FINANCIAL ACCOUNTING

LEARNING OBJCTIVES

- BASIC CONCEPTS IN ACCOUNTING
- JOURNAL
- LEDGER
- CASH BOOKS
- TRIAL BALANCE
- PREPERATION OF FINAN ACCOUNTS

ACCOUNTING

Accounting is concerned with the process of recording, classifying and summarising data resulting form business operations and events. According to American Accounting Association accounting is ‘the process of identifying, measuring and communicating economic information to permit informed judgements and decision by users of the information’.

The definition given by the (AICPA) American institute of Certified Public Accountants clearly brings out the meaning and functions of accounting. According to it 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, at least, of a finance character and interpreting the results thereof”.

The General Equation of Accounting

Assets = Liabilities + Owner’s Equity

GAAP

Generally Accepted Accounting principles, A widely accepted set of rules, conventions, standards, and procedures for reporting financial information, as established by the Financial Accounting standards Board (FASB).

GAAP PRINCIPLES:

The common set of principles, standards and procedures that companies use to compile their financial statement. GAAP are a combination of authoritative standards (set by policy boards) and simply the commonly accepted ways of recording and reporting accounting information

Advantages of Accounting:

The present Global economic world the Accounting process has the following advantages.

1. Provides information for Systematic records: Since all the financial transactions are recorded in the books, one need not rely on memory. Any information required is readily available from these records.
2. Facilitates the preparation for financial statements: Profit and loss account and balance sheet can be easily prepared with the help of the information in the records. This enables the trader to know the net result of business operations.(i.e profit / loss) during the

accounting period and the financial position of the business at the end of the accounting period.

3. Provides the control over Assets: Book keeping provides the information regarding cash in hand, cash at bank, stock of goods, accounts receivable from various parties and the accounts invested in various other assets. As the trader knows the values of the assets he will have control overt them.
4. Provides the required information: Interested parties such as owners. Lenders, creditors etc... Get necessary information at frequent intervals.
5. Comparative Study: One can compare the present performance of the organisation with that of its past. This enables the managers to draw useful conclusions and make proper decisions.
6. Tax matters: Properly maintained book-keeping records will help in the settlement of all tax matters with the tax authorities.
7. Helpful to management: Accounting is useful to the management in many ways. It enables the management to assess the achievement of its performance. The weaknesses of the business can be identified and corrective measurements can be applied to remove them with the help of accounting.

TYPES OF ACCOUNTS:

An account is a summary of the relevant transactions at one place relating to a particular head. Based on accounting principles accounts are divided into three types. They are as follows.

1. **Personal Accounts**: These accounts are relates to natural persons, artificial persons and representative persons. For examples, Ram account, Ram & company Account.
2. **Real Accounts:** These accounts relate to assets. For examples, Plant and Machinery Account, Land and Buildings Account, Furniture Account etc.
3. **Nominal Accounts:** These accounts relate to expenses, losses and incomes and profits. For example, Salary expenditure, Rent paid, Rent received, Commission received etc...

Rules of Accounting:

ACCOUNTING TYPE	DEBIT	CREDIT
PERSONAL ACCOUNTS	Receiver	Giver
REAL ACCOUNTS	What comes in	What goes out
NOMINAL ACCOUNTS	Expenses and losses	Incomes and gains

Note: Real and Nominal Accounts are called Impersonal Accounts.

BRANCHES OF ACCOUNTING

Accounting Branches can be classified into the following categories:

1. **Financial Accounting:** The main purpose of this type of accounting is to record business transactions in the books of accounts in such a way that operating results for a particular period and financial condition on a particular date can be known for the information of the various groups of persons.

2. **Cost Accounting:** It relates to the collection, classification, ascertainment of cost and its accounting and cost control relating the various elements of cost, i.e. materials and Labour.

3. **Management Accounting**: It relates to the use of accounting data collected with the help of financial accounting and cost accounting for the purpose of policy formation, planning control and decision making by the management.

OBJECTIVES OF ACCOUNTANCY:

1. To provide knowledge of transactions...
2. To provide knowledge about creditors, debtors and overall financial positions.
3. To find our total purchases, total sales and closing stock etc.
4. To find out net profit or loss made during a particular financial period.
5. To provide knowledge about capital assets and liabilities of the firm at any particular time.
6. To provide ready information to all interested parties.

Limitations of Accounting: The following are the limitations of accounting.

1. Does not record the all events.
2. Does not reflect the current values
3. Estimates based on personal judgement
4. Inadequate information on costs and profits.

Accounting Principles

The term Principle refers to fundamental belief or a general truth which once established does not change. Accounting principles or standards are general rules adopted in accounting. These principles enable standardization in recording and reporting of financial information. They are developing for common usage to ensure uniformity and understandability.

Accounting Principles can be classified into two categories.

1. Accounting concepts and
2. Accounting conventions

The concepts and convention can be put in the form of a chart as given below

Accounting principles

Accounting concepts

1. Business entity
2. Money Measurement
3. Going concern
4. Cost
5. Dual Aspect Accounting period
6. Matching
7. Realisation
8. Objective Evidence
9. Accrual

Accounting Conventions

1. Full Disclosure
2. Conservatism
3. Materiality
4. Materiality

Accounting concepts

Accounting concepts may be considered as postulates i.e., basic assumptions or conditions upon which the science of accounting is based. There is no authoritative list of these concepts but most of the following concepts have fairly general support.

Business entity concept: According to this concept, a business unit is regarded as a separate and distinct accounting entity. All the transactions are recorded in the books of accounts as an entity. As an entity, it is apart from its owners, creditors and others. The proprietor is regarded as a creditor to the extent of his capital.

Money measurement concepts: The money measurement concept signifies that in accounting a record is made only of those transactions or events which can be expressed in terms of money. Any happening or fact which can not be expressed in terms of money can not be recorded in accounting books.

Going concern Concept: Accounting is done on the assumption that the business shall have a long life and it will continue to exist until it is dissolved. It is for this reason that fixed assets are recorded at original cost and are depreciated on the basis of their expected life rather than on the basis or market value.

Cost concept: According to this concept, an asset is recorded in the books at the price paid to acquire it and this cost is the basis for all subsequent accounting for the asset. Assets are not recorded at market value because these values keep on changing with changes in price level from time to time.

According to this concept asset values are estimated based on depreciation with respect to its life period.

Dual aspect concept: According to this concept, every transaction has two fold effect i.e. Debit and Credit. It means the contribution made by the proprietor and contribution made by the outsider must be equal to the total assets. Under these circumstances Assets are equals to the Equities. This can be explained with the help of an accounting equation.

Assets = Liabilities + Capital

$$A = L + C$$

Matching concept: The concept is based on the accounting period concept. The most important objective of running a business is to ascertain profit periodically. The determination of profit of a particular accounting period is essential a process of matching the revenue recognized during the period and the costs to be allocated to the period to obtain the revenue.

Realisation / Revenue Realisation concept: According to this concept, revenue is realised when actual sale took place. It provides that revenues which are recognized only when the goods are delivered to the customers and he becomes legally bound to pay.

Objective evidence Concept: According to this concept, all the transactions which are recorded in the books of account must be supported by business documents for reliability, trustworthiness and verifiability. These supporting documents are vouchers, invoices etc. The objective or every business is to keep the supporting documents for auditing purpose. Evidences should free form individual biasness or fraud, all the evidences of the business transaction should be objective evidences i.e. without personal biasness either side.

Accrual Concept: The essence of accrual concept is that revenue id recognized when it id realised, that is when sale is complete or services are given and it is immaterial whether cash is received or not. Similarly, according to this concept, expenses are recognized in the accounting period in which they help in earning the revenue whether cash is paid or not.

Accounting Conventions

Accounting conventions refer to customs, traditions, usages or practices followed by accountants as guide in preparation of financial statements. They are followed to make the financial statements clear and meaningful.

Convention of consistency: The convention of consistency signifies that the accounting practices and methods should remain consistent (unchanged) from one accounting year to another. In other words, accounting practices should remain the same from one period to another is possible only when same accounting rules are followed.

Convention of Disclosure: The convention of disclosure means that all the material facts must be disclosed in the financial statements. According to Indian Companies act 1956; financial statements are to be prepared with ample provisions for the disclosure of essential information so that there will no chance of any materials information being left out.

Convention of Conservatism or Prudence: This convention is based on the policy of 'playing safe' According to this convention all possible or expected losses should be provided for but unearned or unrealized profit should be left out.

Convention of Materiality: According to this convention, financial statements should include all material facts. Whether information is material or immaterial depends upon the circumstances of individual case of business. An item may be material for one person and immaterial for another person. Materiality depends on the amount involved in the transaction.

Book – keeping: Book – Keeping is the science and art of correctly recording in the books of accounts all those transactions that result in the transfer of money or money's worth. Book - keeping includes recording in journal posing to ledger and balancing of accounts. All the records before the preparation of the trial balance is called book - keeping. Those persons who record the transactions in the book keeping are called "Book-Keepers".

ADVANTAGES OF BOOK KEEPING:

1. It provides a specific means of dealing with opening and closing balances (at the start and end of the year)
2. It provides an arithmetic check on your bookkeeping, since the total amount of debit entries must equal the total amount of credit entries. (There's something fundamentally wrong if this isn't the case)
3. Using a Sales Ledger and Purchase Ledger means you can track who owes the business money and who the business owes money to much more easily. (However, it is possible to operate a simple sales ledger and purchase ledger using single entry)

4. You can see the financial position of the business much more clearly, at any given time, using double entry.
5. Done properly, it can help detect and reduce accounting errors.
6. Double Entry bookkeeping makes producing the year end accounts easier. If you use an accountant to produce your year-end accounts, having good double-entry records may lower your accountancy fees.

DIFFERENCE BETWEEN BOOK- KEEPING AND ACCOUNTING

Book - Keeping	Accounting
1. The main object is prepare original books of accounts	1. Its main object is to record, classify, summarise, analyse and interpret the business transactions.
2. The persons involved in book-keeping work are called Book – keepers.	2. The persons involved in accounting work are called accountants.
3. Only insiders are interested in Book – keeping.	3. Insiders and Outsiders are interested in Accountants
4. It has Limited Scope	4. It has wider scope
5. It does not show the net results of the firm.	5. It show the net results of the firm

ACCOUNTING SYSTEMS: Based on the accounting principles accounting systems are divided into following two types

1. Single Entry Book Keeping
2. Double Entry Book Keeping

SINGLE ENTRY BOOK KEEPING

A single entry system is similar to a check book register and is characterized by the fact there is only a single line entered in the journal for each transaction. In simple check book, each transaction is recorded in one column of an account as either a positive or a negative amount in order to represent the receipt or disbursement of cash. This system is demonstrated in the following example for a repair shop business.

SINGLE COLUMN SYSTEM

DATE	PARTICULAR	AMOUNT IN Rs
JAN 1	BEGINNING BALANCE	1000
JAN 2	PURCHASED SHOP SUPPLIES	2000
JAN 3	PERFORMED REPAIR SEVICES	3000

Disadvantages of Single Entry System.

1. Since every debit does not have a corresponding credit, a Trial Balance can Not be extracted to test the arithmetical accuracy of the entries.

2. In absence of proper records of any assets and of any allowances for depreciation or other losses of value, it is not possible to prepare a Balance Sheet
3. It is too easy to perpetrate the errors and frauds and too difficult to detect them.

DOUBLE ENTRY BOOK – KEEPING: SINGLE ENTRY BOOK KEEPING

A single entry system is similar to a check book register and is characterized by the fact there is only a single line entered in the journal for each transaction. In simple check book, each transaction is recorded in one column of an account as either a positive or a negative amount in order to represent the receipt or disbursement of cash. This system is demonstrated in the following example for a repair shop business.

To describe the transactions in double entry system we use “T” accounts concept

The T Account Concept

Think of the letter T representing an account.

Example for T account

DEBIT	**CREDIT**

An account is really just a bucket where we keep all transactions of a similar nature. So a T account records the in (received) and out (given over) activities of all transactions of the same nature.

To the left of the vertical line of the T are the debits; to the right of the T are the credits.

Debit: A debit is an asset, cash in hand, or an amount owed to you.

Credit: A credit is an amount you owe, cash paid out by you, or money invested in your business (capital).

ADVANTAGE OF DOUBLE ENTRY SYSTEM:-

1. It is possible to keep a full record of dual aspect of each transaction.

2. Transactions are recorded in a scientific and systematic manner and thus the books of accounts provide the most reliable information for controlling the Organization efficiently and effectively.

3. Since the total debit under this system be equal to total Credit, arithmetical accuracy of the books can be tested by means of a trial balance.

4. An income and expenditure accounts can be prepared to know the excess income/ expenditure during a particular period and to know how such excess income/ expenditure has arisen

5. The financial position of the Organization can be readily ascertained by preparing a Balance Sheet.
6. Frauds are prevented, because alteration in accounts becomes difficult and discovery of irregularities is facilitated

Abbreviations used in bookkeeping -

- a/c – account
- B/S – Balance Sheet
- c/d – carried down
- b/d – brought down
- b/f – brought forward
- Dr – Debit record
- Cr – Credit record
- G/L – General Ledger: (or N/L – Nominal Ledger)

- P&L – Profit & Loss
- TB – Trial Balance

Points to remember

- The amount which the proprietor has invested in the business is **Capital**
- Book-keeping is an art of recording **Business transactions** in the book of accounts.
- **Voucher** is a written document in support of a transaction.
- Accounting begins where **Book- keeping** ends.
- Liabilities refer to the **financial** obligations of a business.
- Owner of the business is called **Proprietor**
- An account is a **Summary** of relevant business transactions at one place relating to a person, assets, expense or revenue named in the heading.
- Receipt is an acknowledgement for **Cash received**.
- Income is the difference between revenue and **expense**
- The debts owing to others by the business is known as **Liabilities**
- Assets minus liabilities is **Capital**
- A written document in support of a transaction is called **Voucher**
- Business transactions may be classified into **two types**
- Purchases return means goods returned to the supplier due to **Defective quality**
- Amount spent in order to produce and sell the goods and services is called **Expense**
- Stock in trades are to be recorded at cost or market price whichever is less is based on **Prudence** principle.
- The assets are recorded in books of accounts in the cost of Acquisition is based on **Historical cost** concept.
- The benefits to be derived from the accounting information should exceed its cost is based on **Cost benefit** principle.
- Transactions between owner and business are recorded separately due to **Business** assumption.
- Business concern must prepare financial statements at least once in a year is based on **Accounting period** assumption.
- **Consistency** principles require that the same accounting methods should be followed from one accounting period to the next.

- As per the business entity assumption, the business is different from the **owner**
- Going concern assumption tell us the life of the business is **Very long**
- Cost incurred should be matched with the revenues of the particular period is based on **Matching concept**
- As per dual aspect concept, every business transaction has **Two concepts**
- Accounting may be considered as **Basic conditions** upon which the science of accounting is based.
- The term Conventions denotes **customs or traditions** which guide the accountant while preparing the accounting statements.
- The incoming aspect of a transaction is called **Debit** and the outgoing aspect of a transaction is called **Credit**
- The business entity concept implies that a business unit is **separate** from the person who supplies capital to it.
- Traditional approach of accounting is also called as **British** approach.
- The American approach is otherwise known as **Accounting Equation** approach.
- Impersonal accounts are classified into **two** types.
- Plant and machinery is an example of **Real** account.
- Capital account is an example of **Personal** account.
- Commission received will be classified under **Nominal** account.
- Discount allowed related to **Nominal** account
- The receiving aspect in a transaction is called as **Debit aspect** The giving aspect in a transaction is called as **Credit aspect**
- Murali account is an example for **Persona A/c**
- Capital account is classified under **Personal A/c**
- A principle is **objective** to the extent that the accounting information is not influenced by the personal bias of those who furnish the information.
- A principle is **feasible** to the extent that it can be applied without undue complexity or cost
- Goodwill is an example of **Intangible real**
- Commission received is an example of **Nominal**
- Outstanding rent A/c is an example for **Representative personal A/c**
- Nominal Account is classified under **Impersonal A/c**

- Drawings account is classified under **Personal A/c**
- The Father of Accounts is **Luca pacioli**

JOURNAL

Definition of Journal:

A journal is a record that keeps accounting transactions in chronological order i.e. as they occur. All accounting transactions are recorded through journal entries that show account names, amounts, and whether those accounts are recorded in debit or credit side of accounts. A journal entry is called "balanced" when the sum of debit side amounts equals to the sum of credit side amounts.

OR

An accounting record where all business transactions are originally entered, a journal details which transactions occurred and what accounts were affected. Journal entries are usually recorded in chronological order, and using the double-entry method of bookkeeping. A journal is called Original or Prime entry books of Accounts.

Characteristics of Journal:

Journal has the following characteristics:

1. Journal is the first successful step of the double entry system. A transaction is recorded first of all in the journal. So the journal is called the book of original entry.
2. A transaction is recorded on the same day it takes place. So, journal is called Day Book.
3. Transactions are recorded chronologically, So, journal is called chronological book
4. For each transaction the names of the two concerned accounts indicating which is debited and which is credited, are clearly written in two consecutive lines. This makes ledger-posting easy. That is why journal is called "Assistant to Ledger" or "subsidiary book"
5. Narration is written below each entry.
6. The amount is written in the last two columns - debit amount in debit column and credit amount in credit column.

Advantages of Journal:

The following arte the advantages of journal:

1. Each transaction is recorded as soon as it takes place. So there is no possibility of any transaction being omitted from the books of account.
2. Since the transactions are kept recorded in journal, chronologically with narration, it can be easily ascertained when and why a transaction has taken place.
3. For each and every transaction which of the two concerned accounts will be debited and which account credited, are clearly written in journal. So, there is no possibility of committing any mistake in writing the ledger.
4. Since all the debits of transaction are recorded in journal, it is not necessary to repeat them in ledger. As a result ledger is kept tidy and brief.
5. Journal shows the complete story of a transaction in one entry.
6. Any mistake in ledger can be easily detected with the help of journal.

Form of Journal:

Date	**Particulars**	**L.F.**	**Dr. Amount**	**Cr. Amount**

L.F stands for Ledger Folio number. This represents the Page number of the Ledger.

Steps for posting Journalising

For Journalising a transaction, i.e. for passing an entry in the Journal the following steps required to be taken.

1. First ascertain the two accounts involved the transaction. Consider the transactions which are dealing the firm.
2. Analyse the nature of account.
3. Then apply the corresponding or relevant rules for debit and credit and find out which accounts is to be debited and which account is to be credited.

EXAMPLES ON JOURNAL ENTRIES:

1.EXERCISE: Journalise the following transactions and give the nature of account (whether personal, real or nominal) in each case.

1996
Jan 1 Mr. mohan started business with 1000 cash. He bought furniture for Rs. 1500
And goods for 1000

Jan 2 Purchased goods on credit form Sohan Lal for Rs. 500.
Jan 3 Paid for carriage Rs. 50
Jan 6 Purchased goods on cash payment for Rs. 2600
Jan 7 Sold goods to Krishnan Lal on cash for Rs. 1500
Jan 8 Sold goods to Anil on credit for Rs. 1000
Jan 10 Deposited cash in bank Rs. 800
Jan 12 Paid rent Rs. 500

SOLUTION:

JOURNAL ENTRY

Date	**Particulars**	**l.F**	**Debit Amt In Rs**	**Credit Amt In Rs**	**Nature of account**
1996 Jan 1	Cash A/c Dr To Mohan's capital A/c (started business with cash) Furniture A/c Dr To cash A/c (bought furniture for cash) Purchase A/c Dr To cash A/c (bought goods for cash		10000 1500 1000	 10000 1500 1000	Real Personal Real Personal Real Personal
Jan 2	Purchase A/c Dr To sohan lal A/c (purchased goods on credit)		500	 500	Real Personal
Jan 3	Carriage A/c Dr To cash A/c (Paid carriage in cash)		50	 50	Nominal Real
Jan 6	Purchase A/c Dr To cash A/c (Purchased goods in cash)		2600	 2600	Real Real
Jan 7	Cash A/c Dr To sales (sold goods on cash)		1500	 1500	Personal Real
Jan 8	Anil's A/c Dr To sales (sold goods on credit)		1000	 1000	Personal Real
Jan 10	Bank A/c Dr To cash (deposited cash in bank)		800	 800	Personal Real

Jan 12	Rent A/c Dr To cash (By rent Paid)		500	500	Nominal Real
	TOTAL		**19450**	**19450**	

2.Exercise: Journalise the following transactions in the books of M/s Prem Medical Hall.

1996
April 1 M/s Prem Medical Hall starts business with Rs. 20000. The firm opens an Account with bank and deposits Rs. 18000 in the bank.
April 2 The firm purchased furniture for Rs 850 and telephone for Rs.2500. The The payment was made by cheque.
April 3 Medicines were purchased from Ramesh Medical Hall for Rs. 5800 on credit
April 4 Medicines were sold on credit to Garg son's for Rs 1200
April 6 .Medicines were skid ib credit to M/s Paul Medical Hall for Rs 3000
April 7 Paid for office stationary Rs 100
April 8 Paid advance rent for April Rs 500
April 9 Received cash payment form M/s paul Medical Hall for Rs 2500
April 10 Depostied Rs 2000 in bank
April 12 Paid for electric bill Rs 480
April 15 Received cash from Garg Son's Rs 1000

SOLUTION:
Journal entry of M/S prem Medical Hall

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Date	Particulars	L.F	Dr	Cr.
1996 April 1 " 1	Cash A/C Dr To capital account (started business with Rs 2000) Bank A/C Dr. To cash account (cash deposited in bank)		20000 18000	 20000 18000
April 2 " 2	Furniture A/C Dr To bank account (furniture purchased for Rs. 850 against cheque) Telephone A/c Dr To bank account (telephone purchased for Rs. 2500 against cheque)		850 2500	 850 2500
April 3	Purchase A/c Dr To ramesh Medical Hall		5800	 5800

	account (Purchased medicines from Ramesh Medical Hall on credit)			
April 4	Garg Son's A/c Dr To sales account (sold medicines to Garg Son's on credit vide invoice No. ..)		1200	1200
April 6	Paul Medical Hall A/c Dr To sales account (sold medicines to M/s paul Medical hall vide invoice No…)		3000	3000
April 7	Stationery A/c Dr To cash account (paid stationery vide cash memo No…)		100	100
April 8	Rent A/c Dr To cash account (paid advance rent for April vide landlord's receipt No…)		500	500
April 9	Cash A/c Dr To M/s Paul Medical Hall's account (received cash from M/s Paul medical hall vide receipt No..)		2500	2500
April 10	Bank A/c Dr To cash account (deposited cash in bank)		2000	2000
April 12	Electricity A/c Dr. To cash account (paid electric bill vide receipt No..)		480	480
April 15	Cash A/c Dr To Garg son's account (received cash from Garg Son's vide receipt No..)		1000	1000
	TOTAL		**57930**	**57930**

Points to Remember:

- The source document gives information about the nature of the **Transactions**

- The accounting equation is a statement of **Equality** between the debits and credits.
- In double entry book-keeping, every transaction affects at least two **Accounts**.
- Assets are always equal to liabilities plus **Capital**
- A transaction which increases the capital is called **Revenue or Income**
- The journal is a book of **original entry or prime**
- Recording of transaction in the journal is called **Journalising**
- The **L.F** column of journal represents the place of posting of an entry in the ledger account.
- Closing credit balance of a creditor will be written on the **debit** side of the Creditor's Account.
- **Bad debts** account is debited for the amount not recovered from the customer.
- The origin of a transaction is derived from the **Source document**
- Amount owned by the proprietor is called **Capital**
- The Accounting Equation is connected with **Assets, Liabilities and capital**
- Withdrawals of cash from bank by the proprietor for office use should be credited to **Bank A/c**
- Building Account indicate a **debit** balance.
- An entry is passed in the beginning of each current year is called **Opening Entry**
- Goods distributed as free samples should be debited to **Advertisement** Account.

LEDGER

DEFINITION OF LEDGER

A ledger is a book containing accounts of various aspects. These aspects relate to personal, real and nominal accounts.

OR

Collection of an entire group of similar accounts in double-entry bookkeeping, Also called book of final entry, a ledger records classified and summarized financial information from journals (the 'books of first entry') as debits and credits, and shows their current balances. In manual accounting systems, a ledger is usually a loose leaf binder with a separate page for each ledger account. In computerized systems, it consists of interlinked digital files, but follows the same accounting principles as the manual system.

ADVANTAGES OF LEDGER

1. All the transactions of the business are recorded in the journal as per their date of occurrence. Hence, it is difficult to get full information about a particular account. Since, a separate account is opened in the ledger for every business transaction; accounting information is made available from time to time to the managers and proprietors.
2. Information related to expenditure is present in the expenditure account in the ledger. Hence, it is possible to control the business expenditure with the information available from the account.
3. Profit and loss account is prepared at the end of the accounting year to find out profit and losses of business. All the information related to these accounts i.e. sales, purchases, different types of expenditure, incomes etc. , would available in the ledger.
4. Information related to financial status (Assets account, Liabilities account) of the company is available from the ledger etc..

Proforma of Ledger

Dr Cr

Date	Particulars	F	Amount	Date	Particulars	F	Amount

F stands for folio which represents the page no of ledger

TYPES OF LEDGER

In case of a small business concern with a limited number of transactions, the ledger is made to contain all the personal, real and nominal accounts. However, where the transactions are voluminous, it becomes necessary to maintain a number of ledgers. In case of a large concern, the following types of ledger may be found.

1. Sales Ledger or Debtor' ledger – for accounts of debtors.
2. Bought ledger or Creditor' ledger – for accounts of creditors.
3. Investment ledger – for investments of various types.
4. General ledger – for real and nominal accounts.

DIFFERENCE BETWENN JOURNAL AND LEDGER

JOURNAL	**LEDGER**
1. This is a book of original entry.	1. This is a book of final entry.
2. Transactions are first recorded in this book	2. Journal entries are later posted into the ledger
3. The process of recording a transaction is called journalisation.	3. The process of entering the journal entries in ledger account is called ledger posting.
4. This does not help in assessing the summary Of transactions are results thereof.	4. This helps in providing the summary of transactions and in preparing final accounts to know the financial results and financial Position.

Point to be noted while preparing ledger accounts

1. In the ledger, a separate account should be opened for each account appearing in journal.
2. For all the transactions relating to any particular account, only one account should be opened.
3. The journal entries should be posted to the ledger accounts in the order of their dates.
4. While making posing in any ledger account, the name of that account should not appear either on the debit side or on the credit side of the account. For example in Rent account, we can not have To Rent account or by rent account.

POINTS TO REMEMBER

- Ledger is the Principal **or final** book of account.
- The process of transferring entries from Journal to the Ledger is called **Posting**.
- c/d means **Carried down** and b/d means **Brought down**.
- c/f means **Carried forward and b/f means brought forward**.
- Debiting an account signifies recording the transactions on the **Debit** side.
- The left hand side of an account is known as **Debit** and the right hand side as **Credit side**.
- Credit Balance means **Credit total** is heavier than **Debit total.**
- Real accounts cannot have **credit** balance.
- Account having debit balance is closed by writing **by balance c/d.**
- L.F. column in the journal is filled at the time of **Posting**.
- The technique of finding g the net balance of an account after considering the totals of both debits and credits appearing in the account is known as **Balancing of accounts**
- Ledger is a book of **Final Entry**
- Personal and real accounts are **Balanced**
- The column of ledger which links the entry with journal is **J.F (Journal Folio)**
- Posting on the credit side of an account is written as **By**
- Nominal account having credit balance represents **Income and gain**
- Nominal account having debit balance represents **Expenses and Losses**
- Real accounts always show **Debit balances**
- When the total of debits and credits are equal, it represents **Nil balance**
- The balances of personal and real accounts are shown in the **Balance sheet**

SUBSIDIARY BOOKS:

Subsidiary books are Special or supporting ledger (such as cost ledger, purchases ledger, sales ledger) that provides more detailed information about individual accounts than a general ledger. Used by firms with larger number of customers (or creditors), these ledgers divide masses of financial data into more manageable parts. Total of all individual accounts in a subsidiary ledger equals the balance of the corresponding summary account (called control account) in the general ledger.

Subsidiary books are of eight types.

1. **Cash book:** to record receipts and payment of cash including deposits and payments of cash including deposits and payments out of bank.
2. **Purchase book:** to record credit purchases of goods.
3. **Sales book:** to record all credit sales of goods.
4. Purchase returns book: to record all purchases returns i.e. all goods returned by the trader to his suppliers.
5. **Sales returns book:** to record all sales returns i.e. all goods returned by the trader to his suppliers.
6. **Bills receivables:** it records all receipts which the company is receiving from customers or outsiders in future.
7. **Bill payables**: it records all payments which the company has to pay to customers or outsiders in future.
8. **Journal proper:** It records all those transactions that can not be recorded in any of the above books. Example opening entries and closing entries and adjustments.

Subsidiary book

- Sub division of the journals into various books for recording Transactions of similar nature are called **Subsidiary books.**
- The total of the **Purchases** book is posted to the debit of purchases account.
- The person who prepares a bill is called the **Drawer.**
- Days of grace are **three** in number.
- Purchases book is kept to record Only **cash purchase**
- Credit sales are recorded in **Sales book**
- Goods returned by customers are recorded in **Sales return book**

EXAMPLE PROBLEMS ON JOURNAL POSTING

1. From the following transactions of Neelima, prepare journals.

2009		Rs.
Jan. 1	Commenced business with cash	25,000
“ 5.	Purchased goods for cash	10,000
6.	Paid for salaries	5,000
9.	Sold goods for cash	8,000
12.	Purchased goods from latha	2,500
16.	Purchased goods from shekhar from us	5,000
26.	Received cash from shekhar	4,000
28.	Paid rent	500
31.	Paid salaries	2,500

Sol: **JOURNAL OF NEELIMA**

Date	Particulars	L.F	Debit Rs	Credit Rs.
2009				
Jan 1	Cash a/c Dr.		25,000	
	To capital a/c			25,000
	(Being business started with cash)			
“ 5	Purchase a/c Dr.		10,000	

	To cash a/c (Goods purchased for cash)			10,000
6	Salaries a/c Dr. To cash a/c (salaries paid for cash)		5,000	 5,000
9	Cash a/c Dr. To sales a/c (goods sold for cash)		8,000	 8,000
12	Purchases a/c Dr. To Latha a/c (goods purchased form latha on credit)		2,500	 2,500
16	Sekhar a/c Dr To sales a/c (Goods sold to sekhar on credit)		5,000	 5,000
26	Cash a/c Dr. To Sekhar a/c (cash received from sekhar)		4,000	 4,000
28	Rent a/c Dr. To cash a/c (Rent paid for cash)		500	 500
31	Salaries a/c Dr. To cash a/c (salaries paid for cash)		2,500	 2,500
	TOTAL		**62,500**	**62,500**

EXAPLES ON LEDGER POSTING

TYPES OF FORMS OF LEDGER ACCOUNTS

There are two types of ledger accounts. These are

1. Standard form
2. Self – Balancing form

Standard form of ledger Accounts:

Standard form of ledger accounts consists of two sides. The left side column is called Debit and the right side column is called as Credit. In this standard for of ledger accounts, the amount of debit writes in debit column and the amount of credit in credit column. If both amounts are not equalled, the accounts are not balanced. We write off exact amount of debit and credit.

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

Self – Balancing form of ledger Accounts:

The Self – Balancing form of ledger Accounts, the difference between two sides of an account need to be balanced. The balance is written on the lesser side to make the two sides equal. The process of equalizing the tow sides of an account is known as balancing.

The Rules for Balancing Accounts are stated as below:

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

The Rules for Determining the Balance:

Total Debit	>	Total credit	=	Debit balance
Total Credit	>	Total Debit	=	Credit balance
Total Debit	=	Total Credit	=	Nil balance

PROBLEMS ON LEDGER POSTING

From the furnished information prepare journal entries and post them into ledger and balance the accounts in the books of Narayan & Narayan Manufacturing.

2010		Amount in Rs
May 1	Narayan Started business	2,00,000
May 1	Purchased goods from Krishna	20,000
May 2	Sold Goods to Roshan lal	40,000
May 4	Cash Purchases	40,000
May 6	Paid for Advertisement	10,000
" 8	Finished goods sold for cash	30,000
" 9	Bought computer paid by cheque	4,000
" 10	Bought goods from Sambhu	20,000
" 13	Cash paid to Krishna	19,600
	Discount received	400
" 15	Received cash from Roshan lal	39,000
	Discount allowed	1,000
" 17	Deposited into bank	20,000
" 19	Paid for salaries by cheque	1,400
" 21	Printing expenses	1,600
" 23	Sold old computer	3,400
" 26	Paid cash to Sambhu	8,000
" 28	Received commission through cheque and Deposited into bank same day	1,000
" 30	Expenses related to owner's personal use	2,000

Sol:

Journal entries in the books of Narayan & Narayan Manufacturing for May, 2010

Date	**Particulars**	**L.F**	**Debit in Rs**	**Credit in Rs**
May01	Cash a/c Dr To Capital a/c (Capital brought into the business)		2,00,000	 2,00,000

May01	Purchase a/c Dr To Krishna's a/c (Being goods purchased on credit)		20,000	20,000
May02	Roshan lal's a/c Dr To Sales a/c (goods sold on credit)		40,000	40,000
May04	Purchase a/c Dr To cash a/c (goods purchased for cash)		40,000	40,000
May06	Advertisement a/c Dr To Cash a/c (Paid for advertisement)		10,000	10,000
May08	Cash a/c Dr To sales a/c (Being goods sold for cash)		30,000	30,000
May09	Computer a/c To bank a/c (computer bought and issued a cheque)		40,000	40,000
May10	Purchase a/c To Sambhu a/c (Being goods purchased on credit)		20,000	20,000
May13	Krishna's a/c To cash a/c To Discount a/c (Being cash paid and discount received)		20,000	19,600 400
May15	Cash a/c Discount a/c To Roshan lal's a/c (Being cash received and discount allowed)		39,000 1,000	40,000
May17	Bank a/c To cash a/c (Being cash deposited into bank)		20,000	20,000
May19	Salaries a/c To Bank a/c (Being salaries paid by cheque)		1,400	1,400

May21	Printing exp a/c To Cahs a/c (Cash paid for printing)		1,600	1,600
May23	Cash a/c To Computer a/c (Being old computer sold and cash received)		3,400	3,400
May26	Sambu's a/c To Cash a/c (Being cash paid to Sambu)		8,000	8,000
May28	Bank a/c To commission a/c (Being commission received by cheque and deposited into bank)		1,000	1,000
May30	Drawing a/c To Cash a/c (Being owner withdrawn cash for personal use)		2,000	2,000

Ledger posting to Journal entries

CASH ACCOUNT

Dr Cr.

Date	Particulars	L.F	Amount In Rs	Date	Particulars	L.F	Amount In Rs
May01	To capital a/c		200000	May 04	By purchases a/c		40000
May08	To sales a/c		30000	,, 06	By advertisement a/c		10000
May15	To Roshan a/c		39000	14	By Krishna a/c		19600
May23	To computer a/c		3400	17	By bank a/c		20000
				21	By printing a/c		1600
				26	By sambhu a/c		8000
				30	By drawings		2000
				31	By balance c/d		171200
			272400				272400
June01	To balance b/d		171200				

CAPITAL ACCOUNT

Dr Cr.

Date	Particulars	L.F	Amount In Rs	Date	Particulars	L.F	Amount In Rs
May01	To Balance c/d		200000	May01	By Cash A/C		200000
			200000				200000
				June01	By Balance b/d		200000

PURCHASES ACCOUNT

Dr Cr.

Date	Particulars	L.F	Amount In Rs	Date	Particulars	L.F	Amount In Rs
May1	To Krishna a/c		20000	May1	By Balance c/d		80000
,, 4	To cash a/c		40000				
,, 10	To sambhu a/c		20000				
			80000				80000
June1	To Balance b/d		80000				

KRISHNA ACCOUNT

Dr Cr.

Date	Particulars	L.F	Amount In Rs	Date	Particulars	L.F	Amount In Rs
May15	To cash a/c		19600	May1	By Purchases a/c		20000
,, 15	To discount a/c		400				
			20000				20000
June 1	To Balance b/d		20000				

SALES ACCOUNT

Dr Cr.

Date	Particulars	L.F	Amount In Rs	Date	Particulars	L. F	Amount In Rs
May31	To Balance a/c		70000	May2	By Roshan A/C		40000
				May8	By Cash A/C		30000
			70000				70000
				June1	By Balance b/d		70000

ROSHAN LAL'S ACCOUNT

Dr Cr.

Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount

			In Rs				In Rs
May2	To Sales a/c		40000 40000	May15 May15	By cash A/C By discount allowed A/C		39000 1000 40000

ADVERTISEMENT ACCOUNT

Dr Cr.

Date	Particulars	L.F	Amount In Rs	Date	Particulars	L.F	Amount In Rs
May6 June1	To cash a/c To Balance b/d		10000 10000 10000	May31	By Balance b/d		10000 10000

COMPUTER ACCOUNT

Dr Cr

Date	Particulars	L.F	Amount In Rs	Date	Particulars	L.F	Amount In Rs
May9 ,, 15 June1	To Bank a/c To Discount a/c To Balance b/d		40000 40000 36400	May23 May31	By cash a/c By balance b/d		3400 36600 40000

SHAMBU ACCOUNT

Dr Cr

Date	Particulars	L.F	Amount In Rs	Date	Particulars	L.F	Amount In Rs
May26 May31	To cash a/c To balance c/d		8000 12000 20000	May10 June1	By purchases a/c By Balance b/d		20000 20000 12000

DISCOUNT RECEIVED ACCOUNT

Dr Cr

Date	Particulars	L.F	Amount In Rs	Date	Particulars	L.F	Amount In Rs
May	To Balance c/d		400	May13	By Krishna a/c		400

31			400	June1	By Balance b/d		400 400

DISCOUNT ALLOWED ACCOUNT

Dr Cr

Date	Particulars	L.F	Amount In Rs	Date	Particulars	L.F	Amount In Rs
May31	To Roshan a/c		1000	May31	By Balance c/d		1000
			1000				1000
June1	To Balance b/d		1000				

SALARIES ACCOUNT

Date	Particulars	L.F	Amount In Rs	Date	Particulars	L.F	Amount In Rs
May31	To Bank a/c		1400	May31	By Balance c/d		1400
			1400				1400
une1	To Balance b/d		1400				

PRINTING ACCOUNT

Date	Particulars	L.F	Amount In Rs	Date	Particulars	L.F	Amount In Rs
May21	To cash a/c		1600	May21	By Balance c/d		1600
			1600				1600
June1	To Balance b/d		1600				

COMMISSION ACCOUNT

Date	Particulars	L.F	Amount In Rs	Date	Particulars	L.F	Amount In Rs
May21	To Balance b/d		1000	May28	By Bank a/c		1000
			1000				1000
				June1	By Balance b/d		1000

DRAWINGS ACCOUNT

Date	Particulars	L.F	Amount In Rs	Date	Particulars	L.F	Amount In Rs
May30	To cash a/c		2000	May31	By Balance c/d		2000
			2000				2000
June1	By balance b/d		2000				

CASH BOOK

DEFINITION OF CASH BOOK

The cash book is a book of original entry for cash transactions. It is used to record cash receipts and cash payments side by side. As such, the book is ruled like a ledger account, with the debit and credit sides, and the balance represents cash on hand at the end of the accounting period. Besides being a book of original entry, the cash book also serves as a ledger account.

The cash book is divided into four types.

1. Simple cash book
2. Two- column cash book
3. Three column cash book
4. Petty cash book.

SIMPLE CASH BOOK

A simple cash book is prepared like any ordinary account. The receipts are Recorded in the Dr Side and the payments are recorded in the Cr side of the Cash book. The specimen Performa of a simple cash book is given as follows:

Dr Receipts **Payments** **Cr**

Date	**Particulars**	**Amount**	**Date**	**Particulars**	**Amount**

Two column cash book

A two – column cash back records discount allowed and discount received

Along with the cash payments and cash receipts

PROFORMA OF TWO COLUMN CASH BOOK

Dr Receipts **Payments** **Cr**

Date	Particulars	Amt Discount	Amt Cash	Date	Particulars	Amt Discount	Amt Cash

Note:

Discount columns are not balanced they are merely totalled.

Three column cash book

A three column cash Book is a cash book which contains bank column along with cash and discount columns.

Contra entry: Contra entry is a transaction which affects both the debit and credit sides of the cash book. Contra entry is related to bank transactions. It can be recorded in two situations

1. When cash deposited in bank
2. When cash withdrawn from bank

Contra entries are represented with "C" in Ledger folio column.

Format of Three Column Cash book

Dr Receipts **Payments** **Cr**

Date	Particulars	Amt	Amt	Amt	Date	Particulars	Amt	Amt	Amt

		Disc	Cash	Bank			Disc	Cash	Bank

Rules for posting three column Cash book

- **Cash Paid into bank:** It is the contra entry, for cash it become Payment and for bank it become receipt. Debit the bank account "To cash" in bank column, and Credit the Cash account "By bank" in Cash column.
- **Cash withdrawn from bank:** It is the Contra entry, for cash it become Receipt and for bank it become Payment. Debit the Cash account "To bank" in Cash column, and Credit the bank account "By cash" in bank column.
- **Receipt of Cheque:** If a Cheque is received and kept in the cash box (i.e. not sent to the bank for collection), it should be debited in the cash column, but if it is immediately sent to the bank for collection, the debit should be given in the bank column. Later on when Cheque kept in the cash box is sent to the bank for collection, Contra entry will be recorded in the cash book by giving debit to bank column recording the fact of Cheque coming to the bank and credit to cash column indicating that Cheque is gone out of the office.
- **Payment by Cheque:** Such payment should be credited in the bank column of the cash book.
- **Dishonoured Cheque:** If a Cheque sent to the bank for collection is dishonoured, it should be credited in the bank column of the cash book to cancel the previous debit given to the bank column when the Cheque was deposited in the bank.
- **Bank charges and Payments made by the bank on behalf of the customer:** These entries should be entered in the bank column on the credit side of the cash book as they reduce the balance at bank.
- **Cheque is drawn for personal use:** It has to be entered in the bank column on the credit side as 'By drawing account" in such case no contra entry is involved.
- **Interest or dividend on securities is collected by the bank:** It has to be entered in the bank column on the debit side as 'To interest/dividend on securities'.

Petty Cash book: A business house makes a number of small payments like telegram, textiles, cartage etc. If all these transactions are recorded in cash book the cash bank may become bulky and the main cashier's work will also increase therefore usually firms appoint a petty cashier who makes these small payments and keep record of these payments in a separate cash book which is called Petty Cash book.

Proforma or Format of petty cash book

Receipts	Date	Voucher No	Particular	Total	Conveyance	Cartage	Postage And Telegram	Stationery	Sundries

Points to Remember:

- Discount allowed column appears in **Debit** side of the cash book.
- In the triple column cash book, when a cheque is received the amount is entered in the **Cash** column.
- Discount received column appears in **Credit** side of the cash book.
- A cheque received and paid into the bank on the same day is recorded in the **Bank** column of the three column cash book.
- When a cheque received from a customer is dishonoured, his Account is **debited**.
- Cash Book is one of the **Subsidiary** books.
- The cash book records **all cash receipts & payments**
- When goods are purchased for cash, the entry will be recorded in the **cash book**
- The balance of cash book indicates **cash in hand**
- In triple column cash book, cash withdrawn from bank for office use will appear in both **sides of the cash book**.
- If a cheque sent for collection is dishonoured, the debit is given to **customers A/c**
- If a cheque issued by us is dishonoured the credit is given to **supplier's A/c**
- The book that records all small payments is called **Petty Cash book**.

- The person who maintains petty cash book is known as **Petty Cashier**
- Analytical petty cash book is just like the Cash **Book**.
- The periodic total of each column in the analytical petty cash Book is posted to the concerned **Nominal** accounts.
- The balance in the petty cash book is **an asset**

Sample problems on Three column cash book

Problem 1: Make out three column cash book of Sri kishore Karwankar from the following particulars.

2010		Rs
Jan1	Cash in hand	1,000
	Cash in bank	20,000
" " 2	Purchase goods for cash	600
4	Sold goods for cash	2,000
10	Received cash from Birajdar (Dicount allowed Rs 25)	875
12	Issued Cheque to Mohan rao (Discount Received Rs 20)	480
14	Cash deposited in bank	1,000
16	Received Cheque form Prabakar (in full settlement of a debt of Rs 1,000)	950
20	bank collects interest on securities	500
22	Received Cheque from kulkarni and Deposited in bank	1,000
27	Bank returns Cheque of kulkarni as Dishonoured	
30	Bank charges as per pass book	50
31	Amount withdrawn from bank for Office use	500
31	Amount withdrawn from bank for Personal use	1,000

Sol:

Dr (Receipts) Cr (Payments)

Date	Particulars	L. F	Disc	Cash	Bank	Date	Particulars	L F	Disc	Cash	Bank
2010 Jan1	To Balance b/d			1,000	20,000	2010 Jan 2	By Purchase A/c (goods purchased for cash)			600	
" 4	" Sales A/c (goods sold for cash)			2,000							
" 10	" Birajdar A/c (Cash receive Disc		25	875		" 12	" Mohan rao (cheque issued		20		480

	allowed)						discount received)				
" 14	" Cash a/c (Cash deposited in bank)	C			1,000	" 14	" Bank A/c (Cash deposited in bank)	C		1,000	
" 16	" Prabakar A/c (Cheque received disc allowed)		50		950	" 27	" Kulkarni (Cheque received, dishonoured)				1,000
" 20	" Interest on Securities A/c (interest on securities collected by bank)				500	" 30	" Bank charges				50
" 22	" Kulkarni (cheque received deposited in bank)				1,000	" 31	" Cash A/c (ant withdrawn from bank for office use)	C			500
" 31	" Bank A/c (Cash withdrawn form bank for office use)	C		500		" 31	" Drawings A/c				1,000
						" 31	" Balance c/d			2,775	20,420
			75	4,375	23,450				20	4,375	20,420
Feb1	To Balance b/d			2,775	20,420						

Exercise Problem:

From the following particulars in the books of Dinesh Singh Prepare Three column cash book

2011

Nov 1	Cash in hand	750
	Cash in bank	9,700
Nov 2	Cash received form Baba Prasad	1,872
	Discount given	28
4	Salaries Paid for October	1,500
4	Cash sales to Ranga rao	4,700
5	Paid to Veerabadhram through cheque	475
	Discount received	25
17	Cheque received from Raghu ram (sent to bank)	391
	Discount given	9
19	Withdrawn from bank for personal expenses	2,300
21	Deposited in the bank	862

(Ans: Credit balance c/d cash: 4,960, bank: 8,178)
(Total: Cash: 7,332, Bank: 10,953)

TRIAL BALANCE

Definition of Trial balance

It is a statement prepared at the end of the financial year or at any other time with the net balances of various accounts shown in the ledger or with the totals of various accounts on both the sides before finding the net balances or casting. This statement helps in testing the arithmetic accuracy or accounts and locating errors, if any, committed. This statement provides the net balances of several accounts thereby simplify the job of preparing final statements i.e., Trading and Profit & Loss Account and Balance sheet.

"The Trial Balance is a statement containing the balances of all ledger accounts, as at any given date, arranged in the form of debit and credit columns placed side by side and prepared with the object of checking the arithmetical accuracy of the ledger postings."

- M. S. Gousav

ADVANTAGES OF TRIAL BALANCES

1. To test the arithmetical accuracy of the books
2. To provide a basis, subject to adjustments for the preparation of final accounts or financial statements – the profit and loss account and the balance sheet.
3. To summarize the effects of all transactions of an accounting period so that the management can have comparative figures for arriving at useful conclusions.
4. To locate the errors of commission etc..

Rules of Trial Balance

Particulars	**Rules In Trial balance**
Capital	Credit

Opening stock	Debit
Sales	Credit
Return Inwards	Debit
Return outwards	Credit
Wages	Debit
Freight	Debit
Transport Expense	Debit
Purchase	Debit
Royalties	Debit
Gas & Fuel	Debit
bad debts	Debit
bad debts reserves	Credit
Repairs	Debit
Rent	Debit
Salaries	Debit
Loan taken	Credit
Interest Received	Credit
Interest allowed	Debit
Insurance	Debit
Carriage Outwards	Debit
Advertisements	Debit
Petty Expenses	Debit
Trade Expenses	Debit
Debtors	Debit
Creditors	Credit
Bills Payable	Debit
Bills Receivable	Credit
Depreciation	Debit
Prepaid Insurance	Debit
Investments	Debit
Prepaid rent (Received)	Credit
Out standing rent	Credit
General Reserve	Credit
Land & Building	Debit
Furniture	Debit
Cash in hand	Debit
Cash at bank	Debit

Suspense Account:

A suspense Account is an account in the general ledger that is used to temporarily store any transactions for which there is some uncertainty about the account.

An entry into suspense account may be a Debit or Credit.

OR

A suspense account is an account used temporarily to carry doubtful receipts and disbursements or discrepancies pending their analysis and permanent classification.

RECTIFICATION ERRORS (Extra topic not in syllabus)

Error is a mistake committed in book-keeping. Errors can be broadly divided into two types.

1. Errors of Principle and
2. Clerical Errors.

Error of Principle: are committed when a transaction is not recorded according to accounting principles.

Clerical Errors: are those errors which are generally committed by the clerical staff while recording the transactions in the account books. Such errors may be:

1. **Errors of Omission:** When a transaction is either completely or partially omitted from the books it is called error of omission. Examples: Purchase of goods on credit may be omitted to be entered in the purchases book, sale of goods on credit may be omitted to be entered in the purchases book, sale of goods on credit omitted to be posted in the personal account of the customer etc.

2. **Errors of commission:** Such errors arise when any transaction is incorrectly recorded either wholly or partially. Examples: entering wrong amount in subsidiary books, posting wrong amount to an account, posting correct amount to wrong side of an account. Etc.

3. **Compensating Errors:** In case of such errors one error is compensated by other.

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

1. Errors disclosed by disagreement of trial balance
2. Errors not disclosed by disagreement of trial balance.

Errors disclosed by Trial Balance:

The following errors will be disclosed by a Trial balance.

1. Wrong totalling of Subsidiary books.
2. Items omitted to be posted from a subsidiary book into ledger.
3. Posting of a wrong amount to ledger account.
4. Wrong additions or balancing of ledger accounts.
5. Omission of a balance of an account in the trial balance.
6. Balance of some account wrongly entered in the trial balance.
7. Balance of some account written on the wrong side of trial balance.

Errors not disclosed by a Trial Balance:

1. Omission of an entry altogether in a subsidiary book.
2. Writing wrong amount in the subsidiary books.
3. Posting an item on the correct side but in the wrong account.
4. Compensating errors
5. Errors of principles.

EXAMPLE PROBLEM:

The following errors were located in the books of a business concern after books were closed and suspense account was created in order to agree the trial balance.

1. An amount of Rs. 600 paid for the repair of furniture was debited to Furniture Account.
2. Goods bought from a merchant amounting to Rs. 55 had been posted to the credit of his account as Rs. 550
3. A Dishonoured bill Receivable for Rs 400 returned by the bank had been credited to bank account and debited to Bills Receivable Account.
4. Sales Day book was overcast by Rs. 400.
5. General expenses Rs. 28 were posted in the ledger as Rs. 82.

Pass Journal entries to rectify the above mistakes and prepare the Suspense Account.

Solution:

Journal Entries

	Particulars	**Debit**	**Credit**
1	Repairs A/c Dr.	600	
	To Furniture A/c		600
	(Being the mistake of debiting Furniture instead of repairs rectified)		
2	Suppliers A/c Dr.	495	
	To Suspense A/c		495
	(Being the mistake of crediting suppliers		

3 4 5	A/c With excess amount rectified) Acceptor A/c Dr. To Bills Receivable A/c (Being the mistake of debiting B/R A/c instead of acceptor's a/c rectified) Sales A/c Dr. To Suspense A/c (Being rectification of overcastting of Sales book) Suspense A/c Dr. To General Expenses A/c (Being the mistakes of debiting general expenses a/c with excess amount rectified)	 400 400 54	 400 400 54

Suspense Account

Dr Cr

Particulars	Amount	Particulars	Amount
To General Expenses A/c	54	By suppliers A/c	495
To Balance b/d (Balancing figure)	841	By Sales A/c	400
Total	895	Total	895

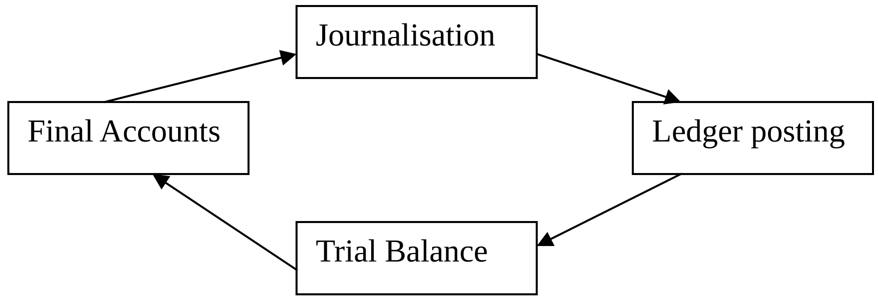
Points to Remember

- Trial Balance should be tallied by following the rules of **Double entry system.**
- If the total debit exceeds the total credits of trial balance, suspense account will show **Credit** balance.
- Suspense account having debit balance will be shown on the **Asset** side of balance sheet.
- If the total debit balance of the trial balance exceeds the total credit balances, the difference is transferred to the **Credit** side of the suspense account.

- Suspense account having credit balance will be shown on the **Liabilities** side of the balance sheet.
- Short credit of an account decreases the **Credit** column of the trial balance.
- When errors are located and rectified, **Suspense account** automatically gets closed.
- Journal entries passed to correct the errors are called **rectifying entries.**..
- Excess debit of an account can be rectified by **Credit (the excess amount in)** the same account.
- If the two sides of the trial balance tally, it is an indication of the fact that the books of accounts are **arithmetically accurate**
- Short debit of an account can be rectified by **further debit** of the same account.
- Trial balance is prepared to find out the **Arithmetical accuracy of the accounts**
- Suspense account in the trial balance is entered in the **Balance sheet**
- Suspense account having credit balance will be shown on the **Liabilities side of Balance sheet**
- Errors which affect one side of an account are called **Single sided errors**
- If the two sides of the trial balance tally, it is an indication of the fact that the books of accounts are **arithmetically accurate**
- Goods taken by the proprietor for domestic use should be credited To **purchase Account**
- Cash received from Mani whose account was previously written off as a Bad Debt should be credited to: **Bad debt account**

Accounting Cycle: Accounting cycle is a system of collection, storage and processing of financial and accounting data that is used by decision makers (the persons who prepares accounts in a firm).

The following diagram depicts the account cycle in a business organization.



FINAL ACCOUNTS

Final Accounts: The financial statements of an organization made up at the end of an accounting period, usually the fiscal year are called final accounts.

One of the main object of the maintaining the final accounts is to find out the profit or loss made by the business during a period and to ascertain the financial position of the business as on a given date.

Final accounts includes the following three factors

1. Trading Account
2. Profit and loss account
3. Balance sheet

To know the Profit and loss made by the business, Trading and profit and loss account is prepared. The position of the business on the last date of the financial year will be revealed by the Balance sheet. The above three factors are called final account due to following reasons.

1. They are prepared finally, after all the books of accounts are closed and trial balance is extracted.
2. They are prepared at the end of the Trading Period.
3. They show the final results of a business.

Before discussing the preparation of final accounts, it is necessary to know the distinction between capital and revenue items. This distinction is necessary because revenue items are shown in the trading and profit and loss account and capital items are shown in the balance sheet.

Capital expenditure: Capital expenditure is that expenditure which result in the acquisition of an asset or which results in an increase in the earning capacity or which affords some other advantage to the firm. Examples of capital expenditure are for the acquisition of land, building, machinery etc.

Revenue expenditure: Any item of expenditure whose benefit expires within the year or expenditure which merely seeks to maintain the business or to keep assets in good working condition is revenue expenditure. Examples are, expenses incurred in the normal course of business such as expenses of administration, expenditure incurred in manufacturing and all selling goods etc.

Capital and revenue receipts: Amount realized by way of loan, sale of permanent or fixed assets etc in capital receipt. Amount realized on the sale of goods in which the proprietor deals, interest on investments etc. are revenue receipts.

TRADING ACCOUNT:

A trading account is an account which contains, “in summarized form, all the transactions, occurring, throughout the trading period, in commodities in which he deals” and which gives the gross trading result. In short, trading account is the account which is prepared to determine the gross profit or the gross loss of a trader.

In trading accounting we considered all direct expenditure to estimate the value of gross profit.

ITEMS OF TRADING ACCOUNT

The following are the items usually appear in the debit and credit sides of the trading account.

Debit Side Items:

1. The value of opening stocks of goods (i.e., the stock of goods with which the business was started).
2. Net Purchase made during the year (i.e., Purchases less returns).
3. Debit expenses, if any.

Credit Side Items:

1. Total sale made during the period less the value of returns, i.e., net sales.
2. The value of closing stock of goods.

Trading Account Proforma

Particulars	Amount	Particulars	Amount

To Opening stock	xxxx		
To Purchases xxxx		By sales xxxx	
Less: Purchase returns xxxx	xxxx	Less: Sales Returns xxxx	xxxx
To Direct expenses		By closing stock	xxxx
To Carriage inward	xxxx	By Gross Loss c/d	xxxx
,, Wages	xxxx		
,, Fuel and Power	xxxx		
Manufacturing Or Production Expenses			
To Coal, water and Gas	xxxx		
,, Motive power	xxxx		
,, Factory Lighting	xxxx		
,, Octroi	xxxx		
,, Import duty	xxxx		
,, Custom duty	xxxx		
,, Excise duty	xxxx		
,, Consumable stores	xxxx		
,, Factory rent, rates and taxes	xxxx		
,, Foreman/ works Manager's salary	xxxx		
,, Royalty on Manufactured Goods	xxxx		
,, Other direct charges	xxxx		
To Gross profit c/d	xxxx		
Total	**xxxx**	**Total**	**xxxx**

ADVANTAGES OF TRADING ACCOUNT

1. Trading account shows the relationship between gross profit and sales that helps to measure profitability position.
2. Trading account shows the ratio between cost of good sold and gross profit
3. Trading account gives the information about efficiency of trading activities
4. Trading account helps to compare between cost of good sold and gross profit
5. Trading account provides information regarding stock and cost of good sold.

PROFIT AND LOSS ACCOUNT: An account in the books of an organization to which incomes and gains are credited and expenses and losses debited, so as to show the net profit or loss over a given period.(OR)

A financial statement showing a company's net profit or loss in a given period (OR)

An account made up of revenue and expense accounts which shows the current profit or loss of a business (i.e. whether a business has earned more than it has spent in the current year). Often referred to as a P&L.

In profit and loss account we considered all indirect expenses to estimate the value of Net profit.

ADVANTAGES OF PROFIT AND LOSS ACCOUNT

1. Profit and loss account gives the actual information abut net profit or net loss of the business for an accounting period.
2. Profit and loss account gives the actual information abut indirect expenses.
3. Profit and loss account serves to determine the ratio between net profits to sales.
4. Profit and loss account helps to determining the ratio between net profits to operating expenses.
5. Profit and loss account helps in controlling indirect expenses.

PROFORMA FOR P/L ACCOUNT

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT

To Gross Loss b/d	xxxx	By Gross profit b/d	xxxx
To selling and Distribution		.. Interest Received	xxxx
expenses:		.. Discount Received	xxxx
Advertisement	xxxx	.. commission Received	xxxx
Traveller's Salaries,	xxxx	.. Rent from Tenants	xxxx
Expenses & commission	xxxx	.. Income from Investments	xxxx
Bad Debts	xxxx	.. Apprenticeship premium	xxxx
Godown Rent	xxxx	.. Interest on Debentures	xxxx
Export Expenses	xxxx	.. Income from any other	xxxx
Carriage Outwards	xxxx	Source	
Bank charges	xxxx	.. Miscellaneous Revenue	xxxx
Agent's commission	xxxx	Receipts	xxxx
Upkeep of Motor lorries	xxxx	.. By Net loss Transferred to	xxxx
To Management Expenses:		Capital A/C	xxxx
Rent, Rates and taxes			
Heating and Lighting	xxxx		
Office salaries	xxxx		
Printing & stationery	xxxx		
Postage &Telegrams	xxxx		
Telephone charges	xxxx		
Legal charges	xxxx		
Audit charges	xxxx		
Audit fees	xxxx		
Insurance	xxxx		
General expenses	xxxx		
Depreciation and	xxxx		
Maintenance			
Depreciation			
Repairs & Maintenance	xxxx		
To Financial Expenses:	xxxx		
Discount Allowed			
Interest on Capital	xxxx		
Interest on Loans	xxxx		
Discount on Bills	xxxx		
To Extraordinary	xxxx		
Expenses			
Loss by fire (not covered by			
insurance)	xxxx		
Cash defalcations	xxxx		
To Net profit transferred to	xxxx		
capital A/C	xxxx		
	xxxx		
Total	**xxxx**	**Total**	**Xxxx**

BALANCE SHEET:

A balance sheet is a statement of the total assets and liabilities of an organisation at a particular date - usually the last date of an accounting period.

A properly drawn up balance sheet gives information relating to

1. Nature and value of assets.
2. The nature and extent of liabilities
3. Whether the firm is solvent
4. Whether the firm is over trading

Advantages of balance sheet

1. By comparing past balance sheets with the present balance sheet, the growth or decline of the business assets, loans and net worth can be determined.
2. The balance sheet is used to calculate ratios, such as the current ratio, acid test ratio, and leverage ratio. These ratios are used to evaluate the financial performance of the business.

DISADVANTAGES:

I. Does not give accurate picture on real time basis since outdated valued of assets are used

THE PROFORMA OF BALANCE SHEET

LIABILITIES	AMOUNT	ASSET	AMOUNT

<u>Current Liabilities:</u> Bills Payable Sundry creditors Bank overdraft Out standing expenses Income Received in advance <u>Long term Liabilities:</u> Loans from Bank Debentures Any other loan <u>Fixed Liabilities:</u> Capital Add: Net profit Less: Drawings		<u>Liquid Assets:</u> Cash in hand Cash in bank <u>Floating Assets:</u> Sundry Debtors Investments Bills Receivable Stock in Trade Prepaid Expenses Accrued Income <u>Fixed Assets:</u> Machinery Building Furniture & Fixtures Motor Car <u>Fictitious Assets:</u> Advertisement Miscellaneous Expenses Profit & Loss A/c <u>Intangible Assets:</u> Goodwill Patents Copyright Licenses	
TOTAL	**XXXX**	**TOTAL**	**XXXX**

Difference between profit and loss account and Balance sheet

BALANCE SHEET	**PROFIT & LOSS ACCOUNT**
1.Balance sheet is the statement of Asset and Liabilities 2. Balance sheet discloses the financial position of the business on a particular date. 3. Balance sheet is prepared as at the last day of accounting period 4. Accounts which are transferred to	1.Profit and loss is an account 2. Profit and loss account discloses profits earned or losses suffered during an accounting period. 3. Profit and loss account prepared for the accounting period ending

balance sheet do not lose their identity and become the opening balance for next period.	4. Accounts which are transferred to the profit loss account are closed and cease to exist.

Adjustments: Adjustments are transactions relating to business which have not been journalized by the end of the accounting period.

Adjustments shown affect on Balance sheet and Trading/Profit loss account.

The following are the important adjustments in final accounting

1. **Closing stock:** The unsold stock of goods remaining at the end of the accounting period is termed as “Closing stock”. The two fold effect of the adjustment entry is 1) It will be appeared in trading account on the credit side and 2) It will appeared in assets side of balance sheet.
2. **Outstanding expenses:** Expenses which have become due but not paid at the end of the financial year are called outstanding expenses. The two fold effect of adjustment is 1) it will be added to the concerned expense account and 2) Out standing expenses will be shown on the liabilities side of balance sheet.
3. **Unexpired and prepaid expenses:** Expenses which have been paid in advance i.e. whose benefit will be available in future are called unexpired or prepaid expenses. The two fold effect of the adjustment is 1). it will be deducted from the concerned expense account in profit and loss account and 2) shown on the asset side of balance sheet as prepaid expenses.
4. **Accrued Income:** The Income which is earned but not received during the accounting year is called accrued income. The two fold adjustment entry is 1) it will be added to the concerned income account in profit and loss account on the credit side and 2) shown in the balance sheet on the assets side.
5. **Income received in Advance:** Income received in advance but not earned during the accounting period is called income received in advance. The two fold adjustment entry is 1) it is deducted in profit and loss account on the credit side from the concerned income account and 2) shown in balance sheet on the liabilities side as income received in advance.
6. **Depreciation:** Depreciation is the reduction in the value of an asset due to wear and tear, lapse of time etc. The two fold adjustment entry is 1) depreciation is shown on the debit side

of profit and loss account and 2) it is shown as a deduction fro the concerned asset account in balance sheet.

7. **Interest on capital:** Some times interest is provided on the capital invested by the proprietor in the business. It is treated as business expense. The two fold adjustment entry is 1) Shown on debit side of profit and loss account 2) The amount of interest on capital is added to the capital on the liabilities side.
8. **Interest on drawings:** If interest on capital is charged, it is but natural that interest on drawings should be charged to the proprietor. Interest on drawings is an income of the business. The two fold effect adjustment entry is 1) shown on credit side of the profit and loss account and 2) the amount of interest on drawings is added to drawings, which is ultimately deducted from capital.
9. **Bad debts:** debts are irrecoverable are called bad debts. The two fold adjustment entry is 1) It shown on debit side profit and loss account 2) shown on the asset side of the balance sheet by way of deduction from sundry debtors.
10. **Provision for discount on debtors:** It is a normal practice to allow discount to customers for prompt payment. The two fold adjustment entry is 1) is shown on debit side of the profit and loss account and 2) it is deducted from sundry debtors on the assets side of the balance sheet.
11. **Reserve for discount on creditors:** If the business is run on the sound basis then it will make payments to its creditors as early as possible. The practice earns both goodwill and discount for the business. The two fold adjustment entry is 1) is shown on credit side of profit and loss account and 2) shown on the liabilities side of the balance sheet by way of deduction from sundry creditors.
12. **Accidental losses:** Some business assets lost due to fire, theft or other reasons. If the assets are destroyed by the fire the two fold adjustment entry is 1) loss by fire is debited to profit and loss account 2) The amount is deducted from the particular asset account on the asset side of balance sheet.
13. **Goods withdrawn for personal use:** If the goods are withdrawn by the proprietor for personal use the two fold entry for this adjustment is 1) value of good withdrawn by the proprietor should be deducted from purchase account on the debit side and 2) deducted from the capital on the liabilities side.
14. **Reserve fund:** Reserve fund is an appropriation of net profit for strengthening the financial position of the business. The two fold entry for this adjustment is 1) it shown debit side of the profit and loss account and 2) shown on the liabilities side of the balance sheet.

EXAMPLE PROBLEM ON FINAL ACCOUNTS
(Adjustment relating to loss on fire and destroyed goods)

Problem 1:
Form the following particulars prepare Final Accounts as on 31-03-2009.

Particulars	Amount	Particulars	Amount
Purchases	70,000	Sales	1,00,000
Sales Returns	1,000	Capital	80,000
Carriage Inwards	500	Purchase Returns	2,000
Salaries	1,500	Creditors	25,000
Rent & Insurance	1,500	Commission	2,000
Debtors	36,000	Discount Received	2,100
Bills payable	5,000		
Plant & Machinery	50,000		
Furniture	9,000		
Cash at Bank	20,000		
Opening Stock	20,000		
Bad Debts	5,000		
Wages	1,100		
Advertisement	500		
Total	2,16,100	Total	2,16,100

Adjustments:

1. Closing Stock Rs. 10,000.
2. Create 5% Reserves for Doubtful debts
3. Out standing Salaries Rs 200
4. Depreciation @ 10% on Machinery and 5% on Furniture.
5. Fire accident destroyed goods worth Rs 5000 and Insurance company agreed to Pay Rs 4000

Solution:

Trading and Profit and loss account as on 31-03-2009

Dr Cr

Particulars		Amount	Particulars		Amount
To Opening stock		20,000	By Sales	1,00,000	
To Purchases	70,000		Less: returns	1,000	99,000
Less: returns	2,000	68,000			
			By closing stock	10,000	
To Carriage Inwards		500	Add: destroyed stock	5,000	15,000
To Wages		1,100			
To Gross profit c/d		24,400			1,14,000
		1,14,000			
			By Gross profit b/d		24,400
To salaries	1500		By commission		2,000
Add: out standing	200	1,700	By discount		2,100
To Rent		1,500			
To Bad debts	5,000				
Add: Doubt full	18,00	6,800			
(@ 5 on Debtors)					
To Advertisement		500			
To Dep. On Machine		5,000			
To Dep. On Furniture		450			
To Loss on fire(not covered by Insurance 5000-4000)		1,000			
To Net profit c/d		11,550			
TOTAL		28,550			28,550

Note:

1. Stock destroyed is added to closing stock because this stock is wastage for trading period but the end the closing stock is Asset to next year.

BALANCE SHEET AS ON 31-03-2009

Liabilities		Amount	Assets		Amount
Capital	80,000		Cash at Bank		20,000
Add: Net profit	11,550	91,550	Plant	50,000	
			Less: Dep	5,000	45,000
Bills Payable		5,000			
Creditors		25,000	Furniture	9,000	
Out standing salaries		200	Less: Dep	450	8,550
			Closing stock		10,000
			Insurance Claim		4,000
			Debtors	36,000	
			Less: Doubtful	1,800	34,200
Total		**1,21,750**	**Total**		**1,21,750**

Note: For calculating total debtors we deduct the Doubtful debtors from total debtors. Here we can consider the bad debts because these debts are their beginning of the year.

Problem 2:

From the following balances and adjustments prepare final accounts as on 31-03-2012.

Particulars	**Amount in Rs**	**Particulars**	**Amount in Rs**
Purchases	65,000	Bank overdraft	8, 000
Sales	1, 20,000	Capital Account	60, 000
Opening stock	15,000	Bad debts reserves	2,500
Purchase returns	1,500	Debtors Discount Reserve	2,000
Sales returns	2,000	Plant & Machinery	20,000
Sundry creditors	18,000	Land and Buildings	50,000
Salaries	4,000	Factory expenses	600
Carriage	800	Wages	600
Bills payable	10,000	Insurance	600
Advertisement exp	1,500	General expenses	400
Commission paid	200	Sundry debtors	15,000
Bad debts	400	Bills Receivable	19,000
Discount (Dr)	300	Cash in hand	600
Creditors Discount reserve	800	Drawings	2,400
Goodwill	20, 000		

Adjustments:

1. Closing stock Rs 12,000
2. Prepaid Insurance Rs 150
3. Outstanding expenses wages Rs 400, Salaries Rs 1,200
4. Bad debts to be written off Rs 600 and provide bad debt reserve @ 5 % on debtors.
5. Provide 2 % discount reserve on debtors and creditors
6. Depreciation is to calculate 10% on plant and machinery and 5% on land and buildings.

Solution:

Trading and Profit and loss account as on 31-03-2012

Dr Cr

Particulars	**Amount**	**Particulars**	**Amount**
To Opening stock	15.000	By Sales 1,.20,000	
" Purchases 65, 000		Less: Returns 2,000	1,18,00
Less: Returns 1, 500	63,500	Closing stock	12,000
" Wages 600			
Add: outstanding 400	1,000		
" Carriage	800		
" Factory Expenses	600		
Gross profit c/d	49,100		
Total	1,30,00	Total	1,30,00
To salaries 4,000		By gross profit b/d	49,100
Add: outstanding 1,200	5,200	By provision for D. debts	
” Insurance 600		Existing 2,500	
Less: prepaid 150	450	Less required 720	1,780
” General expenses	400	Provision for discount on	
” Commission paid	200	debtors existing 2000	
” Advertisement	1,500	Less required 274	1,726
” Bad debts 400			
Add: further 600	1,000		
” Discount	300		
” Depreciation			
Plant & Machinery 2000			
Land & buildings 2500	4,500		
” Reserve for discount on			
creditors existing 800			
Less: required 360	440		
” Net profit transferred to			
capital A/c	38,616		

Total	52,606	Total	52,606

Balance sheet as on 31st march 2012

Liabilities		Amount	Assets		Amount
Capital	60,000		Goodwill		20, 000
Add: Net profit	38,616		Land & Buildings	50,000	
	98,616		Less: Depreciation	2,500	47,500
Less Drawings	2400	96,216			
			Plant & Machinery	20,000	
Sundry Creditors	18,000		Less : Depreciation	2,000	18,000
Less: Reserve for			Closing stock		12,000
Discount	360		S. Debtors	15, 000	
Bank overdraft		8,000	Less Bad debts	600	
Bills Payable		10,000		14,400	
Out standing expenses			Less: Prov. For		
Wages	400		D.debt	720	
Salaries	1,200	1,600	(14,400 @ 5%)	13,680	
			Less: Prov Disc on		
			Debtors (13,680 @ 2%)	274	13,406
			Bills Receivables		19,000
			Prepaid Insurance		150
			Cash in hand		600
			Suspense's Account		
			(Difference in books)		2,800
Total		**1,33,456**	**Total**		**1,33,456**

Problem 3: From the following Trail balance prepare Final Accounts for the year ended 2012.

10M

Particulars	Debit in Rs	Credit in Rs
Capital		80,000
Returns	1,200	1,000
Rates & taxes	3,500	
Opening stock	20,000	
Plant & Machinery	15,000	
Salaries	22,000	
Wages	5,000	
Furniture	16,000	
Carriage Inward	3,000	
Carriage outward	2,500	
Interest	______	3,000
Discount	2,000	1,500
Purchases & Sales	60,000	76,700
Cash in hand	5,000	
Insurance	3,000	
Maintenance & repairs	4,000	
Total	**1,62,200**	**1,62,200**

Adjustments:

1. Closing stock Rs 20,000
2. Interest on capital @ 5%
3. Out standing salaries Rs 1500 and wages Rs 1000
4. Prepaid Insurance Rs 1200
5. Depreciation 3% on furniture and 5% Plant & Machinery

Sol: **Profit and Loss A/c on 31st march 2012**

Dr Cr

Particulars		Amount	Particulars		Amount
To Opening stock		20,000	By Sales	76,700	
" Purchases	60, 000		Less: Returns	1,200	75,500
Less: Returns	1, 000	59,000	Closing stock		20,000
" Wages	5000				
Add: outstanding	1000	6,000			
" Carriage inward		3,000			
Gross profit c/d		7,500			
Total		95,500	Total		95,500
To Rate & taxes		3,500	By gross profit b/d		7,500
To salaries	22,000		” Interest		3,000
Add: outstanding	1,500	23,500	” Discount		1,500
” Insurance	3,000		” Net Loss transferred to capital A/c		30,530
Less: prepaid	1,200	1,800			
Carriage outward		2,500			
Maintenance & Repair		4,000			
Interest on capital		4,000			
” Depreciation					
Plant & Machinery		750			
Furniture		480			
” Discount		2,000			
Total		42,530	Total		42,530

Balance sheet as on 31st march 2012

Liabilities		Amount	Assets		Amount
Capital	80,000				
Add: Interest on	4,000		Furniture	16,000	
Capital	84,000		Less: Depreciation	480	15,520
Less: Net loss	30,530	53,470			
			Plant & Machinery	15,000	
Out standing expenses			Less : Depreciation	750	14,250
Wages	1,000				
Salaries	1,500	2,500	Closing stock		20,000
			Prepaid Insurance		1,200
			Cash in hand		5,000
Total		**55,970**	**Total**		**55,970**