



BASICS OF ACCOUNTING



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Introduction to accounting

Introduction

- The main objective of every business is to earn profit.
- At end of each year, every business wants to know how much profit they have earned or losses occurred, how much stock they have in their warehouse, how much is business liabilities, how much is owed to them and by whom, etc.
- So many other such questions which a businessman wants to know on a daily, monthly or annual basis.
- In order to attain such information, it is essential to keep a complete and systematic record of each and every business transaction entered into during the year.

FATHER OF ACCOUNTING

Luca Pacioli



Meaning of accounting

Accounting is the process of identifying, recording, classifying, summarising, interpreting and communicating financial information of business to its users for judgement and decision making.

“Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events, which are, in part atleast, of a financial character, and interpreting the result thereof.” — *American Institute of Certified Public Accountants*

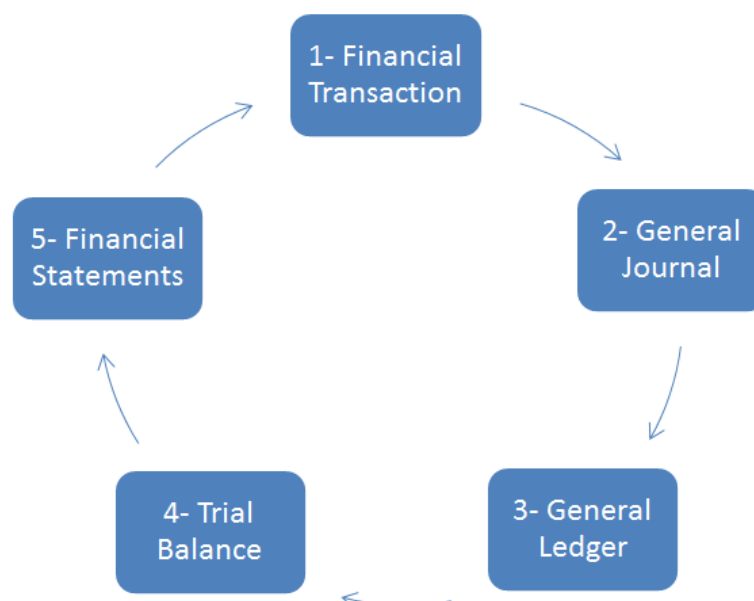
Functions of accounting

1. **Identifying:** Identifying the business transactions of a financial character from the source documents such as invoice, agreements, cash memos etc. and measure them in terms of money.

2. **Recording:** The next function of accounting is to keep a systematic record of all business transactions, which are identified in chronological order of their occurrence in the journal or subsidiary books.
3. **Classifying:** Classification of the recorded business transactions so as to group the transactions of similar type at one place. i.e., in ledger accounts. In order to verify the arithmetical accuracy of the accounts, trial balance is prepared.
4. **Summarising:** The classified information available from the trial balance is used to prepare profit and loss account and balance sheet in a manner useful to the users of accounting information.
5. **Analysing:** It establishes the relationship between the items of the profit and loss account and the balance sheet. The purpose of analysing is to identify the financial strength and weakness of the business. It provides the basis for interpretation.
6. **Interpreting:** It is concerned with explaining the meaning and significance of the relationship so established by the analysis. Interpretation should be useful to the users, so as to enable them to take correct decisions.
7. **Communicating:** The results obtained from the summarised, analysed and interpreted information are communicated to the interested parties.

Accounting Cycle

The accounting cycle is the holistic process of recording and processing all financial transactions of a company, from when the transaction occurs, to its representation on the financial statements, to closing the accounts. One of the main duties of a bookkeeper is to keep track of the full accounting cycle from start to finish. The cycle goes on continued till the business ends.



1. **Transactions-** the first task of accounting is to identify the transactions of financial character and measure them in terms of money. Transactions may include a debt payoff, any purchases or acquisition of assets, sales revenue, or any expenses incurred.
2. **Journal Entries-** With the transactions set in place, the next step is to record these entries in the company's journal in chronological order. In debiting one or more accounts and crediting one or more accounts, the debits and credits must always balance.
3. **Posting to the General Ledger (GL) -**The journal entries are then posted to the general ledger where a summary of all transactions to individual accounts can be seen.
4. **Trial Balance -** At the end of the accounting period (which may be quarterly, monthly, or yearly, depending on the company), a total balance is calculated for the accounts.
5. **Financial Statements-** The balance sheet, income statement, and cash flow statement can be prepared using the correct balances.

Book-keeping, accounting and accountancy



Book-Keeping – Book-keeping is recording the business transaction of monetary aspects in books of accounts. It is mainly concerned with record keeping or maintenance of books of accounts. It includes identifying, measuring, recording and classifying functions of accounting. The book-keeping function is routine and clerical in nature and can be performed by a person having limited knowledge of accounting.

Accounting - Accounting is considered as a system which collects and processes financial information of a business. Accounting starts where bookkeeping ends. It includes summarising, analysing, interpreting and communicating functions of accounting.

Accountancy - Accountancy refers to a systematic knowledge of accounting, concerned with the principles and techniques which are applied in accounting. Accountancy is collection of theory and practices of accounting.

Basis	Book-keeping	Accounting
Objective	To maintain systematic records of transactions of financial nature	To ascertain the net results and the financial position of the business
Phase	It is the recording phase of an accounting system	It is the summarizing phase of an accounting system
Stage	It is a primary stage and basis for accounting	It is secondary stage which begins where the book-keeping process ends.
Skills required	It is routine in nature and does not require any special skill or knowledge	It is analytical in nature and require special skill or knowledge
Who performs	It is done by junior staff called book keepers	It is done by senior staff called accountants

Objectives of accounting

The following are the main objectives or utility of accounting:

1. **Keep systematic record of business transaction**- The main objective of accounting is to keep complete record of business transactions according to specified rules. Complete record of business transactions helps to avoid the possibility of omission and frauds. For this purpose, all the business transactions are first of all recorded in journal or subsidiary books and then posted into ledger.
2. **Calculate profit or loss** – The second main objective of accounting is to ascertain the net profit earned or loss suffered on account of business transactions during a particular period. For this purpose trading and profit & loss account of the business is prepared at the end of each accounting period.
3. **To ascertain the financial position of the business** - After preparing the profit & loss account a statement called balance sheet is prepared which shows the assets and their values on one hand and liabilities and capital on the other. A balance sheet is actually a screen picture of financial position of the business.
4. **To provide information to various parties**- The objective of the accounting is to communicate the accounting information to various interested parties like owners, creditors, banks, government etc.

Sub-disciplines within accounting

Financial accounting

Financial accounting assists in keeping a systematic record of financial transactions, the preparation and presentation of financial reports in order to arrive at a measure of organisational success and financial soundness. The financial accounting is useful for ascertaining profit or loss made for a given period and financial position at the end of the given period and also the sources and uses of cash for the given period.

Cost accounting

Cost accounting assists in analysing the expenditure for ascertaining the cost of various products manufactured or services rendered by the firm. It also helps in controlling the costs and providing necessary costing information to management for decision-making.

Management accounting

Management accounting draws the relevant information mainly from financial accounting and cost accounting which helps the management in budgeting, assessing profitability, taking pricing decisions, capital expenditure decisions and so on.

Accounting is an art as well as science

Accounting, like science follows a systematic and organized path to understand the economic status of an entity.

Science is obtaining knowledge by a systematic pattern including observation, study, practice, experiments and investigation. Like Science, Accounting requires gaining knowledge about the economic status of an entity by systematic study. An accountant finalizes the economic results by identifying, analyzing, classifying using the method of double entry book-keeping system.

So, Accounting is a science that comprises of rules, principles, concepts, conventions and standards in science.

Art is the application of techniques and methods. Accounting is an art because it presents the financial findings by following and implementing universally accepted principles (GAAP).

Art is the study of application of scientific method to practical use. Accounting is an art as the established rules and principles of accounting are applied to bookkeeping process of an economic entity.

Advantages of accounting

Protecting
business
assets

Facilitates
settlement of
tax liabilities

Replaces
memory

Facilities
comparative
study

Facilitates
loans

Facilities sale
of business

- **Protecting business assets**
- **Facilitates settlement of tax liabilities:** A systematic accounting record immensely helps settlement of taxes as it is good evidence of the correctness of transactions.
- **Replaces memory:** A systematic and timely recording of transactions obviates the necessity to remember the transactions. The accounting record provides the necessary information.
- **Facilitates comparative study:** A systematic record enables a businessman to compare one year's results with those of other years and locate significant factors leading to the change, if any.
- **Facilitates loans:** Loan is granted by the banks and financial institutions on the basis of growth potential which is supported by the performance. Accounting makes the information available with respect to performance.
- **Facilitates sale of business:** If someone desires to sell his business, the accounts maintained by him will enable the ascertainment of the proper purchase price.

Disadvantages of accounting

Accounting ignores
the qualitative
element

Accounting may
lead to window
dressing

Accounting is
based on historical
costs

Accounting is not
fully exact

- **Accounting ignores the qualitative element:** Since accounting is confined to monetary matters only, qualitative elements like the quality of staff, industrial relations and public relations are ignored.

- **Accounting may lead to window dressing:** The term window dressing means manipulation of accounts in a way so as to conceal vital facts and present the financial statements in a way to show a better position than what it is actually.
- **Accounting is based on historical costs:** Accounting often uses historical costs to measure the values. This fails to take into consideration factors such as inflation, price changes, etc. This skews the relevance of such accounting records and information. This is one of the major limitations of accounting.
- **Accounting is not fully exact:** Although most of the transactions are recorded on the basis of evidence such as sale or purchase or receipt of cash, yet some estimates are also made for ascertaining profit or loss. Examples of this are providing depreciation on the basis of the estimated useful life of an asset, possible bad debts, the probable market price of the stock of goods, etc.

Types of Accounting Information

Information relating to profit or surplus

Information relating financial position

Information about cash flow

Information relating to profit or surplus: The income statement i.e., profit and loss account makes available the accounting information about the profit earned or loss incurred as a result of business operations or otherwise during an accounting period.

Information relating to financial position: The position statement, i.e., the balance sheet makes the information available about the financial position of the entity.

In the case of not-for-profit organisation, the difference between assets and liabilities is termed as 'General Fund.'

Information about cash flow: Cash flow statement is a statement that shows flow, both inflow and outflow, of cash during a specific period. It is of immense use as many decisions such as payment of liabilities, payment of dividend and expansion of business etc., are based on the availability of cash.

Basic accounting terms

Capital: refers to the amount invested by the proprietor in a business enterprise.
Capital is also known as – Owner's Equity /Net Worth/ Net Assets

Assets = Liability + Capital

Drawings: any cash or value of goods withdrawn by the owner for personal use or any private payments made out of business funds.

Liabilities: It refers to the amount which the firm owes to outsiders.
Example: Unpaid wages, Creditors, etc.

Classification of liabilities

Internal: which business entity has to pay to the proprietor or owners.

External: which a business entity has to pay to outsiders.

Also classified as:

- Non- current liabilities (to be paid after more than 1 year)
- Current liabilities (to be paid within 1 year)

Case Study: Mr. X invests Rs.10000 in his business and takes a loan of Rs.25,000 from SBI Bank for a period of 10 years. Then he buys goods worth Rs.2000 from Mr. Y on credit for 2 months.

Internal Liability: Rs.10000

External liability: Rs.25000

Non- current liability: Rs.25000

Current Liability: Rs.2000

Distinction between business transaction and event

A Business Transaction is an economic activity of the business that changes its financial position.
(The change should be capable of being expressed in terms of money)

An event is the result of a transaction.

Example:

Ram purchased goods worth Rs.2 lacs and sold them for Rs.2.5 lacs. Thus, he earned a profit of Rs.50 thousand.

Transactions - Economic activity of purchasing goods, selling goods.

Event - Profit of Rs 50,000 earned due to the transactions taking place.

Assets: Assets are valuable resources owned by businesses that are acquired at a measurable money cost.
Example: Cash, Land, Furniture, etc.

Classification of assets

(1) Non – Current Assets:

- Held for continued use in business for producing goods and services; and
- Not meant for resale

Eg: Furniture, Land & Building.

Tangible assets - which have a physical existence. (Cash, Computer)

Intangible assets – do not have a physical existence. (Patents, Goodwill)

(2) Current assets (Floating assets/ Circulating assets)

- Meant for sale or
- Converted into cash within 1 year.

Eg: Debtors, Stock, Bills receivables

(3) Fictitious/ Nominal Assets:

Fictitious assets are those assets which are neither tangible assets nor intangible assets but represent loss or expenses yet to be written off.

Eg: Debit balance of P&L, deferred revenue expenditure.

Expenditure: any disbursement of cash or transfer of property or incurring liability for the purpose of acquiring assets, goods or services.

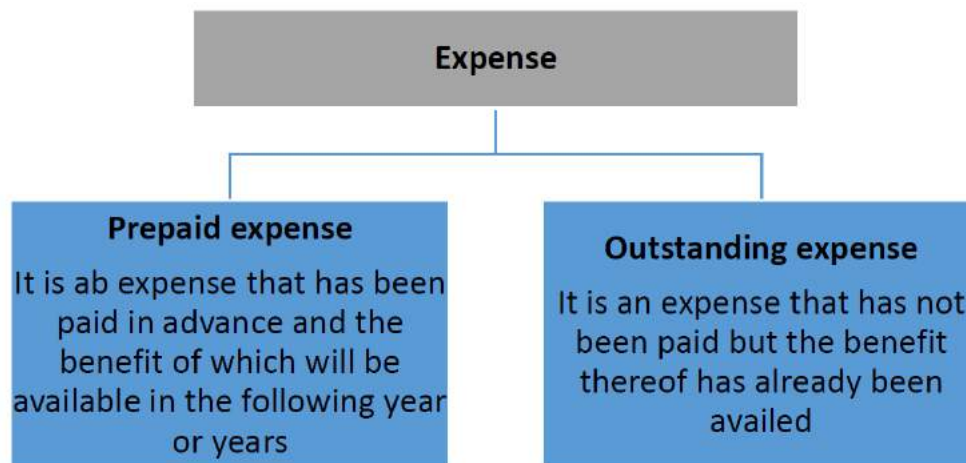
Distinction between Capital and Revenue Expenditure

Capital expenditure	Revenue expenditure
It is incurred in acquiring or improving permanent assets which are not meant for resale. It may add to value of an existing asset.	It is a routine expenditure incurred in the normal course of business and includes cost of sales and maintenance of fixed assets.
It is normally a non-incurring outlay.	It is generally a recurring outlay.
Leads to increase in earning capacity of the business.	It maintains the earning capacity of the business.
It is shown in the balance sheet.	It is shown in trading and profit & loss account.

It provides benefit over several years. A small part is charged to profit & loss account as depreciation and the rest appears in the balance sheet.

It is consumed within an accounting year i.e., provides benefit for a single year only. The entire amount is charged to profit & loss account. It does not appear in the balance sheet.

Expense: It is a value that has expired during the accounting period. An expense is charged to profit and loss account.



Income: Income is the profit earned during a period of time.

$$\text{Income} = \text{Revenue} - \text{Expense}$$

Profit: It is the excess of revenue of a business over its costs.

Gain: It is a profit of irregular or non-recurrent nature. For example, profit on the sale of a fixed asset or investment.

Loss: A loss is excess of expenses of a period over its related revenues which may arise from normal business activities. It decreases the owner's equity.

Case: Following transactions were reported during an accounting reported for Mr. B's business of furniture.

Transactions	Term
a. Sold goods worth Rs.50,000 to Mr X	Sales
b. Theft of cash from office	Loss
c. Rs.2,000 earned by selling goods worth Rs.10,000 for Rs.12,000	Revenue
d. Machinery (costing Rs.25,000) sold for Rs.28,000	Gain

Terms related to trade

Buying of goods in which the business deals	Purchases
Purchased goods returned to the suppliers	Purchase Return / Returns Outwards
Transfer of ownership of goods or services to customers for a price	Sales
Sold goods returned by the customers	Sale Return / Returns Outwards

Distinction between stock and inventory

Stock refers to the value of goods which are purchased for reselling and which are lying unsold at the end of the accounting period.

Inventory is a wider term which includes stock also.

Inventory includes:

1. Inventory of raw material
2. Inventory of semi-finished goods
3. Inventory of finished goods
4. Inventory of stock

Bills receivable: An accounting term for bills of exchange drawn on debtors or received by way of endorsement from them. The amount specified in such a bill is receivable at a future date.

Bills payable: an accounting term for bills of exchange accepted in favour of creditors. The amount specified in such a bill is payable at a future date.

Debtors: Persons or firms to whom goods have been sold or services rendered on credit and payment has not been received from them.
They owe some amount to the business.

Creditors: Persons or firms from whom goods have been purchased or services procured on credit and payment has not been made to them. Some amount is still owing to them.

Bad debts: the amount that has become irrecoverable from a debtor. It is debited to P&L account as an expense.

Insolvent: a person or an enterprise which is not in a position to pay its debts.

Discount: rebate or allowance given by the seller to the buyer.
It is of 2 types:

(i) **Trade discount:** at a fixed percentage on the list or catalogue price of the goods. **Not recorded** in the books of accounts (deducted in the invoice from the gross value of goods)

(ii) **Cash Discount:** for making prompt payment. It is **always recorded** in the books of accounts.

Accounting principles

BASIC ACCOUNTING PRINCIPLES

Accounting Principles - Financial statements are the product of a process in which a large volume of data about aspects of the economic activities of an enterprise are accumulated, analysed and reported. This process should be carried out in conformity with generally accepted accounting principles. These principles represent the most current consensus about how accounting information should be recorded, what information should be disclosed, how it should be disclosed, and which financial statement should be prepared. The general acceptance of an accounting principle usually depends on its usefulness, objectiveness and feasibility.

Generally Accepted Accounting Principles (GAAP)

Generally Accepted Accounting Principles (GAAP) are basic accounting principles and guidelines which provide the framework for more detailed and comprehensive accounting rules, standards and other industry-specific accounting practices.

GAAP encompasses:		
•Basic accounting principles/guidelines	•Accounting Standards usually issued by the premier accounting body of the country	•Industry-specific accounting practices to cover unusual scenarios

Separate Business Entity Concept - In accounting we make a distinction between business and the owner. All the books of accounts records day to day financial transactions from the view point of the business rather than from that of the owner.

For instance, when a person invests Rs. 1 lakh into a business, it will be treated that the business has borrowed that much money from the owner and it will be shown as a 'capital' in the books of accounts of business.

Similarly, if the owner withdraws some amount from the business, then it is shown as drawings in the books of accounts of business.

Money Measurement Concept - In accounting, only those business transactions are recorded which can be expressed in terms of money. In other words, a fact or transaction or happening which cannot be expressed in terms of money is not recorded in the accounting books.

This concept imposes two limitations:

Important things like general health condition of the Managing Director can't be recorded

Use of money implies that we assume stable or constant value of rupee

Dual Aspect Concept - Financial accounting records all the transactions and events involving financial element. Each of such transactions requires two aspects to be recorded. The recognition of these two aspects of every transaction is known as a dual aspect analysis. According to this concept every business transaction has dual effect.

For example, if a firm sells goods of Rs. 10,000 this transaction involves two aspects. One aspect is the delivery of goods and the other aspect is immediate receipt of cash (in the case of cash sales).

Going Concern Concept - The business entity is assumed to be a going concern, i.e., it will continue to operate for an indefinite amount of time. This assumption is important because if the business entity were to liquidate in the near future, it would have to restate its assets and liabilities in the accordance with the actual amount that could be realised or payable as the case may be so as to reflect the true financial position of the entity.

Accounting Period Concept - This concept requires that the life of the business should be divided into appropriate segments for studying the financial results shown by the enterprise after each segment. A year is the most common interval on account of prevailing practice, tradition and government requirements. Some firms adopt financial year of the government, some other calendar year.

Historical Cost Concept - According to this concept an asset is ordinarily entered on the accounting records at the price paid to acquire it.

For example, if a business buys a plant for Rs. 5 lakh the asset would be recorded in the books at Rs. 5 lakh, even if its market value at that time happens to be Rs. 6 lakh.

The cost concept does not mean that all assets remain on the accounting records at their original cost for all times to come. The asset may systematically be reduced in its value by charging 'depreciation'.

Matching Concept - This concept requires the revenue for a particular period to be matched with its corresponding expenditure so as to show the true profit for the period.

This means that if you owned a store and spent money to purchase items for your inventory, you wouldn't record that expense until you sold the items for revenue.

Accrual Concept - Accrual concept is the most fundamental principle of accounting which requires recording revenues when they are earned and not when they are received in cash and recording expenses when they are incurred and not when they are paid.

Example - A business records its utility bills as soon as it receives them and not when they are paid, because the service has already been used. The company ignores the date when the payment will be made.

Difference between accounting concepts and conventions

Accounting concept	Accounting convention
Accounting concepts refers to the rules of accounting which are to be followed, while recording business transactions and preparing final accounts.	Accounting conventions implies the customs or practices that are widely accepted by the accounting bodies and are adopted by the firm to work as a guide in the preparation of final accounts.

Materiality Convention – Materiality concept states that items of small significance need not be given strict theoretically correct treatment.

For example, an ordinary calculator costing Rs. 100 may last for ten years. However, the effort involved in allocating its cost over the ten year period is not worth the benefit that can be derived from this operation. The cost incurred on calculator may be treated as the expense of the period in which it is purchased. It should be noted that an item material for one party may be immaterial for another. It is a matter of judgement and common sense.

Conservatism Convention - All anticipated expenses or losses will need to be accounted for but all potential income or gains should not be recorded until actually earned/received.

Examples include - 'Valuing the stock in trade at market price or cost price whichever is less' and 'making the provision for doubtful debts on debtors in anticipation of actual bad debts'.

Consistency Convention - The convention of consistency requires that once a firm decided on certain accounting policies and methods and has used these for some time, it should continue to follow the same methods or procedures for all subsequent similar events and transactions unless it has a sound reason to do otherwise.

For example, if depreciation is charged on fixed assets according to straight line method, this method should be followed year after year.

Disclosure Convention: This principle state that the financial statement should be prepared in such a way that it fairly discloses all the material information to the users, so as to help them in taking a rational decision.

Bases of accounting

BASES OF ACCOUNTING	CASH BASIS	Incomes are recorded when they are received and expenses are recorded when they are paid
	ACCRUAL BASIS	Incomes are recorded when they are earned or accrued, whether received or not. Similarly, expenses are recorded when they are due, whether paid or not.

Examples

Cases	Base of Accounting
1. Received sales order in May 2017 Received payment in Aug 2017	Recorded: May 2017 – Accrual Base Aug 2017 – Cash Base
2. Expenses paid @ Rs. 1000 per month as rent for 15 months up to June 2018	Recorded: 12,000 – Accrual Base 15,000 – Cash Base

Advantages and disadvantages

Cash basis

Advantages

1. It is very simple as adjustment entries are not required
2. This basis of accounting is suitable for those enterprises where most of the transactions are on cash basis

Disadvantages

1. It does not give a true and fair view of the profit or loss and the financial position of an enterprise
2. It does not follow the matching principle of accounting

Accrual basis

Advantages

1. It shows a complete picture of financial transactions of the business
2. It discloses correct profit or loss and also exhibits true financial position of an enterprise

Disadvantages

1. It is not as simple as cash basis
2. A quick appraisal of the profit/loss is not possible

Accounting equation

Prior to understanding an accounting equation, it is essential to know about a Balance Sheet (in a simple T format)

Example to understand the basics of accounting equation

Kapil started a business of shoes. He invested Rs.80 lacs of his own and borrowed Rs.20 lacs from Sunil @ 7% p.a. From this amount he bought a shop worth Rs40 lacs. He spent on furnishing Rs.10 lacs. He bought some stock of shoes worth Rs.30 lacs and balance he deposited in bank.

The above position can be expressed as:

BALANCE SHEET

CAPITAL & LIABILITIES	AMOUNT (Rs)	ASSETS	AMOUNT (Rs.)
Capital	80,00,000	Cash at Bank	20,00,000
Liabilities (Loan from Sunil)	20,00,000	Stock of shoes	30,00,000
		Furniture	10,00,000
		Shop premises	40,00,000
Total	<u>1,00,00,000</u>		<u>1,00,00,000</u>

Also, it can be expressed in the form of an accounting equation:

Assets	=	Liabilities	+	Capital
1,00,00,000		20,00,000		80,00,000

Meaning

Accounting Equation signifies that the assets of a business are always equal to the total of capital and liabilities.

ASSETS = LIABILITIES + CAPITAL

A business transaction will result in the change in either of the total assets, liabilities or capital of the firm and even after the change the assets will be again equal to the total of capital and liabilities.

Continuing with the previous examples

Shoes of Rs.5 lacs were sold to a retailer (Ram) on credit.

Assets = Liabilities + Capital

Cash	Stock	Debtors	Furniture	Shop	=	Loan	+	Capital
20 lacs	25 lacs	5 lacs	10 lacs	40 lacs		20 lacs		80 lacs
ASSETS					=	LIABILITIES	+	CAPITAL

Rules of debit and credit

Meaning of debit and credit

All accounts are divided into two sides. The left side of an account is called Debit side (Dr.) and the right side of account is called Credit side (Cr.)

Rules of debit or credit in respect of the various categories of accounts

Asset A/c

Dr. ASSET A/c Cr

Increase in asset will be recorded on this side	Amount (Rs.)	Decrease in asset will be recorded on this side	Amount (Rs.)
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Liability A/c

Dr. LIABILITY A/c Cr

Decrease in liability will be recorded on this side	Amount (Rs.)	Increase in liability will be recorded on this side	Amount (Rs.)
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Capital A/c

Dr. CAPITAL A/c Cr

Decrease in capital will be recorded on this side	Amount (Rs.)	Increase in capital will be recorded on this side	Amount (Rs.)
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Revenue or Income A/c

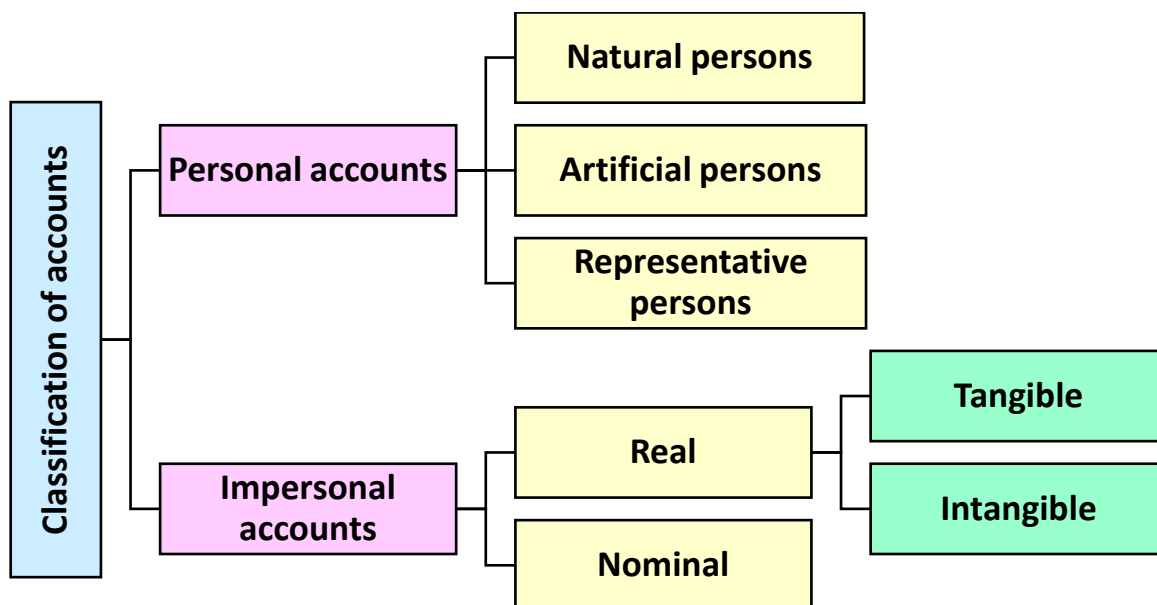
Dr. REVENUE OR INCOME A/c Cr

Decrease in gains and income will be recorded on this side	Amount (Rs.)	Increase in gains and income will be recorded on this side	Amount (Rs.)
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Loss or Expense A/c

Dr. LOSS OR EXPENSE A/c Cr

Increase in losses and expenses will be recorded on this side	Amount (Rs.)	Decrease in losses and expenses will be recorded on this side	Amount (Rs.)
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Personal, Real and Nominal Accounts

Account Type	Description	Examples	Rule
1. Personal	Relate to individual, firm, company or an institution.	A/c of Ernst and Young, Bank A/c, A/c of Rohan	"Debit the Receiver and Credit the Giver"
2. Real	Things whose value can be determined in terms of money and which are the properties of the business.	Cash A/c, Furniture A/c, Goodwill A/c	"Debit what comes in and Credit what goes out"
3. Nominal	Accounts of all expenses and incomes.	Salaries paid, Interest received, Rent paid	"Debit the expenses and losses and Credit incomes and gains"

Classification of Personal Accounts:

Account Type	Description	Examples
Natural Personal	Accounts of human beings	Debtors A/c, Proprietor's Capital A/c
Artificial Personal	Such accounts don't have physical existence as human beings but they work as personal accounts.	Limited Company's A/c, Bank A/c
Representative Personal	Represents a particular person or group of persons.	Accrued Interest A/c, Unearned Commission A/c

Classification of Real Accounts:

Account type	Description	Examples
Tangible	Accounts of those things which can be touched, felt, measured, purchased, sold etc.	Land A/c, Building A/c, Stock A/c
Intangible	Such things which can't be touched, but, of course their value can be measured in terms of money.	Goodwill A/c, Patents A/c, Copyrights A/c

Note: When any word (as a prefix or suffix) is added to a Nominal A/c, it becomes a Personal A/C

Example:

Interest A/C: Nominal A/c

Interest Outstanding A/C: Personal A/c

Journal

Meaning

The books in which transactions are recorded for the first time from a source document are called 'Book of Original Entry'.

Journal is one of the basic books of original entry in which transactions are originally recorded in a chronological order according to the principles of double entry system.

After Journal, transactions are entered in Ledger.

The process of recording a transaction in a journal is known as journalising

The transfer of journal entry to a ledger account is called posting

Format of Journal

Date	Particulars	L.F	Amount	Amount
	Account to be debitedDr. Account to be credited (Narration)		XXX	XXX

The various columns of journal are explained in details below:

Date

This column is used to write the date of the business transaction. Different date formats are used in different countries. Different formats of date are: 15.03.2001, 03.15.2011, 15 March 2021 etc.

Particulars or Details Column

In this column the names of the two connected accounts are written in two consecutive lines - in the first line the name of account debited and in the second line the name of account credited.

The word "Dr." is used at the end of the name of account debited. It is not necessary to place the word "Cr." after the name of the credited account, because if one account is Dr. It follows that the other account must be Cr.

Ledger Folio (L.F)

In this column, the number of the ledger page is written to which the amount is posted

Amount

The debit amount is written in the first "amount" column against the name of account debited and the credit amount in the second "amount" column against the name of account credited.

All the columns, except the Ledger Folio column are completed at the time of journalising. The Ledger Folio column is filled in at the time of posting.

Rules for Journalizing

How a transaction is recorded in journal, is discussed below:

Suppose the transaction is:

Purchased furniture from Mr. A on 10.01.20 for Rs.16,000, for cash

Here furniture accounting is debited and cash account is credited.

Date	Particulars	L.F	Amount	Amount
10.01.20	Furniture A/cDr. Cash A/c (Being the furniture purchased against the cash)		16,000	16,000

Simple Entry and Compound Entry

Simple entry - Every transaction effect two accounts - one is debited and another account is credited.

Thus, in recording a transaction in a journal one account is debited and another account is credited. This type of entry is called simple entry.

Compound entry - The entry in which more than one account is debited or more than one account is credited, is known as compound entry. Three or more accounts are connected with a compound entry.

Example of Simple Entry

For example, on 10.04.20 we bought furniture from S. The entry is:

Date	Particulars	L.F	Amount	Amount
10.04.20	Furniture A/CDr. S A/C (Being furniture purchased on credit)		10,000	10,000

Example of Compound Entry

For example, on 16.05.20 we paid Rs. 1,000 on account of salaries and Rs.600 on account of rent. For this the entry will be:

Date	Particulars	L.F	Amount	Amount
16.05.20	Salary A/CDr. Rent A/C Cash A/C (Being salaries and rent)		1,000 600	10,000

Here two accounts have been debited and the entry involves three accounts. Hence, it is a compound entry.

Personal Books and Business Books

It should be noted here that no private transactions of the proprietor can be recorded in the books of business. On the other hand, no transactions of the business can be recorded in the books of its proprietor. But the transactions in between proprietor and business must be recorded in the books of both the proprietor and business. If these rules are not strictly followed, the books of account will fail to disclose the true result of business.

We are concerned with the books of business, not with the private books of proprietor. Transactions between the business and its proprietor are recorded in the following two accounts:

Capital Account

The money with which proprietor starts his business is called capital. When proprietor brings capital in the business, it is recorded in capital A/C. Capital account is in fact the personal account of the proprietor. So, it is a personal account. The proprietor has given the benefit to the business through introduction of capital. So, proprietor's account A/C, i.e., capital account will be credited. From the viewpoint of

bookkeeping the introduction of capital to the business by proprietor means that the proprietor lends the money to his business and the business becomes indebted to him. The proprietor is regarded as a special or internal creditor to the business.

Example: Mr. R started a business with Rs.20,000

Date	Particulars	L.F	Amount	Amount
16.05.20	Cash A/CDr. Capital A/C (Being capital brought in)		20,000	20,000

Drawings

If the proprietor draws any money or takes goods from his business for his personal use, it will be recorded in drawings A/C. Drawings A/C is the personal account of the proprietor, so it is classified as the personal account. Proprietor receives benefit when he withdraws money or goods from business. So, the proprietor's account i.e., drawing is debited.

Example:

Date	Particulars	L.F	Amount	Amount
16.05.20	Drawings A/CDr. Cash A/C (Being amount withdrawn by proprietor)		2,000	2,000

Entries of some specific transactions

Cash Discount

The manufacturers and whole sellers frequently grant cash discount to their debtors who will pay their debts before due date for goods purchased by them on credit. The seller regards it a "cash discount" or "sale discount" or "discount allowed". The buyer calls the discount as "purchase discount" or "discount received".

Trade Discount

This discount is allowed by wholesaler or manufacturer to the retailer at a fixed percentage on the listed price of goods. It is allowed when goods are manufactured in bulk. No separate entry is passed for the trade discount, as it is deducted from the invoice of the goods.

If both trade discount and cash discount are allowed, first trade discount is allowed and thereafter, cash discount is allowed.

Bad Debts

When the goods are sold on credit to a customer, and if the amount becomes irrecoverable, the amount is called as bad debts. For recording it, bad debts is debited and customer account is credited.

Bad Debts A/c Dr.
 To debtor's personal A/c

Bad Debts Recovered

Sometimes, it happens if the bad debts previously written off are subsequently recovered. In such case:

Cash A/c Dr.
 To Bad Debts Recovered A/c

Outstanding Expenses

Sometimes, there are some expenses which are yet to be paid at the end of the accounting period, they are called as Outstanding Expenses

Expenses A/c Dr.
 To Outstanding expenses A/c

Prepaid Expenses

These are those expenses which are related to the next accounting year but paid in advance during the current year.

Prepaid Expenses A/c Dr.
 To Expenses A/c

Depreciation

It is the gradual decrease in the value of an asset due to wear and tear and passage of time.

Depreciation A/c Dr.
 To Asset A/c

Accrued Income

The income which has been earned but not yet received is called accrued income.

Accrued income/c Dr.
 To income A/c

Income received in advance

Income received but not earned during the accounting period is called income received in advance.

Income A/c Dr.
 To income received in advance A/c

Purchase and sale of fixed asset

Fixed asset includes land, building, plant, machinery, furniture etc. When fixed asset is purchased, the asset account is debited. It is not debited to purchases account as fixed asset is not for the purpose of sales. Similarly, when fixed asset is sold, it is credited to asset account and not sales account.

- On purchase of asset for cash

Asset A/c Dr.
 To cash A/c

- On purchase of asset on credit

Asset A/c Dr.
 To suppliers A/c

- On sale of asset for cash

Cash A/c Dr.
 To assets A/c

- On sale of asset on credit

Purchaser A/c Dr.
 To assets A/c

Expenditure on installation of Machinery

Any expenditure incurred on the carriage and installation of machinery is treated as capital expenditure and included in the cost of the machinery.

Asset A/c Dr.
 To cash A/c

Transactions related to goods

Drawings of Goods

Drawings A/c Dr.
 To Purchases A/c

Goods given away as charity

Charity A/c Dr.
 To Purchases A/c

Goods distributed as samples

Advertisement expenses A/c Dr.
 To Purchases A/c

Loss of Goods by theft or fire

Loss by Theft A/c Dr.
Loss by Fire A/c Dr.
 To Purchases A/c

In case goods were insured

Insurance Company A/c Dr.
 To Loss by Theft or Fire A/c

If full claimed amount is received

Bank A/c Dr.
 To Insurance Company A/c

When stock is not insured

Profit and Loss A/c Dr.
 To loss by theft/fire A/c

Opening Entry

Business firms close their books of accounts at the end of each year and start a new set of books in the beginning of each new year. The first entry in journal is to record the closing balances of individual assets and liabilities of the previous year. These balances become the opening balances of the new year. The entry passed to record the closing balances of the previous year is called the opening entry.

While passing the opening entry all the assets are debited and capital and liabilities are credited. If capital is not given, total liabilities are deducted from total assets.

Example of Journal

Journalise the following transactions: 2020

Feb. 3	X commenced business with a capital of Rs.15,000
05	Purchased good Rs.6,000
07	Purchased goods on credit from S & Co. Rs.3,000
10	Purchased furniture Rs.2,400
11	Sold goods Rs.3,900
15	Sold goods on credit to D Rs.2,250

- 20 Paid salaries Rs.960
- 25 Received commission Rs.75
- 26 Returned goods to S & Co. Rs.600.
- 27 Returned goods by D Rs.450
- 28 Received from D Rs.1,500
- Paid to S & Co. Rs.1,800
- X withdrew from business Rs.900
- Charged depreciation on Rs.240
- Borrowed from K Rs.1,500

Solution:

Journal

Date	Particular	L.F	Amount	Amount
2020				
Feb. 3	Cash A/C Dr. Capital (Being capital brought in)		15,000	15,000
5	Purchases A/C Dr. Cash A/C (Being goods purchased for cash)		6,000	6,000
7	Purchases A/C Dr. S & Co. A/C (Being goods purchased form S & Co on credit)		3,000	3,000
10	Furniture A/C Dr. Cash A/C (Being furniture purchased for cash)		2,400	2,400
11	Cash A/C Dr. Sales A/C (Being goods sold for cash)		3,900	3,900
15	D Bros. A/C Dr. Sales A/C (Being goods sold on credit to D)		2,250	2,250
20	Salaries A/C Dr. Cash A/C		960	960

	(Being salaries paid)			
25	Cash A/C Dr. Commission A/C (Being commission received)		75	75
26	S & Co. A/C Dr. Purchases A/C Return (Being goods returned to S & co.)		600	600
27	Sales Returns A/C Dr. D Bros. A/C (Being goods returned by D Bros.)		450	450
28	Cash A/C Dr. D Bros. A/C (Being amount received from D Bros.)		1,500	1,500
"	S & Co. A/C Dr. Cash A/C (Being amount paid to S & Co.)		1,800	1,800
"	Drawings A/C Dr. Cash A/C (Being amount paid to S & Co.)		900	900
"	Depreciation A/C Dr. Furniture A/C (Being depreciation charged on furniture)		240	240
"	Cash A/C Dr. K A/C (Being amount borrowed from K)		1,500	1,500

Ledger

The journal provides a complete listing of the daily transactions of a business, but it does not provide information about a specific account in one place. For example, to know how much cash balance we have, the accounting clerk would have to check all the journal entries in which cash is involved which is very difficult. To avoid this difficulty, the debit and credit of journalized transactions are transferred to ledger accounts. Thus, all the changes for a single account are located in one place - in a ledger account. This makes it easy to determine the current balance of any account.

Standard Form of Ledger Account:

To understand clearly as to how to write the accounts in ledger, the standard form of an account is given below with two separate transactions:

Date	Particulars	J.R	Amount	Date	Particulars	J.R	Amount
2005 Dec. 17	Cash A/C		1,200	2005 Dec. 17	Purchases A/C		2,000

Posting Procedure:

Transferring information i.e., entries from journal to ledger accounts is called posting. The procedure of posting from journal to ledger is as follows:

1. Locate the ledger account from the first debit in the journal entry.
2. Record the date in the date column on the debit side of the account. The date is the date of transaction rather than the date of the posting.
3. Record the name of the opposite account (account credited in entry) in the particular (also known as reference column, description column etc.) column.
4. Record the page number of the journal in the journal reference (J.R) column from where the entry is being posted.
5. Record the amount of the debit in the "amount column"
6. Locate the ledger account for the first credit in the journal and follow the same procedure.

Balancing An Account:

The difference between the two sides of an account is its balance. The balance is written on the lesser side to make the two sides equal. The process of equalizing the two sides of an account is known as **balancing**. The **rules for balancing an account** are stated as below:

1. Add up the amount columns of both the sides of an account and write the totals in a separate slip of paper.
2. Find out the difference of the two totals.
3. Write down the difference on the lesser side of the account.
4. Now total up both the sides and write the totals and draw double lines under them.
5. Again write the difference on the opposite side below the double line.

If the debit side of an account is heavier, its balance is known as debit balance. and if the credit side of an account is heavier its balance is known as credit balance. If the two sides are equal, that account will show zero balance. The rules for determining the balance is as follows:

Total debit	More than total credit	=	Debit balance
Total credit	More than total debit	=	Credit balance
Total debit	Total credit	=	Nil balance

It may be noted that at the time of balancing an account debit balance is placed on the credit side and credit balance on debit site. This balance is known as closing balance. What is closing balance in this year, is the opening balance of the next year.

Example:

Enter the following transactions in journal and post them into ledger:

2018

- Jan. 1 Mr. Javed started business with cash Rs.100,000
- 2 He purchased furniture for Rs.20,000
- 3 He purchased goods for Rs.60,000
- 5 He sold goods for cash Rs.80,000
- 6 He paid salaries Rs.10,000

Solution:

Journal

Date	Particular	L.F	Amount	Amount
2018				
Jan. 1	Cash A/CDr. Capital (Being capital brought in)	9 11	100,000	100,000
2	Furniture A/C.....Dr. Cash A/C (Being furniture purchased for cash)	13 9	20,000	20,000
3	Purchases A/C.....Dr. Cash A/C (Goods purchased for cash)	15 9	60,000	60,000
5	Cash A/C.....Dr. Sales A/C (Sold goods for cash)	9 17	80,000	80,000
6	Salaries A/C.....Dr. Cash A/C Return (Salaries paid)	19 9	10,000	10,000

Ledger

Cash Account (No.9)

Date	Particular	J.R	Amount	Date	Particulars	J.R	Amount
20018				2018			
Jan.1	Capital A/C	1	100,000	Jan.2	Furniture A/C	1	20,000
Jan.5	Sales A/C	1	80,000	Jan.3	Purchases A/C	1	60,000
				Jan.6	Salaries A/C	1	10,000
					Balance c/d		90,000
	Total		180,000		Total		180,000

Capital Account (No.11)

Date	Particular	J.R	Amount	Date	Particulars	J.R	Amount
2018				2018			
Jan.6	Balance c/d		100,000	Jan.1	Cash A/C	1	100,000
	Total		100,000		Total		100,000

Furniture Account (No.13)

Date	Particular	J.R	Amount	Date	Particulars	J.R	Amount
2018				2018			
Jan.2	Cash A/C	1	20,000	Jan.6	Balance c/d		20,000
	Total		20,000		Total		20,000

Purchases Account (No.15)

Date	Particular	J.R	Amount	Date	Particulars	J.R	Amount
2018				2018			
Jan.3	Cash A/C	1	60,000	Jan.6	Balance c/d		60,000
	Total		60,000		Total		60,000

Sales Account (17)

Date	Particular	J.R	Amount	Date	Particulars	J.R	Amount
2018				2018			
Jan.6	Balance c/d		80,000	Jan.5	Cash A/C	1	80,000
	Total		80,000		Total		80,000

Salaries Account (19)

Date	Particular	J.R	Amount	Date	Particulars	J.R	Amount
2018				2018			
Jan.6	Cash A/C	1	10,000	Jan.6	Balance c/d		10,000
	Total		10,000		Total		10,000

DISTINCTION BETWEEN BOOKS OF ORIGINAL ENTRY AND LEDGER

Basis	Books of original entry	Ledger
Recording of transactions	Transactions are entered for the first time in these books, they are also referred to as books of primary entry. They are also referred to as books of primary entry .	Transactions are entered in Journal or Subsidiary Books are later transferred to the Ledger. Thus, ledger is also called a book of final entry .
Narrations	Narrations are recorded.	Narrations are not recorded.
Order of transactions	Transactions are entered in chronological order.	Transactions are entered in analytical order.
Final Accounts	Final accounts can't be prepared with the help of books of original entry.	Final accounts can be prepared with the help of Ledger balances.
Accuracy	Accuracy of these books can't be tested.	Accuracy of the Ledger Accounts is tested by preparing a Trial Balance.
Process of recording entries	Journalising	Posting

CLOSING OF ACCOUNTS

1. Personal Accounts

If a personal account shows a debit balance, it indicates the amount owing from him.

On the contrary, if a personal account shows a credit balance, it indicates the amount owing to him.

2. Real Accounts

Method of closing the Cash A/c and the accounts of all other assets is the same as that of personal accounts. When balanced, these will always show debit balances.

3. Nominal Accounts

These accounts do not require balancing. As the main purpose of opening such accounts is to ascertain the net profit or loss of the firm, all such accounts are transferred to the trading and profit and loss account of the firm at the end of the financial period.

Subsidiary books

If the size of business is small, then it is possible to enter every transaction in Journal only, but if the size of business is large, it is no longer possible to enter every transaction in one book only. Therefore, Journal is divided into sub-parts, known as **Special Journals**.

Therefore, following subsidiary books are prepared:

CASH BOOK

- All transactions relating to cash receipts and cash payments are entered in this book

PURCHASE BOOK

- This book records credit purchases.

SALES BOOK

- This book records credit sales.

PURCHASE RETURN OR RETURN OUTWARD BOOK

- When goods previously purchased on credit are returned to the suppliers, such returns are added to this book

SALES RETURN OR RETURN INWARD BOOK

- When goods previously sold on credit are returned by the customers, such returns are added to this book

JOURNAL PROPER

- This book records transactions which are not entered in previous mentioned books

Purchase book

All credit purchases of goods are recorded in the purchases journal whereas cash purchases are recorded in the cash book. Other purchases such as purchases of office equipment, furniture, building, are recorded in the journal proper if purchased on credit or in the cash book if purchased for cash. The source documents for recording entries in the book are invoices or bills received by the firm from the suppliers of the goods.

The format of the purchases journal

Date	Invoice no.	Name of supplier	L.F.	Amount

The monthly total of the purchases book is posted to the debit of purchases account in the ledger. Individual supplier's accounts may be posted daily.

Books of Kanika Electronics Purchase Book

Date	Invoice no.	Name of supplier	L.F.	Amount
2017				
Aug 04	3250	Neema Electronics		1,82,000
Aug 10	3260	Pawan electronics		31,050
Aug 18	4256	Northern Electronics		3,06,250
Aug 26	3294	Neema Electronics		54,000
Aug 29	3281	Pawan Electronics		38,700
Aug 31				6,12,000

Books of Kanika Electronics Neema Electronics

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				2017			
				Aug 04	Purchases		1,82,000
				Aug 26	Purchases		54,000

Pawan Electronics

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				2017			
				Aug 10	Purchases		31,050
				Aug 29	Purchases		38,700

Northern Electronics

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				2017 Aug 18	Purchases		3,06,250

Purchases Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017 Aug 31	Sundries as per Purchases Journal		6,12,000				

Purchase return book

In this book, purchases return of goods are recorded. Sometimes goods purchased are returned to the supplier for various reasons such as the goods are not of the required quality, or are defective, etc. For every return, a debit note (in duplicate) is prepared and the original one is sent to the supplier for making necessary entries in his book. The supplier may also prepare a note, which is called the credit note.

Books of Kanika Electronics Purchase Return Book

Date	Debit note no.	Name of supplier	L.F.	Amount
		Neema Electronics		13,200

Neema Electronics Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
	Purchases return		13,200				

Purchases Return Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
					Sundries as per purchase returns book		13,200

Sales book

All credit sales of merchandise are recorded in the sales journal. Cash sales are recorded in the cash book. The format of the sales journal is similar to that of the purchases journal explained earlier. The source document for recording entries in the sales journal are sales invoice or bill issued by the firm to the customers.

Date	Invoice no.	Name of customer	L.F.	Amount
2017				
Apr 6	178	Raman traders		4,850
Apr 09	180	Nutan Enterprises		21,000
Apr 28	209	Raman traders		85,000
Apr 30				1,10,850

Raman Traders Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017							
Apr 06	Sales		4,850				
Apr 28	Sales		85,000				

Nutan Enterprises Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017							
Apr 01	Sales		21,000				

Sales Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				2017			
				Apr 30	Sundries as per sales book		1,10,850

Sales return book

This journal is used to record return of goods by customers to them on credit.

Date	Credit no.	Name of customer	L.F.	Amount
		Raman traders		2,100

Raman Traders Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
					Sales Return		2,100

Sales Return Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
	Sundries as per sales return book		2,100				

Journal proper

Entries recorded in journal proper are:

Opening Entry: In order to open new set of books in the beginning of new accounting year and record therein opening balances of assets, liabilities and capital, the opening entry is made in the journal.

Adjustment Entries: In order to update ledger account on accrual basis, such entries are made at the end of the accounting period. Such as Rent outstanding, Prepaid insurance, Depreciation and Commission received in advance.

Rectification entries: To rectify errors in recording transactions in the books of original entry and their posting to ledger accounts this journal is used.

Transfer entries: Drawing account is transferred to capital account at the end of the accounting year. Expenses accounts and revenue accounts which are not balanced at the time of balancing are opened to record specific transactions. Accounts relating to operation of business such as Sales, Purchases, Opening Stock, Income, Gains and Expenses, etc., and drawing are closed at the end of the year and their Total/balances are transferred to Trading and Profit and Loss account by recording the journal entries. These are also called closing entries.

Other entries: In addition to the above-mentioned entries, recording of the following transaction is done in the journal proper:

- Purchase/sale of items on credit other than goods.
- Goods withdrawn by the owner for personal use.
- Goods distributed as samples for sales promotion.
- Endorsement and dishonour of bills of exchange.
- Transaction in respect of consignment and joint venture, etc.
- Loss of goods by fire/theft/spoilage.

Cash book

It plays a dual role. It is both a book of original entry as well as a book of final entry. All cash transactions are primarily recorded in it as soon as they take place; so, it is a journal (a book of original entry/subsidiary book). On the other hand, the cash aspect of all cash transactions is finally recorded in the Cash Book (no posting in Ledger); so, a Cash Book is also a Ledger (a book of final entry/Principal Book).

When a cashbook is maintained, transactions of cash are not recorded in the journal, and no separate account for cash or bank is required in the ledger.

TYPES OF CASH BOOKS

Single Column Cash Book

The single column cash book records all cash transactions of the business in a chronological order, i.e., it is a complete record of cash receipts and cash payments. When all receipts and payments are made in cash by a business organisation only, the cash book contains only one amount column on each (debit and credit) side.

It does not record:

- 1. Non-cash transactions**
- 2. Cheques received or given**
- 3. Cash discount allowed or received**

Format of single column cash book

Cash Book

Dr.				Cr.			
Date	Receipts	L.F.	Amount	Date	Payments	L.F.	Amount

1. Date: Date for the transaction is written

2. Particulars: The name of the account under which the cash has been received or payment has been made is written. Cash book starts with the opening balance of cash written on the receipts side as "To balance b/d". A new business will not have an opening balance.

3. Ledger Folio (L.F.): It records the page number in the ledger where the amount has been posted in the account.
4. Amount: The amounts received are written on the debit side and the amounts paid are written on the credit side.

Posting in single column cash book

The left side of the cash book shows the receipts of the cash whereas the right side of the cash book shows all the payments made in cash. The accounts appearing on then debit side for the cash book are credited in the respective ledger accounts because cash has been received in respect of them. Similarly, all the account names appearing on the credit side of the cash book are debited as cash/cheque has been paid in respect of them.

Balancing of single column cash book

A cash book is balanced like any other account. The receipts column is always bigger than the payments column. The difference is written on the credit side as 'By balance c/d'.

Example

Enter the following transactions in the cash book of Mr. Jamil:

2018.		Rs.
Jan. 1	Mr. Jamil started business with cash	2,00,000
Jan. 3	Bought goods for cash	1,40,000
Jan. 5	Paid for stationary	2,000
Jan. 7	Sold goods for cash	80,000
Jan. 10	Paid for trade expenses	2,000
Jan. 11	Sold goods for cash	20,000
Jan. 14	Received cash from Mr. Asif	10,000
Jan. 15	Paid cash to Mr. Qadir	20,000
Jan. 18	Withdrew cash for personal use	6,000
Jan. 22	Bought goods for cash	40,000
Jan. 25	Sold goods for cash	90,000
Jan. 27	Paid for electricity bill	4,000
Jan. 31	Paid salary	10,000
Jan. 31	Paid rent	3,000

Solution:

Single Column Cash Book of Mr. Jamil

Date	Particulars	V.N	L.F	Amount (Rs.)	Date	Particulars	V. N.	L. F.	Amount (Rs.)
2018					2018				
Jan. 1	Capital A/C			200,000	Jan. 3	Purchases A/C			140,000
Jan. 7	Sates A/C			80,000	Jan. 5	Stationery A/C			2,000
Jan. 11	Sales A/C			20,000	Jan. 10	Trade expenses			2,000
Jan. 14	Mr. Asif A/C			10,000	Jan. 15	Mr. Qadir A/C			20,000
Jan. 25	Sales A/c			90,000	Jan. 18	Drawing A/C			6,000
					Jan. 22	Purchase A/C			40,000
					Jan. 27	Electricity A/C			4,000
					Jan. 31	Salary A/C			10,000
					Jan. 31	Rent A/C			3,000
					Jan. 31	Balance c/d			173,000
				4,00,00					4,00,00
Feb. 1	Balance b/d			173,000					

Double Column Cash Book

In this cash book, there are two columns on each side, one column for recording cash transactions and the other column for recording bank transactions.

Format of double cash book

Dr.					Cr.				
Date	Receipts	L.F.	Cash	Bank	Date	Payments	L.F.	Cash	Bank

Contra Entry

In any account we can only have one half of a double entry. An account cannot be debited and credited at the same time. For example, when we sell goods for cash, cash received will be recorded on the debit side of Cash Book and the goods sold will be posted on the credit side of Sales Account.

But in Double Column Cash Book, we have two accounts, Cash A/c and the Bank A/c, so it is possible to have both a debit entry and a credit entry at the same time. For example, cash of Rs.5,000 is deposited into the bank. In this transaction both Bank A/c and Cash A/c are involved and they will be recorded on both sides of Double Column Cash Book i.e., on the debit side in bank column and on the credit side in cash column.

Thus, a transaction in which Cash A/c and Bank A/c are involved, is recorded on both the sides of Double Column Cash Book, it is called "contra entry".

In recording such a transaction, the letter "C", is written in 'L.F.' column because both aspects of the transactions are recorded and there is no need to post them into the ledger.

Example

Enter the following transactions in a double column cash book/two column cash book.

2018		Rs.
March 1	Cash in hand	80,000
March 1	Bank Balance	120,000
March 3	Received a cheque from Osman	24,000
March 4	Deposited Osman's cheque with bank	--
March 8	Withdrawn from bank for business use	20,000
March 10	Goods sold for cash	30,000
March 15	Goods bought for cash	80,000
March 18	Goods sold for cash	60,000
March 20	Paid Rahim by cheque	26,000
March 30	Deposited into bank	16,000
March 31	Paid salary in cash	10,000
March 31	Paid rent by cheque	6,000

Solution:

Double Column Cash Book

Date	Particulars	V / N	L / F	Cash Rs.	Bank Rs.	Date	Particulars	V / N	L / F	Cash Rs.	Bank Rs.
2018						2018					
Mar. 1	Balance b/d			80,000	120,000	Mar. 4	Bank A/c		C	24,000	
3	Osman A/c			24,000		8	Cash A/c		C		20,000
4	Cash A/c		C		24,000	15	Purchase A/c			80,000	
8	Bank A/c		C	20,000		18	Cash A/c		C	16,000	
10	Sales A/c			30,000		20	Rahim A/c				26,000
18	Sales A/c			60,000		31	Salary A/c			10,000	
30	Cash A/c		C		16,000	31	Rent A/c				6,000
						31	Balance c/d			84,000	108,000
				214,000	160,000					214,000	160,000
Apr 1	Balance b/d			84,000	108,000						

Three column cash book

The triple column cash book (also referred to as three column cash book) is the most exhaustive form of cash book which has three money columns on both receipt (Dr) and payment (Cr) sides to record transactions involving cash, bank and discounts. A triple column cash book is usually maintained by large firms which make and receive payments in cash as well as by bank and which frequently receive and allow cash discounts

Format of triple column cash book

Dr. (Receipts)							Cr. (Payments)						
CASH BOOK							Page No: ____						
Date	Description	VN	PR	Disc	Cash	Bank	Date	Description	VN	PR	Disc	Cash	Bank

Discount: The amount of discount allowed is recorded on debit side and the amount of discount received is recorded on credit side in discount column. The totals of debit column and credit column are posted to discount allowed account and discount received account respectively.

Note: All other columns are similar to the double column cash book.

Petty Cash

It is another Cash Book which is maintained, generally, in large business concerns to reduce the burden of 'Main Cash Book', in which numerous transactions involving petty (small) amounts are recorded. For this purpose, a Petty Cashier is appointed by the Chief Cashier. The Chief Cashier advances a sum of money to the Petty Cashier to enable him to meet petty expenses for a fixed period. The Petty Cashier will record this amount on the Debit Side of the Petty Cash Book while the Chief Cashier will record the same amount on the Credit Side of the Main Cash Book.

Imprest system of petty cash book

Under this system, a definite sum, say Rs.2,000 is given to the petty cashier at the beginning of a certain period. This amount is called imprest amount. The petty cashier goes on making all small payments out of this imprest amount and when he has spent the substantial portion of the imprest amount say Rs.1,780, he gets reimbursement of the amount spent from the head cashier. Thus, he again has the full imprest amount in the beginning of the next period. The reimbursement may be made on a weekly, fortnightly or monthly basis, depending on the frequency of small payments.

The balance of the Petty Cash Book will be shown on the asset side of balance sheet as "Cash in hand" at the end of the year.

Example

From the following particulars prepare a Petty Cash Book under Imprest System.
2018

- Jan. 1. Received from the Chief Cashier as imprest cash Rs.400.
- Jan. 2. Paid Taxi hire Rs.20.
- Jan. 3. Paid postage Rs.28 and stationery Rs.60.
- Jan. 4. Purchased stationery Rs.48.
- Jan. 5. Paid telegram charges Rs.28 and bus fare Rs.4.
- Jan. 6. Bought postage stamps Rs.96.
- Jan. 7. Paid Rs.72 for repairs of typewriter.

Solution:

Petty cash book

Amount Received Rs.	Date	Particulars	V. No.	Total Rs.	Traveling Expenses Rs.	Postages Rs.	Stationery Rs.	Office Expenses Rs.	Misc. Expenses Rs.
400	2018	Cash Received							
	Jun. 1								
	Jun. 2	Taxi hire A/c		20	20				
	Jun. 3	Postage A/c		28		28			
	Jun. 3	Stationery A/c		60			60		
	Jun. 4	Stationery A/c		48			48		
	Jun. 5	Telegram A/c		28		28			
	Jun. 5	Bus fare A/c		4	4				
	Jun. 6	Postage A/c		96		96			
	Jun. 7	Repairs A/c		72				72	
				356	24	152	108	72	
		Balance c/d		44					
400				400					
44	Jun. 8	Balance b/d							
356		Cash received							

Trial balance and rectification of errors

Meaning of trial balance

A trial balance is a statement showing the balances, or total of debits and credits, of all the accounts in the ledger with a view to verify the arithmetical accuracy of posting into the ledger accounts.

Format of trial balance

Trial Balance of as on March 31, 2014

<i>Account Title</i>	<i>L.F.</i>	<i>Debit Balance ₹</i>	<i>Credit Balance ₹</i>
Total			

Purpose of Trial Balance

1. To check the equality of debits and credits - an arithmetical or mathematical test of accuracy.
2. To help in preparation of final accounts.
3. To locate errors.
4. To obtain a summary of ledger accounts.

If the trial balance agrees we may reasonably assume that the books are correct. On the other hand, if it does not agree, it indicates that the books are not correct - there are mistakes somewhere. There are however, a few types of errors which the trial balance cannot detect. In other words, the trial balance will agree in spite of the existence of those errors.

Methods of Preparing Trial Balance

There are two methods for the preparation of trial balance. These methods are:

1. Total or gross trial balance
2. Balance or net trial balance

Total or Gross Trial Balance

Under this method **the two sides of all the ledger accounts are totalled up**. The total of debit side and credit side of each account is then placed on "debit amount" column and "credit amount" column respectively of a list. Finally, the two columns are added separately to see whether they agree or not.

Balance or Net Trial Balance

Under this method, **first of all the balances of all ledger accounts are drawn**. Thereafter, the debit balances and credit balances are recorded in "debit amount" and "credit amount" column respectively and the two columns are added separately to see whether they agree or not.

Example

Enter the following transactions in journal and post them into the ledger and also prepare a trial balance.

2018

- Jan. 1 Mr. X started business with cash Rs.80,000 and furniture Rs.20,000.
- Jan. 2 Purchased goods on credit worth Rs.30,000 from Y.
- Jan. 3 Sold goods for cash Rs.16,000.
- Jan. 4 Sold goods on credit to S for Rs.10,000
- Jan. 8 Cash received from S Rs.9,800 in full settlement of his account.

Solution:

Journal

Date	Particulars	L.F	DR. Amount (Rs.)	Cr. Amount (Rs.)
2018				
Jan. 1	Cash A/C		80,000	
	Furniture A/C		20,000	
	Capital A/C			1,00,000
	(Owner invested cash and furniture)			
Jan. 2	Purchases Account		30,000	
	Y			30,000
	(Bought goods on credit)			
Jan. 3	Cash A/C		16,000	
	Sales A/C			16,000
	(Sold goods for cash)			
Jan. 4	S A/C		10,000	
	Sales A/C			10,000
	(Sold goods on credit)			
Jan. 8	Cash A/C		9,800	
	Discount A/C		200	
	S A/C			10,000
	(Cash received and discount allowed)			

Ledger Cash Account

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
Jan 1	Capital a/c		80,000	Jan 31	Balance c/d		1,05,800
Jan 3	Sales a/c		16,000				
Jan 8	S a/c		9,800				
			1,05,800				1,05,800
Feb 1	Balance b/d		1,05,800				

Furniture Account

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
Jan 1	Capital a/c		20,000	Jan 31	Balance c/d		20,000
			20,000				20,000
Feb 1	Balance b/d		20,000				

Capital Account

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
Jan 31	Balance c/d		1,00,000	Jan 1	Cash a/c		80,000
				Jan 1	Furniture a/c		20,000
			1,00,000				1,00,000
				Feb 1	Balance b/d		1,00,000

Purchases Account

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
Jan 2	Y a/c		30,000	Jan 31	Balance c/d		30,000
			30,000				30,000
Feb 1	Balance b/d		30,000				

Y Account (No.13)

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
Jan 31	Balance c/d		30,000	Jan 2	Purchases a/c		30,000
			30,000				30,000
				Feb 1	Balance b/d		30,000

Sales Account

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
Jan 31	Balance c/d		40,000	Jan 3	Cash a/c		16,000
				Jan 4	S a/c		10,000
			40,000				40,000
				Feb 1	Balance b/d		40,000

S Account

Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
Jan 4	Sales a/c		10,000	Jan 8	Cash a/c		9,800
				Jan 8	Discount a/c		200
			10,000				10,000

Discount Account (No.19)

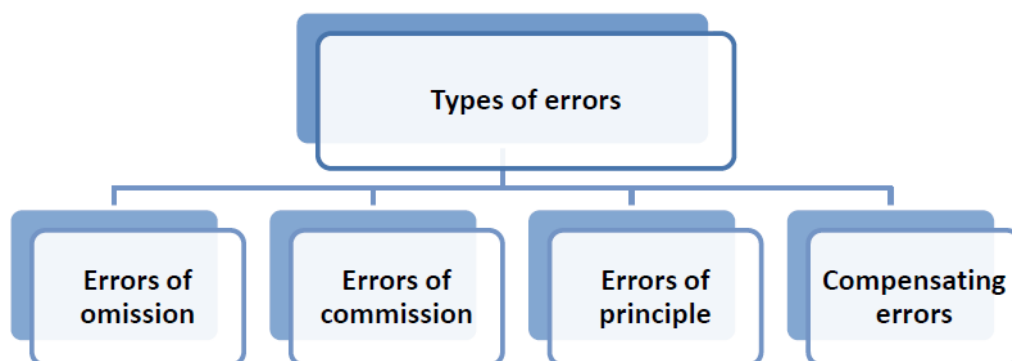
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
Jan 8	S a/c		200	Jan 31	Balance c/d		200
			200				200
Feb 1	Balance b/d		200				

Trial Balance (Balances method)

S. No.	Account Name	A/C No.	Debit	Credit
1	Cash Account		105,800	
2	Furniture Account		20,000	
3	Capital Account		--	100,000
4	Purchases Account		30,000	
5	Y Account		--	30,000
6	Sales Account		--	26,000
7	S Account		--	--
8	Discount Account		200	--
	Total		156,000	1,56,000

Note: If an account shows zero balance, it is not necessary to record it in trial balance.

Types of errors



Errors of omission

The errors of omission may be committed at the time of recording the transaction in the books of original entry or while posting to the ledger. These can be of two types:

- (i) error of complete omission
- (ii) error of partial omission

When a transaction is completely omitted from recording in the books of original record, it is an error of complete omission. For example, credit sales to Mohan Rs. 10,000, not entered in the sales book. When the recording of transaction is partly omitted from the books, it is an error of partial omission. If in the above example, credit sales had been duly recorded in the sales book but the posting from sales book to Mohan's account has not been made, it would be an error of partial omission.

Errors of commission

These are the errors which are committed due to wrong posting of transactions, wrong totalling or wrong balancing of the accounts, wrong casting of the subsidiary books, or wrong recording of amount in the books of original entry, etc.

For example: Raj Hans Traders paid Rs.25,000 to Preetpal Traders (a supplier of goods). This transaction was correctly recorded in the cashbook. But while posting to the ledger, Preetpal's account was debited with Rs.2,500 only. This constitutes an error of commission.

Such an error by definition is of clerical nature and most of the errors of commission affect in the trial balance.

Errors of principle

Accounting entries are recorded as per the generally accepted accounting principles. If any of these principles are violated or ignored, errors resulting from such violation are known as errors of principle.

An error of principle may occur due to incorrect classification of expenditure or receipt between capital and revenue.

Examples:

- Amount spent on additions to the buildings should be treated as capital expenditure and must be debited to the asset account. Instead, if this amount is debited to maintenance and repairs account, it has been treated as a revenue expense. This is an error of principle.
- If a credit purchase of machinery is recorded in purchases book instead of journal proper or rent paid to the landlord is recorded in the cash book as payment to landlord, these errors of principle. These errors do not affect the trial balance.

Compensating errors

When two or more errors are committed in such a way that the net effect of these errors on the debits and credits of accounts is nil, such errors are called compensating errors.

Example: Shyam's account was debited with Rs.100 instead of Rs.1000 while Ram's account was debited with Rs.1000 instead of Rs.100. Thus, Shyam's account which was debited by Rs.900 less was compensated by another error in Ram's account, whose account was debited excess of Rs.900.

From another point of view, errors may be divided into two categories:

Errors affecting Trial Balance

1. Posting only one aspect of the journal entry in the ledger
2. Posting a journal entry on the wrong side of an account
3. Wrong totalling of the subsidiary books
4. Posting the correct amount in one account and wrong amount in another account
5. Wrong totalling or balancing of the ledger account
6. Omission in writing the balance of an account in the trial balance
7. Writing balance in the wrong column of trial balance
8. Totalling the trial balance wrongly

Errors not affecting Trial Balance

1. Errors of complete omission

Transaction remains altogether unrecorded either in Journal or in Subsidiary books.

2. Compensating Errors

Effect of one error is neutralized by the effect of some other error.

3. Errors of Principle

Some fundamental principle of accounting is violated while recording a transaction.

Suppose on the purchase of a typewriter, office expenses account is debited, the trial balance will still agree

4. Errors of Posting in wrong account

While posting from the books of original entry, posting is made to a wrong account but on the correct side.

5. Recording both the aspects of a transaction twice in the books of accounts

Case study (for errors)

Mr. Roy is a furniture dealer. Some of the transactions undertaken through the year are as follows:

Transactions	Errors	Affect Trial Balance
Total of purchase book was added Rs 2,000 in excess due to wrong calculations	Error of commission	Yes
Dining table was sold to Ram. Ram's A/c was credited by Rs 20,000.	Error of commission	Yes
Rs 10,000 spent on repairs of old machinery debited to Machinery A/c	Error of Principle	No
Sold study table to Shyam for Rs 15,000 but was omitted to be recorded in the books.	Errors of Omission	No
Rs 5,000 received from Rahul was posted on the credit side of Rahul's A/c twice but correctly entered in Cash Book	Error of commission	Yes
Purchased wood from Mr X for Rs 10,000. Credited Mr X with Rs 1000	Error of commission	Yes
Sold a bed for Rs 40,000 but cash A/c was not debited	Error of omission	Yes
Purchase book was overcast by Rs 1,000 and Purchase Returns book was overcast by Rs 1,000	Compensating Errors	No
Sale of table to Meena for Rs 5000 has been entered in the Journal as Rs 500	Errors of Commission	No

Rectification of errors

From the point of view of rectification, the errors may be classified into the following two categories:

- (a) errors which do not affect the trial balance.
- (b) errors which affect the trial balance.

Rectification of errors which do not affect the trial balance (Two sided errors)

These errors are committed in two or more accounts. Such errors are also known as two sided errors. They can be rectified by recording a journal entry giving the correct debit and credit to the concerned accounts.

Examples of such errors are – complete omission to record an entry in the books of original entry; wrong recording of transactions in the book of accounts; complete omission of posting to the wrong account on the correct side, and errors of principle.

Such errors are rectified by passing a rectifying entry.

The procedure for rectification for such errors is explained with the help of following examples:

(a) Credit sales to Mohan Rs. 10,000 were not recorded in the sales book. This is an error of complete omission. Its affect is that Mohan's account has not been debited and Sales account has not been credited. Accordingly, recording usual entry for credit sales will rectify the error.

Mohan's a/c	Dr.	10,000
To sales a/c		10,000

(b) Credit sales to Mohan Rs. 10,000 were recorded as Rs. 1,000 in the sales book. This is an error of commission.

Wrong entry	Mohan's a/c	1000
	To sales a/c	1000
Correct entry should have been	Mohan's a/c	10000
	To sales a/c	10000
Rectifying entry	Mohan's a/c	9000
	To sales a/c	9000

(c) Credit sales to Mohan Rs.10,000 were recorded as Rs. 12,000. This is an error of commission.

Wrong entry	Mohan's a/c	12000
	To sales a/c	12000
Correct entry should have been	Mohan's a/c	10000
	To sales a/c	10000
Rectifying entry	Sales a/c	2000
	To Mohan's a/c	2000

(d) Credit sales to Mohan Rs.10,000 was correctly recorded in the sales book but was posted to Ram's account.

Wrong entry	Ram's a/c To sales a/c	10000 10000
Correct entry should have been	Mohan's a/c To sales a/c	10000 10000
Rectifying entry	Mohan's a/c To Ram's a/c	10000 10000

(e) Rent paid Rs.2,000 was wrongly shown as payment to landlord in the cash book

Wrong entry	Landlord a/c To cash a/c	2000 2000
Correct entry should have been	Rent a/c To cash a/c	2000 2000
Rectifying entry	Rent a/c To landlord a/c	2000 2000

Rectification of errors affecting trial balance (one sided errors)

The errors which affect only one account can be rectified by giving an explanatory note in the account affected or by recording a journal entry with the help of the Suspense Account.

Rectification of errors before preparation of the trial balance

If the one-sided errors come into notice before preparing the trial balance, they should be rectified by debiting the concerned account for short debit or excess credit and by crediting the concerned account for short credit or excess debit.

Examples:

Shyam's account was credited short by Rs.190. This will be rectified by an additional entry for Rs.190 on the credit side of his account as follows:

Shyam's Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
					Difference in amount posted short on		190

The purchases book was undercast by Rs.1,000. The effect of this entry is on purchases account (debit side) where the total of purchases book is posted

Purchases Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
	Under casting purchases book for the month of		1,000				

Rectification of errors after preparation of trial balance

One sided errors will be rectified by passing the journal entry either debiting or crediting the suspense account.

Suspense account

Sometimes, in spite of best efforts some errors are not located and due to which Trial Balance does not tally. In such a situation, to avoid delay in preparing the Final Accounts, the difference in the Trial Balance is placed to a newly opened account known as 'Suspense Account' and the Trial Balance tallies.

Later, when errors are detected, rectification entries are passed. When all the errors are rectified, the account will close.

But if suspense account shows balance, it will be shown on the Asset side of the Balance sheet if it has debit balance and if it has credit balance, then it is shown on Liabilities side.

Examples

- 1) Credit sales to Mohan Rs.10,000 were not posted to his account. This is an error of partial omission committed while posting entries of the sales book.

Wrong entry	Mohan's a/c To sales a/c	Nil 10000
Correct entry should have been	Mohan's a/c To sales a/c	10000 10000
Rectifying entry	Mohan's a/c To suspense a/c	10000 10000

- 2) Purchases book overcast by Rs.1,000

Suspense a/c

1,000

To purchases a/c 1,000

Financial statement of sole proprietorship

Meaning

Financial Statements are the summaries of the accounts of a business enterprise and shows the profitability and financial position at the end of the accounting period.

It includes at least two basic statements:

- A) Trading and Profit and Loss Account
- B) Balance Sheet

Trading Account

It is prepared for calculating the gross profit or gross loss arising out of the trading activities of a business.

Format of a Trading Account

Trading Account (For the year ended...)			
Dr.			Cr.
Particulars	Amount	Particulars	Amount
To Opening stock	Xxx	By Sales	xxx
To Purchases xxx		Less: Return Inwards (xxx)	Xxx
Less: Return Outwards (xxx)	Xxx	By Closing stock	Xxx
To Wages	Xxx	By Gross Loss	Xxx
To Carriage Inwards	Xxx		
To Freight Inwards/cartage	Xxx		
To Gross Profit c/d	Xxx		
	xxx		xxx

All expenses which relate to either purchase of raw material or manufacturing of goods are recorded in the Trading account. All such expenses are called 'Direct Expenses'.

Examples of direct expenses:

- Carriage or freight inwards
- Manufacturing wages
- Power and fuel
- Factory lighting
- Factory rent and rates
- Royalties
- Consumable stores

Calculation of Cost of Goods Sold:

Cost of Goods Sold = Opening stock + Net Purchases + Direct Expenses – Closing stock

Cost of Goods Sold = Sales – Gross Profit

Case:

Calculate Net Sales and Gross Profit from the following information:

Cost of Goods Sold Rs.1,00,000

Gross Profit 20% on Sales

Solution: Sales will be $1,00,000 \times (100/80) = \text{Rs.}1,25,000$

Gross Profit = Sales – Cost of Goods Sold

= Rs.1,25,000 – Rs.1,00,000

= Rs.25,000

Profit and loss account

Trading account only shows gross profit earned as a result of buying and selling goods. However, there are other expenses also which must be included to get the net profit, for this Profit and Loss Account is prepared.

All Distribution, office, selling, administrative and miscellaneous expenses like, interest on loan, interest on capital etc. are included in Profit and Loss Account.

A Profit & Loss A/c is an account into which all gains and losses are collected, in order to ascertain the excess of gains over the losses or vice-versa.

Name of Business Profit and Loss Account for the year ended

Particulars	Amt	Particulars	Amt
To gross loss b/d	XXX	By gross profit b/d	XXX
To Salaries	XXX	By rent from tenant	XXX
To rent, rates and taxes	XXX	By discount received	XXX
To printing & stationery	XXX	By dividend on shares	XXX
To lighting	XXX	By interest on investments	XXX
To travelling expense	XXX	By commission received	XXX
To insurance	XXX	By bad debts recovered	XXX
To establishment expenses	XXX	By misc receipts	XXX

To legal charges	XXX	By profit on sale of assets	XXX
To audit fees	XXX	By net loss (t/f to capital a/c)	XXX
To telephone charges	XXX		
To postage & telegram	XXX		
To general expenses	XXX		
To advertisement	XXX		
To bad-debts	XXX		
To packing charges	XXX		
To delivery van expenses	XXX		
To commission	XXX		
To depreciation	XXX		
To bank charges	XXX		
To loss on sale of assets	XXX		
To net profit (t/f to capital a/c)	XXX		

Balance sheet

A Balance Sheet is a statement at a particular date showing on one side the trader's property and possessions and on the other hand the liabilities.

Balance sheet contains all the Assets and Liabilities to show the exact financial position of the business. It is known as Balance Sheet because it shows the balances of ledger accounts which are left open after transferring all the nominal accounts to Trading & Profit & loss Account. Balances of all the Real and Personal Accounts are grouped together and shown in Balance Sheet as Assets and Liabilities.

Marshalling of Assets and Liabilities in Balance Sheet

The assets and liabilities must be shown in such a manner that the financial position of the business can be assessed through it easily and quickly. Thus, an arrangement is made in which assets and liabilities are shown in the balance sheet. Such an arrangement is called marshalling of assets and liabilities. There are three methods of marshalling:

1. Permanency Preference Method
2. Liquidity Preference Method

Permanency Preference Method

Under this method, the assets and liabilities are shown in balance sheet in the order of their permanence. In other words, the more permanent the assets and liabilities, the earlier they are shown.

Balance Sheet as on....

Liabilities	Assets
Fixed Liabilities: Capital Reserves Long term loans Current Liabilities: Sundry creditors Bills payable Bank overdraft Outstanding expenses	Fixed Assets: Good will Patent Land Building Plant & Machinery Furniture & Fixtures Current Assets: Investment Stock Sundry debtors Bills receivable Prepaid expenses Liquid Assets: Cash at bank Cash in hand

Liquidity Preference Method

Under this method, assets and liabilities are shown in order of their liquidity. The more liquid the assets, the earlier are they shown.

Balance Sheet as on.....

Liabilities	Assets
Current Liabilities: Sundry creditors Bills payable Bank overdraft Outstanding expenses Fixed Liabilities: Capital Reserves Long term loans	Liquid Assets: Cash at bank Cash in hand Current Assets: Investment Stock Sundry debtors Bills receivable Prepaid expenses Fixed Assets: Good will Patent Land Building Plant & Machinery Furniture & Fixtures

Classification of Assets

1. **Non-current Assets:** Acquired for continuous use and last for many years.

Example: Furniture, Motor Vehicles etc.

2. **Current Assets:** Either in the form of cash or can be easily converted into cash within 1 year of the date of Balance Sheet.

Example: Accrued Income, Closing stock etc.

Classification of Liabilities

1. Non-Current/ Long-term Liabilities

Liabilities which are to be paid after 1 year or more.

Example: Debentures, Public Deposits, etc.

2. Current or Short-term liabilities

Liabilities which are expected to be paid within 1 year of the date of the Balance Sheet.

Example: Bank overdraft, Bills Payable etc.

3. Contingent Liabilities

They are liabilities which will become payable only on the happening of some specific event, otherwise not.

Examples:

- a. Liabilities for bill discounted
- b. Liabilities in respect of a suit pending in a court of law
- c. Liability in respect of a guarantee given for another person.

***Contingent liabilities are not shown in the Balance Sheet but as a footnote below the Balance Sheet.

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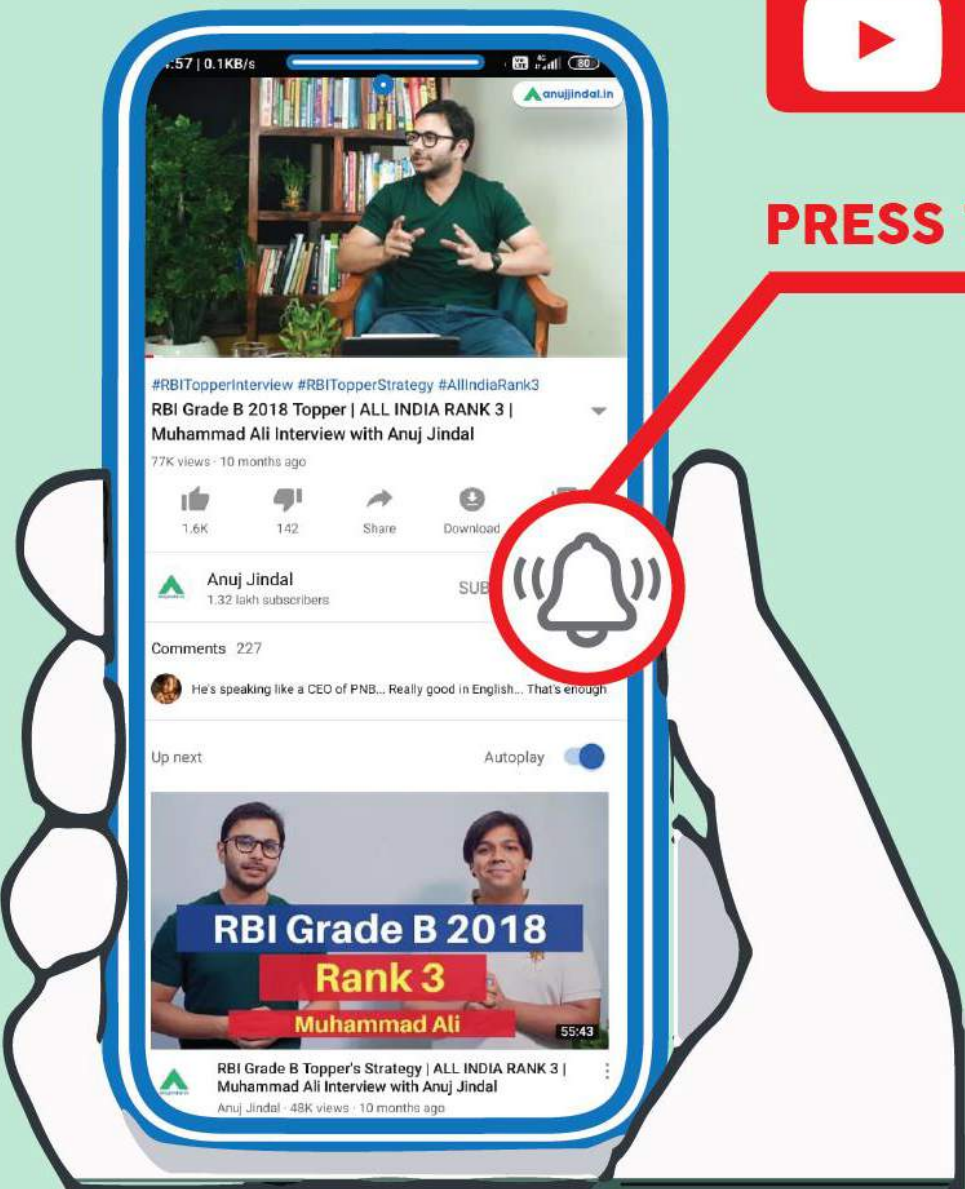
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Rajendran S

SEBI



All India Rank 03

Ali

RBI



All India Rank 06

Aditya Sood

RBI



All India Rank 10

Sameer

RBI



All India Rank 11

Abhishek

RBI



Cleared RBI Grade B

Sanskar Vijay



Cleared RBI Grade B

Sanjay Meena



Cleared RBI Grade B

Yash Gupta



Cleared RBI Grade B

Ila Sahu



Cleared RBI Grade B

Argha Banerjee



Cleared RBI Grade B

Suchana Ghosh



Cleared NABARD

Vinay Verma



Cleared NABARD

Lal Chand Kumar



Cleared NABARD

Krishna Kumar Singh



Cleared NABARD

Anshu Goel



Cleared NABARD

Jatin Kumar



Cleared NABARD

Atul Yadav



Cleared SEBI

Abhishek Kumar



Cleared SEBI

Vishwanidh Singh



Cleared SEBI

Gopika Jayan



Cleared SEBI

Vasant Kesari



Cleared SEBI

Swetha Bodagala



NET with 98 Percentile

Anushka Keshri



JRF with 96.92 Percentile

Vaishali Jadon



NET with 89.27 Percentile

Srishti Gupta



JRF with 72 Percentage

Abhishek Mohanty



NET with 68 Percentage

Dinesh Mohan



JRF with 64.66 Percentage

Adhwaresh Pandey

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