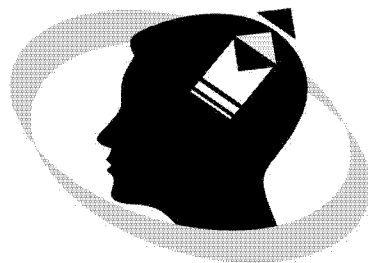


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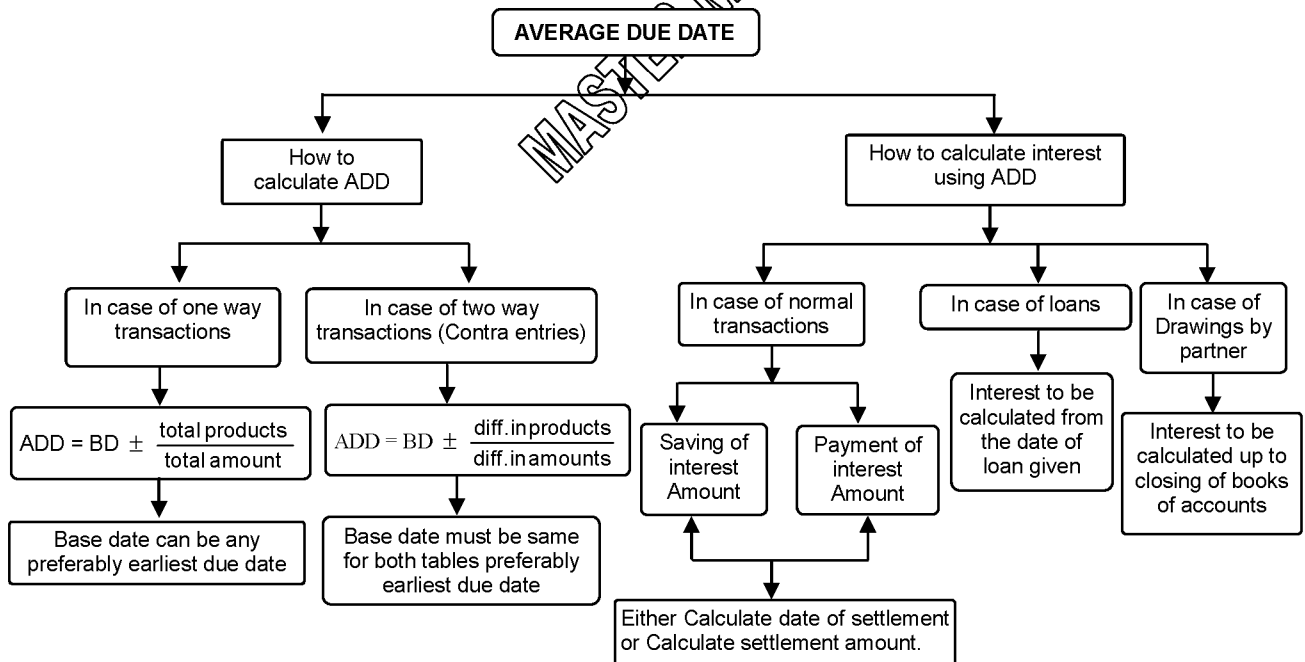
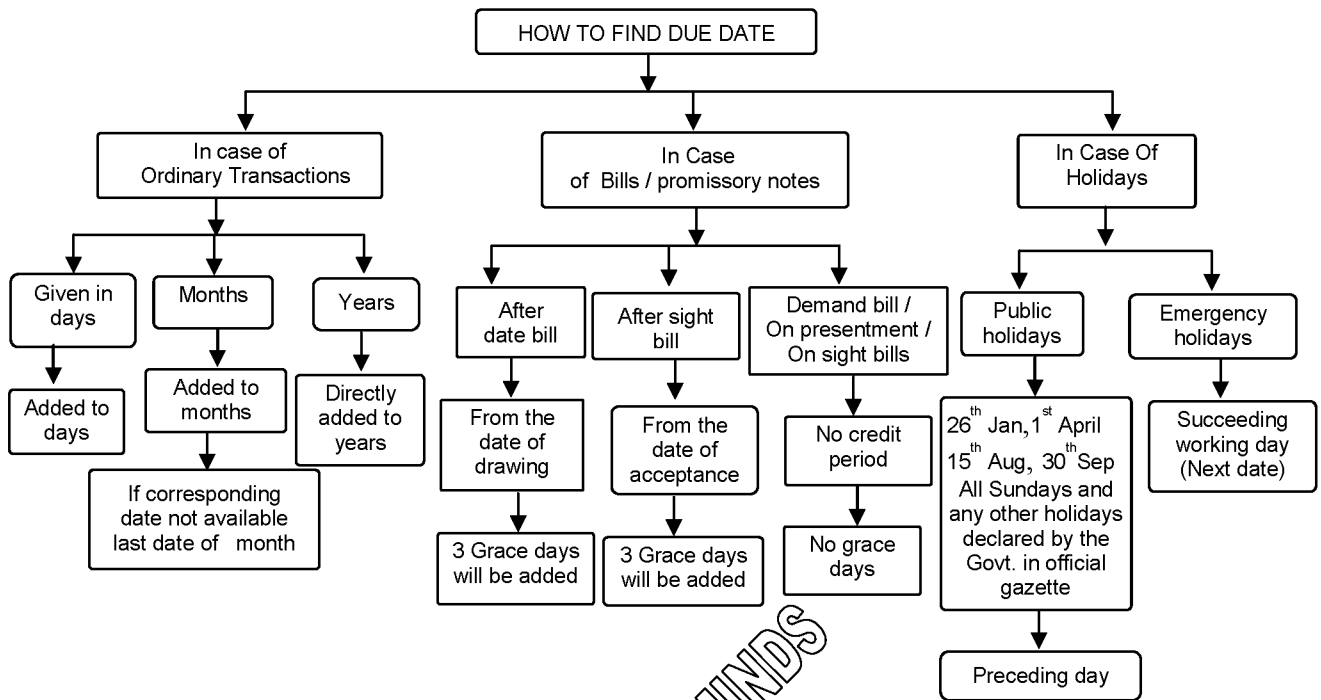
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1. AVERAGE DUE DATE



For Problematic Purpose

1. Working Statement of Average Due Date

Base Date:

Due date of transactions/bills/ promissory notes	No of Days away from base date	Amount (Rs.)	Product
Total		<u>XXX</u>	<u>XXX</u>

2. While calculating no of Days either starting date or ending date to be ignored
 If the resulting figure is fractions (total products/ total amounts = fraction)

3. Fraction of years should be converted into No. of months by multiplying with 12
4. Fraction of months should be converted into No. of days by multiplying with No. of days in the respective months i.e., 28/29/30/31
5. Fraction of days should be rounded off to nearest day
6. Calculation of the average due date when amount is lent in one installment and repayment is to be made in equal installment.

$$\text{Average Due Date} = \text{Date of loan} + \frac{\text{Sum of days / months / years from the date of lending to the date of repayment of each installment}}{\text{No. of installments}}$$

Notes:

- i) The above formula is applicable only if repayment is made only in equal installment amounts
- ii) If the amounts are different, use products only.

For theory (Questions asked in previous 10 Years)

1. A promissory note executed by Mr. X is due on 12.8.2007. What is the maturity date of the promissory note including grace days? (M07 - 2 M) (PCC)

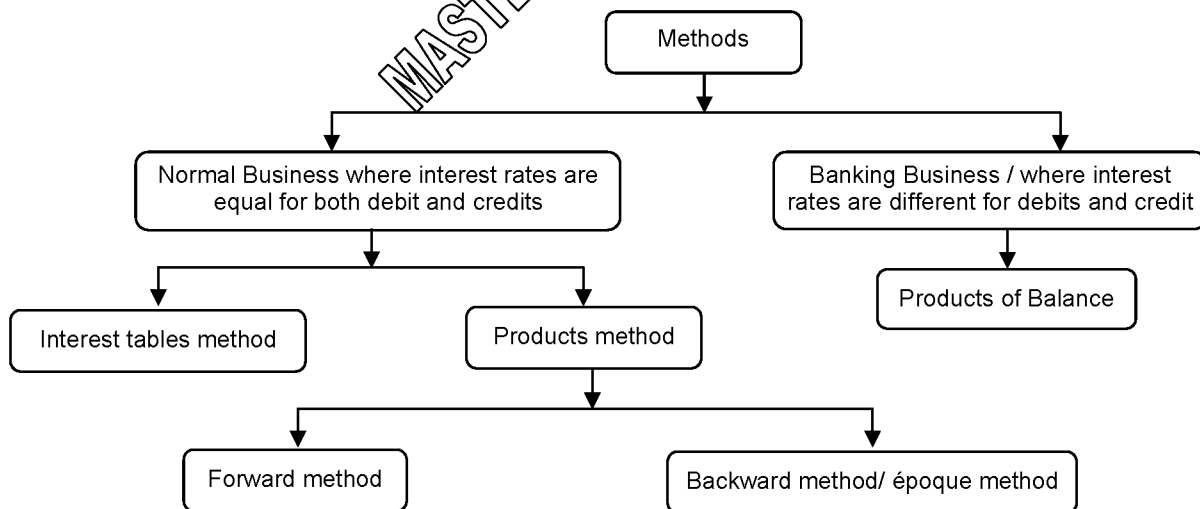
Answer:

Where the promissory note is due (including grace days) on public holiday, the preceding day shall be the due date. Hence, the due date is 14.8.2007.

2. Define Average Due Date. List out the various instances when Average Due Date can be used. (IPCC M14 - 4M)

For answer refer theory in the chapter

2. ACCOUNT CURRENT



STEPS	PARTICULARS	INTEREST TABLE	FORWARD METHOD	BACKWARD METHOD
1.	Name	Receiver in account current with supplier (from _____ to _____) rate of interest		
2.	Additional columns in normal ledger accounts	Due date, no. of days, interest amount / products		
3.	Recording of transactions	As usual of normal ledger posting		
4.	Identification of Due Date	As usual done in ADD chapter		

5.	No. of Days	Due Date to closing date	Due Date to closing date	Earliest due date to DD
		In case of opening balance both days to be included For all other cases either opening date or closing date to be ignored		
6.	Products of Closing balance	-	-	Closing bal x no.of days (total period of account current) (only post in to product column) where the amount is less (debit side or credit side)
7.	How to calculate Interest	interest is to be calculated	Balance of products x rate of interest /100 x 1/365 or 366	Products = No. of days x amt (one day interest to be calculated)
8.	Where to Post Interest	Opposite Side amount column to balance of interest column	opposite side amount column to balance of products	Same side amount column to balance of products

Format of account current (in case of normal business transactions) where rate of interest is same on debit and credit products

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

Products of Balance (periodic Balance Method)-In case of Banks (or) where rate of interest is different on debit and credit products

Date	Particulars	Withdrawal (or) Debit (Rs.)	Deposit (or) credits (Rs.)	Balance (Rs.)	Balance Dr.(or) Cr.	Number of Days	Product	
							Dr	Cr

- Record the transactions in a chronological order
- No of days -Up to last transaction- transaction Date to next transaction Date.
-For last transaction – the date of transaction as well as the date up to which the account current is prepared is included (both days are inclusive).
- Calculate debit products/credit products according to Balance
- Calculate interest for debits & credits products, enter the amount of interest as deposit/withdrawal as appropriate

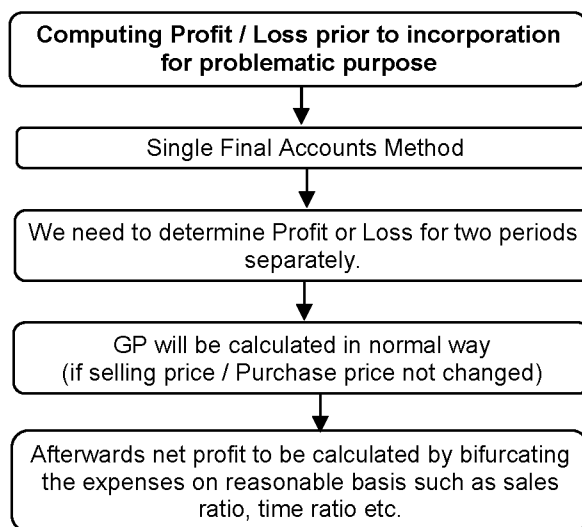
Red ink Interest:

- Such interest is also called as negative interest
- In case due date of a transaction falls after the date of account current. Interest should be deducted.
- However interest from the date of closing to such date is written in 'Red ink' in the appropriate side of the account current, or it may be shown in the opposite side interest/ products column in the normal ink.
- Red ink means, the amount to be deducted.

For theory (Questions asked in previous 10 Years)

- What is meant by 'Red-Ink interest' in an Account Current? (2 Marks) (November, 2007) (PCC)
- What is Account current? (2 Marks, May, 2008) (PCC)

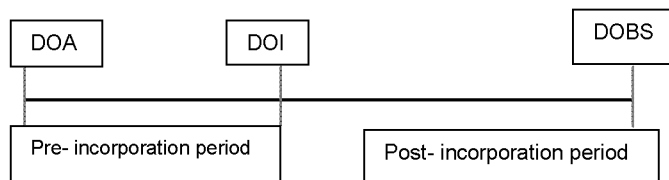
4. PROFIT/LOSS PRIOR TO INCORPORATION



Working Notes for solving problems:

Working Note No: 1: Time Ratio

- DOA(Date of Acquisition)
- DOI (Date of incorporation)
- DOBS(Date of balance sheet)



Working Note No: 2: Sales Ratio

- Only on the basis of pre incorporation months and post incorporation months not on the basis of when it is increased.
- One half (0.5) of average monthly sales is different from one and half (1.5) of average monthly sales.
- When no increase or decrease in average monthly sales then, consider the time ratio

Working Note No: 3: Calculation of Gross Profit

- It can be done by applying given G.P. % or by preparing trading a/c.

Working Note No: 4: Individual expenses calculations as information given in question

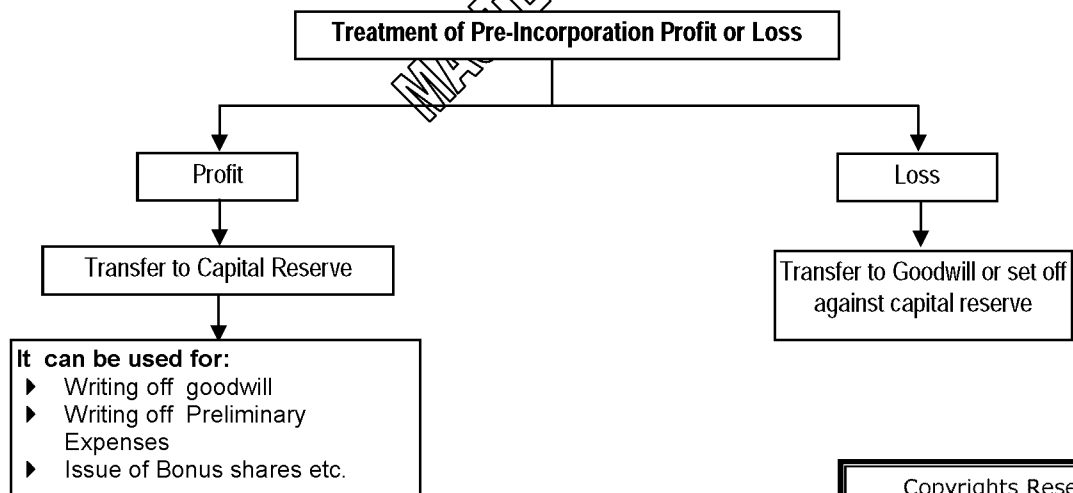
NOTE:

1. If selling price or purchase cost increased or decreased in pre / post incorporation periods, we shall identify total expenses to be bifurcated between pre and post on the basis of no. of units sold or purchased.
2. We need to prepare the balance sheet of company as per schedule – III of the Companies Act, 2013.
3. Audit fees – If it is company Audit fees → Charged to Post period
 - i) – If it is tax Audit fees → based on sales ratio to be charged to both periods
 - ii) - If nothing is given you can assume as Tax audit fee

Format for Pre and Post bifurcation:

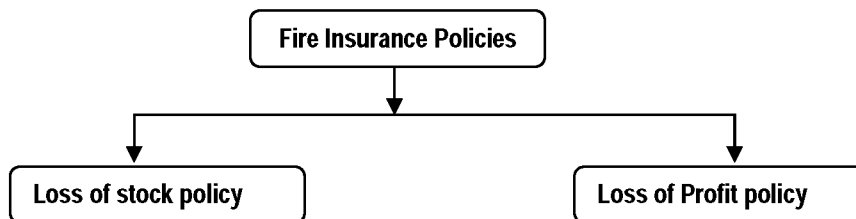
Particulars	Amount	Basis	Pre-Incorporation	Post - Incorporation
Gross Profit	xxx	Sales	xxx	xxx
Other Income	xxx	Time	xxx	xxx
Expenses:				

Employee benefit expenses:				
Salaries	xxx	Time	xxx	xxx
Director Fees	xxx	Post	-	xxx
Sales man commission	xxx	Sales	xxx	xxx
Financial Charges:				
Debenture Interest	xxx	Post	-	xxx
Interest on purchase consideration:				
Upto DOI	xxx	Pre	xxx	-
From DOI to date of payment	xxx	Post	-	xxx
Depreciation and Amortization charges	xxx	Time	xxx	xxx
Other Expenses:				
Freight Expenses	xxx	Sales	xxx	xxx
Preliminary Expenses	xxx	Post	-	xxx
General Expenses	xxx	Time	xxx	xxx
Advertisement Exp.	xxx	Sales	xxx	xxx
Misc. Office Exp.	xxx	Time	xxx	xxx
Bad debts	xxx	Credit Sales	xxx	xxx
Rates and Taxes	xxx	Time	xxx	xxx
Repairs to Buildings	xxx	Time	xxx	xxx
Postages and Tele-gram Expenses	xxx	Time	xxx	xxx
Packing Expenses	xxx	Sales	-	xxx
Total Expenses	xxx		xxx	xxx
Pre Incorporation P/L			xxx	-
Post Incorporation P/L			-	xxx

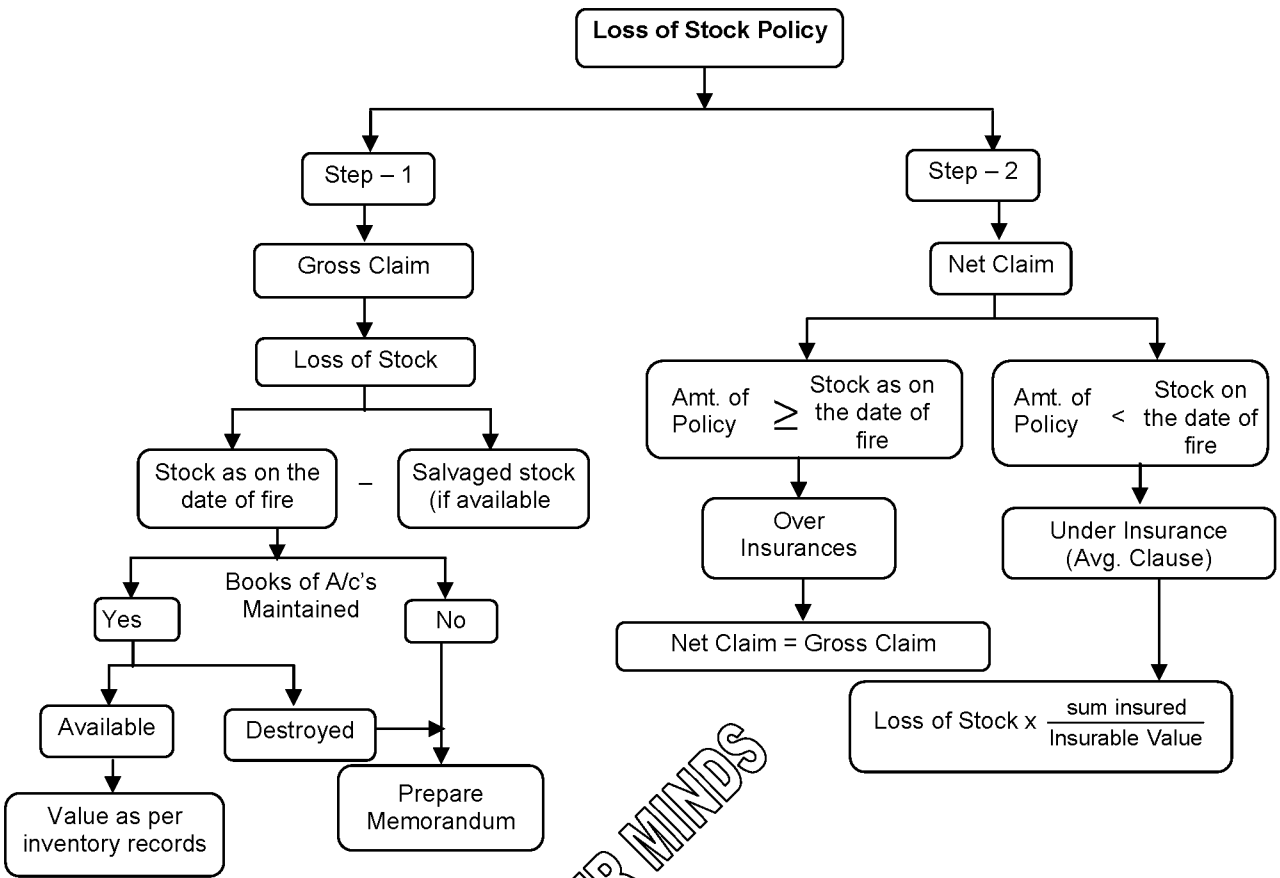


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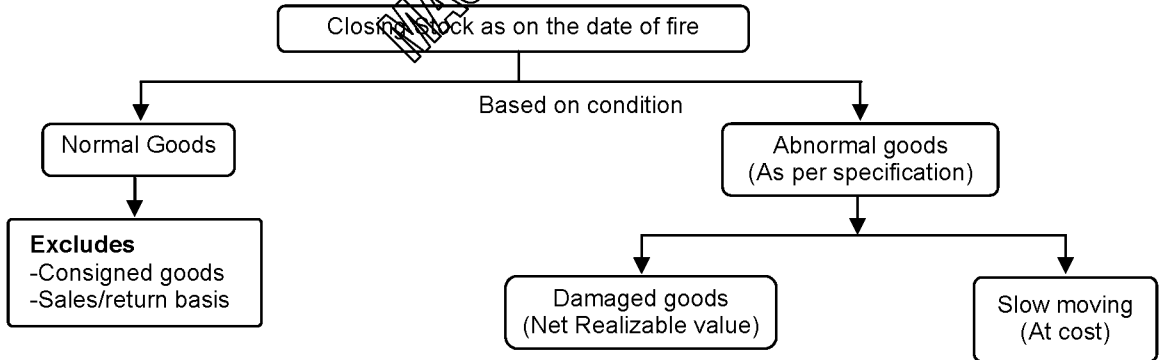
5. INSURANCE CLAIMS



TOPIC 1: LOSS OF STOCK POLICY:



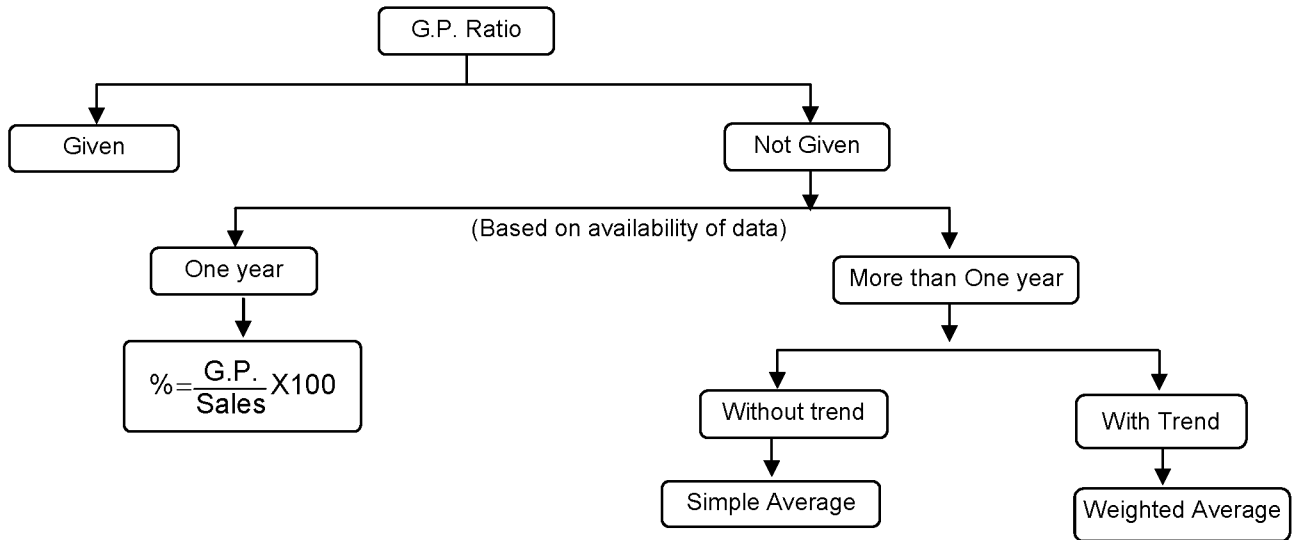
Note: Insurable Value = Value of stock as on the date of fire



Memorandum Trading a/c

Dr		Cr	
Particulars	Rs.	Particulars	Rs.
To Opening Stock (given)	XXX	By Sales (given)	XXX
To Purchases (given)	XXX	By Closing Stock (bal-fig)	XXX
To Gross Profit (refer below note)	XXX	(stock as on the date of fire)	
	XXX		XXX

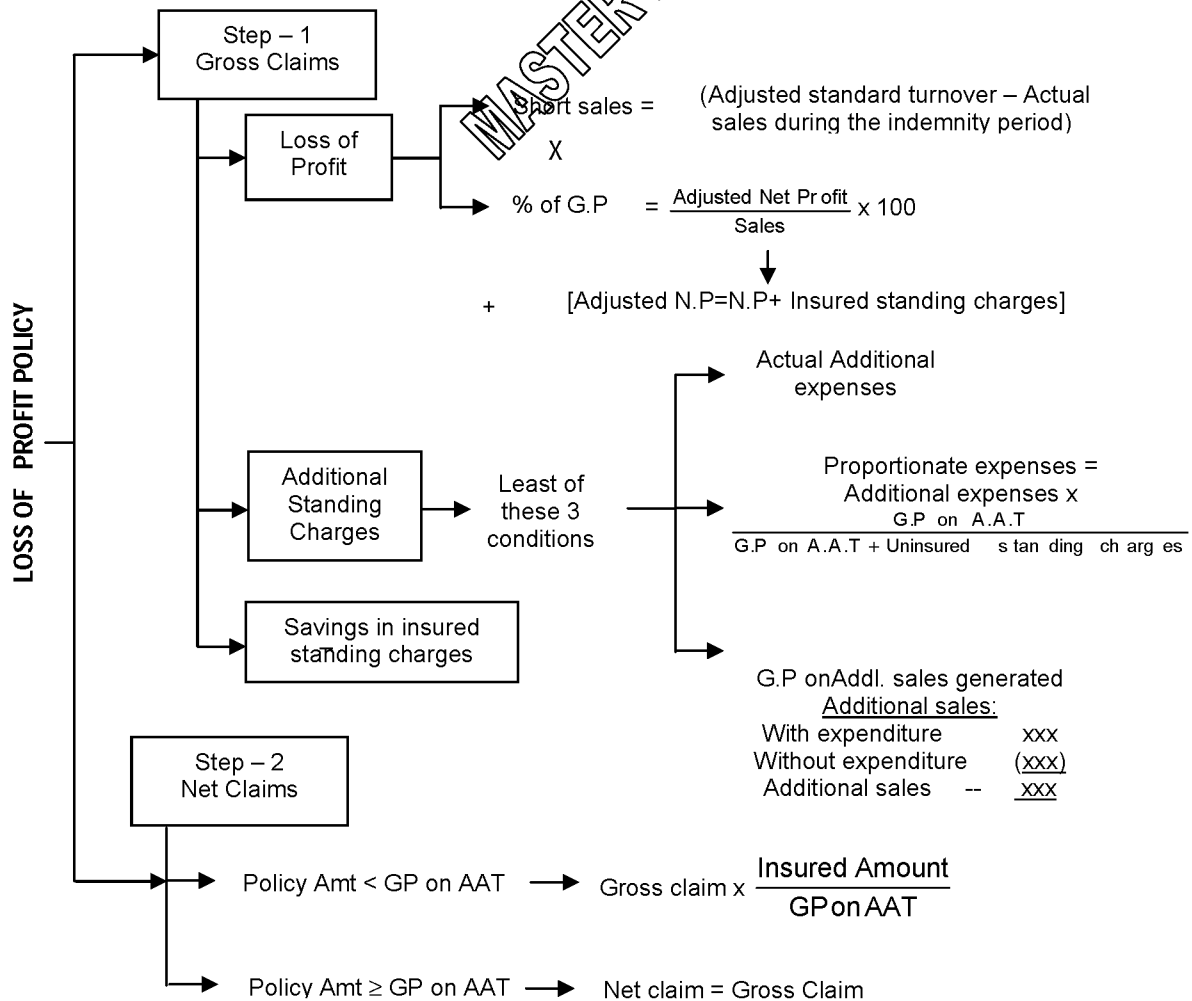
Note:-

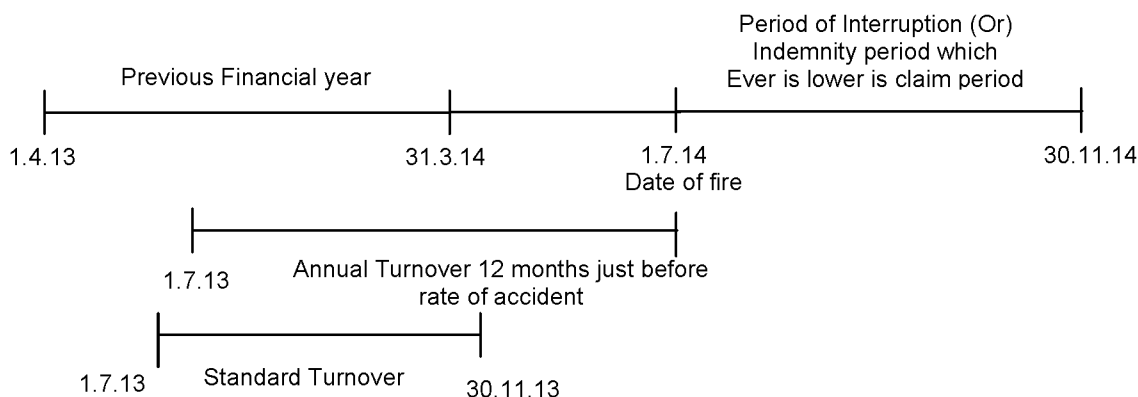


Special Adjustment:-

- ▶ Change in Sale Price / Cost of Product.(we must do on the basis of current year level and previous year levels)
- ▶ Effect of errors (Eg.: Over/under Valuation of stock).(as given in previous page)
- ▶ Special Transactions (Invoiced goods but not dispatched)
- ▶ Firefighting expenses(lower of expenses and salvage value. added to net claim directly)

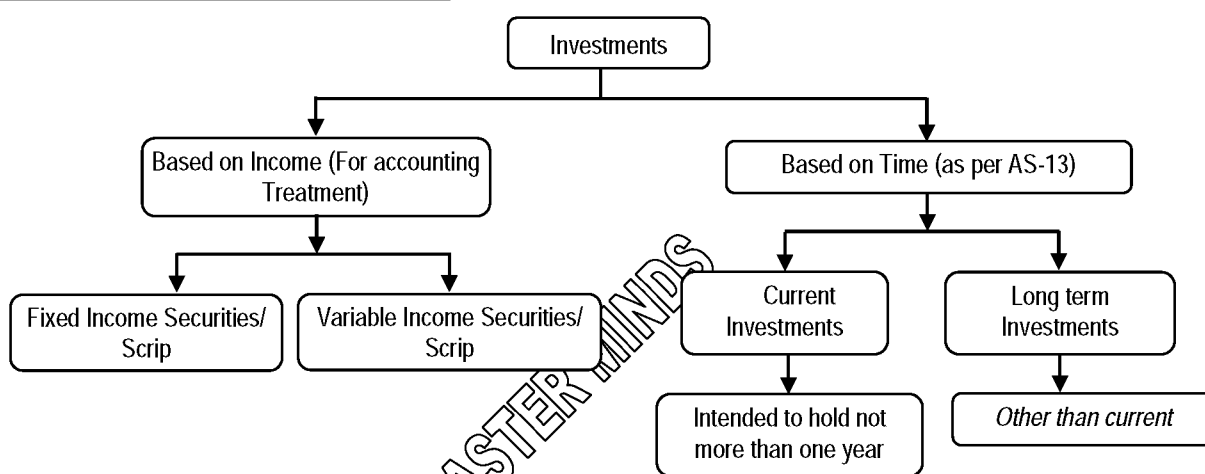
TOPIC 2: LOSS OF PROFIT POLICY:





6. INVESTMENT ACCOUNTS (As per AS-13)

CLASSIFICATION OF INVESTMENTS:



Fixed Income Securities (Debentures, Government Securities etc.)

1. Cost of Purchase:

Particulars	Cum-interest	Ex-interest
Quotation Price	Cost + Interest accrued	Cost
Payment to seller	Quotation price	Quotation price + Interest accrued
Cost of investments	Amount paid – Interest accrued	Amount paid

NOTE:

1. Amount paid includes Quotation price, brokerage and stamp duties etc.,
2. Interest is to be calculated on Face Value
3. Brokerage is to be calculated on Quotation Price

2. Net sale proceeds:

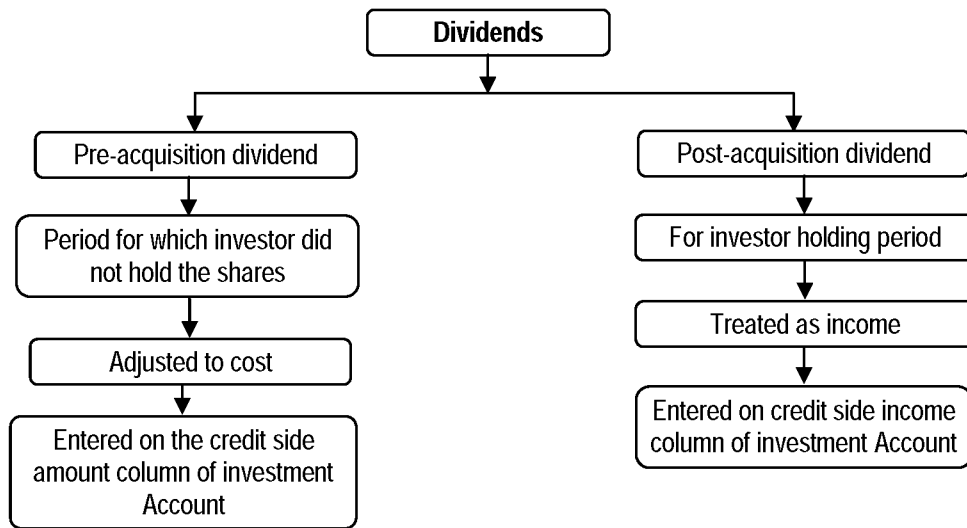
Particulars	Cum-interest	Ex-interest
Sale proceeds	XXX	XXX
Less: Interest accrued	(XXX)	-
Less: Brokerage	(XXX)	(XXX)
Net sale proceeds	XXX	XXX

PROFIT / LOSS ON SALE OF INVESTMENTS: can be considered as balancing amount in the investment account. (i.e.no need to calculate profit for every transaction)

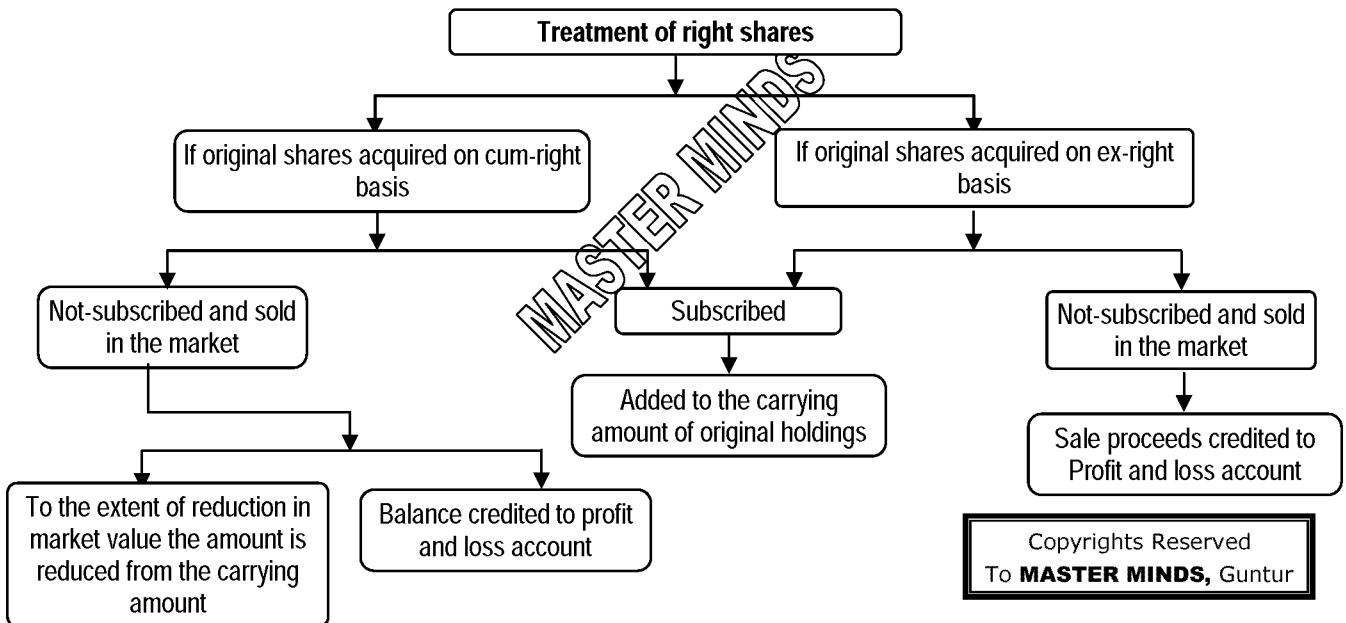
Note:

1. Cost of stock disposal of may be determined either by applying the FIFO or the average cost method.
2. If nothing is specified then follow average cost method (as assumption).
3. If nothing is specified whether Ex-Interest or Cum-interest then assume as Ex-interest only.

VARIABLE INCOME SECURITIES (INVESTMENT IN EQUITY SHARES):



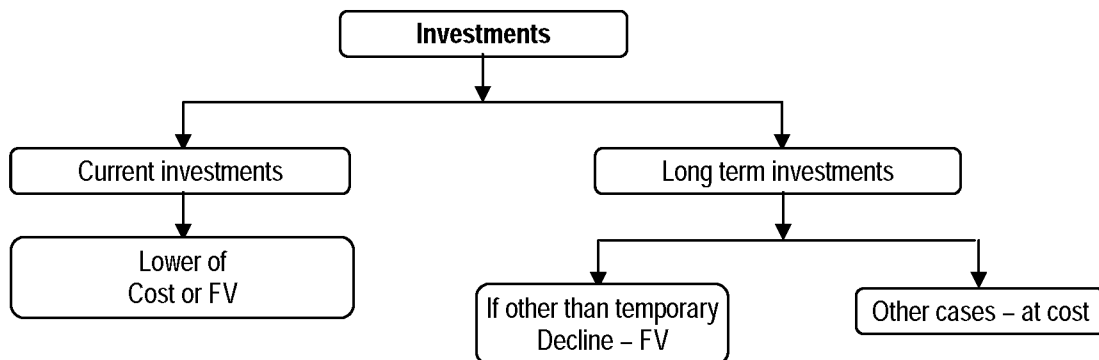
TREATMENT OF RIGHT SHARES:



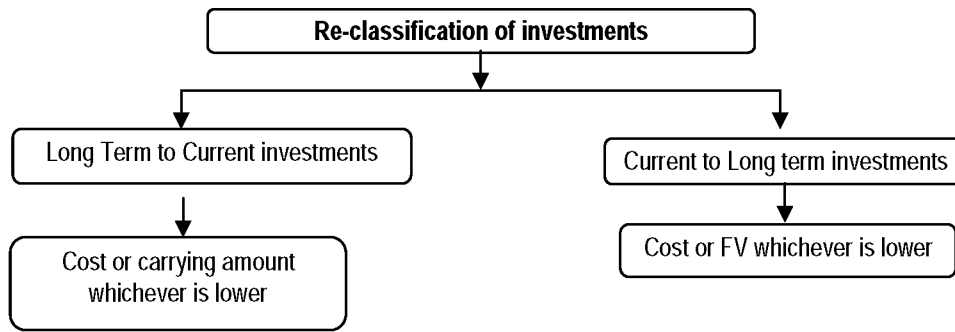
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In case of bonus shares there will be no cost of acquisition (face value must be increased).

CARRYING AMOUNT OF INVESTMENTS:

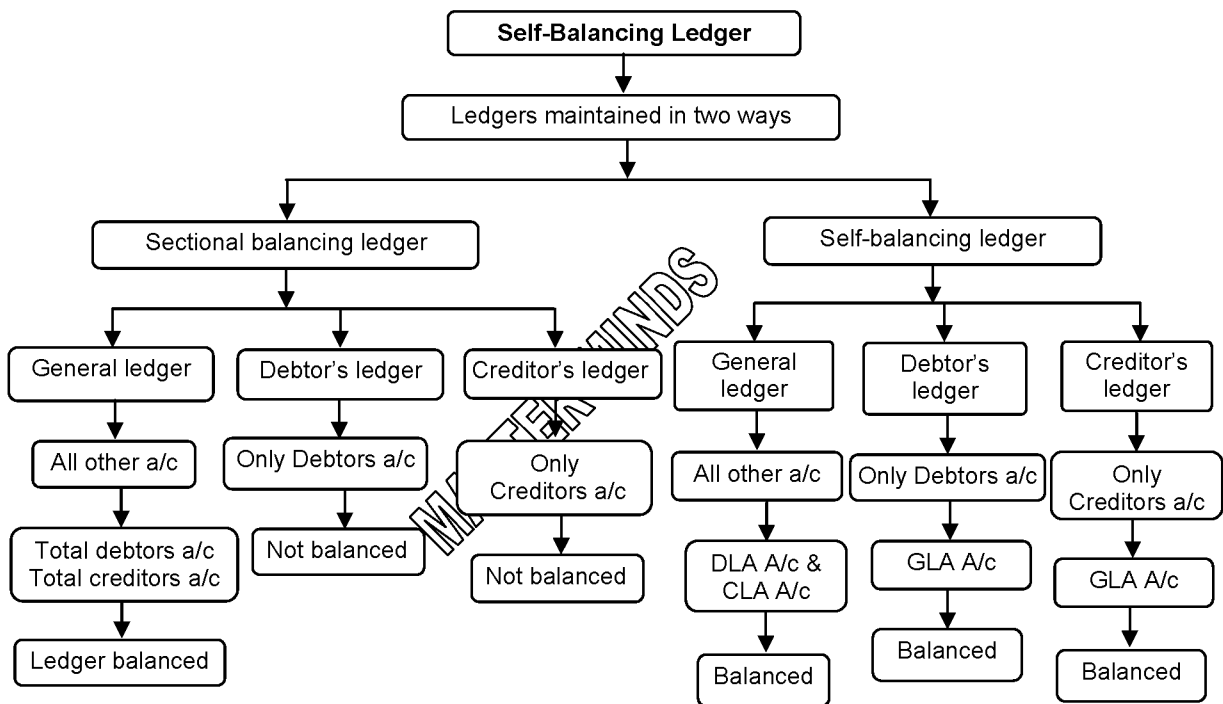


RE-CLASSIFICATION OF INVESTMENTS



Note: FV = fair value / market value.

7. SELF BALANCING LEDGERS



Transfer of balance from creditor's ledger to debtor's ledger (vis-à-vis):

Amount transfer	Normal entry	Adjustment entry
Debit balance to be transferred to creditors from debtors	Creditors A/c Dr To debtors A/c	Creditor led adj A/c Dr To general led adj A/c General led adj A/c Dr To debtors led adj A/c
credit balance to be transferred to debtors from creditors	Creditors A/c Dr To debtors A/c	Creditor led adj A/c Dr To general led adj A/c General led adj A/c Dr To debtors led adj A/c
Debit balance to be transferred to debtors from creditors	debtors A/c Dr To Creditors A/c	General led adj A/c Dr To creditors led adj A/c Debtors led adj A/c Dr To general led adj A/c
credit balance to be transferred to creditors from debtors	debtors A/c Dr To Creditors A/c	General led adj A/c Dr To creditors led adj A/c Debtors led adj A/c Dr To general led adj A/c

Journal entries to be passed for various transactions (relates debtors)

Transaction	Self Balancing Ledgers		Sectional Balancing Ledgers	
	Entry to record transaction	Adjustment Entry	Entries in the General Ledger	Entries in Debtors Ledger
1. Credit Sales	Customer A/c Dr (in DL) To Sales A/c (in GL)	DL Adj A/c Dr (in GL) To GLA A/c (in DL)	Total Debtors A/c Dr To Sales A/c (with total of Sales book)	Debit Customers (individually)
2. Bills receivable Dishonored	Customers A/c Dr (in DL) To B/R A/c (in GL)	- do -	Total Debtors A/c Dr To bill receivable A/c (with total of special column in Bills Receivable Book)	- do -
3. Bad debts	Bad Debts A/c Dr (in GL) To Customers (in DL)	GLA A/c Dr (in DL) To DLA (in GL)	Bad Debts A/c Dr To Total Debtors A/c (with amount ascertained by analysis of special column in Journal)	Credit Customers (individually)
4. Bill receivable received from customers	B/R A/c Dr (in GL) To Customers (in DL)	- do -	B/R A/c Dr To Total Debtors A/c (with total of Bills Receivable Book)	- do -
5. Cash received from customers	Cash A/c Dr (in GL) To Customers (in DL)	- do -	Cash A/c Dr To Total Debtors A/c (with total of special column in Cash Book)	- do -
6. Discount allowed to customers	Discount A/c Dr (in GL) To Customers (in DL)	- do -	Discount A/c Dr To Total Debtors A/c (with total of discount column in Cash Book)	- do -
7. Sales returns	Sales Returns A/c Dr (in GL) To Customer A/c (in DL)	- do -	Sales Returns A/c Dr To Total Debtors A/c (with total of Sales Returns Book)	- do -

DLA A/c in GL				GLA A/c in DL			
To balance b/d	xxx	By GLA A/c Cash Collections Discount Allowed	xxx	To DLA A/c Cash collections Discount allowed	xxx	By balance b/d	xxx
To GLA A/c Credit Sales Nothing Chargers	xxx	By Balance c/d	xxx	To balance c/d	xxx	By DLA A/c Sales Noting chargers	xxx
	xxx		xxx		xxx		xxx

NOTES:

- i) In general ledger, DLA A/c appears like Debtors A/c
- ii) In Debtors ledger, GLA A/c appears opposite to debtors A/c

Journal entries to be passed for various transactions (relates creditors)

Credit purchases	Purchases A/c Dr (in GL) To Suppliers (in CL)	GL Adj A/c Dr (in CL) To CL Adj A/c (in GL)	Purchases A/c Dr To Total creditors A/c (with total of Purchases Book)	Credit Suppliers (individually)
Cash received from Suppliers for returns After settlement etc.	Cash A/c Dr (in GL) To Suppliers (in CL)	-do-	Cash A/c Dr To Total creditors A/c	-do-

Cash paid to suppliers	Suppliers A/c Dr (in CL) To Cash A/c (in GL)	CL Adj A/c Dr (in GL) To GL Adj A/c (in CL)	Total creditors A/c Dr To Cash (with total of special column on the credit side of cash Book) No Cash A/c is prepared, Cash Book entries are made with individual amounts	Debit suppliers (individually)
Discount allowed by suppliers	Suppliers A/c Dr (in CL) To Discount A/c (in GL)	- do -	Total creditors A/c Dr To Discount A/c (with total of discount column on creditors side of Cash book)	-do-
Returns to suppliers	Suppliers A/c Dr (in CL) To Purchase Returns A/c (in GL)	- do -	Total creditors A/c Dr To Purchases Returns A/c (with total of Purchases Returns Books)	-do-
Bills payable accepted (drawn by Suppliers)	Suppliers A/c Dr (in CL) To Bills Payable A/c (in GL)	- do -	Total creditors A/c Dr To Bills payable A/c (with total of Bills payable Book)	-do-

DLA A/c in GL				GLA A/c in DL			
To GLA A/c Payments Discount received	xxx	By balance b/d	xxx	To balance b/d	xxx	By CLA A/c Payments Discounts Received	xxx
To balance c/d	xxx	By GLA A/c Credit purchases	xxx	To CLA A/c Credit purchases	xxx	By Balance c/d	xxx
	xxx		xxx		xxx		xxx

NOTES:

- i) In General ledger, CLA A/c appears like creditors A/c
- ii) In creditors ledger, GLA A/c appears opposite to creditors A/c

RECTIFICATION OF MISTAKES TAKEN PLACE:

We will rectify in case of:

Single effect error / mistake – with the help of suspense A/c

Double effect i.e. not posted entry – write normal entry

For theory (Questions asked in previous 10 Years)

- 1. What are the advantages of self-balancing ledger system? (N07 - 4 M)(PCC)
- 2. What is the difference between the Sectional and Self-balancing system? (J09 - 4 M) (PCC)

8. AMALGAMATION OF COMPANIES– I

I. MEANING OF AMALGAMATION:

- 1. Two or more companies join to form a new company or
- 2. Absorption and blending of one by the other
- 3. Amalgamation includes ‘Absorption’.

II. PURPOSE / ADVANTAGES:

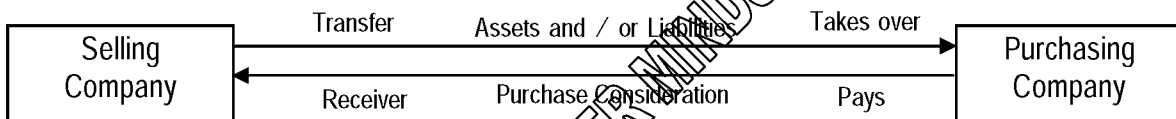
- 1. Economies of Large scale production.
- 2. Avoiding competition
- 3. Increasing efficiency
- 4. Expansion of business activities.

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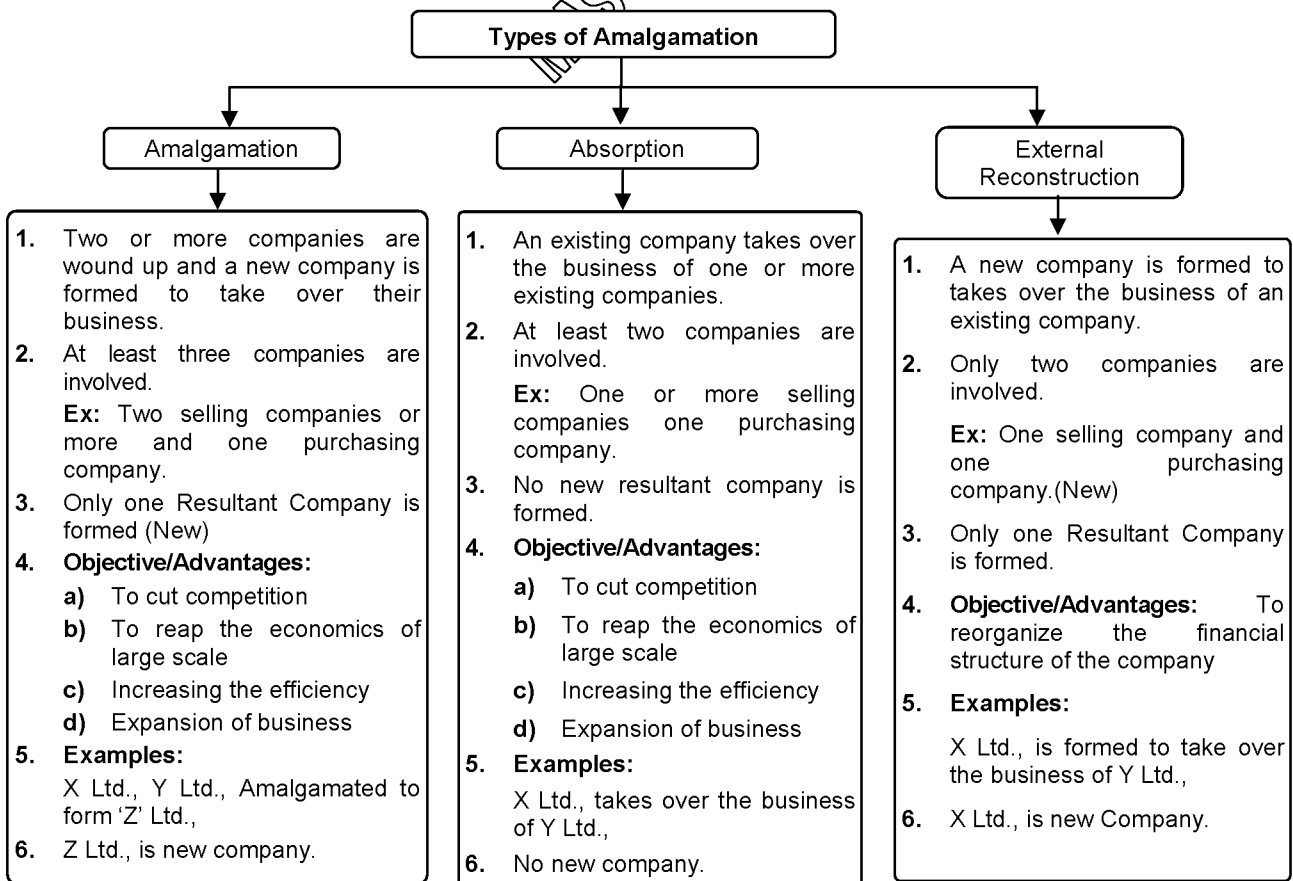
III. INVOLVING COMPANIES:

1. Amalgamating / Selling / Transferor / Vendor Company / Companies (SC)
 - a) The company / companies, which are going in to liquidation or merging with other companies and closing their business permanently.
 - b) AS-14 Accounting guidelines will not apply.
 - c) Realization A/c is opened for the purpose of
 - i) Transferring of all assets, Liabilities taken over by purchasing company at Book value.
 - ii) Recording the purchase consideration.
 - iii) Know the Profit/Loss on realization.
 - d) All the necessary accounts opened and all will be closed automatically.
2. Amalgamated / Purchasing / Transferee / Vendee company (PC) :
 - a) The company which takes over the business of SC
 - b) Incorporates the assets, liabilities takeover at agreed values.
 - c) AS-14 is applicable for accounting of amalgamation in Purchasing company books.
 - d) PC may be discharged in the form of Cash / Equity / Preference Shares / Debentures or in any other form.

IV. PROCESS INVOLVED:



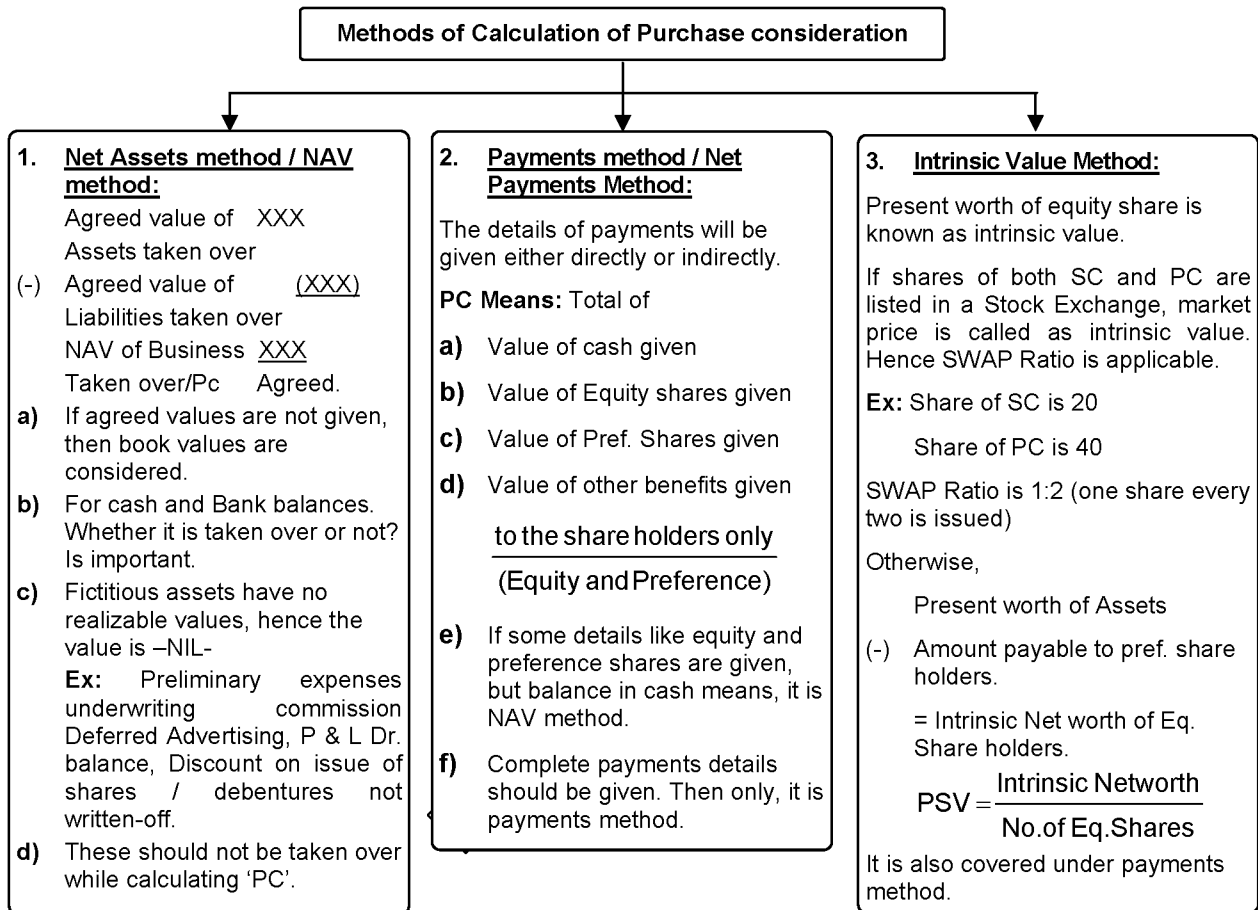
V. COVERED UNDER AS 14 AMALGAMATIONS:



VI. PURCHASE CONSIDERATION (PC):

Meaning: As per AS 14, “The aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the purchasing company to the share holders of selling company.

Not to be included in PC: Expenses of winding up, settlement of Liabilities made by purchasing company. Payment to debenture holders.



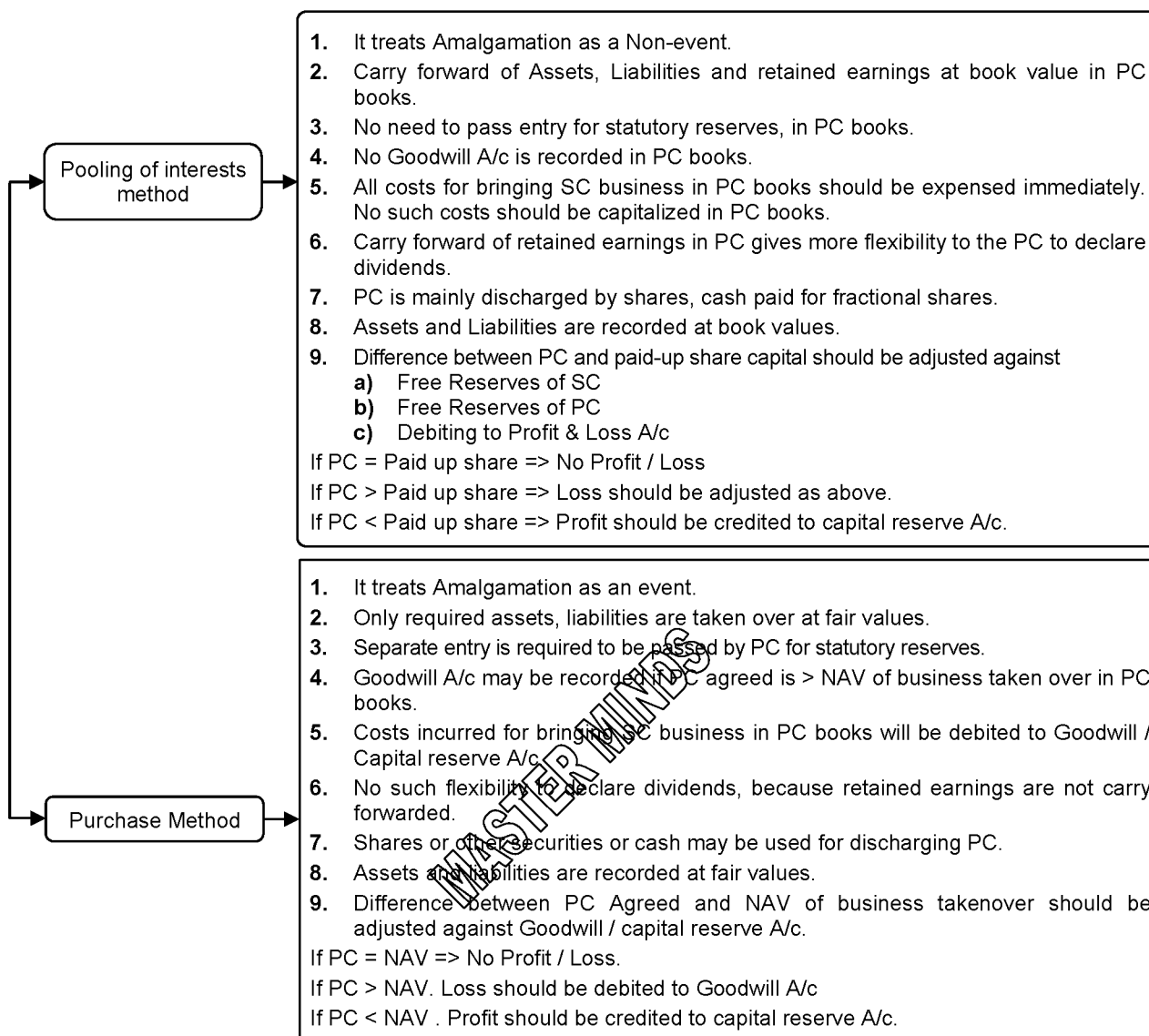
VII. TYPES OF AMALGAMATIONS AS PER AS-14:



1. All the assets and liabilities of the SC become, after amalgamation, the assets and liabilities of the PC.
2. No adjustment is intended to be made to the book values of the assets and liabilities of the SC, when they are incorporated in the books of PC, Except to ensure uniformity of accounting policies.
3. The business of the SC is intended to be carried on, after the amalgamation by the PC.
4. Equity shareholders of SC should be given Equity Shares only in PC, Except cash may be paid for fractional shares.
5. Eq. share holders of SC holding not less than 90% of the face value, become equity share holders of the PC by virtue of amalgamation.

(Equity shares already held in SC Prior to amalgamation is not considered for calculating 90%).

VIII.



IX. **DISSENTING SHARE HOLDERS:** Share holders of SC, who are not willing to accept the scheme of Amalgamation are called 'Dissenting shareholders'. These share holders are to be discharged as per the terms separately agreed.

X. **PASSING OF ENTRIES FOR PAR VALUE OF SHARE:** If the purchasing company is left with large amount of Goodwill and securities premium, then these two accounts can not be adjusted.

So to avoid this, purchasing company may pass entries of shares issue at par value only, but the intrinsic values are being maintained.

XI. **ACCOUNTING TREATMENT:**

1. **In selling company books.**

a) For transferring all assets (other than provisions) to Realisation A/c with book values.

Realisation A/c Dr
 To Assets A/c (Individuals)

b) For transferring all liabilities (including provisions on assets) to Realisation A/c with book values.

Liabilities A/c (Individually) Dr (Liability linked reserves also)
 Provisions A/c (on Assets) Dr
 To Realisation A/c

- c) For PC due from purchasing company
Purchasing company A/c Dr
 To Realisation A/c
- d) For receipt of PC
Cash / Bank / Equities / Pref. / Others shares of PC A/c Dr
 To Purchasing company A/c.
- e) For transferring Pref. Share Capital to Pref. Share holders
Pref. share capital A/c Dr
 To Pref. Share holders A/c
- f) For transferring Eq. Share Capital Reserves and surplus to Eq. Share holders A/c.
Eq. Share Capital A/c Dr (Paid-up value)
Reserves/surplus A/c Dr (Not linked with liabilities)
 To Eq. Share holders A/c
- g) For the Assets sold by SC, which are not taken over by PC
Bank A/c Dr
 To Realisation A/c
Note: No need record Profit / Loss on sale separately.
- h) For the liabilities discharged by SC, which are not taken over by PC
Realisation A/c Dr
 To Bank A/c
- i) For Expenses met by SC
Realisation A/c Dr
 To Bank A/c
- j) For Expenses of SC, met by PC 100 Entry-
- k) For expenses paid by SC, reimbursed by PC
 - i) Purchasing company A/c Dr
 To Bank A/c
 - ii) Bank A/c Dr
 To Purchasing Company A/c
- l) For discharging to Pref. Share holders
Pref. Share holders A/c Dr
Realisation A/c Dr. (Premium on Redemption)
 To Bank / Pref. shares of PC A/c
 To Realisation A/c (Discount on Redemption)
- m) For Profit / Loss on Realisation Transferred to Eq. Share holders
 - i) Realisation A/c Dr
 To Eq. Share holders A/c
 (For profit)
 - ii) Eq. Share holders A/c Dr
 To Realisation A/c
 (For loss)
- n) For settlement of Eq. Share holders
Eq. Share holders A/c Dr
 To Cash / Bank / Eq. Shares / Pref. Shares of PC

2. Journal Entries in the books of purchasing company.

- a) For business purchased and PC due to SC
Business purchase A/c Dr
 To Liquidators of SC

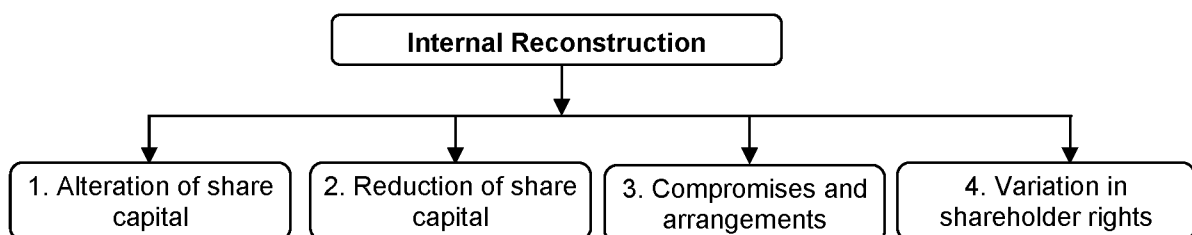
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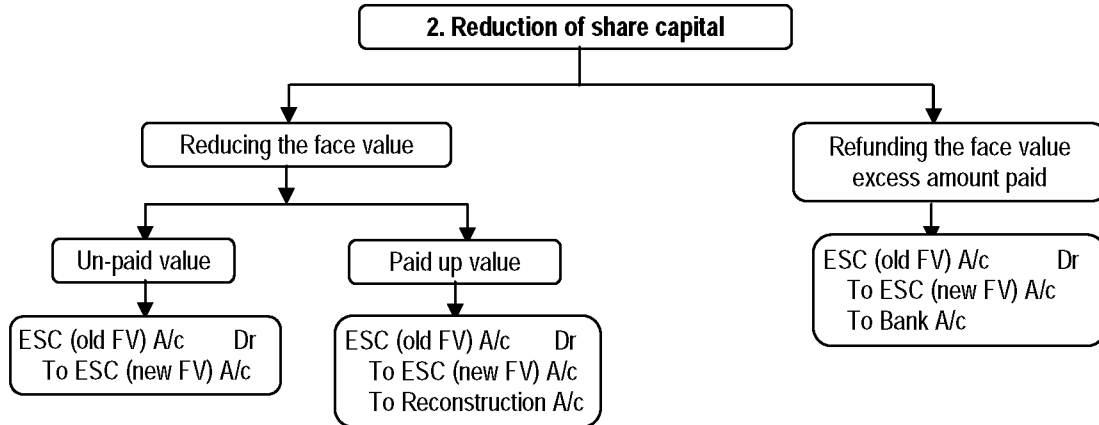
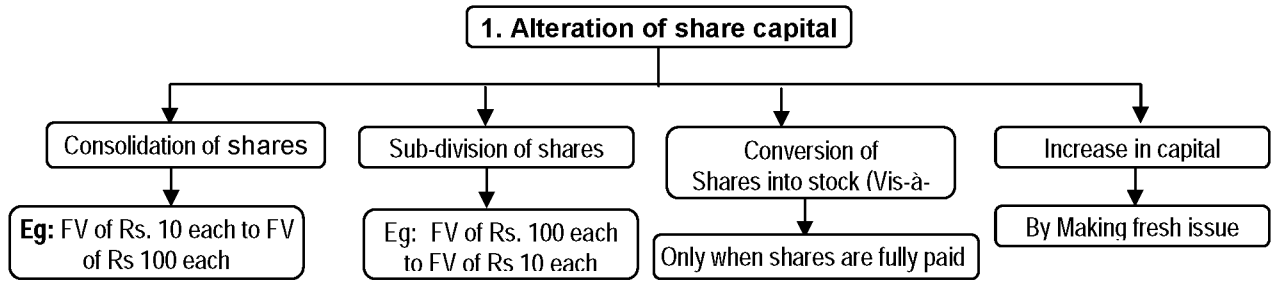
- b) For incorporating the business of SC in PC books at agreed values.
 Assets (Individually) A/c Dr
 Goodwill A/c Dr. (loss on purchase in case of Amalgamation in the nature of purchase)
 To Liabilities A/c (Individually)
 To Reserves A/c (Balance of unutilized reserves only in the nature of merger)
 To Business Purchase A/c
 To Capital Reserve A/c (Profit on Amalgamation)
- c) For discharging PC
 Liquidators of SC A/c Dr
 Discount on issue of shares A/c Dr. (In case issued at discount)
 To Bank A/c
 To Eq. Share Capital A/c
 To Pref. Share Capital A/c
 To Securities Premium A/c (In case issued at premium)
 To Debentures A/c (Any other securities)
- d) For Liquidation expenses borne by PC
 Goodwill / Capital Reserve A/c (In case of purchase)
 Profit & Loss /Reserves A/c (only in case of merger)
 To Bank A/c
- e) For cancellation of mutual Owings
 - i) Creditors A/c Dr
 To Debtors A/c
 - ii) Bills payable A/c Dr
 To Bills receivable A/c
- f) For making provision for unrealized profits on stocks
 Goodwill /Capital Reserve A/c Dr (In case of purchase)
 Profit & Loss A/c /Reserves A/c Dr (In case of merger)
 To stock A/c / Stock Reserve A/c
- g) For creation / maintaining statutory reserves of SC in PC books
 Amalgamation Adjustment A/c Dr
 To Statutory Reserves (Individually) A/c

This entry is recorded only, in case of Amalgamation in the nature of purchase. This is not required in case of merger.

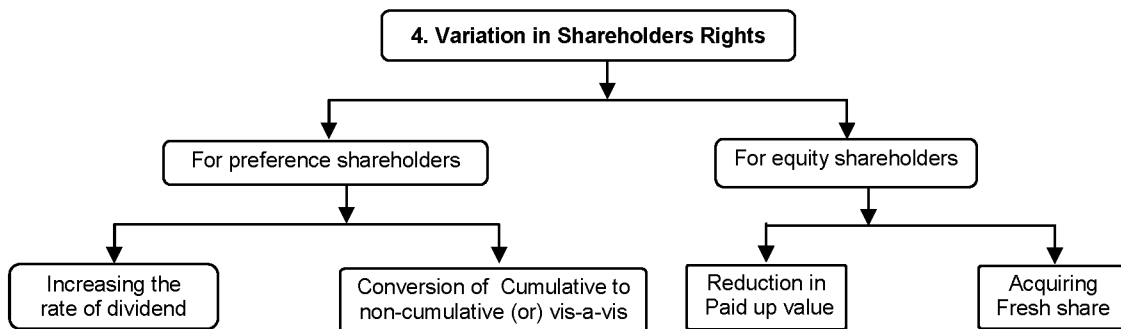
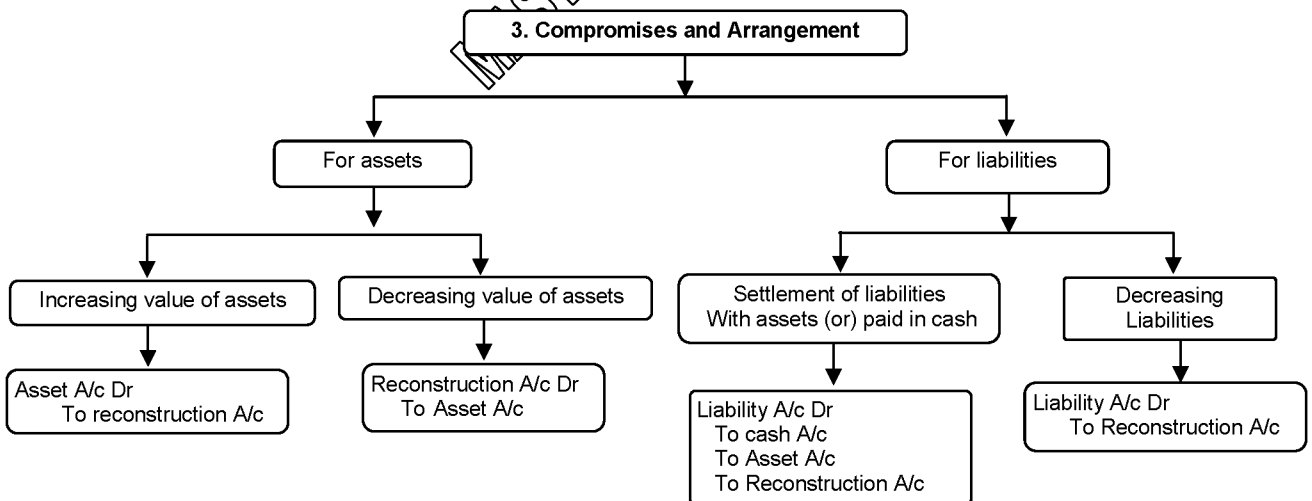
9. INTERNAL RECONSTRUCTION – I & II

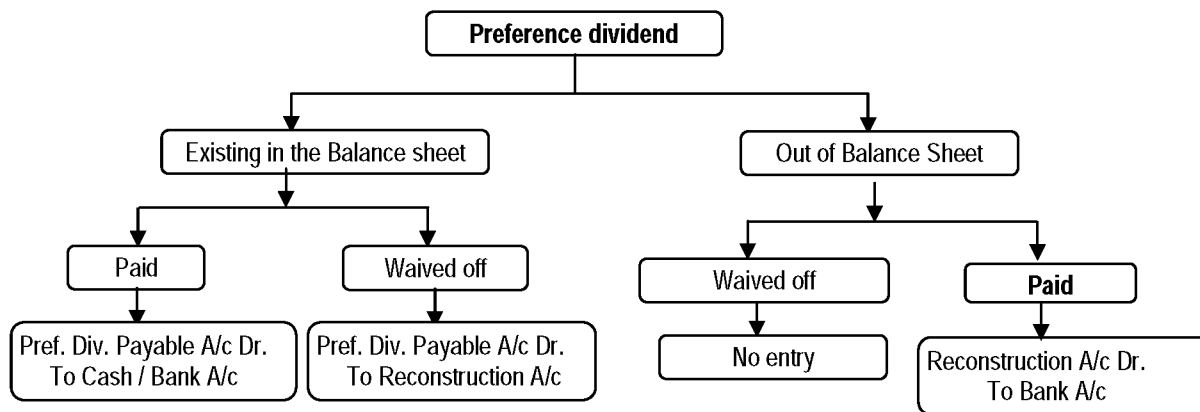
MEANING: Reconstruction means reorganization of a company’s financial structure.





Share Surrender:	For utilization
Equity share capital A/c Dr. To Share surrender A/c	for issue of new shares Share Surrender A/c Dr. To Share Capital A/c
	Transfer to Reconstruction A/c (unissued) Share Surrender A/c Dr. To Reconstruction A/c





10. NON-TRADING CONCERNS

INTRODUCTION:

A Non-profit organization is a legal and accounting entity that is operated for the benefit of the society as a whole rather than benefit of a sole proprietors or group of partners or share holders.

In the society there are some organizations which do not have profit making as their objective. Their main objective may be social, educational, religious or charitable and they take the form of clubs, societies or charitable bodies and so on.

FINANCIAL STATEMENTS:

These organizations prepare at the year end the following three Financial Statements

1. Receipts and Payments A/c
2. Income and Expenditure A/c
3. Balance Sheet

RECEIPTS AND PAYMENTS A/C:

- ▶ Receipts and payments account is merely a cash book
- ▶ It is summary of all cash transactions,
- ▶ It starts with opening cash and bank balance and ends with closing cash and bank balance
- ▶ All the receipts are shown on left hand side i.e. debit side and all the payments are written on right hand side i.e. credit side,

Receipts & Payments Account for the year ended xx.xx.xxxx

Dr.		Cr.	
Receipts	Rs.	Payments	Rs.
To Opening Balance:		By Salaries	***
Cash	***	By Rent	***
Bank	***	By Electricity	***
To Subscriptions:	---	By Purchase of Investment	***
1996-97(previous year)	***	By Purchase of Furniture	***
1997-98(current year)	***	By Closing Balance:	
1998-99(future year)	***	Cash	***
To Donation	***	Bank	***
To Sale of Sports Equipment	***		---
	***		***

INCOME AND EXPENDITURE ACCOUNT: The Income and Expenditure Account is equivalent to the Profit and Loss Account of a business enterprise. It is prepared by matching the revenues against the expenses for a specified period, usually a year.

However since this is not an profit making institution it is known as Income and Expenditure and the balance is not know as profit and loss but is known as deficit or surplus.

Income and Expenditure Account for the year ended xx.xx.xxxx

Dr.

Cr.

Expenditure		Rs.	Income		Rs.
To Salaries	***		By Subscriptions	***	
Add. Outstanding	***	***	Add: Outstanding	***	
To Rent		***	Less: Pain in Advance	***	***
To Insurance Premium	***		By Donation		***
Less: Prepaid	***	***	By Admission fees		***
To Excess of Income over Expenditure		***			***
		***			***

Distinction between the Receipts and Payments Account and the Income and Expenditure Account

Receipts and Payments Account	Income and Expenditure Account
It is almost like a Real Account.	It is almost like a Nominal Account.
It is a summary of the cash transactions of a particular period.	It is a summary of expenses and income of a particular period.
It includes both capital and revenue items	It includes only revenue items
It does not includes non-cash transactions	It includes both cash and non-cash transactions

BALANCE SHEET:

Balance Sheet of ... as at ...

Liabilities		Rs.	Assets		Rs.
Capital fund	***		Building		***
Add: Surplus	***	***	Furniture		***
Subscriptions Received		***	Sports Equipment		***
in advance			Cash at Bank		***
Outstanding Wages		***	Cash in Hand		***
		***			***

It is a statement of all assets and liabilities of a business. It may be prepared in the order of validity or in the order of preference.

SUBSCRIPTIONS:

Receipts and Payments A/c

Receipts	Amount	Payments	Amount
To Subscription	XXX		

Income and Expenditure A/c

Expenses	Amount	Income	Amount
		By Subscription	XXX

METHODS OF COMPUTING SUBSCRIPTIONS AMOUNT:

1. In Statement form:

Particulars	Amount
Subscriptions (From Receipts and Payments A/c)	XXX
Add: Outstanding at the end	XXX
Less: Outstanding at the beginning	XXX
Less: Subscriptions received in advance	XXX
Add: Subscriptions in advance at the beginning	XXX
Subscriptions to be shown in Income and Expenditure A/c	XXX

2. In Account form:

Particulars	Amount	Particulars	Amount
To Balance b/d (O/S at the beginning)	XXX	By Balance b/d (Received in advance at the beginning)	XXX
To Income and Expenditure A/c (b/f)	XXX	By Receipts and Payments A/c (Received in the current year)	XXX
To Balance c/d (Received in advance at the ending)	XXX	By Balance c/d (Outstanding at the ending)	XXX
	XXX		XXX

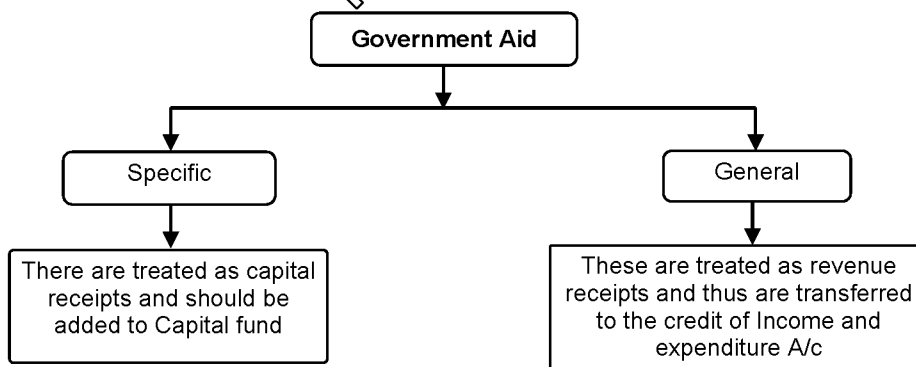
TREATMENT OF SPECIAL ELEMENTS:

1. Donation:

- γ Donations received from persons, firms, companies in the form of money should be added directly to the capital fund if the amount is large and non-recurring.
- γ Small and recurring donations collected or received should be credited to Income and Expenditure Account of the period concerned.
- γ Donations received for specific Capital Expenditure should be credited to Special Fund Account. Donations received for any special capital expenditure should be credited to capital fund.
- γ When specific direction has been given in the rules and regulations of the organization, it should be treated accordingly.

LEGACY: It is an amount or other item of value received from a deceased person under the terms of a will. The amount received as legacy may be big or small. The legacy may be for a specific purpose or just general. If it is for a specific purpose, then it should be capitalized in the name of the 'fund' for that particular purpose. Otherwise, it is directly added to capital fund.

GOVERNMENT AID: Government may help non-profit organizations by way of a grant in aid or subsidy



CONSUMABLE ITEMS: Many non-profit organizations consume some consumable items such as stationary, sports material, medicines etc. In such a case the amount of consumables consumed debited to income and expenditure account.

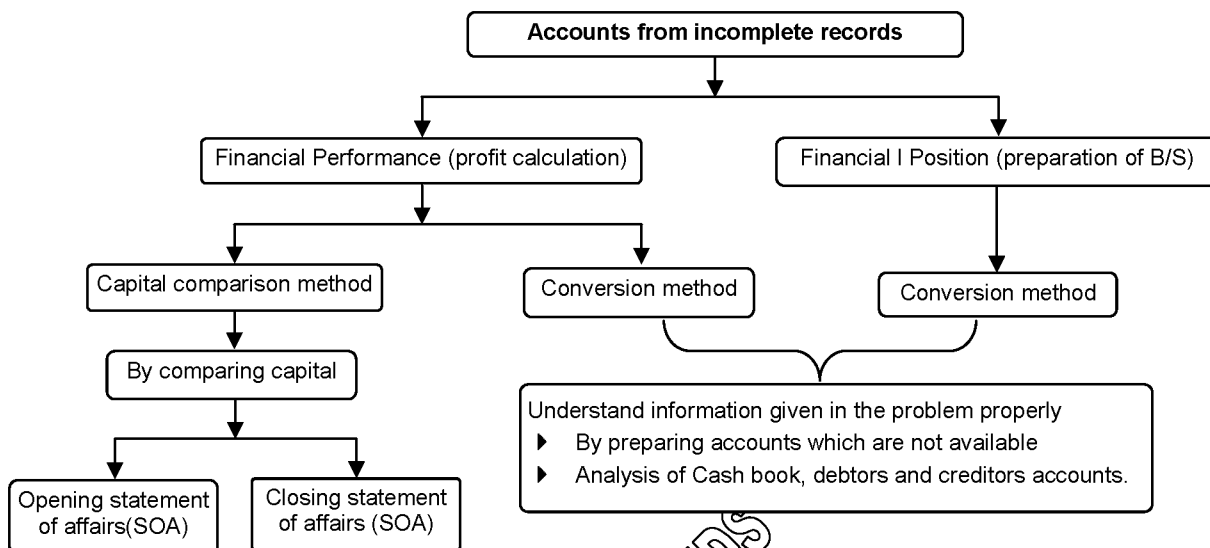
HONORARIUM: A token payment made to a person who has voluntarily undertaken the service which would normally command a fee. It is thus an expression of gratitude rather than a payment for the work done.

TYPES OF PROBLEMS:

1. Preparation of Income and Expenditure Account and balance sheet when receipts and payments and other information is given.
2. Preparing income and expenditure account and balance sheet from receipts and payments account, opening balance sheet and other information.
3. Preparing receipts and payments accounts from income and expenditure account and closing balance sheet.

4. Preparing opening and closing balance sheet from receipts and payments accounts and income and expenditure account,
5. Preparation of receipts and payments account from opening and closing balance sheet and additional information.
6. Preparing income and expenditure account and balance sheet from trial balance.

11. ACCOUNTS FROM INCOMPLETE RECORDS



ACCOUNTING Procedure:

1. Capital Comparison method:

a) Opening & closing Statement of affairs

Liabilities	PY	CY	Assets	PY	CY
capital (b/f)	Opening	closing	All Assets(at FV)	XXX	XXX
Liabilities	XXX	XXX		XXX	XXX
	XXX	XXX		XXX	XXX

b) Calculation of profit by capital comparison method

Dr		Capital A/c		Cr	
Particulars	Amount	Particulars	Amount		
To Drawings	XXX	By Balance b/d (a)	XXX		
To Interest on drawings	XXX	By Cash/ Bank(deposited)	XXX		
To Net loss(b/f)*	XXX	By Interest on capital	XXX		
To Balance b/d (b)	XXX	By Net Profit(b/f)*	XXX		
	XXX		XXX		

*Net profit/Loss only one will come as balancing amount

Alternatively it can be calculated by preparing in statement form also

2. Conversion method:

Cash Book

Dr			Cr		
Particulars	Cash	Bank	Particulars	Cash	Bank
To Balance b/d	XXX	XXX	By Capital Payments	XXX	XXX
To Capital Receipt	XXX	XXX	By Revenue Payments	XXX	XXX
To Revenue Receipts	XXX	XXX	By Balance c/d	XXX	XXX
	XXX	XXX		XXX	XXX

Debtors Account

Dr		Cr	
<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
To Balance b/d	XXX	By Cash A/c	XXX
To Sales(credit) A/c	XXX	By Discount allowed A/c	XXX
To B/R (Dishonour)	XXX	By Bills Receivable A/c	XXX
	XXX	By Balance c/d	XXX
			XXX

Creditors Account

Dr		Cr	
<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
To Cash A/c	XXX	By Balance b/d	XXX
To Discount received A/c	XXX	By Purchases A/c	XXX
To Bills payable A/c	XXX	By B/P (Dishonour)	XXX
To Balance c/d	XXX		
	XXX		XXX

Bills Receivable Account

Dr		Cr	
<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
To Balance b/d	XXX	By Debtors A/c (Dishonour)	XXX
To Debtors A/c	XXX	By Cash A/c (Discounted)	XXX
		By Discount A/c (Discounted)	XXX
		By Cash A/c (Matured)	XXX
		By Creditors A/c (Endorsed)	XXX
		By Balance c/d	XXX
	XXX		XXX

Bills Payable Account

Dr		Cr	
<i>Particulars</i>	<i>Amount</i>	<i>Particulars</i>	<i>Amount</i>
To Cash A/c (Matured)	XXX	By Balance b/d	XXX
To Creditors A/c (Dishonour)	XXX	By Creditors A/c	XXX
To Balance c/d	XXX		
	XXX		XXX

* Prepare necessary expenses or income accounts depending upon the problem and then prepare trading and Profit & Loss A/c and Capital A/c

* you can identify one balancing amount in each and every account that you prepared and that amount can help to another account or another information to complete B/S.

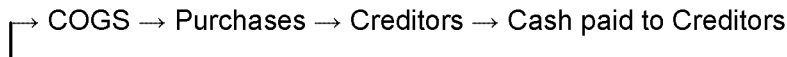
ACCOUNTING FLOWS:

1. Creditors A/c
 - ↓
 - (1) Purchases
 - ↓
 - (2) COGS
 - ↓
 - (3) GP%
 - ↓
 - (4) sales
 - ↓
 - (5) Debtors A/c
 - ↓
 - (6) Cash received from debtors
 - ↓
 - (7) Cash A/c

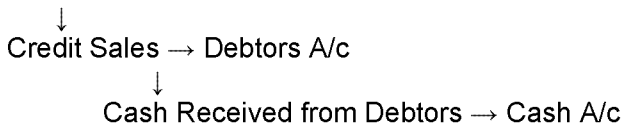
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How to follow to accounting Flows

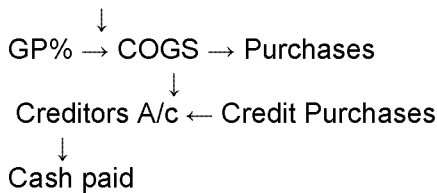
1. By preparing Creditors account – identify credit purchase(add cash purchase if any to get total purchase)
2. from purchases calculate COGS by adjusting opening and closing stock
3. Apply percentage of gross profit to COGS to get total sales(which may consist cash & credit sales)
4. Complete debtors A/c with credit sales to may get a balancing number as cash recd. From debtors
5. you can complete cash a/c by identifying another any balancing amount



2. GP % → Sales → Cash Sales → Cash A/c



3. Debtors Account → Sales

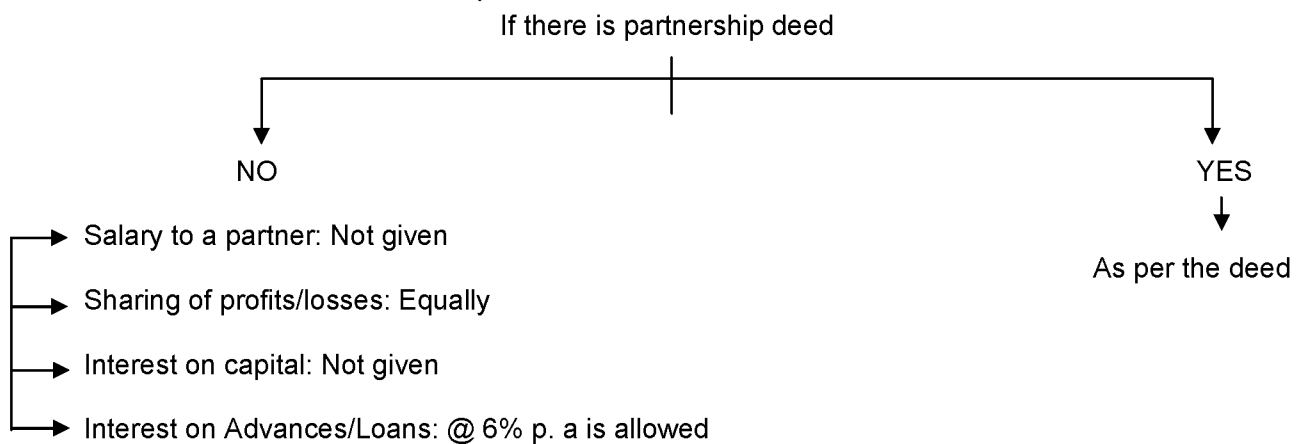


12. PARTNERSHIP ACCOUNTS

MEANING: According to Sec. 4 of the Indian Partnership Act, 1932 the term ‘Partnership’ is the relation between two or more persons who have agreed to share the profits of a business carried on by all or any one of them acting for all.

WHY: To distribute Profits/losses to partners and there after their own estate is liable for losses.

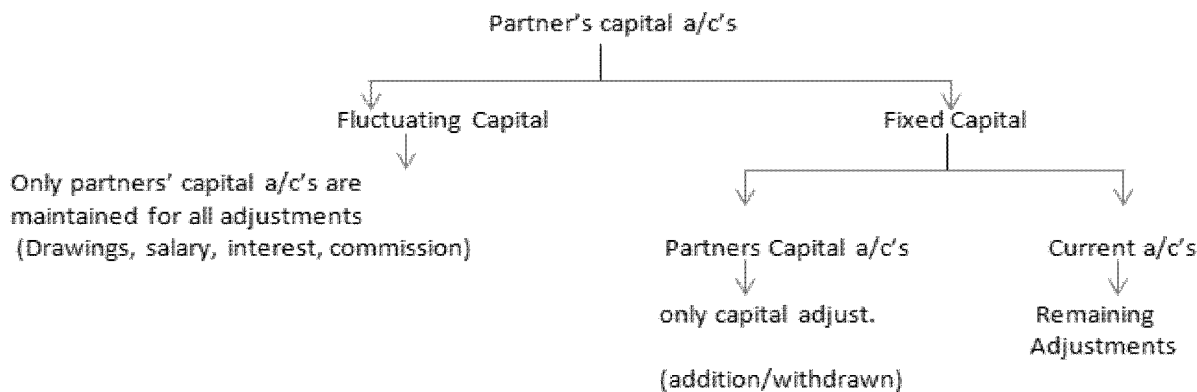
PARTNERSHIP DEED: It is an agreement between partners in the firm.



In absence of an agreement: The interest and salary payable will be only if there is profit. If insufficient profit: profit will be distributed in Ratio of Interest on capital of each partner.

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CAPITAL ACCOUNTS MAINTENANCE:

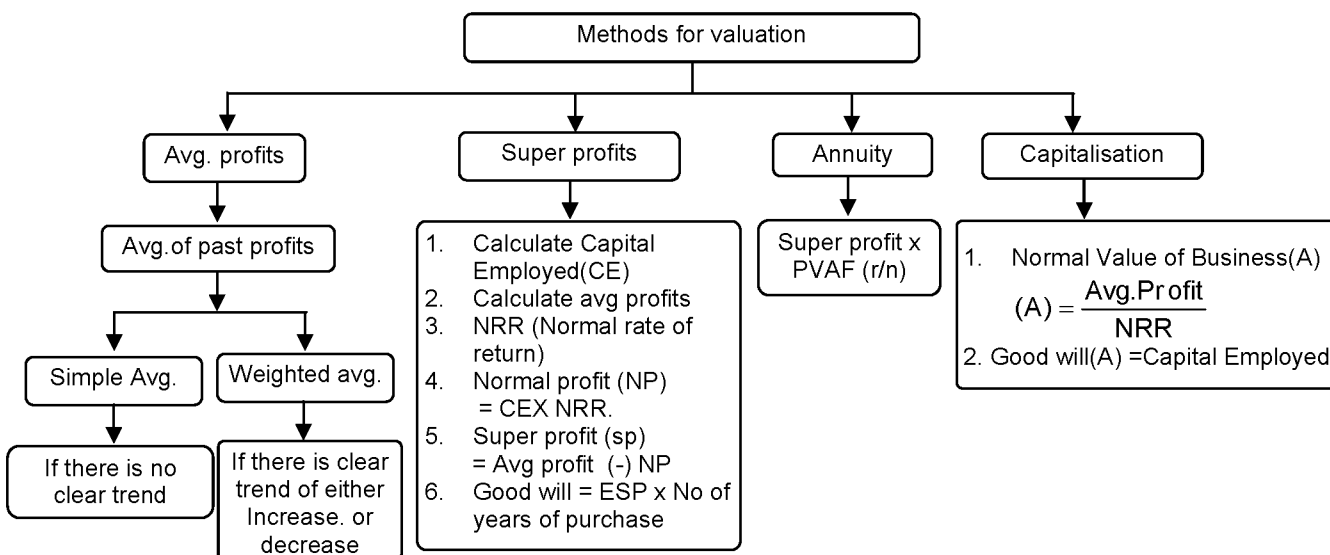


P & L Appropriation for the year ending

Dr.		Amt(Rs.)	Cr.		Amt(Rs.)
Particulars			Particulars		
To Int. on capital			By P & L a/c (Net profit subject to appropriations)		xxx
A	xx				
B	xx	xxx			
To salary to partner		xxx	By Interest on Drawings		
			A	xx	
			B	xx	xxx
To commission		xxx			
To Reserve		xxx			
To Profit t/f to:					
A's capital/current a/c's	XX				
B's capital/current a/c's	XX	xxx			
		xxx			xxx

GOODWILL:

It is the value of Reputation of a firm in respect profits expected in future over and above the normal profits earned by other similar firms belonging to same Industry.



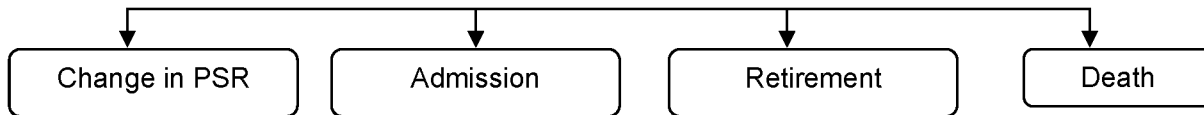
ACCOUNTING TREATMENT:

- i) Only purchased goodwill should be recorded in the books i.e, self generated goodwill should not be recorded.
- ii) In case of change in PSR, admission, retirement or death Goodwill is valued and adjusted through Capital A/c's in gaining & Sacrificing ratio.

Journal Entry: When adjustment is made

Gaining partner's capital a/c Dr
 To Sacrificing partner's capital a/c

Reconstitution of Partnership Firm: Any change in existing agreement of Partnership amounts to reconstitution of firm. This takes place when there is



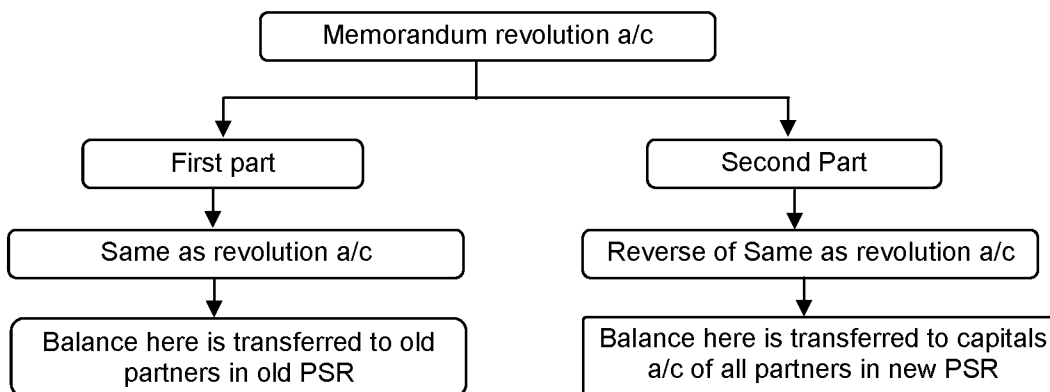
Adjustments when there is reconstitution of firm:

1. Revaluation of Assets & Liabilities
2. Adjustment of Goodwill:
 - i) Valuation of Goodwill
 - ii) Gaining & sacrificing ratio
 - iii) Adjustment entry
3. Distribution of accumulation profits to old partners in old ratio
4. Change in PSR, retirement, death
5. Capital adjustments

Revaluation A/C

Dr.		Cr.	
To Asset a/c (if decrease in value)	xxx	By Asset a/c (if increase in value)	xxx
To liability A/c	xxx	By Liability A/c (if decrease in value)	xxx
To Unrecorded liability A/c (if not recorded)	xxx	By unrecorded asset A/c (if not recorded)	xxx
To (old) partners capital A/c's		By (old) partners capital A/c's	
- A (in old ratio) xx	xxx	- A (in old ratio) xx	xxx
- B (in old ratio) xx		- B (in old ratio) xx	
(if Net Gain)		(if Net loss)	

When partners decide to record without effecting old values of assets & liabilities memorandum revaluation a/c is prepared & these old values will be appearing in the B/S of firm (new).



1. Distribution of Accumulated profits/losses
 - i) For transfer of reserves & accumulated profits:

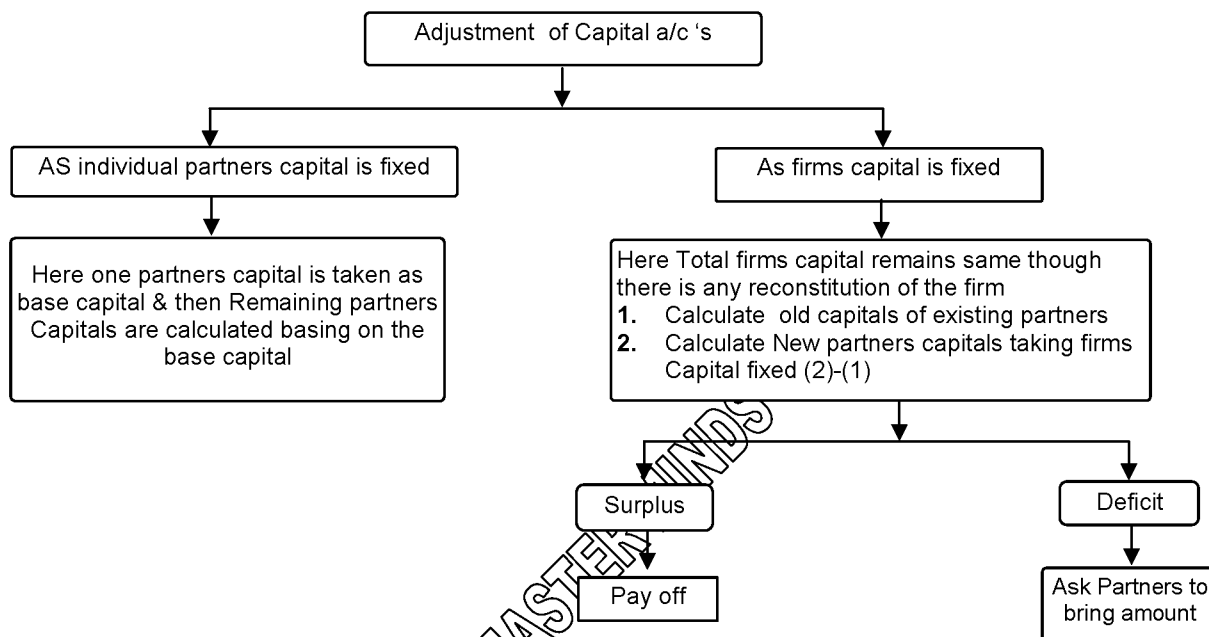
Reserves A/c	Dr.	xxx
P & L A/c	Dr.	xxx

Workmen Compensation reserve A/c Dr. xxx
 JLP Reserve A/c Dr. xxx
 To old partners capital/current A/c xxx

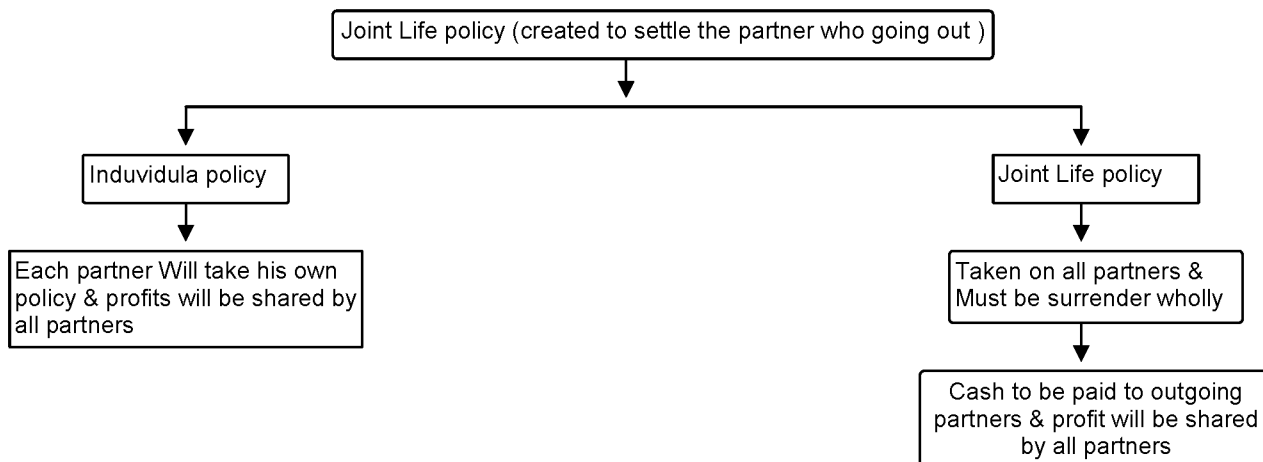
ii) In case of losses:

Old Partners capital/current A/c's Dr. xxx
 To P & L A/c xxx
 To Deferred Revenue Exp. A/c xxx

2. Adjustment of capital A/c's:



3. Joint Life Policy:



4. Accounting treatment of JLP:

Situation	Expense Method	Asset Method	Reserve Method
1. When premium paid:	JLP Insurance Premium A/c Dr. To Bank A/c	JLP A/c Dr. To Bank A/c	JLP A/c Dr. To Bank A/c
2. T/f to P & L/ P & L app. a/c	P & L A/c Dr. To JLP Ins. Premium	P & L A/c Dr. To JLP A/c	P & L Appro. A/c Dr. To JLP Reserve A/c
3. On retirement death	Insurance co. A/c Dr. To All partners capital/current A/c	Ins. Co. A/c Dr. To JLP A/c	Ins. Co. A/c Dr. To JLP A/c

4.	When amt. received from Ins. Co.	Bank A/c To Ins. Co. A/c	Dr.	Bank A/c To Ins. Co. A/c	Dr.	Bank A/c To Ins. Co. A/c	Dr.
5.	For closing JLP reserve A/c	-		-		JLP reserve A/c To JLP A/c	Dr.
6.	Balance of JLP dist. Among partners (death only)	-		JLP reserve A/c To All partners capital/current A/c (In old PSR)	Dr.	JLP reserve A/c To All partners capital/current A/c	Dr.

Sec. 37 of partnership Act. 1932:

If after death partners' capital accounts are not settled then the partner is entitled to receive

1. Share of profit in proportion of capital outstanding balance as on date of death

(Or)

2. 6% interest on capital which is outstanding as on the date of death.

Whichever is higher of the above.

Special points:

- a) Interest on loan is payable even though there are no profits as it is a charge (not an appropriation)
- b) If there is any hidden goodwill (i.e, when the value of goodwill is not specifically given)

Then goodwill has to be calculated on basis of net worth of the firm

Net worth (Including Goodwill)	XXX
(Incoming Partners capital x Reciprocal of his share)	
Less: Net worth (Excluding Goodwill)	XXX
Value of Goodwill	XXX

$$\text{Net worth} = \frac{\text{Sundry Assets} - \text{Outside Liabilities}}{\text{Capital of Partners}} + \text{Accumulated Profits \& Reserves}$$

- c) Proportionate capital means capital account balances in PSR.
- d) In case- if date of closing books and date of death of partners is different than for calculation of goodwill (average profits calculation); Profits are to be considered from date of death.
- e) If there is change in profit sharing ratio during a year (i.e. in between); the profit must be adjusted accordingly for two periods.
- f) Expenses are to be adjusted to P & L Account not to P & L appropriations
- g) Outstanding Expenses, Income accrued etc.. are to be considered while preparing balance sheet.
- h) If there is a situation that remaining Partners agree to bring sufficient cash to discharge claim of retiring partners: then there will be 2 balances which are to be found in capital accounts
 - » Closing capital balances
 - » Amount brought by the partners to discharge claim

In this situation, prepare balance sheet and find out the capital balances as a balancing figure; taking that amount find out the total cash that is to be brought and share it in profit sharing ratio and the balance will be closing balance of partners.

- i) In case of retirement/ death

After making all adjustments the capital accounts of retiring/deceased partners is to be closed and the balance of this account will be

 - » Paid immediately
 - » If can't be paid immediately; it can be transferred to loan account carrying interest at agreed rate

j) In case while preparing P & L adjustment account; if there are 2 values (partners capitals and Net profit) as unknown values; then prepare balance sheet [find capital balance (total)]



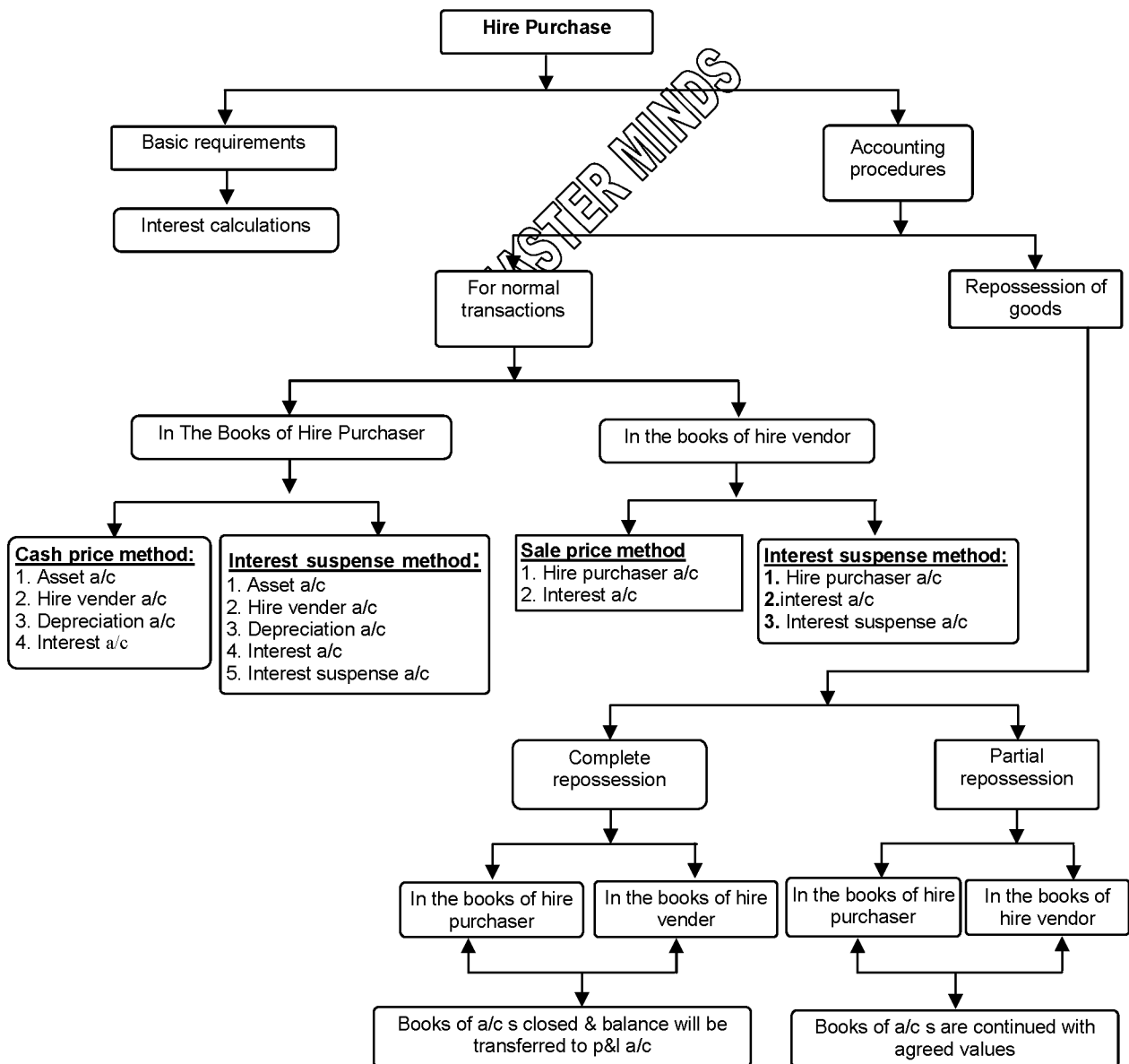
From the above, get net profit (which is to be shared in **PSR** .



If taken those values to Partners capital accounts and balancing figure will be Partners capital balances.

- k) If there is any outstanding liability of the firm; paid by partner; it should be adjusted to capital account of the partner.
- l) If there is any existing goodwill in the balance sheet; it must be written off whether specified or not specified in the question.
- m) Goodwill adjustment is made in current accounts if there is a current account maintained.
- n) If salary is paid to incoming partner before becoming a partner is debited to P & L account.

13. HIRE PURCHASE SYSTEM



Methods to be used for bifurcation interest & principal amount from installment amount in different cases:

Cash Price	Rate of Interest	Method
✓ (available)	✓ (available)	Normal
X (not available)	✓ (available)	Backward (annuity method) ⁸
x (not available)	X (not available)	Equation (assumption: principal amount in each installment is same)
✓ (available)	x (not available)	Proportion method (in prop. of outstanding balance of Hire Purchase Price)

ACCOUNTING ENTRIES FOR NORMAL TRANSACTIONS:

Transaction	In the books of Hire purchaser		In the books of hire vendor	
	Cash price method	Int susp. method	Sale price method	Int susp. method
On entering into the agreement	Asset A/c Dr. To Hire Vendor A/c	Asset A/c Dr. Interest Suspense A/c Dr. To Hire Vendor A/c	Hire Purchaser's A/c Dr. To H. Purchase Sale A/c	Hire Purchaser A/c Dr. To H. Pur. Sales A/c To Interest Suspense A/c
When down payment is made/received	Hire Vendor A/c Dr. To Bank A/c	Hire Vendor A/c Dr. To Bank A/c	Bank A/c Dr. To H. Purchaser's A/c	Bank A/c Dr. To Hire Purchaser A/c
When an installment becomes due	Interest A/c Dr. To Hire Vendor A/c	Interest A/c Dr. To Interest Suspense A/c	Hire Purchaser's A/c Dr. To Interest A/c	Interest Suspense A/c Dr. To Interest A/c
When an installment is paid/received	Hire Vendor A/c Dr. To Bank A/c	Hire Vendor A/c Dr. To Bank A/c	Bank A/c Dr. To H. Purchaser A/c	Bank A/c Dr. To Hire Purchaser A/c
When depreciation is charged on the asset	Depreciation A/c Dr. To Asset A/c	Depreciation A/c Dr. To Asset Account	No Entry	No Entry
On transfer of depreciation to profit and loss account	Profit and Loss A/c Dr. To Depreciation A/c	Profit and Loss A/c Dr. To Depreciation A/c	No Entry	No Entry
On transfer of interest to profit and loss account	Profit and Loss A/c Dr. To Interest A/c	Profit and Loss A/c Dr. To Interest A/c	Interest A/c Dr. To Profit & Loss A/c	Interest A/c Dr. To Profit & Loss A/c

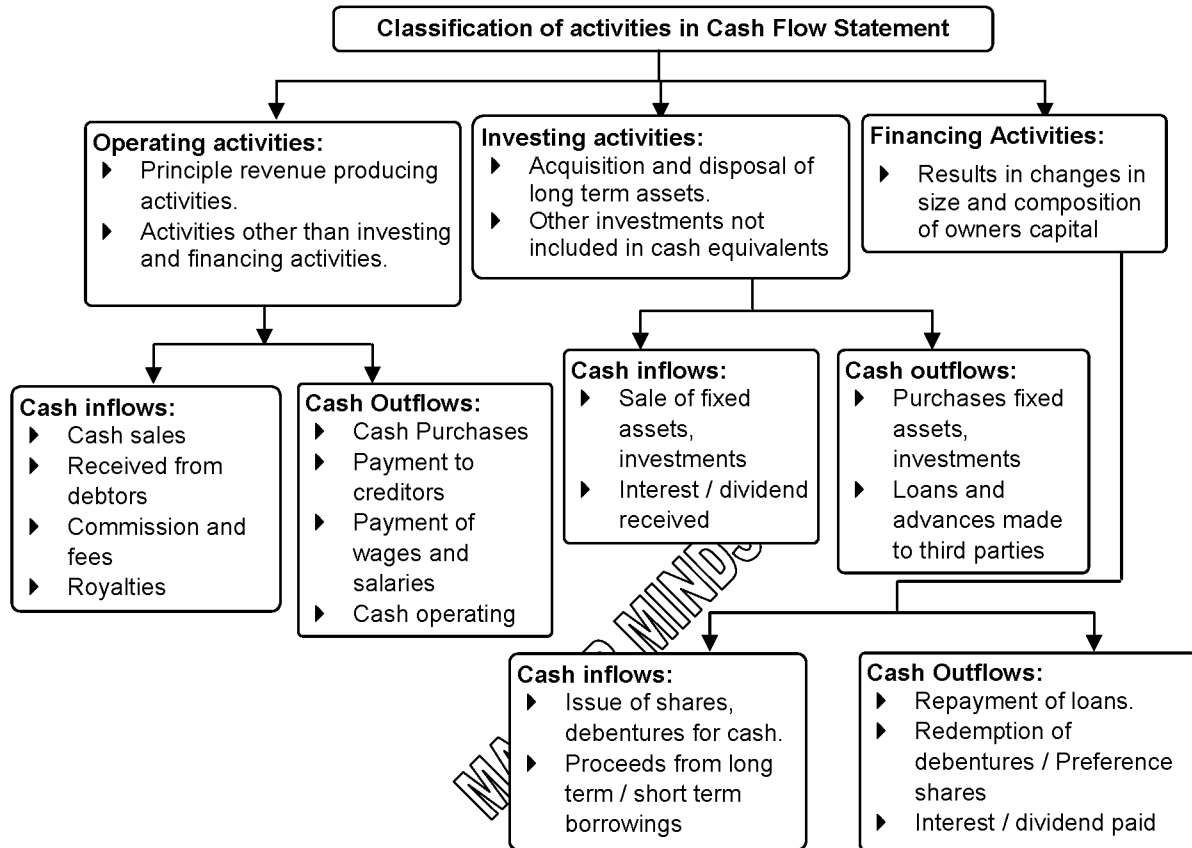
IN THE CASE OF REPOSSESSION:

COMPLETE REPOSSESSION		PARTIAL REPOSSESSION	
In the books of hire purchaser	In the books of hire vendor	In the books of hire purchaser	In the books of hire vendor
1. For closing Hire Vendor A/c Hire Vendor A/c Dr. To Asset A/c (With balance in Hire Vendor A/c)	1. On repossession of goods: Goods Repossessed A/c Dr. To Hire Purchaser A/c	1. For transfer of goods: Hire Vendor A/c Dr. To Asset A/c (With agreed value)	1. On repossession of goods: Goods Repossessed A/c Dr. To Hire Purchaser A/c (With agreed value)
2. For closing of Asset A/c (i) Profit and Loss A/c Dr. To Asset A/c (If book value of asset is greater than balance in vendor A/c)	2. For amount spent on recondition of goods repossession: Goods repossessed A/c Dr. To Bank / Cash A/c	2. For loss on repossession: Profit and Loss A/c Dr. To Asset A/c	2. For amount spent on recondition of goods repossession Goods repossessed A/c Dr. To Bank / Cash A/c
(ii) Asset A/c Dr. To Profit and Loss A/c (If vendor A/c balance is greater than book value of asset)	3. For sale of goods repossessed Bank / Cash A/c Dr. To Goods repossessed A/c	-	3. For sale of goods repossessed Bank / Cash A/c Dr. To Goods repossessed A/c
-	4. For transfer of profit on sale of goods repossessed: Goods Repossessed A/c Dr. To Profit and Loss A/c	-	4. For transfer of profit on sale of goods repossessed: Goods Repossessed A/c Dr. To Profit and Loss A/c

14. CASH FLOW STATEMENT

MEANING: Cash flow means inflow and outflow of **cash and cash equivalents** during the specified period of time in three segments.

OBJECTIVE: As it is form part of financial statements member can get the position of company.



SPECIAL ATTENTION:

- a. Foreign currency transactions – effect of exchange rate in cash and cash equivalents be reported as a separate part of the reconciliation.
- b. Extraordinary items: Cash flows should be classified as arising from Operating, Investing or Financing activities as appropriate.
- c. Acquisitions and disposals of subsidiaries and other business units: - The aggregate cash flows should be classified as investing activities.

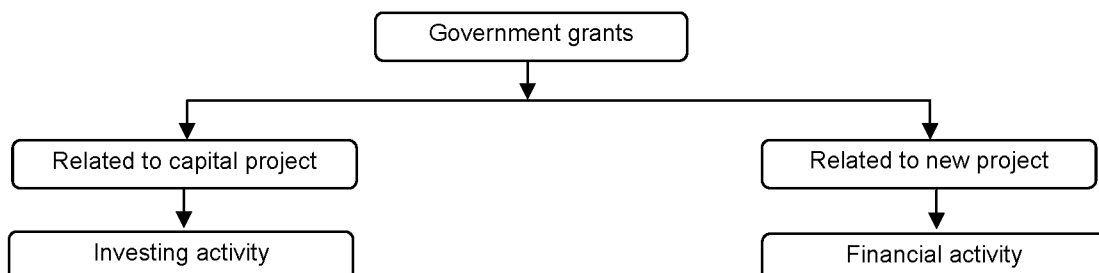
NOTE POINTS:

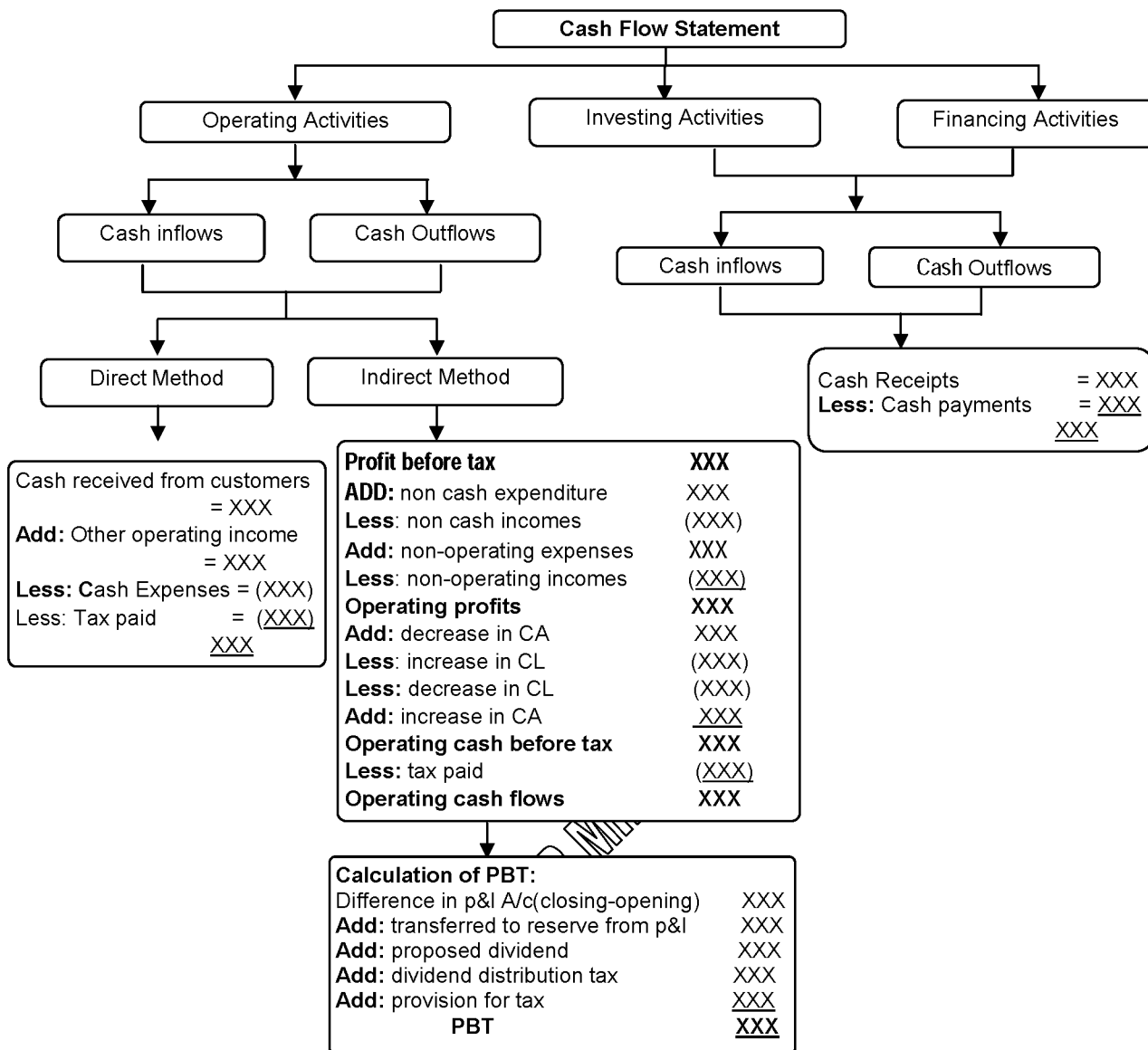
- 1. Non-cash transactions should not be disclosed in cash flow statements
- 2. For Financial Enterprises – Interest and Dividends are Operating Activities.

NET BASIS REPORTING:

- ▶ Cash receipts and payments on behalf of customers
- ▶ Items of quick turnover, short maturity and large amounts.

Note:



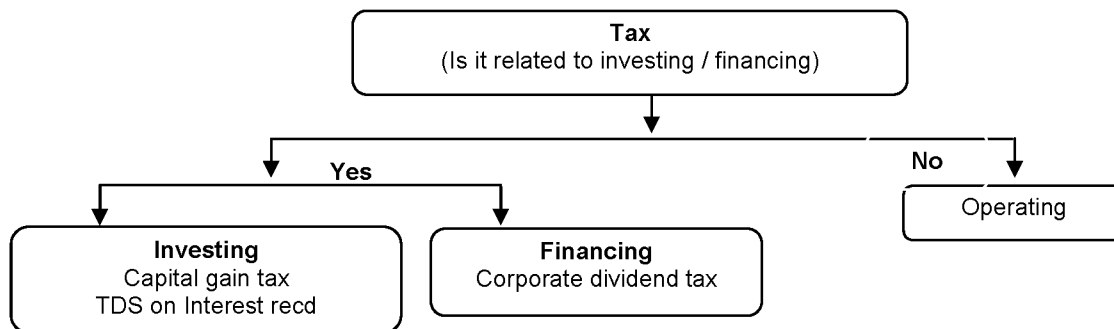


Features of cash equivalents:

- i) Having less risk
- ii) Recoverable within three months
- iii) Known amount of money

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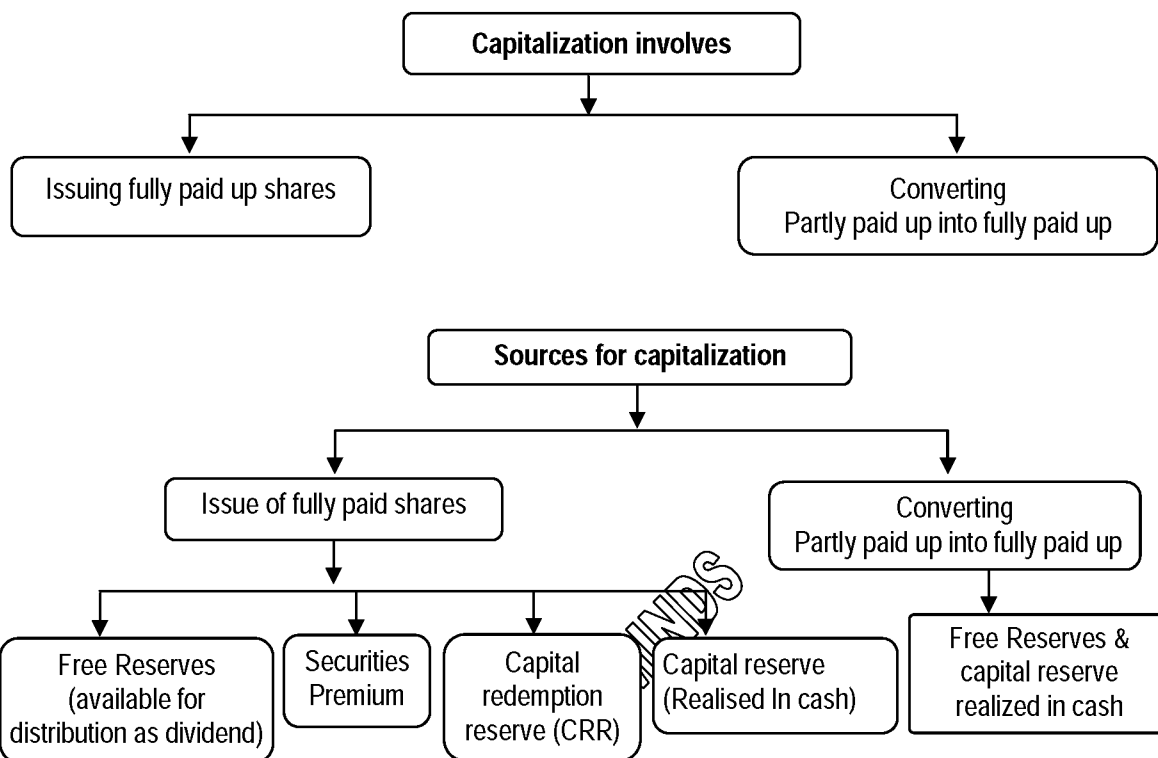
Tax Treatment:



15. ACCOUNTING FOR BONUS SHARES

1. **MEANING:**

Bonus issue means issue of shares at free of cost to the existing equity shareholders, by means of capitalization of profits (i.e. Converting profits or reserves into paid up capital).



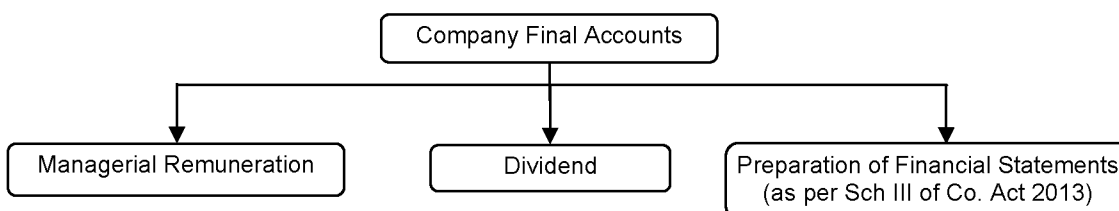
- 2. Revaluation reserves, statutory reserves cannot be utilized for bonus issue.
- 3. **As per SEBI :** No company shall, pending conversion of FCDs/PCDs, issue any by way of bonus unless similar benefits is extended to the holders of such FCDs /PCDs through reservation of shares in proportion to such convertible part of FCDs or PCDs.

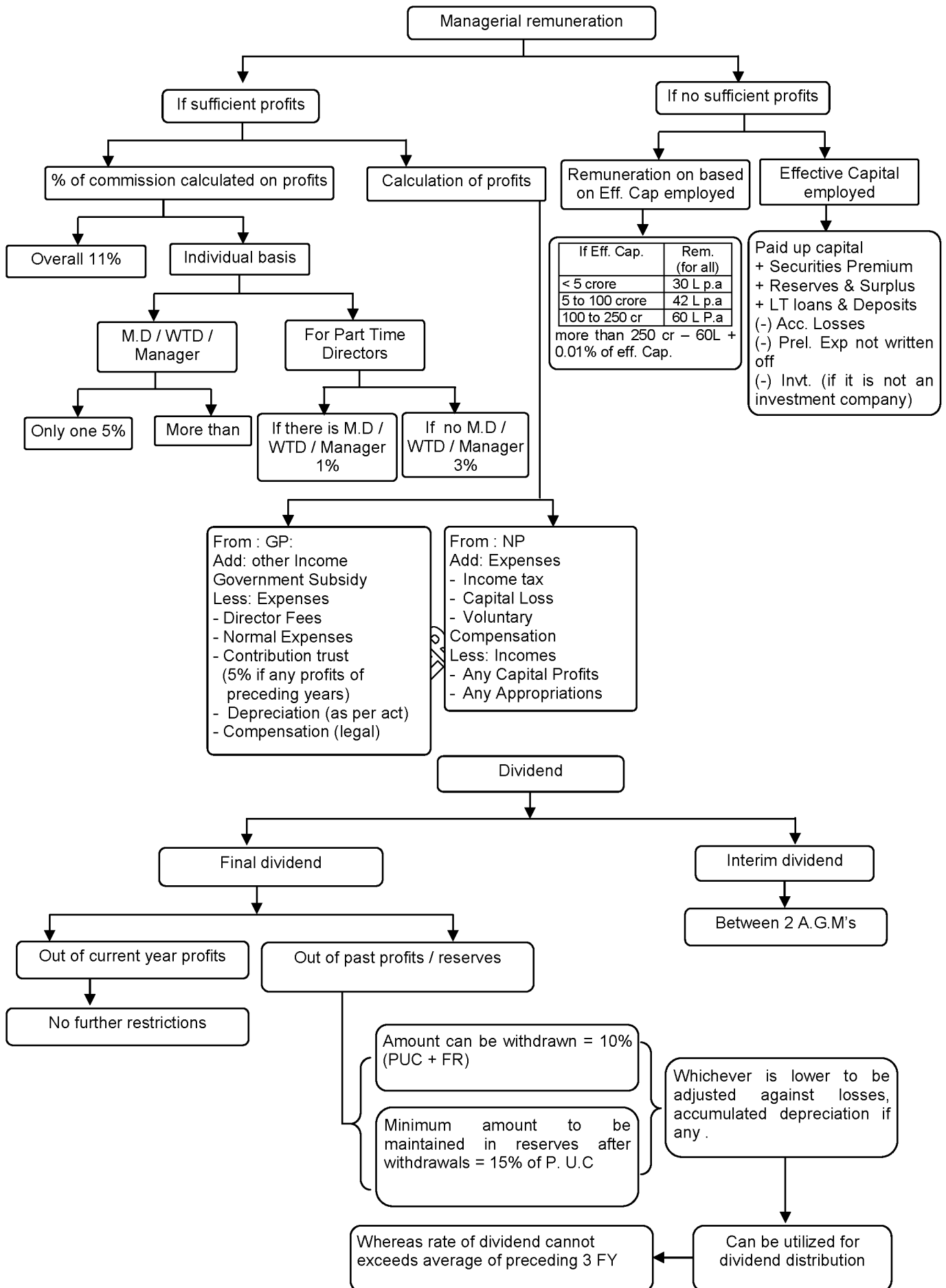
The shares so reserved may be issued at the time of conversion(s) of such debentures on the same terms on which the bonus issues were made.

4. **Extract of sec 63(2) of companies Act 2013:**

- a. The partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up;
- b. Declaration of the bonus issue in lieu of dividend shall not be made.
- c. If the subscribed and paid up capital exceeds the authorized share capital as a result of bonus issue, a resolution shall be passed by the company at its general body meeting for increasing the authorized capital. A return of bonus issue along with a copy of resolution authorizing the issue of bonus shares is also required to be filed with the registrar of companies.

16. COMPANY FINAL ACCOUNTS





Note:

1. With effect from 1st Oct, 2014 dividend and income distribution tax is leviable on gross dividend / income and not on the net dividend / income distributed to shareholders and unit holders as per Income- tax Act, 1961.
2. The rate of DDT is fifteen per cent (excluding surcharge of 12% plus secondary and higher education cess is (2+1) 3%).

Alternatively

We can apply the direct rate of 20.36%(appx.) on net dividend payable to shareholders which is inclusive of surcharge(12%) and educational cess(3%)

Grossing up of Rate of Dividend ($15/85*100$)	=	17.65%
Add: surcharge @ 12% on rate of dividend	=	02.12%
Add cess @3% (2%+1%) on total	=	<u>00.59%</u>
Total applicable rate	=	<u>20.36%</u>

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