an assessment has to be made later on on the footing of the total profits of each individual member. A registered firm is not liable to Super Tax but the same is dealt with in the case of each individual member's income. An unregistered firm would be liable to Super Tax. Where, however, the members of a registered firm file their return of personal income simultaneously with the return of the firm itself, the Tax Collector will try to avoid the necessity of going through the formality of first charging the maximum rate and then allowing the refund, but in computing and assessing both together the direct rate appropriate to each of the partners' income will be charged as such.

Suppose a firm of A and B makes an income of Rs. 3,900 in a particular year, both the partners sharing profits equally. If the firm is not registered income-tax will be levied at the rate of 5 pies in the Rupee on Rs. 3,900. If on the other hand the firm is registered A's and B's income will be computed at Rs. 1,950 each, presuming there is no other source of income for both the partners; and as the income of each partner falls under Rs. 2,000 both will be exempted from assessment.

Again, on the other hand, relief is given in case of Rate of Tax also. For example, in a firm of X and Y which is registered and where both the partners share profits and losses equally, there is a profit of Rs. 12,000. If the firm is not registered, income-tax will be levied on Rs. 12,000 at the rate of 9 pies in the Rupee. If, on the other hand, the firm is registered, income-tax will be charged at the rate of 6 pies in the Rupee on Rs. 6,000 each from each partner, presuming that both the partners have no other source of income. Thus it will be seen that in the latter case the Tax is levied at 6 pies in the Rupee on Rs. 12,000 which amount will decidedly be less than the Tax at 9 pies in the Rupee, on Rs. 12,000.

The procedure in case of registration is that the original of the Partnership deed, if any, should be shown to the Income Tax Officer and a copy thereof should be filed. The Income Tax Officer puts a remark on the Partnership Deed to the effect that the deed has been registered for the particular year. Every year the same deed must be sent to the Income Tax Officer before the assessment is made so long as the partnership continues; and the Income Tax Officer after putting his remark will return the same to the party concerned.

The party claiming partnership should prove from his books that there are regular Capital accounts of partnership maintained in the books and that the Profit and Loss Accounts closed by transfer to these capital accounts in the proportion in which the partners have agreed to share profits or losses.

Joint Hindu Family.

A Joint Hindu Family is a family which, under Hindu Law, has property belonging to all out of the income of which the male members are maintained with the members of their family and as to females, widows of the male members can claim maintenance out of the income, whereas the unmarried daughters have to be also maintained until they are married. There is also a charge on the family income for marriage expenses of these daughters of a family. The law for the purpose of income-tax has treated the Hindu Undivided family as a separate entity which is taxed on the same footing as an individual at a graded scale according to its total income irrespective of how the said income is distributed amongst the individual members.

For example, suppose a family has got three sons, two of whom are carrying on a business of goldsmiths getting an income of Rs. 3,000 a year. The third brother does a separate business in his own name as an engraver, and gets an annual income of Rs. 2,500. If the family is treated as a Joint Hindu Family for income-tax purposes the total income of both the parties will be taken, viz., Rs. 5,500 for rate purposes. This will bring it under the rate of 6 pies in the Rupee, that is, the Income of Rs. 3,000 of the goldsmiths will be taxed at 6 pies in the Rupee, and that of the engraver of Rs. 2,500 will also be taxed at 6 pies in the Rupee.

If on the other hand, the firm is not treated as a Joint Hindu Family the income of Rs. 3,000 will be taxed at 5 pies in the Rupee and that of the engraver, viz., Rs. 2,500 will also be taxed at the same rate.

For the purpose of proving that a family is not a Joint Hindu Family a Partition deed should be produced showing that one member has got no share or right in the income of the other member.

If an assessment is made on a Hindu Undivided Family it is treated as an artificial person and hence, the share of the income going to each individual member of such a family will not be taken into account both for rate and tax purposes while assessing the income of such individual separately. There is also no provision for refund in case of income of an individual member of such a family even where his individual total income is lower than the assessable minimum or is assessable at a lower rate than that applied to the family.

The Procedure.

At this stage it will not be out of place to acquaint the student with the internal procedure of assessment.

Under the present Act the Return, the ruling of which is as follows, is sent by the Income Tax Officer to every individual or Firm whose income in the eyes of the Officer is assessable.

The return of total income for individuals, firms and Hindu undivided families required under section 22 (2) shall be in the following form:—

Source of income.	Amounts of Profits or gains or income during the previous year.	Tax already charged on the income.
1	2	3
	Rs.	Rs.
1. Salaries (including wages, annuity, pension, gratuity, fees, commission, allowance, perquisites, including rent free quarters or profits received in lieu of, or in addition to, salary or wages		
2. Interest on securities (including debentures) already taxed		
3. Interest on securities of the Govt. of India or of Local Govts. declared to be Income Tax free		
4. Property as shown in detail in Schedule A.		
5. Business, trade, commerce, manufacture, or dealings in property, shares or securities		
6. Profession		
7. Dividends from companies		
8. Interest on mortgages, loans, fixed deposits, current accounts, etc. ...		
9. Ground rent		
10. Any source other than those mentioned above		
Total...		
Deductions claimed on account of contributions to provident fund, etc., or insurance premia...		

This return is to be submitted by the assessee duly filled in within one month of the date of receipt. If the Income Tax Officer desires to have the verification of the statement of Income, he issues notice asking the assessee to produce before him the books of accounts for inspection. If the return is not submitted within the time or if compliance is not made of the notice, the Income Tax Officer shall make the assessment to the best of his judgment against which no appeal lies.

If an assessee is dissatisfied with the assessment he can appeal to the Assistant Commissioner who will fix a date on which arguments from the assessee will be heard and the assessment may be reduced or confirmed. If the appellant is dissatisfied even with this order of the Assistant Commissioner, he can appeal to the Commissioner for a review of the assessment.

If an assessee has in the opinion of the Income Tax Officer fully or partially escaped assessment, he may at any time, within one year of the end of that year, serve upon the assessee a notice and reopen the case.

Joint Stock Companies.

A Company is defined for the purposes of income-tax as one formed under the Indian Companies' Act, or in pursuance of an Act of Parliament or Royal Charter or Letters Patent, or of an Act of the Legislature of a British possession and includes any foreign association carrying on business in British India whether incorporated or not and whether its principal place of business is situate in British India or not, which the Central Board of Revenue may, by general or special order, declare to be a company for the purposes of this Act. The principal officer of every company shall prepare and on or before the fifteenth day of June in each year, furnish to the Income Tax Officer a return, in the prescribed form, of the total income of the company during the previous year. This is a statutory obligation upon the principal officer of the Company and it is not necessary that the Income Tax Officer should even send any preliminary notice or request to the company concerned. Failure to furnish this return is punishable under the Act, and over and above that the Income Tax Officer has a right to make such assessment in such a case as he thinks right on which assessment there shall be no appeal. From the return so made out by a Company and accepted by the Income Tax Officer, the company is charged income-tax at the maximum rate, whatever its total income may be, the income-tax on dividends as distributed of course forms part of the profits of the company and therefore this item cannot be deducted from the profits for the purposes of income-tax assessment. In fact, a company pays its income tax on the whole profit debiting its income-tax account and thereafter deducts from dividends paid the tax on behalf of the Income Tax Collector on the footing of calculation or deduction at the source and if so deducted, it credits its income tax account. The net balance of income-tax account which represents tax on Company's profit is either held over for adjustment during next year or is immediately adjusted if provided for through one of the reserves. The assessable income of a limited company is of course arrived at in the same manner as that of any trading company. A company mostly keeps accounts on what are known as mercantile system of keeping accounts and therefore from the ordinary profit and loss account adjustments are often made by adding to the net balance of profit, items which are disallowed by the Act which under the usual business account keeping are charged against profits. The following illustration will make the point clear :—

Preparation of Accounts for Income-Tax Purposes.

The student here has to acquaint himself with the method of preparation of Accounts for Income Tax purposes. It may be noted here that Income Tax year begins from 1st April and ends on 31st March. Besides this, Tax is paid for the Government year in advance on the basis of the past year. Thus the Income-Tax Authorities collect tax for the Government year 1928-29 on the basis of accounts closed on 31st December 1927 or 31st March 1928 or the Hindu Calendar year ending on Vadi Amas Samvat Year 1983. It will not be out of place to mention that once a date for the closing of books, be it December or March or Divali ending, is selected the assessee must stick to the same and cannot change the same without the previous consent of the Income Tax Officer.

There are two methods of arriving at the assessable income. One is to start with the net profits as per Profit and Loss Account rendered adding thereto the total of all Disallowables, and thus arriving at the assessable income.

The second method is to prepare an independent Profit and Loss Account for Income Tax purposes starting with the Gross profits on the credit side and showing those expenses only which are allowed for Income Tax purposes on the debit side, thus independently arriving at assessable income.

From the following Profit and Loss Account find out the assessable income of X, Y, Z and Co. :—

Profit and Loss Account.

Dr.		Rs.	Cr.		Rs.
To	General Expenses ...	300	By	Gross Profit as per Trading A/C ...	8,000
,,	Partners' Salaries ...	2,000	,,	Discounts and Brokerage	1,000
,,	Rent	1,000	,,	Interest on Bank A/c. ...	3,000
,,	Presentation expenses	200	,,	Dividends	2,000
,,	Salaries and Wages ...	3,000			
,,	Charities	500			
,,	Postage and Telegrams	600			
,,	Advertisements ...	900			
,,	Printing and Stationery	600			
,,	Bad Debts	900			
,,	Loss on sale of Investments	800			
,,	Income Tax	200			
,,	Loss by Fire (Irrecoverable)	800			
,,	Rates and Taxes ...	50			
,,	Interest on Capital ...	600			
,,	Repairs to Building ...	300			
,,	Replacing machinery parts	800			
,,	Net Profits	450			
		14,000			14,000

Profit and Loss Account Adjusted for Income Tax Purposes.

Dr.		Rs.	Cr.		Rs.
To	General Expenses ...	300	By	Gross Profit as per Trading Account ...	8,000
,,	Rent	1,000	,,	Discounts and brokerage	1,000
,,	Salaries and wages ...	3,000	,,	Interest on Bank A/c.	3,000
,,	Postage and Telegrams	600			
,,	Advertisements... ...	900			
,,	Printing and Stationery	600			
,,	Bad Debts	900			
,,	Rates and Taxes ...	50			
,,	Repairs to Building ...	300			
,,	Balance being assessable income ...	4,350			
		12,000			12,000

NOTE: Partners' salaries have been treated as drawings here. Second method of preparation of Accounts for Income Tax purposes :—

Profit and Loss Account Adjusted for Income Tax Purposes.

Dr.			Cr.		
	Rs.				Rs.
To Dividend being taxed at source... ...	2,000	By Net profit as per P. & L. A/c... ...			450
" Balance being assessable income ...	4,350	Add items disallowed as follows:			
		Partners' salaries ...	2,000		
		Presentation Expenses	200		
		Charities	500		
		Loss on sale of investments	800		
		Income-tax	200		
		Loss by fire	800		
		Interest on Capital ...	600		
		Replacement of machinery parts... ...	800		
					5,900
	6,350				6,350

The following is the Business Profit and Loss Account of A, B, C, Co., Ltd. The Company has deducted Income Tax before paying Interest to Debenture holders.

Dr.		Cr.	
	Rs.		Rs.
To Salaries...	2,000	By Gross Profits as per Trading Account ...	40,000
" Preliminary expenses amount written off ...	3,000	" Forfeited shares account-Profit on Re-issue	300
" Interest on debentures..	4,000	" Premium on shares account	6,000
" Trade charges	500	" Transfer fees... ...	600
" Insurance premium ...	200		
" Discounts and allowances	600		
" Reserve for Bad Debts.	500		
" Bad Debts written off...	281		
" Depreciation on Plant and Machinery (@ 10%)	600		
" Income Tax	651		
" Auditors' and Directors' fees	351		
" Nett profits	34,217		
	46,900		46,900

Profit and Loss Account for Income Tax Purposes.

Dr.	Rs.			Cr. Rs.
To Profit on Re-issue of shares	300	By Net profits as per Business P. & L. A/C ...		34,217
,, Premium in issue of shares	6,000	Add items disallowed as follows :		
,, Balance Being Assessable income ...	36,368	Preliminary expenses	3,000	
		Interest on debentures	4,000	
		Reserve for Bad Debts	500	
		Depreciation 5% ...	300	
		Income Tax	651	
				8,451
	42,668			42,668

Filling in the Return.

The student will have to note how the Return is filled up in detail while submitting to the Income Tax Officer.

Illustration : Pratapchand Dadaji residing at Nagdevi street, Bombay, carrying on business of Mill stores suppliers has got the following sources of income. Profits from business amounting to in all Rs. 6,000. He works as a part-time assistant in Greaves Cotton and Company drawing a salary of Rs. 300 per mensem. Besides this, he has collected interest on Rs. 10,000 6 per cent War Bonds and on Rs. 20,000 6 per cent Development Loan (free of income-tax). He has collected dividend at the rate of Rs. 6 per share (less tax) on 100 shares of Phœnix Mills ; 5% free of income tax on shares of Rs. 600 of Malwa Mills. He has got a property at Causeway, Colaba, fetching him an income of Rs. 3,600 per annum after deducting all admissible allowances from gross annual letting value. He has got a plot at Mahim on which he gets a ground rent of Rs. 150 per annum. He has advanced Rs. 10,000 on mortgage of a property at the rate of 9 per cent per annum. He is a Director in Bhagwandas

Mills, Ltd. six meetings of which he has attended in the year earning Rs. 50 per meeting. Show the return to be filled in by the assessee.

Return Duly Filled in.

Name :—**Pratapchand Dadaji.**

Designation :—**Merchant.**

Address :—**Nagdevi Street, Bombay.**

Source of income.	Amount of profit or gains or Income.	Tax already charged on the Income.
1. Salaries from Greaves Cotton & Co.	3,600	93-12-0 (@ 5 pies)
2. Interest on securities Rs. 10,000 6% War Bonds	600	56-4-0 (@ 18 pies)
3. Interest on Securities of Govt. of India or Local Govt. declared to be Income-tax free Rs. 20,000 6% Development Loan	1,200	Nil
4. Property—Colaba Property ...	3,600	Nil
5. Business Trade etc., Mills Stores Business	6,000	Nil
6. Profession	Nil	Nil
7. Dividends from Joint Stock Companies :		
(a) Free of income tax 5 % Malwa shares	33-2	3-2
(b) Less Income Tax Phoenix Mills...	600	56-4-0 (@ 18 pies)
8. Interest on mortgage	900	Nil
9. Ground Rent	150	Nil
10. All other income:		
(a) Director's fees	300	Nil
	16,983-2	209-6-0

Assessment in Case of a Discontinued Business.

When any business or trade or vocation is discontinued in any year the assessment is made in that year on the basis of the profits of the period between the end of the previous year and the date of such discontinuance, in addition to the assessment, if any, made on the basis of the Income of the previous year.

Change in Ownership of Business or in Partnership:

When a change takes place in the constitution of a firm, the assessment will be made on that firm as such constituted at the time of the making of the assessment.

Marginal Relief.

Under Section 17 of the Indian Income Tax Act 1922 Marginal Relief can be claimed by an assessee. The Section reads as follows :—

> Where owing to the fact that the total income of any assessee has reached a certain limit he is liable to pay Income Tax or to pay Income Tax at a higher rate, the Income Tax payable by him shall, where necessary, be reduced so as not to exceed the aggregate of the following amounts, viz. :—
>
> (a) The amount which would have been payable if his total income had been a sum less by one Rupee than that limit, and
>
> (b) the amount by which his total income exceeds that sum.

For example, suppose A's income is Rs. 2,030 ; he is liable to Income Tax at the rate of 5 Pies in the Rupee, the total Tax coming to Rs. 52-14-0. If he wants to claim Marginal Relief he can pay the excess of Rs. 1999, namely Rs. 31 to the Government out of his income and thus bring his income under Rs. 2,000 for exemption purposes.

Equally well marginal relief can be claimed for the purposes of reduction of Rate. For example, suppose A's income is Rs. 10,050, he is liable to be taxed at 9 pies in the Rupee, the total Tax being Rs. 471-2-0. In order to bring this income under Rs. 10,000 for the sake of being taxed at 6 pies in the rupee he should pay the excess of Rs. 9,999 out of his income, namely Rs. 51 on the one hand and let himself be taxed at 6 pies on Rs. 9,999. Thus @ 6 pies A will have to pay Rs. 312-8-0 (for Tax) plus Rs. 51 (out of income) the total sum being Rs. 363-8-0 which decidedly is less than Rs. 471-2-0.

To what extent the Marginal Relief is beneficial to the assessee can be found out by actual working and calculating each case as it is. For instance, if an assessee's income is Rs. 2090 he is liable to pay Tax amounting to Rs. 54-7-0. In such case it is not desirable to claim marginal relief, because the assessee will have to pay a sum of Rs. 91 in order to bring down the Income to Rs. 1999 for the purposes of claiming exemption.

SUPER TAX.

Super tax was first imposed by Act VIII of 1917. This Act was repealed in 1920 and the present Act consolidates and amends the latter relating to Super Tax.

Super Tax is an additional duty of income tax imposed on income exceeding a specified amount at rates which are given below and which are determined every year by the Annual Finance Acts. As a general rule the income of an assessee as ascertained for income tax purposes is a conclusive and final evidence for purposes of super tax.

As will be noticed from the table of rates given below there is a statutory allowance of Rs. 50,000 from the total income ascertained for income tax purposes (except in case of Hindu Undivided Family where the statutory allowance is Rs. 75,000) and on the excess income only super tax is assessable. Super tax on companies is levied at a flat rate of one anna in the rupee over all income over the statutory allowance of the first Rs. 50,000 and the graduated scale of rates applicable in other cases do not apply to companies. No refund, however, on account of super tax on companies is therefore allowed to shareholders.

In case of registered firms no super tax is charged on the profits of a registered firm. Individual partners of such registered firms however are assessable to super tax if their individual incomes exceed this statutory allowance.

Individuals and unregistered firms or other associations as well as Hindu Undivided Families are assessable to super tax on a scale of graduated rates. Whereas in case of income tax the different rates are applied to the whole of an assessee's income, the different rates of super tax are levied on each successive "slice" of income, i. e., on each portion of an assessee's income in excess of certain income or on portions lying between certain limits.

Where an unregistered firm has been assessed to super tax the partners of unregistered firms when preparing statements of their individual total income are not liable to super tax on their share of the income of the unregistered firm. The share however is to be taken into account for determining the rate of super tax, i. e., it comes into 'total income' but is excluded when computing the amount of super tax to be paid. Where, however, an unregistered firm itself is not assessed to super tax, the income of its individual member is included in his total income for super tax assessment and super tax is payable on same.

Unlike income tax super tax is not deducted at source, i. e., super tax due is payable by the assessee *direct*. The following points should be carefully studied in relation to super tax :—The total income determined for income tax is to be taken as the total income for super tax, but the actual sum taxable will sometimes differ in light of the following provisions :—

(1) Interest from Government Securities issued free of income tax is liable to super tax ;

(2) Income derived from dividends of a company are assessable to super tax irrespective of whether the company is liable to super tax ;

(3) Partners of unregistered firms are not liable to super tax on their share of income of the firm if the firm is taxed to super tax ;

(4) A registered firm is not liable to super tax ;

(5) Life insurance premia, contribution to provident funds, etc., exempted from income tax are not exempted from super tax ;

(6) Marginal relief is not applicable to super tax ;

(7) Super tax on dividends, salaries and interest on Govt. Securities is payable direct and not by deduction at source ;

(8) As super tax is assessed directly, rules for refund of tax, as in income tax, do not apply here.

It will be thus seen that the total income for super tax purposes includes not only the income which is directly assessed but also the income, the income tax on which is deducted at the source and also any other incomes specified above.

Super Tax is charged when an assessee's income exceeds Rs. 50,000 per annum.

The following is the statement of statutory allowance and Rates of Super Tax. The tax is payable only in respect of income in excess over fifty thousand rupees of total income:—

	Rate
(1) **In the case of every company ... ...**	**One anna in the Rupee.**
(2) (a) **In the case of every Hindu undivided family :—**	
(i) in respect of the first twenty-five thousand rupees of the excess.	**Nil.**
(ii) for every rupee of the next twenty-five thousand rupees of such excess.	**One anna in the rupee.**
(b) **In the case of every individual, every unregistered firm, for every rupee of the first fifty thousand rupees of such excess.**	**One anna in the rupee.**
(c) **In the case of every individual, every unregistered firm and every Hindu undivided family** :—	
(i) for every rupee of the second fifty thousand rupees of such excess.	One and a half anna in the rupee.
(ii) for every rupee of the next fifty thousand rupees of such excess.	Two annas in the rupee.
(iii) for every rupee of the next fifty thousand rupees of such excess.	Two and a half annas in the Re.
(iv) for every rupee of the next fifty thousand rupees of such excess.	Three annas in the rupee.
(v) for every rupee of the next fifty thousand rupees of such excess.	Three and a half annas in the Re.
(vi) for every rupee of the next fifty thousand rupees of such excess.	Four an nas in the rupee.
(vii) for every rupee of the next fifty thousand rupees of such excess.	Four and a half annas in the Re.
(viii) for every rupee of the next fifty thousand rupees of such exceess.	Five annas in the rupee.
(ix) for every rupee of the next fifty thousand rupses of such excess.	Five and a half annas in the rupee.
(x) for every rupee of the remainder of the excess.	Six annas in the rupee.

Illustration : Work out the total Tax payable by A. B. Jones, a solicitor, in respect of Income Tax and Super

Tax (if any), his Profit and Loss Account for the year ended 31st December 1918 being as follows :—

	Rs.		Rs.
To Motor Car running expenses	3,000	By Fees	78,000
,, Motor Car one-fifth of cost	2,000	,, Interest on Rs. 50,000 3½ per cent. Govt. Promissory Notes	1,640
,, Salaries	8,000	,, Gain on sale of Bungalow (residence)	11,500
,, Salary (A. B. Jones) ...	12,000		
,, Fees irrecoverable ...	1,000		
,, Fees doubtful of recovery	700		
,, Repairs to Bungalow ...	500		
,, Income Tax 1917-18 ...	2,500		
,, General Charges ...	2,000		
,, Goodwill	5,000		
,, Bonus to staff	2,400		
,, Balance being profit ...	52,040		
	91,140		91,140

SOLUTION :

Net Income as per Profit and Loss Account ... ... Rs. 52,040
Add Disallowables as follows :

	Rs.	Rs.
Motor car 1/5 cost ...	2,000	
Salary A. B. Jones ...	12,000	
Fees doubtful of recovery ...	700	
Repairs to Bungalow ...	500	
Income Tax 1917-18 ...	2,500	
Goodwill ...	5,000	
		22,700
		74,740
Less gain on sale of Bungalow		11,500
		63,240
Add Income Tax deducted at the source on Govt. Promissory Notes		110
		63,350

NOTE : For rate purposes the Income will be computed at Rs. 63,350.

Assessable Income	Rs.	63,350
Less Income Taxed at source on 3½ per cent. Govt. Notes	,,	1,750
		61,600

As the Income is over Rs. 40,000 the same (Rs. 61,600) will be taxed at 1½ annas in the Rupee.

STATEMENT FOR SUPER TAX.

Statutory Income for Super Tax	Rs.	63,350
Less Statutory allowance	,,	50,000
		13,350

Super Tax will be at 1 anna in the Rupee on Rs. 13,350.

EXERCISES ON CHAPTER XV.

I. State what Income Tax will be payable and how will it be collected in the following cases :—

(a) Ardeshir is an Accountant in a Firm at Rs. 165 per month ;

(b) Bachubhai residing in Bombay is a pensioner of Baroda State receiving Rs. 160 per month and has also other income of Rs. 100 per annum.

(c) A British Government pensioner, now residing in Jodhpur State, receives pension Rs. 180 per month ; he pays Rs. 300 a year as his Life Assurance premium.

(d) A Bombay Government Officer on Rs. 200 per month pays a Life Insurance Premium on his life at Rs. 525 a year.

II. Cawasji is a part-time Secretary of X Y Ltd., on Rs. 400 a month. He receives a pension of Rs. 150 a month. He is also an Estate Manager for Mr. Dharamsey's Trusts and receives Rs. 100 per month and rent free quarters of a monthly rental value of Rs. 55. Cawasji received during the year payment for his Endowment Policy, now due, Rs. 8,000. He pays Rs. 300 as premium for life policy of his wife, and Rs. 500 on Endowment Policy of his son. Find the amount of Tax Cawasji will have to pay on his income.

III. A City Municipality had the following annual income from all sources. Rates 16,868, Markets 5,800, Public Halls 300, Gas 6,000, Vehicles 2,800, water undertakings 9,425. Their total expenses under different heads amount to Rs. 18,625. Find to what income tax, if any, the Municipality is assessable.

IV. Which of the following will be liable to Indian Income Tax :—

(a) Public Library and Reading Room in Madras;

(b) The Science Research Institute in Calcutta ;

(c) The All India Medical College in Delhi: would it make any difference if it were located in Kashmere ?

(d) The Dwarkadas Hospital and Lunatic Asylum in Poona ;

(e) The Catholic Missionery Society in Bombay ;

(f) A Professional Beggar ;

(g) Income of Mr. Pestonji residing in Bombay, from his investments in British Government Consols received in England and credited to his account in a Bank in London.

(h) Annual Profits below Rs. 2,000 of a Joint Stock Company, a registered firm, an unregistered firm, and Hindu Joint Family.

V. Which of the following is liable to Super Tax:—

(a) Net assessable income of Rs. 65,000 in case of a Joint Stock Company, Hindu Undivided Family, registered firm.

(b) Total income of Rs. 55,000 of an individual paying life insurance premium Rs. 6,000 annually. Would it make any difference in the rates of super tax if this individual had an extra Rs. 10,000 annually as his share as a member of Hindu Undivided Family in addition to his income Rs. 55,000.

VI. Find the amount of Income Tax (and Super Tax) payable in the following cases :—

(a) A proprietor of two businesses makes profit in his grain business Rs. 5,000 and during same year his cloth business shows him a loss of Rs. 2,983.

(b) A registered firm's profit in 1926 amounts to Rs. 90,000. There are three equal partners who have no separate income of any kind.

(c) The same firm next year makes a profit of Rs. 160,000. Would it make any difference if the firm was unregistered ?

(d) A Hindu Undivided Family's annual income is Rs. 69,000. What Tax does the family pay ? A member of this family getting a share out of this, amounting to Rs. 23,000 has also his separate agricultural lands yielding annually Rs. 10,000 and also income from investments, Rs. 4,000, his profit from his business is Rs. 37,000. Find tax payable by this member.

VII. From the following particulars of the income of Mr. Beramji Saklatvala ascertain the amounts of Income Tax and Super Tax payable by him :—

He is the part-time Secretary of the Hathising Mills, Ltd., at a salary of Rs. 700 per month, which he receives after deduction of Income Tax at six pies in the Rupee. He is an agent to Sun Life Insurance Co., Ltd., from which he gets a net income of Rs. 26,600. He is a sleeping partner in the firm of Messrs. Cheap Jack & Co., and during the last year he derived an income of Rs. 38,400 as his share. He is a shareholder in the Nadiad Electric Co., Ltd., wherefrom he derives an annual dividend of Rs. 4,350 (net) and a debenture-holder in the Firozabad Glass Works, Ltd., for Rs. 3,00,000 from which he gets a regular interest at 6 per cent. (less tax). He has also subscribed the $5\frac{1}{2}$ per cent War Bonds (free of Tax) for Rs. 75,000. The Shilotri Bank Ltd., has credited his Current Account with Rs. 760 being interest due to him.

He also owns a house property at 13, Khetwadi Lane, the annual letting value whereof is Rs. 31,600, and the admissible allowances relating thereto amount to Rs.7,500. He is a pensioner of the Indore State who give him Rs. 5,000 annually. He is appointed Examiner in Physics and Chemistry to the Aligarh University and received an honorarium of Rs. 2,100 therefrom during the last year. He is also a Director of the Ahmednagar Insurance Co., Ltd., from which he received Rs. 300 as Director's fees.

He pays an annual premium of Rs. 6,000 on his life policy. The firm of Messrs. Cheap Jack and Co., is not registered at the Income Tax Office. (G.D.A. 1926).

VIII. Given below is the Profit and Loss Account of S. Sunderji for the year ending 31st December 1923 :—

	Rs.		Rs.
Interest on Properties mortgaged	12,000	Rents from properties ...	2,20,000
Insurance of properties...	2,200	Joint Stock Companies' Dividends	87,000
Ground rent of properties ..	1,000	Interest on War Bonds (Tax Free)	60,000
Repairs to properties ...	18,000	Interest on 4% Government Papers	58,000
		Interest from fixed Deposits	55,000
Rates and Taxes of properties	5,800		
Offices expenses	5,000	Income from Roberts & Co., as a partner, sharing one-fourth (which is registered)	40,000
Bad Debts written off ...	7,000		
Bad Debts reserved ...	11,000	Income from L. Naranji & Co., as a partner, sharing one-fifth (which is unregistered)	30,000
Income Tax and Super Tax	49,000	Income as a member of an Undivided Hindu family.	80,000
Net Profit	8,00,000	Income from a proprietory Mill	2,81,000
	9,11,000		9,11,000

The Net Annual Rental Value of properties, as per Municipal Bills amounted to Rs. 1,62,000.

Prepare S. Sunderji's statements showing income assessable for Income Tax and Super Tax, and amounts payable on the same. (G.D.A. 1925.)

CHAPTER XVI.
MISCELLANEOUS.
AVERAGE DUE DATE.

This is the mean or equated date upon which a single payment can be made in lieu of several payments due on different dates.

It is frequently used for the realisation of Book Debts or Bills due on different dates, from the same person, or for the calculation of interest on Partners' drawings or for similar other instances.

Method.

The average due date is ascertained arithemetically in the following manner:—

(a) Take any convenient previous date or preferably, the earliest due date as the " Commencement Date."

(b) Multiply each amount by the number of days between the commencement date and each subsequent due date.

(c) Add up these different products into one grand total.

(d) Add up the amounts of different transactions into one total.

(e) The grand total of products may now be divided by the total amount of various transactions (i.e., c÷d).

(f) The result will be the number of days from the commencement date, which may now be added up to the commencement date in order to arrive at the *Subsequent* date called "Average Date".

On this average date one single payment of the total amount due, may equitably be made, without loss of interest to either side.

In calculating the average date, it is the practice to ignore, while multiplying or dividing, all fractions, the nearest whole number either of days or of amount being taken as correct.

Illustration :

Mr. Merchant purchased goods on different dates from Flowers & Co., and accepted their bills for the amount as follows :—

Bill	for Rs.	130	due	January	18th,	1924,
,,	,,	150	,,	,,	27 ,	,, ,
,,	,,	700	,,	February	13 ,	,, ,
,,	,,	900	,,	March	29 ,	,, ,
,,	,,	700	,,	April	3rd,	,, ,

Mr. Merchant wishes to accept, in lieu of the above, one Bill only for the full amount, due on the average date.

(a) Let us take the commencement date as January 18th.

(b)

Amount.	Due Date.	Days between commencing date & due date.	Products.
130	January 18	0	0
150	,, 27	9	1,350
700	February 13	26	18,200
900	March 29	45	~~40,500~~
700	April 3	49	~~34,300~~
Rs. 2,580			~~94,350~~

(c) Total of products Rs. ~~94,350~~ divided by

(d) Total amount Rs. 2,580. : The result is

(e) 94,350 ÷ 2,580 = 37 (nearly).

(f) Therefore ~~37th~~ day from the commencement date is the average due date of the full amount Rs. 2,580. This date, here, is ~~February 24th~~.

Note.—Instead of January 18th, we may take any date prior to January 18th, say if we take January 1st, as the commencement date and proceed as above, the result would be the same.

Illustration.

A partner has withdrawn the following sums of money during the year 1926. Interest is chargeable on all drawings at the rate of 6 % p. a. Find average due date and calculate interest.

January	15th	... ...	Rs. 500
March	1st	... ...	Rs. 600
May	20th	... ...	Rs. 550
July	9th	... ...	Rs. 750
November	6th	... ...	Rs. 500
December	16th	... ...	Rs. 400

We take the 1st January as the commencement date and proceed as follows :—

Amount. Rs.	Date.	Days from 1st January.	Product. Rs.
500	January 15	15	750
600	March 1	60	3,600
550	May 20	140	77,000
750	July 9	190	1,42,500
500	November 6	310	1,55,000
400	December 16...	350	1,40,000
3,300			5,18,850

Rs. 5,18,850÷3,300 = 157 days from January 1st *i.e.* June 6th is the average due date. Therefore calculate interest from June 6th to December 31st on Rs. 3300 @ 6 % p. a. = Rs. 112-13-4.

It should be noted that there is also another method of calculating interest on drawings, the same way as the interest is ascertained on accounts current, by calculating interest on every separate item from the date of the drawing till the last date of the period.

ACCOUNT CURRENT.

An Account Current is a statement with Debit and Credit Columns, setting forth the mutual dealings or transactions that have taken place between two parties during a given period. The transactions are set out in a chronological order, in the form of a Ledger Account (of which it is a copy) with additional columns for interest besides the Amount columns on either side.

It is generally agreed between parties that a certain percentage of interest will be allowed on both debit and credit balances remaining unsettled from time to time. Interest in such cases being calculated from the date of each transaction till the end of the period.

Heading. Generally speaking, the Account Current is rendered by the party last mentioned in the Heading. As for example, if an Account Current is headed :—

"A. Ardeshir in Account Current with B. Black" the Account Current is rendered by B. Black to A. Ardeshir and is merely a copy of Ardeshir's Account as it appears in B. Black's Books.

Suppose A. Ardeshir's A/C as it appears in B. Black's books, on 31st March 1927, is as under :—

A. Ardeshir's Account.

		Rs.			Rs.
1926.			1926.		
Oct. 31	To Cash ..	6,000			
Nov. 30	" " ...	5,000	Oct. 1 ..	By Goods ...	8,000
Dec. 15	" Goods ...	4,000	Oct. 31 ...	" Goods ...	2,000
			Nov. 15 ...	" " ...	1,000
1927.			Nov. 30 ...	" Machinery ..	6,000
Jan. 31	" Cash ...	7,000	Dec. 31 ..	" Cash ..	1,000
Jan. 31	" Bill Payable.	3,000			
Feb. 28	" Cash ..	8,000	1927.		
Mar. 15	" Goods ...	11,000			
			Jan. 31 ...	" Goods ...	12,000
		44,000	Mar. 31 ...	" Balance c/d.	5,000
Mar. 31	" Balance b/d.	5,000			44,000

The arrangement between the parties is that interest will be reckoned at 5 % per annum on outstanding balances. B. Black therefore renders Account Current to A. Ardeshir, incorporating this interest therein, with a view, (1) that the items may be checked over by A. Ardeshir in his own ledger both with regard to principal and interest, and (2) that it may serve as a mild reminder to A. Ardeshir of the amount due by him. (Note: Interest is calculated in months instead of days for sake of simplicity of explanation).

A. Ardeshir in Account Current with B. Black.

(Interest on separate item system.)

Date.		Particulars.	Mths.	Principal. Rs.	a.	p.	Interest. Rs.	a.	p.	Date.		Particulars.	Mths.	Principal. Rs.	a.	p.	Interest. Rs.	a.	p.
1926.										1926.									
Oct.	31	To Cash ...	5	6,000	0	0	125	0	0	Oct.	1	By Goods ..	6	8,000	0	0	200	0	0
Nov.	30	,, ,, ..	4	5,000	0	0	83	5	4	Oct.	31	,, Do. ...	5	2,000	0	0	41	10	8
Dec.	15	,, Goods ...	3½	4,000	0	0	58	5	4	Nov.	15	,, Do. ...	4½	1,000	0	0	18	12	0
										Nov.	30	,, Machinery.	4	6,000	0	0	100	0	0
										Dec.	31	,, Cash ...	3	1.000	0	0	12	8	0
1927.										1927.									
Jan.	31	,, Cash ...	2	7,000	0	0	58	5	4										
Jan.	31	,, B. P. ..	2	3,000	0	0	25	0	0	Jan.	31	,, Goods ...	2	12,000	0	0	100	0	0
Feb.	28	,, Cash ..	1	8,000	0	0	33	5	4	Mar.	31	,, Interest as per contra.	...	66	10	8	...	.	...
Mar.	15	,, Goods ...	½	11,000	0	0	22	14	8										
Mar.	31	,, Interest as per contra.	...	...	...		66	10	8	Mar.	31	,, Balance c/d.	...	4,933	5	4	...	...	...
				44,000	0	0								44,000	0	0			
							472	14	8								472	14	8
Mar.	31	To balance b/d ..		4,933	5	4													

The method explained above is the general system followed in practice. Instead of months, the actual number of days from the original date of the amount till the end of the period are calculated and inserted. Interest Tables and interest calculators are generally always made use of in this case.

There is another system of calculating interest by means of products. This is easy and is recommended to students for examinations and also where printed interest tables are not available.

The system adopted in the illustration on next page is, that we first obtain "Product" by multiplying each amount by the number of months (or number of days, where days are to be ascertained) and products are then extended in the product column, on both sides. The product column is then balanced. On this balance of products, interest is calculated, in the ordinary way, at the rate given, for one month—or for one day as the case may be; the formula is :

$$\text{Interest} = \frac{\text{Balance of products} \times \text{Rate}}{100 \times 12.} \quad \text{In case calculations are in months.}$$

$$\text{Interest} = \frac{\text{Balance of products} \times \text{Rate}}{100 \times 365} \quad \text{In case calculations are in days.}$$

A. Ardeshir in Account Current with B. Black.

(Interest on Product System)

Date.	Particulars.	Mths.	Principal.			Product.			Date.	Particulars.	Mths.	Principal.			Product.		
1926.			Rs.	a.	a.	Rs.	a,	p.	1926.			Rs.	a.	p.	Rs.	a.	p.
Oct. 31	To Cash ...	5	6,000	0	0	30,000	0	0	Oct. 1	By Goods ..	6	8,000	0	0	48,000	0	0
Nov. 30	,, Do. ...	4	5,000	0	0	20.000	0	0	Oct. 31	,, Do. ...	5	2,000	0	0	10,000	0	0
Dec. 15	,, Goods ...	3½	4,000	0	0	14,000	0	0	Nov. 15	,, Do. ...	4½	1,000	0	0	4,500	0	0
									Nov. 30	,, Machinery ...	4	6,000	0	0	24,000	0	0
									Dec. 31	,, Cash ...	3	1,000	0	0	3,000	0	0
1927.									1927.								
Jan. 31	To Cash ..	2	7,000	0	0	14,000	0	0									
Jan. 31	,, B. P. ...	2	3,000	0	0	6,000	0	0	Jan. 31	,, Goods ...	2	12,000	0	0	24,000	0	0
Feb. 28	,, Cash ..	1	8,000	0	0	8,000	0	0	Mar. 31	,, Interest ..	...	66	10	8	...	..	...
Mar. 15	,, Goods ...	½	11,000	0	0	5,500	0	0	Mar. 31	,, Balance c/d.	...	4,933	5	4	...	...	...
Mar. 31	,, Balance of products.	...	...	.	...	16,000	0	0									
						1,13,500	0	0							1,13,500	0	0
			44,000	0	0							44,000	0	0			
Mar. 31	To Balance b/d.	...	4,933	5	4												

Bombay Motor Co. Ltd.

1925		1925	
Jan. 1 to Cash ...	2000-0-0	Jan. 1 By Motor Car a/c.	2,000-0-0
June 30 ,, ,, ...	2000-0-0	June 30 ,, ,, ,,	1,777-0-0
Dec. 31 ,, ,, ...	2000-0-0	,, ,, Interest	223-0-0
		Dec. 31 ,, Motor Car a/c	1,831-0-0
		,, ,, ,, Interest	169-0-0
	6,000-C-0		6,000-0-0
1926		1926	
June 30 to Cash	2,000-0-0	June 30 By Motor Car a/c	1885-0-0
Dec. 31 ,, ,,	2,000-0-0	,, ,, ,, Interest	115-0-0
		Dec. 31 Motor Car a/c.	1942-0-3
		,, ,, Interest.	58-0-0-0
	4,000-0-0		4,000-0-0

Instalment System. Under this system, as on delivery of the article by the seller, the legal property therein passes immediately to the buyer this transaction virtually becomes a "Sales" and "purchase" transaction in the books of the parties, but as price is recovered by instalments, which includes interest also, the record requires a special mention.

Entries in Seller's Books. Purchaser's account is debited with the total amount of instalments and sales account is credited with the *present value* of the article, the difference being credited to " Interest Suspense Account". This entry is passed when article is sold or delivered. When advance as well as every further instalment is received, cash is debited and purchaser is credited, with the amount.

At the end of every period interest account will be credited and interest suspense account debited with the amount of interest due during the period. Interest suspense account will get closed when final interest due (and paid with last instalment) is transferred to interest account.

Entries in Buyer's Books. On purchase or receipt of the asset, debit the asset account with the cash value thereof, debit Interest Suspense account with the difference between the cash value and Total Instalments value and credit the vendor's account with the total amount payable. On payment of advance as well as each instalment debit the vendor's account and credit cash.

At the end of every period, debit interest account and credit interest suspense account with the interest due to vendors (and paid with each instalment). Interest Suspense account will get closed when final payment is made and when final balance of interest due to vendors is transferred from interest suspense account and debited to interest account.

GOODS SENT OUT ON SALE OR RETURN.

It is usual in many businesses to send out goods to customers on approval with an option to purchase and keep same or return. In such cases, the goods cannot be treated as ordinary sales until the customers have approved and accepted them, and consequently these transactions cannot be entered in Ordinary Day Book, otherwise we would be treating them as actual sales and anticipating profits which perhaps would never be realised.

Where goods sent out on sale or return are comparatively small in number.

The best way to record "goods sent out" would be to enter them in a special book called "Sale or Return Day Book", such as the following:—

Sale or Return Day Book.

1. Goods sent out.			2. Goods sold.			3. Goods Returned.		4. Balance.	
Date.	Particulars.	Amount.	Date.	L. F.	Amount.	Date.	Amount.	Value at selling price.	Value at cost.

1. When goods are sent out, the particulars are entered in the first group of columns at selling price. No entries are passed in financial books.

2. If the customers accept the goods i. e. when the goods are sold, the particulars are extended to the second group of columns. Entries are then passed through ledger as if this was an Ordinary Day Book, debiting customers individually and crediting sales account, with total of the amount column.

3. If goods are returned, the particulars are extended to the third group of columns. No entries are passed, as no financial record was made when the goods were first sent out.

4. The fourth group is entered up at the end of the period, to show what balance is still in the hands of the customers, unapproved. The difference between the amount in group first and the sum of groups second and third, will represent group fourth in its Selling Price value column. This must be carefully checked.

4.(2) The last column, "Value at Cost" column of the goods on hand will then be entered up, and the total will represent our stock with customers and will be shown in Balance Sheet as Ordinary Stock.

Where Goods Sent out on Sale or Return are Considerable in Number.

In this case, it is not advisable to depend on purely memorandum system, but separate sets of special books will have to be kept, as:—

1. Sale or Return Day Book.
2. Sale or Return Journal.
3. Sale or Return Ledger.

When goods are sent out they are entered in the Sale or Return Day Book (which is ruled as ordinary Day Book). The posting will be made in the Sales or Return Ledger (not the ordinary or Sales Ledger) debiting customers individually and crediting "goods sent out on sale or Return" account periodically with the totals.

When customers return the goods, they are recorded in the Sales or return Journal. From these postings are made in Sales or Return Ledger, crediting customers and debiting "Goods sent out on sale or Return account".

When goods are sold, they are first recorded in the Sales or Return Journal or in the ordinary Day Book in the special column provided to represent such Journal. From these postings are made debiting customer's accounts in the Sales Ledger and crediting customer's account in the Sales or Return Ledger. Periodically the total sales are ascertained, and an entry is passed debiting goods sent out on Sale or Return Account in the Sales or Return Ledger and crediting sales account in the sales ledger.

The result of this system is that the Sales or Return ledger is thus rendered self-balancing. At balancing time the accounts of this ledger (being self-balancing in itself) will be treated as outside the double entry. The value of stock in hands of customers as represented by the balance of "Goods sent out on Sale or Return account" shall be reduced at cost price and shown on the credit side of trading account as well as on the asset side of Balance Sheet.

Contract Account.

When a contractor undertakes to complete several contracts at certain stipulated figures, it is essential that each contract account be opened separately and profit and loss resulting out as each completed contract brought into account. Each contract account, when kept separately, will also enable the contractor to ascertain from time to time the exact cost incurred on it.

Each such contract is opened out in the ledger and debited with the cost of:—

1. Materials specially purchased for the contract.
2. Materials issued out from stock.
3. Plant (or a portion of it) and loose tools specially purchased for the contract.
4. Carriage of materials.
5. Wages.
6. Periodical percentage of indirect work expenses, administrative expenses etc.

Each contract account is credited *on its completion,* with the total value of the contract. It is also credited with the cost of materials issued and charged to it but not utilised. This account will now show the Profit or Loss made on the contract which is transferred to Profit and Loss account.

Contractee's Account. Amounts received from the contractee, from time to time on account of the contract price are credited to contractee's personal account, during the progress of the contract. On completion of the contrct, contractee's account is debited and particular contract account credited with full value of the contract.

Theoretically it is not advisable to bring into account any profit on contracts before completion. In practice, however, this rule is found very unfair inasmuch as a number of contracts on hand may be nearing their completion at the end of the financial period, and the profits thereon would have practically been earned to a large extent. The fact that only very few contracts were actually completed during the period would necessarily show a very incorrect position of affairs.

There can be no hard and fast rule applicable to contracts in general, with regard to ascertainment of profits during its progress, but every case is considered on its own merits, as various influences like sudden rise in materials, or wages, or loss arising out of non-protecting clause of contract itself etc. will have to be considered with regard to the uncompleted portion, before one is justified to take credit for profits on uncompleted work.

ASCERTAINMENT OF PROFIT OR LOSS ON UNCOMPLETED CONTRACTS.

The general practice is that no profit or loss is ascertained on any contract which is not in a reasonable stage of advancement, *i.e.*, one on which at least one-third of the total expenditure estimated for has not been incurred. It is advisable however that in case of contract accounts, which are not at least two thirds complete no profit should be ascertained. The accounts which are debited with the items and cost from time to time, should be carried forward by balance and would appear on the asset side of the Balance Sheet as "work in progress." Any sums or advances received from the contractee, on account of these uncompleted contracts are credited to contractee's personal accounts or to "cash on account of work in progress account" and are shown by way of deduction from such work-in-progress items. It is also very usual in case of contract of any size, that the contract, during its progress, is surveyed from time to time by the Contractee's Surveyor or Architect who certifies the portion of the work done and the value thereof. When the contract is sufficiently advanced, but never before at least one third of the estimated cost is incurred, the profit on the contract in progress is generally, ascertained and taken credit for. On the debit side of the contract account will be placed the total expenditure up-to-date in respect of materials, wages and portion of Establishment charges together with value of any plant etc., as already explained above. On the credit side should be placed the total amount of work certified for, the amount of further work done but not yet certified, at cost, the value of stores materials issued but on hand at cost, and the present value of plant etc. employed on the contract. The difference will represent profit or loss on the contract. Ample provision, however, must be made for unforeseen or possible contingency which might arise, and which might reduce or destroy such anticipated profits. Where, again, the work completed, amounts to about three-fourths or less, it is advisable not to take the entire profit so ascertained to profit and loss account but to take about two-thirds of it only, the balance of profit being carried forward.

Where the contract is nearly completed, the profit is ascertained in the following way. A reasonable estimate is made of what the likely expenditure would be on the remaining work to be done, allowing a reasonable margin of our estimated profit on such portion. This is added to the total cost of the contract to date, and the figure thus arrived at is compared with the contract price. The difference would represent our profit and loss on the contract, during the period.

VOYAGE ACCOUNT.

The owner or a charterer of a ship, besides finding the profit or loss of his business as a whole during a period also maintains a voyage account for each separate voyage of his vessel in order to be in a position to ascertain his profit or loss for every particular voyage made. In fact, voyages are numbered and a separate account of each is kept and debited with all expenses and charges actually incurred in respect of each particular voyage. It is also further debited with a proper proportion of all other charges which are attributable to voyages generally but do not pertain to any one particularly. It is also further debited with the proper proportion of general charges and administrative expenses etc. The voyage account is credited with the Income such as Freight etc. Each voyage account will then show the profit or loss on same and is taken to the general Profit and Loss Account. Voyage account is a revenue account.

MARINE INSURANCE FUND.

Marine Insurance Fund is usually created by large steamship companies in order to enable them to insure their own vessels with themselves, instead of with the outside Insurance companies, in order to save large amounts of premiums which otherwise they would have to pay for this Insurance. In the initial stages, only a part of the fleet or some of the ships only are thus insured, the remainder being insured as usual with outside companies. The idea is that in the beginning when the Fund is small, any heavy loss falling on the Fund may not extinguish it. As the Fund grows, other ships may also be brought into it till the internal insurance operations are extended to the whole fleet.

When Insurance premium is paid to outside Insurance companies, the voyage account is debited and cash or Insurance company's account is credited. Similarly, when no premiums are paid outside, but when ships are insured internally, voyage account is debited and Marine Insurance Fund account is credited with an amount equal to ordinary Insurance premium payable to outside companies. Thus the Marine insurance Fund account is credited and allowed to swell on every time Internal Insurance policies are issued or renewed on every ship. A corresponding amount (to that on the credit of the Marine Insurance Fund Account) is invested in gilt-edged securities and interest received on such investments year after year is also credited to the same Marine Insurance Fund Account and re-invested in similar securities. The Fund would be debited with all losses, average claims, salvage claims, re-insurances, expenses of administration and losses (if any) on sale of investments. Items like refunds, salvages are credited to it. The credit balance of Marine Insurance Fund appears on the liabilities side whereas the investments on the Assets side.

When the Fund reaches a sufficiently large amount, on proper valuation, so as to be in excess of contingencies, the surplus is considered to be profit divisible like other profits.

ROYALTIES.

Definition. The term Royalty, as employed in commerce, denotes a payment made by one person to another, somewhat in the nature of rent, for the right to use certain classes of property of a productive nature. The most common instances are payments for securing the use of Patent Rights, the right to publish or reproduce literary compositions, to perform stage plays, etc. Mineral Royalties are payments made to the Landlord for obtaining the right to work a Mine or a Colliery etc.

Royalties, which are payments made to owner every time the right conferred is used, are usual business expenses and as such are charged to the Trading Account or Manufacturing Account as the case may be. Mineral Royalties, however, require a special treatment in accounts as the agreements entered into between the Landlord (or Owner) and the lessee of mining rights contain certain terms peculiar to these Royalties and accounts entries have to be adapted accordingly. This chapter deals with, therefore, the treatment of Mineral Royalties.

Mineral Royalties. Here the payment of Royalty is usually based on so much per unit of mineral raised, and it is considered as a charge on account of rent payable to Landlord for working the mine or colliery etc., e. g. the Royalty of a coal mine may be 8 annas per ton on every ton of coal extracted from a specified area.

Minimum Rent. When granting a lease of a coal bearing area, upon the Royalty basis, the Landlord generally always stipulates for the payment of a certain fixed minimum sum every year, as Royalty, whether the Royalty on the basis of so much per ton, works out to that figure or not. If the Landlord did not protect his interests in this manner, it may happen that the lessee may fail to work the mine to its best advantage, and the Landlord may suffer in consequence. In fact, this term of minimum rent protects the Landlord against small output or even no output during any particular period, as at least the minimum rent will have to be paid to him in any case. Minimum rent is also called Dead Rent or Fixed Rent.

Where, therefore, the Royalty amounts to less than the minimum rent, the minimum rent is payable and where the Royalty exceeds the latter, the Royalty is payable. In fact where the Royalty exceeds the minimum rent, the latter merges into the former.

Acreage means Royalty based on every acre of land worked. Footage is the Royalty on every cubic foot of coal extracted. Tentail is also another name for Royalty.

Short Working. Another clause, which is often found in a mining lease is that dealing with "short workings". When the Royalty based on output is less than the minimum rent, the minimum rent is paid. The difference or payment in excess of Royalty which is called short working is recoupable by the lessee in after years from amount of Royalties when, in such subsequent years they exceed minimum rent, provided that in no year the Landlord is paid less than the minimum rent. Short workings are sometimes called Redeemable Dead Rents to denote that the deficiency is recoverable out of future years' Royalties due. This right to recoupment is frequently limited to a certain number of future years. This means that "short workings" (i.e. excess Royalties paid to make up Minimum Rent) could be recouped, say within next three or four years, if possible, otherwise, the right of the lessee to recoupment of shortcomings will lapse. Sometimes this right to recoupment extends over the whole period of the lease. Short workings may therefore be treated as temporary asset during the period the right to recoupment exists. The moment this right lapses, this must be treated as a loss or expense and written off.

ENTRIES REGARDING ROYALTIES, DEAD RENT AND SHORTWORKINGS.

(a) Where Minimum Rent exceeds Royalty.

1 *Debit* Royalties Account with whatever actual Royalty amounts to, *debit* shortworkings account with the difference between Royalty and Minimum Rent and *credit* the Landlord's account with the Minimum Rent.

2. Royalty account is closed by transfer to Profit and Loss Account.
3. Shortworkings account is closed by balance and carried forward. During the time the right to recoupment exists the debit balance of shortworkings account will appear as a temporary asset on Balance Sheet.

(b) Where Royalties exceed Dead Rent.

1. Debit Royalty account and credit Landlord's account with the amount of Royalty ascertained.
2. Close Royalty account by transfer to Profit and Loss A/C.
   If shortworkings account exists in the books the following additional entries will also be necessary.
3. Debit Landlord's Account and credit shortworkings account to wipe off any debit balance of shortworkings provided the amount credited to Landlord's account (as per above) is not reduced at least below the minimum rent.
4. The unwritten off balance of shortworkings, if any, is carried forward, and appears on the asset side of the Balance Sheet. If however, the unwritten off balance of shortworkings is now time-barred, so far as future years are concerned, it must be written off to Profit and Loss account.

Where Minimum Rent account is required to be opened the entries would be :—

(*a*) *Where Royalty is less than the minimum rent.*

1. *Debit* Minimum Rent and *Credit* Landlord with the amount of Minimum Rent.
2. *Debit* Royalties and credit *Minimum Rent* with the amount of Royalty ascertained.
3. Transfer balance of Minimum Rent to the debit of shortworkings account.

(*b*) *Where Royalty is greater than Minimum Rent.*

Debit Royalty's Account (with the actual amount of Royalty ascertained) credit shortworkings, (with shortworkings, if any, possible to be recouped) and credit Landlord's account with the balance which should at least amount to the Minimum Rent.

Illustration.

The Bengal Coal Co. Ltd., obtained a lease of a Colliery in the Jheria Coal fields on the basis of a Royalty of 8 annas per ton on the coal raised subject to a minimum Rent of Rs. 2,000 per year. The Coal Company, had power to recoup shortworkings during the first three years of the lease but not afterwards. The output of the first four years was as follows :—

1923 First Year	... ...	2000 Tons.
1924 Second ,,	... ...	3000 ,,
1925 Third ,,	... ...	6500 ,,
1926 Fourth ,,	... ...	9000 ,,

Journal Entries.

	Rs.	a.	p.	Rs,	a.	p.
First Year.						
Royalties a/c ... ... Dr.	1,000	0	0			
Short Workings a/c ... ... Dr.	1,000	0	0			
To Landlord's a/c —				2,000	0	0
(For payment due to Landlord for the minimum rent, as the Rayalty is less than the former).						
Landlord's a/c ... ... Dr.	2,000	0	0			
To Bank				2,000	0	0
(For cash paid to landlord).						
Profit and Loss a/c ... ... Dr.	1,000	0	0			
To Royalties a/c				1,000	0	0
(For transfer of Royalties a/c of the Profit and Loss a/c).						
Second Year.						
Royalties a/c ... ... Dr.	1,500	0	0			
Short workings a/c ... ... Dr.	500	0	0			
To Landlord's a/c.				2,000	0	0
(Being Royalties as ascertained plus short working—making up the minimum rent payable to the Landlord)						

Journal Entries—*contd.*

Landlord's a/c ... ... Dr.	2,000	0	0			
To Bank				2,000	0	0
(For payment to Landlord)						
Profit and Loss a/c... ... ... Dr.	1,500	0	0			
To Royalties a/c				1,500	0	0
(For transfer of Royalties a/c to profit and Loss a/c).						
Third Year.						
Royalties a/c ... ... Dr.	3,250	0	0			
To Landlord's a/c...				3,520	0	0
(Being the amount of Royalty payable to Landlord).						
Profit and Loss a/c ... ... Dr.	3,250	0	0			
To Royalties a/c				3,250	0	0
(Being the amount of Royalty written off to profit & loss a/c)						
Landlord's a/c	1,250	0	0			
To Short workings a/c				1,250	0	0
(Being the amount of short working recoupable in excess of minimum Rent).						
Landlord's a/c ... ... Dr.	2,000	0	0			
To Bank a/c				2,000	0	0
(Payment to the Landlord).						
Profit & Loss a/c ... ... Dr.	250	0	0			
To Short workings a/c				250	0	0
(Being the non-recoverable balance of short workings transferred to profit & loss a/c).						
Fourth Year.						
Royalties a/c ... ... Dr.	4,500	0	0			
To Landlord's a/c				4,500	0	0
(Being the amount of Royalty payable).						
Landlord's a/c ... ... Dr.	4,500	0	0			
To Bank				4,500	0	0
(For payment to the Landlord).						
Profit & Loss a/c ... ... Dr.	4,500	0	0			
To Royalties a/c				4,500	0	0

Royalties Account.

		Rs.	a.	p.			Rs.	a.	p.
1923	To Landlord's a/c @ as. 8 on 2000 tons.	1000	0	0	1923	By transfer to profit and loss a/c.	1000	0	0
1924	To Landlord's a/c. @ as. 8 on 3000 tons.	1500	0	0	1924	By transfer to Profit and loss a/c.	1500	0	0
1925	To Landlord's a/c @ as. 8 on 6500 tons.	3250	0	0	1925	By transfer to profit and loss a/c.	3250	0	0
1926	To Landlord's a/c @ as, 8 on 9000 tons.	4500	0	0	1926	By transfer to profit and loss a/c.	4500	0	0

Short Workings Account.

		Rs.	a.	p.			Rs.	a.	p.
1923	To Landlord's a/c...	1000	0	0	1923	By Balance c/d ...	1000	0	0
1924	To Balance b/d ...	1000	0	0	1924	By Balance c/d ...	1500	0	0
	,, Landlord's a/c ...	500	0	0					
		1500	0	0			1500	0	0
1925	To Balance b/d ...	1500	0	0	1925	By Landlord's a/c.	1250	0	0
						,, Profit & Loss a/c balance being irrecoverable written off.	250	0	0
		1500	0	0			1500	0	0

Landlord's Account.

		Rs.	a.	p.			Rs.	a.	p.
1923	To Bank	2000	0	0	1923	By Royalties ...	1000	0	0
						,, Short Workings.	1000	0	0
		2000	0	0			2000	0	0

Landlord's Account—*cont.*

		Rs.	a.	p.			Rs.	a.	p.
1924	To Bank	2000	0	0	1924	By Royalties ...	1500	0	0
						,, Short Workings.	500	0	0
		2000	0	0			2000	0	0
1925	To Short Workings.	1250	0	0	1925	By Royalties ...	3250	0	0
	,, Bank	2000	0	0					
		3250	0	0			3250	0	0
1926	To Bank	4500	0	0	1926	By Royalties ...	4500	0	0

THE LOOSE-LEAF OR PERPETUAL LEDGERS AND CARD LEDGER SYSTEMS.

This is a method of keeping accounts, on double entry principles, by means of books composed of detachable leaves, or loose-cards filed in drawers, instead of the usual bound books. Loose-leaf Ledgers consist of sheets, ruled like the pages of an ordinary bound ledger, such sheets being inserted in, or taken out from an expanding binder as and when required. The binder or cover is provided with means for expanding the back so as to hold varying number of leaves. These leaves, are punched with uniform holes and after the necessary leaves are placed within the binder, by a mechanical locking device, they are held strong and secure, in their places and no leaf thereafter can be inserted or removed without the lock being opened. Card ledgers are on exactly the same principles, except that the cards are kept in special trays or drawers. Every card has a hole punched through it. The trays or drawers, in which the cards are kept, are fitted with a metal rod which can be inserted through the cards and thus every card gets automatically locked in position

Loose-leaf ledgers or card ledgers are very largely used in business houses and manufacturing concerns, in preference to or partly with usual bound books. Though it cannot be contended that in every single instance, these are better than fast-bound books, it is generally agreed that accounts and records of majority of businesses can be more efficiently and economically kept in loose-leaf books under proper safeguards.

In loose-leaf ledgers, each account is given a separate leaf. No blank leaves are reserved in the middle for extension of any account beyond one page. Leaves when full, can be removed and replaced by fresh blanks, and dead accounts can also be removed, thus maintaining the ledger to contain only *current* or *live* accounts. All full pages and dead account pages, removed from the ledger, are kept in a transfer binder, with similar looking devices so that whenever a reference to past or closed record is necessary, it could easily be had.

The advantages of loose-leaf or card ledger systems over the fast-bound ledgers are :—

(1) The current ledger is not cumbered with dead or closed accounts as these are taken out and filed in transfer binder. It does not even contain a number of blank pages. The ledger thus contains, at any time, only live accounts and is never unwieldy nor does it ever get old.

(2) No frequent opening of new ledgers and every time fresh indexing is necessary. The loose-leaf ledger is a continuous record of all live accounts from year to year. This saves a great deal of waste of time and material.

(3) Any number of leaves referring to one account can be kept together, consecutively, in the transfer binder with an unin-

terrupted record, instead of being scattered away in several books.

(4) There is no need for an index as the leaves and cards are arranged and also can be, at any time, altered and re-arranged alphabetically or numerically as required and new pages or accounts can always be inserted in their proper place of index. Again alphabetically indexed pages could be easily re-indexed numerically or geographically or vice versa, as required.

(5) The work of posting, rendering statements or taking out balances can be distributed to a number of persons, by unlocking and distributing pages, and thus time could be saved; again as there would be no dead or closed account or blank pages to intervene, a trial balance could be prepared more quickly.

(6) Though the system seems costly in its initial stage, it is very economical in its yearly upkeep. The only expenditure required from year to year is a fresh supply of leaves to replace the dead or useless matter. Again there is not a single blank page cast away unutilized in "Old Ledgers" as is the case with bound books. The system is thus less expensive than ordinary bound books.

(7) The dispatch of monthly statements and trade circulars is expedited.

It is contended on the other hand, that unless there is efficient check and supervision upon the stock of loose-leaves or cards, upon their issue, insertion, or removal, the system is open to grave disadvantages.

Disadvantages in absence of extra and efficient supervision are:—

(1) Cards or leaves may be accidentally or wilfully lost or destroyed or substituted to commit or conceal fraud.

(2) The uncertainty whether such ledgers would be recognized in a Court of Law, as an evidence of correct record.

(3) Its comparatively heavy cost in its initial stage.

The safeguards which are suggested, to counteract these disadvantages are:–

(1) Scientific system of internal check.

(2) Keeping the ledgers on self-balancing system.

(3) Stock of all blank leaves or cards should be under responsible control, i. e., in the hands of a manager or secretary, unconnected with the account department. The issue of fresh leaves as well as supervision re-insertion or removal, both in case of current as well as transfer binders must be in the same hands.

(4) Keys of the locking devices of all ledgers should also be kept with the same manager or the secretary who would thus have a complete control over the blank as well as written up leaves or cards.

(5) Special marks may be stamped on the cards used or loose leaves may have special water marks or otherwise given a distinctive character.

The loose leaf Ledger principles may be extended to subsidiary books also with great advantage. Separate binders are kept for Sales Book, Purchase Book, Cash Book, Stock Book, etc., both for current work and completed work. As leaves are detachable posting of past transactions can be distributed among clerks without disturbing the current account. By carbon or typewriting duplicating process exact statements of customers' accounts, as they stand in our ledger, could be rendered from time to time, without any extra labour.

DEPRECIATION.

Definition.

Depreciation is the shrinkage in the utility value of an asset due to any cause during a given period. Depreciation, broadly speaking, may be of two kinds: (1) Internal, and (2) External.

Internal Depreciation is that arising from the operation of any cause natural or inherent in the asset itself,

e. g., wear and tear of the wasting asset, such as plant and machinery, arising through use of working.

External Depreciation is that arising from operation of causes apart from asset, e. g., obsolescence in case of plant and machinery, expiration or effluxion of time in case of a lease, exhaustion of the subject matter as in case of a mine, accident, etc.

The term depreciation is usually understood to convey permanent shrinkage in value. Temporary shrinkage due to fall in market value is called *fluctuation*.

Necessity of Provision.

Depreciation is a loss or cost of production incident to the holding of certain assets for equipment or for the purpose of earning income such loss should therefore be charged against the profit or income of the business before divisible profits could be ascertained.

The real object of providing for depreciation is to distribute the original cost of wasting assets over the term of their working life. Plant and machinery and similar assets employed in earning profits gradually decrease in value through use. This decrease is a part of the cost of production. The measure of such a shrinkage in value, that is depreciation, must therefore be provided for out of revenue.

Fixed and Floating Assets.

Fixed assets are not held for sale but for earning revenue. Fluctuations in market value of similar assets, therefore, may be ignored, since such fluctuations do not increase or decrease the earning power of the asset. In case of floating assets, temporary fluctuations may be ignored but wherein market value has more or less permanently fallen, the valuation of floating assets should be written down to the level of current market prices.

Measure of Depreciation.

Depreciation is generally based at a fixed rate per cent of the value of the asset and is merely an estimate of periodical shrinkage in value. The rate is fixed after estimating the average useful life of the asset and after careful consideration of various causes affecting such depreciation; for ascertaining periodical depreciation, the following *data* is necessary :—

1. The original cost of the asset.
2. The interest lost on capital locked up in the asset.
3. The probable working life of the asset.
4. Chances of the asset becoming obsolete.
5. Probability of the asset being maintained in efficient repairs during its lifetime.
6. Scrap or residual value of the asset, if any.

Answers to the last four items will be supplied by technical experts with necessary experience and knowledge of the business concerned. Given this data, it is usually possible to forecast the internal depreciation with reasonable accuracy. But the external forces (such as obsolescence) is very often a pure guess-work and in many cases it is ignored until the actual loss has been ascertained.

Methods of Depreciation.

The following are the principal methods of providing for depreciation :—

1. The fixed instalment system or straight line or equal instalment method.

2. Diminishing balance system.
3. Annuity system.
4. Depreciation Fund or Sinking Fund system.
5. Insurance Policy system.
6. Revaluation.

1. Fixed Instalment System.

A fixed percentage of the original value of the asset is written off every year so as to reduce the asset account to nil or to its scrap value at the end of its estimated life. Repairs and small renewals, whenever they occur, are charged directly to revenue.

This method is frequently applied in case of short leases, and similar short-lived assets.

The advantages of this method are (1) its simplicity and (2) the fact that the asset is completely written off at the end of its useful life.

The disadvantages of this method are (1) that it ignores the question of interest, (2) that frequent additions to the assets account necessitates fresh calculations of depreciation charges, and (3) the burden of repairs falls more heavily on the Revenue of later years than earlier years of the life of the asset.

2. Diminishing Balance System.

A fixed percentage on the diminishing value (or reducing annual balance) of the asset account is written off every year, so as to reduce the asset account to nil or to its break-up value at the end of its useful life, repairs and small renewals being charged directly to revenue. In this method care must be taken that the percentage rate employed is sufficiently high to allow of the asset being eliminated at the close of its life.

This method is usually applied in case of Plant and Machinery, Furniture and Fixtures, etc., and is probably most popular among business men.

The advantage of this method is that the Revenue charge is equitably averaged in every year since while depreciation is heavy in earlier years repairs will be lighter and when repairs are heavy in the latter years the depreciation grows less. This is in contrast with the first method where depreciation is constant while the repairs will tend to increase.

Additions during the period. When a given Trial Balance contains the asset account at its commencing balance and also additions during the period, with instructions to write off depreciation at a given percentage, it should be remembered that depreciation should be calculated on the final balance of the asset account as at the end of the period and not on the commencement balance ignoring the additions. If, however, the actual or average date of additions is given depreciation on such additions should be calculated separately in proportion to the period after acquisition. Some authors, however, advise that if additions are made in the earlier part of the year, depreciation on these additions for the full period is excusable, but where these are made in the latter half of the year it is best to ignore depreciation on same. In any case, where there is no indication as to the time when additions took place, it is best to provide for the depreciation, *making a note underneath the profit and loss account that "It is assumed that the additions were made during the first half year."*

3. Annuity System.

Under this system, it is assumed, that the capital sunk in the purchase of the asset is an investment, which if employed for other purposes would be earning a certain rate of interest. Interest, therefore, at a fixed percentage is calculated on the value of the asset and is debited to asset account and credited to revenue account every year. The theory assumes that the capital expended on the asset earns interest, credited to revenue, in each financial period. The interest is calculated annually on the diminishing value of the asset. Depreciation is then charged on equal instalment method but the percentage is so fixed as to eliminate the cost of the asset *together with interest on capital sunk* (added year after year) at the close of its life. The depreciation charge is ascertained from acturial Tables.

This is probably the most scientific system from accountancy stand point but the draw back is that it is not popular with the commercial community. The disadvantages of this system are (1) that the charge to revenue gradually increases year after year as while the depreciation charge remains constant the interest credited to revenue goes on decreasing ; (2) when additions are made, revised calculations become necessary ; (3) in earlier years the book value of the asset is in excess of its real value.

This method is principally applied for long leases, involving considerable outlay. It is not suitable to Plant and Machinery as fresh calculations would become necessary every time additions are made. Even in case of leases where dilapidations have to be provided for, at the expiration of the lease, the Sinking Fund Method explained later on, would be best suited.

The amount of depreciation to be written off annually under the annuity system is ascertained by reference to annuity Table given below :—

TABLE 1.

Amount required to write off £1 by the Annuity Method.

Years.	3%.	3½%.	4%.	4½%.	5%.
3	·353530	·356933	·360348	·363773	·367208
4	·269028	·272251	·275490	·278744	·282012
5	·218354	·221481	·224627	·227792	·230975
6	·184597	·187668	·190761	·193878	·197017
7	·160506	·163544	·166609	·169701	·172819
8	·142456	·145476	·148527	·151609	·154721
9	·128433	·131446	·134493	·137574	·140690
10	·117230	·120241	·123291	·126378	·129504

The mathematical calculations system by which the figures in the above table are arrived at, and which could be extended to any limit of years and percentage rates, can be explained by the following formula

$$\frac{\text{Simple interest for one year}}{\text{Compound interest for the given period}} \textit{ plus } \text{Simple interest for one year.}$$

e.g. to write off an asset worth Rs. 1,000 at the end of ~~10~~-years under annuity system, after addition of 5% interest annually, we must charge Rs. 129–8–0 as depreciation. The amount is arrived at as follows :—

To write off Re. 1, at 5% in 5 years, we must write off annually :—

$$\frac{\cdot 05}{\cdot 628895} + \cdot 05 = \cdot 79504 + \cdot 5 = \cdot 129504$$

hence to write off Rs. 1,000 we get $1000 \times \cdot 129504 = 129 \cdot 504$ say Rs. 129–8–0 every year. We work out the asset account as under :—

Lease Account.

Year.		Rs.	a.	p.	Year.		Rs.	a.	p.
1	To Cash	1000	0	0	1	By Depreciation ...	129	8	0
	,, Interest 5% ...	50	0	0		,, Balance c/d ..	920	8	0
		1050	0	0			1050	0	0
2	To Balance b/d ...	920	8	0	2	By Depreciation ...	129	8	0
	,, Interest 5% ...	46	0	0		,, Balance c/d ...	837	0	0
		966	8	0			966	8	0
3	To Balance b/d ...	837	0	0	3	By Depreciation ...	129	8	0
	,, Interest 5% ...	41	13	7		,, Balance ...	749	5	7
		878	13	7			878	13	7
4	To Balance b/d ...	749	5	7					

Note.—There will usually be small differences arising from fractions of a pie ignored in calculations which will be adjusted in the last year.

4. Depreciation Fund System.

This method is often known as Sinking Fund or Redemption Fund method. These terms however are more suitable when used in connection with provision for repayment of loans or debentures. Under this system, the asset account remains at its original figure year after year, until the close of its life, but a proportionate and equal amount of depreciation is debited to profit and loss account, annually, and credited to Depreciation Fund Account. An equivalent amount of cash is also invested outside the business in gilt edged securities and allowed to accumulate at compound interest, so as to produce the required amount at the completion of a given number of years, the object being that when the asset becomes worthless and requires replacement, it provides ready cash. The investments which are now equivalent to the original cost of the asset extinguished, could easily be realised and thus purchase of new asset is facilitated without disturbing the financial position of the business. If such cash were not invested outside the business, the money for replacement will have to be drawn from ordinary Bank Balance. This might cause serious inconvenience to the ordinary business and if the amount was very large, the business could easily be crippled. The great advantage of Depreciation Fund Investment is that it provides money outside the business and thus prevents any disturbance in the financial position at the time of replacing the asset.

The record to be made under this System is as follows:—

1. The asset remains debited with its original cost and appears at the same figure in the Balance Sheet until the close of its life.
2. At the end of every year, an entry is passed debiting profit and loss account and crediting Depreciation Fund Account, with such annual equal instalments which, if added to, at a fixed percentage of interest would, in the given period, amount to a sum equal to the original cost of the asset. This amount of instalment is ascertained from printed Sinking Fund Tables.
3. Again every year, the amount credited to Depreciation Fund account is invested outside the business in Securities. Here the Depreciation Fund investments account is debited and cash or Bank account credited.
4. When interest is received, it is also invested in similar securities, annually. Entries being, Cash account is debited and interest account credited when interest is received. Interest

account is transferred to Depreciation Fund account. When this interest also is invested in Securities, Depreciation Fund investments account is debited and cash credited.

At the end of the given period, when the asset becomes useless the Depreciation Fund account is transferred to the asset account. The asset account will thus be closed. The securities are realised, closing the Depreciation Fund investments account, and cash will be available for replacement of that asset.

In many cases interest is not realised in cash, but instructions are given to the Bank or broker to re-invest the interest in similar securities direct. In such a case, the entries will not be passed through cash book but only a journal entry will be necessary, debiting Investment account and crediting Depreciation Fund account.

In practice, Investments will never realise their book value. Any small difference in this account will be transferred to Profit and Loss Account.

It should be noted that the provision for this Depreciation Fund is a charge against revenue and should be debited to Profit and Loss account. It is not an appropriation of profits.

In case of Depreciation Fund Investments account, the cash instalment of last year as well as last year's interest will not be re-invested as this is exactly the time for realising all the previous "investments". However the cash instalments and interest of last year will be set aside and added to the sale proceeds of previous years' investments. This will form the fund available for purchase of new asset.

In Balance Sheet the Depreciation Fund account, showing credit balance appears on liabilities side of the

Balance Sheet from year to year. There is nothing wrong, however, if this account is shown by way of deduction from the asset concerned. The Investment account appears on the asset side.

The provision for depreciation fund under this system is made on the basis of the following table.

The formula to arrive at figures thereof is :—

$$\frac{\text{Simple interest for one year}}{\text{Compound interest for given period.}}$$

e. g. to arrive at the amount to be set aside every year so as to provide Re. 1 in 5 years, if such amount be invested at compound interest at 5 per cent, we get :—

$$\frac{\cdot 05}{\cdot 276281} = \cdot 180975$$

TABLE II.

Annual Sinking Fund Instalments to provide £1.

Years.	3%.	3½%.	4%.	4½%.	5%.
3	·323530	·321933	·320348	·318773	·317208
4	·239028	·237251	·235490	·233744	·232012
5	·188354	·186481	·184627	·182792	·180975
6	·154597	·152668	·150761	·148878	·147017
7	·130506	·128544	·126609	·124701	·122819
8	·112456	·110476	·108527	·106609	·104721
9	·098433	·096446	·094493	·092574	·090690
10	·087230	·085241	·083291	·081378	·079504

5. Insurance Policy Method.

Under this method Endowment Insurance Policy is taken out for the life of the asset so as to produce the amount required to replace the asset at the end of the given period.

The procedure followed is similar to the one explained for Depreciation Fund System, with the exception that the cash taken out of the business is not invested in gilt edged securities but is paid over by way of premium to the Insurance Company. Although the interest obtained is lower, yet the advantage of this method is that there is no risk of loss on realisation, as in the case of outside investments subject to market fluctuations. Again outside securities, by pressure of circumstances, may be diverted from their original purpose.

In some cases, the amount paid, periodically, as premiums, is debited to policy account which is regarded as an investment. A simultaneous entry is also passed every year debiting Profit and Loss account and crediting Redemption Fund account with equivalent amount. Every year, interest on the balance of Policy account is calculated and debited to Policy account and credited to Redemption Fund account. At the end of the period the Policy account would show a balance approximately equal to the amount realised which when credited to the Policy account will close same. Any small difference should be adjusted through Profit and Loss account. Cash would thus be available at maturity for the purchase of the new asset. The asset account and the Policy account will appear on the assets side of the Balance Sheet until the end of the period. The Redemption Fund account will be shown on the Liabilities side, at the end of the period the asset account will be closed when the Redemption Fund account is transferred thereto.

In other cases, the Policy account instead of being maintained at the total amounts of premiums paid with accrued interest it is considered desirable that such Policy account should be maintained at surrender value of the Policy from year to year. When this course is adopted, the question of interest on Policy account balance is ignored but instead calculations of surrender value is made every year and Policy account is adjusted accordingly through Profit and Loss account or through Redemption Fund account. At the close of the period, the Policy account will show a profit which will be transferred to Redemption Fund account.

Some accountants advise that the Policy account should be maintained at surrender value thereof specially when there is a probability of surrendering the Policy before the slipulated period. The actual surrender value could be ascertained from Insurance Company's printed Tables, but for general guidance, this can be taken to be 10 per cent of the premium paid in the first year, 12½ per cent of the total premiums paid at the end of 2nd year and after this, for all years the full amount of the total premiums paid, plus 2 per cent compound interest except the first year's premium which the Insurance Co. retains exclusively for administration expenses.

6. Re-Valuation.

Sometimes, depreciation is determined by the process of actual stock-taking and re-valuation at end of each financial period. This method however is not suitable to fixed assets but is specially suited to certain classes of assets, such as: Live Stock Patents, Patterns, Copyrights, Investments, Loose-tools Packages, Casks, Bottles etc. The difference between book value and revaluation of the asset is written off as depreciation. Should the valuation prove to be an appreciation in value, it should generally be ignored for book-keeping purposes. In case of investment, however, permanent rise in value, may be brought into account by crediting same to Reserve Account.

Loose-tools. In engineering firms, where they make their own tools, the stock of such tools at the commencement and at the close of the period are taken to trading account inasmuch as cost of materials and wages for making these tools are charged in the same account.

Patents. The protection afforded by a patent lasts for 14 years from its date, but this right can be renewed thereafter under certain circumstances. The original cost of the patent including fees paid, expenses and cost of experiment or invention etc., should, therefore, be written off during the life of the patent. Where, however, the patent is rapidly waning in value or proves a failure, revaluation method is the best.

RESERVES.

Reserve, is a provision made to meet known or anticipated loss, liability, or contingency and also includes prudent retention of undivided profits in business to strengthen it financially by increasing working capital. The reserves may be made (1) for specific purposes or (2) general purposes.

Specific Reserve or Reserve, is a provision made for any known, anticipated or contingent loss or liability. Specific reserve is a charge against profits before divisible profits are ascertained and therefore it must be debited to profit and loss account. Provision for specific reserves includes *reserves for loss* such as depreciation reserve for repairs and renewals etc, *reserves for outstanding liabilities* such as salaries, wages, commission, rent interest accrued, income tax and similar outstanding expenses, and also *reserves for contingencies*, such as reserve for doubtful debts for discounts, disputed claims, for workmen's compensation etc.

Specific Reserves are usually shown in the Balance Sheet by way of deductions from the assets against which they are made, reserves for outstanding expenses or income are shown as separate items on the asset or liability side as the case may be.

General Reserve Fund is a provision made, out of avilable profits, for unknown future losses, or to equalise dividends or to strengthen the financial position of the business.

Reserve Fund is also known as Rest (as in case of Bank of England) or surplus, margin or Reserve account. It presupposes available profits out of which this provision is made and are voluntarily made for the purposes above named, e. g. *General* Reserve Fund for stabilising the financial position of the concern known as Reserve Fund or Reserve account or *Special* Reserve Fund such as Dividend equalisation Fund, Pension Fund, Depreciation Fund, Insurance Fund etc.

Reserve Funds, both general and special, are shown on the liabilities side of the Balance Sheet and represent a surplus of assets over capital and liabilities.

Difference between Reserve and Reserve Fund.

1. A Reserve is a charge on the Profit and Loss account while a Reserve Fund is a voluntary provision made in the Profit and Loss Appropriation account.

2. Reserve is not a surplus profit and being earmarked for some known loss or contingency is not available for dividends while Reserve Fund being created out of distributable profits is always available for dividends unless, though seldom, appropriated towards unexpected contingency.

3. Reserve is generally shown on Balance Sheet by way of deduction from assets while a Reserve Fund is always shown on the Liabilities side of Balance Sheet.

Reserve Fund and Reserve Account.

Some draw a marked distinction between Reserve Fund and Reserve account, maintaining that Reserve Account is a term which should be applied to capital profits only such as profit out of sale of a fixed asset, profits prior to incorporation and the like, while Reserve Fund is maintained only for provisions made in Profit and Loss Appropriation account. This distinction is not only misleading but is also against the accepted meaning of the term in business. All capital profits are transferred to special account called *Capital Reserve.*

Some Accountants again draw a distinction between these two terms, restricting the Reserve Fund to the surplus profits invested outside the business in specific gilt-edged securities while the Reserve account is restricted for use where there is no such investment outside the business but where surplus profits are invested within the business i. e. merged into available assets taken as a whole. They maintain that Reserve Fund cannot be properly called a "Fund" unless there is a corresponding existence of securities shown which could be readily realised without disturbing financial stability of the concern. There is however a great divergence of opinion to this distinction also and if the use of the terms in published accounts of business concern is any guide, it would be seen that both these terms are indiscriminately used and generally to mean the same thing.

The only real test as to the existence of a Reserve Fund is that it shall be represented by a clear surplus i. e., an excess of assets over liabilities and capital. If therefore there is a debit balance of profit and loss account on a Balance Sheet, Reserve Fund of course, cannot exist in its true sense. In such a case Reserve Fund must automatically get transferred to Profit and Loss account to the extent of debit balance.

The question whether the Reserve Fund i. e. surplus profits withheld from distribution, should be separately invested or not is merely one of prudent financial business policy to be determined in the light of circumstances. The fact that the Fund is represented by outside investments greatly strengthens the financial position of the Company. But if the undertaking is in need of further working capital and can afford to spare it for outside investment it is simply reasonable that this surplus be allowed to remain in the business. If, however, the business does not require additional working capital or it cannot usefully or profitably employ it within the business, it would be advisable to invest such surplus profits in gilt-edged securities outside the business.

Secret Reserve.

Where there is a surplus or undistributed profits, the existence of which is not detected on the face of the Balance Sheet it is called a Secret Reserve or Internal Reserve.

The main object of creating Secret Reserve is to withhold profits from distribution in good year without

Ascertainment of Profit or Loss.

The trading results attained by any business, under Single Entry, can only be arrived at by a crude and roundabout process of comparing the traders capital at the end with his capital at commencement of the trading period. This will give the opening and closing capitals. Assuming that there have been no drawings or additions to capital in the meantime, the excess of the closing capital over the opening capital will represent profit made during the period. If the opening capital is more than the closing, the difference is loss during the period. If drawings or additions have taken place, these will be adjusted in the opening capital and the net capital remaining invested in the business would be ascertained for comparison with the capital at end.

Ascertainment of Capital.

In order to ascertain the capital at any given date, a *Statement of Affairs*, something after the style of a Balance Sheet, is prepared. For this purpose the traders books are employed, as far as they go, *i.e.* debtors and creditors are ascertained from ledger. If cash book is kept, cash balance would be ascertained therefrom or cash would be counted. Stock taken and valued. Bank Pass book would give balance at Bank. Assets such as Buildings or Plant must be valued or estimated and for any other assets or liabilities traders' memory or any haphazard record must be relied upon and all such property, additions thereto etc., as well as loan and other creditors not appearing in Personal Ledgers, thus ascertained, will be noted down. All known assets and liabilities, including outstanding expenses etc, will be arranged in same manner as a Balance Sheet. The difference would represent either capital or deficiency as the case may be.

It is obvious that when financial statements are prepared from such haphazard and incomplete information, there is a considerable risk of error and the omission of various material items through forgetfulness is by no means unlikely. The statement thus prepared cannot be relied upon inasmuch as its accuracy cannot be proved.

Illustration.

Ramji Bhagwan, who has a small business keeps his books under Single Entry. He now wishes to ascertain his profits for the year ending 31st December 1929 in order to obtain reduction of an over assessment for Income-Tax.

His position as ascertained on 31st December 1928 was as follows:—

	Rs.
Cash in hand	1,240
Balance at Bank (as per Pass Book)	700
Stock of goods on hand, estimated at	2,000
Furniture & fixtures, valued at cost	450
Sundry debtors	1,320
Sundry Creditors...	3,140

He now furnishes the following details as to his position on 31st December 1929:—

Cash in hand	Rs.	100
Overdrawn at Bank as per Pass Book	,,	200
Stock of goods, at cost	,,	3,920
Furniture & fixtures estimated	,,	300
Additions thereto, at cost	,,	100
Sundry debtors	,,	3,100
Sundry creditors	,,	3,750

During the year he had withdrawn from the business Rs. 120 every month for private expenses. Prepare Statement of Affairs and Statement of Profit and Loss as on 31st December 1929.

RAMJI BHAGWAN.

Statement of Affairs as on 31st December 1928.

	Rs.		Rs.
Sundry Creditors	3,140	Cash in hand	1,240
Capital 31-12-28	2,570	Cash at Bank	700
		Stock of Goods	2,000
		Furniture and fixtures ...	450
		Sundry Debtors	1,320
Rs. ...	5,710	Rs. ...	5,710

RAMJI BHAGWAN.

Statement of Affairs as on 31st December 1929.

	Rs.		Rs.
Bank overdraft	200	Cash in hand	100
Sundry Creditors	3,750	Stock of Goods	3,920
Capital 31-12-29	3,570	Furniture & Fixtures ...	400
		Sundry Debtors — ...	3,100
Rs. ...	7,520	Rs. ...	7,520

Statement of Profit & Loss.

	Rs.
Capital at commencement 31st December 1928	2,570
Less Drawings during the year	1,440
Capital remaining invested in the business	1,130
Compare Capital at the end 31st December 1929	3,570
Excess being profit ... Rs. ...	2,440

CONVERSION OF SINGLE ENTRY BOOKS TO DOUBLE ENTRY.

When Subsidiary Books are kept.

In case, Single Entry books, kept during a given period, are required to be converted into Double Entry record, the following steps are necessary, assuming that subsidiary books are maintained:—

1. Take the opening Statement of Affairs prepared at commencement. Check the accuracy of the amounts of the Debtors and Creditors with opening balances in personal Ledger, also check cash and Bank balances with Cash Book and Bank Pass Book. Then pass opening journal Entry debiting all assets and crediting liabilities, the difference being credited to capital account.

2. Take Cash Book. Knowing that personal accounts have already been posted, the postings should be checked over to see any omission or error. From both the sides, all impersonal accounts should now be properly posted up and if Discount Columns are maintained Discount account should also be posted up.

3. Day Book. Check debits to customers' accounts. Then total of Day Book may be credited to Sales account.

4. Invoice Book. Check Credits to Creditors Accounts. Then debit the total of Invoice book to purchases account.

5. Similarly complete the double entry of other subsidiary books, like returns books, Bill Receivable Book, Bill Payable Book, &c.

6. Lastly go through personal accounts and see whether anything is debited or credited there, not coming from any original book and therefore remaining unchecked. There may be Bad debts or allowances credited to customers accounts or charges debited to them, without these items ever passing through any subsidiary Books. Collect these items and complete their double entry. Again going through personal accounts, incorrect debits

or credits might be detected that should properly go to real or nominal accounts. Instances of these may be that rent is debited to Landlord's account instead of rent account or Salaries debited to clerks accounts or purchase of fixed assets debited to the firm to whom the amount was paid. In such cases proper transfer entries should be made and such errors rectified.

Double entry being now completed, a trial balance could be prepared and agreed. From this a Trading and Profit and Loss account as well as Balance Sheet should be compiled after necessary adjustments as to outstanding assets and liabilities, &c., are carried out.

When Subsidiary books are not kept.

In practice, it is generally found that proper subsidiary books are seldom kept; and the books as a whole are in a state of confusion and no proper statements of affairs have ever been prepared. Assuming, therefore, that no subsidiary books are kept, and the only books available are Personal Ledger and Cash Book, the following procedure would be necessary for conversion of the books to double entry principles.

Scrutinising the accounts of the debtors and creditors in the Ledger different classes of transactions will be carefully analysed and grouped in form of a columnar statement.

On the Debit side of customers' accounts, will be found:—

(a) The opening balances, as per last statement. (b) Sales. (c) Dishonoured Bills and (d) Any special items like transfers etc.

On the credit side of customers' accounts will be found :—

(a) Cash received from debtors, (b) Discount allowed (c) Returns Inwards, (d) Bill Receivable, (e) Bad debts, (f) Transfers, and (g) Closing balances.

The totals of the different columns of the analysis statements will be posted to relative impersonal accounts and thus double entry would be completed as far as customers' accounts are concerned.

Similarly creditors' accounts will be analysed, the debit side denoting (a) Cash paid to creditors, (a) Discounts (c) Returns (d) Bill payable (e) Transfers and (f) Closing balances, while the credit side will be analysed into (a) Opening balances, (b) Purchases and (c) Transfers.

After completing the double entry from creditors' accounts analysis, Cash book will be scrutinised and any items relating to impersonal accounts therein, will be properly posted up. Any error of principle detected while scrutinising should be rectified. While analysing personal accounts a Total Debtors' Account and a Total Creditors' Account may also be prepared and agreed with total personal accounts balances. Cash and Bank balances may be struck and a reconciliation statement prepared where necessary.

As complete double entry will thus be provided in the Ledger from different analysis columns and cash book, a trial Balance can now be prepared from which Trading, Profit and Loss Accounts and Balance Sheet may be worked out, after necessary adjusting entries are passed through books in the ordinary way.

APPENDIX A.

Accountancy Law and Auditing.

[Based on Lectures delivered to Auditing Students (G. D. A. and Incorporated Accountants) by Principal Sohrab R. Davar.]

General Observations.

The audit is an examination of books of accounts and vouchers with a view to see whether the Balance Sheet exhibits a correct statement of the affairs of the concern. In Joint Stock Companies the Balance Sheet must also have been prepared and the accounts and entries in books passed in accordance with the requirement of the Act. In case of a Partnership the rights of partners as to the division of profits and losses and interest on Capital and drawing are to be found in the Partnership Agreement, which must also be taken as a guide for the Auditor with a view to see that the adjustments are made accordingly. In absence of a definite agreement on any point the general provisions of Partnership Law must be taken as a guide and strictly followed in the said adjustments. In case of Corporations or joint stock companies the regulations as provided for in the Articles of Association must be carefully considered before checking the accounts and passing them as correct. The Auditor must, therefore, be fully conversant with these branches of law.

Position at Law of an Auditor.

In all cases the Auditor is justified in relying on the certificates of responsible managers or heads of the concern unless there is something to excite his suspicion in which case it is his duty to probe into details and satisfy himself. As per a learned Judge Lopes J. [*Kingston Cotton Mill Co., No. 2, (1896) 2 Ch. 288-289*] "an Auditor is a watch dog and not a blood hound." He is not a detective sent out to arrest the offender. He is only there to see that there is nothing wrong or inaccurate as far as accounts are concerned. Of course he has got to do this with that skill, care and caution which a reasonably competent, careful and cautious auditor would do. He is justified in believing tried servants of the company in whom confidence is placed by the company. *If* there is anything to excite suspicion *he* should probe *it* to the bottom but in absence of anything of that kind he is only bound to be reasonably cautious. He does not guarantee the discovery of a fraud. With reference to trusting the tried servants proper discretion has to be observed, e. g. "the manager has no apparent conflict between his interest and his duty. His position was not similar to that of a cashier, who has to account for the cash he receives, and whose account of his receipts and payments could not reasonably be taken by an auditor without further inquiry." In a recent case [In re *City Equitable Fire Insurance Co. (1925)* 1 *Ch.* D. 407] it was further laid down that "the measure of the auditor's responsibility depends upon the terms of his engagement. There may be a special contract defining the duties and liabilities of the auditors. If there is, then that contract governs the question. The articles will, however, be looked at if there is no special agreement, because the auditors will presumably have taken their duties upon the terms (among others) set out in the articles. That is not to say that auditors can set aside a statutory obligation. No agreement or article of association can remove an imperative or statutory duty." "The onus lies upon the auditors, who would not be excused for total omission to comply with any of the requirements of the section 113 (our S. 145) or for any consequences of deliberate or reckless indifferent failure to ask for information on matters which call for further explanation." The rights and duties of auditors as laid down by the above mentioned S. 145 are :—

Every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, and shall be entitled to require from the directors and officers of the company such information and explanation as may be necessary for the performance of the duties of the auditors.

The auditors shall make a report to the members of the company on the accounts examined by them, and on every balance sheet laid before the company in general meeting during their tenure of office, and the report shall state :—

(1) whether or not they have obtained all the information and explanations they have required.

(2) whether in their opinion the balance sheet referred to in the report is drawn up in conformity with the law.

(3) whether such balance sheet exhibits a true and correct view of the state of the Company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company.

When in a large office the accounting system is so arranged that it affords an internal check, the Auditor's work is more easy here as he can place a certain amount of reliance on the system and the check afforded by it, but when, as in a small concern, the system does not afford such a check he should be more guarded, and check the details more carefully.

It may be further added that the extent of his work does not depend on the nature or amount of his remuneration. He has to do his duty as would be expected of an expert with the diligence of an expert agent, failing which he would be liable to damages,

The Two Main Objects.

The two main objects of an Audit are :—(1) Detection of Frauds, and (2) Detection of Errors.

In case of Frauds they may have been committed with a view to defalcations, or with a view to bolster up the results with a view to show the concern to be more prosperous, or financially sound than what it actually is.

The Auditor must remember that he is expected to do his work with reasonable care and skill and thus if the accounts are falsified and dividends paid out of capital which falsification could have been discovered by reasonable care and skill, he would be liable. The auditor must look into documents and books, make inquiries from the management and the staff but is not bound to go outside the company and seek for knowledge, say from shareholders and creditors. He is not an insurer against fraud and error. The measure of damage is the loss suffered through the negligence taking all the circumstances of the case.

In a recent case the Auditor tried to excuse himself on the ground that he had to finish his work within four days as he was rushed by the management to be in time for the Directors' and Shareholders' meeting which defence was of course not accepted. It is no excuse for an auditor to say that as he was not paid sufficient remuneration and therefore he could not check the work in detail. If the remuneration is not satisfactory the only course open to him is to decline the audit but if he takes up the work he must do it perfectly and with full responsibility.

In case of cash transactions the manipulations may take the form of falsification by bogus entries frequently supported by bogus vouchers and therefore a careful checking of cash entries and vouchers is absolutely necessary. The best thing to do is to introduce a proper cash system in the finance department of the concern. The following is recommended as the best :—

Classes of Audits.

The Audit may be either (1) Continuous or (2) Final.

In the first case the Auditor is expected to call frequently and check the accounts and vouchers in great detail, whereas in the second he calls at the end of the accounting period when the books are closed and the Balance Sheet is ready for his signature. Here a detailed check is not possible, particularly in case of large businesses, but still the responsibilty in law in either case is the same.

In case of continuous audits the danger to be provided against is the chance of figures and entries being altered, after the same are checked and ticked. The auditor therefore generally uses a special type of tick where the figure seems to have been erased, so that, in case of new erasing after checking, the same may be easy to detect. In case of continuous audit a very detailed checking must be resorted to whereas in case of a final audit, time and circumstances do not permit of a very detailed and exhaustive audit. We have seen that the legal responsibility is in theory the same but the auditor in case of Final Audits where he has to check a very large number of vouchers such as Invoices, etc., should follow the ruling of the learned Judge Lindley L. J. in (*In re London and General Bank* (1895) *2 Ch. D. 675.*) and check a few of these invoices in great detail as to calculations, totals, etc., and if he finds them accurate he can take it that the rest are correct but if he finds errors in some which ought to excite his suspicion he must check them all in detail. To quote from this excellent decision of great importance to the Accountancy profession. " It is no part of the auditors to give advice, either to directors or shareholders as to what they ought to do. An auditor has nothing to do with the prudence or imprudence of making loans with or without security. It is nothing to him whether the business is conducted prudently or imprudently, profitably or unprofitably." Proceeding further the learned Judge lays down that the books of the company should be examined by the auditor with a view to ascertain the true financial position of the company. "He is not an insurer; he does not guarantee that the books do correctly show the true position of the company's affairs; he does not even guarantee that his balance sheet is accurate according to the books of the company......"

Where there is nothing to excite suspicion very little inquiry will be reasonably sufficient, and in practice I believe *business-men select few cases at haphazard, see that they are right, and assume that other like them are correct also.* Where suspicion is aroused more care is obviously necessary."

Special ticks must also be used in connection with various operations in audits and if necessary special coloured pencils may be used. Thus we may have ticks with personality of their own for checking either (1) vouchers with original records, (2) totals, (3) ledger posting, (4) transfer entries, etc.

Audit work pure and simple involves checking and checking alone but not the preparation of Final Accounts or the Balance Sheet. That is the work of the book-keeper or the accountant in charge of writing the books. If therefore the Auditor has contracted for an Audit he is not bound to do this additional work for the same fee, but he is entitled to an additional remuneration.

Audit of cash and the system to be employed.

In case of cash received, counterfoil receipt books consecutively numbered should be used. One receipt book only should be used at a time and the rest kept under lock and key by a responsible head. One clerk should fill in the whole receipt, i.e., both the counterfoil and the original and the Manager or Proprietor should sign same, initialing the counterfoil at the same time. The number of the receipt should then be entered in the cash book "Voucher Column" in front of the cash entry. The auditor should check this carefully, i.e., the voucher with the cash entry. All cash and cheques received should be banked the same day and those received after bank hours should be banked as the first thing the next morning.

In case of payments they should be made by "order cheques" crossed wherever possible. Here too one clerk should fill in the cheque and its counterfoil in one operation and the manager or proprietor should sign same and initial the counterfoil. A receipt should be obtained from the customer and kept on a proper file, consecutively numbered, the number being entered in the cash book "voucher column" in the same line as the cash entry.

In case of discounts received and allowed the usual percentage should be ascertained and verified.

The cash in hand should be checked by entering the actual cash in hand on the day in question. If that cannot be done the auditor should ascertain the balance of the cash in hand as on the day he audits and then count the actual cash.

The other precaution will be to get a red ink note printed on all invoices, prospectuses and catalogues informing the customers that receipts on firm's printed forms will alone be recognised and requesting them to pay as far as they can by crossed order cheques.

Checking of petty cash and Pass Books :—

These are dealt with under the heading of audit of Balance Sheet Items.

Reconciliation Statement.

In case of the pass book the auditor should get the reconciliation statement prepared by the book-keeper or cashier, explaining the difference between the pass book balance and the one displayed by the cash book bank column and then check it.

The petty cash should be worked on the "imprest system" and the auditor should ascertain that the system is regularly and properly worked. The petty cash-keeper should be a person other than the cashier. He should also verify the actual petty cash balance in hand, on lines similar to those employed in case of the cash book. It has been held that the auditor who omits to vouch and check the petty cash balance commits a breach of duty.

The postage book should also be checked where postage runs into large figures and the actual stamps in hand should be verified.

Audit of Trading and Profit and Loss Items.

Income on Investments.

In case of investments and receipts of income therefrom the auditor should ascertain the dates on which the income on each type of investments generally falls due and then see whether the same is recovered and properly entered. In case where there are large investments separate accounts are opened and a separate investment ledger maintained which should be carefully checked.

In case of Dividends recovered on variable rates the counterfoil of Dividend Warrant or the covering letter, if any, should be asked for. Particular care should be taken to see that on investments sold *ex div* the dividends are recovered subsequently.

In case of interest on Fixed Deposit, the fixed deposit receipt should be inspected, the rate of interest verified and the entries at proper dates should be traced and ticked.

In case of rents receipts the terms and conditions of the rental should be ascertained from the leases or correspondence. The auditor should then ascertain whether the rents are regularly collected and entered, checking the entries in due course and in case of arrears he should say that the proper debits are given in the relative books.

Payment of Wages.

In case of wages they are payable either on (1) time system or (2) piece work system. In the former case "time records" are kept by the foreman of each department from which a special clerk works out the number of hours, or days, on which each workman has worked. A second clerk makes out the account due to each employee on separate wages sheets or books and the cashier pays the same.

In case of "piece work", the actual work done is generally automatically recorded on machines, from which wages cards and sheets are prepared by the foreman or the departmental clerks. The auditor should study the system employed and see that the same is properly and regularly worked. He should then vouch the cheque drawn with the wages sheet.

It may be added that the practice is to draw one cheque only for wages in favour of the paymaster which the latter should cash. When each workman is paid, his receipt or acknowledgment is taken in a book kept for the purpose, those not able to sign placing their marks or thumb impression. This book may be called for by the auditor and looked into with advantage.

In case of Errors they may be either errors of (1) Omission, (2) Commission, (3) Principles, (4) Clerical, (5) Compensating errors. All these can be easily checked by the process of mechanical checking of entries in the usual course of an Audit.

Purchases.

In case of purchases the Purchase Journal or the Invoice Book should be vouched with the invoices. The invoices should be initialed by a responsible head as to their correctness while compared with the orders as per the order book or contracts for purchase. The goods must be of the class the concern deals in. Also ascertain the percentage of gross profits by taking into consideration the sales and compare the same with that of previous years as a counter-check, and if the difference is large, ascertain the cause of the same as this may result from goods not being entered in the purchase books though they are reckoned in the stock.

In case of purchase returns the auditor should ascertain the proper system in force with a view to see whether credits are properly given for these returns. If the goods are paid for already a credit note should be obtained from the firm from whom the goods were bought ; whereas in case the goods were bought on credit, a note should be made on the invoice so that while paying it the returns may be deducted. Check the totals of various departmental purchase accounts carefully in the Purchase Journal. Next check the postings in the ledger from the Purchase Journal itself.

Sales.

In case of cash sales they are usually entered in the Cash Sales Book, from the salesmen's sales books and total daily or weekly totals of such sales are entered in the cash book. The auditor has therefore to check the salesmen's books with the cash sales book and then check the totals of this book and see that they are correctly entered in the General Cash Book.

In case of credit sales the orders books should be maintained and properly written up. The invoices should be made in duplicate, one being sent out and the other kept in the office on a file. The sales journal should be written out from these invoices. The auditor thus checks the invoices with the order file and sales journal with the invoice file. The totals and carry forwards should also be checked. Care should be taken where at the closing time, or little before that period, large sales are shown. This is a matter by which the fraudulent directors can show large profits on large sales and immediately in the next period show them as Sales Returns.

In case of sales returns, therefore, the auditor should see a proper system in work under which credit notes are regularly sent out to those who return goods and copies kept and entered in a sales returns book, carefully check the posting of this book.

Sale or Return.

In case of goods sent out for Sale or Return the auditor should see that the same are not treated as sale until they are actually sold. They are to be taken at cost as stock on hand. Some businesses do a large trade on this principle and in their case a separate "Sale or Return Book" as well as a "Sale or Return Ledger" has to be maintained to afford a reliable check as well as a proper record. On the same principle consignments outwards are to be treated.

Bad Debts.

In this connection a certificate from a responsible head should be obtained by the auditor to the effect that all the bad debts have been written off and that a proper Reserve for doubtful debts has been made. Besides that the auditor should make an independent investigation and see if there are any long outstanding balances in account, which have not been operated upon and make inquiries as to the position of these debtors. In this connection the period of credit usually allowed to a customer in that particular office will be a very good guide. Notes as to suspension of payment or insolvency of a debtor are also made on the Debtors' ledger accounts which should be looked for by the auditor.

Expenses.

In case of checking of expenditure the auditor will be on surer ground if he were to insist upon the vouchers being passed by some responsible officer or head of department who should be asked to initial same.

The next step is to investigate independently at the source and much will depend on the nature of the said expenditure. We shall now deal with each type of expenditure separately and see how it is to be checked or audited.

Salaries.

In case of Salaries the agreements if any with the employees should be looked into besides seeing that the salary list has been passed by the head.

Rent.

In case of rents the lease or failing that correspondence if any with the land-lord prior to or leading upto the letting of the premises should be the guide.

Travelling Expenses of Travellers.

In case of Travelling Expenses the agreement of the traveller or officer concerned should be looked into as to his right in this connection and the amounts paid to him verified before the receipt is vouched. These receipts should also have been passed instance by a responsible officer.

Directors' Fees.

These are usually paid as per the clause in the Articles of Association which generally provide for such charges. The auditor should also carefully ascertain how if at all such fees are payable. In case of fees fixed by the shareholders at the meeting which is sometimes rarely done, particularly when the Articles are silent, the resolution in the shareholders' minute book should be called for. When the fees depend on attendance, the attendance book should be carefully checked. It should be remembered that it has been decided that unless the fees are fixed or agreed upon in one or other of the above mentioned methods the directors are not entitled as of right to claim any remuneration.

In case of Commissions paid to employees or others the relevant agreements if any, should be inspected and the amount paid checked therewith.

Dividends paid.

In case of dividends paid the auditor should verify, (1) whether the profits are sufficient to justify payment, (2) whether the same are properly declared as per the Articles of the Company, (3) whether they are paid to the various classes of shareholders as per their rights attached to their holdings.

As to the accountancy-check see that the dividend actually paid in cash agrees with the returned dividend warrants and see if the warrants are properly endorsed. Next check the dividend warrant with the pass book with a view to see that the amount of gross dividends as shown to have been paid by the banker is correct. Verify also the percentage with the capital on which it is declared and paid.

The point here to be noted is that all that the auditor is concerned with is what is known in law as the "divisible balance" of profits. The dividend paid to the shareholders of a joint stock company is paid, on the footing of what the directors declare to be a "divisible balance." In declaring this the directors need not (unless the articles of association expressly provide for a specific charge) take any depreciation in calculation and deduct same from profits. The auditor ought also to remember that what according to *Moulton L. J. in re Spanish Prospecting Co. (1911) 1. Ch. D.* 92 are profits, are in book-keeping parlance what we call profits arrived at under the single entry book-keeping. His lordship then laid down that "if the total assets of the business at the two dates be compared, the increase which they show at the later date, as compared with earlier date, (due allowance, of course, being made for any capital introduced into or taken out of the business in the meanwhile), represents in strictness the profits of the business during the period in question." On the question of depreciation there are a number of decisions prior to that of *Dovey* v. *Cory 1901 A.* C. 477 and even subsequent to that decision, where it has been repeatedly laid down that unless the articles expressly provide for a specific charge by way of depreciation, the directors can distribute all profits without deducting same. (*Lee* v. *Nenchatel Asphalte Co., 41 Ch. D. I*; *Verner* v. *General and Commercial Investment Trust* (*1894*) *2 Ch. 239*; *in re National Bank of Wales* (*1899*) *2 Ch. D. 629*). In *Dovey* v. *Cory* cited above, the House of Lords threw considerable doubt on this proposition, but no decision was given on that point as the same did not directly arise in the case. This is unfortunate as it leaves the law in an unsettled state as will be observed from the decision in *Ammonia Soda Co.* v. *Chamberlain* 1918, *Ch. D.* 266 where it was held that the observations in the *Dovey* v. *Cory* case cannot be considered as they had not over-ruled or qualified the previous decisions of the Courts of Appeal, and, therefore, the courts were not bound to follow the same.

"Net profits" in law are profits from which all deductions for "Depreciation of capital assets such as buildings and fixed plant must be taken into account before arriving at the profits of the year." (*Gore Brown's Handbook on Joint Stock Companies, 85th Edn. p. 40*). In a decision in *Thomas* v. *Crabtree* (1912) 106 *L. T.* 49, *on page 51 M. R. Coizens Hardy* laid down that "in the ordinary course of ascertaining profits of a business where there is a power machinery and trade machinery, which is necessary in order to perform the work of a business, it is in my opinion essential, in addition to all sums actually expended in repairing the machinery, or renewing parts, that there should also be written off a proper sum for depreciation, and that sum ought to be written off before you can arrive at the "net profits" of the business, or at the "profits" of the business, and it is not profit until a proper sum, varying with the class of machinery, with the nature of business and life of machinery has been written off. The same principle has been laid down in *Dent* v. *London Tramway Co.* (1880) 16 *Ch. D* 344 where M. R. Jessel laid down that "profits of the year of course mean the surplus in the receipts, after paying expenses and restoring capital to the position it was on 1st January in that year."

It may be further noted that neither the Indian nor the English Companies act provide for the preparation of a "Profit and Loss Account" and still less for its distribution among shareholders together with the periodical balance sheet. This is left to the directors or promoters who may if they like adopt the Table A clauses in this connection or get special articles providing for the preparation of Profit and Loss account in the usual form. The Table A of the Indian Companies Act 1913 deals with this point in clauses 106 and 107 as follows:—"The profit and loss account shall show, arranged under the most convenient heads, the amount of gross income, distinguishing the several sources from which it has been derived, and the amount of gross expenditure, distinguishing the expenses of the establishment, salaries and other like matters. Every item of expenditure fairly chargeable against the year's income shall be brought into account, so that, a just balance of profit and loss may be laid before the meeting, and in cases where any item of expenditure which may in fairness be distributed over several years has been incurred in any one year, the whole amount of such item shall be stated, with the addition of the reasons why only a portion of such expenditure is charged against the income of the year."

Audit of Balance Sheet Items.

The Indian Companies Act 1913 specially provides a form of Balance Sheet known as Form F which has to be compulsorily followed because Sec. 132 lays down as follows :—

Sec. 132 (1) The Balance Sheet shall contain a summary of the property and assets and of the capital and liabilities of the company giving such particulars as will disclose the general nature of those liabilities and assets and how the value of the fixed assets has been arrived at.

(2) The Balance Sheet shall be in the form marked F in the Third Schedule or as near thereto as circumstances admit.

It will be thus noticed that the auditor has to take care as far as India is concerned that the Balance Sheet placed before him strictly follows Form F, otherwise, the Registrar of Joint Stock Companies will refuse to take it on the file. This compulsory requirement of the Balance Sheet being prepared in a particular form, giving information as to assets and liabilities in a particular manner, has done an amount of good, both in regularising procedure and restricting the chance of figures being guggled with, within as narrow a compass as circumstances will permit. It is therefore surprising to note that in the recent inquiry held by a committee specially appointed by the Board of Trade in England to consider what reforms were necessary in the present English Company Law, Accountants representing the Chartered Institutes of England and Scotland strongly opposed the introduction of a compulsory form for Balance Sheets of Joint Stock Companies on the ground, among others, that such a course was impracticable. If they had cared to consult their own compatriots in India—a large number of English and Scottish Chartered Accountants being in practice here—they would have easily discovered how groundless was this plea.

Beginning with the assets in course of his audit the accountant will turn his attention to the most vulnerable of all assets, *viz.*, the cash on hand.

Cash on hand.

Beginning with cash the same can be most efficiently checked by calling on the closing day and actually counting the same, or if that cannot be done by checking the balance in hand up to the date on which the auditor checks the same. The Petty Cash Book and the Cash Book should be checked at one and the same time and not at different dates or occasions. The same rule applies when more than one cash book is kept as that prevents the same cash or money being produced as balance representing the different cash books.

In case of Banking institutions the practice followed is to count the cheques and notes, whereas the gold or silver is weighed and some bags representing a certain weight are counted haphazard as an approximate check. Some trading institutions arrange, where they conveniently can, to send all cash balance to the Bank on the last day of the accounting period. Cheques may then be drawn for cash required for the cash box on the next day, i. e., the day of opening the new account. This would not only lessen the importance of the auditors actually counting the cash on the day of closing the accounts, but would actually obviate the necessity of his doing so. It may be added that the law has always held that it is the duty of the auditor to actually count cash. There was some doubt as to whether the auditor was bound to count petty cash also, but the plea that the auditor was not bound to check petty cash was over-ruled in the (*London Oil Storage Co. Ltd.* vs. *Seear Hasluck & Co. K, B. D.* 1st June 1904). In this case the view taken was that where there is a large floating balance of cash, the auditor should be careful as it is an item of suspicion.

Cash at Bank.

In case of Cash at Bank on Current Account we have already seen that the same should be checked with paying-in-slip counterfoils, cheque book counterfoils and cash book entries, and difference between the balance shown by the cash book in comparison with the Pass Book balance must be explained through a "Reconciliation Statement." In one case where the Banker permitted the manager of a company to himself make the entries in the Pass Book in which amounts were entered correctly, but the dates were inaccurate, with the result that the auditor was not able to check defalcations, the

Bank was ordered to pay the damage. This decision clearly lays down the principle that the pass book is a reliable basis for the auditor to follow. While counting cash the Auditor may sometimes come across a large number of I. O. U.'s. This should be discouraged and where I. O. U.s are allowed at all they should be initialed by a responsible member of the firm or company.

In case of fixed deposit receipts are generally given which should be called for and vouched.

Bills Receivable.

The actual bills in hand should be called for and inspected as to whether they are properly stamped and whether they are in proper legal form with regular endorsements if any. Generally a Schedule or list is made out for the convenience of the auditor. They should not be overdue. In case of overdue bills the auditor should see that proper provision is made by way of bad debts reserve, etc. When the audit is held some time after the closing date, within which period some bills may have fallen due and paid, the auditor should verify same. In case of Bills Receivable discounted, a note should be made as to the contingent liability arising therefrom, at the foot of the bills and if necessary proper reserve made. If bills are sent to the Banker for collection at maturity, the Auditor should call for a certificate or letter from the banker as to same.

Investments.

Shares, Government Bonds, Debenture Bonds, etc., can be easily checked by their due production with a list or Schedule of investments prepared for same. In case of Bearer Bonds the Auditor should also see that the Coupons, etc., for payment of interest are intact and up-to-date and are not detached. As to the value at which it should be shown on the Balance Sheet the golden rule of true finance is to show them either at the cost or at the market value whichever is the lower of the two. The investments in which the Reserve Fund of the company is invested should be distinguished and shown separately. Where, however, the investments are shown at book value and the market value is less, a note as to its present market value should be made in the Balance Sheet. The point is that the permanent investments of a capital nature are not required to be depreciated in law with the fluctuations of the market. Of course where the firm or company's business is to deal or speculate in investments they should be treated as stock-in-hand at the lower value. In case of investments held by a Trustee, the auditor should see whether the Trust Deed has specifically provided for any particular class of investments, or whether it gives the Trustee any other power in that regard. Failing that the auditor should see that all investments held, are as per the provisions of the Indian Trust Act 1882 where a list of authorised security is given under Sec. 20. They are :—

Where the trust-property consists of money, and cannot be applied immediately or at any early date to the purposes of the trust, the trustee is bound (subject to any direction contained in the instrument of trust) to invest the money on the following securities, and on no others :—

(a) in promissory notes, debentures, stock, or other securities, of the Government of India, or of the United Kingdom of Great Britain and Ireland ;

(b) in bonds, debentures and annuities charged by the Imperial Parliament on the revenues of India ;

(c) in stock or debentures of, or shares in, or other Companies, the interest whereon shall have been guaranteed by the Secretary of State for India in Council ;

(d) in debentures or other securities for money issued, under the authority of any Act of a Legislature established in British India, by or on behalf of any municipal body, port trust, or city improvement trust, in any Presidency-town or in Rangoon Town, or by or on behalf of the trustees of the Port of Karachi ;

(e) on a first mortgage of immovable property situated in British India ; provided that the property is not a leasehold for a term of years, and that the value of the property exceeds by one-third, or, if consisting of buildings, exceeds by one-half the mortgage-money ; or

(f) on any other security expressly authorised by the instrument of trust, or by any rule which the High Court may, from time to time, prescribe in this behalf ;

Provided that, where there is a person competent to contract, and entitled in possession to receive the income of the trust-property for his life, or for any greater estate, on investment, on any security mentioned or referred to in clauses (d), (e), and (f), shall be made without his consent in writing.

In re : *City Equitable Fire Insurance Co. Ltd.* (1925) 1 *Ch. Div.* 407 already dealt with above the following further principles as to investments were laid down :—(1) The auditor must actually verify whether the securities exist ; (2) if they happen to be in custody of a particular company, firm or person, the auditor should satisfy himself that they are in existence ; (3) if not satisfied he should report the fact to share-holders ; (4) If the auditor discovers that the securities of the company are not in proper custody, it is his duty to require that the matter be put right at once, or, if his requirement is not complied with to report the fact to the shareholders, and this whether he can or cannot make a personal inspection. (5) if they happen to be in safe custody with someone the auditor should not be content with a certificate that securities are in the possession of a particular company, firm or person, unless the parties concerned are *trustworthy and those who, in the ordinary course of the business, keep securities for their customers* ; (6) it is not right that auditors should deliberately adopt a standard of verification below the ordinary standard, because the persons with whom they are dealing are persons of specially high reputation.

It may be pointed out that according to this decision it does not make the slightest difference whether the persons with whom the securities are lodged are bankers. All that is required is that they should be responsible, respectable and trustworthy and those who are in habit of dealing with and holding securities. According to Pollock M.R. " If you merely discharge him (auditor) by saying he accepted the certificate of a bank because it was a bank you might lighten his responsibility. In my view he must take a certificate from a person who is in the habit of dealing with and holding securities and whom he, on reasonable grounds, believes to be, in exercise of the best judgment, a trust worthy person to give such a certificate."

Stock in Trade.

This has to be taken either at the cost or at the market value, whichever is the lowest, making all allowance for depreciation in case of old stock. As to the Articles in process of manufacture, or manufactured articles they have to be taken at cost by adding to the cost of raw materials the direct expenditure, plus a percentage of indirect expenditure, according to the rules of cost accounting.

In *the Kingstone Cotton Mills Case (1896) 1 Ch. 331*, it was held that the auditor is not a valuer and therefore not bound in law to take stock, but that he was quite justified in relying upon representations made and certificate given by responsible officials or heads of the concerns. Besides the certificate of the manager, the auditor should call for stock sheets and ascertain therefrom the basis of valuation, check calculations and totals and compare same with those of previous years to see if there is a great difference in values, in which case explanations may be asked.

In case of concerns where the average rate of gross profit more or less is uniform, the auditor may ascertain the gross profit on the turnover and check same with that of previous years.

In case of stock sheets presented, the Auditor should check them with a few of the items in the purchase invoices to verify the values taken. If quantity of stock is recorded in separate stock books then the balances shown in the books should be compared with the quantities shown on the stock sheets. Stock sheets of previous periods should be seen in order to ascertain if a uniform method is being followed year after year in valuation of the stock. The Balance Sheet should clearly show that the value was taken, at the valuation certified by the Manager.

It should however be remembered that what the manager generally certifies is the valuation of the stock, and though the auditor (unless he is paid a special fee) is not bound to go and count the actual stock in the warehouse or shop, he is expected to at least check quantities as shown on the stock sheets supplied to him and verify same with the actual stock books. In case of valuation also if in course of his investigation the auditor comes across something which arouses his suspicion it is his duty to thresh the whole matter out. *M. Henry Squire (cash chemists) Ltd.* v. *Bell Butler & Co.*, K. B. D. 16th Feb. 1911) where it was argued against the auditors that the fact that there were a large number of alterations in the stock sheets should have aroused their suspicion through its " cumulative effect," the court did not give weight to that argument on the ground that the auditor was bound to assume that the work was always done by one clerk.

Book Debts.

Auditor should check the Sales Ledger balances and ascertain whether the bad debts had been written off and doubtful debts provided for by a Reserve. A certificate as to these bad debts should also be obtained from the responsible Manager, as we show above under the heading of " Bad Debts." Auditor should see that proper provision is made for both cash and trade discounts. Much will depend on the nature of the business, and the extent of credit allowed. In case of business like that of Electric Power Companies the extent of credit will be the smallest and shortest and accounts will be collected within a month or two, whereas in other concerns credit may be extended to a year or more, such as in case of some fashionable tailoring establishments in Europe. The auditor should thus be guided by the custom of trade in each case and call for an explanation as soon as he finds that the customary margin time has expired on any particular account. In case of business where the number of Debtors and Sundry Debtors Ledger is large, the auditor will find it impossible to check the accounts in detail. In such a case the best course is to provide for a reliable system of internal check and follow the dictum of Lindley J. *London and General Bank* (1895) 2 *Ch.* 673., by checking haphazard a couple of ledgers at each audit.

Payments in advance.

Among the assets there will be shown on the Balance Sheet a number of payments made in advance, on account of various expenses such as rent, telephone, salaries, insurance, taxes, etc. The auditor should check these with a view to see if the proportion carried over is correct.

Plant and machinery.

This item would appear in the books at the actual cost less amounts written off by way of depreciation. The auditor should verify same as far as possible. All additions ought to be carefully checked with a view to see whether they are replacements or genuine additions of new plant. In joint stock companies the plant and machinery as per Form F of our Indian Companies Act 1913 clearly requires that all items given there, under the heading of *Capital Expenditure*, must be shown stating "in every case the original cost and total depreciation written off under each head." This rule equally applies to goodwill, land, buildings, leaseholds, railway sidings, furniture, development of property, patents, trade marks, designs and interest paid out of capital during construction. In case proper depreciation is not charged or allowed the Auditor may refer to this fact in his report. Even in case of Joint Stock Companies, the bulk of decisions on the subject lay down to the effect that, there is nothing to compel the Directors to write off depreciation on fixed assets before the figure of available profits for distribution for dividend, is arrived at. (*Ammonia Soda Co.* vs. *Chamberlain (1918) 1 Ch. D. 266*; *Lee* vs. *Nenchtel Asphalte Co., 41, Ch. D. 1*; *Verner* vs. *General & Commercial Investment Trust (1894) 2 Ch. 239*; *In re National Bank of Wales (1899) 2 Ch. D. 629)*. This rule applies equally to all fixed assets as stated above.

In cases where a part of the plant and machinery is sold, the auditor should see that the figure exactly representing the proportionate cost of the said machinery, less depreciation actually charged, is written off from machinery account. If such a sale results in a profit, the client should be recommended to take it to the Reserve fund, though in law there is nothing to prevent the Directors from treating same as profit and carrying same to the Appropriation Account.

In case of loose plant an inventory should be asked for and verified.

In cases where double account system is maintained, depreciation is not charged, but replacements and repairs are treated as expenditure and charged to revenue. The auditor therefore should take care to see that the new plant or machinery if bought for renewals is debited to revenue account.

Immovable Property (Freehold and Leasehold).

These can be verified by inspection of the title-deeds and the cost at which the same were purchased by the firm or the company whose books are being audited. The Conveyance in their favour will show the purchase consideration. This cost, plus legal charges and stamp value, should be allowed to be treated as an addition forming part of the cost of the said property. The property, if it is a building, has to be depreciated, more particularly so, if it stands on leased ground where the period covered is not very long. The auditor has to see as far as possible that proper depreciation is charged. Failing which he may mention same in the report.

In case the property is mortgaged, the title-deeds will be with the Mortgagee, in which case a certificate to that effect must be obtained. On the other hand if they are with the solicitors or bankers locally situated, they must be called for and inspected. But if they are abroad the auditor will have to be satisfied with a certificate, though for self protection he may mention this fact in his report.

If the building is built by the firm or company for its use or investments the formal certificate of the architect stating the actual cost will form an excellent check on the value specified in the books of accounts.

Loans and advances.

In case loans and advances are made by the firm or company, the auditor should check the vouchers with a view to see what bond or document is taken from the debtor and also check the security, if any, on which such a loan is advanced. In case of Joint Stock Companies care should be taken to see if the company has power to lend money. In case any director is granted a loan, the same should be shown separately on the balance sheet.

Patents.

If a patent right is shown on the balance sheet the same should be verified and actual registration certificate inspected. If the Patent was purchased, the purchase price originally paid and the depreciation written off should be checked. The patent has a short life and therefore it should be written off on that footing. Under no circumstances should the patent, if invention is of the proprietor of the business, should be allowed to be brought into accounts as an asset. But if purchased, it may be either depreciated as stated above or a separate reserve for depreciation of patent created.

Copy-Rights.

In case of copy-rights the same should be revalued yearly, as, frequently the copy-right value expires long before the period allowed by law. In India no certificate is issued and therefore the first publication is the only proof.

Goodwill.

This figure should only be taken in account in case the firm or company has actually paid for it by purchase in order to acquire the business or in case of arrangement with a new partner. There is no law which compels directors to write off goodwill, but of course dictates of perfect finance would make it necessary as a practical proposition. Again the original figure of the cost of goodwill may not represent the actual value of that asset as the business may be less flourishing. In such a case it is best written off. Any how the auditor should at least make sure that the figure shown is not more than the actual cost, and that in no case it is written up. According to Prof. Dicksee " So long as the item is separately stated on the balance sheet, it is not desirable that the auditor should interfere with the discretion of the management although there is of course no objection to his offering an opinion when he is invited to do so."

In this connection the decision in *Stanley* vs. *Read Brothers Ltd. 1924 2 Ch. D I.* is interesting to Auditors and Accountants. Up to and including 1906 the Balance Sheets of the Company contained an item of £140,000 for Goodwill. In 1906 £10,000 were written off the goodwill out of the profits. That process continued from time to time until in 1917, the goodwill had been written down to £51,000. Meanwhile a Reserve Fund had been built up out of profits and out of 1917 profits £ 11,000 were added. The goodwill account was then eliminated from the Balance sheet of 1918 by writing off against the

Reserve Account, i. e., the goodwill disappeared from the assets side and the reserve fund was reduced to £ 10,000. The directors then wrote back the Goodwill upto £ 40,000 and treated this as profits for the purpose of paying dividends. Here it was held that:—

A company which applies its profits in writing off a corresponding amount of the value of the good-will, but which has not finally and unreservedly capitalised these profits may write back to profit account so much of the depreciation written off good-will as proved to be in excess of proper requirements. This was so decided in spite of the fact that the shareholders had approved of the accounts every year in their meetings, because the learned judge was "not satisfied that the shareholders thereby intended, or bound themselves, for all times and in all circumstances, to give up their claims to these profits and to treat them as Capital only."

Preliminary Expenses.

These expenses are of a capital nature and the law permits same to be treated as a paper asset shown on the balance sheet as an asset. The auditor ought first to see here that no item which cannot be legitimately treated as one of preliminary expenditure is allowed and under the law as it stands at present the companies are under no obligation to write off this expenditure. The auditor should also see here that in case the promoters have undertaken to bear any portion of the expenditure the same are not taken under this heading. For this purpose the auditor should call for agreements with promoters and read them.

We shall now proceed to deal with the items on the Liabilities side of the Balance Sheet.

Share Capital.

In case of audit of a newly formed joint stock company the auditor should study the Memorandum and Articles of Association with a view to see in what classes of shares the capital is to be divided and what is the amount of the minimum subscription. He should see that this minimum subscription had been applied for. He has next to check the applications sent with the shares allocated and then follow them up by checking the allotments and entries with respect to same in the allotment book, the register of members and the financial set of books. Each allotment should be checked with its application letter to ascertain whether the same are actually applied for. The directors' minute book should be looked into with a view to ascertain whether a proper resolution, or resolutions, with respect to same have been passed and recorded. In case of applications refused, entries as to repayment of application money ought to be carefully checked. The auditor should see that the total shares actually issued do not exceed the authorised capital of the company.

In case the shares have been issued for consideration other than cash, the auditor should see the contracts or agreements under which they are so issued, with a view to ascertain that valuable consideration has been given in one form or other. The auditor should also ascertain whether these contracts are filed with the Registrar of joint stock companies.

There are cases where the whole or part of the share capital has been underwritten. In such cases the auditor should first check whether any part of this issue is taken up by the public, and in case of that part of issue which is not so taken up, whether the same is entered on the names of the under-writers concerned. The next point is to see what commission or brokerage is agreed to be paid and to verify the entries relating to same.

In case of shares issued at a premium the auditor should see that the premium not added to the capital but is taken to the Share Premium Account. This premium may then be transferred to a General Reserve Fund or carried to the Profit and Loss Account. The former procedure being of course preferable.

The Companies Act requires a Register of Members to be maintained containing information on various points and it is the usual practice to maintain this book in form of a share ledger with appropriated columns for the items of information as required by the Act as well as those which proper account keeping may necessitate. A separate Register of Transfers is also kept. The auditor should at the audit of a new company carefully check the entries in the Register of Members. At the subsequent audits the auditor is not expected to check transfers, etc., and in those cases all he has to do is to see that the share capital balances shown by the balance sheet agree with share ledger balances. Share Transfer audit is a special audit specially arranged at a special fee.

To summarise the object sought to be attained here by the Audit is whether the issued capital is issued to *bonafide* holders and whether proper consideration in form either of cash, services or other value has been received. Incidentally the auditor has also to make sure whether proper resolutions are passed and recorded in the company's minute book.

Calls.

In case of calls the minute which authorises the call should be carefully noted to see that the call is made strictly according to the requirements of the Articles. The next point is to check the entries with respect to receipt of money and the journal entries with respect to the call. The actual cash received on Calls should be compared with the Share Register balance as well as the Call Book, and calls in arrear as shown by the call list should be checked and compared with the balance indicated by the Share Register.

In case of transfer fees the total transfers as shown by transfer book should be counted and compared with the total transfer fees received during the period.

Debentures.

The same remarks apply as to audit of Debenture Capital as to that of Shares Capital except that the Debenture Trust Deed if any should be referred to with a view to see that the obligations to the Debenture-holders are complied with.

Reserves.

In case of reserves they are (1) general reserve; (2) special reserve (3) secret reserve.

In case of *general reserve*, the auditor has no voice as to the amount which is to be transferred to it from the Appropriation Account. The matter is entirely at the discretion of the directors unless the articles of association make some provision which is very unlikely in case of general reserve. All that the auditor has to do in this connection is to see that the same is properly entered in the balance sheet. Of course he should make sure that only genuine profits are transferred and not bogus figures brought into existence through inflation or revaluation of assets. As to how this general reserve is invested also does not fall under the auditor's jurisdiction except that he has to see that the investments, if any, stated in the balance sheet are actually in existence. The directors here may use the general reserve in business or invest it outside the business which is a problem of good finance and internal management with which the directors are solely concerned.

In case of *special reserves*, however, they ought to be invested in outside securities as at the specified time actual cash would be required to replace the wasting asset or to meet the expected contingency. Of course the directors in these cases have ample discretion but where this is not done the auditor will be justified in bringing this to the notice of the shareholders.

In case of *secret reserves*, the point which should guide the auditor is whether the same is created *bona fide* and in the interests of shareholders and the company. This point was dealt with at some length in the *Newton* v. *Birmingham Small Arms Co. Ltd. 1906 2 Ch. D. 378*. Here the principle evolved was that the auditors was not bound to disclose the fact that the financial position of the Company is better than what is actually shown on the balance sheet, of course, the company cannot by a resolution or otherwise deprive the auditor of his right to state in his report such matters as the law obliges him to do in connection with the accounts of the company. It was further laid down that auditor should not interfere if he is satisfied that secret reserve was created for a ligitimate purpose and that there was no room for suspicion.

Trade Creditors.

The object of the audit is to ascertain whether all the creditors are properly accounted for. The best form of check is to ask the clients to get statements of accounts from all the creditors concerned to be checked along with the list of creditors as prepared by the client's accountant and the Bought Ledger. Care should be taken to see that with respect to goods received during the last few days prior to the closing, the invoices are duly entered and posted in proper books. If any of the creditors have made claims which have not been admitted, the auditor should see that provision for same is made in the accounts.

Bills Payable.

The Bills Payable balances as per the Bill Book should be verified with those shown in the Balance Sheet, and the contingent liability, such as suits pending, etc., ought also to be provided for.

If loans are taken it should be seen whether the interest is take into account up to the date of closing.

Sinking Fund.

Here the Sinking Fund and the Debentures Trust Deed in connection with which the same is created should be compared to see that the amount credited periodically is sufficient to effect the redemption at the stipulated time. The auditor should also note whether the amount collected is properly invested.

APPENDIX B.

Examination Papers.

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THE LONDON CHAMBER OF COMMERCE.

SPRING EXAMINATION, 1928,

FOR

Senior Commercial Education Certificates.

BOOK-KEEPING AND ACCOUNTANCY.

1. What advantages (if any) do you claim for the practice of keeping a set of Ledgers on the self-balancing system ?

State briefly the necessary rules for constructing Adjustment Accounts in a business employing two Sales Ledgers (A—L and M—Z) and one Bought Ledger.

2. George Dickson sends out a considerable quantity of goods "on approval."

Describe the book-keeping records you would employ when dealing with transactions of this description.

Submit a ruling of a Journal you recommend for recording goods sent out on "Sale or Return," and state how you would value the balance of goods outstanding on these terms at Stocktaking periods.

3. Under the Articles of Association of Testouts Limited, the Directors are entitled to £250 per annum each as fees.

When preparing the annual accounts of the Company you find that, in addition to the fees stated above, the Company has paid Income Tax, at 4s. in the £, on the amount paid to each of the four directors.

Do you approve of this procedure? Give reasons for the view you take, and state how you would deal with the matter in the accounts you are preparing.

4. X and Y are in partnership. X devotes a portion of his time only to the business, and is entitled to one-third of the profits, Y taking the balance.

The partners purchased 600 shares of £1 each in a Limited Company at par, the value of which cannot now be ascertained as there is no free market for the shares.

X desires to sell the shares for what they will fetch, but Y will not agree to this proposal.

You are asked to suggest a method of dealing equitably with the matter. Submit your proposals together with any book-keeping entries necessary to carry it into effect.

5. A. Brown and B. Gray were in partnership as Manufacturers, and the following was the Balance Sheet of the firm as on 31st March, 1927 :—

Capital Accounts :			Plant & Machinery ...	£8,325
Brown	20,000		Fixtures & Fittings ...	527
Gray	10,000		Stock	15,392
		30,000	Sundry Debtors	21,684
			Cash	2,721
Current Accounts :				
Brown	4,175			
Gray	2,093			
		6,268		
Sundry Creditors ...		12,381		
		£48,649		£48,649

As from 1st April, 1927, the firm was converted into a Limited Company, registered under the name of Brown & Gray, Limited, with an Authorised Capital of £75,000, divided into 40,000 8 per cent. Preference Shares of £1 each and 35,000 Ordinary Shares of £1 each, on the following terms :—

Brown was to withdraw his current account in cash, and Gray was to bring in cash to make his combined capital and current accounts up to £15,000. The net assets remaining, including cash, were to be sold to the Company for £40,000, to be satisfied by the issue of 30,000 Preference Shares and 10,000 Ordinary Shares. All the Assets and Liabilities shown on the above Balance Sheet were taken over by the Company at the values stated therein. A further 10,000 Preference Shares were subscribed for in cash by C. Green on 1st April, 1927.

Preliminary Expenses were paid amounting to £1,215, and six months' dividend on the Preference Shares was paid in November, 1927 (ignore Income Tax).

In addition to the balances arising from the above, the following stood in the books of the Company as on 31st March, 1928 :—

Trade Creditors	£ 12,115
Plant and Machinery, Additions during the year ...	6,000

Plant and Machinery, Sales during the year	£1,200
Fixtures and Fittings, Addition during the year	113
Sundry Debtors	21,436
Cash at Bank and in Hand	7,124
Advertising	3,312
Purchase *less* Returns	45,292
Sales, *less* Returns	72,201
Manufacturing Wages	11,318
Factory Power	1,074
Rent and Rates (Factory)	2,346
Rent and Rates (Office)	218
Heating and Lighting (Factory)	213
Machinery Repairs	217
Factory Expenses	345
Office Salaries	2,195
Directors' Fees	1,100
Carriage Outwards	427
Bad Debts written off	209
Office Expenses	518

You are required to prepare the Manufacturing and Profit and Loss Accounts of the Company for the year ended 31st March, 1928, and the Balance Sheet as on that date. In preparing these accounts you are to make any adjustments necessary in order to deal with the following information :—

(a) The Stock was valued, as on 31st March, 1928, at £21,375.

(b) The Plant and Machinery sold during the year for £1,200 stood in the books as on 1st April, 1927, at £1, 725. The remainder of the Plant is to be depreciated at the rate of 15 per cent. per annum, and the average date of purchase of the new machinery may be taken as 1st July, 1927.

(c) The Fixtures and Fittings are to be depreciated 7½ per cent.

(d) A Reserve of £500 is to be made for bad and doubtful debts.

(e) The following amounts were accrued and unpaid on 31st March, 1928 :—Factory Wages, £196 ; Directors' Fees, £100; Advertising, £78 ; Heating and Lighting (Factory) £80.

(f) One third of the Preliminary Expenses Account is to be written off.

(g) One third of the Advertising Expenditure is to be carried forward in Suspense to the next year.

THE INDIAN MERCHANTS' CHAMBER, BOMBAY.

Commercial Examinations, April 1928.

BOOK-KEPPING & ACCOUNTANCY.

(For Specialised Accountancy & Single Certificate Exams.)

SECTION I.

1. A purchases on the 1st January, 1928, a number of coal wagons arranging to pay for the same over a period of two years by half-yearly instalments of Rs. 1,800. The Wagon Company of whom the purchase is made charge interest at 6 per cent. per annum, and the present cash value of the wagons is Rs. 6,691-8-0. Write up the necessary accounts in the ledger of the purchaser.

2. The Bharat Oil and Paint Company, Limited, went into Voluntary Liquidation on the 12th January 1927, with Creditors Rs. 89,000 and Capital consisting of :—

2,000 Preference shares of Rs. 50 each, fully paid up.
8,000 Ordinary shares of Rs. 50 each, fully paid up.
6,000 Ordinary shares of Rs. 50 each, Rs. 40 per share paid up,
2,000 Deferred shares of Rs. 50 each, Rs. 40 per shares paid up.

The Liquidation expenses amounted to Rs. 3,000 and the Liquidator's Remuneration to Rs. 4,000.

Under the Articles of Association, the Preference shares have a prior claim to repayment of capital over the ordinary shares, and the ordinary shares a prior claim over the Deferred shares.

The assets realised Rs. 1,87,000. The call of Rs. 10 per share made by the Liquidator on the Deferred shareholders was fully paid up. A call of Rs. 7-8 per share was made on the partly paid ordinary shareholders, which was duly paid with the exception of that on 200 shares, which was irrecoverable.

The Creditors having been paid off, and due return to the shareholders having been made, you are required to prepare the Liquidators' Final Statement of account for presentation to the shareholders.

3. A Company issued, on 1st January, 1925, thirty Debentures of Rs. 1,000 each at a discount of 10 per cent.; repayable by instalments of Rs. 10,000 at the end of the first, second and third years respectively. Show the Discount Account in the Company's books, giving effect to the Resolution of the Directors to write off the Discount over the period proportionately.

4. What is a Sinking Fund? State briefly the difference between a Sinking Fund to replace a wasting asset, and Sinking Fund to repay a liability.

Or

What do you understand by "Debentures as collateral security for loan"? Describe briefly the entries that are necessary to be made in the Company's books and Balance Sheet in such cases.

5. A, B, C, and D are in partnership, sharing profits in the proportions of one-third, one-fourth, one-fourth, and one-sixth respectively.

The capital in the business is Rs. 9,00,000, Rs. 1,50,000 being held by A, Rs. 2,25,000 by B, Rs. 3,00,000 by C, and Rs. 2,25,000 by D.

The partnership agreement provides for interest on capital at 4 per cent. per annum, which has been omitted to be credited to the Partners' Capital Accounts for the year ended 31st December, 1927, and the omission is discovered after the accounts for the year have been closed and signed. It is decided not to alter the signed Balance Sheet, but to make an adjusting journal entry in the year 1928, debiting or crediting the respective partners' accounts.

You are required to make, with full narration, the necessary Journal entry.

Or

A, B, and C are in partnership sharing profits in the proportions of five-twelfths, four-twelfths, and three-twelfths respectively. A Goodwill account amounting to Rs. 18,000 was raised in the partnership books at the time C was admitted, and the said account stands at the same figure when B dies. The partnership articles provide that on the death of any partner his share of the Goodwill should be valued at one-half of the share of profits credited to his account during the last three completed years. The firm's accounts for those years show profits of Rs. 58,500, Rs. 67,500 and Rs. 63,000 respectively. Ascertain further amount that should be credited to B in respect of his share of Goodwill, and make, with full narration, the necessary journal entry, the surviving partners desiring not to increase the Goodwill Account by more than the deceased partner's share.

SECTION II.

(Only four questions to be attempted, questions 10 & 11 being compulsory).

6. On extracting the Trial Balance of a Company, the accountant finds that there is a mistake of Rs. 339-15-0 more to the debit.

On rechecking, the following mistakes are discovered:—

(1) A debit item of Rs. 384-8-0 is wrongly posted as 484-8-0.

(2) A credit item of Rs. 69-7-0 is not posted at all.

(3) The total of the Sales Book is short cast to the extent of Rs. 20-8-0.

(4) A sum of Rs. 150-0-0 to the debit of Office Expenses account is posted to the debit of a personal account.

Does the Trial Balance now agree? If not, to what extent?

7. How would you deal with the undermentioned items when preparing the annual accounts of a Limited Co.? (1) Transfer of Rs. 5,000 to Reserve Fund; (2) Rs. 750 Commission & Expenses incurred in the issue of Rs. 8,000 4 per cent. Debentures repayable in 8 years from the date of issue. (3) Transfer of Rs. 3,500 to the Company's own Marine Insurance Fund. (4) An issue of 100, 5 per cent. Debentures of Rs. 100 each at 95, repayable in 10 years from the date of issue at par.

8. A, B, C, are partners in a business dividing profits equally. Their Balance Sheet at December 31st 1927 is as follows :—

		Rs.		Rs.
Sundry Creditors		3,800	Sundry Debtors	9,700
Bills Payable		900	Stock	2,400
Capital Accounts :—			Furniture	380
A ...	6,000		Cash	620
B ...	3,000		C's Drawing Account ...	3,000
C ...	1,000			
		10,000		
Drawing Accounts.				
A ...	700			
B ...	700			
		1,400		
		16,100		16,100

C is insolvent and unable to contribute anything. The partnership is consequently dissolved and the Sundry Debtors, Stock and Furniture realise Rs. 10,380. Draw up a final Balance Sheet, showing the position of each partner's capital account. There is no agreement between the parties.

9. On June 30th 1927 the Balance Sheet of A. Company, Ltd. was as follows :—

Liabilities.	Rs.	Assets.	Rs.
Nominal Capital :—		Land, Building and Machinery	50,000
1,00,000 Shares of Rs. 2 each	2,00,000	Patents and Goodwill ...	50,000
Paid up Capital :—		Stock	8,000
On 60,000 shares ...	1,20,000	Debtors	6,000
Sundry Creditors ...	15,000	Cash	100
Bank overdraft	5,000	Formation Expenses ...	3,900
		P. & L. a/c.	22,000
1,4[illegible],000			1,40,000

It is decided to reduce the paid up capital to 60,000 shares of Re. 1 each fully paid, and to write off the Formation Expenses and the Debit Balance of P. & L. Account, also Rs. 10,000 off Land, Building and Machinery, Rs. 3,000 off stock, Rs. 1,100 off Sundry Debtors, and the balance of the amount available off Patents and Goodwill.

Give the Journal entries to record these transactions, and make out the new Balance Sheet.

10. Adar, Bhagwan and Cader enter into partnership as equal partners for the purpose of purchasing the business of Brown who is retiring on 1st January 1928, upon the basis of the last Balance Sheet which was as follows :—*Liabilities* : Capital Rs. 20,540 ; Sundry Creditors Rs. 3,218 ; Reserve for Depreciation Rs. 608. *Assets* : Leasehold factory Rs. 12,540. Machinery and Plant Rs. 8,200. Patents Rs. 600. Sundry Debtors Rs. 1,560. Stock Rs. 1,458. Difference in Books Rs. 8. The purchase price of the business was agreed at Rs. 25,000 which was paid to Brown. Cash was paid into the new firm's banking account by the partners as follows:—Adar Rs. 12,000, Bhagwan Rs. 10,000, and Cader Rs. 6,000. Before opening the books of the new firm it was agreed (a) to transfer the Reserve for Depreciation to machinery and Plant account and to write off a further Rs. 200 as depreciation, and (b) to write off Rs. 200 from Patents. Record the transactions in the books of the new firm Prepare B/S disclosing the position of Adar, Bhagwan and Cader on commencing business.

11. Set out below is the Balance Sheet as on 31st December 1927 of D & G who are equal partners:—

		Rs.		Rs.
			Land and Building	22,065
Capital			Machinery & Plant. ...	12,800
D ...	30,000		Stock....	10,760
G ...	20,000		Sundry Debtors.	4,250
		50,000	Cash at Bank.	2,750
Sundry Creditors.		3,700	Investments....	1,075
		53,700		53,700

A limited company with a nominal capital of Rs. 1,00,000 in ordinary shares of Re. 1 each was formed to acquire and carry on the business. The vendors guaranteed the debts and agreed to pay off the creditors. The Company took over the whole concern with the exception of the cash and investments, the purchase price being agreed at Rs. 60,000. The vendors were paid as to Rs. 50,000 in fully paid ordinary shares and as to the balance in cash. The Balance of the share capital was taken up by the public and fully paid up.

Show the entries to close the books of the old firm and to open those of the new company.

BOOK-KEEPING & ACCOUNTANCY.

(For Specialised Banking & Company Secretarial Diploma)

SECTION 1.

1. The X Company, Limited, was incorporated on the 1st May to take over the business of A and B. as a going concern from the 1st January of the same year. Rs. 3,00,000 was the turnover for the first period upto the 1st May, and Rs. 7,00,000 for the following period ending the 31st December. The annual gross profit amounted to Rs. 2,50,600 and the expenses to Rs. 1,49,820, which included Rs, 7,500 for Directors' Fees. Prepare a statement showing the apportionments of the first year's profit.

2. The Revenue Account of a Company is charged each year with a fixed amount of Rs. 2,250 and a Repairs and Renewals Reserve Account is created thereby. The actual renewals and repairs for the ensuing four years are: (1) Rs. 2,040; (2) Rs. 1,620; (3) Rs. 2,850; (4) Rs. 1,755. Make the journal entries relating to the above and show how the Reserve Account will appear on the Balance Sheet at the end of each year.

3. A. B. and C are in partnership, sharing profits in the proportions of one-half, one-third and one-sixth respectively. C's share, however, is guaranteed by A, and B at a first minimum of Rs. 6,000. The net profits for the year 1927 amounted to Rs. 27,000. Prepare Appropriation Account showing the appropriation of the Net Profits as between the partners.

4. Explain :—

(a) Allonge.

(b) Arbitration of Exchange.

(c) Open cheque.

(d) Payment for Honour supra Protest.

(e) Reserve Liability.

5. A Banker has received the following Financial Statements from three of his customers X, Y and Z as required by him :—

Financial Statement of

X

Liabilities			Assets		
Acceptances	Rs.	2,000	Land and Building ...	Rs.	5,000
Bank Overdraft ...	,,	3,000	Stock-in-trade... ...	,,	8,000
Sundry Creditors ...	,,	3,000	Debts Receivable ...	,,	7,000
Capital	,,	14,000	Cash	,,	2,000
Total Rs. ...		22,000	Total Rs. ...		22,000

Financial Statement of
Y

Acceptances	Rs. 21,000	Stock-in-trade	Rs. 35,000
Bank Overdraft ...	" 12,000	Furniture and Fixtures	" 5,000
Sundry Creditors ...	" 3,000	Debts Receivable ...	" 9,000
Capital	" 14,000	Cash	" 1,000
Total Rs. ...	50,000	Total Rs. ...	50,000

Financial Statement of
Z.

Liabilities.		Assets	
Loan on Mortgage of Land and Building ...	Rs. 28,000	Land and Building ...	Rs. 43,000
Acceptances ...	" 9,000	Stock-in-trade ...	" 6,000
Due to A. B. Co., Ltd.	" 3,000	Debts Receivable ...	" 4,000
Bank Overdraft ...	" 3,000	Furniture & Fixtures	" 1,500
Capital	" 14,000	Investments in shares of Joint Stock Companies, inclusive of shares of the A. B. Co., Ltd. of the face value of Rs. 700 ...	" 2,500
Total Rs. ...	57,000	Total Rs. ...	57,000

Compare the three statements given above and comment thereupon in the form of a Report for information of the Banker. Also state what further information you would advise the Banker to require from Z concerning the Mortgage Loan and the Investments appearing in his financial statement.

6. (*a*) Describe concisely the procedure known as "Certification" of Transfers.

(*b*) Explain the nature and use of a Debenture Application and Allotment Book. Submit proforma ruling of same, and enter therein three specimen entries.

(c) Explain the meaning of the phrase "Loss prior to Incorporation." State briefly how should such a loss be dealt with.

7. From the particulars given below of the General Trading Company, Limited, you are required to ascertain the Cash in hand on March 31st 1928, and to prepare a Return of Bank Balance, etc., to March 31st, 1928 suitable for submission at the Board Meeting to be held to-day :—

Balance in the Bank, 1st March 1928	10,000
Cash in hand, 1st March 1928	50

Receipts from Customers from 1st to 31st March, 1928...	5,200
Cash Sales from 1st to 31st March 1928	2,000
Sundry Receipts	100
Cheques signed at last Board Meeting held on 29th February 1928 and issued on and after 2nd March 1928...	5,000
Cash Purchases from 1st to 31st March, 1928	200
Wages	3,000
Office Expenses	150
Balance in the Bank, 31st March 1928 as per Ledger ...	8,930
Balance in the Bank, 31st March, 1928, as per pass-book.	9,150
Unpresented cheques, 31st March, 1928 ... ... (Cheque favouring A. B. Rs. 150. and cheque favouring C. D. Rs. 70).	220

SECTION II.

8. Explain :—

(a) External Depreciation,
(b) Deferred Creditors,
(c) Quasi partner,
(d) Accommodation Party,
(e) Letters of Regret,
(f) Account Sale and
(g) Authorised. Issued, Subscribed and Paid up capital.

9. The Nominal Capital of A. B. & Co. Ltd. consists of 10,000 shares of Re. 1 each. The whole of these shares were issued in 1927, and were fully called up in four instalments of 4 annas each. On 17th January 1928, after due notice, the Directors passed a resolution forfeiting the 1,000 shares held by P., the final instalment due upon his holding not having been paid. On 1st February 1928 the 1,000 shares thus forfeited were issued, as fully paid to Q who paid, Rs. 500 for them.

Give the entries necessary to record these transactions in the Company's books.

10. On 31st December 1927, three partners had the following amounts at the credit of their Capital Accounts :—A Rs. 5,000, B Rs. 3,000, and C Rs. 2,000. On 1st January 1927 they had to the credit of their drawing accounts, A Rs. 750, B Rs. 500 and C Rs. 400. Profits are divided in the same proportion as the Capital upto Rs. 2,000. Above that amount, A gets 25 per cent., B 35 per cent. and C 40 per cent.. A, B and C drew during the year 1927, Rs. 500, Rs. 400 and Rs. 300 respectively. The profits for 1927 amounted to Rs. 3,000 before charging interest on

Capital (to which all are entitled) at 4 per cent. Give the drawing account of each partner on 31st December 1927 ; interest on drawings being ignored.

11. Upon the closing of a firm's books for the year ending 31st May 1927, the following payments are found to have been made beyond the date of balance :—

Telephone Rent Rs. 120 per year expiring 31st Oct. 1927, Rates, Rs. 600 per year paid to 30th June 1927, Railway Season Ticket, Rs. 150 for half year ending 30th September 1927.

The following invoices rendered have not been dealt with in the books :—

Insurance Company premium Rs. 120 for the year ending 31st March 1928. Rent Rs. 360 per annum, payable in advance, for the year commencing 1st April 1927.

The respective accounts before making any adjustment stand as follows :—

Rent, Rates and Insurance	... Dr. Rs.	1,498
Travelling	"	447
Telephone Rent and charges ...	"	160

You are required to make out adjustment entries in the Journal and to show the remaining balance in each account.

12. The following is the Balance Sheet of a Company on 31st March 1927 showing to the credit of the Profit and Loss account the sum of Rs. 1,03,720.

A. B. & Co., Ltd. Balance Sheet as on 31st March 1927.

Capital:—		Rs.		Rs
50,000 ordinary shares of Rs. 10 each		5,00,000	Freehold Factory	1,00,000
2,000 Debenture of Rs. 100 each		2,00,000	Leaseholds	1,50,000
Sundry Creditors		85,000	Plant & Machinery ...	2,50,000
Reserve Account		50,000	Sundry Debtors	2,30,000
Sinking Fund (Leaseholds)		9,000	Horses & Carts	5,720
P. & L. a/c.— Balance from previous B/S	15,680		Motor Cars	9,500
Profit for 1926-27...	1,00,040			
	1,15,720		Stock	1,22,000
Less Debenture Interest ...	12,000	1,03,720	Bank Balance	80,500
		9,47,720		9,47,720

Resolutions have been passed appropriating this profit as follows ;—

Rs. 20,000 to Reserve Account.

3 per cent Depreciation on Freehold Premises.

10 per cent Bonus on the year's Salaries of Rs. 8,000.

5 per cent. Bonus on the year's Wages of Rs. 75,000.

5 „ Sinking Fund on Leasehold Property.

Rs. 1,000 to Directors' Special Fees.

10 per cent Dividend for the year.

Balance to be carried forward. Make the necessary journal entries, prepare an Appropriation Account and revise the B/S.

13. The following items compose the Balance Sheet of X, Y, Z & Co. Ltd. as on 31st Dec. 1927:—

Liabilities :—Capital 15,000 Ordinary Shares of Re. 1 each fully paid Bills Payable Rs. 500, Sundry Creditors Rs. 2,500. Mortgage on Freehold Premises Rs. 2,000. Net Profit for the year Rs. 3,000. Assets :—Cash Rs. 6,000. Sundry Debtors Rs. 3,000. Stock on hand Rs. 4,000. Freehold Premises Rs. 10,000. The Directors propose to pay off the mortgage on Freehold premises, to distribute a year's dividend at the rate of 12 per cent, to purchase Rs. 1000, 3½ per cent Government Paper at 72 to form a Reserve Fund, and to carry forward the Balance of Profit & Loss. The above proposals having been duly approved, you are required to raise the necessary ledger accounts showing these transactions and draw up a fresh Balance Sheet showing the changed state of affairs.

NATIONAL UNION OF TEACHERS EXAMINATIONS.

BOOK-KEEPING.

INTERMEDIATE.

1. State the difference between consignments and sales. Explain how they are recorded in the books.

2. Which balances of the following accounts would you expect to find in the Balance Sheet, which in the Trading Account, and which in the Profit and Loss Account? State your reasons in each case :—

(*a*) Returns Inward

(*b*) Stock of goods on hand

(*c*) Plant and Machinery Repairs and Renewals

(*d*) Depreciation

(*e*) Interest on Capital

3. The books of Messrs. J. Robinson and W. Barclay on 31st December showed the following balances :—

Cash at bank £457 10s. 0d. Cash in hand £12. Sundry Debtors :—T. Addison & Co. £258, F. Gray £33, J. Scott & Sons £265 10s. 0d., E. Goldsmith £429 10s. 0d., G. Burke £243. Bills Receivable :—F. Gray (due 7th Jan.) £213, T. Addison & Co. (due 28th Jan.) £111. Stock in Trade £2013. Furniture and Fittings £396. Plant and Machinery £2320 10s. 0d. Sundry Creditors :—L. Steele & Co. Ltd. £466 10s. 0d., H. Hunt £210, T. Mitton £169 10s. 0d., D. Emerson & Sons £234. Bills payable—D. Emerson & Sons (due 17th Jan.) £150, L. Steele & Co. Ltd. (due 31st Jan.) £253 10s. 0d. Loan Account :—J. Robinson £750. Interest Account :—J. Robinson £16 10s. 0d. Capital to be divided equally between the partners.

The following transactions took place during the next month :—

			£	s.	d.
Jan.	1.	Received cheque from J. Scott & Sons in settlement of his account less discount £6 12s. 9d.	258	17	3
,,	2.	Drew cheque for Office Cash	22	10	0
		J. Scott & Sons bought goods value	112	10	0
		Paid each partner in cash	4	10	0
		Paid wages in cash	24	0	0
,,	3.	Shipped on consignment to M. Cohen & Co., Madras, goods value	275	0	0
		Paid by cheque freight and charges on above ...	8	17	6
,,	5.	Received cheque from G. Burke	100	0	0
		And his acceptance at 2 months	143	0	0
,,	6.	Bought of T. Mitton goods value	23	0	6
,,	7.	F. Gray's bill became due but was not met. A new bill was given at one month for the whole of their account.			
,,	9.	Paid T. Mitton cheque value £157 19s. 0d. after taking into consideration £7 10s. for goods returned and an allowance of £4 1s. 0d. for discount.			
,,	11.	Received from E. Goldsmith on account cheque value	150	0	0
,,	13.	Bought of T. Robson & Co. goods	29	5	0
,,	17.	D. Emerson's bill became due and was duly met by bank			
,,	19.	Received cheque value £10 7s. 5d. in settlement of G. Burke's acceptance not yet due and wrote off the balance as bad			
,,	21.	Sold to E. Goldsmith goods value	108	0	0

			£	s.	d.
,,	23.	Sold T. Addison & Co. goods value	12	9	0
		Paid cheque to J. Robinson for interest due to 31st December.			
,,	24.	Bought goods for cash		14	0
,,	25.	Received A/S from M. Cohen & Co. Madras, with draft at sight on London, consignment having been sold	376	4	0
,,	26.	Bought of Steele & Co. Ltd. goods £10 10s. 0d. and paid him by cheque £225 on account			
,,	27.	Accepted H. Hunt's bill for £210 at 3 months ...			
,,	28.	T. Addison & Co.'s bill became due and was duly met by bank			
		Cash sales for the month amounted to £54 and this was paid into bank			
		Drew from bank for office cash	27	0	0
,,	29.	Paid wages in cash	19	10	0
		Paid each partner by cheque	4	10	0
		Stock in trade	1742	0	0

All cheques received paid into bank.

You are required to enter the above transactions in the proper books, post to the Ledger and prepare Trial Balance, Trading Account, Profit and Loss Account, Balance sheet, and close all Ledger Accounts.

Profits and Losses to be divided equally between the partners.

ADVANCED
BOOK-KEEPING AND ACCOUNTS.

✓1. A trader keeps his Sales Ledger on the "Self-balancing" principle. From the following details show the "Adjustment Account" as at 30th September, 1927:—

1927.			£	s.	d.
Sept.	1.	Sundry Debtors	3,135	10	0
,,	30.	Total goods sold during the month	5,414	10	0
		Total goods returned by customers during the month	235	10	0
		Total cash received from customers during the month	3,905	5	0
		Total discount allowed to customers during the month	242	0	0
		Total acceptances received from customers between 1st and 30th September	867	15	0
		Total acceptances dishonoured by customers during the month	135	10	0

2. The Fellover Company Limited went into voluntary liquidation.

The capital of the Company—issued and fully paid—was 3,000 Preference Shares of £1 each (preference as to capital and dividend) and 7,000 Ordinary Shares of £1 each. Debentures had also been issued for £2,000; interest accrued thereon up to date of discharge £60. The unsecured creditors amounted to £700. General expenses during the winding-up £35; Insurance £5; Liquidator's remuneration £200; out-of-pocket expenses of Liquidator £18; and Legal Charges £103.

The assets realised—Book Debts £2,817; Freehold Property £4,000; Stock-in-Trade £1,892; Fixtures, Fittings, etc. £912.

Prepare the Liquidator's account for submission to the final meeting of Shareholders, showing therein what amount was paid to the Preference and Ordinary Shareholders respectively.

3. The following details relate to The T. I. A. Company Ltd. and are extracted from the books of the Company on the 30th September, 1927. You are required to draw up the Trial Balance and prepare Trading and Profit and Loss Account for the year ended 30th Sept., 1927, and Balance Sheet at that date.

Ordinary Share Capital—	£
10,000 shares of £1 each fully paid	10,000
Sundry Creditors	1,890
Sales	14,210
Purchases	9,002
Stock at 1st October, 1926	6,141
Sundry Debtors	5,090
Wages	412
Salaries	306
Rates, etc.	69
Discounts received	306
Discounts allowed	152
Lighting and Heating	74
Repairs	97
Plant, etc.	360
General Trade Charges	302
Bank	2,845
Freehold Premises	2,711
Profit and Loss Account—Credit Balance at 1st October, 1926.	1,155

Write off £290 for Bad Debts.

Stock-in-Trade at 30th September, 1927, 5,604.

4. On 1st April, 1926, B. Ware commenced business with a capital of £4000 and on 1st July, 1926, he took into partnership his brother T. Ware who put in capital on that date to the amount of £3000. On 1st October, 1926, B. & T. Ware admit O. China as a partner who on that date brings in capital £2,000. The business still requiring more capital, B. Ware brings in a further sum of £1,000 on 1st January, 1927. When the accounts are made up to 31st March, 1927, it is found the net profit for the year amounts to £1,500 which is to be divided between the partners in proportion to their capitals ; the dates of the introduction of capital must be taken into account.

State what each partner would receive by way of profit to 31st March 1927, showing how you arrive at the result.

UNION OF EDUCATIONAL INSTITUTIONS.

ACCOUNTANCY A1., 1928.

PART 1—COMPULSORY.

1. The Trial Balance of the Ashville Gas Company, Ltd., on 31st December, 1927, stood as follows :—

	£	£
Land, Buildings, Plant, etc.	84,000	
Mains and Service Pipes	40,000	
New Meters	4,000	
Cost of special Act of Parliament	2,500	
Cash at Bank	4,900	
Cash in hand	200	
Stocks and Stores, 31-12-27—		
Coal	1,400	
Coke and Breeze	150	
Tar, etc.	200	
Sundries	2,400	
Due to Company for Gas and Meter Charges	9,000	
Do. Coke, Tar, etc. ...	2,400	
Investments	5,120	
Reserved Fund, 31-12-26		2,210
Net Revenue A/c—Balance 31-12-26 ...		3,900
Dividend A/c. :—		
Preferred Stock	2,600	
Ordinary Stock	2,000	
Depreciation Fund, 31-12-26...		2,400

Interest on Loans and Debentures	750	
Sundry Creditors		9,000
Ordinary Stock		40,000
Preferred Stock		50,000
Debenture Stock		20,000
Premiums on issue of Stocks to 31-12-26 ...		30,000
Manufacture of Gas :—		
Coal consumed	22,300	
Materials do.	500	
Salaries Engineering Staff	800	
Wages at Works	3,000	
Repairs and Maintenance of Plant ...	7,200	
Distribution of Gas:—		
Salaries : Distribution Staff	600	
Repairs to Mains and Service Pipes ...	800	
Repairs and Renewals of Meters ...	1,000	
Rent, Rates and Taxes	2,900	
Management :—		
Management and Office Salaries ...	3,000	
Stationery, Printing and Incidentals ...	600	
Audit Fee	100	
Law Charges	200	
Bad Debts	100	
Sales of Gas:—		
Lighting, 90,000,000 c. ft. at 4/- 1,000 c. ft.		18,000
Power, 100,000,000 c. ft. at 3/- 1,000 c. ft.		15,000
Received from Public Lighting Contracts ...		3,000
Rent of Meters		1,000
Coke and Breeze Sales		5,900
Tar, etc., Sales		5,200
Transfer Fees		10
	£204,720	£204,720

Prepare Revenue Account, Profit and Loss (Net Revenue) account, Capital account and General Balance Sheet for the year covered by the above balances in form similar to that required by law.

In preparing these accounts, the following matters have to be taken into consideration :—

(a) The expenditure on capital items during the year has been:— Plant—£12,450, Mains and Service Pipes—£4,700, New Meters—£680.

(b) The Dividend A/c balances represent six months' dividend for the half-year ended 31. 12. 26, £2,300, and six months' dividend for the half-year ended 30. 6. 27, £2,300.

(c) Rent and Rates paid in advance amounted to £400.

(d) £500 is to be transferred to Reserved Fund A/c and £100 to Depreciation Fund A/c.

(e) There were issued during the year at par:—

Ordinary Stock	£5,000
Preferred Stock	£10,000

(f) Interest due on loans and Debentures amounts to £350.

(g) There is owing for Salaries to Engineering Staff £30, and to Distribution Staff £20.

(h) A claim for compensation for £120 damage done to a road by a burst gas main has been submitted by the Ashville U. D. C., but is not admitted by the Gas Company.

✓ 2. Harrison and Henderson carried on business in partnership and had agreed to share profits and losses on the following terms:

(a) Interest on Capital and Drawings to be charged at the rate of 5% p. a.

(b) Harrison to have 2½% and Henderson to have 5% bonus on net profits.

(c) The balance of profit to be divided as to one-third to Harrison and two-thirds to Henderson.

For the purpose of clause (b) above, " net profits " were defined as "the balance of profit from the profit and loss account less interest on capital, plus interest on drawings, less the bonus referred to."

Harrison's capital was £5,976 13s. 8d. and Henderson's was £17,432 8s. 5d. as at 1st January, 1927. The drawings of the partners during the year 1927 consisted of £10 by Harrison and £20 by Henderson on *each* of certain dates for which the number of days to the end of the year are given below.

No. of days to end of year.	No. of days to end of year (contd.)	No. of days to end of year (contd.)
362	187	131
320	181	127
294	175	102
276	170	93
270	162	74
243	153	66
222	147	58
218	144	30
209	138	17
191	135	

The profit for the year ended 31st December 1927, before giving effect to any of the above adjustments amounted to £3,049 18s. 1d.

Calculate by the "products" or "average date" system the interest on drawings chargeable to each partner, and draw up an account showing the division of the profit balance.

3. Continental Exporters, Ltd., placed contracts for goods in 1919 with Messrs. Beresford and Sons to the value of £19,600.

Owing to a diminution of trade occurring shortly after, they found themselves unable to accept the goods ordered and they requested Messrs. Beresford and Sons to suspend delivery. The value of the contracts then outstanding was £17,000.

In 1922, Continental Exporters, Ltd., offered to clear up their contracts in the following manner :—

(a) The whole of the contracts to be paid for in advance on 1st June, 1922, at the contract prices, less a discount of 10%.

(b) The goods to be held by Messrs. Beresford and Sons and delivered as required within a period of five years.

Settlement was duly made on 1st June, 1922, by cheque, and during the following five years the goods were delivered as follows :—

1922/23	... ...	£4,218
1923/24	... ...	£1,173
1924/25	... ...	£2,509
1925/26	... ...	£5,384
1926/27	... ...	£1,937

The contracts were fully executed by 1st June, 1927, a slight discrepancy in value occurring owing to wastages, differences in weight, etc

State :—

(a) How the accounts should be kept in Beresford's books to record these arrangements and how you would advise the firm to deal with the cash received in advance.

(b) What entries relating to this particular matter would appear in the Trading and Profit and Loss Account and Balance Sheet each year.

(c) How the question of carriage and packing charges should be dealt with, as these are not included in the settlement made in June, 1922, and have to be charged up to Continental Exporters, Ltd.

(d) How the discrepancy should be adjusted in June, 1927.

PART II.

ONE exercise and ONE question to be answered from this section.

4. *Exercise.* Draw up a Cost Sheet in accordance with the particulars given below, showing :—

(a) Cost per single article and per gross.

(b) Selling price per gross to the nearest shilling so as to secure a net profit of 15% on turnover.

Brass Article—Pattern No. A 863.

Quantity made.—Fifteen gross.

Material.—2½ cwt. soft brass at 9½d. per lb., less scrap ½ cwt. sold at 6d. per lb.

Copper rivets, 4 to each article at 1s. 9d. per gro.

Tinned iron handles, 1 to each article at 3/- per gro.

Labour, per gross.—Cutting 3d., Bending 2¾d., Piercing 1¼d., Dipping 4d., Rivetting 3s. 3d., Polishing 11s. 6d., Lacquering 5d.

An addition of 2½% is to be made to all labour charges to cover the cost of insurance under the National Insurance Acts.

A rivetting machine is employed in the manufacture of the article, and is occupied for 27½ hours. The cost of working the machine is £240 per year of fifty 48 hour weeks.

Overhead charges for the polishing and lacquering shops amount to 15% on the labour charge for those shops (exclusive of the plussage for insurance) and General Works Overhead is 17½% on the total of materials and labour (including the plussage for insurance) in each cost.

There is a commission of £3 to be paid, and carriage to customer will be on 3¾ cwt. at 33/- per ton.

Management and administration expenses amount to 19% on total costs exclusive of commission and carriage.

5. *Exercise.*

A company purchased a five years' lease of a building on 1st January 1927, for the sum of £5,526, with an option of renewal at the same figure on the conclusion of the lease.

It was decided to create a Depreciation Fund to provide the sum necessary for renewal on 1st January, 1932. Instructions were given to the company's brokers on 31st December in each year, beginning with 31st December, 1927, to invest in securities an amount of cash provided by the company and also to re-invest any interest received.

Assuming an interest yield of 5 per cent. and conversion of the securities into cash at the end of the five years without loss, show :—

(a) The Depreciation Fund Account.

(b) The Investment Account.

(c) Ths portion of the Cash Account concerned with the renewal of the lease.

(d) The Old Lease Account.

(e) The New Lease Account when renewal is made on 1st January, 1932.

(f) How the accounts would be set out in the Balance Sheet on 31st December, 1930.

N. B.—£1 per annum with compound interest at 5 per cent. amounts to £5·526 in five years.

Income Tax is to be ignored.

6. State briefly the amount and chief conditions of the following allowances for the purpose of assessment for income tax :—

(a) Earned Income Allowance.

(b) Personal Allowance.

(c) Children's Allowance.

(d) Life Assurance Premiums Allowance.

7. When converting the figures of a Trial Balance from currency to sterling of a branch working on a fluctuating rate of exchange, at what rate should the following balances be converted :—

(a) Fixed Assets.

(b) Additions to Fixed Assets (no special remittance made for them).

(c) Head Office Current Account.

(d) Remittances.

(e) Floating Assets and Liabilities.

(f) Revenue Account Balances.

BOOK-KEEPING : S. 3, 1928.

PART I. COMPULSORY.

1. The Barchester Carriage and Waggon Works, Ltd., was incorporated in November, 1927, with a nominal capital of £150,000 divided into 75,000 6% Cumulative Participating Preference Shares of £1 each and 75,000 ordinary shares of £1 each.

On 1st December, 1927, the Company offered to the public 50,000 Preference Shares, 50,000 Ordinary Shares, and 1,000 £100 7 per cent Redeemable Notes to be paid for as follows :—

	On application.	On allotment.	Final instalment.
Preference Shares	2/-	8/-	10/- per share.
			On first call.
Ordinary Shares	2/-	8/-	5/- per share,
7% Notes	£20	£80 per note.	

Applications were received for 60,000 Preference Shares, 90,000 Ordinary Shares, and 400 7 per cent Notes and the application money was duly received by 14th December. All applications for 7 per cent Notes were accepted, but the Preference and Ordinary Share applications, with the exception of one application for 1,000 Ordinary Shares which was refused, (the application money being returned) were reduced *pro rata* to equal the number of shares offered. The surplus amount received on application was applied in part satisfaction of the sum due on allotment.

Allotments were duly made in accordance with the foregoing on 1st January 1928, and the sums due on allotment were received by 21st January 1928. The final instalment on the Preference Shares and the first call on the Ordinary Shares were called up on 31st March 1928, and were duly received with the exception of the call on 600 Ordinary Shares. One shareholder for 2,000 Ordinary Shares, with the sanction of the directors, paid the amount uncalled on his holding in advance at the same time. These amounts were received by 19th April 1928.

Show :—

(a) The entries in the *accounts* of the company necessary to record these tranactions.

(b) How the capital and Note loan items would be set out in the Balance Sheet on 20th April, 1928.

2. Distinguish between capital expenditure and revenue expenditure. State how the following items should be classified, giving reasons :—

(a) Cost of conversion of a gas engine, valued at £500, to run on crude oil—£115

(b) Payment of damages through infringement of a patent—£250.

(c) Payment of wages for assistance in construction of employer's factory—£263.

(d) Cost of replacement of a slate roof, valued at £375, by a glass roof—£525.

(e) Architect's fee in connection with the erection of a new factory —£220.

Define :—Novation. Private Company. Preferred Ordinary Shares. Secret Reserve. Short Working.

PART II.

One exercise and one question should be answered from this section.

4. *Exercise.* Richard Carr and John Baxter carried on business in partnership, sharing profits and losses 3/5ths and 2/5ths respectively. On 31st December 1926, their balance sheet was as follows :—

Capital and Liabilities.		£	Assets.	£
Rd. Carr :—			Factory and Plant	15,872
Capital Account ...	...	12,620	Stock	4,721
Current Account ...	...	841	Debtors	3,400
J. Baxter :—			Cash	740
Capital Account ...	...	9,880	J. Baxter:—	
Creditors	...	2,424	Current A/c.	1,032
		£25,765		£25,765

They agreed to admit their manager, Henry Scott, into partnership with them on the following terms:—

(a) J. Baxter to introduce cash to put his Current A/c. in credit to the extent of £100, prior to the other adjustments.

(b) A reserve against bad debts of 5% on the sundry debtors to be created and charged to the Current A/cs. of Carr and Baxter as they share profits.

(c) A Goodwill A/c. of £5,000 to be created and credited to the Capital A/cs. of Carr and Baxter in equal shares.

(d) Scott to bring in Cash £1,500 by way of capital. He is then to have 1/5th share of the profits.

These arrangements were duly carried out on 1st January, 1927, except that Scott did not pay in the cash for his capital until four months after 1st January.

The profits for the year ended 31st December, 1927, amounted to £4,494.

A salary of £380 is to be credited to Scott. 5% p. a. interest on Capital Account balances is to be allowed, and 5% p. a. interest is to be charged on drawings. The partners drew during the year :—

Carr	£1,110	Interest chargeable	£26
Baxter	£987	ditto	£23
Scott	£580	ditto	£12

The remaining balance of profit is to be divided up so that the old partners share in the same proportions as before.

Show the division of the profit and the Capital and Current A/cs. of each partner.

5. *Exercise.*—Matthew Tyler had kept his books on an incomplete system for several years, having only purchases and sales ledgers, and a three-column cash book.

On 31st December, 1927, he desired to ascertain his profit or loss for the twelve months ended on that date, and he supplied the following information :—

	31/12/26			31/12/27		
	£	s.	d.	£	s.	d.
Sundry Debtors	763	4	2	894	9	1
Sundry Creditors	337	7	2	404	4	6
Stock on hand	1,707	19	4	1,261	7	6
Cash at Bank and in hand	61	14	3	671	9	4
Delivery Vans	316	4	9	302	2	7
Trade Premises	1,640	0	0			
Fixtures and Fittings				835	5	3

The Trade premises, he estimated, had depreciated by 2½%, but he could not state the value of the Fixtures and Fittings on 31st December, 1926. He said that he had introduced cash personally for the fitting up of a new showroom during the year to the extent of £225, and two other payments were traced through the Cash Book as follows :—

New Show Cases	£87
New Shelving	£29

He thought that depreciation of Fixtures and Fittings might be ignored as he had incurred a large number of small expenses in the form of repairs and renewals.

He extracted the following figures from his Cash Book :—

Drawing during 1927	£ 600	0	0
Discounts received 1927	£ 121	6	8
Discounts allowed 1927	£ 91	6	8

Prepare a statement or account, using such of the above figures as are necessary for the purpose, showing Matthew Tyler's profit or loss for the year, and draw up a Statement of Affairs as on 31st December, 1927.

6. *Question.*—Julius Manby, a merchant of Coventry, sold 20 bicycles £4 each, F. O. B. Liverpool, less cash discount 2½% to Paton's Stores, Toronto, Canada, and despatched the goods on 25th March, 1928. Carriage to port amounted to £7 6s. 4d., F. O. B. charges to 17s. 6d., freight

and insurance from Liverpool to destination to £23 9s. 6d. All these items were discharged by the consignor and charged up to the consignee, where permissible, on the invoice.

Julius Manby drew a Bill of Exchange in two parts on Paton's Stores for the net amount due at 30 days after the date of despatch. He handed it to his bankers with bill of lading, insurance certificate, and invoices in duplicate attached, and instructed them to obtain acceptance of the Bill and then to hand over the documents to Paton's Stores.

The consignees dishonoured the Bill by non-acceptance on the grounds that the goods arrived too late. After protest, the dishonoured portion of the Bill was returned to Julius Manby, and immediately after it had been posted, Paton's Stores notified the bank that they would now accept the Bill as they wanted the goods at once.

(a) Draw the Bill in full as handed by Julius Manby to his bankers, showing the full amount of English stamp duty payable.

(b) State what the bank would do to secure a properly executed and accepted Bill in exchange for the shipping documents.

7. *Question.*—(a) Describe briefly four methods of calculating charges for depreciation.

(b) State on what basis the following assets should be valued for balance sheet purposes, mentioning, if the question of depreciation arises, the method recommended.

(i) Leasehold Premises. The lease terminates in a few years time and cash has been set aside to provide for renewal.

(ii) Motor Lorries.

(iii) Patents and Trade Marks.

(iv) Stock.

(v) Investments, held for the purpose of strengthening the financial position of the business.

(vi) Goodwill.

(vii) Preference Shares to the nominal value of £1,000 taken in satisfaction of a trade debt. No dividend is likely to be received on the shares for some years.

BOOK-KEEPING: S2., 1928.

SECTION A.

1. The Trial Balance extracted on March 31st, 1928, from the book, of A. Knox and B. Parry, who are equal partners trading as Knox & Co. is as follows:—

		£	£
Capital Accounts:	A. Knox		15,300
	B. Party		8,600
Drawing Accounts:	A. Knox	1,500	
	B. Parry	750	
Sundry Creditors			10,290
Discounts...		288	
Freehold Premises		6,250	
Repairs		181	
Rent, Rates, and Taxes		1,075	
Purchases		21,478	
Cash at Bank		1,400	
Bills Payable			4,750
Bills Receivable		775	
Manufacturing Wages		3,675	
Salaries		900	
Sundry Debtors		25,220	
Stock, 1st April, 1927		7,375	
Bad Debts Reserve, 1st April, 1927			750
Sales			36,730
Cash in hand		38	
Sundry Expenses		1,065	
Plant and Machinery		4,450	
		£76,420	£76,420

The following adjustments are to be made :—

Depreciation of Plant and Machinery, 5% per annum ; Bad Debts Reserve to be made equal to 5% on Debtors ; Interest on Capital 5% per annum.

The Stock at March 31st was valued £3,122.

Prepare Trading and Profit and Loss Accounts, and Balance Sheet as at March 31st, 1928.

(Full Journal Entries are required).

✓ 2. D. Harris and A. Kennedy agree:—

(a) To draw on each other, on July 1st, 1927, a Bill of Exchange at four months' date for £600;

(b) To discount each other's Bill, each party bearing his own discount Charges;

(c) To meet his own Bill at maturity.

Both Bills are accepted, and are discounted on July 4th, at 5% per annum. Harris meets his acceptance when due, but Kennedy's acceptance is dishonoured, and Harris is compelled to take it up. The noting charges on the dishonoured Bill amount to 6s. 8d. Kennedy accepts a new Bill drawn by Harris at three months' date for the amount due to the latter, plus interest at 5 per cent. per annum. This Bill is met at maturity.

Show the entries in Harris's Bill Books, Cash Book and Ledger recording the above transactions.

SECTION B.

3. (a) What is the difference between a "Sale" and a "Consignment"?

(b) What is an "Account Sales"?

(c) What entries should a consignee make in his ledger :—

(1) On the receipt of the consignment ;

(2) On the sale of a portion of it ;

(3) On remitting to the consignor the net proceeds of the sale of this portion ?

4. (a) What are Departmental accounts ?

(b) A Merchant's business is divided into three departments, viz., Coffee, Tea, and Sugar. Explain clearly how his accounts should be kept if he wishes to ascertain the results of each department.

5. T. Arnold is a wholesale Grocer. On February 21st, 1928, a fire occurred at his premises, and destroyed his stock-in-trade with the exception of goods valued at £900. His books, however, were saved, and these show that

(a) The Stock on 1st January, 1928, amounted to £4500.

(b) The Purchases from 1st January to February 21st amounted to £7,500.

(c) The Sales for the same period amounted to £11,000.

During the previous four years, Arnold's gross profit on turnover was 15%. Assuming that this rate of gross profit is constant, prepare an account showing the approximate value of the goods destroyed, so that Arnold may claim the amount from the Insurance Company.

6. The partnership Agreement between A, B, and C contains the following provisions:—

(a) The partners' *Fixed* capitals shall be—A, £10,000; B, £8,000; C, £6,000.

(b) A and B are each to receive a salary of £600 a year.

(c) Interest on capital is to be calculated at 5 per cent. per annum.

(d) A, B and C are to share profits and losses in the ratio 3: 2: 1.

(e) No interest is to be charged on Drawings or Current Accounts.

On January 1st, 1927, the balances on Current Accounts were:—A, Cr. £500; B, Cr. £200; C, Cr. £350.

During the year 1927 the drawings were:—

A, £1,200; B, £1,000; and C, £500. The Profit and Loss Account for the year 1927 showed a profit of £4,500 before charging interest on Capital and Partners' salaries.

Show the Capital and Current Accounts of A, B, and C, as at 31st December, 1927, after the division of the profit.

ACCOUNTANCY DIPLOMA BOARD, BOMBAY.

Government Diploma in Accountancy, 1928.

ACCOUNTANCY AND AUDITING—Paper I.

(General Accounts.)

1. (*a*) A Limited Company went into voluntary liquidation with Liabilities amounting to Rs. 30,000 and assets which eventually realised Rs. 1,78,000. The Capital of the Company consisted of 10,000 preference shares of Rs. 10 each of which Rs. 7 per share was called and paid up. The holders of 8,000 shares had, however, paid up the full Rs. 10 in advance of calls. There were also 10,000 ordinary shares of Rs. 10 each on which Rs. 9 per share had been called. Holders of 2,000 shares had, however, only paid up Rs. 8 per share while holders of 4,000 shares had paid up the full Rs. 10 in advance of calls. Assuming that the Preference shares have no prior rights as to Capital, show in the form of a liquidator's account of Receipts and payments, how you would divide the available balance among the shareholders, assuming that the costs of the winding up amount to to Rs. 2,000 and that calls in arrears are duly collected.

(*b*) From the following facts show the order in which the Liquidator of *X*, *Y* Co., Ltd., should apply the realised funds and mention the mode in which he should adjust the rights of different classes of shareholders among themselves and work up the actual results in figures.

The shareholders of the Company passed an Extraordinary Resolution for voluntary winding up on the 1st of July 1925 the resolution was confirmed as Special Resolution on 16th July 1925. Mr. *A* was appointed Liquidator on a remuneration of Rs. 15,000.

The capital of the company was 1,500 Preference shares of Rs. 100 each, 60,000 ordinary shares of Rs. 50 each fully paid up and 15,000 ordinary shares of Rs. 50 each, Rs. 40 paid up on each share. A floating charge on the assets of the company was created by an issue of 6% Debentures of Rs. 3,00,000 the interests on which was paid upto 15th January 1925. The other creditors were as under:—

Creditors for goods supplied Rs. 97,500, Salary of a Managing Director from 16th March 1925 to 16th July 1925 at Rs. 3,000 per month, Rs. 12,000; salary of the accountant from 16th March 1925 to 16th July 1925 at Rs. 750 per month, Rs. 3,000; Wages of labourers from 16th April 1925 to 16th July 1925 at Rs. 1,500 per month, Rs. 4,500; Cash in Hand at the commencement of the winding up amounted to Rs. 9,000.

Machinery and stock realised Rs. 13,23,000 and Book Debts Rs. 75,000.

The Debentures were paid off on 16th January 1926 and a first and final dividend distributed to creditors. The Liquidators expenses amounted to Rs. 4,500.

With the exception of the provision that 1,500 Preference shares have a preference as to Capital as well as to Dividends, there are no special provisions in the memorandum and articles of association as to the distribution of assets in the winding up.

2. *A*, *B* and *C* were in partnership sharing profits and losses in the proportion of $\frac{1}{2}$, $\frac{1}{3}$ and $\frac{1}{6}$ respectively. The partnership was dissolved on 30th June 1927 when the position was as follows :—

Liabilities.	Rs.	Rs.	Assets.	Rs.
Capital—			Cash	28,000
A ...	1,40,000		Debtors	2,94,000
B ...	70,000		Stock	1,12,000
C ...	14,000			
		2,24,000		
Creditors ...		2,10,000		
		4,34,000		4,34,000

It was arranged that the net realisations should be distributed in their due order at the end of each month. The realisation and expenses were:—

	Rs.		Rs
31st July 1927 Stock and Debtors	84,000	Expenses ...	7,000
31st August 1927	1,26,000		5,600
30th September 1927	70,000		4,900
31st October 1927	77,000		3,500
30th November 1927	38,500		3,500

The stock was completely disposed off and amounts due from debtors were realised. Set out the cash and capital accounts showing how the cash realised was distributed month by month.

3. The proprietor of a large manufacturing business wishing to retire from active work, but desiring to keep in touch with the business ask you to advise him what form of monthly returns could be devised, which would keep him informed of all essential matters and show a continuous history of the business done etc. Draft suitable returns for submission to him giving a brief explanation of your ideas.

4. (*a*) What do you understand by the term "Goodwill" ?

"The term Goodwill has never been successfully defined because it has come to be applied to a great variety of circumstances. Whatever characteristics, however, the goodwill of a company may possess, the value allocated to it by a purchaser will represent the excess of the value of the business over the value attributed to tangible assets."

Discuss in brief the above statement.

(*b*) *A*, *B* and *C* enter into partnership to acquire a controlling interest in two private limited companies, India Co. Ltd. and Egypt Co. Ltd. and purchase 5,600 fully paid shares of Rs. 100 each in India Co. Ltd. for Rs. 6,16,000 and 4,200 fully paid shares of Rs. 100 each in Egypt Co. Ltd., for Rs. 6,60,000. On the date of acquisition of shares the India Co. Ltd. had an undistributed credit balance in the profit and loss account of Rs. 3,500 and the Egypt Co. Ltd. had Rs. 23,200. On 1st July 1927 *C* wished to retire and to realise his interest. It was determined to find out the value of *C*'s interest and consequently to raise the firms investments account to the proper figures. Since acquisition the value of goodwill in the case of India Co. Ltd., has gone up by Rs. 10,500 and in the case of Egypt Co. Ltd. has come down by Rs. 3,150.

From the following particulars prepare the firm's Balance sheet after raising the invesments account to the proper figure and determine the value of *C*'s interest which is agreed to be purchased by the remaining partners.

Balance Sheet of India Co., Ltd., as at 30th June 1927.

Liabilities.	Rs.	Assets.	Rs.
Capital—		Cash	34,000
7,000 shares of Rs. 100 each fully paid up ...	7,00,000	Debtors	4,00,000
Sundry Creditors	14,000	Stock	3,50,000
Profit and Loss	70,000		
	7,84,000		7,84,000

Balance Sheet of the Egypt Co., Ltd., as at 30th June 1927.

Liabilities.	Rs.	Assets.	Rs.
Capital— 6,300 shares of 100 each fully paid	6,30,000	Cash	38,900
Sundry Creditors	35,000	Debtors ... ... —	2,95,000
Profit and Loss	18,900	Stock	3,50,900
	6,83,900		6,83,900

Balance Sheet of the firm of A, B and C as at 30th June 1927.

	Rs.	Rs.		Rs.
Sundry Creditors		1,00,000	Investments in Private Limited Company's shares at cost	12,46,000
Capital Accounts—			Loans	7,000
A	6,00,000		Cash	2,47,000
B	5,00,000			
C	3,00,000			
		14,00,000		
		15,00,000		15,00,000

5. (a) Explain the advantages of charging goods to Branches at a price different from the cost.

(b) A Rice Mill in Cawnpore has got a sale branch in Lucknow and charges all goods sent to the Branch at cost price plus $33\frac{1}{3}$ per cent. It is arranged that all cash received by the branch is to be paid daily to the Head Office account in the Central Bank and the necessary advice sent to Head Office. The Branch is to effect very little credit sales.

From the following particulars prepare the necessary accounts in the Head Office Ledger showing the real profit of the Branch for the year ending 31st December 1927 :—

	Rs.
Stock, 1st January 1927	6,000
Goods sent to branches less return	40,000
Debtors, 1st January 1927	750
Cash sent to H. O. account in Bank	62,000
Rent, rates and taxes, etc.	1,600
Salaries, wages and other expenses	2,400
Debtors, 31st December 1927	800
Stock, 31st December 1927	7,400

6. X has income from following sources :—

(a) Income from Business Rs. 30,000 (after taking into account the amount of Income Tax Rs. 4,000 and charity Rs. 500 but excluding Rs. 10,000 received from Business in Japan.

(b) Directors' fees Rs. 2,000 including travelling expenses for attending Board meeting Rs. 300.

(c) Dividends received on shares of India Agency, Ltd., incorporated in Baroda Rs. 2,000, Sholapur Mills Rs. 1,500, free of tax, Bank of Baroda, Ltd., Rs. 3,000.

(d) Interest on 3½% Government paper Rs. 3,000 net. Ascertain the total assessable income of X under the provisions of Indian Income Tax Act of 1922.

ACCOUNTANCY DIPLOMA BOARD, BOMBAY.

Government Diploma in Accountancy, 1928.

ACCOUNTANCY AND AUDITING—Paper II.

(Special Accounts.)

1. The balance sheet of the Alpha Company, Limited, and the Omega Company, Limited, on 31st December 1927 were as follows :—

The Alpha Company, Limited.

Capital and Liabilities.	Rs.	Rs.	Property and Assets.	Rs.	Rs.
Share Capital—			Freehold land and buildings		1,32,000
Authorised—			Plant and Machinery ...		50,000
50,000 shares of Rs. 10 each		5,00,000	Stock-in-trade		30,000
			Patents		80,000
Issued and subscribed—			Debtors	45,000	
30,000 6 per cent preference shares of Rs.10 each, Rs.7-8-0 paid up.		2,25,000	Less Reserve ...	5,000	40,000
10,000 ordinary shares of Rs. 10 each fully paid		1,00,000	Investments at cost Rs. 10,000 5 per cent Government paper	10,000	
		3,25,000	50,000 ordinary shares in the Omega Company, Limited	45,000	55,000
Reserve Fund		10,000	Cash at Bank ...		45,000
6 per cent mortgage debentures		50,000			
Liabilities—					
For goods supplied	30,000				
For expenses ...	2,000	32,000			
Profit and Loss account ...		15,000			
		4,32,000			4,32,000

The Omega Company, Ltmited.

		Rs.			Rs.
Share Capital—			Leasehold land and building.		15,000
Authorised— 8,000 shares of Rs. 10 each		80,000	Plant and Machinery ...		15,000
Issued and subscribed— 8,000 shares of Rs. 10 each fully paid ...		80,000	Stock-in-trade		20,000
Liabilities—			Patents		5,000
For goods supplied	40,000		Debtors ...	60,000	
For expenses ...	5,000		Less reserve ...	5,000	
		45,000			55,00
			Cash in hand...		5,000
			Profit and loss account ...		10,000
		1,25,000			1,25,000

The two companies decide to amalgamate as and from 31st December 1927 on the following terms :—

(1) The assets and liabilities, with the exception of the investments, to be taken over by a new company, the Alpha Omega Company (1928) Limited.

(2) The shareholders agreed to accept fully-paid ordinary shares in the new company at par in satisfaction of their present holding, on the basis of the re-valuation shown below. The preference shareholders of the Alpha Company, Limited, were to be satisfied as shown hereunder. The assets were revalued as follows :—

	Alpha Company, Limited,	Omega Company, Limited.
	Rs.	Rs.
Land and buildings	1,40,000	12,000
Plant and machinery	50.000	12,000
Stock-in-trade	25,000	20.000
Patents	1,00,000	6,000
Debtors	45,000	30,000
Goodwill	20,000	*Nil.*
	3,80,000	80,000

The preference shareholders in the Alpha Company, Limited, had preference as to capital, but no right to share in surplus assets, and agreed to accept 8 per cent preference shares of Rs. 10 each, Rs. 7-8-0 paid in the new company in satisfaction of their holding. The Alpha Omega Company (1928), Limited, was duly formed with an authorized capital of 100,000 shares of Rs. 10 each. The 5 per cent Government Paper held by the Alpha Company, Limited, was sold at Rs, 98 per cent net. Ignore expenses of formation.

You are required to show—

(1) The entries in the books of Alpha Company, Limited.

(2) The entries in the books of Omega Company, Limited,

(3) And the amalgamated balance sheet of the new company.

2. From the undermentioned information, prepare (*a*) stores ; (*b*) manufacturing ; (*c*) trading ; (*d*) profit and loss ; (*e*) profit and loss appropriation accounts, covering the period from 4th to 31st January 1928 :—

	Rs.
Raw materials, stock at 3rd January	1,460
Do. do. 31st January	1,800
Do. purchases	7.010
Do. sales	180
Directors' fees	250
Inward carriage	110
Advertising	210
Factory rent for the three months ending 31st January	260
Bad debts written off	200
Work-in progress, 3rd January 1928	1,530
Do. 31st January 1928	*Nil.*
Finished goods, stock at 3rd January 1928	2,480
Do. do. 31st January 1928	800
Manufacturing royalties...	300
Carriage outwards	450
General sales, finished goods	17,500
Salaries, month of January	620
Discounts received in respect of purchases of raw materials	350
Discount allowed in respect of sales of finished goods.	370
Sales returns, finished goods	100
General factory expenses for the period	600
Works manager's salary, January	350
Debenture redemption fund, proportion of annual contribution	340
Wages, four weeks ending 31st January	2,560

3. X and Y, two manufacturers, agree to lease and work a quarry for a period of five years from 1st January 1926. Under the terms of the

lease they are liable for a royalty of two annas per ton extracted, with a minimum rent of Rs. 1,500 per annum and have the right to recoup short-workings during the period of the lease.

The following are the transactions for the year ending 31st December 1928 :—

		Rs.
X	paid rent to 30th September 1926	1,125
	paid water-rate to 31st March 1927	150
	paid insurance to 31st December 1926	205
	paid into bank as capital, 1st January 1926 ...	1,000
Y	paid into bank as capital, 1st January 1926 ...	500
	paid for materials	5,000
	paid for wages	10,000

The following sums were drawn on the joint banking account during the year :—

	Rs.
Sundry expenses	981
Petrol, oil, etc.	450

On the 31st December 1926, the following sums were outstanding for .—

	Rs.
Materials	290
Wages	190

X supplied machinery valued at Rs. 1,000, and Y supplied a motor lorry valued at Rs. 5,000. It was agreed that these should be treated as part of the capital introduced by X and Y respectively, and that the machinery and lorry should be taken back by each at the expiration of the period of five years at the values of Rs. 100 and Rs. 500 respectively. Allow five per cent interest on capital.

At 31st December 1926, it was found that the total output of 8,000 tons had been taken over by X and Y in the proportions of 1/7 and 6/7, respectively.

Prepare—

(1) 'Joint venture with Y' account in X's books ;

(2) 'Joint venture with X' account in Y's books ;

(3) 'Joint venture revenue' account ; and

(4) balance sheet as at 31st December 1926.

4. What do you understand by the Double Account system of Book-keeping ? To what class of undertakings is it particularly applicable and why ?

A gas company laid down a main at a cost of Rs. 50,000. Some years later, owing to increased demand, the company laid down an auxiliary main for a quarter of the length of the old main for Rs. 15,000 and replaced the rest of the main at a cost of Rs. 60,000, the cost of laying mains having increased by 15 per cent in the meantime.

How would you apportion the new expenditure between capital and revenue, having regard to the increased cost of materials and wages, and the fact that the old materials realized Rs. 12,000?

5. The following balances are extracted from the books of the Indian Life Assurance Company, Limited, as at 31st December 1927. Prepare a revenue account for the year 1927 in the form required by the Indian Life Assurance Companies' Act, 1912:—

	Rs.
Life Assurance Fund on 1st January 1927	63,31,450
Claims by death paid and outstanding	3,38,000
Claims by maturity paid and outstanding	2,18,000
Premiums	20,66,000
Bonus in reduction of premiums	1,025
Agents' and canvasser's allowances	26,400
Salaries	44,220
Travelling expenses	1,260
Directors' fees	8,740
Auditors' fees	1,000
Medical fees	52,320
Commission	2,18,500
Rent	2,860
Income-tax on interest and dividends	5,745
Law charges	205
Advertising	4,340
Printing and stationery	13,935
Postage and telegrams	14,325
Receipt stamps	2,390
Bank charges	1,600
General charges	2,080
Surrenders	47,600
Reassurance premiums	40,965
Interest and dividends	2,75,000
Policy renewal fees	9,630
Assignment fees	545
Endorsement fees	695
Transfer fees	1,450

Provide Rs. 1,200 for depreciation on furniture and Rs. 2,00,000 for depreciation of investments.

6. A who commenced business on July 1st as a piano manufacture places before you the following information, and asks you to prepare (1) a statement showing the profit per piano sold (charging labour, and material at actual cost, works oncost at 100 per cent on labour and office on cost at 25 per cent on works cost), and (2) a statement showing a reconciliation between the profits as shown by the cost accounts and the profits as shown by the profit and loss account for the year ended 30th June in the following year.

Two grades of pianos are manufactured and are known as No. 1 and No. 2. There are no pianos in stock or in course of manufacture on 30th June,—

	No. 1.	No. 2
	Rs.	Rs.
Average cost of materials per piano	100	80
Do. labour do.	190	140
Sale price of piano	750	550

The works expenses were Rs. 52,400 ; the office expenses amounted to Rs. 31,660. One hundred and eighteen pianos of No. 1 grade, and 205 pianos of No. 2 grade were sold during the year.

You are required to prepare the necessary statements, showing the actual profit for the year.

7. Section 17 of the Indian-Income-tax Act 1922 runs as follows:—

Where owing to the fact that the total income of any assessee has reached or exceeded a certain limit he is liable to pay income-tax or to pay Income-Tax at a higher rate, the amount of the income-tax payable by him shall, where necessary, be reduced so as not to exceed the aggregate of the following amounts, namely:—

(*a*) The amount which would have been payable if his total income had been a sum less by one rupee than that limit, and

(*b*) the amount by which his total income exceeds that sum.

Explain the purport of the above section with the help of an example.

UNIVERSITY OF BOMBAY.

B. Com. Examination, 1928.

ADVANCED ACCOUNTING AND AUDITING—Paper I.

SECTION I.

1. The Balance Sheet of the Q Company Limited as at 30th June 1927 stood as follows :—

	Rs.		Rs.
CAPITAL :			
Authorised :		Freehold Land and Buildings	2,50,000
2,500—7 per cent. Cumulative Preference shares of Rs.100 each	2,50,000	Plant	1,00,000
7,500—Ordinary shares of Rs. 100 each ...	7,50,000	Stock	1,50,000
	10,00,000	500 Ordinary shares in the L Co. Ltd.	50,000
Subscribed and paid-up :		Debtors	3,00,000
1,000—7 per cent. Cumulative Preference shares of Rs.100 each	1,00,000	Cash at Bank	1,00,000
5,800—Ordinary shares of Rs. 100 each ...	5,80,000		
	6,80,000		
Less calls in arrears ...	5,000		
	6,75,000		
Loans secured... ...	15,000		
Mortgage Debentures..	1,00,000		
Trade creditors ...	60,000		
Profit and Loss account	1,00,000		
	9,50,000		9,50,000

On the same date the following was the position of the L Company Limited and of M and N :—

	L Co Ltd.	M & N.		L Co., Ltd.	M & N.
CAPITAL :	Rs.	Rs.		Rs.	Rs.
5,00—8% Pref. shares of Rs. 100 each.	50,000	2,50.000	Freehold Land and Building ...	30,000	10,000
500—Ordinary shares of Rs. 100 each.	50,000	...	Plant	40,000	60,000
Reserve Fund ...	15,000	...	Stock	70,000	80,000
Bank Overdraft.	25,000	...	Debtors	70,000	50,000
Creditors ...	60,000	10,000	Cash	...	60,000
Profit and Loss account ...	1 ,000	...			
	2,10,000	2,60,000		2,10.000	2,60,000

The 8 per cent Preference shares of the L Co., Ltd., had preference as to capital, but did not participate in the profits beyond the fixed 8 per cent dividend. All the ordinary shares are held by the Q Co., Ltd. The Capital of M and N was M, Rs. 1,50,000 ; and N, Rs. 1,00,000.

The market values of the shares were :—

	Rs.	a.	p.
Q Company Limited, Preference	112	8	0
Do. do. Ordinary	150	0	0
L Company Limited, Preference	125	0	0
Do. do. Ordinary	not quoted.		

The Q company limited absorbed the other two concerns on the following terms :—

L Company Ltd.

They bought the whole of the assets, other than the freehold land and buildings, for Rs. 1,15,000, payable as to Rs. 55,000 by the issue of 550 Preference shares, as to the balance by cash. The *Q* company limited had to discharge the liabilities of *L* company limited in addition to the above consideration. By agreement, the holders of the 500 Preference shares in the *L* company limited were to receive in exchange 550 Preference shares in the *Q* company limited referred to above (each holder of ten 8% Preference shares in the *L* company limited to get eleven 7% Preference shares in the *Q* company limited.)

M and N.

They acquired the whole of the assets of M and N (other than cash) for Rs. 2,30,000. M and N had out of this sum to discharge their own liabilities.

The Rs. 2,30,000 was to be paid as to Rs. 80,000 in cash, the balance as to Rs. 90,000 by the issue of Rs. 800 Preference shares of Rs. 100 each (the market value of these was Rs. 112-0-8), and as to the balance o Rs. 60,000 by the issue of 400 ordinary shares of Rs. 100 each (whose market value was Rs. 150).

The Q company limited took the opportunity at the same time to offer the balance of 150 Preference shares pro rata to their existing shareholders at Rs. 110 per share, payable Rs. 60 (including the premium) on application and Rs. 50, on allotment. 170 shares were applied for and 150 allotted—the deposits received on the 20 shares being returned.

You are required to :—

(1) Show the entries necessiated by the above in the books of the Q company limited ;

(2) Draft the balance sheet of the Q company limited after the above absorption. ;

(3) Close the books of the L company limited, assuming that the freehold property realised Rs. 25,000, and that the cost of liquidation amounted to Rs. 5,000.

√2. X, Y and Z were in partnership and the Partnership Deed provide that upon expiry of the partnership term on 31st December 1920, Y shall acquire the whole business upon repaying to the other partners the Capital standing to their credit at that date, plus four years' purchase of their respective shares of profit, taking the year 1920 as the basis. The Capital of the partners on 1st January 1920 is as follows :—X, Rs. 9,000, Y, Rs. 4,000, Z, Rs. 3,500 carrying interest at 5% and profits are divisible as to X, five-ninths, Y, three-ninths, Z, one-ninth, on account of which each partner draws Rs. 500 per annum, upon which the interest is not calculated. Stock at 31st December 1920 amounts to Rs. 8,000 and the remaining balances are as follows :—

	Rs.
Sundry Creditors	6,900
Stock, 1st January 1920	6,500
Book-Debts	15,000
Cash at Bank	1,650
Sales	42,000
Purchases	35,000
Machinery and Plant	3,000
Bills Receivable	800
Fixtures and Fittings	150
Cash in hand	100
General Charges	2,000
Bad Debts Reserve	300

Assume that Y obtained an overdraft from his Bankers of Rs. 7,000 and himself introduced any further Capital necessary to pay out his partners, and prepare a Profit and Loss Account and a Balance Sheet of the old Firm, and a further Balance Sheet showing Y's position on 1st January 1921, after such payments.

3. The Cost Accountant of the Constructional Contractors, Ltd., Bombay, has prepared from his books the following "Manufacturing Account" and "Cost Summary."

Manufacturing Account (*Costing Department*).

	Rs.		Rs
Completed Contracts ...	26,250	Wages	10,000
Completed Stock	8,000	Direct Goods...	2,500
Balance, work-in-progress ...	11,220	Stores	20,000
		Chargeable Expenses ...	1,200
		Works-on-cost	7,500
		Office-on-cost	4,270
	45,470		45,470

Cost Summary.

	Cost.	Sale or contract price.	Profit.
Completed Contracts	26,250	34,000	7,750
Sales from Stock	5,000	7,000	2,000
Profit as per Cost Account :			9,750

The General Trading Account as prepared by the accountant stands as follows :

Trading Account (*General Accounts*).

		Rs.		Rs.
Productive Wages ...		10.000	Completed Contracts ...	34,000
Direct Goods ...		2,500	Sales from stock	7,000
Stores purchased ...	25,000		Finished stock on hand ...	3,000
Less Stock in hand	4,800		Work-in-progress ...	11,220
		20,200		
Chargeable expenses ...		1,200		
Balance, carried down ...		21,320		
		55,220		55,220

		Rs.		Rs.
To Works Expenses :—			By Balance, brought down ..	21.320
Rent, rates, etc. ...	1,800			
Supervision charges.	2,500			
Fuel	950			
Repairs	600			
Depreciation ...	1,000			
General expenses ...	1,200			
		8,050		
To Office Expenses :—				
Rent, rates, etc. ...	500			
Salaries	1,700			
General expenses ...	1,500			
		3,700		
To Balance, being Profit, as per General accounts ...		9,570		
		21,320		21,320

It will be observed from the above information that the profits as shown by the General accounts, viz., Rs. 9,570 is less than the profit as revealed by the cost accounts, viz., Rs. 9,750, by Rs. 180.

You are required to prepare a statement reconciling the two sets of figures showing where the difference arises.

4. On 1st July 1918, A, B, Co., Ltd., issued Debentures for Rs. 5 lacs redeemable at par on 1st July 1923. It was decided to establish a Sinking Fund for the purpose of redemption.

Shew the Ledger accounts for the five years, assuming the annually invested amounts to earn 5% interest, net, and that the amount annually set aside for the purpose is Rs. 90,487-8-0.

SECTION II.

5. A bookseller keeps a Sales Day Book ruled in three columns, viz., (1) Sales, (2) Cost and (3) Profit on Sales. At the end of each month, the total of column (2) is posted to the credit of Stock Account and the total of column (3) to the credit of Profit on Sales Account. The monthly totals of Purchases are posted to Stock Account, Sales and Purchases Returns being dealt with in similar fashion and the Stock Account periodically agreed with a Stock Book.

The Profit and Loss Account for the year 1927 was prepared in the following form:—

	Rs.	a.	p.		Rs.	a.	p.
To wages and salaries	1,286	8	0	By Profit on Sales ...	12,586	0	0
,, Rent, etc. ...	1,066	0	0				
,, Depreciation of Stock	1,760	0	0				
,, Other Expenses ...	582	8	0				
,, Balance being Net Profit	7,891	0	0				
	12,586	0	0		12,586	0	0

The following is a summary of the Stock account for the year :—

	Rs.	a.	p.		Rs.	a.	p.
To Balance 1st January 1927	11,673	0	0	By Sales	27,607	8	0
,, Purchases... ...	31,756	0	0	,, Purchases Returns	355	0	0
,, Sales Returns ...	862	0	0	,, Depreciation ...	1,760	0	0
				,, Balance 31st December 1927 ...	14,568	8	0
	44,291	0	0		44,291	0	0

You are required to submit a Trading and Profit and Loss Account for the year in the normal form.

6. A severe fire occurred on the 1st March 1927, at the factory of Bomanji and Co., Ltd., by which practically the whole of the buildings and its contents were destroyed, with the exception of the offices.

The Insurance Company paid a lump sum of Rs. 1,00,000 in respect of the Buildings, Rs. 15,000 for the Machinery and Plant, and Rs. 1,20,000 for the Stock, the Salvage being sold to Bomanji and Co., Ltd., for Rs. 10,000 and deducted from the insurance money on the settlement. Bomanji and Co., Ltd., realised Rs. 20,000 from the salvage.

In Bomanji and Co.'s books, Land and Buildings stood at Rs. 1,75,000, and the value of the Buildings not destroyed was Rs. 10,000, the land being valued at Rs. 50,000. The Machinery and Plant stood at Rs. 16,000 and was all destroyed. The Stock at the date of the last Balance Sheet, June 30th 1926, stood at Rs. 1,35,000.

The sales for the eight months amounted to Rs. 3,00,000, and the purchases and expenses for that period to Rs. 2,60,000. Expenses in connection with the fire claim were Rs. 2,000.

Show how the above matters should be dealt with in the books of Bomanji and Co., Ltd.

7. The assets and liabilities of the Bubbles Co. Ltd., were as under :—

Assets.

—	31-12-1923.	31-12-1924.	31-12-1925.
	Rs.	Rs.	Rs.
Buildings and Plant	3,80,000	4,00,000	4,00,000
Debtors	1,10,000	1,20.000	80,000
Stock-in-trade	6,30,000	6,20,000	7.00,000
Goodwill	1,40,000	1,40,000	1,20,000
Cash	30,000	30,000	30,000
	12,90,000	13,10,000	13,30,000

Liabilities.

—	31-12-1923.	31-12-1924.	31-12-1925.
	Rs.	Rs.	Rs.
Share Capital	10,00,000	10,00,000	10,00,000
Creditors	30.000	30,000	30,000
Reserves	2,00,000	2,20,000	2,40,000
Profit and Loss Account	60,000	60,000	60,000
	12,90,000	13,10,000	13,30,000

—	31-12-1923.	31-12-1924.	31-12-1925.
	Rs.	Rs.	Rs.
Net Profits after providing for Depreciation, Taxation and Directors Fees, but before appropriation to Reserve	2,00,000	1,90,000	2,50,000

Upon a scheme for amalgamation the Buildings and Plant and Stock are to be revalued by an independent expert and the valuation of Goodwill is to be based on the excess of profit earned above 9% on the average Capital "employed" during the three years.

The revaluations were as follows:—

—	31-12-1923.	31-12-1924.	31-12-1925.
	Rs.	Rs.	Rs.
Buildings and Plant	5,95,000	6,18,000	6,20,000
Stock-in-trade	6,50,000	6,40,000	7,40,000

(a) Adjusting the Balance Sheet figures by those of the revaluation of Buildings and Plant and Stock-in-trade only, show the Capital "employed" during each of the three years.

(b) Ascertain the Goodwill on the basis of seven years' purchase of the average excess earned above 9% of the Capital "employed" (assuming no adjustments of the profits to have been necessary).

(c) Show the total value of the business for the purpose of amalgamation as at 31st December 1925.

8. On 31st December 1926, A, B and C convert their business into a Joint Stock Company with a Nominal Capital of Rs. 1,00,000 when their Balance Sheet was as under:—

Balance Sheet.

		Rs.		Rs.
Creditors		14,000	Land and Building ...	30,000
A's Capital ...	27,000		Machinery	20,000
B's Capital ...	21,000		Stock	10,000
C's Capital ...	18,000		Debtors	20,000
		66,000		
		80,000		80,000

The following arrangement was agreed upon by all the partners.

(a) A Goodwill account was to be created for Rs. 28,000.

(b) Land and Building, Machinery and Stock to be taken over by the Company at book value.

(c) The Company to allot shares for Rs. 88,000 to the vendors, as purchase consideration.

(d) Book Debts were to be realised and creditors were to be paid off by the company on behalf of the vendors.

On 31st December 1927 other accounts stood as under in the Company's Ledger.

	Rs.		Rs.
Wages	4,000	Sales	60,100
Carriage	1,200	Discount charged	900
Discount allowed	1,300	Creditors	5,200
Repairs	300		
Rates and Insurance ...	400		
Coal	200		
General Expenses	1,300		
Purchases	38,000		
Preliminary Expenses ...	700		
Debtors	23,000		
Cash	200		
A's Drawing	600		
B's Drawing	600		
C's Drawings	400		

The stock on hand on 31st December 1927 amounted to Rs. 23,000.

The debtors on 31st December 1927 included Rs. 7,000 belonging to the vendors Rs. 3,000 of which was irrecoverable and should be written off. All the liabilities of the old firm have been discharged. Discount allowed and discount charged included Rs. 600 and Rs. 100 respectively in connection with vendors' Debtors and Creditors.

Pass the Journal entries necessary for adjusting the vendors' account (the same set of books being continued) and draw up Trading Account and Profit and Loss Account for the year ending 31st December 1927 and the Balance Sheet as on that date after making provisions as under :—

Bad and Doubtful Debts Reserve at 5 per cent. on Debtors.

Unexpired Insurance Rs. 100

Depreciation on machinery at 7½ per cent.

UNIVERSITY OF BOMBAY.

B. Com. Examination, 1928.

ADVANCED ACCOUNTING AND AUDITING – Paper II.

SECTION I.

1. The following is the trial balance of the General Ledger of the A Company Limited at 30th June 1926 :—

	Rs.
Land, Building and Fittings	15,000
Stock	5,000
Debtors' Ledger account	4,000
Creditors' Ledger account	1,000
Bank Overdraft	1,030
Prepaid expenses account	50
Capital, issued and paid-up 1,500 shares of Rs. 10 each ...	15,000
Debentures	5,000
Reserve account	1500
Profit and Loss account, Cr.	350
Provision for doubtful debts	200

Their transactions during the twelve months ending 30th June 1927 were:—

	Rs.
Purchases of stock, Department *A*	6,000
Do. do. *B*	8,000
Do. do. *C*	4,000
Sales, Department *A*	7,000
Do. *B*	8,500
Do. *C*	4,500
Liabilities incurred for general, travelling, and other expenses, commission, salaries, rates, taxes, insurance, etc.	2,500
Returns of goods from customers	350
Allowances made to customers	150
Discounts allowed to customers	250
Discounts received from creditors...	300
Bad Debts actually written off	350
Added to provision for Bad Debts	300
Bills received from debtors	300
Bills payable accepted	125
Cash received from debtors	21,000
Cash received from bills receivable	250

	Rs.
Cash paid to creditors (including creditors for purchases, general and travelling expenses, commission, salaries, etc.)	20,300
Interest charged by Bank to 30th June 1927	60
Debenture interest paid to 31st December 1926	300
Debentures paid off (31st December 1926)	1,000
Cash received from sale of part of land (book value, Rs. 1,000)	700
Amount still due in respect thereof...	800
Prepaid expenses (30th June 1927)	100

The stock at 30th June 1927 is Rs. 7,800, i.e., Department A, Rs. 5,000 B, Rs. 2,500 and C, Rs. 300. The corresponding departmental allocation of the stock at 30th June 1926 is Rs. 3,000, Rs. 1,500 and Rs. 500 respectively.

Show :—

(a) Debtors' Ledger account in the Private Ledger ;

(b) Creditors' Ledger account in the Private Ledger ;

(c) Departmental Trading accounts for the year ended 30th June 1927 ;

(d) General profit and loss account for the year ended 30th June 1927 :

(e) Balance Sheet as at 30th June 1927 ;

2. The following is the Trial Balance of the Rupee Bank of India Limited on 31st December 1927. The authorised Capital of the Bank is Rs. 20,00,000 divided into 20,000 shares of Rs. 100 each. The whole Capital is subscribed and 50% is called up. Draw up the Balance Sheet of the Bank as at 31st December 1927, in accordance with the Indian Companies' Act 1913, mentioning the several subheadings into which the book-debts of a bank have to be classified. Prepare also the Profit and Loss account for the year 1927.

	Rs.
Advertising	1,650
Balance of Profit and Loss account, 1st January 1927	40,333
Buildings (cost price, Rs. 2,80,000)	2,05,000
Capital, Paid-up	10,00,000
Current and other accounts	34,12,829
Cash with Banks on Current account	16,05,125
Cash at Head Office and Branches	4,16,324
Directors' and Auditors' Fees	5,980
Furniture (cost Price Rs. 50,480)	37,280
Fixed Deposits	58,98,554
Interest, Exchange, Commission, etc.	3,12,223
Investments at cost	2,78,125
Investment Reserve Fund	35,000

	Rs.
Loans, Cash credits and Overdrafts	...84,00,520
Liabilities for Expenses	46,894
Postages and Telegrams	1,156
Printing and Stationery	3,390
Rent, Taxes and Insurance...	8,507
Reserve Fund	2,65,000
Reserve for Bad and Doubtful Debts	40,000
Salaries	52,150
Stamps on hand	189
Unexpired Insurance	437

Provide Rs. 8,000 for Depreciation on Buildings, Rs. 3,500 for Depreciation on Furniture and Rs. 25,000 for Investments Reserve Fund. An ad-interim dividend at the rate of 7% per annum was paid for the half year ended 30th June 1927. The Profit as per previous Balance Sheet was Rs. 1,80,333.

The Directors desire you to transfer the Reserve for Bad and Doubtful Debts to the Reserve Fund Account and assure you that the Bad Debts of the Bank are fully covered by the "Contingency Reserve" maintained in the Current account Ledger of the Bank. You find that this fund amounts to Rs. 2,25,000. The list of Bad and doubtful debts as prepared by the Manager and submitted to the Board of Directors amounts to Rs. 2,75,000. What attitude would you take up as auditor of the Bank ?

3. A Limited Company went into Voluntary Liquidation with liabilities amounting to Rs. 30,000 and assets which eventually realised Rs. 1,78,000. The Capital of the company consisted of 10,000 Preference Shares of Rs. 10 each, of which Rs. 7 per share was called and paid up. The holders of 8,000 shares had, however, paid up the full Rs. 10 in advance of call. There were also 10,000 Ordinary shares of Rs. 10 each on which Rs. 9 per share had been called. Holders of 2,000 shares had, however, only paid up Rs. 8 per share, while holders of Rs. 4,000 shares had paid up the full Rs. 10 in advance of calls. Assuming that the Preference shares have no prior rights as to capital, show, in the form of a Liquidator's Receipts and Payments Account, how you would divide the available balance among the shareholders, assuming that the costs of winding-up amounts to Rs. 2,000, and that the calls in arrear are duly collected.

4. *A* owns a large building in Bombay fetching a rent of Rs. 30,500 per annum. The "net annual value" of the property as per Municipal assessment bills is Rs. 26,100. *A* wishes to have the following deductions

made before arriving at the taxable income in respect of the above property:—

(a) Rs. 5,000 for repairs made during the year;

(b) Rs. 250 being fire insurance premium paid;

(c) Rs. 200 being the annual ground rent paid;

(d) Rs. 1,800 for collection charges paid to the rent collector for the year.

(e) Rs. 1,500 being Municipal taxes paid during the year;

(f) Rs. 1,200 being interest on a mortgage loan of Rs. 20,000.

(g) Rs. 500 being the rent of a portion of the house that was vacant during the year.

You are required to prepare a statement showing the taxable income of *A* in respect of the above house property, giving reasons for altering or disallowing any of the items.

A's taxable income from business amounts to Rs. 53,625. He has insured his life and pays an annual premium of Rs. 15,600. He has received during the year dividends from joint-stock companies amounting to Rs. 8,700 declared free of tax and Rs. 2,900 declared less tax. Determine the tax payable by him.

SECTION II.

5. The Bombay Trading Company, Ltd., having a Capital of Rs. 4,50,000 divided into 9,000 shares of Rs. 50 each (on which Rs. 40 per share was paid up) and a Reserve Fund of Rs. 90,000 was absorbed by the International Trading Company Ltd., having a Capital of Rs. 12,00,000 divided into 40,000 shares of Rs. 30 each (on which Rs. 25 per share was paid up) and a Reserve Fund of Rs. 2,00,000: on the terms that for every three shares in the absorbed company, the absorbing company was to give five shares (partly paid as the original ones).

Give with full details the Journal entries in the Books of the absorbing company and draw out the Balance Sheet after the absorption.

State also whether the rights of the parties concerned are properly adjusted.

6. The following is the Balance Sheet of a company as on December 31st, 1926:—

	Rs.	Rs.		Rs.
Capital: Nominal—			Goodwill	1,00,000
1,00,000 8% Cumulative Participating Preference shares of Rs. 10 each ...	10,00,000		Plant and Machinery	17,00,000
2,00,000 10% Cumulative *A* Preference shares of Rs. 10 each	20,00,000		Premises	14,00,000
8,00,000 Ordinary shares of Rs. 10 each	80,00,000	1,10,000,00	Stock	28,09,000
Issued :—			Sundry Debtors ...	35,80,500
1,00,000 8% Cumulative Participating Preference shares of Rs. 10 each ...	10,00,000		Cash	15,000
2,00,000 10% Cumulative *A* Preference shares of Rs. 10 each	20,00,000		Profit and Loss Account	3,95,000
3,00,000 Ordinary shares of Rs. 10 each	30,00,000	60,00,000		
6% Debentures		15,00,000		
Sundry Creditors		24,99,500		
		99,99,500		99,99,500

Note :—There is a contingent liability on both classes of Preference shares in respect of three years' Dividends.

The Company decides to adopt a scheme of re-arrangement under section 153 of the Indian Companies' Act, 1913 (there being no dissentients), on the following lines :—

(1) The 8 per cent. Cumulative Participating Preference shares to forego their arrears of Dividend, and be converted into 6 per cent. Cumulative First Preference Shares of Rs. 10 each.

(2) The 10 per cent. Cumulative *A* Preference Shares to forego their arrears of Dividend and become 7½ per cent. Preference Shares of Rs. 10 each.

(3) Each share of the Ordinary Share Capital (consisting of Rs. 10 shares) to be divided into five shares of Rs. 2 each.

In respect of the Ordinary Shares thus issued, three of the Rs. 2 shares are to be surrendered to the Company. Two of these are to be allotted to the holders of the 6% and the 7½% Preference Shareholders, in proportion to their holdings, as 10% Preferred Ordinary Shares. The remaining share surrendered is to be cancelled and used to write off the debit balance on the Profit and Loss Account, to write down Plant and Machinery to Rs. 16,20,000, and to eliminate Goodwill.

You are required to give the Journal entries necessary to record the above arrangements in the books of the Company and to prepare the revised Balance Sheet.

7 Goods are invoiced by G to his Agent in Rangoon at selling price. The Agent reports sales made and collection of book debts by him by monthly advice. He receives 5% on cash collected, plus an allowance for expenses at the rate of Rs. 2,000 per annum. During the half year ending 30th June, 1926, goods were invoiced to the Agent at a value of Rs. 4,03,000. Such goods cost G Rs. 2,75,000, plus freight and charges thereon Rs. 38,700. During the same period, sales were made by the agent amounting to Rs. 3,42,000. Debts collected were Rs. 2,88,000, and discounts were allowed amounting to Rs. 2,000. The Agent remitted to G Rs. 2,80,000.

Included in the shipments to the Agent was a consignment partly damaged by sea transit. A claim on the underwriters was settled for Rs. 6,200 which together with the proceeds of sale by the Agent Rs. 8,300, exceeded the value invoiced by Rs. 300.

At 30th June, 1926 the Stock in the hands of the Agent and unsold represents an invoice cost to G of Rs. 40,300.

Prepare, as in the books of G Accounts showing the results of these transactions for the half year ending 30th June 1926.

8. The following details are extracted from the costing records of an Oil Mill for the year ended 31st March 1927 :—

Purchase of 5,000 Tons of Copra Rs. 2,00,000.

	Crushing Plant.	Refining Plant.	Finishing.
	Rs.	Rs.	Rs.
Cost of Labour	2,500	1,000	1,500
Electric Power	600	360	240
Sundry Materials	100	2,000	...
Repairs to Machinery and Plant	280	330	140
Steam	600	450	450
Factory Expenses	1,320	660	220

Cost of Casks Rs. 7,500.

3,000 Tons Crude Oil were produced. 2,500 Tons of Oil were produced by the refining process. 2,480 Tons of Refined Oil finished for delivery.

Copra Sacks sold, Rs. 400.

1750 tons of Copra Residue, sold Rs. 11,000

Loss in weight in crushing, 250 tons.

450 Tons of by-products obtained from refining process, Rs, 6,750.

You are required to show the Accounts with quantity columns in respect of each of the following stages of manufacture for the purpose of arriving at the cost per ton of each process, and the total cost per ton of the finished oil:—

(a) Copra crushing process. (b) Refining Process. (c) Finishing Process, including Casking.

UNIVERSITY OF CALCUTTA.

B. Com. Accountancy, 1928.

1. From the following Trial Balance as at January 1st, 1908, prepare Manufacturing Account, Profit and Loss Account, and Balance Sheet ;—

	£	£
Purchase (Materials)	16,000	
Discount (Balance)	1,300	
Wages (Productive)	6,500	
Sales		30,000
Salaries	2,000	
Travelling Expenses	500	
Carriage	275	
Insurance	150	
Commissions	325	
Rent and Rates	500	
Cash in hand	25	
Cash at Bank	2,725	
Stable Expenses	195	
Repairs	105	
Sundry Expenses	55	
Mortgage and Interest to date		3,050
Mortgage Interest	150	
Buildings	4,000	
Machinery	1,500	

		£	£
Horses and Carts		500	
Stock on hand, January 1st, 1907 ...		5,750	
Capital			10,655
Sundry Debtors and Creditors		3,250	2,100
	Total ...	45,805	45,805

Make provision for Rent and Rates unexpired, £30; Depreciation on Buildings at 2½ per cent. per annum; Machinery at 5%; Horses and Carts 7½ per cent; Bad Debts £150; Liability for Insurance £20; Discount on Sundry Debtors and Creditors at 2½ per cent. Stock on hand, 1st January, 1908, £6,075.

2. Show the Ledger entries to describe the following, and show also how these items will appear in the Profit and Loss Account and Balance Sheet of each of these three years :—

On 1st January, 1912, the Reserve for Doubtful Debts shows a credit balance of £900. During the year, the Bad Debts amount to £700. The Debtors at 31st December, 1912, are £24,000 and a 5% Reserve for Doubtful Debts is required to be maintained. The Bad Debts during the year 1913 amount to £1,350. On 31st December, 1913, the Debtors are £25,000 and a 5% Reserve for Doubtful Debts is to be kept. In 1914, the Bad Debts are £300 and the Debtors at the end of the year amount to £10,000 on which a 5% Reserve for Doubtful Debts and a 5% Reserve for Discounts are to be kept.

3. *Hari* draws upon his customer *Jadu* at two months from January 1st, 1917, for Rs. 1,000 and three days after its date discounts it with the Central Bank at 2½ per cent. per annum. On the day of its due date, *Jadu* intimates that he cannot meet the bill, but pays *Hari* Rs. 600 on account and accepts a fresh bill for a like period for the balance upon condition that *Hari* retires the original bill, which he does. Detail seriatim the entries by which *Hari* should record these transactions in his books.

Or

X sells to Y goods of the value of Rs. 2,000, payable by draft of the former on the latter at four months' date from 1st May. The drawer discounts his customer's bill with the National Bank at 5 per cent. per annum on the 1st June. At maturity the bill is dishonoured. Give the entries in the vendor's Day Book, Ledger, Cash Book, and Journal to duly record these transactions.

4. The Nominal Capital of X Co., Ltd., consists of 1,00,000 shares of £1 each. The whole of these shares were issued in 1918, and were fully called up in four instalments of 5s. each. On 12th February, 1919, after due notice, the Directors passed a resolution forfeiting the 1,000 shares held by Mr. W. Roberts, the final instalment due upon his holding not having been paid. On 1st May, 1919, the 1,000 shares thus forfeited were re-issued, as fully paid to Richard Blank, who paid £500 for them. Give the entries (both in the Journal and in the Ledger) with regard to the original issue of the shares, the forfeiture of the shares, and the re-issue of the forfeited shares.

5 X, Y, and Z carry on a business in partnership. Z wishes to retire from the firm. X and Y agree to carry on the business, taking over the Assets at a valuation as agreed by the three partners, and discharging the Liabilities of the firm, The following is the position of the firm as on September 30th, 1909, the date of dissolution :—

	£		£
Sundry Creditors	18,900	Plant	4,000
Loans	7,000	Fixtures	500
Capital Accounts :—		Furniture	250
X	3,000	Stock-in-trade	10,000
Y	4,000	Sundry Debtors	18,000
Z	1,000	Bills Receivable	4,000
Profit and Loss Account ...	3,000	Cash in Hand	50
		Cash in Bank	100
Total ...	36,900	Total ...	36,900

The agreed values of the assets are as follows :—

Plant £3,050. Fixtures £350. Furniture £150. Stock-in-trade less 20 per cent. discount. Sundry Debts (less Discounts and Bad Debts) £15,000. Provisions for Doubtful Bills £1,000.

(1) Prepare Balance Sheet showing the position of the new firm of X and Y on taking over the business.

(2) Prepare also tho Capital Accounts and Balance Sheet of *X*, *Y* and *Z* after the above valuation and dissolution adjustments have been made. The profits and losses are divisible on basis of capital originally contributed.

UNIVERSITY OF CALCUTTA.

B. Com. Advanced Accountancy, 1928.

1. Messrs. B. Chemical Co. Ld. are Chemical Manufacturers and the makers of the "Bloom Face Powder" and the "Lustre Hair Wash." You are asked to prepare from the following particulars the Trading and

Profit and Loss Accounts, showing the net Profit and Loss made in the Chemical, Face Powder, and Hair Wash departments, respectively, for the year ended 31st December, 1927 :—

		Rs.
Stock, 1st January, 1927	Chemicals	81,200
	Face Powder	49,980
	Hair Wash	22,500
Purchase of Raw Materials... ...	Chemical Dept.	70,900
	Face Powder	28,360
	Hair Wash...	8,560
Sales	Chemical Dept.	2,26.090
	Face Powder	70,700
	Hair Wash	49,490
Raw Materials supplied from the Chemical Dept. to the other Depts. for use in manufacture there ...	Face Powder	4,070
	Hair Wash	3,150
Factory Wages and Salaries ...	Chemical Dept.	35,000
	Face Powder	23,000
	Hair Wash	12,000
Bottles, Cases, Labels, and Cartoons	Chemical Dept.	9,550
	Face Powder	1,650
	Hair Wash	2,180
Factory Rent, Rates, and Taxes	... ...	11,900
Power, Lighting and other Factory Charges	... ...	630
Office Salaries	... ...	14,000
Office Rent, Rates, and Taxes ...	... ...	11,880
Travellers' Commission and Expenses	... ...	12,140
Office Gas, Coal, and Electric Light	... ...	1,360
Printing and Stationery	... ...	510
Advertising	Face Powder	3,180
	Hair Wash	2,560
Bad Debts	... ...	1,520
Stock on hand, 31st December, 1927	Chemicals	62,800
	Face Powder	28,720
	Hair Wash	21,020

Apportion Factory Rent, Rates and Taxes, and Power, Lighting, and other factory charges, between the respective Departments, on a basis of the wages paid in each department.

Apportion all office expenses and other non-productive expenses (except advertising) between the departments on a basis of the sale effected by each, treating goods supplied by one department to another as sales.

2. A merchant in Calcutta supplies his branch establishment in Dacca with goods entirely from the head office, such goods being invoiced to the Branch Manager at cost price, with instructions that—

(1) the Manager is to sell the goods at such a price as will yield a clear 15% profit on the selling price of all goods ;

(2) before fixing the selling price, the Manager is to add 20% to the cost price to provide for overhead charges ;

(3) stock is to be taken on the last day of each month at cost price ;

(4) the exact balance in the local Bank, in the hands of the Manager, is to be remitted to the Head Office on the 1st of each month, after leaving at the local Bank a fixed float of Rs. 2,000 and retaining Rs. 100 in hand for petty cash expenses ;

(5) all goods to be sold for cash only. The Branch is not authorised to give credit.

On the 1st of December last, the Manager of the Dacca branch, after drawing his monthly cheque for the Head Office had Rs. 2,000 in the bank and Rs. 100 in hand. He also had stock valued at cost price Rs. 13,200. During the month of December, the Head Office supplied goods to the amount of Rs. 3,496. On taking stock, on the evening of the 31st December, the value at cost price was Rs. 11,200 ; and the expenses paid by the Manager during the month were Rs. 1,545.

You are required to show the account which the Manager should render to the Head Office on the 1st of January, and the remittance which he has to make.

3. Messrs. Calcutta Furnishing Company carry on business of Hire Purchase Furnishers, and give you the following information regarding the year ending 31st December, 1927, and ask you to prepare a trading account. They inform you that on all the amounts which are charged to customers as the price of goods one-third represented gross profit :—

	Rs.
Book Value of Stock on hire purchase on the 1st January, 1927	1,50,000
Value of Stock in Shop	20,000
Purchases made during the year	2,70,000
Instalments overdue on the 1st January, 1927	11,000

	Rs.
Instalments on the 31st December, 1927	21,000
Cash received on instalments during the year	3,50,000
Stock on Hire on the 31st December, 1927, at a Book Value of	1,80,000
Stock in Shop	30,000

Prepare the Trading a/c

4. The following Impersonal Ledger Balances appeared in the trial Balance of the books of the Giridih Mica and Powder Co., Ld. on the 31st December, 1927 :—

	Rs.
Wages paid	552,000
Timber used	58,000
Sundry Stores and Maintenance of Mines	97,000
Rates, Taxes, and Charges General (¼ applicable to Talc Powder)	72,000
Wages paid and Stores used for Talc Powder ... ... Manufacturing	70,000
Royalties paid on Mica produced	72,000
Ropes used	12,000
Salaries Paid (¼ applicable to Talc Powder)	28,000
Mica sold—194,000 tons	7,02,000
Talc Powder sold—72,000 tons	4,40,000

The total production of the Company was 304,000 tons of Mica and 72,000 tons of Talc Powder. 1,10,000 tons of Mica were used for making Talc Powder.

You are required to prepare Trading and Profit and Loss a/cs, showing the profit resulting from the sale of Mica and Talc Powder respectively, and showing the cost per ton of Mica, and the cost per ton of the Talc Powder, taking the Mica used for Talc Powder at cost price. The cost price in both cases to be worked out to two decimal points.

5. A merchant in Calcutta started business on the 1st January, 1927, with a sum of Rs. 10,000 and kept a Cash and personal Ledger only. You were asked from these books to prepare a Profit and Loss a/c and Balance Sheet as on the 31st December, 1927, his stock on this day being Rs. 10,000. An analysis of the Cash Book gave the following figures :—

Dr.	Rs.	Cr.	Rs.
Received from Self ...	10,000	Paid to Creditors	50,000
Do. from Debtors ...	70,000	„ for Expenses	11,000
Do. Cash Sales ...	21,000	Drawn by Self	20,000
		Cash Purchases	8,000
		Cash Balance	12.000
Total ...	1,01,0J0	Total ...	1,01,000

The personal Ledger Balances were then taken out and it was found that the total of the Dr. Balances amounted to Rs.60,000 and the Credit Balances Rs. 55,000. Prepare the P. and L. a/c and Balance Sheet.

6. The firm of Hope Bors. and Co. consists of Messrs. *A*, *B*, and *C* who share profit and loss equally. A difference having arisen between *A* and *B*, it was decided that *B* should acquire ⅔ and *C* ⅓ of *A*'s share. *B* and *C* were to pay *A*, the actual value of *A*'s investment in the firm. In addition *B* should pay for his share of *A*'s goodwill, whereas *C* was given his share in *A*'s goodwill.

The following figures were supplied to you as at the 31st December, 1927. How much each would *B* and *C* have to pay ?

	Rs.
Creditors...	21,500
Stock	25,000
Liabilities	1,500
C's a/c	20,000
Book Debts	60,000
Payments in advance	2,000
B's a/c...	30,000
Buildings	30,000
Furniture	4,000
Cash	12,000

It was decided that goodwill should be twice the average of the last three years' average, which were 1927—Rs. 60,000, 1926—Rs. 30,000, 1925—Rs. 40,000

7. From the following figures, prepare Trading a/c, Profit and Loss a/c, and Balance Sheet of the A. B. Manufacturing Co., Ld. as at 31st December, 1927 :—

	Rs
Discounts	1,200
Carriage	2,300
Patterns...	15,000
Rates and Taxes	2,200
Patents and Trade Marks	6,000
Stock, 1st January, 1927	26,600
Purchases	49,300
Wages	52,200
Fuel	2,520
Building and Plant	80,000
Goodwill	21,000
Debtors	16,020
Advertising	3,300
Trade Expenses...	4,100

	Rs.
Bad Debts	1,020
Cash	720
Debenture Interest ½ year, 30th June	400
Preference Dividend, ½ year, 30th June	1,200
Director Fees	2,000
Bank Charges	1,640
Ordinary Shares	8,0000
4% Debentures	20,000
Bank Overdraft	30,280
Creditors	9,620
Sales	1,44,680
Profit and Loss a/c, 1st Jan.	4,140

The nominal capital of the Company is Rs. 1,00,000. Stock at 31st Dec. 1927—Rs. 28,320.

Write off Depreciation—

Machinery and Plant 5% on Rs. 30,000.
Loose Tools 20% on Rs. 6,000.
Patterns 10% on Rs. 15,000.
Patents 10% on Rs. 6,000.

Allow 2½% on debtors for Discounts and reserve Rs. 860 for Bad debts.

8. Describe the methods of Depreciation usually met with in practice, and state the advnatages and disadvantages of each with illustrations.

UNIVERSITY OF CALCUTTA.

M. Com. Accountancy, 1927.

First Half.

1. Mr. G. C. Ghose died on the 10th of April, 1927, and his son Mr. B. C. Ghose who was his executor prepared a Balance Sheet of his estate as follows :—

	Rs.		Rs.
Trade Creditors	25,000	Trade Debtors	30,000
Loan for Personal Use ...	50,000	Cash in hand	1,900
Liability for Personal Expenses	1.500	Cash at Bank	10,000
Liability for Business Expenses :—		Fixtures and Fittings in Office	3,000
Wages	1,000	Dwelling house	40,000
Rent	400	Private Motor Car	3,000
Office Charges ...	50	Motor Lorry for business...	6,000
Capital a/c	36,650	Stock in hand	20,000
		Payments in advance for business	700
Total ...	1,14,600	TOTAL ...	1,14,600

Mr. B. C. Ghose formed a Company called G. C. Ghose & Son, Ld., with a nominal capital of Rs. 1,00,000, and a subscribed capital of Rs. 60,000 to take over for Rs. 50,000 his father's business and goodwill with the exception of the trade creditors and debtors. The debts due to or by the estate on business account were however collected and paid by the Company on behalf of the estate, there being a loss of 5 per cent. on collection, and it was found that one trade creditor amounting to Rs. 1,500 was omitted by the executor when he prepared the balance sheet, and this amount was also paid by the Company, the Company retaining the balance realised on the estates account.

Prepare the final Capital Account and Balance Sheet of the executor and the Balance Sheet of the Company incorporating the above transactions.

2. Bengal Jute Co., Ltd., and Calcutta Jute Co., Ld., agree to malgamate.

The agreement provides that the Bengal Jute Co., Ltd., was to take over all the assets of the Calcutta Jute Co., Ld., and to pay all their liabilities and debentures, the consideration being the issue by Bengal Jute Co., Ltd., of Rs. 10,00,000 fully paid shares of Rs. 10 each and the payment of Rs. 5,00,000 in cash to the Calcutta Jute Co., Ld. It was also agreed that the Bengal Jute Co., Ld., would pay the expenses of the liquidation of the Calcutta Jute Co , Ld., to the extent of Rs. 2,500.

The Balance Sheets of the two Companies on the date of the liquidation were as given below. In order to carry out this agreement Bengal Jute Co., Ltd., sold half of its War Bonds @ 105% and made arrangements with its Bank for any overdraft that may be required.

Prepare the Balance Sheet of the Bengal Jute Co., Ld., after the amalgamation and close the book of the Calcutta Jute Co., Ld.

Balance Sheet: The Bengal Jute Co., Ld.

	Rs.		Rs.
Nominal Capital. 5,00,000 shares of Rs. 10 each ...	50,00,000	Book Debts	5,00,000
Issued 4,00,000 shares of Rs. 10 each ...	40,00,000	Rs.5,00,000 6 per cent 1930 War Bonds	4,75,000
Debentures	10,00,000	Goodwill	5,00,000
Creditors	3,00,000	Properties	10,00,000
Reserves	20,00,000	Machineries	20,00,000
Profit and Loss a/c ...	4,00,000	Suspense	20,000
		Stock	30,05,000
		Cash	2,00,000
Total...	77,00,000	Total ...	77,00,000

Balance Sheet : The Calcutta Jute Co., Ltd.

	Rs.		Rs.
Capital Authorised and Subscribed. 1,00,000 shares of Rs. 10 each	10,00,000	Debtors	1,50,000
Debentures	5,00,000	Goodwill	1,98,500
Creditors	75,000	Properties	2,01,500
Bank Overdraft ...	1,24,000	Machineries	4,00,000
Reserve	5,00,000	Stock	13,50,000
Profit and Loss account	1,01,000		
Total ...	23,00,000	Total ...	23,00,000

3. You were asked by a client to advise him regarding the price he should pay for the goodwill of a business he was desirous of acquiring. The seller had told him that the gross profit earned by the stores was 20% and in support of this had produced the following Trading account.

Trading Account.

	Rs.		Rs.
To Opening Stock ...	16,500	By Sales	1,50,000
,, Purchases	85,000	,, Stock (closing)	15,000
,, Trade Discount on Sales.	14,000	,, Cash Discount	1,760
,, Cash Discount	2,520	,, Goods Returned ...	5,000
,, Goods Returned ..	10,000		
,, Carriage Inwards ...	2,000		
,, Salaries	7,000		
,, Rent	4,500		
,, Charges General ...	240		
...	1,41,760		
,, Gross Profit	30,000		
Total ...	1,71,760	Total ...	1,71,760

Your client had agreed to pay the seller for his goodwill an amount to be determined by a percentage on the capital invested in the business, this percentage being the same as the percentage of gross profit of the business. The capital invested in the business was Rs. 1,00,000. How much would your client have to pay for the goodwill in view of the account submitted above ?

4. The Manager of a soap factory of which you are the auditor is paid partly by salary and partly by commission and bonus. His agreement states that in addition to a salary of Rs. 1,000 per month he is to draw commission of 10% on the manufacturing profits and a bonus of 5% on the net profits after charging such bonus.

You were supplied with the following facts by their accountant and you are asked to prepare—

(a) Manufacturing and Profit and Loss account.

(b) Determine the amount of commission and bonus payable to the Manager :—

	Rs.		Rs.
Purchases	15,000	Sales	50,000
Manufacturing Wages ...	20,000		
Office Salaries	2,700		
Carriages Inwards ...	1,000		
Do. Outwards ...	200		
Printing and Stationery ...	150		
Rent	2,000		
Travelling	300		
Charges General	400		
Cash Discount	100		
Goods Returned	2,000		

Opening stock consisted of the following.	Closing stock was as follows.
400 casks of A @ Rs. 10.	300 casks of A.
100 casks of B @ ,, 15.	100 casks of B.
50 casks of C @ ,, 30.	50 casks of C.
150 casks of D @ ,, 20.	100 casks of D.

5. From the following figures supplied to you of an Insurance Company, prepare a revenue account and Balance Sheet as at the 31-12-26 :—

	Rs.
Life Assurance Fund as at 1-1-26	2,09,12,305
Furniture and Safe	20,000
Commission	3,86,961
Premiums received	36,00,106
Agents' and Canvassors' Allowances	67,526
Reassurances premium (net) paid	33,135
Salaries	1,16,906
Interest received	12,90,631
Acturial Fees	6,641
Income Tax and Super Tax on Interest received ...	88,835

	Rs.
Refund of Income Tax	1,330
Directors' Fees	12,600
Auditors' Fees	2,000
Medical Fees	65,348
Fees for Revival of Policies	16,541
Assignment Fees	1,410
Rent of Offices	13,800
Advertisements	9,178
Law Charges	150
Printing and Stationery	20,406
Postage	30,190
Endorsement Fees	852
Profit on Conversion of Securities...	83,988
Policy Stamp	3,277
Receipt Stamps	2,857
Capital	2,00,000
Bank's Charges and Commission...	4,294
Charges General	12,885
Claims admitted but not paid...	9,93,486
Deposits on a/c of Premia	68,024
Claims paid and outstanding by death	7,73,309
Do. maturity	12,10,558
Surrenders	35,376
Sundry Creditors	1,14,356
Loan on the Company's Policies	23,86,065
Other Investments	2,35,00,000
Investment reserve fund	20,00,000
Cash in hand and at Bank	4,78,701

Second Half.

1. A Colliery Company took a lease of a coal-bearing area for a period of 20 years from 1st January, 1921, upon the terms of a royalty of six annas per ton upon the output with a minimum rent of Rs. 6,000 per annum, with power to recoup "Short-workings" over the first four years of the lease.

You are required to show the Royalties, Short-workings, and Landlord's Accounts in the books of the Colliery Company, assuming the output for the first six years of the lease to be as follows :—

1921	...	6,000 tons.	1924	..	20,000 tons.
1922	...	8,000 tons.	1925	...	18,000 tons.
1923	...	16,000 tons.	1926	...	15,000 tons.

2. On 31st March, 1927, the premises and stock of Motilal Shah were totally destroyed by fire, the books of account, however, being saved. In order to make a claim on their fire policies in respect of the stock they ask your advice, and you are able to obtain the following information. The stock on hand has always been valued at 5 per cent. less than cost :—

—	1924. Dec. 31.	1925. Dec. 31.	1926. Dec. 31.	1927. March 31.
Opening Stock, as valued	2,280	2,907	3,230	3,458
Purchases, less Returns ...	9,162	10,840	11,917	4,120
Sales, less Returns ...	13,928	16,912	18,626	7,562
Wages	3,176	3,518	3,801	1,494
Closing Stock	2,907	3,230	3,458	......

Prepare a Statement for submission to the Fire Insurance Company in support of the claim for loss of stock.

3. The East and West Bank, Limited, has a Share Capital of Rs. 20,00,000 in Shares of Rs. 10 each, all issued, on which Rs. 5 each has been paid. From the following list of balances draw up the Balance Sheet as on 31st December, 1926, and Profit and Loss Account for the year ended that date. The Rebate of Interest on Bills not due was Rs. 16,493. A dividend at the rate of 12 per cent. per annum was paid for the half-year ended 31st December, 1926 :—

	Rs.
Share Capital	10,00,000
Acceptances for Customers...	8,26,149
Advances to Customers and other Accounts	97,42,196
Bank and other premises, at cost, less amounts written off	3,78,200
Bills Discounted	41,61,895
Cash in hand and at the Imperial Bank of India ...	20,45,701
Cash at call and short notice	18,62,170
Circular Notes, Letters of Credit, and provision for Contingencies	4,14,520
Foreign Government Securities, etc.	7,26,104
Consols and other Securities of the British Government	37,57,082
Current and Deposit Accounts	2,08,72,412
Depreciation of Bank Premises	20,000
Depreciation of Investments	40,000
Gross Profit, including Rebate brought forward ...	8,47,925
Indian Government Stocks, etc.	8,04,290

	Rs.
Interim Dividend for half-year ended 30th June, 1926 ...	50,000
Interest paid to Customers	2,40,159
Liability of Customers for acceptances	8,26,149
Other Investments	1,48,915
Profit and Loss Account, Balance from 1925	58,096
Reserve	12,00,000
Salaries, Directors' Remuneration, and other expenses...	4,16,241

4. From the following records prepare a detailed Receipts and Payments Account, the Income and Expenditure Account in toto and Balance Sheet of the Bengal Charitable Institute for the half-year ended 30th June, 1927 :—

1927.			Rs.
Jan.	1st.	Subscriptions received	2,000
	8th.	" "	600
	15th.	" "	750
	25th.	Secretary's Salary	100
	31st.	Paid to Bank	3,000
Feb.	4th.	Subscriptions received	420
	8th.	Donation from Local Authority	1,500
	20th.	Rent paid	500
	25th.	Secretary's Salary	100
	31st.	Paid to Bank	1,320
March.	1st.	Net proceeds of Flag day	5,000
	6th.	Subscriptions received	700
	15th.	Quarterly Grants to Beneficiaries	3,200
	16th.	Subscriptions received	500
	25th.	Secretary's Salary	100
	27th.	Part proceeds of Matinee Performance	870
	31st.	Paid to Bank	3,770
April.	5th.	Printing and Stationery Account paid	310
	14th.	Subscriptions received	1,200
	18th.	" "	800
	25th.	Secretary's Salary	100
		Travelling Expenses paid	220
	30th.	Paid to Bank	1,370
May	8th.	Subscriptions received	2,100
	19th.	" "	1,900
	25th.	Secretary's Salary	100
		Rent paid	500
	31st.	Paid to Bank	3,400

		Rs.
June 8th.	Special Donation received	5,000
10th.	Subscriptions received	1,700
18th.	" "	300
	Quarterly Grants to Beneficiaries	4,800
25th.	Secretary's Salary	100
	Incidental Expenses	90
29th.	Paid to Bank	2,010
30th.	Cash from Bank	10,000
	Invested in War Loan	10,000

5. From the following Trial Balance of a rubber growing Company, prepare Profit and Loss Account and Appropriation Account for the year ended 31st December, 1926, and Balance Sheet as on that date :—

		Rs.	Rs.
Share Capital, authorised and issued ...			10,00,000
Leasehold estates in Burma		7,38,450	
Development Account, 1st January, 1926 ...		2,96,720	
Expenditure in Burma during 1926 :—			
Upkeep of producing area, tapping, manufacturing, shipping, etc.	1,83,030		
Further outlay on areas not in bearing	51,060		
		2.34,090	
Buildings and machinery		1,37,200	
Inventory of Cattle, Stores, etc.		10,530	
Stock of rubber in store and in transit at 31st December, 1925		1,42,410	
Proceeds of rubber sold			4,23,970
Directors' fees		6,500	
Calcutta Office rent, salaries, etc.		4,120	
Audit fees		420	
Income Tax		16,480	
Interest on deposit			640
Transfer fees			100
Profit on Discount etc.			140
Sundry debtors, Calcutta		1,180	
Sundry debtors, Burma		9,840	
Cash at Bankers and in hand, Calcutta ...		64,560	
Cash at Bankers and in hand, Burma ...		10,320	

	Rs.	Rs.
Sundry Creditors, Calcutta, including reserve for Excess Profits Duty		45.410
Sundry Creditors, Burma		400
General reserve		1,50,000
Profit and Loss Balance after payment of Rs. 1,25,000 Final Dividend for 1925 ...		84,980
Interim dividend, paid 25th July, 1926 ...	25,000	
Excess Profits Duty for 1926	7,820	
Total ...	17,05,640	17,05,640

Provide 10 per cent. depreciation on buildings and machinery ; carry Rs. 50,000 to general reserve ; and provide for additional remuneration of the directors, viz. 2½ per cent. on the profit for the year before charging Income Tax or General Reserve. The stock of rubber in store and in transit on 31st December, 1926, was valued at Rs. 1,56,860.

UNIVERSITY OF LUCKNOW.

B. Com. (Final) Examination—1928.

ADVANCED ACCOUNTING AND AUDITING

First Paper

1. The Balance Sheet of Everfailing Trading Co. Ltd. is presented to you which is as follows :—

Balance Sheet as on December 31st 1928.

Liabilities.	Rs.	Rs.	Assets.	Rs.
Nominal Capital—			Cash in Hand	50
200,000 7% Cum. Pref. Shares of £ 1 each ...	200,000		Stock-in-Trade (Valued by Manager at Current Selling Price)	25,000
250,000 Ordy. Shares of £ 1 each ...	250,000	450,000	Freehold Premises, Furniture, Fittings and Fixtures, Plant and Machinery	70,000
Sundry Creditors—(including Bank Balance) ...		15,000	Leasehold Premises, Goodwill, Investments, Trade Marks, and Shares in Subsidiary Company ...	83,400
Reserve for Bad and Doubtful Debts ...		500		
Profit and Loss A/c—Balance for period	7,000		Sundry Debtors (including Uncalled Capital, Calls in Arrear and Sundry Shareholders' Dividend Account)	290,550
Less Pref. Divd. declared 31st December, 1927.	3,500	3,500		
		469,000		469,000

The Issued Capital of the Company is 100,000 7 per cent Cumulative Preference shares of Re. 1 each fully paid and 150,000, Ordinary Shares of Re. 1 of which 0-8-0 called. 0-2-0 per share on 400 Ordinary Shares in arrear.

The Shares held in the Subsidiary Company are Re. 1 Ordinary Shares upon which 0-12-0 per share has been paid up, the balance remaining uncalled.

Criticise this Balance Sheet in detail and, if you you consider it incorrectly drawn, redraft it in proper form using imaginary figures where figures are not given or are unascertainable from the information supplied.

2. The Balance Sheet of the firm of Srivastava and Puri is as follows :

LIABILITIES.	Rs.	ASSETS	Rs.
Capital—Srivastava ...	17,000	Freehold Buildings... ...	10,500
Puri	7,000	Plant and Machinery ...	6,150
Creditors	7,950	Debtors	5,700
		Stocks	9,000
		Cash	600
	31,950		31,950

Profits are shared, as to Srivastava two-thirds, and as to Puri one-third. Gopinath is admitted into partnership on the basis of one-fifth share. Goodwill Rs. 2,400 is to be introduced and credited to Srivastava and Puri, in proportion as they shared profits in the first partnership. Gopinath is to bring in capital equal to one-fourth of the combined capitals of Srivastava and Puri after crediting Goodwill. Srivastava's and Puri's profits in the new firm are to be in the same ratio between themselves as before.

(a) Prepare the Balance Sheet of the new firm.

(b) Show the proportions in which profits will be shared in future.

3. The books of Hazrathgung Furnishing Co. Ltd., House Furnishers, show the following balances at 31st March, 1927 :

	Rs.
Share Capital, 16,480 Shares of Re. 1	16,480
6 per cent Mortgage secured on Lease	5,000
Stock-in-Trade, 1st April, 1926	25,245
Sales	82,860
Sales Returns	2,230
Purchases	59,795

	Rs.
Bought Returns	3,179
Legal Expenses	40
Audit Fee	168
Discounts received	460
General Expenses	635
Lighting	390
Interest paid (net after paying I. T.)	232
Rent	2,000
Rates and Municipal Taxes	1,400
Repairs	580
Salaries and Commissions	10,500
Productive Wages	2,480
Furniture and Fittings	1,200
Value of Lease	12,000
Bills Payable	2,000
Bad Debts written off	455
Carriage Outwards	2,125
Trade Creditors	25,230
Expense Creditors	1,450
Trade Debtors	16,150
Bank Balance	2,418
Petty Cash in hand	15
First Premium paid on Life Policy (additional Security for Mortgage)	365
Commission due to Manager	750
Income Tax paid	450
Accumulated P. & L. Account credit balance 1st April, 1926	3,464

The Stock-in-Trade at 31st March, 1927, was Rs. 21,490. Write off 7½ per cent on Furniture and Fittings and 2½ per cent on Value of Lease, and reserve 2 per cent on outstanding Debtors for Doubtful Debts.

Prepare Trial Balance, Trading and P. & L. Account twelve months to 31st March, 1927, Balance Sheet and Auditors' Report to the Shareholders. Write a letter to the Directors enclosing the Accounts and making any comments you think advisable.

4. (*a*) Criticise these statements.

(i) Goodwill may be an asset, or merely result from efficient borrowing.

(ii) Its value always fluctuates with the percentage of profit.

5. On 1st January the books of a manufacturer show that he has stock value at Rs. 4,231, Plant Rs. 9,362, and Furniture and Fittings Rs. 490.

On 31st March his factory, the contents of which are fully insured, is destroyed by fire.

From information obtainable you find that between the above dates purchases have been made of goods Rs. 8,946, Plant Rs. 500, and Furniture Rs. 50, whilst the Sales amount to Rs. 16,692, and his wages and manufacturing expenses have been Rs. 3,847.

Assuming that the business has resulted for some years past in a gross profit on turnover of 25 per cent, prepare a statement showing the amount to be claimed from the Insurance Company,

6. How would you prepare a claim for compensation where the business of a Restaurant, facing a Railway Station, has to be closed down for street widening. No other site is available in the vicinity.

UNIVERSITY OF LUCKNOW.

B. Com. (FINAL) EXAMINATION—1928.

ADVANCED ACCOUNTING AND AUDITING.

SECOND PAPER.

1. The Profit and Loss Account of A, B and Co., Ltd. is as follows :—

	Rs.		Rs.
Rent	3,000	Gross Profit	85,000
Salaries	36,000	Sundry receipts	4,750
Trade Expenses	13,000	Rent from subletting ...	500
Debenture Interest... ...	7,000	Premium on Shares	9,500
Income Tax (Previous year's final adjustment).	5,000	Dividends (gross)	20,000
Preliminary Expenses ..	5,000		
Loss on Sale of Investments	3,000		
Depreciation—			
Plant 10%	7,500		
Furniture 5%	250		
Net Profit	40,000		
Total ...	1,19,750	Total	1,19,750

Ascertain the Income-Tax payable.

2. When conducting an audit, you find a large amount under the heading Bad and Doubtful debts. What are your duties and how would you examine them ?

3. How would you conduct an audit of a Share Transfer department?

4. How would you check the following :—

(a) Goods on Consignment.
(b) Payment under Hire purchase.
(c) Investments.
(d) Payments of underwriting Commission.
(e) Cash Sales.

5. Sketch with imaginary figures :—

(a) Cost sheet (Colliery).
(b) Stores Requisition form.
(c) Cost Ledger.

6. How should Interest on Capital and Interest on Loans be treated respectively in Cost accounts ?

Give reasons for your answer.

7. From the following particulars of income of Mr. Garg, ascertain the amount of Income-tax and Super-tax (if any) dayable by him.

(a) He is a partner of Saxena in a Timber concern (registered) the profits of which in his own share are Rs. 6,600 (gross) agreed to by Income-tax officer.

(b) He owns 6% War Bonds (free of tax) of the amount of Rs. 50,000.

(c) He is a part-time Secretary of India Rubber Company on a salary of Rs. 750 p.m.

(d) He owns a house which he lets out, the annual letting value of which is Rs. 12,000 and the admissible deduction for insurance is Rs. 200. He claims collection charges (actually paid) Rs. 800.

(e) He earned Rs. 2,700 as Director's fees.

(f) He invested Rs. 22,000 in G. M. Cotton Mills, Ltd. which has given him during this period a dividend of 10% (Less tax).

(g) He got Rs. 9,000 from his investments in the Unao Sugar Mills Ltd.

UNIVERSITY OF ALLAHABAD.

B. Com. Examination—1928.

BOOK-KEEPING AND ACCOUNTANCY.

(Part I.)

1. *X* draws upon his customer *Y* at two months from January 1st, 1909, for £1,000 and three days after its date discounts it with the City Bank at 2½ per cent. per annum. On the day of its due date *Y* intimates that he cannot meet the bill, but pays *X* £600 on account, and accepts a fresh bill for a like period for the balance upon condition that *X* retires the original bill, which he does. Detail seriatim the entries by which *X* should record these transactions in his books.

2. (*a*) Explain carefully the nature and construction of an "Adjustment Account."

(*b*) What is meant by "sectional-balancing"?

3. The Birget Engineering Co., Ltd., purchased certain patents from Short and Sharp, under an agreement dated 30th June, 1906, at a cost of £40,000. £1,000 of this sum was to be paid to the vendors in cash, and the balance in fully paid £10 Ord. Shares. Including the shares allotted as fully paid to the vendors, the Company issued Capital to the extent of £75,000 consisting of £50,000 in Ord. Shares of £10 each (£1 on application, £4 on allotment, and £5 at the end of three months), and £25,000 in 5 per cent. Pref. Shares of £5 each (£1 on application, £2 on allotment, and £2 at the end of three months). Under the agreement with Short and Sharp, the patents passed to the Company on 9th July, 1906, which date was also the date of allotment. All the shares issued to the public were fully subscribed and duly paid for with the exception of £200 calls in arrear on the Pref. Shares. All cash was paid direct to the Company's Bankers. Make the entries in the books of the Company to give effect to the above, and show how they would apper in the Company's first B/S.

4. *A*, *B*, *C* are partners in a business dividing profits equally. Their Balance Sheet at December 31st, 1912, is as follows:—

	£		£
Sundry Creditors	3,800	Sundry Debtors	9,700
Bills Payable	900	Stock	2,400
Capital Accounts :—		Furniture	380
A	6,000	Cash at Bank	620
B	3,000	*C* Drawing Account	3,000
C	1,000		
Drawing Accounts.			
A	700		
B	700		
TOTAL	16,100	TOTAL	16,100

C is insolvent and unable to contribute anything; the partnership is consequently dissolved, and the Sundry Debtors, Stock, and Furniture realise £10,380. Draw up a Final Balance Sheet showing the position of each partner's Capital Account. There is no agreement between the parties.

5. The London and Westminster Grocery Co., Ltd., has a retail branch in Manchester, which is supplied with all goods from London. The branch shop keeps its own sales ledger, receives cash against ledger accounts, and remits the whole of the cash received daily to the Head Office. All wages and branch expenses are drawn for by cheque weekly from the Head Office upon the imprest system. From the undermentioned particulars supplied by the branch manager show how the branch accounts would appear in the Head Office books and prepare a Profit and Loss Account for the branch shop for the six months to 31st December, 1907:—

	£
Six months' Credit Sales	2,387
Returns inwards	20
Cash received on Ledger Accounts	2,384
Cash Sales...	1,214
Stock, 1st July, 1907	720
Stock, 31st December, 1907	1,121
Debtors, 1st July, 1907	1,227
Goods received from Head Office	2,178
Rents, Taxes, etc., paid...	375
Wages and Sundry Expenses paid	396

6. A filed his petition on 31st December, and his Statement of Affairs was composed of the following figures:—

	£
Creditors unsecured	75,000
,, partly secured by lien on Stock	40,000
,, fully secured by lien on Shares	100
Liability on Bills Receivable (estimated to rank, £3,500)...	7,000
Mortgage on Mill	10,000
Creditors payable in full	3,000
Book Debts, Good	20,000
Book Debts, Doubtful and Bad (estimated to produce £2,000)	10,000
Consignments, good	5,000
Stock (estimated to realise £40,000)	60,000
Shares (cost and estimated to realise)	16,000

	Rs.
Cash at Bankers	100
Bills of Exchange	1,400
Mill of the value of	11,000
Machinery (estimated to realise £12,000)	15,000
Fixtures (estimated to realise £1,500).	3,000
Cottages (estimated to realise £3,000)	3,500

On 1st January, six years ago, he had a capital of £50,000. Profits were made in the six years of £20·500, after allowing Interest on Capital £10,000, and withdrawals amounted to £63,600.

Prepare the Statement of Affairs and Deficiency Account.

7. The following is the Trial Balance of X Railway Company after the completion of the Revenue Account for the half year ended 31st December 1898 :

	£	£
3½ per cent. Preference Stock		3,00,000
Ordinary Stock		5,00,000
4 per cent, Debenture Stock		2,00,000
Lines open for Traffic	8,51,950	
Lines in course of construction	5,000	
Lines not commenced	50	
Working Stock (Engines, Carriages, etc.) ...	1,30,000	
Contributions to Joint Lines	50,000	
Premiums on Stocks, etc,, sold		25,000
Purchase of Grand Canal	5,000	
Cash at Bank	5,000	
General Stores. Stocks on hand	10,000	
Traffic Accounts due to company	10,000	
Due from other companies	1,000	
Sundry Outstanding Accounts	4,000	
Debts due to other companies		500
Sundry Tradesmen, etc.		20,000
Fire Insurance Fund		1,500
Superannuation Fund		5,000
Balance to Credit of Net Revenue A/c. ...		20,000
Total ...	10,72,000	10,72,000

During the half-year there was an issue of £10,000 3½ per cent. Preference Stock at par, which was fully subscribed and paid up, also of £20,000 Ordinary Stock fully subscribed and paid up at a premium of 5 per cent.

The expenditure on lines open for traffic £25,000, on lines in course of construction £1,000, and on working stock £5,000.

Make out Capital Account and Balance Sheet in proper form.

THE CHARTERED INSURANCE INSTITUTE.

Examination for Associateship, 1928.

MARINE BRANCH.

Part II, Subject E.—Accounts and Investments.

1. The X Marine Insurance Co., Ltd., keeps its accounts on the "Two-year" underwriting basis. From the following information prepare the annual accounts as at 31st December, 1926:—

	£
Issued Capital, 1,75,000 shares of £3 each, £1 paid up	175,000
Investments, Freehold Property, etc.	854,762
Reserve Fund	200,000
Balance of Profit and Loss Account (1-1-26) ...	254,000
Net Premiums, 1926 Underwriting	441,600
Net Losses, etc., paid 1925	138,250
,, ,, 1926	213,750
Balance of 1925 Underwriting Account	193,500
Underwriting Suspense Account	98,000
Dividends and Interest on Investments, Loans, etc., *less* Income Tax	35,150
Dominion and Foreign Taxes	2,725
Transfer Fees	5
Sundry Creditors	168,450
Bills Receivable	2,950
Dividend paid 30th June, 1926	35,000
General Expenses	32,400
Stamps in hand...	420
Interest to date not received	12,460
Bills Payable	1,175
Cash at Bankers	85,100
Cash in Hand	450
Sundry Debtors	188,613

Before preparing the Accounts the following transfers are required:—

£45,000 to Underwriting Suspense Account.

£ 5,000 to Special Reserve for Taxes.

2. Two systems of book-keeping are employed by Lloyd's Underwriters. Briefly describe them, and state which you consider to be the better method, giving your reasons.

3. On 1st January, 1925, The Blank Marine Insurance Co., Ltd., was formed with a Nominal Capital of £500,000, consisting of 100,000 Ordinary Shares of £5 each. The shares were offered to the public for subscription, as follows :—

10s. per share on Application.
£1 ,, Allotment.
£1 ,, 1st March (1st Call).

80,000 shares were applied for and allotted.

All amounts due were received by the Company before the 31st March, with the exception of the amounts due on allotment and 1st Call, on 500 shares which were subsequently forfeited in accordance with the Articles of Association. You are required to submit the Journal and Cash Book entries necessary to record the transanctions, and show how the Capital should appear in the Balance Sheet.

4. Define the following :—

Underwriting Suspense Account
Naked Debentures
Transfer Fees.
Reserve Liability.
Mortgage Debentures.

5. What is a Revenue Account ? Using pro forma figures, draw up the Marine Account of a "composite Company," as required by the Assurance Companies Act, 1909.

6. Briefly explain the alternative system of presenting Marine Insurance accounts.

7. An Insurance Company purchased £25,000 Railway 5½ per cent. Debenture Bonds at 94 on 1st March, 1925. On the 28th May, 1926, the company hold £12,000 Bonds at 93 (Ex. Div.). The Interest is payable on the 1st June and 1st December in each year. Show how the Investment Account would appear in the Company's books as at 31st December, 1926. (Ignore Income Tax).

8. What is meant by a Dividend " Free of Tax" ?

A Company with an Issued Capital of £200,000 declared a Dividend of 7½% for the year ended 30th June, 1927. Submit the Journal entries necessary to record the transaction if the dividend is declared to be payable (*a*) Less Income Tax, (*b*) Free of Tax.

9. Calculate the cost (excluding brokerage and stamps) and the flat yield per cent. of the following investments :—

£75,000 4% Funding Loan at 89¾.

£7,000 Liverpool 3½% Stock at 60¼.

£65,000 5% War Loan. 1929-47, at 99⅜.

£105,000 5% National War Bonds at 104¼.

10. Rule up a Premium Journal suitable for a Marine Insurance Company and insert examples of risks written.

FIRE BRANCH.

Part II, Subject A.

ACCOUNTS AND INVESTMENTS.

1. Point out in what respect the following items are incompletely or incorrectly set out, having regard to the provisions of the Assurance Companies Act, 1909 :—

Balance at end of year, being reserve......£

(Revenue Account)

Claims outstanding :—

Life ...... £

Fire ...... £_________________£

(Balance Sheet)

Deposit with the High Court.................................£ 20,000

(Balance Sheet)

2. Draw up a statement setting out instructions for the guidance of a Resident Inspector with a limited staff in a provincial town from which is controlled a large Country district, with regard to the collection and banking premiums, the records to be kept for Accounting purposes, and the returns to be made to the Head Office Accounts Department.

3. In closing the accounts of an Insurance Company for the year ending the 31st December 1927, state how you would deal with the following matters in order to give effect to them in the books and the published accounts, and illustrate your reply with an suitable Journal entry in each case :—

Unpaid account of a firm ot Brokers who have filed their petition in Bankruptcy the dividend expected being 5s. in the £.

Interest on Investments for the half-year ending 31st March 1928, and not payable till that date, £2,275.

Unpaid Calls of 5s. per share due on 12,500 shares,

4. A Life Company decides to carry on Fire and Employers' Liability business. What further deposits, if any, will it be necessary for the Company to make with the High Court?

5. What is the rule given in the Sixth Schedule to the Assurance Companies Act, 1909, for valuing a current fire of Personal Accident Policy.

6. Construct a Balance Sheet (using your own figures) in the form prescribed by the Assurance Companies Act, 1909, and append thereto appropriate Certificates as required by law.

7. What date is prescribed by the Assurance Companies Act, 1909, by which the accounts of a Company must be deposited with the Board of Trade, and in what circumstances may an extension of time be granted?

8. What are Bills Payable and Bills Receivable? Give a specimen of a Bill drawn by a Company and of a Bill accepted by a Company.

9. State which one of the undermentioned Investments would, in your opinion, be the most suitable to form part of the reserves held by a Fire and Accident Insurance Company, and give reasons for your answers:—

Freehold Property in the City of London yeilding 6½ per cent.
5 per cent. British Government War Stock, 1929–47.
Ten-year Loan secured on Rates of a Provincial town yeilding 6 per cent.

10. (*a*) Convert 50619·24 dollars into sterling at 4·77 to the £.

(*b*) Assuming the rate to be 4·86, what would be the difference in the amount of sterling?

THE INCORPORATED SECRETARIES ASSOCIATION.

Intermediate Examination—1928.

(New Syllabus.)

BOOK-KEEPING AND ACCOUNTS.

1. You are acting as Secretary to a Mining Company who have taken over a mine on a long lease on the following terms:

The Landlord is to receive a Royalty of 1/- per ton on all mineral extracted from the mine with a minimum amount of £800 p.a., short-working to be recouped.

The total mineral raised during the first three years is as follows:

1st year	T.	10,000
2nd year	T.	17,000
3rd year	T.	27,000

Show the Ledger Accounts necessary to record these transactions, balanced at the end of each year.

2. Explain the following terms: Demurrage; *inter alia*; garnishee; and the "average clause" in connection with fire insurance.

3. A company issues 100,000 £1 Shares of which the public subscribe for 80,000 on the following terms:

5/- payable on Application.
5/- " " Allotment.
7/6 on 1st September.
Balance on 1st November.

The allotment took place on 1st July and all money was paid when due except the final call on 500 shares; these shares were forfeited on 10th December and re-issued at 15/- fully paid on that date.

Show the necessary Journal Entries and the Postings to Ledger Accounts to record these transactions.

4. Indicate what in your opinion are the best methods for raising reserves in the following cases:

(*a*) For possible bad debts.
(*b*) For depreciation of machinery.
(*c*) For a short lease recently acquired.

*5. A and B are equal partners. A is married and has one child aged five; B is a bachelor. Their Profit and Loss Account for last year is as follows:

		£		£
Rent		300	Gross Profit	3,000
Salaries of Staff		500		
General Expenses		100		
Bad Debts Reserve		150		
Depreciation of Plant ...		130		
Written off Goodwill ...		40		
Interest on Capital:—				
A	70			
B	30			
	—	100		
Balance		1,680		
		£3,000		£3,000

The Inspector allows for Wear and Tear £100.

Assuming that the Partners have no other income, show their liability for income tax on the above figures for the current fiscal year.

6. Enumerate the Statutory Books of a Joint Stock Company, giving a suitable ruling for one of them.

7. The Portland Trading Co. Ltd. is registered with a Nominal Capital of £15,000 divided into 5,000 10% Preference Shares of £1 each and 10,000 Ordinary Shares af £1 each.

From the following Trial Balance extracted from the books as at 31st December 19—, prepare Trading and Profit and Loss Account for the year ended on that date and Balance Sheet as at that date :

	£	£
Preference Share Capital a/c		3,000
Ordinary Share Capital a/c		6,200
Calls unpaid on Ordinary Shares	200	
Debtors and Creditors	3,870	77
General Reserve a/c		1,000
Interest on Investments		250
Returns Inwards and Outwards	410	870
Profit and Loss a/c Balance at 1st Jan. 19— ...		231
Goodwill	5,000	
Interest on Debentures	600	
Purchases and Sales	60,000	80,910
Carriage Outwards	220	
Opening Stock	8,700	
Interim Dividend on Preference Shares	180	
Interim Dividend on paid up Ordinary Shares ...	600	
Bad Debts written off	270	
Carriage Inwards	740	
Rent	1,350	
Inland Revenue (amount owing)		226
10% Debentures		6,000
Rates	1,410	
Investments @ 5%	5,000	
Electric Light	52	
Advertising	1,337	
Telephone	48	
Directors' Fees	2,315	
Office Furniture	360	
Insurance	102	

	£	£
Salaries	3,390	
Audit Fee	105	
General Expenses	253	
Reserve for Bad Debts		227
Preliminary Expenses	200	
Cash at Bank...	2,119	
Cash in Hand...	10	
	£98,991	£98,991

Before preparing the final accounts the following adjustments are necessary:

(*a*) The Christmas Quarter's Rent is owing—only three paid and charged in the accounts.

(*b*) Insurance unexpired £31

(*c*) Rates unexpired £160

(*d*) Write off Preliminary Expenses £100

(*e*) Bring the Reserve for Bad Debts up to 10% on Sundry Debtors.

(*f*) Depreciate Office Furniture by £32

(*g*) Charge 8% as Commission to Sales Manager on Net Profit, *after charging his commission.*

The Closing Stock has been valued at £4,320.

8. As a supplement to your answer to the previous question:

(*a*) State the percentage of Gross Profit on Sales.

(*b*) State the percentage of Net Profit on Sales.

(*c*) Prepare an Appropriation Account on the proposals of the Board :

(1) Provide for balance of dividend on Preference Shares.

(2) Provide for an additional 20% dividend on Ordinary paid-up Share Capital.

(3) Add to General Reserve Account £2,000.

(4) Carry forward balance.

**N.B.—Overseas Candidates can take the following question in the place of No. 5.*

9. When incorporating the accounts of a Foreign Branch with those of the Head Office, what rules should be observed as to the Rates of Exchange to be employed when converting the foreign currency into sterling ?

ADVANCED BOOK-KEEPING AND ACCOUNTS.

1. Uprichards Limited was registered with a Capital of £200,000 in Ordinary Shares of £1 each, the whole of which were issued and fully paid up.

Owing to the lapse of certain patent rights, the Company was compelled to close down one of its departments and found that it could no longer profitably employ the whole of its paid-up Capital.

In view of these facts, the Directors decided to reduce the fully paid shares of £1 each to an equal number of fully paid shares of 15/- each, returning 5/- per share in cash to the shareholders.

Is the above proposal *intra vires*? If, in your opinion it is, submit the entries necessary to record the transaction in the books and accounts of the Company.

2. The Directors of Blanks Limited, of which you are Secretary, have decided to pay an interim dividend of 5% less tax, on the fully paid Ordinary Share Capital of the Company, which consists of 100,000 Shares of £1 each.

You are required to submit the Form of Dividend Warrant you would employ, stating clearly (in the counterpart) the form of Certificate of the amount deducted for tax as required by the inland Revenue Authorities.

In your answer assume that the dividend warrant you are to prepare is in favour of Mr. A. N. Other, the holder of 1,000 Ordinary Shares in the Company.

3. MacArthurs Limited own a number of retail tobacconist's shops throughout the United Kingdom. All goods are supplied from the central stores in London.

Briefly describe the essentials of an efficient system of accounting as between the Head Office and Branches.

State the basis upon which you would invoice the goods sent to the Branches from the Head Office, giving reasons in support of the method you recommend.

4. A Limited Company, of which you are Secretary, issued 300 6 per cent. Debentures of £100 each at 98, payable as to £30 on application, £40 on allotment and £28 on April 1st, 1928. The whole issue was subscribed and allotted as on February 1st, 1928.

You are required to submit the Journal entries and Ledger accounts necessary to record the above issue, when completed, in the books of the Company.

5. A. Pillar, a Builder and Contractor, made up his Accounts annually to December 31st. On 31st March, 1927, he sold his business to a Limited Company formed for the purpose, which took over the whole of the assets and liabilities, including the profit accrued since the date of the last Balance Sheet. The Company was registered with an Authorised Capital of £50,000, divided into 20,000 7 per cent. Preference Shares, 27,000 Ordinary shares and 3,000 Deferred Shares,, all of £1 each. At the date of sale Pillar's Capital Account stood at £25,000 and the balance of his Current Account had been withdrawn. The consideration for the sale was £28,000 and was satisfied by the issue of 25,000 Ordinary Shares and all the Deferred Shares.

To provide money for the expansion of the business 10,000 of the Preference Shares were issued at par in May 1927, the final instalment of 7/6d. per share being due on July 1st. All the instalments were duly paid except the final call of 7/6d. on 120 shares, and this remaining unpaid the shares in question were forfeited in December 1927 and re-issued as fully paid at the price of 17/- per share, which was duly received.

The Preference Shares ranked for dividend on their full nominal amount as from 1st June 1927, and six months dividend thereon was paid on 1st December 1927, together with a dividend of 3% on the Ordinary Shares.

In addition to the balances arising from the above transactions the following were extracted from the books as on 31st December, 1927:

	£
Preliminary Expenses	735
Receipts from Contracts	30,529
Stores and Materials 31/12/1926	3,272
Unfinished Contracts 31/12/1926	12,335
Purchases	18,307
Tools (Stock 31/12/1926 and Purchases)	430
Rent and Rates	450
Lighting and Heating	73
Workshop Expenses	224
Plant and Machinery .... (31/12/1926)	3,500

	£
Ditto (Additions 30/6/1927)	700
Wages (Workshop and Constructional)	9,876
Salaries and Wages (Office and Supervision)	1,427
Directors' Fees	375
Apprentices' Premiums (Credit)	360
Cash at Bank and in Hand	4,174
Sundry Creditors	764
Sundry Debtors	7,552
Motor Lorries (31/12/1926)	1,300
Advertising	123
Office Expenses...	339
Running Expenses of Lorries...	418

You are required to prepare a Trading and Profit and Loss Account for the year ended 31st December 1927, and a Balance Sheet as on that date.

In preparing these Accounts the following information and instructions are to be taken into account:

(*a*) The work done on Unfinished Contracts on 31st December 1927, was valued at £21,860, and the sum of £30,529 "Receipts from Contracts" includes £4,600 payments on account of these Unfinished Contracts.

(*b*) Stores and Materials in Hand on 31st December 1927 were valued at £4,193 and Tools at £319.

(*c*) The following amounts were accrued and unpaid as on 31st December 1927:

Wages (Constructional)	£42
Heating and Lighting...	£37

(*d*) Rent and Rates, and Heating and Lighting are to be apportioned as to 9/10ths to the Workshop and 1/10th to the Office.

(*e*) One-third of the Preliminary Expenses is to be written off, and two-thirds of the Apprentices' Fees carried forward.

(*f*) The Salaries paid include 3 months' salary drawn by Pillar at the rate of £500 per annum. After the formation of the Company he drew Director's Fees at the same rate in place of this salary.

(*g*) Machinery and Plant is to be depreciated at the rate of 10% per annum and the Motor Lorries at 20%.

(*h*) Deal with the profits earned prior to incorporation as you consider best.

(*i*) Ignore Income Tax.

INCOME TAX LAW AND PRACTICE.

1. John Jones carries on business as a retailer and for the year ended 31st December 1926 his profits amounted to £460 after charging the following salaries: £500 to himself, £150 to his wife, and £100 to each of two sons. He is also a Director of a Limited Company, drawing £150 per annum in fees.

In addition to the two sons serving in the shop, Jones has two other children, aged 8 and 10. He keeps his widowed mother, who has an independent income of £30 a year. He has a life assurance policy, taken out in 1913, for £10,000, the annual premium being £265. Neither Jones nor his wife has any income, other than that set out above.

You are required to calculate the Income Tax payable by Jones for the year 1927/28.

2. Explain shortly the provisions of the Income Tax Acts as to the allowances made to a manufacturing business for—

(*a*) Wear and Tear, and

(*b*) Obsolescence.

3. Describe shortly the functions, powers, and duties of the following, in regard to the administration of Income Tax and Super Tax:

(*a*) Inspector of Taxes.
(*b*) Assessor of Taxes.
(*c*) District Commissioners.
(*d*) Special Commissioners.

4. A. Brown is a sole trader, with no source of income outside his business. He prepares Accounts annually on 31st March, and the following are his trading results, after adjustment in accordance with the Income Tax Acts:

Year to 31st March, 1924	Profit	£1,000
,, ,, ,, ,, 1925	Profit	£2,200
,, ,, ,, ,, 1926	Profit	£400
,, ,, ,, ,, 1927	Loss	£1,500
,, ,, ,, f. 1928	Profit	£780

For the Income Tax year 1926/27, Brown was assessed on the three years average basis, but on the loss for 1926/27 being ascertained, he made a claim for repayment under the provisions of the Finance Act 1918, Section 34.

Brown being assumed to be a married man but having no children and not being entitled to any allowances in respect of dependent relatives, Life Assurance, etc., you are required to calculate :

(*a*) The amount of Income Tax payable under the original assessment for 1926/27.

(*b*) The amount of tax repayable consequent on his claim under Section 34 for the same year.

(c) The amounts of the assessments and the tax payable for the years 1927/28 and 1928/29 (assuming no change in the law or rate of tax for 1928/29).

5. X is a resident in Great Britain and Y is not, and X and Y both have income arising partly in Great Britain and partly abroad.

On what part of their income is each respectively liable to British Income Tax ?

Assuming Y to have visited Great Britain during the year of assessment what conditions must he satisfy in order to be regarded as a non-resident ?

——:o:——

APPENDIX C.

EXAMINATION QUESTIONS.

GENERAL.

1. What is the object of Book-keeping. (L. C. I.)

2. What do you understand by the word "Journal"? Although journalising is not generally practised in England, in what cases would you introduce a Journal? What advantages to a beginner does the Journal present? (In. Acctts.)

3. Distinguish between Real, Personal and Nominal Accounts? Give one example (each) of a transaction affecting (*a*) only Real Accounts, (*b*) only Personal Accounts, (*c*) only Nominal Accounts; (*d*) all three classes of Accounts. (Inst. of Secretaries.)

4. Give examples of errors which may occur in the books of account that the T/B will not reveal. (M. C. U.)

5. What books are off-shoots of the Journal? Give a list thereof. (Inst. of Bankers.)

6. If, on taking out a Trial Balance from books kept on double entry, the total debits and credits do not agree, state some of the means you would adopt to discover the discrepancy or discrepancies which might arise either from errors of commission or of omission in the books of the firm. (Inst. of B.)

7. What is a Trial Balance? Can a Trial Balance itself ever have a balance? If so what does it mean. (Inst. of Secretaries.)

8. Put the following entries into subsidiary books, and assume that the trader pays all his Cash receipts intact into the Bank, and pays everything (excepting Petty Cash payments) by Cheque. Post to Ledger and draw out Trial Balance.

July 2 Sold Peter Jones 12 pieces of Tapestry Carpet, 240 yds. at 1s. 9d., less 2½% Cash in 7 days.

" " Cash received, Ready Money Sales, £40 10s.

" " Paid William Smith Cheque No. 40, £54; Discount 54s.

" 3 Cash received, Ready Money Sales, £39 15s.

" 4 Received John Brown's Cheque, £85; Discount 90s.

July 4 Cash received, Ready Money Sales, £54.

" 5 Gave J. Smith & Co. my Acceptance at 3 months for £147 10s., dated 1st inst., balance of account.

" " Cash received, Ready Money Sales, £47.

" " Received William Dart's Acceptance at 2 months, dated 2nd inst., for £126 4s., balance of his account.

" " Cash received, Ready Money Sales, £40.

" 7 Bought of Jones, Wallace & Co., 20 bales Fancy, at £25 per bale Cash less 3%.

" " Cash received, Ready Money Sales, £25 6s.

" 9 " " of Peter Jones, £20 9s. 6d.

" " " " Ready Money Sales, £14 10s.

" " Gave Jones, Wallace & Co. Cheque £485, No. 41; Discount £15.

" 10 Sold F. Humble 20 pieces Fancy at £35 per piece, Cash 1st September, less 2½%.

" " Salaries and Wages, Pay Sheet to 9th inst., Cheque No. 2, £12 10s. 6d.

" " Cash received, Ready Money Sales, £25. (London Chamber of Commerce.)

9. Andrew Clark, Warehouseman, Lecester, not being satisfied with the result of his Trading, cleared off all his Trade Liabilities at the close of the year; and on 31st December he had his Stock carefully taken, and a valuation by an expert made of his Real Estate, and then called in Mr. Jones, a chartered accountant, to open up for him a new set of Books. His position, at the date named, was as follows :—He had with the Lecester Old Bank, to his credit on Current Account, £225; and on Deposit Account, £2,500. He had Stock on hand to the value of £6,000, and his Freehold Warehouse was valued at £1,500. His only Liability was to James Thompson, to whom he owed £4,000.

His rule was to pay all his receipts intact into the Bank, and his outgoings by cheque. He carried on Business during the following year, and his transactions may be thus summarised :—

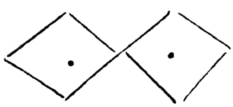
Goods bought	£12,810
Goods Sold	15,627
Cash paid for Goods purchased	10,600

	£
Cash received for Goods sold	14,250
Goods returned by Customers	248
Goods returned by Manufacturers	403
Cash transferred from Deposit to Current Account .	1,500
Cash paid James Thompson on account of Loan.. ...	2,500
Discounts allowed to Customers	230
Andrew-Clark-Payments to him as against anticipated Profits	500
Cash received for Interest on Deposit	100
Cash paid for Interest on Thompson's Loan	225
He also paid in respect of the following:—	
Wages and Trade Expenses	750
Salaries	430
Freight and Carriage	285
Repairs	80

Make the necessary subsidiary book entries, giving effect to the above transactions, post same to Ledger Accounts, and draw out Trial Balance. (London Chamber of Commerce.)

10. The following is a record of transactions in a City House:— Make the necessary entries, post same to Ledger Accounts, and draw out a Trial Balance.

			£	s.	d.
Jan.	2.	Sold Wm. Smith & Co. Goods as per Invoice a/7567. Cash 14 days less 2½%	£173	10	0



Jan.	3	Bought of Hanmer & Co. 2 Bales–net. Gave two months' acceptance due 5th March . . .	98	15	0
Jan.	4	Received Palmer & Co.'s cheque for account, £35 less 5 % discount	33	5	0
„	4	Received cash on account from Webster & Co., leaving balance £18 15s.	30	0	0
„	5	Paid London & County Bank	63	5	0
„	6	Sold William Owen Goods as per Invoice a/7568 . Cash at 7 days less 1¼%	75	0	0
„	9	Gave Peter Robinson 3 months' acceptance due 12th April, to close his account, less discount £2 3s. 4d.	82	3	4

Jan. 12	Drew cheques as follows—			
	No. 1760 Wages Account . . .	£25 15 0		
	1 Rent, Quarter Year	30 0 0		
	2 Rates and Taxes	7 15 0		
	3 Gas Account	3 6 6		
		———	66 16 6	
" 15	Received Wm. Smith & Co.'s Cheque Discount £4 6s. 9d.		169 8 8	
" 16	Received Webster & Co.'s Cheque . . .		18 15 0	
" 17	Received Wm. Owen's Cheque Discount 18s. 9d..		74 1 3	
" 18	Paid London and County Bank		261 19 6	
" 19	Advised London and County Bank to honour our Acceptance of Wm. Simpson's Draft due this day for		143 10 0	

(London Chamber of Commerce.)

11. What is the difference between a Trial Balance and a Balance Sheet. (N. U. T.)

12. What items, in your opinion, ought to appear in the Trading Account of a business concern, and what items should be debited or credited to the Profit and Loss Account? Give reasons for your answer. (In. Accountants.)

13. What do you understand by a Balance Sheet? State the method and sources of its preparations. How does it differ from a Statement of Affairs? (L. & C. I.)

14. Show how a reserve for bad and doubtful debts is created, and how it is affected by the occurrence of actual bad debts. How does it appear in the Balance Sheet? (In. Accountants.)

15. What is the difference, as ordinarily understood, between Gross Profit and Net Profit?

State some of the advantages to be derived from arriving periodically at the gross profit of a business. (Chartered Accountants).

16. Explain the difference between a Trading Account and a Profit and Loss Account, and state in which account you will place the following items giving your reasons: Purchases, Carriage and Freight, Debenture Interest, Depreciation, Allowances, Bad Debts, Wages, Commission Advertising, Sales, Stocks on hand, Returns, Discounts, Fuel, Packages, Directors' Fees. (Chartered Accountants).

17. In a manufacturing business, what classes of Salaries and Wages should be charged against the cost of Manufacture, and which against Profit and Loss. (Chartered Accountants).

18. If you found the stock of a manufacturing company much larger at the end of the year than at the beginning, and also the percentage of gross profit larger than in previous years, and on referring to a previous year's accounts (where the stock at the end was much less than at the beginning) you found the percentage of gross profit less than in other years when there was not a similar difference in the stock, what inference would you draw from the facts, and why? (Chartered Accountants).

19. From the following Trial Balance Prepare Trading and Profit and Loss Accounts and Balance Sheet of A, B on 31st March 1906, Stock £4,000.

Dr. Balances.	£	Cr. Balances.	£
Stock 1 April, 1905 . .	5,000	Sales	34,000
Purchases	25,000	Discounts	800
Salaries	4,000	Sundry Creditors . .	5,000
Sundry Debtors . . .	12,000	Bills Payable . . .	3,000
A. B. Drawings . . .	2,000	Bank	3,000
General Expenses . .	1,200	A. B. Capital Account. .	5,400
Bills Receivable . .	2,000		

(Inst. of Secretaries.)

20. Prepare Trading and Profit and Loss Accounts and Balance Sheet of a city merchant for the year ended 31st December 1907. Stock worth £5,000.

Dr. Balances.	£	Cr. Balances.	£
Stock 1st Jan. 1907 . .	4,800	Sales	16,500
Purchases	12,250	Sundry Creditors . .	5,000
Premises	9,500	Bills Payable . . .	500
Salaries	650	Capital Account . . .	11,000
Carriage and Freight . .	750		
Rent, Rates and Taxes .	500		
General Expenses . .	275		
Bad debts	75		
Bank	2,400		
Drawings	1,200		
Bills Receivable . . .	600		

(Inst. of Secretaries.)

21. From the following Trial Balance prepare Trading and Profit and Loss Account and Balance Sheet of A. B. on 31st March 1916. Stock £4,000.

Dr. Balances :—

Stock 1st April 1915	£ 5,000
Purchases	25,000
Salaries	4,000
Sundry Debtors	12,000
A. B. (Drawings)	2,000
General Expenses	1,200
Bills Receivable	2,000

Cr. Balances :—

Sales	34,000
Discounts	800
Sundry Creditors	5,000
Bills Payable	3,000
Bank	3,000
A. B. (Cap. a/c)	5,400

(Inst. of Secretaries.)

22. Prepare Trading, Profit and Loss Accounts, and Balance Sheet of John Brown, on 31st December 1906. Stock £3,300. Reserve for Bad and Doubtful Debts £375; and depreciate the Plant and Machinery £500 and Good-will £500. Transfer Net profit to drawing accounts.

Dr. Balances :—

Stock on January 1, 1906.		£3,200
Salaries		500
Cash at Bank and in hand		2,775
Debtors and B/R		8,550
Purchases during the year	£ 35,070	
Rates and Rents	201	
Miscellaneous office disbursement	257	
Debtors on open a/c.	7,600	
Wages	1,630	
Discounts allowed (Dr. Balance).	110	
Plant and Machinery	5,000	
Good-will	2,000	
Repairs and alterations	157	
Freehold Premises subject to Mortgage £4,000	6,000	
John Brown drawing a/c.	4,600	
Interest a/c.	200	

Cr. Balances :—

	£
Bills Payable	6,097
Sundry Creditors	6,053
Creditors on Mortgage a/c Freehold Premises	4,000
Sales during the year	46,700
John Brown Capital a/c	15,000

(Inst. of Bankers).

√ 23. The Trial Balance of Mark Pritchard, who trades as the Impressionist Decorating Company, was on December, 1913 as follows :—

	£	£
Freehold Premises	2,000	
Plant and Machinery	3,000	
√Works executed		15,620
Sundry Debtors	2,000	
Bills Payable		2,139
√Apprenticeship Fees		100
Stock at Jan. 1, 1913	3,600	
Wages	4,200	
Rent	375	
Bills Receivable	300	
Capital		6,876
Sundry Creditors		1,035
Works in Progress January 1, 1913	7,500	
Materials	3,945	
Rates	150	
General Expenses	600	
√Cash on account of progress		3,000
Cash at Bank	1,100	
	£ 28,770	28,770

Prepare Manufacturing and Profit and Loss Accounts for the year ended 31st December 1913 and Balance Sheet at that date. Depreciate Plant and Machinery 10 per cent. for the year ; Reserve £125 for Rent due Christmas 1913, not paid, and create a Reserve of £400 for Bad Debts. The stock at December 31st 1913, was valued at £2,202 and work in progress at £5,063. The terms of apprenticeship for 5 years from 1st January 1913 at a premium of £100 (C.A.A.)

√ 24. Prepare from the following Trial Balance and particulars, Trading, Profit and Loss Accounts, and Balance Sheet, as on 30th June 1906, of William Waller, Silver Smith, stock at 30th June 1906,

£8,350. Depreciation of Plant and Machinery 5 per cent. Provisions for loss on debts, £250, and for discount on Book Debts 2½ per cent.

Dr. Balances :—

Incident Expenses	£ 500
Withdrawals	1,650
Wages	17,540
Salaries	3,005
Travelling Expenses	1,430
Rents, Rates and Taxes	1,850
Insurances	90
Advertising	650
Commission	245
Discount and allowances	700
Bank Interest and Charges	150
Packing, etc.	350
Purchases	10,540
Plating	4,500
Sundry (Ex.) Manufacturing	3,150
Bad Debts	260
Cash	105
Debtors	20,250
Stock, 1st July, 1905	9,560
Bills Receivable	5,570
Plant, Machinery and Tools	4,250

Cr. Balances:—

Bills Payable	2,600
Rents from Sub-lettings	190
Creditors	2,300
Capital	9,910
Bank overdraft	950

Sales and Charges:—

Finished Goods	65,670
Repairs, etc.	4,325
Packages, etc.	400

(C. A. A.)

25. Prepare Profit and Loss Account and Balance Sheet of William Beaumont for the half-year ended 31st December 1902, from the T. B. below. Stocks 31st December Iron bars, £1,000 ; Tools £700 ;

Wire £400; Bricks nil; Merchandise, £160. Write off one-half of Good-will, and 10 per cent. from Fixtures and Furniture. Credit half-year's interest at 5 per cent. per annum on Loan and also on Capital. Further Reserve for Income Tax £86.

Dr. Balances.

Debtors as per Schedules	£ 6,410
Bills Receivable	450
Fixtures and Furniture	300
Good-will	700
Rich's Bank Ltd.	2,300
German's Bank	500
Cash	20
W. B. Drawing Account	530
Rents and Rates	110
Insurances	120
Travelling	650
Salaries	560
Advertising and Stationery	250
Telegrams and Stamps	190
Bank Charges	50
Discounts and Exchanges	280
Office and Incidental Expenses	210

Cr. Balances.

Creditors as per Schedule	3,900
Income Tax Reserve Account	100
Capital Account	5,000
Iron bars Account Balance	500
Tools Account Balance	1,800
Wire Account Balance	750
Bricks Account Balance	400
Merchandise (Sundries) Account Balance	180
Loan Account	1,000

(C. A.)

26. Is the Profit and Loss Account, as set out below, properly drawn up? If not, submit the account as you would present it,

2

Profit and Loss Account (December 31st 19...).

	£		£	£
To Salaries . . .	820	By Stock . .	18,200	
,, Depreciation . . .	1,401	,, Less January 1st	17,400	800
,, Purchases . . .	42,600			
,, Returns . . .	362			
,, Discounts . . .	421	,, Interest on Investments	3,400	
,, Dividend paid . .	3,842			
,, Directors' Fees . .	1,000	,, Less loss on sale of Investment	900	
,, Trade Expenses . .	1,200			
,, Dividend (5 % for year).	6,200			2,500
,, Manufacturing Wages .	3,280	,, Balance from last year's account .		4,321
,, Transfer to Reserve Account	4,000			
,, Balance carried to Balance Sheet . .	2,876	,, Sales .		59,940
		,, Error in Books		120
		,, Unclaimed Dividends . .		321
	£ 68,002			£ 68,002

(Royal Society of Arts.)

Bills of Exchange.

27. Describe a Bill of Exchange. How and when is a bill noted and with what object ?—(R. S. of Arts. Accounting and Banking),

28. Give a form of "Bills Payable Book" as also of "Bills Receivable Book," entering into each full particulars of two Bills.—(Inst. of Bankers).

29. Robinson, on 31st August, 1907, buys from Tuck & Co., 160 tons coal at 7/6 a ton at the pit mouth, and pays for them at once by cheque, being allowed a discount for cash of 2½ %. He pays 1/3 a ton for carriage by rail and 9d. a ton for cartage. He sells the coal to Sheffield Manufacturing Co. at 12/6 a ton on 14th September, and draws a bill, at two months, for the amount. The bill is dishonoured at maturity, but is immediately paid by the Manufacturing Co. upon demand being made to them. Draw the bill of Exchange and make the entries necessary to record the above transactions in Robinson's books, and show what profit or loss Robinson made upon the deal after charging 10% on the original cost of the coal for establishment expenses.—(L. C. C.)

30. On 1st January, 1907, A owes B £6,000 for which B receives two acceptances from A, one for £2,000 payable in two months, the other for £4,000 payable in four months, in each case from 1st January 1907. B duty discounts both these acceptances with his bankers on

3rd January, 1907, at 4%. Before the first bill becomes due A requests B to assist him in taking it up by providing him with £1,000 in cash, and drawing a third bill on A for that amount at three months from the due date of the first bill plus interest at 5% per annum; B agrees to this proposal and advances the money, discounting the bill with his bankers at 4%. A week before the second bill for £4,000 falls due, A again asks B to assist him to the extent of £2,500. B, however, is not in a position to do this, as his bankers will not discount any more of A's acceptances, he arranges with A to draw on him (B) two bills for £1,131-16-8 and £1,408-3-4 at two months and three months respectively from the due date of £4,000 bill. B duly accepts these two bills and remits them to A, who discounts them with his Bankers at 4% and assisted by the proceeds, duly meets the £4,000 bill. B also meets his two bills on maturity. On the 7th June 1907, A becomes bankrupt leaving his third bill unpaid. Make the entries in B's books.—(L. C. C.)

√ 31. Jones, for the mutual and temporary accommodation of himself and Brown, draws upon the latter a bill of exchange at three months for £600, dated 1st January 1908. John discounts this bill immediately at his bankers, the rate of discount being 5%, and hands half the proceeds to Brown. Brown, for a similar purpose, and at the same time, draws a bill at three months on Jones for £300. This he discounts at his bankers at 5% and hands half the proceeds to Jones. Brown becomes a bankrupt on 31st March 1908, and a first and final dividend of 5/- in the £ is paid on his estate on 30th June 1908. Write up Brown's A/c in Jone's Books. Assume, in each case, that one-half of the charge for discounting the bill is chargeable to Brown and one-half to Jones.—(L. C. C.)

√ 32. Peter Smith sold on 1st February last to John Swift a parcel of Goods to the value of £580 net; the terms of payment were originally cash in a month, but subsequently these terms were altered, Swift arranging to pay £130 in cash on the Goods being delivered, and as to the balance to accept Smith's draft at two months for £250, and at four months for £200. Swift also agreeing to pay in cash Discount at 4%, with 1% Commission on the two Bills. This agreement was carried out; the £130 with the Discount and Commission Swift paid, and the two drafts as accepted by him, handed over to Smith.

Make the necessary Journal and Cash Book entries recording this transaction, and post to Ledger Accounts.—(London Chamber of Commerce).

33. Messrs. Dodger & Co., Colliery Proprietors, Burnley, sold to Messrs. Ibbetson & Co., of London, in wagons at Burnley, 120 tons of best House Coal at 8s. 9d. per ton, with a charge of 9d. per ton for wagon hire. The terms were cash, but Ibbetson, not finding it convenient to pay cash down, agreed to accept Dodger's draft at 3 months, dated 1st March, for the amount of invoice, plus 2% commission and 5% discount. The draft was duly accepted; but before its maturity, Ibbetson, not having sold the coal, arranged to have the draft withdrawn, to pay in cash £20 on the 1st June, and to accept a draft at 2 months for the balance, plus commission and discount at the rate charged on the former draft. This was duly carried out, the £20 was paid, and the fresh draft met at its maturity on the 4th August.

Prepare the Day Book, Journal and Cash Book entries, giving effect to the transaction, and post to a Ledger Account as representing Messrs. Dodger & Co.—(London Chamber of Commerce).

Consignments.

34. What is the difference between :—

(*a*) Consignment, (*b*) Joint adventure. How would you deal with the consignments not completed at the date of balancing ?—(N. U. T.)

35. How should you treat a partly sold consignment in a B/S ?

36. How should you deal with Consignments? (*a*) In the books of the Consignor? (*b*) In the books of the Consignee?—(L. C. I.)

37. Richard Random and Sons shipped goods to Paul Gold, their agent at Capetown on 1st September, and sent therewith a *pro forma* invoice for £578 (goods £500, freight £60, and insurance £18). On 28th October, Paul Gold sent home an Account Sales, from which it appeared that a portion of the goods had realised £463; and, deducting expenses £10 and commission £25, he enclosed a draft at three months for the balance. The stock remaining unsold amounted at invoice prices plus expenses, to £280. On 2nd November, he sent home another Account Sales, which showed that the balance of the consignment had realised £320; which, less £8 expenses and £10 commission, he remitted by a three months' draft.

Show how the above transactions should appear in the books of Richard Random and Sons.—(Royal Society of Arts.)

38. What is an "Account Sales?" In what particulars (if any) does it differ from a "Consignment Account?"

On 15th October Delmaine Bros., London, shipped to Donnison and Sons, Port Elizabeth, 60 cases of mixed Sheffield goods. These goods were invoiced *pro forma* at £32 10s. per case.

The London payments in connection with this consignment were:—Insurance, £10 12s.; freight, £54 12s.; sundry charges, £3 15s.

The payments made by Donnison & Sons, in South Africa, were:—Storage, £16 12s.; Landing Charges, £6 10s.; Insurance, £2 11s.

On 15th December Donnison & Sons, sold 30 cases of goods at £45 per case; on 17th December 25 cases at £50 per case; and on 19th December the balance of the consignment at £51 per case. All the above sales were effected for prompt cash. A commission is payable to Donnison & Sons at 2% on all sales plus 1½% *del credere* commission.

On 1st November Delmaine Brothers drew a Bill on Donnison and Sons for £1,000. This draft was duly accepted.

Prepare an "Account Sales" showing the result of the above consignment, and show how the transactions would appear in the books of Delmaine Brothers.—(London Chamber of Commerce.)

✓39. J. Moss & Co., London, consign goods to the cost amount of £1,500 to their agent, J. Solomon, Hongkong, on which they pay freight, insurance, and charges £55, drawing on him at 90 days for £1,300. They discount the bill at Lloyds Bank, being charged £15 therefor. They receive Account Sales of the consignment for £1,729, less Agent's Commission, etc., £71, and a draft on the Bank of Hongkong for the balance.

Record the above transactions in the books of J. Moss & Co.—(London Chamber of Commerce.)

✓40. Isaac Solomon of London, Wine and Spirit Exporter, shipped to Davis & Co., of Bombay, 320 cases of Brandy at 23s. 6d. per case, f. o. b. He disbursed by way of Insurance £4 17s. 6d., and £8 15s. for Freight, forwarding by mail, in due course, Invoice amounting to £389 12s. 6d.

The goods were sold at an average price of 18¾ Rupees per case. The charges were in respect of Commission ⅝ths Rupee per case, 32 Rupees for delivery, rent, etc., and 8 Rupees for postage, etc. Davis and Co. sent forward Account Sales with a draft at sight (sterling) on London, taking the Rupee at 1s. 6½d. Make out the Account Sales, and show how the respective entries would appear in Solomon's Books.—(London Chamber of Commerce).

41. Prepare the necessary Journal Entry for the transaction below and post same to Ledger :—

Invoice of chain shipped per S. S. Falcon, London to Bombay *via* Suez Canal and consigned to Messrs. Larrissa & Co., Bombay, for sale and returns, by Messrs. Johnson, Gibbs & Co.

C	6 Short link chains, weighing 155 cwt. 2 qrs. at 12s. per cwt.		£ 93 6 0
Bombay	Charges.		
1/6	Freight on 7 tons 15 cwt. 2 qr. 0 lb. at 30s. and 10 % primage . . .	£ 12 16 7	
	Bill of Lading and Postages . .	0 2 6	
	Insurance on £110 at 10s. and Duty	0 11 6	
			13 10 7
E. & O. E.			£ 106 16 7

London, 1st January, 19...

(London Chamber of Commerce.)

42. Referring to the preceding question the following is a copy of the Account Sales rendered by the Consignees. Prepare the necessary Journal and Ledger entries in the books both Consignor and Consignee.

Account Sales of chains ex S. S. Falcon from London, sold by the undersigned Larrissa & Co. on account and at the risk of Messrs. Johnson, Gibbs & Co.

C	6 chains weighing 155 cwt. 2 qrs. 0 lbs. at Rs. 11 per cwt. .		Rs. 1,708 11 8
Bombay	Charges.		
1/6	Import Duty *ad valorem* Rs. 1,708 11 8 at 1% . .	17 1 4	
	Wharfage, Landing, Storing, Delivery, Rent, Fire Insurance, Commission and *del credere* at 10 % . .	170 13 11	
			187 15 3
E. & O. E.			Rs. 1,520 12 5

Bombay, 15th February.

Remitted by Demand Draft on London at exchange of 1s. 4d. £ 101 7 8

(London Chamber of Commerce.)

43. Messrs. Lux and Lucifer, Birmingham, consign on February 1st, to M. Marconi of Milano, 500 "Radiant" Electric Lamps, invoiced at 18s. each, and pay Freight £5 18s. 6d., and Insurance £2 15s. One hundred and Twenty-five Lamps are damaged and rendered worthless by storm, and M. Marconi receives £72 in settlement from Underwriters. He sells 250 Lamps for £240, and on April 4th sends Account Sales and Bankers Draft for balance due to the Consignors, after charging his Agency Expenses, £5 10s, and Commission £15 12s. Give the Accounts as they would appear in Lux and Lucifer's Ledger.—(West Riding of Yorkshire.)

44. Jan. 5. Shipped per S. S. Revenna to Hongkong, consigned to Ah Hee & Co., on equal shares with them as follows :—

Goods (Chemical)	600	13	0			
Goods (Sundries)	98	1	8			
	698	14	8			
Our Commission	17	9	4			
Insurance	7	10	0			
Freight	26	8	9			
				750	2	9

6. Drew Bill at 90 d/s for $ 5, 455.54 on Ah Hee & Co., and sold it with documents attached to Hongkong and Shanghai Bank at 2/9, received Cheque for 750 2 9

10. Paid by Cheques :—
Royal Exchange Corporation (for insurance on Revenna) 1 10 0
Peninsular and Oriental S. N. Co. (Freight on ditto) ... 26 8 9

June 4. Received from Ah Hee & Co. Account Sales of Goods per Revenna :—

Gross proceeds	$ 6,872·52
Charges	326·17
Their Commission ...	171-82

5. Draw Bill on Ah Hee & Co. for $460, our share of net proceeds of Shipment per Revenna and sold it to Hongkong and Shanghai Bank at 2s. 8⅜d., receiving Cheque... ... ... 62 15 5

Record the above in Journal and Cash Book, and show the Consignment Account in the Ledger.—(Civil Service, Second Division Clerks.)

45. On the 1st July, our one-third share of Hansard Estate in Jamaica stood indebted to us £3,175 6s. 2d. On the 2nd August our partners in Jamaica, J. and W. Shirley, advise us that they have shipped 60 casks sugar, per Minerva to Liverpool, which we have insured with the Globe Assurance Co., at £1,700 at 99s. 0d. per cent., policy 5s. 6d. per cent. £165 6s. 6d., and we charge commission £8 10s. 0d. They also advise that they have shipped 20 hogsheads sugar, per the Neptune to London, for sale, which we have also insured with the Globe Assurance Co., at £600 at £5 5s. per cent., policy, 33s. £31 3s. 0d. Our commission £3 on the 17th, we accepted J. and W. Shirley's two drafts; one for £220 14s. 0d., due October 2nd, the other £170, due October 12th, on their own account. On the 18th we pay J. Grey £173 15s. on account of the estate. On the 20th we sell sundry persons 25 hogsheads sugar, which had formerly been on hand, the net proceeds of which amount to £730 16s. 3d. On the 23rd we paid Smith £42 14s. 0d. On the 10th September we accept on Shirley's own account their draft £120, due 2nd November. On the 20th we ship goods, per Sailor Prince for account of this estate which amount, with charges commission, and insurance, to £537 6s. 2d, and on Shirley's own account goods to the amount of £440 1s. 0d. On the 25th the agents in London inform us of having sold the 20 hogsheads, and enclose Bills for the proceeds, £625 2s. 0d. Required the best method to exhibit these transactions in the plainest and most satisfactory manner.—(Lancashire and Cheshire Union.)

46. The following two statements represent a consignment of goods sent out by a London House to Bombay with the account sales of such goods as rendered by the Bombay House. You are asked to make the necessary Journal and Cash Book entries in the Books of the two Houses, and in the case of the English House to show the Net Profit upon the transactions.

London, January 1st.

Messrs. Ardkashir & Byjamji, Bombay.

In Consignment from

Faudel Phillips & Sons.

S

8 Cases various, shipped per S. S. Ballarat, 1 & 2 = 2 cases contg. (2′9″ × 3′3 × 3′6″ = 31′ 3″ each case) 500 pieces English Art needlework and Traced Goods, etc. (as per specification) 75 10 0

3 & 4 = 2 cases, each contg. 25 only (5′4″ × 3′ 0″ × 2′4″ = 37′4″ each) 50 only, Brown Cowhide Gladston Bags, with shoes and clips 20 inches, at 10½d. inch = 17/6 each .	43	15	0
5 = 1 case contg. (5′ 7″ × 3′ 1″ × 2′ 6″ = 43′ 0″) 30 only Brown Cowhide Kit Bags, 18″ at 10½d. per inch = 15/9 each . . .	23	12	6
6/8 = 3 cases each, containing 38 spdles. (2′8″ × 2′10″ × 40″ = 30′ 3″ each) 90 spdls. "Peacock Brand" Fingering Yarn, 2, 3, and 4-ply, in Black, White, Clericals, Drabs, Heathers per spdls. of 6lbs. at 20/6 . .	92	5	0
	235	3	0

8 Packing Cases, expenses and materials	£2	15	0			
„ „ cartage to Docks and Shipping	1	0	0			
Marine Insurance of £250 of 1¼%	2	10	0			
Freight prepaid at 49/- per ton of cubic feet	13	10	11			
				19	15	11
E. & O. E.				£254	18	11

Total measurements, 270ft. 11 in.

Account Sales of Goods sold by

Ardkashir and Byjamji, Bombay,

For Account of Faudel Phillips and Sons.

Newgate Street, London, E. C.

March 13th Bombay.

		ex Cases							
S	½	500 pcs. Embroidered goods, etc., realising in all (as per detail Account A/c					1,600	0	0
	¼	50 only Gladston Bags...	20	17	8	0	875	0	0
	5	30 „ Kit „ ...	18	16	0	0	480	0	0
	6	90 Spdl. Yarn "Peacock Brand	22	0	0		1,980	0	0
							4,935	0	0

Charges paid out, etc.

Landing, Haulage, Sundries	18	0	0			
Commission 5 per cent.	246	12	0			
Duty, etc., 5 per cent.	246	12	0			
Bank Brokerage 1/16 per cent.	2	12	0	514	4	0
E. & O. E.				Rs. 4,420	12	0

Draft forwarded at Rs. 1-4 £294 14 4

(London Chamber of Commerce.)

47. Jan. 4.	Received from A. Lemoine, Bordeaux, invoice of wine shipped on Joint Account (profit or loss to be divided equally)	£254 12 6
7.	The shipment of wine arrived. Paid dock charges on same	4 6 2
9.	Paid Custom House duties on shipment of wine	50 0 0
10.	Sold to J. Carey part of the shipment of wine	138 10 6
14.	Admitted J. Carey's claim for damaged goods, part of those sold him on 10th instant	4 8 6
16.	Sold remainder of shipment of wine, for Cash	237 4 6
16.	Purchased Bill on Bank of France for net proceeds, less our share of Profit. Remitted same to A. Lemoine, with account sales of the shipment.	
30.	Paid claim of the purchaser of the wine sold on 16th instant, for damaged goods	8 3 6

Enter the above in Journal and Cash Book, and show the Joint Account and Lemoine's Account in the Ledger.—(Civil Service, Second Division Clerks).

48. C and D buy on joint account 1,000 Mining Shares at 30s. plus expenses £10. C contributes one-third and D two-thirds of the price (all the monies passing through a Joint Banking Account). Six hundred shares are sold at 32s. 6d. less expenses £7 5s., and 310 shares are sold at 31s. less £5 expenses. They divided the balance of the shares at cost price, and also any Profit or Loss, in proportion to their original contributions. Prepare Accounts showing the position at the close of the venture.—(West Riding of Yorkshire.)

49. John Black and Edward Thompson agree to import Swedish timber into this country. On 1st May, they open a Banking Account under style of "Black and Thompson" for £2,400, towards which Black contributes £1,400 and Thompson £1,000, they dividing Profits or Losses *pro rata* to their cash contributions (say 7ths and 5ths respectively). They remit to their Agent in Sweden £1,800 to pay for the timber purchased out there, and, later on, a further £100 in settlement of his Account. The Freight, Insurance, and Dock charges are all paid on this side, and together amount to £400. On 31st December the various sales have realised £2,400 net which enables them to repay themselves (taking no account of Interest) the cash respectively advanced by them on 1st May. The venture is then closed by Black taking over the balance of timber unsold for £380, and for which he pays a cheque into the Banking account. How much Cash Balance does this leave for final division by way of Profit, and how is the same apportioned between Black and Thompson as their respective share of Profit thus realised on the venture?—(Institute of Bankers.)

50. Robson and Day entered into a joint speculation with the object of buying at sales any cheap rolling stock or machinery and re-selling same. Purchases, sales receipts, and disbursements are made sometimes by Robson and sometimes by Day. They had no joint banking account, but each party worked the transactions through his own business. It was agreed that profits should be shared equally, and that interest at 5% per annum should be reckoned on all cash received and paid. The following were the transactions:—

Jan.	5	Robson bought locomotive for £320.
	15	Robson paid carriage on same £15.
Mar.	18	Day paid storage for same £1 10s. 6d.
	21	Day paid insurance 12s. 6d.
June	4	Day paid repairs £12 8s. 6.
	28	Day sold locomotive for £710.
July	4	Day bought 520 tons rails at £3 5s. per ton.
	27	Robson paid landing and transit charges £30.
Aug.	28	Robson paid storage £3 10s. 6d.
Sept.	3	Day sold rails at £3 10s. per ton.
	8	Robson bought 2 cranes at £55 each.
	15	Robson sold cranes for £125.

Raise accounts for the Joint Venture, and for both parties, and show how matters stand on 30th September.

51. T. Tohm of Norway and F. Friedley of England engaged in a joint speculation in timber. On 15th Jan. Tohm contributed £450 and Friedley £550, which amounts were paid into a joint banking account. The following were the transactions :—

Jan.	23	Bought cargo from A. Russphy, £724, less 5% discount, and accepted his draft at 3 m/d for the net amount.
	28	Paid expenses of loading, £36 15s. 6d.
	31	Paid freight to London, £123 14s. 5d.
Feb.	21	Sold Greener & Co. logs £179 12s. 3d., and received cash less 2½% discount.
	26	Bought from A. Helfsky, for cash, cargo of timber, net £1,027.
Mar.	25	Paid shipping charges and freight, £225 10s. 11d.
	27	Sold F. Turner deals, net, £420, and received his acceptance at 2 m/d.
April	15	Sold L. Loti timber bought from A. Russphy, £1,472 10s. 6d., and received his acceptance at 1 m/d.

The speculation was closed, and the stock of timber valued at £356 taken over by Friedley at the agreed figure of £358 less 10%. Adjust the accounts between the partners as at 31st May, allowing interest on capital at the rate of 5% per annum, and dividing profits or losses in proportion to capitals.

52. Brown, Jones and Robinson operate in a tripartite account in pig-iron, and purchase 10,000 tons at 48 shillings per ton, say, £ 24,000 and for which they contribute as follows :—

Brown finds Cash for		£7,450
Jones gives his acceptance at 3 mos. for ...	£8,000	
The discount on which is ... ... ,,	100	
		7,900
And Robinson the balance in cash ...		£8,650

Interest is credited to each adventurer at the rate of 5% per annum from date the money is found until final settlement, the Net Profit or Loss (after payment of the above interest) being allocated among them *pro-rata*, to the amount of Capital each of them originally brings in. The pig-iron is held for six months, and then only realises £21,500, the venture resulting in a loss of £2,500. Divide up this loss among the three, first crediting each adventurer with the interest due to him under the above arrangement and carry out the above conditions.

53. Brown and Robinson, Film Hirers, enter into an agreement with the Albion Cinema Company, Ltd., to take charge of the Company's Picture House and be entirely responsible for the management of the place for 12 months from 1st January 1915.

The agreement provides that (1) Brown and Robinson shall bear the expense of providing the films and defray the cost of advertising, (2) The Cinema Company be allowed out of revenue a sum of £1 a week to cover the amount of depreciation of fixtures, (3) Repairs and Renewals be paid out of revenue, except that structural alterations and repairs to the freehold be charged to the Cinema Company, (4) All receipts and payments be made through a bank account in the joint names of Brown and Robinson and the Albion Cinema Company, Ltd., and bank interest be credited to revenue, (5) Profits and Losses be divided in the proportions of 75 per cent. to Brown and Robinson and 25 per cent. to the Albion Cinema Company, Ltd., and that revenue accounts be prepared at June 30th, 1915, and December 31st, 1915.

The receipts and payments were as follows :—

	June 30th, 1915.	Dec. 31st, 1915.
	£	£
Bank interest less Commission	10	6
Gate money received	1,500	1,000
Wages	250	230
Films	300	250
Advertising	50	75
Rates and Taxes	150	150
Sundry Repairs	20	25
Repairs to the freehold	...	80
General expenses	100	125

Draft accounts in accordance with the above terms, and show how much each party to the agreement receives.—(B. U.)

PARTNERSHIP.

54. State your recommendations as to the clauses of a proposed partnership deed so far as they relate to the Books and Accounts. —(Incor. Acctts.)

55. Give the "Drawings Account" of John Robertson as it would appear in the firm's Private Ledger as on 31st December, under the following conditions:—

His Capital on 1st January was £5,000.

His drawings were: 1st May, £250; 1st July, £300; 1st November, £200; 1st December, £100.

His share of profits for the year was £795.

Interest is allowed by the firm's Partnership Articles on Capital, and charged on withdrawals at the rate of 5% per annum.—(Royal Society of Arts).

56. On December 31, 19..., three partners had the following amounts at the credit of their Capital Accounts; A, £5,000; B, £3,000; C, £2,000.

On January 1, 19.., they had to the credit of their Drawing Accounts; A, £750; B, £500; C, £400.

Profits are divided in the same proportion as the capital, up to £2,000. Above that amount A gets 25%, B, 35%, and C, 40%. A drew during the year 19. . £500, B drew during the year 19 . . . £400. C drew during the year 19 . . . £300.

The profits for 19 . . . amounted to £3,000, before charging interest on capital (to which all are entitled) at 4%.

Give the Drawing Account of each partner on December 31, 19 . . . interest on drawings to be ignored.—(Chartered Accountants.)

57. A, B, and C are partners at December 31st, 1906, with Capital of £ 4,000, £2,000, and £5,000 respectively. B draws a management salary of £500 per annum, and it is provided by the partnership-deed that after providing B's management salary and 5% interest on capital, and before the division of profits, A shall be entitled to 5% and C to 10% of all profits in excess of £750 per annum. Assuming (a) that profits are divisible rateably with capital as at previous balancing; (b) that each partner draws £300 per annum in anticipation of profits, upon which no interest is to be charged; and (c) that the following are the profits for three years, you are required to prepare a Profit and Loss Distribution Account and a Capital Account with each partner. 1907, £1,750; 1908, £1,980; 1809, £2,300.—(Incorporated Accountants.)

58. X, Y, and Z are partners. Their respective Capitals in the business, as shown by their Balance Sheet on 31st December, are: X, £3,000; Y, £2,200; Z, £°00. The profit for the year amounting ot £1,600, has been credited to X, ½ share; Y and Z, ¼ each, and the books have been closed.

During the year they have withdrawn nothing beyond their salaries, which have already been charged to Profit and Loss Account. It is found on 31st March next that interest on the Partners' Capital (5% per annum), as provided by the partnership agreement has been omitted. Give the entries you would make in the books to correct the error.—(West Riding of Yorkshire.)

59. Baker, Carr, and Dunn are in partnership. Their Capital Accounts have credit balances respectively as follows: £3,000, £2,500 and £2,000. Profits and Losses are apportioned as follows: Baker seven-fifteenths, Carr one-third, and Dunn three-fifteenths. The Profit and Loss Account for the year ended December 31st, 1911, shows a credit balance of £1,100. Their drawing during the year have been: Baker £400, Carr £380, and Dunn £360. Draw up accounts, allowing interest on capital at 5 per cent, but no interest on drawings, showing the position of each partner at December 31st, 1911, and calculate the amount of Income-Tax payable by each partner, assuming that no partner has any income other than from the partnership business.—(C.A.A.)

60. E. H. B. and H. V. B. are partners, and share profits as follows: E. H. B. seven-tenths and H. V. B. three-tenths. Interest on Capital Account only is allowed at 5 per cent per annum. H. V. B. is entitled to a salary of £500 a year before the division of profits.

Prepare from the following particulars a statement showing the position of the Capital and of the Drawing Accounts of both partners as at June 30, 19. . ; January 1, 19. . . E. H. B., Capital Account. Cr. £5,000 ; January 1, 19. ., H. V. B., Capital Account, Cr. £2,000; January 1, 19.. E. H. B., Drawing Account Cr. £542 ; January 1, 19. . , H. V. B., Drawing Account Cr. £248.

On April 1st E. H. B. introduces a further £5,000 as capital.

The Profit for the period, after interest charges and salary were adjusted, was £3,300.

E. H. B. drew £1,500 on February 1st, and similar sum on March 31st. H. V. E. drew £1,200 on the latter date, and his salary each month.—(Incorporated Accountants.)

61. On December 31, three partners had the following amounts at the credit of their Capital Accounts: A, £5,000; B, £3,000; C, £2,000.

On January 1st previous, they had to the credit of their Drawing Accounts A. £750 ; B. £500 ; C. £400.

Profits are divided in the same proportion as the capital, up to £2,000. Above that Amount, A gets 25 per cent, B 35 per cent, and C 40 per cent.

A drew during the year £500; B drew during the year 19 . . , £400; C drew during the year £300.

The profits for the year amounted to £3,000, before charging interest on capital (to which all are entitled) at 4 per cent.

Give the Drawing Account of each partner on December 31, interest on drawings to be ignored.—(Chartered Accountants.)

62. A, B and C, in partnership, having capitals of £5,000, £2,000, and £1,000, agree that 5 per cent interest on capitals shall be charged to Profit and Loss Account; that each shall have a salary of £500; and that profits and losses shall be shared in proportion to capitals. The first year's trading results in a profit of £1,100, before charging interest on capital and salaries. Show how much each is entitled to draw (including amounts already drawn), so as to leave their Capital Accounts intact.—(Chartered Accountants.)

63. On January 1st, X and Y purchased the business and freehold premises of Smith and Co. for £25,000. Of this amount X found £10,000 and Y £5,000. The balance of £10,000 was left by the vendor upon mortgage of the freehold premises at 4 per cent per annum.

X was to devote only such time as he thought fit to the business, but Y was to devote the whole of his time, for which services he was to receive a salary of £300 per annum prior to the division of profits.

Each partner was to be credited with interest upon his capital at 5% per annum, and debited with the same rate of interest upon all sums drawn from the business. Profits and losses were to be divided equally.

The profits of the business for the year ended December 31st, prior to any of the above adjustments, amounted to £3,825.

During the year X drew £520 in equal amounts on January 1st, April 1st, November 1st, and December 1st.

Apart from the management salary to which he was entitled, Y drew £420 in equal amounts on April 1st, November 1st, and December 1st.

Show how the Capital Accounts of the two partners would appear in the firm's Balance Sheet at December 31st.—(Chartered Accountants.)

64. A and B, as partners, possess £10,000 and £5,000 respectively in a firm. Their gross trading profit is £3,250. By their partnership agreement they divide profits in proportion to their holding after giving B £ 500 as manager and allowing 5 per cent. interest on Capital. A's drawings were £700 and B's £100. Draw up a Profit and Loss Account and separate Partners' Account.—(Incorporated Accountants.)

65. After writing up the Trading Account of the West Riding Engineering Co., on 31st March 1897, these balances stood in the books:

Dr. Balances.	£	Cr. Balances.	
Debtors . . .	2,800	Creditors	
B/R	2,200	Bills Payable . . .	2,060
Plant, Machinery and Tools . . .	3,000	Trading and P. & L. a/c .	1,080
Office Furniture . .	100	Provision for discounts and loss on debts . . .	240
Horses and Conveyances . . .	500	Provision for outstanding Liabilities . . .	120
Bank	850	Joseph Picker's Capital .	5,000
Cash	90	William Bean's ,, .	6,800
Leasehold Premises .	2,880		
Interest . . .	60		
Stock	4,020		

Complete the Profit and Loss Account, and prepare the Balance Sheet, crediting to each partner one year's interest at 5% on his Capital, and a half share in the Net Profit.—(W. R. C. C.)

66. Prepare Trading and Profit and Loss Account and Balance Sheet of Messrs. Arthur Wilson and John Bookman, Cigarette Merchants, on 31st December 1904 dividing profits equally. Stock £12,896.

Allow interest on Partners' Capital at 5% from 1st July 1904. Write off half of Macmillan's Dishonoured Bill. Reserve 5% on Sundry Debtors.

Dr. Balances.	£	Dr. Balances.—(*contd.*)	£
Wilson's Drawings inc: interest . . .	640	Insurances, etc., (including premium of £30 per annum paid to end of March 1905) . . .	40
Bookman's do. do.	410	Cash	53
Bills Receivable . .	950	Bank	1,897
Plant & Machinery . .	2,880	Repairs & Renewals . .	337
Sundry Debtors (inc: John MacMillan for dishonoured Bill, £100). .	6,200	Interest & Discount . .	587
Wages, Manufacturing .	4,097	Bad Debts . . .	362
Returns	278	Fixtures & Fittings . .	897
		Cr. Balances.	
Purchases (inc: Government duty) . . .	25,659	A. Wilson, Cap: Account.	7,250
Rents, Rates & Taxes .	562	J. Bookman do. .	4,685
Stock	8,968	Loan Account . .	2,000
Salaries and Wages .	1,100	Sales	35,643
Travelling Expenses .	130	Commission . . .	564
Expenses of Licenses .	58	Sundry Creditors . .	5,963

(N. U. T. Advanced.)

67. Joyce, Jenkins and Jinks entered into partnership on January 1st, 1900. The capital introduced was £2,000, £1,500, and £1,000, respectively with division of profits on a basis of Joyce seven-tenths, Jenkins one-fifth, and Jinks one-tenth. Jinks was to receive a yearly salary of £ 100 payable quarterly which was duly paid. On December 31st 1900, the stock on hand was £ 2,000, and the balances in the books were as follows :—

Capital Accounts	4,500
Sales	8,000
Freehold Warehouse	1,000
Rates and Taxes	150
General Expenses	100
Salaries	200
Purchases	3,000
Sundry Debtors	7,550
Carriage	100
Drawings : Joyce	200
Jenkins	100
Jinks	100

Prepare final accounts.—(C. A. A.)

68. Prepare Trading and Profit and Loss Accounts and Balance Sheet on 31st Dec. 1904, Stock £1,000. Depreciate fixtures and fittings at 10 per cent. per annum and divide net profit in the proportion of three-fourths to A and one-fourths to B.

Dr. Balances.	£	Dr. Balances—(*contd.*)	£
A (Drawing) account .	500	Salaries	250
B. ,, . . .	300	Stock (1st Jan. 1904) .	700
Fixtures & Fittings . .	500	**Cr. Balances.**	
Bills Receivable . .	400		£
General Expenses . .	200	A (Capital account) .	3,000
Purchases . . .	4,000	B. ,, . .	1,000
Rent	150	Sundry Creditors . .	2,000
Sundry Debtors . .	3,400	Sales	4,400

2. Taking the Trial Balance given above, state to what class of Ledger Account each item belongs, and the exact meaning of each balance.

8. If you were asked to verify the balance at Bank shown by a Cash Book and agree it with balance of Bank Pass Book, how would you proceed?—(Inst. of Secretaries, Dec. 1905).

69. Prepare a Trading Account, Profit and Loss Account, and Balance Sheet from the following balances of X, Y, Z & Co.'s Books, extracted at 31st December, covering six months' operations.

	£
Cash at Bankers	2,640
Petty Cash in hand...	3
Sales...	16,123
Stock in hand at commencement of period	2,741
Returns (Customers' returns for the half-year) ...	830
Discount allowed to customers	938
Bills Receivable in hand	182
Sundry Debtors	5,272
Purchases	8,403
Discount allowed on purchases	390
Wages	1,404
Reserve for Bad and Doubtful Debts	540
,, for Discount on Book Debts	197
Sundry Creditors	1,970
Buildings	4,384
Patent Rights	50
Loan on Mortgage	4,500
Rent, Rates, and Taxes	106
Advertising	463
Traveller's Salary	431
Carriage	394
Bad Debts Written off	101
Plant and Machinery	2,672
Repairs	84
C G-Capital Account Balance, 1st July	6,110
C G-Drawing Account	1,200
S G-Capital Account Balance, 1st July	2,952

	£
S G-Drawing Account	720
Interest on Loans	124
Reserve Account, Patent Royalties received in advance	5C0
Royalties on Patents, attributable to the half year to 31st December	40
Trade and General Expenses	502
Depreciation written off Buildings	23
" " " Plant	155
Stock-in-Trade, 31st December	3,275
Profits to be apportioned-C G, 5/8 S G, 3/8	

(Chartered Accountants.)

70. The following are the Ledger Balances of A. B. C. & Co. as on 31st December :—

	£		£
Sundry Debtors	6,000	Sales	25,000
General Trade Expenses	1,200	Sundry Creditors	1,000
Factory Rent	250	Interest Received	120
Manufacturing Wages	2,000	Purchase Returns	200
Purchases	10,000	Discounts Received	180
Fixtures and Fittings	500	Reserve for Bad Debt	200
Carriage and Freight on Raw Material	500	A. Capital Account Cr.	10,000
		B. Capital Account Cr.	10,000
Sales Returns	300	Plant and Machinery	6,000
Horses, Harness and Vehicle	2,000	Freehold Offices.	2,000
Advance on Mortgage Dr.	2,000	Balance at Bank	2,300
Travelling Expenses	600	Cash Balance	10
Office Salaries	2,000	Stock 1st January	5,000
A. Drawings	1,000	C. Capital Account Dr.	1,000
B. "	1,000	Discount Allowed	220
C. "	500	Rates, Taxes and Insurance.	120

Prepare :—

(1) Trading Account, showing gross profit for the year.

(2) Profit and Loss Account, showing net profit available for division among the partners.

(3) Balance Sheet as on December 31st, 19......

Stock on hand on December 31st, 19...amounted to £7,500. According to the Partnership Deed 5% Interest on Partner's Capital is to be credited or charged as the case may be, and the profits are to be divided as to A—two-fifths, B—two-fifths, and C—one-fifth.

Write off 5% from Plant and Machinery.

Write off 10% from Horses, Harness, Vehicles, and Fixtures and Fittings.

Increase the Reserve for Bad Debts by £400.—(Civil Service Assistant Clerks).

71. From the following Ledger Balances prepare Trading Account, Profit and Loss Account, and Balance Sheet of Messrs. H. Oakloy and W. Denham, Harness Manufacturers, as on 31st December, sharing Profits and Losses equally. Before dividing tha profits, allow Interest on Partners' Capital at 5% per annum; depreciate Machinery and Plant 7½%, and Fixtures and Fittings 6%; provide for Bad and Doubtful Debts 5%, and for a half-year's interest on the Mortgage at 5% per annum to 31st December; carry 7½% of the net Profit (if any) to the Reserve Fund. Stock 31st December, £14,725 2s. 6d.

	£	s.	d.		£	s.	d.
H. Oakley, Capital Account (1st Jan.)	10,000	0	0	Stock Account (1st January) . .	10,910	5	5
W. Denham, Capital Account (1st Jan.)	9,000	0	0	Rates and Taxes Account . . .	251	9	11
Freehold Premises Account . .	13,100	0	0	Banker's Account Cr. . . .	2,437	0	0
Bills Payable Account . . .	2,402	8	2	Office Expenses Account . . .	104	5	3
Fixtures and Fittings Account . .	3,600	0	0	Carriage Account .	1,066	2	9
Wages Account ,	7,930	1	4	Insurance Account .	191	11	4

	£	s.	d.		£	s.	d.
Mortgage on Premises Account Cr.	4,500	0	0	Interest and Discounts Account Cr.	43	12	1
Sundry Creditors	13,802	18	4	Sundry Debtors	8,510	0	0
Reserve Fund (for contingencies)	1,050	0	0	Interest and Mortgage Account	112	10	0
Sales Account	45,230	2	10	General Trade Expenses Account	1,040	17	2
Machinery & Plant Account	6,000	0	0	Repairs Account	337	13	1
Cash Account	472	14	7	H. Oakley Drawing Account (including interest)	1,767	10	0
Purchases Account	31,038	10	7	W. Denham's Drawing Account (including interest)	1,482	10	0
Salaries Account	550	0	0				

(Union of Educational Institutes.)

72. A and B are partners. On 1st January 1896 A had £4,000 to the credit of his Capital Account and B £1,000. They had agreed to share profits and losses equally, after allowing each partner 5 per cent. interest upon the amount of capital standing to his credit at the beginning of each year. During the year 1896 A drew £600; B £500. When the books were balanced on the 31st December 1896 it was found that (before providing interest on capital) there had been a loss of £2,500. You are required to show the Capital Accounts of A and B as on the 1st January 1897.

On the 1st June, 1897, James Fairtrade has the following assets:—

	£	s.	d.
Sundry Debtors	3,500	0	0
Stock on hand	1,800	0	0
Cash at Bank	500	0	0
Cash in hand	20	0	0
Bills Receivable	750	0	0
His liabilities are :—			
Sundry Creditors	2,500	0	0
Bills payable	1,000	0	0

You are required to open a set of books upon a Double Entry system showing the above position of affairs.—(Chartered Inst. of Secretaries, 1897).

73. From the following Trial Balance, draw up a Trading Account, a Profit and Loss Account and a Balance Sheet, after taking into account the items set forth at the foot of the Trial Balance :—

Trial Balance December 31st, 1909.

Alfred Parker's Capital Account		£ 7,500
Joseph Dumville's ,, ...		2,500
Stock, July 1st 1909	£ 5,500	
Purchases	7,400	
Productive Wages	8,400	
Salaries	1,100	
Sales		21,800
Rent	550	
Rates	182	
Insurance	180	
Repairs	60	
Commission	105	
Gas	120	
Bad Debts	103	
General Expenses	170	
Plant and Machinery	5,200	
Office Furniture	200	
Debtors and Creditors	2,800	1,900
Returns	150	250
Petty Cash	30	
Bank	300	
Drawing :—A. P.	1,000	
Do. —J. D.	400	
	£33,950	£33,950

The Stock on December 31st was £ 4,700. Charge, depriciation on Plant at 7½ per cent. per annum, allow interest on Capital at 5 per cent per annum, and divide net profit in proportion to Capital held.—(Incor. Acctt. June, 1910).

74. A. Jones and B. Evans carry on business in partnership sharing profits and losses in proportion of three-fifths, two-fifths.

The following is the Trial Balance of their books on 31st December 1908.

A. Jones Capital 1st January 1908		£12,000
B. Evans " " "		8,000
Sales		50,000
Purchases	£20,000	
Stock, 1st January, 1908	8,900	
Plant	7,000	
Fixtures	500	
Carriage	500	
Salaries and Wages	15,000	
Commission	500	
Works, Office, Travelling Expenses	3,250	
Bank Charges	50	
Rent, Rates and Taxes	600	
Bad Debts	200	
Bills Receivable	1,000	
Trade Debtors	8,000	
" Creditors		1,500
Wages owing		300
Discount off Sales	1,250	
" " Purchases		500
Bank	4,500	
Cash	50	
A. Jones, Drawing Account	600	
B. Evans	400	
	£72,300	£72,300

The Stock at the end of the year amounted to £9,300.

Allow each partner £500 for Salary and 5 per cent. on Capital (nothing on Drawings), write off 5 per cent. from Plant and Fixtures, and provide £150 for Doubtful Debts and 2½ per cent. for Discount off Debtors.

Make up Trading and Profit and Loss Account and Balance Sheet and Capital Account.—(C. A.)

75. Prepare Trading, Profit and Loss Accounts, and Balance Sheet of John Goodwill & Company on 30th June, 1903, dividing the Profits or Losses equally. Stock reckoned at selling price £3,000, the cost being 20 per cent. less than this amount. Stock of Packing Materials £20. Reserve 5 per cent. for Doubtful Debts and 10 per cent. for Discount on Debtors. Plant and Machinery was bought, 1st July, 1900, for £3,000; its life is calculated to be 20 years, when it will be entirely replaced; allow for depreciation at such a rate as will reduce the book value to nil by 1920. On 1st June, 1903, one of the firm's horses, valued at £50, died. Create a Reserve Account showing the old Reserve standing on the books, and bad debts written off for the period just ended, and also new Reserve for the current period.

Dr. Balances.

Plant and Machinery	£3,000
Sundry Debtors	2,600
Cash	20
Horse and Carts, Jan. 1st	500
Purchases	14,000
Stock 1st Jan. 1903	2,000
Packing Materials	150
Miscellaneous expenses	400
Horse-keep	100
Carriage	200
Discount for Cash	210
Bad debts	70
Furniture	1,000
Rent	200
Wages	5,000
Salaries	1,000
Travelling Expenses	150

Cr. Balances.

John Goodwill (Capital)	£ 1,730
Tom Nojan (Capital)	1,730
Sundry Creditors	950
Sales	25,000
Bank	500
Doubtful Debts Reserve	90
Auditor's Fees	30

(N. U. T., 1905.)

76. The following Trial Balance was extracted from the books of Messrs. Angus MacAdam and John Westrum as on the December 31st :—

	Dr. £	s.	d.	Cr. £	s.	d.
Angus MacAdam (Capital Account)	...			6,000	0	0
John Westrum do.	...			2,000	0	0
Angus MacAdam (Drawing Account)	1,000	0	0	...		
John Westrum do.	300	0	0	...		
Land and Buildings	4,960	0	0	...		
Plant and Machinery	1,036	10	0	...		
Stock 1st January	2,019	3	7	...		
Debtors and Creditors	1,596	15	0	1,362	13	3
Reserved for Doubtful Debts	...			66	3	0
Purchases and Sales	9,284	1	6	14,274	6	6
Returns Inwards	370	2	0	...		
Do. Outwards	...			870	2	0
General Expenses	150	6	0	...		
Manufacturing wages	2,001	15	7	...		
Rates and Taxes	167	4	9	...		
Insurance	66	9	7	...		
Manufacturing Expenses	225	10	4	...		
Salaries	666	8	0	...		
Discount Account	39	4	1	29	18	8
Cash in hand	64	3	8	...		
Cash at Bank	655	9	4	...		
	24,603	3	5	24,603	3	5

The Partnership Agreement provides :—

1. That 5% per annum shall be allowed upon Partnership Capital (as a charge to the Profit and Loss Account), and that such interest shall be credited to the Partners' Drawing Accounts.

2. That a Partnership Salary out of Net Profits (if and as made) of £300 per annum shall in the first instance be credited to Mr. Westrum's Drawing Account.

3. That the Net Profit (if any), after providing for the aforesaid Partner's Salary, shall be divided between the Partners *pro rata* to the amounts at the credit of their Capital Accounts, and shall be credited to their Drawing Accounts.

You are required to prepare Trading and Profit and Loss Accounts for the year ended December 31st, and a Balance Sheet as on that date subject to the following adjustments :—

Depreciation is to be charged as follows :—

2½ per cent on Land and Buildings.

10 per cent on Plant and Machinery.

The Reserve for Doubtful Debts is to be increased to 5 per cent on the Sundry Debtors.

The unexpired portions of the following expenses are to be carried forward :—

Rates	£27	1	9
Insurance	16	7	9

The Stock on hand on December 31st, was agreed at the value of £1,991 7s. 6d.—(Royal Society of Arts.)

77. Messrs. Smith and Higgins, of Poplar, Engineers, finding, themselves at the close of the year in straightened circumstances for want of Capital, applied to their Bankers for an advance upon the Lease, Patents, and fixed Machinery. The Bank agreed to the proposal conditionally upon their being satisfied as to the general soundness of the business, and on the understanding that at the close of the year the statement of the year's working, properly vouched would be submitted to them ; to this the firm agreed. Stock was carefully taken, the books made up, and the following statement submitted to the Bank, who thereupon made the advance of £5,000 asked for :—

Smith and Higgins, 1st January.

	£	£
Leasehold works 10 years unexpired .	2,500	...
Patent No. 1 4 years do. . .	800	...
do. No. 2 6 years do. . .	1,000	...
do. No. 3 10 years do. . .	1,500	...
Fixed Machinery and Plant . . .	4,000	...
Tools and Movable Plant . . .	1,250	...
General Stock and Work in progress .	8,750	...
Trade Debtors	3,500	...
Stepney and Poplar Bank	580	...
Cash in the House	120	...

	£	£
General Trade Creditors	...	7,500
John Smith, Advance	...	2,500
do. Capital	...	7,000
William Higgins, Capital	...	7,000
	£24,000	£24,000

During the year the Works were carried on energetically, and the Trial Balance of the Books at the 31st December was as appears below :—

	£	£
Leasehold Work	2,500	...
Patent No. 1	800	...
do. No. 2	1,000	...
do. No. 3	1,500	...
Fixed Machinery and Plant . . .	4,000	...
Tools and Movable Plant . . .	1,250	...
Stock of Iron, etc. and work in Progress.	8,750	...
General Purchases	9,470	...
Trade Debtors	4,250	...
Stepney and Poplar Bank	1,095	...
Cash in the House	75	...
John Smith, Drawings	400	...
William Higgins, Drawings	400	...
Salaries and Wages	2,340	...
Freight and Carriage	280	...
Rent, Rates, Taxes and Insurance . .	225	...
General Office Expense	125	...
Coals, Gas, and Lighting	185	...
Printing, Stationery, and Advertising .	75	...
Interest, Commission, and Discount . .	550	...
Sales	...	15,270
Trade Creditors	...	2,500
Stepney and Poplar Bank, Advance . .	...	5,000
John Smith, Advance	...	2,500
do. Capital	...	7,000
William Higgins, Capital	...	7,000
	£39,270	£39,270

The Stock, as at the 31st December, was duly taken, and amounted to the sum of £9,430. You are now asked to prepare the usual Profit and Loss Account (having first made due provision for Depreciation where necessary), to apportion to the partners the Profit or the Loss, (as the case may be) and to make a Balance Sheet showing the exact position of the firm.—(*London Chamber of Commerce.*)

78. A and B entered into partnership on July 1st, 1923, without any Partnership Agreement, and introduced capitals of £3,500 and £2,000 respectively. On December 1st, 1923, A advanced £750 by way of loan to the firm without any agreement as to interest. The Profit and Loss Account for the year ended June 30th, 1924, discloses a profit of £1,354, but the partners cannot agree upon the question of interest or upon the basis of division of the profits.

You are required to divide the profits between A and B giving reasons for the method you adopt.—(*Chartered Accountants, Dec.* 1924.)

79. Submit a *pro forma* example of a partner's Current Account in which interest is charged on drawings, inserting entries recording all transactions which normally you would expect to find in an account of this kind.—(*Chartered Accountants,* 1924).

80. X, Y and Z were in partnership sharing profits in the proportions of 4, 3, and 1 respectively with the following proviso, viz., that the excess of Z's share over £500 plus 5 p. c. of the net profits after charging such £500 and 5 p. c. shall be debited to X.

The profits of the firm for the year ended December 31st, 1923, amounted to £6,457 10s. 0d.

You are required to show the division of the profits between the partners.—(*Chartered Accountants, Dec.* 1924).

81. A, B and C were in partnership sharing profits in the proportions of 2/5, 2/5 and 1/5 respectively, subject to the right of A to be credited with the first £500 of the divisible profits. The partnership agreement further provided that interest at 5 p. c. be allowed on partner's capital account but that no interest be charged upon drawings on account of current profits which were limited in the case of A to £100 a month, of B to £80 a month, and of C to £60 a month. Interest on Current Account balance from a previous year was, however, to be allowed at 5 p. c. per annum.

On June 30th, 1924 the following Trial Balance was extracted from the books of the firm :—

TRIAL BALANCE.

			£	£
A	Capital Account		—	8,000
B	do.		—	6,000
C	do.		—	4,000
A	Current A/c. balance June 30th, 1923 ..		—	2,880
A	Drawings September 30th, 1923	£1,000		
	March 31st, 1924 ...	£1,000		
			2,000	
A	Drawings on A/c. of current year		1,200	
B	Current A/c. balance June 30th			1,680
	Drawings September 30th, 1923 ...	£720		
	March 31st, 1924... ...	£480		
			1,200	
B	Drawings A/c. of current year		960	
C	Current A/c. balance June 30th, 1923 ...			720
	Drawings September 30th, 1923		720	
	do. on A/c. of current year ...		720	
	Plant and Machinery...		3,230	
	Office Salaries		1,985	
	Bad Debts		327	
	Furniture and Fixtures		880	
	Reserve for Bad Debts			500
	Staff Superannuation Fund...			6,740
	Factory Fuel and Power		395	
	Sales (Less Returns)			38,752
	Freehold Land and Buildings		6,850	
	Stock, June 30th, 1923		8,955	
	Purchase (Less Returns)		13,852	
	Carriage on Purchases		397	
	do. on Sales		516	
	Manufacturing Wages		3,785	
	do. Expenses		942	
	Printing, Stationery and Office Expenses.		1,396	
	Discount and Interest A/c. balance ...		142	
	Legal Expenses and Audit Fee		217	
	Lighting and Heating		89	
	Sundry Debtors		12,980	
	Sundry Creditors			4,862
	Rates, Taxes and Insurance		2,846	
	do. paid in advance		218	

	£	
Advertising	3,617	
Bills Receivable	1,272	
Cash at Bank	2,411	
do. in hand	32	
	£74,134	£74,134

You are required to prepare Trading and Profit and Loss Accounts for the year ended June 30th, 1924, and Balance Sheet as on that date, taking the following into consideration :—

(a) Plant and Machinery to be depreciated at the rate of 10% and Furniture and Fixtures at 5%.

(b) The Reserve for Bad Debts to be made equal to 5% of the Sundry Debtors.

(c) 5% Interest on the Staff Superannuation Fund to be credited to the Fund and 10% of the Net Profit for the year to be transferred thereto.

(d) Stock on hand on June 30th, 1924, was valued and agreed at £9,116.—(*Chartered Accountants, Dec.* 1924).

82. A and B were partners, dividing profits and losses in proportion to their respective capitals.

On June 30th, 1924, A's capital was £21,000, and B's capital was £14,000.

They agreed to take C into partnership as from July 1st, 1924, on the following terms :—

(1) A Goodwill Account to be created and the amount thereof £5,000, credited to A and B in proportion to their respective capitals.

(2) The assets, liabilities and capitals in all other respects to be taken as shown in the Balance Sheet as on June 30th, 1924.

(3) C was to contribute sufficient cash to give him a capital entitling him to a one-fifth share of the business.

Show the Capital Accounts of A, B and C in the new partnership, and state in what proportions profits or losses will be divided in future.—(*Chartered Accountants, Dec.* 1925).

83. L, M and N traded in partnership as equal partners. On the death of M, his executors desired to realise his interest in the firm. It was arranged that the assets and the liabilities on 30th June, 1924, other than the cash, should be taken over by the L. N. Co., Ltd.

The purchase consideration was fixed at £25,000, to be satisfied by the issue of 15,000 fully paid Ordinary Shares of £1 each, and cash £10,000. It was agreed that to meet the executor's wishes, M's share should be paid out in cash, L and N proportionately taking the shares, which should be valued for the purpose of distribution at 17/-

The firm's Balance Sheet on 30th June, 1924, was as follows :—

	£	£		£
Sundry Creditors ...		12,300	Plant and Machinery ...	4,000
Capital Accounts :—			Stock	12,000
L ...	5,200		Sundry Debtors... ...	9,900
M ...	5,400		Cash	1,400
N ...	4,400			
		15,000		
		£ 27,300		£ 27,300

Shew the position of affairs as between L, M and N after the settlement, and the opening Balance Sheet of L. N. Co., Ltd.—(*Chartered Accountants, Dec.* 1924.)

84. A and B carried on business in partnership.

On 31st December, 1923, A retired. B having agreed to pay him his capital, together with £1,200 for his share of the Goodwill, on 31st January, 1924.

B and C agreed to amalgamate their businesses as from 1st January, 1924, on the following terms :—

(a) To trade as A, B and C, and to share profits in the proportion to their individual earnings for the three years ended 31st December, 1923.

(b) To raise the Goodwill account at two years' purchase of the average of those earnings and for A's £1,200.

(c) The firm to take over all assets and liabilities at book values.

(d) The capital of the new firm to be made equal to that of the two old businesses on 31st December, 1923, plus the amount to be added for Goodwill, and to be provided in the proportion in which profits were to be shared.

The average profits for the three years to 31st December, 1923, were : B £1,500 ; C £900.

Summarised the Balance Sheets at 31st December, 1923, were as follows :—

A and B Sundry Assets £6,300 ; Liabilities £2,500 ; A's Capital £2,000 ; B's Capital £1,800 ; C's Sundry Assets £2,100 ; Liabilities £1,500 ; C's Capital £600.

Assuming the arrangement to be duly carried out, journalise the entries in the books of the new firm.—(*Chartered Accountants*, *Dec.* 1924).

85. Jones, Brown and Smith were in partnership sharing profits and losses as follows :—Jones 1/2, Brown 5/16, and Smith 3/16.

The Capital Accounts were fixed under the partnership agreement, and as the result of several consecutive years' losses the firm's Balance Sheet on March 31st, 1924, was as under :—

BALANCE SHEET.

	Rs.		Rs.
Capital Accounts :—		Current Accounts :—	
Jones	5,000	Jones	2,195
Brown	2,000	Brown	1,733
Smith	1,000	Smith	1,520
Sundry Creditors	2,953	Plant and Machinery ...	1,050
Bank Loan	5,500	Stock-in-Trade	6,059
		Sundry Debtors	3,572
		Cash in hand	324
	£ 16,453		£ 16,453

It was resolved to dissolve the partnership as on this date, and shortly afterwards Smith was adjudicated a bankrupt and could contribute nothing towards his deficiency in the firm.

The firm's assets were realised as follows :—

Plant and Machinery	...	£ 600
Stock-in-Trade ...	...	£ 5,230
Sundry Debtors ..	...	£ 3,555

You are required to close the books of the firm in accordance with the decision in Garner vs. Murray.—(*Chartered Accountants*, *Dec.* 1924.)

86. Two medical practitioners decide to go into partnership and at the end of their first financial year apply to you to prepare Accounts from their Cash Book, an analysis of which reveals Receipts from Fees amounting to £1,555 15s. 2d. and Payments amounting to £1,554 7s. 0d. viz., Rent, Salaries, etc., £291 0s. 2d. Partners' Drawings "A" £830 14s. 10d., "B" £432 12s. In addition "B" had paid personally certain items of expense amounting to £13 5s. which were chargeable to the Partnership.

Draw up a Statement showing the Profit, also show the amounts due to or by each partner at the end of the year. Assume outstanding liabilities to be £25 and Fees outstanding £350. "A" and "B" are equal partners.—(*Incorporated Accountants, Dec.* 1924).

87. A firm of Retail Butchers dissolved partnership on 29th March, 1924, the business being continued by a private Company incorporated the same day.

The following is a copy of the firm's Balance Sheet :—

ASSETS.

	£	s.	d.
Cash at Bank	91	0	0
Cash in Hand	1	12	0
Cash on Deposit with Electric Light Co. ...	5	0	0
Book Debts	193	19	3
Stock	52	15	2
	£ 344	6	5

LIABILITIES.

	£	s.	d.
Sundry Creditors for Lighting, Heating and Telephone	15	10	0
Partners' Accounts "A"	263	1	2
" " "B"	65	15	3
	£ 344	6	5

On 31st March, the partners withdrew the balance at the Bank which, with the Cash in Hand, they divided between them. The Book Debts, Stock and Electric Light Deposit were taken over by the Company and paid for on the basis of the valuations in the firm's Balance Sheet and the partners paid into the Company's Account a sum of £15 10s., to discharge the old firm's liabilities. Shew the entries necessary properly to close the books of the firm.—(*Incorporated Accountants, Dec.* 1924).

88. A, B and C were partners sharing profits equally. On June 30th, 1923, the capitals were :—

A	...	...	...	£ 15,000
B	...	...	...	£ 10,000
C	...	...	...	£ 5,000

The Trading Account for the year ended June 30th, 1924, showed a loss of £15,000. The partners' drawings were :—

A	...	...	...	£ 1,500
B	...	...	...	£ 1,000
C	...	...	...	£ 1,000

It was decided to wind up the business and the assets realised £3,000 less than the book values at June 30th, 1924.

C had no other assets.

Prepare capital accounts, shewing the position of the partners at the end of the realisation.—(*Incorporated Accountants, Dec.* 1924.)

89. The books of Black and White, who are equal partners, are balanced yearly as on 31st December. Before profits are ascertained and divided, 5% interest is allowed upon Partners' Capital. Depreciation at the rate of 5 per cent. is written off the Plant Account, and a Provision of 5 per cent. is made for Bad and Doubtful Debts. One year's interest, at the rate of 4½ per cent. is due upon the Loan on Mortgage, and has not yet been passed through the books. The stock on hand, as on 31st December, was valued at £3,225. The following are the final balances as on the 31st December :—

Purchases	£ 16,450	Stock (as on first January)	£ 3,000
Manufacturing Wages...	2,150	Salaries	820
Sales	21,800	Rates and Taxes ...	325
Black's Capital Account	5,000	Freehold Land and Buildings	8,000
„ Drawings Account (including interest)	550	Plant Account	4,000
Trade Charges.. ...	400	Reserve for Bad and Doubtful Debts (as on 1st Jan.)	600
Premium on Lease-Account (6 years unexpired as on 1st January) ...	2,400	Sundry Debtors ...	13,100
Sundry Creditors ...	15,845	Cash at Bank	1,200
Loan on Mortgage ...	5,000		
White's Capital Account..	2,000		
„ Drawings Account (including Interest) ...	350		

Prepare a Trading and Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date.—(*London Chamber of Commerce.*)

90. Messrs. Lion and Unicorn are in partnership as chemical manufacturers. Profits or Losses are divided equally. Under the deed of partnership the following adjustments are necessary before the division of profits :—

Five per cent. Interest is allowed on Partners' Capital ; 10 per cent. Depreciation is to be written off Plant Account and Barges Account ; 5 per cent provision is to be made for Bad and Doubtful Debts.

On 31st December the Ledger balances of the firm were as follows:—

Purchases Account ...	£ 63,000	Rent, Rates and Taxes ..	£ 873
Barges Account ...	3,250	Sundry Creditors	3,860
Repairs and Replacements	3,205	Insurance	265
Freight and Marine Insurance	312	Bad Debts	341
Allowances from Creditors	2,420	,, ,, Reserve Account (1st January)	385
Coal	4,404	Advertising...	982
Gas and Water	302	,, Suspense Account	5,800
Machinery and Plant Account...	25,000	Cottage Rents Received...	117
Wages	6,221	Cash in hand	325
Land and Buildings Account	13,840	R. Lion, Capital Account.	59,400
Salaries	858	,, Drawings Account (including Interest)	4,250
Sundry Debtors	7,940	P. Unicorn, Capital Account	30,000
Sales	74,441	,, Drawings Account (including Interest)	2,050
Cash at Bank	2,185		
Stock (1st January) ...	25,220		

Stock was taken as on 31st December, and was agreed at £30,342. It was also agreed to write off half the advertising Suspense Account, and to transfer to Building Account £3,000 from Purchases Account, and £250 from Wages Account, representing cost of materials and labour spent upon new buildings erected during the year. Prepare Trading and Profit and Loss Accounts for the year ended 31st December and a Balance Sheet as on that day.—(*London Chamber of Commerce.*)

91. G. Sykes and R. Simpson trade as the Simplex Manufacturing Co. The following was the Trial Balance of their books for the twelve months ending December 31st. Prepare Trading Account, Profit and Loss Account and Balance Sheet.

Make the following Provisions and Reserves. Profits or Losses to be shared equally. Interest at 5 per cent. on Partners' Capital Accounts, ignoring Drawings. Transfer £75 from Purchase Account, and £115 from Wages Account to Additions to Plant; Depreciate Plant Account 5 per cent. off balance and 25 per cent off additions; Depreciate Furniture and Fittings Account 5 per cent; add to Leasehold-Premises Redemption Account 2 per cent. Interest on balance and Annual Instalment of £37 10s. 0d.; reserve for Bad and Doubtful Debts 5 per cent. on Debtor.

Before dividing profits, J. Smith, the Works Manager, is to receive a Bond on the net profits of 2 per cent. up to £2,500, and 1½ per cent. on any profits over that amount.

Trial Balance, 31st December.

	Dr.			Cr.		
G. Sykes, Capital A/c. 1st Jan. ...				8,500	1	0
Drawings A/c.	1,000	0	0			
R. Simpson, Capital A/c. 1st Jan. ...				6,444	1	0
Drawings A/c.	750	0	0			
Leasehold premises	3,270	10	6			
,, ,, Redemption A/c...				675	0	0
Plant, Machinery, and Tools, 1st Jan.	6,012	11	8			
,, ,, ,, Additions during the year	252	17	4			
Furniture, Fittings and Fixtures ...	873	14	6			
Cash Account	35	17	2			
Lloyds Bank, Ltd., Current A/c. ...	1,014	16	7			
Bills Receivable Account	1,173	16	2			
,, Payable Account				4,573	19	10
Sales				38,350	2	6
Purchases...	22,753	14	8			
Wages A/c. Producers	7,642	12	9			
,, ,, Non-producers	1,013	10	6			
Discounts received and allowed ...	1,975	14	6	1,162	8	10
Carriage and Freight	457	16	9			
Sundry Trade Expenses	282	12	8			
Ground Rent, Rates, and Taxes ...	472	16	9			
Coal, Gas, Water Works A/c. ...	522	19	7			
,, ,, ,, Office A/c.... ...	89	17	1			
Bank Charges	64	13	9			
Creditors				5,003	16	2
Debtors	9,872	12	6			
Bad Debt Account (Reserve)				152	12	9
Repairs to Plant	63	18	10			
Stock Account, 1 Jan.	5,274	16	10			
	64,862	1	1	64,862	1	1

Stock, 31st December £6,378 12s. 6d.—(*Union of Educational Institutes.*)

92. Owing to two amounts being placed on the wrong sides of the following Trial Balance, the casts do not agree. (1) Correct the errors which are obvious, (2) prepare the Trading Account, (3) prepare the Profit and Loss Account, and Balance Sheet, as on 31st December.

	£	s.	d.		£	s.	d.
Stock, 1st Jan. .	1,072	19	4	Sales . . .	10,462	2	1
Purchases . .	4,852	17	5	Discounts . .	141	14	11
Wages . . .	1,471	16	8	Loan A/c . .	1,500	0	0
Rent, rates and Taxes	360	7	3	Sundry Debtors .	4,176	15	4
Salaries . . .	521	6	6	Smith-Capital .	1,570	0	0
General Expenses .	86	13	3	Jones ,, .	1,000	0	0
Commission on Sales	381	11	4	Reserve for Doubtful Debts. .	280	0	0
Discounts . .	53	4	0				
Plant and Machinery	1,080	0	0				
Sundry Creditors .	2,036	10	1				
Horses and Vans .	742	18	3				
Cash at Bank .	467	17	3				
Smith-Drawings .	650	0	3				
Jones ,, . .	500	0	0				
Return on Sales .	201	0	6				
Cost of lease 1st Jan.	371	0	0				
£	14,850	1	10	£	19,130	12	4

The Stock on the 31st December was £983 10s. 10d. Write off 10 per cent. depreciation on Plant and Machinery, 15 per cent. depreciation on Horses and Vans, and transfer £ 69 12s. 1d. to the debit of Bad Debt Reserve Account and write up to the credit of Bad Debt Reserve Account the sum of £ 70.

The Lease of premises expires in seven years' time. Write off an amount for the current year, so that by writing off a like amount annually the cost of the Lease will stand in the books of the firm at nil by the time the Lease expires.

Allow interest on the following accounts :—

5 per cent for the year on Loan Account.

5 per cent per annum on Smith's Capital Balance as appearing in the Trial Balance, and the same for Jones, and transfer interest to the respective accounts.

Transfer five-eighths of the net profit to Smith's Capital Account and three-eighths to Jones' Capital Account, and debit each Capital Account with the amount drawn, placing the net balances on the Balance Sheet.—(*Civil Service, Second Division Clerks.*)

93. William James and Edward Jones enter into partnership on the 1st January under the style of James and Jones, as Wholesale and General Iron-mongers. On the 1st January, James paid in as his Capital, £3,000, and on the 1st March, Jones paid in as his Capital, £ 2,000. The profits were to be divided in proportion to the capital brought in. Interest at 5 per cent was to be charged upon their respective drawings, and Jones had to be charged Interest at the same rate upon his Capital from 1st January to the 1st March. On 31st December Stock was taken (which amounted to £ 2,478), and the book-keeper took out the Trial Balance of the Book, which was as follows :—

	£	£
Plant, Tools, etc.	750	
Office Furniture and Fittings	250	
Horses, Carts, and Harness	225	
Purchases	5,750	
Sales		6,020
Rents, Rates, Taxes and Insurance	187	
Office and General Expenses	125	
Freight and Carriage	115	
Horse Keep	95	
Discounts and Allowances	45	
Interest, Commission, and Bank Charges	32	
Printing, Stationery, and Advertising	15	
Travelling Expenses	120	
Salaries and Wages	1,020	
William James—Capital Account		3,000
Edward Jones—Capital Account		2,000
William James—Drawings :—		
1st March	80	
1st June	100	
1st September	50	
1st December	120	
Edward Jones—Drawings :—		
1st April	60	
1st July	75	
1st October	75	
1st December	75	
Trade Debtors	2,514	
„ Creditors		848
	£ 11,868	£ 11,868

Prepare, by Journal entries, the Profit and Loss Account having first dealt with the interest referred to in the preliminary paragraph, pass the Profit or Loss, (as the case may be) to the Partners' Accounts and then prepare a General Statement of Assets and Liabilities as at the 31st December.—(*London Chamber of Commerce*).

94. Wm. Smith and Joseph Thompson trade in partnership as Metal Merchants under the style of Smith, Thompson & Co., William Smith's Capital being £15,000, and Joseph Thompson's £12,000.

The Ledger shows the following Balances :—

	£	s.	d.		£	s.	d.
Office Furniture & Fittings	473	8	2	Purchase of Copper ...	40,170	12	0
Rent	200	0	0	,, Tin ...	8,426	18	9
Sales of Copper ...	37,445	7	1	,, Iron ...	86,983	7	2
,, Tin	9,476	3	8	,, Pig Iron ...	75,536	14	1
,, Iron	87,753	11	6	Stock on hand at 1st January —			
,, Pig Iron ...	76,942	8	0				
Discounting Bills ...	829	7	3	Copper	12,008	0	3
Bills Receivable ...	9,814	15	0	Tin	875	11	4
Discounts allowed Less Discounts received..	4,423	9	11	Iron	3,026	14	0
Cash in hand	23	2	11	Office and Warehouse Expenses	574	19	7
Sundry Debtors ...	7,618	4	10	Carriage	1,463	13	7
Sundry Creditors ...	6,028	7	10	Wm. Smith, Drawings.	618	4	2
Salaries & Office Staff	316	4	0	Joseph Thompson Drawings	429	8	6
Warehouse Wages ...	226	0	0	Midland Bank, Cr. ...	2,941	7	5
Bank Interest & Commission	332	12	4	Bills Payable	6,784	2	6

The Stock on hand at 31st December were :—

Copper	£ 22,111	14	2
Tin	£ 617	18	10
Iron	£ 6,513	4	1

From the foregoing make out Profit and Loss Account and Balance Sheet, charging 5% Interest on the Partners' Capital, and credit Partners with £500 each, salary.—(*Union of Educational Institutes*).

95. H. Shepherd and G. Elkington entered into co-partnership as Builders and Contractors at Northampton on January 1st. Elkington's capital was £1,000, Shepherd's was £4,000. Profits or losses were to be shared equally, 5 per cent was to be credited to each Partner in respect of his capital, and 5 per cent was to be charged on their respective drawings. Elkington was to be credited with £25 each quarter as salary for management. The following is a copy of the Ledger Balances of their books on December 31st, but no interest has been charged either upon the capital or upon drawings, nor hdd Elkington been credited with his salary.

The Stock was taken and amounted to £3,750. The Drawings of the partners had been as follows: Shepherd, February 1st, £50; April 1st, £100; June 1st, £50; August 1st, £50; October 1st, £100; December 1st, £59; Elkington February 1st, £25; March 1st, £37 10s., May 1st, £62 10s.; June 1st, £50; August 1st, £25; September 1st, £37 10s.; November 1st, £62 10s.; December 1st, £50.

	£	s.	d.		£	s.	d.
Sales	9,756	10	7	Interest and Discount Dr.	250	3	7
Purchases	3,857	6	6	Salaries...	457	10	0
Cash	365	2	11	Wages	1,304	2	6
Bills Payable	421	3	4	Carriage & Freight ...	255	4	7
Creditors	1,062	7	1	Repairs and Depreciation	212	5	7
Rent	525	7	6	Plant and Tools ...	1,437	14	5
Bank Cr.	664	19	9	Shepherd's Drawings	400	0	0
Taxes and Insurance...	224	12	6	Elkington's Drawings	350	0	0
General Charges ...	108	2	2	Debtors...	4,657	8	6
Buildings	2,500	0	0				
Shepherd's Capital ...	4,000	0	0				
Elkington's Capital ...	1,000	0	0				

Prepare a Trading Account, Profit and Loss Account for the year, and Balance Sheet, giving effect to the respective partnership terms as to Interest on Capital and Drawings, Partners' Salary, and division of Profits and Losses.—*(Union of Educational Institutes)*.

96. John Green, Henry Richards, and Reginald Everitt trade together under the title of Green, Richards & Co.; each partner is entitled to a salary of £500 per annum.

John Green's Capital is £8,000; Henry Richard's, £7,000; and R. Everitt's £5,000.

At the end of the year the balances were as follows:—

	£	s.	d.		£	s.	d.
Debtors	5,162	11	1	Discount ... Dr....	394	11	3
Creditors	4,721	15	2	Interest on Loans ,,	12	10	0
Bills Receivable ...	365	10	0	Insurance	63	4	0
Bills Payable ...	918	19	11	Consignments ...	198	10	0
Stock	7,017	13	8	Bad Debts	17	2	6
Purchases	62,169	7	3	Sundry Trade Charges	2,838	18	9
Wages	3,013	4	4	Reserve for Bad Debts	100	0	0
Salaries of Staff ...	618	13	8	Sales	73,488	10	10
Office Expenses ...	493	8	5	Loans at 5% borrowed 30th June Cr. ...	600	0	0
Property-Works ...	6,500	0	0	Reserve for Discounts Cr. ...	182	11	6
Machinery	10,000	0	0				
Cash	16	14	11				
Bank	1,029	17	7				

The Stock at December 31st amounted to £8,316 19s. 10d. Write 7 per cent Depreciation off Machinery and 2½ per cent off works. Make out Profit and Loss Account and Balance Sheet, crediting each partner with 5 per cent interest on his capital.—(*Lancashire and Cheshire Union*).

97. On December 31, 1914, Jones, Brown, and Smith are in Partnership. No good-will is included in their accounts, but by agreement the business is divided into 100 "shares," of which Jones is entitled to 50, Brown 30, and Smith 20, the good-will value of a share being £200. The capital is £4,000 contributed in the above proportions and represented by tangible assets. There are no liabilities.

They admit into partnership their managing clerk, Williams, as from January 1, 1915. Jones, is to sell Williams 15 shares and to Smith 5 shares, and Brown is to sell to Williams 5 shares, the capital to be contributed in the new proportions. Williams pays in cash £2,400, being one-half of the total sum he had to pay, and Smith pays for his new shares in full. Out of the amounts so paid in, Jones and Brown draw the proportions to which they were entitled.

Each partner has a separate fixed Capital Account and a Current Account, and the above transactions are all shown, as on January 1, 1915, in the books of the firm.

No interest is charged on capital or drawings, but 5% per annum is charged to Williams and credited to the partners entitled thereto on the amount unpaid by him. They draw during the year £ 60 in respect of each share held. The profit for 1915 was £9,000.

Show the partners' Capital and Current Accounts for the year 1915 and the final position, when Jones, Brown, and Smith have drawn the balances to their credit on Current Account, which leaves the assets, other than the amount due from Williams, at £4,000.—(*Chartered Accountants.*)

98. A and B were in partnership as manufacturing Ironmongers. Their Capital Accounts as on 31st December 1910, were equal in amount at credit. The partnership agreement provided that A should take £300 of the profits before B received any share. The balance was to be divided equally between them. During the year ended 31st December 1911, drawings were made by A at the rate of £50 a month, and by B at the rate of £6 a week. On December 31st, 1911 the Ledger Balances, in addition to those of the Partners' Capitals and Drawings Accounts were as shown below. Stock 31st December 1911 £6,928 4s. 6d. Work in Progress £ 301 6s. 1d.; Loose Tools £ 408 13s. 2d. Prepare Trading, Profit and Loss Accounts and Balance Sheet after taking the

following into consideration:—(1) the Auditors called the partners' attention to the fact that the Leasehold Premises had not been depreciated in the past. The Lease has 15 years to run and it is decided to write off the book value in equal annual instalments. (2) 10% Depreciation is to be written off Plant and Machinery as on 31st December 1910, and 5% off the additions made during the year. (3) £50 depreciation is to be written off Furniture and Fittings. (4) Wages Account is found to include £ 47, paid to men during the time certain repairs were being made by them to the machinery; and it is decided to transfer to its proper account and also to put through a transfer of £ 121 2s. 7d. as representing the cost of material used out of stock for such repairs; (5) The unexpired portions of Rates and Insurances were, on 31st December 1911, £ 27 2s. 3d. and £ 14 0s. 1d. respectively. (6) Create a Reserve for Bad Debts, 5% on Sundry Debtors.

	£	s.	d.
Cash at Bank	280	2	8
Cash in hand	37	15	2
Plant and Machinery (including additions during the year of £345 2s.)	4,018	2	1
Furniture and fittings	273	14	7
Discount Account (Debit Balance)	47	3	1
Manufacturing Wages	7,649	12	10
Salaries	962	13	6
Purchases	20,747	16	11
Carriage	467	4	9
Office expenses	212	6	2
Postage and Stationery	42	15	1
Sundry Creditors	2,136	19	0
Leasehold Buildings	1,500	0	0
Sales	34,242	12	7
Sales Returns	347	13	7
Purchase Returns	742	12	0
Stock 31st December 1910	6,738	0	2
Sundry Debtors	9 261	12	6
Work in Progress 31 December 1910	276	14	11
Advertising	117	17	1
Bad Debts	135	2	7
Interest on Temporary Loan (Repaid November 11)	6	7	10
Loose Tools 31-12-10	431	14	3
Rent, Rates and Taxes	346	15	2
Insurance	92	4	2
Commission	114	9	11
Lighting and Heating	102	4	7

(*R. S. A.*)

99. A was in business as a manufacturer and on the 1st January 1913 he admitted his manager, B, as a salaried partner, on the following conditions :—(a) A good-will Account was to be opened in the books of the new firm, and debited with £ 5,000 and this amount was to be credited to the Partners' Capital Accounts in the proportions of ⅘ to A and ⅕ to B. The share of good-will credited to A, was equal in amount to one-third of the balance standing to the credit of his Capital Account before the admission of B as a partner. (b) The Partners' Capital Accounts were to be credited with interest at 5% per annum, (out of profits). (c) B was to receive (out of profits) a salary of £ 500 per annum, payable monthly, he was also to be credited with £ 10 % of the profits shown by the Profit and Loss Account before charging his salary or any interest on Capital. The remainder of the profits (if any) were to belong to A. (d) B was entitled to draw (with the consent of A) during the year sums on account of his percentage of profits. (e) No interest was to be charged on the drawing of either partner. The entries required by clause (*a*) of the agreement were duly made on 1st January 1913, and during the year ended 31st December 1913 B drew his agreed salary, and also £ 50 on account of his percentage of profits. In addition to the amount standing to the credit of A's Capital Account before the admission of B as a partner, and the balances represented by the above-mentioned transactions, the balances, stated below, appeared in the books of the firm as on 31st December 1913, Stock £ 4,945 15s. 6d. Prepare Trading, Profit and Loss Accounts and Balance Sheet, after taking into consideration the following adjustment :—(1) Depreciate Plant and Machinery 10%, additions made during the year 5% and Fixtures and Fittings £ 27. (2) One quarter's Rent £ 75, was owing on 31st December 1913. (3) Rates and Insurance unexpired, and paid in advance, were respectively £12 6s. 2d. and £ 10 on 31st December 1913.

Cash at Bank	£	490	12	4
,, in hand	,,	14	7	3
Fixtures and Fittings	,,	327	0	0
Plant and Machinery (including additions during the year of £ 97)	,,	4,524	12	6
Purchases	,,	17,420	14	4
Sales	,,	31,921	10	6
Carriage Inwards	,,	114	11	11
,, Outwards	,,	246	14	5
Manufacturing Wages	,,	5,426	10	0
A. Drawings Account	,,	1,275	0	0

Office Salaries	£	641	16	8
Sundry Debtors	,,	8,942	14	10
,, Creditors	,,	2,337	15	9
Discount Account (Cr. Balance)	,,	8	0	1
Postage and Stationery	,,	51	12	9
Office Expenses	,,	197	14	7
Manufacturing Expenses	,,	439	2	1
Stock, 31st December 1912	,,	5,064	4	8
Bad Debts	,,	271	16	0
Rent	,,	225	0	0
Bills Payable	,,	1,324	10	0
Rents, Taxes and Insurance	,,	127	2	10
Fuel and Power	,,	102	4	7
Lighting and Heating	,,	49	6	4
Purchases Returns	,,	987	14	1
Sales Returns	,,	1,326	12	6

(Royal Society of Arts.)

100. From the following balances of Messrs. Collar and Cuff at 31st December, 1902, construct a Trading and Profit and Loss Account and Balance Sheet after making the undermentioned adjustment:—

(1) Post a further £ 100 for goods bought (invoice not having been received when balances taken out.)

(2) Provide necessary depreciation of lease.

(3) Write off depreciation of 5% from finished Stock at home and abroad, 5% from Machinery and Plant and 15% from Loose Tools.

(4) Allow 5% interest on Partners' Capital (interest on drawings not to be charged).

(5) The Stock at the balancing period consists of finished goods £ 6,000 and goods in process £ 2,000.

Travelling Expenses	£	1,240
Sales	,,	60,000
Rent, Rates, and Taxes	,,	300
J. Collar Capital	,,	20,000
R. Cuff	,,	5,000
Book Debts	,,	16,000
Mortgage on Lease	,,	1,000
Agent's Commission.	,,	760
Discounts (Cr.)	,,	100
Coal and Coke	,,	1,500

Bank interest and charges	£	70
Bills Receivable	,,	890
Cash in hand	,,	10
Cash at Bank	,,	800
Electric Light Installation	,,	400
Carriage outward	,,	230
,, inward	,,	400
Wages (productive)	,,	10,000
Repairs and Replacements	,,	100
Salaries and Wages (Staff)	,,	900
Machinery and Plant	,,	10,000
Lease (5 years to run)	,,	5,000
Goods on consignment (Calcutta)	,,	2,100
Purchases	,,	42,000
Bills Payable	,,	1,000
J. Collar Special Loan Account	,,	2,000
Sundry Creditors	,,	13,000
Fixtures and Office furniture	,,	200
Loose Tools	,,	1,200
J. Collar Drawings Account	,,	4,000
R. Cuff ,, ,,	,,	1,000
Stock (January 1920)	,,	3,000

(*Incor. Acott.*)

101. From the following particulars prepare Trading and Profit and Loss Accounts for the six months, ended 30th June 1914 and Balance Sheet at that date for Blackwell and Whitewell merchants :—

B. Blackwell Capital Account	£	5,000
W. Whitewell ,, ,,	,,	3,000
Purchases	,,	22,000
Returns Inwards	,,	200
Rents	,,	100
Salaries	,,	500
Interest on Investments	,,	125
Carriage inwards	,,	500
Returns outwards	,,	300
Sales	,,	21,000
Rates	,,	30
General Expenses	,,	500
Office Furniture	,,	100
Fixture and Fittings	,,	160

Sundry Creditors	£	1,000
Investments	,,	4,000
Plant	,,	300
Sundry Debtors	,,	3,800
Bills Payable	,,	4,500
Cash at Bank	,,	1,675

Allow Interest on Capital at 5 per cent. per annum. Blackwell is entitled to salary of £ 500 per annum out of profits. Write off £ 60 of Reserve for Bad Debts; and allow for depreciation 10 per cent. off Office Furniture, £ 15 off Fixtures. The partners share profits and losses equally and have drawn on account, Blackwell £ 600 and Whitewell £ 400. The Stock at 30th June 1914, was valued at £ 5,000. The investments at Stock Exchange Prices on 30th June 1914 were worth £ 3,900 and Bills accepted by customers had been discounted with the Bank for 2,770.—(*C. A. A.*)

102. The following is the trial balance of Harlow and James, on 30th September, 1912 :—

	£	s.	d.	£	s.	d.
Freehold Land and Building	5,500	0	0			
Plant and Machinery	2,675	15	0			
Stock, 30th March, 1912	8,345	8	7			
Sales				41,567	9	4
Purchases	25,467	8	3			
Carriage	945	10	4			
Wages	2,454	10	0			
Bad Debts written off	450	0	0			
Reserve for Bad Debts				1,350	0	0
Debtors	10,891	8	5			
Creditors				4,908	7	2
Discounts	1,647	9	1	1,476	5	6
Furniture	384	10	6			
Capital—W. Harlow				10,428	6	6
,, J. James				9,543	10	0
General Expenses	2,676	4	6			
Bank	3,749	13	10			
Rates	375	10	0			
Drawings—W. Harlow	2,040	2	5			
,, J. James	1,870	7	7			
	£ 69,273	18	6	£ 69,273	18	6

The stock at 30th September, 1912, was £ 8,840-15-10; interest on initial capital accounts is to be credited at 5 per cent., depreciation on plant etc., to be written off at 10 per cent. The rates are paid for the period 1st January—31st December, 1912. Reserve 5 per cent. further for bad and doubtful debts. The value of unexpired insurance, etc., is £ 125 14s. 6d. The profits are to be divided, two-thirds to W. Harlow, and one-third to J. James. The land and buildings were valued at £ 7,000 on 5th August, 1912. Prepare Trading Account, Profit and Loss Account and Balance Sheet as at 30th September, 1912.

103. The following is the list of balances of a Partnership business as on March 31st 1902 ;—

Dr.

Partners' Drawings :—		
W. Allport, June 30th, 1901	£	600
E. Edward, September 30th, 1901		550
A. Smith, December 31st, 1901		600
A. Smiths Capital Accounts as at March 31st, 1901		1,090
Salaries		1,125
General Expenses		640
Bad Debts		141
Discount		310
Rent, Rates and Taxes		650
Stock, 31st March, 1902		5,116
Lease and Cost of extra Premises		1,786
Book Debts		5,860
Bills Receivable		1,290
Cash at Bank and in hand		4,172
		£ 23,930

Cr.

W. Allport Capital Account	£	7,470
Edwards ,, ,,		6,900
Lease Renewal Fund being £ 50 per annum with Interest at 5 per cent. for 12 years to 31st March, 1901		796
Reserve for Bad Debts as at 31st March, 1901		272
Reserve for Discounts ,, ,, ,,		136
Sundry Creditors		1,216
Gross Profits		7,140
		£ 23,930

Calculate interest on Capital and Drawings Accounts at 5 per cent.

Bring up Bad Debts Reserve to 5 per cent. on Debts and Bills Receivable.

Bring up Reserve for Discount to 22 per cent. on Debts and Bills Receivable.

Increase Lease Renewal Fund for the 13th year.

Reserve for one quarter's rent at £ 600 per annum Less Income Tax, Schedule A for the year to date already paid. Credit A. Smith for extra services. £ 200 Divide balance of Net Profit in equal shares. Draw up a Balance Sheet.

104. A partnership consisted of A, B, C, D and the Deed contained the following special provisions as to the accounts :—

" Either partner may, by consent of the others, advance to or borrow money from the firm, and the amount or amounts so advanced or borrowed shall be placed to his loan account, and shall bear interest at 5 per cent per annum, free of Income Tax."

"The balance of the total interest on the Loan Accounts and the net balance of the Profit and Loss Account of the business shall be separately apportioned to the Drawing Accounts of the partners in proportion to the share of each in the working capital of the business."

The following is a list of the balances shown by the firm's books at the close of the half year ended 30th September 1908.

Freeholds at cost	£ 3,000
Buildings subject to depreciation at 2 per cent. per annum	,, 6,000
Plant and Machinery subject to depreciation at 7 per cent. per annum . . .	,, 2,500
Book Debts	,, 3,300
Stock on hand at cost , ...	,, 3,000
Cash at Bankers	,, 2,800
Partners' Loan Accounts :—	
C. Cash 30th June 1908 . . .	,, 600
D. ,, ,, ...	,, 500
Partners' Drawing Accounts :—	
A Cash 30th September 1908 . .	,, 500
B ,, ,, ...	,, 400
C ,, ,, ...	,, 300

D Cash 30th September 1908	£	300		
Salaries	,,	500		
Rates and Taxes	,,	250		
General Charges	,,	250		
Bad debts written off	,,	50		
				3,200
Creditors—				
Partners' Loan Account				
A: Cash 30th June	1,000			
,, 30th July	1,000			
				2,000
B: Cash 30th June 1908	500			
,, 30th July	500			1,000
Reserve for Bad Debts, (this is to be raised to 5 per cent. on outstandings)				50
Working Capital :—				
A			£ 5,000	
B			,, 4,000	
C			,, 3,000	
D			,, 3,000	
				15,000
Gross profit as per Trading Account for the half year to date				3,000
				£ 24,250

Follow the instructions on the list of balances and in the partnership deed and draw up the following :—

Profit and Loss Account for the half year.
Interest Account ,, ,,
Partners' ,, ,, ,,
Balance Sheet. (C. A.)

105. On 1st January, 1902, Andrew Smith takes a long lease of some business premises, upon which he pays out £4,275 in putting up new Plant and Machinery. He purchases stock to the extent of £3,515 and opens a Banking Account with Bullion and Co. by paying in £2,210, the foregoing three outlays constituting his Capital in the business. He then admits Benjamin Brown into partnership and the latter brings in £5,000 cash as his Capital, the firm being Smith, Brown & Co. The partners at the end of the year are to be credited with 5 per cent interest on their Capital, but are not to be charged with interest on their drawings. Brown is to have a manager's salary of £400 a year and

to take one-third of the net profit, while Smith who draws no salary, takes the remaining two-thirds of the net profit. At 31st December 1902 the gross profits amounting to £5,692 17s. 3d. subject to the following closing entries for the year. (*a*) Interest on Partners' Capitals, (*b*) Brown's Salary as manager, (*c*) 5 per cent Depreciation off Plant and Machinery, (*d*) Provision for Bad and Doubtful debts £320 16s. 2d. (*e*) Reserve for the last quarter's rent and other charges unpaid at 31st December 1902, £375 9s. 6d. While on the other hand there must be taken into account the following items *viz*., (*f*) The proportion of certain fixed charges paid in advance, amounting to £242 10s. 6d., and belonging to 1903. Smith has drawn out during the year, on account of profits, the sum of £600, while Brown has drawn out during the same periods on account of profits, and his salary as Manager £700. Give effect to the above closing and transfer-entries, and then show the following final results :—(*a*) Net profit and how divisible. (*b*) Financial position of Smith and Brown respectively.—(*Institution of Bankers*).

106. What do you understand by "Goodwill" and how would you deal with this item in the successive Balance Sheet of a Manufacturing Company.—(*Inst. of Secretaries.*)

107. The articles of partnership of Williams and Watson include a clause that either partner may retire from the firm on the undermentioned terms by giving six months' notice :—

(1) That the retiring partner shall be repaid his Capital, also.

(2) His share of profits to date of dissolution.

(3) Half the value of the goodwill of the business.

The profits (which are shared equally) are to be taken on the basis of the average profit of the firm for the three completed preceding years. The good-will is to be valued at three times the average profit of the three completed preceding years. The profits were as follows :—

Year ended 30th June	1912	...	£ 2,500
" "	1913	...	" 2,100
" "	1914	...	" 3,050

Williams gave notice to retire at 31st December, 1914, his capital then being £ 4,500.

What amount is due to him for goodwill, Capital and profits ?

(*Incor. Accts. 1915.*)

108. What do you understand by the term "Goodwill" as applied to book-keeping? How would you advise a trader to deal with the asset in his books?—(*N. U. T.*)

109. Dickson and Bell, having Capitals of £2,000 and £1,500 respectively, admit Peters into partnership on terms that he shall contribute £ 1,000 as capital, and pay them £ 1,400 for his share of the goodwill. Interest on capital to be 5% per annum (charged to Profit and Loss Account), and profits to be shared in the proportion of 4, 3, and 2. Peters has only £ 1,000 which he pays in as capital; and, in an attempt to meet the position, the partners raise a "Goodwill Account" for £ 1,400, which is credited, £ 800 to Dickson's capital and £ 600 to Bell's. You are called in at the end of the year, and find they have closed off the Profit and Loss Account as follows:—

	£	£		£
To Interest on Capital—			By Profit ... a. ...	2,500
Dickson...	140			
Bell	105			
Peters	50			
		295		
To Profits divided—				
Dickson	980			
Bell	735			
Peters	490			
		2,205		2,500
		£ 2,500		£ 2,500

Correct the error made by the partners, and the effect thereof, by journal entries, which should be fully explanatory. Show the true position of the Partners' accounts.—(*Chartered Accounts.*)

110. The Balance Sheet of X, Y, Z & Co., on 30th June 1919 stood as follows:—

Liabilities.	Rs.	*Assets.*	Rs.
Sundry creditors ...	31,107	Sundry debtors ...	43,990
Loans...	40,500	Furniture, etc. ...	7,637
Capital	83,204	Leasehold property..	9,000
		Horses, Carts, etc ..	4,020
		Stock-in-trade ...	87,164
		Cash	3,000
	1,54,811		1,54,811

The Company wish half-yearly accounts prepared as at 31st December 1919. It is not possible to take stock, but this can be estimated by taking into account their recognised percentage of profit on turnover. The following figures represent the six months' transactions: —

Purchases	Sales.	Departmental Expenses.	Profit on Sales.
Rs.	Rs.	Rs.	Rs.
46,887	53,926	4,822	$33\frac{1}{3}$ per cent.

The rent, rates, taxes and other management and personal expenses amount to Rs. 6,558. Partners' drawings amount to Rs. 1,500 and personal expenses alone come to Rs. 562.

Allow interest on Capital and Loan (due) at 5 per cent per annum. Write off depreciation on Furniture $2\frac{1}{2}$ per cent., Leasehold property $1\frac{1}{4}$ per cent., and Horses, Carts, etc., $12\frac{1}{2}$ per cent.

On 31st December 1919 Debtors stood at Rs. 38,718, Creditors at Rs. 31,500 and Loans at Rs. 40,500.

Work out the Stock and Cash balances. Draw up Trading and Profit and Loss Accounts for the half-year, and Balance Sheet as at 31st December 1919.—(*G. D.A.*)

111. A, B, and C were partners, dividing profits in the proportions of one-half, one-third, and one-sixth respectively. Their capitals were: A £10,000; B £8,000; and C £3,000. They arrange to take into the firm D, who is to pay in £ 6,500, of which £ 5,000 is to be his capital, and the remaining £ 1,500 is to be paid for goodwill, and is to be credited to A, B and C in the proportions in which they share profits.

In the new partnership D is to have one-fifth of the net profits, and the remaining four-fifths is to be divided between A, B and C in the proportions above named.

Show the Capital Accounts of the four partners, and state in what proportions they will share profits.—(*Chartered Accounts.*)

112. You are required to deal with the following points arising in Partnership Accounts. In each case state clearly the reasons for the method you adopt, and where necessary give also the journal entry.

(1) X and Y had been in partnership for a considerable time, and by way of providing for Bad Debts and other risks of trading had, each year, written off to a Reserved Fund 1 per cent. on their turnover. At December 31st, 1910, the account so built up amounted to Rs. 7,000.

On 1st January 1911, Z is admitted into the business on the basis of receiving one-fourth share of the profits, the accounts being continued in the same way as hitherto. On 1st January 1914, it is agreed to discontinue the Reserve Fund, it being no longer needed. Under what circumstances can Z make good his claim to one-fourth of the whole account,

(2) *Z* brings into business an amount of Capital agreed at Rs. 15,000, Rs. 10,000 cash and Freehold property valued at Rs. 10,000 on which there is a mortagage of Rs. 5,000. Draft the necessary journal entry and state the position of X and Y with regard to the mortgage.

(3) Distinguish between a premium paid for admittance into a Partnership and the introduction of an amount of Capital.

113. Given below is the Balance Sheet of Mr. Dalal.

Liabilities.	Rs.	*Assets.*	Rs.
Creditors ...	3,000	Cash ...	500
Mr. Dalal's Capital ...	13,500	Debtors ...	4,000
		Stock ...	5,000
		Furniture ...	750
		Buildings ...	6,000
		Investments ...	250
	16,500		16,500

Mr. Dalal wants to extend his business, and as such opens negotiations with Mr. Mehta, who finally decides to become an equal partner with Mr. Dalal. The arrangement made between them is as follows :—

A Reserve of 15 per cent. to be created on Debtors.

Stock to be taken at Rs. 4,500.

Furniture to be taken at Rs. 500.

Buildings to be taken at Rs. 7,000.

Investments not to be taken over by the new partnership.

An amount of Rs. 1,700 to be brought in by Mr. Mehta as a premium.

Mr. Mehta to bring in further cash, to make his Capital account equal to Mr. Dalal's Capital Account after making therein the abovesaid adjustments.

Pass the journal entries necessary to record the above transactions, and prepare the Balance Sheet of the new firm as at its commencement.—(*B. U.*)

114. The following was the Balance Sheet of A, B and C sharing profits and losses in the proportion of 6/14, 5/14 and 3/14 respectively :—

	Rs.	Rs.		Rs.
Creditors...		9,000	Land and Building ...	24,000
Bills Payable		3,000	Furniture	3,500
A	...19,000		Stock	14,000
B	...16,000		Debtors	12,000
C	... 8,000		Cash	900
		43,000		
		Rs. 55,000		Rs. 55,000

They agreed to take D into partnership, and give him a share of two annas in the Rupee on the following terms :—

(a) That D should bring in Rs. 4,200 as Goodwill and Rs. 7,000 as his Capital

(b) That furniture be depreciated by 12 per cent.

(c) That stock be depreciated by 10 per cent.

(d) That a Reserve of 5 per cent, be created for doubtful debts.

(e) That the value of Land and Building having appreciated be brought up to Rs. 31,000.

(f) That after making the above adjustment the capital accounts of the old partners (who continue to share in the same proportions as before) be adjusted on the basis of the proportion of C's capital to his share in the Business (*i. e.*, actual cash to be paid off to, or to be brought in by the old partners, as the case may be.)

Pass the journal entries necessary to give effect to the above arrangement and prepare the Cash Account, the Profit and Loss Adjustment Account, and the opening Balance Sheet, of the firm as newly constituted.—(*B. U.*)

115. On 1st January 1918 A and B who were trading in partnership sharing 7/12 and 5/12 respectively, take in C, giving him 1/6 share. Over and above his Capital C brings in Rs. 24,000 as his Goodwill for the ⅙th share which he has acquired, 1/24 from A and 1/8 from B. The cash brought in by C as his capital as well as for his share in Goodwill is credited in one separate account in his personal name. On 31st December 1918 their Trial Balance stood as follows :—

	Rs.		Rs.
Machinery	1,50,000	A's Capital	84,000
Furniture	10,000	B's Capital	60,000
Stock	30,000	C's account (personal)	56,000
Debtors	50,000	Creditors	12,000
A's Drawings ...	8,000	Current year's profit	58,000
B's Drawings ...	13,000		
C's Drawings ...	2,000		
Cash on hand ...	7,000		
	2,70,000		2,70,000

Interest on drawings is to be ignored but Interest on Capital accounts is to be allowed at 5 per cent per annum after the necessary adjustments therein as regards the Goodwill cash brought in by C. Prepare the Balance Sheet of the firm as on 31st December 1918, showing full details in the Capital accounts of the three partners.—(*B. U.*)

Company Accounts.

116. Make the necessary entries in Journal Form to record the following transactions in the Books of Account of a Limited Company.

(a) January 1st, 1915. The Company purchased from Vendors Plant and Machinery valued at £ 5,000, Stock-in-Trade valued at £ 2,500, and Patent Rights valued at £ 3,000.

(b) January 10th, 1915. The Company allotted to Vendors, in part payment of purchase of these assets, 800 fully paid Ordinary Shares of £10 each, and issued 25 Mortgage Debentures of £ 100 each in satisfaction of the balance of Purchase money.

(c) January 15th, 1915. The Company allotted to Applicants 1,000 Ordinary Shares of £ 10 each, having received on same date £ 2 per Share, the amount payable on application and allotment.

(d) February 15th, 1915. First Call of £ 2 per Share Made on 1,000 Ordinary Shares.

(e) February 20th, 1915. Payment of First Call received in full.

(f) March 1st, 1915. The Company received £ 2,500 in respect of Books Debts due to Vendors, agreed to be collected on their behalf. Vendors agreed to accept 30 Mortgage Debentures of £100 each in payment thereof, and these Debentures were issued to them on this date.

(g) April 1st, 1915. Certain Shareholders, being desirous of paying up the balance due on their Shares pending further Calls, the Company agreed to allow them 5 per cent. per annum interest, on the Calls paid in advance. £ 3,000 was received on this date from Shareholders under this arrangement.

(h) April 15th, 1915. The Company applied the sum of £ 2,300 in redeeming 20 Debentures of £ 100 each at a premium of 10 per cent., with £ 100 interest thereon to date of redemption.

In addition to the entries in the Books of Account, state briefly what other entries must be made in the records of the Company in respect of the above transactions. (Incor. Acctt. June 1910).

117. You are appointed book-keeper to an old established business which has recently been converted into a public Limited Company. Give rulings of any books which it would be necessary for the new Company to keep, other than the ordinary books of account which are already in existence, and need no amendment. (London Chamber 1902).

118. A Limited Co. issued £50,000 Debentures, in bonds of £ 100 each. at £ 95 per bond; which were all subscribed and paid up. Make the necessary Journal, Cash Book, and Ledger entries, and draw up Trial Balance and Balance Sheet.

119. What is a Joint Stock Co.? In addition to the usual Financial Books of a Joint Stock Co., what other books are Compulsory? (N. U. T. 1903).

120. Briefly define the following: (*a*) Nominal Capital. (*b*) Subscribed Capital. (*c*) Issued Capital. (*d*) Paid-up Capital. (*e*) Ordinary Shares. (*f*) Deferred Shares. (*g*) Preference Shares. (*h*) Founders Shares. (N. U. T. 1904.)

121. Give a ruling suitable for a Combined Register of Members and Share Ledger. (N. U. T. 1911).

122. What books a Company registered under the Companies Acts is required by statute to keep?

123. What entries would you make recording the forfeiture of shares on which two calls had been paid.

124. Is it advantageous or not to convert a business into a limited liability Company? Give reasons for your answer.

125. What is the meaning of (*a*) forfeited shares, (*b*) premium on shares. How are they dealt with in a Company's Accounts?

126. What are the rights and privileges of the holders of Mortgage Debentures, Cumulative Preference Shares, Deferred Shares. (M. C. U. 1910).

127. The Reserve Fund of a Limited Company is invested in Consols, the market price of which varies from time to time; how would these fluctuations be dealt with in preparing their Balance Sheet. (M. C. U. 1909).

128. In case of the death of a Share-holder what do you require before paying any dividends on account of the holding? (M. C. U. 1910).

129. It is usual for preliminary expenses to appear in a Company's Balance Sheet during the first few years of its existence. What justification is there for the practice, and what different kinds of expenditure come fairly under this heading? (Chartered Secretaries.)

130. The Articles of Association of a company permit the directors to receive from shareholders payment in advance of their calls, allowing them interest on such advances. Is such interest necessarily dependent upon profits, and how should interest due and paid under such an arrangement be treated in the Profit and Loss Account? (Chartered Accountants.)

131. Rule a Form of Register of Members and Share Ledger for Brown, Jones & Company, Ltd., and record the following transactions:- August 1, 19...—Henry Jones, ironmonger, Philpot Street, London E. C., applied for 10, 000 Ordinary Shares of £ 1 each, and paid 2s. 6d. per share on application.

August 10th.—The directors allotted Henry Jones 8,000 shares, on which 5s. per share was payable on application and allotment.

August 20th.—Henry Jones paid the balance due from him in respect of the shares allotted to him. (Chartered Accountants.)

132. The recent Report of a banking company referred to the fact that "the reserved liability amounted to £10,000,000."

Explain the significance of this statement. (Chartered Accountants.)

133. Briefly describe the uses and contents of the undermentioned registers as employed by limited companies.

State the occasions, if any, upon which the auditor is concerned with them: (a) Register of Probates; (b) Register of Mortgages; (c) Register of Balance Certificates; (d) Register of Sealed Documents. (Chartered Accountants.)

134. A Limited Company issued, at par, 100,000 Ordinary Shares of £ 1 each, and £ 10,000 Debentures, in bonds of £ 100 each; which were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, post to Ledger, draw out Trial Balance, and make a Balance Sheet.

135. A Limited Company with a registered capital of £ 500,000, in shares of £ 1 each, issued 200,000 of such shares, payable 2 s. 6 d. per share on application, 2 s. 6 d. per share on allotment, 5 s. per share three months later, and the balance as and when required. All moneys payable on allotment were duly received. But when the call of 5 s. per share was made, one shareholder failed to pay the amount due on his 250 shares: and another shareholder, who held 200 shares, paid them right up in full. Make the necessary Journal and Cash Book entries in the Company's books to record the above transactions, and show the Company's Balance Sheet.

136. Laurent Carle, Ltd., a newly formed Company, issued 50,000 Ordinary shares of £1 each and 50,000 6% Preference shares of £1 each. Of these, 51,650 Ordinary Shares were applied for, 50,000 of which were allotted; and 48,500 Preference Shares, all of which were allotted.

Briefly describe the procedure necessary in order to carry out the issue and allotment of these shares, and give rulings of any special books or papers you would recommend.

Both classes of shares were payable: 2s. 6d. per share on application, January 3, 19...; 5s. per share on allotment, January 5, 19...; 12s. 6d. per share, first and final call, January 31, 19...(Royal Society of Arts).

137. The West African Rubber Company, Ltd., which was registered with a capital of £100,000 divided into 1,000,000 shares of 2s. each, invited applications for its capital, payable 6d. per share on application, 1s. per share on allotment, and the remainder one month after allotment. On April 1, 19 , 1,200,000 shares were applied for, and the deposits thereon received. On April 6th following, applications for 800,000 shares were accepted in full, while applicants for the remaining 400,000 shares were allotted half the number they had respectively applied for.

The balance due on allotment was in each case received on the following day, and the final instalment was received on May 6, 19 . . . You are asked to show the record of the following accounts in the Ledger: (a) Applications Account: (b) Allottment Account; (c) Call Account; (d) Share Capital Account. (Chartered Institute Secretaries.)

138. Journalise the following transactions of a limited company:—

The company was registered on January 1, 19 . . . with a Nominal Capital of £120,000, divided into 120,000 shares of £1 each, of which 40,000 were issued as fully paid to the vendor as part purchase consideration, 40,000 offered for subscription to provide working Capital, payable as to 5s. per share on application, 5s. per share on allotment, and the remainder in two calls of 5s. each; 40,000 shares to be held in reserve for future issue. The vendor also received £10,000 in 5 per cent. Debentures, being the balance of the purchase consideration.

Jan. 5. Applications were received for 35,000 shares.
,, 6. Allotment made of 35,000 shares.
,, 10. Amount due on allotment of 35,000 shares was received.
Feb, 10. First call of 5s. per share was made, payable on February 24th.
,, 10. 40,000 fully paid shares allotted to vendor.
,, 10. 5. per cent. Debentures issued to vendor for £10,0C0, balance of purchase money. (Chartered Accountants.)

139. How should premiums received on the issue of the Capital of a limited company be dealt with in the books? Give your reasons. (Chartered Secretaries).

140. The Oriental Supplies Company, Ltd., made an issue of £50,000 Ordinary Shares of £1 each at a premium of 2s. per Share; 2s. 6d. per share payable on application, 4s. 6d. (including the premium) on allotment and 5s. on first call, due three months after allotment, and the balance as required.

The Application List was closed on March 25, 19 . . . when it appeared that applications had been received for 60,000 shares.

On March 31st the Directors met and allotted shares as follows: Applicants for 40,000 shares in full; applicants for 15,000 shares, 10,000; applicants for 5,000 shares, nil, their application money being returned on April 1st.

The whole of the amounts due on application and allotment were received by April 10th.

The first call became due on June 30, 19..., and was received by July 8th, with the exception of the call due on 1,000 shares.

The call on these 1,000 shares not having been received, the shares were duly declared forfeited by the Directors on September 30, 19....

Make the necessary entries in the Cash Book and Journal of the Company to record the above transactions. (Chartered Accountants.)

141. How should money received in respect of shares which have been forfeited and reissued be treated in the accounts of a company? (Chartered Accountants.)

142. The Directors of a limited company forfeited 1,000 Ordinary Shares of £1 each owing to non-payment of the final call of 10s. per share. The shares were subsequently reissued to another shareholder for a cash payment of 22s. 6d. per share.

(1) Are these proceedings intra vires?

(2) What steps should you take to enable you to arrive at a decision?

(3) How should the transactions be dealt with in the Balance Sheet which you are asked to certify? (Chartered Accountants.)

143. A & Co. Ltd., bought their freehold premises in the year 1862 for £ 50,000. In the year 1910 they employ Valuers who certify the present value to be £ 100,000. The asset stands in the Balance Sheet at £ 50,000. The directors seek your advice as to dealing with the increase of £ 50,000 in the accounts. What would you propose?

144. What do you understand by the term "posting from original documents"? Describe the manner in which this system can be carried out. (In. Acctt. December 1910).

145. A Limited Company, issued £ 50,000 Debentures in bonds of £ 100 each, at a premium of 10 per cent. payable £ 20 on application (including the premium) and 90 per cent on allotment. All the money was duly received. Make the necessary Journal and Cash Book entries, post to Ledger and draw up Trial Balance and show also the company's Balance Sheet.

146. You are appointed to undertake Accountancy work. What precautions should be taken in order to prevent misunderstanding as to your duties and at the same time safeguard your legal position ? (Incor. Acctt. June 1910).

147. How is a transfer of Shares made by a Limited Company? Describe the process from the receipt of the transfer deed to completion of transaction, and mention the necessary precautions that should be taken by the Company. (In. Acctt. June 1910).

148. The Golden Hill Co. Ltd. has a balance of £ 18,000 to the credit of Profit and Loss Account on 31st December 1908. On 1st February 1909 it was resolved to appropriate the amount as follows:--£ 3,600 to Reserve Fund. Dividend of 10 per cent. (less income tax 1 shilling in the £) on 1,000 Pre. Shares of £5 each fully paid. Dividend of 15 per cent. (free of income tax) on 1,000 Ordinary Shares of £ 5 each fully paid, and carry the balance forward. Make out (1) Profit and Loss Appropriation Account (2) Dividend Account (3) Income-Tax Account (4) Reserve Account. (N. U. T. 1909).

149. The Endless Vein Colliery Company produced during the year 1914, tons 200,000 of coal. From the following particulars prepare a Cost Sheet for the year and Trading and Profit and Loss Account for the same period. The Stock of Coal on hand at 1st January 1914, was tons 10,000, valued at 7 shillings per ton. The closing Stock was priced at the total cost of production for the year.

Sales (tons 175,000)	£ 65,625
Wages	50,000
Timber	1,000
Ropes	400
Other underground expenses	2.350
Royalty	1,250
Rent Rates, and General Expenses.	3,600
Salaries	1,400

(C. A. A. Final, June 1915).

150. John Dean sells his business to a Limited Company for £ 75,000, payable as to 55,000, ordinary and 20,000 preference Shares of £ 1 each. The Company takes over book debts £ 18,000, plant and machinery £ 21,000, and Stock 14,000. Dean disposes of all Preference Shares at par and invests half the sum in the Company taking a debenture bond.

Show the transactions.

1st. In Dean's book.

2nd. In the books of the Company.

(Incor. Acctt. June 1915).

151. From the following figures prepare Trial Balance, Profit and Loss Account and Balance Sheet of the A. L. Co. Limited, as at 30th June 1914.

	£.	s.	d.
Capital (50,000 shares of £ 1 each)	50,000	0	0
Sundry Debtors	70,300	10	0
Directors' Fees	800	0	0
Salaries	1,850	15	0
Rent and Rates	1,100	0	0
Office Expenses	1,000	0	0
Income Tax	515	0	0
Office Furniture	650	0	2
Creditors	54,150	10	0
Purchases	173,700	16	0
Sales	190,416	2	5
Stock 30-6-13	65,247	15	0
Cash at Bank	2,126	15	7
Bills Receivable	1,000	0	0
Bills payable	7,570	0	0
Reserve Fund	24,000	0	0
Profit and Loss Account 30-6-13 (Credit Balance) ...	2,154	9	2

The Stock on Hand at 30th June, 1914, was £ 64,150 10s. 0d.

Depreciate the Furniture at 10 per cent.

Subscribed Capital 5,000 Ordy. Shares of £ 10 each upon which £ 9 per share has been called. Ten shares have been forfeited upon which £ 40 had been received in payment of calls. The calls in arrears amount to £ 390.

The Lease of the Land upon which the works are erected expired on 31st March 1912 and included the fixed Plant and Machinery. Depreciation on Lands and Buildings (Free-hold) may be calculated at 1 %;. on Loose plant and Tools £ 500 at 5 %.

Provide for :—

Half year's Rent ... £ 160.

Unpaid wages ... £ 90.

Discount off debts due to the Company at 2½ %. Further allowances for Bad and doubtful debts, £ 100.

152. The Patents Development Co., Ltd., was formed and registered for the purpose of purchasing certain patents for the sum of £ 20,000. The Nominal Capital of the Company was £ 100,000, in shares of £ 1 each. The agreement with the vendor provided, that he should receive 3,000, fully paid shares and a debenture for £ 2,000, charged on the patents. The Memorandum and Articles were signed by A., B., C., D., E., F., and G., each for ten shares. The Company was registered on 21st June 1907. During July applications were received for the following additional shares—from A. for 5,000, B. 8,000, C. 5,000, D. 130, and E. 200. A deposit of 2s. per share was received with each application. At a meeting of the Directors held on 1st August all the above-mentioned shares and the debentures were allotted and ordered to be registered in the books of the Company.

Make the requisite Journal and Cash Book entries in respect of the above transactions. (C. A.)

153. A Syndicate purchased the business of an Electrical Engineer and sold it to a Limited Company on the following terms :—

All expenses upto allotment to be borne by the Vendors :—

	Cost to Company.			Cost to Syndicate.		
	£.	s.	d.	£.	s.	d.
Stock in Trade	45,000	0	0	40,000	0	0
Lease and Trade Fittings ...	8,000	0	0	5,000	0	0
Plant and Machinery ...	25,000	0	0	20.000	0	0
Good will	15,000	0	0	7,000	0	0
Patents	7.000	0	0	10,000	0	0

The Company's Capital was £ 120,000, in 100,000 fully paid shares of 1 £ each which were issued and wholly subscribed for, and 20,000 £ 1 deferred ordinary shares which the Syndicate agreed to accept in part payment of the purchase price, the balance being payable in cash.

Open the books of the Company by Journal entries only in accordance with the foregoing. (Incor. Acctt. June 1910).

154. The Profit and Loss Account of the "A" Company Limited for the year ended 30th June last shows a Credit Balance of £ 13,647, 12s. 10d. At the General Meeting, held on the 10th August last, it was resolved to:—

1. Declare a dividend of 7 per cent. upon the issue of 100,000 Preference Shares of £ 1 each.

2. Transfer one-third of the balance to Reserve Fund.

3. Declare a devidend of 4½ per cent. (Free of Income-tax upon the issue of 20,000 Ordinary Shares of £ 5 each.)

4. Carry forward the balances.

You are required to show, in Journal form, the entries necessary to give effect to these resolution.

155. The New Manufacturing Co., Limited acquires the business of Brown & Co. for £ 100,000, Payable half in Cash and half in Shares. The assets taken over are as follows:—

Freehold Premises...	£ 20,000
Plant and Machinery	12,500
Stock-in-Trade	24,000
Book Debts	33,500
Good will	10,000

The Nominal Capital of the Company is £ 200,000 in Shares of £ 1 each. In addition to those issued to Brown & Co. as part payment 120,000 Shares have been issued to the public, upon which on 1st January 1898, 15s. per Share had been called up and duly paid. The cash consideration was paid to Brown & Co., on 31st, December 1897. You are required to prepare the Company's Balance Sheet as on 1st, January 1898. (Incor. Acctt. Dec. 1915).

156. Messrs. Broadbent, Brown & Co's. Balance Sheet on December 1909 was as follows:—

Liabilities.	£.	s.	d.	**Assets.**	£.	s.	d.
Creditors . . .	7,000	0	0	Debtors . . .	18,000	0	0
Capital . . .	43,500	0	0	Plant	17,000	0	0
				Stock	15,000	0	0
				Band	500	0	0
	£ 50,500	0	0		£ 50,500	0	0

The business is sold as from the above date to Broadbent, Brown & Co., Limited, for £ 50,000, payable as to £ 6,000 in Cash, £ 6,000 in fully paid 5 per cent. Debentures, and the balance in fully paid shares, the Company taking over all assets and liabilities. The authorised Share Capital of the Company is registered as £ 100,000 in £ 1 share payable 1s. per share on application, 10s. per share on allotment and 9 s. per share when required. Applications are received on January 1st 1910, and all the shares are taken up. The Company goes to allotment on January 3rd ard deposites on allotment are received on January 5th and the final balances of share Capital are all received on January 19th. The transfer of the private business to Broadbent, Brown & Co., Ltd. takes place on January 20th, when £ 6,000 cash is paid by cheque to the old firm, and the shares and debentures are duly allotted. Enter these transactions in the Company's book and prepare a Balance Sheet as on January 20th.

157. The following is the Balance Sheet of the A. Company, Limited, on the 31st December 1902 :—

Balance Sheet.

		Liabilities.
Capital 70,000 Shares of £ 2 each	£ 140,000	
Calls unpaid	, 5,000	
		£ 135,000
Trade Creditors		,, 15,000
Reserve Fund		,, 5,000
		£ 155,000
		Assets.
Goodwill		,, 50,000
Premises		,, 20,000
Stock-in-Trade		,, 15,000
Sundry Debtors		,, 30,000
Cash		,, 5,000
Profit and Loss Account		,, 35,000
		£ 155,000

The Capital of the Company is reduced to £ 70,000, in fully paid shares of £ 1 each. Show the amended Balance Sheet, giving effect to this reduction of Capital, and show the Journal Entries necessary to record the alterations in the books.

158. The Balance Sheet of the Trading Company, Limited, at 30th September, 1914, was as follows:—

Liabilities.	£.	£.	Assets.	£.
Share Capital issued 500 Ordinary Shares of £ 5 each, fully paid	2,500		Plant	1,500
500 Ordinary Shares of £ 5 each £ 3 per Share paid up ...	1,500		Sundry Debtors	1,200
		4,000	Stock	1,000
Bank Overdraft (secured by Mortgage Debenures for £ 1,000)		500	Profit and Loss Account Loss to date	4,300
Sundry Creditors ...		3,500		
		£. 8,000		£. 8,000

The Company having decided to go into Voluntary Liquidation appoint you Liquidator. You sell the plant for £ 1,200, collect the Book Debts, which realise £ 1,000, and dispose of the Stock for £ 750, the Company's Bankers, who hold the Debentures for £ 1,000, having agreed to leave the realization of the Assests in your hands. You ascertain that there is a deficiency of Assets to meet claims of Creditors and you make a call on those Shareholders who are liable as contributories. On 31st March, 1915, having realized all the Assets and received payment in full of the call made upon contributories, you proceed to distribute the Funds in your hands as Liquidator. The Creditors include £ 100 Rates for the half year ending 30th September, 1914; and the costs of Liquidation, including your Remuneration amount to £ 500. Prepare, for issue to Creditors and contributories, a Statement of your Receipts and Payments as Liquidator, showing how you would distribute the Funds in your hands on the 31st March, 1915, and the amount of Dividend in the £ to Unsecured Creditors. Interest accrued on Bank overdraft to date, when it was paid off, amounted to £ 50.

159. Prepare Trading Account, Profit and Loss Account, and Balance Sheet from the following Trial Balance of the books of Messrs. John Welbeck and Co., Ltd., Manufacturers:—

Trial Balance 31st December, 1905.

	Dr.	Cr.
	£.	£.
Issued Capital		100,000
Freehold Land and Building	40,000	

	£	£
Debentures		20,000
Machinery and Plant	48,000	
Loose Tools	5,000	
Stock at 1st January 1905	175,000	
Materials Bought	23,750	
Wages	9,000	
Office Salaries and Travellers	2,500	
Coal and Coke	1,300	
Rates and Taxes	430	
Discounts	820	
Blankshire Banking Co., Ltd.	3,600	
Sundry Debtors	6,800	
Sundry Creditors		2,000
Bills Payable		4,500
Cash in hand	90	
Profit and Loss Account		500
Bad Debts	125	
Sales		53,000
Sales Returns	1,880	
Repairs	405	
Interest on Debentures	800	
Patents (cost)	18,000	
	£ 180,000	£ 180,000

Write off depreciation on Patents and Machinery and Plant at 10 per cent. per annum, and on Loose Tools at 7½ per cent. per annum, Reserve £ 150 for Doubtful Debts. The Stock on 31st December, 1905, amounted to £ 18750. (C. A. A. 1906).

160. From the following Trial Balance of the Alpha Manufacturing Company, Limited, for the year ended 31st December last, prepare Trading Account, Profit and Loss Account and Balance Sheet, after providing a Reserve of £ 150 for Doubtful Debts, and for Depreciation of Plant and Machinery at 7½ per cent. ; also making allowance for £ 50 rates paid in advance.

Trial Balance, 31st December 1906.

	£	£
Sales		48,000
Materials Purchased	32,000	
General Expenses...	1,750	

	£	£
Repairs	1,600	
Returns	200	
Fuel Consumed	2,400	
Lighting	150	
Trade Creditors		2,000
Plant and Machinery	14,000	
Wages	6,200	
Land and Buildings	7,600	
Salaries	500	
Trade Debtors	4,000	
Bank	1,800	
Transfer Fees		50
Stock on 31st December 1905 :—		
Materials	4,500	
Finished Goods	8,000	
Stores	100	
Rent, Rates and Taxes	600	
Capital Account—400 shares of £ 10 each ...		40,000
Bad Debts	250	
Store Purchased	400	
Interim Dividend	4,000	
	£ 90,050	£ 90,050

The Stock on hand 31st December last was as follows :—

Raw Materials	£ 8,000
Finished Goods	7,000
Stores	150

(C. A. A. 1907).

161. The Khaki Cloth Manufacturing Company, Limited, has a Nominal Capital of £ 30,000 divided into £ 20,000 ordinary shares of £ 1 each and 10,000 6 % Preference Shares of £ 1 each. Below is set out the Trial Balance for the year ended 31st December 1914, you are required to prepare Trading Account, Profit and Loss Account, and Balance Sheet after making the necessary adjustments, in regard to the terms named below. The various divisions of the final Account are to show :—

(a) Gross profit.
(b) Profit on Trading.
(c) Net profit.

The adjustments referred to are as follows :—

(a) Wages owing, £ 61.

(b) Rates and Insurance Prepaid, £ 38.

(c) Reserve 2½ % of the Book Debts for Bad Debts.

(d) Depreciate—

1. Plant and Machinery at 7½ per annum on additions for six months only ;

2. Leasehold Property at 2½% ;

3. Freehold Property at 1% ;

The Stock on hand, in addition to yarn, are as follows :—

(a) Piece goods, £ 4,896 ;

(b) Work in progress, £ 1926 ;

(c) Wool, Mungo, &c., £ 824 ;

(d) Packing Cases, £ 25 ;

(e) Mill Furnishing, £ 271-1-6 ;

(f) Coal, £ 12-12-11.

The Preliminary Expenses are being written off in three equal annual instalments. The first instalment was written off at the end of 1913.

Trial Balance.

	£.	s.	d.	£.	s.	d.
Freehold Property	5,000	0	0			
Leasehold Property at a ground rent of £ 50 per annum	7,000	0	0			
Stock of piece Goods, 1st January 1914	5,239	10	4			
Work in progress 1st January 1914 ...	1,769	2	2			
Stock of Wool, Mungo...	769	4	3			
Manufacturing Wages...	4,271	18	3			
Purchases of Wool, and Mungo &c ...	7,470	17	6			
Rates, Taxes, Gas, Water and Insurance	627	7	3			
Carriage on Sales	177	19	8			
Out work	991	9	5			
14 Shares of £ 10 each in Box and Cox, Limited at cost	140	0	0			
Rent received from leasehold property.	326	17	4			
Ground rent	50	0	0			
Preference Dividend	150	0	0			
Yarn used in Manufacture	2,004	18	2			
Yarn in Stock, 31st December 1914 ...	764	0	0			
Sales				20,681	12	6

	£ s. d.	£ s. d.
Wool and Mungo returned to Creditors		134 17 6
Returns Inwards	126 1 6	
Discounts on Purchases		423 7 10
Sundry Debtors	2,683 7 5	
Plant and Machinery	5,197 9 0	
Additions to plant and Machinery .	55 0 0	
Discount on Sales	471 6 3	
Sundry Creditors		4,303 8 10
Mill Furnishings	526 15 3	
Warehouse and Office Salaries ...	275 4 0	
Ordinary Share Capital, 15,000 Shares of £ 1 each		15,000 0 0
Preference Share Capital, 5,000 6% Shares of £ 1 each		5,000 0 0
Loan from John Greenwood at 4% obtained 1st, July, 1914		2,000 0 0
Motive power, Coal, Oil, &c. ...	660 0 0	
Interest on loan	40 0 0	
Dividends on investment		16 2 0
Bad Debts written off	40 0 4	
Purchases of packing cases, including Stock of cases on 1st, January 1914	225 0 0	
Travelling and incidental Expenses.	240 0 0	
Preliminary Expenses	500 0 0	
Bank		80 4 2
Goodwill	1,500 0 0	
Profit and Loss Account, 1st, January, 1914		1,000 0 0
	£ 48,966 10 5	£ 48,966 10 5

(M. C. U. 1915).

162. The Engine and Motor Company, Limited, has a nominal Capital of £ 1,00,000, divided into 75,000 ordinary shares of £ 1 each and 2,500 6% cumulative preference shares of £ 10 each. The books of the Co., were balanced on 31st March, 1908, on which date a T/B., containing the following balances, was extracted. Before closing the books the following adjustments are necessary :—(1) A portion of the premises has been sublet, since 1st January, 1908, at £ 80 per ann., and the rent due to date has not been paid or passed through the books; (2) The Insurance unexpired amounts to £ 30; (3) Eleven months only of the Office Salaries have been paid; (4) Make the Reserve for Bad Debts equal to an amount representing 5% on the Sundry Debtors (excluding sundry debtors for rent); (5) Write off the whole of the Preliminary Expenses; (6) Write off the following depreciations:—(*a*) Plant and Machinery 10%; (*b*) Office furniture 10%; (c) Patterns 15%; (*d*) Patents 20%. Stock on hand on 31st, March, 1908, was valued at £ 23,995, and the Loose Tools at £ 2,730. Prepare Trading, Profit and Loss Accounts and Balance Sheet for the year ended 31st, March, 1908.

Dr. Balances:—	£.
Freehold Premises	12,675
Plant and Machinery	11,595
Calls in Arrear	2,000
Stock, 31st, March, 1907	14,665
Office Furniture	545
Loose Tools, 31st March, 1907	3,125
Patterns	3,155
Patents	1,535
Goodwill Account	3,000
Sundry Debtors	31,215
Cash at Bank, Current Account	985
Cash at Bank, Deposit Account	10,000
Cash in hand	45
Sales Returns	975
Purchases	71,245
Manufacturing Wages	25,595
Repairs and Renewals of Plant	1,245
Coal	2,765
Gas and Water	475
Rates, Taxes and Insurance	865
Office Salaries	750
Trade Expenses	2,165
Bad Debts Written off	615
Directors' Fees	300
Carriage	4,155
Audit Fee and Legal Expenses	205
General Expenses	945
Discounts Allowed	1,235
Prelimiary Expenses	350
Travelling Expenses	465

Cr. Balances—

Ordinary Share Capital (50,000 Shares)	50,000
Preference Share Capital (2,500 Shares)	25,000
Profit and Loss Account (Balance 31st March, 1907)	1,545
Sales	107,015
Purchase Returns	1,675
Sundry Creditors	12,805
Bills Payable	8,765
Reserves for Bad Debts (31st March, 1907)	1,165
Interest on Bank Deposit Account	45
Discounts Received	875

What dividend, if any, would you recommend the Directors to propose taking into consideration the fact that the dividend on the Preference Shares for the year ended 31st March, 1907, has not been paid ?

163. The pure Gold Mining Company was registered on January 1st 1913 with a nominal Capital of 50,000 shares at £ 10 each divided into 25,000 5% Preference Shares and 25,000 Ordinary Shares, to acquire as going concern the business of Jackson Jones & Co. the purchase price being £200,000. The Shares allotted for cash were 10,000 Preference and 5,000 Ordinary ; £ 1-5-0 per share was paid on application on January 10th 1913, and £ 2-10-0 per share was payable on allotment on January 25th 1913 the allotment money was all paid by February 1st 1913. A first call of £ 3-15-0 per share was made on March 1st 1913 and a final call on April 1st 1913. On may 25th a holder of five Ordinary Shares had failed to pay his two calls and his shares were forfeited. A holder of five Preference Shares had on that date not yet paid the final call on his shares. The forfeited shares were re-issued for Cash at £ 7-10 per share. The Company completed the purchase of the business on April 30th 1913 as to one half in cash and the other half in equal proportion of Preference and Ordinary Shares. The Assets taken over by the Company according to the Vendor's Agreement were in addition to goodwill :—Machinery and plant £ 50,000 ; Book Debts £ 10,000 ; Stock £ 20,000; Land £ 100,000. Give effect to the transactions in the books of the Company by Journal and Cash Entries and prepare a Balance Sheet as on May 31st 1913. (C. A. A.).

164. A Limited Liability Co. has Debentures of £ 100,000 bearing interest at 8 per cent and redeemable at the option of the Co. at any time on 3 months' notice at a premuim of 5 per cent, and an authorised share Capital of £ 450,000 in shares of £ 1 each, of which 300,000 have been issued and paid up, on which a dividend at the rate of 12½ has been regularly paid. The Company decides to redeem the Debentures and to issue the remaining 150,000 shares to its shareholders at 25 sh. per share.

Give the journal entries recording the transactions, shew the position of the Debenture and Share captial accounts when the transaction is completed, and state what is the amount of the additional financial resources available to the company by the operation. (Incorporated Accountants, Intermediate, December 1922.)

165. A Client disposes of his business to a Limited Company for £250,000 payable as to £100,000 in Cash, £75,000 in Debentures and £75,000 in an equal number of Ordinary and Preference Shares of £1 each. The assets taken over are as follows :—

	£.
Plant and Machinery	25,000
Stock	150,000
Book Debts	30,000
Patents	10.000
Goodwill	35,000

Record all the transactions in the Books of your client and the Company. (Incorporated Accountants, Intermediate, December, 1922)

166. The Broadstairs Cafe, Limited, issue 25,000 Ordinary Shares of £1 each, and enter into a contract with A. Bleak, who underwrites the whole issue at 5 per cent with an over-riding commission of 1 per cent.

A. Bleak obtains sub-underwriting contracts from C. Dickens and U. Heap for 10,000 and 5,000 shares respectively.

You are asked to prepare a statement showing the division of the amount paid by The Broadstairs Cafe, Limited, between the respective parties. (Chartered Accountants, Intermediate, December, 1924.)

167. A Company issued on 1st January, 1923, (at which date the standard rate of Income Tax was at 5 in the £, subsequently reduced on 5th April, 1923, to 4/6 in the £) 2,000 6 per cent Mortgage Debentures of £100 each, at a premium of 1/16 per cent the interest being due and payable half-yearly on the first January and 1st July, (a full half year's interest on such issue to be paid on 1st July, 1923), the Company's financial year ending on the 30th September each year.

The whole of the issue was applied for by the public and paid for; the expenses attaching to such issue having 1/15per cent of the issue price.

Show by use of the Journal what entries should have been passed through the books during the year ended 30th September, 1923, to provide for the liability of the Company to the Debenture holders. (Chartered Accountants, Intermediate, December, 1924).

168. The Managing Director of a Limited Company is entitled to a salary and 5 per cent of net profits. Difficulties arise in the interpretation of the phrase "net profits," and the following points are submitted to you for advice :—

(1) Whether the Managing Director's salary is to be charged, before arriving at net profits ?

(2) Whether depreciation should be charged, and if charged whether the lump sum charged in the accounts should stand ?

(3) Whether expenditure in removal and rehousing of a department of the factory should be charged ?

(4) Whether the Managing Director's valuation of stock for purposes of the accounts should be binding, where this provides a reserve by under-valuation?

Your opinion is requested on the matters set out, and you are further asked to assist the solicitor to the Company with advice upon any alteration in the form of the agreement which may obviate, as far as possible, differences of opinion upon these and similar matters in the future. Give your opinion and advice accordingly. (Chartered Accountants, Final, December 1924).

169. What are the provisions of Table A as to a company's lien on shares? What provisions as to lien are usually inserted in Articles of Association ?

The articles of a company gave it a first and paramount lien over its shares for sums in which the shareholder might be indebted to the company. A shareholder deposited his certificate with a bank as security for an overdraft. The bank gave notice to the company. The shareholder then became indebted to the company for advances. The company claimed priority over the bank on the grounds that it had a first lien by agreement and that it was not bound to take notice of any trust. How did the Court determine the priorities ? (Chartered Accountants, Final, December 1924.)

170 The credit side of the Balance Sheet of X. & Co., Ltd., on December 31st, 1923, was as follows : –

	£.
Freehold Land and Buildings at cost	123,132
Fixtures, Fittings and Furniture at cost, less depreciation	7,254
Plant and Machinery at cost less depreciation ...	83,235
Investments in Subsidiary Companies at cost ...	158,900
Stock in trade at valuation	73,564
Sundry Debtors	80,216
Balance at Bankers and Cash in hand	379
Profit and Loss Account	137,212
	£ 663,892

The paid up Capital of the Company is £ 500,000, made up of 300,000 10% Cumulative Preference Shares of £ 1 each, and 400,000 Ordinary Shares of 10s. each. The arrears of Preference Dividend amount to £ 120,000.

A scheme for reduction of Capital has been duly approved and authorised. It provides as follows :—

(1) The shareholders are to receive :—

(a) For three 10% Preference Shares, one 7% Cumulative First Preference Share of £ 1, one 10% Non-Cumulative Second Preference Share of £ 1, and one Ordinary Share of 2/-.

(b) For each £ of accumulated arrears of Preference Dividend one Ordinary Share of 2/-.

(c) For each old Ordinary Share of 10/- a new Ordinary Share of 2/-.

(2). The debit balance of Profit and Loss Account is to be extinguished; and assets are to be written down to the following respective values :—

Freehold Land and Building	110,000
Fixtures, Fittings and Furniture	6,733
Plant and Machinery	65,000
Investments in Subsidiary Companies	90,000

Show by journal entries the necessary records in the Company's books. (Chartered Accountants, Final, December 1924).

171. L. M. & N. traded in partnership as equal partners. On the death of M., his executors desired to realise his interest in the firm. It was arranged that the assets and liabilities on 30th June, 1924, other than cash, should be taken over by the L. N. Co. Ltd.

The purchase consideration was fixed at £ 25,000, to be satisfied by the issue of 15,000 fully paid Ordinary Shares of £ 1 each, and cash £ 10,000. It was agreed that, to meet the executor's wishes, M.'s share, should be paid out in cash, L. and N. proportionately taking the shares which should be valued for the purpose of distribution at 17/- each.

The firm's Balance Sheet on 30th June, 1924, was as follows:—

	£.	£.		£.
Sundry Creditors		12,300	Plant and Machinery ...	4,000
Capital Accounts			Stock	12,000
L	5,200		Sundry Debtors	9,900
M	5,400		Cash	1,400
N	4,400			
		15,000		
		£ 27,300		£ 27,300

Shew the position of affairs as between L. M. & N. after the settlement, and the opening Balance Sheet of L. N. Co., Ltd., (Chartered Accountants, Final, December, 1924.)

172. The Books of the C. D. Rubber. Co., Ltd., with an authorised share capital of 3,000,000 shares of 2s. each, show the following Balances as at 31st December, 1923. Prepare Trial Balance, Profit and Loss Account, and Balance Sheet.

	£.
Capital issued 2,920,000 shares at 2s. fully paid ...	292,000
Unclaimed Dividends	260
Sundry Creditors	5,500
Profit as at 1-1-1923	17,000
Proceeds of Rubber Sold and of estimated realisation ...	28,275
Interest Received	200
Transfer Fees	46
Cost of Estate as at 1-1-23	291,000
Developments of Estate during year	5,891
Buildings and Machinery 31-12-1923	9,900
Rubber in transit and in hand 31-12-1923	7,975
Revenue Expenditure	8,100
Proportion of General Expenditure	6,200
Sundry Stores	150
Sundry Debtors	775
Balance at Bank	10,500
Cash in hand	460
Loss on Exchange	450
Proportion of London Office Expenses	1,680
Manager's Commission	200

(Incorporated Accountants, Intermediate, December, 1924.)

173. The Atkins Co., Ltd., and the Perkins Co., Ltd., both being engaged in the same trade agreed to amalgamate.

The agreement provided that the Atkins Co, Ltd. was to take over all the assets of the Perkins Co. Ltd., and to discharge all their liabilities and debentures, the consideration being the issue by the Atkins Co. Ltd. of £ 100,000 fully paid shares of £ 1 each, and the payment of £ 20,000 in cash to the Perkins Co. Ltd.

The agreement also provided that the Atkins Co. was to defray the liquidation expenses of the Perkins Co., which amounted to £ 1,000.

The balances in the books of the two companies on the date of the amalgamation were as follows :—

	Dr. Atkins.	Dr. Perkins.	Cr. Atkins.	Cr. Perkins.
	£.	£	£	£
Nominal Share Capital Atkins Co., Ltd., 500,000 shares of £ 1 each.				
Perkins Co., Ltd., 150,000 share of £ 1 each.				
Issued Capital			400,000	100,000
Debentures			100,000	20,000
Debtors	50,000	15,000		
Creditors			20,000	5,000
Bank	20,000			2,000
War Loan (£. 50,000) ...	47,500			
Good-will	80,000	10,000		
Freehold Property	120,000	35,000		
Plant and Machinery ..	60,000	20,000		
Stock	227,000	55,000		
Bills Receivable	5,500			
Reserve Account			50,000	
Profit and Loss			40,000	8,000
Total ...	610,000	135,000	610,000	135,000

In order to carry out the arrangement, the Atkins Co. sold one half of its War Loan at 101½ and made arrangements with its Bank for any overdraft that might be necessary in order to complete the transaction.

Prepare the Balance Sheet of the Atkins Co. Ltd., after the amalgamation had been completed. (Incorporated Accountants, Final, December, 1924.)

174. On 1st July, 1918, A. B., Ltd., issued Debentures for £ 5,000 redeemable at par on 1st July, 1923. It was decided to establish a Sinking Fund for the purpose of redemption.

Shew the Ledger Accounts for the five years assuming the annually invested amounts to earn, 5% interest, net, and that the amount annually set aside for the purpose is £ 904 17s. 6d. (Incorporated Accountants, Final, June 1924.)

175. The following is the Trial Balance on June 30th, 1920, of the X. Y. Z. Manufacturing Co., Ltd. :—

	£.	£.
Stock (July 1st 1919)	20,000	
Purchases	84,000	
Wages	9,000	
Directors' Salaries (£ 1,500 each)	3,000	
Rates	300	
Coal and Coke	1,800	
Repairs	1,000	
Insurance	300	
Bank Charges...	250	
Carriage	500	
Motor Expenses	750	
General Expenses	240	
Sales		100,000
Commission		5,000
Final Dividend on July 15th 1919 :—		
10,000 Preference Shares 6 per cent ...	210	
20,000 Ordinary Shares 6 per cent ...	2,000	
Income Tax Schedule A, net	150	
Income Tax Schedule D, ...	1,200	
Interest on Loan	175	
Capital 5 per cent, Preference		10,000
,, ,, Ordinary		20,000
Loan		5,000

	£	£
Property	5,000	
Fixed Plant	2,000	
Machinery	4,000	
Motor Waggons	1,500	
Bank	125	
Debtors	15,000	
Creditors		10,000
Profit and Loss Account July 1st 1919 ...		2,500
	152,500	152,500

The Stock at June 30th, 1920 was £ 30,000.

Prepare Trading and Profit and Loss Account and Balance Sheet write off Depreciation at the following rates :—Plant 5 per cent, machinery, 7½ per cent, motor waggons 15 per cent, the same as allowed for Income Tax purposes; also 2½ per cent off the property. (Incorporated Accountants, Final, December 1920).

176. The following balances appear at 21st March, 1923, in the books of the Enterprising Press, Ltd., a private company whose authorised capital of 250 Ordinary Shares had been increased during the year by the creation of 12,450 Preference Shares of £ 1 each :—

Ordinary Share Capital	250	0	0
Preference Share Capital	6,250	0	0
Cash at Bank	1,167	10	11
Cash in hand	7	12	7
Sundry Debtors, as per Sales Ledger	6,075	10	2
Reserve for Bad and Doubtful Debts	800	0	0
Office Furniture and Machinery	466	13	2
Goodwill	1,200	0	0
Commission payable in respect of additional Share Capital subscribed	207	10	0
Stamp Duty and Registration Fee payable on Increase of the Capital of the Company	130	10	0
Motor Car, Balance as at 31st March, 1922 ...	571	15	2
Profit and Loss Account-Debit Balance as at 31st March, 1922	1,120	3	10
Sundry Creditors, per Bought Ledger	2,748	19	11
Loan Creditor	1,000	0	0
Revenue from Advertisements	13,103	10	4

	£	s.	d.
Discounts received	5	2	7
Printing	2,370	7	7
Paper	587	1	1
Blocks and Drawings	113	2	9
Rent, Lighting and Heating	200	13	8
Telephone	92	13	11
Subscriptions received for periodicals	47	4	8
Salaries	2,898	1	1
Travelling and Entertaining Expenses	1,701	10	3
Commission	813	2	5
Translators, Contributors and Editorial Charges ...	1,193	15	0
Stationery and advertising	163	10	3
Bank Charges	5	16	1
Transfer Fees	1	2	6
Legal Expenses	21	0	0
Audit Fee	31	10	0
Postages	1,310	15	4
Wrapping Charges	250	17	7
Bad Debts	492	17	7
Trade Expenses...	408	1	7
Assurance Premium on Life of Managing Director (payable by the Company under Special Agreement)	121	9	2
Directors' Fees	190	13	4
Interest on Loans	195	12	6
Income Tax—Schedule "D"... ... £ 75-18-0			
Income Tax—Schedule "A"... ... £ 20- 5-0	96	3	0

Stock of Paper on hand at 31st March, 1923, estimated at £ 100. Provide Depreciation on Office Furniture and Motor Car at 10 per cent and 20 per cent per annum respectively, and increase Reserve for Bad and Doubtful Debts to £ 1,000.

The following amounts were owing by the Company at 31st March 1923, in addition to the liabilities shewn by the books :—

	£	s.	d.
Directors' Fees	78	0	0
Salaries	111	13	4
Trade Expenses...	86	4	6

Prepare a Trading and Profit and Loss Account for the year, and Balance Sheet as at 31st March, 1923. (Incorporated Accountants, Intermediate, June 1923).

177. Criticise the following Balance Sheet and re-draft it in the form you would be prepared to certify it. Taking assumed figures for the purpose of splitting any item, state concisely the information and explanations you would require as Auditor, and draft your Report to the Shareholders.

Liabilities.

		£. s. d.	£. s. d.
Capital issues :—			
6,027 Six percent, Cumulative Preference Shares of £1 each ...		6,027 0 0	
3,100 Ordinary Shares		3,100 0 0	
		£9,127 0 0	
Deduct :—			
Uncalled Capital	£. 162 10 0		
Calls Unpaid	257 10 0		
		370 0 0	
			8,757 0 0
Sundry Creditors on Open Accounts, Bills Payable, and Reserve for Sundry Expenses ...			2,385 4 1
Suspense Account			259 11 5
Payments made by Customers for Work in progress			113 1 0
Reserve for Depreciation...			138 16 5
Profit and Loss Account		1,960 7 3	
Less :—			
Income Tax	£. 15 0 6		
Law Costs	60 6 0		
		75 6 6	
			1,885 0 9
			£. 13,538 13 3

ASSETS.

	£ s. d.
Machinery, Fixed and Loose Plant, Fixtures, Fittings and Office Furniture	7,007 16 2
Sundry Debtors, including loans to Directors ...	2,056 3 6
Loans	43 0 0
Stock, including Work in progress	2,018 14 4
Insurances and Salaries paid in advance	248 7 4
Purchase Account	966 14 8
Forfeited Shares	50 0 0
Shares held in Trust	100 0 0
Cash at Bankers and in hand	1,047 17 3
£	13,538 13 3

(Incorporated Accountants, Intermediate, June 1923.)

178. The following is a copy of the Balance Sheet of the A. B. Manufacturing Compay, Ltd., as on December 31st, 1922 :—

BALANCE SHEET.

Liabilities.	£.	Assets.	£.
Nominal Capital— 50,000 Ordinary Shares of £1 each	50,000	Sundry Debtors	25,000
		Cash in hand	50
		Cash at Bank.	5,000
Issued Capital 40,000 Shares of £1 each, fully paid	40,000	Investments	20,000
Sundry Creditors	10,000	Plant and Machinery ...	8,050
Reserve Fund	30,000	Fixtures and Fittings ...	500
Profit and Loss Account ...	8,600	Land and Buildings ...	20,000
		Stock	10,000
	£. 88,600		£. 88,600

It was decided to wind up the Company (which consisted of four shareholders, holding equal numbers of shares) and to form a new limited Company to take over the business as a going concern as from January 1st, 1923, with a nominal capital of £ 100,000 in Ordinary Shares of £1 each. The consideration for the sale was 80,000 fully paid shares in the new Company and £ 10,000 in cash.

The new Company took over all the assets of the old Company except the investments (which were shared equally between the shareholders), discharged all the liabilities and paid the costs of Liquidation of the old Company, which amounted to £ 500. The preliminary expenses of the new Company amounted to £1,250.

The new Company offered for subscription 20,000 shares at 25/- and all were subscribed. The assets were revalued as follows :—

Plant and Machinery	£ 15,000
Fixtures and Fittings	1,000
Land and Building	30,000

You are required to close the books of the old Company and prepare the initial Balance Sheet of the new Company. (Incorporated Accountants, Final, December 1923).

179. The Patent Lever Lock Company, Limited, is formed with a Capital of 150,000 £1 Ordinary Shares to purchase the following Assets at the value set out :—

Freehold Premises	£. 30,000
Stock in Trade	25,000
Plant and Machinery	15,000
Sundry Debtors	10,000
Goodwill	20,000

The Vendors agree to accept £. 75000 in Cash and the balance in fully paid shares. The balance of the shares are issued to the public and fully subscribed, being payable as follows :—

2s. 6d. per share on Application.
7s. 6d. ,, ,, ,, Allotment.
5s. 0d. ,, ,, three months after Allotment,
5s. 0d. ,, ,, Six ,, ,, ,,

You are required to make the necessary journal and opening entries in the books of the Company. (Incorporated Accountants, Intermediate, June 1921).

180. A Lands Development Company, Ltd., seeks and obtains from Financiers, Ltd., on January 1st, 1919, a loan of £ 50,000 for 2 years at 8 per cent. per annum interest, payable half-yearly. The loan is secured by the issue of £ 58,000 1st Mortgage Debentures as collateral security. What do you understand to be the meaning of the term "collateral security," as thus used ? Draft the entries recording in the books of Lands Development Co. Ltd., the transactions during the period and show how the loan and collaterals should appear in the Balance Sheet. (Incorporated Accountants, Intermediate, December 1921).

181. J. Green's Balance Sheet at December 31st, 1920, was as follows :—

Liabilities.	£.	Assets.	£.
Sundry Creditors	10,000	Debtors	60,000
Bills Payable	40.000	Bank	5,000
Capital :—		Stock	150,000
J. Green	315,000	Plant and Machinery ...	50,000
		Property	100,000
Total ...	365,000	Total ...	365,000

A Limited Company was formed to purchase the business for the sum of £ 300,000 payable as follows :—5 per cent. Debentures, £100,000; 8 per cent. Preference Shares, £100,000; £150,000 Ordinary Shares and the balance in cash, the Company agreeing to take over all liabilities.

The registered capital of the Company was £. 500,000 divided into £. 200,000 Preference Shares and £. 300,000 Ordinary Shares of £ 1 each.

50,000 Preference and 50,000 Ordinary Shares were offered for subscription to the public.

The Preference Shares were issued at par, payable 5s. on application, 5s. on allotment, and the balance one month after allotment.

The Ordinary Shares were issued at 25s. per share, payable 5s. on application, 10s. on allotment, and 10s. one month after allotment.

The issued capital was fully subscribed, and the shares and debentures, including the vendor's, were allotted.

All calls were duly paid except the amount due on allotment and final instalment on 500 Ordinary Shares which were forfeited.

The Company paid the vendor the amount due to him in cash, and also £ 7,000 preliminary expenses.

Record the above transactions in the Company's ledger and prepare Balance Sheet showing the position of the Company.

182. The X Co., Ltd., having an issued Share Capital of £ 200,000 in shares of £ 1 each, the market price of which is 30s., buys all the Shares in Y. & Co., Ltd., which has an issued capital of £ 50,000, the consideration being 75,000 shares of £ 1 each in the X Co. Lfd., credited as fully paid. How would you set out the transaction in the next Balance Sheet of the X Co., Ltd. ? (Chartered Accountants, Final, June 1919).

Self-Balancing

183. Briefly describe the use of a Journal: and give particulars of the entries you would find in the journal of a business in which the "Sales" and "Bought" Ledgers were balanced independently, by means of adjustment accounts.—(*London Chamber of Commerce.*)

184. Give suitable rulings for the Sales Journal of a wholesale business comprising three departments, viz. : "Mantles," "Dress Materials" and "Felts." There are two Sales Ledgers in use, viz : "Town" and "Country" and each Ledger is kept upon self-balancing principle.—(*London Chamber of Commerce.*)

185. Rule a form of Cash Book which would be necessary in a business in which a General Ledger, two Bought Ledgers and two Sold Ledgers are in use, all these ledgers being "Self-balancing." Explain briefly how you would put into practice the principles of "self-balancing" ledgers in connection with the Cash Book.—(*London Chamber of Commerce*).

186. What do you understand by the "Sectional" system of balancing Ledgers ?

In the business of X, Y, Z & Co., the following books are in use:— 1 "Bought Ledger," 2 "Sold" Ledgers ("Town" and "Country"), 1 "Private and Nominal" Ledger, 1 "Bank" Cash Book 1 Petty Cash Book, 2 Sales Books ("Town" and "Country"), 1 Purchase Book and 1 Journal. Explain briefly what alteration (if any) it would be necessary to effect in these books in order to introduce the "sectional" system of balancing.—(*London Chamber of Commerce*).

187. John Garside keeps his "Sales Ledger" upon the "Self-balancing" principle.

Prepare the necessary "adjustment account" as on Jan. 31st, from the undermentioned particulars:—

			£
Jan.	1.	Total Debtors' debit balances at this date were ...	12,542
„	31.	Total goods sold to customers for the month	21,658
		Total goods returned by customers for the month ...	942
		Total cash received from customers for the month ...	15,621
		Total discount allowed to customers for the month...	968
		Total acceptances received from the customers during the month	3,471
		Total acceptances dishonoured by customers during the month	542

—(*Royal Society of Arts*).

188. The undermentioned particulars have been extracted from the books of Messrs. James & Co., who keep only one Sales Ledger. You are required to prepare the relative "Sales Ledger" and "General Ledger" Adjustment Accounts as on December 31st.

			Rs.
Jan.	1.	Debtors' Balances	54,924
Dec.	31.	Transactions for the year ended:—	
		Sales (credit)	95,201
		Discount allowed to Debtors	195
		Acceptances received from Debtors	6,590
		Returns from Debtors	9,729
		Cash received from Debtors	89.599
		Acceptances returned dishonoured	2,190
		Bad Debts written off	7,981
		Sundry charges debited to debtors	895
		Bad Debts recovered	2,560
		Notary's charges on dishonoured Bills	450

Draw up the necessary adjustment account for (a) a Purchase Ledger, (b) a Sales Ledger, where the same are kept on the self-balancing principles, showing the correct working of the system.—(*Incorporated Accountants*).

189. From the following particulars write up Patel's Bought Ledger for the month of January, and make it self-balancing. Take out a Trial Balance in order to prove the accuracy of your work.

Ledger balances as at 1st Jan. :—Keshav, Rs. 602-8-7 ; Narayan Rs. 516-4 ; Madhav, Rs. 78-11-5 ; Gopal, Rs. 56-3-8: Rathan, Rs. 168-6-5; Ambekar, Rs. 202-5-9.

His transactions for the month were as follows :—

			Rs.	a.	p.
Jan.	2.	Bought goods of Keshav	67	13	2
	4.	Paid Ambekar (Discount Rs. 9-4-6)...	150	6	8
	9.	Bought of Narayan, goods	431	14	7
	10.	Returned goods to Madhav	13	8	6
	11.	Paid to Rathan on account	69	7	4
	13.	Accepted Narayan's draft (Discount Rs. 3-4-9) ...	98	10	0
	16.	Bought of Madhav, goods	55	11	4
	18.	Paid Gopal (Discount Rs. 6-2-8)	50	1	0
	20.	Bought of Gopal, goods	66	4	9
	23.	Paid Madhav on account	82	5	8
	25.	Accepted Rathan's draft	48	6	10
	28.	Returned goods to Ambekar	16	5	7
	29.	Bought of Ambekar, goods	212	6	9
	31.	Paid Keshav (Discount Rs. 10-8-6)	190	6	5

190. You are required to write up, from the following particulars, Gordhandas' Sales Ledger for the month of June. Make it self-balancing, and prove the accuracy of the work by means of a Trial Balance at the end of the month.

The opening Ledger balances on 1st June were :—Ananth, Rs. 126-7 ; Bramankar, Rs. 137-10-8 ; Chintamani, Rs. 85-4-8; Eswaran, Rs. 97-12-4; Fakirchand, Rs. 175-2-8 ; Ganpath, Rs. 186-5-9.

The following were his transactions for the month :—

			Rs.	a.	p.
June	2.	Sold goods to Ananth	62	10	4
	3.	Ganpath returned goods	23	4	8
	4.	Received from Ganpath (Discount Rs. 5-6-9) ...	120	2	6
	5.	Fakirchand accepted our draft (Discount Rs. 8) ...	75	6	8
	9.	Sold goods to Bramankar	74	2	4

		Rs.	a.	p.
12.	Received cash from Fakirchand	50	6	8
17.	Sold goods to Chintamani	165	12	2
19.	Received from Eswaran (Discount Rs. 4-5-6) ...	93	6	10
21.	Sold goods to Eswaran	120	13	6
23.	Bramankar returned goods	36	12	9
24.	Sold goods to Fakirchand	88	13	8
25.	Received from Bramankar	54	2	9
26.	Ananth accepted our draft (Discount Rs. 3-6-7) ...	63	9	10
27.	Sold goods to Ganpath	99	4	8
30.	Received from Ananth	40	0	0

191. From the following particulars draw up, in two forms, the Balance Sheet of Ramanicklal and Kashidas, who are equal partners, as at 31st December :—

	Rs.
Bills payable	247
Bills receivable	844
Stock-in-trade	1,200
Sundry creditors	1,140
Furniture and fixtures less depreciation at 5% per annum	120
Sundry Debtors	2,800
Ramanicklal's Capital, 1st January	3.440
Kashidas Capital 1st January	3,440
Cash in hand	29
Cash at Bank	820
Cash on Deposit	150
Loan from Abraham	750
Premises less depreciation Rs. 50	2,050
Outstanding Expenses	32
Plant and Machinery less depreciation at 10% per annum	1,400
Unexpired insurance, Telephone rent and trade subscriptions	27
Goodwill less amount written off Rs. 200	730
Investments	500
Consignment Account	450
Reserve for bad debts	140
Reserves for discount on debtors	133
On creditors	57
Partners' drawings ... ... each	500
Net profit for year after charging the above reserves and depreciation and interest on capital at 5% ...	2,050

192. Show how you would combine the balance sheets and interchanging accounts of a concern having separate trading centres in London, Liverpool, and Manchester. (Chartered Accountants).

193. A. Hartman & Co., whose head office is in London, are retail tobacconists. Branches have just been opened by the firm in Birmingham and Sheffield. You are asked to advise the partners as to the books and returns which are necessary to record the transactions between the Head Office and the Branches.

194. Western Wheeler, a retail trader, has three shops. His books show the following particulars at the close of his financial year on March 31st :—

	Bath	Birmingham	Bristol.
Stock, April 1st previous year ...£	2,000	£ 3,000	£ 1,000
Wages ,, ,, ,, ,, ...	350	250	300
Rent ,, ,, ,, ,, ...	200	350	250
Sales ,, ,, ,, ,, ...	5,000	4,000	3,000
Stock, March 31st	2,000	4,000	1,500

His total purchases were £10,500 and general expenses £480. His buyer fixes the selling price of the goods by adding to the cost price of the goods the same percentage throughout the Branches. His general expenses are borne by each shop in proportion to its turnover. Show the net profits of each shop. (Central Association Accountants).

195. The London and Westminster Grocery Co., Ltd., has a retail Branch in Manchester which is supplied with all goods from London. The Branch shop keeps its own Sales Ledger, receives cash against Ledger accounts, and remits the whole of the cash received daily to the Head Office. All wages and Branch expenses are drawn for by cheque weekly from the Head Office upon the imprest system.

From the undermentioned particulars supplied by the Branch Manager, show how the Branch accounts would appear in the Head Office books, and prepare a profit and loss account for the Branch shop for the 6 months to December 31st :—

6 months credit sales ...	£2,387	Debtors, July 1st ...	£1,227
Returns Inwards ...	20	Goods received from Head Office... ...	2,178
Cash received on Ledger A/cs.	2,384	Rent, Taxes etc. paid	375
Cash sales	1,214	Wages and sundry expenses paid	396
Stock, July 1st	720		
Stock, Dec. 31st	1,121		

—(*London Chamber of Commerce*).

196. Four partners, A, B, C and D, have business working independently in London, Swansea and Glasgow. A and B manage the London Branch, each receiving one-third of the profits from the London business, the balance being shared equally between C and D.

C manages the Swansea house, receiving half of the profits from the business there, the balance being shared equally between A, B, and D.

D manages the Glasgow business, receiving one-third of the profits arising therefrom, the balance being shared equally between A, B and C.

At the end of each year a combined statement is prepared showing the general position of the firm and the condition of each partner's account.

From the following separate statements make up the combined account (without interest) and also the general Balance Sheet of the Firm.

LONDON HOUSE.

Creditors ...	£15,000	Debtors ...	...£23,000
Swansea House	... 3,000	Glasgow House	... 2,000
A's capital ...	... 10,	Stock	... 13,000
B's ,, ...	... 10,000	A's Drawings ...	... 1,000
Profit and Loss	... 9,000	B' ,, ...	... 1,000
		Cash	... 7,000
	£ 47,000		£ 47,000

SWANSEA HOUSE.

Creditors ...	...£ 9,000	Debtors ...	...£11,000
Glasgow House	... 4,000	London House ...	... 3,000
C's capital ..	... 5,000	Stock	... 3,000
Profit and Loss	... 6,000	C's Drawings ...	... 1,000
		Cash	... 6,000
	£ 24,000		£ 24,000

GLASGOW HOUSE.

Creditors ...	...£ 7,500	Debtors ...	...£ 9,000
London House ...	... 2,000	Swansea House	... 4,000
D's Capital ...	... 5,000	Stock	... 5,000
Profit and Loss	... 7,200	D's Drawings ...	... 500
		Cash	... 3,200
	£ 21,700		£ 21,700

—(*Chartered Accountants*).

197. Messrs. J. Silkstone & Sons, coal merchants of London, opened a branch business at Maidstone, on 1st January. The Trial Balance of the books of the Maidstone branch, as on 31st Dece ber, was as follows :—

TRIAL BALANCE.

Head Office Adjustment		£ 1,574
Coal Sales		1,750
Sundry Debtors	£ 640	
Horses, Carts, etc.	280	
Salaries, Rent and expenses	620	
Cash in hand	78	
Coal from Head Office (as invoiced)	1,748	
Sundry Creditors		42
	£ 3,366	£ 3,366

The stock of coal at Maidstone on 31st December was valued at £ 984.

Prepare a Profit and Loss Account showing the result of the working of the Maidstone Branch for the year ended 31st December, and draft the entries necessary to incorporate the above figures in the Head Office books. —(*London Chamber of Commerce*).

198. The Head Office of the Surrey Dairies Ltd., supplied their Branches for 6 months ended 31st December, with the following goods, and paid cash on their account as under :—

BRANCH.	K	P	Q
Goods to Depots	£ 700	£ 600	£ 900
Returns from Depots	10	9	21
Rates & Taxes paid by Head Office	31	29	40
Wages & expenses ,, ,,	39	40	45
The Depot Sales were	1,000	900	1,350
Returns from customers were ...	50	36	60
Depots collected cash from customers and despatched same to Head Office	850	720	1,200
The stocks on hand at 31st Dec. were	100	120	110

Frame the proper journal entries to record the above transactions in the Head Office books, and

Write up in the Head Office Ledger the accounts necessary to show the profit or loss made by each branch and the balance due at each branch from Sundry Debtors.—(*Civil Service 2nd Division Clerks*).

199. The Southern Confectionery Co. Ltd., London, has a Branch at Bristol. Goods are invoiced to the Bristol Branch at selling prices, being cost plus 25 per cent. The Bristol Branch keeps its own Sales Ledger and transmits all cash received to London daily. All expenses are paid from London.

From the following details prepare a Profit and Loss Account of the Bristol Branch for the year :—

Stock, 1st January (at invoice prices)	£ 1,250	Cash received from Ledger A/Cs.	£ 3,300
Stock, 31st December (at invoice prices)	1,500	Goods invoiced from London	9,100
Sundry debtors, 1st Jan. ..	700	Rent and Rates (paid from London)	400
Sundry debtors, 31st Dec...	900	Wages (paid from London)	340
Cash sales for the year ...	5,400	Sundry expenses (paid from London)	80
Credit sales for the year ...	3,500		

—(*Chartered Accountants*).

200. Compile the Profit and Loss Account for the year to December 31st, and the Balance Sheet (as on that date) of the A. B. Merchant Trading Company, Ltd., from (a) London Trial Balance and (b) Brazil Trial Balance, combined :—

(a)

	Dr.	Cr.
Share Capital (Nominal) ... £ 100,000)		
Issued, 5,000 5% Preference Shares of £10 each, £5 called up and paid, and 50.000 Ordinary Shares of £1 each, 10s. called up and paid		£ 50,000
London Factory	£ 10,000	
Sundry Debtors	300	
Directors' fees	500	
Salaries	850	
Office rent and expenses...	150	
Office furniture	300	
Outstanding expenses		150
Purchases	60,000	
Sales Brazil Shipments		80,000
Stock, January 1st	15,000	
Brazil Remittances		78,000
Brazil Local Office	113,700	
Sundry Creditors		4,000
Bank	2,550	
Bills receivable	10,000	
Profit and Loss Account (previous year) ...		1,200
	£ 213,350	£ 213,350

(b)

Head Office, London		35,700
Sales		105,000
Goods from London	£ 80,000	
Factory building and furniture	6,000	
Purchases	3 000	
Sundry Creditors		1,500
Salaries	2,500	
Landing charges	8,000	
Bank	2,000	
Sundry Debtors	27,000	
Stock, January 1st	12,000	
Office expenses	1,700	
	£ 142,200	£ 142,200

The stock on December 31st are given as: London, £ 16,000, and Brazil £ 13,000.—(*Chartered Accountants*).

201. Messrs. Pernet Ducher & Co., Ltd., London, have a branch office in a South American Republic, where the exchange fluctuations are considerable. The books of the branch are kept in local currency only, and, at the close of each financial year, a Trial Balance, Profit and Loss Account, and Balance Sheet are sent to the London Office.

Briefly describe how you would amalgamate the branch figures with those of the Head Office.

At what rates would you convert (1) the Profit and Loss Account Balance, (2) the Floating Assets, (3) the Fixed Assets, and (4) Remittances from London?—(*London Chamber of Commerce*).

CHAPTER XI.

Insurance.

202. Differentiate between Assurance and Insurance. Explain the following terms: Surrender Value, Premium, Insurable interest, Re-insurance.—(*Central Association Accountants*).

203. What do you understand by an "insurable interest" in contracts of life insurance? Has a man an insurable interest in the life of (a) his wife, (b) his son? Has a son an insurable interest in the life of his father?—(*Incorporated Accountants*).

204. Explain the following classes of policies in connection with Assurance : Endowment ; Whole Life; Without Profits.—(*Central Association Accountants*).

205. Explain briefly the meaning of the undermentioned terms as applied to Assurance Companies :—Quinquennial Valuation ; Loading; Half credit Policy; Industrial Policy ; Re-assurances ; Bonus.

If any of the above items would affect the annual accounts, explain briefly where they would appear.—(*Royal Society Arts*).

206. Under what Act are the accounts of Assurance Companies regulated ? Explain wher eyou would expect to find the undermentioned items in the accounts of a Life Assurance Company : (a) Final call upon the share capital of the company, £50,000 (b) Re-assurances, £12,468 ; (c) Income tax on investments ; (d) Claims admitted but not paid,—(*Royal Society Arts*).

207. Briefly explain the method of ascertaining the profits of an Assurance Company, and illustrate your answer with a pro-forma example. —(*Chatrered Accountants*).

208. How is the profit or loss ascertained of (a) a Life Assurance Company (b) a Fire Insurance Company ?—(*Chartered Accountants*)

209. If you were auditing a Life Assurance Company's accounts, what evidence would you require as to the items of " unpaid interest " and " accruing interest " on investments, and where would the totals thereof be placed in the Balance Sheet.—(*Chartered Accountants*).

210. In the accounts of an Insurance Company, what are the chief " errors of principle " which should be avoided ?—(*Incorporated Accountants*).

211. A Life Insurance Company pays £1,500 to purchase an agent's interest in renewal premiums. What is the correct treatment of such expenditure ? Explain fully.—(*Incorporated Accountants*).

212, Explain the meaning of the undermentioned items which appeared in the annual accounts of a Life Assurance Company, and state where they should appear in the published accounts of the Company. Life Assurance Fund at the beginning of the year, £4,099,971 ; Income Tax (less rebate) paid on interest, dividends, etc., £8,958 ; Claims, £198,487 ; Consideration for Annuities granted, £36,452 ; Deposit with the High Court £20,440 ; Mortgages on Property within the United Kingdom, £409,489 ; Claims admitted but not paid, £66,431.—(*Chartered Accountants*).

213. Explain the following terms as applied to Insurance: "Insurable interest " ; " Surrender-value " (upon what is this based ?) " Mutual " and

"Proprietary Companies"; "Re-insurances." Also state and define the principal classes of Insurance business.—(*Chartered Accountants*).

214. From the statement below make out the Revenue Account and Balance Sheet of the Imperial Life Assurance Company:—Life Assurance and Annuity Fund at beginning of year, £5,612,488; Premiums, less Re-assurances £360,220; Consideration for Annuities granted, £10,140; Claims by death, £307,657; Claims by survivance, £62,524; Interest and Dividends, £220,189, Surrenders, including Bonuses for Cash, £30,383; Annuities, £37,609; Commission, £14,445; Expenses of Management, £40,743; Fines for Revival of Policies, £172; Fees for recording Assignments, £183; Shareholders' paid-up Capital, £75,500; Shareholders' Extra Dividend Fund, £5,000; Investment Reserve Fund, £55,000' Dividends and Interest to Shareholders, £10,899; Bonuses in reduction of Premiums, £8,730; Income Tax, £18,000; Mortgages within United Kingdom, £962,800; Mortgages out of United Kingdom, £94,361; Loans on Company's Policies, £406,596; Deposit with the High Court, £20,000; British Government Securities, £875,375; Municipal Loans in United Kingdom, £300,000; Indian and Colonial Securities, £755,250; Railway Stocks and Debentures, £1,822,330; Freehold Ground Rents, £453,175; Claims admitted but not paid, £65,400: Annuities due not applied for £525; Agent's Balances, £5,500; Premiums Outstanding, £75,500; Interest accrued not payable, £70,000; Cash in hand and at Bank, £33,940.—(*National Union Teachers.*)

215. Prepare Revenue Account and Balance Sheet, as on December 31, 1916, of the Popular Mutual Assurance Company, the following being the Ledger Balances; Assurance Fund, December 31, 1915, £739.100; Assignment Fees, £50; Annuities, £2,500; Agents' and other Debit Balances. £2,750; British Government Securities, £119,600; Consideration for Annuities granted, £6,200; Claims paid and outstanding, £51,800; Commission, £1,600; Claims admitted but not paid, £8,500; Cash at Bankers, £9,355 Cash in hand, £75; Deposit with the High Court, £20,000; Expenses of Management, £4,700; Foreign Government Securities, £33,800; Freehold Ground Rents, £29,400; Income Tax on Dividends and Rents, £6,650; Indian and Colonial Government Securities. £15,700; Interest accrued but not yet payable to the Company, £6,500; Loans on Reversions, £5,200; Loans on Policies. £53,100; Mortgages in the United Kingdom, £211,800; Outstanding Premium, £8,420; Outstanding Interest, Dividends and Rents, £700; Office Fixtures and Furniture, £1,200; Premiums, £52,600; Railway and other Debenture and Debenture Stocks, £137,200; Railway and other Preference Stocks and Shares, £12,000; Surrenders, £3,400; Sundry Creditors, £2,600.—(*Chartered Accountants*).

216. Make out in the form prescribed the accounts of the Samaritan Assurance Society from the following: Assurance Fund, January 1st, £260,042; Assurance Fund, December 31st, £258,999; Premiums, £18,195: Outstanding Premiums, £2,335; Loans on Society's Policies, £14,767; Consideration for Annuities granted, £850; Claims by death, £19,698; Commissions, £544; Expenses of Management, £2,344; Reductions allowed to members on their Premiums, £1,860; Interest, Dividends, and Rents, £9,050; Annuities, £1,173; Mortgages on Property, £70,369; British Government Securities, £57,634; Railway Shares, £112,746; Profit on Reversions fallen in, £2,156; Outstanding Interest and Rents, £1,081; Balances due by Agents, £66; Claims admitted but not paid £4,177; Depreciation on Investments, £3,975; Surrenders, £1,700; Sundry creditors, £836; Loans on Personal Security, £687; Accrued Interest, £2,269: Cash in hand, £2,058.—(*Chartered Accountants*).

217. From the following Ledger balances of a Life Assurance Office prepare a Revenue Account and Balance Sheet: Claims (less Re-assurances), £77,897 8s. 1d.; Mortgages on Property within the United Kingdom £334,400; Endowment Policies matured, £28,914, 15s. 4d.; Endowment. Policies matured but not paid, £9,145 19s. 4d.; Mortgages on Parochial and Borough Rates, £360,685 15s. 1d,; Annuities due but not paid, £200; Policies Surrendered, £8,692 8s. 3d.; Consideration for Annuities granted, £2,014 1s. 9d.; Annuities, £12,670 15s. 1d.; Interest and Dividends received, £64,709 2s.; Loans on Policies within their Surrender Value, £121,563 13s. 6d.; Claims outstanding from previous years, £833 9s. 3d.; Medical Fees, £800; Agent's Balances, due by Office, £127 13s. 3d.; Premiums on Credit Policies fully secured, £1,300; Directors' Remuneration, £2,381 12s. 6d.; Funds at beginning of year, £1,730,292 11s. 5d.; Premiums (less paid for Re-assurance), £132,302 8s. 8d.; Auditor's Fees £152, 10s. Actuary's Fees (Consulting), £35; Agents' Balances, £17,898; Commission due but not paid, £123 1s. 6d. Funds at end of year, £1,694,853 11s. 5d.; Outstanding Premiums, £ 2,258 8s. 4d.; Salaries and Income Tax, £8,155 6s. 6d.: Printing, Rent, etc., £4,998 17s. 8d. Cash Bonuses paid, £85,841 2s. 11d,; Commission, £4,004 10s.: Life Interests and Reversions, £8,763 18s. 1d.; Claims admitted but not paid, £8,766 4s. 7d. Cash in hand and at Bank, £2,791 13s. 2d.; Outstanding Interest, due to Office, £18,263 4s. 8d.; British Government Securities, £54,852 17s. 10d.: Indian and Colonial Government Securities, £121,300; Fines and Fees received, £79 11s. 11d. Railway and other Debentures, £125,553 7s. 4d.; Railway Stocks, Preference and Ordinary, £333,790 8s.; Freehold and Leasehold Property £210,628 13s. 4d.—(*Chartered Accountants*).

CHAPTER XII.

Double Account System.

218. The City and Suburban Gas Company rebuild and re-equip part of their works at a cost of £50,000. The part of the old works thus superseded cost £30,000. The capacity of the new works is double than that of the old. £2,000 is realised by the sale of old materials and old materials valued at £1,000 are used in the reconstruction and included in the cost of £50,000 above-mentioned. The cost of labour and materials is 10 per cent. higher now than when the old works were built.

Give the journal entries for recording the above transactions in the books of the Company, showing particularly what amount you consider should be charged to Capital Expenditure and stating your reasons for your decision.

219. Draw up from the following figures a Revenue Account, Net Revenue Account and General Balance Sheet of the East and West Railway on the 30th June 1900 in the prescribed form :—

	£
Maintenance of Way	7,033
Locomotive powers	9,909
Passengers carried	18,418
Parcels carried	4,078
Rates and Taxes	2,056
Rent Charges and Chief Rent paid	533
Mails carried	669
Merchandise carried	13,651
Minerals carried	14,348
Traffic Expenses	9,235
Rent paid on Leased Line	2,062
Carriage and Wagon Repairs	2,580
Interest on Debenture Stock	4,217
Credit Balance brought from last half-year's Revenue Account ...	576
Forged Transfers Fund	597
Compensation (Accidents and Losses)	439
Debts due to other companies	569
Rent Charge Stock Guarantee Dividend	2,602
Sundry Out-standing Accounts (Creditors)	11,994
Invested in Consols	502
General Stores—Stock on hand	10,653
Cash at Bankers	11,038
Bankers and General Interest	80

	£
Fire Insurance Fund	1,716
Traffic Accounts due to the Company	7,269
Balance at Credit of Capital Account	3,432

220. The Electric Light and Power Co., Ltd., December 31st 1912.

	£	£
Ordinary Shares		54,900
Debentures		20,000
Lands to December 31st 1911	15,000	
Lands, expended during 1912	500	
Machinery to December 31st 1911	60,000	
Machinery, expended during 1912	500	
Mains, including cost of Laying	20,000	
Mains, expended during 1912	5,100	
Sundry Creditors on open accounts		100
Depreciation account		25,000
Sundry Debtors for current supplied	4,000	
Other Debtors	50	
Stores on hand	500	
Cash	500	
Cost of generation of electricity	3,000	
Cost of distribution of electricity	500	
Rent Rates and Taxes	500	
Management	1,200	
Depreciation	2,000	
Sales of current		13,000
Rent of Meters		500
Interest on Debentures	1,000	
Interim Dividend	2,000	
Balance Net Revenue Account 31st December 1911...		2,850
	£116,350	116,350

From the above Trial Balance, prepare Capital Account, General Balance Sheet, Revenue Account and Net Revenue Account.

221. Make out from the following Trial Balance as on 31st December 1908 of the Trent Valley Water Co. (1) Capital account. (2) Revenue account. (3) Net Revenue account. (4) Reserve Fund account. (5) General Balance Sheet. The Reserve Fund is to be raised to £500, and National War Loan Stock increased to a like amount at par, to be known in future as Reserve Fund Investments.

	£	£
Expended on purchase of land	3,000	
„ „ construction of work	1,02,330	
Expended on Mains and Service pipes	11,920	
„ „ Meters	1,050	
„ „ Parliamentary Expenses	2,000	
Sundry Debtors	48	
Debtors for Water Rates due	1,242	
Stores on hand	340	
Investments—National War Stock, at par	250	
Cash in hand	60	
Cash at Bank	3,353	
Salaries	600	
Printing	50	
Incidental Expenses	37	
Maintenance of pumping station	1,705	
„ „ Reservoirs	500	
„ „ Filter Beds	150	
Repairs to Mains	220	
General Repairs	155	
Directors' Fees	400	
Auditor's Fees	50	
Rates and Taxes	2,500	
Int. on Debenture stock to date	1,000	
Dividend on Preference Shares to date	1,200	
Interim Dividend on Ordinary Shares 1/8/08	3,000	
60,000 Ordinary Shares £1 each		60,000
20,000 6% Preference Shares of £1 each...		20,000
Premiums on Shares		20,000
Sundry Creditors		841
Reserve Fund		258
Water Rents		14,667
General Rents		350
Transfer fees		24
Unclaimed Dividends		20
Balance of Net Revenue account 1/1/08		1,000

222. The following balances relate to the Lunar Electric Supply Co. Ltd., for the year ended 31st December 1912. Make out Capital Account, Revenue Account, Net Revenue Account, Depreciation Fund account, Sinking Fund Account and Balance Sheet as on that date. Of the balance of profit, appropriate £2,000 to Depreciation Fund, and £3,000 to Sinking Fund before ascertaining the amount available for shareholders' dividend,

	£.		£.
20,000 Ordinary Shares £5 each fully paid	100,000	Int. on Bank Loan	250
Debentures Stock	320,000	" " Sinking Fund Investments	150
Lands & Charges incidental to acquisition	136,092	Receipts for sale of Current.	45,700
Buildings & Works	113,418	Meters & Other Rents receivable	1,705
Machinery Plant etc. ...	143,175	Transfer Fees	5
Mains & Close of Laying ...	39,817	Discounts on Purchases ...	70
Tools & Loose Plant ...	2,194	Received for sale of old Materials	10
Accumulators	1,023	Bal. to Cr. of last Net Revenue Account	5,402
Office Furniture & Fittings.	245	Depreciation Fund Bal. to credit	3,000
Electrical Instruments ...	200	Sinking Fund Balance to Cr.	5,000
Artesion Well	350	Sundry Creditors	6,873
Law & Preliminary Charges re Company's Act ...	6,000	Bank Loan	20,000
Coal, Carriage etc.	13,404	Capitat Reserve	4,000
Oil Waste & Other Stores .	1,813	Stores on hand—Coal ...	2,900
Salaries of Engineers and Officers	1,147	Oil Waste etc.	1,200
Wages at Station	3,347	Sundry Debtors	16,500
Repairs and Maintenance ...	780	Rates & Insurance paid in advance	400
Rent Rates & Taxes ...	2,500	Investments on account of Sinking Fund	5,000
Management Expenses ...	2,230		
Law Expenses	150		
Insurance & Special Charges	480		
Interest on Debenture Stock	12,800		
Cash in hand and at Bank.	4,500		

223. The following are the balances of the Great Southern Railway for the half year ending 31st December 1909. Make out in the prescribed form:—1. Capital Account, 2. Revenue Account, 3. Net Revenue Account, and 4. General Balance Sheet.

		£
Ordinary Stock £51,192,500; 4% Preference Stock ...	...	2,702,711
Debenture Stock £1,526,258; Premiums received ...	...	55,653
Expended upon lines open for traffic to 30th June 1909 ...	...	9,181,704
" the above during current half year ...	...	44,304
" Working Stock to 20th June 1909 ...	...	616,961
" " " during current half year	...	654
" Maintenance of Way, station etc. ...	...	38,373
" Locomotive power	...	93,008
" Carriage and Wagon Repairs	...	14,853
" Traffic Expenses £61,098; General charges	...	13.342
" Dock and Harbour Expenses & Repairs	...	9,371
" Shipping Expenses £18,199; Law charges	...	2,697
" Parliamentary Exps. £3,834; Compensation	...	354
" Mileage and Demurrage £447; Rates & Taxes...		31,060

		£
Expended upon Government Duty		395
Receipts from Parcels, Carriages & Horses		9,578
„ „ Passengers £106,400 ; Mails		2,641
„ „ Merchandise £43,508; Minerals	£280,448	
Shipping		19,355
„ „ Docks and Harbours. £39,501: Rents		3,977
Interest on Debenture Stock		22,894
Rents payable on Leased Lines, Guarantees, etc.		31,876
Balance to credit of Net Revenue Account 30/6/09		62,666
General Interest Account Credit Balance		290
Cash in hand and at Bank		45,528
General Stores—stock on hand		39,363
Traffic Accounts due to the company		73,658
Amounts due from other companies		12,356
Amounts due from Post Office, £1, 446 ; Sundry Debtors ...		25,103
Unpaid Dividends and Interest		2,612
Debts due to other companies		59,730
Amount due to the clearing house		12,417
Sundry Creditors and Suspense Account		1,98,806
Fire Insurance Fund £23,945 ; Reserve Fund		22,419
Employees' Savings Bank Deposits		17,467

224. Provide for the undermentioned depreciation, and prepare a Revenue Account, Capital Account, and Balance Sheet from the following Trial Balance. A call of £1 per share was payable on the 31st December and arrears are subject to interest at 5 per cent per annum.

Depreciation to be provided for on ; Buildings 2½%, Machinery 7½%, Mains 5%, Transformers etc. 10%, Meters and Electrical Instruments 15 per cent.

DYNAMO ELECTRIC LIGHTING Co., Ltd.

Trial Balance 30th June.

Capital Nominal 10,000 Shares of £10 each.

Amount last, £		£	£
20,000	Subscribed 5,000 shares £5 paid ...		25,000
15,000	Debentures 6 per cent Interest		15,000
1,000	Depreciation Fund		1,000
	Calls in arrears	1,000	
9,300	Freehold Land	9,300	
4,000	Buildings	5,000	

		£	£
6,000	Machinery at station	10,000	
5,000	Mains	8,000	
1,000	Transformers, Motors, etc	2,000	
500	Motors	1,500	
300	Electrical Instruments	400	
1,600	General Stores, (Cables. Mains & Lamps) stock...	2,350	
250	Office Furniture	250	
	Coal and Fuel	1,900	
	Oil Waste and Engine Room Stores	750	
	Coal oil waste etc. in stock	100	
	Wages at station	3,000	
	Repairs and replacements	500	
	Rates and Taxes	300	
	Salaries of Secretary, Manager, etc.	1,500	
	Directors' Fees	1,000	
	Stationery, Printing and Advertising	600	
	Incidental Expenses	100	
	Law charges	200	
	Sales by Meter		8,750
	,, ,, Contract		5,000
	Meter Rents		300
	Sundry Creditors		1,000
	,, Debtors	3,000	
	Cash in hand and at Bank	3,300	
		£56,050	£56,050

225. The following are the balances of the Foreign Railway Company for the half-year ended 31st December. Prepare in the prescribed form (a) Capital Account; (b) Revenue Account; (c) Net Revenue Account; (d) General Balance Sheet:

	£	£
Mortgage Debenture Interest	30,000	
,, ,, ,, accrued		11,400
Prior Lien Debenture Interest	14,000	
,, ,, ,, ,, accrued		3,600
Cash at Bankers and in hand—		
London	11,000	
Abroad	4,000	

	£	£
Interest received		35
Investments	25,000	
Loss on Exchange	3,000	
Income Tax	2,200	
Miscellaneous Receipts		150
Passenger Receipts		22,000
Freight Storage etc.		71,000
Steamboat Service		2.400
General Reserve Account		2,000
Special Trains		1,500
Renewal of Plant Reserve Account		2,000
Traffic Expenses	16,000	
Maintenance of Way, Works, etc....	8,000	
Transfer Fees		50
Capital Receipts (Share and Debentures)		1,463,000
Locomotive power	10,000	
Capital Expenditure to June 30th	1.400,000	
Capital Expenditure ½ year ended 31st December ...	27,000	
Government Subsidy for half year ended 31st Dec. ...		24,000
Repairs and Renewals of Carriages and Wagons ...	1,900	
Remuneration of Trustees for debenture holders ...	400	
Compensations	200	
General Charges	12,000	
Net Revenue account balance 30th June		6,065
Dividend Account, Balance of Dividend paid for half year ended 30th June	5,000	
Stores on hand and in transit, 31st December	25,000	
Interest and Discount	1,000	
Bills Receivable	3,000	
Bills Payable		2,850
Sundry Debtors—		
London	8.000	
Abroad	15,500	
Sundry Creditors—		
London		2,000
Abroad		8,000
Unclaimed interest		150
	£1,622,200	£1,622,200

CHAPTER XIII.

Bank Accounts.

226. Explain the meaning of the following items extracted from the balance sheet of a Bank: (a) Rebate on bills not due (liability side); (b) Money on short notice (assets side); (c) Liabilities of customers on acceptances as per contra (assets side); (d) Liabilities by endorsement on foreign bills sold (liabilities side).—(*Chartered Institute of Secretaries*).

227. In the balance sheet of a banking company you find the following items :—Assets : Cash at call and short notice ; Bills Discounted ; Liabilities of customers for acceptances as per contra; Indorsement as per contra. Liabilities : Rebate on bills not due.

Explain clearly the meaning of these items.—(*Chartered Accountants*).

228. In the case of a bank, how should the discount on bills still running at the date of closing the books be treated in the Balance Sheet and Profit and Loss Account ?—(*Chartered Accountants*).

229. From the following figures prepare the Profit and Loss Account and Balance Sheet of the B. C. Banking Company, Ltd., at December 31st : Capital, £ 2,000,000 ; Reserve Fund, £ 1,000,000 ; Cash at Head Office, Branches and Bank of England, £ 4,685,459 14s. 1d. ; Loans at call, £ 2,910,183 14s. 8d. ; Interest paid to customers, £ 67,599 11s. 7d. ; Profit and Loss Account Balance, June 30th, 1916, £ 61,685 12s. ; Investments : Consols, £ 6,950,248 17s. 1d. ; Colonial Stock, £ 950,127 3s. 9d. ; Corporation Stock, £ 1,209,246 18s. ; Other Securities £ 12,732 11s. 5d. ; Salaries and Expenses £ 217,196 11s. 6d. ; Current and Deposit Accounts, £ 31,450,116 7s. 10d. ; Liabilities on acceptances £ 3,234,502 18s. 6d. ; Discounted Bills current, £ 10,140,079 14s. 4d. ; Advance to customers £ 10,434,135 12s. 4d. ; Rebates on bills not due carried to next account (debit profit and loss account), £ 27,207 6s. 2d. ; Liabilities of customers for drafts accepted by the Bank (as per contra), £ 3,234,502 18s. 6d. ; Freehold premises, Fixtures and fittings, £ 488,127 5s. 2d. ; Amount now written off Premises Account, £ 20,000 ; Gross profit for half year. £ 553,335 14s. 1d.—(*Incorporated Accountants*).

230. The following items represent the position of a Bank on December 31st, and the whole of its transactions during the ensuing year.

Open up the necessary accounts and prepare a Profit and Loss Account and Balance Sheet at December 31st following :—

	£
Capital paid up, December 31st	500,000
Balance of Profit and Loss Account from last year...	9,756

			£
Liabilities to customers on Current Accounts	...		325,000
Liabilities to customers on Deposit Accounts...	...		236,500
Advances on Current Accounts and Loans ...	...		688,606
Bills of Exchange in hand	...		157,650
Investments	...		150,000
Cash in hand	...		25,000
Cash at call and short notice	...		50,000
Cash paid in by customers on Current Accounts	...		2,500,000
Cash paid out to customers on Current Accounts ...			2,440,000
Cash paid in by Depositors	...		755,000
Cash paid out to Depositors	...		677,000
Bills receivable discounted ...	...	£300,000	
Less discount charged thereon...	...	10,500	
			289,500
Cash paid out on bills discounted	...	10,000	
Balance credited to customers' Current Accounts	...	279,500	
			289,500

—(*Incorporated Accountants*).

231. Prepare from the following particulars the Balance Sheet of the London and South Coast Bank as on June 30th; Authorised Capital, £ 10,000,000; Subscribed capital, 400,000 shares of £ 20 each, £ 5 paid; Investments, £ 7,000,000; Bills discounted £ 15,000,000; Bank premises, £ 1,000,000; Acceptances for customers, £ 5,000,000; Rebate on bills not due, £ 50,000; Circular notes and Letters of credit, £ 2,000,000; Advances to customers, £ 22,000,000; Liability of customers for acceptances, £ 5,000,000; Endorsements on Bills negotiated, £ 100,000; Reserve, £ 3,000,000; Current and Deposit Accounts, £ 56,000,000; Investment Depreciation Account, £ 100,000; Bills negotiated, £ 100,000; Cash in hand and at Bank of England, £ 10,000,000; Cash at call and short notice, £ 9,000,000; Profit and Loss Account, Credit balance, £85,000.—(*Central Association Accountants*).

232. From the following details prepare the Balance Sheet and Profit and Loss Account of the N and M Bank.

	£	£
Capital		114,430
Reserves		145,210
Notes Issued		39,705
Customers' Credit Balances		897,530
Unpaid Dividends		240

		£	£
Gross Profit	... ...		32,490
Bad Debts	... ...	3,000	
Expenses	... ...	11,505	
Interim Dividend paid	... ...	5,720	
Balance of Profit and Loss Account brought forward			1,560
Cash on hand	... ...	38,135	
Cash at call	... ...	44,230	
Investments	... ...	328,465	
Stamps in hand	... ...	505	
Premises	... ...	37,250	
Customers' Debit Balances	... ...	762,355	
		£ 1,231,165	1,231,165

—(*Chartered Accountants*).

233. The Trial Balance of the New York National Bank, Ltd., as on 31st December 1921 stood as follows :—

	Rs.
Paid up Capital	10,00.000
Local Bills discounted	9,00,000
Reserve Fund	385,000
Cash Credits and Overdrafts	14,00,000
Unclaimed Dividends	5,000
Loans	23,00,000
Current and Savings Deposits	25,00,000
Furniture	20,000
Fixed Deposits	20,00,000
Profit and Loss account credit balance	1,10,000
Stamps and Stationery	5,000
Cash on hand	2,50,000
Cash at Banks	6,50,000
Investments	4,75,000

Out of the total debts, Debts for Rs. 2,85,000 were considered doubtful and the balance was considered good. Out of the debts, considered good, debts amounting to Rs. 24,000 were fully secured and for debts amounting to Rs. 4,00,000 (including Rs. 1,15,000 due by a director) the Bank held personal securities of one or more persons over and above the personal securities of the Debtors and for the balance the Bank held no other security than the personal security of the Debtor.

The Directors require the Bank investments to be shown in the Balance Sheet at market value on 31st December 1921 which is Rs. 525,000. Prepare the Balance Sheet of the Bank as on 31st December 1921 in the form prescribed under the Indian Companies Act 1913.

234. The authorised capital of the Indian Banking Corporation Ltd., is Rs. 1,00,00,000 divided into one lac shares of Rs. 100 each. From the following ledger balances prepare a Balance Sheet as on 30th June 1920 in accordance with the Indian Companies Act of 1913.

	Rs.
Capital (Rs. 50 called up on each share)	50,00,000
Calls unpaid	9,925
Bank's Liability for acceptances on behalf of customers ...	10,02,982
Office furniture and fittings	1,11,150
Stamps and Stationery	73,228
Branch adjustments (Debit Balance)	3,26,745
Clients' liabilities on acceptances	10,02,982
Current and Fixed Deposits	957,72,266
Bills payable	21,007
Provident Fund	61,808
Unclaimed Dividends	10,725
Rebate on Bills discounted	32,298
Cash credit and overdrafts	289,07,089
Loans and Demand advances	206,86,683
Bills discounted and purchased	47,35,620
Investments (at market rate)	325,47,495
Money at call and short notice	3,50,000
Cash at Bankers	32,04,458
Cash in hand	116,60,870
Reserve Fund	14,00,000
P. and L. account	3,15,159

For the particulars required under the form prescribed by the Act fill in imaginary figures opposite the respective headings making up the total of the book debts.

235. The Trial Balance of the Commercial Bank Limited as on 31st December stood as follows :—

	Rs.
Paid up Capital	10,00,000
Local Bills discounted	9,00,000
Reserve Fund	3,85,000

	Rs.
Cash credits and overdrafts...	14,00,000
Unclaimed Dividends	5,000
Loans	23,00,000
Current and Savings Deposits	19,00,000
Furniture	20,000
Fixed deposits	20,00,000
P. and L. account Credit Balance	1,10,000
Stamps and Stationery	5,000
Cash on hand	2,50,000
Cash at Banks	6.50,000
Investments at market value on 31st December 1916 ...	4,75,000
Loans (against repledgement of customers' securities)...	6,00,000

Out of the Loans, Cash Credits and overdrafts, the Bank holds securities (which are repledged) for debts amounting to Rs. 26,00,000 and the personal security of one or more persons for the balance. Debts (good) due by directors amounted to Rs. 1,15,000 and the doubtful debts amounted to Rs. 2,85,000. The Rebate on Local Bills discounted, amounted to Rs. 5,050. Credit is taken for Rs. 19,950 as interest on doubtful debts. The Directors require the Bank's investments to be shown in the Balance Sheet at market value on 31st December 1917 which is Rs. 5,25,000.

Prepare the Balance sheet of the Bank as on 31st December 1917 in the form prescribed under the Indian Companies Act after making the necessary adjustments. State also your views as to the Bank's practice of borrowing against repledgement of customers' securities and as to the manner in which you would treat the appreciation in the value of the Bank's investments.

236. While closing the books of a Bank on 31st December 1921 you find in the Loan Ledger an unsecured balance of Rs. 2,32,000 in the account of a merchant whose financial condition is reported to you as doubtful. Interest on the same account amounted to Rs. 24,000 for the year. How would you deal with this item of interest in 1921 accounts. In the year 22 the Bank accepts a composition of 15 annas in a rupee on account of the debt upto 31st December 1921. Prepare the necessary accounts showing the ultimate effect of the trasactions in the 1922 books of accounts.

CHAPTER XIV.

Cost Accounts.

237. From the following particulars make out the monthly Cost Sheets of a Coke and By-product Company :—

	April.	May.	June.
Coal used	6,900 tons	7,200 tons	7,300 tons
Coke made	4,700	4,725	4,775
Tar made	325	340	325
Sulphate of Ammonia made	90	100	95
Sulphuric Acid used	75	95	20
Benzol made	12,300 galls.	13,900 galls.	14,000 galls.
Creosote Oil used	7 tons	8 tons	8 tons
Wages	£550	£560	£565
Stores etc.	£55	£75	£75

The prices of the above materials and products were: Coal 8 sh. per ton; Coke 14 sh. 6d. per ton; Tar 13sh. 3d. per ton; Sulphate £10 15s. per ton; Sulphuric Acid 45sh. per ton; Benzol 3¾d. per gallons; Creosote Oil 3¼d. per gallon (1 ton-220 gallons).

Show the percentage (to two places of decimals) of Coke made, of Tar made, and of Sulphate of Ammonia made to the weight of Coal used. (Chartered Accountants.)

238. From the following information prepare Pig Iron Production Account, showing the cost per ton of each class of expenditure and the Pig Iron produced:—Sundry Stocks on hand, July, 1st: Coal, £4,720; Coke, £3,580; Limestone, £1,450; Ironstone, £3,930; Sundries £2,700. Purchased during the year: Coal, £21,880; Coke, £29,470; Limestone, £5.080; cronstone, £18,690; Sundries, £7,810; Sales of Slag, £10,400; General Works Charges, £4,400; Wages, £17,600; Production of Pig Iron, 32,000 tons. Stock on hand, June 30th in the following year: Coal, £3,800; Coke, £2,650: Limestone, £1,730; Ironstone. £3,420; Sundries, £2,910. (Chartered Accountants.)

239. From the following Account, work out a percentage statement, calculated on the basis of (a) the turnover, (b) the cost price of goods sold, (c) the gross profits. Compare the three methods and advise as to which is best.

		£			£.
Jan. 1	To Stock at cost	3,300	June 30	By, Sales	25,280
June 30	,, Purchases	10,700	,,	,, Stock at cost ...	4,600
,,	,, Productive Wages	8,200			
,,	,, Non-productive Wages	1,320			
,,	,, Salaries	740			
,,	,, Rent, Rates & Taxes	1,260			
,,	,, Carriage Outwards	480			
,,	,, Bad Debts	120			
,,	,, Travelling and Commission	840			
,,	,, Postages and Stationery	220			
,,	,, Other expenses	600			
,,	,, Profit	2,110			
	£	29,880		£	29,880

(Incorporated Accountants.)

240. Carefully define the words "Stores" as employed in Costing Systems. Describe in detail the method of charging out Stores, including raw materials and finished parts, in Costing Systems. Should the Stores be charged out at cost or current market prices? In the latter case, how do you propose to reconcile your Stores account in the Costing System with your Stock account in your financial statement? (Incorporated Accountants.)

241. Taking an ordinary financial trading account, marshal the items into groups representing:—

(a) Manufacturing Expenses.

(b) Administrative Expenses.

(c) Selling Expenses.

(Incorporated Accountants.)

242. **DEPARTMENTAL COSTS DISTRIBUTION.**

—	Total.	A. Dept.	B. Dept.	C. Dept.
	£	£	£	£
Meterial Consumed	20,000	9,000	7,000	4,000
Stores	4,000	1.500	1,000	1.500
Wages—Direct...	15,000	10,000	3,000	2,000
Prime Cost	39,000	20,500	11,000	7,500
Works Charges:				
Rent, Rates, etc, ...	500	250	150	100
Insurance:				
Plant	50	25	20	5
Stock	40	10	20	10
Power Charges	700	300	250	150
Depreciation	500	200	100	200
Indirect Wages	3,000	1,500	1,000	500
Total Works Cost	43,790	22,785	12,540	8,465
Office and Administration Oncost ...	4,210	2,115	1,160	935
	48,000	24,900	13,700	9,400
Output in Articles	5,000	2.500	1,700	800

From the above details which relate to a manufacturing concern, you are required to ascertain:—

(*a*) The total and departmental cost per unit of output.

(*b*) The total and departmental percentage of works oncost, calculated on the basis of direct wages.

(c) The total and departmental percentage of office and administration oncost, calculated on the basis of total works oncost. Assuming that departmentalization is impracticable, what would be the result with regard to each of the above percentages? (All calculations may be made to the second decimal place).

CHAPTER XV.

INDIAN INCOME TAX.

Income Tax Accounts.

243. From the following particulars ascertain the Net Tax payable by X, Public Accountant :—

	Rs.
Audit Fees	20,000
Legal Accountancy Work Fees	4,000
Office Expenses (Including Income Tax Rs. 1,000) ...	9,000
Subscription to concerts	20
Rent from sub-letting office rooms	100
Annual Subscription as Fellow of his Society	25
Salary as Lecturer (taxed at source at 6 pies)	2,325
Gross annual letting value of his bungalow where he resides	4,800
Net Fire Insurance Premium and ground rent on above...	305
Articled Clerk's Premia	2,000
Dividends	580

244. Harilal, Framji and James are in partnership having interest in the firm as follows :—

Partner.	Share.	Capital. Rs.	Salary. Rs.
Harilal	1/2	30,000	900
Framji	1/3	30,000	300
James	1/6	Nil	450

Interest on Capital to be calculated at 5 per cent. per annum. The partners have no other sources of income. The Profit and Loss Account of the Firm is given below. Ascertain the taxable income of the firm and the amount of tax borne by each partner assuming that the partnership is unregistered.

PROFIT AND LOSS ACCOUNT.

	Rs.		Rs.
To Fire Insurance Premium.	90	By Gross Profit	23,550
,, Rent	2,700	,, Bank Interest	90
,, Interest on Capital ...	3,000	,, Profit on Sale of Investments...	150
,, Salaries and Wages ...	2,370	,, Bad Debts, Dividends ...	210
,, Partners' Salaries ...	1,650	,, Discounts	270
,, Office Expenses	2,880		
,, Income Tax	240		
,, Net Profits transferred to Capital Accounts ...	11,340		
Total ...	24,270	Total ...	24,270

245. The following is the Profit and Loss Account of A, B, and C, who share profits and losses in proportion of 1/2, 1/3 and 1/6 respectively. You are requested to ascertain the statutory income of the firm as well as of each of the partners, for assessment of Income Tax and Super Tax assuming that the partnership is registered with the Income Tax Officer.

		Rs.		Rs.
To Salaries		36,120	By Gross Profit	2,10,000
,, Rent		18,000		
,, Office Expenses		4,800		
,, Bad Debts		2,400		
,, Interest on Loan ...		1,800		
,, Salaries :—				
A	18,000			
B	12,000			
		30,000		
,, Improvement to building		7,200		
,, Loss on sale of old machine		1,080		
,, Interest on Capital :—				
A	6,000			
B	7,200			
C	3,600			
		16,800		
,, Net Profits		91,800		
Total ...		2,10,000	Total ...	2,10,000

During the same year, A received Interest from Investments Rs. 34,800 (net), B Rs. 2,175-0-0 (net), and C Rs. 1,740 (net). A had also assessable income of Rs. 24,000 from Property, and C incurred a loss of Rs. 18,000 in some other business. A and B pay an annual Life Premium of Rs. 3,000 and Rs. 6,000 respectively.—(B. Com. 1926).

246. From the following particulars supplied to you by B. Vasanji, determine the amount of Refund claimable by him in respect of his income and expenditure for the last year :—

He owns properties, the Municipal rental value of which is—Rs. 55, 134 ; He pays Ground Rent Rs. 4,912 and Insurance Premium Rs. 1,120 in respect of these properties. He received during the year Rs. 14,520 as Interest on Government Notes (free of tax); Rs. 708 as Interest on Government Notes (less tax) ; and Rs. 50,668 as Dividends from Joint Stock Companies on Shares owned by him. He received Rs. 5,225 as income from a registered firm in which he is a partner. He received commission as an agent to an Insurance Company, Rs. 6,818 (not taxed). He received Rs. 75,728 from Debtors as interest and paid Rs. 1,78,342 as interest to his creditors. His Household Expenses were Rs. 50,000.—(B. Com. 1927).

247. What is "obsolescence allowance" under the Income-Tax Act, 1922 ?

A bought a knitting machine for business use for Rs. 12,000 on 1st January 1920 and was allowed a depreciation allowance of 5 per cent. per annum by the Income-Tax Authorities up to 31st December 1923, when having failed in business, he sold the machine to B for Rs. 5,000.

B used the machine in his business up to 31st December 1926, during which period he was allowed the usual 5 per cent. depreciation allowance. On 31st December 1926 he sold away the machine as having become obsolete, for Rs. 2,000.

What is the amount of obsolescence allowance (if any) that may be claimed by (1) A, (2) B ?—(B. Com. 1927).

English Income Tax.

248. A has an Investment Income of £200 (less Tax) and another of £100 ; he is a married man with 3 children, two under the age limit, one being the recipient of a scholarship of £40 ; the third, though of over age receives a full time training at school ; he supports his aged mother ; his wife has a French Investment Income of £100 gross (French Tax 20%) ; she earns by part time tuition £75 ; A pays Life Premium on his wife's life £50 ; A made a profit on sale of Investments £50 ; he owns a property major part being used for business purposes and part of it as a residence whose gross annual value being £100 : his business income as agreed with the Commissioners for the year 1924 is £2,000, 1925, £2,500 ; the following is his 1926 income :—

PROFIT AND LOSS ACCOUNT.

	£		£
To Salaries	500	By Gross Profit	3,500
„ Printing & Stationery ...	75	„ Bad Debts recovered ...	35
„ Bad Debts	50	„ 5% War Loan Interest ...	50
„ „ Reserve ...	25		
„ Donation to Hospitals ...	25		
„ Subscription as a member of his trade association ...	10		
„ Stock destroyed by fire (risk covered by insurance £400)	600		
„ Depreciation 10% ...	50		
„ Interest on Capital ...	100		
„ Net Profit	2,150		
	£3,585		3,585

Salaries include £25 to his son for assistance; depreciation rate allowed by authorities 5%; prepare a return for the fiscal year 1927-28.

249. Schedule A Income Tax is generally charged on and paid by the occupier of the assessable property. Do you know of any exception to this rule?

Where the tenant pays the tax, what are his rights as to recovery of the tax from his landlord. Illustrate your answer by two examples, assuming that :—

(a) The rent is £80 per annum, payable quarterly, and the net Schedule A assessment £62.

(b) The rent is £100 per annum, payable quarterly, and the net Schedule A assessment £112.

250. It is a general principle of the Income Tax Laws that expenses on account of Capital must be ignored in estimating the profits liable to assessment.

Mention three headings of expenditure which you might expect to find in the Profit and Loss Account of a Limited Company which would be disallowed as a charge for Income Tax purposes in accordance with the above principle, and state in each case the grounds on which the item mentioned is regarded as 'Capital' expenditure.

251 (a) What are the various reliefs and allowances granted to an individual before arriving at the taxable income?

(b) Explain: Statutory Income; Fiscal Year; Assessable Income; Taxable Income;

(c) State where a husband and wife have applied for separate assessment, how you would apportion between them the various allowances and reliefs to which they are entitled?

(d) State what you know about: Life Assurance Allowance, giving an example as to how it should be adjusted.

(e) To what relief an Englishman resident abroad is entitled to in respect of his English Income?

252. A, B and C are partners, sharing profits and losses half, third, and sixth respectively. The profits of the business for the last year were £2,700 as agreed with the Inspector of Taxes.

A is married and has six children under 16 years of age. He pays a Life Assurance Premium of £22 on a policy dated 1912, and has private investments, taxed at source, producing £204 per annum gross. B is a bachelor. He pays a Life Assurance Premium of £5 on a policy dated 1911. C is a widower with one child under 16 years of age, and his sister resides with him to take care of the child. He pays a Life Assurance Premium of £12 on a policy dated 1915, and has a private income of £40 per annum gross, taxed at source.

Prepare statements showing the net liability of each partner for Income Tax for the current year.

253. D and E are equal partners. The agreed assessable income from the business for Income Tax purposes for the current fiscal year is £1,080. D is a bachelor who has a private income of £80 per annum which he receives free of tax. E is married, has two children under 16 years of age and owns his house, assessed at £70 net. Prepare a computation showing the liability of each partner for Income Tax for the current year.

254. F is a bachelor. His income as an Incorporated Secretary is £900 per annum with an annual bonus of 10 per cent., added. His life is assured for £2,500 under a policy dated 1st May, 1914, on which he pays a premium of £180 per annum. Show his liability for Income Tax for the current fiscal year.

255. John Jones carries on a business as Outfitter. He lives over his shop and owns the premises himself. By agreement with the Inspector of Taxes, two-thirds of the rental value is allowed as a deduction from his profits, two-thirds of the rates, and one half of the charges for heating, lighting and water.

The Profit and Loss Account prepared by Jones for the year 1925 was as follows :—

PROFIT AND LOSS ACCOUNT, 1925.

	£		£
To Stock 31-12-24	2,517	By Sales	15,175
,, Purchases	11,322	,, Stock 31-12-25	3,190
,, Carriage	127	,, Dividends	115
,, Wages	1,940		
,, Rates	72		
,, Water	14		
,, Heating and Lighting ...	66		
,, Shop Expenses	155		
,, Discount	81		
,, Income Tax	243		
,, Net Profit	1,943		
	18,480		£18,480

The wages included £500 drawn by Jones as his own salary. The net schedule "A" valuation of the premises was £99. The dividends were all "less Tax," the "gross" income from this source being £140.

In addition to the above sources of income, Jones owned Leasehold Property bringing in a rental value of £80 per annum (net shedule "A" valualion £64), subject to a ground rent of £12 per annum.

Jones is a married man with three children under 16.

Assuming the profits of the business, adjusted for the purpose of schedule "D" Tax, were £1,751 and £1,494 in 1923 and 1924 respectivly, you are required to submit, as nearly as possible in the official form, a copy of Jones' Income Tax Return for 1926-27, and a copy of the schedule "D" Assessment for the same year.

256. An English Company carrying on trade with France had money invested in several French Companies and also owned a block of French Government Bonds. The following is a summarised statement of the Company's Profit and Loss Accounts for the years 1923, 1924 and 1925.

CREDIT.

——	1923.	1924.	1925.
	£	£	£
By Gross Trading Profit	15,193	12,074	14,365
,, Dividends from French Companies	4,384	5,120	3,473
,, Interest French Government Securities—			
24,000 Francs @ 60	400		
24,000 ,, @ 80		300	
24,000 ,, @ 100			240
,, Bank Deposit Interest (London).		35	25
	19,977	17,529	18,103

You are required to calculate the amount of the assessment on the Company's profits for 1926-27, assuming the French Exchange for that year is expected to average 160.

257. Explain briefly the important change made by the Finance Act, 1926, in the rules as to the basis of assessment of certain descriptions of income under Schedule ('D.')

Show by means of simple examples the old and new methods of calculating assessable income under—

(a) Case I,

(b) Case IV (Foreign Securities).

258. Explain shortly the provisions of the Income Tax Acts as to—

(a) Wear and Tear of Machinery ;

(b) Obsolescence.

A Company, making up its accounts annually on 31st December, was granted a "Wear and Tear" allowance of 5 per cent on the "written down" value of its machinery. On 31st December 1922, the written down value of the machinery was £35,000. On 31st December, 1923, a new machine was purchased for £3.000. On 31st December 1924, a machine bought on 31st December, 1918 for £2,000 was sold for £500 and not replaced. On 31st December, 1925, a machine bought on 31st December, 1918 for £4,C00 was scrapped as obsolete, realising £350, and replaced by a new machine costing £5,500.

Calculate the Wear and Tear Allowances for the years 1923 to 1926 and the allowance for obsolescence in respect of the machine replaced. How is this latter allowance made ?

259. A Company has various Bonds deposited with its Bankers for safe custody, and on the respective interest dates the bank cashes the coupons and credits the proceeds to the Company's account, less Income Tax.

At what rate will this Tax be deducted ? Illustrate your answer by giving examples of bonds or debentures of—

(a) A British Company ;

(b) A Company carrying on business abroad but registered in London ;

(c) A Foreign Government.

CHAPTER XVI.

MISCELLANEOUS.

Average Due Date.

260. A company is entitled to 1¼% discount on quarterly accounts if paid within 7 days of the close of the quarter. It has been in the habit of accepting 3 months' bills dated on the last day of the quarter for all these accounts.

The company on 1st January 1929, borrowed £900 at 5 per cent. with a view to saving the discounts. Assuming that the creditors at the end of the each quarter were:—

March	£ 800	September	£ 960
June	£1,120	December	£1,000

What advantage, if any, did the company gain during the year by this arrangement?

261. A merchant desires to ascertain the average date on which to draw for the total amount due, as follows:—

June 5th, £355 9s. 10d.; July 8th, £466 16s. 8d.; September 11th £229 14s. 7d.

State the average due date, and show the process of working.

262. A merchant has purchased goods the due dates of which are as under;—

August 12th, £155 15s. 9d., due on September 12th.
Aug. 21st, £298 4s, 5d., ,, ,, October 1st.
September 23rd, £127 17s. 2d., ,, ,, November 1st.
October 9th, £395 5s. 8d., ,, ,, November 19th.

Payment is arranged to be made for the total amount at the average due date. What is this date?

263. E. Ellis, a partner in the firm of Forest & Co., has, during the year, drawn for his own use the following sums:—

January 11th £25; February 15th, £15; March 18th, £28; April 13th £25; May 17th £22; June 20th, £25; July 23rd, £24; August 12th, £26; September 14th, £21; October 16th, £23; November 15th, £28; December 21st, £35.

He is to be charged interest at the rate of 5 per cent. per annum on the total amount at the average date. Ascertain this interest, and verify your answer:—

(1) By means of the product method as in accounts current;

(2) By calculating the interest on each item separately.

Account Current.

264. Jones and Brown dissolve partnership on 1st January and their Balance Sheet, after all adjustments, was as follows:—

Balance Sheet as at 1st January.

Liabilities.	Rs.	Assets.	Rs.
Sundry Creditors ...	1,277 12 6	Cash	1,565 10 5
Capital Accounts		Sundry Debtors ...	4,281 10 10
Jones	3,000 0 0	Fixtures and Fittings ..	430 11 3
Brown	2,000 0 0		
	6,277 12 6		6,277 12 6

Brown is to take over the Fixtures at their book value, to allow Jones £ 700 for his share of the Goodwill, and to pay him the amount due as and when realised, interest to be brought into account at the rate of 5% per annum. The Debtors were realised at an average date of eight months, and the Creditors paid at an average date of five months, from the date of dissolution. Brown paid Jones £ 650 on 15th March, £ 650 on 15th June, £ 650 on 15th Sept. and the balance on 31st Dec. Draw up the Account Current, and show the final payment made to Jones.

265. From the following particulars construct an Account Current as at 25th April, reckoning interest at 5% per cent per annum, and show amount of cheque in settlement:

N. Northcote in Account with S. Anderson & Co.

		£. s. d.			£. s. d.
Apr. 16	To your Draft at sight.	250 0 0	Apr. 18	By Cash as per Account sales	355 2 10
	,, Charges as per Account sales.	127 17 11	22	,, Ditto.	75 16 4
18	,, Advertising.	1 15 6	22	,, Proceeds as per Account sales due 15th May.	238 18 11
25	,, Our Commission.	33 9 11			

266. M. Bressloff of Liverpool dispatched goods to his agent, M. Good man of Calcutta, and the agent forwarded sale sheets as under :—

Jan. 12th, £. 420 10s. 6d; Feb. 15th, £. 356 9s. 11d; Mar. 21st, £. 238 18s. 10d; April 10th, £. 127 2s. 8d.

The terms of payment were net cash in Liverpool two months from date of sale sheet. Remittances were made as follows :—

March 10th, £250; April 10th, £150: May 6th, £250; June 15th, £350.

Settlement was to be effected half-yearly, on the basis of an Account Current with interest at the rate of 5% per annum. Draw up the Account Current and show balance due on June 30th.

Capital Expenditure and Revenue Expenditure.

267 A Limited Company has removed its business to new works, which have cost, including freehold land, £30,000. A portion of the Machinery and Plant, at an estimated value of £14,000, has been removed to the new works at a cost of £18,000. The remainder has been sold, showing a loss on the total book value of the Machinery and Plant of £3,200. The profits for the year, including the balance brought forward from the previous year, after making provision for depreciation of 7½% on the Machinery and Plant, are £4,500, without taking into account the above-named loss, and are about the normal amount of profits in previous years.

State your views as to the proper mode of dealing with the cost of removal and the loss on the sale, and whether, apart from financial considerations, the Directors would be justified in declaring a dividend. (Chartered Accountants.)

268. A fire destroyed part of the factory of George Dickson. The damage sustained was as follows :—

	Cost.	Book Value.	Amount Claimed.
	£	£	£
1. Machinery destroyed	3,500	2,950	3,200
2. Machinery damaged	1,200	1,100	360
3. Stock destroyed	4,850	4,000	4,750
4. Stock damaged	1,000	1,000	400
5. Expenses incurred in extinguishing fire	35	...	35

The claim was settled with the Insurance Company for £8,185 made up as follows: (1) £3,000; (2) £350; (3) £4,500; (4) £300; (5) £35.

How should you record this settlement in George Dickson's books? (London Chamber of Commerce).

269. A fire partially destroys a factory and damages a quantity of stock. The Insurance Company settles the claim thus: By a lump sum in lieu of rebuilding. By a further sum in respect of the beneficial interest of the insurers in the property during rebuilding. By selling the damaged stock to the insurer at an agreed sum, deducting such sum from the gross claim for loss of stock. The rebuilding is effected at a lower cost than was anticipated, and a surplus remains. The damaged stock is disposed of at a profit. How would you deal with the results of these transactions if you were certifying as to trading profits ? (Chartered Accountants).

270. State differences between Capital and Revenue Expenditure, giving examples.

Receipts and Payments A/c. Income and Expenditure A/c.

√**271.** Pine and Maple are equal partners in practice as Architects. A trial balance extracted from their books on 31st December, 1928, is as follows:—

	£	£
Pine Capital account		3,000
Current account		200
Drawing account	1,200	
Maple Capital account		3,000
Current account	60	
Drawing accout	800	
Debtors and Creditors	2,600	240
Cash at Bank	3,220	
Articled Clerks' Fees		500
Rent	1,000	
Investments at 5%	1,000	
Professional Fees		5,160
Interest on Investments (less Tax)		40
Office Furniture	450	
Salaries	1,400	
Drawing Materials	150	
Travelling	170	
General Expenses	90	
	£12,140	£12,140

Prepare Income and Expenditure Account for the year ended 31st December, 1928 , and Balance Sheet at that date.

The following adjustments are necessary:—

Articled Clerks' Fees unexpired	£400
Interest on Capital 5%	
Depreciation on Office Furniture	£ 50
Work in Progress at 31st December, 1928	£700

272. Indicate the difference between:—

(1) Receipts and Payments Account.
(2) Income and Expenditure Account.
(3) Revenue Account.
(4) Profit and Loss Account.

273. A war charity fund received for the six months ended December 31, 1916, £14,676 9s. 7d., and interest on investments, £180 19s.

The administrative expenditure amounted to £3,838 10s. 6d., and included £1,699 5s. 10d., the cost and expenses of making appeals for funds. The expenditure on Relief amounted to £5,213 9s. 11d., and on Loans to £781. The latter were not regarded as recoverable, but it was deemed advisable to leave the accounts open. At the commencement of the period there was £2,000 invested in 4½% War Loan which cost £1,977 5s., and this was unrealised at the date you are instructed to prepare a Balance Sheet and Income and Expenditure Account (January 1, 1917). The cash at the Bank at July 1, 1916, was £505, and at December 31, 1916, the various committees were authorised to spend up to the following limits: A, £3,416 4s. 2d.; B, £2,800 3s. 10d.; C, £1,100 5s. 2d.

Add to the accounts a report expressing your opinion on the situation as disclosed by them. (Incorporated Accountants.)

274. From the following particulars compile the accounts for the year ending December 31, 1910, to be submitted to the annual meeting of the members of a golf club.

		£	s.	d
1.	Entrance Fees and Subscriptions received on account of 1909 (these were estimated at £9 9s.)	10	10	0
2.	Subscriptions received on account for 1910	1,050	0	0
3.	Entrance Fees received on account for 1910	73	10	0
4.	Entrance Fees and Subscriptions received on account for 1911	52	10	0
5.	Locker Rents received for 1910	35	0	0
6.	Green Fees received for 1910	120	0	0
7.	Expenses, including Rent, for 1910 (of these £800 have been paid)	900	0	0
8.	Liabilities of 1909, paid in 1910 (these were estimated at £70).	60	0	0
9.	Subscriptions owing for 1910. £21 taken as	12	12	0
10.	Stock (House Account), 1910	150	0	0

	£.	s.	d.
11. Capital Expenditure, including Lease, 1909	1,000	0	0
12. Capital Expenditure in 1910.	200	0	0
13. Capital Expenditure written off	250	0	0
14. Profit on House Account, including refreshments after providing for the Staff	50	0	0
15. Cash in hand	124	18	0
16. Renewals paid in 1910	91	3	0
17. Interest paid in 1910	20	0	0
18. Loan on security of the Lease	500	0	0
19. Surplus from 1909 account	494	0	0
20. Fee to Treasurer's Clerk for 1910, not paid	20	0	0

(Chartered Accountants.)

275. From the following particulars, prepare Revenue Account and Balance Sheet of the "Green Lanes" Golf Club for the year ended 31st December. The Club's Articles of Association provide that half of each original member's subscription, and the entrance fees of other members are to be credited to Capital, and half of any surplus of Revenue is to be placed to a Reserve Fund.

Receipts for the year.—Subscriptions from 140 original members at £5 5s.; 220 Additional Members' Entrance Fees at £1 1s., and Subscriptions at £5 5s. Interest on deposit, less tax, £10 3s. 4d. Sales of Provisions and Liquors. £637 18s. 2d. Half-year's Grazing Rent to 30th June at £45 per annum. Loan, £900 at 4 per cent.

Payments for the Year.—Club Manager's Salary, £. 250. Greenkeeper's Wages, £150. Rent, £550. Interest on Loan £36. Cost of Annual Dinner, £100. Sundry Expenses, £53 8s. 1d. Taxes and Insurance, £72 13s. 8d. Servants' Wages, £58 5s. Fuel, Lighting and Cleaning, £53 10s. 11d. Liquors and Provisions purchased, £873 16s. 4d. Furniture purchased, £55 13s. 6d. Furnishings purchased, £25 10s. 2d. Repairs as per plumber's accounts, £5 2s. 7d. Repairs as per joiner's accounts, £7 3s. 4d. Printing and Stationery, £38 15s. 9d. J. Jones, builder (Club Premises Account, £275 15s. 4d. A. Brown, junior (Club Premises Account), £520. 10s. R. Roe architect (Club Premises Account), £120. T. Tims, painter (Club Premises Account), £52 10s. 6d.

On 31st December, the Cash in hand was £. 27 10s 8d., the Cash at Bank, £. 95 5s. 8d; the Cash on Deposit @ 4%, £. 270; the Stock of Provisions and Liquors, £. 286 14s. 9d.

Charge Depreciation on the total cost of Club Premises at 3 per cent., on Furniture at 2½ per cent., and on Furnishings at 15 per cent.

276. Discriminate, in the following cases, between "capital" and "revenue" expenditure respectively:—

(a) Purchase of Leasehold Premises.
Annual Depreciation of Lease of same.
Annual Repairs to same.
Annual Ground Rent of same.

(b) Installation of Heating and Ventilating Apparatus.
Annual Charge for maintenance of same.

(c) Purchase of Additional Furniture.
Annual Depreciation of same.
Annual Repairs to same.

(d) Purchase of Patent Rights.
Annual Depreciation of same.
Annual Renewal Fees for same.

(e) Sale of old Machinery (depreciated value in books, £275) for £80 and purchase of new Machinery £1,050 in place of it.

(f) Purchase of Second-hand Pumps (additional).
Wages paid to own workmen to fix same.
Immediate Repairs to make same efficient.
Cost of immediate painting of same.

277. From the following particulars make up a Receipts and Payments Account for the year ending 31st December :—

	£	s.	p.
Cash in hand and at bank 1st January...	274	13	0
Subscriptions for the year	46	10	6
Purchases of Furniture during the year	25	15	6
Stationery and Printing during year	14	13	2
Postages and Petty Expenses during year	10	9	8
Receipts from sale of Tickets for Annual Dinner	66	10	6
Expenses of Annual Dinner and Entertainment	47	2	10
Grants made for benevolent purposes...	15	15	0
Engraving Coat of Arms	3	3	0
Interest on Bank Deposits	3	10	5

Hire Purchase System.

278. A Colliery Company Hires Wagons on the Hire Purchase System over a term of two years starting on 1st January, 1907. The Instalments of Rs. 4,000 each are payable half-yearly. The present Cash Value of the Wagons is Rs. 14,870, and the Wagon Company charge interest at the rate of 6% per annum, working on half-yearly rests.

Draft the necessary Journal Entries to record these transactions in the books of the Colliery Company. Prepare also the Wagon Account for the Four half-years.

279. On January 1, 1923 the East West Colliery acquired on hire-purchase terms from the Bath Wagon Company fifty wagons on a five years' agreement at £10 per wagon per annum, the instalments to commence on December 31, 1924. The rate of interest involved may be taken to be 6% per annum. Wagons are to be depreciated at 6% per annum on the diminishing balance. Show the wagons account and the account of the Bath Wagon Company in the Colliery's books.

280. A and B, colliery proprietors, take a twenty-one years' lease at a dead rent of £600 per annum, merging into a royalty of 1s. a ton. The dead rents are recovered out of royalties paid within five years. 800 tons were raised the first year, 4,600 the second year, and 75,000 the third year. 100 colliery wagons were purchased on the hire-purchase system, by which the wagons, at the end of ten years, became their absolute property in consideration of 15s. a month for each wagon. It was assumed by the firm that each wagon would be worth £40 at the end of the ten years. Show the Ledger Accounts for Dead Rents, Royalties, Purchase of wagons for the first three years.

281. A certain steam plant can be purchased for cash for £1,005, or by instalments as follows :—

On delivery £200 ; after three months £300 ; after six months £400 ; and after twelve months £200.

If A buys a plant on the instalment plan, what entries should he make in his books ? What rate of interest per annum is he paying by buying the plant on the instalment system ?

282. The Hard Coal Colliery Company, Ltd., agreed to purchase from the International Wagon Company, Ltd., 100 railway wagons, at the price of £50 per wagen, paying for the same by half-yearly instalments of £300, such instalments to include interest on the unpaid purchase money at the rate of 7 per cent. per anuum.

The date of the purchase was January 1st, and the first half-yearly instalment was due July 1st.

Write up the Hard Coal Colliery Company's Account in the wagon Company's books for three years, and also write up the Wagon Account in the colliery company's books for the same period. (Chartered Accountants.)

Contract Account.

283. State your views on the advisability or otherwise of taking estimated profits or losses on unfinished contracts into account at the close of a Company's financial year.

284. The Contract Ledger of a Company showed the following expenditure on account of Contract No. 1 at 31st December, 1909:—

	£	s.	d.
Materials	60,000	0	0
Plant	10,000	0	0
Wages	82,200	0	0
Establishment Charges	4,300	0	0
	£156,500	0	0

The Contract was commenced in January, 1909, and the Contract price was £300,000. Cash received on account to date was £120,000, representing 80 per cent. of the work certified for, the remaining 20 per cent. being retained until completion. The value of materials on hand and work finished but not certified for was £5,000.

Prepare an account in respect of the Contract, showing the profit to date, assuming Depreciation on Plant at 10 per cent. per annum, and state the proportion of profit the Company would be justified in taking to the credit of Profit and Loss Account.

Voyage Account.

285. The S.S. Tukaram started on April 1st on a voyage from A to I and thence to London. Freights were earned as follows: —

With timber to B, Rs. 2,946, with coal to C, Rs. 8,655, with sugar to D, Rs. 3,198, with cotton to E, Rs. 2,783. The Tukaram reached London on 31st October. The port charges and disbursements, and sundry expenses were:—At A, Rs. 856 at B. outwards, Rs. 1,316 at C, Rs. 516 at D, Rs. 638 at C return, Rs. 61, at E, Rs. 10, at D return, Rs. 1,108, at F, Rs. 49, at G, Rs. 469, at H, Rs. 306 at I, Rs. 56, at London, Rs. 786. The managers' Commission amounted to Rs. 1,234.

During the voyage the Wages amounted to Rs. 1,485 and the Coal bill to Rs. 2,365. The premiums for general insurance were at the rate of Rs. 2,520 per annum, and for leaving H late in the season an extra insurance of Rs. 372, was charged. The insurance on freights and other items was Rs. 326 for the whole voyage.

A balance of Rs. 225 profit was brought forward from the previous voyage, and a sum of Rs. 187 (representing unused stores and provisions) is to be carried forward to the next voyage.

Make up the voyage account, and show the amount of dividend received by the owners.

286. The "Glenisla Steamship" Co., Ltd., owns one "tramp steamer," the ss. Glenisla, 2,211 tons gross register, which was chartered on 27th February as follows:—

Cardiff to Genoa with Coal at 8s. 9d. per ton.

NOTE.—The charter stipulates for an address commission to the charterers of 2 per cent. on the freight, payable on signing Bill of Lading together with a brokerage of 5 per cent to the charterers' agents, of which one-third is repayable to the vessel.

Agua Amarga (Spain) to Barrow with Ore at 8s. 3d. per ton.

NOTE.—Address commission of 2½ per cent on freight payable to charterers, and a brokerage of one-third of 5 per cent payable to charterers agents on signing charter.

The vessel was insured at Lloyd's on the previous 29th April, the inclusive premium for one year being £1,952 10s. 8d., and the managing owners' remunertion was fixed by the Articles of Association at 2s. 6d per gross register ton per aunum.

The voyage commenced on 9th March, and the following are the particulars from which the accounts are to be made up:—

	£	s.	d.
Freight on 3,190 tons Coal to Genoa, and freight on 3,660 tons Ore to Barrow:—			
Stores Accounts	162	8	1
Port Charges, Trimming, etc., Cardiff	121	2	3
Captain's Accounts for Harbour Wages, etc., Cardiff ...	64	7	6
Bunker Coals, as per Engineer's Receipt – 279 tons at 9s.; 154 tons at 8s. 11½d.			
Discharging at Genoa	93	15	3
Agents' Disbursements, Genoa, deducted from freight remitted (exch. 27.22), lire 3012.80			
Captain's Expenses, Genoa	7	19	0
Stevedore at Agua Amarga, loading 3,660 tons Ore ...	152	10	0
Dispatch Money	213	13	4
Interest on Advance	10	19	9
Captain's Expenses	5	15	9
Agents' Accounts for Port Charges, Agency, etc., exclusive of address Commission and Brokerage (exch. 26.75), Pesetas 2,964.88.			

	£	s.	d
Bunker Coals at Portland, 20 tons at 18s. 6d., and Port Charges, £3 2s.			
Port Charges, Discharging and Dispatch Money at Barrow	423	7	6
Captain's Portage Bill	168	6	8
Overlookers' Expenses	4	5	0

The voyage terminated on 28th April.

Prepare the Voyage Account, showing the net profit or loss. (Chartered Accountants.)

Marine Insurance Fund.

287. The Turbine Steamer Company, Ltd., owns a fleet of fourteen steamers trading to the Eastern seas. These boats are at present insured in the ordinary way at Lloyd's ; but the Company desires to effect its own insurance for the future. Explain briefly what steps should be taken to inaugurate an internal marine insurance fund, and state what entries would appear in the books and annual accounts of the Company when the fund was in operation. (Royal Society of Arts).

Royalties.

288. The lease of a colliery is granted upon the basis of a royalty of 6d. per ton on the coal raised, subject to a minimum rent of £1,000 per annum; the tenant has power to recoup short-workings during the first five years of the lease, but not afterwards.

The output is as follows :—

(1923) First year	20,000
(1924) Second year	30,000
(1925) Third year	35,000
(1926) Fourth year...	45,000
(1927) Fifth year	50,000
(1928) Sixth year	100,000

289. The Bengal Coal Company are lessees of a mine on a royalty of eight annas per ton of coal raised, with the "Dead Rent" of Rs. 40,000 per annum, and power to recoup "short workings" during the first five years of the Lease. The output for the first five years was as follows :—

1st Year	10,000
2nd "	48,000
3rd "	80,000
4th "	120,000
5th "	120,000

Write up the "Dead Rent," the "Royalties," the "Short workings" and the 'Land Lord's' accounts in the Company's Ledger.

290. A lead mine is leased by A to B for a period of years at the dead rent of £300 per annum, merging into a royalty of 10s. per ton on all ore gotten. In the first five years this tonnage is as follows: First year, 958 tons: second year, 234 tons; third year, 615 tons; fourth year, 430 tons: fifth year, 28 tons. B pays on account in the first year £300, and in the second year £50 (and has made no further payments to A during the five years). Prepare the necessary personal and nominal accounts in B's Ledger, showing these transactions, and bringing down balances, if any. (Incorporated Accountants).

291. The Coal Mine Company Ltd., took a lease of a colliery from G Risch for 99 years from September 29th, at a ground rent of £50 a year, payable half-yearly. and a royalty of 6d. per ton, with a minimum royalty of £80 a year, payable half-yearly. During the first year the Company raised 2,500 tons, and during the second year ended September 29th, 4,000 tons. The several amounts to G. Risch were paid twenty-one days after becoming due. Write up both Personal and Nominal Accounts, and balance them at the end of each year. (Chartered Accountants).

292. A colliery company acquires a lease of a mineral area for a term of sixty years at a minimum certain rent of £500 per annum, merging into a royalty of 6d. per ton on coal worked in periods, each of three years. Assuming the royalties on coal worked during the first year amounted to £100, in the second year £400, and in the third to £700 (leaving £300 of certain rent forfeited), make Journal and Cash Book entries, and post to Ledger accounts on the basis of the first two years' rent having been paid at the end of each year, and the rent of the last year being unpaid, showing the amount chargeable to Profit and Loss in each year. (Chartered Accountants.)

293. The R Colliery company, Ltd., leased a property from A at a royalty of 1s. 6d. per ton, with a minimum rent of £2,000 per annum. Each year's excess of minimum rent over royalties is recoverable out of the royalties of the next five years.

In the event of a strike and the minimum rental not being reached, the lease provided that the actual royalties earned for the year discharged all rental obligation for that year.

The results of the working were as follows: First year of the Company, ended December 31st 1905, actual royalties, nil; year ended December 31st 1906, actual royalties, £650; year ended December 31st 1907, actual royalties £1,850; year ended December 31st 1908, actual royalties, £2,250; year ended December 31st 1909, actual royalties £2,800; year ended December 31st 1910, actual royalties, £3,500; year ended December 31st 1911 (strike), actual royalties, £1,900; year ended December 31st 1912, actual royalties, £3,000.

Write up the Minimum Rent Account and the Royalties Account, showing the amount charged to Profit and Loss Account each year. (Chartered Accountants.)

Loose Leaf Ledger.

294. State what you consider to be the advantages and disadvantages of Card Ledgers, giving particulars of the system and describing methods adopted for detecting missing and misplaced cards. (Central Association Accountants).

295. What special precautions do you advise when Loose-leaf Ledgers are used? (Incorporated Accountants.)

Depreciation.

296. From what different sources does Depreciation arise? On what basis should it be calculated in connection with (a) Machinery; (b) Leases; (c) Loose Tools?

297. The A. B. Company, Ltd., purchase a lease for £1,000 which has 5 years to run. It is decided to raise Sinking Fund on a 5% basis to provide for this depreciation. Show the necessary accounts in the books for the 5 years ('180975 at 5% for 5 years = £1).

298. Your Directors desire to provide funds for the purchase of a new lease at the expiration of the current lease 15 years hence.

Write a short report to your Board describing two alternative methods of providing the necessary funds, and state which method you would advocate, and why.

299. The Company to which you are Secretary, has a certain sum of money invested in different funds, the market price of which fluctuates. How should these fluctuations be dealt with when preparing the Annual Accounts?

300. Briefly describe three methods of providing for depreciation, and state which method you would apply to each of the under-mentioned assets, and why: Lease of factory (24 years unexpired). Printing machine (five years' expected "life"). Freehold building (in a good state of repair). (Chartered Accountants.)

301. In preparing the Profit and Loss Account of a manufacturing firm, what different methods are there of providing for the waste of an asset owing (a) to wear and tear, as in the case of machinery; or (b) effluxion of time, as in the case of a building erected upon lease hold land?

What method do you favour for providing for such waste, and why? State briefly what entries would be required to carry your suggestions into effect? (London Chamber of Commerce.)

302. State shortly, what considerations would guide you in arriving at the depreciation to be written off the following assets: Fixed Plant and Machinery; Loose Plant and Tools Leasehold Property, the lease having thirty years to run; Models and Patterns. (Chartered Accountants.)

303. What considerations should govern the amount to be provided (if any) for the depreciation of, or reserve on, the following assets appearing in a Balance Sheet: (1) Goodwill; (2) Leasehold Land and Works erected thereon; (3) Fixed Machinery and Plant, including engine power; (4) Loose Tools; (5) Book Debts; (6) Investments in gilt-edged and other securities; (7) Amount expended on partly completed contracts? (Chartered Accountants.)

304. State concisely what you understand by each of the following:- Sinking Fund; Debenture Redemption Account; Capitalised Profits; Reserve Fund; Reserve Account. (Incorporated Accountants.)

305. Enumerate a few assets, the wastage of which is, in your opinion, more suitably provided for by the creation of a Sinking Fund invested outside the business than by the ordinary methods and application of depreciation. (Chartered Accountants.)

306. The value of a lease which has five years to run is £500. Show the working of a Sinking Fund on a 5% basis in the books of the business, having regard to the fact that 0·180975 of a pound annually invested at compound interest will amount to £1 at the end of five years. (Central Association Accountants.)

Single Entry.

307. You are instructed by W. Robertson who keeps his books by Single entry, to prepare a Trading and Profit and Loss Account for the year ended 30th September 1920, together with a Balance Sheet as at that date.

Upon analysing the cash book for the year, you find the following viz.:—

	Rs.
Bank Overdraft at 1st October 1919	8,000
Interest on above and Bank charges	150
W. Robertson's Drawings	4,000
Manager's salary	2,000
Salaries and Wages	15,000
Other Business Expenses	15,800
Paid to Trade Creditors	30,000
Balance at Banker's 30th September 1920	4,850
Balance in hands of Cashier	150
Received from Trade Debtors	50,000
Received from Cash Sales	30,000
W. Robertson—Capital at 1st October 1919	70,000
His stock on hand on 1st October 1919 was Rs. 18,000 and on 30th September 1920	20,440
His creditors on 1st October 1919 was Rs 16,000 and on 30th September 1920	11,000
His debtors on 1st October 1919 was Rs. 44,000 and on 30th September 1920	60,000
His furniture on 1st October 1919 was Rs. 2,000 and on 30th September 1920	2,000
His business premises on 1st October 1919 was Rs. 30,000 and on 30th September 1920	30,000

You are to allow 5% interest on the Balance of Capital at 1st October 1919, to reserve Rs. 3,000 for Doubtful Debts, and to charge 5% depreciation on Business Premises and Furniture.

In addition to the salary of Rs. 2,000 already paid to the Manager he is entitled to a Commission of 5% upon thd Net Profits, after charging such salary and commission.

Make provision for this commission, and prepare the accounts as instructed.

√308. On January 1st 1919 A took B into partnership. A's books were kept by single entry, and the following statement as on the above date showed his position as follows :—

LIABILITIES.	£	ASSETS.	£
Sundry Creditors	1,600	Sundry Debtors	2,500
A's Capital	2,600	Stock-in-Trade	1,000
		Fixtures and Fittings	500
		Cash at Bank and in hand ...	200
	£4,200		£4,200

It was agreed that B. should not draw on account of profits more than £250 per annum, until he had paid to A a premium of £400 out of his share of profits in excess of £250. A's capital was to be £2,600 as shown above, the new firm taking over the Assets and discharging the liabilities. B was to bring in £500, which he did on 1st January 1919, The partners were to receive 5 per cent. interest on their Capitals, and the profits or losses were to be divided—A two-thirds and B one-third. A's drawings were: 1909, £600; 1910, £540; 1911, £580. B drew £250 each year.

The position (apart from Capital) on 31st December 1909, 1910, and 1911 was as follows:—

	1909.	1910.	1911.
Assets...	£5,000	£4,950	£5,700
Liabilities	1,750	1,500	1,600

Amounts due from B to A in respect of premium were to be transferred from his Capital Account to A's Capital Account.

Make out a statement showing profit or loss for each year, and write up the partners' Capital Accounts.

Also show the position of A and B as regards the premium.

309. The following is the Balance Sheet of D, a manufacturer, on 30th June, 1916.

Liabilities	£	£	Assets	£	£
Sundry Creditors for Goods (net) ...	6,500		Freehold Buildings..		4,500
„ Wages	140		Plant & Machinery..		3,300
„ Travelling Expenses ...	85		Cash in hand ...		75
		6,725	Sundry Debtors ...	5,200	
Due to Bankers ...		2,400	Less estimated discounts	400	
D's Capital... ...		13,150			4,800
			Stock		9,600
		£22,275			£22,275

His books are kept by Single Entry, and the following is an analysis of his cash transactions for the year ended June 30, 1917 :—

Receipts	£	Payments.	£
In hand, June 30th 1916 ...	75	Bankers	21,300
From Bankers	19,180	For Goods	9,125
„ Customers	20,645	„ Wages	5,900
Additional Capital... ...	2,000	„ Carriage Inwards ...	440
		„ Carriage Outwards ...	100
		„ Salaries	1,250
		„ Travelling Expenses ...	550
		„ Trade Expenses ...	750
		Private Drawings	1,800
		In hand June 30, 1917, ...	85
£41,900			£41,900

His bankers have debited him with £120 for interest and bankers' charges not included in the foregoing cash statement. On June 30, 1917 he owed to sundry creditors net for Goods £5,600 for Wages £70, for Trade Expenses £145, and for Carriage Outwards £100. The value of the Stock was £10,400. The Sundry Debtors amounted to £6,500 but of these £400 were bad, and the estimated discounts on the good debts were £450. The discounts allowed during the year on receipts from customers amounted to £1,450. The rate of Depreciation on the Buildings was fixed at 2% per annum, and on the Plant and Machinery at 10% per annum. Prepare Balance Sheet on June 30, 1917 and Trading and Profit and Loss Account for the year, ignoring interest on Capital and on drawings.

Hotel Accounts.

310. Sketch a rough ruling suitable for a Visitors' Ledger at an hotel.

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