**B.S.C. 2nd YEAR**

**BUSINESS ACCOUNTING**

**Chapter - 1**

* **What is need of Accounting**

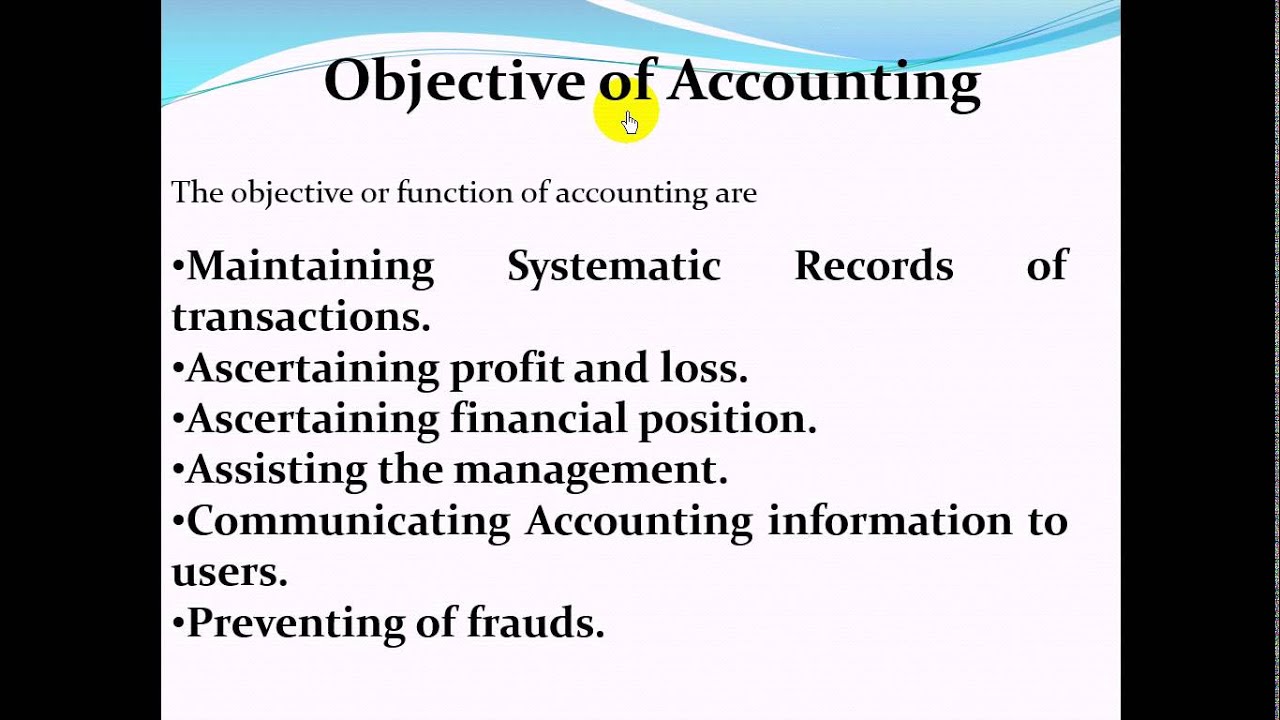
**Accounting** plays a vital role in running a business because it helps you track income and expenditures, assets and liabilities, ensure statutory compliance, and provide investors, management, and government with quantitative financial information which can be used in making business decisions. Some points are below:-

1. The types and amount of earnings
2. The types and amount of expenses
3. The amount of loss,
4. The amount, size and causes of increase or decrease of capital
5. The nature and value of assets possessed by the business
6. The nature and value of liabilities

* **WHAT IS DEFINATION OF ACCOUNTING**

**In simple way Accounting** is “the art of recording, classifying, and summarizing manner and in terms of money, transactions, and events which are, in part at least, of financial character, and interpreting the result thereof”.

**Accounting** is the process of recording financial transactions pertaining to a business. The accounting process includes summarizing, analyzing and reporting these transactions to oversight agencies, regulators and tax collection entities. The financial statements used in accounting are a concise summary of financial transactions over an accounting period, summarizing a company's operations, financial position and cash flows.

* **Objective of accounting**
* **ADVANTAGE OF ACCOUNTING**

1. **Maintenance of business records**
2. **Preparation of financial statements**
3. **Comparison of result**
4. **Decision making**
5. **Provides information to interested groups**
6. **Taxation problems**

* **Groups interested in accounting information**

1. **Owners**
2. **Management**
3. **Investors**
4. **Creditors**
5. **Employees**
6. **Government**

* **IMPORTANT TERMS OF BUSINESS**

1. **ASSETS**
2. **LIABILITY**
3. **CAPITAL**
4. **COST**
5. **REVENUE**
6. **EXPENSES**
7. **SUNDARY CREDITORS**
8. **SUNDARY DEBTORS**
9. **WORKING CAPITAL**
10. **TRANSACTIONS**
11. **PURCHASE**
12. **SALES**

**CHAPTER - 2**

**ACCOUNTING CONCEPTS**

**Accounting** is the language of business. Generally accepted accounting principle comprise a set of rules, concepts and guidelines used in preparing financial accounting reports. **Accounting concept** refers to the basic assumptions and rules and **principles** which work as the basis of recording of business transactions and preparing accounts.

* **Following is a list of accounting concepts agreed to by accountants:**

1. **BUSINESS ENTITY CONCEPTS**
2. **GOING CONCERN CONCEPT**
3. **ACCOUNTING PERIOD CONCEPTS**
4. **MONEY MEASUREMENT CONCEPT**
5. **DISCLOSURE CONCEPT (A C)**
6. **COST CONCEPT**
7. **DUAL- ASPECT CONCEPT**
8. **ACCRUAL CONCEPT**
9. **MATCHING CONCEPT**
10. **LEGAL ASPECT CONSEPT**
11. **REALISATION CONCEPT**
12. **MATERIALITY CONCEPT( A C)**
13. **CONSISTENCY CONCEPT ( A C)**
14. **CONSERVATISM CONCEPT (A C)**

**DIFFERENCE BETWEEN ACCOUNTING CONCEPT** AND **CONVENTION**

The key **difference between Accounting Concept** and **Convention** lies **in the** fact that **accounting concepts** refer to the rules and regulations of accounting, **Accounting conventions** are customs and traditions that guide accountants in preparing accounting statements.

**CHAPTER - 3**

**TYPES OF ACCOUNTS AND THEIR RULES**

In real accounting systems, transactions recorded in source documents are analysed and recorded for the first time in a journal, which is also known as the book of original entry. This practice provides a complete record of each transaction in one place, apart from linking the debits and credits for each transaction. After the debits and credits for each transaction are entered in the journal, they are journalizing. Once the journalizing process is complete, the journal entry provides a complete and useful description of the event’s effect on the organization. The process of transferring a journal entry to individual accounts is called positing. This sequence cause the journal to be called the Book of original entry and the ledger account as the Principal book of entry or Book of secondary entry.

* Journal proper
* Cash book
* Other day books
* Purchases (journal) book
* Sales (journal) book
* Sale returns (journals) book
* Sale returns (journal) book
* Bills receivable (journal) book
* Bills payable (journal) books

**Journal:-**

Journal is a day book or a daily record wherein the transactions are recorded in chronological order, i.e. as and when they take place. The act of recording a transaction in the journal is called journalizing.

To understand the Golden Rules of Accounting we must first understand the types of accounts.

1. **PERSONAL ACCOUNT**
2. **REAL ACCOUNT**
3. **NOMINAL ACCOUNT**

A **Personal account** is a General ledger account connected to all persons like individuals, firms and associations. An example of a Personal Account is a party’s a/c (Mohan,Harish) Bank, Firm limited company, owner capital a/c etc.

A **Real Account** is a general ledger account relating to Assets other than people accounts. An example of a Real Account is Assets, cash , goods.( PURCHASE, SALES)

A **Nominal account** is a General ledger account pertaining to all income, expenses, losses and gains. An example of a Nominal Account is an rent paid, rent receive, loss by fire etc.

RULES OF ACCOUNTS

1. **PERSONAL ACCOUNT ( Party, Bank, firm, owner capital)**

**Debit the Receiver (DR.)  
&  
Credit the Giver(CR.)**

1. **REAL ACCOUNT ( Assets , Cash, Goods)PURCHASE A/C , SALES A/C**

**Debit what comes in  
&  
Credit what Goes out**

1. **NOMINAL ACCOUNT( Expenses, Incomes, Profit, Loss)**

**Debit all the Expenses & Losses   
&  
Credit all the Incomes & Profits**

1. **RAM STARED BUSINESS WITH CASH RS. 120000**
2. **PURCHASED FURNITURE IN CASH RS. 11000 REAL A/C**
3. **PURCHASED GOODS FROM MOHAN IN CREDIT 5000**
4. **SOLD GOODS TO ROHAN IN CREDIT RS. 10000**
5. **PAID SALARIES IN CASH RS. 3000**
6. **RECEIVED CASH FROM ROHAN RS. 4000**
7. **PAID CASH TO MOHAN RS. 3000**
8. **CASH DEPOSIT IN SBI BANK RS. 1000**
9. **RECEIVED COMESSION IN CASH RS. 500**
10. **PAID RENT EXPENSES RS. 100**
11. **CASH A/C DR. 120000**

**TO CAPITAL A/C 120000**

1. **FURNITURE A/C DR. 11000**

**TO CASH A/C 11000**

1. **PURCHASE A/C DR. 5000**

**TO MOHAN A/C 5000**

1. **ROHAN A/C DR. 10000**

**TO SALES A/C 10000**

1. **SALARY A/C DR. 5000**

**TO CASH A/C 5000**

1. **CASH A/C DR. 4000**

**TO ROHAN A/C 4000**

1. **MOHAN A/C DR. 3000**

**TO CASH A/C 3000**

1. **SBI BANK A/C DR. 1000**

**TO CASH A/C 1000**

1. **CASH A/C DR. 500**

**TO COMS. A/C 500**

**10. RENT A/C DR 500**

**TO CASH A/C 500**

**1. Sumit started business with cash rs. 50000, bank 30000,**

**computer 15000, furniture 5000.**

**2. Purchase goods in cash rs. 12000**

**3. Purchase goods from sunita rs. 11000**

**4. Paid rent of April month from bank rs. 1000**

**5. Sales goods to riya rs. 10000**

**6. Sales goods in cash rs. 13000**

**7. Purchase a building from sohan rs. 130000**

**8. Paid to sunita from bank a/c rs. 5000**

**9. Deposit cash in to bank rs. 10000**

**10. Cash received from riya rs. 10000**

**1. CASH A/C DR. 50000**

**BANK A/C DR. 30000**

**COMPUTER A/C DR. 15000**

**FURNITURE A/C DR. 5000**

**TO CAPITAL A/C 100000**

**2. PURCHASE A/C DR. 12000**

**TO CASH A/C 12000**

**3. PURCHASE A/C DR. 11000**

**TO SUNITA A/C 11000**

**4. RENT EXP. A/C DR. 1000**

**TO BANK A/C 1000**

**5. RIYA A/C DR. 10000**

**TO SALES A/C 10000**

**6. CASH A/C DR. 13000**

**TO SALES A/C 13000**

**7. BUILDING A/C DR. 130000**

**TO SOHAN A/C 130000**

**8. SUNITA A/C DR. 5000**

**TO BANK A/C 5000**

**9. BANK A/C DR. 10000**

**TO CASH A/C 10000**

**10. CASH A/C DR. 10000**

**TO RIYA A/C 10000**

1. **Rohan started Business with Cash rs. 30000, Building rs. 50000, Stock rs. 10000**
2. **Sales goods to tarun in credit rs. 9000**
3. **Purchase goods from nitu in credit rs. 13000**
4. **Purchase goods in cash rs. 9000**
5. **Rent paid rs. 4000 in cash**
6. **Open a bank a/c in sbi bank and deposit cash rs. 10000**
7. **Salary paid from sbi bank a/c rs. 7000**
8. **Received cash from tarun rs. 6000**
9. **Commission received rs. 3000**

**10) cash withdrawn from sbi bank rs. 500**

**Cash a/c dr. 30000**

**Building a/c dr. 50000**

**Stock a/c dr. 10000**

**To capital a/c 90000**

**Tarun a/c dr. 9000**

**To sales a/c 9000**

**Purchase a/c dr. 13000**

**To nitu a/c 13000**

**Purchase a/c dr. 9000**

**To cash a/c 9000**

**Rent a/c dr. 4000**

**To cash a/c 4000**

**Sbi bank a/c dr. 10000**

**To cash a/c 10000**

**Salary a/c dr. 7000**

**To sbi bank a/c 7000**

**Cash a/c dr. 6000**

**To tarun a/c 6000**

**Cash a/c dr. 3000**

**To Commission recv. a/c 3000**

**Cash a/c dr. 500  
 To sbi bank 500**

1. **Sunil started Business with Cash rs. 30000, Building rs. 50000, Stock rs. 10000**
2. **Sales goods to manu in credit rs. 9000**
3. **Purchase goods from karan in credit rs. 13000**
4. **Purchase goods in cash rs. 9000**
5. **Rent paid rs. 4000 in cash**
6. **Open a bank a/c in sbi bank and deposit cash rs. 10000**
7. **Salary paid from sbi bank a/c rs. 7000**
8. **Received cash from tarun rs. 6000**
9. **Commission received rs. 3000**
10. **Cash withdrawn from sbi bank rs. 500**

**Cash a/c dr. 30000**

**Building a/c dr. 50000**

**Stock a/c dr. 10000**

**To capital a/c 90000**

**Manu a/c dr. 9000**

**To sales a/c 9000**

**Purchase a/c dr. 13000**

**To karan a/c 13000**

**Purchase a/c dr. 9000**

**To cash a/c 9000**

**Rent a/c dr. 4000**

**To cash a/c 4000**

**Sbi bank a/c dr. 10000**

**To cash a/c 10000**

**Salary a/c dr. 7000**

**To sbi bank a/c 7000**

**Cash a/c dr. 6000**

**To tarun a/c 6000**

**Cash a/c dr. 3000**

**To Commission recv. a/c 3000**

**Cash a/c dr. 500  
 To sbi bank 500**

**1   Commenced business with cash   80,000**

**2   Deposited cash with bank  40,000**

**3   Purchased goods by paying cash                    5,000**

**4   Purchased goods from Lipton & Co. on credit                             10,000**

**5   Sold goods to Joy and received cash               11,000**

**6   Paid salaries by cash                    5,000**

**7   Paid Lipton & Co. by cheque for the purchases made on 4th Jan.**

**8   Bought furniture by cash                       4,000**

**9   Paid electricity charges by cash                       1,000**

**10 Bank paid insurance premium on furniture as per standing instructions        300**

**Cash a/c dr. 80000**

**To capital a/c 80000**

**Bank a/c dr. 40000**

**To cash a/c 40000**

**Purchase a/c dr. 5000**

**To cash a/c 5000**

**Purchase a/c dr. 10000**

**To lipton co. A/c 10000**

**Cash a/c dr. 11000**

**To sales 11000**

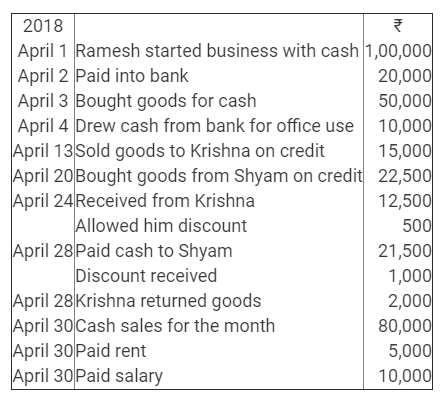
**Salary exp a/c dr 5000**

**To cash a/c 5000**

**Lipton co. a/c dr 10000**

**To bank a/c 10000**

* **On April 01, 2016 Anees started business with Rs. 100,000 and other transactions for the month are:**
* **Purchase Furniture for Cash Rs. 7,000.**
* **Purchase Goods for Cash Rs. 2,000 and for Credit Rs. 1,000 from Khalid Retail Store.**
* **Sold Goods to Khan Brothers Rs. 12,000 and Cash Sales Rs. 5,000.**
* **Owner withdrew of worth Rs. 2,000 for personal use.**
* **Paid Khalid Retail Store Rs. 500.**
* **Received Rs. 10,000 from Khan Brothers.**
* **Paid Salaries Expense Rs. 2,000**



**Mr. Nirmal has the following transactions in the month of April.**

**Write Journal Entries for the transactions.**

|  |  |  |
| --- | --- | --- |
| **10th April** | **:** | **Commenced business with a capital of 1,00,000** |
| **11th April** | **:** | **Purchased goods from Veeru for 20,000** |
| **13th April** | **:** | **Purchased Goods for Cash 15,000** |
| **14th April** | **:** | **Purchased Goods from Abhiram for cash 9,000** |
| **16th April** | **:** | **Bought Goods from Shyam on credit 12,000** |
| **17th April** | **:** | **Sold goods worth 15,000 to Tarun** |
| **19th April** | **:** | **Sold goods for cash 20,000** |
| **20th April** | **:** | **Sold goods to Utsav for cash 6,000** |
| **21st April** | **:** | **Sold goods to Pranav on credit 17,000** |
| **22nd April** | **:** | **Returned goods to Veeru 3,000** |
| **23rd April** | **:** | **Goods returned from Tarun 1,000** |
| **25th April** | **:** | **Goods taken by the proprietor for personal use 1,000** |
| **26th April** | **:** | **Bought Land for 50,000** |
| **27th April** | **:** | **Purchased machinery for cash 45,000** |
| **28th April** | **:** | **Bought computer from Intel Computers for 25,000** |
| **28th April** | **:** | **Cash sales 15,000** |
| **29th April** | **:** | **Cash purchases 22,000** |
| **30th April** | **:** | **Bought furniture for proprietor's residence and paid cash 10,000** |

|  |
| --- |
| **Started business with cash rs.1,00,000 and bank rs. 50000** |
| **Purchased goods from for cash rs. 10,000** |
| **Purchased Goods form tanu 15,000** |
| **Purchased Goods from for cash 90,000** |
| **Bought Goods from rohan on credit 12,0000** |
| **Sold goods worth 15,000 to tushar** |
| **Sold goods for cash 4,000** |
| **Goods taken by the proprietor for personal use 1,000** |
| **Bought machinery for 50,000** |
| **Purchased machinery for cash 45,000** |
| **Cash sales 15,000** |
| **cash purchases 22,000** |
| **Cash withdraw from bank rs. 4000 for office use** |
|  |
|  |
|  |
|  |
|  |

**Chapter - 4**

**Ledger:-**

Ledger is the principal book of the accounting system and is also called the book of secondary entry. It is defined as a book of final entry containing all the accounts of a business or all the accounts of a particular type. In a ledger, the transactions of the same nature are classified and grouped together at one place in the form of accounts. Ledgers may be in the form of bound register, card, or separate sheets maintained in a loose leaf binder.

**Need for Ledger:-**

A well-maintained accounting system plays a significant role in the growth of a n organization. The ledger, as a record of the transactions, assumes great importance in the process. The net result of all transactions in respect of a particular account on a given date can be ascertained only from the ledger.

**Distinction between Journal and Ledger:-**

|  |  |
| --- | --- |
| **Journal** | **Ledger** |
| The book of primary entry (original entry) | The book of secondary entry. |
| It is the book for chronological record. | It is the book for analytical record. |
| Journal, as a book of source entry, gets greater importance as legal evidence. | Ledger gets lesser importance as legal evidence. |
| Transaction is the basis of classification of data. | Account is the basis of classification of data. |
| The process of recording in the journal is known as journalising. | The process of recording in the ledger is known as posting. |

**Posting from Journal**

The process of transferring entries from the books of original entry (journal) to the ledger is called posting. In other words, posting is the process of grouping all the transactions in respect to a particular account at one place for a meaningful conclusion and to further the according process. Depending on the requirement and convenience of the business, posting from the journal may be done periodically i.e. weekly, fortnightly, or monthly.

|  |  |
| --- | --- |
| **Date** | **Transactions** |
| 01.06, 2014 | Started a business with cash of Rs. 4,00,000 |
| 03.06, 2014 | Opened an account in HDFC Bank by depositing Rs. 1,00,000 |
| 05.06, 2014 | Purchased furniture for Rs. 20,000 by paying cash |
| 10.06, 2014 | Goods purchased from Ranjan Traders for Rs. 50,000 |
| 15.06, 2014 | Sold goods on cash Rs. 25,000 |
| 20.06, 2014 | Paid insurance of Rs. 2000 by cash |
| 22.06, 2014 | Paid Rs. 3000 towards rent in cash |
| 25.06, 2014 | Paid Rs. 5000 as salary to the manager in cash |
| 26.06, 2014 | Sold goods worth Rs. 8000 to Raghu |
| 27.06, 2014 | Purchased stationery worth Rs. 200 in cash |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Dr.** | | | **Cash Account** | | | **Cr.** | |
| **Date** | **Particulars** | **J.F.** | **Amount (Rs.)** | **Date** | **Particulars** | **J.F.** | **Amount (Rs.)** |
| 1.6.2014 | To Capital A/c |  | 4,00,000 | 3.6.2014 | By HDFC Bank A/c |  | 1,00,000 |
| 15.6,2014 | To Sales A/c |  | 25,000 | 5.6.2014 | By Furniture A/c |  | 20,000 |
|  |  |  |  | 20.6.2014 | By Insurance A/c |  | 2,000 |
|  |  |  |  | 22.6.2014 | By Rent A/c |  | 3,000 |
|  |  |  |  | 25.6.2014 | By Salary A/c |  | 5,000 |
|  |  |  |  | 27.6.2014 | By Stationery A/c |  | 200 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Dr.** | | | **Furniture Account** | | | **Cr.** | |
| Date | **Particulars** | **J.F.** | **Amount (Rs.)** | **Date** | **Particulars** | **J.F.** | **Amount (Rs.)** |
| 05.6.2014 | To Cash A/c |  | 20,000 |  |  |  |  |

**Chapter - 5**

**Recording of Transactions – II**

**Introduction:-**

Business transactions are first recorded in the journal and then posted to ledger accounts. Small business usually record all their transactions in a single journal. In large organisations, the journal is sub-divided into special journals, also known as day books or subsidiary books.

A special journal facilitates division of labour in accounting work and enables you to record transactions of a similar nature. Business transactions, which are repetitive in nature, can be easily recorded in special journals. For example, all cash transactions may be recorded in one book, all credit sales transactions in another book, and so on. Transactions that cannot be recorded in any special journal are recorded in the journal proper.

This chapter deals with the following special purpose books.

* Cash book
* Purchases book
* Purchases return (Return outwords) book
* Sales book
* Sales return (Return inwards) book
* Journal proper

**Cash Book**

The Cash book is an accounting book which records cash receipts and disbursements. It is opened with a cash or bank balance at the beginning of the period. The entries are balanced on a monthly basis. Cash book, also known as book of original entry, is maintained by all organization, big or small, profit or non-for-profit. It serves the purpose of both journal as well as the ledger account. When a cash book is maintained, transactions of cash are not recorded in the journal and no separate account for cash or bank is required in the ledger.

**Single Column Cash Book**

The single column cash book records all cash transactions (receipts and payments) of a business in chronological order. It has only one amount column on each (debit and credit) side.

|  |  |
| --- | --- |
| **Date** | **Transactions** |
| 01.10.2015 | Business has an operating cash balance of Rs. 40,000 |
| 02.10.2015 | Received cash Rs. 20,000 from Gaganjeet |
| 05.10.2015 | Paid Rs. 3,000 towards insurance premium |
| 10.10.2015 | Purchased furniture for cash Rs. 5,000 |
| 20.12.2015 | Sold goods for cash Rs. 10,000 |
| 15.10.2015 | Purchased goods for cash Rs. 4500 from Tom |
| 18.10.2015 | Purchased stationery for cash Rs. 200 |
| 20.10.2015 | Paid cash Rs. 3200 to Ram Mohan in full settlement of his account |
| 25.10.2015 | Paid Rs. 4750 towards the rent |
| 28.10.2015 | Paid Rs. 6,000 as salary |
| 30.10.2015 | Deposit cash Rs. 10,000 in bank |

**The transactions are recorded in the cash book as shown.**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **R.No.** | **L.** | **Amount (Rs.)** | **Date** | **Particulars** | **V.No.** | **L.** | **Amount (Rs.)** |
| 2015 |  |  |  |  | 2015 |  |  |  |  |
| Oct. 01 | To Balance b/d |  |  | 40,000 | Oct. 05 | By Insurance A/c |  |  | 3,000 |
| Oct. 02 | To Ganganjeet A/c |  |  | 20,000 | Oct. 10 | By Furniture A/c |  |  | 5,000 |
| Oct. 12 | To Sales A/c |  |  | 10,000 | Oct. 15 | By Purchases A/c |  |  | 4500 |
|  |  |  |  |  | Oct. 18 | By Stationery |  |  | 200 |
|  |  |  |  |  | Oct. 20 | By Ram Mohan A/c |  |  | 3,200 |
|  |  |  |  |  | Oct. 25 | By Rent A/c |  |  | 4,750 |
|  |  |  |  |  | Oct. 28 | By Salary A/c |  |  | 6,000 |
|  |  |  |  |  | Oct. 30 | By Bank A/c |  |  | 10,000 |
|  |  |  |  |  | Oct. 31 | By Balance c/d |  |  | 33,350 |
|  |  |  |  | 70,000 |  |  |  |  | 70,000 |
| Nov. 01 | To Balance b/d |  |  | 33,350 |  |  |  |  |  |

**Sales Account**

Example:-

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **F.** | **Amount (Rs.)** | **Date** | **Particulars** | **F.** | **Amount** |
|  |  |  |  | Oct. 02, 2012 | By cash |  | 20,000 |

**Sales Account**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **F.** | **Amount (Rs.)** | **Date** | **Particulars** | **F.** | **Amount** |
|  |  |  |  | Oct. 02, 2012 | By cash |  | 10,000 |

**Double Column Cash Book:-**

A double column cash book contains two columns of amounts on each side of the cash book. In many organizations, as far as possible, all receipts and payments are affected through a bank.

As the number of bank transactions increases, a separate amount column can be maintained in the cash book to record bank transactions. Using this, you are updated on the position of the bank account from time to time. Entries of all deposits made to the bank are recorded on the left. Withdrawals/ payments through the bank are recorded on the right. Cash deposits and cash withdrawals are recorded both in the bank column and cash column because both aspects of the transaction appear in the cash book itself. The amount of cash deposited in the bank is recorded in the bank column on the left. At the same time, the same amount is entered in the cash column on the right. The reverse entries are recorded when cash is withdraw from the letter C which indicates contra is written against such entries. This ensures that these entries are not to be posted to any other ledger account.

In a cash book, particulars of cheques received are entered are entered in the blank column. If a cheque is deposited in the bank on the day of its receipt, the amount is recorded in the bank column of thee cash book on the receipts side. If it is deposited on another day, it is treated as cash received on the date of receipt and hence recorded in the cash column on the receipts side. It is recorded in the bank column on the receipt (Dr.) side and in the cash column on the payment (Cr.) side on the day of deposit to the bank. This is a contra entry.

|  |  |
| --- | --- |
| Date | Transactions |
| 01.12.2014 | Business has cash balance of Rs. 25,000 and bank balance of Rs. 50,000 |
| 02.12.2014 | Purchased goods for Rs. 5,000 and paid by cheque |
| 05.12.2014 | Sold goods for cash Rs. 6,000 |
| 08.12.2014 | Purchased machinery worth Rs. 15,000 by Cheque |
| 10.12.2014 | Received cheque for Rs. 10,000 towards the sales made and deposited it in bank |
| 15.12.2014 | Goods purchased from Sarala on cash for Rs. 8,000 |
| 18.12.2014 | Purchased stationery for Rs. 750 and paid by cheque |
| 20.12.2014 | Issued cheque for Rs. 2,000 Uday Shankar in full settlement of his account |
| 22.12.2014 | Withdrew cash Rs. 4,500 from bank for office use |
| 23.12.2014 | Paid Rs. 3,000 towards rent by cheque |
| 25.12.2014 | Paid Rs. 10,000 as salary in cash |
| 28.12.2014 | Withdraw Rs. 1,000 from bank for personal use |

**Petty Cash Book**

Miscellaneous expenses such as conveyance, cartage, postage, telegrams, and so on are common to every organization. These are generally repetitive in nature and it would burden the cashier to record all these payments in the main cash book. Further, the cash book would become very bulky. Hence, large organizations usually appoint a petty cashier and maintain a separate cash book to record such transactions. Such a cash book is called a petty cash book.

Generally, petty cash book have a number of columns for the amount on the payment side (credit) besides the first total payment column. Each of the amount columns is allotted for iteam of specific payments which are most common. The last amount column is ‘miscellaneous’. Payments for which a separate column does not exist are recorded in the miscellaneous column. At the end of the period all amount columns does not exist are recorded in the miscellaneous column. At the end of the period, all amount columns are totaled. The total payment column shows the total amount spent and to be reimbursed. On the receipt (debit) side, there is only one amount column. Columns for the date, voucher number and particulars are common for both receipts and payments.

|  |  |  |
| --- | --- | --- |
| **Date** | **Particulars** | **Amount (Rs.)** |
| 1.6.2015 | Auto Free | 60 |
| 3.6.2015 | Courier expenses | 100 |
| 5.6.2015 | Purchased postal stamps | 75 |
| 10.6.2015 | Stationery purchased (Erasers/ Sharpeners/ Pencils/Pads | 200 |
| 11.6.2015 | Paid speed post charges | 30 |
| 12.6.2015 | Taxi fare (Rs. 65+Rs. 40) | 105 |
| 13.6.2015 | Refreshments | 180 |
| 13.6.2015 | Auto free | 40 |
| 14.6.2015 | Registered post expenses | 15 |
| 15.6.2015 | Paid telegram expenses | 45 |
| 16.6.2015 | Paid cartage | 20 |
| 18.6.2015 | Purchased computer stationery | 300 |
| 19.6.2015 | Bus fare | 20 |
| 20.6.2015 | Office sanitation including disinfectant | 50 |
| 21.6.2015 | Refreshments | 35 |
| 25.6.2015 | Courier charges | 40 |
| 25.6.2015 | Unloading charges | 80 |
| 28.6.2015 | Bus fare | 45 |

**Purchase (Journal Bok)**

A purchase (journal) book is used to record all credit purchases of goods used in the normal course of business. Other purchases such as the purchases of office equipment, furniture, and building are recorded in the journal proper, if purchased on credit, or in the cash book if purchased for cash. Invoices or bills received from supplies of goods are the source documents to record entries in the book. Entries are made with net amount of the invoice. Details of the invoice such as trade discount need not be recorded in this book.

The format of purchase book is as follows.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars (Name of this Supplier) | Inward Invoice No. | Ledger Folio | Amount (Rs.) |
|  |  |  |  |  |

|  |  |
| --- | --- |
| Date | Particulars |
| 1.4.2015 | Purchased 10 TV sets at Rs. 6,000 per piece and 10 tape recorders at Rs. 2500 per piece from Arun Supplies (Invoice No. A – 5621). Trade discount allowed at 5%. |
| 5.4.2015 | Purchased 10 iron boxes at Rs. 800 per piece and 20 stablilisers at Rs. 800 per piece from International Electricals (Invoice No. 4722) |
| 11.4.2015 | Purchased 10 color TV sets at Rs. 10,000 per piece from Praghna Electricals (Invoice No. 6983). Trade discount allowed at 12.5%. |
| 19.04.2015 | Purchased 25 tape recorders at Rs. 1750 per piece and 5 air conditioners at Rs. 20,000 per piece from Neelima Electricals (Invoice No. 5671). Trade discount allowed at 10%. |
| 28.4.2015 | Purchased 50 Video cassettes at Rs. 250 per piece from Arun Suppliers (Invoice No. 6344). |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars (Name of the Supplier) | Inward Invoice No. | Ledger Folio | Amount Rs. |
| 1.4.2015 | Arun  10 TV sets @ Rs. 6000 per piece (6,000 x 10 = 60,000  10 Tape Recorders @Rs. 2500 (2500 x 10 = 25,000)  Less : Trade Discount @5% (85,000 x 5/100 = 4,250) | A – 5621 |  | 80,750 |
| 5.4.2013 | International Electricals  10 Iron Boxes @ Rs 800 per piece (800x10 = 8,000)  20 stabilisers @ Rs. 800 per piece (800 x 20 = 16,000) | 4722 |  | 24,000 |
| 11.4.2013 | Praghna Electricals  10 Colour TV Set @ Rs. 10,000 Per piece (10000 x 10= 1,00,000)  Less : Trade discount @ 12.5% (1,00,000 x 12.5/100= 12,500) | 6983 |  | 87,500 |
| 19.4.2013 | Neelima Electricals  25 Tape Recorders @Rs. 1750 per piece (1750 x 25 = 43,750)  5 Air Conditioners @Rs. 20,000 per piece (20000x5=1,00,000)  Less : Trade Discount @10% (143750 x 10/100 = 14,375) | 5671 |  | 1,29,375 |
| 28.4.2013 | Arun Suppliers  50 video Cassettes @Rs. 250 per piece (50x250 = 12,500) | 6344 |  | 12,500 |
|  |  |  |  | 3,34,125 |

**Sales Journal Book**

The sales journal is book maintained to record all credit sales of merchandise. The format of the sales journal is similar to that of the purchases journal explained earlier. Sales invoices or bills, issued by the firm to its customers, are the source documents to record entries in the sales journal

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Particulars (Name of Customers)** | **Outwards Invoice No.** | **L.F.** | **Amount (Rs.)** |
|  |  |  |  |  |

Kamath Traders sold the following items on credit.

|  |  |
| --- | --- |
| Dat | Particulars |
| 15.5.2015 | Two air conditioners at Rs. 20,000 per piece to Anand & Co. and allowed a discount of 10% (Invoice No. 5567) |
| 20.05.2015 | Twenty stabilisers at Rs. 980 per piece to Naveen, Mumbai (Invoice No. 5588) |
| 28.5.2015 | 25 video cassetters at Rs. 350 per piece to Akash Traders (Invoice No. 5606) |

Books of Kamath Traders

Sales (Journal Book)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Particulars (Name of Customers) | Outward Invoice No. | L.F. | Amount (Rs.) |
| 15.5.2015 | Anand & Co  2 Air Conditioners at 20,000 per piece  (2x20,000 = 40,000  Less : Trade Discount at 10%  (40,000 x 10/100=4,000) | 5567 |  | 36,000 |
| 20.05.2015 | Naveen, Mumbai  20 Stabilisers at 980 per piece  (20x980=19,600) | 5588 |  | 19,600 |
| 28.5.2015 | Akash Traders  25 Video Cassettes at 350 per piece  (25x350=8,750) | 5605 |  | 8,750 |
|  |  |  |  | **64350** |

**Posting from the Sales Returns Journal**

In order to post from the sales return journal, the customer’s account must be credited with the amount of returns and the sales return account must be debited with the periodic total.

**Journal Proper**

The Journal proper is a book maintained record transactions that cannot be recorded in any of the special journals. It is also known as modern journal or journal residual.

A journal proper generally records the following entries.

* Opening entries
* Rectifying entries
* Transfer entries
* Adjustment entries
* Closing entries
* Entries regarding dishonor of cheques
* Credit purchases and sale of things other than goods
* Entries of goods withdrawn by the owner for personal use
* Loss of goods by fire, theft and so on
* Transactions with respect to consignment and joint ventures.

**Balancing the Account**

Balancing an account is a process wherein two sides of the account are totaled and the difference between them is shown on the side which is shorter in order to make their totals equal. This is a periodic process which is generally done at the end of the accounting period to ascertain the net position of each amount.

The words balance brought down (c/d) are written against the amount of the difference between the two sides of ledger account. It indicates that the balance in that account has been carried down as the next period.

The words balance brought down (b/d) indicates that the opening balance in the ledger account has been brought down from the previous period. This shows that it is a continuing account until finally settled or closed.

|  |  |
| --- | --- |
| Date | Transactions |
| 01.7.2015 | Commenced business with cash Rs. 8,00,000 |
| 02.7.2015 | Purchased office furniture for Rs. 25,000 on credit from Pari Furniture House |
| 05.7.2015 | Opened an account in SBI by depositing Rs. 5,00,000 |
| 07.7.2015 | Purchased goods for cash Rs. 14,000 |
| 08.7.2015 | Sold goods worth Rs. 17,000 for cash |
| 08.7.2015 | Bank collected Rs. 250 towards the dividend on shares |
| 10.7.2015 | Purchased goods worth Rs. 21,000 from Amritha Traders on credit |
| 11.7.2015 | Rent due for the month of June Rs. 6,000 |
| 13.7.2015 | Purchased goods for Rs. 8,000 on credit from Amar |
| 14.7.2015 | Paid Rs. 150 as commission |
| 15.7.2015 | Issued a cheque for Rs. 21,000 to Amritha Traders in full settlement of their account |
| 18.7.2015 | Sold goods for Rs. 5,000 on credit to Global Traders |
| 20.7.2015 | Withdraw Rs. 2,000 for personal use |
| 22.7.2015 | Sold goods for Rs. 10,000 on credit to International Traders |
| 23.7.2015 | Received cheque for Rs. 5,000 from Global Traders |
| 24.7.2015 | Deposited the cheque of Global Traders in bank |
| 26.7.2015 | Returned goods worth Rs. 1,000 to Amar |
| 27.7.2015 | Bank dishonoured the cheque of Global Traders deposited on 24.7.2013 |
| 28.7.2015 | Received the goods worth Rs. 1500 returned by International Traders. |
| 30.7.2015 | Paid Rs. 8,500 as salary |
| 31.7.2015 | Purchased stationery for Rs. 2,000 by cheque |
| 01.8.2015 | Received cash Rs. 10,000from Raghu on accont |
| 05.08.2015 | Withdrew cash Rs. 5,000 from bank for office use |
| 08.8.2015 | Withdrew goods worth Rs.500 for personal use |
| 10.8.2015 | Purchased goods for Rs. 7,300 on credit from Amritha Traders |
| 20.8.2015 | Sold goods for Rs. 4,500 on credit to Nagaraj |
| 22.8.2015 | Returned goods worth Rs. 300 to Amritha traders |

**Chapter - 6**

**Tral Balance and Rectification of Errors**

**Meaning of Trial Balance**

The trial balance is a statement showing the balances or total of debits and credits of all the in the ledger, with a view to verify the arithmetical accuracy of posting to the ledger accounts. It is an important statement in the accounting process as it shows the final position of all accounts and helps in preparing the final statements.

**Ascertains the Arithmetical Accuracy of Ledger Accounts**

The purpose of preparing a trial balance is to ascertain whether all debits and credits have been properly recorded in the ledger and accounts correctly balanced. As a summary of the ledger, the trial balance is a list of accounts and their balances. When the totals of all debit and credit balances in the trial balance are equal.it is assumed that the posting and balancing of accounts are arithmetically correct.

**Helps to Locate Errors**

When a teial balance does not tally (i.e. the totals of the debit and credit columns are not equal), it implies that there has been an error.

* Totalling of subsidiary books
* Positing of journal entries to the ledger

Accountancy Simplified

* Calculating account balances
* Carrying account balance to the trial balance
* Totalling the trial balance columns

**Helps to prepare Financial Statements**

The trial balance is a link between accounting records and financial statements. When preparing a financial statement, the ledger need not be referred. In fact, the availability of a tallied trial balance is the first step in the preparation of financial statements. All revenue and expense accounts appearing in the trial balance are transferred to the balanced sheet.

**Steps Involved in the Process**

* Ascertain the balance of each account in the ledger.
* List each account and place its balance in the debit or credit column, as the case may be.(If an account has zero balance, it can be included in the trial balance with zero in the column for its normal balance)
* Compute the total of the debit balance column.
* Compute the total of the credit balance column.
* Verify that the sum of debit balances equals the sum of credit balances. All assets, expenses, and receivables accounts shall have debit balances, while all liabilities, revenues, and payables accounts shall have credit balances.

**Methods of Preparation**

A trial can be prepared using any of the following methods.

* Totals method
* Balances method
* Totals-cum-balance method
* **Totals Method**

In the method, the total of each side in the ledger (devut and credit) is ascertained separately and shown in the trial balance, in the respective columns. The total of the debit column should agree with the total of the credit column as the accounts are based on the double entry system.

* **Balances Method**

Balances method is the most widely used method in practice. In this method, the trial balanced is prepared by showing the balances of all ledger accounts and then totaling the debit and credit columns to ensure that they are correct. The account balances are used because the balances financial statements

**Totals-cum-balances Method**.

* This method is a combination of the totals method and balances method. In this method, four columns are prepared for amount. Two columns are meant for the debit and credit totals of various accounts and the other two are for the debit and credit balances of these accounts.

**Sample Trial Balance**

Trial Balance of …………………..as on …………………..

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Title** | **L.F.** | **Debit (Rs.)** | **Credit (Rs.)** |
| Capital |  | Capital | Xxx |
| Land and buildings |  | - | - |
| Plant and machinery |  | xxx | - |
| Equipment |  | xxx | - |
| Furniture and fixtures |  | xxx | - |
| Cash in hand |  | xxx | - |
| Cash in bank |  | xxx | - |
| Debtors |  | xxx | - |
| Bills receivable |  | xxx | - |
| Opening stock of raw materials |  | xxx | - |
| Work in progress |  | xxx | - |

|  |  |  |  |
| --- | --- | --- | --- |
| **Account Title** | **L.F.** | **Debit (Rs.)** | **Credit (Rs.)** |
| Stock |  | xxx | - |
| Prepaid insurance |  | xxx | - |
| Purchases |  | xxx | - |
| Carriage inwards |  | xxx | - |
| Carriage outwards |  | xxx | - |
| Sales |  | - | xxx |
| Sales return |  | xxx | - |
| Purchases return |  | - | xxx |
| Interest paid |  | xxx | - |
| Commission/Discount received |  | - | Xxx |
| Salaries |  | xxx | - |
| Long term loan |  | - | xxx |
| Bills payable |  | - | xxx |
| Creditors |  | - | xxx |
| Outstanding salaries |  | - | xxx |
| Outstanding interest earned |  | xxx | - |
| Advances from customers |  | - | xxx |
| Drawings |  | xxx | - |
| Reserve fund |  | - | xxx |
| Provision for doubtful |  | - | xxx |
| **Total** |  | **xxx** | **xxx** |

The following examples will help you understand how to prepare a trial balance.

**Illustration 1**

From the following ledger balances extracted from the books of Mr. Raghu, prepare the trial balance as on 31.12.2015.

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Amount (Rs.)** | **Particulars** | **Amount (Rs.)** |
| Debtors | 12,000 | Purchases return | 400 |
| Creditors | 10,000 | Sales return | 500 |
| Capital | 15,000 | Buildings | 10,000 |
| Drawing | 5,200 | Rent paid | 500 |
| Cash balance | 300 | Furniture | 5,000 |
| Bank balance | 2,100 | Sales | 2,100 |
| Purchases | 20,000 | Interest received | 200 |

**Solution**

Trial Balance as on 31.12.2015

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sr. No.** | **Name of the Accounts** | **L.F.** | **Debits (Rs.)** | **Credit (Rs.)** |
| 1. | Debtors |  | 12,000 | - |
| 2. | Creditors |  | - | 10,000 |
| 3. | Capital |  | - | 15,000 |
| 4. | Drawings |  | 5,200 | - |
| 5. | Cash balance |  | 300 | - |
| 6. | Bank balance |  | 2,100 | - |
| 7. | Purchases |  | 20,000 | - |
| 8. | Sales |  | - | 30,000 |
| 9. | Buildings |  | 10,000 | - |
| 10. | Rent paid |  | 500 | - |
| 11. | Purchases return |  | - | 400 |
| 12. | Sales return |  | 500 | - |
| 13. | Interest received |  | - | 200 |
| 14. | Furniture |  | 5,000 | - |
|  | **Total** |  | **55,600** | **55,600** |

**Illustration 2**

Journalise the following transaction in the books of Mr. Sanjay. Post them to the ledger, balance the accounts and draft the trial balance as on 30.06.2015.

|  |  |  |
| --- | --- | --- |
| Date | Debit (Rs.) | Amount (Rs.) |
| June 01 | Sanjayu commenced business with |  |
|  | Cash | 50,000 |
|  | Furniture | 50,000 |
|  | Buildings | 3,00,000 |
| June 03 | Sold goods to prashant | 50,000 |
| June 08 | Bought goods from Mahesh | 1,00,000 |
| June 14 | Received cash from Prashant in settlement of his account | 50,000 |
| June 20 | Returned goods of Mahesh | 5,000 |
| June 24 | Paid Mahesh on account | 20,000 |
| June 26 | Bought goods from Suma for cash | 10,000 |
| June 27 | Sold goods for cash | 1,00,000 |
| June 30 | Paid salaries | 20,000 |
| June 30 | Paid rent | 10,000 |
|  |  |  |