CREDITORS/DEBTORS –TREATMENT IN ACCOUNTS

DEBTORS

Debtors are the customers of the organization to whom the product supplied/service rendered is on credit. It comes under the current assets category.

Debtor may be of an individual or a firm or a company. Credit business is common and inevitable in trading & manufacturing concerns. It is allowed very rarely in service organizations. When the no. of debtors is more it is necessary to maintain more no of accounts in the ledger and the Trial balance may run into pages.

To avoid this separate ledgers for debtors may be maintained under the self balancing system.

Under this system the total of the transactions of debits and credits from various records such as sales day book cash and bank books will be posted to a ledger account called Total debtors account in the general ledger. The net balance in the debtor’s ledger of all individual account balances should tally with the total debtors account. This account is also called as Sundry debtors control account/or Sales ledger adjustment ledger account.

Similarly an account will be maintained in the debtor’s ledger as ‘general ledger adjustment account or general ledger control account where all the entries passed in the debtors ledger control account will be contrived in the general ledger control account. If both the balances tally the transaction entries are ascertained as correct.

Debt collection:

Debt collection is an important aspect in any business. According to the market trend the business house decides on the terms of sales with regard to

1. Selling price

2. Discount-trade discount-cash discount

3. Credit period

To get the debt collected, periodic verification of the ledger and follow-up through the sales department for collection is necessary. Quarterly statement showing age wise details of the debt is to be sent to customers requesting payment.

In the balance sheet of companies it is compulsory to show the debtor’s age wise.

Debts more than 3 years are to be provided for in the accounts.
CREDITORS

Creditors are the sellers of products ie suppliers to the business house & also lenders of money.

Creditors are
1. Supplies made
2. Expenses incurred
3. Statutory liabilities
4. Depositors
5. Lenders - Long term - Short term

These items come under the group current liabilities in the Balance sheet.

Separate self balancing ledger may be maintained as in the case of Debtors. This will have control accounts both in the general ledger and in the creditor’s ledger similar to that of debtor’s ledger.

In purchases the decision is taken on the following
1. Price - lowest
2. Quality
3. Brand
4. Supply period
5. Payment terms

Based on the most beneficial terms the purchases are ordered and received. The payments depend upon the agreed discount term. To avail the benefit the concern has to follow the accepted terms. Annual contracts are made in items of regular requirements.

The creditor’s ledger is to be scrutinized regularly to find out that there are no wrong credits to any party.

In a creditors ledger there should not be a debit balance at any point of time. Similarly in the case of Debtors there should not be a credit balance. If there is any such balance the reasons should be studied and confirmed.

Hence a creditor may become a Debtor and a Debtor may become a creditor at any point of time due to change in the nature of balance. The grouping of the debtors or creditors depends on the balance and not on the parties while preparing the Balance sheet.

Credit / debit balances are normally to be getting confirmed once in a year before the audit by writing confirmatory letters to the parties. Wherever the balance not tallies further probe is needed to confirm the correctness by necessary reconciliation.

A good accounting system should not have balances without details and prolong collections or payments without reasons.
DEPRECIATION

Illustration-1
Kamal Hospital acquired an Instrument on 1st July 1997 at a cost of Rs.14000/- and spent Rs.1000/- on its installation. The firm writes off depreciation at 10% of original cost every year. The books are closed on 31st December every year. Show the Instrument account and depreciation account for three years under 1) under straight line method of depreciation. 2) Written down value method

Illustration-2
ABC Ltd had machinery in their works as per the following details.

<table>
<thead>
<tr>
<th>Date Installed</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.4.55</td>
<td>130000</td>
</tr>
<tr>
<td>20.6.70</td>
<td>80000</td>
</tr>
<tr>
<td>17.10.74</td>
<td>100000</td>
</tr>
<tr>
<td>18.01.79</td>
<td>40000</td>
</tr>
</tbody>
</table>

The firm had the practice of writing off 90% of the cost over 10 years, a whole year’s depreciation being charged irrespective of the date of installation. No depreciation was charged if an item is sold. The accounting year adopted by the firm was the calendar year.

During 1979 a machine installed in 1955 at a cost of Rs.30000/- was sold for Rs.10000/-; Another machine installed in 1974 at a cost of Rs.60000/- was discarded, its scrap value being estimated at Rs.9000/-. Draw up the machinery account for 1979 as also the discarded Machine account.

FUND FLOW

Meaning;
Refers Cash, working capital- consists-current assets/current liabilities-change in working capital
USE
- Declaring Dividend
- Net worth of the concern
- Repaying capacity
- Rationale of utilization
- Allocate resources
Difference from Income & Expenditure statement
- In&Exp. includes non-fund items
- provisions
- reserves
- prepaid expenses
- contingent liabilities
HOW TO PREPARE
SOURCE:
- Internal Net Income before Depreciation,
  Preliminary expenditure,
  Goodwill
  Bad debts provision
Transfer to general reserve
Dividend provided for
Tax provision made
  Loss on sale of Assets
  Surplus on revaluation of Assets

External
Fund from long term loans
Sale value of assets
Bank overdraft
APPLICATION:
Purchase of assets
Payment of Dividends
Repayment of LT Loan
Payment of Tax Liability
TECHNIC IN PREPARING FFS
The preparation of changes in net working capital

CASH FLOW
Meaning:
To find out the actual/estimated cash inflow and out flow between two different dates.
SOURCE:
Internal - Income & Expenditure Account through the Incomes
Service charges,
  Sales,
  donation,
  Interest & other Misc.
External-
Sponsors/debtors payments
Assets sales value
LT Loan receipt
Deposits
Issue of shares
Investment Income

APPLICATION
Purchase of Assets
Repayment of LT liabilities
Operational/Net Loss
Payment of Tax
Payment of Dividend
Deposit Repayments

**CASH FLOW** VS **FUND FLOW**

1. Concerned with cash transactions only
   - concerned with all transactions including non cash items
2. Tool to analyze long term repayments
   - Useful on investment decisions
3. Cash is part of W.C.
4. LT loans released on Cash flow study
   - Fund Inflow need not be cash inflow
   - Banks lend for working capital based on fund flow
5. Cash flow needs to be prepared from
   - Fund flow is prepared from two basic workings such as p&l a/c which has balance sheets with the appraisal concept
   - The planning concept
6. Transfer within accounts are not revealed
   - Changes in account balances within two periods are high lighted - ex. Debenture conversion as capital

**TILITIES OF CASH FLOW**

Shows the pattern of Fund investment over the years
Better the cash management- Disposing & Depositing on securities
To make decisions on expansion, renovation, getting loans and priorities
Discloses the movement of cash

**PROBLEM ON CASH FLOW**
Arum& Co. has given the forecast sales for January 89 to July 89 and actual sales for November and December 88 as under. With the other particulars given prepare a cash flow for the five months i.e., from January to May 89.

I. Sales 88 November 160000
   December 140000
   89 January 160000
   February 200000
   March 160000
   April 200000
   May 180000
   June 240000
   July 200000

Aisles 20% cash, and 80% credit, payable in the 3rd month (January sales in the March).

iii. Variable expenses 5% on turnover, time lag-half a month

iv. Commission 5% on credit sales payable in the 3rd month

v. Purchases 60% of the sales of the third month, payment will be made in 3rd month of purchases.

vi. Rent and other expenses Rs.6000 paid every month

vii. other payments:
    Fixed Assets purchase --March Rs.1, 00,000
    Taxes -- April Rs. 40,000

viii. Opening cash balance Rs.50, 000

CASH FLOW- SOLUTION TO PROBLEM

Realisation from sales

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>1.60</td>
<td>1.40</td>
<td>1.60</td>
<td>2.00</td>
<td>1.60</td>
<td>2.00</td>
<td>1.80</td>
</tr>
<tr>
<td>Cash sales 20%</td>
<td>0.32</td>
<td>0.40</td>
<td>0.32</td>
<td>0.40</td>
<td>0.36</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Credit sales 80%

<table>
<thead>
<tr>
<th></th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>1.28</td>
<td>1.12</td>
<td>1.28</td>
<td>1.60</td>
<td>1.28</td>
</tr>
</tbody>
</table>

### Total

<table>
<thead>
<tr>
<th></th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>1.60</td>
<td>1.52</td>
<td>1.60</td>
<td>2.00</td>
<td>1.64</td>
</tr>
</tbody>
</table>

### B. Creditors for goods

<table>
<thead>
<tr>
<th></th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase</td>
<td>0.96</td>
<td>1.20</td>
<td>0.96</td>
<td>1.20</td>
<td>1.44</td>
<td>1.20</td>
<td></td>
</tr>
<tr>
<td>60% of sales of</td>
<td>Jan</td>
<td>Feb</td>
<td>Mar</td>
<td>Apr</td>
<td>May</td>
<td>Jun</td>
<td>Jul</td>
</tr>
<tr>
<td>Payment to creditors</td>
<td>0.96</td>
<td>1.20</td>
<td>0.96</td>
<td>1.20</td>
<td>1.08</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commission 5%</td>
<td>0.064</td>
<td>0.056</td>
<td>0.064</td>
<td>0.056</td>
<td>0.064</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On credit sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Months shown with figures indicate transactions of those months taken in this month for cash flow purpose as given in the problem.*

---

### January – May '89-CASH FLOW STATEMENT

#### Inflows

<table>
<thead>
<tr>
<th></th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Balance</td>
<td>0.500</td>
<td>0.941</td>
<td>1.055</td>
<td>0.481</td>
<td>0.675</td>
</tr>
<tr>
<td>Realization from Sales</td>
<td>1.60</td>
<td>1.52</td>
<td>1.60</td>
<td>2.00</td>
<td>1.64</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2.100</strong></td>
<td><strong>2.461</strong></td>
<td><strong>2.655</strong></td>
<td><strong>2.481</strong></td>
<td><strong>2.315</strong></td>
</tr>
</tbody>
</table>

#### Out flow

<table>
<thead>
<tr>
<th></th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creditors for goods</td>
<td>0.96</td>
<td>1.20</td>
<td>0.96</td>
<td>1.20</td>
<td>1.08</td>
</tr>
<tr>
<td>Variable expenses</td>
<td>0.075</td>
<td>0.090</td>
<td>0.090</td>
<td>0.090</td>
<td>0.095</td>
</tr>
<tr>
<td>Commission</td>
<td>0.064</td>
<td>0.056</td>
<td>0.064</td>
<td>0.056</td>
<td>0.064</td>
</tr>
<tr>
<td>Rent &amp; others</td>
<td>0.060</td>
<td>0.060</td>
<td>0.060</td>
<td>0.060</td>
<td>0.060</td>
</tr>
<tr>
<td>Fixed Asset</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.000</td>
</tr>
<tr>
<td>Taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.400</td>
</tr>
<tr>
<td>Closing balance</td>
<td>0.941</td>
<td>1.055</td>
<td>0.481</td>
<td>0.675</td>
<td>1.016(balancing figure)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2.100</strong></td>
<td><strong>2.461</strong></td>
<td><strong>2.655</strong></td>
<td><strong>2.481</strong></td>
<td><strong>2.315</strong></td>
</tr>
</tbody>
</table>
REVIEW OF TOPICS (At end of the module)

Financial Statements

Receipts & Payments Account
Only receipt of Cash & Payment of Cash is grouped under ledger heads & the revenue natured figures shown.

Income & Expenditure Account
This may be on cash basis as in Receipts & Payments Account
Otherwise on accrual basis

Manufacturing / Profit & Loss Account
Normally prepared in all commercial concerns. Both manufacturing and trading concerns prepares this. The basis is on accrual method of accounting only.

Balance Sheet
A statement of Assets and Liabilities on the close of a particular date.
These are required
To Investors
To Lenders
To Creditors

Provisions/Reserves
Provision for Bad debts – for Depreciation - for gratuity – Claims –Taxes - Expenses
Reserves – Capital Reserve – Specific Fund Reserve –General Reserve

Debtors/Creditors
Debtors are customers buying on credit- Loan given - Creditors are suppliers on credit –Expense payable – Statutory dues payable-depositors

Fund Flow
Changes of funds by way of inflow and out flow between two dates. This mainly routed through working capital funds with changes in fixed assets & long term Fund credits.
Its use is to get short term Bank Borrowings

Cash Flow
The actual receipt / flow of cash and the actual payments/ outflow of cash is taken to project the liquidity position of the organization between two dates of the Balance sheet.
Its use is to get Long term Bank Borrowings

Financial Ratios
Ratios are based on
Income & Expenditure statement
Balance sheet
Both combined
To assess the strength and weakness of an organization on its financial performance
GP Ratio
NP Ratio
Debt Equity Ratio
Current Ratio
Liquidity Ratio

Auditing
Internal Audit
By own employee
By external auditors
External Audit
Statutory requirements
Management requirement
Benefits
For better internal control
Detect frauds, omissions etc.

FINANCIAL STATEMENTS & REPORTS
1. Write short notes on - Balance sheet
2. What is the significance of a Trial Balance? What does it ensure?
3. What are the Basic Financial Statements?- Explain the purpose of it.
4. "Non profit making Institutions also should make profit" : Is that a correct statement? State Reasons for your answer.
5. Write the composition of Current Assets and Current Liabilities
6. What do you understand by the term "Working Capital?"
7. What are the differences between receipts and payments Account and Income and Expenditure Account?
8. Explain Financial Reports & its use to the management?

The ABC Hospital Ltd., has the following transactions for the year ended 31.3.2001.

Purchases 56500
Consulting Fees received 185600
Building 135600
Printing & stationery 8350
Postage expenses 1000
Salary paid to staff 65000
Operation Fees received 100000
Prepare Income & Expenditure Account and Balance Sheet as on 31.3.2001.

11. Distinguish between Income & Expenditure statement and Receipts and payments statement.

12. Write short notes on Income & Expenditure Account

13. Prepare Income & expenditure account and balance sheet from the following trial balance

<table>
<thead>
<tr>
<th>Head of Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surgery charges</td>
<td>500000</td>
<td></td>
</tr>
<tr>
<td>Treatment charges</td>
<td>300000</td>
<td></td>
</tr>
<tr>
<td>Medicine cotton consumed</td>
<td>100000</td>
<td></td>
</tr>
<tr>
<td>X ray charges</td>
<td>10000</td>
<td></td>
</tr>
<tr>
<td>Lab expenses</td>
<td>20000</td>
<td></td>
</tr>
<tr>
<td>Consulting Fee</td>
<td>50000</td>
<td></td>
</tr>
<tr>
<td>Hospital Linen</td>
<td>10000</td>
<td></td>
</tr>
<tr>
<td>Lens</td>
<td>100000</td>
<td></td>
</tr>
<tr>
<td>Electricity charges</td>
<td>50000</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous income</td>
<td>2000</td>
<td></td>
</tr>
<tr>
<td>Salary &amp; Benefits</td>
<td>200000</td>
<td></td>
</tr>
<tr>
<td>Repairs &amp; Maintenance expense</td>
<td>45000</td>
<td></td>
</tr>
<tr>
<td>Printing &amp; stationery expense</td>
<td>10000</td>
<td></td>
</tr>
<tr>
<td>Telephone expenses</td>
<td>5000</td>
<td></td>
</tr>
<tr>
<td>Fixed Deposits</td>
<td>250000</td>
<td></td>
</tr>
<tr>
<td>ABC &amp;Co</td>
<td>30000</td>
<td></td>
</tr>
<tr>
<td>XYZ Co</td>
<td>112000</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous expenses</td>
<td>10000</td>
<td></td>
</tr>
<tr>
<td>Cash on hand</td>
<td>30000</td>
<td></td>
</tr>
<tr>
<td>Cash at Bank</td>
<td>50000</td>
<td></td>
</tr>
</tbody>
</table>

992000       992000

DEPRECIATION
1. Write short notes on - Depreciation
2. Explain the following: Depreciation
3. Give two examples of “non depreciable assets”
4. Explain any two different methods of depreciation of fixed Assets.
6. What is – Provision - Explain with examples.
7. Reserve is appropriation of Income- Explain.
8. What is depreciation? Explain any two methods?
9. Write short notes on Depreciation

FUNDFLOW ANALYSIS
1. What are the managerial uses of Funds Flow Statement?
2. What are the uses of “Cash Flow” and ‘Fund flow’ statements?
3. Prepare working capital management statement & fund flow statement for CAMBA Hospital Ltd with the following information.
   CAMBA Hospital Ltd Balance sheet as at 31.3.2001
   Liabilities Assets
   Rs.in lacs Rs.in lacs
   1st year 2nd Year 1st year 2nd year
   Capital 50 80 Land&Builg 20 15
   Reserve Fund 10 5 Equipment 10 25
   Accounts payable 10 5 Furniture 2 10
   Vehicles 13 20
   Stock in hand 5 7
   Debtors 5 3
   Cash at Bank 10 5
   Cash on hand 5 5
   ------- -------
   7090 7090
   ------- -------
4. Differentiate Funds flow statement from Cash flow statement.
RATIO ANALYSIS

1. Write short notes on Liquid ratio
2. Explain how ratio analysis works as a parameter of efficiency in an organization.
3. ABC & XYZ are two competing companies in the field of Automobiles. The following data available for the year 1997-98. Indicate which of the two companies is more efficient and justify your answer:
   Investment Turnover
   Rs Rs
   ABC 12, 50,000- 37, 50,000
   XYZ 27, 00,000- 135, 00,000

1. How will you find out the solvency and liquidity of an organization?
2. What are the managerial uses of Ratio analysis?
3. From the following data calculate current ratio and acid test ratio.

   Rs.
   Cash 10000
   Bank 20000
   Stock 15000
   Debtors 50000
   Bills Receivable 20000
   Prepaid Expenses 40000
   Creditors 35000
   Bills Payable 10000
   Short term Investments 15000

AUDITING

1. Write short notes on Internal Audit.
2. The internal Audit found out that the storekeeper has placed an order for 10000 vials of vaccine at Rs.13.40 per vial with Indira vaccine Park. While placing the order he had taken the quotation from Priyanka Traders at Rs.12.75 per vial and from Rahul & Co at Rs. 13/- per vial. Quality of the vaccine offered by all the three companies were identical. The delivery time sought was
   Priyanka Traders 2 months
   Rahul & co 40 days and,
   Indira vaccine park nil
The vaccine was urgently needed for the Hospital. The store in charge had made a comparative statement of quotations and had got the proposal to purchase from Indira Vaccine park approved by the competent authority. Was there any irregularity in the transaction? Discuss.

3. Distinguish between Internal Audit and External Audit? Are they duplicating the job?-Discuss

4. What is Internal Audit & what are the areas the Internal Auditor has to attend & verify?

5. What are advantages and disadvantages of “Internal Audit”?

6. What are the advantages and disadvantages of “External Audit”?

7. Write short notes on Internal Audit.

**BUDGETING**

1. Explain the various functional Budgets?

2. Explain the steps in Budget setting.

3. Explain Capital Budget and Revenue Budget.

4. Elaborate discuss the stages in budgeting with illustrations

**COSTING**

1. Find the BEP in units and Value?
   - Total Fixed Cost: Rs.50,000
   - Selling Price: Rs.18/-/Unit
   - Variable Cost: Rs.13/-/Unit

2. Lower the Break Even Point the better it is: Is it True or False? Discuss with Justification?
   - Ball pen Manufacturer Ltd had their cost buildup as follows:
     - Raw Materials: 30%
     - Labour: 20%
     - Direct Expenses: 10%
     - Administrative Exps.: 5%
     - Selling and Distbn. Exps.: 7%
   - It’s sold 2,20,000 Ball pens @ Rs.12/-each and made a net profit of Rs.12,25,000/- during 1997-98, Prepare the Cost Sheet?

3. Sharpen Co., Manufacturers of Clinical Thermometer had their turnover at Rs.275,000 in the year 97/98. The sale price per Thermometer was Rs. 210/-. It earned a net profit of Rs.112,400. The fixed expenses for the whole year was Rs. 152,700/-. The manufacturing cost data was as under:
   - Raw Material per piece: Rs.110
   - Labour per piece: Rs.40
   - Variable expense per piece: Rs.5
   - Find out the Breakeven point? What was the margin of safety for the company during 97/98.

4. Elaborate on advantages of “Costing”.

5. Following are the transactions relating to the movement of raw materials of Syntex Ltd., New Delhi.
   Date Units Rate/unit
Opening stock 1.4.2001 100 10
Receipts 10.4.2001 300 11
Issues 15.4.2001 250
Receipts 10.5.2001 400 12
Issues 12.5.2001 400

Find out the cost of above 2 issues under FIFO method.

6. List the major ways of cost savings in a Hospital.
7. What is Break even analysis and explain its advantages to management
8. Identify and brief different ways of saving cost in a Hospital
9. Do break even analysis for Intraocular vaccine management unit of CAMBA Hospital which produces 1 lac bottles of I.V. solution per year. The selling price of I.V.s is Rs.30 per bottle. The variable costs are as follows.
   Direct material 350000
   Direct Labour 250000
   Overheads
   Electricity charges 100000
   Administrative Expenses 50000
   Miscellaneous Expenses 37500
   Fixed Costs
   Depreciation 50000
   Administrative expenses 70000

10. Calculate P/V ratio and sales to earn a profit of Rs.50000.
    
    2000 2001
    Sales 100000 120000
    Profit 10000 15000

11. Write short notes on
   1. Breakeven point
   2. Elements of Cost

FUND RAISING
1. Explain any two sources for raising long term funds.
2. Discuss the sources and methods of raising short term funds for a large corporate Hospital in India.
3. Elaborately discuss the different methods of fund raising