Module 10:-
Accounting For Fixed Assets and Depreciation:-

- ## Basic of Depreciation:-
  These are assets that are used over a period of time.
  - Depreciation is a systematic allocation of the cost of depreciable assets to expense over its useful life.

  - ## Recognition Criterias-
    - cost can be measure reliably.
    - Probability of inflow of economic benefits in future.
  - ## Measurements:-
    ## At recognitions-
    - Purchased assets are initially measured at cost.
    - Exchanged assets are initially measured at fair value.
      - The exchanged transaction lacks commerical substance.
      - fair value cannot be determined in these circumstances, carring amount of given assets given up will be the value of the asset taken in exchange.

- **After recognition:-**

    After recognition the items of property Plant and equipment are measured at either of two models:-

- **Cost models:-**

    cost of less asset accumulated depreciation less accumulated impairment loss.

- **Revaluation model:-**

    Revalued amount less accumulated depreciation subsequent to revaluation and accumulated impairment loss subsequent to revaluation.

- **impairment loss:-**

    when carring amount of assets is greater than its, recoverable amount the difference is impairment loss.

- **Depreciable amount:-**

    cost of an asset, or other amount for cost, less its residual value.

- **Useful life:-**

    It is life for which can assets is estimated to provide benefits.

- **Note:-**

    Depreciation rate is determined based on useful life and residual value of assets.

Depreciation Methods:-

There are five depreciation Methods:-

1. Straight line Method
2. Reducing balance method
3. Sum of year, digit Method
4. Number of units output method
5. Number of service hours Method.

1. Straight Line Method:-

- **Formula:-**

$$\text{Annual depreciation} = \frac{\text{Cost} - \text{Residual value}}{\text{Useful life}}$$

- **Practice:-**

Cost = Rs. 150,000

D. cost = Rs. 30,000

Useful life = 10 years

Value put in Formula:-

$$= \frac{150,000 - 30,000}{10 \text{ years}}$$

$$= \frac{120,000}{10}$$

Annual Depreciation = 12,000 Rs

- **Note:-**

In straight line Method, the depreciable cost has same in 10 years.

2. Reducing Balance Methods-

- Formula:-

$$= \frac{1}{\text{Estimated working life}} \times 2 \times \text{Balance}$$

- Practice:-

Cost = 100,00 Rs

Salvage value / Depreciable cost = 10,000 Rs

Useful life = 3 year

Put value in formula:-

Year 1 $= \frac{1}{10} \times 2 \times 100,00$

$= 20,000$ RS

Year 2 $= \frac{1}{10} \times 2 \times 80,000$

$= 16,000$ Rs

Year 3 $= \frac{1}{10} \times 2 \times 64000$

$= 12800$ RS

3. Sum of year digit Methods-

- ## Formula:-
  = Depreciable cost x year fraction
  = Cost - Residual value x year fraction

we can calculated sum of years by this formula:-

$$= \frac{n(n+1)}{2}$$

Then we can find fraction we divide max value over sum of year.

17 we can calculate 5 years the Sum of depreciation:-

$$= \frac{S(S+1)}{2} = 30/2 = 15$$

Year fraction = 5/15, 4/15, 3/15, 2/15, 1/15

- ## Practice:-
  Jan 1, 2016 cost = 170,000 Rs
  Useful life year = 5 year
  Salvage value = 20,000
  Dec 31, 2016 Depreciable cost = 150,000 x 5/15
  $$= 50,000$$
  Dec 31, 2017 = 150,000 x 4/15
  $$= 40,000$$

- ## Notes-
  In this method, the depreciation change remain constant.

4. Number of units output Methods-
Life is units.

- **formula:-**

$$= \frac{cost - Residual\ value}{useful\ life\ (unit)}$$

- **Practices-**

cost = 150,000 Rs

Salvage cost = 30,000

Useful life (units) = 10,000 units

Put value in formula :-

$$= \frac{150,000 - 30,000}{10,000\ units}$$

Deprecable cast Per units = 12 Per unit

If we can calculate depreciation in 4000 unit
Then,

$$= 4000\ unit \times 12\ unit$$
$$= 48000\ units$$

5. Service Method :-

life is in hours.

Formula :-

$$= \frac{Cost - Residual\ value}{useful\ life}$$

cost = 150,000 Rs

salvage value = 30,000 Rs

useful life = 10,000 hours

Put vale in formula :-

$$= \frac{150,000 - 30,000}{10,000\ hours}$$

Depreciation per hour = Rs. 12 Per hour

If we calculate depreciation in 4000 hours then

$$= 4000\ hours \times 12 = 48000\ hours$$

We can calculated this depreciation Per hour.

- **Basic of Accounting For Depreciations:-**
   (Purchase of Fixed asset upon Payment or on credit.

   1. **Fixed assets account:-**
      cash/Bank/ creditor accounts.

   2. **Depreciation Expense account:-**
         Provision for depreciation account
      (Provision against depreciation expense for the year.)

   3. **Profit and Loss account:-**
         Depreciation Expense account
      (Depreciation Expense closed to income statement.)

- **Accounting Entries For Disposal of Fixed Assets-**

   1. **Asset Disposal Account:-**
         Fixed asset account   Credit
      Calculate Depreciation till due date of sale.

   2. **Provision for Depreciation Account:-**
            Asset Disposal accounts- Debit
      Accumulated depreciation balance till the date
      of disposal transferred to asset disposal account.

   3. **Bank Accounts-**
         Asset Disposal account Debit
      Disposal consideration/sales proceeds, received on
      disposal of the asset.

      Book value = Cost - Accumulated Depreciation

4.

a) Asset Disposal account:-

    income statement

(Profit /Gain on disposal of asset transferred to income statement for the period.

b) Income statement:-

    Asset Disposal account

Loss on disposal of asset transferred to income statement for the period.

- **Formula:-**

Gain /Loss = Selling - Book Value

- Selling Price is increase we gain.
- Selling Price is decrease we Loss.

• Exchange of Asset:-

In Trade-in-Allowance:-

when an old asset is exchanged with a new asset the seller of new asset will offer an allowance while receiving Payment for selling asset in consideration of the exchange of old aset. Such allowance is know as "trade-in-Allowance".

The buyer will subtract "trade-in-allowance" from the cost of new asset while making Payment to the seller.

- Formulas-

  cost of new asset = cash consideration -
  Trade in allowance

  cost of New asset - Trade in allowance = Cash
  Considration

- Asset account will be debited with the cost of New asset i.e., cash paid plus trade in allowance.

- Trade in allowance is considered as disposal proceeds of the old asset.

- ## Commerial Substances-

  When an asset is exchanged with another asset and commerial substance does not exist in such exchange, the cost of asset taken through exchange is carrying amount of asset given up.

- But when commerial substance does exist, then cost of asset taken through exchange would be **fair value of asset given up.**

- when both fair value of asset is not determinable the carrying amount of asset given up would be considered as cost of asset taken through exchange.

- Existance of commercial substance means: that the entity specific value of both asset are not equal.

- **Control Accounts-**

    Control account is simple ledger account that represents numerous ledgers account of similar nature.

    Examples-
    - ✔ Trade Receivable
    - ✔ Trade Payable
    - ✔ Payroll
    - ✔ Inventory

- **Creditors Control accounts-**

    In this account we purchase some things from the seller.

- **Names of Creditors control accounts-**
    - Purchase ledger control account.
    - Total creditors control account.
    - Sundry creditors control account
    - Trade Payable control account

Debtors control account
Trade Receivable control A/c

Opening Dr. Balance b/F	Opening Cr. Balance b/7
credit sales (invoice issued)	cash received From debtors
Refund to debtors	cheques received from debtors
Cheques dishonoured	Bills receivable accepted by
Bills receivable	debtors
dishonoured	Discount allowed
Interest charged to debtors	Contra / set off / balance transferred
closing Cr. Balance c/7	closing Dr. Balance c/7

C~~e~~rrditors Control account
Trade Payable control A/c

Opening Balance b/7 Dr	Opening Balance b/7 Cr.
Chas Paid to creditors	credit Purchases (invoice issued)
Bills Payable given to	Bills Payable dishonoured
creditor	Interest Payable
Discount received	
Purchased return credit	
note received	
Contra / set off / Balance	
transferred	
Closing Cr. Balance c/7	Closing Dr. Balance c/7

IFRS:-

- **Contra Entry:-**
  - It appears in debtors ledgers as well as in creditors ledger.
  - It behaves opposite to the nature of account.

- **Postings:-**
  In this process, we enter ledger accounting entries into journal account.

- **Control Account Reconciliation:-**
  closing balance of control account may not agree with total of the list of individual balances extracted from the subsidary ledgers.
  a) Any difference must be investigated and corrections made:
  b) This may involve adjustments:
     - To control account and/or.
     - To the list of balance as per subsidary ledger.

- Reasons of difference:-

1. Books of original Entriess-   Amendments
   a). Recording error   control A/c and list
   b). Casting error   control A/c only

   a). Recording error:-
                    In this error, we mistake
       in the Recorde of accounting entries. •
   b). Casting error:-
                    In this error, we mistake in
       the total of accounting entries. when we
       neglect one of an entitl entry.

2. Main ledger - control Accounts-
   a). Posting error   control A/c only
   b). Casting error   control A/c only

   a). Posting error
                    In this error, we mistake
       when we posting total entries into
       Main ledger.
3. Subsidiary ledger- Individual Accounts:-
   a). Posting error   List only
   b). Casting error   List only

4. **List of Balance:-**
   a). Listing error   List only
   b). Casting error   List only !

   Listing error:-
   In this error, we mistake in list of subsidiary ledger.

- Cr balance in Debtors account might arise because of cash received in advance.
- Dr Balance in Creditors account might arise because of cash paid in advance.
- Closing balance always appears on opposite side:-
  1). Closing Dr. Balance will appear in credit.
  2). closing Cr. Balance will appear in debit side.

- Regard less of nature of ledger account:-
  a). Opening Dr. Balance will appear in debit side.
  b). Opening Cr. Balance will appear in Credit side.

- **Names of Accounting Records:-**

  That are often confused by the students.

  (for) credit sales)

  a). Sales journal/day book   is a   Book of original entry

  b). Sales ledger   Is a   Subsidinary ledger (a book for debtors)

  c). Sales ledger account   is a   Debtors control a/c in main ledger

  d). Sales account   is a   Sales income in main ledger.

  a). Purchase journal   is a Book of original entry (credit purchase)

  b). Purchase ledger is a   Subsidinary ledger (Book for creditors)

  c). Purchase ledger a/c is a   Creditors control a/c In main ledger

  d). Purchase account is a   Purchase expense in main ledger

Module 12:-

Types of Errors:-
These are split into two categories:-

1. Those errors that do not cause a difference in trial balance agreement.

2. Those errors that do cause a difference in trial balance agreement.

Errors that do not cause any difference in trial Balance:-

Reasons of Error	Rectifying Entry Error
a) **Error of Omission:-** when financial information is completely omitted for recording in the book of original entry.	Debtors a/c Dr. 1,000 Sales a/c cr. 1,000
• **Own word:-** when we cannot recorde one entry in the book of original entry.	
• **Example:-** Sales invoice of Rs.1000 issued before closing date but not recorded in book of original entry.	

Reasons of Error	Rectifying Entry Error
b) Error of Commission:- when correct accounting head (Dr/cr) is given in the wrong accounting head but the main head remain constant / correct.	
• Own words:- when we enter accounting effect in original book but we can change accounting head.	
If we purchase a computer Rs. 5000. But in accounting book we entre enter debited to Furniture account. (Both account belong same main head. Asset).	Computer a/c Dr. 5,000 Furniture a/c cr. 5,000
This error have no effect on the main head or Financial Position. It mean that we cannot loss / gain.	

c)   Error of R Principle   Recifying Entry

when accounting effect (Dr/cr)
is given in the wrong accounting
head as well as main head.

- **Own words:-**

    If we enter some entry
    in Asset but we enter
    this entry in Expense /
    for owner equity. so, this error
    occur.

- **Examples:-**

    If we Purchase
    a Computer 5,000 for office |
    was wrongly debited in | Computer a/c Dr. 5000
    stationery account. stationery | Stationery a/c cr. 5000
    account belongs to
    Expense but computer belongs
    to Asset.

    This type of error effect
    on financial performance (net
    profit) and financial position (
    Asset = Liability + owner equity)

- **Causes-**

    Error occurs because of
    wrong decision about capital
    revenue nature:-

Error of Original Entry	Rectifying Entry
When an correct accounting entry is recorded in the book of account but the amount in both accounting effect is wrong although the amount is same.	

- Own words:-
  If we entre enter the entry in debit side but the entry are in cradit side. so, this error occur.

- Examples-

	Debtor a/c Dr. 270
	Bad debts a/c cr. 270

Debtors is to be written off for Rs. 250 as bad debts were recorded in the correct accounts but the amount was posted in both account was Rs. 520 causing a difference of Rs. 270 in both side.

It is also know as transposition error.

Compensating Error | Rectifying Error

When sum of more errors than one errors are is cancls the accounting effect each other.

- Example:-

Sales were less credited with Rs.260 and at the same time opening balance of capital account was brought forward with an amount that Rs.200 more than tha the correct amount and Ren expense owing of Rs.60 was although credited to rent payable account but was not debited to rent Pa expense.

Capital a/c Dr. 200
Ren Expense a/c Dr. 60
Sales a/c Cr. 260

- **Possible reasons for difference in the trial Balance:-**

Reason of Error	Rectifying Error

- Under/over casting of a ledger account maintained in main ledger:-

  - Under. Casting:-
    When we can calculate trial Balance. Then we mistake in total Balance. For example:- we can calculated 100. But we can enter 110 in trial Balance.

Reason of Error	Rectifying Error
Sales income account was undercast by Rs.500.	Suspense a/c Dr. 500 Sales a/c cr. 500

  - Over-Casting:-
    When we can calculate trial Balance. Then we enter one entry increasing from its original balance. For example:- we can enter one entry 20Rs. But its original entry is 10Rs.

Reason of Error	Rectifying Error
Sales income account was over-cast by Rs.500.	Sale a/c Dr. 200 suspense a/c cr. 200

  - It will be affect in trial Balance:-

- Omission of Balance From trial Balances-

Balance of bad debts account Rs. 700 (already correctly accounted for) is not appearing in the trial Balance.	Bad debts a/c Dr. 700 suspense a/c Cr. 700

- It will be affect trial balance only.

- Balance representing an account appearing in trial Balance with less or excess amounts-

Building account Balance c/f Rs. 700 ,000 erroneously was appearing in the trial balance with Rs. 70,000	Building a/c Dr. 630,000 Suspense a/c Cr. 630,000

It will be affect trial Balance only.

- An account was given debit affect instead of credit side effects-

Sales of Rs. 800 on credit was correctly debited in Debtors account but was also debit to Sales account mistakely.	suspense a/c Dr. 1600 sales a/c Cr. 1600

Causing difference with double amount.

- A ledger account was given credit effect instead of debit side:-
  sales of Rs.800 on credit was correctly credited in sales account but was also credited in debtor's account mistakly. | Debtor a/c Dr. 1600
  suspense a/c Cr. 1600

Causing difference with double amount.

- Single accounting effect either Dr or Cr was recorded/Posted in the bank of account.-
  Sales of Rs.800 on credit was Posted in sales a/c only:- | Debtors a/c Dr. 800
  Suspense a/c Cr. 800

- One of the accounting effects was recorded with wrong a/c:-
  Sales of Rs.800 on credit was correctly credited in sales account but was wrongly debited to debtors a/c with Rs 80 only | Debtor a/c Dr. 720 700
  suspense a/c Cr. 720

- **Nominal Accounts in Rectifying Entries:-**

    If, in a rectifying entry, any nominal accounting head, related to income statement (Expense and income) is given debit effect, it would cause a decrease in the net profit. And if, credit effect is given, then there would be an increase in net profit.

- **Debit effect:-**

    when debit side is increase, and credit side is decrease. so this is called debit effect.

- **Concept of capital and Revenue Expenditure Receipts:-**

    Capital and Revenue, Expenditure/Receipts should be taken care while recognizing accounting heads as Dr. or Cr.

    - Capital expenditure — Asset
    - Revenue expenditure — Expense
    - capital receipt — Liability or owner's equity
    - Revenue receipt — Income

- **Error of Principle:-**

    Error that taken Place because of wrong decision about the nature of accounting head, capital or revenue is

know as error of Principle.

Module - 13

- Final Account and adjustements:-

- Final account:-

    Mostly the sole Proprietors Prepare following two financial statements as final account.

1. Income statement (statement of Profit or loss and other comprehensive income).

    Income - Expense = Profit

2. Balance sheet (statement of finanical Position).

    Assets = Owner's equity + Liabilities.

- Income statement is Prepared to know the financial Performance an enlity.

- Balance sheet (statement of finanical position) is prepare know the po financial Position of an enlity.

- Reporting Period:-

    Income statement is prepare for a specific Period For which starting and end dates are defined, normally a year of 12 month, also known as deporting Period.

- **Financial Performance:-**

It refers to the Profitability (Profit or Loss) of entity during an accounting Period.

- **Reporting dates-**

Financial Position refers to the financial strength of entity on a specific date. Normally it is prepared at the end of reporting Period which is know as reporting date or balance sheet date.

- **Technique to Prepare Final accounts-**

1. Read trial balance very carefully.
2. Identify the nature of accounting head correctly
3. Pass Journal entries for adjustement
4. Place adjusted balance in the appropriate
5. Part of income statement and balance sheet.

- Important tip to follow is to mark A/E/I/L/O while reading trial balance. and then pass journal enteries for adjustement.

- Notes:-

Fixed asset appearing inthe trial Balance may have contra account for accumulated deprecation within trial Balance or may have information outside of trial Balance.

- Net Book value = original asset cost + Accumulated deprecation.

Reporting requirements of Manufacturing Entities:-

Business entity is of two types:-
1. Service – oriented
2. goods – oriented (deal with manufacturing and Trading)

1. Goods – oriented:-

Raw material into Finished goods, Sele them to their customers.

Types:-
1. Trading entity
2. Manufacturing entity

1 Trading entity:-

Trading entities Purchase good in finished form, make those goods available in the showroom, do marketing to sell those goods to the customers.

- **Example:-**
  importers, exporters, wholesalers and detailers.

- **Note:-**
  They do not enter in any process of deforming the finished goods.

Manufacturing entity:-

Manufacturing entity enter in a Process through will e which raw-material is put into workshop where certain other cost are incurred to convert that raw material into finished Products.

- **Example:-**

Furniture manufacturers, jewelry maker bakery confectioners and construction contractors.

- **Note:-**

They also include the entity which do not convert raw-material into a finished good but they modify or improve the form of a Product to be suitable for a potential customer.

- **Example:-**

Rice mills, electrical fittings, canned food activities and embrdders.

- **Trading entity:-**

Accounts of trading entity split income statement into two main heads :-

1. Trading account
2. Profit and loss account

- **Manufacturing entity:-**
  Accountants of manufacturing entity prepares-
  1. Manufacturing entity account
  2. Trading account
  3. Profit / Loss account

  Manufacturing account consolidates all production cost that are incurred to bring a product to saleable condition. These costs are categorized as:-
  1. direct cost
  2. indirect cost

- **Direct cost:-**
  Direct material, Direct labor and direct cost that can be independently traced as Product cost.

- **Indirect cost:**
  factor overhead cost also known as Product overhead cost.
  It is also a Product cost but cannot be independently traced in the cost of Product.
  - **Example:-**
    electricity bills of workshop, rent of factory

building.

- **Types of inventories:-**

  There are three types of inventories:-
  1. Material inventory
  2. Work inprocess inventory
  3. Finished goods inventory

- **Cost Element:-**
  1. Material
  2. Labor
  3. Factory overhead

- **Classification and analysis of Cost of Products-**

Material cost = Direct material cost + indirect material cost

\+   +   +

Labor cost = Direct labor cost + indirect material cost

\+   +   +

other cost = other Direct cost + other indirect cost

Total cost of = Prime cost + Factory overhead
Production   cost

- **Difference b/w cost and expenses:-**

- **Cost:-**

  Direct material consumed, direct labor Factory overhead, total manufacturing, etc are treated as cost.

- **Expense:-**
  - Cost & that expires is expense.
  - The cost that is incurred and has expired during the accounting period is expense.

- **Classification and Analysis of cost of Production:-**
  - The cost of goods manufactured is transferred to finished goods inventory, unless it is sold is remain in the category of cost.
  - The sooner these finished goods are sold these became expense and the unsold finished goods are asset. This is because the entity obtains economic benefit upon expiry of the cost of Produced goods by selling those to the customers.

- That's why any components of the cost of production is not termed as expense. whereas, "cost of good sold" is expense (despite the fact that word "cost" is used in it).

- Manu Facturing Cycles-

1. Cost of direct material $\longrightarrow$ Material inventory

Cost of direct material Consumed

2. Direct labour cost
3. Other direct cost $\longrightarrow$ workin Process inventary
4. Factory overhead cost

cost of good Manufactured

cost of good sold $\longleftarrow$ Finished goods inventory

- **Tyes of inventoriess–**

  There are three types of inventories that can be identified in a manufacturing entity.

1. **Material and supplies inventory:-**
   - This is the inventory for raw material, store items, spare parts and indirect material that are used in production.
   - It is the oo cost that represents un-consumed materials and supplies laying in the stores at the end of the reporting period.

   - **Categories:-**

     Direct supplies(Raw material), Indirects supplies, office supplies, shipping supplies.

2. **work in Process inventory:-**
   - This is the inventory of semi-finished goods.
   - It is the cost that represent work in process, which remained semi-finished at the end of the reporting period: a further cost of is still required to be incurred on this type of inventory in order to convert it into finished goods.

3. Finished goods inventory:-

- This is the inventory of completed Products which are ready for sale.
- ~~tsta~~ Finished goods inventory is the value of those Fully manufactured Product, which remained unsold at the end of the reporting period.

- **Formulas:-**

- **Prime cost:-**
Direct material cost + Direct cost + other Direct cost

- **Total factory cost / Production cost:-**
Prime cost + Factory overhead cost

- **Cost of good manufactured e-**
Prime cost + factory cost / Production cost + opening work in Process inventory — close work in process inventory

- **Gross profit:-**
Returns inward / Net sales — cost of goods sold