

## **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 with out details and prolong collections or payments without reasons.

## DEPRECIATION

### Illustration-1

Kamal Hospital acquired an Instrument on 1<sup>st</sup> 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.

Date Installed	Cost
15.4.55	130000
20.6.70	80000
17.10.74	100000
18.01.79	40000

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
2. Tool to analyze long term repayments
3. Cash is part of W.C.
4. LT loans released on Cash flow study

concerned with all transactions including non cash items

Useful on investment decisions

5. Cash flow needs to be prepared from Basic workings such as p&l a/c which has The planning concept
6. Transfer within accounts are not revealed

Fund Inflow need not be cash inflow

Banks lend for working capital based on fund flow

Fund flow is prepared from two balance sheets with the appraisal concept

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 3<sup>rd</sup> 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 3<sup>rd</sup> month

v. Purchases 60 % of the sales of the third month, payment will be made in 3<sup>rd</sup> 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

	Nov.	Dec.	Jan.	Feb.	Mar.	Apl.	May
Sales	1.60	1.40	1.60	2.00	1.60	2.00	1.80
Cash sales 20%	0.32	0.40	0.32	0.40	0.36		

	Jan	Feb	Mar	Apl	May
Credit sales 80%	1.28	1.12	1.28	1.60	1.28
	Nov	Dec	Jan	Feb	Mar
Total	1.60	1.52	1.60	2.00	1.64

**B.Creditors for goods**

	Nov.	Dec.	Jan.	Feb.	Mar.	Apl.	May
Purchase	0.96	1.20	0.96	1.20	1.08	1.44	1.20
60% of sales of	Jan	Feb	Mar	Apl	May	Jun	Jul
Payment to creditors	0.96	1.20	0.96	1.20	1.08		
	Nov	Dec	Jan	Feb	Mar		
Commission <u>5%</u>	0.064	0.056	0.064	0.056	0.064		
On credit sales	Nov	Dec	Jan	Feb	Mar		

\* 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**

<b>Inflows</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apl</b>	<b>May</b>
Opening Balance	0.500	0.941	1.055	0.481	0.675
Realization from					
Sales	1.600	1.520	1.600	2.000	1.640
<b>Total</b>	<b>2.100</b>	<b>2.461</b>	<b>2.655</b>	<b>2.481</b>	<b>2.315</b>
<b>Out flow</b>					
Creditors for goods	0.960	1.200	0.960	1.200	1.080
Variable expenses	0.075	0.090	0.090	0.090	0.095
Commission	0.064	0.056	0.064	0.056	0.064
Rent & others	0.060	0.060	0.060	0.060	0.060
Fixed Asset			1.000		
Taxes				0.400	
Closing balance	0.941	1.055	0.481	0.675	1.016(balancing figure)
<b>Total</b>	<b>2.100</b>	<b>2.461</b>	<b>2.655</b>	<b>2.481</b>	<b>2.315</b>

## **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.

Capital- Capital Employed- Net worth – Current Asset –Working Capital – Net working capital- Non-Current assets

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

Instruments at cost	350000
Furnitures & Fixtures	10000
Cash on Hand	5000
Closing stock	1 5000

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

Head of Account	Debit	Credit
Rs. Rs.		
Surgery charges		500000
Treatment charges		300000
Medicine cotton consumed	100000	
X ray charges	10000	
Lab expenses	20000	
Consulting Fee		50000
Hospital Linen	10000	
Lens	100000	
Electricity charges	50000	
Miscellaneous income		2000
Salary & Benefits	200000	
Repairs & Maintenance expense	45000	
Printing & stationery expense	10000	
Telephone expenses	5000	
Fixed Deposits	250000	
ABC & Co		30000
XYZ Co		112000
Miscellaneous expenses	10000	
Cash on hand	30000	
Cash at Bank	50000	
	992000	992000

13. What is a Balance sheet? Draw a Balance sheet.

## 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.
5. What is Balance sheet? Draw a Balance sheet.
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 1<sup>st</sup> year 2<sup>nd</sup> year

Capital 5080 Land&Builg 2015

Reserve Fund 10 5 Equipment 1025

Accounts payable 10 5 Furniture 210

Vehicles 1320

Stock in hand 5 7

Debtors 5 3

Cash at Bank 10 5

Cash on hand 5 5

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7090 7090

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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. Elaborately 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%

Its 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 Rs2750000 in the year 97/98. The sale price per Thermometer was Rs.210/-. It earned a net profit of Rs.1124000. The fixed expenses for the whole year was Rs. 152700/-. The manufacturing cost data was as under.

Raw material per pieceRs.110

Labour per pieceRs.40

Variable expense per pieceRs.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 1.4.200110010

Receipts 10.4.200130011

Issues 15.4.2001250

Receipts 10.5.200140012

Issues 12.5.2001400

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