

2. ACCOUNT CURRENT**MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC**

MODEL NO.	N-11	M-12	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16
Model – 1	-	-	-	-	-	-	-	-	-	-	-
Model – 2	-	-	-	-	-	-	04	-	-	-	-
Model – 3	-	-	-	-	-	-	-	-	-	-	-
Model – 4	-	-	-	-	04	-	-	-	-	08	-
Model – 5	-	-	-	-	-	-	-	-	-	-	-

Model – 1: Interest Table Method

Model – 2: Products Method

Model – 3: Products Method – Red ink Interest

Model – 4: Product Balance Method

Model – 5: Theory

Introduction: For example when a manufacturer sells goods frequently to a merchant on credit and receives payments from him in installments at different intervals and charges interest on the amount which remains outstanding prepares a running statement of account called as Account Current.

Definition: An Account Current is a running statement of transactions between parties for a given period of time and includes interest allowed or charged on various items. It takes the form of a ledger account. It is prepared when frequent transactions regularly take place between two parties.

(Name of receiving party) _ in account current with _ (Name of sending party) _ to _ (date)

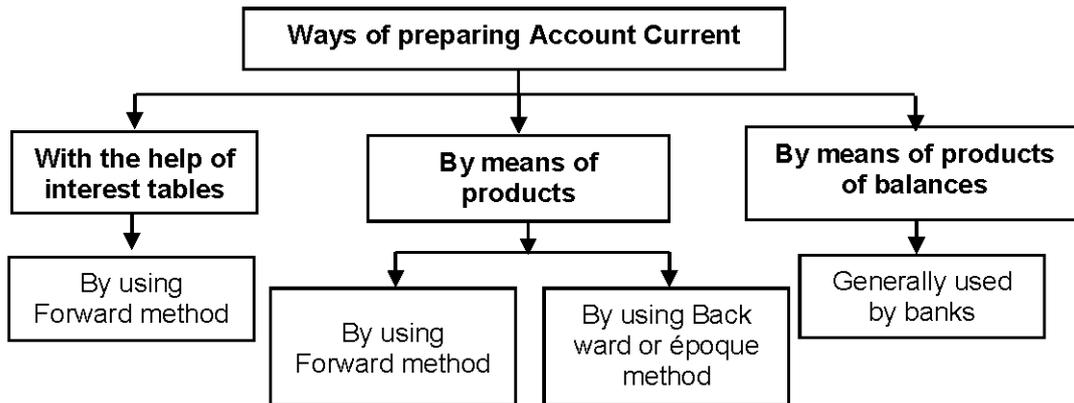
Account Current characteristics:

1. It is an ordinary form of ledger account
2. The transactions are arranged in a sequential manner.
3. There is an additional column of interest/products on each side of the statement.
4. It is the copy of accounts of one party in the books of another party.
5. Any of the two parties can prepare this account.
6. The interest columns are purely on the memorandum basis and are not a part of double entry.

Some of the situations when account current is prepared are:

1. It is prepared when frequent transactions regularly take place between two parties. An example is of a manufacturer who sells goods frequently to a merchant on credit and receives payments from him in instalments at different intervals and charges interest on the amount which remains outstanding.
2. A consignee of goods can also prepare an Account Current, if the latter is to settle the account at the end of the consignment & interest is chargeable on outstanding balance.
3. An Account Current also is frequently prepared to set out the transactions taking place between a banker and his customer.
4. It is prepared when two or more persons are in joint venture and each co-venture is entitled to interest on their investment. Also, no separate set of book is maintained for it.

Parties: An Account current has two parties:- one who renders the account and other to whom the account is rendered. This is indicated in the heading of an Account Current, which is like the following: "A in Account Current with B". It implies that A is the customer, and the account is being rendered to him by B.

Methods of preparation of Account Current:**Preparation of Account Current with the help of Interest Tables:**

Under this method, the number of days for interest is calculated from the due date of each transaction to the date of rendering the account. The following steps are followed for preparing an Account Current.

Step 1 : Write down the heading of the account. The name of the party rendering the account will appear last and to whom it is rendered will appear first. For example, if A render account current to B, then in the books of A, the heading of the account will be as follows: 'B in Account Current with A'.

Step 2 : Rule the account in the ledger as follows:

B in Account Current with A

Date	Particulars	Amt (Rs.)	Due Date	No. of Days	Interest	Date	Particulars	Amt (Rs.)	Due Date	No. of Days	Interest

Step 3 : Record each transaction in the appropriate side after determining whether the person, to whom the account is rendered, is to be debited or credited.

Step 4 : Insert the due date of each transactions.

Step 5 : Calculate the number of days from the due date of each transaction to the date of rendering the account current statement **Closing date** and insert it in the 'days' column.

Step 6 : Calculate the interest with the help of interest formula.

$$\text{Interest} = \text{Amount} \times \frac{\text{Number of days}}{365} \times \text{Rate of interest}$$

Step 7 : Find out the balance of the interest column and insert this balance in the 'amount' column of the greater interest column side.

Step 8 : Lastly, bring down the balance of the 'amount' column.

Notes:

- While counting the number of days, the date of the "due date" is ignored and the date up to which the account current statement is prepared is included.
- While counting the number of days for opening balance, the opening date as well as the date up to which the account current statement is prepared is included.
- If nothing has been mentioned, the date of transaction should be taken as the due date.

Preparation of Account Current by means of Products - Forward Method:

The way of preparing the Account Current, under this method, is almost similar to the above. In this method, the interest column (of the previous method) is replaced by the product column. Generally, the following steps are followed:

Step 1 : Write down the heading of the account just as in the previous method.

Step 2 : Rule the account in the ledger as follows:

B in Account Current with A

Date	Particulars	Amt (Rs.)	Due Date	No. of Days	Products	Date	Particulars	Amt (Rs.)	Due Date	No. of Days	Products

Step 3 : Record each transaction in the appropriate side in the usual manner.

Step 4 : Insert the due date of each transaction.

Step 5 : Calculate the number of days from the due date of each transaction to the date of rendering the account and insert it in the "Days" column.

Step 6 : Calculate the product of each transaction by multiplying the days with amount and insert it in the 'product' column.

Step 7 : Find out the balance of the product of the two sides.

Step 8 : Calculate the Interest with the help of this formula:

$$\text{Interest} = \frac{\text{Balance of Product}}{365} \times \text{Rate of Interest}$$

Note: it refers only one day interest.

Step 9 : Insert this interest in the 'Amount' column on the side other than that on which the balance of products appears.

Step 10: Lastly, bring down the balance of the "Amount" Column.

Preparation of Account Current by Means of Products - Epoque or Backward Method:

Under this method, the number of days for interest is calculated from the date of commencement of Account Current to the date of each transaction. In other words, the numbers of days are calculated from the due date of each transaction **back** to the starting point. The following steps are followed for preparing an Account Current.

Step 1 : Write down the heading of the account in the same manner.

Step 2 : Rule the account in the ledger as follows:

B in Account Current with A

Date	Particulars	Amt (Rs.)	Due Date	No. of Days	Products	Date	Particulars	Amt (Rs.)	Due Date	No. of Days	Products

Step 3 : Record each transactions in the appropriate side in the usual manner.

Step 4 : Insert the due date of each transactions.

Step 5 : Calculate the number of days from the **date of commencement of Account Current** to the due date of each transaction. (Starting date to Due date).

Step 6 : Calculate the product of each transaction by multiplying the days with amount and insert it in the 'Products' column.

Step 7 : closing balance products: Determine the balance of 'Amount' column. Multiply this balance by the number of days for the whole term of the account. Insert this product in the 'Products' column of that side having Lesser 'Amount' total. For example:– The total of the amount column of debit side is Rs.600 and that of the credit side Rs.400. Number of days for the whole term of the account is 90 days. For calculating product, multiply the balance (Rs.600 – Rs.400) Rs.200 by 90 which will give a product of Rs.18,000 and insert this product in the credit side (because the credit side is having lesser amount total). **Do not insert this balance of Rs.200 in the 'Amount' Column.**

Step 8 : Find out the balance of product in the two sides.

Step 9 : Calculate the interest with the help of following formula:

$$\text{Interest} = \frac{\text{Balance of Product}}{365} \times \text{Rate of interest}$$

Note: it refers only one day interest.

Step 10: Insert this interest in the 'Amount' column on the side on which the balance of products appear.

Step 11: Bring down the balance of the 'Amount' column.

Preparation of Account current by means products of balances- periodic balance method:

This method, also known as periodic balance method, is usually adopted in the case of banks where the balance of account is taken out after every transaction.

Format:

Date	Particulars	Deposit (Rs.)	Withdrawal (Rs.)	Balance (Rs.)	Dr.(or) Cr.	Days	Dr Product	Cr Product

- In this case the number of days written against each transaction are the days counted from which date or due date to the date of the following transaction.
- While counting the number of days for closing balance, the date of transaction as well as the date up to which the account current statement is prepared is included.
- Each amount is multiplied with the number of days.
- If the amount represents a debit balance, the product is entered in the Dr. product column; and if it represents a credit balance, the product is written in the Cr. product column.
- The Dr. product and Cr. product column are then totaled up.
- Interest is calculated on each total at the given rate of interest; and the net interest is ascertained.
- If net interest is payable to the customer, it will appear as 'By Interest A/c', and if it is due from the customer, it will appear as "To Interest A/c".

Red – Ink Interest: In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account Current'. This interest is called Red-Ink interest. This Red-Ink interest is treated as negative interest. In actual practice, however the product of such bill [value of bill (due date closing date) is written in ordinary ink in the *opposite side* on which the bill is entered].

PROBLEMS FOR CLASS ROOM DISCUSSION

Problem 1: Preparation of Account Current by Interest Table: Prepare an Account Current under interest tabular method for Nath Brothers in respect of the following transactions with Shyam:

2001	Particulars	Rs.	Due date
Sept 16	Goods sold to Shyam	200	Due 1 st Oct.
Oct 1	Cash received from Shyam	90	
Oct 21	Good purchased from Shyam	500	Due 1 st Dec.
Nov 1	Paid to Shyam	330	
Dec 1	Paid to Shyam	330	
Dec 5	Goods purchased from Shyam	500	Due 1 st Jan.
Dec 10	Goods purchased from Shyam	200	Due 1 st Jan.
2002	Particulars	Rs.	Due date
Jan 1	Paid to Shyam	600	
Jan 9	Goods sold to Shyam	20	Due 1 st Feb.

The account current is to be prepared up to 1st February. Calculate interest @ 6% per annum.

(SM) (Ans.: Interest Rs.4.97)

Note: _____

Problem 2: (PRINTED SOLUTION AVAILABLE) Preparation of Account Current by means of Products: From the following particulars prepare an account current to be rendered by A to B at 31st December, charging interest @ 10% p.a.

2011	Rs.	2011	Rs.
July 1	600	Sept. 01	250
July 17	50	Oct.22	30
Aug. 1	650	Nov. 12	20
Aug. 19	700	Dec. 14	80
Aug. 30	40		
Sept. 1	350		

(PM) (Ans.: Interest Rs.18.38 and Balance c/d Rs.68.38)

(Solve problem no: 1& 2 of assignment Problem as rework)

Note: _____

Problem 3: Preparation of Account Current by means of Products(Forward and backward Method): From the following particulars, make up an Account Current to be rendered by Mr. X to Mr. Y on 31st December, 2014 taking interest into account at the rate of 18% p.a.

01.07. 2014	Balance owing by Mr. Y	600
30.07. 2014	Goods sold to Mr. Y (Credit Period allowed 1 month)	300
01.08. 2014	Good purchased from Mr. Y (Credit Period received 1 month)	200
01.09. 2014	Cash received from Mr. Y	100
01.09. 2014	Mr. Y accepted Mr. X's Draft at 3 Months date	400

You are required to prepare the Account Current according to interest on individual transaction under the Forward and Backward methods.

(Example, SM) (Ans: Interest Rs. 49 Balance c/d Rs.249)

Note: _____

Problem 4: (PRINTED SOLUTION AVAILABLE) Preparation of Account Current by means of Products & Red-ink Interest concept: The following are the transactions that took place between G and H during the period from 1st October, 2010 to 31st March, 2011:

Date	Particulars	Rs.
2010 Oct. 1	Balance due to G by H	3,000
Oct. 18	Goods sold by G to H	2,500
Nov. 16	Goods sold by H to G (invoice dated November, 26)	4,000
Dec. 7	Goods sold by H to G (invoice dated December, 17)	3,500

Date	Particulars	Rs.
2011 Jan. 3	Promissory note given by G to H, at three months	5,000
Feb. 4	Cash paid by G to H	1,000
March 21	Goods sold by G to H	4,300
March 28	Goods sold by H to G (invoice dated April, 8)	2,700

Draw up an Account current up to March 31st, 2011 to be rendered by G to H, charging interest at 10% per annum. Interest is to be calculated to the nearest rupee.

(PM) (Ans.: Interest to be debited Rs. 50 approx)

(Solve Problem No: 3 of Assignment Problem as rework)

Note: _____

Problem 5: Preparation of Account Current by means products & Red-ink Interest concept: Following transaction took place between X and Y during the month of April, 2012.

April	Particulars	Rs.
1	Amount payable by X to Y	10,000
7	Received acceptance of X to Y for 2 months	5,000
10	Bills receivable (accepted by Y) on 7.2.2012 is honoured on this due date	
10	X sold goods to Y (invoice dated 10.5.2012)	15,000
12	X received cheque form Y dated 15.5.2012	7,500
15	Y sold goods to X (invoice dated 15.5.2012)	6,000
20	X returned goods sold by Y on 15.4.2012	1,000
20	Bill accepted by Y is dishonoured on this due date	5,000

You are required to make out an account current by products method to be rendered by X to Y as on 30.4.2012, taking interest into account @ 10% p.a. (assume 1 year = 365 days).

(SM), (PM) (Ans: Interest Rs.114.38)

(Solve Problem No: 4 of Assignment Problem as rework)

Note: _____

Problem 6: (PRINTED SOLUTION AVAILABLE) Preparation of Account Current by means of Product of Balances: Roshan has a current account with partnership firm. It has debit balance of Rs.75,000 as on 01-07-2012. He has further deposited the following amounts:

Date	Amount (Rs.)
14-07-2012	1, 38,000
18-08-2012	22,000

He withdrew the following amounts:

Date	Amount (Rs.)
29-07-2012	97,000
09-09-2012	11,000

Show Roshan's A/c in the ledger of the firm. Interest is to be calculated at 10% on debit balance and 8% on credit balance. You are required to prepare current account as on 30th September, 2012 by means of product of balances method. **(PM)**

(Ans: Net Interest to be debited Rs.457)

Note: _____

Problem 7: Preparation of Account Current by means of Product of Balances: Mr. Abhinav has opened an overdraft account with a Bank on 1st April, 2015. He deposited Rs. 40,000 as cash on the same day. His other deposits and withdrawals for the month of April 2015 were as below

Particulars	Rs.
Deposits:	
10th April, 2015	60,000
18th April, 2015	68,000
Withdrawals:	
5th April, 2015	1,20,000
16th April, 2015	80,000
25th April, 2015	1,00,000

Bank charges interest @12% p.a. on debit balance. No interest allowed on credit balance. Prepare Account current for the month of April, 2015, in the books of Bank, by means of product of balances. Bank debits interest in account twice during the month i.e. 15th and 30th/31st (as the case may be) of a particular month. For the purpose of calculation of interest, year should be treated as of 365 days. Round off all the calculations to the nearest rupee.

(May-2016, RTP) *(Ans: Interest A/c 364)*

(Solve Problem No: 5 of Assignment Problem as rework)

Note: _____

ASSIGNMENT PROBLEMS

Problem 1: Preparation of Account Current by means of Products: From the following particulars prepare the account current to be rendered by Mr. Singh to Mr. Paul as on 31st August, 2012. Interest must be calculated @ 10% p.a. **(SM)**

2012	Particulars	Rs.
June 11	Goods sent to Paul	1,020
June 15	Cash received from Paul	500
June 20	Goods sent to Mr. Paul	650
July 7	Goods sent to Mr. Paul	700
Aug 8	Cash received from Paul	1,100

(Ans.: Interest Rs.28.53)

Problem 2: Preparation of Account Current by means of Products: From the following particulars make up an Account current to be rendered by S.Dasgupta to A. Halder at 31st Dec. reckoning interest at 5% p.a.

Date	Particulars	Rs.
2012 June 30	Balance owing by A. Halder	520
July 17	Goods sold to A. Halder	40
Aug. 1	Cash received from A. Halder	500
Aug. 19	Goods sold to A. Halder	720
Aug. 30	Goods sold to A. Halder	50
Sept. 1	Cash received from A. Halder	400
Sept. 1	A. Halder accepted Dasgupta's bill at 3 month date for	300
Oct 22	Goods bought from A. Halder	20
Nov. 12	Goods sold to A. Halder	14
Dec. 14	Cash received from A. Halder	50

(May – 2013 RTP, SM) (Ans.: Balancing of Product Rs.71,446 and interest Rs.9.79)

Problem 3: Preparation of Account Current by means of Products & Red-ink Interest concept:

On 1st January, 2011 Suri's account in Puri's ledger showed a debit balance of 2,500. The following transactions took place between Puri and Suri during the quarter ended 31st March, 2011:

Date	Particulars	Rs.
2011 Jan. 11	Puri sold goods to Suri	3,000
Jan. 24	Puri received a promissory note from Suri at 3 months date	2,500
Feb. 01	Suri sold goods to Puri	5,000
Feb. 04	Puri sold goods to Suri	4,100
Feb. 07	Suri returned goods to Puri	500
March 01	Suri sold goods to Puri	2,800
March 18	Puri sold goods to Suri	4,600
March 23	Suri sold goods to Puri	2,000

Accounts were settled on 31st March, 2011 by means of a cheque. Prepare an account current to be submitted by Puri to Suri as on 31st March 2011, taking interest into account @ 10% per annum. Calculate interest to the nearest rupee. (PM)(Ans.: Interest to be debited Rs. 109)

Problem 4: Preparation of Account Current by means of Products & Red-ink Interest concept: The following are the transactions that took place between Rohan & Sunil during the half year ended 30th June, 2014:

S. No.	Particulars	Rs.
i.	Balance due to Rohan by Sunil on 1 January, 2014	3,010
ii.	Goods sold by Rohan to Sunil on 7 January, 2014	4,430
iii.	Goods purchased by Rohan from Sunil on 16 February, 2014	6,480
iv.	Goods returned by Rohan to Sunil on 18 February, 2014 (out of the purchases of 16 February, 2014)	560
v.	Goods sold by Sunil to Rohan on 24th March, 2014	3,560
vi.	Bill accepted by Rohan at 3 months on 22nd April, 2014 Cash paid by Rohan to Sunil on 29th April, 2014	1,500 2,500
vii.	Goods sold by Rohan to Sunil on 17th May, 2014	2,710
viii.	Goods sold by Sunil to Rohan on 22nd June, 2014	2,280

Draw up an account current to be rendered by Sunil to Rohan charging interest @ 10% per annum. (RTP MAY-15) (Ans: Interest Rs.107.08)

Problem 5: Preparation of Account Current by means of Product of Balances: On 2nd January, 2001 Vinod opened a current account with the Allahabad Bank Limited; and deposited a sum of 30,000. Further deposits for as follows:

Deposits:	
15 th January	Rs. 12,000
12 th March	Rs. 8,000
10 th May	Rs. 16,000
His withdrawals were as follows:	
15 th February	Rs. 26,000
10 th April	Rs. 30,000
15 th June	Rs. 14,000

Show Vinod's a/c in the ledger of the Allahabad Bank. Interest is to be calculated at 5% on the debit balance and 2% on credit balance. The account is to be prepared as on 30th June, 2001. Calculation may be made correct to the nearest rupee. **(SM)** (Ans.: Interest Rs.139.07)

ABC ANALYSIS

	A Category	B Category	C Category
Class Room Problems	3,4,5,6,7	1,2	-
Assignment Problems	3,4,5	1,2	-

Copyrights Reserved
To **MASTER MINDS**, Guntur

Verified by: Mahesh Sir, G.S.R.Sir
Executed by: Sai Ram Sir

THE END