

# CA-CPT Dec'15 Quick Revision - Fundamentals of Accounting ( For KSA Students)

## Consignment

1. Discounting Charges on Bills Receivable received from consignee should be debited to **PROFIT & LOSS A/C AND NOT TO CONSIGNMENT a/c.**

Consignee accepts Bills of Exchange as a security amount for the goods consigned by the consignor. This Bills of Exchange is bills receivable for Consignor and Bills payable for consignee. The Consignor sometimes discounts the Bills receivable with the Bank. The discount charges should be debited to Profit & loss a/c and not to Consignment a/c. because it is a **FINANCE EXPENSE.**

2. We Know, Direct expenses (Non- recurring expenses) should be considered for valuation of consignment stock and value of Abnormal Loss.

Direct Expenses should **NOT** be considered for arriving at the **VALUE OF GOODS RETURNED BY THE CONSIGNEE TO CONSIGNOR**

**Eg:** Goods sent of consignment Rs. 1, 00,000, Direct Expenses Rs. 20,000

10% of goods consigned returned by consignee to consignor

This should be credited to Consignment a/c at Rs. 10,000 and **NOT** Rs. 12,000

**Reason: These goods are back in consignor's godown and in consignor goods; the value of goods shouldn't include Direct Expenses.**

3. **'ACCOUNT SALES'** IS A STATEMENT PREPARED BY CONSIGNEE AND SENT TO Consignor.

Account Sales contains:

- Details of sales made by consignee
  - Expenses incurred by Consignee
  - Commission payable to Consignee
  - Advance remitted to Consignor
  - Balance payable to Consignor
4. Valuation Principle for Closing Stock - **Cost (or) Net Realizable Value whichever is less** applies even for **CONSIGNMENT STOCK**
  5. If the Market Value of Consignment Stock as at the end of the year is given, then from the Market Value deduct Consignee's Commission to arrive at the Net Realizable value.
  6. Compare the Cost of Consignment Stock (including direct expenses) with Net Realizable value and whichever is less is the **VALUE OF CONSIGNMENT STOCK.**

## Joint Venture

1. Joint Venture a/c is a Nominal a/c
2. "Joint venture with other Coventurers a/c" is a **PERSONAL A/C**
3. Memorandum Joint Venture a/c does not form part of Double entry.
4. In Joint Venture 2 types of Questions can be asked:
  - a. Find out Profit (or) Loss from Joint Venture Business
  - b. Find out Amount due to/from Co- Venturers
5. **Illustration:**

To find out the Profit / Loss from Joint Venture Business is VERY EASY

<b>Joint Venture A/C</b>			
<b>Expenses</b>		<b>Income</b>	
<b>Particulars</b>	<b>Amount</b>	<b>Particulars</b>	<b>Amount</b>
Material Supplied by all Co-Venturers for Joint Venture Business	XXX	Joint Venture Sales	XXX
Joint Venture Expenses incurred by all Co- Venturers	XXX	Unsold Stock taken over by all Co- Venturers	XXX
Commission Payable to all Co- Venturers	XXX		
<b>Profit (b/f)</b>	XXX	<b>Loss (b/f)</b>	XXX
<b>Total</b>	<b>XXX</b>	<b>Total</b>	<b>XXX</b>

To find out the amount due from / to Co - Venturers is VERY EASY

<b>Respective Co- Venturers' A/C</b>			
<b>Particulars</b>	<b>Amount</b>	<b>Particulars</b>	<b>Amount</b>
Sales made by that Co-Venturer	XXX	Material Supplied by that Co-Venturer	XXX
Unsold goods taken over by Co - Venturer	XXX	Expenses incurred by that Co - Venturer	XXX
<b>Share of Loss of the Co - Venturer</b>	XXX	Commission payable to that Co - Venturer	XXX
To Balance C/d (b/f) - <b>Amount Payable to that Co - Venturer</b>	XXX	<b>Share of Profit of that Co - Venturer</b>	XXX
		By Balance C/d (B/f) - <b>Amount Recoverable from that Co - Venturer</b>	XXX
<b>Total</b>	<b>XXX</b>	<b>Total</b>	<b>XXX</b>

## Inventory

### 1. INFLATIONARY TREND (Increase in Prices):

**FIFO Method:** Closing Stock will be valued at **latest prices** which are high.

So value of Closing Stock will be high.

Cost of Goods Sold will be less.

Profit will be more

Tax will be more

**LIFO Method:** Value of Closing Stock will be less

Cost of Goods Sold will be more

Profit will be less

Tax will be less

### 2. DEFLATIONARY TREND (Decrease in Price):

**FIFO Method:** Closing Stock will be valued at latest prices which are low.

So value of Closing Stock will be less.

Cost of Goods Sold will be high.

Profit will be less

Tax will be less

**LIFO Method:** Value of Closing Stock will be more

Cost of Goods Sold will be less

Profit will be more

Tax will be more

3. AS - 2 allows :

- a. Item by Item Comparison
- b. Group Comparison

	Product	Cost	Market Value	Commission @ 10%	Net Realizable Value
<b>Group I</b>	A	10,000	15,000	1,500	13,500
	B	20,000	20,000	2,000	18,000
<b>Group II</b>	C	30,000	32,000	3,200	28,800
	D	40,000	45,000	4,500	40,500

Value of Closing Stock.

**ITEM BY ITEM COMPARISON:**

Product A = 10,000  
 Product B = 18,000  
 Product C = 28,800  
 Product D = 40,000

Rs. 96,800

**GROUP COMPARISON:**

Group	Product Cost	NRV	Value of C/S
<b>I</b>	30,000	31,500	30,000
<b>II</b>	70,000	69,300	69,300

**Total Comparison** ----- NOT ALLOWED

~~**Total Cost** ----- = ----- 1,00,000~~

~~**Total NRV** ----- = ----- 1,00,800~~

The preferential method for valuation of closing stock is **ITEM BY ITEM COMPARISON** method. If it is difficult then **GROUP COMPARISON METHOD** is advisable.

## Depreciation

1. Original Cost = 1,00,000

Scrap value = 10,000

Rate of Depreciation is 10% p.a.

Find out the Amount of Depreciation

**SOLUTION:**

**Rate of Depreciation should be applied on Original Cost**

$$= \frac{10}{100} \times 1,00,000 = \text{Rs. } 10,000$$

Scrap Value should not be considered when rate of depreciation is given.

**Reason:**

$$\text{Rate of Depreciation} = \frac{\text{Amount of Depreciation}}{\text{original Cost}} \times 100$$

**Therefore, Rate of Depreciation x Original Cost = Amount of Depreciation**

2. Straight Line Method provides **UNIFORM DEPRECIATION** but Written Down Value Method (WDV) provides **UNIFORM CHARGE**

3. **Depreciation** - **Tangible Assets**

**Amortization** - **Intangible Assets**

**Depletion** - **Wasting Assets**

4. **Profit** on revaluation of asset should be credited to "**Revaluation Reserve**" but **loss** on Revaluation of Assets should be debited to **Profit & Loss a/c (AS - 6)**

5. First time revaluation:

Book value = Rs. 1, 00,000      Revalued Amount = Rs. 1, 50,000

**Profit** of Rs. 50,000 should be credited to **Revaluation Reserve**.

Second Time revaluation:

Same asset was revalued and there is a Revaluation loss of Rs. 70,000.

Out of Rs. 70,000, Rs. 50,000 should be adjusted against Revaluation Reserve and Rs. 20,000 to be debited to Profit & loss a/c

6. First time revaluation:

Book value = Rs. 1, 00,000      Revalued Amount = Rs. 80,000

Loss of Rs. 20,000 should be debited to **Profit & Loss a/c**.

Second Time revaluation:

Same asset was revalued and there is a Revaluation Profit of Rs. 25,000.

Out of Rs. 25,000, Rs. 20,000 to be credited to Profit & loss a/c and balance should be credited to Revaluation Reserve (AS - 6).

7. See Problems in:

- Sum of years digits method
- Machine Hours Method

Very Easy problems (Easy to understand). Don't miss it.

8. **Sinking Fund Method:** Under Sinking Fund Method, the annual depreciation is invested outside the business.
9. Such investments earn interest at a certain rate.
10. At the end of the useful life of the asset, the investments are realized and the amount realized will be utilized to purchase a new asset.
11. Hence, **Sinking Fund Method** provides for Replacement of Asset.
12. Depreciation is calculated using Sinking Fund Table.
13. Sinking Fund Formula:

**Easy Formula. No Need to Memorise. See the Illustration and then see the problem.**

Amount of Depreciation = (Original Cost - Scrap Value) X Present Value of 1 at the given rate of Interest

(Or)

Amount of Depreciation =  $\frac{\text{Original Cost} - \text{Scrap Value}}{\text{Present Value of Annuity of 1}}$   
At a given rate of Interest

**Illustration:**

Cost - Rs. 5,00,000

Scrap Value - Rs. 35,900

Life - 4 Years

The sinking fund table shows that 0.215470803 invested at the end of each year at 10% Compounded Interest will amount to Rs. 1 at the end of 4 years and Rs. 1 p.a. is invested every year at 10% compounded interest amounts to Rs. 4.641 in 4<sup>th</sup> year.

**Alternative 1:**

Amount of Depreciation = (Original Cost - Scrap Value) X Present Value of 1 at the given rate of Interest

$$\begin{aligned} &= (5,00,000 - 35,900) \times 0.215470803 \\ &= \text{Rs. } 1,00,000 \end{aligned}$$

**Alternative 2:**

$$\begin{aligned}\text{Amount of Depreciation} &= \frac{\text{Original Cost} - \text{Scrap Value}}{\text{Present Value of Annuity of 1}} \\ &\quad \text{At a given rate of Interest} \\ &= \frac{(5,00,000 - 35,900)}{4.641} \\ &= \text{Rs. } 1,00,000\end{aligned}$$

14. **Annuity Method:** Under Annuity Method, the amount spent on Purchase of Asset is treated as an **Investment**.
15. Such investment is assumed to earn **interest** at a certain rate.
16. Amount of Depreciation is calculated using Annuity Table:

Particulars	Amount
Cost of Asset	Rs. 2,00,000
Scrap Value (or ) Refundable Amount	Rs. 2,000

A reference to the Annuity Table shows that to depreciate Rs. 1 by annuity method over 4 years charging interest at 5% p.a., one must write off a sum of Rs. 0.2820.

**Calculate Annual Depreciation Charge.**

$$\begin{aligned}\text{Amount of Depreciation} &= (\text{Cost} - \text{Scrap Value}) \times 0.2820 \\ &= (20,000 - 2,000) \times 0.2820 \\ &= \text{Rs. } 5,076\end{aligned}$$

$$\begin{aligned}\text{Annual Depreciation Charge} &= \text{Fixed Depreciation} + \text{Interest on Salvage Value} \\ &= 5076 + 5\% \text{ on Rs. } 2,000 \\ &= 5,076 + 100 \\ &= \text{Rs. } 5,176\end{aligned}$$

## Bills of Exchange:

### 1. Promissory Note:

- a. There are only two parties in a promissory note: **MAKER and PAYEE**. This is normally used in Loan Transactions. If A borrows Rs. 1, 00,000 from 'B', then "A", the borrower **DRAWS & ACCEPTS** the promissory note and gives it to "B". This note acts as a security for the Lender "B". "B" is the Payee. "B" can endorse it like Bills of Exchange. The Journal Entry for Promissory Note and Bills of exchange are same.

#### Features of Promissory Note:

- It is an Instrument in Writing
  - Contains an **Unconditional Undertaking**. The word "undertaking" means promise. The Borrower promises to repay to lender.
  - Signed by the Maker (Borrower)
- b. **A promissory note cannot be made payable to a BEARER**
- c. The only Promissory note that can be made payable to bearer is the **Currency Note** issued by RBI
- d. **No Noting (OR) Protesting** is required for Promissory Note.

### 2. Two types of Bills of Exchange:

- Trade Bill
- Accommodation Bill

Trade Bills are bills drawn and accepted for **business** transactions.

Accommodation Bills are bills drawn and accepted between Friends for **Mutual Financial help**.

Eg: A & B are friends. No business relationship between A & B. A draws a Bill on B for Rs. 1, 00,000. "B" accepts the bill. A discounts the bill with the bank. It is a three months bill. Discount rate is 12%.

$$\begin{aligned}\text{Discount} &= 1,00,000 \times \frac{12}{100} \times \frac{3}{12} \\ &= \text{Rs. } 3,000\end{aligned}$$

After discount, A remits 2/3<sup>rd</sup> of the proceeds to 'B'. What is Discount to be borne by A & B?

$$\text{A should bear} = \frac{1}{3} \times 3,000 = 1,000$$

$$\text{B should bear} = \frac{2}{3} \times 3,000 = 2,000$$

**Revise:**

Renewal of a Bill

Retirement of Bill

Bills for Collection

Noting Charges

Due Date

Insolvency

**Partnership Accounts**

1. There is no difference in the Accounting treatment between Admission and retirement. In admission our focus is new partner should not enjoy Undue benefit. Hence we either transfer Reserves, revaluation Profits and Goodwill to Old partners capital a/c in Old profit sharing ratio (or) Pass Weapon Entry
2. In Retirement, **our focus is retiring partner should be given due benefit.**

In retirement, old partners include retiring partners

Eg: A, B and C are partners sharing profits and losses in the ratio 5:3:2. 'C' retires. General

Reserve Rs. 1, 00,000. New ratio is 3:2. Pass Journal Entry

General reserve a/c	Dr.	1, 00,000
To A		50,000
To B		30,000
To C		20,000

(Or)

**Weapon Entry:**

A a/c	Dr.	10,000
B a/c	Dr.	10,000
To C a/c		20,000

**Note:** In retirement, Retiring Partner is the Sacrificing partner and Continuing partners are gaining partners.

Gaining ratio = 1:1

3. The Settlement Amount payable to deceased partner on the date of death is:
- Capital Balance in his capital and current a/c
  - Interest on capital till the date of death (If deed provides for)
  - Salary (if deed provides for)
  - Commission (if deed provides for)
  - His share of goodwill
  - His share of Reserves
  - His share of Revaluation Profits
  - His share of **maturity amount** of his policy and his share of **Surrender value** on unexpired policies.
  - Share of profits of the year of death (till the date of death).
  - Interest on Drawings, Drawings and share of Loss will be deducted.
4. Share of Profits is roughly calculated and credited to capital a/c of the deceased partner and debited to **profit and loss suspense a/c**.
5. If there is a delay in the settlement to the legal representative of deceased partner then the Legal representative are having right to claim either Interest @ 6% p.a. for delay

(Or)

**Proportionate share of profits:**

Whichever is higher will be claimed by the legal representatives.

Eg: Deceased partner	-	C
<b>Date of Death</b>	-	1.9.2014
<b>Settlement Amount</b>	-	5, 00,000
<b>Date of Settlement</b>	-	31.12.2014
Interest	=	$5, 00,000 \times 6/100 \times 4/12$
	=	10,000

(Or)

Profits from 1.9.2014 to 31.12.2014 are Rs. 60,000. (Given)

A's Capital	=	Rs. 6, 00,000
B's Capital	=	Rs. 4, 00,000
C's Capital	=	Rs. 5, 00,000

Proportionate Share of Profits =

$$\frac{60,000}{\text{Total Capital (inc. deceased partner capital)}} \times \text{Deceased partner capital}$$
$$= \frac{60,000}{15,00,000} \times 5,00,000$$
$$= \text{Rs. } 20,000$$

So C will claim Rs. 20,000

6. Hidden Goodwill:

A: B = 3:2, C = 1/5<sup>th</sup> Share, the capital of A and B are 4, 00,000 and 2, 50,000 respectively. C brings Rs. 2, 00,000 as capital. Calculate Hidden Goodwill.

**Solution:**

For 20% share = Rs. 2, 00,000

For 80% share = Rs. 8, 00,000

A & B Capital should be 8, 00,000

(-) A & B actual Capital 6, 50,000

**Hidden Goodwill** **1, 50,000**

7. For minimum Guaranteed Profits problems, first calculate NPSR (if not given)

8. **PAST ADJUSTMENTS:**

Past Adjustments are errors (or) omission committed in the previous accounting year which is rectified in the current accounting year by passing a Single Adjustment Entry.

**Eg:** A B C are partners, PSR is 5:3:2. Profit for the previous year is Rs. 1, 00,000

A's capital = 3, 00,000

B's capital = 2, 00,000

C's capital = 1, 00,000

As per deed, interest on capital is allowed 10% p.a.

But the firm omitted to record interest on capital and distributed the profits of the previous year.

Pass journal entry for rectifying the error.

**Solution:**

<b>Amount already recorded or credited to Partners</b>			
	A	B	C
Profit 1,00,000	50,000	30,000	20,000
	50,000	30,000	20,000

<b>Amount should have been recorded</b>			
	A	B	C
IOC 60,000	30,000	20,000	10,000
Profits (1,00,000 - 60,000)	20,000	12,000	8,000
	50,000	32,000	18,000

	NIL	2,000	2,000
Difference		Short credit	Excess credit

**Rectification Entry:**

C's Capital a/c	Dr	2,000	
To B's Capital a/c			2,000