**Exercise No. 1, 2 & 3: Date: / /**

**Title: Study of Preparation of Trial Balance Sheet**

**Terms and Concepts:**

**Account:** A summary of business transactions is an account. It is an account. It is vertically divided into two parts in “T” shape. The benefits received by that account are recorded on the left hand side and the benefits given are recorded on the right hand side.

**Accounting:** Accounting is the art of recording, classifying and summarizing the business transaction. Recording refers to writing in journal. Classifying means, writing in ledger and summarizing relates to preparations of trading accounts, profit and loss accounts and balance sheet.

**Accountancy:** Accountancy is art of keeping books of accounts in a regular and systematic manner.

**Single Entry System:** Under this system, the trader does not get all the information which he generally likes to have. At best he can get the information about debtors, creditors and cash but not about other matters. This system is incomplete and inaccurate.

**Double Entry System:** Recording a transaction from two different angels is known as double entry system. To understand the double entry system of book keeping all that we need to do is, to remember the fundamental rule.

Debit the account which receives the benefits, and credit the account, which gives benefit.

**Advantages of Double Entry System:**

1) Both personal and impersonal accounts are opened in order to keep a complete record of business transactions.

2) It provides a check on arithmetical accuracy with the help of trial balance.

3) It reduces the chances of committing errors.

4) It helps the trader to know his debtors (customer) and creditors (suppliers) from time to time.

5) Financial position of the business unit can be known through the preparation of balance sheet,

6) This system is useful to the tax and legal authorities.

**Rules Regarding Different types of Accounts:**

There are three types of accounts:

1] Personal Accounts

2] Real Account

3] Nominal Account.

**1] Personal Account:**

It includes accounts of (a) Natural Persons (b) Artificial persons (C) Representative Persons.

**(a) Natural Account**

Examples: Ramesh A/C, Suresh A/C, etc

**(b) Artificial Persons**

Examples: Andhra Bank A/C , Agricultural College A/C, University A/C, Firm’s A/C ,etc

**(c) Representative Persons**

Examples : Outstanding salaries A/C , Prepaid rent A/C, Prepaid Commission A/C, Interest A/C, Purchase A/C, Rent due but not received A/C, etc

**The rule here is “DEBIT THE RECEIVER AND CREDIT THE GIVER”**

**2] Real Account:**

Accounts relating to assets are known as real accounts. Examples Machinery A/C, Furniture A/C, Purchase A/C, Sale A/C, Goodwill A/C, etc

**The rule here is “DEBIT WHAT COMES IN AND CREDIT WHAT GOES OUT”**

**3] Nominal Account:**

Nominal accounts relate to such item which exists in name only. Examples: Expenses, losses, income, gains, etc

**The rule is “DEBIT ALL EXPENSES AND LOSSES AND CREDIT ALL INCOMES AND GAINS.”**

**Journal:**

All business transactions are first recorded in book called journal. It means daily record. The journal is called as a ‘Book of Original Entry

**The Performa of ‘JOURNAL’ is as follows:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **LF** | **Debits (Rs.)** | **Credit (Rs)** |
|  | Total |  |  |  |
|  |  |

**Important Features of Journals:**

1. The book in which transaction is recorded for the first time is called Journal or Book of Original Entry.
2. The source of document is required to record the transaction in the journal.
3. In this book the transactions are recorded in the chronological order in which they take place.
4. The process of recording transactions in the journal is called journaling.
5. The journal provides date wise complete record of transactions along with the documentary evidence to prove the occurrence of the transactions.

**Subsidiary Books or Books of Original Entry:**

The number of financial transactions of a modern business is sufficiently large in number and some of them are very much repetitive in nature, the specific need arises to classify these accounts of competitive business. Hence the main journal is subdivided into different types of subsidiary books to achieve the basic purpose as clearly specified in following figure:

**Types of Subsidiary Books**

**Cash** **Journals**

**Goods Journals**

**Bills Journal**

**Special Journals**

**Cash Book**

Transaction

1. Purchases Journal
2. Purchases Return Journal
3. Sales Journal
4. Sales Return Journal
5. Bills Receivable
6. Bills Payable

Journal Proper

Exceptional

Transaction

**Ledger:**

A group of account is known as Ledger. Ledger is the chief book of accounts. A ledger is a book which contains various accounts to which the entries made in the journal is transferred. The ledger is called the ‘Book of Final Entry.’

**The Performa of Ledger is as follows:**

**Dr. Name of account: Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount (Rs.)** | **Date** | **Particulars** | **J.F** | **Amounts (Rs.)** |
|  | **To name of Debit A/c** |  |  |  | **To name of Credit A/c** |  |  |

**Balancing of Ledger Account**

In order to prepare the financial statements, balancing of various accounts in the ledger is essential. The following procedures to be adopted while balancing of various accounts in the ledger.

1. Debit and Credit sides of accounts are totaled separately.
2. Find the difference between the total of both sides.
3. The difference is entered on the side on which the total is smaller and this difference is the closing balance shown by the account and this will be carried forward to the next year as the ‘opening balance’ in the account.
4. If the debit side of an amount is more, it is called as Debit balance and it is entered on the credit side to close the account and written as By balance c/d.
5. If the credit side of an amount is more it is called as credit balance and it is entered on the debit side to close the account and written as To balance c/d .
6. Bring down the balance for the next period or month on the opposite side of that account with the words ‘To Balance b/d’ (brought down) or ‘By Balance b/d’ as the case may be.

**Trial Balance**

After completion of ledger posting to respective accounts they are balanced and their ledger balances are found out. To test the arithmetical accuracy of the books of accounts and to verify whether double entry principles are strictly followed, a statement is prepared known as Trial Balance .It shows the list of accounts showing debits balance and credit balance separately, the total of which must agree at the end.

**The Performa of Trial Balance is as follows:**

**Trial balance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sr.No.** | **Particulars** | **LF** | **Debit (Rs.)** | **Credit (Rs.)** |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  | **Total** |  |  |  |

**Illustration 1.**

From the following transaction find out the nature of account and also state which account should be debited and which account should be credited.

1. Salary Account
2. Interest Receive
3. Machinery Purchased For Cash
4. Building Sold
5. Outstanding salary
6. Receive cash from Ramesh
7. Proprietors introduced capital
8. Dividend received
9. Commission paid
10. Furniture purchased for cash

**SOLUTION: Analysis of Transaction**

|  |  |  |  |
| --- | --- | --- | --- |
| **Transaction** | **Account Involved** | **Types of Accounts** | **Rules of Debits and Credit** |
| 1. Salary account | Salary A/c  Cash A/c | Nominal  Real | Debit all expenses and losses  Credit what goes out |
| 1. Interest Received | Cash A/c  Interest A/c | Real  Nominal | Debit what come in  Credit all income and gain |
| 1. Machinery purchased | Machinery A/c Cash A/c | Real  Real | Debit what comes in  Credit what goes to |
| 1. Building sold | Cash A/c  Building A/c | Real  Real | Debit what comes in  Credit what goes out |
| 1. Outstanding salary | Salary A/c  O/s salary A/c | Nominal  Personal | Debit all expenses and losses  Credit the giver |
| 1. Received cash   Cash from Ramesh | Cash A/c  Ramesh A/c | Real  Personal | Debit what comes in  Credit the giver |
| 1. Capital introduced | Cash A/c  Capital A/c | Real  Personal | Debit what comes in  Credit the giver |
| 1. Dividend received | Cash A/c  Dividend A /c | Real  Nominal | Debit what comes in  Credit all income and gains |
| 1. Commission paid | Commission A/c  Cash A/c | Nominal  Real | Debit all expenses and losses  Credit what goes out |
| 1. Furniture purchased | Furniture A/c  Cash A/c | Real  Real | Debit what comes in  Credit what goes out |

**Illustration2.**

**Classify the following under Personal, Real and Nominal Accounts:**

1. Stock 2) Loan 3) Insurance 4) Salary 5) Interest 6) Bank 7) Cash

8) Capital 9) Prepaid interest 10) Salary Outstanding 11) Drawing

12) Bank Overdraft 13) Salary 14) Fixtures 15) Bills Receivable

16) Machinery 17) Building 18) Goodwill

**Solution:**

|  |  |  |
| --- | --- | --- |
| 1. Stock | = | Real Accounts |
| 1. Loan | = | Personal Accounts |
| 1. Insurance | = | Nominal Accounts |
| 1. Salary | = | Nominal Accounts |
| 1. Interest | = | Nominal Accounts |
| 1. Bank | = | Personal Accounts |
| 1. Cash | = | Real Accounts |
| 1. Capital | = | Personal Accounts |
| 1. Prepaid Interest | = | Personal Accounts |
| 1. Salary outstanding | = | Personal Accounts |
| 1. Drawing | = | Personal Accounts |
| 1. Bank overdraft | = | Personal Accounts |
| 1. Salary Prepaid | = | Personal Accounts |
| 1. Fixtures | = | Real Accounts |
| 1. Bills Receivable | = | Real Accounts |
| 1. Machinery | = | Real Accounts |
| 1. Building | = | Real Accounts |
| 1. Good will | = | Real Accounts |

**Problem 1: Journalise following transactions in the books of Geeta for January, 2012.**

1 Geeta started business with cash Rs. 50,000.

7 Deposited Rs.25, 000 into the Bank.

9 Purchased goods from Snehal. 5,000.

11 Sold goods to Maya Rs. 3,000.

15 Purchased Furniture for Rs. 3,000.

19 Sold goods for Cash Rs. 2,000.

20 Paid Carriage Rs. 50.

25 Received Commission Rs. 20.

28 Paid Insurance premium Rs. 200.

31 Received Rs. 2,000 from Maya on account.

**Solution Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date**  **2012** | **Particulars** | **LF** | **Debit**  **(Rs.)** | **Credit**  **(Rs.)** |
| 1 Jan | Cash A/c Dr. | - | 50,000 |  |
| To G’s Capital A/c | - |  | 50,000 |
| ( Being started business with cash ) |  |  |  |
| 7 Jan | Bank A/c Dr. | - | 25,000 |  |
| To Cash A/c | - |  | 25,000 |
| ( Being amount deposited into the Bank ) |  |  |  |
| 9 Jan | Goods A/c Dr. | - | 5,000 |  |
| To Snehal A/c | - |  | 5,000 |
| ( Being goods purchased from Snehal on credit ) |  |  |  |
| 11 Jan | Maya A/c Dr. | - | 3,000 |  |
| To Goods A/c | - |  | 3,000 |
| ( Being goods sold to Mays on credit ) |  |  |  |
| 15 Jan | Furniture A/c Dr. | - | 3,000 |  |
| To Cash A/c | - |  | 3,000 |
| ( Being Furniture purchased for cash) |  |  |  |
| 19 Jan | Cash A/c Dr. | - | 2,000 |  |
| To Goods A/c | - |  | 2,000 |
| ( Being goods sold for cash ) |  |  |  |
| 20 Jan | Carriage A/c Dr. | - | 50 |  |
| To Cash A/c | - |  | 50 |
| ( Being Carriage paid ) |  |  |  |
| 25 Jan | Cash A/c Dr. | - | 25 |  |
| To Commission A/c | - |  | 25 |
| ( Being commission received ) |  |  |  |
| 28 Jan | Insurance A/c Dr. | - | 200 |  |
| To Cash A/c | - |  | 200 |
| ( Being insurance paid ) |  |  |  |
| 31 Jan | Bank A/c Dr. | - | 2,000 |  |
| To Maya A/c | - |  | 2,000 |
| ( Being cash received on a account from Maya ) |  |  |  |
|  | **Total** |  | **90,275** | **90,275** |

**Problem 2: Prepare the trial balance sheet of the following transaction.**

Dec 1, 1998 X started a business with a capital of Rs. 10,000.

Dec 2, 1998 Purchased goods from Mahesh for cash Rs. 3,000.

Dec 3, 1998 Sold goods to Mahesh for cash Rs. 3,000.

Dec 4, 1998 Purchased machinery from Gopal for cash Rs. 6,000.

Dec 5, 1998 Sold electric motor to Ravi Rs. 4,000.

Dec 6, 1998 Cash received from Naresh Rs. 2,000.

Dec 7, 1998 Cash paid to ‘Z’ Rs. 4,000.

Dec 8, 1998 Paid salary to Ravi Rs. 1,000.

Dec 9, 1998 Rent received from ‘Y’ Rs. 3,000.

Dec 10, 1998 Cash sales (sold goods for cash) Rs. 9,000.

Dec 11, 1998, Cash purchases Rs. 3,000.

**Solution: Steps to make journal entries:**

1. Here ‘X’ is the owner and he has given Rs. 10,000 to the business, so he is giver. According to personal account principle, debit the receiver and credit the giver. So ‘X’ capital account should be credited. Cash is real account; the real account principle is debit what comes in, and credit what goes out, so cash account of Rs. 10,000 should be debited.
2. Purchases are real account, purchases are coming in, so purchases account should be debited, Mahesh is giver, hence Mahesh’s account should credit.
3. Sales are real account, sales are going out, and so sales account should be credited. Cash is real account, which is coming in so cash account should be debited.
4. Machinery is a real account, which is coming in, so machinery account should be debited. Cash is a real account, it is going out and so it should be credited.
5. Electric motor is a real account, which is going out, so electric motor account should be credited, Ravi is personal account, He is receiver and so Ravi account should be debited.
6. Cash is a real account, Cash is coming in and so cash account should be debited. Naresh is personal account, he is giver; hence Naresh’s account should be credited.
7. “Z” is a personal account; “Z” is receiver, so “Z” account should be debited. Cash is real account, it is going out and so cash account should be credited
8. Salary account is a nominal account and is an expense. The principle of nominal account is debit all expenses and losses and credit all income and gains. Salary therefore should be debited. Cash is going out, so cash account should be credited.
9. Rent is a nominal account it is an income, and so rent account should be credited. Cash is coming in; hence cash account should be debited.
10. Cash is coming in cash account should be debited. Sales are going out; hence sales account should be credited.
11. Cash is going out, Cash account should be credited. Purchases are coming in hence purchases account should be debited.

**Table 1: Journal:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date**  **1998** | **Particulars** | **LF** | **Debit**  **(Rs.)** | **Credit**  **(Rs.)** |
| 1 Dec |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
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**Ledger**

**Dr. Cash A/C Cr**.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 1 Dec | To Capital A/c |  | 10,000 | 4 Dec | By Machinery A/c |  | 6,000 |
| 3 Dec | To Sales A/c |  | 3,000 | 7 Dec | By Z’s A/c |  | 4,000 |
| 6 Dec | To Naresh A/c |  | 2,000 | 8 Dec | By Salary A/c |  | 1,000 |
| 9 Dec | To Rent A/c |  | 3,000 | 11Dec | By purchase A/c |  | 3,000 |
| 10Dec | To Sales A/c |  | 9,000 |  | By bal c/d |  | 13,000 |
|  |  |  | 27,000 |  |  |  | 27,000 |
| 1 jan | To Bal b/d |  | 13,000 |  |  |  |  |

**Dr. Capital A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 31 Dec | To bal C/d |  | 10,000 | 1 Dec | By Cash A/c |  | 10,000 |
|  |  |  |  |  |  |  |  |
|  |  |  |  | 1 jan | By Bal b/d |  | 10,000 |

**Dr. Ravi A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 5 Dec | To Electric motor A/c |  | 4000 | 31 Dec | By bal c/d |  | 4000 |
|  |  |  | 4000 |  |  |  | 4000 |
| 1 Jan | To bal b/d |  | 4000 |  |  |  |  |

**Dr. Electric Motor A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 31Dec | To bal c/d |  | 4000 | 5Dec | By Ravi A/c |  | 4000 |
|  |  |  | 4000 |  |  |  | 4000 |
|  |  |  |  | 1 Jan | By bal b/d |  | 4000 |

**Dr. Purchase A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 2Dec | To Mahesh A/c |  | 3000 | 31 Dec | By bal c/d |  | 6000 |
| 11 Dec | To Cash A/c |  | 3000 |  |  |  |  |
|  |  |  | 6000 |  |  |  | 6000 |

**Dr. Mahesh A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 31 Dec | To bal c/d |  | 3000 | 2 Dec | By Purchase A/c |  | 3000 |
|  |  |  | 3000 |  |  |  | 3000 |
|  |  |  |  | 1 Jan | By bal b/d |  | 3000 |

**Dr. Sales A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 31 Dec | To bal c/d |  | 12000 | 3 Dec | By Cash A/c |  | 3000 |
|  |  |  |  | 10 Dec | By Cash A/c |  | 9000 |
|  |  |  | 12000 |  |  |  | 12000 |
|  |  |  |  | 1 Jan | By bal b/d |  | 12000 |

**Dr. Machinery A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 4 Dec | To Cash A/c |  | 6000 | 31 Dec | By bal c/d |  | 6000 |
|  |  |  | 6000 |  |  |  | 6000 |
| 1 Jan | By bal b/d |  | 6000 |  |  |  |  |

**Dr. Naresh A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 31 Dec | To bal c/d |  | 2000 | 6 Dec | By Cash A/c |  | 2000 |
|  |  |  | 2000 |  |  |  | 2000 |
|  |  |  |  | 1 Jan | By bal b/d |  | 2000 |

**Dr. Z’s A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 7 Dec | To Cash A/c |  | 4000 | 31Dec | By bal c/d |  | 4000 |
|  |  |  | 4000 |  |  |  | 4000 |
| 1 Jan | To bal b/d |  | 4000 |  |  |  |  |

**Dr. Salaries A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 8 Dec | To Cash A/c |  | 1000 | 31 Dec | By bal c/d |  | 1000 |
|  |  |  | 1000 |  |  |  | 1000 |
| 1 Jan | To bal b/d |  | 1000 |  |  |  |  |

**Dr. Rent A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 31 Dec | To bal c/d |  | 3000 | 9 Dec | By Cash A/c |  | 3000 |
|  |  |  | 3000 |  |  |  | 3000 |
|  |  |  |  | 1 Jan | By bal b/d |  | 3000 |

**[[[**

**Trial Balance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sr. No** | **Particulars** | **L.F** | **Debit (Rs.)** | **Credit (Rs.)** |
|  |  |  |  |  |
|  |  |  |  |  |
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**Problem 2: Prepare the Trial Balance sheet of the following transaction.**

|  |  |
| --- | --- |
| **2015 March** | **Rs.in lakhs** |
| 1 Purchase machinery for cash | 5,000 |
| 2 Sold goods to Ramesh for cash | 2,000 |
| 3 Sold goods to kannan | 1,000 |
| 4 Cash received from Murugan | 700 |
| 5 Cash withdrawn from bank | 500 |
| 6 Paid salaries | 800 |
| 7 Purchased goods worth of Rs.1,000 less 10% trade discount |  |
| 8 The errection charges of machinery amounted to Rs.500 which were paid in cash |  |
| 9 Cash paid to Ramasamy | 400 |
| 10 Paid Interest | 400 |
| 11 Returned goods to Premkumar | 300 |
| 12 Returned goods to Periasamy | 200 |
| 13 Received dividend on shares | 500 |
| 14 Paid rent | 400 |
| 15 Old furniture sold | 200 |

**Table 1: Journal**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date**  **2015 March** | **Particulars** | **LF** | **Debit**  **(Rs.)** | **Credit**  **(Rs.)** |
| 1 | Machinery A/c Dr.  To Cash A/c  (Being Machinery purchased) |  | 5,000  - | -  5000 |
| 2 | Cash A/c Dr.  To Sales A/c  (being goods sold for cash) |  | 2000 | 2000 |
| 3 | Kannan A/C Dr.  To Sales A/C  (being goods sold for cash) |  | 1000 | 1000 |
| 4 | Cash A/C Dr.  To Murugan A/C  (Being cash received from Murugan) |  | 700 | 700 |
| 5 | Cash A/C Dr.  To bank A/C  (Being cash withdrawn) |  | 500 | 500 |
| 6 | Salary A/C Dr.  To cash A/C  (Being cash paid for salaries) |  | 800 | 800 |
| 7 | Purchase A/C Dr.  To cash A/C  (being goods purchase Rs.1000 and trade discount of Rs.100) |  | 900 | 900 |
| 8 | Machinery A/C Dr.  To Cash A/C |  |  |  |
| 9 |  |  |  |  |
| 10 |  |  |  |  |
| 11 |  |  |  |  |
| 12 |  |  |  |  |
| 13 |  |  |  |  |
| 14 |  |  |  |  |
| 15 |  |  |  |  |
|  | **Total** |  |  |  |

**Ledger**

**Dr. Cash A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 2 M | To Sales A/c |  | 2000 | 1 M | By Machinery A/c |  | 5000 |
| 4M | To Murugan A/c |  | 700 | 6M | By Salary A/c |  | 800 |
| 5M | To Bank A/c |  | 500 | 7M | By Purchase A/c |  | 900 |
| 13M | To Dividend A/c |  | 500 | 8 M | By Machinery A/c |  | 500 |
| 15M | To Furniture A/c |  | 200 | 9 M | By Ramasamy A/c |  | 400 |
| 31 M | To Bal C/d |  | 4500 | 10M | By Interest A/c |  | 400 |
|  |  |  |  | 14M | By Rent A/c |  | 400 |
|  |  |  | 8400 |  |  |  | 8400 |
|  |  |  |  | 1 A | By Bal B/d |  | 4500 |

**Dr. Sales A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 31 M | To Bal C/d |  | 3000 | 2M | By cash A/c |  | 2000 |
|  |  |  |  |  | By Kannan A/c |  | 1000 |
|  |  |  | 3000 |  |  |  | 3000 |
|  |  |  |  | 1A | By Bal b/d |  | 3000 |

**Dr. Machinery A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 1 M | To Cash A/c |  | 5000 | 31M | By Bal C/d |  | 5500 |
| 8M | To Cash A/c |  | 500 |  |  |  |  |
|  |  |  | 5500 |  |  |  | 5500 |
| 1A | To Bal b/d |  | 5500 |  |  |  |  |

**Dr. Kannna A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 31M | To Sales A/C |  | 1,000 | 31M | By Bal c/d |  | 1,000 |
|  |  |  | 1,000 |  |  |  | 1,000 |
| 1A | To Bal b/d |  | 1,000 |  |  |  |  |

**Dr. Murugan A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 31M | To Bal c/d |  | 700 | 4 M | By Cash A/c |  | 700 |
|  |  |  | 700 |  |  |  | 700 |
|  |  |  |  | 1A | By Bal b/d |  | 700 |

**Dr. Bank A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
| 31 M | To Bal c/d |  | 500 | 5 M | By Cash A/c |  | 500 |
|  |  |  | 500 |  |  |  | 500 |
|  |  |  |  | 1 A | By Bal b/d |  | 500 |

**Dr. Salaries A/C Cr.**

|  |  |  |  |  |  |  |  |
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| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
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**Dr. Purchases A/C Cr.**

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| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
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**Dr. Ramasamy A/C Cr.**

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| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
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**Dr. Interest A/C Cr.**

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| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
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**Dr. Premkumar A/C Cr.**

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| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
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**Dr. Purchase Return A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
|  |  |  |  |  |  |  |  |
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**Dr. Sales Return A/C Cr.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
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**Dr. Periasamy A/C Cr.**

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| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
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**Dr. Dividend Shares A/C Cr.**

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| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
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**Dr. Rent A/C Cr.**

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| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
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**Dr. Furniture A/C Cr.**

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| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **J.F** | **Amount** | **Date** | **Particulars** | **J.F** | **Amount** |
|  |  |  |  |  |  |  |  |
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**Trial Balance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sr.No** | **Particulars** | **L.F** | **Debit**  **(₹.)** | **Credit**  **(₹.)** |
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**Exercise No. 4, 5, 6: Date: / /**

**Title: Study of financial Statement Analysis**

Financial Statements are those statements which contains financial information of any organization.

There are two basic financial statements

* The Balance sheet
* The Income Statement (Trading and Profit and Loss Account)

The basic purpose of preparing financial statements is to convey to owner’s creditors and the general public about financial position of the enterprise.

**Analysis and implementation of Financial Statements**

Financial analysis is the process of determining financial strengths and weakness of the company by establishing strategic relationship between the components of balance sheet and profit and loss statement and other operative data. The focus of financial analysis is on key figures contained in the financial statements and significant relationship that exists between them.

**Definition of Financial Statement Analysis**

“It is a process of evaluating the relationship between components parts of a financial statement to obtain a better understanding of a firm’s position and performance.”

**Steps in process of Financial Analysis**

1] Reorganization of the entire financial data.

2] Establishment of significant relationships between the individual components of Balance Sheet and Profit and Loss statement.

3] Evaluation of results obtained by financial analysis.

**Methods / Techniques/ Device used for financial analysis:**

* Comparative Financial Statement.
* Trends percentage.
* Common Size Statement.
* Ratio Analysis.
* Statement of change in working capital.

**1] Comparative Financial Statement**

In this methods of analysis trend in respect of certain financial items is studied by computing the year to year change in absolute data in money or in terms of percentages.

Comparative Financial statements disclose the following:

* Absolute data.
* Increase/decrease in absolute data in money value.
* Increase/decrease in absolute data in terms of percentage.
* Comparisons expressed in ratios.
* Percentage of totals.

Comparative financial statements are very useful to financial analyst since they contain figures drawn from single statement and also provide comparative data over a period of time.

**2] Trend Percentages**

The financial statements for a series of years may be analyzed to determine the trend of the data contained therein. The trends trend percentages are also referred to as “Trend Ratio”. This method of analysis is adopted to determine the direction, upward or downward. For calculating the trend from the financial statements following statements following procedure should be followed:

* Any of the Statement is taken as the base.
* Every item in the base statement is statement and the result is expressed as a percentage.
* Trend ratios are computed by dividing each amount in the statement with the corresponding item in the base statement and the result is expressed as a percentage.

A downward trend will be clearly indicated by the trend percentage being less than 100 and an upward trend by the trend percentage being more than 100. These trend percentages may be calculated for significant items, which are normally clubbed together.

**3] Common size statement**

Common size statement is financial tool of studying key changes and trends in financial position of a company. In common size statement each items is stated as a percentage of the total of which that item is a part. Each percentage has the relation of the individual items to its respective total. Therefore, the common size statement methods represent method represents a ratio analysis.

**4] Ratio Analysis**

Ratios are among the best known and most widely used tools of financial analysis ratio is defined formally as “the indicated quotient of two mathematical expressions”. An absolute figure does not convey anything unless it is related with the other relevant figure. Financial ratios become meaningful to judge financial condition and profitability performance of the corporation only when there is comparison.

**5] Statement of change in working Capital**

The statement of change in working capital is designed to measure the flow of fund through working capital. For that matter one has to ascertain changes in current liabilities during the two balance sheet dates and record variations in net working capital over the period in the schedule of working capital. An increase in current assets would result in a rise in net working capital but decrease in it causes reduction in level of net working capital. Net working capital decline with increase in current liabilities and rise with decrease in it.

These tools and techniques can be used accounting to the situation of the enterprise.

**Problem 1.**  **From the following balance sheet of ABC ltd., for the year ending 31stdec. 2002 and 2003, you are required to prepare a comparative balance sheet**:

|  |  |  |
| --- | --- | --- |
| **Particulars** | **2002(Rs.)** | **2003(Rs.)** |
| **Assets** |  |  |
| Cash in hand | 5,000 | 5,500 |
| Cash at bank | 3,500 | 5,000 |
| Sundry debtors | 45,000 | 40,000 |
| Stock | 35,000 | 40,000 |
| Bill receivable | 11,000 | 11,500 |
| Prepaid expenses | 2,500 | 3,000 |
| Fixed assets | 1,50,000 | 1,65,000 |
| **Liabilities & Capital** | 2,50,000 | 2,70,000 |
|  |  |
| Share capital | 1,35,000 | 1,45,000 |
| Short-term loan | 32,000 | 35,000 |
| Long-term debt | 45,000 | 42,000 |
| Bill payable | 7,000 | 5,000 |
| Sundry creditors | 6,000 | 8,000 |
| Bank Overdraft | 27,000 | 35,000 |
|  | 2,52,000 | 2,70,000 |

**Solution: Comparative Balance Sheet**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **2002 (Rs.)** | **2003**  **(Rs)** | **Increase or Decrease in 2003** | |
| **Absolute** | **Percentage (%)** |
| **Assets :**  **Liquid Assets :**  Cash in Hand  Cash at Bank  Sundry Debtors  Bill Receivable  **Total Liquid Assets :**  Add: Stock  Prepaid Expenses  **Total Current Assets**  Fixed Assets  **Total Assets**  **Current Liabilities**  Share Capital  Short- Term Loan  Bill Payable  Sundry Creditors  Bank Overdraft  **Total Current Liabilities**  **Long-Term Liabilities** :  Long Term Debt  **Total Liabilities**  Share Capital  **Total Liabilities & Capital** |  |  |  |  |
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**Interpretation:**

**Problem 2 : From the following Profit and Loss Account of AVS Ltd., for the years 2002 and 2003, you are required to prepare a Comparative Income Statement.**

**Statement of Profit and Loss Account**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **2002(Rs.)** | **2003 (Rs.)** |
| Net Sales  Less: Cost of goods sold  Gross Profit  Less: Operating Expenses  Office and Administrative Expenses  Selling and Distribution Expenses  Total Operating Expenses  Net Profit | 4000 | 5000 |
| 3000 | 3750 |
| 1000 | 1250 |
|  |  |
| 200 | 250 |
| 225 | 300 |
| 425 | 550 |
| 575 | 700 |

**Solution: AVS Ltd.**

**Comparative Statements of Profit and Loss Account**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **2002**  **(₹.)** | **2003**  **(₹.)** | **Increase or Decrease in 2003** | |
| **Absolute** | **Percentage(%)** |
| Net sales  Less: Cost of goods sold    Gross Profit  Less: Operating Expenses  Office and Administrative Expenses  Selling and Distribution Expenses  Total Operating Expenses  Net Profit |  |  |  |  |
|  |  |  |  |
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**Interpretation:**

**Problem 3.**

**The following are the balance sheets of the national integration ltd. As on 31st March Sheets prepare a statement of “ Trend Percentages” taking the 1999 as Base year and giving your due comments there on.**

**Balance sheet**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Liabilities** | **1999(Rs)** | **2000(Rs.)** | **2001(Rs.)** | **2002(Rs.)** |
| **Proprietor’s Funds:** |  |  |  |  |
| Share Capital | 60 | 60 | 60 | 60 |
| Reserves and Surplus | 10 | 30 | 30 | 40 |
| **External Funds:** |  |  |  |  |
| Debentures | 10 | 20 | 20 | 30 |
| Other Secured Loans | 12 | 8 | 10 | 20 |
| **Current Liabilities** |  |  |  |  |
| Creditors | 6 | 8 | 10 | 3 |
| Bank Overdraft | 1 | 2 | 8 | 4 |
| Other Liabilities | 1 | 2 | 2 | 3 |
|  | **100** | **130** | **140** | **160** |
| **Assets** | **1999(₹.)** | **2000(₹.)** | **2001(₹.)** | **2002(₹.)** |
| **Fixed Assets:** |  |  |  |  |
| Building | 50 | 60 | 55 | 80 |
| Machinery | 20 | 40 | 43 | 50 |
| **Current Assets:** |  |  |  |  |
| Stock | 5 | 15 | 25 | 5 |
| Debtors  Cash | 20  5 | 14  1 | 15  2 | 10  15 |
|  | **100** | **130** | **140** | **160** |

From the above balance sheet prepare a statement of “trend percentages” taking the 1999 as base year and giving your due comments thereon.

**Solution: “Statement of Trend Percentage”**

**(Base year 1999)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **1999 (Rs)**  **(Base year)** | **2000**  **(Rs.)** | **2001**  **(Rs.)** | **2002**  **(Rs.)** |
| **A) Fixed Asset**  Building  Machinery  **B) Current Asset**  Stock  Debtors  Cash |  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| **Total Assets (A + B)** |  |  |  |  |
| **C) Fund**  Share capital  Reserves and surplus    **D) External Funds**  Debentures    Other secured loan    E) Current Liabilities  Creditors  Bank Overdraft  Other Liabilities  E |  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| Total liabilities (C+D+E) |  |  |  |  |

**Interpretation:**

**Problem 4.** **The accompanying profit and loss account relate to Hypothetical ltd. Convert these in to common-size statement.**

**Income Statement for the year Ended 31st march**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Previous year**  **(₹. In lakh)** | **Current year**  **(₹. In lakh)** |
| Gross sales  **Less:** returns  Net sales  **Less:** cost of goods sold  Gross Profit  **Less:** selling, general and administrative cost  Operating profit  **Less:** interest expenses  Earning before taxes  **Less:** taxes  Earning after taxes | 370  20 | 480  30 |
| 350  190 | 450  215 |
| 160 | 235 |
| 50 | 72 |
| 110  20 | 163  17 |
| 90  31.5 | 146  51.5 |
| 58.5 | 94.9 |

**Solution: Income statement(Common-size) for the year ended 31st March (%)**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Previous years** | **Current year** |
| Net sales  Cost of goods sold  Gross profit  Selling ,general and administrative expenses  Operating profit  Interest  Earnings before taxes  Taxes  Earnings after taxes(EAT) |  |  |
|  |  |
|  |  |
|  |  |
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**Interpretation:**

**Problem 5: The accompanying balance sheet relates to Hypothetical ltd. Convert these into common-size statement.**

**Balance sheet as at 31st March**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Previous year**  **(₹. In lakh)** | **Current year**  **(₹. In lakh)** |
| **Liabilities:** |  |  |
| Equity share capital (of rs.10 each) | 240 | 240.0 |
| General reserves | 96 | 182.0 |
| Long-term loan | 182 | 169.5 |
| Creditors | 67 | 52.0 |
| Outstanding expenses | 6 | …. |
| Other current liabilities | 9 | 6.5 |
| **Assets:** | **600** | **650.0** |
|  |  |
| Plant asset net of accumulated depreciation | 402 | 390 |
| Cash | 54 | 78 |
| Debtors  Inventories | 60 | 65 |
| 84 | 117 |
| **600** | **650** |

**Solution: Balance sheet (common-size) for the year ended 31st March (%)**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Previous year** | **Current year** |
| **Owners equity:**  Equity share capital  General reserves |  |  |
|  |  |
| **Long term borrowings**:  Loan  **Current liabilities**  Creditors  Outstanding expenses  Other liabilities  **Total liabilities**  **Fixed assets:**  Plant asset net of accumulated depreciation  **Current assets:**  Cash  Debtors  Inventories  **Total assets** |  |  |
|  |  |
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**Interpretation:**

**Problem 6: Calculate current ratio from the following information**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Rs.** | **Assets** | **Rs..** |
| Sundry Creditors | 40,000 | Inventories | 1,20,000 |
| Bills Payable | 30,000 | Sundry debtors | 1,40,000 |
| Dividend Payable | 36,000 | Cash at Bank | 40,000 |
| Accrued Expenses | 14,000 | Bills Receivable | 60,000 |
| Short-term Advances | 50,000 | Prepaid Expenses | 20,000 |
| Share Capital | 1,50,000 | Machinery | 2,00,000 |
| Debenture | 2,00,000 | Patents | 50,000 |
| Land & Building | 1,50,000 |

**Solution:**

Interpretation:

**Problem7. Calculate Quick Ratio from the information given below:**

|  |  |  |  |
| --- | --- | --- | --- |
| Current Assets: | 4,00,000 | Current Liabilities: | 2,00,000 |
| Inventories(stock) | 25,000 | Prepaid expenses: | 25,000 |
| Land and building | 4,00,000 | Share capital | 3,00,000 |
| Good will | 2,00,000 |  |  |

Solution:

Quick Assets = Currents Assets – (Inventories + Prepaid Expenses)

= 4,00,000 – (25,000 + 25,000)

= 3,50,000

Quick Ratio = Quick Assets

-------------------

Current liabilities

**Interpretation :**

**Problem 8. Calculate Gross Profit Ratio from the following figures :**

Sales 5,00,000

Sales Return 50,000

Closing Stock 35,000

Opening Stock 70,000

Purchases 3,50,000

**Solution :**

**Interpretation :**

**Problem 9. You have been furnished with the financial information of Aditya Mill Limited as under :**

**Balance sheet as on 31st December**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Rs** | **Assets** | **Rs** |
| Equity share capital  ( Rs. 100 each )  Retained earnings  Sundry creditors  Bill payable  Other current liabilities | 10,00,000  3,68,000  1,04,000  2,00,000  16,92,000 | Plant and equipment  Land and Building  Cash  SundryDebtors 3,60,000  Less: allowances 40,000  Stock  Prepaid Insurance | 6,40,000  80,000  1,60,000  3,20,000  4,80,000  12,000 |
| **16,92,000** | **16,92,000** |

**Statement of Profit for the year ended 31st December**

|  |  |
| --- | --- |
| Particulars | Rs. |
| Sales  **Less:** Cost of goods sold  **Gross Profit**  **Less:** Operating expenses  **Net Profit**  **Less:** Taxes @ 50 %  **Net Profit After Taxes** | 40,00,000  30,80,000 |
| **9,20,000**  6,80,000 |
| **2,40,000**  1,20,000 |
| **1,20,000** |

Sundry debtors and stock at the beginning of the year were Rs. 3,00,000 and Rs. 4,00,000 respectively .

**Determine the following ratios of Aditya Mills Ltd:**

Current Ratio, Acid-test Ratio, Stock Turnover Ratio, Debtors Turnover, Gross Profit Ratio, Net Profit Ratio, Operating Ratio, Earning per Shares (EPS), Rate of return on equity capital, Market value of the share if price earning ratio (P/E) is 10 times

**Solution :**

**Exercise No. 7 & 8 Date: / /**

**Title: Study of Working capital Management**

There are two concepts of working Capital – Gross Concepts and Net Concept.

**Gross Working Capital:** It referred to as working capital , represents investment in current assets such as Marketable Securities , Inventories and Receivables , etc . Current assets are those assets which are normally converted into cash within one year.

**Net Working Capital:** It is difference between current assets and current liabilities.

**Current Assets are**:

1. Cash and Bank Balance
2. Short term loans and Advances
3. Bill Receivables
4. Sundry Debtors
5. Inventories such as : Raw Materials

Work – in –Progress Goods

Finished Goods

1. Prepaid Expenses
2. Accrued Incomes
3. Money receivable within 12 months

**Current Liabilities are :**

1. Bill Payable
2. Sundry Creditors
3. Account Payable
4. Short – term Borrowings
5. Dividends Payable
6. Statutory Liabilities
7. Accrued or Outstanding Expenses
8. Bank Overdraft
9. Provident Fund Dues
10. Any other payment due within 12 months.

**Problem 1:**

**From the following information, prepare a statement showing the working capital requirements:**

Budgeted Sales ( Rs. 10 per units) **₹** 2,60,000 p.a.

**Analysis of one type of sales:**

Raw Materials 0.30

Direct Labour 0.40

Overheads 0.20

**Total Cost: 0.90**

(+) Profit 0.90

**Selling Price ₹. 1.00**

**It is estimated that :**

1. Raw materials are carried in stock for three weeks and finished goods for two weeks .
2. Factory processing will take three weeks .
3. Suppliers will give full five weeks credit.
4. Customers will require eight weeks credits

It may be assumed that wages and overheads accrue evenly throughout the year .

**Solution: Working Capital Requirement**

|  |  |
| --- | --- |
| **Particulars** | **Rs** |
| **A] Total Current Assets to be maintained :**  Stock of Raw Materials  Work-in-Progress  Stocks of Finished Goods  Debtors  **B] Current Liabilities to be created :**  Trade Creditors  Working Capital Required |  |

**Working Note:**

**Problem 2: From the following information, you are required to estimate the net working capital:**

|  |  |
| --- | --- |
| **Particulars** | **Cost per Unit Rs.** |
| Raw Materials  Direct Labour  Overheads ( excluding depreciation )  Total Cost | 400  150  300  850 |

**Additional Information :**

Selling Price 1,000 per unit

Output 52,000 units

Raw Materials in Stock Average 4 week

Work-in-Progress (assumed 50% Completion

stage with full material consumption ) Average 2 week

Finished goods in stock Average 4 week

Credit allowed by suppliers Average 4 week

Credit allowed to Debtors Average 8 week

Cash at Bank is expected to be : Rs. 50,000

Assume that production is sustained at an even pace during the 52 weeks of the year . All sales are on credit basis .

**Working Notes :**

**Solution : Working Capital Requirement Forecast**

|  |  |
| --- | --- |
| Particulars | **Rs** |
| **Current Assets :**   1. **Stock of Raw Materials (4 weeks)**   Raw Materials   1. **Work-in-Progress ( 2 weeks)**   Raw Materials  Labour  Overheads   1. **Stock of Finished Goods (4 weeks)**   Raw Materials  Labour  Overheads   1. **Debtors (8 weeks)**   Raw Materials  Labour  Overheads   1. **Cash Expected**   **Less : Current Liabilities :**  Creditors (4 weeks)  Raw Materials  Net Working Capital Required |  |

**Exercise No. 9 Date: / /**

**Title: Study of Cash Budget**

A statement is financial terms, prepared prior to a defined period of time , showing the strategy to be pursued during that period for the purpose of attaining a given objectives , In other words , a budget is a systematic plan for the utilization of manpower and material resources.

**The main characteristics of budgets are:-**

1. It is prepared in advance and is derived from the long term strategy of the organization.
2. It relates to future period for which objectives or goals have already been laid down.
3. It is expressed in quantitative form, physical or monetary units or both.

**Types of budgets**

Budgets are classified on the basis of time, function or flexibility.

Budgets

Time Function Flexibility

1. Long term 1] Sales 1] Fixed
2. Short term 2] Production 2] Flexible
3. Current 3] Purchase
4. Rolling 4] Personnel

5] Research

6] Capital Expenditure

7] Cash

8] Master

**Cash Budget**

Planning cash and controlling its use are important tasks. If the future cash flows are not properly anticipated, it is likely that idle cash balances may be created which may result into unnecessary losses. It may also result in cash deficits and consequent problems. The financial manager should, therefore plan the needs and uses. Budget is a useful device for this purpose.

The cash budget is a summary of the firms expected cash inflows and outflows over a particular period of time. In Other words, cash projection of budget involves a projection of future cash receipts and cash disbursements over various time intervals.

**A cash budget helps the management in:-**

1. Determining the future cash needs of the firm.
2. Planning for financing of those needs
3. Exercising control over cash and liquidity of the firm.

The overall objectives of a cash budget is to enable the firm to meet all its commitments in time and at the same time present accumulation at any time of unnecessary large cash balances with it.

**Basic flow of funds**

**Long term Debts & Debentures**

**Operation**

**Issue of share capital**

**Acquisition of fixed Assets**

**Sale proceeds of fixed assets**

**Funds**

**Repayment of long term Debts & Debentures**

**Dividends**

**Repayment of preference share capital**

While preparing the cash budget, the various items appearing in the same may be classified under the following two categories.

1. **Operating Cash flows:** There are the items of cash flow which arise as the result of regular operation of the business.
2. **Non-Operating Cash flows :** These are the items of cash flow which arise as the result of other operation of the business

The standard items which may appear on a standard cash budget may be stated as bellow:

|  |  |
| --- | --- |
| **Cash Inflow** | **Cash Outflow** |
| **Operating**  Cash sales  Collection from debtors  Interest / Dividend Received | **Operating**  Payment to creditors  Purchases of raw material  Wages / salaries  Various kinds of overheads |
| **Non – Operation**  Issue of shares/debentures  Receipts of loans/borrowings  Sale of fixed Assets | **Non – Operating**  Redemption of shares / debentures  Loan Installments  Purchase of Fixed Assets  Interest  Taxes  Dividends |

**Problem 1] A newly started Star – war Co. Wishes to prepare cash budget from January.Prepare a cash budget for the first six months from the following estimated revenues and expenses.**

Cash balance on 1st Jan was Rs. 10,000. A New machine is to be installed at Rs. 30,000 on credit to be repaid by two equal installments in March and April.

Sales Commission @ 5% on total sales is to be paid within the month following actual sales: Rs. 10,000 being the amount of second call may be received in March. Share premium amounting to Rs. 2,000 is also obtainable with second call.

Overdraft of Rs. 25,000 is to be taken, if necessary.

Period of credit allowed by suppliers 2 months

Period of credit allowed to customers 1 month

Delay in payment of overheads 1 month

Delay in payment of wages ½ month

Actual Cash Sales to be 50% of Total Sales.

**Solution: Cash Budget for 6 months ending on 30th June**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Particulars** | **Jan.**  **(Rs.)** | **Feb.**  **(Rs.)** | **March**  **(Rs.)** | **April**  **(Rs.)** | **May**  **(Rs.)** | **June**  **(Rs.)** |
| Operating Balance   1. **Receipts :**   Sales (Cash)  Cash from Debtors  Second Call  Share Premium  **Total Receipts:**  **B] Payments:**  Materials  Wages  **Overheads**  Production  Selling & Distribution  Machine  Sales Commission  **Total Payments**  **Closing Balance (A-B)**  Loan / Overdraft  **Balance** |  |  |  |  |  |  |

**Problem 2:** A company expenses to have Rs. 37,500 cash in hand on 1st April, 2009 and requires you to prepare an estimate of cash position during the three months, April to June 2009. The following information is supplied to you:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Month** | **Sales (Rs.)** | **Purchases**  **(Rs)** | **Wages**  **(Rs.)** | **Factory**  **Expenses**  **(Rs.)** | **Office**  **Expenses**  **(Rs.)** | **Selling**  **Expenses**  **(Rs.)** |
| February  March  April  May  June | 75,000  84,000  90,000  1,20,000  1,35,000 | 45,000  48,000  52,500  60,000  60,000 | 9,000  9,750  10,500  13,500  14,250 | 7,500  8,250  9,000  11,250  14,000 | 6,000  6,000  6,000  6,000  7,000 | 4,500  4,500  5,250  6,570  7,000 |

**Other Information’s:**

1. Period of credit allowed by suppliers – 2 months
2. 20 % of sales is for cash and period of credit allowed to customers for credit sales is 1 month.
3. Delay in payment of all expenses – 1 month
4. Income tax of Rs. 57500 due to be paid on June 15th, 2009.
5. The company is to pay dividends to shareholders and bonus to workers of Rs.15000 and Rs.22500 respectively in the month of April.
6. Plant has been ordered and paid In May. It will cost Rs.120000.

**Solution:**

**Cash Budget**

**For the quarter ending 30th June, 2009**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **April**  **2009 (Rs.)** | **May**  **2009 (Rs.)** | **June**  **2009 (Rs)** |
| Opening Balance  **A] Receipts :**  Cash sales (20 % of current month’s sales)  Collection from debtors (80% of previous month’s sales)  Total :  **B] Payments :**  Creditors (2 month’s previous purchases )  Wages (previous month’s wages)  Factory Expenses (previous month’s expenses )  Office Expenses (previous month’s expenses)  Selling Expenses ( previous month’s expenses)  Dividend to shareholders  Bonus to workers  Purchase of Plant  Income Tax  **Total:**  **Closing Balance (A-B)** |  |  |  |

**Exercise No. 10& 11 Date: / /**

**Title- Study of Cost Accounting**

**Cost Accounting:-** It is process of classifying and recording of the expenditure in a systematic manner, with the intention of ascertaining the cost center with the intention of controlling the cost.

**Objective of cost accounting:**

a) Ascertaining the cost

b) Controlling the cost

c) Presentation of information to enable managerial decision making

**Cost Center**: – Location, person or item of equipment (or a group of these) in or connected with an understanding in relation to which costs may be ascertained and used for the purpose of cost control.

**Types of the cost centers:**

1. **Impersonal and personal Cost Centers**

An impersonal cost centers consists of location or item of equipment (or group of these) for example, a region of sales, a branch, a departments, a grinding machine and so on.A personal cost center consists of a person or group of person .For example, finance manager, sales manager, and works manager and so on

1. **Production and service Cost Center**

A production cost center is the one where the production activity is carried on. For example, machine shops, a paint shop, an assembly shop, so on. A service cost center is the one which assist the production activity. For example, the store departments, the internal transport departments, the labors office, the maintenance departments / costing departments, and so on.

**Elements of costs-**

**A] Material –** This is the cost of commodities and material used by the organization. It can be direct or indirect.

Direct Material- Material which can be identified with the individual cost center and which becomes an integral part of the finished goods. It basically consists of all raw materials, either purchased from outside or manufactured in-house.

Indirect Material – Material which cannot be identified with the individual cost center. This material assists the manufacturing process and does not become an integral part of finished goods. The example of this type of material may be consumable stores, cotton waste, oils and lubricants, stationary materials etc.

**B] Labour –** This is the cost of remunerative paid to be employees of the organization. It can be direct or indirect.

Direct labour cost indicates the labour costs which can be identified with the individual cost center and is incurred for those employees who are engaged in the manufacturing process.

Indirect labour costs indicates that laborer cost which cannot be identified with the individual cost center and is incurred for those employees who are not engaged in the manufacturing process but only assist in the same . The example of this type of the cost is wages paid to foreman / storekeeper, salary of works manger, accounts/ personnel departments salaries.

**C] Expenses-** This is the cost of services provided to the organization (and the national cost of assets owned. It can be direct or indirect)

Direct expenses are those expenses, which can be identified with the individual cost centers. Example of their expenses are hiring charges for machinery/ equipment’s required for a particular job, cost of defective work for a particular job.

Indirect Expenses are those expenses which cannot be identified with the individual cost centers. The example of these expenses is rent, telephone expenses, insurance, lighting etc.

The aggregate of direct material cost, direst labour cost and direct expenses is termed as **“Primecost”.**

The aggregate of indirect material cost, indirect labor cost and indirect expenses is termed as **“Overheads”.**

Overheads: A) Factory overheads

B) Office and Administration overheads

C) Selling and distribution overheads

**A) Factory Overheads-**

Indirect material such as consumable stores, cotton waste, oil and lubricants. Indirect Labour cost such as wages paid to the foreman/ storekeeper, works manager’s salary etc.

Indirect expenses such as carriage inward cost, cost of factory lighting / power expenses, rent/ insurance / repairs for factory building / Machinery, depreciation on factory building or machinery etc.

**B) Office and Administration overheads**

Indirect Material such as items, office supplies etc.

Indirect Labour cost such as salaries paid to accounts and administration staff,Directors remunerative etc. 52

Indirect Expenses such as postage / telephone, rent/ insurance/ repairs/ depreciation on office building, general lighting, legal/ audit charges, bank charges etc.

**C) Selling and Distribution Overheads**

Indirect Material such as packing material, samples etc.

Indirect Labour cost like salaries paid to sales personnel, commission paid to sales manager.

Indirect Expenses like carriage our wards, warehouse charges, advertisement, bad Debts, repairs and running of distribution van, discount offered to customers.

**Cost sheets**

The various elements of the cost as discussed above can be presented in the form of a statement, popularly known as cost sheet or cost statement. The cost sheet may be prepared separately for each cost center and may have the columns like, cost per unit or cost of previous period etc..

A Proforma of cost sheet is shown below:

Direct Material cost

Direct Labour costs

Direct Expenses

**PRIME COST**

**Add :** Factory overheads

**FACTORY / WORK COST**

**Add:** Selling and Distribution Overheads

**COST OF PRODUCTION**

**Add:** Selling and Distribution Overheads

**COST OF SALES**

**Add:** Profit / LOSS

**SALES**

**Treatment of stock or inventories**

While preparing a cost statement it is essential to require a special treatment of stock. Stock may be grouped as raw materials, work in progress and finished goods.

**1) Stock of Raw Materials:**

When opening of raw materials, purchases of raw materials and closing stock of raw material are given, the materials consumed during a particular period can be calculated with the help of the following

|  |  |
| --- | --- |
| Opening Opening Stock stock of Raw materials  A Add: Purchase of Raw materials | \*\*\*\*\*\*\* |
|  |
| Less: PurLess: Purchase Returns | \*\*\*\*\*\*\* |
| ACADDAdd: Carriage inwards  Taxes a Taxes and Duties on material purchased  Less: C  Less: Cl Less: Closing stock of raw materials  Cost of r Cost of Raw material consumed | \*\*\*\*\*\*\* |
| \*\*\*\*\*\* |
| \*\*\*\*\*\*\* |

**2) Stock in Work in Progress:** -

Work in progress is otherwise called as Semi Finished Goods. In other words, work in progress means the units of production on which some work has been done but which are not yet completely finished. Work in progress is valued at prime cost or work cost basis, but the latter is preferred. If it is valued at works or factory cost then the opening and closing stock of work in progress are given below:

|  |  |
| --- | --- |
| Prime C Prime Cost  Add: FacAdd : Factory Overheads | \*\*\*\*\*\* |
| Add: Op Add : Opening stock of work-in- progress | \*\*\*\*\*\* |
| Less: CloClosing Stock of work- in- Progress  Cost of PCost of Production (Factory Cost or Work Cost or Manufacturing Cost) | \*\*\*\*\*\* |

**3. Stock of finished Goods:** - If opening and closing stock of finished goods are given they are to be adjusted before calculating cost of goods sold.

|  |  |
| --- | --- |
| Cost of PCost of Production  Add: OpAdd : Opening stock of finished goods | \*\*\*\*\*\*\* |
| Less: CloLess : Closing stock of finished goods  Cost of goods sold | \*\*\*\*\* |

**Importance of Cost Sheet:**

1. It provides for the presentation of the total cost on the basis of the logical classification.
2. Cost sheets helps in determination of cost per unit and total cost at different stages of production.
3. Assists in fixing of selling price.
4. It facilitates effective cost control and cost comparison.
5. It discloses operational efficiency and inefficiency to the management for taking corrective actions.
6. Enables the management in the preparation of cost estimates to tenders & quotations.

**Problem 1:- From following particulars, prepare a Cost Sheet showing 1) Cost of Material consumed (2) Prime Cost (3) Factory Cost (4) Cost of production (5) Profit.**

Opening Stock of materials 20000

Opening Stock of Work in Progress 10000

Opening Stock of finished goods 50000

Raw material purchased 500000

Direct wages 380000

Sales for the year 1200000

Closing stock of raw materials 75000

Closing stock of work in progress 15000

Factory overhead 80000

Direct expenses 50000

Office and administrative overhead 60000

Selling and Administrative overhead 30000

Closing stock of finished goods 50000

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Amount (Rs.)** | **Amount (Rs.)** |
| Opening Stock of Raw Materials | 20,000 |  |
| Purchases | 5,00,000 |  |
|  | 5,20,000 |
|  |  |  |
| Less : Closing of Raw Materials Consumed | 75,000 |  |
|  | 4,45,000 |
| **Cost of Raw Materials Consumed** |  |  |
| Add: Direct Wages | 3,80,000 |  |
| Add: Direct Expenses | 50,000 |  |
|  | 8,75,000 |
| **Prime Cost** |  |  |
| Add : Factory Overheads | 80,000 |  |
| Add : Opening Stock of work in progress | 10,000 |  |
|  | 90,000 |  |
| Less : Closing stock of Work in Progress | 15,000 | 75,000 |
| **Work Cost (or) Factory Cost** |  | 9,50,000 |
| Add : Office & Administrative Overhead | 60,000 |  |
|  | 10,10,000 |
| **Cost of Production** |  |  |
| Add : Opening Stock of Finished Goods | 50,000 |  |
|  |  |  |
| Less : Closing Stock of Finished Goods | 50,000 |  |
|  |  |
| **Costs Of Goods Sold** |  | 10,10,000 |
| Add: Selling and Distribution Overhead | 30,000 |  |
| Cost of Sales |  | 10,40,000 |
| **Profit** |  | 1,60,000 |
|  |  |
| Sales for the year |  | 12,00,000 |

**Problem 2: The following information relates to the manufacture of a product during the month of jan.2003:**

Raw material consumed Rs.20,000

Direct wages Rs. 12,000

Machine hour worked Rs. 1,000 hours

Machine hour rate Rs. 2 per hour

Office overhead 20 % ON WORK COST

Selling overhead Rs. 0.40 per cent

Unit produced 20,000 units

Units sold at Rs. Each; 18000 units

Prepare a cost sheet and show (1) Prime cost (2) Work cost (3) Cost of production (4)Cost of production sold (5) Cost of sale (6) Profit.

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Amount (Rs.)** | **Amount (Rs.)** |
| Raw Materials Consumed  Add: Direct Wages | 20,000  12,000 |  |
| **Prime Cost**  Add: Factory overheads 1000 × ₹ 2 | 2,000 | 32,000 |
| **Work Cost**  Add : Office Overhead 20% on Works cost | 6800 | 34,000 |
| **Cost of Production**  Less: Closing Stock of Finished Goods  ( 20,000 – 18,000 = 2,000 Units)  2,000  = 40,800 × \_\_\_\_\_\_\_\_\_\_  20,000 | 4,080 | 40,800 |
| **Cost of Goods Sold**  Add: Selling Overhead 18,000 @ ₹ 0.40 | 7,200 | 36,720 |
| **Cost of Sales**  **Profit** |  | 43,920  10,080 |
| Sales 18,000 Units @ ₹ 3 |  | 54,000 |

**Problem 3: The following information**

|  |  |  |  |
| --- | --- | --- | --- |
| Particulars | Amount | Particulars | Amount |
| Cost Of Raw Material on 1st April ,2014 | 82,000 | Purchases During Year | 3,81,000 |
| Wages Paid | 1,27,000 | Factory Overheads | 1,92,000 |
| Cost of Work in Process 1st April ,2014 | 11,000 | Cost Of Raw material 31st March,2015 | 50,000 |
| Cost of Work in Process 31st March,2015 | 12,000 | Cost of Finished Goods 1st April ,2014 | 28,000 |
| Cost of Finished Goods on 31st March,2015 | 30,000 | Selling and Distribution Overheads | 48,000 |
| Sales | 6,00,000 | Administrative Overheads | 68,000 |

**Cost Sheet for the Year Ending on 31st March,2015**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Amount** | **Amount** |
| Opening Stock of Raw Material | 82,000 |  |
| Purchase of raw Material | 3,81,000 |  |
| Less : Closing Stock Raw Material | 4,63,000  50,00 |  |
| Raw Material Consumed |  | 4,13,000 |
| Add : Wages |  | 1,27,000 |
| **PRIME COST** |  | **5,40,000** |
| Add: Factory Overhead | 1,92,000 |  |
|  |  | 7,32,000 |
| Add: Opening Stock of work in Process | 11,000 |  |
| Less : Closing Stock of work in Process | 12,000 |  |
| **Work Cost/ Factory Cost** |  | **7,31,000** |
| Add : Administrative Overhead | 68,000 |  |
| **Cost Of Production** |  | **7,99,000** |
| Add: Opening Stock of Finished Goods | 28,000 |  |
| Less : Closing Stock of Finished Goods | 30,000 |  |
| **Cost of Goods Sold** |  | **7,97,000** |
| Add: Selling and Distribution Overheads | 48,000 |  |
| Cost Of Sales |  | 8,45,000 |
| **LOSS** |  | **-2,45,000** |
| SALES |  | 6,00,000 |

**Problem 4: From the following information of M/s Ayesha LTD,manufacturing concern;**

Stock on hand on 1st April 2010: Amount (Rs.)

Raw Material 25,000

Finished Goods 15,500

Work in Progress 10,200

Stock as on 31st March, 2011:

Raw Materials 27,500

Finished Goods 16,480

Work in Progress 12,270

Direct Wages 18,200

Indirect Wages 2,300

Sale of Finished Goods during the year 80,600

Works Overheads/Factory Overheads 9,270

Administrative Overheads 3,700

Selling AND Distribution Overheads 5,200

Purchase of Raw Materials 23,700

Calculate: Cost of Material Consumed, Cost of Goods Sold, Total Cost of Production , Net Profit for the Month

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**Exercise No. 12 Date: / /**

**Title: Study of Procedure Formalities in Sanction of Farm Loans**

The financing bank is vested with the powers either to accepts or reject the farmer’s loan application. This is equal to an objective appraisal of farm credit proposals and procedures and formalities followed in the processing of loans. Here an attempt is made to explain the set of procedures and formalities required in processing of a farm loan application. The processing of a farm loan application. The processing is detailed under the following sub-heads.

1. Interview with the farmer ;
2. Submission of loan application by the farmer;
3. Scrutiny of records;
4. Visit to the farmer’s field before sanction of loan;
5. Criteria for loan eligibility;
6. Sanction of loan;
7. Submission of requisite documents;
8. Disbursement of loan;
9. Post- credit follow –up measures;
10. Recovery of loan.

**1) Interview with the Farmer-**

The banker studies the farmer –borrower in the interview regarding his credit characteristics such as honesty, integrity, frankness, progressive thinking, indebtedness, repayment capacity, etc. The bankers explains to the farmer the terms and conditions under which the loan is going to be sanctioned. Interview helps the banker to understand the genuine credit needs of the farmer. So interview is more than a mere formality, as it facilities the banker to study the farmer in detail and assess his credit requirements.

**2)Submission of Loan Application by the farmer-**

After getting satisfied with the credentials of the farmer, the banker gives a loan application form to him. Details regarding the location of the farm, purpose of the loan, cost of the scheme, credit requirements, farm budget, financial statement, etc. ,as required in t he form are filled in by farmer . Certificates such as **10-1 (indicates ownership of the land or title deeds) and Adangal (statement showing cropping pattern adopted by the farmer-borrower),** farm map, no objection certificate from the co-operatives, non- encumbrance certificate from Sub-Registrar of Land Assurance, affidavit from the borrower regarding his non-mortgage of land elsewhere are appended to the loan application. A passport size photograph is affixed to the application form**.**

1. **Scrutiny of records-** The ownership and extent of land as a indicated in the relevant certificate are verified by the bank official with village karanams or village revenue official.
2. **Visit to the farmer’s field before sanction of loan-**

After verifying the record, the field officer of the bank pay the visit to the farm to verify the particulars given by the farmers. The pre-sanction visit is the expected to help the bankers to identify the farmer and guarantor, locate the boundaries of the land as per the map and assess the , managerial capacity of the farmer in farming and allied enterprises and the farmers attitude towards latest technology . Details on economics of the crop and livestock enterprises, feasibility for implementing proposed plans, and farmers loan position with the non - institutional sources are as a certain in the pre-sanction visit. Thus, pre sanction visit of the bank official is very important to verify credit-worthiness and trust-worthiness of the farmer-borrower. While appraising different types of loans, different aspect should be verified. For example, to advance loan for well digging, the location of propose well ground water availability and distance from the nearby well, rainfall, common area for the well,etc.,are verified in the pre-sanction . Similarly for the loans , the pertinent aspects are verified. All this aspects are include in the report submitted to the branch manager for taking up final decision in the sanction of the loan.

1. **Criteria for loan eligibility**

The following aspects are considered in judging the eligibility of a farmer-borrower to receive the loan.

1. He should have sound character and financial integrity,
2. His dealings with friends .neighbors, financial institution , etc., must be

proper (He should not be a defaulter in the past)

1. He must progressive outlook and be receptive to modern technology,
2. He should sincerely implement the proposed scheme & ensure proper

use of credit.

terest

1. The security provided by the farmer must be free from any sort of

encumbrance and litigation.

**6)Sanction of loan**

After examining all the aspects presented in the pre-sanction farm inspection report, the branch manager takes a decision as to whether to sanction the loan or not. Before sanctioning, the branch manager considers the technical feasibility, economic viability and bankability of proposed projects including the repayment capacity, risk bearing ability and sureties offered by the farmer-borrower. If the loan amount is beyond the sanctioning power of the branch manager, it is forwarded to the Regional Manager or head office of the bank, incorporating his recommendations. The authorities at the respective offices take the final decision on the proposed projects, and communicate their decision on the branch manager for further action.

**7) Submission of Requisite Documents**

Before sanctioning the stipulated amount to the farmer-borrower, the following documents are obtained by the banking institution.

1. Demand promissory note;
2. Deed of hypothecation;
3. Guarantee letter;
4. Installment letter;
5. Authorization letter regarding the payments of loan from the marketing

agencies or intermediaries on behalf of the farmer;

1. Mortgage deeds.

Title deeds are examined by the legal officer of the bank and his opinion with regard to clear, marketable and unmitigated title is sought.

Simple mortgage is followed in the case of ancestral property and equitable mortgage in respect of acquired property. However, the opinion of the bank’s legal officer is obtained in this regards Mortgage of land is done prior to obtaining non-encumbrance certificate and sanction of loan.

**8. Disbursement of Loan**

As soon as execution is completed, the loan amount is credited to the borrowers account. The loan amount is disbursed in a phased manner, that too after ensuring that the loan is used by the farmer-borrower properly. A realistic repayment plan is framed and given to the farmer keeping in view the income flow of the proposed project.

**9) Post-credit follow-up measures**

The branch manager or agricultural officer pays a visit to the farmer to ascertain the proper use of the credit. This also benefits the farmer, for they can get the technical advice if any needed from the agricultural officer in the implementation of the scheme. These visits are also meant for developing a close rapport between the farmer and the banker. These visits are more informal than formal which are supposed to inculcate the feeling of friendliness and underlying the obligation of the farmer to repay the loan when it falls due. Such visits also facilitate in assessing any further requirement of supplementary credit to complete the scheme.

**10)Recovery of loan**

The bank reminds the farmer-borrower in in advance about the repayment of loan in time. If needed, recovery camps , special drives, village meetings etc., are organized at an appropriate time. All appropriate measures are taken to persuade the farmer borrower to repay the loan in time. In the case of default, the reasons for the same are ascertained to find out whether the borrower is a deliberated defaulter or not. If the reason is genuine the borrower is further helped by extending finance to accelerate farm production. In such situations , a closer supervision is necessary.If the bank officials find that the borrowers are willful defaulters, stringent measures are initiated to recover the loans through court of law.

In all possible cases the bank officers make tie-up arrangements, i.e the recovery of the loan is linked with marketing.Rephasing of repayment plan is allowed in the case of justifiable cases.

**REPAYMENT PLANS**

The term loans ,which are characterized by partially liquidating nature,the loan repayment plan is not as similar as that of shortr term loans.These loans are recovered through a given number of installments depending upion the nature of the asset and amount advanced for the asset in question. Following are the various repayment plans.

Straight –end payment plan or single repayment plan or Lumpsum repayment plan;

1. Partial repayment plan ;
2. Amortized repayment plan;
3. Amortized decreasing repayment plan ;
4. Amortized even repayment plan;
5. Variable repayment plan
6. Reserve repayment plan.

**1]Straight – End Payment Plan or Single Repayment Plan or Lumpsun Repayment Plan**

The entire loan amount is to be cleared off after the expiry of loan period stipulated. More clearly in this method, the principal component is repaid by the farmer at a time in lumpsun when the loan matures, while the interst component is paid each year.

**2] Partial Repayment Plan or Ballon Repayment Plan**

The farmer is expected to settle the entire loan in quarterly, half-yearly or annual installments (principal + interest). It implies that repayment of loan will be done partially over the years. Usually, the instalments amount will be decreasing as the years pass by except in the maturity year (final year) during which the investment generates sufficient revenue for liquidation. This is also known as balloon repayment plan, as the large final payment is made at the end of the loan period

**3] Amortized repayment plan**

It is extended version of partial repayment plan. Amortization means the repayment of the loan amount in a series of installments. There are two types of the amortization plans, viz., amortized decreasing repayment plan and amortized even repayment plan.

**A] Amortized Decreasing Repayment Plan:** The principal component remains constant over the entire repayment period , while the interest part decreases continuously. With the principal amount remaining fixed and interest amount decreasing, the annual instalment amount decreases over the years. The advance made the purchase of machinery is one of the suitable examples under this category, for the machinery does not demand much repairs in the initial years of loan payments enabling the farmer to repay large amounts of instalments. The diagrammatic representation of the repayment schedule is shown in following figure.

In +

Principal

Years

**B] Amortized Even Repayment Plan:** This is called equated annual installment method. The annual instalment over the entire loan period remains the same in this method. This principal portion of the instalment increases continuously, while the interest part declines gradually. This method is mostly adopted for the term loans. Loans granted for farm development, digging of wells, deepening of old wells, construction of godowns, dairy, poultry, etc., are the examples. This is depicted in the following figure.

Interest

Installment

Principal

**4] Variable Repayment Plan**

As the vary name indicates, various levels of installments are paid by the borrower over the loan period. In times of good harvest a higher instalment is paid, while in period of low yields lesser amount is credited towards instalment to the lender. According to the convenience, the borrower effects the repayment. This method not found with institutional borrowings.

**5] Reserve Repayment Plan or Future Payment**

This type of repayment is made by the borrowers in areas which are subject to high income variability of farms. The impending problem here is that the farmers are haunted by the fear that they may not be able to keep up their promise of repaying loans at scheduled time. To overcome such situations, the farmers make advance payments of the loan realized from the savings of the previous year. The farmer is not a looser in this transaction by any means since he is paid interest at the rate changed on the loans for the advance amount credited. This type of repayment is advantageous to the banker as the institutional agency need not worry regarding loan collection during the periods of crop failure. The farmer too gains here as he can keep up his integrity in credit transactions.

**Exercise No. 13, 14 & 15 Date: / /**

**Title : Study valuation of Material Movements**

**Stages in the Movement of material**

1. Procurement of materials
2. Storing the material till it required for consumption
3. Issue of the material for consumption.

**1) Procurement of Materials:** The process of purchasing involves the following stages:

a) Purchase Requisition

b) Selection of source of supply

c) Purchase order

d) Receipt and Inspection

e) Checking invoice and accounting for purchases

**2) Storing and Issue of material**

a)Receipt of material

b)Issue of material

c) Return of material from production department to store department

d) Transfer of material.

**Valuation of material movements**

* Valuation of receipts
* Valuation of issues
* Valuation of returns from production department to stores department.

**Problem 1: The particulars relating to a 1200 kg of a certain raw material purchase by a company during June were as as bellow:**

1. Lot prices quoted by suppliers & accepted by the company for placing purchase order.
2. Trade Discount 20%.
3. Additional charge for containers @ Rs 10 per drum of 25 kg.
4. Credit allowed on return of containers @ Rs 8 per drum.
5. Sales Tax at 10% on raw material and 5% on drums.
6. Total freight paid by the purchaser Rs.240
7. Insurance at 2.5% (on net invoice value) paid by the purchaser.
8. stores overheads applied at 5% on total purchase cost of material.

The entire quantity was received and issued to production:

The containers are returned in due course. Draw up a suitable statement to show:

A) Total cost of material purchased.

B) Unit cost of material issued to production.

Solution:

1. **Statement showingcost of purchases**

**Basic cost Rs. Rs.**

1,200 kgs x Rs. 20/kg 24,000

Less: Trade discount @ 20% 4,800

**Container cost: 19,200**

48 Drums x Rs.10/drum 480 19680

**Sales Tax:**

10% on Rs. 19,200 1920

5% on Rs. 480 24

1944

**Other charges 21624.00**

Insurance 2.5% on Rs. 21,624.00 540.60

Freight 240

**Less:** credit for drums returned 22404.60

Rs.8 per drum x 48 drums 384.00

Total cost 22,020.60

Add: stores overheads 5% 1,101.03

23,121.63

1. **Unit cost for valuation of issues = 23121.63**

**\_\_\_\_\_\_\_\_\_**

**1200**

**= 19.26/kg**

Problem 2: Following transactions taken place in respect of a material during March 1990 .

Date:

1. Opening Balance 500 units @ Rs. 6 per unit

5 Purchased 100 units @ Rs. 7 per unit

7 Issued 400 units

9 Purchased 300 units @ Rs. 8 per unit.

19 Issued 250 units.

22 Issued 50 units.

25 Purchased 300 units @ Rs. 7.50 per unit.

30 Issued 250 units.

Prepare the stores Ledger assuming that the issues are valued on FIFO basis.

**Solution :**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Storage**  Description/Code No. Maximum Level  Unit Minimum Level  Location Re-Order Level | | | | | | | | | | |
| Date | Particulars | RECEIPTS | | | ISSUES | | | BALANCES | | |
|  |  | Qty | Rate Rs | Rs | Qty | Rate Rs | Rs | Qty | Rate Rs | Rs |
| 1 | Opening B |  |  |  |  |  |  | 500 | 6 | 3000 |
| 5 | GRN.No | 100 | 7 | 700 |  |  |  | 500 | 6 | 3700 |
|  |  |  |  |  |  |  |  | 100 | 7 |
| 7 | MRN.No |  |  |  | 400 | 6 | 2400 | 100 | 6 | 1300 |
|  |  |  |  |  |  |  |  | 100 | 7 |
| 9 | GRN. No | 300 | 8 | 2400 |  |  |  | 100 | 6 | 3700 |
|  |  |  |  |  |  |  |  | 100 | 7 |
|  |  |  |  |  |  |  |  | 300 | 8 |
| 19 | MRN.No |  |  |  | 100 | 6 | 1700 | 250 | 8 | 2000 |
|  |  |  |  |  | 100 | 7 |  |  |  |
|  |  |  |  |  | 50 | 8 |  |  |  |
| 22 | MRN.No |  |  |  | 50 | 8 | 400 | 200 | 8 | 1600 |
| 25 | GRN.No | 300 | 7.50 | 2250 |  |  |  | 200 | 8 | 3850 |
|  |  |  |  |  |  |  |  | 300 | 7.50 |
| 30 | MRN.No |  |  |  | 200 | 8 | 1975 | 250 | 7.50 | 1875 |
|  |  |  |  |  | 50 | 7.50 |  |  |  |

**Problem 3: Following transactions have taken place in respect of a material during March 1990 .**

Date:

1. Opening Balance 500 units @ Rs. 6 per unit

5 Purchased 100 units @ Rs. 7 per unit

7 Issued 400 units

9 Purchased 300 units @ Rs. 8 per unit.

19 Issued 250 units.

22 Issued 50 units.

25 Purchased 300 units @ Rs. 7.50 per unit.

30 Issued 250 units.

Prepare the stores ledger assuming that the issues are valued on LIFO basis.

**Solution:**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Storage**  Description/Code No. Maximum Level  Unit Minimum Level  Location Re-Order Level | | | | | | | | | | |
| Date | Particulars | RECEIPTS | | | ISSUES | | | BALANCES | | |
|  |  | Qty | Rate Rs | Rs | Qty | Rate Rs | Rs | Qty | Rate Rs | Rs |
| 1 | Opening B |  |  |  |  |  |  | 500 | 6 | 3000 |
| 5 | GRN.No | 100 | 7 | 700 |  |  |  | 500 | 6 | 3700 |
|  |  |  |  |  |  |  |  | 100 | 7 |
| 7 | MRN.No |  |  |  | 100 | 7 | 2500 | 200 | 6 | 1200 |
|  |  |  |  |  | 300 | 6 |  |  |  |
| 9 | GRN.No | 300 | 8 | 2400 |  |  |  | 200 | 6 | 3600 |
|  |  |  |  |  |  |  |  | 300 | 8 |
| 19 | MRN. No |  |  |  | 250 | 8 | 2000 | 200 | 6 | 1600 |
|  |  |  |  |  |  |  |  | 50 | 8 |
| 22 | MRN. No |  |  |  | 50 | 8 | 400 | 200 | 6 | 1200 |
| 25 | GRN.No | 300 | 7.50 | 2250 |  |  |  | 200 | 6 | 3450 |
|  |  |  |  |  |  |  |  | 300 | 7.50 |
| 30 | MRN.No |  |  |  | 300 | 7.50 | 2550 | 150 | 6 | 900 |
|  |  |  |  |  | 50 | 6 |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |

**Problem 4: Following transactions have taken place in respect of a material during March 1990 .**

Date:

1. Opening Balance 500 units @ Rs. 6 per unit

5 Purchased 100 units @ Rs. 7 per unit

7 Issued 400 units

9 Purchased 300 units @ Rs. 8 per unit.

19 Issued 250 units.

22 Issued 50 units.

25 Purchased 300 units @ Rs. 7.50 per unit.

30 Issued 250 units.

Prepare the stores Ledger assuming that the issues are valued on a Simple Average basis.

|  |  |  |  |  |  |  |  |  |  |  |
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| **Storage**  Description/Code No. Maximum Level  Unit Minimum Level  Location Re-Order Level | | | | | | | | | | |
| Date | Particulars | RECEIPTS | | | ISSUES | | | BALANCES | | |
|  |  | Qty | Rate Rs | Rs | Qty | Rate Rs | Rs | Qty | Rate Rs | Rs |
| 1 | Opening B |  |  |  |  |  |  | 500 | 6 | 3000 |
| 5 | GRN.No | 100 | 7 | 700 |  |  |  | 600 |  | 3700 |
| 7 | MRN.No |  |  |  | 400 | 6.5 | 2600 | 200 |  | 1100 |
| 9 | GRN.No | 300 | 8 | 2400 |  |  |  | 500 |  | 3500 |
| 19 | MRN.No |  |  |  | 250 | 7 | 1750 | 250 |  | 1750 |
| 22 | MRN.No |  |  |  | 50 | 7 | 350 | 200 |  | 1400 |
| 25 | GRN.No | 300 | 7.5 | 2250 |  |  |  | 500 |  | 3650 |
| 30 | MRN.No |  |  |  | 250 | 6.75 | 1687.50 | 250 |  | 1962.50 |
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Problem 5: Following transactions have taken place in respect of a material during March 1990.

Date:

1. Opening Balance 500 units @ Rs. 6 per unit

5 Purchased 100 units @ Rs. 7 per unit

7 Issued 400 units

9 Purchased 300 units @ Rs. 8 per unit.

19 Issued 250 units.

22 Issued 50 units.

25 Purchased 300 units @ Rs. 7.50 per unit.

30 Issued 250 units.

Prepare the stores Ledger assuming that the issues are valued on Weighted Average Basis .

Solution :

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Storage**  Description/Code No. Maximum Level  Unit Minimum Level  Location Re-Order Level | | | | | | | | | | |
| Date | Particulars | RECEIPTS | | | ISSUES | | | BALANCES | | |
|  |  | Qty | Rate Rs | Rs | Qty | Rate Rs | Rs | Qty | Rate Rs | Rs |
| 2 | Op |  |  |  |  |  |  | 500 | 6 | 3000 |
| 5 | GRN.No | 100 | 7 | 700 |  |  |  | 600 |  | 3700 |
|  |  |  |  |  | 400 | 6.16 | 2464 | 200 |  | 1236 |
| 9 | GRN.No | 300 | 8 | 2400 |  |  |  | 500 |  | 3636 |
| 19 | MRN.No |  |  |  | 250 | 7.27 | 1817.50 |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |  |  |  | 1852.5 |
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**Exercise No : 16 Date : / /**

**Title: Study Of Labour Cost**

**Method of ascertain Labour Cost: Time Keeping**

**Time Booking**

**Time Booking:** The process of recording the attendance time of the workers .Attendance time recording may be the necessary as the payment of the wages may depend on the attendance. Even when the payment of the wages does not depend on the time attended, say in case of piece rate payment, the recording of time attended may be necessary from the following angles.

* To maintain discipline
* The fringe benefits like pension , gratuity on retirement, provident fund etc. may depend on the continuity of the service which will be available only if the time attended is recorded properly.
* Attendance record may be require for research and other purpose.

**Methods Of Time Keeping**

* Hand – Written Method
* Token or Disk Method
* Time Recording Clock Method

**Time Booking:** The ultimate aim of costing is to decide the cost of each cost center. As such, the recording of time attended is not sufficient. Equally important is to record the time spent for individual cost centers. This process is in the form of time booking.

**Methods Of Time Booking**

* Daily Time Sheet
* Weekly Time Sheet
* Job Card
* Reconcliation of the time attended and the time booked

**Important Term In Labour Cost**

**A] Labour Turnover:** In every business organization , the process of employees leaving the organization and new worker being recruited is a normal feature. Labour Turnover indicates this change in the labour force showing a highly increasing or highly decreasing trend. Labour turnover showing a sharp increasing trend may involve the reduction in the productivity and increasing costs. Too low a labour turnover trend may be due to inefficient workers who whould not like the organization.

**Causes Of Labour Turnover**

The causes of the labour turnover can be broadly classified as below:

**A] Avoidable Causes:**

* Dissatisfaction with job
* Dissatisfaction with remuneration
* Dissatisfaction with working condition
* Dissatisfaction with hours of work
* Relationship with supervision and workers

**B] Unavoidable Causes**

* Betterment/Personal
* Illness or accident
* Move from locality
* Discharge
* Marriage
* Retirement
* Death
* National Service

**Costs of Labour Turnover**

The cost of labour turnover may be classified under two headings

**A] Prevention Costs**

These refre to all the costs which may be incurred by the organization to keep workers happy and discourage them from leaving the job. This, in turn, may include the costs like:

1. Cost Of Personal Administration: To maintain good relation with the worker.
2. Cost of medical services: To keep the workers and their families in healthy condition, as healthy workers are an asset to the organization, contributing towards higher efficiency and productivity.
3. Cost of welfare activity: To give facility like transport , canteen etc.
4. Other incentive scheme like pension ,provident fund, superannuation fund, Bonus etc.

**B] Replacement Costs :**

These refer to the cost incurred for recruitment and training of new workers and the resulting losses , wastages and reduced productivity due to the inefficiency and inexperience of ne workers .

This in its turn may include the costs like :

1) Inefficiency of new workers

2) Cost of Selection and Placement

3) Training Cost

4) Loss of output due to delay in getting new workers

5) Increased spoilage and defectives

6) Cost of tools and machine breakages

Measurement of LabourTurnover :

There are three methods for measuring the labourturnover :

**(1) Seperation Method**

No. of Seperations in a period

X 100

Average No. of Workers

**(2) Replacement Method**

No. of Replacements in a period

X 100

Average No. of Workers

**(3) Flux Method**

No. of Seperations + No. of Replacement

X 100

Average No. of Workers

**B] Idle Time:** It indicates the time for which wages are paid to the workers but during which no production is obtained. To exercise proper control on idle time, causes of the same should be analyzed properly and studied from its controllability point of view.

The causes of the idle time can be analyzed as below :

**(a) Productive Causes**

* Due to machine breakdown
* Power failure
* Waiting for tools, work or raw materials
* Waiting for instructions

These causes are supposed to be controllable causes and can be controlled if planned properly.

**(b) Administrative Causes**

Some idle time may be caused due to administrative decisions. E.g. the organization is having excess machine capacity or during the depression period, it is not having sufficient work to be performed, but it has decided not to get rid of trained workers temporarily. As such cost of idl7e time is accepted.

**(c) Economic Costs**

Economic causes may be of seasonal, cyclical or industrial nature. For example, if the product manufactured is of a seasonal nature, for the other periods of the year, the capacity may retain unused, unless some other product to take care of slack season is introduced. In case it is not possible to make alternate use of such idle capacity, some idle time is unavoidable. In case of cyclical causes, the causes are similar to seasonal fluctuations but these causes are beyond the control of management.

**Problem 1:** From the following data given by personnel department, calculate the labour turnover rate by applying:

a) Seperation method

b) Replacement method

c) Flux method

No. of workers on pay – roll

At the beginning of the month 900

At the end of the month 1,100

During the month, 10 workers left, 40 persons were discharged and 150 workers were recruited. Of these 25 workers are recruited in the vacancies of those leaving the rest were for an expansion scheme.

Solution:

Problem 2: Personnel department of Smarty LTD has supplied the following information. You as a Accounts – Finance Manager, Calculate Labour Turnover for the aforesaid organization.

1) Number of employees at the year – 2,270

2) Number of employees left during the year – 70

3) Number of employees at the beginning of the year – 3,200

4) Number of employees replaced during the year – 45

Solution: