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# VIRTUAL COACHING CLASSES
## ORGANISED BY BOS, ICAI

# FOUNDATION LEVEL
# PAPER 1: PRINCIPLES AND PRATICE OF ACCOUNTING

**Faculty: CA VS Hiranmai**

# CHAPTER 6- Accounting for Special Transactions

- Under this chapter- we are going to study the different special business conditions for which the accounting treatment has to be studied.
- This chapter has 5 units-
  - Unit 1 Bills of Exchange
  - Unit 2-Sale on approval or return basis
  - Unit 3- Consignment
  - Unit 4- Average due date
  - Unit 5- Account current
- Out of the above consignment is little elaborate topic while the other concepts- are the most scoring topics. The marks weightage can be anywhere between 10-20 marks from the concepts.
- WE will be first dealing in the following order based on the complexity of the Unit 2,4,5,3,1.

# Unit 4- Average Due date

- Where the business organization deals with parties who sell and purchase goods from the business, then in order to make it simple for calculation of the interests between both the parties- the concept of *Average Due date* has been introduced.
- *Average due date is the weighted average of due dates of various transactions where in each amount of transaction is used as weight.*
- The unique feature is that there is no loss of interest to either party under this method- both the parties arrive at a mutual date as to when the repayment to be made- so that there is no interest loss.
- Average due date can be used in any of the following cases-
  - For calculation of interest on drawings by partners
  - For settling contra accounts- parties sell to each other
  - For making lumpsum payment against bills drawn on different dates.

# Unit 4- Average Due date

- Step to calculate the ADD problems-
  - The date of the transaction will be considered as the ZERO DATE or BASE DATE
  - From the base date to the date of each transaction- the no. of days will be arrived in a separate column.
  - Then product of the amount with the no. of days column to arrive at the product
  - Average due date= Based date $\pm \frac{\text{Total of products}}{\text{Total of amounts}}$
  - To calculate the number of days- either the starting or ending date only is to be included not both. **(only one date not both)**
  - Where ever there is fraction in days- please round it off to nearest rupee.

# Unit 4- Average Due date

- Average due date can be calculated on the normal sales and purchases transactions. But sometimes in the question there can be bills of exchange drawn on the other party, for which the ADD will be computed.
- In that case- the due date of the bill will be considered as the base date and the calculation will include another column of due date of bill instead of drawing of the bill date.
- Due date of the bill can be calculated in the following two ways-
  - Where due is a specific date- then such date
  - Where it is stated as – 60 days /1 month for ex- then we should be adding 3 days of grace to the date of maturity. The bill is said to fall due on the 3rd day from the day of maturity which is the due date.
  - Sometimes while calculating the due date – there can be holiday- public holiday- in such case the due date will be the previous working date and incase of sudden holiday it will be subsequent working day.

# Unit 4- Average Due date

- Questions from an exam point of view-
  - Normal problems- to calculate ADD- where only one party is involved- Illus 1,2,3 and 4
  - Counter transactions- where the amount is payable by each party- illus 5, 6, 7
  - Calculation of interest on drawings by partners.
  - Calculation of repayment in instalments.

- ***Where only one party is involved- Illustration 2 and 3***
  - Check if it is a normal question or bills of exchange question
  - The base date of the first transaction has to be taken accordingly
  - While calculating the due date of the bills, we need to check the above mentioned points carefully.
  - Then arrive at the no. of days and find the product

# Unit 4- Average Due date

- ***Where two parties are involved- Illustration 4 and 5***
- Here, first check for the transactions if it is normal sales/purchases or that involving the bills of exchange problem.
- Like in the earlier case- we have to find out the base date- either the normal transaction or the due date of the bills.
- Even incase of two different persons- the first date for all the transactions together shall be taken as common base date.
- Average due date= Base date+ $\frac{\text{Difference in products}}{\text{Difference in amounts}}$
- The average due date is from the common base date- and the amount is payable as net off.

# Unit 4- Average Due date

- ***Computation of interest on drawings to partners-***
- Usually we have calculated the remaining days/months and have taken the weighted average to calculate the interest
- Now, under this method it is little different. Using the Average due date concept we will be computing the interest.
- So we will be solving illustration 9
- ***Computation of ADD for loan repaid in various installments-***
- Where a loan is taken in one installment, and repaid in various installments, then the ADD is calculated as below

$$\frac{\text{Sum of days/months/years from the date of lending to the date of repayment of each instalment}}{\text{Number of instalments}}$$

# THANK YOU