

### Contents :

- 4.1 Meaning, Importance and Utility of Journal
- 4.2 Specimen of Journal
- 4.3 Writing of Journal Entries.

### Learning Objectives:

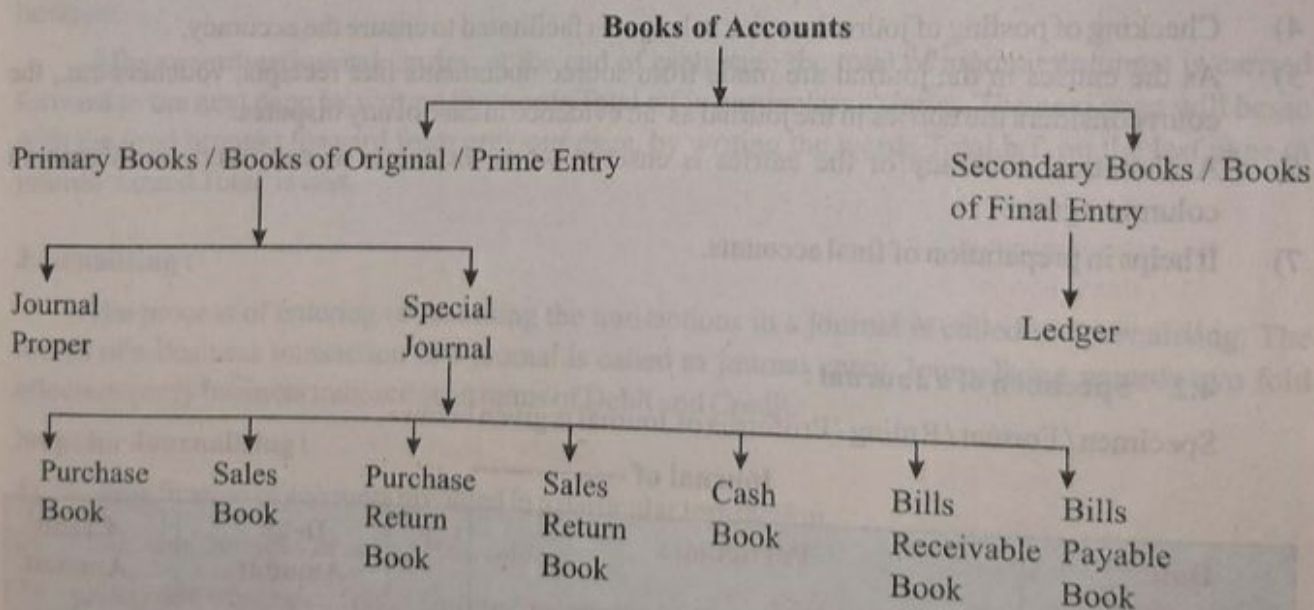
After studying this unit students will be able to know:-

- meaning of Journal
- importance of Journal
- utility of Journal
- specimen of Journal
- writing of Journal

### Introduction :-

In modern business world a businessman everyday makes several transactions with different parties and completes them in all respects. He keeps different books of accounts for maintaining accounting records. The number of books depends upon the size and nature of business and volume of transactions but important books of accounts which must be maintained by every businessmen are Journal and Ledger. Journal is one of the books of accounts in which the business transactions are first recorded in a chronological order i.e. date wise in the order in which they take place.

Generally, the following Books of Accounts are maintained by a businessman for recording the business transactions.



A memorandum book is maintained by a businessman but a memorandum book is not a part of books of accounts because it does not have a debit or a credit entry. It is used for noting down in brief, the transactions, as and when they take place. Waste book is kept for the sake of memory to make rough notes of the transactions, so that nothing important is omitted.

#### 4.1 Meaning :

The word 'Journal' is derived from the French word 'Jour' which means a 'Day'. Therefore journal means a 'daily record'. A journal contains a daily record of business transactions.

Journal is a book of original entry or first entry or primary entry because all the business transactions are recorded first in the Journal in a chronological order i.e. in the order of their occurrence (taking place).

Business transactions are systematically recorded in Journal on the basis of source documents. All the transactions are entered in Journal in chronological order as per double entry system.

#### Definition :

"A journal is a book, employed to classify or sort out transactions in a form convenient for the subsequent entry in the ledger" -L. C. Cropper.

A 'journal is a book of "Prime Entry" or Original Entry".

#### Importance and utility of Journal :

A journal is an important book in Book-Keeping. All the big or small businessmen, keep the journal. The Importance and utility is as follows:-

- 1) A Complete record of all transactions ( i.e. debit and credit aspects of each transaction) is available at one place.
- 2) When the transactions are recorded date wise, we can take references quickly and easily of any transaction
- 3) Brief explanation of the transaction is called 'Narration'. Narration to journal entry conveys the details of the entry and helps in understanding the transactions which are recorded.
- 4) Checking of posting of journal entries to ledger is facilitated to ensure the accuracy.
- 5) As the entries in the journal are made from source documents like receipts, vouchers etc., the court considers the entries in the journal as an evidence in case of any disputes.
- 6) Arithmetical accuracy of the entries is ensured when the totals of debit and credit amount columns agree.
- 7) It helps in preparation of final accounts.

#### 4.2 Specimen of a Journal :

Specimen / Format / Ruling / Proforma of Journal is given below-

Journal of _____				
Date	Particulars	L.F.	Debit Amount	Credit Amount
Year Month/Date	Name of the account debited To Name of account Credited [Being.....]	Dr.	₹  xx	₹  xx



### Explanation of columns :

- 1) **Date:** It records year, month and date of every transaction. The year should be written at the top and below that the month and date should be written.
- 2) **Particulars:** In particulars column the journal entry is passed in 3 parts i) Debit A/c ii) Credit A/c iii) Narration. It records the name of the account to be debited and the name of the account to be credited. This is decided by applying the rules for Debit and Credit. The account to be debited is always written first. The word "Dr" is written in front of debited account just near L.F. Column. The account to be credited is written on the next line beginning with the word "To" after leaving short space just near date column. Narration is to be written just below the journal entry. "Narration means brief explanation of the Journal Entry". It is always written in the bracket and begins with word, 'Being'.
- 3) **Ledger Folio :** Folio means page number and thus ledger folio means page number of the ledger. While recording the transaction nothing has to be written in this column. The transactions entered in the journal are posted to the ledger. The page number of the ledger on which the two accounts appear, are entered in this column, at the time of posting. The Folio number may be written in bold.
- 4) **Debit Amount:** The amount of debited account should be written in debit amount column against the account debited.
- 5) **Credit Amount:** The amount of credited account should be written in credit amount column against the account credited.

**Casting of Journal :** At the end of each page of journal, we take the total of debit amount and credit amount column to check arithmetical accuracy of the transaction. The totals of both the columns must be equal.

After recording journal entries, at the end of each page the total of amount columns is carried forward to the next page by writing the words Total c/f in particulars column. The next page will begin with the total brought forward from previous page, by writing the words Total b/f, on the last page of journal 'Grand Total' is cast.

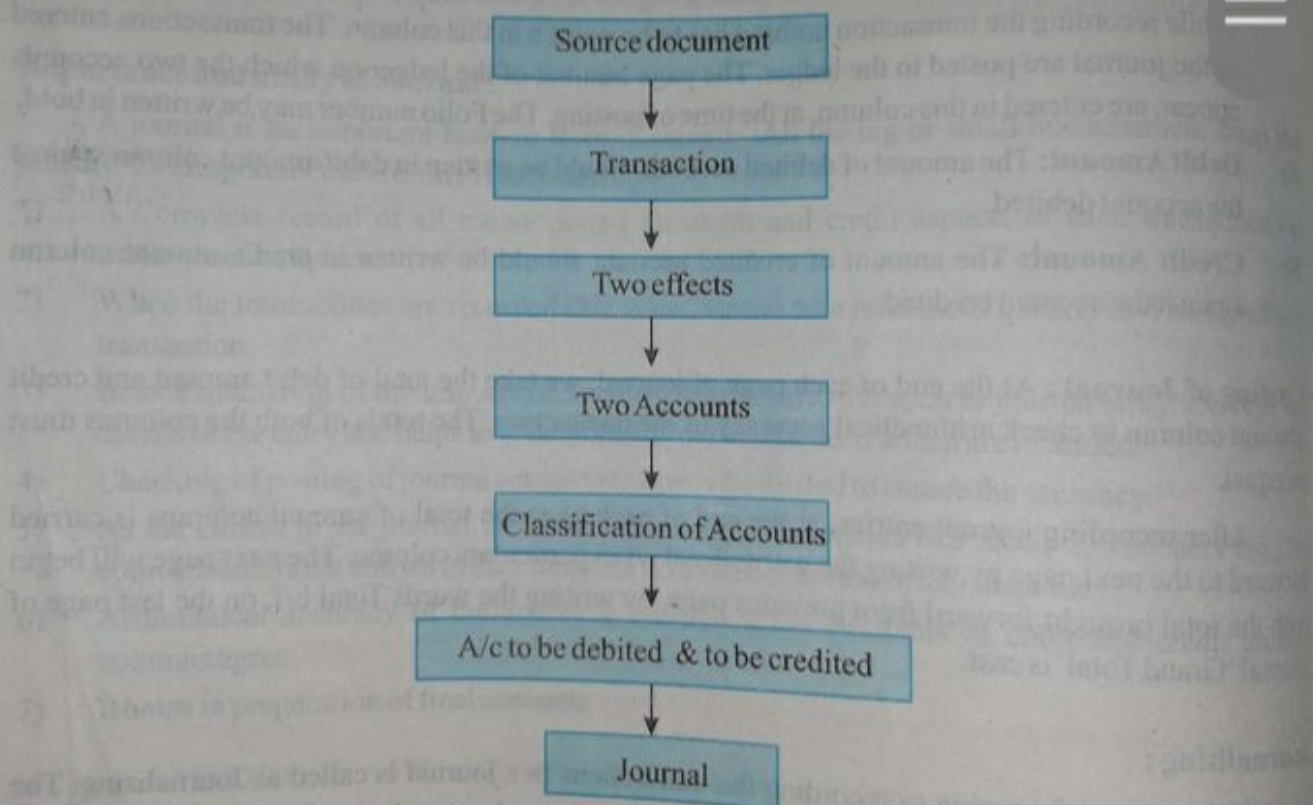
### Journalising :

The process of entering or recording the transactions in a journal is called as Journalising. The record of a business transaction in a journal is called as journal entry. Journalising records two fold effects of every business transaction in terms of Debit and Credit.

### Steps for Journalising :

- 1) Identification of accounts involved in a particular transaction.
- 2) Deciding the types of accounts involved.
- 3) Ascertain what rule of debit and credit is applicable for each of the accounts involved.
- 4) Deciding the account to be debited and the account to be credited.
- 5) Recording the date of the transaction in the "Date column".
- 6) The name of the account to be debited is to be written in "Particulars" column. On first line it is

- written close to the date column and name of the account to be credited is written on the second line after leaving short space from the date column.
- 7) The word 'Dr.' is written against the name of the account debited whereas the name of the account to be credited is preceded by the word 'To'.
  - 8) The amount involved in the transaction is written in the 'Dr.' (i.e. debit) and 'Cr.' (i.e. credit) columns against the name of the debit and credit accounts respectively.
  - 9) A brief explanation of the entry is given in the bracket just below the entry. It is called "Narration" It begins with word "Being".
  - 10) A line is drawn below each journal entry in particulars column only to keep the entries of the transactions distinctly separate from each other.
  - 11) L.F. (Ledger Folio) The page on which the particular account is opened in the Ledger is stated under the L.F. column to facilitate easy reference.



### Goods Account:

The goods account as such does not appear in the books. It is generally classified as Purchases A/c, Sales A/c, Return outward A/c (Purchase Return), Return inward A/c (Sales Return), Goods withdrawn by proprietor A/c, Goods distributed as free samples A/c, Goods destroyed by fire A/c, Goods damaged/lost in transit A/c, and Goods Pilfered or stolen account.

#### 1) Purchases:

Purchases for the business means goods bought for trading/manufacturing activity. There are two types of purchases

- i) Cash Purchases



- i) **Cash Purchases** - When goods are purchased and payment for the same is made to seller immediately, by cash or cheque, it is called cash purchases.

**Example 1 : Purchased goods for cash from Arvind worth ₹ 10,000**  
**Journal Entry**

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
Year Month/Date	Purchases A/c Dr. To Cash A/c. (Being purchased goods for cash)		10,000	10,000

- ii) **Credit Purchases** - When goods are purchased without making immediate payment to seller i.e. seller allowed a certain period of time to buyer to make the payment in respect of such purchases it is called as credit purchases.

**Example 2 : Bought goods from Arvind worth ₹ 10,000 on credit**  
**Journal Entry**

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
Year Month/Date	Purchases A/c Dr. To Arvind's A/c. (Being purchased goods on credit)		10,000	10,000

Purchase book is maintained mainly to record the credit purchases of goods only.

## 2) **Return Outward (Purchase Return) :**

Sometimes goods purchased, are returned to the supplier for various reasons like.

- |                                                        |                                   |
|--------------------------------------------------------|-----------------------------------|
| 1) Goods are not according to sample.                  | 2) Goods are of inferior quality. |
| 3) Goods are damaged in transit.                       | 4) Goods are defective.           |
| 5) Goods are received in excess quantity than ordered. | 6) Delay in supply of Goods.      |

Thus, when goods purchased are returned by purchaser to supplier, it is called as "return outward".

**Example 3 : Out of the goods purchased in Ex - 2 goods worth Rs. 4,000 returned to Mr. Arvind**  
**Journal Entry**

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
Year Month/date	Mr. Arvind's A/c Dr. To Return Outward A/c (Being goods returned)		4,000	4,000

- 3) **Sales** : Sales for the business means goods sold. Sales are classified in the following types-

- a) Cash sales                      b) Credit sales.

- a) **Cash Sales** : When goods are sold and money in that respect is received immediately, it is termed as cash sales.

- 6) **Goods distributed as free sample:** It is the value of goods distributed by the firm as free sample for advertising purpose. Advertisement A/c is debited and the goods distributed as sample / purchases A/c is credited as goods goes out of the business.

**Journal Entry**

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
Year Month/Date	Advertisement A/c Dr. To Goods distributed as samples A/c or Purchases A/c (Being Goods distributed as free sample)		xxx	xxx

- 7) **Goods Destroyed by Fire/Accident :** If goods are destroyed by fire/accident, it is a physical loss of goods for which loss by fire A/c is debited and since goods go out of business, Goods destroyed by fire / purchase A/c is credited.

- A) **If goods are not Insured (Uninsured) :** i) When goods destroyed by Fire / Accident and insurance company has not accepted the claim

**Journal Entry**

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
Year Month/Date	Loss by fire A/c Dr. To Goods destroyed by fire A/c or Purchases A/c (Being Goods destroyed by fire)		xxx	xxx

- B) **If goods are insured:** i) If full claim is accepted

**Journal Entry**

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
Year Month/Date	Insurance Co. A/c (Amt. of claim) Dr. To Loss by fire A/c (Being claim by insurance Co. accepted )		xxx	xxx

- ii) If the claim is partly accepted

**Journal Entry**

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
Year Month/Date	Insurance Co. A/c (Amt. of Claim) Dr. Profit & Loss A/c (Amt. of Loss) Dr. To Goods destroyed by fire A/c (Being Goods Destroyed and Insurance Co. accepted the claim partly)		xxx xxx	xxx



### 4.3 Writing of Journal Entries :

#### Types of Journal Entries

##### Simple Journal Entries

##### Compound/Combined Journal Entries

#### 1. Simple Journal Entry:

In a simple journal entry, only two accounts are affected, one account is debited and the other is credited. Few examples of transactions are given below for simple journal entries. The process of journalising explained above can be practised with the following illustrations.

#### Illustration - A Process of Journalising :

Transactions	Two effects	Two Accounts	Types of Accounts	Rules Applicable	A/c to be Debited	A/c to be Credited
1. Started business with cash ₹2,00,000	Cash Comes in Proprietor is the giver	Cash A/c Capital A/c	Real Personal	Dr. what comes in Cr. the giver	Cash A/c	Capital A/c
2. Purchased Furniture of ₹40,000 for cash	Furniture comes in Cash goes out	Furniture A/c Cash A/c	Real Real	Dr. what comes in Cr. what goes out	Furniture	Cash A/c
3. Paid for salary ₹10,000 in cash	Salary is an expense cash goes out	Salaries A/c Cash A/c	Nominal Real	Dr. the expenses / losses Cr. what goes out	Salaries A/c	Cash A/c

#### Illustration - B

#### Journal Entries

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
1.	Cash A/c Dr. To Capital A/c (Being started business with cash)		2,00,000	2,00,000
2.	Furniture A/c Dr. To Cash A/c (Being purchased furniture for cash)		40,000	40,000
3.	Salaries A/c Dr. To Cash A/c (Being paid salaries)		10,000	10,000
	<b>Total</b>		<b>2,50,000</b>	<b>2,50,000</b>

### Contents :

- |      |                                                           |
|------|-----------------------------------------------------------|
| 5.1  | Meaning, need and specimen of different subsidiary books. |
| 5.2  | Simple cash book with cash column only.                   |
| 5.3  | Cash book with cash and bank columns.                     |
| 5.4  | Analytical petty cash book- imprest system.               |
| 5.5  | Purchase book.                                            |
| 5.6  | Sales book.                                               |
| 5.7  | Purchase return book.                                     |
| 5.8  | Sales return book.                                        |
| 5.9  | Bank book.                                                |
| 5.10 | Journal proper.                                           |

**Learning Objectives :** After going through this unit student will be able to:

- understand meaning and need of Subsidiary books.
- classify cash transaction and credit transaction.
- draft format of various cash book.
- prepare and balance different types of cash book,
- give accounting treatment for banking transactions and contra entries.
- prepare analytical petty cash book on imprest system.
- record transaction in Purchase book, Sales book, Purchase Returns book, and Sales Returns book.
- understand when debit note and credit notes are issued and received.
- understand utility of bank book and journal proper.

### Introduction :

Principle of journalising all transactions is the universal system of book-keeping. It is perfect for small concerns having few and non repetitive transactions, but for large business concerns it is inconvenient to journalise large number of transactions which are repetitive in nature. Besides it is difficult for a single clerk to journalise a number of transactions in a single journal. Therefore for accurate and quick recording of transactions, the journal is divided into a number of special journals in a classified manner.

In trading concerns though the transactions are numerous they can be grouped into special journals on the basis of their nature. Receipt and payment of cash can be recorded in cash book, credit purchase of goods can be recorded in purchase book, credit sale of goods can be recorded in sales book and goods returned can be recorded in purchase return book and sales return book. Thus, the journal is divided in such a way that separate book is used for each type of transaction.

### 5.1 Meaning :

Sub-division of journal is known as subsidiary books. It helps in maintaining separate book for particular type of transactions which are repetitive and large in number. Journal is sub divided into number of special journals on the basis of nature of transactions. Subsidiary books are also books of original entry or prime entry because when a transaction takes place it is first recorded in one of these books and are subsequently posted to the respective accounts in the ledger. Subsidiary books are also called as special journals or day books.



### Need for maintaining subsidiary books :

Need for maintaining subsidiary books is as follows:

1. **Division of work :** The work of recording transactions into subsidiary book and posting it to the ledger account can be assigned to several clerks simultaneously.
2. **Specialisation :** Since, clerks are assigned same type of work, it leads to specialisation and increase in efficiency.
3. **Time saving and economical :** Different accounting procedures can be taken up at the same time. This will save time and prove to be economical.
4. **Quick information and future reference :** Similar transactions are recorded together in the same book therefore quick information and future reference to any of them becomes easy.
5. **Verification of correctness :** It enables effective internal control which helps in verifying the correctness of book of accounts.
6. **Helps in preventing fraud :** Since, transactions are recorded in a chronological order it prevents fraudulent entries in an account.

### 5.1.2 Types of subsidiary books:

To achieve the purpose of accounting for modern business, subsidiary books are divided into the following types:

- |                      |                         |                      |                         |
|----------------------|-------------------------|----------------------|-------------------------|
| 1. Cash Book         | 2. Purchase Book        | 3. Sales Book        | 4. Purchase Return Book |
| 5. Sales Return Book | 6. Bill Receivable Book | 7. Bill Payable Book | 8. Journal Proper       |

**Whether Sub-division of journal is required for a small trader? e.g. vegetable vendor**

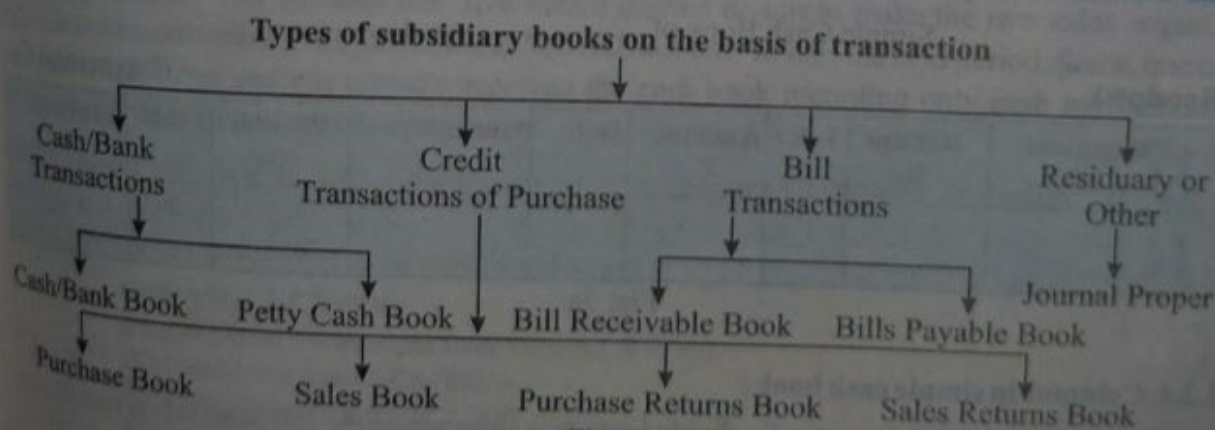


Fig. 5a

### 5.1.3 Cash Book:

Cash book is a book of original entry in which only cash receipts and cash payments are recorded. It is divided into two sides, 'Receipt side' and 'Payment side'. When cash cheque or draft is received the details are recorded on the left hand side which is known as Receipt Side or Debit Side. When cash, cheque or draft is issued for settling debts, details are recorded on the right hand side which is known as Payment Side or Credit Side. Cash book is a chronological record of all cash transactions. The cash book serves the purpose of book of original entry and also represents cash account in ledger. In fact it is

more of a ledger than a journal. It is a journal since cash transactions are recorded in chronological manner. It is a ledger since it constitutes a classified record of all cash transactions in the form of ledger with narrations and helps in finding out cash balance at the end of a particular accounting period. Thus it can be said that cash book serves dual purpose of journal as well as ledger.

#### 5.1.4 Types of cash book:

Cash book can be maintained in different ways depending on the need and nature of business concerns. Following are the different types of cash book:

1. Simple Cash Book (cash column only).
2. Cash book with cash and bank columns-Two columns cash book.
3. Petty cash book.

### 5.2 Simple Cash Book :

#### 5.2.1 Meaning :

Simple cash book has one amount column on each of receipt side and payment side. It records only cash receipts and payments. This cash book is suitable for traders operating on a very small scale. The cash book is prepared to keep record of all cash transactions and find the cash balance at the end of particular accounting period.

#### 5.2.2 Source documents for writing simple cash book are as under :

1. Cash receipts received
2. Cash receipts issued
3. Cash memos received
4. Cash memos issued
5. Vouchers

#### 5.2.3 Format of simple cash book:

Simple Cash Book of .....

Dr. (Receipts)

Date	Particulars	Receipt No.	L.F.	Amount ₹	Date	Particulars	Voucher No.	L.F.	Amount ₹

(Payments) Cr.

Fig. 5a

#### 5.2.4 Columns in simple cash book :

The simple cash book is vertically divided into two sides where the left hand side is receipt side and the right hand side is payment side.

**Receipt side :** Cash, bearer cheques and drafts received are recorded in this side of the cash book.

1. **Date column :** The date of transaction is written in this column.
2. **Receipt Number column :** The serial number of receipts and cash memos supporting the entry is recorded in this column.
3. **Particulars :** The account which is affected is recorded along with a brief narration in this column. It always begins with the word "To".



4. **Ledger folio :** It contains the page number of the ledger where the transaction has been posted.
5. **Amount column :** The amount paid is recorded in this column.

**Payment side :** Payment made by way of cash, cheques and drafts are recorded in this side of the cash book.

1. **Date :** The date of the transaction is recorded in this column.
2. **Voucher Number :** The serial number of voucher and cash memos supporting the entry is recorded in this column.
3. **Particulars :** The account which is affected is recorded along with a brief narration in this column. It always begins with the word "By".
4. **Ledger folio :** It contains the page number of the ledger where the transaction has been posted.
5. **Amount column :** The amount paid is recorded in this column.

### 5.2.5 Recording in simple cash book :

The procedure for recording in the simple cash book is explained below:

Previous month's balance or opening balance, if any, appears on the receipt side as "To Balance b/d" (b/d means brought down). In case of new business capital contributed by proprietor appears on receipt side as "To Capital A/c". When cash is received on any account the name of the account is entered in particulars column on the receipt side. When cash is paid on any account the name of account is entered in particulars column on the payment side. Transactions are to be recorded in the order of date only. This cash book is suitable for traders operating on a small scale.

### 5.2.6 Balancing of simple cash book:

After recording transactions of a particular period simple cash is balanced to find out balance of cash in hand. This is done by recording the excess of receipts on the payment side or excess of debit on the credit side as "By Balance c/d" (c/d means carried down) to make the two sides equal. This balance is then entered on the receipt side as "To Balance b/d" to start the next period. Since, one cannot pay more than what one has actually received the cash book recording only cash transactions will always have excess of receipts over payments.

**Illustration : 1** Record the following transactions in a Simple Cash Book of Rupam Traders for the month January 2011

2011 Jan.	
1	Cash in hand ₹ 20,000
3	Received cash on account from Govind ₹ 4,000.
6	Purchased machinery ₹ 6,000
9	Insurance premium paid ₹ 1,500
12	Sold goods for cash ₹ 8,000
13	Received commission ₹ 1,800
15	Purchased postal stamps ₹ 250
18	Purchased goods for cash from Mehta Bros ₹ 1,750.
23	Cash paid to Rampal ₹ 2,500 on account.
26	Paid rent ₹ 3,300.
28	Sold old furniture ₹ 5,000
29	Deposited into bank ₹ 2,200.
31	Paid salary to office staff ₹ 1,700

**Solution : 1**  
**Receipts (Dr.)**

**Working Notes :** Procedure for balancing Simple Cash Book :

(-) Total of Payment side	₹	<u>22,200</u>
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Balance carried down	₹	<u>16,600</u>
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2011 Mar.

1	Started business with cash ₹ 55,000.
4	Opened a current account with bank and deposited ₹ 20,000
7	Purchased goods for cash ₹ 15,000.
9	Paid electricity bill ₹ 1,000
11	Invested in Government Bonds ₹ 3,000.
17	Sold goods for cash ₹ 7,000.
20	Paid life insurance premium of Mr. Mohit ₹ 2,400.
22	Purchased goods for cash ₹ 5,000 @ 10% trade discount
23	Received dividend ₹ 4,000.
26	Paid for transport ₹ 760.
28	Received on account from Rahul ₹ 3,240.
31	Deposited into bank cash in excess of ₹ 4,000.



Solution : 2

In the Books of Mr. Mohit  
Simple Cash Book

Receipts (Dr)					Payments (Cr.)				
Date	Particulars	R. No.	L.F.	Amount ₹	Date	Particulars	R. No.	L.F.	Amount ₹
2011					2011				
Mar. 1	To Capital A/c (Being business started with cash)			55,000	Mar. 4	By Bank A/c (Being current account opened with Bank)			20,000
17	To sales A/c (Being goods sold for cash)			7,000	7	By Purchases A/c (Being goods purchased for cash)			15,000
23	To Dividend A/c (Being dividend received)			4,000	9	By Electricity Bill A/c (Being electricity bill paid)			1,000
28	To Rahul's A/c (Being cash received on account)			3,240	11	By Govt. Bonds A/c (Being investments purchased)			3,000
					20	By Drawings A/c (Being life insurance premium of proprietor paid)			2,400
					22	By Purchases A/c (Being goods purchased for cash at 10% trade discount)			4,500
					26	By Transport A/c (Being transport charges paid)			760
					31	By Bank A/c (Being excess cash deposited into bank)			18,580
					31	By Balance c/d			4,000
				69,240					69,240
Apr. 1	To Balance b/d			4,000					

Working Notes :

1. Calculation of excess amount deposited into bank:

Total of Receipt side ₹ 69,240

(-) Total of Payment side ₹ 46,660

22,580

Less Balance carried forward ₹ 4,000

Excess amount deposited into bank ₹ 18,580

2. Life Insurance Premium is the personal expenditure of the proprietor thus treated as 'Drawings'.

### 5.3 Cash Book with Cash and Bank Columns :

#### 5.3.1 Meaning :

Today banks play an important role providing various services to traders. It accepts deposits from customers and allows withdrawals by way of cash or cheque. In addition to this bank provides a number of functions like, payment by cheques and drafts, loan facility, discounting bills of exchange, cash credit, collection of cheques and above all safety. Moreover, when a trader opens a current account with the bank he can avail overdraft facility.

A businessman who indulges in a number of banking transaction opens a current account with the bank. In order to make recording easy a cash book with cash and bank column is prepared. It helps in grouping transactions which are interrelated thereby reducing time required to access cash and bank balances. This cash book has two amount columns on receipt side and payment side thus giving it the name "Two Column Cash Book". Bank columns appearing in two column cash book represent bank current account.

#### 5.3.2 Types of bank account :

1. **Fixed Deposit Account:** In this account a certain amount is deposited for a fixed period of time in order to earn interest. This amount can be drawn only after the expiry of the fixed period. Generally those persons, who intend to earn income by the way of interest, deposit into this account. This account is not too useful to businessman for regular banking transactions. However surplus funds can be invested in this account to earn extra income.
2. **Recurring Deposit Account:** In this account the depositor deposits a fixed sum of money every month for a specific period of time. Depositor is not allowed to withdraw from this account till its maturity. On maturity bank pays total amount of deposit along with interest on that lump sum to account holder.
3. **Savings Account:** The objective of this account is to encourage saving habit in limited income group. Amount deposited in this account can be withdrawn once or twice a week. Interest at a prescribed rate is allowed on this deposit. The depositor can avail cheque facility but for this a minimum balance must be retained in this account.
4. **Current Account:** Depositor can deposit and withdraw any number of times from this account during the bank working hours. There is no restriction on the number of withdrawals. Generally no interest is allowed on this account. But some Bank pay 0.5% or 1% on current account. Current account also grants cheque book facility to its account holders. Businessman opens a current account with bank not for earning interest but to enjoy banking, credit and other services given by bank. Current account holders also get overdraft facility on this account.

**NOTE:** The bank column appearing in Two Column Cash Book represents Bank Current Account.

**Whether current account is convenient to the person other than a businessman? Explain**



### 5.3.3 On opening a bank account the bank issues the following documents to depositor :

1. **Pay-in slip Book :** Pay-in-slips are used for depositing cash or cheques into the bank. Details of cash deposited or cheque deposited are filled in this slip. This slip is divided into two parts with a perforation. The counter foil is handed over to depositor for further reference and the main foil is retained with the bank.
2. **Bank Pass Book :** Bank current account and savings account holders are given a pass book. Pass book is an extract of depositors account in the books of bank. It gives details of amount/cheques deposited, amount withdrawn and the balance.
3. **Cheque Book:** The book contains printed blank cheques that are serially numbered. A cheque is an instrument for withdrawing amount from the bank and making payments.

**Definition:** A cheque is a written unconditional order drawn on a particular bank, signed by the account holder directing bank to pay on demand a certain sum of money to the person named therein or to the bearer.

#### Parties to a cheque:

1. **Drawer :** A person who draws the cheque and signs on it is known as the drawer. He is the account holder of the bank.
2. **Drawee:** The bank on whom the cheque is drawn is known as the drawee.
3. **Payee:** The person in whose favour the cheque is drawn is known as the payee. He is the person to whom the amount of cheque is payable.

#### Types of cheque :

1. **Bearer cheque :** Amount of Bearer cheque is payable over the counter to any person who presents it to the bank. Issuing or receiving bearer cheque is unsafe because in case it is lost holder can easily encash it at the bank. Normally bearer cheques are not issued or received in practice. If at all bearer cheques are received it will be specifically mentioned in the transaction.
2. **Order cheque :** When cheque is payable to a certain person named on the cheque or as per the order of that certain person it is called order cheque. It is safer than bearer cheque because while making payment against this cheque bank makes enquiry whether the possessor of cheque is the right person or not.
3. **Crossed cheque :** When two parallel lines are drawn on the face of cheque it is known as crossed cheque. The amounts of such cheques are not paid to customer over the counter. Bank credits the amount of crossed cheque in the account of payee. For safety reasons most business transactions are settled with crossed cheques.

### 5.3.4 Source documents :

Following are the source documents required for writing cash book with cash and bank columns:

- |                           |                      |                                              |
|---------------------------|----------------------|----------------------------------------------|
| 1. Receipts issued        | 2. Receipts received | 3. Cash memos issued                         |
| 4. Cash memos received    | 5. Vouchers          | 6. Pay-in-slips                              |
| 7. Counter foil of cheque | 8. Pass book         | 9. Advices and statements received from bank |

### 5.3.5 Format of cash book with cash and bank columns:

Cash Book of -----

Dr. (Receipts)						(Payments) Cr.					
Date	Particulars	Receipt No	L.F.	Cash ₹	Bank ₹	Date	Particulars	Voucher No	L.F.	Cash ₹	Bank ₹

Fig 5c

### 5.3.6 Columns in Cash Book with Cash and Bank Columns :

Cash book with Cash and Bank columns has one additional column on receipt side and payment side along with cash column. This column is known as 'Bank' column. Only banking transactions are recorded in this column. Bank column represents the Bank Current Account.

It is a common practice of many traders to allow cash discount and receive cash discount for prompt settlement of accounts. Cash discount allowed by trader is a non cash expenditure and cash discount received by trader is non cash income therefore, it is not recorded in the cash book. Cash discount is recorded in the journal proper by way of a journal entry.

### 5.3.7 Accounting treatment of banking transactions in Cash Book with cash and bank columns:

#### A. Opening balances, cheques received, cheques issued and dishonoured:

i. **Opening balance of bank account :** When total of receipt side (debit side) is greater than the total of payment side (credit side) it is known as debit balance. When total of payment side (credit side) is greater than the total of receipt side (debit side) it is known as credit balance. Bank account is a personal account therefore; it can have debit balance or credit balance. Credit balance in bank account means 'Bank Overdraft'.

(a) **When debit balance of Bank account is given:** When debit balance of Bank account is given it will appear on the receipt side of cash book in the bank column as under: **"To Balance b/d"**

(b) **When credit balance of bank account is given or overdraft in bank account is given:** Credit balance of bank is known as overdraft. Overdraft is a situation when amount withdrawn by account holder exceeds deposits in current account. It is a short term loan given by bank to current account holders. It is recorded on the payment side of the cash book in the bank column as under: **"By Balance b/d"**

ii. **Cheque received:** Cheques can be received for cash sales, commission, dividend, interest of settlement of accounts.

(a) **Crossed cheque received:** When crossed cheque is received, it is recorded, on receipt side of cash book in the bank column as **"To Sales / Interest / Commission / Customer's A/c"**

**Journal entry :**

Bank A/c ----- Dr.

To Sales/Interest/Commission/Customer's A/c



(b) **Bearer cheque received :** Bearer cheque received is treated as cash and is recorded on the receipt side in the cash column as **"To Sales/ Interest/Commission/Customer's A/c"**

**Journal entry:** Cash A/c-----Dr.

To Sales/Interest/Commission/Customer's A/c

(ii) **Cheque received and deposited into bank on the same day :** Cheques received are deposited into the bank for collection. This is recorded on receipt side in the bank column as **"To Sales/Interest/Commission/Customer's A/c"**

**Journal entry:** Bank A/c-----Dr.

To Sales/Interest/Commission/Customer's A/c

(iii) **Cheque received dishonoured :** Cheque received has to be presented to the bank for payment within three months from the date of drawing or it becomes worthless. When bank refuses to pay the amount to the payee due to certain reasons the cheque is said to be dishonoured. Dishonoured cheque is recorded on the payment side to cancel the receipt effect in the bank column as **"By Sale/ Interst/ Commission/Customer' A/c"**

**Journal entry:** Sales/ Interest/ Commission/ Customer's A/c-----Dr.

To Bank A/c

(iv) **Cheque issued :** Cheques can be issued for cash purchases, paying commission, paying interest or settlement of accounts. It can be used for withdrawing cash from bank. It is recorded on the payment side in the bank column as **"By Purchases/ Interest/ Commission/ Supplier' A/c"**

**Journal entry:** Purchases/ interest/ commission /supplier's A/c ..... Dr.

To Bank A/c-----

(v) **Cash withdrawn from bank for personal use :** This will appear on payment side in the bank column as **"By Drawings A/c"**

**Journal entry:** Drawings A/c-----Dr.

To Bank A/c

(vi) **Endorsement of cheque :** Cheque is a negotiable instrument and can be transferred by the holder to any other person. A trader may transfer in favour of his creditor to settle his liabilities. It is done by signing at the back of cheque or on a slip of paper annexed there to and is known as endorsement. The person who endorses the cheque is the **endorser** and the person to whom the cheque is endorsed is **endorsee**.

If cheque received has been recorded on the receipt side in the cash column, then endorsement of this cheque will be recorded on the payment side in the cash column as **"By Creditors A/c"**

**Journal entry:** Creditor's A/c-----Dr.

To Cash A/c

If cheque received has been recorded on the receipt side in the bank column, then endorsement of this cheque will be recorded on the payment side in the bank column as **"To Creditors A/c"**

**Journal entry:** Creditor's A/c-----Dr.

To Bank A/c

**B. Bank advices and statements :** Banks offer a range of services like collection of cheques etc. are deposited into bank collection of dividend, payment of expenses on behalf of account holder etc. Bank then sends an advice to the account holder giving details of these transactions. Current account holders also get a periodical statement from the bank which gives details of transactions like dishonour of cheque, direct deposit made by customer, interest charged on overdraft, bank charges deducted by bank, interest allowed by bank etc. On the basis of advice and statement received transactions are recorded by the trader in the cash book.

**viii. Direct deposit by customer into bank :** Instead of paying by cash or cheque for settlement of accounts, customers may directly deposit money into our bank account. This is recorded on the receipt side in the bank column as "To Customers A/c"

**Journal entry:** Bank A/c-----Dr.  
To Customer's A/c

**ix. Interest allowed by bank :** Banks allow interest on bank deposits. This is income for the trader and therefore increases the balance in bank. It is recorded on the receipt side in the bank column as "To Interest A/c"

**Journal entry:** Bank A/c-----Dr.  
To Interest A/c

**x. Interest charged on overdraft by bank :** Overdraft facility is a short term loan given to current account holders. Bank charges certain percentage of interest on overdraft amount which is an expenditure to the trader. It is recorded on the payment side in the bank column as "By Interest on overdraft A/c"

**Journal entry:** Interest on overdraft A/c-----Dr.  
To Bank A/c

**xi. Bank charges debited by bank :** Certain amount is charged by the bank for services rendered to them. This is known as bank charges. Bank charges are expenditure for the trader and are recorded on the payment side in the bank column as "By Bank charges A/c"

**Journal entry:** Bank charges A/c-----Dr.  
To Bank A/c

**xii. Dividend or interest on investment collected by bank on behalf of trader :** This is income for the trader collected by the bank. On receiving an advice or statement from bank, the trader records this transaction on the receipt side in the bank column as "To Interest on investment A/c"

**Journal entry:** Bank A/c-----Dr.  
To Interest/Dividend A/c

**xiii. Payment made by bank under the standing instruction given by trader :** As per the standing instructions given to bank, the bank makes payments of insurance premium, telephone bills, electricity bills and other expenses on behalf of trader. This is recorded on the payment side in the bank column as "By Respective Expenses A/c"

**Journal entry:** Respective Expenses A/c-----Dr.  
To Bank A/c



**Transfer of amount :** In addition to current account, a businessman may have Credit or a Loan Account with the bank to meet his financial requirements. He can transfer money from Cash Credit or Loan account to Current account or from Current account to Cash Credit or Loan account. Similarly amount can be transferred from personal savings account to current account or from current account to personal account. The treatments for these transactions are as under:

xiv. **From Cash Credit or Loan Account to Current Account :** This transaction increases the current account balance and is therefore recorded on the receipt side in the bank column as "To Cash Credit or Loan A/c"

**Journal entry :** Bank A/c-----Dr.  
To Cash Credit / Loan A/c

xv. **From Current Account to Cash Credit or Loan Account :** This transaction decreases the current account balance and is therefore recorded on the payment side in the bank column as "By Cash Credit or Loan A/c"

**Journal entry :** Cash Credit / Loan A/c-----Dr.  
To Bank A/c

xvi. **From Personal Saving account to Current Account :** This is a additional cash brought into business by the trader. It increases the capital balance and current account balance and is recorded on the receipt side in the bank column as "To Capital A/c"

**Journal entry :** Bank A/c-----Dr.  
To Capital A/c

xvii. **From current account to personal savings account :**

This is drawings of the proprietor. It decreases the current account balance and is recorded in the payment side in the bank column as "By Drawings A/c"

**Journal entry :** Drawings A/c-----Dr.  
To Bank A/c

xviii. **Contra Entries :** Certain transaction affects cash account and bank account simultaneously. It may decrease the cash balance and increase bank balance or increase the cash balance and decrease bank balance at the same time. In columnar cash book, cash account and bank account appear under the same heading of cash book. To record increase in bank balance, bank account is debited and to record decrease in cash balance, cash account is credited and vice versa. Entries recorded on both the sides of cash book are called as "Contra Entries". It occurs only when cash account and bank account are simultaneously affected in a transaction. Contra entries are denoted by the capital letter 'C' in the ledger Folio column.

**Examples of contra entries:**

1. Cash deposited into the bank.
2. Cash withdrawn from the bank for office use.
3. Cheque received on previous day deposited into the bank.

Accounting treatment for contra entries are as under:

xviii. **Cash deposited into the bank :** This transaction increases the bank balance and decreases the cash balance and is recorded as under : **Receipt side "To Cash A/c" in the bank column.**  
**Payment side "By Bank A/c" in the cash column.**

**Journal entry :**

	Bank A/c-----	Dr.
	To Cash A/c	

In the above transaction bank is the receiver therefore it is debited to cash account.  
 Similarly cash is going out therefore it is credited by bank account.

xix. **Cash withdrawn from bank for office use :** This transaction increases the cash balance and decreases the bank balance and is recorded as under : **Receipt side "To Bank A/c" in the cash column.**  
**Payment side "By Cash A/c" in the bank column.**

**Journal entry :**

Cash A/c-----	Dr.
To Bank A/c	

Here cash comes in to the business therefore it is debited to bank account. Similarly bank is the giver and therefore is credited by cash account.

xx. **Cheque received on previous day deposited into the bank :** Bearer cheques received are treated as cash. When it is deposited into the bank for collection it is assumed that cash is going out and bank is the receiver. This transaction increases the bank balance and decreases the cash balance. It is recorded as under : **Receipt side "To Cash A/c" in the bank column.**  
**Payment side "By Bank A/c" in the cash column.**

**Journal entry :**

Bank A/c-----	Dr.
To Cash A/c	

Here bank is the receiver therefore it is debited to cash account. Similarly cash is going out therefore it is credited by bank account.

### 5.3.8 Balancing of cash book with cash and bank column :

After recording all receipts and payments, at the end of the day cash book is balanced to find out the cash balance and bank balance.

**Cash columns:** Since the amount of cash in hand is always more than or equal to the payments, the total amount of receipt side should be more than the total amount of payment side. Total amount of payment side is deducted from the total amount of receipt side and the balance is recorded on the payment side as "By Balance c/d" in the cash column. During the beginning of the next accounting period this balance is brought down on the receipt side as "To Balance b/d" in the cash column.

**Bank columns:** Bank account is a personal account. It can have debit balance or credit balance. When the total amount of receipt side is more than the total amount of payment side the difference is known as positive or normal balance. This balance is recorded on the payment side in the bank column as "By Balance c/d". During the beginning of the next accounting period this balance is brought down on the receipt side in the bank column as "To Balance b/d".

When the total amount of payment side is more than the total amount of receipt side the difference is known as bank overdraft or credit balance. This is recorded on the receipt side in the bank column as "To Balance c/d". During the beginning of the next accounting period, overdraft amount is brought down on the payment side in the bank column as "By Balance b/d".



xviii. **Cash deposited into the bank :** This transaction increases the bank balance and decreases the cash balance and is recorded as under : **Receipt side "To Cash A/c" in the bank column.**  
**Payment side "By Bank A/c" in the cash column.**  
**Journal entry :** Bank A/c-----Dr.  
 To Cash A/c  
 It is debited to cash account.

Journal entry :  
 In the above transaction bank is the receiver therefore it is debited to cash account.  
 Similarly cash is going out therefore it is credited by bank account.

xix. **Cash withdrawn from bank for office use :** This transaction increases the cash balance and decreases the bank balance and is recorded as under: **Receipt side "To Bank A/c" in the cash column. Payment side "By Cash A/c" in the bank column.**  
Journal entry :              Cash A/c ----- Dr.

Here cash comes in to the business therefore it is debited to bank account. Similarly bank is the giver and therefore is credited by cash account.

xx. **Cheque received on previous day deposited into the bank :** Bearer cheques received are treated as cash. When it is deposited into the bank for collection it is assumed that cash is going out and bank is the receiver. This transaction increases the bank balance and decreases the cash balance. It is recorded as under : **Receipt side "To Cash A/c" in the bank column. Payment side "By Bank A/c" in the cash column.**

Here bank is the receiver therefore it is debited to cash account. Similarly cash is going out of bank therefore it is credited by bank account.

### 5.3.8 Balancing of cash book with cash and bank column :

After recording all receipts and payments, at the end of the day cash book is balanced to find the cash balance and bank balance.

**Cash columns:** Since the amount of cash in hand is always more than or equal to the payments, the total amount of receipt side should be more than the total amount of payment side. Total amount of payment side is deducted from the total amount of receipt side and the balance is recorded on the payment side as "By Balance c/d" in the cash column. During the beginning of the next accounting period this balance is brought down on the receipt side as "To Balance b/d" in the cash column.

**Bank columns:** Bank account is a personal account. It can have debit or credit balance. If the total amount of receipt side is more than the total amount of payment side, the balance is recorded on the receipt side as "By Balance c/d" in the bank column. If the total amount of payment side is more than the total amount of receipt side, the balance is recorded on the payment side as "By Balance c/d" in the bank column.

**Bank columns:** Bank account is a personal account. It can have debit balance or credit balance. When the total amount of receipt side is more than the total amount of payment side the difference is known as positive or normal balance. This balance is recorded on the payment side in the bank column as "Balance c/d". During the beginning of the next accounting period this balance is recorded on the receipt side in the bank column as "To Balance b/d".

When the total amount of payment side is more than the total amount of receipt side the difference is known as bank overdraft or credit balance. This is recorded on the receipt side in the bank column as "To Balance c/d". During the beginning of the next accounting period, overdraft amount is brought down on the payment side in the bank column as "By Balance b/d."

**Illustrations : 1** Record the following transactions of Mr. Tejas in a Cash Book with cash and bank columns for the month October 2011.

- 1 Cash balance ₹ 25,000 Bank balance ₹ 18,000.
- 3 Paid for printing and stationery ₹ 7,400
- 8 Cash sales ₹ 23,000.
- 9 Cash purchases ₹ 26,000.
- 10 Deposited cash into bank ₹ 5,000.
- 12 Withdrew from bank for personal use ₹ 3,500.
- 14 Received bearer cheque from Suraj in full and final settlement ₹ 9,900 and deposited the same into bank.
- 17 Withdrew from bank for office use ₹ 8,000.
- 19 Received cash from Abhijit on account ₹ 7,850.
- 20 Received bearer cheque from Abhay ₹ 5,400.
- 22 Paid legal charges ₹ 2,600 by cheque.
- 24 Paid for cartage ₹ 600.
- 27 Cheque received from Abhay deposited into bank for collection.
- 30 Paid telephone bill ₹ 4,000

**Solution : 1**

**In the books of Mr. Tejas Two Column Cash Book**

Receipts (Dr.)						Payments (Cr.)					
Date	Particulars	R No	LF	Cash ₹	Bank ₹	Date	Particulars	V. No	LF	Cash ₹	Bank ₹
2011						2011					
Oct. 1	To Balance b/d			25,000	18,000	Oct. 3	By Printing and stationery A/c (Being printing and stationery expenses paid)			7,400	
8	To sales A/c (Being goods sold for cash)			23,000		9	By Purchases A/c (Being goods purchased for cash)			26,000	
10	To cash A/c (Being cash deposited into bank as per contra)	C			5,000	10	By Bank A/c (Being cash deposited into bank as per contra)		C	5,000	
14	To Suraj's A/c (Being cheque received in full settlement and deposited the same into bank)				9,900	12	By Drawings A/c (Being cash withdrawn from bank as per contra)				3,500
17	To Bank A/c (Being cash withdraws from bank as per contra)	C		8,000		17	By Cash A/c (Being cash withdrawn from bank for personal)		C		8,000
19	To Abhijit's A/c (Being cash received on account)			7,850		22	By legal charges A/c (Being legal charges paid by cheque)				2,600
20	To Abhay's A/c (Being Loan cheque received)			5,400		24	By cartage A/c (Being cartage paid)			600	
27	To Cash A/c (Being cheque deposited into bank for collection as per contra)	C			5,400	27	By Bank A/c (Being cheque deposited into bank for collection as per contra)		C	5,400	
						30	By Telephone bill (Being Telephone bill paid)			4,000	
						31	By Balance c/d			20,850	24,200
				69,250	38,300					69,250	38,300
	To Balance b/d			20,850	24,200						

**Working Note : 1.** Contra entries are denoted by alphabet 'C' in the Ledger Folio column



6.1 Meaning need and Contents of Ledger.

6.3 Posting of entries from subsidiary books to Ledger.

6.2 Specimen of Ledger.

6.4 Balancing of Ledger Accounts.

**Learning Objectives :** After studying this unit student will be able to:-

- understand meaning, need and contents of ledger.
- do posting of entries from journal and subsidiary books to ledger.
- learn balancing and closing of ledger accounts
- learn meaning of debit balance, credit balance and nil balance.

### Introduction :

Journal is the book of original entry in which all transactions are recorded chronologically. Subsidiary books is the sub division of Journal. All transactions are recorded in the original Books of Accounts. From original books we cannot get the summarised record of one person, one type of Asset or expense or gain etc. e.g. Rent paid is recorded in cash book every month. But from cash book, we can not answer how much rent is paid during the year. So it is necessary to summarise the transactions at one place relating to one head of an account e.g. Rent A/c. This purpose is served by a book called as 'Ledger'. It will give us summarised record of transactions relating to one particular account.

### 6.1 Meaning, need and contents of ledger

#### 6.1.1 Meaning

Ledger is a bound book in which all accounts are maintained. It is recorded from journal and subsidiary books only. There is no direct recording in ledger. So ledger is a secondary book of accounts. It provides summarised record of various accounts at one place. An account in a ledger is called as "Ledger Account"

#### 6.1.2 Need

Need of ledger can be explained as follows:

- a) Management requires classified information of various accounts such as assets, liabilities capital etc. Ledger provides this information.
- b) Decision making in a business is based on information available from ledger.
- c) Preparation of Trial Balance, Profit and Loss Account and Balance Sheet is based on ledger.
- d) It is a main part of books of accounts.

#### 6.1.3 Contents of ledger

i) A ledger is maintained in bound book form. ii) It contains many pages. iii) Each page is maintained for one particular head of an account. iv) Each page is called folio. v) All pages are serially numbered. vi) Page number of that account in ledger is called as 'Ledger Folio.'

A list of ledger accounts is given on the first page of a ledger which is called as an 'Index'. Index is maintained alphabetically. The page number of each account in ledger is written against that account in 'Index'. It helps to find out any account in the ledger.

## 6.2 Specimen of ledger accounts

Ledger accounts can be maintained in two different forms.

- 1) 'T' form of an account
- 2) Statement form of an Account

- 1) **'T' form of Account** : Generally ledger accounts are maintained in this form. Specimen of an Account in 'T' form is as under-

In the book of .....

Dr. (Left hand side)				Account (Head of an A/c)				(Right hand side) Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	To name the a/c which is credited				By name the a/c which is debited						
	Total				Total						

The details of 'T' form of an account are as follows:

- 1) Name of the account is written on the top of the account just above 'T'. It is called "Head of an account" e.g. Cash Account.
  - 2) An account is divided into two equal sides
    - i) The Left hand side of an account is called as "Debit side". The word Dr. is written on left hand side corner of an account to indicate debit side.
    - ii) The Right hand side of an account is called as "Credit Side". The word Cr. is written on right hand side corner of an account to indicate credit side.
  - 3) Date- In this column the date of transaction is recorded as it is in journal.
  - 4) Particulars - In this column the name of the other account which is affected in the entry is written. Narration is not required.
  - 5) Journal Folio - In this column the page number of the journal where transaction is originally recorded is written. This serves as a reference.
  - 6) Amount- The amount of the transaction is recorded in this column.
- 2) **Statement form of an Account** : Statement form of an account is commonly used in computerised system of accounting and banks.

Specimen of "Statement form of Account"

In the books of .....

Statement of Account for .....

Serial No.	Date	Particulars	J.F.	Debit ₹	Credit ₹	Balance ₹	Initials	Remarks
1	April 1	By Balance b/d		xxx		xxx cr.		
2	2			xxx		xxx cr.		



- 6) **Journal Proper** : Every Journal entry in Journal proper is posted to respective A/c as shown in posting of simple entry or "Posting of Compound Entry"

#### 6.4 Balancing of Ledger Accounts :

At the end of an accounting year all accounts are balanced. Following are the steps of balancing of an account.

- 1) Take the total of both sides of an account and compare.
- 2) Find the difference between two totals.
- 3) If the total of debit side of an account is more than the total of credit side, it is debit balance. This difference is shown on the credit side as "By balance carried down" (Balance c/d) in the Particulars column and the amount of difference in amount column.
- 4) If the total of credit side of an account is more than the total of debit side, it is credit balance. This difference is shown on the debit side as "To balance carried down" (Balance c/d) in the particulars column and amount of difference in amount column.
- 5) At the beginning of the next period the balance of account of last period is transferred to the opposite side of the account as "Balance brought down" (Balance b/d).

#### Meaning of Balances -

- 1) **Personal Accounts** - Personal account may have debit balance or credit balance. Debit balance of Personal account shows that the person is our Debtor. Credit balance of Personal account shows that the person is our Creditor.
- 2) **Real Accounts** - Real accounts always show debit balance. Debit balance of Real account shows the value of related property (Asset).
- 3) **Nominal Accounts** - Nominal accounts may have debit or credit balance. Debit balance of Nominal account shows the expenses and losses of the business. Credit balance of Nominal account shows the incomes or gains and profits of the business.

**What does the balances of various ledger accounts represent ? Discuss**

#### Illustration -10

On 31<sup>st</sup> March, 2011, Ledger of Mahesh Traders shows following posting. Close these accounts on 31<sup>st</sup> March, 2011.

Dr.				Chawan's A/c				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹				
2011 Mar. 1	To Sales A/c		4,000	2011 Mar. 5	By Cash A/c		2,000				
14	To Sales A/c		1,000								



Dr. Machinery A/c				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011 Mar. 6	To Cash A/c		10,000	2011 Mar. 31	By Depreciation A/c		2,000

Dr. Rent A/c				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011 Mar. 1	To Cash A/c		5,500				

Solution : 10

Dr. Chawan's A/c				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011 Mar. 1	To Sales A/c		4,000	2011 Mar. 5	By Cash A/c		2,000
4	To Sales A/c		1,000	31	By Balance c/d		3,000
			5,000				5,000
Apr. 1	To Balance b/d		3,000				

Dr. Machinery A/c				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011 Mar. 6	To Cash A/c		10,000	2011 Mar. 31	By Depreciation A/c		2,000
			10,000	31	By Balance c/d		8,000
Apr. 1	To Balance b/d		8,000				10,000

Dr. Rent A/c				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011 Mar. 1	To Cash A/c		5,500	Mar. 31	By Balance c/d		5,500
			5,500				5,500
Apr. 1	To Balance b/d		5,500				



## Contents

- 9.1 Meaning and effects of errors.
- 9.2 Types of errors
  - Errors of Principles
  - Errors of Omission
  - Errors of Commission
  - Compensating Errors
- 9.3 Steps to locate errors
- 9.4 Errors affecting and not affecting Trial Balance.
- 9.5 Treatment of Balance of Suspense account.
- 9.6 Rectification entries.

**Learning objectives :** After studying this unit a student will be able to -

- know meaning and effects of errors.
- know errors affecting and not affecting Trial Balance.
- know procedure for rectification
- know different types of errors.
- know need for preparation of suspense account.
- know steps to locate the errors.

## Introduction :

Trial balance is a list of balances of all ledger accounts on a particular date. Trial balance is prepared to verify the arithmetical accuracy of books of accounts. If the trial balance agrees or tallies, it can be said that recording, posting and balancing have been done correctly and accurately, but if it does not agree, it can be concluded that errors or mistakes have been committed. These errors will have to be located and rectified. However agreement of trial balance does not mean that the books of accounts are free from errors.

## 9.1 Meaning :

“Errors mean mistakes made by an accountant or clerk while recording business transactions in the books of accounts” Errors may be the result of incorrect accounting knowledge or wrong data collection or wrong recording of the transaction into the books of accounts or due to incorrect arithmetical calculations.

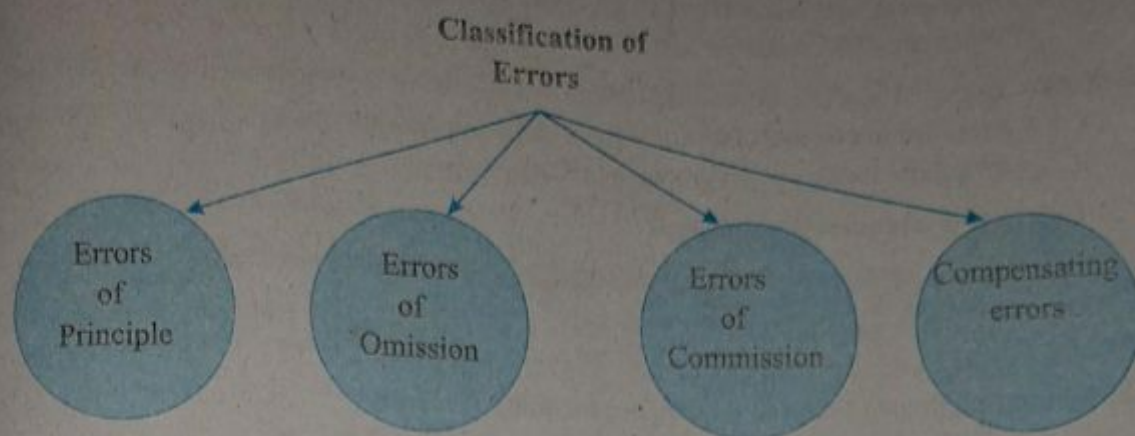
Thus unintentional omission or commission of amounts and accounts while recording the transaction is also known as an error.

## Effects of errors :

Some errors affect the agreement of the trial balance and some do not affect the agreement of the trial balance. Errors ultimately affect the net profit or net loss and the financial position of the business. In short, errors affect the accuracy and reliability of the books of accounts.

## 9.2 Types of Errors

All errors whether affecting trial balance or not and at any stage of accounting are broadly classified as under.



### 9.2.1. Errors of Principle:

When a transaction is not recorded according to the fundamental principles of Book keeping and accounting, the error is said to be an error of principle. These errors may relate to capital and revenue expenditure and income.

- e.g. (1) Wages paid for installation of Machinery debited to Wages account.  
(2) Payment of Salaries to Ramesh debited to Ramesh's account.

#### Solution - Alternative Method-

- |                                                                                        |                                                                                          |
|----------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| (1) (I) <b>Wrong entry</b><br>Wages A/c----- Dr. xxx<br>To Cash A/c            xxx     | (II) <b>Reverse entry</b><br>Cash A/c ----- Dr. xxx<br>To Wages A/c            xxx       |
| (III) <b>Correct entry-</b><br>Machinery A/c-----Dr. xxx<br>To Cash A/c            xxx | (IV) <b>Rectified entry</b><br>Machinery A/c -----Dr. xxx<br>To Wages A/c            xxx |

(Being rectification of wrong debit given to wages a/c instead of machinery a/c)

#### (2) Rectified entry as above method

- |                                                             |  |
|-------------------------------------------------------------|--|
| (V) Salary A/c----- Dr. xxx<br>To Ramesh A/c            xxx |  |
|-------------------------------------------------------------|--|

(Being rectification of wrong debit given to Ramesh's a/c instead of Salary a/c)

### 9.2.2. Errors of Omission :

It is clear from the word "Omission" that transaction is omitted at the time of recording in the original books. Similarly while posting to ledger omission can take place. The agreement of trial balance is not affected when a transaction is not recorded at all in the original books because both debit and credit aspects of transactions are not considered.



**There are two types of errors of omission :**

- (1) **Error of Complete omission :** When a transaction is totally ignored or omitted to be recorded in the original books of accounts, it is an error of complete omission. It does not effect the agreement of trial balance.
- (2) **Error of partial omission :** When the record of a transactions is partly omitted to be recorded in original books or not posted to one account in the ledger it is an error of partial omission. It affects the agreement of a trial balance.

**e.g.: Error of complete omission.**

- (i) Goods worth ₹ 5,000 purchased from Deepak have not been recorded in the books.
- (ii) Sales returns from Rohit ₹ 500 has been omitted to be recorded in sales return books.

**Rectification :**

- (i)
 

Purchases A/c	Dr.	5,000
To Deepak's A/c		5,000

(Being rectification of purchases from Deepak is not recorded in the books)
- (ii)
 

Sales Return A/c	Dr.	500
To Rohit's A/c		500

(Being rectification of sales return from Rohit is not recorded in sales Return Books)

**e.g: Error of partial omission.**

Rent paid ₹ 500 recorded in cash book correctly but remained to be posted to Rent a/c.  
No Journal Entry is required only Rent a/c should be debited by ₹ 500.

### 9.2.3 Errors of Commission :

When a transaction recorded has been wrongly entered in the books of original entry or wrongly posted in the ledger it is known as error of commission. These errors are committed due to wrong recording in the original books, wrong posting, wrong totalling or wrong balancing of the accounts, wrong calculation and wrong amount etc. These affects the agreement of trial balance. These errors are also called as clerical errors. Accounting principles are correctly followed but the errors are in posting, casting, recording etc.

- e.g.** (1) Paid Insurance ₹ 550 posted twice to Insurance account.  
 (2) Goods sold to Narayan for ₹ 2,200 was entered in the Purchase Book.

**Solution :** (1) This is one sided error. No journal entry is required. Here excess debit is given to Insurance a/c to the extent of ₹ 550. Rectified by giving credit to Insurance A/c by ₹ 550.

- (2)
 

Narayan's A/c	Dr.	4,400
To Sales A/c		2,200
To Purchases A/c		2,200

(Being rectification of goods sold to Narayan wrongly entered in the Purchase book)

### 9.2.4 Compensating errors :

A compensating error is one which is counter balanced by any other error or errors. When one or more debit errors happens to equal one or more credit errors the error is said to be a compensating error.

- e.g. (1) Purchase Book is under cast by ₹ 1,000  
(2) Sales Book is under cast by ₹ 1,000

**Solution :** 1) **Purchase Book is undercast by ₹ 1,000**

No Journal entry is required as purchase book is undercast by ₹ 1,000. To rectify this error debit should be given to purchase A/c with ₹ 1,000

2) **Sales Book is undercast by ₹ 1,000**

No Journal entry is required as sales Book is credited by ₹ 1,000. To rectify this error credit should be given to sales A/c with ₹ 1,000

Such errors do not affect the agreement of the trial balance. The effect of one mistake is compensated by similar but opposite effect of another mistake.

Name of Subsidiary Book	Name of Account	Balance
Purchase Book	Purchase A/c	Debit
Sales Book	Sales A/c	Credit
Purchase Return Book	Purchase Return A/c	Credit
Sales Return Book	Sales Return A/c	Debit



**Example 4:** Sold goods worth ₹ 16,000 for cash to Mr. Anil.  
Entry now as the transaction is on Cash basis, Mr. Anil's account will not get affected.

**Journal Entry**

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
Year Month/Date	Cash A/c To Sales A/c (Being sold goods for cash to Mr. Anil)	Dr.	16,000	16,000

b) **Credit Sales** - When goods are sold and money in that respect is to be received after some time credit period it is called as credit sales.

**Example 5:** Sold goods to Anil worth ₹ 20,000 and he promises that he will make payment after 2 months. Thus 2 months is the credit period allowed to him.

**Journal Entry**

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
Year Month/Date	Mr. Anil's A/c To Sales A/c (Being goods sold on credit)	Dr.	20,000	20,000

4) **Return Inward (Sales Return)** : Sometimes the goods sold to the customer are later returned by that buyer to the Seller. These are called 'Return Inward'.

**Example 6:** Anil returned goods worth Rs. 6,000 out of goods of Rs. 20,000 purchased by him (Ex)

**Journal Entry**

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
Year Month/Date	Return Inward A/c To Anil's A/c (Being sold goods returned by Anil)	Dr.	6,000	6,000

5) **Goods withdrawn by Proprietor**

The proprietor may withdraw goods for personal use. In such a case, Drawing Account is debited. The goods withdrawn by Proprietor go out of the business and hence credited.

**Journal Entry**

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
Year Month/Date	Drawings A/c To Goods withdrawn by Proprietor's A/c or Purchases A/c (Being Goods withdrawn by proprietor)	Dr.	xxx	xxx