SYLLABUS

Class – B.Com. (Hons) II Year

Subject – Advance Accounting and Practice

UNIT – I	Accounting of Not- Profit-Making Organizations
UNIT-II	Value Added Accounting: Meaning, Concept and types, reporting of value added, causes of value added advantages and laminations' of value added, preparation of values added statement. Meaning of consignment, Objectives of consignment Accounting in the books of consignor and Consignee.
UNIT III	Royalty Accounts: Minimum rent, Short workings/Redeemable dead rent, Excess Workings, Ground rent, Recoupment of short workings, Strike and lockout. Hire- Purchase and Installment Payment Systems: Meaning and Concept of Hire-Purchase, Accounting for Hire Purchase transactions, Problems based on installment payment system.
UNIT – IV	Banking & Insurance Companies- Banking Companies: Legal provisions, Accounts and Books, Final Accounts of Banking. Insurance companies General : Various Types of insurance, Regulation of insurance business, Final accounts, Life insurance Business Reserve for Unexpired risks.
UNIT – V	Terms and Expressions of Government finance, Basic Principles of Government Accounting in India, Government Financial Administration, Accounting Procedure of Government Expenditure

Unit I

Accounting of Non Profit Making Organizations

These type of organizations are found in every country.

These institutions are called 'Non-Trading institutions' or organizations

Such institutions can be defines as those organizations , which are formed with the basic purpose of promoting commerce , art, science , religion , charity or any other useful object.

The major spending of funds is utilized in the promotion of their objectives and they prohibit the payment of any form of dividend to their members.

The major source of income for these organizations is Donations, grants, subscription from members and public at large.

Since the basic objective of such non-trading organizations are not to earn profit , hence they are also termed as non-profit making entities.

The Accounting record which they keep is known as " Accounting record of Non-Trading Organization, institutions and individuals".

Some not- for -profit institutions along with their nature are-

1. Charitable Institutions: Hospitals, Medical, Nursing homes, Orphanages

2. Educational Institutions: School, College, University

3. Religious Institutions: Mandir, Masjid, Church, Gurudwara

4. Sports Institutions : Sports, Club, Gyms

5. Social Institutions: Library

6. Recreational Institutions: Entertainment Committee

7. Cultural Institutions : Cultural Committee

8. Professional Institutions : Legal Union, Doctors , Engineers

9. Political Institutions- political Parties

Objectives of Accounting

1.Evaluation of:-

Performance

Financial Performance

Efficiency and service

Utilization of funds

2. Comparision of:-

Expenses and Income

Financial Results with Budget

3. Calculation of Surplus and deficit of Income and Expenditure

Characteristics/Features

1. To render Services

- The purpose of these institutions is to provide service to each member

-There is no intention to earn profit.

2. Area of Service

- There are service to all area of people of any caste , creed or color.

-It can be social , educational , religious or charitable.

3. Nature of Organization

- They are in the nature of charitable Trusts or societies.

- The subscribers are called members

4. Management

- The management is done by managing or executive committee.

- Committee is elected by its members

5. Responsibilities:-

- The members of such institutions are totally responsible for all the activities done.

- Those members who become Chairman , Secretary , Treasurer etc. are personally liable for the work done.

6.Source of Income

- Subscriptions, Donations, Legacies, Grant- in –aid,income from Investments, income from sports/ entertainment etc.

7. Management of funds

- Funds raised may be either Capital of Revenue.

- They can be credited to Capital Fund or general Fund.

- The Surplus generated in form of excess of income over expenditure is added to Capital Fund.

8. Accounting Theory

- Accounting is based on fund Theory.

9. Use of Accounting Information

- The Accounting Information provided by such institutions is meant for the present and potential contributions and meet the statutory requirements.

Accounting Records of Non- Trading Institutions

Following are the books usually maintained by such institutions:-

1. Cash Book-All transactions relating to cash receipts and cash payments are recorded here.

This is termed here as Receipts and Payment Account.

2. Members Register- This register consists of member's detail like name , address, date of admission etc..

3. Minutes Book- This is a permanent record of the decisions taken from time to time.

The decisions are taken by the body of members and their managing committee.

4. Stock Register –Every society possesses some Fixed Assets like Furniture , office equipments etc.

There is also a stock of consumables like stationery , sports material etc.

5. Other Registers- All other registers like salary and wages register , Donor's register , Fees register, liabilities register etc.

Financial Statements of Non- Trading Institutions

The non- trading institutions do not maintain their books of accounts on Mercantile system of book- keeping, rather they maintain the same on cash basis.

Following Books are maintained

1. Receipts and Payments Account

2. Income and Expenditure account

3. Balance Sheet at the end of the year.

Receipts and payment account

It is just like a Cash account

It is a summary of actual cash receipts and payments of a particular year

It is prepared to know the cash position and bank balance after a certain period.

It is also used to find out the headwise receipts and payments and closing balances of cash and bank.

Limitations

It is suitable only for small non- trading concerns having limited cash transactions.

Profit and Loss cannot be extended by this account.

Non- cash items are not recorded here.

Credit transactions are not recorded here.

This account is not relevant for preparation of Balance sheet.

Income and Expenditure Account

The excess of expenditure over income is calculated here

It is a nominal account , where , if the result of Year's activities is a profit , it is called Surplus and in case it is a loss, it will be Deficit.

It only records the revenue receipts and payments

The Revenue receipts are credited and revenue payments are debited.

Capital Incomes and expenditure are not recorded here.

Non Cash items like depreciation , provision for bad debts etc are also recorded here

It is similar to Profit and loss account for trading concerns.

Format of Receipts and Payments Account

Receipts and Payments Account
For the year ended on ....

Dr. Cr

Particulars	Amount Rs	Particulars	Amount Rs
Balance b/d :		Purchase of Assets	
Cash		Printing and stationery	
Bank		Repairs and Renewal	
Donations		Newspapers/Magazines	
Legacies		Rent and taxes	
Membership fees		Postage	
Entrance fees		Investments	
Subscriptions		Conveyance	
Donations Lockers		Honorarium	
Rent		Charity	
Sale of fixed assets		Insurance Premium	
Interest on investments		Upkeep of Ground	
Miscellaneous Receipts		Telephone Charges	
Sale of old periodicals		Balance c/d :	
		Cash	
		Bank	
	Amount		Amount

SPECIFIC ITEMS OF RECEIPTS AND PAYMENTS ACCOUNT

1. Subscription

It is a regular payment made by the members to the organisation. It is generally contributed annually. It is one of the main sources of income. It appears on the debit side i.e. Receipts side of the Receipts and Payments Account. Apart from amount for current year, it may include amount pertaining to previous year or advance payment for next years.

2. Entrance fees or Admission fees

Whenever a person is admitted as a member of the organisation certain amount is charged from him/her to give him/her admission. This is called entrance fee or admission fee. It is an item of income and is shown on the debit side of the Receipts and Payments Account.

3**. life membership fees:-**
Membership, if granted to a person for the whole life, special fee is charged from him/her, this is called life membership fees. It is charged once in the life time of a member. It is a capital receipt for the organisation.

4. Endowment fund

It is a fund which provides permanent means of support for the organisation. Any contribution towards this fund is an item of capital receipt.

5. Donation

Donation is the amount received from some person, firm, company or any other body by way of gift. It is also an important item of receipt. It can be of two types :

(a) **Specific donation :** It is a donation received for a specific purpose.
Examples of such donations are : donation for library, donation for building, etc.

(b) **General donation :** It is a donation which is received not for some specific purpose. It can be of two types :

(i) General donation of big amount

(ii) General donation of small amount

6. Legacy

It is the amount which is received by organisations as per the will of a deceased person. It is treated as a capital receipt.

7. Sale of old newspapers/periodicals and sports material

Old newspapers used/condemned sport material is sold and fetches some money. It is a source of revenue. It is taken to the debit of Receipts and Payments account.

8. Purchase of fixed assets

Assets such as building, machinery, furniture, books etc. are purchased for the organisation. These are items of capital expenditure. These are shown on the credit side i.e. the payment side of Receipts and Payments Account.

9. Payment of honorarium

This is another item of payment. This is an amount paid to persons who are not the employees of the organisation but take part in the management of the organisation. Remuneration paid to them is called honorarium. For example, payment made to the secretary of the club as honorarium. This is a payment of revenue nature.

10. Purchase of consumable items

Items such as stationery, sports material, drugs and medicines etc. are called consumable items. Payments are regularly made by Not-for-Profit Organisation (NPO). These are shown on the payment side.

Payments are made for rent, salary, insurance, office expenses etc. which are payments made as revenue expenditure by both busineses for profit and not for Profit Organisations (NPOs).

Preparation of Receipts and Payments Account

Following are the steps followed to prepare Receipts and Payments A/c :

1 At first the cash and bank balance carried forward from the last year is written on its debit side. In case there is bank overdraft at the beginning of the year, enter the same on the credit side of this account.

1 The amounts are written under relevant heads such as subscription, donations etc. on the receipts side and salary, rent, purchase of sports equipment, books etc. on the Payment side.

1 The amounts comprise of only cash and all cash received or paid during the period for which Receipts and Payments Account is prepared. No distinction is made between the items of revenue nature or capital nature and whether these belong to current year, previous year or the coming year.

Finally, this account is balanced by deducting the total of the credit side i.e. the total payments from the total of the debit side i.e. total receipts and is put on the credit side as 'balance cld'.

It shows the closing cash and Bank balance which is written on the asset side of the Balance sheet of the concerned organisation.

RECEIPTS AND PAYMENTS ACCOUNT AND CASH BOOK

You have learnt about Cash Book and Receipts and Payments Account. You have also learnt that Receipts and Payments Account is prepared with the items taken from the cash Book. There is a distinction between the two which is given as below :

Difference between Receipts and Payments Account and Cash Book

	Receipts and Payment Account	Cash Book
1.	It is prepared at the end the accounting year.	It is prepared on day to day basis.
2.	Every item appears only once.	Items appear number of times on different dates depending upon their occurence.
3.	It serves the purpose of Trial Balance to prepare the financial statements.	It is a means of maintaining record of cash transactions.
4.	It reflects the activities of the organisaiton.	It is only a systematic record of day to day cash transactions.
5.	It is prepared only by Not-for-Profit Organisations (NPOs).	It is also prepared by business organisations meant to earn profit.

UNIT- II

VALUE ADDED ACCOUNTING

VALUE ADDED STATEMENT

Value-added statement (VAS) or reporting is a modified version of the profit and loss account. Like profit and loss account, the VAS reveals the operating performance of a company at a given point in time, using both accrual and matching procedures. However, the VAS does not aim to provide a profit (or loss) figure as in the case of profit and loss account but a figure or return to a larger group of capital and labour providers (i.e., owners, employees), other claimants or interested parties.

The term 'value-added' means the market price of the output of an enterprise less cost of bought-in goods and services. The resulting balance money is known as the value-added by an enterprise and this money can be divided among the various parties who have contributed in the production of goods and services of the enterprise in the form of factor inputs.

Thus, the owners (or shareholders), creditors and governments (through taxation) are recipients of the enterprise income. Thus, the value-added income would include wages, rent, interest, taxes, dividends paid to shareholders and retained income of the company.

The value-added statements can be derived from the profit and loss account.

Generally, the profit and loss account is expressed as follows:

R E = S – B – DP – W -I – DD – T … (1)

Where R E = Retained Earnings

S = Sales Revenue

B = Bought in materials and services

D P = Depreciation

W = Wages

I = Interest

D D = Dividends

T = Taxes

The value-added statement can be obtained by rearranging Equation (1), as follows:

S – B = W + I + DD + T + DP + RE … (2)

or S – B – DP = W + I + DD + T + RE … (3)

Equation (2) indicates the gross value-added and Equation (3) indicates the net value added. In both the cases (equation) the left part of the equation indicates the value-added (net or gross) and the right part of the equation divides the value-added among the groups involved

Tables 4 shows, the preparation of a value-added statement and also indicates as to how a VAS can be derived from the profit and loss account.

The value-added statement reflects a broader view of an enterprise's role and objectives than profit does. Profit is considered by some to convey narrow, sectional interpretation. Value-added reflects the performance of a team, i.e., employees, managers, shareholders, creditors.

VAS helps the employees to perceive them as responsible participators in a team effort with management and thus may motivate them to work harder. Based on the value-added and maximized productivity incentives can be given to employees.

VAS provides a better measure of the size and importance of companies. Value-added based ratios are interpreted as more indicative and predictive of the strength of the company than conventional ratios. The value-added concept is useful in the context of large companies that influence large sections of society and have a general economic and social importance besides the limited interests of shareholders.

Objectives of Value Added Statements

The main objectives of preparing Value Added Statements are:

1. **Wealth creating activity** - To indicate the value or wealth created by an enterprise. In a way it shows the wealth creating ability of the organization.
2. **Distribution of value** - To show the manner in which the wealth created is distributed amongst the employees, shareholders and the government. The pattern of distribution of value added can be clearly understood.
3. **Contribution** - To indicate the organizations contribution to national income.
4. **Basis for future planning** - To use it as a basis of making inter-firm and intra-firm analysis, for preparation of financial plans and targets, for developing productivity linked incentive schemes.

Value Added Statements v/s Profit & Loss Account

The traditional Profit & Loss Account is prepared on the theory that the company was created by its shareholders and exists for their benefit. However, the traditional accounting system shows only the profits or losses made by a business enterprise and do not provide any information showing the extent to which the wealth is created by a business unit in a given period. The newly developed accounting method of value added is aiming to add a new dimension to the existing system of corporate financial accounting and reporting through the disclosure of additional information regarding the amount of wealth an entity has created in an accounting period and how it has been divided up by the entity amongst those who have contributed to its creation.

The statement of value added conceives the company as corporate entity in which those who provide capital and those who provide labour cooperate to create wealth which they share amongst themselves and with the government. When the value added statement is prepared, then the company is viewed as a `wealth' producing entity of a number of groups which are known as stock holders. The value added statement shows the wealth obtained by its employees, government, providers of capital or business itself during a period of time and the manner in which the generated value is distributed among the employees, government and the providers of capital. It shows the companies contribution to the national income.

The value added statement is not a substitute, but a supplement to the Profit & Loss Account although it is based on the figures from the latter. The value added statement is essentially a much simpler statement than the profit statement. The Profit & Loss Account is prepared on the basis of double entry system and its preparation is statutorily compulsory, but the value added statement is not prepared in the statutory account.

Advantages of Value Added Statements

The following are some of the advantages of Value Added Statements:

1. Reporting on VA improves the attitude of employees towards their employing companies. This is because the VA statement reflects a broader view of the companies objectives and responsibilities
2. VA statement makes it easier for the company to introduce a productivity linked bonus scheme for employees based on VA. The employees may be given productivity bonus on the basis of VA/payroll ratio
3. VA based (e.g. VA/Payroll, taxation/VA, VA/sales, etc.) are useful diagnostic and predictive tools. Trends in VA ratios comparisons with other companies and international comparisons may be useful.
4. VA provides a very good measure of the size and importance of a company. To use sales figures or capital employed figures as a basis for company ranking can cause distortion. This is because sales may be inflated by large bought-in expenses or a capital intensive company with a few employees may appear to be more important than a highly skilled labour intensive company
5. VA statement links a company's financial accounts to national income. A company's VA indicates the company's contribution to national income.
6. Finally VA statement is built on the basic conceptual foundation which is currently accepted in balance sheet and income statements. Concepts such as going concern, matching, consistency and substance over form are equally applicable to the VA statement.

Criticisms and Limitations of Value Added Statements

It is argued that although the Value Added statements show the application of VA to several interest groups (like employees, government, shareholders, etc.), the risk associated with the company is only borne by the shareholders. In other words, employees, government and outside financers are only interested in getting their share in VA, but, when the company is in trouble the entire risk associated there in is borne only by shareholders. Therefore, the concept of showing value added as applied to several interested groups is being questioned by many academics. They advocated that since the shareholders are ultimate risk takers, the residual profit remaining after meeting the obligation of outside interest group should only be shown as value added accruing to the shareholders. However, academics have also admitted that from over-all point of view value added statement may be shown as supplementary statement of financial information. But in no case can the VA statement substitute the traditional income statement (i.e. Profit and loss account).

Another contemporary criticism of VA statement is that such statements are non-standardized. However, this practice of non-standardization can be effectively eliminated by bringing out an accounting standard on value added. Therefore, this criticism is a temporary phenomenon.

Thus, along with the advantages, the value added statements embody certain limitations also. These limitations are as follows:

1. Preparation and presentation of value added statement may lead to information overload and confusion, as an ordinary employee reading his company's corporate annual report may not be able to reconcile the value added statement with the earnings statement.
2. Another limitation of Value added statement is that it raises a danger that management may take the maximization of value added as their goal i.e. the inclusion of the value added may wrongly lead management to pursue maximization of firms value.

3. Another argument against a value added statement is that its inclusion in the corporate annual report would involve extra work, therefore, extra costs and delay and also a slight loss of confidentiality in view of the additional disclosure involved.
4. The most severe limitation of value added data emerges from lack of any uniformity and consistency amongst different companies in the preparation and presentation of Value Added statements. VAS is flagrantly standardized.
5. Since there are various methods of calculating VA, it is difficult to make inter-firm comparisons. Even intra-firm comparison is not possible if the treatment of these items is changed in the subsequent years.
6. Value Added statements may lead to confusion especially in the cases where wealth or value added is increasing while earnings are decreasing.

In spite of these limitations, it may be said that the value added statement brings about certain changes in emphasis rather than change in the content in the traditional financial statement. Thus it is considered as a valuable means of social disclosure.

Preparation of VAS

It has two parts. In part I value added s calculated and in part II its distribution and application is shown. It is difference between Sales and Cost of goods bought.

PART I

VALUE ADDED STATEMENT (for the year ending 31st March)

Particulars	Amt
Sales	…..
Less: *Cost of bought in materials and services*	
Production and operation expenses	

Administrative expenses	
Interest on long term loans/debentures	
Excise duty	
Value added by manufacturing and trading activities	.....
Add: Other income	....
Gross value added (GVA)	.....

PART II

Application of Value Added

To pay employees: Wages, salaries, bonus etc	.....
Employers contribution to various staff welfare funds	.....
To pay directors:	.....
To pay government: provision for taxation or income tax	.....
Local taxes	.....
To pay providers of capital: Interest on long term loans	.....
Dividend	.....
To provide for maintenance and expansion of business: Depreciation	.....
Transfer to general reserve	.....
Retained profit or earning	.....
	.....

Question 3

Draft a value added statement from the income statement provided below. Add the necessary notes.

INCOME STATEMENT

	R
Sales	250 000
Production costs:	
Materials and services	110 000
Direct labour	35 000
Depreciation	14 000
Gross profit	91 000
Admin and sales costs:	
Materials and services	15 000
Salaries	20 000
Depreciation	15 000
Operating profit	41 000
Interest	12 000
Profit before taxation	29 000
Corporation tax	14 500
Profit after taxation	14 500
Dividend	7 500
Profit retained	7 000

CONSIGNMENT ACCOUNTS

When a businessman appoints an agency (may be a person, firm, company or any other institution) as his representative or agent to sell his goods through such agency, such a business relation is known as consignment transaction.' The businessman sending the goods is called 'Principal' or 'Consignor'; the person receiving and selling the goods on behalf of principal is called representative, 'agent' or 'consignee' and the such goods are called 'goods sent on consignment'.

Consignment Procedure –

1) An agreement between both the parties

2) Dispatch off goods by principal
3) Advance or security
4) Receipt of goods by consignee
5) Sale of consigned goods
6) Payment of balance amount

Terminology

Some typical terms are used in consignment transaction and one should know the meaning of such terms. Some of them are as under –

1) Agency – The transaction between the owner of goods and the agent are called 'agency transitions' and such relation is called agency.
2) Consignment – The goods sent to the agent for sales is called consignment also known as 'Challan'. For consignment it is 'consignment outward' and for consignee it is 'consignment inward'.
3) Consigner – The principal or owner of the consigned goods on whose behalf and risk such goods are sold by agent is called 'consignor' also known as 'Challaner'.
4) Consignee – He is the agent whom goods are consigned for sale at pre-decide amount or rate of remuneration. He is also known as 'challance'.
5) Goods sent on consignment – The goods dispatched to the agent for sale are called 'goods sent on consignment'. This is recorded by the consignor in his books in separate account 'goods sent on consignment account' which is real account. Consignee passes no entry for such goods.
6) Pro-forma invoice – For the goods consigned, the consignor makes and sends an invoice mentioning therein the quantity and quality of the goods consigned. The price of the goods mentioned in such invoice is called 'invoice price' Sometime the proposed selling price is also mentioned. Such an invoice is called 'Pro-forma invoice'.
7) Consignment expenses – The expenses incurred by consignor and consignee for consignment are called consignment expenses. Consignor's expenses are packing, loading, carriage, freight, transit insurance, export duty etc. Consignee's expenses for receiving goods are octroi, entry tax, import duty, custom duty, dock dues, clearing charges, unloading carriage upto his godown. Consignee's expenses for storing the goods are godonw rent, godown insurance, godown depreciation etc. Consignees expenses for selling the goods are advertisement, publicity, free samples, demonstrations, brokerage, his own commission etc.
8) Consignment transactions – The transactions concluded by the consignor and consignee for consignment are called 'Consignment transactions'.
9) Remuneration or commission of consignee – For his services to the consignor, a consignee is compensated by consignor. Such compensation or consideration is called remuneration or commission of consignee.
10) Account Sale – This is a statement of sales prepared and sent by the consignee to consignor periodically. In this statement sales realization by consignee his expenses and commission and balance to be remitted are mentioned.
11) Consignment stock – The goods lying unsold with consignee at the end of the accounting period are called 'consignment stock' or 'stock with agent' to be valued at the lower of its cost price or market price. The consignor makes accounting for such stock in his books but consignee does not show such stock in his books.

12) Consignment account – It is account prepared by the consignor, at the end of his accounting period, to ascertain profit or loss on consignment called 'consignment account'. Consignee does not make any such account.

Difference between Consignment and Sale

S.No.	Base	Consignment	Sale
1	Relation	The relation is that of 'consignor' and consignee. Consignee becomes the debtor of consignor on sale of goods and not on receipt of consigned goods.	The relation is that of buyer and seller or debtor and creditor. The buyer becomes the debtor of seller as soon as the sale is made.
2	Remuneration	Commission is the remuneration by the consignor to consignee.	No such remuneration is given or taken.
3	Profit/Loss	Consignor is entitled to profit or responsible for loss on goods sold by consignee.	On the profit or loss on the resale of the goods, buyer is entitled or liable.
4	Invoice	Here pro forma invoice is sent on consignment as it is merely shifting the place of goods.	Here invoice is sent on sale of goods as it is sale of goods i.e. transfer of place as well as ownership of goods.
5	Transfer	Here the risk of the goods sent continues to be on the consignor.	Here the risk of the goods sold is shifted on to the buyer.
6	Consignment expenses	Expenses paid by consignee for consignment are reimbursed by the consignor.	Expenses paid by the buyer for the goods are not reimbursed by seller.
7	Ownership	On the goods sent the consignor continues to be the owner of goods till they are sold by the consignee.	On goods sold, the seller ceases to be the owner as it is sold by the seller.
8	Return of goods	Goods remained unsold with consignee may be returned to consignor.	Goods lying unsold with the buyer cannot be returned to the seller without seller's consent.
9	Discount/ allowance	No discount or allowance is given by the consignor on the goods sent.	Seller gives attractive discount and allowances on the goods sold.
10	Bad debts	Consignor is liable for bad debts unless del credere commission is given.	Buyer only will be liable of for bad debts as he becomes the owner of goods.
11	Account sale	Periodical submission of account sale by consignee is compulsory along with the remittance.	Once the goods are sold, buyer is at no obligation for any periodical submission of any such statement.

Remuneration of Consignee

1) **General or ordinary commission –** This is the usually given to every consignee on the sales affected by him. Higher the sales greater is the amount of commission.

2) **Del credere commission –** Consignee sells the goods on behalf and risk of consignor. So for the credit sales the consignor himself is liable in case of bad debts. But if the consignor wants to shift this liability on consignee he will have to give additional commission to consignee which is called del credere commission. So del credere commission is a special commission given in addition to normal omission to the consignee against which consignee agrees to bear the loss due to bad debts. This reduces the commission income of consignee.

3) **Overiding Commission –** Normally the consignee sales the goods at invoice price mentioned in the proforma invoice sent by consignor. The consignee does not make special efforts to sell the goods over invoice price. To encourage the consignee to sell the goods over invoice price the consignor gives him a special commission on the excess of selling price over invoice price of the goods sold. Such a type of commission is called overriding commission. As the name itself suggests this is a commission given to him to make special effort (override) to sell the goods over and above the invoice price (again override). This is a motivational commission to the consignee. In the absence of any different instruction in the question, overriding commission is calculated on the difference between the actual selling price and invoice price of the goods sold.

Difference between ordinary and del credere commission

S.No.	Base	Ordinary commission	Del credere commission
1	Receiver	This is given to all agents.	This is given to the agent(s) ready to bear the loss of bad debts.
2	Guarantee	Here the agent guarantees the amount of cash sales only.	Here the agent guarantees the realization from credit sales.
3	Calculation	It is calculated on total sales i.e. cash sales plus credit sales.	It is also calculated on total sales if otherwise specifically asked.
4	Net commission	Gross and net commission income of agent is same.	Gross commission is reduced by the amount of bad debts.

Difference between del credere and overriding commission

S.No.	Base	Del credere commission	Overriding commission
1	Meaning	It is given to agent to take the liability of bad debts.	It given to motivate the agent to sell the goods over invoice price.
2	Responsibility	Agent is liable for credit collection.	Agent is not liable for debt collection.
3	Motivation	This element is absent here.	It is only to motivate the agent.
4	Calculation	It is calculated on total sales.	It is calculated on the excess of selling price over invoice price.

In the books of Consigner

Consignment Account

Step No.	Particular	Rs.	Step No.	Particular	Rs.
1	To Goods sent on consignment a/c	CP/IP	4	By Consignee (Sales):	
2	To Bank A/c (Consignor's exps.):			Cash Sales ………	
	Carriage ………			Credit Sales ………	………
	Frieght ………		5.1	By Bank A/c / Ins. Claim A/c	………
	Insurance etc. ………	………	5.2	By Profit & Loss A/c (Actual Loss)	………
3	To consignee (Expenses)		9	By Consignment Stock A/c	CP/IP
	Octrol ………		10	By Goods sent on Con. A/c (Loading)	………
	Carriage ………		12	By Profit & Loss A/c (Loss)	………
	Godown Rent ………				
	Selling expenses ………	………			
6	To Consignee (Commission)	………			
7	To Consignee (Bad debts)	………			
8	To Bills receivable (Discount)	………			
11	To Con. Stock-res.1 A/c (Loading)	………			
12	To Profit & Loss A/c (Profit)	………			
		………			**………**

Consignee

Step No.	Particular	Rs.	Step No.	Particular	Rs.
2	To Consignment A/c (Sales)	………	1	By Cash A/c / Bank A/c / B/R A/c (Advance)	………
			3	By Consignment A/c (Exps.)	………
			4	By Consignment A/c (Comm.)	………
			5	By Consignment A/c (Bad Debts)	………
6	To Balance c/d *(Proportionate advance)*		7	By Cash/Bank/B/R/Bal. c/d (Bal.fig.)	………
		………			………

Goods sent on Consignment Account

Step No.	Particular	Rs.	Step No.	Particular	Rs.
2	To Consignment A/c (Loading)	………	1	By Consignment A/c	CP/IP
3	To Trading A/c / Purchases (Cost)	………			
		………			………

In the books of Consignee
Consignor

Step No.	Particular	Rs.	Step No.	Particular	Rs.
1	By Cash A/c / Bank A/c / BP A/c (Advance)	………	2	By Cash/Bank A/c (Cash sales)	………
3	By Cash A/c/Bank A/c (Exps.)	………	2.2	By Con. Debtors A/c (Credit Sales)	………
4	By Commission A/c	………	6	By Balance c/d *(Proportionate advance)*	………
5	By Con. A/c/Bank A/c/BP A/c	………			
7	By Cash/Bank/B/P/Bal. c/d (Bal.fig.)	………			
		………			………

Commission Account

Step No.	Particular	Rs.	Step No.	Particular	Rs.
2	To Con.Debtors A/c (Bad Debts)*	………	1	By Consignor (Commission)	………
3	To Cash A/c / Bank A/c *(Disallowed expenses)*	………	4	By Profit & Loss A/c (Bal.fig.)	………
		………			………

Bill Payable Account

Step No.	Particular	Rs.	Step No.	Particular	Rs.
2	To Cash a/c Bank a/c *(Payment on due date)*	………	1	By Consignor (advance)	………
3	To Balance c/d	………			
		………			………

Difference between normal and abnormal loss

S.No.	Base	Normal Loss	Abnormal Loss
1	Avoidance	This loss cannot be avoided	With due care, such losses, can be avoided.
2	Nature	These are quite common and natural.	They are uncommon and not natural.
3	Accounting	These are not accounted for.	They are accounted for.
4	Quantity of Loss	Here lost quantity is less and negligible.	Here loss is considerable.
5	Insurance	These losses can not be insured.	They can be insured.
6	Reasons	They occur due to shrinkage, seepage, sublimation, evaporation etc.	They occur due to theft, pilferage, accident, floods etc.
7	Men or God	They are God made	They may be God made or manmade.
8	Expectancy	They are expected	These are always unexpected.

UNIT III

An Individual, Firm, Company or any other Institution pays a certain amount as per agreement for acquiring a Special Right for using other's property. This amount which is paid as a consideration for the use of Special Rights is called Royalty.

DEFINITION OF ROYALTY

"Royalty is the remuneration payable to person in respect of the use of an asset, whether hired or purchased from such person, calculated by reference to and varying with quantities produced or sold as a result of such asset." —

William Pickles

Ideal Definition of Royalty

(1) The amount payable according to mutual agreement on the basis of prescribed terms and conditions for consideration of use of any Special Right during a definite period is treated as royalty. This is mostly payable on publishing a book, manufacture, Patented Article or working a mine.

(2) Consideration for the use of special right is called Royalty.

DIFFERENCE BETWEEN RENT AND ROYALTY

(1) Rent is the consideration payable for the use of some tangible asset; tangible asset here means Building and Machinery, etc. Royalty is the consideration payable for the use of special right in a tangible or intangible asset.

(2) Rent is mostly payable according to time as per day, per week, per month or per year. etc., but payment of royalty depends on yield or production etc. In the following cases rent is taken in place of royalty; (i) for taking out or producing various articles from forests; (ii) for use of sand from river bed; (iii) for taking out fish etc., from the water.

TYPES OF ROYALTIES

There are many types of royalties but following types of royalties are very popular : (i) Mining Royalties; (ii) Brick-making Royalties; (iii) Oil-wells Royalties; (iv) Patent Royalties; (v) Copyright Royalties; (vi) Royalties in connection with machines, secret process and technical knowledge, etc.; (vii) Royalties to foreign companies for sale of produce; (viii) Trade Mark Royalties.

Royalties

Without Minimum Rent with Minimum Rent

To recoup shortworkings without any limitation

To recoup shortworkings within a limited time of time Right to recoup shortworkings throughout the Right to recoup shortworkings during a limited period of the contract period

MINIMUM RENT

Minimum rent is the amount below which landlord never accepts in any year from the person who has to pay the royalty in case of mines. If this amount is prescribed in the agreement of Royalty then the person who has to receive a royalty will under no circumstances will receive less amount than the amount of minimum rent mentioned in the Agreement. If in any year amount of royalty is less than the amount of minimum rent, it is the amount of minimum rent which will be payable by the person who has to pay the royalty; but if the amount of royalty is more than the amount of minimum rent, royalty will be paid. The intention of the person, who receives royalty, in fixing the minimum rent, is to avoid loss, which may occur if less amount of royalty is there then the normal one. Minimum Rent is also known as Fixed Rent, Dead Rent, Flat Rent or Contract Rent.

REDEEMABLE MINIMUM RENT

Normally, when minimum rent is more than royalty, minimum rent is payable if no contrary provision is given in the Agreement; but if it is mentioned in the Agreement that when royalty will be more than minimum rent, the excess of minimum rent over royalty paid in the earlier years will be written off out of the excess of royalty over minimum rent in the coming year or years, such minimum rent is called Redeemable Minimum Rent.

SHORTWORIONGS

Excess of minimum rent over royalty is called 'Short-workings'.
Minimum Rent — Royalty = Shortworkings or M. R. — R = S.W.

Conditions about Shortworkings: In case of Royalty Account mostly following points are mentioned: (i) Rate of Royalty, (ii) Amount of Minimum Rent, (iii) if in any year royalty will be less than minimum rent, the amount of minimum rent will be paid, (iv) when royalty will be more than minimum rent, amount of the Shortworkings of the earlier periods may be recouped out of the excess of royalty over minimum rent. Such amount of shortworkings which may be recouped is known as Redeemable Shortworkings.

Recoupment or Writing off Shortworkings There are no legal provisions for writing off shortworkings, all the conditions regarding recoupment or writing off shortworkings are based on the mutual agreement. They may be of the following types : (i) Shortworkings may be recouped in all the future years or it may be recouped throughout the period of lease; (ii) It may be recouped during the first four years (or any other period) of the lease. In the case of four years, recoupment will take place only during the first four years and not afterwards, in the fourth year unwritten balance of shortworking will be transferred to Profit & Loss Account/Statement of P & L and future year's shortworkings will also be transferred to the Profit & Loss Account/Statement of P & L of the concerning year. (iii) Each year's shortworkings can be recouped in the following or next two years (or any other period). (iv) Shortworkings will not be recouped in future years etc.

ACCOUNTING RECORDS FOR MINING ROYALTIES

When a mine is given on lease, the person who gives it on lease is known as lessor or landlord and the person who takes it on lease is known as lessee. Royalty is paid by the lessee to the landlord.

Accounting Record in the books of Lessee

(A) When Royalty is less than Minimum Rent

(i) When Royalty is payable

Royalties A/c…….. Dr.
Shortworkings A/c
ToLandlord A/c
(Being royalties earned and shortworkings to be payable to the landlord)

(ii) When payment is made Landlord A/c …….. Dr.
To Bank A/c (Being amount paid to landlord)

(iii) For Closing Royalty Account at the end of the year
P. & L. A/c/Statement of P & L . . . Dr.
To Royalties A/c
(Being the amount of royalties transferred to P. & L. A/c/Statement of P & L)
In place of above first Journal entry, i.e.
(i), following two entries may be made:
(a) Minimum Rent or Dead Rent A/c . . . Dr.
To Landlord A/c
(Being minimum rent payable to landlord)

(b) Royalties A/c . . . Dr.
Shortworkings A/c . . . Dr.
To Minimum Rent or Dead Rent A/c
(Being the balance of Minimum Rent A/c or Dead Rent A/c transferred to Royalties and Shortworkings A/cs)

It must be carefully noted that minimum rent or dead rent account is opened only in those years when royalty is less than minimum rent and specific instructions are given in the question for its preparation. Minimum Rent Account is not opened when royalty is equal to minimum rent or more than minimum rent.
(B) When Royalty is more than Minimum Rent

(i) When Royalty is payable Royalties A/c . . . Dr.
To Landlord A/c
(Being royalties earned and payable to landlord)

(ii) For writing off Shortworkings, if any
Landlord A/c Dr.
To Shortworkings A/c
(Being recoupment of S.W. of earlier years)

(iii) For payment of amount Landlord A/c ... Dr.
To Bank A/c
(Being payment made to Landlord)

In place of above (ii) and (iii) entries following one entry may be passed :

Landlord A/c . . . Dr.
To Shortworkings A/c
To Bank A/c
(Being recoupment of S. W. to the extent of ...... and balance paid to landlord)

(iv) For Closing Royalty Account at the end of the year
P. & L. A/c/Statement of P & L . . . . . . Dr.
To Royalties A/c
(Being transfer of Royalties to P. & L. A/c/Statement of P & L)

(C) When Royalty is equal to Minimum Rent

(i) When Royalty is payable
Royalties A/c . . . Dr.
To Landlord A/c
(Being royalties earned and payable to landlord)

(ii) When payment is made
Landlord A/c . . . Dr.
To Bank A/c
(Being payment made to landlord)

(iii) When Royalty Account is closed at the end of the year
P. & L. A/c/Statement of P & L . . . Dr.
To Royalties A/c
(Being the transfer of Royalties to P. & L. A/c/Statement of P & L)

Shortworkings Reserve Account

It is often mentioned in Royalty Agreement that shortworkings can be recouped in a certa number of years. Suppose shortworkings can be recouped in the first five years of the lease. such a case, if the shortworkings of the first year is so heavy that it could not be recouped up 5 years, the unrecouped portion of shortworkings of the first year will be transferred to Prof: and Loss Account/Statement of Profit & Loss of the fifth year. There is one defect in this type treatment than Profit and Loss Account/Statement of Profit & Loss of first year, in which there was shortworking, is not affected, but Profit and Loss Account/Statement of Profit & Loss of that year is affected in which it is to be recouped, in this case it is fifth year. Thus, the loss of fir year is charged in the fifth year in this case. For removing this defect Shortworkings Reserve
Account is opened.

(i) For creation of Shortworkings Reserve:
P. & L. A/c/Statement of P & L . . . ..Dr.
To S. W. Reserve A/c

(Being creation of Shortworkings Reserve Account)

(ii) For writing off Shortworkings :
S.W. Reserve A/c . . . Dr.
To P. & L. A/c/Statement of P & L
(Being transfer of recouped S.W. to P. & L. A/c/Statement of P & L)

(iii) In the last year of recoupment of shortworkings, if shortworking is unrecouped, un-recouped shortworkings is transferred to Shortworkings Reserve A/c :
S. W. Reserve A/c . . . Dr.
To S. W. A/c
(Being transfer of unrecouped S. W.)

Debit balance of Shortworkings Reserve Account is shown in the asset side of Balance Sheet and credit balance of Shortworkings Reserve Account is shown in the liabilities side of Balance Sheet.

Accounting Records in the Books of Landlord and Royalty Reserve Landlord transfers the excess of minimum rent over royalty to Royalty Reserve Account -Royalty Suspense Account. The same account is known as Shortworkings Account in the boo:_ of Lessee.
(1) When Royalty is less than Minimum Rent
(a) At the time when royalty is receivable:
Lessee A/c . . . . . . Dr.
To Royalties Receivable A/c or Royalties A/c
To Royalty Reserve or Royalty Suspense A/c
(Being the amount of royalties receivable earned and the difference between minimum rent and royalties receivable transferred to Royalty Reserve Ale)
(b) When above amount is received :
Bank A/c . . . Dr.
To Lessee A/c
(Being the amount received from Lessee)
(c) For closing Royalty Receivable Account :
Royalties Receivable A/c or Royalties A/c . . . Dr.
To P. & L. A/c/Statement of P & L
(Being transfer of Royalties Receivable A/c to P. & L. A/c/ Statement of P & L)

(2) When Royalty is more than Minimum Rent
(a) At the time when royalty is receivable : Lessee A/c . . . Dr.
To Royalties Receivable A/c
(Being the amount of Royalties Receivable earned)

(b) For writing off Royalty Reserve A/c :
Royalty Reserve or Royalty Suspense A/c . . . Dr.
To Lessee A/c
(Being Royalty Reserve recouped)

(c) On receipt of Royalty Amount :
Bank A/c . . . Dr.
To Lessee A/c
(Being receipt of amount from lessee)
(d) Following entry may be passed in place of above two entries (b) and (c): Royalty Reserve or Royalty Suspense A/c . . . Dr.
Bank A/c . . . . . . Dr.
To Lessee A/c
(Being the amount of Royalty Reserve recouped and the balance received from lessee)

(e) For closing Royalty Receivable Account :
Royalties Receivable A/c or Royalties A/c . . . Dr.
To P. & L. A/c/Statement of P & L
(Being transfer of Royalties Receivable A/c to P. & L. A/c/Statement of P & L)

(3) When Royalty receivable is equal to Minimum Rent
(a) At the time when royalty is receivable:
Lessee A/c . . . Dr.
To Royalties Receivable A/c or Royalties A/c
(Being the amount of royalty receivable earned)
(b) On receipt of amount:
Bank A/c . . . Dr.
To Lessee A/c
(Being receipt of amount from lessee)
(c) For closing the Account of Royalties Receivable :
Royalties Receivable A/c or Royalties A/c . . . Dr.
To P. & L. A/c/Statement of P & L
(Being transfer of Royalties Receivable A/c to P. & L. A/c/Statement of P & L)

NON AVAILABILITY OF THE WHOLE OF THE AMOUNT OF SHORTWORKING FOR RECOUPMENT

i) Sometimes it is agreed that only a certain percentage of the excess of royalty over minimum rent will be available for writing off shortworkings. If it is so, whole of the excess of royalty over shortworking should not be used for writing off shortworkings but shortworkings should be written off only to the extent of the prescribed percentage of the excess of royalty over minimum rent.
ii) Sometimes it is also agreed that if yield is less than a certain amount, shortworking cannot be recouped in that year.

NO RIGHT TO RECOUP SHORTWORKINGS

Sometimes it is agreed that right of recoupment of shortworkings will not be available to lessee.
In such a case, following entries will be made in the books of lessee.

When Royalty is less than Minimum Rent
(i) Royalties A/c . . . Dr.
S.W. Irrecoverable A/c . . . Dr.
To Landlord A/c
(ii) Landlord A/c . . . Dr.
To Bank A/c
(iii) P. & L. A/c/Statement of P & L . . . Dr.
To Royalties A/c To S. W. Irrecoverable A/c
Alternative Method No.
(i) Royalties A/c . Dr.
P. & L. A/c/Statement of P & Ll . . . Dr.
To Landlord A/c
(ii) Landlord A/c . . . Dr.
To Bank A/c
(iii) P. & L. A/c/Statement of P & L . . . Dr.
To Royalties A/c
Alternative Method No. 2
(i) Royalties A/c2 or Minimum Rent A/c . . . Dr.
To Landlord A/c
(Being debiting of Royalties A/c with Minimum Rent)
(ii) Landlord A/c . . . Dr.
To Bank A/c
(iii) P. & L. A/c/Statement of P & L . . . Dr.
To Royalties2 A/c or Minimum Rent A/c –

Less Work or No Work due to Strike

When work is less in any year due to strike or no work has been done due to it, following types of agreement may take place between the lessee and the landlord : (i) Actual royalties earned for the year will discharge all rental obligations in the year of strike i.e., Actual Royalties will be treated as minimum rent and there will neither be any shortworking nor excess in that year. (ii) (a) In the year of strike, the minimum rent is to be reduced by 60% or by some other percentage, in such a case minimum rent in the year of strike will be only 40%; as compared to 60% reduction, but if reduction in minimum rent is by some other percentage; then minimum rent will be calculated taking into consideration that reduction in percentage; (b) if minimum rent is to be reduced to 60(1- in such a case minimum rent will be 60%. Thus, care should be taken to see the use of words 'by' and 'to'. (iii) The minimum rent is to be regarded as having been reduced proportionately having regard to the length of the stoppage of work due to strike.

Government Subsidy, Lock-out and Limit of S.W.

In some aces Govt. decides to provide some financial assistance to the lessee in the retuning of lease period for few years, so that loss due to shortworkings may be reduced. The cunt of shortworkings which cannot be recouped is loss to the lessees; Govt. provides financial aCtance at certain percentage of this loss. Therefore this financial assistance amount is Inducted from unrecouped shortworkings and balance of shortworkings is transferred to Profit C Loss Account. This assistance of the govt. may be either a definite amount or in the shape III certain percentage of shortworking. Such financial assistance is given only in these sectors Cr.h Govt. wants to develop.

Following accounting record is made in the books of lessor :

(i) Amount of Govt. Assistance being due :

Government A/c ... Dr.

To Shortworkings A/c

(Being subsidy due from the Govt.)

(ii) On receipt of financial assistance from the Govt. :

Bank A/c . Dr.

To Government A/c

(Being receipt of subsidy from the Govt.)

Prescribing limit for recoupment of S.W.: Sometimes a limit is prescribed for recoupment of S.W. More than this limit cannot be recouped in one year. Concession in minimum rent in case of Lockout or Strike : Sometimes lessor agrees to give some concession in minimum rent. This may be done when work cannot be done due to strike or lockout. If such agreement has been made, then in the year of strike or lockout, the amount of minimum rent is reduced on the basis of terms of the agreement. For example, if lockout or strike in one year lasted for three months and minimum rent is i 12,000 p.a., the amount ct minimum rent is reduced As under :

$\frac{12{,}000 \times 3 -}{12}$ 3,000; 12,000 - 3,000 = 9,000. Now this amount of ? 9,000 shall be

treated as minimum rent for the year in which lockout was made. Reduction in minimum rent is made on other basis also which may be mentioned in the agreement of lessor and lessee.

Illustration 16 A took a lease for 15 years. Royalty is T 1 per ton. Minimum Rent per year is ? 10,000. Each year's shortworking can be recouped in the neat two years, but this recoupment should not be more than 14,000 in any year. Output is as under : First year 7,000 ton, Second year 3,000 ton, Third year 15,000 ton, Fourth year 13,500 ton and Fifth year 9,000 ton. There was strike for 3 months in the fourth year and lockout for 3 months in the fifth year. There is provision of 40% concession in minimum rent for the period of lockout in the year of lockout and in the year of strike minimum rent will be proportionate on the basis of actual working months. Government grants, subsidy equal to 20% of the unrecoupable shortworkings. Prepare Landlord Account, Government Account and Shortworkings Account in the books of A. A closes his books every year on 31st March.

_To. Enter into Royalty contract during the Year

When royalty contract is entered at any time during the year, the amount of minimum rent —27 reduced proportionately for the first year, according to the number of months from the date .ef the Royalty Agreement upto the end of the first year for the purpose of comparing it with the loyalty of the first year. There may be two rates of minimum rent, one rate for certain period and another rate for _her period. In such a case royalty of a period is compared with the minimum rent of the concerned period.

HIRE-PURCHASE ACCOUNTS

Hire-purchase System is a special system of purchase and sale. When goods are purchased on Hire-purchase system, purchaser pays the price in installments, these installments may be Monthly, Quarterly, Six monthly or Yearly or of any other period as mentioned in hire-purchase agreement. Goods are delivered to the purchaser and purchaser becomes the owner of these goods only on payment of the last installment or fulfillment of certain other considerations mentioned in the contract of hire sale. All the installments are treated as hire till the last installment is paid off. DEFINITIONS OF HIRE-PURCHASE SYSTEM BY AUTHORS "Under the Hire-purchase System, goods are delivered to a person who agrees to pay the owner by equal periodical installments, such installments are to be treated as hire of these goods until a certain fixed amount has been paid, when these goods become the property of the hirer." —J .R. Batliboi "Hire-purchase is the system under which the property is acquired by payments made in installments, during the period of which the title in the property remains with the Hire Vendor. The payments prior to the final are regarded as being purely in respect of hire, and the title of the property does not pass to the hire-purchaser until such final payment or some other consideration provided for in the contract has been fulfilled." —Pickles "In the case of Hire-purchase Agreements the property in the goods does not pass to the buyer until all the installments have been paid. Each hire-purchase installment represents a payment on account of the cash value of the goods plus interest on the outstanding balance of the cash value. If, however, he defaults, then in most cases, the seller has power to recover the goods and the total amount which has been paid by the hire-purchase represents the cost of hire-purchaser's use." —Andrew Munro

SOME IMPORTANT TERMS

Here are following some important terms relating to Hire-Purchase System which should be understood clearly before making accounting. (1) Cash Price: It is the amount for which the goods or asset can be purchased. It does not include the amount of interest. (2) Hire-Purchase Price: It is the total amount which the hire-purchase is liable to pay for taking the ownership of goods or asset. This amount includes interest. It is always higher than the cash price amount. (3) Installment: Hire-purchase price of goods or asset is paid in severs) installments. Each installment may include interest or not. After paying all installment the hire-purchase, becomes the owner of the asset.

Characteristics of Hire-purchase System

(i) Purchase is credit purchase.
(ii) Purchase price is paid in installments.
(iii) Goods are delivered to the buyer.
(iv) Buyer has a right to use these goods.
(v) Seller remains the owner of the goods up to the time of payment of the last instalmmt
(vi) Hire-purchaser becomes the owner of these goods on a payment of the last instaha
(vii) It. is the duty of these hirer to keep the goods in good condition upto the date of paymes of last instalment.
(viii) It is the responsibility of the owner to make normal repairs free of cost in these ram upto the date of payment of last instalment.
(ix) Hirer has a right to terminate agreement at any time.
(x) Ifdefault is made in payment of instalment to the owner, the owner can take possesmix of the goods subject to legal requirements.

Distinction between Hire-Purchase and Credit Sales

Basis of Difference	*Hire-Purchase*	*Credit Sale*
Transfer of Ownership	Ownership is transferred after payment of the last instalment.	Ownership is transferred at the time of purchase.
Method of Payment	Payment of price is always made by instalments.	Payment of price is generally made in a lump sum but it can be made otherwise also according to the agreement.
Right of Return of Goods	If default is made in payment of instalments, Seller can take back the goods as per legal requirements.	On default in payment, Seller cannot take back the goods but can file a suit for recovery of the price.
Better title	If Buyer sells the goods before payment of the last instalment, this new buyer does not get better title than the purchaser under credit purchase.	If Buyer sells goods before payment of full purchase price, the new buyer gets better title than the Hire-purchaser.

ACCOUNTING RECORDS UNDER HIRE-PURCHASE SYSTEM

(A) IN THE BOOKS OF HIRE-PURCHASER

There are two methods of making accounting record in the books of Hire-Purchaser: Asset Accrued Method This method is adopted by those Hire-Purchasers who think that they have become owner of the portion of goods only for which payment has been made by them.

(i) Payment in Cash at the time of Hire-Purchase Agreement :
Assets A/c ...Dr.
To Cash A/c
(Being payment of amount at the time of signing of the agreement)
(ii) For instalment due :
Assets A/c .-Dr.
Interest We To
Hire Vendor's A/c
(Being the instalment falling due)
(iii) For payment of instalment :
Hire Vendor's A/c To
Cash or Bank A/c
(Being payment of instalment)
(iv) For depreciation :
Depreciation A/c ...Dr.
ton total cash price)
To Assets A/c
(Being depreciation made at % on 7)
(v) For transferring of interest and depreciation to Profit and Loss A lel Statement of P & L
Profit & Loss A/c/Statement of P & L ...Dr.
To Interest A/c
To Depreciation A/c
(Being the balance of Int. A/c and Dep. A/c transferred to P. and L. A/c/Statement of P & l)

Credit Purchase Method : This method is adopted by those hire-purchasers who treat hire-purchase as real purchase.
(i) On the date of Hire-Purchase Agreement :
Assets A/c ...Dr.
To Hire Vendor's A/c
(Being the purchase of Assets on Hire-purchase System)
(ii) For payment at the time of Hire-Purchase Agreement :
Hire Vendor's A/c ...Dr.
To Cash or Bank A/c
(Being payment of instalment made)
(iii) For interest due :
Interest A/c ...Dr.
To Hire Vendor's A/c
(Being interest becoming due)
(iv) For payment of installment :

Hire Vendor's A/c ...Dr. (with interest & cash price To Cash or Bank A/c of instalment) (Being payment of instalment)
(v) For depreciation :
Depreciation A/c ...Dr. (To be calculated on cash To Asset A/c price)
(Being depreciation on)
(vi) For transferring interest and depreciation :
Profit & Loss A/c/Statement of P & L ...Dr.
To Interest A/c
To Depreciation A/c
(Being interest & dep. transferred to Profit & Loss A/c/Statement of P & L)

(B) IN THE BOOKS OF HIRE VENDOR

There is only one method of making record in the books of Hire Vendor. Whether record in the books of Hire-Purchaser has been made by the first method or by the second method described above, Journal entries in the books of Hire Vendor are made as under .
(1) On the date of Hire-Purchase Agreement :
Hire-purchaser A/c ...Dr.
To Hire Sales A/c
(Being cash price of the goods sold on Hire-purchase System)
(ii) On receipt of Cash at Hire-Purchase Agreement :
Cash or Bank A/c To
Hire-purchaser A/c
(Being the amount received on signing of the agreement)
(iii) For interest due :
Hire-purchaser A/c
To Interest A/c
(Being interest on unpaid balance)
(iv) For receipt of instalment :
Cash or Bank A/c
To Hire-purchaser A/c
(Being the amount of instalment received)
(v) For transfer of interest :
Interest A/c
To Profit & Loss A/c/Statement of P & L
(Being transfer of balance of Interest A/c to Profit and Loss A/c/Statement of P & L)

(vi) For transfering Hire Sales A/c :
Hire Sales A/c ...Dr.
To Trading A/c '
Depreciation : No entry for depredation is made in the books of Hire Vendor because t:.- machinery etc. sold has been transferred to Hire-Purchaser and it will depreciate there and r. at Hire Vendor's place.

NECESSARY ACCOUNTS

In Hire-Purchase System necessary accounts include the following accounts in the book-of hire-purchaser or vendor.

(1) In the Books of Hire-Purchaser :

(i) Asset Account
(ii) Vendor's Account
(iii) Interest Account .
(iv) Depreciation Account.

(2) In the Books of Vendor :

(i) Hire-Purchaser's Ascount
(ii) Interest Account.

Calculation of cash Price By Annuity Method

When in place of cash price, hire-purchases price and annuity rate are given cash price is calculated on the basis of annuity rate and then interest is calculated.

Calculaion of Cash Price on the Basis of Back Calculation Method

When the amount of each instalment which includes interest is given and rate of interest is also given but the amount of cash price is not given then cash price is calculated in the following manner:

(i) First of all find out cash price of the last installment:

$$\frac{\text{Amount of last Instalment} \times \text{Rate of Intalment}}{\text{100+Rate of Interest}}$$

= Interest included in the last instalment. This interest is deducted from last instalment and cash price of the last instalment is found out.

(ii) Cahs price of the last installment+Amount of prior Instalment

$$\frac{\text{Rate of Interest}}{\text{100+Rate of interest}} = \text{Interest of the priour Instalment;}$$

When this interest is deducted from priour instalment, cash price of the prior installment is found out.

(iii) The same process may be repeated for earlier instalments.

WHEN RATE OF INTEREST IS NOT GIVEN

When rate of interest is not given in the question, following methods are adopted to calculate the interest:

(1) Product Method
(2) Proportion Method
(3) Inverse Progression Method

(1) Product Method- In this method, amount of cash price is deducted from the amount of hire- purchase price thus amount of interst is obtained. After it, the unpaid balance of hire- purchase price is multiply with the period of installments and their products are obtained. Now, after totaling the products, product ratio is obtained and total of amount of interest is dividend in this ratio Therefore, cash price installment is fount out by deducting periodic interest from hire-purchase instalment

Calculation of Interest by Inverse Progression Method

When cash price and amount of each instalment including interst are given, but rate of interest is not given, interst is calculated in the following manner:

(i) Total of all Instalments = Hire- Purchase Price
(ii) Hire- Purchase Price- Cash Price = Total Interest.
(iii) Calculate interest included in each instalment by inverse progression method: Suppose total interest is Rs. 400 and number of instalments are four, interest of each instalment is calculated in th following manner:

On First Instalment 4	4/10	$\frac{400\times4}{10}$ Rs. 160
On Second Instalment 3	3/10	$\frac{400\times3}{10}$ Rs. 120
On Third Instalment 2	2/10	$\frac{400\times2}{10}$ Rs. 80
On Fourth Instalment 1	1/10	$\frac{400\times1}{10}$ Rs. 40
Total 10		Rs. 400

AFTER SALE SERVICE

When goods are sold by Hire-Vendor, he usually gives an assurance to the Hire-Purchaser that upto a certain period he will repair these goods free of charge. The estimated amount of these expenses is included in purchase price but buyer remains innocent about it. Vendor opens one Maintenance Suspense Account or Repairs Reserve Account in his Books. Following record is made in this connection in the books of Hire-Vendor.

In the Books of Hire-Vendor

(i) Hire-Purchaser's A/c
To Hire-Sales A/c
(Being sales including maintenance charges made)
(ii) Hire-Sales A/c ...
To Maintenance Suspense A/c
(Being transfer of maintenance charges to Maintenance Suspense A/c)
(iii) Hire-Purchaser's A/c ...
To Interest A/c
(Being interest due on the asset sold)
(iv) Bank A/c To
Hire-Purchaser's A/c
(Being receipt of instalment)
(v) Maintenance Suspense A/c
To Cash A/c
(Being payment of actual cost of maintenance)
(vi) If the actual maintenance cost for the year is more than the budgeted or planned expenses then the difference (i.e., excess) will be charged
from P. & L. a/c/Statement of P & L
P. & L. A/c/Statement of P & L ...
To Maintenance Suspense A/c
(Being excess of maintenance expenses charged)
At the end of the year when maintenance provision expires.
(vii) If there is debit Balance in Maintenance Suspense A/c :
P. & L. A/c/Statement of P & L ...
To Maintenance Suspense A/c

(Being transfer of excess of actual cost of maintenance to P. & L. A/c/Statement of P & L)
(viii) If there is credit balance in Maintenance Suspense A/c : Maintenance Suspense A/c ...
To P. & L. A/c/Statement of P & L
(Being transfer of excess of Maintenance Suspense A/c to P. & L. A/c/Statement of P & L)
(ix) Interest A/c ...
To P. & L. A/c/Statement of P & L
(Being transfer of interest)

If goods are sold in hire-purchase, interest will be calculated on cost price which includes

DEFAULT IN PAYMENT OF INSTALMENT

If default is made by the hire purchaser in payment of any instalment, Hire-vendor has a

right to take possession of the goods and file a suit for recovery of the amount. But provisions of Section 20 of the Hire- Purchase Act are important in this connection.
Whrer goods have been let under Hire- Purchase Agreement and the statutory proportion of the hire- purchase price has been paid, whether in pursuance of the judgement of a Court or otherwise, or tendered by or on behalf of hirer or any surety, the owner shall not enforce any reight to recover possession of the goods from the hirer or any surety the owner shall not enforce any right to recover possession of the goods from the hirer otherwise than in accordance with sub-section (3) or by suit. Sub- section (3) is as under:

"Where by virtue of the above possession, the owner is precluded from enforcing a right to 1 r cover possession of the goods, he may make an application for recovery of possession of goods to any Court having jurisdiction to entertain a suit for the same relief."
Statutory Proportion here means : (1) One-half where the hire-purchase price is less than fifteen thousand rupees, and (2) three-fourths where the hire-purchase price is less than fifteen thousand rupees :

Provided that in the case of motor-vehicles statutory proportion shall mean :
(i) One-half, where hire-purchase price is less than five thousand rupees; (ii) three-fourth, where the hire-purchase price is not less than five thousand rupees but less than fifteen thousand rupees; (iii) three-fourth or such higher proportion not exceeding nine-tenths as the Central Government may, by notification in the official gazette, specify, where the hire-purchase price is not less than fifteen thousand rupees.

If the owner recovers possession of goods in contravention of the above provision, the Hire-Purchase Agreement, if not previously terminated, shall stand terminated and the hirer shall be released from all liability under the agreement and shall be entitled to recover all sums paid by the hirer under the agreement or under any security given by him in respect thereof; and the surety shall be entitled to recover from the owner all sums paid by him under the contract of guarantee or under any security given by him in respect thereof.

As the above Act has not come in force so far, taking possession of goods by the vendor depends on the provisions of agreement entered into between the Hire-Vendor and Hire-Pur-chaser, but the general rule is that on default of payment of instalment, hire-vendor reserves the right of taking back the goods from Hire-Purchaser. This act of recovery of assets is termed as Repossession.

As regard repossession the hire-vendor has the right to take back the entire asset or any part of it depending on the agreement. When the entire assets are taken over then it is referred as "Complete Repossession" and when only some part of assets are taken back then it is termed as "Partial Repossession".

Complete Repossession—Accounting Records : The following entries are recorded in the books of :

A) Hire-Vendor
(i) On taking back the assets :
Repossessed Assets A/c ... ...Dr.
To Hire-Purchaser's A/c .
(ii) If some repairing & reconditioning expenses are paid or repossessed asset
Repossessed Asset A/c ... ...Dr.
To Bank/Cash A/c
(iii) On Sale of Repossessed Asset :
Bank A/c ... ...Dr.
To Repossessed Asset A/c
(iv) In case of debit balance in Repossessed asset account after sale (loss) : Profit & Loss A/c/Statement of P & L ... ...Dr.
To Repossessed Asset A/c
(v) In case of credit balance in Repossessed asset account after sale (Profit) :
Repossessed Asset A/c ... ...Dr.
To Profit & Loss A/c/Statement of P & L
(B) In the Books of Hire-Purchaser
(a) When the asset is taken back and to close the Vendor's Account Hire-Vendor's A/c ... ...Dr.
To Assets A/c
(b) To close the asset account :
Profit & Loss A/c/Statement of P & L ...Dr.
To Asset A/c

Transfer of Assets to Third Party
Sometimes hire-purchaser after payment of some instalments salls the goods purchased on Hire-purchase System to the third party after taking permission of the hire- vendor or as per terms of Hire- Purchase Agreement. In this case he takes some amount by way of compensation from the third party for the instalments paid by him to the Hire-Vendor. Future instalments are paid by the third party.
Following entry is made in the books of third party:
Assets A/c Dr.
To Transfer or Owner's A/c
A+b compensation (a) Balance due on asset (b)

Excess of Hire-purchase price over Cash price : According of to sec. 7(1) of Hire-purchase .Act, the excess of Hire-purchase price over cash price is treated as Hire-purchase charge. Upto now this excess was treated as interest but by the introduction of this section. Hire-pur-

:hase charge Account should be opened for this purpose. From the balance of this account an amount equal to the interest of the period should be transferred to P & L A/c. Acquisition of ownership before last instalment by the Hire-purchaser : If the purchaser, acquires the ownership before the payment of last instalment then the balance appearing in the Hire-purchase charge account will be transferred to Rebate Account in the year of acquisition :.,f ownership and the balance of Rebate account is later on transferred to P & L A/c/Statement -.3f P & L. It may even be possible that the hire-purchaser after paying one or two instalment may desire to become the owner of the asset, even then the Hire-purchaser may get rebate as r this act. The rebate can be calculated as :

$$\text{Rebate} = \frac{2}{3} \times \text{Hire-purchase charge} \times \frac{\text{Hire-purchase Price not due}}{\text{Total Hire-purchase Price}}$$

ACCOUNTING RECORDS FOR GOODS OF SMALL SALE VALUES

Hire-purchase Trading Account

When many articles of small value are sold on Hire-Purchase System, the greatest difficulty is of calculation of interest. In such circumstances for finding out profit or loss on hire-purchase, Hire-Purchase Trading Account is prepared. Following particulars are important in this connection :

In Hire-Vendor's Books

(i) *For Sale*

Hire-purchase Trading A/c ... ...Dr.
To Goods Sold on Hire-purchase A/c
(Being the hire-purchase price of sale of goods recorded)

(ii) *For Cash received by Instalments*

Cash A/c ... ...Dr.
To Hire-purchase Trading A/c
(Being receipt of instalments)

(iii) *For Instalment due but not received*

Instalment Due A/c ... ...Dr.
To Hire-purchase Trading A/c
(Being instalment due at the end of the year but not received)

(iv) *For Goods returned*

Goods Returned A/c ... ...Dr.
To Hire-purchase Trading A/c
(Being Goods Returned A/c is debited with the estimated value of goods received back)

(v) *For Instalments not due*

Hire-purchase Stock A/c ... ...Dr.
To Hire-Purchase Trading A/c
(Being record of goods, lying with customers)

(vi) *For Excess Amounts*

When goods are sold at invoice price, for finding out true profit

Following entries are made in connection with excess amounts :

(a) *For difference in the amounts of Goods Sold*

Goods Sold on Hire-Purchase A/c ... ...Dr.
To Hire-Purchase Trading A/c
(Being the difference between the cost and Hire-purchase price in connection with the goods sold)

(b) *For difference of Closing Stock amounts*

Hire-purchase Trading A/c ... ...Dr.
To Stock Reserve A/c
(Being over-valuation of stock transferred to Stock Reserve A/c)

(c) *For Profit on Hire-Purchase Trading A/c*

Hire-purchase Trading A/c ... ...Dr.
To Profit & Loss A/c/Statement of P & L
(Being transfer of profits on hire-purchase to P. & L. A/c/Statement of P & L)

(d) *For loss on Hire-Purchase Trading A/c*

Profit & Loss A/c/Statement of P & L ... ...Dr.
To Hire-purchase Trading A/c
(Being loss on hire-purchase transferred to P. & L. A/c/Statment of P & L)

Memorandum Hire-Purchase Book : Vendor keeps a Memorandum Hire-purchase Book for keeping himself aware about each sale and periods of payment of instalments due etc.

Taking out Profit by Stock System

As per this method following records are made :

(i) When goods are sold on Hire-purchase System :

Hire-purchase Stock A/c ... ...Dr. (Full Price)
To Stock A/c (Cost Price)
To Hire-Purchase Adjustment A/c (Difference)

(ii) When amounts become due :

Hire-purchase Debtors A/c ... ...Dr.
To Hire-purchase Stock A/c

(iii) When amounts are received :

Bank A/c ... ...Dr.
To Hire-purchase Debtors A/c

(iv) When the closing stock are with Debtors then for the amount of Reserve to closing stock :

Hire-purchase Adjustment A/c ... ...Dr.
To Stock Reserve A/c

(v) For opening stock with Debtors :

Stock Reserve A/c ... ...Dr.
To Hire-purchase Adjustment A/c

(vi) For transferring the balance of Hire-purchase Adjustment A/c :

For Profit :

Hire-purchase Adjustment A/c ... ...Dr.
To Profit & Loss A/c/Statement of P & L

For Loss :

Profit & Loss A/c/Statement of P & L ... ...Dr.
To Hire-purchase Adjustment A/c

Illustration 27

UNIT IV

ACCOUNTS OF BANKING COMPANIES

The word bank has been derived, according to some authorities, from the word bancus' or Banque' which means a bench. The Jew bankers transacted their business at benches in the market and when they failed, their bench was broken and hence they were known as bankrupt. Other authorities are of the view that the word bank has been derived from the German word 'back', it means joint stock fund. In Italian language it is called 'bane()'. The name of Indian Banking Companies Act, 1949 was changed on 1,3.1966 and since then it is known as The Banking Regulation Act, 1949. According to Sec. 5(h) of this Act, 'Banking' means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft or otherwise. According to Sec. 5 (c) of this Act, Banking Company means any company which transacts the business of Banking in India. Bank is an institution which deals in money and credit. No company other than a banking company shall use as part of its name any of the words `bank', 'banker' or tanking' and no company shall carry on business of banking in India unless it uses as part of its name at least one of such words. No firm, individual or group of individual shall use for the purpose of carrying on any business, use as part of its or his name any of the words 'bank', 'banking' or 'banking company'. Fourteen major scheduled commercial banks having aggregate deposits of not less than 50 crores were nationalized on 19th July, 1969. Six more banks were nationalized on 15th April, 1980.

FUNCTIONS AND SERVICES OF A MODERN BANK

Following are the main functions of a modern bank :
1. Accepting of Deposits: Bank receives deposits from individuals, firms, associations, societies, companies and corporations etc. These deposits may be fixed, current or savings.
(a) Fixed Deposits: These deposits are repayable after a certain period which mostly varies from one month to seven years or more. Depositors withdraw the amounts of deposit after the expiry of the period for which the deposits are made. They get interest at high rate on these deposits, but if they withdraw the amount before the expiry of the period for which deposit is made, no interest is given to them. They are entitled to take loan on these deposits.
(b) Current Deposits : Under this deposit, customers are allowed to deposit or withdraw amount as and when they like. Interest is not paid by first class banks on these deposits but some banks do allow interest in case the balance of the deposit does not fall below a certain limit. Some banks charge some amount for main' taming these deposits.

(c) Savings Bank Deposit : Under this deposit, customers may deposit money at any time during banking hours but they are allowed to withdraw only once or twice a limit is also placed on the maximum amount which can be with. ra allowed on these deposits is less than what is allowed on fixed deposits.

2**. Giving of Loans:** Loans given by banks in India are mostly of the following four types:
(a) Cash Credit: It is an arrangement according to which a customer borrows money upto by one or a curtain limit against either certain securities or against a bond of credit more securities. The greatest advantage of this system is that the customers need not borrow at once the whole amount they require, but can draw such amounts as and when required. A customer is allowed to put in his surplus amount with the bank for the time being. When cash credit facility is granted, the bank estimates the amount of he customer's requirements and if his actual drawings are too less than the estimate, e may loose interest on the funds which remain idle. In order to reduce such losses generally banks allow a customer to pay interest at least one-half, or quarter of the amount of such credit allowed to him even when he does not withdraw such amount.
(b) Overdraft : A customer is allowed to overdraw more from his current account than what is his credit balance there. This is done only for temporary accommodation. This excess drawings is called 'overdraft'. Here customer has to pay interest only on that amount which has been actually used by him. Overdraft is usually made against collateral securities, Overdraft facility is made use of occasionally while cash credit is used for long terms.
(c) Loans : When a customer takes an advance in a lumpsum from the bank, it is known as a loan. When it is repaid either completely or partially, and subsequent accommoda-tion is requested it is treated as a separate transaction.

(d) Discounting of bill of exchange: Bank gives loan by discounting bill of exchange. Such loans are for short period and are given on suitable securities.
3. Agency Functions: Bank performs various services to its customers as agent. Following are the main functions of a hunk : (i) lb make payment on behalf of customers as per their orders; (ii) 'lb receive amounts on behalf of their customers; (iii) 7h collect amounts of cheques, bills and Promissory Notes etc. for their customers; (iv) lb purchase and sale securities on behalf of customers; (v) lb transfer funds from one place to another, (vi) lb make financial management of Trusts and other institutions on behalf of their customers; (vii) lb act as representative on behalf of their customers.

4. Issue of Notes: In the past, function of issue of notes was performed by all the banks. but now this work is done only by Reserve Bank of India.

5. Other Useful Services : (i) Safe custody of valuables; (i) Issue of letters of credit; (iiii Acceptance of B/E on behalf of the customers; (iv) lb give information regarding the credit of a customer under certain circumstances; (v) To collect information and statistics regarding various types of business;)vi) To underwrite the debentures and shares of the companies.

6. Purchase and Sale of Foreign Exchange.

7. Financing of Internal and Foreign Trade.

ACCOUNTING RECORD IN THE BOOKS OF BANK

In the books of Bank, accounting record is made according to Slip System. Following ollowing books are mostly used in Bank accounting : (1) General Cash Book; (2) Sectional Cash B k, (3) Customers' Receipts Book; (4) Counter Payments Book; (5) Cash Balance Book; (6) Bills to Payable Register; (7) Bills Discounting Register; (8) Transfer Journal; (9) General Ledger; (10) Current Account Ledger; (11) Savings Account Lodger; (12) Put' ed Deposits Ledger; (13) Investment Ledger, (4) Loan Ledger; (15) Safe Deposits Vault Register; (16) Bill Register; (17) Securities Register,

Slip System

Double entry system of Book-keeping Is adopted in a bank. For accounting, Slip System is very popular in banks books are made only on Records in account the basis of slips. SVhen Arson deposits amount in is bank. he has to fill in papon-alip. The concerned officer signs on its counterfoil and returns it back to the parson concerned. The portion of pay-in-slip which is retained by the officer is sent to the cashier. Cashier makes record in the cash book on its Mods. From amber this slip is sent to ledger•kerixt There customer's account is credited on tBhooe basis ios fmitsh soldi pi.s Laeldsog eard-koepetede rf osrendasn tshfeism slnipg ttoh wa em C Jeurnk tswho mmakes aecnctruienst itno hneo Pthan Slip system of accounting is also called *Unit Media of Pasting.*

Profit and USN Account and Balance Sheet

At the expiration of each financial year at: 31st March of every year every banking companies an India. in respect of all business transacted by it. and every banking company incorporated outside India, in respect of all business transacted through its branches in India. shall prepare with reference to that year a Balance Sheet and Profit and Loss Account as on last working day of the year in the form set out in the Third Schedule. Provided that in the case of a banking company incorporated outside India the Profit and Loins Account may prepared an on a date nut earlier than two months before the last working day of the year Balance Sheet and Profit and la's Account shall be signed tai in the case of a banking company incorporated in India by the manager or the principal officer of the company and where them are more than three directors of the company. by at least three of those directors, or where there are nut more than three directors, by all the directors, and (In in the case of a bunking company incorporated outside India by the manager or agent of the principal office of the company in India.

Amendment of the form set out in Third Schedule

The Central Government, after giving not less than three months notice of its intention so to do by a Notification in the (Minot Gazette may from time to time by a like Notification amend the forms set out in the Third Schedule

Audit

The Balance Sheet and Profit and Loss Account of a banking company shall be audited, by a person duly qualified under any law for the time being in force to be an auditor of a company. Notwithstanding anything contained in any law for the time being in force or in any contract to the contrary, every banking company shall, before appointing, reappointing or removing any auditor or auditors, obtain the previous approval of the Reserve Bank.

Submission of Returns

Balance Sheet and Profit and Loss Account together with auditor's report shall be published in the prescribed manner and three copies thereof shall be furnished as returns to the Reserve Bank within three months from the end of the period to which they refer.

Copies of Balance Sheet and Profit and Loss Account to be sent to Registrar

A banking company shall, Within three months from the end of the period to which they of the auditor's report. refer, also send to the registrar three copies of Balance Sheet and Profit and Loss Account and of the audited report.

Display of audited Balance sheet and Profit and Loss Account by companies incorporated outside India: : Every banking company incorporated outside India Shall, not later than the first Monday in Ausgust of any year in which it carries on business, display in a conspicuous place in its principal office and every branch office in India a copy of its last audited Balance sheet and Profit and Loss Account and shall keep the copy so displayed until replaced by a

copy of the subsequent Balance Sheet and Profit and Loss Account so prepared and every such banking company shall display in like manner copies of its complete audited Balance Sheet and Profit and Loss Account relating to its banking business as soon as they are available, and shall keep the copies so displayed until copies of such subsequent accounts are available.

NEW FORM OF PROFIT & LOSS ACCOUNT AND BALANCE SHEET

The Government of India issued a notification on 18.1.1991 giving notice of its intention to make amendments to the Third Schedule to the Banking Regulation Act, 1949 incorporating the recommendations of this committee regarding the formats of Balance Sheet and Profit and Loss Account of a Banking Company. The suggestions received in response to the above notification were examined and a fresh notification was issued on 19.12.1991 indicating Government's intention to introduce revised formats after the expiry of three months notice period. Finally the Reserve Bank of India issued a circular on 6.2.1992 to the Chief Executives of all Commercial Banks (Excluding Regional Rural Banks) advising them to ensure that their final accounts are compiled with revised formats for the accounting year ending 31st March, 1992 and each year thereafter. Revised formats of Balance Sheet and Profit and Loss Account and their Schedules are given here.

Form A of Schedule III of the Banking Regulation Act, 1949
(Amended in 1991)

Revised Formats
THE THIRD SCHEDULE
(See *Section* 29)
Form 'A'
FORM OF BALANCE SHEET

BALANCE SHEET OF.............. (here enter name of the Banking Company)
Balance Sheet *as at 31st March* ....(Year) ('000s omitted)

Capital & Liabilities	*Schedule No.*	*As at* 31.3....... (Current year)	*As at* 31.3....... (Previous year)
		₹	₹
Capital	1		
Reserves & Surplus	2		
Deposits	3		
Borrowings	4		
Other Liabilities and Provisions	5		
Total			
Assets	*Schedule No.*	*As at* 31.3....... (Current year)	*As at* 31.3....... (Previous year)
Cash and Balances with Reserve Bank of India	6		
Balances with Banks and Money at Call and Shortotice	7		
Investments	8		
Advances	9		
Fixed Assets	10		
Other Assets	11		
Total			
Contingent Liabilities	12		
Bills for Collection			

SCHEDULE 1—CAPITAL ('000s omitted)

	As at 31.3........ (Current year)	*As at* 31.3........ (Previous year)
	₹	₹
I. **For Nationalised Banks**		
Capital (Fully owned by Central Government)		
Total		
II. **For Banks Incorporated Outside India**		
Capital		
(i) The amount brought in by banks by way of start-up capital as prescribed by RBI should be shown under this head.		
(ii) Amount of deposit kept with the RBI under Section 11(2) of the Banking Regulation Act, 1949.		
Total		
III. **For Other Banks**		
Authorised Capital		
(.......... shares of .... ₹ each)		
Issued Capital		
(.......... shares of .... ₹ each)		
Subscribed Capital		
(.......... shares of .... ₹ each)		
Called-up Capital		
(.......... shares of .... ₹ each)		
Less : Calls unpaid		
Add : Forfeited shares		

SCHEDULE 2—RESERVES & SURPLUS ('000s omitted)

	As at 31.3....... (Current year)	*As at* 31.3....... (Previous year)
	₹	₹
I. Statutory Reserve		
Opening Balance		
Additions during the year		
Deductions during the year		
II. Capital Reserves		
Opening Balance		
Additions during the year		
Deductions during the year		
III. Share Premium		
Opening Balance		
Additions during the year		
Deductions during the year		
IV. Revenue and Other Reserves		
Opening Balance		
Additions during the year		
Deductions during the year		
V. Balance in Profit and Loss Account		
Total (I, II, III, IV and V)		

SCHEDULE 3—DEPOSITS ('000s omitted)

	As at 31.3....... (Current year) ₹	*As at* 31.3....... (Previous year) ₹
A. I. **Demand Deposits**		
(i) From banks		
(ii) From others		
II. **Savings Bank Deposits**		
III. **Term Deposits**		
(i) From banks		
(ii) From others		
Total (I, II and III)		
B. I. Deposits of branches in India		
II. Deposits of branches outside India		
Total		

SCHEDULE 4—BORROWINGS ('000s omitted)

	As at 31.3....... (Current year) ₹	*As at* 31.3....... (Previous year) ₹
I. **Borrowings in India**		
(i) Reserve Bank of India		
(ii) Other Banks		
(iii) Other Institutions and Agencies		
II. **Borrowings outside India**		
Total (I and II)		
Secured borrowings included in I & II above		

SCHEDULE 5—OTHER LIABILITIES & PROVISIONS ('000s omitted)

	As at 31.3....... (Current year) ₹	*As at* 31.3....... (Previous year) ₹
I. Bills Payable		
II. Inter-office adjustments (net)		
III. Interest accrued		
IV. Others (including provisions)		
Total		

SCHEDULE 6—CASH AND BALANCES WITH RESERVE BANK OF INDIA ('000s omitted)

	As at 31.3....... (Current year) ₹	*As at* 31.3....... (Previous year) ₹
I. Cash in hand (including foreign currency notes)		
II. Balances with Reserve Bank of India		
(i) In Current Account		
(ii) In Other Accounts		
Total (I and II)		

SCHEDULE 7—BALANCES WITH BANKS & MONEY AT CALL & SHORT NOTICE ('000s omitted)

	As at 31.3....... (Current year) ₹	*As at* 31.3....... (Previous year) ₹
I. **In India**		
(i) Balances with Banks		
(a) In Current Account		
(b) In other Deposit Accounts		
(ii) Money at call and short notice		
(a) With Banks		
(b) With other Institutions		
Total		
II. **Outside India**		
(i) In Current Account		
(ii) In other Deposit Accounts		
(iii) Money at call and short notice		
Total		
Grand Total (I and II)		

SCHEDULE 8—INVESTMENTS ('000s omitted)

	As at 31.3....... (Current year) ₹	*As at* 31.3....... (Previous year) ₹
I. **Investments in India in**		
(i) Govt. securities		
(ii) Other approved securities		
(iii) Shares		
(iv) Debentures and Bonds		
(v) Subsidiaries and/or Joint Ventures		
(vi) Others (to be specified)		
Total		
II. **Investments outside India in**		
(i) Government securities (including local authorities)		
(ii) Subsidiaries and/or Joint Ventures abroad		
(iii) Other investments (to be specified)		
Total		
Grand Total (I and II)		

SCHEDULE 9—ADVANCES ('000s omitted)

	As at 31.3....... (Current year) ₹	*As at* 31.3....... (Previous year) ₹
A. (i) Bills purchased and discounted		
(ii) Cash credits, overdrafts and loans repayable on demand		
(iii) Term loans		
Total		
B. (i) Secured by tangible assets		
(ii) Covered by Bank/Govt. Guarantees		
(iii) Unsecured		
Total		
C. (I) **Advances in India**		
(i) Priority Sector		
(ii) Public Sector		
(iii) Banks		
(iv) Others		
Total		

(II) **Advances Outside India**		
(i) Due from banks		
(ii) Due from others		
(a) Bills purchased and discounted		
(b) Syndicated loans		
(c) Others		
Total		
Grand Total (C. I and II)		

SCHEDULE 10—FIXED ASSETS ('000s omitted)

	As at 31.3....... (Current year) ₹	*As at* 31.3....... (Previous year) ₹
I. Premises		
At cost as on 31st March of the preceding year :		
Additions during the year		
Deductions during the year		
Depreciation to date		
II. Other Fixed Assets (including Furniture and Fixtures)		
At cost as on 31st March of the preceding year :		
Additions during the year		
Deductions during the year		
Depreciation to date		
Total (I and II)		

SCHEDULE 11—OTHER ASSETS ('000s omitted)

	As at 31.3....... (Current year) ₹	*As at* 31.3....... (Previous year) ₹
(i) Inter-office adjustments (net)		
(ii) Interest accrued		
(iii) Tax paid in advance/tax deducted at source		
(iv) Stationery and Stamps		
(v) Non-banking assets acquired in satis faction of claims		
(vi) Others@		
Total		

@ In case there is any unadjusted balance of loss the same may be shown under this item with appropriate footnote.

SCHEDULE 12—CONTINGENT LIABILITIES ('000s omitted)

	As at 31.3....... (Current year) ₹	*As at* 31.3....... (Previous year) ₹
I. Claims against the bank not acknowledge at debts		
II. Liability for partly paid investments		
III. Liability on account of outstanding forward exchange contracts		
IV. Guarantees given on behalf of constituents		
(a) In India		
(b) Outside India		
V. Acceptances, endorsements and other obligations		
VI. Other items for which the bank is contingently liable		
Total		

Form 'B'
Profit & Loss Account
for the year ended 31*st March*

('000s omitted)

	Schedule No.	*Year ended* 31.3....... (Current year)	*Year ended* 31.3....... (Previous year)
		₹	₹
I. **Income**			
Interest earned	13		
Other Income	14		
Total			
II. **Expenditure**			
Interest expended	15		
Operating expenses	16		
Provisions and Contingencies			
Total			
III. **Profit/Loss**			
Net Profit/Loss (–) for the year			
Profit/Loss (–) brought forward			
Total			
IV. **Appropriations**			
Transfer to statutory reserves*			
Transfer to other reserves			
Transfer to government/proposed dividend			
Balance carried over to Balance Sheet			
Total			

Notes : 1. Total Income includes income of foreign branches at ₹ ......
2. Total expenditure includes expenditure of foreign branches at ₹ ....
3. Surplus/Deficit of foreign branches at ₹ ......

* Every banking company incorporated in India is required to create a Reserve Fund and to **transfer at least 25% of its profit to the reserve fund.**

Note : **Students shall ensure that 25% of the profit earned during current year is transferred as Statutory Reserve even if the question is silent on the issue in the examination question.**

SCHEDULE 13—INTEREST EARNED ('000s omitted)

	Year ended 31.3....... (Current year)	*Year ended* 31.3....... (Previous year)
	₹	₹
I. Interest/Discount on advances/bills		
II. Income on investments		
III. Interest on balances with Reserve Bank of India and other inter-bank funds		
IV. Others		
Total		

SCHEDULE 14—OTHER INCOME ('000s omitted)

	Year ended 31.3....... (Current year)	*Year ended* 31.3....... (Previous year)
	₹	₹
I. Commission, exchange and brokerage		
II. Profit on sale of investments (*Less* : Loss on sale of investments)		

III. Profit on revaluation of investments (*Less* : Loss on revaluation of investments)		
IV. Profit on sale of land, buildings and other assets (*Less* : Loss on sale of land, buildings and other assets)		
V. Profit on exchange transactions (*Less* : Loss on exchange transactions)		
VI. Income earned by way of dividends, etc., from subsidiaries/ companies and/or joint ventures abroad/in India		
VII. Miscellaneous Income		
Total		

Note : Under items II to V loss figures may be shown in brackets.

SCHEDULE 15—INTEREST EXPENDED

('000s omitted)

	Year ended 31.3....... (Current year)	*Year ended* 31.3....... (Previous year)
	₹	₹
I. Interest on deposits		
II. Interest on Reserve Bank of India/Inter-bank borrowings		
III. Others		
Total		

SCHEDULE 16—OPERATING EXPENSES

('000s omitted)

	Year ended 31.3....... (Current year)	*Year ended* 31.3...... (Previous year)
	₹	₹
I. Payments to and provisions for employees		
II. Rent, taxes and lighting		
III. Printing and stationery		
IV. Advertisement and Publicity		
V. Depreciation on bank's property		
VI. Director's fees, allowances and expenses		
VII. Auditors' fees and expenses (including branch auditors' fees and expenses)		
VIII. Law charges		
IX. Postage, Telegrams, Telephones, etc.		
X. Repairs and Maintenance		
XI. Insurance		
XII. Other expenditures		
Total		

GUIDELINES OF RESERVE BANK OF INDIA FOR COMPLIANCE OF BALANCE SHEET AND PROFIT AND LOSS ACCOUNT AS PER THE REVISED FORMATS

Item	*Schedule*	*Coverage*	*Notes and instructions for compilation*
Capital	1	**Nationalised Banks** (Fully Owned by Central Government)	The capital owned by Central Government as on the date of the Balance Sheet including contribution from Government, if any, for participating in World Bank Projects should be shown.
		Banking companies incorporated outside	(i) The amount brought in by banks by way of start-up capital as prescribed by RBI should be shown under this head. (ii) The amount of deposits kept with RBI, under sub-section 2 of section 11 of the Banking Regulation Act, 1949 should also be shown.
		Other Banks (Indian) Authorised Capital (...Shares or ₹......... each) Issued Capital (..Shares of ₹ ... each) Subscribed Capital (...Shares of ₹....each) Called up Capital (....Shares of ₹ ...each.) *Less* : Calls unpaid ..... *Add* : Forfeited shares ..... Paid up to capital.......	Authorised, Issued, Subscribed, Called-up Capital should be given separately. Calls-in-arrears will be deducted from Called up capital while the paid-up value of forfeited shares should be added thus arriving at the paid-up capital. Where necessary, items which can be combined should be shown under one head for instance 'Issued and Subscribed Capital'. *Notes - General* : The changes in the above items, if any, during the year, say, fresh contribution made by Government, fresh issue of capital, capitalisation of reserves, etc. may be explained in the notes.
Reserves and Surplus	2	(I) Statutory Reserves	Reserves created in terms of Section 17 or any other section of Banking Regulation Act must be separately disclosed.
		(II) Capital Reserves	The expression 'capital reserves' shall not include any amount regarded as free for distribution through the profit and loss account. Surplus on revaluation should be treated as Capital Reserves. Such reserves will have to be reflected on the face of the balance sheet as revaluation reserves. Surplus on translation of the financial statements of foreign branches (which includes fixed assets also) is not a revaluation reserve.
		(III) Share Premium	Premium on issue of share capital may be shown separately under this head.
		(IV) Revenue and other Reserves	The expression 'Revenue Reserve' shall mean any reserve other than capital reserve. This item created will include all reserves other than those separately classified. The expression Reserve shall not include any amount retained by way of providing renewals or diminution in value of assets or retained by way of providing for depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability.

			Excess provision towards depreciation on investments should be transferred to 'Investment Fluctuations Reserve Account' which should be shown as a separate item under the head 'Revenue and Other Reserves'. The amount held in 'Investment Fluctuation Reserve Account' could be utilized to meet the depreciation requirement on investment in securities in future. Extra provision needed in the event of depreciation in the value of the investment should be debited to Profit and Loss Account and if required, an equivalent amount may be transferred from the 'Investment Fluctuation Reserve Account' to the Profit and Loss Account as a 'below the line' item after determining the profit for the year.
		(V) Balance of Profit	Includes balance of profit after appropriations. In case of loss the balance may be shown as a deduction. *Notes–General* : Movements in various categories of Reserves should be shown as indicated in the schedule.
Deposits	3 A.	(I) Demand Deposits	
		(i) from banks	Includes all bank deposits repayable on demand.
		(ii) from others	Includes all demand deposits of the non-bank sectors. Credit balances in overdrafts, cash credit accounts, deposits payable at call, overdue deposits, inoperative current accounts, matured time deposits and cash certificates, certificates of deposits, etc. are to be included under this category.
		(II) Saving Bank Deposits	
		(III) Term Deposits	
		(i) from banks	Includes all types of bank deposits repayable after a specified term.
		(ii) from others	Includes all types of deposits of the non-bank sector repayable after a specified term. Fixed deposits, cumulative and recurring deposits, cash certificates, certificates of deposits, annuity deposits, deposits mobilised under various schemes, ordinary staff deposits, foreign currency non-resident deposits accounts, etc. are to be included under this category.
	B.	(i) Deposits of branches in India (ii) Deposits of branches outside India	The total of these two items will agree with the total deposits.

			Notes–General : (a) Interest payable on deposits which is accrued but not due should not be included but shown under other liabilities. (b) Matured time deposits and cash certificates, etc. should be treated as demand deposits. (c) Deposits under special schemes should be included under term deposits if they are not payable on demand. When each deposits have matured for payments they should be shown under demand deposits. (d) Deposits from banks will include deposits from the banking system in India, co-operative banks, foreign banks which may or may not have a presence in India.
Borrowings	4	(I) Borrowings in India	
		(i) Reserve Bank of India	Includes borrowings/refinance obtained from Reserve Bank of India.
		(ii) Other banks	Includes borrowings/refinance obtained from commercial banks (including cooperative banks).
		(iii) Other institutions and agencies	Includes borrowings/refinance obtained from Industrial Development Bank of India. Export-Import Bank of India, National Bank for Agriculture and Rural Development and other institutions, agencies (including liability against participation certificates, if any).
		(II) Borrowings outside India	Includes borrowings of India branches abroad as well as borrowings of foreign branches.
		Secured borrowings included above	This item will be shown separately. Includes secured borrowings/refinance in India and outside India. *Notes– General* : (i) The total of I & II will agree with the total borrowings shown in the balance sheet. (ii) Inter-office transactions should not be shown as borrowings. (iii) Funds raised by foreign branches by way of certificates of deposits, notes, bonds, etc. should be classified depending upon documentation, as 'deposits' 'borrowings', etc. (iv) Refinance obtained by banks from Reserve Bank of India and various institutions are being brought under the head 'Borrowings'. Hence, advances will be shown at the gross amount on the assets side.
Other liabilities and provisions	5	I. Bills payable	Includes drafts, telegraphic transfers, travellers' cheques, mail transfers payable, pay slips, bankers cheques and other miscellaneous items.

		II. Inter-office adjustment (net)	The inter-office adjustments balance, if in credit, should be shown under this head. Only net position of inter-office accounts, inland as well as foreign, should be shown here. In working out the net position, credit entries outstanding for more than five years in inter-branch accounts should be segregated and transferred to a separate Blocked Account. While arriving at the net amount of inter-branch transactions for inclusion under Schedule 5 or 11 as the case may be, the aggregate amount of Blocked Account should be excluded and only the amount representing the remaining credit entries should be netted against debit entries.
		III. Interest accrued	Includes interest accrued but not due on deposits and borrowings.
		IV. Others (including provisions)	(i) Includes the net provision for income tax and other taxes like interest tax (less advance payment tax deducted at source etc.), surplus in aggregate in provisions for bad debts provision account, surplus in aggregate in provisions for depreciation in securities, contingency funds which are not disclosed as a reserve but are actually in the nature of reserves, proposed dividend/ transfer to Government, other liabilities which are not disclosed under any of the major heads such as unclaimed dividend, provisions and fund kept for specific purposes, unexpired discount, outstanding charges like rent, conveyance etc. Certain types of deposits like staff security deposits, margin deposits, etc. where the repayment is not free, should also be included under this head. (ii) Provisions towards standard assets should be shown separately as 'Contingent Provisions against Standard Assets' under this ahead. (iii) Amount of subordinated debt raised as Tier II capital should be shown in Schedule 5 as well as by way of explanatory notes/remarks in the balance sheet. The Blocked Account arising from transfer of credit entries in inter-branch accounts outstanding for more than five years should be shown under this head. Any adjustment from the Blocked Account should be permitted only with the authorization of two officials one of whom should be from outside the branch concerned, preferably from the Controlling/Head Office if the amount exceeds ₹ one lakh.

			Notes–General : (i) For arriving at the net balance of inter-office adjustments all connected inter-office accounts should be aggregated and the net balance only will be shown, representing mostly items in transit and unadjusted items. (ii) The interest accruing on all deposits, whether the payment is due or not, should be treated as a liability. (iii) It is proposed to show only pure deposits under this head 'deposits' and hence all surplus provisions for bad and doubtful debts, contingency funds, secret reserves, etc. which are not netted off against the relative assets, should be brought under the head 'Others (including provisions)'. (iv) The amount of subordinated debt raised against Tier II capital should be indicated.
Cash and Balances with the Reserve Bank of India	6	I. Cash in hand (including foreign currency notes) II. Balances with Reserve Bank of India : (i) in Current Account (ii) in other Accounts	Includes cash in hand including foreign currency notes and also of foreign branches in case of banks having such branches.
Balances with banks and money at call and short notices	7	I. In India : (i) Balances with banks (a) in current accounts (b) in other Deposit accounts	Includes all balances with banks in India (including co-operative banks). Balances in current accounts and deposit accounts should be shown separately.
		(ii) Money at call and short notice (a) with banks (b) with other institutions	Includes deposits repayable within 15 days or less than 15 days notice lent in the inter-bank call money market.
		II. Outside India : (i) Current accounts	Includes balances held by foreign branches and balances held by Indian branches of the banks outside India.
		(ii) Deposits accounts	Balances held with foreign branches by other branches of the bank should not be shown under this head but should be included in inter-branch accounts. The *amounts held in 'current accounts'* and 'deposit accounts' should be shown separately.
		(iii) Money at call and short notice	Includes deposits usually classified in foreign countries as money at call and short notice.

Advances	9 A.	(i) Bills purchased and discounted (ii) Cash credits, overdrafts and loans repayable on demand	In classification under section 'A'. All out standings in India as well as outside less provisions made, will be classified under three heads as indicated and both secured and unsecured advances will be included under these heads.
		(iii) Term loans	Including overdue installments.
	B.	(i) Secured by tangible assets (includes advances against book debts)	All advances or part of advances which are secured by tangible assets may be shown here. The item will include advances in India.
		(ii) Covered by bank/ Government Guarantee	Advances in India and outside India to the extent they are covered by guarantees of Indian and foreign governments and Indian and foreign banks and DICGC & ECGC are to be included.
		(iii) Unsecured	All advances not classified under (i) and (ii) will be included here. Total of 'A' should tally with the total of 'B'.
	C.	I. Advances in India : (i) Priority sectors (ii) Public sector (iii) Banks (iv) Others II. Advances outside India (i) Due from banks (ii) Due from others (a) Bills purchased and discounted (b) Syndicate loans (c) Others	Advances should be broadly classified into 'Advances in India' and 'Advances outside India'. Advances in India will be further classified on the sectoral basis as indicated. Advances on sectors which for the time being are classified as priority sectors according to the instructions of the Reserve Bank are to be classified under the head 'Priority sector'. Such advances should be excluded from item (ii) *i.e.*, advances to public sector. Advances to Central and State Governments and other Government undertaking including Government companies and corporations which are, according to the statutes, to be treated as public sector companies are to be included in the category "Public Sector". All advances to the banking sector including co-operative banks will come under the head 'Banks'. All the remaining advances will be included under the head 'Others' and typically this category will include non-priority advances to the private, joint and co-operative sectors. *Notes– General* : (i) The gross amount of advances including refinance but excluding rediscounts provisions made to the satisfaction of auditors should be shown as advances. (ii) Term loans will be loans not repayable on demand. (iii) Consortium advances would be shown net of share from other participating banks/institutions.

Fixed Assets	10	I. Premises (i) At cost as on 31st March of the preceding year (ii) Additions during the year (iii) Deductions during the year (iv) Depreciation to date	Premises wholly or partly owned by the banking company for the purpose of business after the first balance sheet subsequent to the reduction or revaluation should show the revised figures for a period of five years with the date and amount of the revision made.
		II. Other Fixed Assets (including furniture and fixtures) : (i) At cost on 31st March of the preceding year (ii) Additions during the year (iii) Deductions during the year (iv) Depreciation to date	Motor vehicles and other fixed assets other than premises but including furniture and fixtures should be shown under this head.
Other Assets	11	I. Inter-office adjustments (net)	The inter-office adjustments balance, if in debit, should be shown under this head. Only net position of inter-office accounts, inland as well as foreign, should be shown here. For arriving at the net balances of inter-office adjustment accounts, all connected inter-office accounts should be aggregated and the net balance, if in debit, only should be shown representing mostly items in transit and unadjusted items. In working out the net position, credit entries outstanding for more than five years in inter-branch accounts should be segregated and transferred to a separate Blocked Account. While arriving at the net amount of inter-branch transactions for inclusion under Schedule 5 or 11, as the case may be, the aggregate amount of Blocked Account should be excluded and only the amount representing the remaining credit entries should be netted against debit entries.
		II. Interest accrued	Interest accrued but not due on investments and advances and interest due but not collected on investments will be the main components of this item. As banks normally debit the borrowers' accounts with interest due on the balance sheet date, usually there may not be any amount of interest due on advances. Only such interest as can be realised on the ordinary course should be shown under this head.

		III. Tax paid in advance/tax deducted at source	The amount of tax deducted at source on securities, advance tax paid etc. to the extent these items are not set off against relative tax provisions should be shown against this item.
		IV. Stationery and stamps	Only exceptional items of expenditure on stationery like bulk purchase of securities paper, loose leaf or other ledgers, etc. which are shown as quasi-asset to be written off over a period of time should be shown here. The value should be on a realistic basis and cost escalation should not be taken into account, as these items are for internal use.
		V. Non-banking assets acquired in satisfaction of claims.	Immovable properties/tangible assets acquired in satisfaction of claims are to be shown under this head.
		VI. Others	This will include items like claims which have not been met, for instance, clearing items, provision netted against this item so that only realisable value is shown under this head. Accrued income other than interest may also be included here. Outstanding in credit card operations should be shown as part of "advances" (Schedule instead of clubbing these under "Other Assets".
Contingent Liabilities	12	I. Claims against the bank not acknowledged as debts	
		II. Liability for partly paid investments	Liability on partly paid shares, debentures, etc. will be included under this head.
		III. Liability on account of outstanding forward exchange contracts	Outstanding forward exchange contracts may be included here.
		IV. Guarantees given on behalf of constituents (i) In India (ii) Outside India	Guarantees given for constituents in India and outside India may be shown separately.
		V. Acceptances endorsements and other obligations	This item will include letters of credit and bills accepted by the bank on behalf of customers.
		VI. Other items for which the Bank is contingently liable	Arrears of cumulative dividends, bills rediscounted, commitments under under-writing contracts, estimated amounts of contracts remaining to be executed on capital account and not provided for, etc. are to be included here.
Bills for Collection			Bills and other items in the course of collection and not adjusted will be shown against this item in the summary version only. No separate schedule is proposed.

Profit and Loss Account

Interest earned	13	I. Interest/discount on advances/bills	Includes interest and discount on all types of loans and advances like cash credit, demand loans, overdraft, export loans, term loans, domestic and foreign bills purchased and discounted (including those rediscounted), overdue, interest and also interest subsidy, if any, relating to such advances/bills.
		II. Income on Investments	Includes all income derived from the investment portfolio by way of interest and dividend.
		III. Interest on balances with Reserve Bank of India and other Inter-bank funds	Includes interest on balances with Reserve Bank and other banks, call loans, money market placements, etc.
		IV. Others	Includes any other interest/discount income not included in above heads.
Other Income	14	I. Commission, exchange and brokerage	Includes all remuneration on services such as commission on collections, commission/exchange on remittances and transfers, commission on letter of credit and guarantees, commission on Government commission on other permitted agency business including consultancy and other services, brokerage, etc. on securities. It does not include foreign exchange income.
		II. Profit on sale of investments *Less* : Loss on sale of investments	Includes profit/loss on sale of securities, furniture, land and buildings, motor of vehicle, gold, silver etc. Only the net position should be shown. If the net position is a loss, the amount should be shown as deduction.
		III. Profit on revaluation of investments *Less* : Loss on revaluation of investments	The net profit/loss on revaluation of assets may also be shown under this item.
		IV. Profit on sale of land, building and other assets *Less* : Loss on sale of land, buildings and other assets	
		V. Profit on exchange transactions *Less* : Loss on exchange transactions	Includes profit/loss on dealing in foreign exchange all income earned by way of foreign exchange commission and charges on foreign exchange, transactions excluding interest which will be shown under interest. Only the net position should be shown. If the net position is a loss, it is to be shown as a deduction.
		VI. Income earned by way of dividends etc. from subsidiaries, companies and/or joint ventures abroad/in India	

		VII. Miscellaneous income	Includes recoveries from constituents for the godown rents, income from bank's properties, security charges, insurance etc. and any other miscellaneous income. In case any item under this head exceeds one percentage of the total income, particulars may be given in the notes.
Interest Expended	15	I. Interest on deposits	Includes interest paid on all types of deposits including deposits from banks and others institutions.
		II. Interest on Reserve Bank of India/inter-bank borrowings	Includes discount/interest on all borrowings and refinance from Reserve Bank of India and other banks.
		III. Others	Includes discount / interest on all borrowings/refinance from financial institutions. All other payments like interest on participation certificates, penal interest paid, etc. may also be included here.
Operating expenses	16	I. Payments to and Provisions for employees	Includes staff salaries/wages, allowances, bonus, other staff benefits like provident fund, pension, gratuity liveries to staff, leave fare concessions, staff welfare, medical allowance to staff etc.
		II. Rent, taxes and lighting	Includes rent paid by the banks on building and other municipal and other taxes paid (excluding income tax and interest tax) electricity and other similar charges and levies. House rent allowance and other similar payments to staff should appear under the head 'Payments to and provisions for employees'.
		III. Printing and Stationery	Includes books and forms and stationery used by the bank and other printing charges which are not incurred by way of publicity expenditure.
		IV. Advertisement and publicity	Includes expenditure incurred by the bank for advertisement and publicity purposes including printing charges of publicity matter.
		V. Depreciation on Bank's property	Includes depreciation on bank's own property: motor cars and other vehicles, furniture, electric fittings, vaults, lifts, leasehold properties, non-banking assets, etc.
		VI. Directors' fees, allowances and expenses	Includes sitting fees and all other items of expenditure incurred on behalf of directors. The daily allowances, hotel charges, conveyance charges, etc. which though in the nature of reimbursement of expenses incurred may be included under this head. Similar expenses of local Committee members may also be included under this head.

		VII. Auditors' fees and expenses (including branch auditors' fees and expenses)	Includes fees paid to the statutory auditors and branch auditors for professional services rendered and all expenses for performing their duties, even though they may be in the nature of reimbursement of expenses. If external auditors have been appointed by banks themselves for internal inspections and audits and other services the expenses incurred in that context including fees may not be included under this head but shown under 'other expenditure'.
		VIII. Law charges	All legal expenses and reimbursement of expenses incurred in connection with legal services are to be included here.
		IX. Postage, telegrams, telephones, etc.	Includes all postal charges like stamps, telegram, telephones, teleprinter, etc.
		X. Repairs and maintenance	Includes repairs to banks' property, their maintenance charges, etc.
		XI. Insurance	Includes insurance charges on bank's property, insurance premium paid to Deposit Insurance & Credit Guarantee Corporation, etc. to the extent they are not recovered from the concerned parties.
		XII. Other expenditure	All expenses other than those not included in any of the other heads like, licence fees, donations, subscriptions to papers, periodicals, entertainment expenses, travel expenses, etc. may be included under this head. in case any particular item under this head exceeds one percentage of the total income particulars may be given in the notes.
Provisions and contingencies			Includes all provisions made for bad and doubtful debts, provisions for taxation, provisions for diminution in the value of investments, transfers to contingencies and other similar items.
Treatment of accumulated losses			While preparing the Balance Sheet and Profit and Loss Account accumulated losses should be brought forward under Item III or Form "B" before appropriation of the balance profit made.

IMPORTANT NOTE

1. In all solutions of questions of final accounts, even if amounts of previous years are not given, column for previous year must be made.

2. All amounts should be approximated upto ₹ 1,000 *i.e.* '000s should be omitted while writing amounts in Balance Sheet and Profit and Loss Account.

3. While solving questions of final accounts, when both Balance Sheet and Profit and Loss Accounts are to be prepared, Balance Sheet should be prepared first and then prepare its Schedules which are 12 in number and then prepare Profit and Loss Account and later on mention its Schedules which are Schedule No. 13, 14, 15 and 16.

UNIT-V

INTRODUCTION

Government accounting refers to the process of recording and the management of all financial transactions incurred by the government which includes its income and expenditures.

Various governmental accounting systems are used by various public sector entities. In the United States, for instance, there are two levels of government which follow different accounting standards set forth by independent, private sector boards. At the federal level, the Federal Accounting Standards Advisory Board (FASAB) sets forth the accounting standards to follow. Similarly, there is the Governmental Accounting Standards Board (GASB) for state and local level government.

Public vs. private accounting

There is an important difference between private sector accounting and governmental accounting. The main reasons for this difference are the environment of the accounting system. In the government environment, public sector entities have different goals, as opposed to the private sector entities' one main goal of gaining profit. Also, in government accounting, the entity has the responsibility of fiscal accountability which is demonstration of compliance in the use of resources in a budgetary context. In the private sector, the budget is a tool in financial planning and it isn't mandatory to comply with it

Government accounting refers to the field of accounting that specifically finds application in the public sector or government. A special field of accounting exists because:

1. The objectives to which accounting reports to differ significantly from that for which generally accepted accounting practice has been developed for in the private (business) sector; &
2. The usage of the results of accounting processes of government differs significantly from the use thereof in the private sector.

An exception exists on the above-mentioned differences in the case of public utility businesses (for example Electricity Services) that may be intended to produce a net income or profit, but a significant debate exists over whether there should be such an exception. Nationalization includes, amongst others, the argument that entities should be either private or public, and that the objectives of public entities should differ significantly from that of private entities. In other words, is the generation and reticulation of electricity with the objective to generate a profit in the public interest or not? And if it is the best way, shouldn't it then be completely private instead of having access to public funds and monopolies?

Governmental accounting standards are currently being dominated by the accounting standards (internationally sometimes referred to as IFRS) originally designed for the private sector. The so-called Generally Recognized Accounting Practices (GRAP) that is being enforced in the public sector of countries such as South Africa, one of the front-runners in this regard is based on the Generally Accepted Accounting Practices originally developed for the private sector. The above and common sense raises the question of whether this is the best solution. It is, of course, cheaper and it is alleged that the history of separate development of accounting practices for government has not been successful. Even at the onset of the current fiscal crisis in Europe and other parts of the world, it was argued authoritatively that the sometimes inapplicable accounting practices of the private sector being used, have contributed to the origination of, and belated reaction to, the fiscal crisis.

The governmental accounting system sometimes uses the historic system of fund accounting. A set of separate, self-balancing accounts are responsible for managing resources that are assigned to specific purposes based on regulations and limitations.

The governmental accounting system has a different focus for measuring accounting than private sector accounting. Rather than measuring the flow of economic resources, governmental accounting measures the flow of financial resources. Instead of recognizing revenue when they are earned and expenses when they are incurred, revenue is recognized when there is money available to liquidate liabilities within the current accounting period, and expenses are recognized when there is a drain on current resources.

Governmental financial statements must be accompanied by required supplementary information (RSI). The RSI is a comparison of the actual expenses compared to the original budget created at the beginning of the fiscal year for the Government's General Fund and all major Special Revenue Funds.

Difference between Government and Commercial Accounting

There are following notable differences between the Government accounting and the commercial accounting –

Headings	Govt. Accounting	Comm. Accounting
Objective	Administration and management of all the financial activities of the government.	Maintain the records of trading and manufacturing of goods or to provide services to calculate profits.
Date Entry System	It has single entry system — Govt. does not work to earn profit; so, it does not need cross-check the accounting records.	Normally, it has double entry system — need to prepare Trading & Profit & Loss account and Balance Sheet at the end of the accounting period.

Basis of Accounting statements	Accounting statements are also prepared on the basis of single entry system. Most of the statements are merely statements of collections of revenue and expenditures done, except where the Government acts like a banker or lender or borrower.	Accounting statements are prepared on the basis of double entry system.

Important Terms and Expressions of Government Finance

Following are the important terms and expressions used in Government accounting –

- **Demand for Grant** – without sanction from the Parliament, no expenditure can be incurred by any Government Authority. Public Authority can request for the grant of expenditure to the Government, this request is called "**Demand for Grant**".
- **Supplementary Grant** – Sometimes, grants are sanctioned before the end of the financial year, in case where annual budget might be inadequate. Supplementary demand can be made, if need arises to meet the expenditure. For example, amount granted for the Natural Disaster Relief fund, may be found inadequate due to extraordinary disaster by the flood; in such a condition, an additional grant may be asked by the concerned state or ministry.
- **Treasuries** – Treasuries are the units of fiscal system in India. Every Indian States and Union Territory is divided into different districts' headquarters and every district headquarters has one or more than one treasury. Treasuries are conducted by the State Bank of India as an agent of the Reserve Bank of India. Central Government and State Government keep their separate accounts and differences of Central and State Govt. are adjusted by the Reserve Bank of India.
- **Votable and Non-votable Items** – To incur some expenditures, Parliamentary approval is not required; so, these expenditures may be charged from the Consolidated fund or the Public account, these items are known as **Non-votable** items. Some items of expenditure require sanction of the Parliament and cannot be incurred without its grant. Thus, demand for grant for that expenditure may be placed to the government; such items are called as **Votable** Items.
- **Appropriation Act** – After the approval of the budget proposal in the Parliament or Legislature, an Appropriation Bill has to be introduced, when this Bill is passed, it becomes Appropriation Act. Now, money can be withdrawn from the Consolidated Fund of India or the concerned State to meet the grants.
- **Vote on Account** – In certain condition, when government has no time to place full budget in the Parliament, then it uses the special provision of 'Vote on Account.' Under this provision, government obtains the vote of the Parliament for the amount required to incur the expenditure of the items in demand. After sanction obtained in the Parliament, government obtains money from the Consolidated Fund of India.

- **Public Accounts Committee (PAC)** – Public Account Committee is formed by the Parliament and each Legislature to scrutinize the Appropriation account and Audit the report thereon. All the reports on financial statements those are to be submitted to the President of Indian and in the Parliament are examined by the Public Accounts Committee (PAC). Examination by the PAC is similar to post-mortem of the reports. Members of the PAC are appointed from the Opposition Parties of the Parliament. Member of the ruling party cannot be part of this committee, as this committee is working as a watchdog to look after the affairs of ruling party.
- **Local Government Accounting** – Accounting of the Local government is based on the concept of "fund accounting" and on the budget. Urban local government entities and rural local government entities are two types of local government entities. Accounting of the Local Government in India comprises budget, Receipt, and payment accounts.

Government Fund

Government of India has following three types of Funds for marinating the records of all sorts of financial transactions –

- Consolidated Funds of India
- Contingency Funds of India
- Public Account

Let's discuss each of them succinctly –

Consolidated Funds of India

As per the Clause 1 of the Article 266 of the Indian Constitution –

"All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund constituted. Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund. All expenditure of the government is incurred from this fund and no amount can be withdrawn from the Fund without authorization from the Parliament."

Contingency Funds of India

As per the Article 267 of the Indian Constitution –

"The Contingency Fund of India records the transactions connected with Contingency Fund set by the Government of India. The corpus of this fund is Rs. 50 crores. Advances from the fund are made for the purposes of meeting unforeseen expenditure which are resumed to the Fund to the full extent as soon as Parliament authorizes additional expenditure. Thus, this fund acts more or less like an imprest

account of Government of India and is held on behalf of President by the Secretary to the Government of India, Ministry of Finance, and Department of Economic Affairs."

Public Account

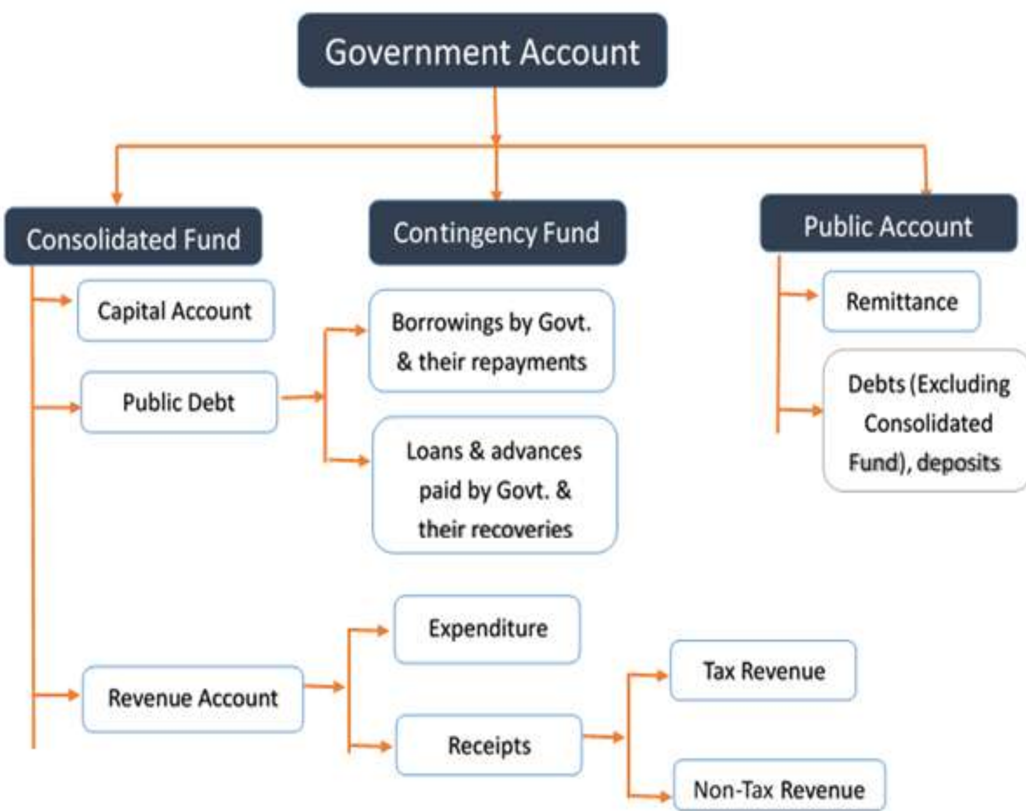
The Public Account is constituted under Clause 2 of Article 267 of the Indian Constitution, which says –

"The transactions relate to debt other than those included in the Consolidated Fund of India. The transactions under Debt, Deposits and Advances in this part are those in respect of which Government incurs a liability to repay the money received or has a claim to recover the amounts paid. The transactions relating to 'Remittance' and `Suspense' shall embrace all adjusting heads. The initial debits or credits to these heads will be cleared eventually by corresponding receipts or payments. The receipts under Public Account do not constitute normal receipts of Government. Parliamentary authorization for payments from the Public Account is therefore not required."

Similarly, all 29 states of India has the same structure as described above.

General Structure of Government Accounts

The general structure of the government accounts is illustrated below –



Compilation of Accounts

Treasury and other government departments, initially compile their receipt and payment accounts on monthly basis for central government and state government separately and then send to respective Accountant General of India.

Collection of revenue and disbursement are directly made by Railway, Defense, Post & Telegraphs, Forest, and public departments and lump sum payments are made by treasury through the departmental officers. Detail of accounts on monthly basis is maintained by the departmental Accounts officers.

Monthly accounts submitted by the treasury and account officer are compiled by the Accountant General, for the central government as a whole and for each state separately. The compiled report shows progressive figure of each month from 1st April to 31st March of every year. Complied accounts along with appropriation accounts are submitted by Comptroller and Auditor General of India to the President of India, to the Governor of each state, or to the Administrator of the Union Territory accordingly.

Principles of Government Accounting

- Charges or expenditure on a new project like constructions, new equipment, plant & machinery installation, maintenance, improvement, and service should be allocated to the capital account as per the rule made by competent authority.
- Working charges of the project should be allocated to the revenue account.
- In case of renewal and replacement and cost of the genuine replacement should be charged to capital account.
- In case of damage due to extraordinary calamities, charged should be debited from the capital account or revenue account or from both. However, it will be determined by the government according to the case and circumstances.
- Capital receipts during the new project should be credited to the capital account to reduce the capital expenditure of the project.

CAG

Comptroller and Audit General (CAG) is an independent Constitutional body. Special status has been given to safeguard his independence and enable him to discharge his duty without fear or favor.

As per the Article 148 of the Constitution of India, the comptroller and Auditor-General will be appointed by the President of India. The provision of removal of CAG is the same as of the judges of the Supreme Court. He can be removed only on the basis of proven misbehavior or incapacity.

As per the Article 150 of the Constitution of India — the accounts of the Union and of the States shall be kept in such form as the President may prescribed, on the advice of the Comptroller & Auditor General.

Article 151 of the Constitution provides that the audit reports of the Comptroller & Auditor General relating to the accounts of the Union shall be submitted to the President, who shall cause them to be laid before each House of Parliament.

Objectives

The unique objectives of government accounting do not preclude the use of the double entry accounting system. There can, however, be other significant differences with private sector accounting practices, especially those that are intended to arrive at a net income result. The objectives for which government entities apply accountancy that can be organized in two main categories: - The accounting of activities for accountability purposes. In other words, the representatives of the public, and officials appointed by them, must be accountable to the public for powers and tasks delegated. The public, who have no other choice but to delegate, are in a position that differs significantly from that of shareholders and therefore need financial information, to be supplied by accounting systems, that is applicable and relevant to them and their purposes. - Decision-making purposes. The relevant role-players, especially officials and representatives, need financial information that is accounted, organized and presented for the objectives of their decision-making. These objectives bear, in many instances, no relation to net income results but are rather about service delivery and efficiency. The taxpayer, a very significant group, simply wants to pay as little as possible taxes for the essential services for which money is being coerced by law.