



South Valley University  
Faculty of Commerce  
Accounting Department

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Lectures in

# ***SPECIALIZED ACCOUNTING***

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**IN THE NAME OF ALLAH, THE MOST GRACIOUS,  
THE MOST MERCIFUL**

**Preface**

Praise to *Almighty ALLAH* who gave me the strength, patience, and ability to complete this textbook.

This textbook has been written to provide readers with a very comprehensive introduction to special accounting issues or problems. These issues may provide readers with all that they require to have a good idea about the nature of accounting problems which have been met by some enterprises and organizations.

This textbook will be devoted to accounting issues, such as consignment accounts, accounting through incomplete records or single entry system of accounting, accounting for non-profit making organizations, and the like.

I hope that I can provide the readers with useful subjects which may help them solve some practical problems.

**Chapter one**  
**CONSIGNMENT**  
**ACCOUNTS: AN**  
**INTRODUCTION**

# CHAPTER ONE

## CONSIGNMENT ACCOUNTS: AN INTRODUCTION

### ***1.1 What is Consignment?***

Every business enterprise seeks and does its best to market its products and increase its market share by following different methods that suit its circumstances. On the other hand, the growing size of the market is making that it is more and more difficult for the manufacturer or wholesaler to make or get in direct contact with customers living at far places. This situation has made imperative for him/her to enter into an agreement with a reliable local trader in such distances, who can sell goods **on his/her behalf** and **at his/her risk or personal responsibility** for an agreed amount of commission.

The despatch or sending of goods from one person to another person at a different place for the for the purpose of storing or warehousing and final or ultimate sale is called a **Consignment**. Accordingly, goods sent are termed as “**Goods sent on Consignment**”, the trader or the sender is called “**Consignor or Principal**” and the recipient is called “**Consignee or Agent**”. For instance, if **X** of Cairo sends 200 computer sets to **Y** of Kena to sell on his/her (**X**'s) behalf and at his/her (**X**'s) risk, the transaction between **X** and **Y** is a **consignment** transaction. Furthermore, **X** is the **consignor or principal** and **Y** is the **consignee or agent**.

## **1.2 The Main Features of Consignment**

### **Transaction:**

As explained in the above simplified example, **X** will be continue to be the owner of the goods. **Y** is, hence, an agent of **X**. **Y** has not purchased or bought the goods from **X**. He/she has accepted to sell the goods of **X** to the best of his/her ability and capacity. As such, he/she (**Y**) will be responsible to **X** for payment **only** when he/she has sold away the goods. Of course, **Y** will be repaid or reimbursed by **X** for any expenses incurred by him/her (**Y**) in obtaining and selling the goods in addition to remuneration or reward for selling the goods as per agreed terms.

The most important features of a consignment transaction can be summarised as below:

{1} Consignment of goods is not considered as normal sale. It is just transfer of ownership or possession of goods from one party (the principal) to another (the agent).

{2} The consignee (the agent), therefore sells goods at the risk or responsibility of the consignor (the principle). Accordingly, he/she (the consignee) is not responsible for any loss or destruction of goods, unless the loss or destruction was as a result of the negligence of the consignee.

{3} The sale proceeds belong to the consignor and the consignee only gets his/her due commission and expenses that he/she might have incurred.

{4} The relationship between consignor and consignee is that of a *Principal* and an *Agent*.

## **1.3 Important Terms Used in Consignment Transactions:**

### **1 Pro Forma Invoice:**

**Pro Forma** invoice is a statement prepared by the consignor determining quantity, quality and price of sent goods. It is sent normally with goods despatched to consignee. It is so called pro forma invoice to be differentiated from invoice which is used for the normal sales.

It is different from the *normal* invoice which implies that a sale has taken place. Normal invoice is a statement describing the goods despatched to the purchaser and showing the total amount due by him/her to the seller. On the other hand, a *pro forma* invoice is merely a statement of information in the form of invoice to inform the party, who has not purchased the goods but shall be having their possession or dealing with them, of certain essential details of the goods. Such an invoice is sent by the intending seller to his/her agent or the intending purchaser before the sale actually takes place. Pro forma invoice, therefore, does not show that the person to whom it is sent is **indebted** to the sender. In other words and on the contrary of the normal invoice, pro forma invoice does not result in debit or credit relationship between the consignor and consignee.

### **2 Account Sales:**

At the end of a given period or at the request, the consignee sends a statement to the consignor called an *Account Sales*. It is a periodical statement rendered by the agent to the principal containing details of goods received, sales made, expenses incurred, commission charged, remittances (transfers) made

and balance due by him/her to the consignor. Account sales normally includes the following information:

- Sales amount.
- Payments made before full settlement.
- Expenses incurred for consignor's goods.
- Due commission.
- Spoilage occurred to sent goods.
- Stock or unsold goods, and
- Balance due by consignee to the consignor.

The following is a form which may be followed to prepare *Account Sales*:

El-Eman Enterprise for Computer Trader & Agent 63 El-Ekhlal Street- Kena Tel. Fax 0965260691

Account Sales No. 4071995

Consignor's Name: PC World- Cairo

Type of Goods: Computer Sets Pentium 6, Commission: 5%

Particulars	L.E.	L.E.	L.E.
40 Computers at L.E.12,000 per set		480,000	
10 Computers at L.E.11,000 per set		<u>110,000</u>	590,000
<i>Less: Charges:</i>			
Local dues.....	27,000		
Freight.....	13,000		
Godown rent.....	5,000		
Commission.....	29,500		74,500
			515,500
<i>Less: Remittance.....</i>			<u>200,000</u>
Balance Due, Bank draft enclosed			<u>315,500</u>

Signature

**Abdellah Kasim** عبدالله قاسم, The Manager

### 3 Commission:

Of course, consignee does not waste his/her effort for selling goods sent by the consignor without getting remuneration. Remuneration or commission is the compensation payable to the consignee for sale made by him/her on behalf of the consignor. In practice, commission can take various types. It can be **simple** (normal), **over-riding** and **del-creder commission**.

**1. Simple or Normal Commission:** This commission is calculated according to terms laid down by the consignor. This commission is usually a fixed percentage on total sales (cash and credit).

**2. Over-riding or Additional Commission:** Sometimes, and in order to motivate or give additional incentive, consignor may allow an extra commission to the consignee, when the sales exceed a specified amount. Similar to simple commission, this type is also calculated on total sales, but sales which are sold using a price higher than agreed one.

**3. Del-Creder Commission:** Sometimes, where the consignee accepts to meet or bear responsibility for any loss which the consignor may suffer by reason of bad debts, one more extra commission is given to consignee. This is also normally computed on the total sales (cash and credit). It is also termed as **inclusive** commission.

#### Illustration 1.1:

Mostafa El-Shabory in Cairo sent **2,000** bikes costing **L.E.500** each for sale on consignment basis to Yusuf El-Sefary in Kena.

The consignment is subject to the following terms:

(1) Normal selling price per bike is **L.E.600**.



(2) Consignee's commission to be computed as under:

- a. 5% on normal selling price;
- b. 1% additional commission if selling price is more than normal price; and
- c.  $\frac{1}{2}$  % inclusive commission on total sales for guaranteeing collection of credit sales.

El-Sefary sent the account sales which includes the following information:

<b>Cash Sales:</b>	<b>L.E.</b>
500 bikes at <b>L.E.600</b> each	<b>300,000</b>
200 bikes at <b>L.E.750</b> each	<b>150,000</b>
<b>Credit Sales:</b>	
400 bikes at <b>L.E.750</b> each	<b>300,000</b>
400 bikes at <b>L.E.800</b> each	<b><u>320,000</u></b>
<i>Total</i>	<b><u>1,070,000</u></b>

**Required:** Calculate the commission due to consignee.

***Solution:***

**Statement of Commission due to Consignee**

Particulars	L.E.
Normal (or Simple) Commission: 1,500 bikes $\times$ L.E.600 $\times$ 5% =	45,000
Additional (or over-riding) Commission: (600 $\times$ 750 + 400 $\times$ 800) = 770,000 $\times$ 1% =	7,700
Inclusive (or del-credere) Commission: 1,070,000 $\times$ .5% =	<u>5,350</u>
<b>TOTAL</b>	<b><u>58,050</u></b>

#### **4 Direct Expenses:**

Direct expenses are those expenses which are incurred in order to place the goods in a saleable condition. As such, all expenses till the goods reach the warehouse (godown) of the consignee come under this category. These expenses are normally of a non-recurring or non-repeated nature and increase the value of goods. Such category includes, for example, freight, carriage, insurance, loading and unloading charges. These expenses may be paid by consignor or consignee.

#### **5 Indirect Expenses:**

Indirect expenses are expenses incurred after the goods reach the consignee's storage. These expenses are of a recurring nature and do not increase the value of goods. Examples of indirect expenses may include advertisement expenses, salaries of salespersons, and so on.

#### **Important Note:**

The distinction between direct and indirect expenses is of all importance at the time of the valuation of unsold goods (stock). **Direct expenses** form a part of the cost and, therefore, a proportion of such expenses is included in the cost of stock. On the other hand, the **indirect expenses** do not form a part of the cost and, therefore, they must be excluded while valuing the unsold stock, as it will be explained in detail later.

#### **6 Advance (Deposit):**

In many cases, the consignor may ask the consignee to deposit some money with him to be maintained by him (Consignor) as security in respect of the goods sent by him on consignment. Advance or deposit is usually a certain percentage of the value

of goods sent on consignment. For example, if the value of goods sent on consignment is to be **L.E.500,000**, and the consignee is asked to deposit **10%** of the value of the goods to be sent, the amount of advance will be **L.E.50,000**. This amount covers, to certain extent, the risk of the consignor. Such amount will be adjusted against the amount due from consignee when the accounts are finally settled. Nevertheless, the consignor may want to keep with himself a certain percentage of the value of the goods remaining with the consignee. In such situation, advance will be adjusted only to the extent of the proportionate goods sold.

For example, goods of **L.E.500,000** are sent on consignment to **A** who sells away 50% of the goods for **L.E.400,000**, consignor required that 10% of the value of the goods should be kept as an advance with him. **A's** expenses and commission amount to **L.E.50,000**. In such a case, the amount to be sent by **A** will be computed as shown below:

Sales value of the goods		L.E.400,000
Commission and Expenses	L.E.50,000	
Advance deposited		
10% of L.E.250,000	<u>25,000</u>	<u>75,000</u>
Amount to be sent by <b>A</b>		<b><u>325,000</u></b>

Hence, 10% of the value of unsold stock lying with the consignee (**L.E.25,000**) will still remain as advance with the consignor till these goods are finally sold.

**Chapter TWO**  
**ACCOUNTING**  
**TREATMENT OF THE**  
**CONSIGNMENT**

## CHAPTER TWO ACCOUNTING TREATMENT OF THE CONSIGNMENT

### **2.1 Introduction:**

In some cases, perhaps it may be thought that it is not necessary to record transactions relating to consignment and those transactions should not be isolated or differentiated from normal sales' transactions. However, a proper record of all transactions relating to a particular consignment is necessary and important for determining *Net Profit or Net Loss* on each separate consignment.

This chapter will cover the general framework of recording consignment both in the **Consignor's Books** and in the **Consignee's Books**.

### **2.2 Consignor's Books:**

#### **2.2.1 Accounting Entries for Recording Consignment in the Books of the Consignor:**

Journal entries required for recording transactions relating to a particular consignment in the books of the consignor will be as follows:

{1} When goods are sent to the consignee by the consignor, he/she opens an account called "**Consignment Account**". This account is debited by the cost of sent goods and the "**Goods Sent on Consignment Account**" is credited by the same amount. The journal entry will appear as below:

By Consignment a/c.....	XXX
To Goods sent on Consignment a/c....	XXX

At the end of an accounting period, Goods sent on Consignment Account will be closed by transferring its balance to **Purchases** or **Trading Account** as follows:

By Goods sent on Consignment a/c...	XXX
To Purchases or Trading a/c.....	XXX

{2} For expenses incurred by the consignor when sending goods, carriage, insurance, freight, etc., such expenses are charged to the Consignment Account as below:

By Consignment a/c.....	XXX
To Cash/Bank a/c.....	XXX

{3} When **Security** or **Advance** is asked from the Consignee and paid to the Consignor, an account called “**Consignee’s Account**” is prepared and credited by amount received as below:

By Cash/Bank or Bills of Exchange a/c	XXX
To Consignee’s a/c.....	XXX

{4} When Account Sales is received from the consignee, the consignor records the following:

**4.1** Sales made by consignee: The journal entry will differ depending upon the type of the commission, as explained below:

♣ **Del- Creder Commission:** If the consignee is a del- creder agent, he/she will be responsible for both cash and credit sales and he/she will be considered debit of the total amount of sales (cash and credit) as follows:

By Consignee's a/c.....	XXX	
To Consignment a/c.....		XXX

♣ **Normal or Simple Commission:** If the consignee is not a del-creditor agent, he/she will not be responsible for credit sales and any losses related to these sales such as Bad Debts. Therefore, it must be differentiated between cash and credit sales when recording consignment sales, as follows:

♪ Cash Sales recorded as follows:

By Consignee's a/c.....	XXX	
To Consignment a/c.....		XXX

♪ Credit Sales recorded as follows:

By Consignment's Debtors a/c	XXX	
To Consignment a/c.....		XXX

It should be kept in mind the fact that when the consignee is not a del-creditor agent, the consignor will be responsible for any loss resulting from credit sales, such as bad debts. In such a case, the consignor will open an account called “**Consignment's Debtors Account**. This account will be debited by credit sales (refer to the above entry). Also, this account will be credited by payments received by the consignee and the Consignee's Account will be debited by these payments as follows:

By Consignee's a/c.....	XXX	
To Consignment's Debtors a/c		XXX

**4.2** For expenses incurred by consignee, the following journal entry will be made:

By Consignment a/c.....	XXX	
To Consignee's a/c.....		XXX

**4.3** For Commission due to Consignee, the following journal entry will be made:

By Consignment a/c.....	XXX	
To Consignee's a/c.....		XXX

**4.4** When consignee encloses Cheque, Bills of Exchange (Notes Receivable), the following journal entry will be made:

By Bank or Bills Receivable a/c	XXX	
To Consignee's a/c.....		XXX

{5} Stock in the hands of the consignee at the end of the accounting period. Unsold goods remaining in the hand of the consignee are valued at cost in addition to its share of the total expenses incurred whether by the consignor or the consignee on goods sent on consignment, except for sales' expenses which are paid for sales only.

Unsold goods' share of both consignor and consignee's expenses are calculated using the following formula:

<p><b>Stock's share of expenses</b></p> <p>= <math>\frac{\text{Quantity of Unsold Goods}}{\text{Quantity of Sent Goods}} \times \text{Consignor and Consignee's Expenses.}</math></p> <p>Or = <math>\frac{\text{Cost of Unsold Goods}}{\text{Cost of Sent Goods}} \times \text{Consignor and Consignee's Expenses.}</math></p>
--

Accordingly, value of remaining stock will be as follows:

<p>Cost of Unsold Goods = [Number of units × Unit Cost] + Its share of both consignor and consignee's expenses.</p>
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The consignor will open an account called “**Stock on Consignment Account**”. This account will be debited by the cost of unsold goods and the Consignment Account will be credited of the same value as follows:

By Stock on Consignment a/c.....	XXX	
To Consignment a/c.....		XXX

The balance of stock on consignment will be listed on the Balance Sheet prepared by the consignor. At the beginning of the following accounting period, the Stock on Consignment Account will be closed by transferring its balance to the debit side of the Consignment Account as follows:

By Consignment a/c.....	XXX	
To Stock on Consignment a/c...		XXX

{6} The Consignment Account will be closed by transferring its balance (Profit or Loss) to **Profit & Loss Account** or **Profit & Loss on Consignment Account**, as the case may be. This can be done as below:

**6.1** In case of profit:

By Consignment a/c.....	XXX	
To P& L on Consignment a/c		XXX

**6.2** In case of loss:

By P& L on Consignment a/c...	XXX	
To Consignment a/c.....		XXX

In case of a large number of consignment accounts, it is preferable to open a separate Profit & Loss on Consignment Account. Profit or Loss on each individual Consignment Account will be transferred to this account and ultimately the balance of the Profit & Loss on Consignment account will be

transferred to the General Profit & Loss Account. This treatment is also encouraged when the accounting period of the Consignment transactions is different from the accounting period of the Consignor's enterprise.

### **2.2.2 Consignment's Accounts Opened in the Books of the Consignor:**

From the preceding accounting treatment regarding consignment in the Consignor's Books it appeared that there are a variety of accounts which should be maintained by the consignor. These are as follows:

#### **[1] Consignment Account:**

*Consignment Account* is a Nominal or Temporal Account. It is actually a special Trading and Profit & Loss Account and hence, its balance shows the Profit or Loss made on a particular consignment. This account is charged by cost of opening stock on consignment, cost of Goods sent on Consignment, expenses paid for sent goods both by consignor and consignee, and Consignee's commission. On the other hand, this account is credited by the price of sold goods and the cost of closing stock on consignment. Its balance (profit or loss) is transferred to Profit & Loss on Consignment Account. A pro forma of this account can be shown as below:

Dr.	Consignment a/c		Cr.
To Opening Stock.....	XXX	By Consignee's a/c	
To Goods sent on Consignment.....	XXX	(Sales).....	XXX
To Cash/Bank (Consignor Expenses).	XXX	By Consignment's Debtors a/c (Sales)....	XXX
To Consignee's a/c (Consignee Expenses).	XXX	By Closing Stock on Consignment .....	XXX
To Consignee's a/c (Commission).....	XXX	By Profit & Loss on Consignment a/c	
To Profit & Loss on Consignment a/c (Profit).....	XXX	(Loss).....	XXX
	<u>XXX</u>		
To Opening Stock on Consignment.....	XXX		<u>XXX</u>

## [2] Goods sent on Consignment Account:

*Goods sent on Consignment Account* is a **Real Account**. It is closed up by transferring its balance to Purchases Account or it is also transferred on the credit side of Trading Account. A pro forma of this account can be shown as below:

Dr.	Goods Sent on Consignment a/c		Cr.
To Purchases or Trading Account.....	XXX	By Consignment a/c...	XXX
	<u>XXX</u>		<u>XXX</u>

**[3] Consignee’s Account:**

*Consignee’s Account* is a Personal Account. This account is debited by cash and credit (in case of Del-credere or inclusive commission) sales, but in case of normal commission, it will be debited by cash sales and only collected credit sales by the consignee. On the other hand, it will be credited by expenses paid by the consignee on behalf of the consignor, by commission due to the consignee and by remittances (cash, Cheques etc) sent. Therefore, in case the Consignee has not remitted the balance due by him/her in full, he/she will be a debtor, whereas if he/she has remitted more than the balance due by him/her, he/she will be a creditor. A pro forma of this account can be shown as below:

<b>Dr.</b>	<b>Consignee’s a/c</b>		<b>Cr.</b>
To Consignment (sales).....	XXX	By Consignment (Expenses paid).....	XXX
To Consignment’s Debtors (Collections)..	XXX	By Consignment (Commission).....	XXX
Balance (Credit).....	<b>XXX</b>	By Cash/ Bank or Bills Receivable (Remittance).....	XXX
	XXX	Balance (Debit).....	<b>XXX</b>
	XXX		XXX

**[4] Consignment’s Debtors Account:**

*Consignment’s Debtors Account* is a Personal Account. It represents amount owed by Consignment’s Debtors to the consignor as a result of credit sales. This account will be opened only in case of normal commission. As such, this account will be debited by credit sales in case of normal

commission and it will be credited by amount collected from debtors by consignee. A pro forma of this account can be shown as below:

<b>Dr.</b>	<b>Consignment's Debtors</b>		<b>Cr.</b>
To Consignment a/c (Credit Sales).....	XXX	By Consignee's a/c (Collections) Balance (Debit).....	XXX XXX XXX
	<u>XXX</u>		<u>XXX</u>

**[5] Stock on Consignment Account:**

*Stock on Consignment Account* is a Real Account. It represents unsold goods in the hands of the consignee at the end of a particular period. A pro forma of this account can be shown as below:

<b>Dr.</b>	<b>Stock on Consignment a/c</b>		<b>Cr.</b>
Opening Balance.....	XXX	By Consignment a/c (to close Opening Balance).....	XXX
To Consignment a/c (Cost of unsold goods at the end of the current period).....	XXX		XXX
	<u>XXX</u>		<u>XXX</u>

**[6] Profit & Loss on Consignment Account:**

*Profit & Loss on Consignment Account* is a Nominal or Temporal Account. Profit or Loss on each individual Consignment Account will be transferred to this account and its balance will be ultimately transferred to the General Profit & Loss Account. A pro forma of this account can be shown as below:

Dr.	<b>Profit &amp; Loss on Consignment a/c</b>		Cr.
To Consignment a/c (Loss).....	XXX	By Consignment a/c (Profit).....	XXX
To General P & L a/c (net profit).....	<u>XXX</u>	By General P & L a/c (net loss).....	<u>XXX</u>
	<u>XXX</u>		<u>XXX</u>

### **2.3 Consignee's Books:**

#### **2.3.1 Accounting Entries for Recording Consignment in the Books of the Consignee:**

As it was explained in the preceding paragraphs, the consignee does not purchase the goods sent to him/her by the consignor. He/she does obtain delivery of such goods only for the purpose of selling them on behalf of and at the risk or responsibility of the consignor for an agreed commission. Therefore, only such entries will be made which directly affect him/her. Entries to be made in the books of the consignee will be as follows:

{1} When goods are received by the consignee, *no* entry will be passed except a record of this fact will be made in his/her Stock Register.

{2} When the consignee incurs expenses for goods received on consignment, he/she charges the consignor with the amount of expenses incurred as follows:

By Consignor's a/c.....	XXX	
To Cash/Bank a/c.....		XXX

{3} When the consignee gives security or sends money to the consignor, he/she passes the following journal entry, with the amount of security given:

By Consignor's a/c.....	XXX	
To Cash/Bank or Bills Payable a/c		XXX

{4} For sales made by the consignee, it should be distinguished between the following cases:

**4.1** In case of the **Del-creditor or Inclusive Commission**, sales made (cash or credit sales) are recorded, with the amount of sales, as below:

By Cash/Bank or Debtors a/c....	XXX	
To Consignor's a/c.....		XXX

**4.2** In case of the **Simple or Normal Commission**, it should be differentiated between cash and credit sales:

**Cash Sales:**

By Cash/Bank a/c.....	XXX	
To Consignor's a/c.....		XXX

**Credit Sales:**

By Consignor's Debtors a/c....	XXX	
To Consignor's a/c.....		XXX

When the consignee collects some money from the Consignor's Debtors, he/she will make the following entry:

By Cash/Bank a/c.....	XXX	
To Consignor's Debtors a/c		XXX

{5} For commission earned by the consignee, he/she passes the following entry, with the amount of commission due:

By Consignor's a/c.....	XXX
To Commission a/c.....	XXX

{6} for stock in hand with the consignee, *no* journal entry will be passed.

### 2.3.2 Accounts Opened in the Books of the Consignee:

From the preceding accounting treatment regarding consignment in the Consignee's Books, it appeared that there are a variety of accounts which should be maintained by the consignee. These are as follows:

#### **[1] Consignor's Account:**

*Consignor's Account* is a Personal Account. It is debited by expenses incurred for goods received on consignment, due commission, and remittances. On the other hand, this account is credited by both cash and credit sales. As you will see, Consignor's Account is exactly a reverse version of Consignee's Account in the consignor's book. A pro forma of this account can be shown as below:



Dr.	Consignor's a/c		Cr.	
To Cash/Bank (expenses).....	a/c	XX	By Cash/Bank a/c (cash sales).....	XX
To Cash/Bank (remittances).....	a/c	XX	By Debtors a/c (credit sales – inclusive commission).....	XX
To Bills Payable a/c (Accepted Bills).....		XX	Or By Consignor's Debtors (credit sales – simple commission)...	XX
To Commission a/c.....		XX	Balance (Debit).....	XX
Balance (Credit).....		XX		XX
		<u>XX</u>		<u>XX</u>

**[2] Consignor's Debtors Account:**

*Consignor's Debtors Account* is a Personal Account. It represents amount due to consignor in case of simple (normal) commission. This account is exactly a reverse version of the Consignment's Debtors Account in the books of consignor. It is debited by credit sales and credited by collections from debtors. A pro forma of this account can be shown as below:

Dr.	Consignor's Debtors a/c		Cr.	
To Consignor's a/c (credit sales).....		XX	By Cash/Bank a/c (collections).....	XX
		<u>XX</u>	Balance (Debit).....	<u>XX</u>

**[3] Received Consignment Commission Account:**

*Received Consignment Commission Account* is a Nominal (Temporal) Account. It is opened for registering due commissions. It is credited by commission due to consignee for selling received goods on commission. The balance of this account is transferred to the Profit & Loss Account. A pro forma of this account can be shown as below:

<b>Dr.</b>	<b>Commission a/c</b>		<b>Cr.</b>
To P & L a/c (Balance)..	XX	By Consignor's A a/c....	XX
	XX	By Consignor's B a/c....	XX
	<u>XX</u>		<u>XX</u>

**Comprehensive Illustration:**

On the first of April 2017, Al-Mahalla Al-Kobra Co. consigns 500 pieces of shirts costing **L.E.50,000** to Al-Manar Stores, Kena. The consignee is entitled to 5% selling commission and 1% del-creditor commission. The Consignor incurred the following expenses:

Carriage	L.E.2,000
Insurance	L.E.1,000
Freight	L.E.1,500

Al-Mahalla Al-Kobra Co. drew a Bill of Exchange for L.E.20,000 on Al-Manar Stores, Kena, which was duly (instantly) accepted by them. It is discounted for L.E.19,500.

On 31<sup>st</sup> of May 2017, Al-Manar Stores sent the Account Sales which showed that they have sold goods for L.E.75,000 and paid expenses amounting to L.E.1,500. Stock in consignee's hands on 31<sup>st</sup> of May, 2017 is valued at L.E.15,000. Al-Manar Stores enclosed a sight draft with the Account Sales, for the net amount due to Al-Mahalla Al-Kobra Co.

**Required:**

- 1- Give journal entries and ledger accounts in the books of the Consignor (Al-Mahalla Al-Kobra Co.) and the Consignee (Al-Manar Stores).
- 2- Close The ledger accounts on 31<sup>st</sup> of December 2017.

3- Show the effect of those transactions on the financial statements of both consignor and consignee at that date.

***Solution:***

**Consignor's Books (Al-Mahalla Al-Kobra Co.):**

**(1) Journal Entries:**

Date	Explanation	Dr.	Cr.
2017 Apr. 1	By Consignment to Kena a/c To Goods Sent on Consign. a/c 500 pieces of shirts consigned to Al-Manar Stores, Kena).	50,000	50,000
	<del>By Consignment to Kena a/c</del> To Cash a/c	4,500	4,500
	Expenses incurred: carriage L.E.2,000, insurance L.E.1,000, and freight L.E.1,500.		
	<del>By Bills Receivable a/c</del> To Consignee's a/c (Al-Manar Stores, Kena)	20,000	20,000
	Bills of exchange recd. from Al-Manar Stores, Kena.		
	<u>By sundries:</u> Bank a/c	19,500	
	Discount a/c	500	
	To Bills Receivable a/c		20,000
	Bills Receivable discounted for L.E.19,500.		
May 31	<del>By Consignment to Kena a/c</del> To Consignee's a/c (Al-Manar Stores, Kena)	1,500	1,500
	Expenses incurred by the consignee in connection with consignment.		

	By Consignee's a/c (Al-Manar Stores, Kena)	75,000	
	To Consignment to Kena a/c Being sales made.		75,000
	By Consignment to Kena a/c	4,500	
	To Consignee's a/c (Al-Manar Stores, Kena)		4,500
	Commission due to Al-Manar Stores, Kena, being ordinary @ 5% and del creder @ 1% on L.E.75,000		
	By Stock on Consignment a/c	15,000	
	To Consignment to Kena a/c Stock with consignee.		15,000
Dec. 31	By Goods Sent on Consign. a/c	50,000	
	To Trading a/c Being transfer of goods sent on consignment to Trading a/c.		50,000
	By Bills Receivable a/c	49,000	
	To Consignee's a/c (Al-Manar Stores, Kena)		49,000
May 31	B/R received for net balance		
	By Consignment to Kena a/c	29,500	
	To P & L on Consignment a/c Transfer of the profit on consignment.		29,500
Dec. 31	By P & L on Consignment a/c	29,500	
	To General P & L a/c Transfer of net profit to G P & L		29,500
	By General P & L a/c	500	
	To Discount a/c To close Discount a/c.		500

**(2) Ledger Accounts:**

<b>Dr.</b>	<b>Consignment to Kena a/c</b>		<b>Cr.</b>
To Goods sent on Consignment a/c.....	50,000	By Consignee's a/c..	75,000
To Cash (expenses).....	4,500	By Stock on Consignment a/c.....	15,000
To Consignee's (expenses).....	1,500		
To Consignee's (Commission).....	4,500		
To P & L on Consignment a/c (profit).....	29,500		
	<u>90,000</u>		<u>90,000</u>

<b>Dr.</b>	<b>Consignee's a/c (Al-Manar Stores)</b>		<b>Cr.</b>
To Consignment a/c.	75,000	By Bills Receivable..	20,000
		By Consignment a/c.	1,500
		By Consignment a/c.	4,500
		By Bills Receivable..	49,000
	<u>75,000</u>		<u>75,000</u>

<b>Dr.</b>	<b>Goods Sent on Consignment a/c</b>		<b>Cr.</b>
To Trading a/c.....	50,000	By Consignment a/c	50,000
	<u>50,000</u>		<u>50,000</u>

<b>Dr.</b>	<b>P &amp; L on Consignment a/c</b>		<b>Cr.</b>
To General P & L a/c.....	29,500	By Consignment a/c	29,500
	<u>29,500</u>		<u>29,500</u>

**(3) Effect on the Financial Statement at 31/12/2017:**

<b>Dr. Trading a/c for the year ended 31/12/17</b>		<b>Cr.</b>
	By Goods sent on Consignment a/c....	50,000

<b>Dr. General P &amp; L a/c for the year ended 31/12/17</b>		<b>Cr.</b>
To Discount a/c	500	By P & L on Consignment a/c..... 29,500

<b>Balance Sheet</b>		<b>As at 31/12/2017</b>	
<b>Assets</b>		<b>Liabilities</b>	
<u>Current Assets:</u>			
Stock on Consignment	15,000		

**Consignee's Books (Al-Manar Stores, Kena):**

**(1) Journal Entries:**

Date	Explanation	Dr.	Cr.
<u>2017</u>	No journal entry is required for recording received goods.		
April	By Consignor's a/c.....	20,000	
	To Bills Payable a/c.....		20,000
	<u>Bills Payable accepted.</u>		
	By Consignor's a/c (expenses)...	1,500	
	To Cash/Bank a/c.....		1,500
	Expenses incurred in connection with receipt of consignment.		
May	<u>By Cash/Bank/Debtors a/c.....</u>	75,000	
	To Consignor's a/c (Sales)...		75,000
	Consignor credited for sales proceeds.		
	By Consignor's a/c.....	4,500	
	<u>To Commission a/c.....</u>		4,500
	Being commission earned.		
	By Consignor's a/c.....	49,000	
	To Bills Payable.....		49,000

	Bills payable accepted in full settlement of account		
	By Commission a/c.....	4,500	
Dec.	To General P & L a/c.....		4,500
	Being transfer of commission to General P & L a/c		

**(2) Ledger Accounts:**

<b>Dr.</b>	<b>Consignor's a/c</b>		<b>Cr.</b>
To Bills Payable a/c	20,000	By Cash/Debtors a/c	75,000
To Cash/Bank a/c	1,500		
To Commission a/c	4,500		
To Bills Payable a/c	49,000		
	75,000		75,000

<b>Dr.</b>	<b>Commission a/c</b>		<b>Cr.</b>
To G P & L a/c.....	4,500	By consignor's a/c...	4,500
	4,500		4,500

**(3) Effect on the Financial Statement at 31/12/2017:**

<b>Dr.</b>	<b>General P &amp; L a/c</b>		<b>Cr.</b>
	<b>for the year ended 31/12/17</b>		
		By Commission a/c..	4,500

**Chapter Three**  
**ACCOUNTING**  
**TREATMENT OF THE**  
**CONSIGNMENT'S**  
**PROBLEMS**



## **CHAPTER THREE**

# **ACCOUNTING TREATMENT OF THE CONSIGNMENT'S PROBLEMS**

### ***3.1 Introduction:***

In the preceding chapter, the general framework of recording consignment both in the **Consignor's Books** and in the **Consignee's Books** was covered in detail. However, accounting on consignment transactions may be accompanied by some accounting issues that can affect the results of consignment.

This chapter will highlight some accounting problems that need special concentration regarding consignment. Examples of these issues may include: valuation of unsold goods, accounting treatment for loss of stock, etc.

### ***3.2 Valuation of Unsold Stock:***

It is expected that not all the goods sent by the consignor are sold. Where all the goods have not been sold, it becomes necessary to value the unsold goods. Such goods are similar to closing stock in case of a Trade Account. According to the Generally Accepted Accounting Principles (GAAP), closing stock should be valued at cost or market price whichever is less. As such, this stock should be valued at a price which will include the following:

- ☺ Proportionate cost price, and
- ☺ Proportionate direct expenses (expenses incurred both by the consignor and the consignee till the goods reach the warehouse).

On the other hand, market price is the current price by which it can be obtained the same quantity of the remaining stock. When recording unsold stock in the credit side of the Consignment Account, it should be made a comparison between the market price of the unsold stock and its cost (including its share of both consignor and consignee expenses, as explained in Chapter Two). If the market price is less than its cost, unsold stock should be valued at market price and *vice versa*.

It should be noted that direct expenses will include **all** expenses incurred by the consignor, while only such expenses of the consignee which are incurred by him/her till goods reach his/her godown. Examples of such expenses may include: carriage, freight, importing duty etc, paid by the consignee. Expenses like selling expenses paid by the consignee should be excluded.

Additionally, as it was discussed above, the basic principle of accounting concerning valuation of stock should also be taken into consideration, *stock should be valued at cost or market price whichever is less*. Cost price stands for (represents) cost + proportionate direct expense.

**Illustration 3.1:**

Mai consigns 100 Television sets to Maha. Each TV costs L.E.800. Mai (the consignor) pays the following expenses:

Insurance.....	L.E. 400
Freight.....	L.E.1,000
Carriage.....	L.E. 500

Maha (the consignee) pays the following expenses:

Warehouse Rent	L.E.2,500
----------------	-----------

Salary to salespersons                      L.E. 800

At the end of the year 25 Television remained with Maha. The market value of each TV is L.E.850.

**Required:**

You required to compute the value of stock remaining with Maha.

**Solution:**

**Statement Showing Value of Stock**

Cost of 25 TV @ L.E.800 per TV		20,000
¼ of Direct Expenses ( $\frac{25}{100}$ ):		
Freight.....	250	
Insurance.....	100	
Carriage.....	125	
Warehouse Rent.....	625	1,100
<i>Total</i>		<u>21,100</u>

Market value of stock is  $L.E.850 \times 25 = L.E.21,250$ . Cost being less and therefore 25 TV should be valued at L.E.**21,100**.

**Illustration 3.2:**

An enterprise consigned 300 men's pants to its commission agent costs L.E.100 each. The consignor incurred L.E.150 freight and L.E.50 carriage. Unsold stock in the hands of the consignee is 40 pants. After receiving the Account Sales, it was appeared that the consignee incurred the following expenses:

L.E.100 storing up expenses, L.E.60 insurance, and L.E.140 advertisement. The market value of each pants is L.E.95 each.

### **Required:**

You required to compute the value of stock remaining with the consignee.

### ***Solution:***

Stock's share of expenses

$$= \frac{\text{Quantity of Unsold Goods}}{\text{Quantity of Sent Goods}} \times \text{Consignor and Consignee's expenses}$$

$$= \frac{40}{300} \times (\text{L.E.}200 + 160) = \text{L.E.}48$$

Cost of 40 pants @ L.E.100 per pants =  $40 \times 100 = \text{L.E.}4,000$ .

Total cost of stock =  $4,000 + 48 = \text{L.E.}4,048$ .

Market value of stock =  $40 \times 95 = \text{L.E.}3,800$ .

Market value being less and therefore 40 pants should be valued at L.E.3,800.

### **3.3 Accounting Treatment for Loss of Stock:**

During consignment transactions, some loss of stock may occur. This loss may be during transit before or after delivery of the goods by consignee or it may occur at the storage of the consignee. Such loss of stock may be **Normal** or **Abnormal**.

#### **3.3.1 Normal Loss:**

*Normal Loss* is due to inherent characteristics of goods, such as loss due to evaporation (sublimation), drying up of goods, and so on. **Normal loss** is *not* shown in the consignment account. This is included in the value of goods sold and closing stock by inflating (enlarging) the rate per unit. The value of closing stock will, therefore, be that portion of total value of goods sent which number of units in hand per to total number

of units as reduced by loss (the units actually received by the consignee). In other words, *cost of goods sent becomes cost of goods received*.

This can be put in the form of the following formula:

Value of Closing Stock =

$\frac{\text{Total value of goods sent} \times \text{Units of closing stock}}{\text{Units actually received by the consignee}}$
---

**Illustration 3.3:**

Ahmed consigned 2,000 tons of sugar costing L.E.2,500 per ton, to Adel. He paid L.E.20,000 as freight. Due to normal wastage, only 1950 tons were received by Adel, who also paid L.E.5,000 as unloading (discharging) and cartage charges. The goods unsold amount to 650 tons.

**Required:**

You are required to calculate the value of closing stock.

***Solution:***

Cost price of 2,000 tons of sugar	L.E.
@ L.E.2,500 per ton	5,000,000
Freight paid by the Consignor	20,000
Unloading and cartage charges paid by the Consignee	5,000
Cost of 1950 tons	5,025,000
Cost of 650 tons =	$\frac{5,025,000 \times 650}{1950} = \text{L.E.1,675,000.}$

### 3.3.2 Abnormal Loss:

If loss occurs on account of (as a result of) reasons which are only accidental or which rarely happen, the loss is termed as **abnormal**. Examples of such losses are: theft or robbery of goods or destruction of goods by fire.

This loss should be *debited* to **Abnormal Loss Account** and *credited* to **Consignment Account**. Abnormal Loss Account may be closed by transferring to Profit & Loss Account. The credit to the consignment account with the value of Abnormal Loss is given because it will make possible for the management to judge properly the profitability of the consignment.

The valuation of stock destroyed as a result of abnormal reasons will be undertaken on the same basis as valuation of Stock on Consignment (proportionate cost price plus proportionate direct expenses incurred up to the date of loss. While valuing abnormal loss, care should be taken of the stage where abnormal loss took place. This is because only such expenses have been included in the valuation of such abnormal loss which have been incurred up to that stage.

#### **Illustration 3.4:**

Sámi (the consignor) consigned to Amr (the consignee) 100 cases of CDs costing L.E.100 per case. He (the consignor) paid L.E.1,000 as freight and cartage. The consignee could take deliver of only 90 cases since 10 cases were lost in transit. He paid L.E.2,000 as unloading and carriage charges. At the end of the year, he reported that he has sold away 80 cases at L.E.150 per case.

**Required:**

You are required to calculate:

- ◆ the value of abnormal loss, and
- ◆ the value of closing stock.

***Solution:***

***Value of Abnormal Loss***

Cost of 100 cases @ L.E.100 per case	L.E.10,000
Direct Expenses incurred by the Consignor	<u>1,000</u>
<i>Total cost of 100 cases</i>	<u>11,000</u>

Value of Abnormal Loss

$$= \frac{\text{Total cost} \times \text{Units of Abnormal Loss}}{\text{Total Units sent by the Consignor}}$$
$$= \frac{\text{L.E.}11,000 \times 10}{100} = \text{L.E.}1,100.$$

***Value of Closing Stock***

Total Cost of 100 cases calculated as above: L.E.11,000	
Cost of 10 cases (units of closing stock)	L.E.1,100
<i>Add: Proportionate Expenses incurred by the Consignee</i> $\frac{\text{L.E.}2,000 \times 10}{90}$	<u>222</u>
	L.E. <u>1,322</u>

**Illustration 3.5:**

On the basis of the data given in Illustration 3.4, given above, if the abnormal loss of 10 cases happens at the warehouse of the consignee, in place of transit from the consignor to the consignee, calculate the value of abnormal loss and the value of stock.

**Solution:**

***Value of Abnormal Loss***

Cost of 100 cases @ L.E.100 per case	L.E.10,000
Expenses incurred by the consignor	1,000
Direct Expenses incurred by the Consignee	<u>2,000</u>
<i>Total</i> cost of 100 cases	<u>13,000</u>

Value of Abnormal Loss

$$= \frac{\text{Total cost} \times \text{Units of Abnormal Loss}}{\text{Total Units to be received by the Consignee}}$$
$$= \frac{\text{L.E.}13,000 \times 10}{100} = \text{L.E.}1,300.$$

***Value of Closing Stock***

Total Cost of 100 cases  
calculated as above: L.E.13,000

Value of Closing Stock (10 units):

$$= \frac{\text{L.E.}13,000 \times 10}{100} = \text{L.E.}1,300$$

**3.3.3 Abnormal Loss and Insurance:**

An insurance policy may be obtained in relation to the goods sent or received on consignment by the consignor or the consignee. Such a policy is obtained only in respect of abnormal loss which may be caused to the goods. The following accounting entries will be passed in the ***books of the consignor*** in such a case:

{1} On payment of insurance premium:

By Consignment a/c.....	XXX
To Bank a/c.....	XXX
<i>Or to Consignee a/c, if he/she paid the premium</i>	



**{2} On happening of Abnormal Loss:**

By Abnormal Loss a/c.....	XXX	
To Consignment a/c.....		XXX
With the value of abnormal loss.		

**{3} On admission of claim by the Insurance Company:**

By the Insurance Company a/c...	XXX	
To Abnormal Loss a/c.....		XXX
With the amount of claim admitted.		

**{4} On receipt of claim from the Insurance Company:**

By Bank a/c.....	XXX	
To Insurance Company a/c		XXX
With the amount received		

**{5} The balance if any, in the abnormal Loss Account represent Profit or Loss which will be transferred to Profit and Loss Account:**

**In case of profit:**

By Abnormal Loss a/c.....	XXX	
To Profit & Loss a/c.....		XXX

**In case of loss:**

By Profit & Loss a/c.....	XXX	
To Abnormal Loss a/c.....		XXX

**Illustration 3.6:**

Emad & Co. of Cairo sent on consignment account goods to Hazim & Co. of Guza at an invoice price of L.E.296,750 and paid for freight L.E.7,620, cartage L.E.2,320 and insurance L.E.7,000. Half of the goods were sold by agents for L.E.175,000, subject to the agent's commission of L.E.8,750, storage and other selling expenses of L.E.5,500. One-fourth of the consignment was lost by fire and a claim of L.E.50,000 was received.

**Required:**

- a) Pass the necessary journal entries in the books of Emad & Co.
- b) Draw up the necessary accounts in the books of Emad & Co. and determine the profit or loss made on consignment. The consignor received a two months' bill of exchange from the agent in satisfaction of the dues.

***Solution:***

**Working Notes:**

Calculation of abnormal loss:

$\frac{1}{4}$ of Invoice Price of goods $(296,750 \times \frac{1}{4})$	74,188
Add: $\frac{1}{4}$ of consignor's Exp. $(16,940 \times \frac{1}{4})$	<u>4,235</u>
Total of Abnormal Loss	L.E.78,423
Less: Recovered from Insurance Co.	<u>50,000</u>
Net Abnormal Loss.....	<b>28,423</b>
	=====

● The value of closing stock should be also calculated on the same basis (L.E.78,423).

### a) Journal Entries:

Account Titles & Explanation	Dr. L.E.	Cr. L.E.
By consignment a/c.....	296,750	
<u>To Goods sent on Consignment a/c</u>		296,750
By Consignment a/c.....	16,940	
<u>To Cash a/c (Freight, Cartage &amp; Insurance).....</u>		16,940
By Hazim & Co. a/c (sale proceeds)	175,000	
<u>To Consignment a/c.....</u>		175,000
By Consignment a/c.....	14,250	
<u>To Hazim &amp; Co. a/c (Commission, &amp; Storage and other selling Exp.....</u>		14,250
By Bills Receivable a/c.....	160,750	
<u>To Hazim &amp; Co. a/c (Remittance)..</u>		160,750
By Abnormal Loss a/c.....	78,423	
<u>To Consignment a/c.....</u>		78,423
By Stock on Consignment a/c.....	78,423	
<u>To Consignment a/c.....</u>		78,423
By Bank a/c (recd. from Ins. Co.)	50,000	
<u>To Abnormal Loss a/c.....</u>		50,000
By Consignment a/c.....	3,906	
<u>To P &amp; L a/c (Net profit).....</u>		3,906
By P & L a/c.....	28,423	
<u>To Abnormal Loss a/c.....</u>		28,423

**b) Ledger Accounts:**

<b>Dr.</b>	<b>Consignment a/c</b>		<b>Cr.</b>
To Goods sent on Consignment a/c....	296,750	By Hazim & Co. (sales).....	175,000
To Cash a/c:		By Abnormal Loss..	78,423
Freight 7,620		By Stock on Consignment	78,423
Cartage... 2,320	16,940	a/c....	
Insurance. <u>7,000</u>			
To Hazim & Co.:			
Commission 8,750			
Storage & other			
Selling exp. <u>5,500</u>	14,250		
To P & L a/c (net profit transferred)	3,906		
	<u>331,846</u>		<u>331,846</u>

<b>Dr.</b>	<b>Hazim &amp; Co. (Consignee) a/c</b>		<b>Cr.</b>
To Consignment a/c (sales proceeds)	175,000	By Consignment a/c (expenses and commission)	14,250
		By Receivable a/c...	160,750
	<u>175,000</u>		<u>175,000</u>

<b>Dr.</b>	<b>Abnormal Loss a/c</b>		<b>Cr.</b>
To Consignment a/c.	78,423	By Bank a/c	50,000
		By P & L a/c.....	28,423
	<u>78,423</u>		<u>78,423</u>

**Illustration 3.7:**

Medhat of Cairo consigned 1,000 Boxes of goods costing L.E.100 each to Mostafa of Luxor. Medhat paid the following expenses in connection with the consignment:

Carriage	L.E.1,000
Freight	L.E.3,000
Loading Charges	L.E.1,000

Mostafa sent the Account Sales which revealed that he has sold 700 boxes at L.E.140 per box and incurred the following expenses:

Clearing charges from Airport	L.E. 850
Packing & selling expenses	L.E.2,300

Furthermore, it is found that 50 boxes have been lost in transit and 100 boxes are still in transit. Mostafa is entitled to a commission of 10% on gross sales.

**Required:**

Draw up the Consignment Account and Mostafa's Account in the books of Medhat.

***Solution:***

**Calculations:**

- 1- Abnormal Loss: Consignor's expenses on 1,000 boxes are L.E.5,000. It comes to L.E.5 per box( $L.E.5,000 \div 1,000$ ). The cost of boxes lost will therefore be computed at L.E.105 ( $L.E.100 + 5$ ) per box =  $50 \times 105 = L.E.5,250$ .
- 2- Commission =  $L.E.98,000 \times 10\% = L.E.9,800$ .
- 3- Consignment Stock:
  - a) In transit 100 boxes =  $100 \times 105 = L.E.10,500$ .
  - b) In hand 150 boxes. Mostafa has incurred L.E.850 on clearing 850 boxes. It comes to L.E.1 per box. The consignment stock

in hand has therefore been valued at L.E.106 (105 + 1) each.  
 The value of 150 boxes =  $150 \times \text{L.E.}106 = \text{L.E.}15,900$ .

<b>Dr.</b>	<b>Consignment a/c</b>		<b>Cr.</b>
To Goods sent on consignment a/c.....	100,000	By Mostafa a/c (sales)	98,000
To Bank (expenses)	5,000	By Abnormal Loss a/c	5,250
To Mostafa a/c:		By Consignment Stock:	26,400
Expenses.....	3,150	In hand	
Commission.....	9,800	In transit	
To P & L a/c (profit)...	<b>11,700</b>		
	<u>129,650</u>		<u>129,650</u>
			<u>10,500</u>

<b>Dr.</b>	<b>Mostafa a/c</b>		<b>Cr.</b>
To Consignment a/c	98,000	By Consignment a/c:	
		Expenses.....	3,150
		Commission....	9,800
		Balance c/d.....	<b>85,050</b>
	<u>98,000</u>		<u>98,000</u>

### **3.4 Questions and Practical Problems:**

**{1}** Indicate whether each of the following statements is '*True*' or '*False*':

- a.** Despatch of goods on consignment amounts to sales of goods by the consignor.
- b.** A Consignee is paid over-riding commission for bearing the risk of bad debts on account of credit sales made by him/her.
- c.** Sales Account and Account Sales are synonymous terms.
- d.** The Consignee passes no entry in his/her books for unsold stock of the consignor remaining with him/her.
- e.** Discount on bills discounted is debited to Profit And Loss Account and not to the Consignment Account because of it being treated as a financial expense.
- f.** Abnormal loss of stock arises on account of natural and inherent characteristics of goods.

**{2}** Choose the most appropriate answer:

**2.1** Consignment Account is of the nature of a:

(**a**) Real Account, (**b**) Nominal Account, (**c**) Personal Account.

**2.2** Goods sent on Consignment Account is a:

(**a**) Real Account, (**b**) Personal Account, (**c**) Nominal Account.

**2.3** Del credere commission is allowed to the consignee to bear:

(**a**) Normal Loss, (**b**) Abnormal Loss, (**c**) Loss on account of bad debts.

**2.4** The Abnormal Loss on Consignment is credited:

(**a**) Profit & Loss Account, (**b**) Consignee's Account, (**c**) Consignment Account.

**2.5** Over-riding commission is calculated on:

(**a**) Total Sales, (**b**) Credit Sales, (**c**) Cash Sales.

**2.6** On sales being made by the consignee of the goods received by him/her on consignment, the amount is credited by him/her to:

(a) Sales Account, (b) Consignor's Account, (c) Purchases Account.

{3} On July 1, 2017 Computer World in Cairo consigned to its Consignee in Qena 50 Computer sets, every computer costs L.E.1,500 and to be sold at consignor's responsibility at a price not less than L.E.2,000, for an agreed amount of simple commission of 15%. The expenses of the consignment (freight and cartage) amounted to L.E.500, which were paid by the consignor. On 31/12/2017, the consignor received "Account Sales", which revealed the following information:

a. Consignee sold 40 computers at agreed price.

b. Consignee incurred expenses on the consignment as follows: L.E.200 freight on consignment from the Railway Station to his godown, L.E.400 advertisement expenses and L.E.300 selling expenses.

c. Consignee enclosed a bank draft of L.E.10,000 with the "Account Sales" for the settlement of a part of the amount due to the consignor.

**Required:**

- 1- Journal entries in the books of the consignor.
- 2- Journal entries in the books of the consignee.
- 3- Ledger accounts in the books of the consignor and consignee (Consignment Account, Consignee's Account and Consignor's Account "only").



{4} Mostafa El-Shabori sold goods on behalf of Egyptian Agencies on consignment basis. On January 1<sup>st</sup>, 2017, he had with him a stock of L.E.20,000 on consignment.

Mostafa had instructions to sell the goods at cost plus 25% and was entitled to a commission of 4% on sales. He was also entitled to 1% del credere (inclusive) on total sales for guaranteeing collection of all sale proceeds. During the half-year ended June 30, 2017, cash sales were L.E.120,000, credit sales were L.E.105,000. Mostafa's expenses relating to the consignment were L.E.3,000, being salaries of salespersons. Bad debts were L.E.3,000, goods sent on consignment were L.E.200,000.

**Required:**

**a-** Pass journal entries and prepare Consignment Account and Mostafa's Account in the books of Egyptian Agencies, showing the profit or loss for the half-year.

**b-** Pass journal entries and prepare Consignor's Account in the books of Mostafa El-Shabori.

***Solution (to be completed):***

**Consignment Account**

<b>Dr. for the half-year ended June 30, 2017</b>		<b>Cr.</b>	
To Consignment Stock	20,000	By Mostafa a/c	225,000
To Goods sent on Consignment.....	200,000	(sale proceeds)	
To Mostafa a/c:		By Closing	40,000
Expenses.....	3,000	stock	
Commission.....	11,250		
To P & L a/c (profit)	<b>30,750</b>		
	<u>265,000</u>		<u>265,000</u>

**Working Notes:**

☺ Sale proceeds = 105,000 + 120,000 = L.E.225,000.

☺ Commission = 225,000 × 5% (i.e. 4+1) = L.E.11,250.

☺ Closing Stock:

goods with the consignee	L.E.220,000
less: Cost of goods sold	
225,000 × 80% (or $\frac{100}{125}$ )	<u>180,000</u>
Consignment Stock on 30/6/2017	40,000
	=====

{5} ► The firm of United Traders of Alexandria consigned to Manar & Co. of Kena 50 cases of goods valued at L.E.3,500 each.

► The consignors paid freight and insurance of L.E.18,000.

► They received as an advance from Manar & Co. L.E.80,000.

► Received an Account Sales from Manar & Co. giving information as below:

Gross proceeds L.E.280,000, expenses warehousing, carriage, etc. incurred by them amounted to L.E.9,000, and their commission amounted to L.E.10,000.

► Received a bank demand draft of the balance due by them on the consignment.

**Required:**

From the above information, prepare the necessary ledger accounts in the books of consignors and those of the consignees. (Hints: Profit L.E.68,000, Amount of bank draft L.E.181,000.)

{6} Al-Maha Ltd. of Cairo sent in January 2017 to its agent Al-Nour Ltd. of Sohag, 140 cases of goods, costing to Al-Maha Ltd. L.E.129,000. Al-Nour Ltd. was to sell the goods on account of its consignor and was to receive a commission of 5% on the gross proceeds with a further 2% as del credere commission.

Al-Maha Ltd. incurred the following charges in connection with the consignment:

Carriage, loading, freight and insurance expenses L.E.3,820.

Al-Nour Ltd. sold 120 cases for an average of L.E.1,500 per case, incurring bad debts of L.E.4,310 and paid the following expenses: Landing charges of L.E.470, Warehousing, packing and selling expenses L.E.3,380.

**Required:**

Prepare the necessary ledger accounts in the books of both the consignor and consignee, to record the above transactions. (Hints: Value of Closing Stock L.E.19,041, Profit on consignment L.E.49,771, approximately.)

{7} Mahmoud El-Khatib consigned 1,000 Television Sets costing L.E.8,500 each to Mostafa El-Nagger in Sudan, his agent on 1<sup>st</sup> July 2017. El-Khatib incurred the following expenditure on sending the consignment:

Carriage	L.E. 6,500
Freight	L.E.70,000
Insurance	L.E.30,250

El-Nagger received the delivery of 950 TV sets. An Account Sales dated 30 November 2017 showed that 750 sets were sold for L.E.9,750,000 and El-Nagger incurred L.E.30,000 for carriage and L.E.75,000 for the custom duty at the time of

taking the delivery. El-Nagger was entitled to a commission of 6% on the sales effected by him. He incurred expenses amounting to L.E.25,000 for repairing the damaged TV sets remaining in the stock.

El-Khatib made a claim with the insurance company which was admitted at L.E.350,000.

**Required:**

Show the Consignment Account, Mostafa El-Nagger's Account, and Abnormal Loss Account in the books of Mahmoud El-Khatib.

{8} Mahmoud consigned to Amr on January 1<sup>st</sup>, 2017, 500 cases of goods costing L.E.100 per case. Freight charges incurred on the consignment were L.E.5,000. Mahmoud drew a bill on Amr for L.E.50,000 payable on June 30<sup>th</sup>, 2017, which was accepted by the consignee. The bill was discounted by Mahmoud with his bankers on January 31<sup>st</sup>, 2017 at 12% per annum.

Amr rendered account to Mahmoud on March 31<sup>st</sup>, 2017 showing sales of 300 cases for L.E.80,000 and selling expenses of L.E.5,000, Amr's commission was 10 per cent. On this date, Amr remitted to Mahmoud the net amount due to him.

On May 31<sup>st</sup>, 2017, Amr sold the balance stock for L.E.30,000 after incurring expenses of L.E.4,000. he remitted L.E.20,000 to Mahmoud, the balance being treated as commission earned by him. On June 30<sup>th</sup>, 2017 the bill accepted by Amr was dishonoured (refused) by him and the

amount due to the bank was paid off by Mahmoud along with incidental charges of L.E.200.

**Required:**

Pass journal entries in the books of Mahmoud (including bank transactions).

***Solution:***

**Books of Mahmoud**

**JOURNAL ENTRIES**

Date	Account Titles & Explanation	Dr. LE	Cr. LE
2017 Jan.1	By Consignment a/c..... To Goods sent on Consignment 500 cases of goods sent to Amr on consignment @ L.E.100 per case.	50,000	50,000
“ 1	<del>By Consignment a/c.....</del> To Bank a/c..... Freight charges incurred.	5,000	5,000
“ 1	By Bills Receivable a/c..... To Amr a/c..... Acceptance received from Amr payable on June 30 <sup>th</sup> , 20X5.	50,000	50,000
“ 31	<u>By sundries:</u> Bank a/c..... Discount a/c..... To Bills Receivable a/c..... Bills Receivable fro Amr discounted @ 12% p.a. for 5 mos.	47,500 2,500	50,000
Mar. 31	By Amr a/c..... To Consignment a/c..... 300 cases sold by Amr.	80,000	80,000

	By Consignment a/c.....	13,000	
	To Amr a/c.....		13,000
“ 31	For expenses incurred by Amr of L.E.5,000 and commission payable to him L.E.8,000.		
	<u>By Bank a/c.....</u>	17,000	
	To Amr a/c.....		17,000
May 31	Amount received from Amr in settlement of sales to date.		
	<u>By Amr a/c.....</u>	30,000	
	To Consignment a/c.....		30,000
“ 31	200 cases sent on consignment sold for L.E.30,000.		
	<u>By Consignment a/c.....</u>	10,000	
	To Amr.....		10,000
	For expenses L.E.4,000 and commission payable L.E.6,000 to Amr.		
“ 31			
	<u>By Bank a/c.....</u>	20,000	
	To Amr a/c.....		20,000
	Amount received from Amr in full settlement.		
Jun. 30	By Amr a/c.....	50,200	
	To Bank a/c.....		50,200
	Bill accepted by Amr dishonoured and incidental charges of bank being L.E.200.		
“ 30	<u>By Consignment a/c.....</u>	32,000	
	To Profit & Loss a/c.....		
	For profit on consignment.		32,000

{9} Samara of Aswan consigned 50 pallets of frozen-fish costing L.E.20,000 each to Adel of Assiut. Samara paid the following expense in connection with the consignment:

Carriage	L.E. 25,000
Freight	L.E.190,000
Loading Charges	L.E. 35,000

Adel sold 30 pallets at L.E.35,000 each and incurred the following expenses:

Landing Charges	L.E. 30,000
Packing and Selling Expenses	L.E.90,000

It is found that 2 pallets have been lost in transit and 3 pallets are still in transit. Adel is entitled to a commission of 10% on gross sales.

**Required:**

Prepare: (a) Consignment Account in books of Samara and (b) Samara's Account in the books of Adel.

*(Answer clews: Profit on Consignment L.E.85,000, Samara Account Balance-Credit- L.E.825,000.)*

**Chapter FOUR**  
**ACCOUNTING**  
**THROUGH**  
**INCOMPLETE**  
**RECORDS**



## CHAPTER FOUR

### ACCOUNTING THROUGH INCOMPLETE RECORDS (SINGLE ENTRY SYSTEM)

#### **4.1 Introduction:**

Generally, there are two systems of recording transactions in the books of enterprise, namely Single Entry System and Double Entry System. Of course, you have an appropriate idea on the system of double entry throughout your study of accounting.

It is assumed that every business enterprise maintains a complete set of double-entry records. In practice, however, this is not the permanent case. A small business enterprise usually cannot afford to employ book-keeping staff and therefore, unless the owner has book-keeping skills or the business uses a computer-based accounting system, the records kept are likely to be limited in scope. In this chapter, accounting through incomplete records or single entry system will be discussed.

#### **4.2 Meaning, Main Features & Disadvantages:**

Single-Entry System can be defined as any system which is not exactly Double-Entry System. In other words, it may consist of: *a)* double entry in respect of certain transactions such as cash received from debtors, cash paid to creditors and so on; *b)* single entry in respect of certain transactions such as cash purchases, cash sales, expenses made for fixed assets, etc.; *c)* no entry in respect of certain transactions such as

depreciation, etc. Hence, an enterprise is said to be using Single-Entry System If it is not following completely the principle of Double-Entry System of book-keeping.

As such, the records maintained might consist of little more than a **cashbook** and a **file of suppliers' invoices**. In an extreme case, there may be no records at all, either because none have been maintained or because they have been destroyed or lost. On the other hand, a limited set of records may be quite sufficient to meet the needs of the owner or trader of a small business, who is usually also the manager of the enterprise and is in day-to-day contact with its business affairs. But, the main reason for keeping any records at all may be to comply with legal requirements, such as imposed by Tax Legislations.

Accordingly, the main features of the system which depends upon the incomplete records can be summarized as below:

***{1} Maintenance of Personal Accounts:***

Normally, under this system of book-keeping, personal accounts are maintained, while real and nominal accounts are ignored.

***{2} Maintenance of Cash Book***

A cash book is kept, which is usually mixes up both the personal transactions and the business transactions.

***{3} Dependence on Original Voucher:***

For obtaining the necessary information, it has to depend on original vouchers. For example, the figure of credit purchases may not be readily available, it may have to be found out on the basis of original invoices received from the suppliers. In

the same way, the figure of sales at the end of a given period may have to be found out on the basis of the invoices which have been issued by the enterprise from time to time.

***{4} No Uniformity:***

This system may differ from enterprise to enterprise as per their individual requirements and appropriateness.

On the other hand, the system of incomplete records may suffer from a variety of disadvantages, which could be summarized as follows:

***[1] Arithmetical Accuracy cannot be tested:***

Usually, in case of double-entry system of book-keeping, Trial Balance can be prepared to check the arithmetical rightness of the books of accounts. This is possible because every transaction is recorded at two places, on the contrary of the single-entry system. Therefore, this system increases the possibility of more frauds and misappropriations in comparison with the double-entry system.

***[2] True Profit cannot be known:***

Of course, in the absence of complete information for sale, purchases and other expenses, it is not possible to draw the Profit and Loss Account. Thus, the true profit or loss made or suffered by the business enterprise cannot be reached.

***[3] Financial Position of the Firm cannot be judged:***

In the absence of true figure of profit and correct information about the assets and liabilities of the business enterprise, the Balance Sheet cannot be drawn up to give a correct picture of the financial position of the business on a particular date.

### **4.3 Computation of Results of operations and Financial Position:**

In case of a firm maintaining incomplete records, the profit (or loss) can be calculated using two methods:

- ☐ **Net Worth Method:** in case of businesses with no accounting records at all.
- ☐ **Matching between revenue and expenses:** in case of businesses which maintain a cashbook.

#### **4.3.1 Businesses With No Accounting Records At All:**

It is indicated in the preceding argument that it is a legal requirement to keep accounting records sufficient to meet the needs of the tax authorities and hence it is rather unlikely that a business will maintain no accounting records at all. Nevertheless, it is normally that such records may be destroyed or stolen or that the owner of a small enterprise may be unaware of the need to maintain records.

In case of the total absence of accounting records, an accountant may be faced with the task of producing financial statements. Perhaps the case will be made worse if the business enterprise has traded entirely on cash basis, to the extent that external evidence in the form of bank statements, suppliers' invoices etc. is also unavailable.

In such a situation, the profit or loss made or suffered by the business is computed by comparing the net worth (or capital) of the business enterprise on two different dates. If the assets and liabilities of the business at the end of an accounting period can be ascertained, then a **Statement of Affairs** can be

prepared and the capital at the end of the period can be derived. Moreover, if the capital introduced and the drawings for the period are known, the profit or the loss for the period can then be deduced using the following formula:

$$\text{Profit (or Loss)} = \{ \text{Closing capital} + \text{Drawings} \} - \{ \text{Opening capital} + \text{Capital introduced} \}$$

Although it is not possible to draw up a detailed profit and loss account in the absence of accounting records, this method allows, at least, the derivation of a profit (or loss) figure which may satisfy the need of tax authorities and other users of information.

In order to effectively apply this method, some procedures should be followed as below:

**First: Adjustments.** The following adjustments are necessary for determining the profit or loss in case of this method:

**[1] Adjustment for Drawing.** The owner (proprietor) may withdraw money from the firm for his/her personal use. In the absence of such withdrawals, the capital at the end of the accounting period would have been more by the amount of money withdrawn by him/her and *vice versa*. Therefore, the amount of drawings should be returned back to the capital at the end of the accounting period to find out his/her true capital on that date.

**[2] Adjustment for Capital Introduced.** The owner may introduce further capital in the business during the accounting period. This will increase the capital of the owner at the end of the accounting period. Thus, it is required to reduce the amount of capital by the amount of capital introduced during the accounting period in order to determine the real increase in

the capital of the owner as a result of profit earned by him/her during the accounting period. Thus, the introduced capital should be added to the opening capital.

**Illustration 4.1:**

From the following information, draw up a statement of profit showing the amount of profit earned by Salsabil Firm during the year 2016.

Capital as on 31/12/2016	L.E.	900,000
Capital as on 1/1/2016		800,000
Salsabil's drawings		50,000
Further capital introduced		30,000

***Solution***

**Salsabil Firm**

**Statement of Profit**

**For the year ended December 31, 2016**

<b>Particulars</b>	<b>L.E.</b>
Capital as on 31/12/2016.....	900,000
<b>Add:</b> Drawings.....	<u>50,000</u>
<i>Subtotal</i> .....	950,000
<b>Less:</b> Capital as on 1/1/2016.....	(800,000)
Further capital introduced.....	<u>(30,000)</u>
<i>Profit made during the year</i> .....	120,000

Or Profit = {900,000 + 50,000} - {800,000 + 30,000} = 950,000 - 830,000 = L.E.120,000.

**Second: Computation of net Worth or Capital.** In order to specify profit or loss made or suffered during a period on the basis of net worth method, it is necessary to know the net worth or capital, both in the beginning and at the end of the

accounting period. Such practice is done by preparing a **Statement of Affairs.**

**Statement of Affairs** is a statement which shows the assets and liabilities of the firm as on a particular date. It is actually the **Balance Sheet** of an enterprise. Nevertheless, the term **Balance Sheet** is used for the Statement of Assets and Liabilities in the Double Entry System of Book-keeping where balances are taken from the **Ledger**.

On the contrary, in case of Single Entry System, all of the assets and liabilities which appear in the **Statement of Affairs** are not necessarily taken from the ledger accounts, because of incomplete recording of the transactions. Furthermore, the term **Balance Sheet** is used for statement which shows the correct financial position of the business. In case of Single Entry System, it may not be possible to prepare a statement which shows the correct financial position of the enterprise as the information is derived from different sources which may include not only the books of accounts but other sources which may not a hundred percent reliable.

On the other hand, there are some steps which can be followed for preparing statement of affairs, as below:

1. In case that a cash book is maintained, the cash and the bank balances can be taken from the cash book. In the absence of an appropriate cash book, cash balance may have to be found out by preparing a **Receipt and Payment Account** on the basis of information extracted from the owner of the firm and the statement of accounts which might have been received or sent by the owner from/to his/her debtors and creditors and the actual cash balance available with the firm. The balance at the

bank can be verified from the Statement of Account of the bank (Bank Statement).

2. A list of sundry debtors and creditors should be prepared from personal account record that may be maintained.
3. The value of the fixed assets like tools and equipment, buildings, furniture etc. should be determined from vouchers or other documents available with the firm. An appropriate charge for depreciation should also be considered and the assets should be shown in the **Statement of Affairs** after charging depreciation.
4. The value of the stock should be ascertained on the basis of the different invoices received from suppliers from time to time in respect of the goods purchased.
5. The amount of outstanding expenses and the accrued income should also be determined.
6. The excess of assets over liabilities should be found out and this will reveal the net worth or the capital of the enterprise on the date on which the **Statement of Affairs** has been prepared.

### **Illustration 4.2:**

Mohamed began trading on January 1, 2016 and chose 31 of December as his annual accounting date. He did not open a business bank account, preferring that all of his receipts and payments should be made in cash. A simple cashbook was maintained during his first year of trading, but unfortunately this was lost in early March 2016. An interview with Mohamed revealed the following information:

- (a) He started the business on January 1, 2016 with cash of L.E.50,000 and a truck which was worth L.E.400,000 at that



time. The truck was still in Mohamed's possession at the end of his first year and was expected to last for a further two years before being sold for an estimated L.E.100,000.

- (b) Mohamed thinks that his cash box contains approximately L.E.15,000 at the end of December 2016 and that the cost of his stock (goods) on that date was about L.E.250,000.
- (c) On 31 December 2016, Mohamed owed L.E.84,000 to his suppliers and was owed L.E.32,000 by his customers. He had paid L.E.10,000 rent in advance and he estimates that electricity charges of approximately L.E.5,000 had accrued.
- (d) Mohamed introduced no further capital during the year to 31 December 2016, but drew L.E.12,000 per week out of the business to cover his personal living expenses. He borrowed L.E.100,000 on July 1, 2016 at an interest rate of 5% per annum. No interest had yet been paid on his loan.

**Required:**

Draw up a statement of affairs as at 31<sup>st</sup> December 2016 and estimate Mohamed's profit for the year ended on that date.

## *Solution*

### Mohamed Statement of Affairs As at December 31<sup>st</sup>, 2016

Assets		Obligations	
<b><u>Fixed assets:</u></b>	L.E.	<b><u>Current liabilities:</u></b>	L.E.
Truck (net).....	300,000	Trade creditors....	84,000
<b><u>Current assets:</u></b>		Outstanding expenses	
Stock of goods.....	250,000	(5,000 + 2,500)	7,500
Trade debtors.....	32,000	<b><u>Long-term liabilities:</u></b>	
Advance payments..	10,000	Loan.....	100,000
Cash in hand.....	15,000	Capital as at 31 Dec. 2016	
		(balancing figure)	415,500
<b><u>Total.....</u></b>	<b><u>607,000</u></b>	<b><u>Total.....</u></b>	<b><u>607,000</u></b>

#### *Notes:*

1. It has been assumed that the truck is to be depreciated on the straight-line basis, with a cost of L.E.400,000, a useful life of 3 years and a residual value of L.E.100,000. This gives depreciation of L.E.100,000 per year ( $\frac{400,000 - 100,000}{3 \text{ years}}$ ) and therefore, a written-down value of L.E.300,000 after the first year of trading.
2. Accruals consist of electricity L.E.5,000 and interest on loan L.E.2,500 ( $100,000 \times \frac{5}{100} \times \frac{6}{12}$ ).
3. Mohamed's opening capital was L.E.450,000 and his closing capital was L.E.415,500 and drawings were L.E.624,000 (L.E.12,000  $\times$  52 weeks). Therefore, the profit for the year was [L.E.415,500 + L.E.624,000] - L.E.450,000 = L.E.589,500.

**Illustration 4.3:**

Adel maintains his books by using single entry system. His position on January 1, 2016 was as follows: Cash at Bank L.E.500,000, Cash in hand L.E.100,000, Stock of goods L.E.700,000, Sundry Debtors L.E.840,000, Machinery L.E.650,000, Notes Payable L.E.400,000, Notes Receivable L.E.260,000, and Creditors L.E.250,000.

On December 31<sup>st</sup>, 2016, his position was as follows: Cash at bank L.E.430,000, Cash in hand L.E.170,000, Stock of goods L.E.900,000, Debtors L.E.600,000, Machinery L.E.650,000, Notes payable L.E.320,000, Notes receivable L.E.320,000, Creditors L.E.160,000. During the year, Adel introduced further capital of L.E.200,000 and his drawings were L.E.80,000 per month.

**Required:**

From the above information, prepare a statement showing the profit or loss resulting for the year ended December 31<sup>st</sup>, 2016, after depreciating machinery by 5% and creating a provision for bad and doubtful debts at 5%.

***Solution***

**Adel's Statement of Affairs**

<b>Assets</b>	<b>As on January 1<sup>st</sup>, 2016</b>	<b>Obligations</b>	
	L.E.		L.E.
Cash in hand.....	100,000	Notes payable.....	400,000
Cash at bank.....	500,000	Creditors.....	250,000
Notes receivable..	260,000	<b><u>Owner's equity:</u></b>	
Stock of goods.....	700,000	Capital (balancing	
Debtors.....	840,000	figure)	2,400,000
Machinery.....	650,000		
<b>Total.....</b>	<b>3,050,000</b>	<b>Total.....</b>	<b>3,050,000</b>

## Adel's Statement of Affairs

**Assets                      As on December 31<sup>st</sup>, 2016                      Obligations**

Cash in hand.....	170,000	Notes payable.....	320,000
Cash at bank.....	430,000	Creditors.....	160,000
Notes receivable..	320,000	<b><u>Owner's equity:</u></b>	
Stock of goods.....	900,000	Capital (balancing figure)	2,527,500
Debtors 600,000			
<i>Less:</i> Provision at 5%	570,000		
<u>30,000</u>			
Machinery 650,000			
<i>Less:</i> Depreciation at 5%	617,500		
<u>32,500</u>			
<b><i>Total</i>.....</b>	<b>3,007,500</b>	<b><i>Total</i></b>	<b>3,007,500</b>

### Statement of Profit

**For the year ending December 31<sup>st</sup>, 2016**

Capital as on Dec. 31, 2016...	2,527,500	
<i>Add:</i> Drawings (80,000 × 12)...	<u>960,000</u>	3,487,500
<i>Less:</i> Capital as on Jan. 1, 2016..	2,400,000	
Capital introduced.....	<u>200,000</u>	(2,600,000)
<b><i>Net profit for the year</i>.....</b>	<b>.....</b>	<b><u>887,500</u></b>

### **4.3.2 Matching Between Revenue and Expenses (Conversion Method):**

Comparison between closing and opening capital (or Net Worth Method) explained in the preceding pages does not provide a clear picture of the operational results of a business enterprise. For example, it does not give information about sales, purchases, gross profit, operating expenses etc. of an enterprise.

Accordingly, a meaningful analysis of the financial statements cannot be done and also effective steps to improve financial position of a business enterprise cannot be taken. Therefore, it will be better to collect all such information from the books of accounts and other sources which are necessary for preparing Trial Balance of an enterprise. This is undertaken by preparing a *Total Debtors Account, a Total Creditors Account, a Notes Receivable Account, a Notes Payable Account, and Receipts and Payments Account etc.*, on the basis of double entry system.

Accounts relating to different expenses, incomes, fixed assets and fixed or long-term liabilities and outstanding are also prepared with the help of Receipts and Payments account and additional information available in the Cashbook. Hence, the closing balances of different accounts are found out and a Trial Balance prepared. Final accounts can then be prepared in the usual approach. Such a method of collecting information as per the requirements of the double entry system of book keeping, is termed as Conversion Method.

If a business enterprise has kept records of cash received and paid, it will usually be possible to prepare a full set of

accounts at the end of each accounting period. However, in practice usually a shortened Conversion Method is followed. Under this approach, a variety of nominal accounts are not opened in the ledger, nor a trial balance is prepared. Only information which is required for preparing the Trading and Profit & Loss Account and Balance Sheet of an enterprise is collected. Anyway, a systematic approach to the preparation of accounts in these cases is as follows:

{1} If the opening balance sheet is not given, prepare an opening statement of affairs from the information provided and calculate the opening capital figure.

{2} Prepare a summary cash account for the year. This may involve deriving a missing figure if the information given is incomplete.

{3} Prepare a summary bank account for the year. Even if the enterprise has not maintained records of bank transactions, this account can always be prepared by referring to copy of the bank statements.

{4} If the enterprise sells goods on credit terms, prepare a total debtors account.

{5} If the business enterprise buys goods on credit terms, prepare a total creditors account.

{6} Open an account for each expense or revenue item for which there are opening and/or closing accruals/prepayments and use these accounts to calculate the amount which should be shown in the profit & loss account for each item. If an expense or a revenue item has no accruals or prepayments, then the amount to be shown in the profit & loss account is

equal to the amount actually paid/received in the year and there is no need to open accounts for such items.

{7} Deal with any closing adjustments (for example, depreciation, provisions for doubtful debts) using either workings or accounts, depending upon the complexity of the adjustments required.

{8} Extract the profit and loss account and draw up the closing balance sheet.

The following illustrations and steps will be taken for applying the above method in order to prepare final accounts.

**1. Ascertainment of Sales:**

In practice, sales may be of two types: *a*) Credit Sales, and *b*) Cash sales. Credit sales should be found out by preparing a Debtors Account, while cash sales should be found out from the Cash Book. Debtors Account can be shown as below:

<b>Dr.</b>	<b>Debtors Account</b>		<b>Cr.</b>
<i>Opening balance (b/d)</i>	<i>xxx</i>	By Cash/Bank a/c (may be a deduced figure)	<i>xxx</i>
To Sales ( may be a deduced figure)	<i>xxx</i>	By Discount allowed	<i>xxx</i>
To Notes receivable (dishonoured bills)	<i>xxx</i>	By Sales returns	<i>xxx</i>
To Delay interest	<i>xxx</i>	By Notes receivable	<i>xxx</i>
To Cash/Bank a/c (paid expenses on behalf of debtors)	<i>xxx</i>	By Bad debts	<i>xxx</i>
<i>Total</i>	<u><i>xxx</i></u>	<i>Balance c/d (closing)</i>	<i>xxx</i>
<i>Balance b/d (opening)</i>	<u><i>xxx</i></u>	<i>Total</i>	<u><i>xxx</i></u>
	<i>xxx</i>		<i>xxx</i>

**Illustration 4.4:**

From the following information, find out the credit sales:

Balance of Debtors on 1/1/2016	L.E.	120,000
Sales returns		50,000
Cash received from customers		450,000
Discount allowed to them		30,000
Notes receivable from customers		170,000
Bad debts		15,000
Notes receivable dishonoured		35,000
Debtors on 31/12/2016		100,000

***Solution***

<b>Dr.</b>	<b>Debtors Account</b>	<b>Cr.</b>	
<b>Balance b/d 1/1</b>	<b>120,000</b>	Return inwards	50,000
Notes receivable		Cash	450,000
dishonoured	35,000	Discount allowed	30,000
Credit sales (deduced figure)	<b>660,000</b>	Notes receivable	170,000
		Bad debts	15,000
		<b>Balance c/d</b>	<b>100,000</b>
	<b>815,000</b>	<b>31/12</b>	<b>815,000</b>

The amount of Cash Sales may be given in the Cash Book. Nevertheless, its amount may have to be ascertained by preparing a Receipts and Payments Account in case complete Cash Book has not been given.

**Illustration 4.5:**

From the following cash transactions, ascertain the amount of cash sales:

Cash balance as on 1/1/2016	L.E.	50,000
Bank balance as on 1/1/2016		100,000
Cash collected from Debtors		200,000



Other incomes	50,000
Payment made to Creditors	100,000
Cash purchases	200,000
Cash balance as on 31/12/2016	100,000
Bank balance as on 31/12/2016	150,000

***Solution***

**Receipts and Payment (Cash & Bank) account**

**Dr.            for the year ending 31/12/2016            Cr.**

Balance b/d 1/1/2016:		Creditors	100,000
Cash in hand	50,000	Purchases	200,000
Cash at bank	100,000	Balance c/d 31/12:	
Debtors	200,000	Cash in hand	100,000
Other incomes	50,000	Cash at bank	150,000
Cash sales (deduced figure)	<b><i>150,000</i></b>		
	<b><u>550,000</u></b>		<b><u>550,000</u></b>

Note that: in the above illustration cash receipts (including opening cash and bank balance) regardless the amount of cash sales amount to L.E.400,000, while cash payments (including closing cash and bank balances) amount to L.E.550,000. Accordingly, L.E.150,000 must have been received from somewhere sources. There can be three important sources: **a)** Cash Sales; **b)** Collections from Debtors; and **c)** Introduction of further capital by the owner. Since the amount of cash collected from debtors has already been given, the choice falls between introduction of further capital by the proprietor and the sales. In the absence of any other information, it will be

proper to presume that cash of L.E.150,000 is because of cash sales.

On the same basis, the amount of cash collected from debtors can be found out. For instance, if in the above illustration the cash sales are given as L.E.200,000, and other figures remain the same, the amount of cash collected from debtors can be considered as L.E.150,000.

### **2. Ascertainment of Purchases:**

The purchases may be of two types (1) Credit Purchases, and (2) Cash Purchases. The amount of credit purchases can be ascertained by preparing a Creditors Account. Creditors Account can be shown as below:

<b>Dr.</b>	<b>Creditors Account</b>		<b>Cr.</b>
To Cash/Bank a/c	xxx	<i>Opening balance</i>	xxx
To Discount received	xxx	<i>(b/d)</i>	
To Purchases returns	xxx	By Purchases (may	xxx
To Notes payable	xxx	be a deduced figure)	
To Notes receivable	xxx	By Notes payable	xxx
<b>Balance c/d (closing)</b>	<b><u>xxx</u></b>	(Cancelled notes)	<b><u>xxx</u></b>
<i>Total</i>	<b><u>xxx</u></b>	By Delay interest	<b><u>xxx</u></b>
		<i>Total</i>	<b><u>xxx</u></b>
		<b>Balance</b>	<b><i>b/d</i></b>
		<b>(opening)</b>	

### **Illustration 4.6:**

From the following information, find out the Credit Purchases for the year of 2016:

Balance of Creditors on 1/1/2016	L.E.	76,000
Cash paid to Creditors		200,000

Discount allowed by them	5,000
Purchases returns	24,000
Notes accepted	46,000
Creditors on 31/12/2016	95,000

***Solution***

<b>Dr.</b>	<b>Creditors Account</b>		<b>Cr.</b>
To Cash.....	200,000	<b>Balance</b> <i>b/d</i>	<b>76,000</b>
To Discount received	5,000	<b>1/1/016</b>	
To Returns outwards	24,000	By      Purchases	294,000
To Notes payable	46,000	(balancing figure)	
<b>Balance c/d 31/12</b>	<b>95,000</b>		
<b>Total</b>	<b>370,000</b>	<b>Total</b>	<b>370,000</b>

Note that the amount of cash purchases can be ascertained from the Cash Book. In the case of complete Cash Book has not been given, the amount of cash purchases can be ascertained by preparing a Receipts and Payments Account.

**Illustration 4.7:**

From the following cash transactions, ascertain the amount of cash purchases.

**Balances as on January 1, 2016:**

Cash in hand	L.E.	100,000
Cash at bank		200,000
Cash receipts from debtors		300,000
Cash sales		100,000
Cash paid to creditors		400,000

**Balances as on December 31, 2016:**

Cash in hand	100,000
Cash at bank	100,000

### *Solution*

## Receipts and Payments (Cash & Bank) Account

**Dr.                      For the year ending 31/12/2016                      Cr.**

<b>Balance b/d 1/1/2016:</b>		By	400,000
Cash in hand....	100,000	Creditors.....	
Cash at bank.....	200,000	By Purchases (	100,000
To Debtors.....	300,000	balancing figure)	
To Sales.....	100,000	<b>Balance            c/d</b>	100,000
		<b>31/12:</b>	100,000
		Cash in hand...	
		Cash at bank...	
	<b>700,000</b>		<b>700,000</b>

In the preceding illustration, total cash receipts (including opening balances) amount to L.E.700,000, while total cash payments (including closing balances) amount to L.E.600,000. This means that L.E.100,000 must have been paid for some item. In practice, there can be three possible reasons or alternatives: *1) Payments to Creditors, 2) Drawings by the owner, and 3) Cash Purchases.*

The amount paid to creditors is already given in the above illustration. The choice is now between the drawings made by the proprietor and the cash purchases. In the absence of any other information, it will be better to presume this as the amount of cash purchases. In case the amount of cash purchases had been given as L.E.400,000, the balancing figure could have been taken as the amount paid to the creditors as L.E.100,000.

### 3. Ascertainment of Cash and Bank Balances:

The amount of Cash in hand or Cash at Bank can be ascertained by preparing a Receipts and Payments Account, in case of complete Cash Book in all respects has not been given.

#### Illustration 4.8:

From the following figures, ascertain the amount of cash in hand as on December 31, 2016:

Cash in hand as on 1/1/2016	L.E.	50,000
Cash at bank as on 1/1/2016		100,000
Total cash receipts		300,000
Total cash payments		350,000
Cash at bank on 31/12/2016		50,000

#### *Solution*

Dr.	Receipts and Payments Account		Cr.
<i>Balance b/d 1/1/016</i>		By Cash Payments	350,000
Cash in hand	50,000	<i>Balance c/d 31/12:</i>	
Cash at bank	100,000	Cash at bank	50,000
To Cash Receipts	300,000	Cash in hand (deduced figure)	50,000
	<b>450,000</b>		<b>450,000</b>

#### Illustration 4.9:

From the following figures, calculate the amount of cash at bank as on January 1, 2016:

Cash in hand as on 1/1/2016	L.E.	50,000
Total cash receipts		100,000
Total cash payments		150,000
Cash in hand on 31/12/2016		80,000
Cash at bank on 31/12/2016		20,000

### *Solution*

<b>Dr.</b>	<b>Receipts and Payments Account</b>	<b>Cr.</b>
<b><i>Balance b/d 1/1/016</i></b>		By Cash Payments
Cash in hand	50,000	<b><i>Balance c/d 31/12:</i></b>
Cash at bank		Cash in hand
(balancing figure)	100,000	Cash at bank
To Cash Receipts	100,000	
	<b>250,000</b>	
		<b>250,000</b>

#### **4. Ascertainment of Notes Receivable Balances:**

The balance of notes receivable at the beginning or at the end of the accounting year can be ascertained by preparing a Notes Receivable Account.

#### **Illustration 4.10:**

From the following information, calculate the amount of notes receivable as on December 31, 2016:

Notes receivable as on 1/1/2016	L.E. 100,000
Notes receivable received during the year	300,000
Notes receivable discounted from the bankers	100,000
Cash received on account of notes receivable	50,000
Notes receivable dishonoured	50,000
Notes receivable endorsed in favour of creditors	50,000

### *Solution*

<b>Dr.</b>	<b>Notes Receivable Account</b>	<b>Cr.</b>	
<i>Balance b/d 1/1/016</i>	<b>100,000</b>	By Bank and	
To Debtors (notes received)	300,000	Discounting charges	100,000
		By Cash	50,000
		By Debtors	50,000
		By Creditors	50,000
		<i>Balance c/d 31/12</i>	<b>150,000</b>
	<b>400,000</b>		<b>400,000</b>

### 5. Ascertainment of Notes Payable Balances:

The balance of notes payable account at the beginning or at the end of the accounting year can be ascertained by preparing a Notes Payable Account.

#### Illustration 4.11:

From the following information, ascertain the amount of notes payable as on January 1, 2016:

Notes payable issued in the favour of creditors during 2016	L.E.	300,000
Notes payable paid during the year		200,000
Notes payable dishonoured during the year		50,000
Notes payable on December 31, 2016		100,000

### *Solution*

<b>Dr.</b>	<b>Notes Payable Account</b>	<b>Cr.</b>	
To Cash	200,000	<i>Balance b/d 1/1/016</i>	
To Creditors (notes dishonoured)	50,000	<i>(balancing figure)</i>	<b>50,000</b>
<i>Balance c/d 31/12/016</i>	<b>100,000</b>	By Creditors (notes issued)	300,000
	<b>350,000</b>		<b>350,000</b>

## 6. Ascertainment of Other Balances:

The balances of some other assets such as land, building, machinery, furniture, etc., can be ascertained by taking into account the following:

[1] Balance in the beginning of the accounting year as shown by last year's Balance sheet.

[2] Any purchase or sale of the asset as shown by the Cash Book.

[3] Depreciation on the basis of additional information given.

### Illustration 4.12:

Ascertain the balance in the Machinery Account as on December 31, 2016 on the basis of the following information:

Machinery as on January 1, 2016

(at original cost) L.E. 100,000

Purchase of machinery during 2016 200,000

Sale of machinery during 2016

(original cost L.E.50,000) 20,000

Depreciation on machinery on 1/1/2016 20,000

Book value of the machinery sold 40,000

Charge depreciation at 10% of the original cost of the machinery including additions for the whole year. No depreciation is to be charged on machinery sold.

### *Solution*

<b>Dr.</b>	<b>Machinery Account</b>		<b>Cr.</b>
<i>Balance b/d 1/1/016</i>	<b>100,000</b>	By Sold Machinery	50,000
To Cash/Bank	200,000	<i>Balance c/d 31/12</i>	<b>250,000</b>
	<b>300,000</b>		<b>300,000</b>



Depreciation expenses for the year = 250,000 × 10% = L.E.25,000

### Accumulated Depreciation of Machinery

Dr.	Account		Cr.
To Sold Machinery	10,000	<i>Balance b/d 1/1/016</i>	<i>20,000</i>
<i>Balance c/d 31/12</i>	<i>35,000</i>	By Depreciation Expenses	25,000
	<b><u>45,000</u></b>		<b><u>45,000</u></b>

  

Dr.	Sold Machinery Account		Cr.
To Machinery	50,000	By Accumulated Depreciation	10,000
		By Cash/Bank (sales)	20,000
		<i>By Profit &amp; Loss A/C (loss on sale of machinery)</i>	<i>20,000</i>
	<b><u>50,000</u></b>		<b><u>50,000</u></b>

### Comprehensive Illustration 4.13:

Farid prepares accounts to December 31, each year. He does not maintain full double-entry records but he does keep a *cashbook*. The following information is available:

{1} Cash expenses during the year to December 31, 2016, were as follows:

*a.* Wages of L.E.3,500 per week (including L.E.2,000 per week for Fared himself)

*b.* Sundry expenses totalling L.E.11,200 for the year. All other payments were made by business checks.

{2} Customers who buy goods on credit terms always pay by checks and these checks are banked weekly.

{3} A summary of Fared's bank account for the year to December 31, 2016 is as follows:

\*Cash at bank as at 1/1/2016 L.E. 18,300

\*Receipts during the year:

-Credit customers' checks paid into the bank 117,600

-Sale of motor car 37,000

\*Payments during the year:

#Suppliers of goods bought on credit terms 378,800

#Purchase of new motor car 158,000

#Rent, rates, and insurance 75,900

#Heating and lighting 16,300

#Motor expenses 36,400

{4} The motor car sold during the year was bought for L.E.123,000 in April 2013. Fared calculates depreciation at 25% per year using the straight-line method, with a full charge in the year of acquisition and none in the year of disposal.

{5} Apart from (regardless) motor car and cash at bank, Fared's assets and liabilities are:

	31/12/2015	31/12/2016
	L.E.	L.E.
Stock of goods for resale, at cost	113,700	125,400
Trade Debtors	9,600	10,200
Prepaid rent, rates and insurance	9,500	11,300
Cash in hand	1,200	1,500
Trade creditors	145,400	136,700
Accrued heating and lighting	2,200	2,600
Cash at bank (Bank overdraft)	18300	(10300)

**Required:**

Prepare Fared's Trading and Profit and Loss Account for the year to December 31, 2016 and a Balance Sheet as at that date.

**Solution**

**Statement of Affairs (opening Balance Sheet)**

**Assets as at January 1, 2016 Liabilities**

<b><u>Fixed assets:</u></b>		<b><u>Current liabilities:</u></b>	
Motor Car 123,000		Trade Creditors	145,400
<i>Less: Acc. Dep. 92,250*</i>	30,750	Accruals	2,200
<b><u>Current assets:</u></b>		<b><u>Owner's equity:</u></b>	
Stock of goods	113,700	Capital as at	
Trade Debtors	9,600	1/1/2016	<b>35,450</b>
Prepaid expenses	9,500		
Cash at bank	18,300		
Cash in hand	1,200		
	<b><u>183,050</u></b>		<b><u>183,050</u></b>

\*The motor car cost L.E.123,000. Depreciation has been provided for at 25% of this cost in each of the years to December 31, 2013, 2014, and 2015. Accordingly, accumulated depreciation =  
L.E.123,000 × 25% x 3 = L.E.92,250, leaving a written down value (WDV) of L.E.30,750.

**Dr. Receipts & Payments Account Cr**

<b><u>Balance b/d 1/1/2016</u></b>		By Wages*	78,000
Cash	1,200	By Drawings*	104,000
Bank	18,300	By Sundry expenses	11,200
To Debtors	117,600	By Creditors	378,800
To Car disposal	37,000	By Motor Car	158,000
To Credit sales	675,700	By Rent, rates, and Ins.	75,900
<b><u>Balance c/d 31/12/16</u></b>		By Heating & Lighting	16,300
Bank overdraft	10,300	By Motor expenses	36,400
		<b><u>Balance c/d 31/12/16</u></b>	
		Cash	1,500
	<b><u>860,100</u></b>		<b><u>860,100</u></b>

\*Wages = 1,500 (3,500 - 2,000) × 52 weeks = L.E.78,000.

\*Drawings = 2,000 × 52 weeks = L.E.104,000.

**Dr. Debtors Account Cr**

<b><u>Balance b/d 1/1/2016</u></b>		By Bank	
To Sales (deduced)	9,600	<b><u>Balance c/d 31/12/16</u></b>	117,600
	118,200		
	<b><u>127,800</u></b>		<b><u>10,200</u></b>
			<b><u>127,800</u></b>

**Dr. Creditors Account Cr.**

To Bank account	378,800	<b><u>Balance b/d 1/1/2016</u></b>	145,400
<b><u>Balance c/d 31/12/16</u></b>	136,700	By Purchases account (deduced figure)	370,100
	<b><u>515,500</u></b>		<b><u>515,500</u></b>

**Dr. Rent, Rates & Insurance Account Cr**

<b><u>Balance b/d 1/1/2016</u></b> (prepayments)	9,500	By Profit & Loss a/c	74,100
To Bank account	75,900	<b><u>Balance c/d 31/12/16</u></b> (prepayments)	11,300
	<b><u>85,400</u></b>		<b><u>85,400</u></b>

**Note:** Rent, rates and insurance expenses which should be shown in the Profit and Loss Account can be calculated as follows:

Prepayments as on January 1, 2016	L.E.	9,500
<i>Add:</i> Paid during the year		<u>75,900</u>
<i>Subtotal</i>		85,400
<i>Less:</i> Prepayment as on December 31, 2016		<u>11,300</u>
Expenses shown in the P & L Account		<b><u>74,100</u></b>

Dr.		Heating & Lighting Account		Cr.	
To Bank account	16,300	<i>Balance b/d 1/1/2016</i>			
<i>Balance c/d 31/12/16 (accrued)</i>	<u>2,600</u>	<i>(accrued)</i>			2,200
		By Profit & Loss account			16,700
	<b><u>18,900</u></b>				<b><u>18,900</u></b>

**Note:** Heating and lighting expenses which should be shown in the Profit and Loss Account can be calculated as follows:

Paid during the year	L.E.	16,300
<i>Less:</i> Accruals as on January 1, 2016		<u>2,200</u>
<i>Subtotal</i>		14,100
<i>Add:</i> Accruals as on December 31, 2016		<u>2,600</u>
Expenses shown in the P & L Account		<b><u>16,700</u></b>

Dr.		Sold Motor Car Account		Cr.	
To Motor Car a/c (original cost)	123,000	By Accumulated Depreciation a/c			92,250
<i>To Profit &amp; Loss a/c (net gains)</i>	<u>6,250</u>	By Bank a/c (sales)			37,000
	<b><u>129,250</u></b>				<b><u>129,250</u></b>

**Trading and Profit and Loss Account**  
**Dr. for the year ended December 31, 2016 Cr.**

Opening stock 1/1	113,700	Sales:	
To Purchases a/c	370,100	Cash	675,700
<b>Gross Profit</b>	<b>435,500</b>	Credit	<u>118,200</u>
		Closing stock 31/12	125,400
	<b><u>919,300</u></b>		<b><u>919,300</u></b>
Wages	78,000	<b>Gross Profit</b>	<b>435,500</b>
Sundry expenses	11,200	Gain on sale of motor car	6,250
Rent, rates & insurance	74,100		
Heating and lighting	16,700		
Motor expenses	36,400		
Depreciation expenses:			
Motor car*	39,500		
<b>To Capital (net profit)</b>	<b>185,850</b>		
	<b><u>441,750</u></b>		<b><u>441,750</u></b>

\*Depreciation expenses of motor car (purchased during this year) =  $158,000 \times 25\% = \text{L.E.}39,500$ .

**Farid's Enterprise, Balance Sheet**  
**Assets as at December 31, 2016 Liabilities & O.E.**

<b><u>Fixed assets:</u></b>		<b><u>Current liabilities:</u></b>	
Motor Car 158,000		Trade Creditors	136,700
(-) Acc. Dep. <u>39,500</u>	118,500	Outstanding expenses	2,600
<b><u>Current assets:</u></b>		Bank overdraft	<u>10,300</u>
Stock of goods	125,400	<b>Total of liabilities</b>	<b>149,600</b>
Trade Debtors	10,200	<b><u>Owner's equity:</u></b>	
Prepayments	11,300	Capital 1/1	35,450
Cash in hand	1,500	(+) Net profit <u>185,850</u>	
			221,300
		(-) Drawings <u>104,000</u>	
		Capital as on 31/12	117,300
	<b><u>266,900</u></b>		<b><u>266,900</u></b>

**Comprehensive Illustration 4.14:**

Samir commenced business as a cloth merchant on January 1, 2016, with a capital of L.E.100,000. On the same day, he purchased furniture for cash of L.E.30,000. From the following information obtained from his books kept by single-entry system, you are asked to prepare a Trading and Profit and Loss Account for the year ending December 31, 2016 and a Balance Sheet as on that date.

Sales (inclusive of cash L.E.70,000)	170,000
Purchases (inclusive of cash L.E.40,000)	150,000
Samir's drawings	12,000
Salaries to staff	20,000
Bad debts written-off	5,000
Business expenses	7,000

Samir took cloth worth of L.E.5,000 from the shop for private use and paid L.E.2,000 to his son, but omitted to record these transactions in his book. On December 31<sup>st</sup>, 2016, his sundry debtors were L.E.52,000 and sundry creditors L.E.36,000. Stock in hand on December 31<sup>st</sup>, 2016, was L.E.65,000.

*Solution*

**Samir's Trading and Profit and Loss Account  
Dr. for the year ended December 31, 2016 Cr.**

To Purchases 150,000			By Sales	170,000
(-) Drawings <u>5,000</u>		145,000	Closing stock 31/12	65,000
<b>Gross Profit</b>		<b>90,000</b>		
		<b><u>235,000</u></b>		<b><u>235,000</u></b>
To Salaries		20,000	<b>Gross Profit</b>	<b>90,000</b>
To Bad debts		5,000		
To Business expenses		7,000		
<b>To Capital (net profit)</b>		<b>58,000</b>		
		<b><u>90,000</u></b>		<b><u>90,000</u></b>

**Samir's Enterprise  
Balance Sheet**

**Assets as at December 31, 2016 Liabilities & O.E.**

<b><u>Fixed assets:</u></b>	<b><u>L.E.</u></b>	<b><u>Current liabilities:</u></b>	<b><u>L.E.</u></b>
Furniture	30,000	Trade Creditors	36,000
<b><u>Current assets:</u></b>		<b><u>Owner's equity:</u></b>	
Stock of goods	65,000	Capital 1/1	100,000
Trade Debtors	52,000	(+) Net profit	<b><u>58,000</u></b>
Cash in hand	28,000		158,000
		(-) Drawings	<u>19,000</u>
		Capital as on 31/12	139,000
	<b><u>175,000</u></b>		<b><u>175,000</u></b>



## Working Notes:

<b>Dr.</b>		<b>Debtors Account</b>		<b>Cr</b>	
To Credit Sales	100,000	By Cash (deduced)		43,000	
		By Bad Debts		5,000	
		<i>Balance c/d 31/12/16</i>		<i>52,000</i>	
	<b><u>100,000</u></b>			<b><u>100,000</u></b>	

<b>Dr.</b>		<b>Creditors Account</b>		<b>Cr.</b>	
To Cash (deduced)	74,000	By Credit Purchases		110,000	
<i>Balance c/d 31/12/16</i>	<i>36,000</i>				
	<b><u>110,000</u></b>			<b><u>110,000</u></b>	

## Receipts and Payments Account

### Receipts for the year ending 31/12/ 2016      Payments

To Capital	100,000	By Furniture	30,000
To Cash Sales	70,000	By Cash Purchases	40,000
To Debtors	43,000	By Drawings	14,000
		By Salaries	20,000
		By Business expenses	7,000
		By Creditors	74,000
		<i>Balance c/d 31/12/16</i>	<i>28,000</i>
	<b><u>213,000</u></b>		<b><u>213,000</u></b>

**Comprehensive Illustration 4.15:**

The following balances were disclosed by the books of Amgad:

	31/12/2015	31/12/2016
Cash at bank	L.E. 30,000	191,000
Cash in hand	4,000	8,500
Stock-in-trade	220,000	250,000
Sundry Debtors	.....	350,000
Sundry Creditors	234,000	185,000
Fixtures	20,000	
Office Car	10,000	

The Cash Book analysis showed the following figures amongst others:

Receipts from customers	L.E.	1,350,000
Discount allowed to them		14,000
Further capital introduced on 1/7/2016		20,000
Salaries up to 30/11/2016		110,000
Office rent to 30/11/2016		22,000
Advertising		9,000
General expenses		6,000
Motor upkeep (maintenance)		13,500
Printing & stationery		8,000
Drawings		66,000
Payments to creditors		1,120,000
Discount allowed by them		12,000
Travel expenses		10,000

No ready figures are available for total sales but Amgad maintains a steady gross profit rate of 25% on sales. There were bills outstanding for motor expenses of L.E.250,

advertising of L.E.750, and printing of L.E.450. Provide 5% on debtors for doubtful debts. The motor car and fixtures are to be depreciated by 20% and 5% respectively. 5% interest is to be allowed on capital.

**Required:**

Prepare Amgad's Trading and Profit and Loss Account for 2016 and his Balance Sheet on December 31, 2016.

***Solution***

**Calculations:**

(1) Salaries: Per month =  $110,000 \div 11 = \text{L.E.}10,000$

Annual salaries =  $10,000 \times 12 = \text{L.E.} \quad 120,000$

Paid during the year 110,000

Outstanding for December 10,000

(2) Rent: Per month =  $22,000 \div 11 = \text{L.E.} \quad 2,000$

Annual rent =  $2,000 \times 12 = \quad 24,000$

Paid during the year 22,000

Outstanding for December 2,000

(3) Advertising =  $9000 + 750 \text{ outstanding} = 9,750$

(4) Motor expenses = paid 13,500 + outstanding 250 = L.E.13,750 petrol bill for this year.

(5) Printing and stationery = paid 8,000 + outstanding 450 = L.E.8,450 for this year.

(6) Interest on Capital: Opening Capital = [bank 30,000 + cash 4,000 + stock 220,000 + fixtures 20,000 + car 10,000 + debtors 470,000] - creditors 234,000 =  $754,000 - 234,000 = \text{L.E.}520,000$ .

Interest =  $520,000 \times 5\% + 20,000 \times 5\% \times \frac{6}{12} = 26,000 + 500 = \text{L.E.}26,500$ .

(7) Provision for doubtful debts =  $350,000 \times 5\% = \text{L.E.}17,500.$

(8) Depreciation Expenses:

Car =  $10,000 \times 20\% = \text{L.E.}2,000$

Fixtures =  $20,000 \times 5\% = \text{L.E.}1,000.$

(9) Cash Sales: **L.E.160,000**

<b>Dr.</b>		<b>Receipts and Payments Account</b>		<b>Cr.</b>	
<i>Balance b/d 1/1/016</i>				By Salaries	110,000
Bank	30,000			By Rent	22,000
Cash	<u>4,000</u>	34,000		By Advertising	9,000
To Debtors		1,350,000		By General expenses	6,000
To Capital introduced		20,000		By Motor upkeep	13,500
To Cash sales (balancing figure)		<b>160,000</b>		By Printing & stationery	8,000
				By Drawings	66,000
				By Creditors	1,120,000
				By Travelling expenses	10,000
				<i>Balance c/d 31/12:</i>	
				Bank	191,000
				Cash	<u>8,500</u>
		<b>1,564,000</b>			199,500
					<b>1,564,000</b>

(10) Opening Balance of Sundry Debtors: **L.E.470,000**

<b>Dr.</b>		<b>Debtors Account</b>		<b>Cr</b>	
<i>Balance b/d 1/1/016 (deduced)</i>				By Cash	1,350,000
		<b>470,000</b>		By Discount	14,000
To Credit Sales (total sales less cash sales)		1,244,000		<i>Balance c/d 31/12/16</i>	<b>350,000</b>
		<b>1,714,000</b>			<b>1,714,000</b>

(11) Credit purchases: **L.E.1,083,000**

<b>Dr.</b>	<b>Creditors Account</b>		<b>Cr.</b>
To Cash	1,120,000	<i>Balance b/d 1/1/16</i>	<i>234,000</i>
To discount	12,000	By Credit Purchases	
<i>Balance c/d 31/12/16</i>	<i>185,000</i>	(deduced figure)	<b><u>1,083,000</u></b>
	<b><u>1,317,000</u></b>		<b><u>1,317,000</u></b>

(12) Sales:

Opening stock	L.E.	220,000
+ Purchases		<u>1,083,000</u>
<i>Subtotal</i>		<i>1,303,000</i>
<i>Less: Closing Stock</i>		<u>250,000</u>
Cost of goods sold		1,053,000
<i>Add: Profit margin: (gross profit) 1/3 of cost</i>		
= 1,053,000 × 1/3 =		<u>351,000</u>
<b><i>Total Sales</i></b>	<b><i>L.E.</i></b>	<b><u>1,404,000</u></b>
Or Sales = 1,053,000 × $\frac{100}{75}$ = L.E.		1,404,000

**Trading and Profit and Loss Account**  
**Dr. for the year ended December 31, 2016 Cr.**

Opening stock 1/1	220,000	Sales:	
To Purchases a/c	1,083,000	Cash 160,000	
<b><i>Gross Profit</i></b>	<b><i>351,000</i></b>	Credit <u>1,244,000</u>	1,404,000
		Closing stock	250,000
	<b><u>1,654,000</u></b>		<b><u>1,654,000</u></b>
To Discount allowed	14,000	<b><i>Gross Profit</i></b>	<b><i>351,000</i></b>
To Salaries	120,000	Discount received	12,000
To Rent	24,000		
To Advertising	9,750		
To General expenses	6,000		
Motor expenses	13,750		
To Printing & Stat.	8,450		
To Travel expenses	10,000		
To Provision for doubtful debts	17,500		
To Depreciation:			
Car 2,000			
Fixtures <u>1,000</u>	3,000		
To Interest on capital	26,500		
<b><i>To Capital (net profit)</i></b>	<b><i>110,050</i></b>		
	<b><u>363,000</u></b>		<b><u>363,000</u></b>

## Amgad's Enterprise Balance Sheet

**Assets as at December 31, 2016 Liabilities & O.E.**

<u><b>Current assets:</b></u>	<b>L.E.</b>	<u><b>Current liabilities:</b></u>	<b>L.E.</b>
Cash at bank	191,000	Trade Creditors	185,000
Cash in hand	8,500	Outstanding expenses:	
Debtors 350,000		Petrol 250	
(-) Provision <u>17,500</u>	332,500	Advertising 750	
Stock of goods	250,000	Printing 450	
<u><b>Fixed assets:</b></u>		Salaries 10,000	
Fixtures 20,000		Rent <u>2,000</u>	<u>13,450</u>
(-) Acc. Dep. <u>1,000</u>	19,000	<b>Total of liabilities</b>	<b><u>198,450</u></b>
Car 10,000		<u><b>Owner's equity:</b></u>	
(-) Acc. Dep. <u>2,000</u>	8,000	Capital 1/1 520,000	
		(+) Additions 20,000	
		(+) Interest 26,500	
		(+) Net profit <u>110,050</u>	
		676,550	
		(-) Drawings <u>66,000</u>	
		Capital as on 31/12	610,550
	<b><u>809,000</u></b>		<b><u>809,000</u></b>

### **Comprehensive Illustration 4.16:**

The following information is available from the books of a trader:

	31/12/2015	31/12/2016
<b>I. Liabilities &amp; Assets</b>	L.E.	L.E.
Bank balance	20,000	9,400
Cash in hand	3,000	2,000
Prepaid expenses	5,000	7,000
Stock	70,000	60,000
Debtors for sales	230,000	?
Notes receivable	-	?
Furniture at written down value	70,000	82,000
Creditors for purchases	220,000	260,000
Outstanding liabilities	30,000	15,000

#### **2. Receipts and payments during 2016:**

Collections from debtors after 2½% discount	585,000
Owner's drawings	50,000
Capital introduced by Owner	95,150
Purchase of furniture at the middle of the year	20,000
4% Government securities purchased at 96% on 1/7/2016	96,000
Expenses	200,000
Sale of scrap	5,000
Payment to creditors after 2% discount	392,000
Proceeds of notes receivable discounted at 2%	61,250

**3. Sales are made so as to realize 33⅓% on sale proceeds.**

**4. Goods worth L.E.5,000 were taken by the owner.**



5. During the year, notes receivable worth L.E.150,000 were drawn on debtors. Of these, notes amounting to L.E.30,000 were endorsed in favour of the creditors. Out of this later amount, a note for L.E.5,000 was dishonoured by the debtors.
6. Sales and purchases are made on credit.

**Required:**

Prepare Trading and Profit & Loss Account for the year ended 31<sup>st</sup> of December 2016 and Balance Sheet as at that date.

***Solution:***

**Calculations:**

(1) Expenses charged to Profit and Loss Account:

Paid during the year	200,000
(+) Prepaid expenses as on 1/1/2016	<u>5,000</u>
<i>Subtotal</i>	<i>205,000</i>
(-) Outstanding expenses as on 1/1/2016	<u>30,000</u>
<i>Subtotal</i>	<i>175,000</i>
(-) Prepaid expenses as on 31/12/2016	<u>7,000</u>
<i>Subtotal</i>	<i>168,000</i>
(+) Outstanding expenses as on 31/12/2016	<u>15,000</u>
Expenses related to this year	<u><span style="border: 1px solid black; padding: 2px;">183,000</span></u>

(2) Notes Receivable discounted =  $61,250 \times \frac{100}{98} = \text{L.E.}62,500$ .

Discounting charges =  $62,500 - 61,250 = \text{L.E.}1,250$ .

(3) Interest on Government Securities:

Nominal Value =  $96,500 \times \frac{100}{96} = \text{L.E.}100,000$ .

Interest =  $100,000 \times 4\% \times \frac{6}{12} = \text{L.E.}2,000$ .

(4) Drawings = 50,000 cash + 5,000 goods = L.E.55,000.

(5) Opening Capital as on 1/1/2016 = [furniture 70,000 + stock 70,000 + debtors 230,000 + prepaid expenses 5,000 + cash at bank 20,000 + cash in hand 3,000] - [creditors 220,000 + outstanding expenses 30,000] = 398,000 - 250,000 = L.E.148,000.

(6) Purchases for the year: **L.E.465,000**

Net purchases = 465,000 - drawings 5,000 = L.E.460,000.

<b>Dr.</b>	<b>Creditors Account</b>		<b>Cr.</b>
To Cash/Bank	392,000	<i>Balance b/d 1/1/16</i>	<b>220,000</b>
To discount received	8,000	By Debtors (notes dishonoured)	5,000
To Notes receivable (endorsed)	30,000	By Purchases (deduced figure)	<b>465,000</b>
<b>Balance c/d 31/12/16</b>	<b>260,000</b>		
	<b>690,000</b>		<b>690,000</b>

(7) Sales during the year:

Stock on January 1, 2016	L.E.	70,000
(+) Purchase		<u>465,000</u>
<i>Subtotal</i>		<u>535,000</u>
(-) Closing stock plus withdrawn (60,000 + 5,000)		<u>65,000</u>
Cost of Goods Sold		470,000
<i>Add: Profit margin, 50% on cost or 33<sup>1</sup>/<sub>3</sub>% on selling price ( 470,000 × 50% )</i>		<u>235,000</u>
Amount of sales		<b><u>705,000</u></b>

(8) Closing balance of Debtors: **L.E.190,000.**

<b>Dr.</b>		<b>Debtors Account</b>		<b>Cr</b>
<i>Balance b/d 1/1/16</i>	<b>230,000</b>	By Cash/bank		585,000
To Sales	705,000	By Discount		15,000
To Creditors (notes endorsed and dishonoured)		By Notes receivable		150,000
	5,000	<i>Balance c/d</i>		
		<i>31/12/16 (deduced figure)</i>		<b>190,000</b>
	<b>940,000</b>			<b>940,000</b>

(9) Closing balance of notes receivable: **L.E.57,500**

<b>Dr.</b>		<b>Notes Receivable Account</b>		<b>Cr</b>
To Debtors	150,000	By Creditors		30,000
		By Sundries:		
		Cash/bank		61,250
		Discounting charges		1,250
		<i>Balance c/d 31/12/16</i>		<b>57,500</b>
	<b>150,000</b>			<b>150,000</b>

(10) Depreciation expenses on furniture for the year: **L.E.8,000.**

<b>Dr.</b>		<b>Furniture Account</b>		<b>Cr</b>
<i>Balance b/d 1/1/16</i>	<b>70,000</b>	By Depreciation		
To Cash/Bank	20,000	(balancing figure)		8,000
		<i>Balance c/d 31/12/16</i>		<b>82,000</b>
	<b>90,000</b>			<b>90,000</b>

(II) Preparing required final accounts and Balance as on December 31, 2016:

**a) Trading and Profit and Loss Account**

**Dr. for the year ended December 31, 2016 Cr.**

To Opening stock 1/1	70,000	By Sales	705,000
To Purchases a/c	460,000	By Closing stock	60,000
<b>Gross Profit</b>	<b>235,000</b>		
	<b><u>765,000</u></b>		<b><u>765,000</u></b>
To Discount allowed	15,000	<b>Gross Profit</b>	<b>235,000</b>
To Expenses	183,000	By Interest on securities	2,000
To Depreciation	8,000	Discount received	8,000
To Discounting charges	1,250	By sale of scrap	5,000
<b>To Capital (net profit)</b>	<b>42,750</b>		
	<b><u>250,000</u></b>		<b><u>250,000</u></b>

**b) Balance Sheet**

**Assets as at December 31, 2016 Liabilities & O.E.**

<b><u>Fixed assets:</u></b>	<b>L.E.</b>	<b><u>Current liabilities:</u></b>	<b>L.E.</b>
Fixtures 90,000		Creditors	260,000
(-) Acc. Dep. <u>8,000</u>	82,000	Outstanding expenses	<u>15,000</u>
<b><u>Investments:</u></b> 4%		<b>Total of liabilities</b>	<b>275,000</b>
Government securities		<b><u>Owner's equity:</u></b>	
(Nominal value 100,000)	96,000	Capital 1/1 148,000	
<b><u>Current assets, Loans &amp; Advances:</u></b>		(+) Introduced 95,150	
Debtors	190,000	(+) Net profit <b><u>42,750</u></b>	
Notes receivable	57,500		285,900
Stock of goods	60,000	(-) Drawings <u>55,000</u>	
Interest accrued	2,000	Capital as on 31/12	230,900
Prepaid expenses	7,000		
Cash at bank	9,400		
Cash in hand	2,000		
	<b><u>505,900</u></b>		<b><u>505,900</u></b>

#### **4.4 Questions and Practical Problems:**

**{1}** Indicate whether each of the following statements is 'True' or 'False':

- a.** Joint Stock Companies can also adopt Single Entry System.
- b.** Trial Balance can be prepared in case the books are maintained according to Single Entry System.
- c.** In order to determine the profit according to Net Worth Method of single entry, the profit and loss account is prepared.
- d.** Net profit according to net worth method is equal to: Capital at the end + Drawings + Capital introduced - Capital in the beginning of the accounting period.
- e.** The Statement of Affairs shows the financial position of the business on a particular date in case of Single Entry System.
- f.** The amount of sales is determined by preparing a Total Creditors Account.



**{2}** Choose the most appropriate answer:

**2.1** In case of net worth method of single entry, net profit is ascertained by

- (a)** preparing a Trading and Profit and Loss Account.
- (b)** comparing the capital in the beginning and the capital at the end of the accounting period.
- (c)** adopting any other method.

**2.2** The capital in the beginning of the accounting period is ascertained by preparing

- (a)** Cash Account.
- (b)** Opening Statement of Affairs.
- (c)** Total Creditors Account.

**2.3** The closing balance in the Creditors Account can be ascertained from

- (a) Cash Account.
- (b) Total Creditors Account.
- (c) Balance Sheet at the end of the accounting period.

**2.4** If the rate of gross profit is 25% of sales and the cost of goods sold is L.E.100,000, the amount of gross profit will be

- (a) L.E.25,000.
- (b) L.E.33,333.
- (c) L.E.20,000.

**2.5** If the rate of gross profit is 20% on cost of goods sold and the sales are L.E.100,000, the amount of gross profit will be

- (a) L.E.20,000.
- (b) L.E.25,000.
- (c) L.E.16,667.

☺ **{3}**

Yaser prepares accounts to December 31<sup>st</sup> each year. Despite advice to the contrary, he has always refused to open a bank account and insists that all of his receipts and payments should be in cash. His balance sheet at December 31<sup>st</sup>, 2015 was as follows:

**Yaser's Balance Sheet**

**Assets as on December 31, 2015 Liabilities & O.E.**

<u>Fixed assets:</u>	<i>L.E.</i>	<u>Current liabilities:</u>	<i>L.E.</i>
Equipment 38,000		Trade Creditors	5,900
(-) Acc. Dep. 24,000	14,000	Accrued heating & lighting	1,800
<u>Current assets:</u>			
Trade Debtors	6,400	Capital	30,300
Stock of goods	9,500		
Prepaid rent	800		

Cash in hand	7,300	
	<b>38,000</b>	<b>38,000</b>

An interview with Yaser yield the following information:

*a)* Yaser estimates that his stock of goods on December 31<sup>st</sup>, 2016 cost :.E.10,000. On that date, his customers owed him a total of approximately L.E.5,000 but this figure includes a L.E.1,000 debt which Yaser believes to be irrecoverable. A review of his suppliers' statements suggests that he owed L.E.7,200 to those suppliers on December 31, 2016.

*b)* Yaser occupies rented business premises. The rent used to be L.E.800 per month (payable one month in advance) but this increased by 25% with effect from the 1<sup>st</sup> of October 2016. The rent for January 2017 was paid on December 31, 2016.

*c)* Accrued heating and lighting expenses on December 31, 2016 are estimated to be L.E.2,000.

*d)* In October 2016, Yaser replaced some of his business equipment. He purchased new equipment costing L.E.8,000 but received a part-exchange allowance of L.E.1,800 in relation to equipment which he had bought for L.E.6,000 in March 2013. The balance due of L.E.6,200 was paid out of Yaser's private funds.

*e)* Depreciation is calculated at 20% annually on the straight-line basis, with a full year's charge in the year of acquisition and none in the year of disposal. None of Yaser's equipment was more than four years old on December 31, 2016.

*f)* Yaser withdraws L.E.1,500 from the business each week to cover his personal living expenses. In October 2016, he withdrew an extra L.E.2,500 to pay for his children school

expenses. He also takes an estimated L.E.200 worth of stock from the business each week.

g) There was approximately L.E.5,000 cash in hand on December 31, 2016.

**Required:**

Insofar as the above information permits, calculate Yaser’s net profit for the year to December 31 2016.



{4} Sarah did not believe in spending too much time on maintaining the accounts of her business on strictly double entry system, but relied on her Auditors to prepare her Statements at the end of the year in the best manner possible. The following Statement of Affairs had been prepared as on December 31<sup>st</sup>, 2015:

**Statement of Affairs**

Equipment	20,750	Capital Account	280,000
Machinery	49,400	Sundry Creditors	31,700
Stock in trade	96,730	Notes Payable	21,500
Book Debts	155,500		
Cash in hand	10,820		
	<b><u>333,200</u></b>		<b><u>333,200</u></b>

On December 31<sup>st</sup>, 2016, it was learnt that she had introduced further capital of L.E.10,000 on April 1, 2016 and she had drawn L.E.15,800 on various dates during the year. It was also ascertained that the owner had taken L.E.750 worth of goods for her own use. Statements prepared on the same date disclosed that book debts were L.E.146,400, Creditors were L.E.20,390 and Notes Payable were L.E.17,750. The



stock was valued at L.E.114,170 and the cash in hand amounted to L.E.9,170 on the same date.

**You are required to prepare:**

(a) Statement of Profit for the year 2016 and

(b) A Statement of Affairs of Sarah as on December 31, 2016, taking into consideration the following:

5% Provision to be created on Book Debts. 7½% Depreciation to be written off on Machinery. Interest at 5% on the capital to be calculated.



{5} On January 1, 2016, Abdurrahman started running a small shop and decided to produce accounts to December 31 each year. He does not maintain a full set of double entry books but he does record his receipts and payments. The following information is available in relation to the year ended December 31, 2016:

a. ► Abdurrahman used some of the takings from his shop to pay wages for himself and his assistant and to pay certain small expenses. Most of the remaining takings were banked every week, but some cash was left in till so that customers could be provided with change. Wages and other expenses paid in cash during the year to December 31, 2016 were as follows:

Assistant's wages	L.E. 7,320
Abdurrahman's wages	9,650
Posting and stationery	137
Window cleaning for the shop	156

In order to provide a cash float on the first day of trading, Abdurrahman put L.E.300 of his own money into the till.

**b.▶** Abdurrahman’s business bank statements for the year to December 31, 2016 show the following receipts and payments:

	L.E.
<b><u>Receipts:</u></b> Capital introduced on 1/1/016	5,000
Loan from Bank on 1/5/016	7,500
Takings paid into the bank	54,745
<b><u>Payments:</u></b> Suppliers of goods	48,659
Shop fixtures	3,750
Shop equipment	2,860
Rent, rates and insurance	8,340
Electricity	2,567
Repair to damaged shop window	430

Takings of L.E.1,236 paid into the bank on December 31, 2016 did not appear on the bank statement until January 2016.

**c.▶** Abdurrahman lives in a flat above the shop. One-third of rent, rates and insurance costs and one-quarter of heating and lighting costs relate to the flat.

**d.▶** Most sales are for cash but Abdurrahman does allow credit sales to some regular customers, who owed him a total of L.E.1,263 on December 31, 2016. Cash in the till at the close of business on December 31, 2016 was L.E.336.

**e.▶** Some of Abdurrahman’s suppliers offer discounts for prompt payment and he always takes advantage of these discounts. Discounts received during the year to December 31, 2016 totalled L.E.1,297. Abdurrahman owed his suppliers a total of L.E.4,739 on December 31, 2016. His stock of goods on that date had cost him L.E.6,238.

*f.* ► Rent is paid monthly in advance on the first day of each month. The most recent rates payment of L.E.1,200 was paid in October 2016 and covered the six months to March 31, 2017. An insurance premium of L.E.1,140 was paid on July 1, 2016, covering the period to June 30 2o17. The electricity bill for 3 months to December 31, 2016 arrived in January 2017 and was for L.E.513.

*g.* ► Depreciation on shop fixtures and on shop equipment is to be provided at 10% and 15% annually respectively, both on the straight-line basis and with a full year’s charge in the year of acquisition.

*h.* ► The loan from the bank attracts annual interest at 5%. No interest was paid on this loan during the year to December 31, 2016.

**Required:**

Prepare Abdurrahman’s trading and profit and loss account for the year to December 31, 2016 and a balance sheet as at that date.



{6} Bahjat’s assets and liabilities on January 1, 2016 were as follows:

	L.E.
<b><u>Assets:</u></b> Machinery (net book value)	71,750
Stock of goods	47,300
Prepaid operating expenses	4,100
<b><u>Liabilities:</u></b> Trade creditors	38,690
Accrued operating expenses	7,630
Bank overdraft	27,750

The following information relates to the year ended December 31, 2016:

1. Bahgat's sales were all for cash. He took sufficient money out of each week's takings to cover his personal living expenses and then banked the remainder.

2. Check payments made during the year were:

Suppliers of goods	L.E.	348,700
Operating expenses		132,200
Purchases of machinery		50,000

3. Bahjat's gross profit percentage during the year was a consistent 35%.

4. Machinery is depreciated at 25% annually on the reducing balance basis with a full year's charge in the year of acquisition and none in the year of disposal. During the year, machinery which had cost of L.E.16,000 in September 2013 was sold to a scrap metal dealer for L.E.3,000. Bahjat spent this money on a present for his wife.

5. Stock at December 31, 2016 was L.E.50,710. Trade creditors were L.E.50,900, accrued operating expenses were L.E.8,500 and the bank overdraft was L.E.32,100. There were no prepaid expenses.

**Required:**

Prepare Bahjat's trading and profit and loss account for the year to December 31, 2016 and a balance sheet as at that date.

☺ ☺

{7} Mostafa Salih does not maintain regular books but keeps only an agenda of his transactions. He furnished the following information from the agenda for the year ended December 31, 2016:

- (1) Total collections from debtors (in cash) were L.E.15,000.  
 (2) Cash sales as collected from cash sales invoices were L.E.9,600  
 (3) The abstract of the Bank Account for the year ended December 31, 2016 is given below:

To cash deposits (collections)	23,955	<b>Balance as on 1/1/2016</b>	<b>2,400</b>
		Interest and bank charges	45
		Drawings	1,200
		Salaries to staff	5,100
		General expenses	4,755
		Payment to creditors	9,000
		<b>Balance as on 31/12/016</b>	<b>1,455</b>
	<b>23,955</b>		<b>23,955</b>

- (4) Other balances as on January 1<sup>st</sup>, 2016 are as below:

Stock	L.E. 5,400	Creditors	L.E.4,800
Debtors	L.E.13,200	Cash in hand	L.E. 50
Furniture	L.E. 600	Buildings	L.E.9,000

- (5) Besides the cash balance with the cashier, the following are the other balances as on December 31, 2016:

Stock	L.E.6,120	Debtors	L.E.18,000
Creditors	L.E.3,300.		

**Required:**

Prepare the Profit and Loss Account for the year ended December 31, 2016 and the balance sheet as at that date, after providing for depreciation at 10% per year on all fixed assets. (Note: Answers; gross profit L.E.22,620; net profit

L.E.11,745; balance sheet total L.E.34,895; opening capital L.E.21,050; and closing cash in hand L.E.95.)



**{8}** Omer El-Farouk does not maintain his books and accounts according to double entry system. From the following information, prepare profit and loss account and balance sheet as at December 31, 2016:

(A) Assets and liabilities	31/12/15	31/12/16
Stock	L.E. 19,800	113,200
Creditors	31,000	14,500
Debtors	118,000	125,000
Premises	90,000	90,000
Furniture	11,000	11,500
Air Conditioner	15,000	15,000

**(B)** Creditors as at December 31, 2015 includes L.E.15,000 for purchases of air conditioners.

**(C)** Cash transactions:

Cash as at 1/1/2016	L.E. 15,000
Collections from customers	160,800
Payments to creditors (trade)	144,000
Rent, rates and taxes	11,500
Salaries	112,000
Sundry expenses	18,000
Sundry income	16,500
Drawings	30,000
Loan	23,000
Capital introduced	12,000
Cash sales	11,500
Cash purchases	15,000

Paid to creditor for air conditioners 15,000

(D) Bad debts written off 1,200

(Note: Answers, Gross profit L.E.116,400; net loss L.E.9,800; balance sheet total L.E.354,700; and opening capital L.E.237,800.)



{9} The following information is supplied, from which you are required to prepare the profit and loss account for the year ended December 31<sup>st</sup>, 2016 and the balance sheet as at that date:

(A) Assets and liabilities	31/12/15	31/12/16
Sundry assets L.E.	18,000	20,000
Stock	14,000	19,000
Cash in hand	8,200	4,800
Cash at bank	2,200	8,000
Debtors	?	26,000
Creditors	12,000	9,800
Miscellaneous Exp. outstanding	1,000	600

(B) Details relating to the year's transactions are:

Receipts in the year and discount credited

to debtors' account	245,000
Returns from debtors	6,000
Bad debts	1,000
Sales, Cash and credit	300,000
Returns to creditors	3,000
Payments to creditors by check	236,200
Receipts from debtors deposited into bank	243,000
Cash purchases	10,000
Salary and wages paid out of bank	18,000

Miscellaneous expenses paid by cash	5,000
Drawings by cash	9,400
Purchase of sundry assets by check	2,000
Cash withdrawn from bank	21,000
Cash sales deposited in bank	?
Discount allowed by creditors	4,000

(Note: Answers, gross profit L.E.51,000; net profit L.E.29,400; opening capital L.E.47,400; balance sheet total L.E.77,800; cash sales L.E.40,000; and opening debtors L.E.18,000.)



**Chapter Five**  
**ACCOUNTING FOR**  
**NON-PROFIT**  
**MAKING**  
**ORGANIZATIONS**

**CHAPTER FIVE**  
**ACCOUNTING FOR NON-PROFIT MAKING**  
**ORGANIZATIONS**  
**(CLUBS AND SOCIETIES)**

***5.1 Introduction:***

In practice, there are organizations which do not trade or do not deal in purchasing and selling of goods but exist primarily in order to provide a service to their members, with or without the objective of making profit. Typical examples of such organizations include sports clubs, social clubs, and staff associations.

Such organizations are non-trading institutions and do not have making of profit as one of their objectives while professional firms like those of Chartered Accountants, Advocates (Lawyers), Tax Consultants or Doctors do not trade but have making of profit as also one of their objectives. Organizations of this type are often fairly small and usually entrust their financial affairs to an unpaid, elected official known as a treasurer who is often a club member with having some knowledge or experience of accounting. The main functions of a treasurer are:

- (a)** to maintain records of the club's financial transactions; and
- (b)** to prepare an annual financial report, which is presented to the members at an annual general meeting.

The none for profit making institutions are, therefore, different from the profit making institutions in several aspects. They have not to purchase and sell goods, accept or receive bills of exchange nor do they have too many credit

transactions. Most of their transactions are cash transactions and, hence, they need not to maintain as many books of accounts as trading firms have to maintain. Nevertheless, they do keep a cash book and keep number of such other books which may be required for their purposes. For example, a Register of Members, a Minute Book are maintained in case of a club or a society.

Since organizations of this type do not exist for the purpose of making a profit, the annual financial report does not take the form of a profit and loss account. Instead, the treasurer will probably prepare an *Income and Expenditure Account*. In most cases, at the end of the accounting period, a non-profit making organization will prepare its final accounts, which include the following:

**(a) Receipts and Payments Account.**

**(b) Income and Expenditure Account.**

**(c) Balance Sheet.**

Each of these financial statements will be explained in the following sections.

## **5.2 Receipts and Payments Account:**

In its simple form, a receipts and payments account is a summary of the *cashbook* for the period under review. In other words, it is merely a summary of the cash transactions under appropriate heads which have taken place during the accounting period.

The *cashbook* usually contains a record of cash receipts and cash payments in a chronological order while *receipts and payments account* is a summary of total cash receipts and total cash payments received and made under different heads during a given period. For example, if a club or a society receives subscriptions from its members on different dates of the accounting year, they will be recorded on these dates separately in the *cashbook*.

On the other hand, *receipts and payments account* will contain the total subscriptions received during the accounting year. Similarly, the *cashbook* contains payment of salaries made on different dates of the month on different pages. The *receipts and payments account* will show the total salaries paid during the accounting period.

**The main characteristics of the receipts and payments account can be summarized as below:**

1. It is an abbreviated copy of the cashbook. The cash and bank items are usually merged in one column. Thus, contra entries between cash and bank are eliminated.
2. It is a real account.
3. All cash receipts are recorded on the debit side while all cash payments are recorded on the credit side.

4. It records all cash receipts and payments regardless of the fact whether they are of capital or revenue nature or whether they relate to the current year or not. Similarly, it records all cash payments whether they are of capital or revenue nature or whether they relate to the current year or the next year. What is important is that the receipts and payments should have been received or made during the period to which the receipts and payments account relates.
5. It begins with the balance in the starting of the accounting year and ends with the balance at the end of the accounting year.

**Illustration 5.1:**

The cash account and the bank deposit account of Qena Sports Club for the year to June 30, 2017 can be summarized as follows:

<b>Dr.</b>	<b>Cash Account</b>		<b>Cr.</b>
<b>Balance b/d 1/7/016</b>	<b>53,000</b>	Hire of courts	680,000
Subscriptions received	1,269,000	Coaching fees	354,000
Donations received	31,000	Affiliation fees	30,000
Sale of tickets for annual dinner	755,000	Annual dinner costs	565,000
		Printing & stationery	
		Donations paid	23,000
		Paid into bank deposit account	100,000
		<b>Balance c/d 30/6/17</b>	<b>300,000</b>
	<b><u>2,108,000</u></b>		<b><u>2,108,000</u></b>

<b>Dr.</b>	<b>Bank Deposit Account</b>		<b>Cr.</b>
<b>Balance b/d 1/7/016</b>	<b>152,000</b>	<b>Balance c/d 30/6/17</b>	<b>471,000</b>
Cash paid in	300,000		
Interest received	19,000		
	<b>471,000</b>		<b>471,000</b>

**Required:**

Prepare a receipts and payments account for the year to June 30<sup>th</sup> 2017.

***Solution***

**Qena Sports Club**

**Receipts and Payment Account**

**Receipts                      for the year to June 30, 2017                      Payments**

<b>Balance b/d 1/7/2016:</b>		Hire of courts	680,000
<b>Cash            53,000</b>		Coaching fees	354,000
<b>Bank            <u>152,000</u></b>	<b>205,000</b>	Affiliation fees	30,000
Subscriptions received	1,269,000	Annual dinner costs	565,000
Donations received	31,000	Printing & stationery	23,000
Sale of tickets for annual dinner	755,000	Donations paid	100,000
Interest received	19,000	<b>Balance c/d 30/6/17:</b>	
		<b>Cash            56,000</b>	
		<b>Bank            <u>471,000</u></b>	<b>527,000</b>
	<b><u>2,279,000</u></b>		<b><u>2,279,000</u></b>

**Note:** The receipts and payments account combines the cash account and the bank deposit account. No attempt is made to indicate which receipts or payments were in cash and which passed through the bank.

**Illustration 5.2:**

From the following information, taken from the cashbook of a Club, prepare a Receipts and Payments Account.

**Opening Balance:** **L.E.**

Cash in hand	100,000
Cash at bank	500,000

**Receipts:**

Subscriptions	3,300,000
Donations	260,000

**Payments:**

Investment purchased	1,000,000
Rent paid	400,000
General expenses	210,000
Postage and stationery	70,000
Sundry expenses	30,000
Closing cash balance in hand	20,000

***Solution***

**Receipts and Payment Account**

**Receipts                      for the year to .....                      Payments**

<i>Balance b/d:</i>		Investments	1,000,000
<i>Cash in hand 100,000</i>		Rent	400,000
<i>Cash at bank <u>500,000</u></i>	<b>600,000</b>	General expenses	210,000
Subscriptions received	3,300,000	Printing & stationery	70,000
Donations received	260,000	Sundry expenses	30,000
		<i>Balance c/d:</i>	
		<i>Cash in hand 20,000</i>	
		<i>Cash at bank <u>2,430,000</u></i>	<b>2,450,000</b>
		<i>(deduced figure)</i>	
	<b><u>4,160,000</u></b>		<b><u>4,160,000</u></b>

### **5.3 Income and Expenditure Account:**

The income and expenditure account prepared by a non-profit making institution such as a club or society is similar in many ways to the *profit and loss account* prepared by a business organization. It performs the same functions and is compiled and constructed on exactly the same principles. The *essential features of this account may be as below:*

{1} An income and expenditure account shows the organization's revenue and expenses for the period under review, calculated in accordance with normal accounting principles. The effects of debtors, creditors, accruals, prepayments, and non-cash items such as depreciation are taken into account.

{2} If the organization has a trading operation in addition to its other activities, the revenue and expenses of this trading operation may be shown in a separate trading and profit and loss account. The profit or loss revealed by this account is then transferred to the income and expenditure account. An example of such a trading operation would be a members' restaurant operated by a social club, annual party, annual journey, etc.

{3} If the income and expenditure account shows revenue in excess of expenses (if the total of the credit side is more than that of the debit side), the excess is usually referred to as the *surplus of income over expenditure*. Similarly, an excess of expenses over revenue (if the total of the debit side of the account is more than that of its credit side) is referred to as the *surplus of expenditure over income*. Accordingly, the term net profit and net loss are not used.



{4} The income and expenditure account is usually accompanied by a balance sheet detailing the assets and liabilities of the club or the society. The *capital* of a club or society is generally referred to as the *accumulated funds*.

{5} The majority of non-profit making organizations maintain incomplete records. Therefore, the preparation of an income and expenditure account and balance sheet will usually involve use the techniques explained in the subject which covers the accounting through incomplete records or single entry system.

{6} An income and expenditure account, in addition to a balance sheet, provides members of an organization with much more information than a receipts and payments account.

***Illustration 5.3:***

From the information given in *Illustration 5.2*, prepare an *Income and Expenditure Account*.

***Solution***

**Income and Expenditure Account**

**Dr. for the year ending..... Cr.**

To Rent	400,000	By Subscriptions	3,300,000
To General expenses	210,000	By Donations	260,000
To Postage & stationery	70,000		
To sundry expenses	30,000		
To accumulated fund (surplus of income over expenditure)	<b>2,850,000</b>		
<b>Total.....</b>	<b>3,560,000</b>	<b>Total.....</b>	<b>3,560,000</b>

## **5.4 Balance Sheet:**

Balance sheet in case of non-profit making organizations is prepared in the usual way and contains details of all assets and liabilities of the organization on the date on which it is prepared. As it was explained above, the excess of assets over liabilities is termed as *Capital Fund, General Fund, or Accumulated Fund*.

The accumulated fund is made up of excess of income over expenditure and other incomes or surpluses which might have been capitalized by the organization from time to time. In some cases, two balance sheets may have to be prepared-one balance sheet in the beginning of the accounting year to ascertain the amount of accumulated fund in the starting of the accounting year, and the other one at the end of the accounting year to show the financial position of the organization as on that date.

## **5.5 Elements Related to Non-Profit Making organizations:**

Generally, the technique of preparing the final accounts of a non-profit making organization is similar to that used for preparing the final accounts of a business organization. Nevertheless, there are certain items which may be confined to non-profit making organizations. The accounting treatment of such items and their presentation in the final accounts are being presented below.

### 5.5.1 Subscriptions:

In general, much of income of a club or society will take the form of members' annual subscriptions. Subscriptions may be a major source of income of the club or society. The Receipts and Payments Account records the amount of actual subscriptions received while the Income and Expenditure Account records only the subscriptions which relate to the accounting period, whether received or not.

Therefore, unless all members pay their subscriptions when due, it is necessary to consider the accounting treatment of subscriptions paid in *advance* and subscriptions *outstanding (in arrears)*. Hence, adjustments may be required to find out the actual amount of income from subscriptions, as you will see from the following illustrations. *Subscriptions Account* can be prepared as follows:

<b>Dr.</b>	<b>Subscriptions Account</b>		<b>Cr.</b>
<i>Balance b/d/1/1/2017 (outstanding)</i>	<i>xxx</i>	<i>Balance (b/d)1/1/2017 (in advance)</i>	<i>xxx</i>
To Income and Expenditure Account (subscriptions relate to the accounting period)	<i>xxx</i>	By Receipts & payments (subscriptions received)	<i>xxx</i>
<i>Balance c/d 31/12/ 2017 (in advance)</i>	<i>xxx</i>	By Income and Expenditure Account (bad subscriptions)	<i>xxx</i>
	<i>—</i>	<i>Balance c/d 31/12/2017 (outstanding)</i>	<i><u>xxx</u></i>
<i>Total</i>	<i><u>xxx</u></i>	<i>Total</i>	<i><u>xxx</u></i>

**Illustration 5.4:**

From the following data extracted from the Receipts and Payments Account and the additional information, you are required to compute the income from subscriptions for the year ending December 31<sup>st</sup>, 2016 and show the subscriptions item in the final accounts of a Club.

**Receipts and Payments Account**

**Receipts for the year ending 31/12/ 2016 Payments**

To Subscriptions	200,000		
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***Additional Information:***

- (1) Subscriptions outstanding on December 31, 2015, of L.E.40,000.
- (2) Subscriptions outstanding on December 31,2016, of L.E.80,000.
- (3) Subscriptions received in advance as on December 31, 2015, of L.E.60,000.
- (4) Subscriptions received in advance as on December 31, 2016, of L.E.40,000.

***Solution***

<b>Dr.</b>	<b>Subscriptions Account</b>		<b>Cr.</b>
Balance b/d 1/1/2016 (outstanding)	40,000	Balance b/d 1/1/2016 (received in advance)	60,000
To Income & Expenditure 31/12/16	<b>260,000</b>	By Receipts & Payments Account	200,000
Balance c/d 31/12/16 (received in advance)	40,000	Balance c/d 31/12/2016 (outstanding)	80,000
	<b>340,000</b>		<b>340,000</b>

**Note:** Amount of subscriptions related to Income and Expenditure Account for the year ending on December 31, 2016, can be calculated as follows:

Subscriptions collected this year	L.E.	200,000
<b>Add:</b> Subscriptions received in advance 1/1/2016		60,000
Subscriptions outstanding 31/12/2016		80,000
<b>Subtotal</b>		340,000
<b>Less:</b> Subscriptions outstanding 1/1/2016		40,000
Sub. received in advance 31/12/2016		40,000
<b>Subscriptions revenue for this year L.E.</b>		<b>260,000</b>

**Income and Expenditure Account**

**Dr. for the year ending December 31, 2016 Cr**

	By Subscriptions a/c	260,000
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**Balance Sheet**

**Assets as on December 31, 2016 Liabilities**

Outstanding Subscriptions	80,000	Subscriptions received in advance	40,000
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**Illustration 5.5:**

From the following data extracted from the Receipts and Payments Account and the additional information, you are required to compute the income from subscriptions for the year ending December 31<sup>st</sup>, 2016 and show the subscriptions item in the final accounts of a Club.

**Receipts and Payments Account**  
**Receipts for the year ending 31/12/ 2016 Payments**

To Subscriptions:			
2015	18,000		
2016	100,000		
2017	40,000		

***Additional Information:***

- (1) Subscriptions outstanding on December 31, 2015, of L.E.20,000.
- (2) Subscriptions outstanding on December 31,2016, of L.E.30,000.
- (3) Subscriptions received in advance as on December 31, 2015, of L.E.20,000.

**Solution**

<b>Dr.</b>		<b>Cr.</b>	
Balance b/d 1/1/2016 (outstanding for 2015)	20,000	Balance b/d 1/1/2016 (received in advance)	20,000
To Income & Expenditure 31/12/16	<b><i>148,000</i></b>	By Receipts & Payments Account:	
Balance c/d 31/12/16 (received in advance for 2017)	40,000	18,000	
		100,000	
		<u>40,000</u>	158,000
		Balance c/d 31/12/2016 (outstanding):	
		2015      2,000	
		2016 <u>28,000</u>	30,000
	<b><u>208,000</u></b>		<b><u>208,000</u></b>

**Note:** Amount of subscriptions related to Income and Expenditure Account for the year ending on December 31, 2016, can be calculated as follows:

Subscriptions collected this year	L.E.	100,000
<b>Add:</b> Subscriptions received in advance 1/1/2016		20,000
Subscriptions outstanding 31/12/2016		28,000
{30,000 - 2,000 for 2015 (20,000 - 18,000)}		
<b>Subscriptions revenue for this year L.E.</b>		<b>148,000</b>

**Income and Expenditure Account**

**Dr.                      for the year ending December 31, 2016 Cr**

	By Subscriptions a/c	148,000
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**Balance Sheet**

**Assets                      as on December 31, 2016                      Liabilities**

Outstanding Subscriptions:		Subscriptions	
For 2015	2,000	received in advance	
For 2016	28,000	for 2017	40,000
	30,000		

**Notes:**

1. Subscriptions received for the year 2016 have been given separately in the Receipts and Payments Account. The amount does not include any subscriptions which has been received on account of the last year (2015) or the next year (2017).
2. Subscriptions outstanding as on December 31, 2016 amounts to L.E.30,000. Therefore, it includes subscriptions outstanding for the year 2015 amounting L.E.2,000 {20,000 outstanding-18,000 collected}. Accordingly, the subscriptions outstanding for the year 2016 amounts to only L.E.28,000 {30,000 - 2,000}. In case the question had stated that “subscriptions

outstanding for 2016 are L.E.30,000, this would have meant that subscriptions amounting L.E.30,000 are outstanding only for the year 2016.

### **5.5.2 Donations:**

Clubs and societies, especially charitable institutions, may receive donations from time to time. The amount of donations may be taken as income or capitalized and taken to balance sheet depending upon whether they are specific donations or general donations, as it will be shown below.

#### **{1} Specific Donations:**

In case a donation has been received for a specific purpose, the donation is termed as a specific donation. In other words, it is considered as a private or special donation. For example, an organization may receive donation for construction of building or for giving prizes to best sportspersons. The amount of such donation cannot, hence, be used for any other purpose. It should be taken to the balance sheet on the liabilities side and be used only for the purpose for which it is intended, irrespective of its amount.

#### **{2} General Donations:**

When a donation is not received for a specific or a determined purpose, it is termed as a **General Donation**. However, its treatment may depend upon the amount received. For example, in case the donation is of a substantial amount, it can be decided that such donation is of a non-recurring nature and, therefore, should be taken to the balance sheet on the liabilities side. On the other hand, if the donation is of a small amount



and not intended for a specific purpose, it can be safely taken to the Income and Expenditure account.

**Illustration 5.6:**

The following information is extracted from the Receipts and Payments Account of a sports club. You are required to show the different items in the Income and Expenditure Account and Balance Sheet of the club after taking into consideration the additional information.

**Receipts and Payments Account**

**Receipts for the year ending 31/12/ 2016 Payments**

To Donations for Pavilion	50,000		
To Subscriptions for Mother's Party	20,000		
To Donations	1,000		

***Additional Information:***

- (1) Amount spent on pavilion L.E.10,000.
- (2) Subscriptions outstanding for Mother's Party L.E.5,000.

***Solution***

**Income and Expenditure Account**

**Dr. for the year ending December 31, 2016 Cr**

		By Donations a/c	1,000
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**Balance Sheet**

**Assets as on December 31, 2016 Liabilities**

Pavilion (incurred cost)	10,000	Fund for Pavilion	50,000
Outstanding Subscriptions for Mother's party	5,000	Subscriptions for Mother's party (20,000 + 5,000)	25,000

**Notes:** (1) The amount of donations received for Pavilion is a specific donation and, therefore, has been taken to the balance sheet on the liabilities side. (2) The subscriptions received for Mother's party is also for a specific purpose, and, therefore has been taken to the balance sheet. The outstanding subscription has also been added to this amount and has been shown on both sides of the balance sheet. (3) The Expenditure of L.E.10,000 incurred on construction of Pavilion has been shown as an asset in the balance sheet. It is not to be subtracted from the Pavilion fund.

### **5.5.3 Special Funds:**

An organization may keep special funds for some special purposes. For example, a sports club may keep a special fund for meeting sports expenses or for awarding of sports prizes or for constructing a new building etc. In case such special funds are maintained, any income relating to such special funds should be added to these funds in the balance sheet on the liabilities side. Similarly, all expenses on account of these funds should be deducted out of these funds. In case of a deficit, the amount should be met out from the Income and Expenditure Account. On the contrary, in case of a surplus, it would be better to keep it in the balance sheet or merge it with Accumulated (General or Capital) Fund.

The presence of a special fund on the balance sheet of an organization may indicate that some portion of the organization's assets has been devoted for the specific purpose with which the special fund is associated. However, whatever has been stated above is not applicable to any income which

an organization may be received on account of General Fund. Income as a result of General Fund Investments can be taken to Income and Expenditure Account.

**Illustration 5.7:**

Following is the information given in respect of certain items of a sports club. You are required to show them in the Income and Expenditure Account and the Balance Sheet of the club.

Sports Fund as on January 1, 2016	L.E. 100,000
Sports Fund Investments	100,000
Interests on Sports Fund Investments	10,000
Donations for Sports Fund	40,000
Sports Prizes awarded	30,000
Expenses on sports events	10,000
General Fund	200,000
General Fund Investments	200,000
Interest on General Fund Investments	20,000

***Solution***

**Income and Expenditure Account**

**Dr. for the year ending December 31, 2016 Cr**

	By Interest on General Fund Investments a/c	20,000
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**Dr. Sports Fund Account Cr.**

To Sports Prizes awarded		<b><i>Balance b/d 1/1/016</i></b>	<b><i>100,000</i></b>
To Expenses on sports events	30,000	By Interest on Sports Fund Investments	10,000
<b><i>Balance c/d 31/12/16</i></b>	10,000	By Donations for Sports Fund	40,000
	<b><i>110,000</i></b>		
	<b><u>150,000</u></b>		<b><u>150,000</u></b>

## **Balance Sheet**

### **Assets                      as on December 31, 2016                      Liabilities**

Sports Fund Investments	100,000	Sports Fund	110,000
General Fund Investments	200,000	General Fund	200,000

#### ***5.5.4 Entrance Fees:***

Entrance Fee or Admission Fee is usually charged by a club or a society from the new entrants. It is usually taken as an item of income. However, in case of clubs and similar institutions some people favour capitalizing the entrance fee on the ground that it is of a non-recurring nature and being charged by the club as a premium from the new members towards the capital cost involved in establishing and maintaining the club by older members.

#### ***5.5.5 Fee For Life Membership:***

It is sometimes possible for a club member to pay a one-off fee so as to obtain life membership of the club. In this cases, organizations charge fee for making persons as life members and such members have to pay fee only once in their life time. Such a receipts is of a capital nature and should, therefore, be taken to the balance sheet on the liabilities side.

Such fees should be credited initially to a Life Membership Account and should then be transferred to the income and expenditure account by instalments. The number of these instalments should be equal to the number of years for which the member concerned is likely to use the club's facilities. Given the difficulty of making this estimate, it is normal for a

club to transfer life membership fees to the Income and Expenditure Account over an arbitrary number of years, often ten or twenty.

**Illustration 5.8:**

Life membership of the Egyptian Workers' Union can be obtained by paying a fee of L.E.60,000. It is the Union's policy to allocate life membership fees to the Income and Expenditure Account over a 10-year period. On January 1, 2016, the balance on the Life Membership Account was L.E.438,000, representing the unexpired portion of the fees paid by 11 life members during the previous 9 years. In the year to December 31, 2016, a further L.E.180,000 was received from 3 new life members. You are required to write up the Life Membership Account for the year to December 31<sup>st</sup>, 2016.

***Solution***

***Calculations:***

1. L.E.6,000 must be transferred to the income and expenditure account in relation to each of the existing 11 life members (60,000 ÷ 10 years).
2. L.E.6,000 must also be transferred to the Income and Expenditure Account in relation to each of the 3 life members.
3. The total amount transferred to the Income and Expenditure Account for the year is therefore = L.E.6,000 × 14 members (11+3) = **L.E.84,000**.

**Dr. Life Membership Account Cr**

To Income and		<b>Balance b/d 1/1/2016</b>	<b>438,000</b>
Expenditure a/c	84,000	By Bank a/c (received this	
<b>Balance c/d 31/12/016</b>	<b>534,000</b>	year)	180,000
	<b>618,000</b>		<b>618,000</b>

**5.5.6 Miscellaneous:**

Adjustments should have to be made in relation to certain items such as sports material, printing and stationery material, sale of old newspapers, and so on, to find out the actual materials used during a particular period for the concerned expenditure and income. This will be clear with the assistance of the following illustration.

**Illustration 5.9:**

From the following information, compute the amount to be debited or credited to the Income and Expenditure account regarding the following items:

**[1] Sports Material:**

Opening stock as on 1/1/2016	L.E. 20,000
Purchases during 2016	80,000
Stock of sports material as on 31/12/2016	30,000
Sale of sports material scrapped	500

**[2] Printing and Stationery Materials:**

Opening stock as on 1/1/2016	30,000
Purchases during the year	50,000
Stock as on 31/12/2016	20,000

**[3] Tinned Provisions:**

Stock as on 1/1/2016	20,000
Purchases during the year	100,000

Stock as on 31/12/2016	30,000
Sale of tinned provisions	150,000

***Solution***

**Income and Expenditure Account**

**Dr.      for the year ending December 31, 2016      Cr.**

To Sports Material used:		By Sale of Sports Material	500
Opening stock    20,000		By Sale of Tinned	150,000
+ Purchases <u>80,000</u>		Provisions	
100,000			
- Ending stock <u>30,000</u>	70,000		
To Printing & Stationery			
Material used:			
Opening stock    30,000			
+ Purchases <u>50,000</u>			
80,000			
- Ending stock <u>20,000</u>	60,000		
To Cost of Tinned			
Provisions sold:			
Opening stock    20,000			
+ Purchases <u>100,000</u>			
120,000			
- Ending stock <u>30,000</u>	90,000		

**Comprehensive Illustration 5.10:**

The Treasurer of South Valley University Club has produced the following Receipts and Payments Account for the year to December 31, 2016:

**South Valley University Club  
Receipts and Payment Account**

**Receipts      for the year to Dec. 31, 2016      Payments**

<i>Balance b/d 1/1/2016:</i>		Restaurant Purchases	1,073,900
<i>Cash in hand 1,200</i>		Clubhouse repairs and insurance	114,000
<i>Cash at bank <u>41,900</u></i>	<b>43,100</b>	Affiliation to Football Union	10,000
Subscriptions received	512,200	Grounds man's wages	104,000
Life Membership	50,000	Restaurant Staff wages	366,900
Donations received	220,000	Dinner catering costs	50,000
Restaurant takings	1,554,200	Bank charges	11,300
Sale of Dinner Tickets	72,000	Charitable donations	90,000
		New shirts and shorts for first team	175,000
		Printing and stationery	32,100
		<i>Balance c/d 31/12/016</i>	
		<i>Cash in hand 2,700</i>	
		<i>Cash at bank <u>421,600</u></i>	<b>424,300</b>
		<i>(deduced figure)</i>	
	<b><u>2,451,500</u></b>		<b><u>2,451,500</u></b>



The following information is also available:

- (a) In addition to cash and bank balances, the only assets and liabilities of the club are as follows:

	31/12/2015	31/12/2016
	L.E.	L.E.
@ Clubhouse (cost)	2,500,000	2,500,000
@ Restaurant Stock	71,300	81,200
@ Advance Subscriptions	22,000	25,000
@ Owed to drinks' factory	121,800	100,400
@ Outstanding Subscriptions	35,000	29,000

The Clubhouse is being depreciated at 10% per year on cost. This process began on January 1, 2012.

- (b) The cost of the new shirts and shorts bought during the year to December 31, 2016 is to be written off immediately.
- (c) One-half of the clubhouse repairs and insurance and one-half of the clubhouse depreciation is to be regarded as an expense of operating the restaurant.
- (d) The club's policy is to ignore outstanding subscriptions when preparing its annual accounts.
- (e) Life membership of the club can be obtained by paying a fee of L.E.25,000. Such fees are allocated to the Income and Expenditure Account over a 5-year period. On January 1, 2016, the balance on the Life Membership Account was L.E.85,000. This figure related to 7 life members, all of whom had paid the life membership fee within the previous four years. During the year to December 31, 2016, a further L.E.50,000 was received from 2 new life members.
- (f) It was decided on July 1, 2016 that a special fund should be established for the purchase of a new Clubhouse. The sum of

L.E.300,000 was to be transferred to this special fund from the General (Accumulated) Fund. Furthermore, L.E.100,000 of the donations received during the year to December 31, 2016 were intended for the special fund.

**Required:**

Prepare a Restaurant Trading and Profit and Loss Account for the year to December 31<sup>st</sup>, 2016, an Income and Expenditure Account, and a Balance Sheet as at that date.

***Solution***

***Working Notes:***

- 1) Clubhouse depreciation expenses  
 $= 2,500,000 \times 10\% = \text{L.E.}250,000$ .  
Accumulated depreciation = Balance till 1/1/2016 ( $250,000 \times 4$  years = L.E.1,000,000) + depreciation expenses on December 31, 2016, L.E.250,000 = L.E.1,250,000.
- 2) Net Restaurant purchases = L.E.1,073,900 + 100,400 - 121,800 = L.E.1,052,500.
- 3) Subscriptions revenue = L.E.512,200 + 22,000 - 25,000 = L.E.509,200.
- 4) Life membership fees credited to Income and Expenditure Account = L.E.25,000  $\div$  5 years = L.E.5,000  $\times$  9 members = L.E.45,000.
- 5) Restaurant share of repairs and insurance and clubhouse depreciation: Repairs & Insurance =  $114,000 \times 50\% = \text{L.E.}57,000$ . Clubhouse depreciation =  $250,000 \times 50\% = \text{L.E.}125,000$ .
- 6) The opening balance of the General Fund = Assets on 1/1/2016 - Liabilities on 1/1/2016 = {Clubhouse 2,500,000 + Restaurant

stock 71,300 + Cash in hand 1,200 + Cash at Bank 41,900} -  
 {Clubhouse Accumulated depreciation 1,000,000 + Advance  
 Subscriptions 22,000 + Owed to drinks' factory 121,800 +  
 Life Membership 85,000} = L.E.2,614,400 - 1,228,800 =  
 L.E.1,385,600.

**Required Final Accounts and Statements:**

<b>Dr.</b>	<b>Life Membership Account</b>		<b>Cr</b>
To Income and Expenditure a/c	45,000	<i>Balance</i>	<i>b/d</i> 85,000
<i>Balance c/d 31/12/016</i>	<i>90,000</i>	<i>1/1/2016</i>	
		By Receipts and Payments a/c	50,000
	<b><u>135,000</u></b>		<b><u>135,000</u></b>

**South Valley University Club**  
**Restaurant Trading and Profit & Loss Account**  
**Dr. for the year ended December 31, 2016 Cr**

To Opening Stock	71,300	By Receipts and Payments (takings)	1,554,200
To Purchases	1,052,500	By Ending Stock	81,200
To Staff wages	366,900	By Income and Expenditure a/c ( <i>net loss</i> )	<i>37,300</i>
To Clubhouse: Repairs & Insurance	57,000		
Depreciation	125,000		
	<b><u>1,672,700</u></b>		<b><u>1,672,700</u></b>

**South Valley University Club**  
**Income and Expenditure Account**

**Dr. for the year ended December 31, 2016 Cr**

To Clubhouse:		By Subscriptions a/c	509,200
Repairs & Insurance	57,000	By Life Membership	
Depreciation	125,000	a/c	45,000
To Affiliation	10,000	By Donations (220,000	
To Grounds Man's wages	104,000	- 100,000)	120,000
To Dinner catering cost	50,000	By Sale of Dinner	
To Bank Charges	11,300	Tickets	72,000
To Charitable donations	90,000		
To New shirts & shorts	175,000		
To Restaurant (net loss)	37,300		
To Printing & Stationery	32,100		
To General Fund (surplus of income over expenditure)	<b>54,500</b>		
	<b><u>746,200</u></b>		<b><u>746,200</u></b>

**South Valley University Club  
Balance Sheet**

**Assets as at December 31, 2016 Liabilities**

<b>Fixed assets:</b>		<b>Current liabilities:</b>	
Clubhouse 2,500,000		Advance Subscriptions	25,000
- Acc. Dep. <u>1,250,000</u>	1,250,000	Owed to Drinks Factory	100,400
<b>Current assets:</b>		<b>Long-term liabilities</b>	
Ending Stock	81,200	Life Membership	90,000
Cash at Bank	421,600	<b>General Fund:</b>	
Cash in hand	2,700	Balance 1/1	1,385,600
		+ Surplus	<u>54,500</u>
			1,440,100
		- Transferred to New Clubhouse	
			<u>300,000</u>
		New Clubhouse Fund	1,140,100
		(300,000 + 100,000)	400,000
	<b><u>1,755,500</u></b>		<b><u>1,755,500</u></b>

**Comprehensive Illustration 5.11:**

The following is the Receipts and Payments Account of Sohag Sports Club for the year ended December 31, 2016:

**Sohag Sports Club**  
**Receipts and Payment Account**  
**Receipts      for the year to Dec. 31, 2016      Payments**

<i>Balance b/d 1/1/16</i>	<b>24,000</b>	By Secretary's salary	36,000
To Entrance fees	5,000	By Upkeep of grounds	21,000
To Subscriptions	87,000	By Wages of Grounds men	24,000
To Proceeds of Concert	15,000	By Ground rent	1,500
To Interest on investments	5,000	By Printing & Postage	2,000
		By Sundry repairs	1,750
		<b><i>Balance c/d 31/12/016</i></b>	<b>49,750</b>
	<b><u>136,000</u></b>		<b><u>136,000</u></b>

The following information is also available:

- (a) Received subscriptions include subscriptions outstanding brought over from previous year L.E.5,000.
- (b) Received interest on investments includes L.E.1,000 in respect of interest accrued in the preceding period.
- (c) Paid upkeep of grounds includes L.E.3,000 applicable to the previous year.
- (d) Paid wages of grounds men include L.E.1,500 applicable to the previous year.

Other ledger balances at the commencement of the financial period were: General Fund L.E.401,000; Income and Expenditure Account credit balance brought forward

L.E.89,000; Club Premises and Grounds (as per valuation) L.E.300,000; Investments L.E.100,000; Sports Materials L.E.24,500; Furniture and Fixtures L.E.40,000.

**Required:**

From the above information, you are required to prepare a Balance Sheet at the commencement of the year, and Income and Expenditure Account, and a Balance Sheet at the close of the year, after considering the following:

Entrance fees are to be capitalized. The outstanding liabilities on December 31<sup>st</sup>, 2016 were: Wages L.E.2,000 and printing L.E.1,000. Interest accrued and outstanding on investments was L.E.1,200. Depreciate club premises by 2%, furniture by 5%, and sports materials by 25%.

***Solution***

***Working Notes:***

- 1) Subscriptions revenue = L.E.87,000 received - 5,000 outstanding from previous year = L.E.82,000.
- 2) Interest on investments = L.E.5,000 received + L.E.1,200 accrued and outstanding for this year - L.E.1,000 accrued in the preceding period = L.E.5,200.
- 3) Upkeep of grounds = L.E.21,000 paid this year - 3,000 applicable to the previous year = L.E.18,000.
- 4) Wages of grounds men = L.E.24,000 paid + 2,000 outstanding for this year - L.E.1,500 applicable to the previous year = L.E.24,500.
- 5) Printing and postage = L.E.2,000 paid + 1,000 outstanding = L.E.3,000.

6) Depreciation expenses: *a.* Club premises =  $300,000 \times 2\% =$  L.E.6,000. *b.* Furniture =  $40,000 \times 5\% =$  L.E.2,000. *c.* Sports materials =  $24,500 \times 25\% =$  L.E.6,125.

**Required Final Accounts and Statements:**

**Sohag Sports Club**

**Balance Sheet**

**Assets as at January 1, 2016 Liabilities**

<b>Fixed assets:</b>		<b>Current liabilities:</b>	
Premises	300,000	Outstanding expenses	
Furniture & fixtures	40,000	(3,000 + 1,500)	4,500
Sports materials	24,500	General Fund	401,000
<b>Current assets:</b>		Income and Expenditure	
Investments	100,000	Account	89,000
Outstanding interest	1,000		
Outstanding subscriptions	5,000		
Cash	24,000		
	<b><u>494,500</u></b>		<b><u>494,500</u></b>



**Sohag Sports Club**  
**Income and Expenditure Account**  
**Dr. for the year ended December 31, 2016 Cr**

To Secretary Salary	36,000	Balance b/d 1/1/2016	89,000
To Wages of Grounds men	24,500	By Subscriptions	82,000
To Upkeep of grounds	18,000	By Proceeds of concert	15,000
To Printing & postage	3,000	By Interest on	
To Sundry repairs	1,750	investments	5,200
To Ground rent	1,500		
To Depreciation:			
Sports materials	6,125		
Premises	6,000		
Furniture	2,000		
<b>To General Fund (excess of income over expenses)</b>	<b>92,325</b>		
	<b><u>191,200</u></b>		<b><u>191,200</u></b>

**Sohag Sports Club**  
**Balance Sheet**

**Assets as on December 31, 2016 Liabilities**

<b>Fixed assets:</b>		<b>Current liabilities:</b>	
Premises less Dep.	294,000	Outstanding expenses	3,000
Furniture less Dep.	38,000	General Fund	401,000
Sports materials less depreciation	18,375	+ Entrance fees	5,000
<b>Current assets:</b>		+ Excess of Inc. over expenses	<u>92,325</u>
Investments	100,000		498,325
Outstanding interest	1,200		
Cash	49,750		
	<b><u>501,325</u></b>		<b><u>501,325</u></b>

### **5.6 Problems:**

{1} A social club was established on January 1, 2013. The members agreed that accounts should be prepared to 31 of December each year. Subscriptions were received as follows in the first four accounting years:

	Relating to 2013	Relating to 2014	Relating to 2015	Relating to 2016	Relating to 2017
Received in 2013	195,000	9,000			
Received in 2014	34,000	213,000	11,000		
Received in 2015		25,000	225,000	13,000	
Received in 2016			18,000	234,000	15,000
Outstanding	40,000	30,000	20,000	10,000	

### **Required:**

Prepare Subscriptions Account and calculate the amount that should be shown in the club's accounts for the years to December 2013, 2014, 2015 and 2016, assuming that:

*a.* The club prepares Income and Expenditure Account and takes no credit for subscriptions which are outstanding at the end of an accounting period.

*b.* The club prepares Income and Expenditure Account and takes subscriptions which are outstanding into account at the end of an accounting period and the policy of the club is to show outstanding subscriptions as an asset in the balance sheet for 2 years. Outstanding subscriptions are considered bad

subscriptions in the third year following the years in which they are considered as an asset.



{2} The Cash and Bank accounts of the Youth Social Chess Club for the year to December 2016 are as follows:

<b>Dr.</b>	<b>Cash Account</b>		<b>Cr.</b>
<i>Balance b/d 1/1/16</i>	<b>14,000</b>	Room hire	520,000
Subscriptions received for 2016	129,000	Coffee, biscuits, etc.	93,000
Donations received	50,000	<i>Balance c/d 31/12/016</i>	<b>30,000</b>
Cash withdrawn from bank	450,000		
	<b><u>643,000</u></b>		<b><u>643,000</u></b>

<b>Dr.</b>	<b>Bank Account</b>		<b>Cr.</b>
<i>Balance b/d 1/1/16</i>	<b>219,000</b>	Purchase of chess sets and boards	480,000
Subscriptions received:		Purchase of chess clocks	120,000
For 2015	14,000	Purchase of chess books	50,000
For 2016	924,000	Costs of annual journey	
For 2017	30,000	Cash withdrawn from bank	427,000
Receipts from annual journey	395,000	<i>Balance c/d 31/12/16</i>	450,000
			<b>54,000</b>
	<b><u>1,581,000</u></b>		<b><u>1,581,000</u></b>

**Required:**

Prepare a Receipts and Payments Account for the year to December 31, 2016.



{3} The Treasurer of the Basket Stars Club has prepared the following Receipts and Payments Account for the year to December 31, 1016.

**Basket Stars Club  
Receipts and Payments Account**

**Receipts for the year to December 31, 2016    Payments**

Balance at 1/1/2016:		Purchase of refreshments	112,800
Cash    8,800		Catering staff wages	52,000
Bank <u>10,900</u>	19,700	Heating & lighting	21,800
Subscriptions received	211,000	Purchase of plates and glasses	12,000
Life membership fees	30,000	Purchase of basket clothing	
Donations received	54,000	and equipment for resale	253,000
Sale of refreshments	298,600	National match admission	
Sale of basket clothing		fees	38,000
and equipments	310,700	National match coach hire	10,500
Receipts from trip to		National match tip for driver	1,000
National match	65,000	Rent of indoor basket practice	
Bank interest received	2,300	facilities	167,000
		Repairs	32,500
		Grounds men wages	50,000
		Public liability insurance	50,000
		Purchase of new motor mower	63,000
		Balance c/d:	
		Cash    9,200	
		Bank <u>118,500</u>	127,700
	<b><u>991,300</u></b>		<b><u>991,300</u></b>

The following is also available:

*a)* The club owns its ground and pavilion. The ground cost L.E.200,000 and the pavilion was built at a cost of L.E.140,000. Depreciation has not been charged on these assets in the past , but it has now been decided that the pavilion should be depreciated at a rate of 5% annually on the straight-line basis, beginning in the year to December 31, 2016.

*b)* The new mower was bought for L.E.90,000, less a part-exchange allowance of L.E.27,000 on the old mower. Mowers are depreciated at 20% per year on the straight-line basis, with a full charge in the year of acquisition and none in the year of disposal. The old mower had a written-down value of L.E.31,000 on December 31, 2015.

*c)* In addition to the ground, the pavilion, the mowers, and the cash and bank balances, the assets and liabilities of the club are as follows:

	31/12/15	31/12/16
Stock of refreshments	L.E. 7,500	8,200
Stock of clothing and equipment	43,000	51,000
Accrued heating & lighting	2,500	3,200
Prepaid insurance premium	10,000	12,500
Subscriptions received in advance	11,000	6,000
Subscriptions accrued for 2015	9,500	2,500
Subscriptions accrued for 2016	.....	8,500
Owing to suppliers of clothing	21,000	18,400

*d)* The policy of the club is to show subscriptions accrued as an asset in the balance sheet so long as they relate to the

accounting period which has just ended rather than to an earlier accounting period.

e) Life membership of the club is available at a fee of L.E.15,000. Life membership fees are transferred to the income and expenditure account over a period of ten years. As at December 31, 2015, the club had 9 life members. The balance on the life membership account at December 31, 2015 was L.E.42,000.

f) It was decided on January 1, 2016 that a special fund should be established so that the club could acquire its own indoor practice facilities. All bank interest and all profits from the sale of basket clothing and equipment are to be credited to this special fund until further notice.

g) 40% of heating and lighting costs and 60% of repairs relate to the preparation and sale of refreshments. The cost of the plates and glasses acquired during the year is to be written off immediately. None of the other expenses described above relate to the refreshments operations.

**Required:**

- 1) Prepare a refreshments Trading and Profit and Loss Account for the year to December 31, 2016.
- 2) Prepare a basket clothing and equipment Trading Account for the year to December 31, 2016.
- 3) Prepare an Income and Expenditure Account for the year to December 31, 2016.
- 4) Prepare a Balance Sheet as at December 31, 2016.



{4} The following receipts and payments account has been prepared from the cash book of the Social Club:

**Social Club**

**Receipts and Payments Account**

**Receipts for the year to December 31, 2016      Payments**

<b>Balance on 1/1/2016</b>	<b>25,500</b>	Rent and rates	168,000
Member entrance fee	23,100	Printing and advertising	80,000
Subscriptions of Playing Members:		Postage & stationery	27,800
2015	6,300	Wages and Umpire's fees	120,000
2016	60,000	Players' travelling expenses	50,000
Subscriptions of Honorary Members:		Repairs to Pavilion	20,900
2015	26,000	Extension of Pavilion	195,600
2016	472,500	General expenses	67,600
2017	12,000	<b>Balance c/d 31/12/2016</b>	<b>21,600</b>
Public matches	112,000		
Interest on fixed deposit	14,100		
	<b>751,500</b>		<b>751,500</b>

An examination of invoices, vehicles and other records disclosed the following information:

Rent at L.E.10,000 per month has been paid only up to 30<sup>th</sup> of September 2016 and rates have been paid in advance to the extent of L.E.12,000. There is L.E.18,000 owing for wages and umpires fees and a bill for L.E.5,500 for general expenses is still outstanding. Playing Members' subscriptions are L.E.4,000 in arrears for the year and the amount still owing by Honorary Members is L.E.42,500.

**Required:**

Make out the Income and Expenditure Account for the year ended December 31<sup>st</sup>, 2016.

( *Answer:* Surplus of Income over Expenditure is L.E.152,400.)



{5} Given below is the Receipts and Payments Account of a club for the year ending December 31<sup>st</sup>, 2016:

<b>Balance on 1/1/2016</b>	<b>102,500</b>	Salaries	60,000
Subscriptions:		Expenses	7,500
2015	4,000	Drama expenses	45,000
2016	205,000	Newspapers	15,000
2017	6,000	Local taxes	4,000
Donations	54,000	Investments	200,000
Sale of Drama tickets	95,000	Charity	35,000
Sale of waste paper	4,500	Electric charges	14,500
		<b>Balance c/d 31/12/2016</b>	<b>90,000</b>
	<b><u>471,000</u></b>		<b><u>471,000</u></b>

**Instructions:**

Prepare the Club's Income and Expenditure Account for the year ended December 31, 2016 and its Balance Sheet as on that date after taking the following information into consideration:

**a.▶** There are 500 members each paying an annual subscription of L.E.500, and L.E.5,000 being outstanding for 2015.

**b.▶** Local taxes amounting L.E.4,000 annually have been paid up to March 31<sup>st</sup>, 2017 and L.E.5,000 for salaries is outstanding.



- c. ► Buildings stand in the books at L.E.500,000.
  - d. ► 6% interest has accrued on investments for five months.
- [**Answer:** Excess of Income over Expenditure is L.E.223,500 and total of Balance Sheet is L.E.842,000.]



{6} The Balance Sheet as on December 31, 2015 and the Receipts and Payments Account for the year ended December 31, 2016 of the Egyptian Literary Society are as below:

**Egyptian Literary Society**  
**Balance Sheet**

<b>Assets</b>	<b>as on December 31, 2015</b>	<b>Liabilities</b>		
Buildings	250,000	General Fund	585,000	
Furniture	20,000	+ Surplus	<u>30,000</u>	615,000
Books	11,500	Subscriptions received		
Sports equipments	20,000	in advance		4,000
Fixed deposit at bank	300,000			
Interest accrued on investments	2,000			
Subscriptions receivable	10,000			
Cash on hand	1,500			
Cash with bank	4,000			
	<b><u>619,000</u></b>			<b><u>619,000</u></b>

**Egyptian Literacy Society**  
**Receipts and Payments Account**  
**Receipts for the year to December 31, 2016    Payments**

<b>Balance on 1/1/2016:</b>		Salaries	25,600
<b>Cash on hand</b>	<b>1,500</b>	Printing & stationery	2,200
<b>Cash with bank</b>	<b>4,000</b>	Taxes & insurance	1,800
Subscriptions received	60,800	Subscriptions                    to	
Hall rent received	17,500	newspapers	5,500
Interest received	12,000	Repairs & renewals	6,500
Sale of old newspapers	1,600	Sports                    equipments	
Donations received	32,000	(purchased 1/7/2016)	10,000
		Fixed deposit with bank	
		(1/10/ 2016)	50,000
		<b>Balance c/d 31/12/2016:</b>	
		<b>Cash on hand</b>	<b>1,500</b>
		<b>Cash at bank</b>	<b>26,300</b>
	<b><u>129,400</u></b>		<b><u>129,400</u></b>

The following information is supplied to you:

1. Subscriptions for the year 2017 received during the year of L.E.5,000.
2. The society consists of 500 members, the annual subscriptions payable be each member being L.E.120.
3. The rent for the society's hall is L.E.2,500 per day and the hall was let out on hire 8 days in the year.
4. Interest accrued on fixed deposits with the bank has to be provided at 6% annually.
5. Depreciation on buildings and other assets at 10% annually has to be provided.

6. Donations have been collected for constructing a building and, therefore, have to be shown under the Building Fund Account.

**Required:**

Prepare the Income and Expenditure Account for the year ended December 31, 2016 and Balance Sheet on that date.

[**Answer:** Surplus is L.E.28,100, total of Balance Sheet L.E.680,100.]

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