

DEVITA
CHAMAN
RANI



BCA Sem I

Business Accounting

657/KAH

001-002508
Acc. No.:ASC-2508

Atul Achale

GANGA SVIKARA
STATIONERY & GENERAL STORE
KHANVEL ROAD, RAKHOLI, D. G. H. COLLEGE
0260-2311597 (M) 9624148937

2500

ACH

657



VISION PUBLICATIONS

Contents

| | |
|--|-----------|
| 1. Financial Accounting | 14 |
| 1.1 Introduction | 1-1 |
| 1.2 Objectives of Book Keeping..... | 1-2 |
| 1.3 Book Keeping and Accounting..... | 1-3 |
| 1.4 The Need / Utility of Book Keeping | 1-3 |
| 1.5 Different Important Accounting Concepts Terminologies | 1-4 |
| 1.6 Classification of Account in Personal A/C, Real A/C and Nominal A/C..... | 1-8 |
| 2. Conceptual Frame Work | 12 |
| 2.1 Introduction | 2-1 |
| 2.2 Generally Accepted Accounting Principles (GAAP)..... | 2-2 |
| 2.3 Accounting Conventions | 2-4 |
| 2.4 Accounting Standards | 2-6 |
| 3. Recording of Transactions | 90 |
| 3.1 Double Entry System of Book Keeping..... | 3-1 |
| 3.2 Recording of Transactions | 3-2 |
| 3.3 Journal..... | 3-4 |
| 3.4 Ledger | 3-18 |
| 3.5 Subsidiary Books | 3-30 |
| 3.6 Cash Book..... | 3-48 |
| 3.7 Bank Reconciliation Statement..... | 3-57 |
| 3.8 Depreciation | 3-68 |

4. Final Account

| | | |
|-----|---------------------------|-----|
| 4.1 | Introduction | 4-1 |
| 4.2 | Trading Account..... | 4-2 |
| 4.3 | Profit and Loss A/C | 4-2 |

5. Company Final Accounts

| | | |
|-----|----------------------------|-----|
| 5.1 | Company Final Account..... | 5-1 |
|-----|----------------------------|-----|

6. Computerised Accounting

| | | |
|-----|--|-----|
| 6.1 | Introduction | 6-1 |
| 6.2 | Data, Instructions and Information | 6-2 |
| 6.3 | Computer Hardware and Electricity Data Processing..... | 6-2 |
| 6.4 | Role of Computer Accounting..... | 6-4 |
| 6.5 | Accounting Packages..... | 6-6 |
| 6.6 | Future Prospects..... | 6-9 |

FINANCIAL ACCOUNTING

1

1.1

INTRODUCTION

A person carrying on business use to deal with various different persons and business involves various types of transactions like purchase and sales of goods including cash and credit, receiving and paying cash, incurring different business expenses like commission, salary, wages, taxes, printing and stationery, discount etc. and also earning income such as dividend, rent, interest, commission etc. and many more. All these transactions are required to be recorded properly in the books of account. The 'business transactions' can be defined as "It is dealing or exchange between the persons or business."

Accounting is defined by different accountant as under:

- Book Keeping is an art of recording business transactions in a set of books.
- By J.R. Batliboy "Book Keeping is an art of recording business dealings in a set of books."
- By R.N. Carter "Book keeping is the science and art of correctly recording in books of accounts all those transactions that result in the transfer of money or money's worth."

• By American Institute of Certified Public Accountants "Book keeping is the art of recording, classifying and recognising in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the results thereof."

1.2 OBJECTIVES OF BOOK KEEPING

A person carrying on business used to deal with various different persons and business involves various types of transactions like purchase and sales of goods including cash and credit, receiving and paying cash, incurring different business expenses like Commission, salary, wages, taxes, printing and stationery, discount etc. and also earning income such as dividend, rent, interest, commission etc. and many more. All these transactions are required to be recorded properly in the books of account. The books of accounts maintained by every businessman plays important role for businessman in knowing:

- i. The financial position or worth of the business on a particular day and,
- ii. The progress made by the business in a particular period called financial year or accounting year.

Apart from above some other important objectives can be briefed as under:

- i. To have a systematic, complete and permanent record of all the business transactions and dealings.
- ii. What the business owes to others and what others owe to business.
- iii. The profit (or loss) earned by business
- iv. To know the effect of each and every transaction upon the financial position of the business.
- v. To compare the efficiency of business with that of other business concern dealing in same line of business.
- vi. To know the total assets invested in the business and liabilities of the business.
- vii. To know the tax liability towards the government.

1.3**BOOK KEEPING AND ACCOUNTING**

"Book keeping is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the result thereof." Defined by American Institute of Certified Public Accountants.

From the above definition of book keeping we can say that book keeping includes:

- i. Recording of transactions in a summarised and classified manner.
- ii. It is both an art as well as science of recording the transactions.
- iii. Systematic recording of business transaction in proper set of books.
- iv. Drawing certain conclusions on the basis of books of accounts that are maintained.
- v. Analysing and interpretation of financial record.

The term 'Book keeping' refers simply to recording of business transactions in the books of original entry. A book keeper completes the primary part i.e. journalizing, posting, totaling and balancing the various accounts. On the other hand the concept of accounting includes making adjustments, bank reconciliation statement, rectification of errors preparation of financial statements such as Trading account, Profit and Loss Account which gives operating results of the business in the form of Gross Profit (or Gross Loss) and Net Profit (or Net Loss) and Balance sheet which shows the financial position of the business in the form of it's assets and liabilities on a particular date. The person who is called as book keeper may perform his job with primary or working knowledge of the subject account but the person known as accountant is supposed to be a expert or to have a specialized knowledge of the subject to perform his duty.

1.4**THE NEED / UTILITY OF BOOK KEEPING**

Different persons, parties such as businessman (may be Proprietor, partners or company or its management as the case may be) creditors, bankers, shareholders, insurance companies, government and the general public are eager to know the financial position of the business for their different kinds of interest in the business. Thus, it plays very useful role from the point of view of these different people as explained under:

- i. The businessman can know the profitability of the business by preparing the financial statements, and can revise the decisions and policies of the business

- ii. It helps the businessman to keep control over the business transactions and dealings.
- iii. It gives valuable information about expenses, losses, wastage, inefficiencies if any.
- iv. Expansion of business, make or buy the product, continue or shut down particular product or department, substitute of any to any existing machinery, plant etc. these and other decisions can be successfully taken on the basis of accounting information and data.
- v. It helps management in budgeting, planning, forecasting, estimation etc.
- vi. Current performance can be compared with that of past performance and business efficiency can be measured.
- vii. Liability of business towards government in the form of different taxes payable such as Direct taxes e.g. Income Tax, Wealth Tax and Indirect taxes e.g. Excise duty, Sales Tax etc
- viii. Shareholders, investors can come to know the position of their investment with the help of financial statements published by companies in the public interest.
- ix. Financial assistance (i.e. bank loan) is provided by the bankers on the financial statements provided by the business to the bank.
- x. If any legal suit is filed against the business then in this case systematic and complete accounting record can be put in court of law as legal evidence.

1.5

DIFFERENT IMPORTANT ACCOUNTING CONCEPTS TERMINOLOGIES

Study of Book Keeping and Accountancy without understanding and without going through the basic, important and repeatedly used concepts is not possible. Hence we will go through these some indispensable accounting terminologies.

- i. **Transaction:** It is dealing or exchange between the two or more business or persons. The transactions are of two types a. Monetary Transactions and b. Non Monetary Transactions. But in accountancy only monetary transactions are recorded i.e. the transactions which can be expressed in money or moneys worth. Monetary transactions are of following two types

- a. **Cash Transaction:** The transaction which involves cash, i.e. transfer of cash from one person to another called as Receipt of cash and Payment of cash or even cheque. E.g. Purchase or sale of any asset say Computer against cash or cheque, payment of any expenses such as light bill paid in cash or by cheque.
- b. **Credit Transaction:** It is the transaction which does not involve cash at the time of effecting any transaction but is expected to be transferred from one person to another at later time. For e.g. one may purchase computer today promising to pay its price after some agreed period.
- ii. **Debit:** It denotes that the account has received a benefit in a transaction for which it is debited.
- iii. **Credit:** It denotes the account that has parted with the benefit in a transaction for which it is credited.
- iv. **Debtor:** Debtor is a person who owes something. He is the person from whom the amount is receivable.
- v. **Creditors:** Creditor is a person to whom we owes something. He is the person to whom we are liable to pay money.
- vi. **Goods:** The term goods stands for articles, commodities, things or merchandise in which trader trades.
- vii. **Capital:** It is the total amount invested or contributed in business by the businessman. In accounting capital is the excess of assets over liabilities.

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

- viii. **Drawings:** It is the amount (cash or goods) withdrawn by the businessman from his business for his private or personal purpose.
- ix. **Bad debts:** It is the irrecoverable amount from the debtors. OR The debt which is not recoverable from debtors is called as Bad Debts.
- x. **Folio:** It is the word which is used in accounts to denote page number.
- xi. **Assets:** The term asset means the total possession of the business. OR Anything which is convertible into cash or its equivalent is termed as asset. Such as Building, Machinery, Furniture etc.

- xii. **Profit:** It is the excess of income over expenditure. The profit is generally grouped under Gross Profit and Net Profit.
- Gross Profit:** It is the excess of selling price of goods over their cost and is arrived at before charging any expenses incurred for running the business.
 - Net Profit:** It is the excess of the total income over total expenditure OR Gross Profit Plus income less revenue expenses such as administrative or establishment expenses, selling expenses, and distribution expenses of the business.
- xiii. **Discount:** Discount means an allowance or concession given by the seller of goods to the buyer of goods on the selling price of the goods. The discounts allowed by businessman to its customer are of two types:
- Trade Discount:** The discount given on catalogue price by whole seller to retailer to enable him to sell goods at printed price and to earn profit. The *Trade Discount* is never recorded in the books of account. This discount is allowed in cash as well as in credit transaction.
 - Cash Discount:** It is an allowance given on selling price (or by creditor to debtor) to encourage prompt payment of cash. This discount is required to be recorded separately in the books of account. As the name indicates this discount is given only in cash transaction.
- xiv. **Solvent:** A person whose assets are more than his liabilities is called as solvent person. Here asset includes his entire business asset as well as his private asset and also liabilities include his business as well as private liabilities.
- xv. **Insolvent:** A person whose liabilities are more than his assets is called as solvent person. He is required to be declared insolvent by court.
- xvi. **Goodwill:** Goodwill is the monetary value of the business reputation. Goodwill is the intangible asset of the business.
- xvii. **Debt:** The amount due from a debtor to the business is called a debt.
- xviii. **Doubtful Debts:** A debt whose recovery is doubtful.
- xix. **Bad Debts:** The debt which is not recoverable from debtors.
- xx. **Folio:** It means the page number of the book of original entry or of the ledger.

****Different Accounting Concepts**

- i. **Business Entity Concept:** This Concept is also known as Accounting Entity Concept. The proprietor and the business which the proprietor runs are considered as separate. Based on this concept proprietor's personal transactions which have no relation with business are excluded from business books of account.
- ii. **Money Measurement Concept:** Money is base for all work. In accounting all transactions are recorded in terms of money only. With money measurement it is difficult to calculate the value or result of business.
- iv. **Cost Concept:** This concept is closely related to the going concern concept. As per this concept an asset is ordinarily recorded in the books of at the price at which it is acquired.
- v. **Going Concern Concept:** One of the basic features of business entity is continuity. It is always believed that the life of a business is for a longer period and not for short period. The business is to continue indefinitely and the financial and accounting policies are followed to maintain the continuity of the business unit is the point of view of this concept.

Though the business has indefinite life, to know the result and position of the business accounting statements are prepared periodically. This concept is not significant when we know that business is carried for a definite period.

- v. **Realisation Concept:** Income is said to be realised when the sale is completed. Only on the seller receiving cash or buyer agreeing to pay the amount, the sale will be completed.
- vi. **Accrual Concept:** Under this concept revenue and cost are accrued as they are earned or incurred, matched with one another. Under the concept, revenue recognition depends on its realization and not actual receipt. Likewise, costs are recognized when they are incurred and not when paid.
- vii. **Dual Aspect Concept:** This concept recognizes that every business transaction has two main aspects. This aspect of Debit and the aspect of Credit. E.g. If there is purchase of goods, it involves two aspects- one, the receipt of goods and, second, the payment of cash. The total amount debited always equals the total amount Credited.

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

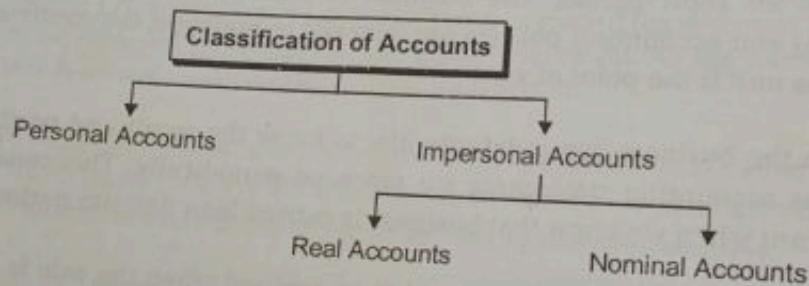
Or

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

As a matter of fact the entire system of double entry book-keeping is based on this concept.

1.6 CLASSIFICATION OF ACCOUNT IN PERSONAL A/C, REAL A/C, AND NOMINAL A/C

In recording the business transactions large number of transactions and accounts are involved and hence, it becomes necessary to classify the transactions according to their nature so as to facilitate the work of recording of transactions and their further processing. The ledger can be sub-divided on the basis of nature of accounts so that the work of record keeping can be given to different assistants.



Generally all accounts are classified into two major types: Personal A/c and Impersonal A/c. Impersonal A/c's are further sub-divided into Real A/c and Nominal A/c.

- i. **Personal A/c:** These are the accounts of individual firm or company. Personal accounts are opened only for those persons or firms with whom the businessman has transactions.

Examples of personal account are: Tanishka A/c, Arpita Industries A/c, Tata Company A/c, Nashik Municipal Corporation A/c, Bank of Maharashtra A/c etc.

- ii. **Impersonal A/c:** All the accounts other than personal account are known as impersonal accounts. These includes Real A/c and Nominal A/c.

- a. **Real Accounts:** These accounts includes accounts of properties, estates and assets of the business.

Examples of Real account are: Plant and Machinery A/c, Land and Building A/c, Goodwill A/c, Furniture and Fixture A/c, Cash A/c, Goods A/c etc.

- b. **Nominal A/c:** These accounts includes the accounts relating to different expenses, losses, incomes and profits and gains of the business.

Examples of Nominal account are: Commission A/c, salary A/c, Interest A/c, Printing Charges A/c, Travelling Expenses A/c, Rent A/c, Bad Debts A/c, Discount A/c, Advertisement A/c etc.

Classify the following accounts into Personal A/c, Real A/c and Nominal A/c

| | | |
|--------------------------|-----------------------|------------------------------|
| Tanishka Industries A/c, | Goodwill A/c, | Salary A/c, |
| Outstanding Salary A/c, | Printing Charges A/c, | Machinery A/c, |
| Cash A/c, | Capital A/c, | Land & Building A/c, |
| Bank of India A/c, | Travelling Exp. A/c, | Bad Debts A/c, |
| Creditors A/c, | Carriage Inward A/c, | Reliance Industries Ltd A/c, |
| Municipal Taxes A/c, | Gold A/c, | Furniture A/c, |

| Personal A/c | Real A/c | Nominal A/c |
|-----------------------------|---------------------|----------------------|
| Tanishka Industries A/c | Cash A/c | Municipal Taxes A/c |
| Outstanding Salary A/c | Goodwill A/c | Printing Charges A/c |
| Bank of India A/c | Gold A/c | Travelling Exp. A/c |
| Creditors A/c | Furniture A/c | Carriage inward A/c |
| Capital A/c | Machinery A/c | Salary A/c |
| Reliance Industries Ltd A/c | Land & Building A/c | Bad Debts A/c |

An Account

We are continuously using the term an 'Account.' Hence, now it is necessary to go through the meaning of the term an Account. An account is nothing but as statement for grouping together the transactions relating to individual or asset or income or expenditure etc.

Hence, now we can make the concise definition of the term account as under:

"An Account is a systematic and summarised record of transactions relating to persons, property, Income and Expenses etc."

The space allotted in the ledger for recording the transactions of similar nature, relating to persons, property, Income and Expenses etc are called the accounts.

Primarily all the transactions are recorded in journal, which gives primary information about the transactions. But, records made in journal are such that one cannot get exact position of a particular account or party on a particular day or date. This need is fulfilled by the recording transactions or entries in a ledger account. Thus, one can maintain separate ledger account for each account. Such as Capital A/c, Goods A/c, Salary A/c etc. The ledger account is always drawn in a 'T' shape. We will see the format of ledger account.

| Specimen of an Account (T shape) | | | | | | | |
|----------------------------------|-------------|------|------------|--------------|-------------|------|-----|
| Name of Account | | | | | | | |
| Dr. | Particulars | J.F. | Amt. (Rs.) | Date | Particulars | J.F. | Cr. |
| | | | | | | | |
| Total | | | | Total | | | |

Debit (Dr.) and Credit (Cr.)

From the specimen given above we can notice that each account has two sides one Debit and other is Credit. The left hand side is called Debit side and the right hand side is called credit side. Each side contains four columns such as;

1. Date
2. Particulars
3. J.F. (Journal Folio)
4. Amount

The entry on the debit side is called as debit entry (or debit posting) and the entry on the credit side is called as credit entry (or credit posting). After making postings to the ledger, accounts are closed down and balance is ascertained. Balance means difference between debit side total and credit side total. Such balance may be debit balance or credit balance. If debit side of an account is heavier than credit side it is

called as debit balance and if credit side of an account is heavier than debit side of an account it is called as credit balance. To have proper and systematic record of transactions and entries on correct side it is necessary to categorise them under proper headings and to decide which account will be recorded on debit side and which on the credit side.

Golden Rules of Account

The foundation of the subject is totally based on the SIX very vital rules of debit and credit as under.

- i. Personal A/c: Debit the receiver
Credit the giver
- ii. Real A/c: Debit what comes in
Credit what goes out
- iii. Nominal A/c: Debit all expenses and losses
Credit all gains and incomes

Transactions with Golden Rules of Account

From the following transactions find out which accounts are affected and why, by presenting the same in a tabular form.

1. Sujal Commenced (started) the business with cash Rs. 1,50,000.
2. Goods of Rs. 40,000 purchased for cash.
3. Credit sale of goods to Manoj Rs. 18,000.
4. Paid Rent Rs. 1,200.
5. Cash received from Manoj on his A/c Rs. 7,500.
6. Deposited Rs. 10,000 into the bank.
7. Salary paid Rs. 2,500.
8. Machinery of Rs. 50,000 purchased for cash.
9. Credit purchase of goods from Dinkar worth Rs. 12,500.
10. Cash sales of Rs. 19,000.

| | Name of Accounts | Type of Accounts | Debit / Credit | Rules Applied |
|-----|---------------------------------|--------------------------|-----------------|---|
| 1. | Cash A/c Sujal's Capital A/c | Real A/c Personal A/c | Debit Credit | Debit what comes in Credit the giver |
| 2. | Goods A/c Cash A/c | Real A/c Real A/c | Debit Credit | Debit what comes in Credit what goes out |
| 3. | Manoj A/c Goods A/c | Personal A/c Real A/c | Debit Credit | Debit the receiver Credit what goes out |
| 4. | Rent A/c Cash A/c | Nominal A/c Real A/c | Debit Credit | Debit all expenses & losses Credit what goes out |
| 5. | Cash A/c Manoj A/c | Real A/c Personal A/c | Debit Credit | Debit what comes in Credit the giver |
| 6. | Bank A/c Cash A/c | Personal A/c Real A/c | Debit Credit | Debit the receiver Credit what goes out |
| 7. | Salary A/c Cash A/c | Nominal A/c Real A/c | Debit Credit | Debit all expenses & losses Credit what goes out |
| 8. | Machinery A/c Cash A/c | Real A/c Real A/c | Debit Credit | Debit what comes in Credit what goes out |
| 9. | Goods A/c Dinkar A/c | Real A/c Personal A/c | Debit Credit | Debit what comes in Credit the giver |
| 10. | Cash A/c Goods A/c | Real A/c Real A/c | Debit Credit | Debit what comes in Credit what goes out |

Exercises

1. What do you mean by Book Keeping? Give its objectives.
2. Explain the utility of book keeping.
3. State TRUE or FALSE:
 - i. Book keeping discloses the true financial position of the business.
 - ii. Profit (or loss) ascertainment is not one of the objectives of the book keeping.
 - iii. Book keeping reduces production expenses of the manufacturer.
 - iv. If the total of the credit side of an account exceeds the total of debit side total it is debit balance.
 - v. Investment account is an example of personal A/c
 - vi. Brokerage is a nominal account.
 - vii. Shriram High school A/c is personal A/c
4. Explain in brief the various concepts which are followed in accounting
5. Fill in the blanks:
 - i. A person who owes something is called as _____.
 - ii. _____ is the investment made in the business by the businessman.
 - iii. The money or goods withdrawn for personal use is called as _____.
 - iv. The irrecoverable debts from debtors called as _____.
 - v. _____ means page number of journal or ledger.
 - vi. An allowance or concession given in selling price by seller to the customer is known as _____.
 - vii. An account is always divided into _____ sides.
 - viii. If the total of the credit side of an account exceeds the total of debit side total it is _____ balance.
 - ix. Drawings account is _____ account.
 - x. Sales tax account is a _____ account.
 - xi. Live stock account is neither a _____ account nor a _____ account.
6. How the accounts are classified? Explain with different examples.
7. Give different basic rules for debiting or crediting the accounts for Real A/c, Nominal A/c, and Personal A/c

8. From the following transactions find out which accounts are affected and why, by presenting the same in a tabular form.
- i. Gajanan started business with cash Rs. 12000 and Furniture of Rs. 8000.
 - ii. Goods worth Rs. 4500 purchased for cash
 - iii. Credit sale of goods Rs. 3000 to Mahesh
 - iv. Opened a bank account with Rupee Bank by depositing Rs. 1000
 - v. Wages Paid Rs. 300
 - vi. Paid brokerage Rs. 120 to Mr. Dilip
 - vii. L.I.C. Premium paid Rs. 1000
 - viii. Rs. 1800 received from Mahesh on his account.
 - ix. Travelling expenses paid Rs. 120
 - x. Credit purchases from Miss. Palak Rs. 8000
 - xi. Cash sales Rs. 5800
9. State whether the following classification is correct or not, if not give correct answers.
- | | |
|-----------------------------------|--------------|
| i. Building A/c | Nominal A/c |
| ii. Bank of India A/c | Real A/c |
| iii. Loan A/c | Real A/c |
| iv. Capital A/c | Personal A/c |
| v. Mahavir Industries A/c | Nominal A/c |
| vi. Gold A/c | Personal A/c |
| vii. Travelling Expenses A/c | Real A/c |
| viii. Printing and Stationery A/c | Personal A/c |

* * *

CONCEPTUAL FRAME WORK

2



2.1

INTRODUCTION

The book keeping, financial statements and accounting process are based on certain principles and ideologies. Accounting principles means we can say that certain laws and rules that are generally and widely adopted in accounting profession by experts and others, it may includes many of concepts, conventions, methods, techniques and procedures of accounting. For getting accounting principles generally and widely accepted it should fulfill following criterias:

- i. **Flexible:** Accounting principle is expected not to be rigid / strict for all or one of them.
- ii. **Feasibility:** It should also be practicable in applicable.
- iii. **Objectivity:** It should be reliable for decision making.
- iv. **Utility:** It should be useful & meaningful to the user.

2.2**GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)**

Generally Accepted Accounting Principles may be termed as those rules of action which are derived from practice & experience and when they prove useful, they become accepted as principles of accounting. According to American Institute of Certified Public Accountants, the principles which have substantial authoritative support become a part of the generally accepted accounting principles.

Generally accepted accounting principles are expected to fulfill following different criteria:

- i. Objectivity
- ii. Relevance and
- iii. Feasibility

- i. **Objectivity:** Any principle is expected to be unbiased. It should not be influenced by any personalized relation or judgement of those who provide it.
- ii. **Relevance:** A principle is said to be relevant to the extent it results in information that is meaningful & useful to the user of the accounting information.
- iii. **Feasibility:** A principle is said to be feasible when it can be implemented without much complexity or cost.

Basic Accounting Assumptions

The basic accounting assumptions are the foundation on which the whole construction of accounting is made. The vital four basic accounting assumptions are given below:

- i. Accounting Entity Assumption;
- ii. Monetary unit Assumption;
- iii. Accounting Period Assumption;
- iv. Going Concern Assumption;

Different Accounting Concepts and Conventions

- i. **Business Entity Concept:** This Concept is also known as Accounting Entity Concept. The proprietor and the business which the proprietor runs are considered as separate. Based on this concept proprietor's personal transactions which have no relation with business are excluded from business books of account.
- ii. **Money Measurement Concept:** Money is base for all work. In accounting all transactions are recorded in terms of money only. With money measurement it is difficult to calculate the value or result of business.
- iv. **Cost Concept:** This concept is closely related to the going concern concept. As per this concept an asset is ordinarily recorded in the books of at the price at which it is acquired.

- v. **Going Concern Concept:** One of the basic features of business entity is continuity. It is always believed that the life of a business is for a longer period and not for short period. The business is to continue indefinitely and the financial and accounting policies are followed to maintain the continuity of the business unit is the point of view of this concept.

Though the business has indefinite life, to know the result and position of the business accounting statements are prepared periodically. This concept is not significant when we know that business is carried for a definite period.

- v. **Realisation Concept:** Income is said to be realised when the sale is completed. Only on the seller receiving cash or buyer agreeing to pay the amount, the sale will be completed.

- vi. **Accrual Concept:** Under this concept revenue and cost are accrued as they are earned or incurred, matched with one another. Under the concept, revenue recognition depends on its realization and not actual receipt. Likewise, costs are recognized when they are incurred and not when paid.

- vii. **Dual Aspect Concept:** This concept recognizes that every business transaction has two main aspects. This aspect of Debit and the aspect of Credit. E.g. If there is purchase of goods, it involves two aspects - one, the receipt of goods and, second, the payment of cash. The total amount debited always equals the total amount Credited.

$$\text{Assets} = \text{Liabilities} + \text{Capital}$$

Or

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

As a matter of fact the entire system of double entry book-keeping is based on this concept.

2.3 ACCOUNTING CONVENTIONS

- i. **Conservatism:** The first convention is that account should not consider the Anticipated Profit but it should make provision for all possible anticipate losses. This convention guides accountant not to give any credit for any possible future profit, at the same time it states that any possible future loss must be taken into account. Based on this every accountant use to provide for probable bad debts and doubtful debts in financial statements under the head '*Reserve for Bad and Doubtful debts*'. Also based on this convention closing stock is valued at Cost Price or Market price whichever is lower. Whereas, profit or income is not considered and not taken into account unless it is realised.

Based on this convention following accounting practices are adopted and followed:

- a. To provide for doubtful debts and discount on debtors
- b. At the same time convention do not allow to provide for discount on creditors.
- c. To show joint life policies at surrender value and not at paid up value
- d. To show current assets at cost or market price whichever is lower.
- e. To adopt and follow accelerated method of depreciation
- f. Fixed assets are shown at cost minus depreciation.

- ii. **Consistency:** This convention specify that whatever Rules, policies and methods used and followed that must be consistently used and followed year after year. It helps to maintain uniformity in account and results shown by it in different year; this facilitates the comparison of account of one accounting period with that of another. This convention helpful in following areas of accounting:

- a. Calculation of Depreciation: Either by Fixed Installment method or by Written Down Value Method

- b. Valuation of Material, W.I.P. etc: Either by F.I.F.O., L.I.F.O., Simple or weighted average method.
 - c. Treatment of revenue and capital expenditure
- iii. **Materiality:** It means the relative importance and is related to the convention of disclosure. Disclosure is necessary in financial accounts only for material facts. This convention gives stress on significance of transactions. Moreover it should be remembered that materiality is the subjective concept. For example; A transaction of Rs. 5,000 may be of very importance and of material nature for a small businessman, and the same transaction may not be of any importance for a giant corporate house, even a particular transaction of material nature in one accounting period may not be material in another accounting period. Hence, what is material and what is not it is totally accountant's judgement.
- iv. **Disclosure:** All the important transactions and related facts should be disclosed in final account. In fact, the companies Act, has made several provisions for disclosure of indispensable information in financial statements. The main intention behind this convention is to make the financial statements more useful, transparent and free from any misconception. This convention guides that even any significant transaction occurring after the end of the accounting period but before the preparation of balance sheet are to be disclosed. The important items requiring disclosure are as under:
- a. Abnormal Items.
 - b. Significant difference between the cost and market value of stock.
 - c. Contingent Liabilities.
 - d. Changes in method or policies of accounting and their major effects on the profit.
 - e. Accounting method and policies adopted by the company.
 - f. Items relating to previous year.

Basic Accounting Principles

The basic accounting assumptions what we have seen earlier in this chapter lead to following basic accounting principles, which govern the transactions and accounting of it and also guide how these transactions, should be recorded.

- i. **Revenue Recognition Concept:** This principle mainly related with the revenue being recognized in the income statement of a business unit. The product /



goods sold and / or services rendered are the sources of revenue for any business unit. This revenue can be in any form just like Cash, Receivables etc.

- ii. **Matching Principles:** This principle states that whatever revenue is being considered in the financial statement that should matched with the expenditure incurred for earning that revenue. It is to say that Sales (or selling price of goods sold) must be matched with the cost of all such goods that are sold.
- iii. **Objectivity Principles:** According to this principle, the accounting data should be free from all personal bias, undue influence of accountant or any one else, definite and verifiable.
- iv. **Historical Cost Concept:** According to this principle, an asset is ordinarily recorded in the accounting records at the price paid to purchase it at the time of purchasing and the cost becomes the basis for the accounts during the period of acquisition and subsequent accounting periods.
- v. **Full Disclosure Principles:** This principle states that the financial statements should show True and Fair picture of the business for that it should not conceal any thing but should reveal everything. The financial statements must disclose all the related information on the basis of the user of it may take any decision.

2.4 ACCOUNTING STANDARDS

Different group people we will say the different parties are interested in the financial results of a business houses. Like any other language, these parties get themselves conversant with financial results with the help of business language i.e. Accounting. These parties expects True and Fair view of financial statements and its state affairs, this True and fair view is possible with the account's own set of rules. With the help of wide experience and necessity different accountants used different variety of accounting methods and policies. Then the necessity of standardized set of rules, policies, accounting principles was felt which is expected to minimise the confusion and misconception in financial statements. Taking into account geographical differences, economic environment, social and legal requirements there should be sufficient flexibility in such accounting rules and policies.

The use of word Standard in India becomes familiar from the formation of Accounting Standard Board in early 1977 by the ICAI (Institute of Chartered Accountants of India).

Concept of Accounting Standard

An accounting standard is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives. Standards conform to applicable laws, customs, usage and business environment. So there is no universal acceptable set of standards.

Objectives of Accounting Standards

The main objective of accounting standards is to harmonize the diverse accounting policies and practices at present in use in India. However, harmonization does not mean that accounting standards should become very rigid. In fact, harmonizations of accounting standards do permit flexibility to make the necessary adjustments to suit their purpose.

Objective of Accounting standards is to standardize the diverse accounting policies and practices with a view to eliminate to the extent possible the non-comparability of financial statements add the reliability to the financial statements. The Institute of Chartered Accountants of India, recognizing the need to harmonize the diverse accounting policies and practices, constituted an Accounting Standards Board (ASB) on 21st April 1977.

Compliance with Accounting Standards Issued by ICAI

Sub-section (3A) to section 211 of companies Act, 1956 requires that every Profit and Loss Account and Balance Sheet shall comply with the Accounting Standards. Accounting Standards means the standard of Accounting recommended by the ICAI and prescribed by the Central Government in consultation in the National Advisory Committee on Accounting Standards (NACAs) constituted under section 210 (1) of Companies Act, 1956.

Accounting Standard and the Auditors

Auditors are duty bound while discharging their attest function to ensure that the Accounting Standard issued and made mandatory by the ICAI are implemented. Section 227 (3) of Companies Act, 1956 requires that the auditors to report whether in

his opinion the Profit and Loss Account and Balance Sheet comply with the Accounting Standards referred in section 211 (3C) of Companies Act, 1956.

Brief Review of "Accounting Standards" In India

Recognising the need to harmonise the diverse Accounting policies in India and keeping in view the international development in the field of accounting, the Institute of Chartered Accounts of India constituted the accounting Standard Board (ASB) in April 1977. The ASB is entrusted with the following functions:

- i. To formulate accounting standards which may be established by the Council of ICAI in India. While formulating standards, the ASB is required to take into consideration the applicable laws, customs and usages and business environment; it is also required to give due consideration to International Accounting Standards issued by IASC and to integrate them, to the extent possible, in the light of the conditions and practices prevailing in India.
- ii. To propagate the Accounting Standards and persuade the concerned parties to adopt them in the preparation and presentation of financial statements.
- iii. To issue guidance notes on the Accounting Standards and give clarifications on issues arising there from.
- iv. To review the Accounting Standards at periodical intervals.

The institute is one of the members of the International Accounting Committee (IASC) and has agreed to support the objectives of IASC. While formulating the accounting standards, ASB will give due considerations to International Accounting Standards issued by IASC and try to integrate them, to the extent possible, in the light of the conditions and practices prevailing in India.

The Accounting Standards will be issued under the authority of the council. ASB has also been entrusted with the responsibility of propagating the accounting standards and of persuading; the concerned parties to adopt them in the preparation and presentation of financial settlements. ASB will issue guidance quotes on the Accounting standards and give clarifications on issues arising therefrom. ASB will also review the accounting standards at periodical intervals.

The date from which a particular standard will come to effect, as well as the class of enterprises to which it will apply, will also be specified by the institute. Unless otherwise stated, no standard will have retrospective application. Normally before formulating the standards, ASB will hold discussions with representatives of the Government, Public Sector Undertakings, Industry and other organizations, for ascertaining their views. An exposure draft of the proposed standard will be prepared and issued for comments by members of the Institute and the public at large. After considering the comments received, the draft of the proposed standard will be finalized by ASB and submitted to the Council will study it, modify it if necessary and issue it under its own authority.

The accountancy profession in India consists of two main bodies, the Institute of Chartered Accountants of India and the Institute of Cost and Works Accountants of India. Both of these bodies are recognized by the Government. The Institute of Company Secretaries of India is another professional body; its members are generally employed as secretaries of companies. In 1949 the Chartered Accountants Act gave the Institute of Chartered Accountants statutory authority to guide and regulate the work of Chartered Accountants in the country.

The Accounting standards Board set up in India in 1977, as stated earlier, has undertaken to formulate accounting standards and propagate them among the Indian industries. Although the Company's financial reporting in India is influenced greatly by the Indian Companies Acts, the Accounting standards established by ASB are likely to find favour among the Indian Companies.

It is responsibility of ASB to educate the Indian companies about the accounting standards, their role in improving financial accounting and reporting, and the procedure followed in developing such standards. The ASB needs to issue a Conceptual Framework on Financial Reporting, in the Indian context, to provide general guidance for solving accounting issues.

Accounting Standards Issued by ICAI

The Council of the Institute of Chartered Accountants of India has so far issued twenty eight accounting standards. These accounting standards are mandatory in the sense that these are binding on the members of the Institute.

| A.S. NO. | Title | Recommendatory or mandatory | Mandatory from accounting period beginning on or after |
|-------------|---|--------------------------------|--|
| AS-1 | Disclosure of Accounting Policies | Mandatory | 1.4.1991 |
| AS-2 | Valuation of Inventories | Mandatory | 1.4.1999 |
| AS-3 | Cash Flow Statement | Mandatory | 1.4.2000 |
| AS-4 | Contingencies and Events Occurring after the balance sheet Date (Revised) | Mandatory | 1.4.1995 |
| AS-5 | Prior Period and Extraordinary items and changes in Accounting Policies | Mandatory | 1.1.1987 |
| AS-6 | Depreciation Accounting (Revised) | Mandatory | 1.4.1995 |
| AS-7 | Accounting for Construction Contracts | Mandatory | 1.4.1991 |
| AS-8 | Accounting for Research and Development | Mandatory | 1.4.1991 |
| AS-9 | Revenue Reorganization | Mandatory | 1.4.1991 |
| AS-10 | Accounting for fixed assets | Mandatory | 1.4.1991 |
| AS-11 | Accounting for the Effect of changes in Foreign Exchange Rates (Revised) | Mandatory | 1.4.1995 |
| AS-12 | Accounting for Government Grants | Mandatory | 1.4.1994 |
| AS-13 | Accounting for Investments | --- | |
| AS-14 | Accounting for Amalgamations | Mandatory | 1.4.1995 |
| AS-15 | Accounting for retirement benefits in the Financial Statements of Employers | Mandatory | 1.4.1995 |
| AS-16 | Borrowings Costs | Mandatory | |
| AS-17 | Segment Reporting | Mandatory | 1.4.2000 |
| AS-18 | Related parties Disclosures | Mandatory | 1.4.2001 |
| AS-19 | Leases | Mandatory | 1.4.2001 |
| AS-20 | Earning per share | Mandatory | 1.4.2001 |
| AS-21 | Consolidated Financial Statements | Mandatory | 1.4.2001 |
| AS-22 | Accounting for Taxes on Income | Mandatory | 1.4.2001 |

| | | | |
|-------|---|-----------|----------|
| AS-23 | Accounting for Investments in associates in Consolidated Financial Statements | Mandatory | 1.4.2002 |
| AS-24 | Discontinuing Operations | Mandatory | 1.4.2002 |
| AS-25 | Interim Financial Reporting | Mandatory | 1.4.2002 |
| AS-26 | Intangible Assets | Mandatory | 1.4.2003 |
| AS-27 | Financial Reporting of interest in Joint Venture | Mandatory | 1.4.2002 |
| AS-28 | Impairment of Assets | Mandatory | 1.4.2004 |
| AS-29 | Provisions, Contingent Liabilities and Contingent Assets | Mandatory | 1.4.2004 |
| AS-30 | Financial Instruments - Recognition and Measurements | Mandatory | 1.4.2011 |
| AS-31 | Financial Instruments - Presentation | Mandatory | 1.4.2011 |

The adoption and application of accounting standards ensure uniformity, comparability and qualitative improvement in the preparation and presentation of financial statements.

The accounting standards seek to describe the accounting principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may give a true and fair view. The ostensible purpose of the standard setting bodies is to promote the dissemination of timely and useful financial information to investors and certain other parties having an interest in companies financial performance.

Benefits of Accounting Standards:

At present, accounting standards are regarded a major component in framework of accounting and reporting practices. Standards exist to help the accounting practitioners to apply those accounting practices regarded as the most suitable for the circumstances covered. Further, they help individual companies and their management to justify whatever practices they adopt when producing their financial statements. The benefits of establishing accounting standards manifest themselves in different ways, either because they are real effect of those standards, because people perceive certain effects, or because they expect certain effects to follow and modify their behavior accordingly.

The setting of accounting standards has the following advantages:

- i. **Reduction in variation:** Standards reduced to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.
- ii. **Disclosure beyond that required by law:** There are certain areas where important information is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.
- iii. **Facilitates comparison:** The application of accounting standards would to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another country give rise to differences in accounting standards practiced in different countries.
- iv. **Benefits to the Accounts and Auditors:** Though individual accountant and chartered accountancy firm are concerned with their own reputation the other accountants and firm misconduct would prove costly since all accountants belong to a class in the eyes of public. While members of a chartered accountancy firm can discipline their fellow partners, is difficult to a chartered accountants. For this purpose, the establishment of standard to which all chartered or certified accountants subscribe is useful. Thus, accounting standard are beneficial not only to the business enterprises but also to the accountants and auditors as well.

* * *

RECORDING OF TRANSACTIONS

3

3.1

DOUBLE ENTRY SYSTEM OF BOOK KEEPING

There are various methods of maintaining accounts. Businessman can adopt any one of these methods for their accounts as suitable for their business. It has been widely accepted that the art of book keeping is very old. An Italian merchant, Mr. Lucas Pacioli is the originator of the concept of Double Entry System of book keeping. The double entry system of book keeping is most trusted and most important modern method adopted by traders in maintaining their books of accounts. It is the most satisfactory and a scientific system of maintaining the accounts of the business. In fact it is a complete, accurate and perfect system of accounting which records both the aspects of each transaction. The system believes that every transaction has two fold effects. And therefore each transaction involves at least two accounts or the parties. In a transaction one account receives the benefit and other account gives the benefit. Or we can say that if one account / party receive a benefit in any form there must be corresponding loss or benefit by the other account or party. The account receiving benefit is debited and other account giving benefit is credited.

Thus, double entry system of book keeping may be defined as a system of recording two fold effect of each and every transaction in proper set of books. Now we can say that '*Every transaction has two fold effects.*' And also we can say that '*Every debit has a corresponding equivalent credit.*' Hence, on any particular date all debits are equal to all credit.

3.2 RECORDING OF TRANSACTIONS

While recording business transactions under double entry system of book keeping one must identify two fold effects of a transaction. It means each and every transaction must be recorded on both sides (i.e. debit and credit side) i.e. an entry is made on the debit side of an account and on the credit side of the other account or vice versa. It therefore becomes necessary to find out the two accounts involved in each transaction and then to find out which account is to be debited and which account is to be credited. We will see some example to make clear this concept.

We will take some transactions and will try to understand how these will be recorded in the books of a businessman say Mr. Shekhar.

1. Shekhar purchased goods for cash Rs. 10,000

If this transaction is to be recorded into the books of Shekhar we will first identify two accounts involved in this transaction.

The 1st account involved is = Goods A/c

The 2nd account involved is = Cash A/c

Since, both the accounts involved are of the type of *Real A/c*, we will follow the Rules of *Real A/c*. As Shekhar has purchased goods it means he has received the goods or we can say that Goods comes in and on the other hand as the payment is made it means cash goes out. Therefore, Goods Account will be debited whereas Cash Account will be credited.

2. Cash paid to Vijay Rs. 2,000

If this transaction is to be recorded into the books of Shekhar we will first identify two accounts involved in this transaction.

The 1st account involved is = Vijay A/c

The 2nd account involved is = Cash A/c

Since, of the two accounts involved one is from the Personal A/c and other is Real A/c, we will have to follow the rules of respective accounts. As the cash is

paid to Vijay he is the receiver therefore, Vijay's Account will be debited and as the cash is paid it goes out therefore, Cash Account will be credited.

3. Salary paid Rs. 4,000

If this transaction is to be recorded into the books of Shekhar we will first identify two accounts involved in this transaction.

The 1st account involved is = Salary A/c. The 2nd account involved is = Cash A/c.

Since, of the two accounts involved one is from the Nominal A/c and other is Real A/c, we will have to follow the rules of respective accounts. Since salary paid is expenditure for the business it will be debited and as the salary is paid cash goes out therefore it will be credited.

4. Rent received Rs. 2,500

If this transaction is to be recorded into the books of Shekhar we will first identify two accounts involved in this transaction.

The 1st account involved is = Rent A/c,

The 2nd account involved is = Cash A/c

Since, of the two accounts involved one is from the Nominal A/c and other is Real A/c, we will have to follow the rules of respective accounts. Since, rent received is an income of the businessman it will be credited and rent will be received in the form of cash it means cash comes in therefore, Cash A/c will be debited.

5. Shekhar sold Goods for cash Rs. 6,000

If this transaction is to be recorded into the books of Shekhar we will first identify two accounts involved in this transaction.

The 1st account involved is = Goods A/c,

The 2nd account involved is = Cash A/c

Since, both the accounts involved are of the type of Real A/c, we will follow the Rules of Real A/c. As Shekhar has sold goods for cash it means he has received cash or we can say that cash comes in and on the other hand goods goes out. Therefore, Goods Account will be credited whereas Cash Account will be debited.

From the above different transactions one can easily understand that each and every transaction involves at least two accounts and also can understand that every debit has a corresponding equivalent credit.

✓ **Advantages of Double Entry System**

- because of every debit has a corresponding equivalent credit.
- i. It ensures arithmetic accuracy of recording because of every debit has a corresponding equivalent credit.
 - ii. It maintains both personal and impersonal accounts, a complete record of each corresponding accounting periods. One can easily make the comparison of different accounting periods.
 - iii. It maintains both personal and impersonal accounts, a complete record of each and every transaction is available.
 - iv. The method provides full information about the debtors and creditors as it maintains personal accounts.
 - v. The method provides detail information about the assets and Liabilities of the business concerns.
 - vi. Double entry system helps in comparison of the accounting records of two different accounting periods. One can easily make the comparison of purchases, sales, expenses, profits etc. of two different financial periods.
 - vii. With the help of this system errors and mistakes can easily detected and rectified.
 - viii. It helps government in taxation policies
 - ix. It helps bankers to take decisions about loans and overdraft facilities to be allowed to the business units.
 - x. The work can be divided between the employees according to their efficiency.

3.3 JOURNAL

In an ordinary sense, the term journal stands for 'Daily.' It is a book of original entry of business transaction. All business transactions are firstly recorded in this book in orderly and logical manner. Thus, a Journal can be defined as 'a subsidiary book in which all day to day monetary transactions of a business are recorded first as and when they take place in a chronological order in a debit and credit form in a systematic manner.'

Salient Features / Characteristics of Journal

From the above discussion we can conclude the following Salient features /

- i. It records original and primary record of all the business transactions.
- ii. It is a basic record which provides base for subsequent accounting work.
- iii. It maintains a detail record of transactions by giving the narration (explanation) at the end of every journal entry.
- iv. It records the transactions in the order of date of their taking place.

Necessity or Utility of Journal

- i. Direct posting to ledger, though possible may result into the mistakes and errors, and hence to avoid such mistakes and errors in ledger, journal is very necessary.

- ii. Cross checking between journal and ledger is helpful to secure maximum accuracy.

- iii. A complete record of each and every transaction in the form of debit and credit is available at one place.

- iv. An easy and quick reference to any transaction is possible as they are maintained in chronological manner i.e. date wise.

- v. Since, Cash Vouchers, cash and credit memo, receipts are used to record the transactions in a journal; the court of law considers it as basic legal proof.

- vi. Understanding of any Journal entry and transaction has become easier with the help of narration attached to each and every transactions.

- vii. It is a permanent record for any future decision making

- viii. It helps to identify, locate and to prevent frauds and errors.

How to Journalise the Transactions? And specimen of Journal

The act of recording a transaction in the journal in the stipulated form is called journalising.

The following steps should be taken to convert the transactions into journal entries:

- i. Determine the nature and purpose of transactions.
- ii. Find out the two accounts affected.
- iii. Classify the affected accounts into Personal A/c, Real A/c and Nominal A/c.
- iv. Apply the rules of Debit and Credit taking into consideration the class of the account.
- v. Apply the rule of journalising (i.e. the rule of Debit and Credit of Personal A/c, Real A/c and Nominal A/c) and record the transaction in the following manner.
- vi. The name of the account to be debited is to be written first under 'particulars' column and the name of the account to be credited is to be written in the second line.
- vii. The word 'Dr' (i.e. Debit) is written against the name of the account to be debited. Whereas the name of the account to be credited is to be preceded by the word 'To'.
- viii. The amount of the respective account is to be written in Debit and Credit column as the case may be.

- ix. A brief explanation of the entry called *Narration* is to be given in the bracket just below the entry.
- x. After every journal entry a line should be drawn in the particular column so as to show various entries separately.
- xi. Ledger Folio: It is the page number of ledger on which Debit and Credit effect of an account is recorded in the summarised manner. It facilitates easy reference.

Specimen of Journal

In the books of _____ (Name of the business firm / Businessman)
Journal Entries

| Date | Particulars | L.F. | Dr.(Rs.) | Cr.(Rs.) |
|------|-------------|------|----------|----------|
| | | | | |
| | Total | | XXXXX | XXXXX |

ILLUSTRATIONS

1. Journalise the following transactions in the books of Shri. Mahavir of Nashik for the month of January 2008.
- Started business with Cash Rs. 12000, Furniture of Rs. 5,000 and Building Rs. 13,000.
 - Goods of Rs. 6,000 purchased for cash.
 - Cash sales of Rs. 2,700.
 - Goods of Rs. 500 distributed as free sample.
 - Goods of Rs. 10,000 purchased from Miss. Palak.
 - Goods of Rs. 5,000 sold to Sujal of which Rs. 3500 received immediately.
 - Paid Rs. 550 as printing charges.
 - Paid Rs. 2,000 to Miss Palak on her account.
 - Salary paid Rs. 1,500.

Solution

| Date Jan. 08 | Ca Fu Bu (R in C 1. 6. 8. 11. 16. 19. 20. 26.) |
|-----------------|---|
| 1. | |
| 2. | |
| 6. | |
| 8. | |
| 11. | |
| 16. | |
| 19. | |
| 20. | |
| 26. | |

Solution

In the books of Shri Mahavir Journal Entries

| Date Jan.08 | Particulars | L. F. | Dr. (Rs.) | Cr. (Rs.) |
|----------------|---|--|---------------------------|---------------|
| 1. | Cash A/c Furniture A/c Building A/c To Mahavir's Capital A/c (Being Mahavir started business with above initial investment) | Dr. Bank A/c Dr To Mahavir Capital A/c Dr. | 12,000 5,000 13,000 | 30,000 |
| 2. | Goods A/c To Cash A/c (Being entry for cash purchases) | Dr. | 6,000 | 6,000 |
| 6. | Cash A/c To Goods A/c (Being entry for cash sales) | Dr. | 2,700 | 2,700 |
| 8. | Advertisement A/c To Goods A/c (Being goods distributed as free sample) | Dr. | 500 | 500 |
| 11. | Goods A/c To Palak A/c (Being entry for credit purchases) | Dr. | 10,000 | 10,000 |
| 16. | Cash A/c Sujal A/c To Goods A/c (Being goods sold and part payment received) | Dr. Dr. | 3,500 1,500 | 5,000 |
| 19. | Printing Charges A/c To Cash A/c (Being Printing charges paid) | Dr. | 550 | 550 |
| 20. | Palak A/c To Cash A/c (Being amount paid on account) | Dr. | 2,000 | 2,000 |
| 26 | Salary A/c To Cash A/c (Being Salary paid) | Dr. | 1,500 | 1,500 |
| Total | | | 58,250 | 58,250 |

Journalise the following transactions in the books of Shri. Rahul for the month of February 07.

1. Rahul commenced business with cash Rs. 20,000, Machinery Rs. 30,000 and Building Rs. 50,000.
2. Goods of Rs. 8,000 purchased for cash.
4. Opened a bank account by depositing Rs. 1,000.
6. Cash sales of Rs. 4,700.
8. Credit purchase of goods from Sushil Rs. 40,000.
11. A typewriter purchased of Rs. 2,000 in exchange of the goods of the same value.
16. Goods of Rs. 1,200 stolen away from the godown.
19. Credit sales to Prashant Rs. 20,000 at 5% trade discount.
20. Paid Rs. 15,000 to Sushil on his account.
24. Wages paid Rs. 325.
25. Received Rs. 9,000 from Prashant on his account.
27. Salary paid Rs. 2,000.
29. Shop rent paid Rs. 1,000.
30. Additional capital brought into the business Rs. 12,000.

*Solution**In the books of Shri. Rahul Journal Entries*

| Date Feb.07 | Particulars | L.F. | Dr.(Rs.) | Cr.(Rs.) |
|----------------|---|----------------|----------------------------|----------|
| 1. | Cash A/c Machinery A/c Building A/c To Rahul's Capital A/c (Being Rahul started business with above initial investment) | Dr Dr Dr | 20,000 30,000 50,000 | 1,00,000 |
| 2. | Goods A/c To Cash A/c (Being entry for cash purchases) | Dr | 8,000 | 8,000 |
| 4. | Bank A/c To Cash A/c (Being bank account opened) | Dr | 1,000 | 1,000 |
| 6. | Cash A/c To Goods A/c (Being entry for cash sales) | Dr | 4,700 | 4,700 |
| 8. | Goods A/c To Sushil A/c (Being entry for credit purchases) | Dr | 40,000 | 40,000 |

| 11. | Typewriter A/c To Goods A/c (Being Typewriter purchased in exchange of goods) | Dr | 2,000 | 2,000 | |
|-----|---|----|----------|----------|--|
| 16. | Loss by theft A/c To Goods A/c (Being goods stolen away) | Dr | 1,200 | 1,200 | |
| 19. | Prashant A/c To Goods A/c (Being goods sold on credit at 5%) | Dr | 19,000 | 19,000 | |
| 20. | Sushil A/c To Cash A/c (Being amount paid on account) | Dr | 15,000 | 15,000 | |
| 24. | Wages A/c To Cash A/c (Being wages paid) | Dr | 325 | 325 | |
| 25. | Cash A/c To Prashant A/c (Being amount received on account) | Dr | 9,000 | 9,000 | |
| 27. | Salary A/c To Cash A/c (Being salary paid) | Dr | 2,000 | 2,000 | |
| 29. | Rent / Shop Rent A/c To Cash A/c (Being shop rent paid) | Dr | 1,000 | 1,000 | |
| 30. | Cash A/c To Rahul's Capital A/c (Being additional capital brought in) | Dr | 12,000 | 12,000 | |
| | Total | | 2,15,225 | 2,15,225 | |

3. Journalise the following transactions in the books of Shri. Madhav for the month of March 07.
1. Madhav transferred Rs. 20,000 from his personal bank account to business bank account.
 7. Gave a cheque for Rs. 4,000 to Mahesh on his account.
 8. Purchased stationery of Rs. 150.
 10. Received a cheque for Rs. 1,760 from a debtor, Mr. Madan in full settlement of his account for Rs. 1,800.
 14. Sold goods to Keshav on credit Rs. 4,500.
 19. Sold old office furniture for Rs. 2,000.
 22. Gave a loan to Sujal by cheque Rs. 5,000 at 12% p.a.
 26. Goods of Rs. 500 stolen away.
 27. Paid life insurance Rs. 300 by cheque on the life of Madhav's wife.
 31. Purchased a plant from Taparia Tools Ltd. For Rs. 12,000 and 60% amount paid in cash immediately.
 31. Salary Paid Rs. 2,000.
 31. Keshav declared as insolvent and Rs. 3000 only could be recovered from his private estate.

Solution

In the books of Shri. Madhav Journal Entries

| Date Mar.07 | Particulars | L.F. | Dr.(Rs.) | Cr.(Rs.) |
|----------------|---|------|----------|----------|
| 1. | Bank A/c To Madhav's Capital A/c (Being Amount transferred from private bank account) | Dr | 20,000 | 20,000 |
| 7. | Mahesh A/c To Bank A/c (Being cheque issued on account) | Dr | 4,000 | 4,000 |
| 8. | Stationery A/c To Cash A/c (Being stationery purchased) | Dr | 150 | 150 |
| 10. | Bank A/c Discount A/c To Madan A/c (Being cheque received in full settlement of account) | Dr | 1,760 | 40 |
| 14. | Keshav A/c To Goods A/c (Being entry for credit sales) | Dr | 4,500 | 4,500 |

| | | | | | |
|--------------|---|----|--|----------------|---------------|
| 19. | Cash A/c To Furniture A/c (Being furniture sold) | Dr | | 2,000 | 2,000 |
| 22. | 12% Sujal's Loan A/c To Bank A/c (Being loan given to Sujal at 12% P.a.) | Dr | | 5,000 | 5,000 |
| 26. | Loss By Theft A/c To Goods A/c (Being goods stolen away) | Dr | | 500 | 500 |
| 27. | Drawing A/c To Bank A/c (Being L.I.C. Premium on Wife's life paid) | Dr | | 300 | 300 |
| 31 | Plant A/c To Taparia Tools Ltd. A/c To Cash A/c (Being Plant purchased & Part payment paid) | Dr | | 12000 | 4800 |
| 31. | Salary A/c To Cash A/c (Being salary paid) | Dr | | 2,000 | 2,000 |
| 31. | Cash A/c Bad Debts A/c To Keshav A/c (Being Keshav declared insolvent and first and final dividend received) | Dr | | 3,000 1,500 | 4,500 |
| Total | | | | 68,750 | 68,750 |

4. Journalise the following transactions in the books of Shri. Raja for the month of April 07.
1. Commenced business with cash Rs. 10,000 and furniture Rs. 6,000.
 3. Bought goods on credit from Deepak Rs. 12,000 at 5 T.D.
 4. Sold goods for cash Rs. 2,540.
 5. Paid into bank Rs. 4,000.
 7. Purchased furniture and payment made by cheque Rs. 1,400.
 9. Sold goods to Anand Rs. 1,840.
 14. Sold goods for cash Rs. 3,180.
 16. Paid to Deepak Rs. 2,000 on account.
 19. Paid for life insurance premium Rs. 560.
 21. Paid to Ramanad for commission Rs. 300.
 23. Received from Anand Rs. 1,800 in full settlement of his account.
 25. Purchased Shares of Tata co. Rs. 1,000 and paid for it by cheque.
 27. Paid telephone charges Rs. 640.
 28. Paid to Deepak Rs. 9,200 in full settlement of his account.

Solution**In the books of Shri. Raja Journal Entries**

| Date April.07 | Particulars | L.F. | Dr.(Rs.) | Cr.(Rs.) |
|------------------|---|------|-----------------|----------|
| 1. | Cash A/c Dr. Furniture A/c Dr. To Capital A/c (Being the capital brought and business started) | | 10,000 6,000 | 16,000 |
| 3. | Goods A/c Dr. To Deepak's A/c (Being Credit Purchased) | | 11,400 | 11,400 |
| 4. | Cash A/c Dr. To Goods A/c (Being Cash sales) | | 2,540 | 2,540 |
| 5 | Bank A/c Dr. To Cash A/c (Being amount paid into bank) | | 4000 | 4000 |
| 7. | Furniture A/c Dr. To Bank A/c (Being Furniture purchased) | | 1,400 | 1,400 |

| 9. | Anand's A/c To Goods A/c (Being Credit sales) | Dr. | 1,840 | 1,840 | |
|-----|---|------------|-------------|--------------|--|
| 14. | Cash A/c To Goods A/c (Being Cash sales) | Dr. | 3,180 | 3,180 | |
| 16. | Deepak's A/c To Cash A/c (Being paid on account) | Dr. | 2,000 | 2,000 | |
| 19. | Drawings A/c To Cash A/c (Being LIC premium paid) | Dr. | 560 | 560 | |
| 21. | Commission A/c To Cash A/c (Being paid for commission) | Dr. | 300 | 300 | |
| 23. | Cash A/c Discount A/c To Anand's A/c (Being received in full settlement of A/c) | Dr. Dr. | 1,800 40 | 1,840 | |
| 25. | Investment in Shares A/c To Cash A/c (Being Shares purchased) | Dr. | 1,000 | 1,000 | |
| 27. | Telephone Charges A/c To Cash A/c (Being payment of telephone charges) | Dr. | 1,640 | 640 | |
| 28. | Deepak's A/c To Cash A/c To Discount A/c (Being the amount paid in full settlement of account) | Dr | 9,400 | 9,200 200 | |
| | Total | | 57100 | 57100 | |

5. Journalise the following transactions in the books of Shri. Mukesh for the month of March 04.
1. Mukesh commenced business with cash Rs. 1,00,000, Goods Rs. 20,000 and Furniture Rs. 30,000.
 2. Purchased a Motor cycle from Honda company for cash Rs. 40,000.
 3. Sold goods for cash Rs. 8,000 at 5% C.D.
 4. Goods purchased from Shri. Popatlal Rs. 19,400 on one month's credit.
 6. Sold goods on credit Shri. Harilal for Rs. 3,060 at a Trade Discount of Rs. 60.
 7. Paid to Indian Express for advertisement Rs. 800.
 9. Sold Goods to Shri. Nandalal Rs. 7,800.
 15. Paid for Municipal taxes Rs. 300.
 19. Paid to Shri. Popatlal Rs. 19,000 in full settlement of his account.
 23. Paid for Hotel Bills of friends and relatives Rs. 1,200.
 25. Sold goods for Cash Rs. 4,000.
 26. Received commission from Arunlal Rs. 800.
 28. Paid to Ghatare and Patil for Carriage Rs. 1,200.
 29. Harilal declared as an insolvent and 50% amount received from him as first and final dividend.

Solution

In the books of Shri. Mukesh Journal Entries

| Date Mar.04 | Particulars | L.F. | Debit Rs. | Credit Rs. |
|----------------|---|------|--------------|---------------|
| 1. | Cash A/c Dr. | | 1,00,000 | |
| | Goods A/c Dr. | | 20,000 | |
| | Furniture A/c Dr. | | 30,000 | |
| | To Capital A/c (Being Capital brought into business) | | | 1,50,000 |
| 2. | Motor cycle A/c Dr. | | 40,000 | |
| | To Cash A/c (Being Motor cycle purchased) | | | 40,000 |
| 3. | Cash A/c Dr. | | 7,600 | |
| | Discount A/c Dr. | | 400 | |
| | To Goods A/c (Being Cash sales at 5% C.D.) | | | 8,000 |
| 4. | Goods A/c Dr. | | 19,400 | |
| | To Popatlal A/c (Being Credit purchases) | | | 19,400 |
| 6. | Harilal's A/c Dr. | | 3,000 | |
| | To Goods A/c (Being Credit sales) | | | 3,000 |

| 7. | Advertisement A/c To Cash A/c (Being the amount paid for Advertisement) | Dr. | 800 | 800 | |
|-----|---|------------|----------------|---------------|--|
| 9. | Nandalal's A/c To Goods A/c (Being Goods sold on credit) | Dr. | 7,800 | 7,800 | |
| 15. | Municipal Taxes A/c To Cash A/c (Being Municipal Taxes paid) | Dr. | 300 | 300 | |
| 19. | Popatlal's A/c To Cash A/c To Discount A/c (Being the amount paid in full settlement) | Dr. | 19,400 | 19,000 400 | |
| 23. | Drawings A/c To Cash A/c (Being the household expense paid) | Dr. | 1,200 | 1,200 | |
| 25. | Cash A/c To Goods A/c (Being the goods sold for the cash) | Dr. | 4,000 | 4,000 | |
| 26. | Cash A/c To Commission A/c (Being commission received from Arunlal) | Dr. | 800 | 800 | |
| 27. | Drawing A/c To Goods A/c (Being the goods taken for personal use) | Dr. | 600 | 600 | |
| 28. | Carriage A/c To Cash A/c (Being Carriage paid) | Dr. | 1,200 | 1,200 | |
| 29. | Cash A/c Bad Debts A/c To Harilal's A/c (Being Harilal declared as an insolvent and first and final dividend received from his private estate) | Dr. Dr. | 1,500 1,500 | 3,000 | |
| | Total | | 2,58,500 | 2,58,500 | |

6. Journalise the following transactions in the books of Shri. Mit for the month of June, 2006.
1. Commenced business with Rs. 20,000 of which Rs. 10,000 was borrowed from his wife as a loan at 12% p.a.
 2. Bought goods from Shri. Raghav for Rs. 4,000 at 10% trade discount and paid him full amount on the spot at 5% cash discount.
 3. Sold goods for cash Rs. 740.
 4. Purchased Machinery for cash Rs. 5,000 and paid Rs. 400 as wages for the installation of Machinery.
 5. Placed an order for goods Rs. 6,000 with Shri. Avi.
 7. Gave a purse containing Rs. 101 to friend as a present on his wedding.
 10. Shri. Raghav sold us goods of Rs. 5,000 and paid Rs. 300 for carriage on our behalf.
 12. Advance a Loan of Rs. 1,000 to Shri. Suresh an employee.
 15. Goods worth Rs. 1,000 were damaged in transit and claim was made to transport company for Rs. 600.
 17. Paid for fire insurance premium Rs. 600.
 21. Sold goods for cash Rs. 1,400.
 24. Goods worth Rs. 100 were distributed as free samples.
 25. Goods worth Rs. 600 were damaged by fire and insurance company admitted the claim for Rs. 400 only.
 27. Paid for postage and telegram Rs. 190.
 29. Received cash from insurance for the claim made for Rs. 400.
 30. Sold goods to Shri. Sumit Rs. 3,000 and he paid Rs. 1,000 in cash and balance agreed to be paid after 10 days.

Solution

In the books of Shri. Mit
Journal Entries

| Date June 04 | Particulars | L.F | Debit Rs. | Credit Rs. |
|-----------------|---|-----|--------------|------------------|
| 1. | Cash A/c To Capital A/c To Mrs. Mit Loan A/c (Being capital brought in and amount borrowed @ 12%) | Dr. | 20,000 | 10,000 10,000 |
| 2. | Goods A/c To Discount A/c To Cash A/c (Being goods purchased from Raghav at 10% T.D and 5% C.D.) | Dr. | 3,600 | 180 3,420 |

| 3. | Cash A/c To Goods A/c (Being cash sales) | Dr. | 740 | 740 |
|-----|--|-----|------------|-------|
| 4. | Machinery A/c To Cash A/c (Being Machinery purchased and paid its installation charges.) | Dr. | 5,400 | 5,400 |
| 5. | No Entry. Because Placing an order is not a transaction. | | | |
| 7. | Drawings A/c To Cash A/c (Being the payment of personal expense) | Dr. | 101 | 101 |
| 10. | Goods A/c Carriage A/c To Raghav's A/c (Being goods purchased and carriage paid) | Dr. | 5,000 | 5,300 |
| 12. | Loan to Suresh A/c To Cash A/c (Being the loan advanced to an employee) | Dr. | 1,000 | 1,000 |
| 15. | Loss in Transit A/c Transport Co. A/c To Goods A/c (Being goods damaged in transit and claim admitted by transport company) | Dr. | 400 600 | 1,000 |
| 17. | Fire Insurance premium A/c To Cash A/c (Being insurance premium paid) | Dr. | 600 | 600 |
| 21. | Cash A/c To Goods A/c (Being cash sales) | Dr. | 1,400 | 1,400 |
| 24. | Advertisement A/c To Goods A/c (Being goods distributed as samples) | Dr. | 100 | 100 |

| Business Accounting | | | 3 > 18 | Recording of Transaction | |
|---------------------|--|--|--------|--------------------------|--------|
| | | | Dr. | 200 | 200 |
| 25. | Loss by fire A/c Insurance Company A/c To Goods A/c (Being goods destroyed by fire and Claim admitted by insurance company) | | Dr. | 400 | 600 |
| 27. | Postage and Telegram A/c To cash A/c (Being postage and telegram paid) | | Dr. | 190 | 190 |
| 29. | Cash A/c To Insurance Company A/c (Being claim amount received) | | Dr. | 400 | 400 |
| 30. | Cash A/c Sumit's A/c To Goods A/c (Being Sales of goods and part payment received) | | Dr. | 1,000 2,000 | 3,000 |
| Total | | | | 43,431 | 43,431 |

3.4 LEDGER

After journal and journalising ledger is the Principle book of account in which all transactions of a trader are finally posted from the journal in a summarised and classified manner. It makes possible to have clear understanding of the position of a particular account.

As we have seen in earlier part of the chapter that the transactions are firstly recorded in journal, thereafter, there from transactions are posted to the respective ledger. It contains an account for each expenses, income, assets, liabilities, capital etc. The ledger contains the same information as the journal. The entire effect of a transaction is completely recorded in one place in the journal. Periodically same information is posted to the ledger where it is accumulated according to individual items. Ledger provides a system of recording the transaction relating to particular account in such a way that we can get knowledge of that account in very short time. For e.g. in cash accounts receipts and payments of cash are recorded and we can easily ascertain total cash received during a particular period and total cash paid during a particular period.

Following are

- It provides expenses, controlling
- A business Loss A/c is us by ledger business.
- With the know the p

Specimen of t
Dr.

| Date | Partic |
|------|--------|
| | |
| | |

Some importa

- Account: A person, one person creates an ac
- Head of ac account a s written on types of fun will be recor
- Posting: Th made in J recorded in
- Ledger folio accounts an various acc number, L.F
- Ruling of allotted spe anticipated system prin sides. The l denoted as "

2508

✓ Following are the benefits of maintaining ledger accounts:

- i. It provides classified information of various accounts such as assets, liabilities, expenses, incomes and this information is very important from the view point of controlling the business activity.
- ii. A business man can prepare the important financial statements like Profit and Loss A/c and Balance Sheet on the basis of important information provided to us by ledger which will help us to know the overall financial position of the business.
- iii. With the help of financial statements prepared as stated above one can come to know the profit earned (or loss suffered) by the business.

Specimen of the Ledger Account

Dr.

A/c

Cr.

| Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Amount (Rs.) |
|------|-------------|------|-----------------|------|-------------|------|-----------------|
| | | | | | | | |
| | | | | | | | |

✓ Some Important Terms Relating to Ledger

- i. **Account:** An account is a summarised record of transaction pertaining to one person, one asset or one class of expense or income. Brief crucial information of one person or item is recorded by following principle of double entry system creates an account.
- ii. **Head of account:** Every account is recognized by its heading. On top of each account a short name of the account is written. Generally, the name of account written on top of each ledger account is called as head of account. E.g. different types of furniture such as chair, table, cupboard etc. possessed by the business will be recorded under one account and shall be named as "Furniture A/c."
- iii. **Posting:** The act of recording the transaction in the ledger on the basis of entry made in Journal is known as posting. Every business transaction is first recorded in the journal and then posted to the respective ledger account.
- iv. **Ledger folio:** It denotes the page number of an account in the ledger. Pages of accounts are bound together to form ledger. Different folios are allotted to various accounts. Every page bears a chronological number called as folio number, L.F. number.
- v. **Ruling of ledger accounts:** Various account maintained in the ledger are allotted specific number of pages, depending upon the volume of business anticipated in that account. Each page is ruled following the double entry system principle of debit and credit. Each page is divided vertically into two sides. The left hand side is denoted as "debit Side and the right hand side is denoted as "Credit Side" The specimen of ledger account is already given.



Explanation

- i. **Date:** This column is used to show the date of the transaction.
- ii. **Particulars:** This column is used to write the names of the accounts debited or credited.
- iii. **J.F.:** This column is used to show the page number of journal on which the transaction is recorded.
- iv. **Amount:** The debit side amount column shows the amount of the account debited and credit side amount column shows the amount of the account credited.

Posting

After the transaction has been analysed into its debit and credit elements in a journal, each such debit and credit element must be transferred to the respective ledger accounts. The process of transfer of entries from journal to ledger accounts is called "Posting" or "Ledger Posting".

The date of the journal entry is recorded in date column. In particular column write the name of the credit account in the journal entry after the word "To" on debit side (Left hand side) and write the name of the debited account in the journal entry after the word "By" on credit side (Right hand side). In J.F. column write the page number of the journal from where the entry is posted and finally in amount column the monetary value of the transaction should be written on respective side i.e. journal debit amount on debit side and journal credit amount on credit side of ledger account.

Procedure of Balancing of an Account

The process of finding out the difference between the total of debit side and the total of credit side of an account is known as balancing of an account. It is usually done on the last day of the given period. There is no specific rule for the period during which the account should be balanced and therefore, accounts are balanced as per the requirements and nature of the business. The businessman may balance the accounts daily, weekly, fortnightly, monthly, and quarterly, half yearly or yearly basis.

Debit balance and Credit balance

If the debit side total of an account is heavier than the credit side total of the account, difference is put/shown on the credit side with wording "By balance Carried Down" (Shown as "By Balance C/d") or "By balance Carried forward" (Shown as "By Balance C/f"). This is called as debit balance of that particular account. If the Credit side total of an account is heavier than the Debit side total of the account, difference is put/shown on the Debit side with wording "To balance Carried Down" (Shown as "To Balance C/d") or "To balance Carried forward" (Shown as "To Balance C/f"). This is called as credit balance of that particular account.

At the beginning of the next accounting period, the balance of account of last period is transferred to the opposite side of the account by writing the word "Balance Brought Down" OR "Balance Brought Forward".



ILLUSTRATION

1. Pass necessary journal entries and post them to ledger accounts in the books of Mr. Salman.
1. Commenced business with cash Rs. 25,000.
 2. Goods of Rs. 12,500 purchased for cash.
 3. Cash sales Rs. 10,000.
 4. Brokerage of Rs. 1250 received from Mr. Kamat.
 5. Purchased a machinery from Hindustan Tools on credit for Rs. 30,000.
 6. Wages Paid Rs. 1,200.
 7. Paid Rs. 5,000 to Hindustan Tools on account.

Solution

In the books of Shri. Salman Journal Entries

| Date June 04 | Particulars | L.F. | Debit Rs. | Credit Rs. |
|-----------------|---|------|--------------|---------------|
| 1. | Cash A/c To Salman's Capital A/c (Being business commenced with above initial investment) | Dr. | 25,000 | 25,000 |
| 2. | Goods A/c To Cash A/c (Being entry for cash purchases) | Dr. | 12,500 | 12,500 |
| 3. | Cash A/c To Goods A/c (Being entry for cash sales) | Dr. | 10,000 | 10,000 |
| 4. | Cash A/c To Brokerage A/c (Being brokerage received from Mr. Kamat) | Dr. | 1,250 | 1,250 |
| 5. | Machinery A/c To Hindustan Tools A/c (Being Machinery purchased on credit) | Dr. | 30,000 | 30,000 |
| 6. | Wages A/c To Cash A/c (Being wages paid) | Dr. | 1,200 | 1,200 |
| 7. | Hindustan Tools A/c To Cash A/c (Being amount paid on account) | Dr. | 5,000 | 5,000 |
| | Total | | 84,950 | 84,950 |

| Cash A/c | | | | | | Cr. | |
|----------|-------------------------|-------|------------|------|------------------------|-------|------------|
| Dr. | Particulars | J. F. | Amt. (Rs.) | Date | Particulars | J. F. | Amt. (Rs.) |
| 1. | To Salman's Capital A/c | | 25,000 | 3. | By Goods A/c | | 12,500 |
| 4. | To Goods A/c | | 10,000 | 6. | By Wages A/c | | 1,200 |
| 5. | To Brokerage A/c | | 1,250 | 7. | By Hindustan Tools A/c | | 5,000 |

| Salman's Capital A/c | | | | | | Cr. | |
|----------------------|-------------|-------|------------|------|-------------|-------|------------|
| Dr. | Particulars | J. F. | Amt. (Rs.) | Date | Particulars | J. F. | Amt. (Rs.) |
| | | | | 1. | By Cash A/c | | 25,000 |

| Goods A/c | | | | | | Cr. | |
|-----------|----------------|-------|------------|------|-------------|-------|------------|
| Dr. | Particulars | J. F. | Amt. (Rs.) | Date | Particulars | J. F. | Amt. (Rs.) |
| | 3. To Cash A/c | | 12,500 | 4. | By Cash A/c | | 10,000 |

| Brokerage A/c | | | | | | Cr. | |
|---------------|-------------|-------|------------|------|-------------|-------|------------|
| Dr. | Particulars | J. F. | Amt. (Rs.) | Date | Particulars | J. F. | Amt. (Rs.) |
| | | | | 5. | By Cash A/c | | 1,250 |

| Machinery A/c | | | | | | Cr. | |
|---------------|---------------------------|-------|------------|------|-------------|-------|------------|
| Dr. | Particulars | J. F. | Amt. (Rs.) | Date | Particulars | J. F. | Amt. (Rs.) |
| | 6. To Hindustan Tools A/c | | 30,000 | | | | |

| Hindustan Tools A/c | | | | | | Cr. | |
|---------------------|----------------|-------|------------|------|------------------|-------|------------|
| Dr. | Particulars | J. F. | Amt. (Rs.) | Date | Particulars | J. F. | Amt. (Rs.) |
| | 7. To Cash A/c | | 5,000 | 6. | By Machinery A/c | | 30,000 |

| Wages A/c | | | | | | Cr. | |
|-----------|----------------|-------|------------|------|-------------|-------|------------|
| Dr. | Particulars | J. F. | Amt. (Rs.) | Date | Particulars | J. F. | Amt. (Rs.) |
| | 6. By Cash A/c | | 1,200 | | | | |

| | |
|------|--------|
| Date | Jan 07 |
| 1. | |
| 3. | |
| 5. | |
| 6. | |
| 7. | |
| 9. | |
| 11. | |

| Business Accounting | | | | | | Recording of Transaction | | | |
|---------------------|-------------------------|--|----------------------|------------|------|--------------------------|--|-------|------------|
| | | | Cash A/c | | | | | | |
| Date | Particulars | | J. F. | Amt. (Rs.) | Date | Particulars | | J. F. | Amt. (Rs.) |
| 1. | To Salman's Capital A/c | | | | 3. | By Goods A/c | | | 12,500 |
| 4. | To Goods A/c | | | 25,000 | 6. | By Wages A/c | | | 1,200 |
| 5. | To Brokerage A/c | | | 10,000 | 7. | By Hindustan Tools A/c | | | 5,000 |
| | | | | 1,250 | | | | | |
| Dr. | | | Salman's Capital A/c | | | Cr. | | | |
| Date | Particulars | | J. F. | Amt. (Rs.) | Date | Particulars | | J. F. | Amt. (Rs.) |
| | | | | | 1. | By Cash A/c | | | 25,000 |
| Dr. | | | Goods A/c | | | Cr. | | | |
| Date | Particulars | | J. F. | Amt. (Rs.) | Date | Particulars | | J. F. | Amt. (Rs.) |
| 3. | To Cash A/c | | | 12,500 | 4. | By Cash A/c | | | 10,000 |
| Dr. | | | Brokerage A/c | | | Cr. | | | |
| Date | Particulars | | J. F. | Amt. (Rs.) | Date | Particulars | | J. F. | Amt. (Rs.) |
| | | | | | 5. | By Cash A/c | | | 1,250 |
| Dr. | | | Machinery A/c | | | Cr. | | | |
| Date | Particulars | | J. F. | Amt. (Rs.) | Date | Particulars | | J. F. | Amt. (Rs.) |
| 6. | To Hindustan Tools A/c | | | 30,000 | | | | | |
| Dr. | | | Hindustan Tools A/c | | | Cr. | | | |
| Date | Particulars | | J. F. | Amt. (Rs.) | Date | Particulars | | J. F. | Amt. (Rs.) |
| 7. | To Cash A/c | | | 5,000 | 6. | By Machinery A/c | | | 30,000 |
| Dr. | | | Wages A/c | | | Cr. | | | |
| Date | Particulars | | J. F. | Amt. (Rs.) | Date | Particulars | | J. F. | Amt. (Rs.) |
| 6. | By Cash A/c | | | 1,200 | | | | | |

Solutions
Date Jan 07

1.

3.

5.

6.

7.

9.

11.

2. Record the following transaction in the journal of Shriram and post them to proper ledger account for January 2007.

1. Started business with cash Rs. 1,00,000 as his capital.
3. Purchased goods on credit from Laxman Rs. 43,000. ~
5. Cash sales for Rs. 62,000. *
6. Returned goods to Laxman Rs. 1,500. ~
7. Salary paid Rs. 8,000.
9. Sold goods to Bharat on 30 days credit Rs. 17,000.
11. Bought goods for cash worth Rs. 5,000.
16. Rs. 25,000 paid to Laxman on his account and purchased from him goods of Rs. 15,000.
21. Received Rs. 15,000 from Bharat on account.
22. Bharat purchased goods from us Rs. 15,400.
26. Cash sales Rs. 4,500.
31. Paid for office Rent Rs. 3,000.
31. Withdraw for domestic (household) expenses Rs. 7,500.
31. Stock on hand of goods Rs. 3,000.

Solution

In the books of Shri Ram Journal Entries

| Date Jan 07 | Particulars | L.F | Debit Rs. | Credit Rs. |
|----------------|--|-----|--------------|---------------|
| 1. | Cash A/c To Shriram's Capital A/c (Being business started with above initial investment) | Dr. | 1,00,000 | 1,00,000 |
| 3. | Goods A/c To Laxman's A/c (Being entry for credit purchases) | Dr. | 43,000 | 43,000 |
| 5. | Cash A/c To Goods A/c (Being entry for cash sales) | Dr. | 62,000 | 62,000 |
| 6. | Laxman A/c To Goods A/c (Being goods returned to Laxman) | Dr. | 1,500 | 1,500 |
| 7. | Salary A/c To Cash A/c (Being Salary paid) | Dr. | 8,000 | 8,000 |
| 9. | Bharat A/c To Goods A/c (Being goods sold on 30 days credit) | Dr. | 17,000 | 17,000 |
| 11. | Cash A/c To Goods A/c (Being cash purchases) | Dr. | 17,000 | 17,000 |

| | | Dr. | | 25,000 | | 25,000 |
|--------|--|-----|--|----------|--|----------|
| 16. a. | Laxman A/c To Cash A/c (Being amount paid on account) | Dr. | | 15,000 | | 15,000 |
| b. | Goods A/c To Laxman A/c (Being goods purchased from Laxman) | Dr. | | 15,000 | | 15,000 |
| 21. | Cash A/c To Bharat A/c (Being amount received on account) | Dr. | | 15,400 | | 15,400 |
| 22. | Bharat A/c To Goods A/c (Being goods sold on credit) | Dr. | | 4,500 | | 4,500 |
| 26. | Cash A/c To Goods A/c (Being cash sales) | Dr. | | 3,000 | | 3,000 |
| 31. | Office Rent A/c To Cash A/c (Being Office Rent paid) | Dr. | | 7,500 | | 7,500 |
| 31. | Drawings A/c To Cash A/c (Being amount withdrawn for domestic purpose) | Dr. | | | | |
| | Total | | | 3,21,900 | | 3,21,900 |

Ledger Postings

Dr.

Cash A/c

Cr.

| Date Jan 07 | Particulars | JF | Amount (Rs.) | Date Jan 07 | Particulars | JF | Amount (Rs.) |
|-------------------|-----------------------|----|-----------------|-------------------|--------------------|----|-----------------|
| 1. | To Shriram's Cap. A/c | | 1,00,000 | 7. | By Salary A/c | | |
| 5. | To Goods A/c | | 62,000 | 11. | By Goods A/c | | 8,000 |
| 21. | To Bharat A/c | | 15,000 | 16 a. | By Laxman A/c | | 5,000 |
| 26. | To Goods A/c | | 4,500 | 31. | By Office Rent A/c | | 25,000 |
| | | | | 31. | By Drawings A/c | | 3,000 |
| | | | | 31 | By Bal C/d | | 7,500 |
| 1. | To Balance B/d | | 1,81,500 | | | | 1,33,000 |
| | | | | | | | 1,81,500 |

Dr.

| | |
|-------------------|---|
| Date Jan 07 | |
| 31 | T |
| | |
| | |

Dr.

| | |
|-------------------|---|
| Date Jan 07 | |
| 3. | T |
| 11. | T |
| 16 b. | T |
| 31 | T |

Dr.

| | |
|-------------------|--|
| Date Jan 07 | |
| 9. | |
| 22. | |

Dr.

| | |
|------|--|
| Feb1 | |
| | |

Dr.

| | |
|-------------------|--|
| Date Jan 07 | |
| 6 | |
| 16.a | |
| 31 | |

| Dr. | | | | Shriram's Capital A/c | | | Cr. |
|-------------------|-------------|------|-----------------|-----------------------|-------------|------|-----------------|
| Date Jan 07 | Particulars | J.F. | Amount (Rs.) | Date Jan 07 | Particulars | J.F. | Amount (Rs.) |
| 31 | To Bal c/d | | 1,00,000 | 1 | By Cash A/c | | 1,00,000 |
| | | | 1,00,000 | | | | 1,00,000 |
| | | | | 1 | By Bal B/d | | 1,00,000 |

| Dr. | | | | Goods A/c | | | Cr. |
|-------------------|----------------|------|-----------------|----------------|---------------|------|-----------------|
| Date Jan 07 | Particulars | J.F. | Amount (Rs.) | Date Jan 07 | Particulars | J.F. | Amount (Rs.) |
| 3. | To Laxman A/c | | 43,000 | 5. | By Cash A/c | | 62,000 |
| 11. | To Cash A/c | | 5,000 | 6. | By Laxman A/c | | 1,500 |
| 16 b. | To Laxman A/c | | 15,000 | 9. | By Bharat A/c | | 17,000 |
| 31. | To P and L A/c | | 40,400 | 22. | By Bharat A/c | | 15,400 |
| | | | | 26. | By Cash A/c | | 4,500 |
| | | | | 31 | By Bal c/d | | 3,000 |
| | | | 1,03,400 | | | | 1,03,400 |
| Feb1 | To Bal B/d | | 3,000 | | | | |

| Dr. | | | | Bharat A/c | | | Cr. |
|----------------|--------------|------|-----------------|----------------|-------------|------|-----------------|
| Date Jan 07 | Particulars | J.F. | Amount (Rs.) | Date Jan 07 | Particulars | J.F. | Amount (Rs.) |
| 9. | To Goods A/c | | 17,000 | 21. | By Cash A/c | | 15,000 |
| 22. | To Goods A/c | | 15,400 | 31. | By Bal C/d | | 17,400 |
| | | | 32,400 | | | | 32,400 |
| Feb1 | To Bal B/d | | 17,400 | | | | |

| Dr. | | | | Laxman A/c | | | Cr. |
|----------------|--------------|------|-----------------|----------------|--------------|------|-----------------|
| Date Jan 07 | Particulars | J.F. | Amount (Rs.) | Date Jan 07 | Particulars | J.F. | Amount (Rs.) |
| 6 | To Goods A/c | | 1,500 | 3 | By Goods A/c | | 43,000 |
| 16.a | To Cash A/c | | 25,000 | 16.b | By Goods A/c | | 15,000 |
| 31 | To Bal c/d | | 31,500 | | | | 58,000 |
| | | | 58,000 | Feb1 | By Bal B/d | | 31,500 |

| Salary A/c | | | | | | | |
|------------|-------------|------|--------------|------|-------------|------|--------------|
| Dr. | | | | | Cr. | | |
| Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Amount (Rs.) |
| Jan 07 | | | 8,000 | 31 | By Bal C/d | | 8,000 |
| | | | 8,000 | | | | 8,000 |
| Feb 1 | To Bal B/d | | 8,000 | | | | |

| Office Rent A/c | | | | | | | |
|-----------------|-------------|------|--------------|------|-------------|------|--------------|
| Dr. | | | | | Cr. | | |
| Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Amount (Rs.) |
| Jan 07 | | | | 31 | By Bal C/d | | 3,000 |
| | | | 3,000 | | | | 3,000 |
| Feb 1 | To Bal B/d | | 3,000 | | | | |

| Drawings A/c | | | | | | | |
|--------------|-------------|------|--------------|------|-------------|------|--------------|
| Dr. | | | | | Cr. | | |
| Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Amount (Rs.) |
| Jan 07 | | | | 31 | By Bal C/d | | 2,500 |
| | | | 2,500 | | | | 2,500 |
| Feb 1 | To Bal B/d | | 2,500 | | | | |

3. Following balances were extracted from the books of Shri. Mankar as on 1st March, 2007.

| Particulars | Debit (Rs.) | Credit (Rs.) |
|-------------|-------------|--------------|
| Goods A/c | 8,400 | - |
| Capital A/c | - | 18,400 |
| Cash A/c | 15,960 | - |
| Miss. Palak | 19,000 | - |
| Mr. Sujal | - | 13,400 |

| | |
|---------------------|-----|
| Date March 07 | 1. |
| | 4. |
| | 6. |
| | 7. |
| | 10. |

Following transaction took place during the month of March 2007; you are requested to post them in appropriate ledger accounts.

1. Sold goods for cash Rs. 1,300.
4. Bought goods on credit from Sujal at Rs. 6,000 and he allowed trade discount of Rs. 200.
6. Sold goods to Miss Palak Rs. 10,000.
7. Paid to Sujal Rs. 6,400.
10. Received from Miss Palak Rs. 9,000.
15. Distributed goods as free sample Rs. 200.
19. Sold goods to Miss Palak Rs. 5,000.
20. Returned goods from Miss Palak Rs. 600.
24. Furniture purchased for cash Rs. 4,000.
27. Printing charges paid Rs. 700.
30. Bought goods for cash Rs. 1,800.
31. Stock of goods on hand Rs. 7,600.

Solution

In the books of Mankar Journal Entries

| Date March 07 | Particulars | L.F. | Debit Rs. | Credit Rs. |
|---------------------|--|------|--------------|---------------|
| 1. | Cash A/c To Goods A/c (Being Cash Sales) | Dr. | 1,300 | 1,300 |
| 4. | Goods A/c To Sujal A/c (Being Credit purchases from Sujal at a Trade discount of Rs. 200) | Dr. | 5,800 | 5,800 |
| 6. | Palak A/c To Goods A/c (Being credit sales) | Dr. | 10,000 | 10,000 |
| 7. | Sujal A/c To Cash A/c (Being Amount paid on account) | Dr. | 6,400 | 6,400 |
| 10. | Cash A/c To Palak A/c (Being Amount paid on account) | Dr. | 9000 | 9000 |

| | | Recording of Transaction | | | |
|-----|---|--------------------------|--------|--------|---------|
| | | Dr. | | Cr. | Date |
| | | 200 | | 200 | March |
| 15. | Advertisement A/c To Goods A/c (Being goods distributed as free sample) | | 5,000 | 5,000 | 07 |
| 19. | Palak A/c To Goods A/c (Being credit sales) | | 600 | 600 | 1 |
| 20. | Goods A/c To Palak A/c (Being goods returned from Palak) | | 4,000 | 4,000 | 4 |
| 24. | Furniture A/c To Cash A/c (Being Furniture purchased) | | 700 | 700 | 20 |
| 27. | Printing Charges A/c To Cash A/c (Being Printing charges paid) | | 1,800 | 1,800 | 30 |
| 30. | Goods A/c To Cash A/c (Being cash purchased) | | | | 31 |
| | Total | | 44,800 | 44,800 | 1 April |

| | | Cash A/c | | | | | |
|---------|--------------|----------|--------|------|----------------------------|------|--------|
| Date | Particulars | J.F. | Amount | Date | Particulars | J.F. | Amount |
| March | | | (Rs.) | 07 | | | (Rs.) |
| 1 | To Bal B/d | | 15,960 | 7 | By Sujal A/c | | 6,400 |
| 1 | To Goods A/c | | 1,300 | 24 | By Furniture A/c | | 4,000 |
| 10 | To Palak | | 9,000 | 27 | By Printing Charges A/c | | 700 |
| | | | | 30 | By Goods A/c | | 1,800 |
| | | | | 31 | By Bal C/d | | 13,360 |
| 1 April | To Bal B/d | | 26,260 | | | | 26,260 |
| | | | 13,360 | | | | |

| Dr. | Date |
|-----|------------|
| | March |
| | 07 |
| 1 | To E |
| 4 | To S |
| 20 | To I |
| 30 | To |
| 31 | To |
| | |
| | 1 April To |

| Dr. | Date |
|-----|---------|
| | March |
| | 07 |
| 1 | |
| 6 | |
| 19 | |
| | |
| | 1 April |

| Dr. | Date |
|-----|-------|
| | March |
| | 07 |
| 7 | |
| 31 | |
| | |

Cr.

| Dr. | | Goods A/c | | | | Cr. | |
|---------------------|----------------------|-----------|-----------------|---------------------|----------------------|------|-----------------|
| Date March 07 | Particulars | J.F. | Amount (Rs.) | Date March 07 | Particulars | J.F. | Amount (Rs.) |
| 1 | To Bal b/d | | 8,400 | 1 | By Cash A/c | | 1,300 |
| 4 | To Sujal A/c | | 5,800 | 6 | By Palak A/c | | 10,000 |
| 20 | To Palak A/c | | 600 | 15 | By Advertisement A/c | | 200 |
| 30 | To Cash A/c | | 1,800 | 19 | By Palak A/c | | 5,000 |
| 31 | To Profit & Loss A/c | | 7,500 | 31 | By Bal C/d | | 7,600 |
| | | | 24,100 | | | | 24,100 |
| 1 April | To Bal B/d | | 7,600 | | | | |

Palak A/c

Cr.

| Dr. | | Palak A/c | | | | Cr. | |
|---------------------|--------------|-----------|-----------------|---------------------|--------------|------|-----------------|
| Date March 07 | Particulars | J.F. | Amount (Rs.) | Date March 07 | Particulars | J.F. | Amount (Rs.) |
| 1 | To Bal b/d | | 19,000 | 10 | By Cash A/c | | 9,000 |
| 6 | To Goods A/c | | 10,000 | 20 | By Goods A/c | | 600 |
| 19 | To Goods A/c | | 5,000 | 31 | By Bal C/d | | 24,400 |
| | | | 34,000 | | | | 34,000 |
| 1 April | To Bal B/d | | 24,400 | | | | |

Sujal A/c

Cr.

| Dr. | | Sujal A/c | | | | Cr. | |
|---------------------|-------------|-----------|-----------------|---------------------|--------------|------|-----------------|
| Date March 07 | Particulars | J.F. | Amount (Rs.) | Date March 07 | Particulars | J.F. | Amount (Rs.) |
| 7 | To Cash A/c | | 6,400 | 1 | By Bal B/d | | 13,400 |
| 31 | To Bal C/d | | 12,800 | 4 | By Goods A/c | | 5,800 |
| | | | 19,200 | | | | 19,200 |
| | | | | 1 April | By Bal B/d | | 12,800 |

| Advertisement A/c | | | | | | |
|-------------------|--------------|------|--------------|---------------|-------------|------|
| Dr. | Particulars | J.F. | Amount (Rs.) | Date March 07 | Particulars | J.F. |
| | | | 200 | 31 | By Bal C/d | |
| 15 | To Goods A/c | | 200 | | | 200 |
| | | | 200 | | | 200 |
| 1 April | To Bal B/d | | 200 | | 9226291550 | |

| Furniture A/c | | | | | | |
|---------------|-------------|------|--------------|---------------|-------------|-------|
| Dr. | Particulars | J.F. | Amount (Rs.) | Date March 07 | Particulars | J.F. |
| | | | 4,000 | 31 | By Bal C/d | |
| 24 | To Cash A/c | | 4,000 | | | 4,000 |
| | | | 4,000 | | | 4,000 |
| 1 April | To Bal B/d | | 4,000 | | | |

| Printing Charges A/c | | | | | | |
|----------------------|-------------|------|--------------|-------------|-------------|------|
| Dr. | Particulars | J.F. | Amount (Rs.) | Date Mar.07 | Particulars | J.F. |
| | | | 700 | 31 | By Bal C/d | |
| 27 | To Cash A/c | | 700 | | | 700 |
| | | | 700 | | | 700 |
| 1 April | To Bal B/d | | 700 | | | |

| Capital A/c | | | | | | |
|-------------|-------------|------|--------------|---------------|-------------|--------|
| Dr. | Particulars | J.F. | Amount (Rs.) | Date March 07 | Particulars | J.F. |
| | | | 18,000 | 1 | By Bal B/d | |
| | | | 18,400 | | | 18,400 |
| | | | | 1 April | By Bal B/d | |
| | | | | | | 18,400 |

3.5 SUBSIDIARY BOOKS

In earlier times when volume of transactions was very low the businessman used to easily and conveniently record the transactions in journal. But with increase in number of transactions it becomes difficult for a single person to record all the transaction on his own in journal. In that scenario the need of specialisation and subdivision was badly felt. Subdivision of journal was felt necessary because if all the transactions are recorded in same journal then it would become too bulky. It would be

difficult to make entries in journal whereas cash book can work on the various books.

Define Subsidiary Books

The books which record subsidiary details

Types of Subsidiary Books

On the basis of original journal

- i. Purchasing Book
- ii. Sales Book
- iii. Purchase Returns Book
- iv. Sales Returns Book
- v. Cash Book
- vi. Bills Receivable Book
- vii. Bills Payable Book
- viii. Journal Book

| Subsidiary Books |
|---|
| i. Purchase Book (Bought Books) |
| ii. Sales Book (Sold Books) |
| iii. Purchase Returns Book (Return Credit Book) |
| iv. Sales Returns Book (Inward Books) |
| v. Cash Book |
| vi. Bills Receivable Book |
| vii. Bills Payable Book |
| viii. Journal Book |

Merits of Subsidiary Books

Merits of subsidiary books

- i. Specialisation of transaction
- ii. Work can be done by different persons

difficult to make ready reference to journal. And moreover, only one account clerk can work on this journal. So it feels very necessary to make subdivision of journal into various books which helps division of work between several clerks. Each subsidiary book is based on separate, similar type of transaction having same characteristics. For e.g. Purchase book is made to record the purchase transactions of goods only, whereas cash book is made to record cash transactions only.

Define Subsidiary Book

"The books in which journal is subdivided is called as **SUBSIDIARY BOOKS**."

Types of Subsidiary Books

On the basis of different characteristics, and taking into account different needs the original journal is subdivided into following different subsidiary books.

- i. Purchase Book / Bought Book
- ii. Sales Book
- iii. Purchase Return Book / Return Outward Book
- iv. Sales Return Book / Return Inward Book
- v. Cash Book
- vi. Bills Receivable Book
- vii. Bills Payable Book
- viii. Journal Proper

| | Subsidiary Book | Type of Transaction |
|-------|---|---|
| i. | Purchase Book (Bought Book) | Goods purchased on Credit only. |
| ii. | Sales Book | Goods Sold on Credit only. |
| iii. | Purchase Return Book (Return Outward Book) | All return of goods Purchased by businessman from his supplier. |
| iv. | Sales Return Book (Return Inward Book) | All return of goods Sold by businessman to his customer. |
| v. | Cash Book | All Cash Transaction only (including Bank Transactions). |
| vi. | Bills Receivable Book | All bills received to us. |
| vii. | Bills Payable Book | All bills accepted by us. |
| viii. | Journal Proper | All remaining transactions. |

Merits of Subsidiary Books

Merits of subsidiary books is a subjective concept. Still we can note down the some of the common merits as under.

- i. Specialisation is possible as separate book is maintained for each different type of transactions.
- ii. Work can be divided between different account clerks at one time.

- iii. Audit work can be conducted conveniently
- iv. Different clerk can make the ledger postings according to their convenience
- v. It facilitates easy and quick references
- vi. It is helpful in having internal check more effectively and efficiently.
- vii. The detail recording is not easily possible in journal which subsidiary book makes possible.

a. **Purchase Book:** A special book is made / maintained the purchase transactions of the business. But these purchase transactions are sorted according to following two conditions such as, a) Purchase must be of goods only and b) this purchase of goods should be on credit only without making payment in cash. Purchase of goods on credit in which the businessman deals is recorded in this book. *For example:* For grocery shop keeper any grocery item purchased on credit will be recorded in this book, a Two wheeler (any two wheeler bike) dealer purchasing bikes on credit will be recorded in this book. But if these businessman purchase any asset such as if he purchase furniture it will not be recorded in this book as it is the purchase of asset and not a goods. The transactions in this book are recorded on the basis of "Inward Invoice Or Purchase Invoice".

In a nutshell (i.e. in brief) the transaction should fulfill three conditions before it find place in purchase book as under:

- i. Transaction should be of purchase only
- ii. Purchases must be of goods only
- iii. Goods must be purchased on credit only.

Specimen of Purchase Book

In the Books of -----

Purchase Book

| Date | Particulars | INWARD Invoice No. | L.F. | Rs. |
|------|-------------|-----------------------|------|-----|
| | | | | |
| | Total | | | |

- b. **Sales Book:** As similar to Purchase Book, a separate sales book is maintained to record all credit sales. It is also called as sales journal or Sales Day book. A transaction to find place in sales book must comply with three conditions namely

- i.
- ii.
- iii.
- It m
cas
Pro
Inv
- Specim
- Date
- c. Pu
ent
bas
go
of
rea
i.
ii.
iii.
iv.
v.
vi.

- i. The transaction must be of sales only.
- ii. Sales must be of goods only, and
- iii. Goods must be sold on credit only.

It means cash sales of goods are not recorded in sales book but recorded in cash book. In the same way credit sales of asset is recorded through Journal Proper. The transactions in this book are recorded on the basis of "Outward Invoice OR Sales Invoice".

Specimen of Sales Book

In the Books of -----

Sales Book

| Date | Particulars | OUTWARD Invoice No. | L.F. | Rs. |
|------|-------------|------------------------|------|-----|
| | | | | |
| | Total | | | |

- c. **Purchase Return Book:** It is also called as Return Outward Book. In this book entry will be made when businessman returns the goods purchased on credit basis. In other words this book is maintained by businessman to record the goods returned by him to supplier or creditor. This book is written on the basis of Debit Note. Goods may be returned to the supplier for one of the following reasons.

- i. Delayed goods.
- ii. Defective goods.
- iii. If the quality of the goods is inferior.
- iv. If the goods which are received are in damaged conditions.
- v. Goods supplied are not as per the order.
- vi. When excess goods received.

Specimen of Purchase Return Book
 In the Books of -----
 Purchase Return Book

| Date | Particulars | Debit Note No. | L.F. | Rs. |
|------|-------------|----------------|------|-----|
| | | | | |
| | Total | | | |

d. **Sales Return Book Credit Note:** It is also called as Return Inward Book. In this book entry will be made when customer returned the goods sold to him on credit. The goods which are sold on credit and which are returned will find place in this book. Entries in this book are made on the basis of credit Note. The goods may be returned due to any of the following reasons:

- i. The quality of the goods may be inferior etc.
- ii. Damaged goods are supplied
- iii. Goods may not be as per order
- iv. Goods may be defective.

Specimen of Sales Return Book

In the Books of -----
 Sales Return Book

| Date | Particulars | Credit Note No. | L.F. | Rs. |
|------|-------------|-----------------|------|-----|
| | | | | |
| | Total | | | |

e. **Debit Note:** Debit note is sent to the supplier when the goods purchased from him are returned to him.

"A Debit note is a statement sent by the buyer to the supplier giving the full details of the goods returned. It is sent along with the goods. It intimates the supplier that his a/c has been debited by the value of the goods returned to him."

Specimen of "Debit Note"

Debit Note

Name and Address of Buyer / Customer

Note no. :

Date :

To,

Name and Address of supplier

Dear sir,

We hereby inform you that, we have debited your account with Rs. _____ only (Rs. _____ in words) for the goods returned by us as detailed below and for reason given below.

| Invoice No. and Date | Particulars | Quantity | Rate | Amount (Rs.) |
|----------------------|-------------|----------|------|--------------|
| | | | | |
| | | | | |
| | | | | |

Thank You.

Signature

Note : Errors and Omissions if any are excused.

- f. **Credit Note:** A Credit note is sent to a customer when he returns the goods sold to him.

"Credit note is a statement sent by seller to the buyer. It intimates that buyer's account has been credited by the value of goods returned by him."

Specimen of "Credit Note"

Credit Note

Name and Address of Supplier

Date :

Note no.:

To,

Name and Address of customer

Dear sir,

We hereby inform you that, we have credited your account with Rs. _____ only (Rs. _____ only words) for the goods returned by you as detailed below and for the reason given below.

| Invoice No. and Date | Particulars | Quantity | Rate | Amount (Rs.) |
|----------------------|-------------|----------|------|--------------|
| | | | | |
| | | | | |
| | | | | |

Signature

Thank You.

Note : Errors and Omissions if any are excused.

ILLUSTRATION

1. Prepare Purchase Book and Sales Book from the following transactions for the month of Jan. 2008 for Shri Tukaram.
1. Goods of Rs. 5,000 purchased from Mr. Kishor.
 3. Credit purchase of Goods worth Rs. 6,000 from Ram.
 9. Mr. Sham Purchased goods from us worth Rs. 7,500.
 16. Radhesham sold us goods costing Rs. 12,000.
 17. Sold goods to Shamsunder for Rs. 8,800.
 21. Credit sales to Sitaram Rs. 15,000.

Solution

In the Books of Tukaram Purchase Book

| Date Jan.08 | Particulars | INWARD Invoice No. | L.F. | Rs. |
|----------------|-------------|-----------------------|------|--------|
| 1 | Kishor | | | 5,000 |
| 3 | Ram | | | 6,000 |
| 16 | Radhesham | | | 12,000 |
| | Total | | | 23,000 |

Sales Book

| Date Jan.08 | Particulars | OUTWARD Invoice No. | L.F. | Rs. |
|----------------|-------------|------------------------|------|--------|
| 9 | Sham | | | 7,500 |
| 17 | Shamsunder | | | 8,800 |
| 21 | Sitaram | | | 15,000 |
| | Total | | | 31,300 |

2. Write Returns Outwards book and returns Inward book from the following:

2005, May

5. Returned goods, not being according to samples, to Nemani Bros Rs. 200.
8. M and Co. received goods return by us Rs. 95. (Rs.100 Less trade discount Rs.5) Rs. 95.
10. Returned goods to S and Co. being defective Rs. 80.
12. Returned goods to Kulkarni Rs. 60.
17. Ajit and Co. returned goods of Rs. 400.
19. Bhagwat Brothers returned us goods Rs. 400.
20. Hasan returned tea 2 kgs. @ Rs. 40, Rs. 80.
21. Received goods returned by Ingawale Rs. 50.

Solution

| | |
|--------------|-----------|
| 2005, May | |
| 5. | Nemani |
| 8. | M and Co. |
| 10. | S and Co. |
| 12. | Kulkarni |

| | |
|-------------|------------------|
| 2005 May | |
| 17. | Ajit and Co. |
| 19. | Bhagwat Brothers |
| 20. | Hasan |
| 21. | Ingawale |

| | |
|------------------------|--|
| Subsidiary Books | |
| Purchases | |
| Sales Books | |
| Returned Goods Book | |
| Returned | |

| | |
|----------|--|
| 3. Er... | |
| Ja... | |
| 1. | |
| 2. | |
| 3. | |
| 5. | |
| 7. | |
| 8. | |
| 9. | |

Solution

Returned Outward Book

| 2005, May | Particulars | Debit Note No. | L.F. | Rs. |
|-----------|--------------|----------------|-------|-----|
| 5. | Nemani Bros. | | | 100 |
| 8. | M and Co. | | | 95 |
| 10. | S and Co. | | | 80 |
| 12. | Kulkarni | | | 60 |
| | | | Total | 335 |

Returned Inward Book

| 2005 May | Particulars | Credit Note No. | L.F. | Rs. |
|----------|---------------|-----------------|-------|-----|
| 17 | Ajit and Co. | | | 400 |
| 19. | Bhagwat Bros. | | | 400 |
| 20. | Hasan | | | 80 |
| 21. | Ingawale | | | 50 |
| | | | Total | 930 |

Summary

| Subsidiary Books | Source Of Entry | Posting to Account | |
|------------------------|-----------------|---|---|
| | | Debit | Credit |
| Purchases book | Inward Invoice | Purchases A/c (Total) | Each Supplier's A/c (Respective Amount) |
| Sales Book | Outward Invoice | Each Customer's A/c (Respective Amount) | Sales A/c (Total) |
| Returned Outwards Book | Debit Note | Each Supplier's A/c (Respective Amount) | Returned Outwards A/c (Total) |
| Returned Inward Book | Credit Note | Returns Inwards A/c (Total) | Each customer's A/c (Respective Amount) |

3. Enter the following transactions in proper Subsidiary Books of Ramrao.

Jan. 2005.

1. Ramrao purchased goods from Gajananrao Rs. 500.
2. Ramrao sold goods to Laxmanrao Rs. 600.
3. Vyankatrao sold goods to Ramrao Rs. 400.
5. Leelabai purchased goods from Ramrao Rs. 700.
7. Returned goods to Gajananrao Rs. 50.
8. Received goods returned by Laxmanrao Rs. 60.
8. Vyankatrao received goods returned by Ramrao Rs. 40.
8. Leelabai returned goods to Ramrao Rs. 70.

Solution

Purchases Book

| 2005 Jan | Name of Supplier | Inward Invoiced No. | L.F. | Amount Rs. |
|-------------|------------------|------------------------|------|---------------|
| 1. | Gajananrao | | | 500 |
| 3. | Vyankatrao | | | 400 |
| | | Total | | 900 |

Sales Book

| 2005, Jan | Name of Customer | Outward Invoiced No. | L.F. | Amount Rs. |
|--------------|------------------|-------------------------|------|---------------|
| 2. | Laxmanrao | | | 600 |
| 5. | Leelabai | | | 700 |
| | | Total | | 1,300 |

Returns Outward Book

| 2005, Jan | Name of Supplier | Debit Note No. | L.F. | Amount Rs. |
|--------------|------------------|-------------------|------|---------------|
| 7. | Gajananrao | | | 50 |
| 8. | Vyankatrao | | | 40 |
| | | Total | | 90 |

Returns Inward Book

| 2005, Jan | Name of Customer | Credit Note No. | L.F. | Amount Rs. |
|--------------|------------------|--------------------|------|---------------|
| 7. | Laxmanrao | | | 60 |
| 8. | Leelabai | | | 70 |
| | | Total | | 130 |

Dr.

Ledger Postings

Purchase A/c

| Date Jan.05 | Particulars | J.F. | Amount (Rs.) | Date Jan.05 | Particulars | J.F. | Amount (Rs.) |
|----------------|--|------|-----------------|----------------|-------------|------|-----------------|
| 31. | To Sundries as per Purchase Book | | 900 | | | | |
| | | | | | | | |

Dr.

Date
Jan.05

Dr.

Date
Jan.05

Dr.

Date
Jan.05

4.

Solu

200
Apr2.
12

| Dr. | | | | Sales A/c | | | Cr. | |
|----------------|-------------|------|-----------------|----------------|-------------------------------|------|-----------------|--|
| Date Jan.05 | Particulars | J.F. | Amount (Rs.) | Date Jan.05 | Particulars | J.F. | Amount (Rs.) | |
| | | | | 31. | By Sundries as per Sales Book | | 1,300 | |

| Dr. | | | | Return Outward A/c | | | Cr. | |
|----------------|-------------|------|-----------------|--------------------|--|------|-----------------|--|
| Date Jan.05 | Particulars | J.F. | Amount (Rs.) | Date Jan.05 | Particulars | J.F. | Amount (Rs.) | |
| | | | | 31 | By Sundries as per Return Outward Book | | 90 | |

| Dr. | | | | Return Inward A/c | | | Cr. | |
|----------------|---------------------------------------|------|-----------------|-------------------|-------------|------|-----------------|--|
| Date Jan.05 | Particulars | J.F. | Amount (Rs.) | Date Jan.05 | Particulars | J.F. | Amount (Rs.) | |
| 31. | To Sundries as per Return Inward Book | | 130 | | | | | |

4. Enter the following transactions only those that appears in purchases Book, Sales Book, Purchases Returns Book and Sales Returns Books.

2006, April

1. Furniture worth Rs. 1,000 is purchased from Mohite on credit.
2. Purchased goods from Arvind Rs. 1,000.
5. Sold goods to Yadav Rs. 800.
6. Sold good to Bhaskar Rs. 900.
7. Goods worth Rs. 100 were returned by Bhaskar.
9. Manohar purchased from us goods of Rs. 700.
12. Cash sales to Chandulal Rs. 400.
12. Purchased goods of Rs. 2,000 from Dravid.
14. Returned goods to Dravid Rs. 80.
15. Received goods returned by Yadav Rs. 75.
15. Returned goods to Arvind Rs. 150.

Solution

Purchases Book

| 2006, April | Name of Supplier | Inward Invoice No. | L.F. | Amount Rs. |
|----------------|------------------|-----------------------|------|---------------|
| 2. | Arvind | | | 1,000 |
| 12. | Dravid | | | 2,000 |
| | | Total | | 3,000 |

Note: 1. Transaction dated 1st April 2006 is not recorded because it is an asset transaction.

| Sales Book | | | | |
|----------------|------------------|------------------------|-------|---------------|
| 2006, April | Name of Customer | Outward Invoice No. | L.F. | Amount Rs. |
| 5. | Yadav | | | 800 |
| 6. | Bhaskar | | | 900 |
| 9. | Manohar | | | 700 |
| | | | Total | 2,400 |

Note: 1. Transaction dated 12th April 2006 is not recorded because it is a cash transaction.

| Purchases Returns Book | | | | |
|------------------------|------------------|-------------------|-------|---------------|
| 2006, April | Name of Supplier | Debit Note No. | L.F. | Amount Rs. |
| 14. | Dravid | | | 80 |
| 15. | Arvind | | | 150 |
| | | | Total | 230 |

| Sales Returns Book | | | | |
|--------------------|------------------|--------------------|-------|---------------|
| 2006, April | Name of Customer | Credit Note No. | L.F. | Amount Rs. |
| 7. | Bhaskar | | | 100 |
| 15. | Yadav | | | 75 |
| | | | Total | 175 |

5. Enter the following transactions in the Purchases Book, Sales Book, Returns Outwards Book and Return Inward Book of Shri. Shinde.

2006, Jan.

1. Bought goods from Arvind Rs. 8,000. (Invoice no. 120).
3. Sold goods to Shashank of Rs. 5,000 less trade discount 4% Rs. 4,800. (Invoice no. 75).
5. Returned goods to Arvind Rs. 500. (Note No. 18).
8. Arvind sold us goods of Rs. 1,000. (Invoice no. 125).
10. Shashank returned goods Rs. 300 (gross). (Note No. 80).
15. Sold goods to Arun Rs. 2,000. (Invoice no. 60).
18. Returned goods by Arun Rs. 180. (Note No. 85).
20. Goods returned to Arvind Rs. 100. (Note No. 25).

Solution

In the books of Shinde Purchases Books

| 2005 Jan. | Name of Supplier | Inward Invoice No. | L.F. | Amount Rs. |
|--------------|------------------|-----------------------|-------|---------------|
| 1. | Arvind | 120 | | 8,000 |
| 8. | Arvind | 125 | | 1,000 |
| | | | Total | 9,000 |

Sales Book

| 2005, Jan. | Name of Customer | Outward Invoice No. | L.F. | Amount Rs. |
|------------|------------------|------------------------|-------|---------------|
| 3. | Shashank | 75 | | 4,800 |
| 15. | Arun | 60 | | 2,000 |
| | | | Total | 6,800 |

Returns Outward Book

| 2005, Jan | Name of Supplier | Debit Note No. | L.F. | Amount Rs. |
|-----------|------------------|-------------------|-------|---------------|
| 5. | Arvind | 18 | | 500 |
| 20. | Arvind | 25 | | 100 |
| | | | Total | 900 |

Returns Inward Book

| 2005, Jan. | Name of Customer | Credit Note No. | L.F. | Amount Rs. |
|------------|------------------|--------------------|-------|---------------|
| 10. | Shashank | 80 | | 288 |
| 18. | Arun | 85 | | 180 |
| | | | Total | 480 |

6. Prepare necessary subsidiary Books from the following particulars for the month of July, 2005.

1. Sold goods to Sarkar Rs. 1,600.
8. Purchased goods from Pradip worth Rs. 2,000 less trade discount 5%.
10. Sarkar returned goods Rs. 60.
15. Sold good worth Rs. 1,500 less trade discount 3% to Magar.
16. Magar returned goods worth Rs. 100.
18. Purchased goods worth Rs. 1,400 from Vasudev.
20. Returned goods of Rs. 175 to Pradip and of Rs. 140 to Vasudev.

Solution

Business Accounting

3 > 42

Recording of Transaction

| In the books of Subhash Purchases Book | | | | |
|--|------------------|--------------------|------|------------|
| 2005, July | Name of Supplier | Inward Invoice No. | L.F. | Amount Rs. |
| 8. | Pradip | | | 1,900 |
| 18. | Vasudev | | | 1,400 |
| | | Total | | 3,345 |

| Sales Book | | | | |
|------------|------------------|----------------------|------|------------|
| 2005, July | Name of Customer | Outward Invoiced No. | L.F. | Amount Rs. |
| 1. | Sarkar | | | 1,800 |
| 15. | Magar | | | 1,455 |
| | | Total | | 3,055 |

Returns Inward Book

| 2005, July | Name of Customer | Credit Note No. | L.F. | Amount Rs. |
|------------|------------------|-----------------|------|------------|
| 10. | Sarkar | | | 60 |
| 16. | Magar | | | 97 |
| | | Total | | 157 |

Returns Outward Book

| 2005, July | Name of Supplier | Debit Note No. | L.F. | Amount Rs. |
|------------|------------------|----------------|------|------------|
| 20. | Pradip | | | 175 |
| 20. | Vasudev | | | 140 |
| | | Total | | 315 |

7. Enter the following credit transactions in the books of H and Co.
2006, Feb.

- Purchased goods from M/s. Basu and Co. as per their invoice No. P-6/49, Rs.5,000/- less trade discount 3%.
- Sold goods to Sugandha Traders as per Invoiced No.612 Rs. 3,000.
- Issued a debit note no. 45 to Karuna and Co. Rs.100
- Goods returned by Bondre Rs.2,000 vide credit Note No.101.
- Purchased from D. More goods of Rs. 5,000 vide their Invoice No.120.
- Sold goods to Pranav and Co. Rs. 2,000 subject to trade discount 3% Invoiced No. 720.

Solution

2006,
Feb.

1.
3.

2006,
Feb.

1.
3.

2006,
Feb.

2.

2006,
Feb.

2.

7. Fr
an

4.
6.

7.

11.

Solution

In the books of H and Co. Purchases Book

| 2006, Feb. | Name of Supplier | Inward Invoiced No. | L.F. | Amount Rs. |
|---------------|------------------|------------------------|-------|---------------|
| 1. | Basu and Co. | P-6/49 | | 4,850 |
| 3. | D. More | 120 | | 5,000 |
| | | | Total | 9,850 |

Sales Book

| 2006, Feb. | Name of Customer | Outward Invoiced Rs. | L.F. | Amount Rs. |
|---------------|------------------|-------------------------|-------|---------------|
| 1. | Sugandha Traders | 612 | | 3,000 |
| 3. | Pranav and Co. | 720 | | 1,940 |
| | | | Total | 4,940 |

Returns Outward Book

| 2006, Feb. | Name of Supplier | Debit Note No. | L.F. | Amount Rs. |
|---------------|------------------|-------------------|-------|---------------|
| 2. | Karuna and Co. | 45 | | 100 |
| | | | Total | 100 |

Returns Inward Book

| 2006, Feb. | Name of Customer | Credit Note No. | L.F. | Amount Rs. |
|---------------|------------------|--------------------|-------|---------------|
| 2. | Bondre | 101 | | 2,000 |
| | | | Total | 2,000 |

7. From the following transactions prepare necessary Subsidiary books of Mr. Vinayak and post them into ledger accounts.

March 2008

4. Sold goods to Sameer worth Rs. 15,000 @ 10% T.D.
6. Purchased goods from Shailesh worth Rs. 20,000 @ 15% T.D.
7. Half of the above goods sold to Sanjay at 50% profit on cost.
10. Sameer returned goods worth Rs. 2,000 (gross).
12. Received an enquiry from Mr. Sandeep for goods worth Rs. 10,000 for an article.

13. Sanjay returned half of the goods: the same were returned to Shailesh.
 17. Received an order from Santosh for goods worth Rs. 50,000.
 20. Goods sent to Sagar as free samples. The value of goods Rs. 1,000.
 22. Executed Santosh's order and allowed him 20% T.D.
 23. Mr. Amar bought goods from Vinayak for Rs. 12,000 @ 5% T.D.
 27. Mr. Amar returned goods worth Rs. 2,850 (Net).
 28. Ramesh invoiced goods to us worth Rs. 30,000.

Solution

In the books of Mr. Vinayak
Purchases Book

| 2006, Mar. | Name of Supplier | Inward Invoiced No. | L.F. | Amount Rs. |
|---------------|------------------|------------------------|------|---------------|
| 6 | Shailesh | | | 17,000 |
| 28 | Ramesh | | | 30,000 |
| | Total | | | 47,000 |

Sales Book

| 2006, Mar. | Name of Customer | Inward Invoiced No. | L.F. | Amount Rs. |
|---------------|------------------|------------------------|------|---------------|
| 4 | Sameer | | | 13,500 |
| 7 | Sanjay | | | 12,750 |
| 22 | Santosh | | | 40,000 |
| 23 | Amar | | | 11,400 |
| | Total | | | 77,650 |

Purchases Return Book

| 2006, Mar. | Name of Supplier | Debit Note No. | L.F. | Amount Rs. |
|---------------|------------------|----------------|------|---------------|
| 13 | Shailesh | | | 4,250 |
| | Total | | | 4,250 |

Sales Return Book

| 2006, Mar. | Name of Customer | Credit Note No. | L.F. | Amount Rs. |
|---------------|------------------|-----------------|------|---------------|
| 10 | Sameer | | | 1800 |
| 13 | Sanjay | | | 6375 |
| 27 | Amar | | | 2850 |
| | Total | | | 11025 |

| Ledger Postings Purchase A/c | | | | | | | | |
|---------------------------------|----------------------------------|-----------------------------------|------|--------------|------|-------------|------|-----|
| Dr. | Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Cr. |
| | 31 st March, 06 | To Sundry as per Purchase Book | | 47,000 | | | | |

| Sales A/c | | | | | | | | |
|-----------|------|-------------|------|--------------|----------------------------------|--------------------------------|------|--------|
| Dr. | Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Cr. |
| | | | | | 31 st March, 06 | By Sundry as per Sales Book | | 77,650 |

| Purchase Return A/c | | | | | | | | |
|---------------------|------|-------------|------|--------------|----------------------------------|---|------|-------|
| Dr. | Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Cr. |
| | | | | | 31 st March, 06 | By Sundry as per Purchase Return Book | | 4,250 |

| Sales Return A/c | | | | | | | | |
|------------------|----------------------------------|--|------|--------------|------|-------------|------|-----|
| Dr. | Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Cr. |
| | 31 st March, 06 | To Sundry as per Sales Return Book | | 11,025 | | | | |

| Shailesh A/c | | | | | | | | |
|--------------|----------------------------------|---------------------------|------|--------------|---------------------------------|-----------------|------|-------|
| Dr. | Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Cr. |
| | 13 th March, 06 | To Purchase Return A/c | | 4250 | 6 th March, 06 | By Purchase A/c | | 17000 |

| Ramesh A/c | | | | | | | | |
|------------|------|-------------|------|--------------|-------------------------------|-----------------|------|-------|
| Dr. | Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Cr. |
| | | | | | 28 th March, 06 | By Purchase A/c | | 30000 |

Sameer A/c

| Dr. | Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Cr. Amount (Rs.) |
|-----|---------------------------|--------------|------|--------------|----------------------------|---------------------|------|------------------|
| | | | | 13500 | | | | |
| | 4 th March, 06 | To Sales A/c | | | 10 th March, 06 | By Sales Return A/c | | 1800 |

Sanjay A/c

| Dr. | Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Cr. Amount (Rs.) |
|-----|---------------------------|--------------|------|--------------|----------------------------|---------------------|------|------------------|
| | | | | 12,750 | | | | |
| | 7 th March, 06 | To Sales A/c | | | 13 th March, 06 | By Sales Return A/c | | 6375 |

Santosh A/c

| Dr. | Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Cr. Amount (Rs.) |
|-----|----------------------------|--------------|------|--------------|------|-------------|------|------------------|
| | | | | 40,000 | | | | |
| | 22 nd March, 06 | To Sales A/c | | | | | | |

Amar A/c

| Dr. | Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Cr. Amount (Rs.) |
|-----|----------------------------|--------------|------|--------------|----------------------------|---------------------|------|------------------|
| | | | | 11,400 | | | | |
| | 23 rd March, 06 | To Sales A/c | | | 27 th March, 06 | By Sales Return A/c | | 2,850 |

8. The following transactions took place in the month of Jan. 2006, from these transactions prepare proper subsidiary books for Mr. S. Pawar

Jan 2006,

2. Bought from sumatilal goods worth Rs. 40,000/- less 20% Trade Discount.
5. Returned goods to sumatilal worth Rs. 4,000 (gross).
8. Sold goods to Bansilal for Rs. 5,000/- of 10% T.D.
10. Bansilal returned goods worth Rs. 200 (Net).
13. Instructed Hiralal to dispatch goods worth Rs. 6,000, @15% T.D. to Vadilal on our account.
15. Received an invoice from Hiralal for goods dispatched by him to Vadilal.

17. Invoiced Vadilal for goods supplied to him by Hiralal for Rs. 5,900/-.
19. Vadilal returned goods worth Rs. 1,000 (Net) and we, in turn, returned the goods to Hiralal for Rs. 900/- (Net).
20. Bought goods from Pankajlal for Rs. 3,000/- and invoiced the same to pyarelal at 20% above cost.
25. Pyarelal sent Debit Note along with goods for Rs. 500 (net) and we, in turn, sent a Credit Note to Pankajlal for Rs. 416 (net).

Solution

Purchases Book

| Jan.2006 | Name of Supplier | Inward Invoiced No. | L.F. | Amount Rs. |
|----------|------------------|------------------------|------|---------------|
| 2. | Sumatilal | | | 32,000 |
| 15. | Hiralal | | | 5,100 |
| 20. | Pankajlal | | | 3,000 |
| | Total | | | 40,100 |

Sales Book

| Jan.2006 | Name of Supplier | Inward Invoiced No. | L.F. | Amount Rs. |
|----------|------------------|------------------------|------|---------------|
| 8. | Bansilal | | | 4,500 |
| 17. | Vadilal | | | 5,900 |
| 20. | Pyarelal | | | 3,600 |
| | Total | | | 14,000 |

Purchase Return Book

| Jan.2006 | Name of Supplier | Inward Invoiced No. | L.F. | Amount Rs. |
|----------|------------------|------------------------|------|---------------|
| 5. | Sumatilal | | | 3,200 |
| 19. | Hiralal | | | 900 |
| 25. | Pankajlal | | | 416 |
| | Total | | | 4,516 |

Sales Return Book

| Jan.2006 | Name of Supplier | Inward Invoiced No. | L.F. | Amount Rs. |
|----------|------------------|------------------------|------|---------------|
| 10. | Bansilal | | | 200 |
| 19. | Vadilal | | | 1,000 |
| 25. | Pyarelal | | | 500 |
| | Total | | | 1,700 |

| Purchase A/c | | | | | Cr. | | | |
|--------------|-----------------------------|-----------------------------------|------|--------------|------|-------------|------|--------------|
| Dr. | Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Amount (Rs.) |
| | 31 st Jan, 06 | To Sundry as per Purchase Book | | 40,100 | | | | |

| Sales A/c | | | | | Cr. | | | |
|-----------|------|-------------|------|--------------|-----------------------------|--------------------------------|------|--------------|
| Dr. | Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Amount (Rs.) |
| | | | | | 31 st Jan, 06 | By Sundry as per Sales Book | | 14,000 |

| Purchase Return A/c | | | | | Cr. | | | |
|---------------------|------|-------------|------|--------------|-----------------------------|---|------|--------------|
| Dr. | Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Amount (Rs.) |
| | | | | | 31 st Jan, 06 | By Sundry as per Purchase Return Book | | 4,516 |

| Sales Return A/c | | | | | Cr. | | | |
|------------------|--------------------------------|--|------|--------------|------|-------------|------|--------------|
| Dr. | Date | Particulars | J.F. | Amount (Rs.) | Date | Particulars | J.F. | Amount (Rs.) |
| | 31 st Jan, 06 | To Sundry as per Sales Return Book | | 1,700 | | | | |

3.6 CASH BOOK

Accounting Transactions of every business includes the most important Cash Transaction. Cash Transaction plays a very important role in every business. Even in the ledger we have seen the Cash Account, which records the receipt and payment of cash transaction. If one observes it will notice that the volume of cash transaction in any business is very high. So many a times it is advisable to prepare and maintain a separate cash book instead of passing journal entry and then posting it to ledger account. Cash book fulfill the need of both the journal as well as ledger.

Meaning of Cash Book

Cash book is one of the subsidiary books. This subsidiary book specially records only the cash transactions. Cash book is a book of original entry since transactions are recorded from the original source document for the first time in this book. As well as the cash book is a ledger in sense, as it is formatted as like as Cash A/c and it records the receipt and payment of cash on Receipt side and payment side respectively and finally at the end of the period it gives the cash balance (i.e. closing balance).

Types of Cash Book

Types of Cash Book
Depending upon the volume, need and variety of transaction involved the following different types of cash book can be maintained:

1. Single Column cash book or Simple Cash Book
 2. Double column Cash Book
i.e. Double column Cash Book with Cash and Bank columns
 3. Triple Column Cash Book
i.e. Triple Column Cash Book with Cash, Bank and Discount columns
 4. Petty Cash Book

Now we'll see one by one above types.

**** Single Column cash book or Simple Cash Book**

**** Single Column cash book or Simple Cash Book:**

In businesses where volume of transactions are small Simple Column cash book or Simple Cash Book plays very vital role in controlling and recording the transactions. As we have seen the cash book is the original entry it has much more importance. All sales and purchase transactions as well as payment of bills n cash are recorded in this book, which gives the total figure of sales made, purchases made and payment of bill made during the whole day and helps in finding out the closing cash balance that is cash in hand at the end of the day. The cash book has two side i.e left hand side called as RECEIPT SIDE of cash book and Right hand side called as PAYMENT SIDE of the cash book.

Specimen of Simple Cash Book:

| Specimen of Simple Cash Book: | | | | | | | Simple Cash Book | | | Payment Side | |
|-------------------------------|-------------|------|------|-----------------|------|-------------|------------------|------|-----------------|--------------|--|
| Receipt side | | | | | | | | | | | |
| Date | Particulars | R.No | L.F. | Amount (Rs.) | Date | Particulars | V.No. | L.F. | Amount (Rs.) | | |
| | | | | | | | | | | | |
| | Total | | | | | Total | | | | | |

The above cash book contains the following different columns:

| Receipt Side | Payment Side |
|----------------|----------------|
| Date | Date |
| Particulars | Particulars |
| Receipt Number | Voucher Number |
| Ledger Folio | Ledger Folio |
| Amount | Amount |

ILLUSTRATION

1. You are required to record the following transactions in the cash book of Miss. Palak for the month of April 2008.
1. Opening cash Balance Rs. 3000.
 4. Goods sold for cash Rs. 1500
 5. Received Rs. 520 from Trupti
 7. Paid Rs. 850 to Aamir
 9. Cash sales Rs. 1800
 12. Cash purchases Rs. 2200
 20. Paid Rs. 750 to Akash
 24. Rs. 1000 deposited in to the bank
 27. Received Rs. 500 from Deepa
 28. Palak withdraws Rs. 250 for her personal purpose.
 31. Paid salary Rs. 500

Solution

In the books of Miss. Palak

Simple Cash Book

| Receipt side | | | | Simple Cash Book | | | | Payment Side | | |
|--------------------|---|-----------|------|------------------|--------------------|---|-----------|--------------|-----------------|--|
| Date Apr. 08 | Particulars | R. No. | L.F. | Amount (Rs.) | Date Apr. 08 | Particulars | V. No. | L.F. | Amount (Rs.) | |
| 1 | To Bal B/d | | | 3,000 | 7 | By Aamir A/c | | | | |
| 4 | To Sales A/c (Being sales) | | | 1,500 | | (Being Amount paid on account) | | | 750 | |
| 5 | Cash | | | 520 | 12 | By Purchases A/c | | | 2,200 | |
| 9 | To Trupti A/c (Being Amount received on account) | | | 1,800 | 20 | (Being Cash Purchases) | | | 750 | |
| 27 | Cash | | | 500 | 24 | By Akash A/c (Being amount paid on account) | | | 1,000 | |
| | To Cash A/c (Being sales) | | | | 28 | By Bank A/c (Being amount deposited into the bank) | | | 500 | |
| | Cash | | | | 31 | By Drawings A/c | | | 500 | |

| | | | | | | | | |
|-------|--|--|-------|----|---|--|--|-------|
| | | | | 31 | (Being amount withdrawn for personal use) By Salary A/c (Being Salary paid) By Bal C/d | | | 1,620 |
| Total | | | 7,320 | | Total | | | 7,320 |

Double column cash book with cash and Bank column

The cash book shown above has certain limitations. Present business scenario involves banking transactions on larger volume. But the simple cash book does not serve for those banking transactions. Hence, cash book with two columns i.e. one for cash and second for bank is needed. Bank A/c (i.e. Current Account in a bank) facilitates any time deposit and any time withdrawal from bank at businessman's requirement. Bank provides cheque facility to the businessman which helps easy and safe transactions.

The **Contra Entry** can be seen in the Double column cash book with cash and Bank column and in Triple Column Cash Book with Cash, Bank and Discount Column. Contra entry means when one transaction appears on both the sides of cash book it is called as contra entry. For e.g. Cash Deposited into the bank and Cash withdrawn from bank. In both of these transaction the entry is passed as under:

- | | |
|-------------|------------|
| 1. Bank A/c | Dr. xxx |
| To Cash A/c | xxx |
| 2. Cash A/c | Dr. xxx |
| To Bank A/c | xxx |

Effects of Both of these transactions are given

1. Receipt Side of the cash book and
2. On payment side of cash book.

The contra entry is located by writing 'C' in L.F. Column.

Contents of Double column cash book with cash and Bank column

| Receipt Side | Payment Side |
|----------------|----------------|
| Date | Date |
| Particulars | Particulars |
| Receipt Number | Voucher Number |
| Ledger Folio | Ledger Folio |
| Cash column | Cash column |
| Bank column | Bank column |

| Specimen of Double Cash Book | | | | | | |
|------------------------------|-------------|-----------|-------------------------|------|--------------------------|------|
| Receipt side | | | Double Column Cash Book | | Recording of Transaction | |
| Date | Particulars | R. No. | L. F. | Cash | Bank | Date |
| | | | | | | |
| | | | | | | |

3 > 52

Recording of Transaction

Payment Side

2. Enter the following transactions in the books of Mr. Prakash for the month of April 2006
1. Cash in hand Rs. 3400 and cash at bank Rs. 4,500.
 2. Cheque issued to petty cashier Rs. 100.
 3. Received a cheque of Rs. 450 and cash Rs. 1,250 from Mr. Vijay.
 4. Payment made by cheque of Rs. 350 to Bhupesh.
 5. Vijay's cheque deposited into the bank.
 6. Cash sales Rs. 890.
 7. Cash deposited into the bank Rs. 500.
 9. A cheque of Rs. 2,100 received from Mr. Suresh and it was endorsed to Mahesh.
 12. Direct deposit by customer Mr. Mule into our bank account Rs. 8m500.
 15. Direct payment by bank Rs. 500 on account of Insurance premium.
 19. Withdrawn from bank Rs. 1,200 for personal use.
 20. A cheque received of Rs. 500 for interest on investment and it was immediately deposited into the bank.
 23. Paid wages Rs. 110.
 26. A crossed cheque received of Rs. 5,000 for the sale of a plant.
 29. A cheque issued to the supplier for cash purchases of Rs. 2,800.
 30. Traveling expenses paid Rs. 700.
 30. Salary Paid Rs. 1,200.

Solution

Receipt

Date

1
3

5

6

7

9

12

20

26

Solution

| Receipt Side | | | | In the books of Mr. Prakash Double Column Cash Book | | | | | Payment Side | | | |
|--------------|---|-----------|----------|--|-------|------|---|-----------|--------------|-------|------------|--|
| Date | Particulars | R. No. | L. F. | Cash | Bank | Date | Particulars | V. No. | L. F. | Cash | Bank | |
| 1 3 | To Bal B/d To Vijay A/c (Being Cash & Cheque receivedon A/c) | | | 3,400 1,700 | 4,500 | 2 | By Petty Cash A/c (Beingcheque issued) By Bhupesh A/c | | | | 100 350 | |
| 5 | To Cash A/c (Being Vijay's cheque deposited into the bank) | C1 | | | 450 | 4 | (Being cheque issued on account) By Bank A/c | | C1 | 450 | | |
| 6 | To Sales A/c (Being Cash Sales) | | | 890 | | 5 | (Being Vijaycheque deposited into the bank) | | | | | |
| 7 | To Cash A/c (Being Amount deposited into Bank) | C2 | | | 500 | 7 | By Bank A/c (Being Amtdeposited into Bank) | | C2 | 500 | | |
| 9 | To Suresh A/c (Being cheque received on a/c | | | 2,100 | | 9 | ByMaheshA/c (Being Mahesh's cheque endorsed) | | | 2,100 | | |
| 12 | To Mule A/c (Being Direct deposit by our customer) | | | | 8,500 | 15 | By Insurance Premium A/c (Being Payment made by bank) | | | | 500 | |
| 20 | To Interest on Investment A/c (Being chq. Received for Interest on Investment) | | | | 500 | 19 | By Drawings A/c (Being Amount withdrawn for personal use) | | | | 1,200 | |
| 26 | To Plant A/c (Being plant sold) | | | | 5,000 | 23 | By Wages A/c (Being wages paid) | | | 110 | 2,800 | |
| | | | | | | 29 | By Purchases A/c (Being cash purchases) | | | 700 | | |

| Business Accounting | | 3 > 54 | | Recording C. | |
|---------------------|------------|--------------|--|--------------|--------------|
| | | 30 | By Travelling Expenses A/c (Being Travelling Expenses paid) | | 1,200 |
| | | 30 | By Salary A/c (Being salary paid) | | 3,030 14,800 |
| | | 30 | By Bal. C/d | | |
| | | | | | 8,090 19,450 |
| | | 8,090 19,450 | | | |
| | | 3,030 14,800 | | | |
| 1 May | To Bal B/d | | | | |

Triple Column Cash Book With Cash, Bank and Discount Column

Triple Column Cash Book With Cash, Bank and Discount Columns

As the business is offering discounts to its customers it is required to be recorded in the books of account else account will not show the true picture of transactions. Discounts offered or received are of two types a) Trade Discount and b) Cash Discount. The Discount given by Company / Whole seller to the trader in catalog / Printed price to enable him to sale the goods at M.R.P and to earn profit margin is called as **Trade Discount**. The price to be paid OR Invoice is prepared after deducting this discount. Therefore, entries in the books of accounts are made after deducting this discount. Hence, **Trade Discount is never recorded in the books of account.** This discount is allowed in both Credit as well as Cash Transactions.

Whereas, the **Cash Discount** is given by creditor to debtor to make the payment earlier or within stipulated time limit. This means that cash discount is received when cash payment made to our creditor and it is being our gain it is credited and on the other hand cash discount is allowed when cash payment is received from our debtor and it is being our loss it is to be debited. It is to be noted that cash discount as the name suggest is allowed only in cash transactions. For this one more column is added to the Cash book i.e. DISCOUNT column. It is important to say that as the Cash and Bank columns are closed and balanced, discount column is not to be balanced.

Contents of Triple column cash book with cash, Bank and Discount column:

| Receipt Side | Payment Side |
|-----------------|-----------------|
| Date | Date |
| Particulars | Particulars |
| Receipt Number | Voucher Number |
| Ledger Folio | Ledger Folio |
| Discount Column | Discount Column |
| Cash column | Cash column |
| Bank column | Bank column |

**Specimen of Double
Receipt Side**

| 7 | Particulars | R. No. | L. F. | DIS |
|---|-------------|-----------|----------|-----|
| | | | | |
| | | | | |

3. Enter the following
Discount column

 1. Cash in hand
 2. Issued a cheque
 5. Received a bank deposit slip
 6. Bank has given instructions to credit my account Rs. 2,500/-
 9. Cash Sales
 11. Paid to P. S. D.
 14. Cash Purchase
 15. A cheque received
 19. Our debts
 23. A crossed account
 31. Paid Sales Tax
 31. Paid off

Solution

| Receipt Side | | Trip |
|--------------|--|-----------|
| Date | Particulars | R. No. |
| Aug. 08 | | |
| 1. 5 | To Bal B/d To Sujal A/c (Being Cheque Received & deposited into Bank & discount allowed) | |
| 9 | To Sales A/c (Being cash sales) | |

Specimen of Double Cash Book

3. Enter the following transactions in triple column cash book with Cash, Bank and Discount column for Miss. Tanishka for August 2008.

 1. Cash in hand Rs. 2,000 and bank Over Draft Rs. 30,000.
 2. Issued a cheque to Ramesh for Rs. 25,000 in full settlement of Rs. 26,000.
 5. Received a cheque from Sujal for Rs. 32500 in full settlement of Rs. 33,000 and deposited into the bank.
 6. Bank has paid insurance Premium from account under our standing instructions
Rs. 2,500 not recorded in cash book.
 9. Cash Sales Rs. 35,000.
 11. Paid to Petty cashier Rs.1,000.
 14. Cash Purchases Rs. 9,000.
 15. A cheque issued for Rs. 70,000 on account of purchase of a Plant and Machinery.
 19. Our debtor Mr. Shastri directly deposited into our account Rs. 48,000.
 23. A crossed cheque received Mr. Sanskar for Rs. 20000 in full settlement of his account Rs. 22,000.
 31. Paid Salary Rs. 3,000.
 31. Paid office Rent by cheque Rs. 5,500.

Solution

Attack of Tanishka

| Recording of Transaction | | | | | | | | | |
|--------------------------|---|--|--|--|--------|--------|---|--------|----------|
| Business Accounting | | | | | 3 > 56 | | | | |
| 15 | To Sheet A/c (Being amount directly debited) | | | | 35,000 | 11 | Insurance Premium paid) By Petty Cash A/c (Being paid for petty cash A/c) | | 70,000 |
| 23 | To Sanjukta A/c (Being a crossed cheque received & discount allowed) | | | | | 14 | By Purchase A/c (Being cash purchases) | 3,000 | 3,000 |
| 31 | To Bal Old | | | | | 15 | By Plant & Machinery A/c (Being Machinery paid) | 24,000 | |
| | | | | | | 31 | By Salary A/c (Being salary paid) | | |
| | | | | | | 31 | By Office Rent A/c (Being office rent paid) | 1,000 | 37,000 |
| | | | | | | 31 | By Bal old | | 1,31,000 |
| | | | | | 2,500 | 37,000 | | | |

Enter the following transactions in triple column cash book with Cash, Bank and Discount column for Miss. Aayushi Traders for March 2008.

1. Cash in hand Rs. 80,000 and Cash at Bank Rs. 1,70,000.
3. Issued a cheque to the petty cashier Rs. 5,000.
6. Sold goods to Jayprakash and amount received Rs. 8,500 in cash and Rs. 11,500 by cheque
7. Brokerage Rs. 7,000 received by cheque and it was immediately banked.
8. Rs. 4,000 withdrew from bank for office expenses.
10. Corporation tax paid Rs. 6,500 by cheque.
12. Bank debited pass book for insurance premium Rs. 8,000.
15. Rs. 1500 received from Pranita in full settlement of her account of Rs. 1,600.
18. Jayprakash's cheque deposited into the bank.
20. Goods of Rs. 15,000 purchased from Anjali @ 20% T.D. (Trade Discount) and 25% amount paid in cash.
28. Salary paid Rs. 12,000.
30. Paid into the bank all cash in excess of Rs. 40,000.

Solution

Receipt Side

| Date Mar. 08 | Particulars |
|--------------|---|
| 1 | To Bal B/d To Sales A/c (Being Cash sales) |
| | To Comm. A/c (Being Cheque received & deposited into the bank) |
| | To Bank A/c (Being cash withdrawn for office use) |
| | To Pranita A/c (Being cash received on account) |
| | To Cash A/c (Being Jayprakash's cheque deposited into bank) |
| | To Cash A/c (Being excess amt. deposited into bank) |
| | |

3.7

Every b
reason as w
deposit sur
and many
with bank
which acco
The Bank
made by ba
in pass boo

Though
recording a
verification

Solution**Receipt Side**

In the books of Miss. Aayushi Traders
Triple Column Cash Book with Cash, Bank and Discount Column
Side

Payment

| Date Mar. 26 | Particulars | R. No. | L. F. | Discount | Cash | Bank | Date Mar. 08 | Particulars | R. No. | L. F. | Discount | Cash | Bank | |
|--------------------|--|-----------|----------|----------|----------------|--------|--------------------|--|-----------|----------|----------|------|--------|------|
| 1 | To Bal Bld To Sales A/c (Being Cash sales) To Comm. A/c (Being Cheque received & deposited into the bank) To Bank A/c (Being cash withdrawn for office use) To Pranita A/c (Being cash received on account) To Cash A/c (Being Jayprakash's cheque deposited into bank) To Cash A/c (Being excess amt. deposited into bank) | | | | 80000 20000 | 170000 | | By Petty Cash A/c (Being cheque issued to petty cashier) By Cash A/c (Being cash withdrawn for office use) By Corporation Tax (Being cheque issued for the payment of Corporation Tax) By Insurance Premium A/c (Being Insurance Premium paid by bank) By Bank A/c (Being Jayprakash's cheque deposited into bank) By Purchase A/c (Being Goods Purchased @ 20% T.D. & 25% amt. paid) By Salary A/c (Being Salary paid) By Bank A/c (Being excess amt. deposited into the bank) By Bal C/d | | C1 | | | | 5000 |
| | | | C1 | 100 | 8000 | 7000 | | | | | | | 8000 | |
| | | | C2 | | | 1500 | | | | | | | 6500 | |
| | | | C3 | | | | 11500 | | | | | | 3000 | |
| | | | C4 | | | | 43000 | | | | | | 12000 | |
| | | | | | | | | | | | | | 43000 | |
| | | | | | | | | | | | | | 40000 | |
| | | | | | | | | | | | | | 204000 | |
| | | | | | 109500 | 231500 | | | | | | | 109500 | |
| | | | | | | | | | | | | | 231500 | |

3.7**BANK RECONCILIATION STATEMENT**

Every businessman usually opens and maintains an account in bank for safety reason as well as he gets various valuable services provided by banks such as he can deposit surplus money into the bank, he can have cheque and demand draft facilities and many more. A businessman who opens a bank account maintains a cash book with bank column in it, to have cross check of his bank transactions. The bank in which account is opened issues a book called *bank Pass Book* to the account holder. The *Bank Pass Book* gives the details of bank transactions. Entry in pass book is made by bank only and businessman can not make any entry, correction or alteration in pass book.

Though the cash book and pass book both gives details of bank transaction, the recording authorities are different. Therefore, it is necessary to have periodical cross verification of the transactions and bank balance shown by these two books. In fact

the balances of these two books must be equal and tally at any point of time, but in actual practice it does not. The balance of these two books varies from each other, it may not agree with each other due to number of reasons. It is quite possible that either bank or businessman might have given wrong effect to a particular transaction or might have omitted to record any of the transaction.

"Bank Reconciliation Statement" is a statement prepared to reconcile the difference between Cash Book balance and Pass book balance on a particular date indicating the reasons which have caused difference between these two."

System of Recording

A student should have knowledge of the system of recording the bank transactions in cash book and pass book. A businessman records the transactions in cash book whereas bank records in its pass book. The receipts are recorded on the debit side (i.e. on the *Receipt Side*) and all the payments on the credit side (i.e. *Payment side*) of the cash book. At the same time bank maintains a separate ledger account for each account holder or we can say its customer. This ledger maintained and supplied by bank to its customers is called as Pass Book. In this ledger all cash transaction (i.e. money deposited and withdrawal) transacted by account holder are properly recorded. As the transactions are recorded by both the parties, but these are recorded on the opposite side of each other, for e.g. the entry made by businessman on the debit side of the cash book will appear on the credit side of the pass book and the entry appearing on the credit side of the cash book appears on the debit side of the pass book.

We will see an hypothetical example:

1. Rs. 12,500 deposited into the bank by Mr. Amar

This transaction will be recorded by the businessman in his cash book as under:

| | | | |
|----------|-----|--------|----|
| Bank A/c | Dr. | 12,500 | -- |
|----------|-----|--------|----|

| | | |
|-------------|----|--------|
| To Cash A/c | -- | 12,500 |
|-------------|----|--------|

Where as, this transaction will be recorded by the bank in it's pass book as under:

| | | | |
|----------|-----|--------|----|
| Cash A/c | Dr. | 12,500 | -- |
|----------|-----|--------|----|

| | | |
|-------------|----|--------|
| To Amar A/c | -- | 12,500 |
|-------------|----|--------|

From the above entries we can understand the opposite effects given by businessman and bank to their respective account.

2. Mr. Amar withdraws Rs. 7,000 from bank

This transaction will be recorded by the businessman in his cash book as under:

| | | | |
|-------------|-----|-------|----|
| Cash A/c | Dr. | 7,000 | -- |
| To Bank A/c | -- | 7,000 | |

Where as, this transaction will be recorded by the bank in its pass book as under:

| | | | |
|-------------|-----|-------|----|
| Amar A/c | Dr. | 7,000 | -- |
| To Cash A/c | -- | 7,000 | |

From the above entries we can understand the opposite effects given by businessman and bank to their respective account. Hence, when cash book shows a debit balance, pass book shows credit balance and vice versa.

Now from the above discussion, journal entries we can say that in normal situation cash book balance must agree with the pass book balance because the same entries are recorded in both the books. Apart from this these two balances do not agree with each other due to various reasons as discussed below.

The reasons of disagreement between the balances shown by the Cash book and Bank Pass Book.

In broad sense we can see following reasons for disagreement:

- i. **Cheque issued but not presented for payment into the bank:** Many time businessman makes payment by cheque to its creditors. But of the cheques issued to creditors or others some of the cheques are not presented for payment for any reason. For example; a cheque issued to Mr. John Rs. 10,000 on 29th March 2007 which he presented for payment in to the bank on 3rd April 2007. While taking the balances we find that the transaction is recorded in cash book but not recorded in pass book and it creates a difference of Rs. 10,000 in the balance of both books.
- ii. **Cheque deposited into the bank but not collected and credited into the bank:** A businessman receives various cheques from his customers against amount due from them and he use to deposit the same cheques into the bank for the purpose of collection. But the bank takes some time to collect the amount of cheques it may take one or more days even to collect the amount. This delay in collection causes the difference in balance of cash book and pass book. For e.g. a cheque of Rs. 25,000 deposited into the bank on 28th March 2007 but bank collect and credit the same on 5th April 2007. And if the Bank Reconciliation statement is prepared on 31st March 2007, then we will find that the transaction is recorded in cash book but not in pass book and it creates a difference of Rs. 25,000 in the balance of both the book
- iii. **Direct payment by bank under standing instruction from customer:** Bank provides different services to customers such as payment of insurance premium, Rent and others under standing instruction from customer and makes a debit entry in customers account immediately, but the customer may forget to

pass entry in the cash book which leads to difference in the pass book and cash book balance.

- iv. **Interest allowed and credited by the bank:** Bank usually makes the periodical calculation of interest on customers credit balance. Such interest is credited to the customers account but the customer who is not having knowledge of this do not pass the entry in his cash book. In this case there is credit entry in bank pass book but there is no corresponding entry in cash book which leads to difference in balances of both books.
 - v. **Interest and expenses charged and debited by bank:** Bank charges interest on overdraft balance and charges for services provided to customer. These interest and charges are debited to customers account but under lack instruction to customers there is no corresponding entry in cash book. This causes difference in cash Book and pass book balance.
 - vi. **Mistakes and Errors:** Some times either bank clerk or accountant of a businessman commits some mistakes while recording the transaction in either of the book which causes the difference in cash book and Pass book balance.
 - vii. **Direct deposit by a customer into bank account of businessman:** Some times it happens that a customer directly pays the amount into the account of businessman and fails to inform the businessman. For this a credit entry appears in pass book but no corresponding entry found in cash book which causes a difference in cash book balance and pass book balance.
- And some other reasons such as dishonour of bills discounted with bank, dishonour of cheque received or issued etc causes difference in cash book balance and pass book balance.

Specimen form of Bank Reconciliation Statement

In the books of -----

Bank Reconciliation Statement as on -----

| Particulars | Rs. | Rs. |
|--|-----|-----|
| Bank Balance as per Cash Book as on ----- | | |
| Add: _____ | | |
| _____ | | |
| _____ | | |
| Less: _____ | | |
| _____ | | |
| _____ | | |
| Bank Balance as per Bank Pass Book as on ----- | | |

** In problem balance as per any of the book may be given and balance as per another book may asked to ascertain. In this context variety of problem may be asked such as:

- i. Bank Balance (debit balance) as per cash book is given.
- ii. Bank Balance (credit balance) as per pass book is given.
- iii. Bank over draft (credit balance) as per cash book is given.
- iv. Bank over draft (debit balance) as per pass book is given.

ILLUSTRATION

1. The Cash book of Shri. Vyas showed a debit balance of Rs.10,800/- on 31st December, 2006. But his Bank Pass Book showed all together a different balance and on comparing his Cash Book and Pass Book you find the following reasons:

1. Cheques amounting to Rs.6,400 issued but not presented for payment before 31st December, 2006.
2. Cheques paid into Bank but not collected and credited before 31st December, 2006, amounted to Rs.3,400 .
3. Bank charges Rs.40 debited in the pass book, did not appear in cash Book.
4. Interest credited by Bank Rs.700 did not appear in cash book.

You are requested to prepare a bank reconciliation statement so as to show bank balance as per bank pass book.

Solution

In the books of Shri. Vyas
Bank Reconciliation Statement as on 31st December, 2006

| Particulars | Rs. | Rs. |
|--|-------|--------|
| Bank Balance as per Cash Book as on 31-12-06 | | 10,800 |
| Add: Cheques issued but not presented for payment before 31-12-2006 | 6,400 | |
| Interest credited by bank but not entered in cash book | 700 | 7,100 |
| | | 17,900 |
| Less: Cheques paid into bank but not collected and credited by bank before 31-12-2006. | 3,400 | |
| Bank charges debited in the pass book but not entered in the cash book. | 40 | 3,440 |
| | | 14,460 |
| Bank Balance as per Bank Pass Book as on 31-12-2006. | | |

2. On 31st March 2008 the Cash book of Mr. Mahendra showed a debit balance of Rs. 6,790. On cross checking with pass book he finds the following facts.
1. Out of the four cheques totaling Rs. 5,500 issued on 29th March 2008 only a cheque of Rs. 3,200 has been presented and debited by bank in pass book upto 31st March, 2008.
 2. Two cheques of Rs. 1,800 and Rs. 4,200 respectively were deposited into bank but only a cheque of Rs. 4,200 was credited before 31st March, 2008.
 3. A cheque of Rs. 270 deposited and credited by bank was recorded as Rs. 217 in the cash book.
 4. As per our standing instruction bank made direct payment of insurance premium amounting to Rs. 350 had not been entered in cash book.
 5. Bank charges Rs. 35 and Bank interest Rs. 730 appearing in the pass book not found in cash book.

Solution

In the books of Mr. Mahendra
Bank Reconciliation Statement as on 31st March, 2008

| Particulars | Rs. | Rs. |
|--|-------|--------------|
| Bank Balance as per Cash Book as on 31-03-08 | | 6,790 |
| Add: Cheques issued but not presented for payment before 31-03-2008 | 2,300 | |
| Interest credited by bank but not entered in cash book | 730 | |
| Cheque deposited and credited by bank wrongly recorded in cash book | 53 | 3,083 |
| | | 9,873 |
| Less: Cheques paid into bank but not collected and credited by bank before 31-12-2008. | 1,800 | |
| Bank charges debited in the pass book but not entered in the cash book. | 35 | |
| Insurance premium paid by bank appeared in pass book only | 350 | 2,185 |
| Bank Balance as per Bank Pass Book as on 31-03-2008 | | 7,688 |

3. On 30th September, 2006 the cash book of M/s Ambani Bros. showed a bank balance of Rs. 4,000.
1. Cheques sent to bank for collection of Rs. 20,000 before 30th September, 2006 but only two cheques of Rs. 8,000 and Rs. 4,000 respectively only are collected and credited in the month of September, 2006.
 2. Cheque issued for Rs. 10,000 in the month of September but the cheque of Rs. 6,000 presented for payment in October 2006.
 3. The following entries were passed in the pass book before 30th September, 2006 but no corresponding entry was found in cash book.
 - Bank has charged Rs. 120 as interest and commission Rs. 65.
 - Dividend on investment in shares collected by bank Rs. 1,100.
 - Rs. 550 paid as insurance premium.

Solution

Bank Balance a
Add: Cheque
Dividend

Less: Cheque
Insurance
Interest

Bank balance

4. From
Recon
Rs.1,5
- 1.
- 2.
- 3.
- 4.
- 5.

Solution

Bank bal
Add
i. Chequ
ii. L.I.C P
iii. Cheq
entry for

Less

- i. Chec
ii. Divid

Bank ba

Solution

In the books of M/s Ambani Bros.

Bank Reconciliation Statement as on 30th Sept. 2006

| Particulars | Rs. | Rs. |
|---|-------|--------|
| Bank Balance as per Cash book as on 30th Sept. 2006 | | 4,000 |
| Add: Cheque issued but not presented for payment upto 30th Sept. 2006 | 6,000 | |
| Dividend on investment collected by bank not appeared in cash book | 1,100 | 7,100 |
| | | 11,100 |
| Less: Cheque sent to bank for collection but not collected and credited by bank | 8,000 | |
| Insurance premium paid by bank not found in cash book | 550 | |
| Interest and commission charged by bank appeared in pass book only | 185 | 8,735 |
| Bank balance as per pass book as on 30th Sept. 2006 | | 2,365 |

4. From the following information given by the accountant of Patel Bros. prepare a Bank Reconciliation Statement as on 31st March, 2006. Pass book shows credit balance Rs. 1,50,000.

1. Cheques issued but not presented for payment by creditor Rs. 10,000/-.
2. Cheques amounting to Rs. 35,000 deposited into bank but were not collected before 31st March, 2006.
3. Rs. 10,000 were directly paid by bank as LIC premium as per our instruction was not recorded in cash book.
4. Dividend Rs. 5,000 collected by bank and credited in the pass book was not recorded in cash book.
5. A cheque of Rs. 5,000 received and paid into bank on 25th March was dishonoured and returned by bank on 1st April. No entry was made in the cash book regarding dishonour of the cheque.

Solution

In the books of Patel Bros.

Bank Reconciliation Statement as on 31st March, 2006

| Particulars | Rs. | Rs. |
|---|--------|----------|
| Bank balance as per pass book | | 1,50,000 |
| Add | | |
| i. Cheque deposited but not cleared | 35,000 | |
| ii. LIC Premium directly paid by bank | 10,000 | |
| iii. Cheque deposited in bank, dishonoured but no Corresponding entry for dishonour found in cash book. | 5,000 | 50,000 |
| | | 2,00,000 |
| Less | | |
| i. Cheque issued but not presented for payment | 10,000 | |
| ii. Dividend directly collected by bank | 5,000 | 15,000 |
| Bank balance as per Cash Book as on 31st March, 2006 | | 1,85,000 |

5. Pass book of Ravi Industries showed a credit balance of Rs. 8,750 on 31st March, 2008. From the following particulars prepare a Bank Reconciliation Statement showing the balance as per cash book as on 31st March, 2008.
1. Out of the cheques of Rs. 4,200 deposited into bank till 31st March, 2008, cheques worth Rs. 1500 were realised upto 31st March, 2008.
 2. Cheques issued prior to 31st March, 2008 but presented after that date amounted to Rs. 2,600.
 3. Pass book shows that a bill receivable of Rs. 3,000 has been collected by bank for which no entry found in the cash book.
 4. Bank paid Rs. 450 as Membership subscription of Trade Association appeared in pass book only.
 4. Bank Charges Rs. 30 wrongly recorded as Rs. 300 in cash book.

Solution

In the books of Ravi Industries
Bank reconciliation Statement as on 31st March, 2008

| Particulars | Rs. | Rs. |
|---|-------|--------|
| Bank balance as per pass book | | 8,750 |
| Add | | |
| Cheque deposited into the bank but not collected by the bank | 2,700 | |
| Membership subscription of Trade Association paid by bank | 450 | 3,150 |
| Appeared in pass book only | | |
| Less | | |
| Cheques issued but not presented for payment until 31/3/08 | 2,600 | |
| Bill receivable collected and credited by bank not found in Cash Book | 3,000 | 11,900 |
| Bank charges wrongly recorded in cash book | 270 | 5,870 |
| Bank Bal as per Cash Book as on 31st March, 2008 | | 6,030 |

6. From the following particulars, ascertain the Bank Balance as per Pass Book of Mr. Ranjit Singh as at 30th April 2006.

1. Cash Book Balance (overdraft) Rs. 11,000.
2. Several cheques totaling Rs. 7,000 were issued in April. Of these cheques for Rs. 2,000 only were encashed prior to 30th April.
3. Several cheques totaling Rs. 5,000 were sent for collection in April. Of these cheques valued at Rs. 3,500 were credited after 30th April.
4. The bank Pass Book showed a debit of Rs. 200 in respect of a dishonoured bill.
5. Transfer from current account to saving account Rs. 1,000.
6. A wrong debit given by the banker Rs. 120.
7. Bills payable discharged by the bank but not entered in the cash book Rs. 3,000.

8. Cheque deposited in the bank and cleared but not recorded in cash book Rs. 2,000.
9. Cheque received and recorded in the cash book but not sent to the bank for collection Rs. 1,000.
10. A Cheque Rs. 500 issued to Damania and Co. was entered twice in cash book.
11. A sum of Rs. 700 withdrawn from the bank for personal use was not entered in the Cash Book.
12. A sum of Rs. 500 for cheque issued and presented for payment was duly entered in Cash Book in Cash column.

Solution

In the books of Mr. Ranjit
Bank reconciliation Statement as on 30th April, 2006

| Particulars | Rs. | Rs. |
|--|-------|--------|
| Bank over draft as per Cash book | | 11,000 |
| Add | | |
| i. Cheque deposited but not collected by bank. | 3,500 | |
| ii. Bill dishonoured debited only in pass book. | 200 | |
| iii. Transfer from current account to saving account. | 1,000 | |
| iv. Wrong debit given by Bank in pass book only. | 120 | |
| v. Bills payable discharged by the bank in pass book but not Deposited. | 3,000 | |
| vi. Cheque received and recorded in the cash book but not deposited. | 1,000 | |
| vii. Drawings by proprietor for personal use not recorded in cash book. | 700 | 10,000 |
| viii. Cheque issued and presented for payment wrongly entered in cash column of cash book. | 500 | |
| | | 21,000 |
| Less | | |
| i. Cheques issued but not encashed. | 5,000 | |
| ii. Cheques deposited and cleared, but not recorded in cash book. | 2,000 | |
| iii. Cash book payment side overcast. | 500 | 7,500 |
| Bank Balance as per Pass Book (Overdraft) | | 13,520 |

7. The Pass book of Shri. Jain showed a debit balance (Over Draft) of Rs.10,800/- on 31st December, 2006. But his Bank Pass Book showed all together a different balance and on comparing his Cash Book and Pass Book you find the following reasons:
1. Cheques amounting to Rs.6,400 issued but not presented for payment before 31st December, 2006.
 2. Cheques paid into Bank but not collected and credited before 31st December, 2006, amounted to Rs.3,400.
 3. Bank charges Rs.40 debited in the pass book did not appear in cash Book.
 4. Interest credited by Bank Rs.700 did not appear in cash book.
- You are requested to prepare a bank reconciliation statement so as to show bank balance as per bank pass book.

Solution

In the books of Shri. Jain
Bank Reconciliation Statement as on 31st December, 2006

| Particulars | Rs. | Rs. |
|---|-------|--------|
| Bank Over Draft per Pass Book as on 31-12-06 | | 10,800 |
| Add: Cheques issued but not presented for payment before 31-12-2006 | 6,400 | |
| Interest credited by bank but not entered in cash book | 700 | 7,100 |
| | | 17,900 |
| Less: Cheques paid into bank but not collected and credited by bank before 31-12-2006 | 3,400 | |
| Bank charges debited in the pass book but not entered in the cash book | 40 | 3,440 |
| | | 14,460 |
| Bank Over draft be as per Cash Book as on 31-12-2006 | | |

8. Prepare Bank reconciliation as on 31st July, 2005.

1. Bank over draft as per Pass book Rs.30,000/-
2. Cheques issued in July of Rs.15,000 of which cheque for Rs.3,000/- were encashed in July.
3. Cheques issued in July of Rs. 5,000 of which cheques of Rs. 2,000 were not encashed in July.
4. A Cheque issued to Ravi for Rs. 69 is encashed and recorded in cash book Rs.96/-
5. A cheque of Rs. 2,000 issued to Sanjay is encashed by him, was recorded in cash book column.
6. A cheque of Rs.5,000 received from Sunil not deposited with bank till the end of month.
7. A cheque of Rs.500 received from Rahul deposited with bank recorded twice in cash book.

Solution

Bank Over Draft as
Add:
1. Cheques issued
2. Cheques issued
3. Cheque issued

Less
1. Cheque rece
2. Cheque rece
3. Cheque issu
book as per

Bank over dra

9. On 31st Prepar
1.
2.
3.
4.
5.

Solution

Bank Bal
Add: C
In
B

Less: I

Bank

Solution

Bank Reconciliation Statement as on 31st July, 2006

| Particulars | Rs. | Rs. |
|--|--------|--------|
| Bank Over Draft as per Pass Book | | 30,000 |
| Add: | | |
| 1. Cheques issued but not presented for payment | 12,000 | |
| 2. Cheques issued but not presented for payment | 2,000 | |
| 3. Cheque issued, wrong amount shown in cash book (96-69) | 27 | 14,027 |
| | | 44,027 |
| Less | | |
| 1. Cheque received but not deposited | 5,000 | |
| 2. Cheque received twice recorded in cash book | 500 | |
| 3. Cheque issued and encashed wrongly shown in cash column in cash book as per Pass book | 2,000 | 7,500 |
| Bank over draft as per cash book | | 36527 |

9. On 31st March, 2008 the cash book of Subhash showed a credit balance of Rs. 18,100. Prepare a Bank Reconciliation statement as on that date from the following details:
- Cheque amounting to Rs. 10,000 were paid into bank, of these, cheques amounting to Rs. 8,400 were cleared and credited by the bank in the pass book.
 - Cheques amounting to Rs. 12,000 were drawn, of which cheques amounting to Rs. 10,800 were presented for payment.
 - The bank had collected interest of Rs. 2,400 on investment. This amount was not shown in the cash book.
 - A customer had paid Rs. 1,750 directly into the bank account. Mr. Subhash have no entry for this in his cash book.
 - Bank had charged interest of Rs. 465 and bank charges of Rs. 140. These were recorded only in the pass book.

Solution

In the books of Subhash
Bank Reconciliation Statement as on 31st March, 2008

| Particulars | Rs. | Rs. |
|---|-------|--------|
| Bank Balance as per Cash Book | | 18,100 |
| Add: Cheques deposited but not collected by bank | 1,600 | |
| Interest charged by bank appeared by bank pass book only | 465 | |
| Bank charges charged by bank appeared in pass book only | 140 | 2,205 |
| | | 20,305 |
| Less: Interest on investment collected by bank appeared in pass book only | 2,400 | |
| Direct deposit by customer not recorded in cash book. | 1,750 | |
| Cheque issued but not presented for payment in bank | 1,200 | 5,350 |
| Bank Bal as per pass book as on 31st March, 2008 | | 14,955 |

10. Bank account as per pass book of Miss Palak shows a credit balance of Rs. 6,168 as on 31st Dec. 2007. From the following details ascertain the bank balance as per cash book.
1. A debtor of Miss Palak has deposited Rs. 500 directly into the bank account of Miss. Palak on 31st Dec. 2007 for which no entry found in cash book.
 2. Bank has collected dividend of Rs. 100 on Palak's investment got recorded in pass book only.
 3. Bank has charged Rs. 25 for bank service charges not found in cash book.
 4. Interest of Rs. 55 credited by bank in pass book do not found place in cash book.
 5. Two cheques of Rs. 458 and Rs. 760 were paid into the bank in Dec. 2007 but they were not collected and credited in the pass book by the bank until 31st Dec. 2007.
 6. Three cheques of Rs. 1065, Rs. 545 and Rs. 335 were issued on 25th Dec. 2007 to creditors and Suppliers out of which 1) The cheque of Rs. 335 was presented to the bank on 31st Dec. 2007 2) The cheque for Rs. 545 was presented on 2nd Jan. of the next year, 3) and the cheque for Rs. 1065 was pick pocketed and hence could not be banked.

Solution

In the books of Subhash
Bank Reconciliation Statement as on 31st March, 2008

| Particulars | Rs. | Rs. |
|---|-------|-------|
| Bank Balance as per Cash Book | | 6,168 |
| Add: Cheques deposited into the bank but not collected & credited by bank upto 31 st Dec. 2007 | 1,218 | |
| Bank charges entered in pass book but not in cash book | 25 | 1,243 |
| | | 7,411 |
| Less: Cheques issued but not presented for payment | 1,610 | |
| Dividend on investment collected by bank but appeared in pass book only | 100 | |
| Interest credited by bank in our pass book does not found in cash book | 55 | |
| Direct deposit by our debtor in our bank account found | 500 | 2,265 |
| Bank Bal as per pass book as on 31 st March, 2008 | | 5,146 |

3.8**DEPRECIATION****Introduction**

Every business concern acquires and holds certain fixed assets like Land, Building, Plant, Machinery, Furniture and Fixture, Computer etc. for productive and non productive purpose. These assets are always used for long term in the business. They are bought with the view to use them in the course of the business for a long period of time. Due to the use of the fixed assets, the value declines. Shrinkage in the

book value of fixed assets continuing decline

Define Depreciation

The word 'Depreciation' which means 'decrease' in value of fixed Assets due to wear and tear.

According to William Pickford, 'Depreciation is the loss in the quality / quantity of an asset.

The need and Objectives of Depreciation

Providing for depreciation

i. To provide for depreciation

ii. To ascertain true value of asset

iii. To present true position of business

iv. To ascertain true profit or loss

v. To spread the cost over the useful life of asset

The difference between book value and market value

i. The value of asset may decrease

ii. Due to wear and tear

iii. Due to obsolescence

iv. Due to damage

v. Due to change in market conditions

Formation of Depreciation Fund

Different types of depreciation

i. Depreciation based on cost

ii. Depreciation based on market value

book value of fixed asset is of permanent and continuing nature. Such permanent and continuing decline in value of fixed assets is called depreciation.

Define Depreciation

The word 'Depreciation' has been derived from the Latin word 'Depreciation' which means 'decline in value'. Therefore, 'Depreciation' means decline in the value of fixed Assets due to wear and tear.

According to Carter, "Depreciation as the gradual and permanent decrease in the value of an asset from any cause whatsoever".

William Pickles defines, "Depreciation is the permanent and continuing diminution in the quality / quantity of the value of an asset".

The need and reasons of charging depreciation

Providing the depreciation on fixed assets is needed due to following reasons:

- To provide funds for replacement of such assets.
- To ascertain true profit or loss.
- To present a true financial position of the concern.
- To ascertain proper cost of the product.
- To spread over the cost of the fixed asset over the useful life of that assets.

The different reasons for charging depreciation can be given as under.

- The value of the asset declines due to its wear and tear.
- Due to changing fashions, or new developments or new inventions, the assets may become obsolete.
- Due to passage or afflux of time.
- Due to depletion of sources.
- Due to accident, such as fire or earthquake etc.
- Due to the lower market price.

Formula for calculating the depreciation under Fixed Instalment Method

$$\text{Depreciation} = \frac{\text{Cost of Asset} - \text{Scrap Value}}{\text{Life of Asset}}$$

Different Methods of Charging Depreciation

Depreciation may be charged by the following methods.

- Fixed Installment Method (Straight Line Method OR Original Cost Method).
- Reducing Balance Method (Diminishing Balance Method or Written Down Value Method).

i. **Fixed Installment Method:** It is also known as Straight Line Method or Equal Installment Method OR Original Cost Method. Under this method the amount of depreciation remains same during life time of an asset. A Fixed percentage on original cost of asset is calculated and deducted from such asset every year till the balance of assets account reduces to zero or to its scrap value at the end of the estimated useful life.

$$\text{Amount of Depreciation} = \frac{\text{Original cost of Asset-Scrap Value}}{\text{Estimated Life of Asset}}$$

Merits

- a. Easy to understand and calculate.
- b. The book value of the Asset will be reduced to zero.
- c. The amount of the Depreciation charged to profit and loss account is equal in all the years.
- d. It is suitable to leasehold properties and patents.
- e. This method is recognized by the Companies Act, 1956 for providing depreciation for limited companies.

Demerits

- a. The expenses incurred for repairing and renewals are not taken into account.
- b. Effective utilisation of the asset is not considered.
- c. It does not take into account the cost by way of interest on the money invested.
- d. If there is additions to the assets, different calculations are required which is complicated and cumbersome.

ii. **Reducing Balance Method:** It is known as Diminishing Balance Method or written down Method. Under this method of depreciation the amount of depreciation reduces year after year. Under this method depreciation is charged on the asset's value which is shown in the book in the beginning of the year. The Book Value of the assets can be brought down to its residual value or break up value at the end of its life.

Merits

- a. The expenses for the use of the asset are scientifically provided. Under this method the depreciation amount at the beginning is more whereas the repairing and renewal expenses are less. Thereafter the depreciation amount becomes lower and repairing and renewal expenses will be higher. Hence profit and loss account is equally debited every year.
- b. No need for separate calculation whenever the new addition in the asset is made as the depreciation is calculated on the balance amount.

- c. This method is easy to understand and to follow; hence it is a popular method.
- d. This method is recognised by the business community as well as by Income Tax Act, 1961.

Demerits

- a. The value of asset never becomes zero.
- b. If the depreciation is included in cost of production then there is variation in cost of product year after year.
- c. Determining the correct amount and rate of depreciation is difficult under this method.
- d. It does not take into account the cost by way of interest on the money invested.

PRACTICAL SOLVED PROBLEMS (FIXED INSTALMENT METHOD)

1. Dream Homes Ltd. purchased a machinery of Rs. 50,000 on 1st Jan. 2005. Another machinery was purchased on 1st Jan, 2006 for Rs. 40,000. Company decided to charge depreciation at 10% p.a. under fixed installment method on 31st Dec. every year.
Prepare Machinery A/c and Depreciation A/c for three years and pass journal entries in the books of Dream Homes Ltd.

Solution

In the books of Dream Homes Ltd.
Machinery A/c

| Dr. | Particulars | JF | Amt | Date | Particulars | JF | Cr. |
|--------|--------------------|----|--------|----------|---------------------|----|--------|
| 1.1.05 | To Cash /Bank A/c | | 50,000 | 31.12.05 | By Depreciation A/c | | 5,000 |
| | | | | 31.12.05 | By Bal C/d | | 45,000 |
| 1.1.06 | To Bal B/d | | 50,000 | | | | 50,000 |
| 1.1.06 | To Cash / Bank A/c | | 45,000 | 31.12.06 | By Depreciation A/c | | 9,000 |
| | | | 40,000 | 31.12.06 | By Bal C/d | | 76,000 |
| | | | 85,000 | | | | 85,000 |
| 1.1.07 | To Bal B/d | | 76,000 | 31.12.07 | By Depreciation A/c | | 9,000 |
| | | | | 31.12.07 | By Bal C/d | | 67,000 |
| | | | 76,000 | | | | 76,000 |

| Dr. | Date | Particulars | Depreciation A/c | | Date | Particulars | JF | Cr. Amt. |
|-----|----------|------------------|------------------|-------|----------|---------------------------|----|-------------|
| | | | JF | Amt | | | | |
| | 31.12.05 | To Machinery A/c | | 5,000 | 31.12.05 | By Profit and Loss A/c | | 5,000 |
| | | | | 5,000 | | | | 5,000 |
| | 31.12.06 | To Machinery A/c | | 9,000 | 31.12.06 | By Profit and Loss A/c | | 9,000 |
| | | | | 9,000 | | | | 9,000 |
| | 31.12.07 | To Machinery A/c | | 9,000 | 31.12.07 | By Profit and Loss A/c | | 9,000 |
| | | | | 9,000 | | | | 9,000 |

In the books of Dream Homes Ltd.
Journal Entries

| Date | Particulars | Dr. | L.F. | Dr.(Rs.) | Cr.(Rs.) |
|----------|--|-----|------|-----------------|-----------------|
| 1.1.05 | Machinery A/c To Cash /Bank A/c (Being Machinery purchased) | | | 50,000 | 50,000 |
| 31.12.05 | Depreciation A/c To Machinery A/c (Depreciation charged at 10% p.a. under fixed installment method) | Dr. | | 5,000 | 5,000 |
| 31.12.05 | Profit and Loss A/c To Depreciation A/c (Being depreciation transferred) | Dr. | | 5,000 | 5,000 |
| 01.01.06 | Machinery A/c To Cash /Bank A/c (Being Machinery purchased) | Dr. | | 40,000 | 40,000 |
| 31.12.06 | Depreciation A/c To Machinery A/c (Depreciation charged at 10% p.a. under fixed installment method) | Dr. | | 9,000 | 9,000 |
| 31.12.06 | Profit and Loss A/c To Depreciation A/c (Being depreciation transferred) | Dr. | | 9,000 | 9,000 |
| 31.12.07 | Depreciation A/c To Machinery A/c (Depreciation charged at 10% p.a. under fixed installment method) | Dr. | | 9,000 | 9,000 |
| 31.12.07 | Profit and Loss A/c To Depreciation A/c (Being depreciation transferred) | Dr. | | 9,000 | 9,000 |
| | Total | | | 1,36,000 | 1,36,000 |

2. Sonali purchased a machinery of Rs. 95,000 on 1.1.06 and spent Rs. 5,000 for its installation immediately. She purchased one more machinery for Rs. 60,000 on 30.06.06. On 31.03.08 she sold the machinery for Rs. 60,000. On the same day she purchased new machinery purchased on 1.1.06 for Rs. 75,000. Sonali charged depreciation at 10% p.a. under straight line method on 31st Dec. every year.

Prepare Machinery A/c and Depreciation A/c for the years 06, 07 and 08.

Solution

In the books of Sonali
Machinery A/c

| Dr. | Particulars | JF | Amt | Date | Particulars | JF | Cr. |
|---------|--------------------|----|----------|----------|---|----|----------|
| 1.1.06 | To Cash / Bank A/c | | 95,000 | 31.12.06 | By Depreciation A/c (10,000 + 3,000) | | |
| 1.1.06 | To Cash / Bank A/c | | 5,000 | | By Bal C/d | | 13,000 |
| 30.6.06 | To Cash / Bank A/c | | 60,000 | 31.12.06 | | | 1,47,000 |
| | | | 1,60,000 | | | | 1,60,000 |
| 1.1.07 | To Bal B/d | | 1,47,000 | 31.12.07 | By Depreciation A/c | | |
| | | | | 31.12.07 | By Bal C/d | | 18,000 |
| | | | 1,47,000 | | | | 1,31,000 |
| 1.1.08 | To Bal B/d | | 1,31,000 | 31.3.08 | By Depreciation A/c | | |
| 31.3.08 | To Cash / Bank A/c | | 80,000 | 31.3.08 | By Cash / Bank A/c | | 2,500 |
| | | | | 31.3.08 | By Profit & Loss A/c | | 75,000 |
| | | | | 31.12.08 | By Depreciation A/c (6,000 + 6,000) | | 2,500 |
| | | | | 31.12.08 | By Bal C/d | | 12,000 |
| | | | 2,11,000 | | | | 1,19,000 |
| 1.1.09 | To Bal B/d | | 1,19,000 | | | | 2,11,000 |

Depreciation A/c

| Dr. | Particulars | JF | Amt | Date | Particulars | JF | Cr. |
|----------|------------------|----|--------|----------|----------------------|----|--------|
| 31.12.06 | To Machinery A/c | | 13,000 | 31.12.06 | By Profit & Loss A/c | | 13,000 |
| | | | 13,000 | | | | 13,000 |
| 31.12.07 | To Machinery A/c | | 16,000 | 31.12.07 | By Profit & Loss A/c | | 16,000 |
| | | | 16,000 | | | | 16,000 |
| 31.03.08 | To Machinery A/c | | 2,500 | 31.12.08 | By Profit & Loss A/c | | 14,500 |
| 31.12.08 | To Machinery A/c | | 12,000 | | | | 14,500 |
| | | | 14,500 | | | | 14,500 |

Working Note

Calculation of Profit OR Loss on sale of Machinery

| Date | Amount | Particulars |
|----------|----------|--------------|
| 01.01.06 | 1,00,000 | Purchase |
| 31.12.06 | 10,000 | Depreciation |
| 01.01.07 | 90,000 | Balance |
| 31.12.07 | 10,000 | Depreciation |
| 31.01.08 | 80,000 | Balance |
| 31.03.08 | 2,500 | Depreciation |
| 31.03.08 | 77,500 | Balance |
| 31.03.08 | 75,000 | Sold |
| 31.03.08 | 2,500 | Loss |

3. Sushil purchased furniture of Rs. 2,00,000 on 1.1.2000 on credit from Godrej India Ltd. On 1st October 2000 he purchased additional furniture of Rs. 80,000 against a cheque. On 30th June 2002 he sold the furniture purchased on 1st Oct. 2000 at Rs. 67,000. On the same day he purchased one more furniture of Rs. 1,50,000. Sushil charge depreciation at 12% p.a. under Original Cost Method on 31st December every year. Pass Journal entries in the books of Sushil for 4 years.

Solution

In the books of Sushil

Journal Entries

| Date | Particulars | JF | Dr.(Rs.) | Cr.(Rs.) |
|----------|---|----|----------|----------|
| 1.1.00 | Furniture A/c Dr. To Godrej India Ltd. A/c (Being furniture purchased on credit) | | 2,00,000 | 2,00,000 |
| 1.10.00 | Furniture A/c Dr. To Bank A/c (Being additional furniture purchased) | | 80,000 | 80,000 |
| 31.12.00 | Depreciation A/c Dr. To Furniture A/c (Being Depreciation charged at 12% p.a. under Original Cost Method) | | 26,400 | 26,400 |
| 31.12.00 | Profit and Loss A/c Dr. To Depreciation A/c (Being depreciation transferred to Profit and Loss A/c) | | 26,400 | 26,400 |
| 31.12.01 | Depreciation A/c Dr. To Furniture A/c (Being Depreciation charged at 12% p.a. under Original Cost Method) | | 33,600 | 33,600 |
| 31.12.01 | Profit and Loss A/c Dr. To Depreciation A/c (Being depreciation transferred to Profit and Loss A/c) | | 33,600 | 33,600 |

| | | | | | |
|--------------|---|-----|--|-----------------|-----------------|
| 30.06.02 | Depreciation A/c To Furniture A/c (Being Depreciation charged at 12% p.a. under Original Cost Method) | Dr. | | 4,800 | 4,800 |
| 30.06.02 | Cash / Bank A/c To Furniture A/c (Being furniture sold) | Dr. | | 67,000 | 67,000 |
| 30.06.02 | Furniture A/c To Profit and Loss A/c (Being profit on sale of furniture transferred) | Dr. | | 3,800 | 3,800 |
| 30.06.02 | Furniture A/c To Cash / Bank A/c (Being new furniture purchased) | Dr. | | 1,50,000 | 1,50,000 |
| 31.12.02 | Depreciation A/c To Furniture A/c (Being Depreciation charged at 12% p.a. under Original Cost Method) | Dr. | | 33,000 | 33,000 |
| 31.12.02 | Profit and loss A/c To Depreciation A/c (Being Depreciation transferred) | Dr. | | 37,800 | 37,800 |
| Total | | | | 6,96,400 | 6,96,400 |

Working Note

Calculation of Profit OR Loss on sale of Machinery

| Date | Amount | Particulars |
|----------|--------|--------------|
| 01.10.00 | 80,000 | Purchase |
| 31.12.00 | 2,400 | Depreciation |
| 01.01.01 | 77,600 | Balance |
| 31.12.01 | 9,600 | Depreciation |
| 01.01.02 | 68,000 | Balance |
| 30.06.02 | 4,800 | Depreciation |
| 30.06.02 | 63,200 | Balance |
| 30.06.02 | 67,000 | Sold |
| 30.06.02 | 3,800 | Profit |

4. Vision Traders purchased a machinery on 1st April, 2002 for Rs. 4,00,000. On 1st October in the same year another machinery costing Rs. 8,00,000 was purchased. On 1st October, 2004 the machinery purchased on 1st April 2002 was sold off for Rs. 2,70,000 and on the same date new machinery was purchased for Rs. 1,50,000. Depreciation was provided annually on 31st March at 10% p.a. on the straight line method.

Show machinery A/c and Depreciation A/c for the years 2002-03, 2003-04 and 2004-05.

Solution

In the books of Vision Traders
Machinery A/c

| Dr. | Particulars | JF | Amt | Date | Particulars | JF | Cr. Amt |
|---------|--------------------|----|-----------|---------|--|----|-----------|
| 1.4.02 | To Cash / Bank A/c | | 4,00,000 | 31.3.03 | By Depreciation A/c (40,000 + 40,000) | | 80,000 |
| 1.10.02 | To Cash / Bank A/c | | 8,00,000 | 31.3.03 | By Bal C/d | | 11,20,000 |
| | | | 12,00,000 | | | | 12,00,000 |
| 1.4.03 | To Bal B/d | | 11,20,000 | 31.3.04 | By Depreciation A/c | | 1,20,000 |
| | | | | 31.3.04 | By Bal C/d | | 10,00,000 |
| | | | 11,20,000 | | | | 11,20,000 |
| 1.04.04 | To Bal B/d | | 10,00,000 | 1.10.04 | By Depreciation A/c | | 20,000 |
| 1.10.04 | To Cash / Bank A/c | | 1,50,000 | 1.10.04 | By Cash / Bank A/c (Sale) | | 2,70,000 |
| | | | | 1.10.04 | By Profit & Loss A/c | | 30,000 |
| | | | | 31.3.05 | By Depreciation A/c | | 87,500 |
| | | | 11,50,000 | 31.3.05 | By Bal C/d | | 7,42,500 |
| | | | | | | | 11,50,000 |
| 1.4.05 | To Bal B/d | | 7,42,500 | | | | |

Depreciation A/c

| Dr. | Particulars | JF | Amt | Date | Particulars | JF | Cr. Amt |
|---------|------------------|----|----------|---------|----------------------|----|----------|
| 31.3.03 | To Machinery A/c | | 80,000 | 31.3.03 | By Profit & Loss A/c | | 80,000 |
| | | | 80,000 | | | | 80,000 |
| 31.3.04 | To Machinery A/c | | 1,20,000 | 31.3.04 | By Profit & Loss A/c | | 1,20,000 |
| | | | 1,20,000 | | | | 1,20,000 |
| 31.3.05 | To Machinery A/c | | 20,000 | 31.3.05 | By Profit & Loss A/c | | 1,07,500 |
| 31.3.05 | To Machinery A/c | | 87,500 | | | | |
| | | | 1,07,500 | | | | 1,07,500 |

Working Note

Calculation of Profit OR Loss on sale of Machinery

| Date | Amount | Particulars |
|----------|----------|--------------|
| 01.04.02 | 4,00,000 | Purchase |
| 31.03.03 | 40,000 | Depreciation |
| 01.04.03 | 3,60,000 | Balance |
| 31.03.04 | 40,000 | Depreciation |
| 01.04.04 | 3,20,000 | Balance |
| 01.10.04 | 20,000 | Depreciation |
| 01.10.04 | 3,00,000 | Balance |
| 01.10.04 | 2,70,000 | Sold |
| 01.10.04 | 30,000 | Loss |

Reducing Balance Method

5. Ashok Industries purchased a machinery of Rs. 80,000 on 1st Jan. 2005. Another Machinery was purchased on 1st July 2006 for Rs. 60,000. Company decided to charge depreciation at 10% p.a. under Reducing Balance Method on 31st Dec. every year.

Prepare Machinery A/c and Depreciation A/c for three years and pass journal entries in the books of Dream Homes Ltd.

Solution

In the books of Ashok Industries

| Dr. | Machinery A/c | | | | | Credit | |
|--------|--------------------|----|----------|----------|---------------------|--------|----------|
| Date | Particulars | JF | Amt | Date | Particulars | JF | Amt |
| 1.1.05 | To Cash / Bank A/c | | 80,000 | 31.12.05 | By Depreciation A/c | | 8,000 |
| | | | | 31.12.05 | By Bal C/d | | 72,000 |
| | | | 80,000 | | | | 80,000 |
| 1.1.06 | To Bal B/d | | 72,000 | 31.12.06 | By Depreciation A/c | | 10,200 |
| 1.7.06 | To Cash / Bank A/c | | 60,000 | 31.12.06 | (7,200 + 3,000) | | |
| | | | | 31.12.06 | By Bal C/d | | 1,21,800 |
| | | | 1,32,000 | | | | 1,32,000 |
| 1.1.07 | To Bal B/d | | 1,21,800 | 31.12.07 | By Depreciation A/c | | 12,180 |
| | | | | | By Bal B/d | | 1,09,620 |
| | | | 1,21,800 | | | | 1,21,800 |

| Dr. | | Recording of Transaction | | | | | Cr. |
|------------------|------------------|--------------------------|--------|----------|---------------------|----|--------|
| Date | Particulars | JF | Amt | Date | Particulars | JF | Amt |
| Depreciation A/c | | | | | | | |
| 31.12.05 | To Machinery A/c | | 8,000 | 31.12.05 | By Depreciation A/c | | 8,000 |
| | | | 8,000 | | | | 8,000 |
| 31.12.06 | To Machinery A/c | | 10,200 | 31.12.06 | By Depreciation A/c | | 10,200 |
| | | | 10,200 | | | | 10,200 |
| 31.12.07 | To Machinery A/c | | 12,180 | 31.12.07 | By Depreciation A/c | | 12,180 |
| | | | 12,180 | | | | 12,180 |

In the books of Dream Homes Ltd.
Journal Entries

| Date | Particulars | Dr. | L.F. | Dr.(Rs.) | Cr.(Rs.) |
|----------|---|-----|------|----------|----------|
| 1.1.05 | Machinery A/c To Cash /Bank A/c (Being Machinery purchased) | | | 80,000 | 80,000 |
| 31.12.05 | Depreciation A/c To Machinery A/c (Depreciation charged at 10% p.a. under fixed installment method) | Dr. | | 8,000 | 8,000 |
| 31.12.05 | Profit and Loss A/c To Depreciation A/c (Being depreciation transferred) | Dr. | | 8,000 | 8,000 |
| 1.7.06 | Machinery A/c To Cash /Bank A/c (Being Machinery purchased) | Dr. | | 60,000 | 60,000 |
| 31.12.06 | Depreciation A/c To Machinery A/c (Depreciation charged at 10% p.a. under fixed installment method) | Dr. | | 10,200 | 10,200 |
| 31.12.06 | Profit and Loss A/c To Depreciation A/c (Being depreciation transferred) | Dr. | | 10,200 | 10,200 |

| | |
|----------|--|
| 31.12.07 | De (D in P I C On 1 st C On and Dep The De Solut Dr. Date 1.04.95 1.10.95 1.4.96 1.4.97 1.10.99 1.4.9 |
| 31.12.07 | |

| | | | | |
|----------|---|-----|---------------|---------------|
| 31.12.07 | Depreciation A/c To Machinery A/c (Depreciation charged at 10% p.a. under fixed installment method) | Dr. | 12,180 | 12,180 |
| 31.12.07 | Profit and Loss A/c To Depreciation A/c (Being depreciation transferred) | Dr. | 12,180 | 12,180 |
| | Total | | 200760 | 200760 |

6. On 1st April 1995 Sikandar Traders, Bhopal purchased machinery for Rs. 20,000. On 1st October 1995, they purchased further machinery costing Rs. 10,000.

On 1st October 1997 they sold for Rs. 12,000 the machine purchased on 1st April 1995 and bought another machine for Rs. 12,000 on the same date.

Depreciation was provided on machinery @ 10% p.a. Diminishing Balance Method. The financial year closes on every 31st March. Prepare Machinery A/c and Depreciation A/c for the years of 95-96, 96-97 and 97-98.

Solution

In the books of Sikandar Traders, Bhopal

| Dr. | Machinery A/c | | | | Cr. | | |
|---------|--------------------|----|--------|---------|--------------------------------------|----|--------|
| Date | Particulars | JF | Amt | Date | Particulars | JF | Amt |
| 1.04.95 | To Cash / Bank A/c | | 20,000 | 31.3.96 | By Depreciation A/c (2,000 + 500) | | 2,500 |
| 1.10.95 | To Cash / Bank A/c | | 10,000 | 31.3.96 | By Bal C/d | | 27,500 |
| | | | 30,000 | | | | 30,000 |
| 1.4.96 | To Bal B/d | | 27,500 | 31.3.97 | By Depreciation A/c | | 2,750 |
| | | | | 31.3.97 | By Bal C/d | | 24,750 |
| | | | 27,500 | | | | 27,500 |
| 1.4.97 | To Bal B/d | | 24,750 | 1.10.97 | By Depreciation A/c | | 810 |
| 1.10.97 | To Cash / Bank A/c | | 12,000 | 1.10.97 | By Cash / Bank A/c | | 12,000 |
| | | | | 1.10.97 | By Profit & Loss A/c | | 3,390 |
| | | | | 31.3.98 | By Depreciation A/c | | 1,455 |
| | | | | 31.3.98 | By Bal C/d | | 19,095 |
| | | | 36,750 | | | | 36,750 |
| 1.4.98 | To Bal B/d | | 19,095 | | | | |

| Depreciation A/c | | | | | | |
|------------------|------------------|----|-------|---------|----------------------|------------|
| Dr. | Particulars | JF | Amt | Date | Particulars | JF |
| Date | | | | | | Cr. Amt |
| 31.3.96 | To Machinery A/c | | 2,500 | 31.3.96 | By Profit & Loss A/c | 2,500 |
| | | | 2,500 | | | 2,500 |
| 31.3.97 | To Machinery A/c | | 2,750 | 31.3.97 | By Profit & Loss A/c | 2,750 |
| | | | 2,750 | | | 2,750 |
| 1.10.97 | To Machinery A/c | | 810 | 31.3.98 | By Profit & Loss A/c | 2,265 |
| 31.3.98 | To Machinery A/c | | 1,455 | | | |
| | | | 2,265 | | | 2,265 |

Working Note

Calculation of Profit OR Loss on sale of Machinery

| Date | Amount | Particulars |
|---------|--------|--------------|
| 1.4.95 | 20000 | Purchases |
| 31.3.95 | 2000 | Depreciation |
| 1.4.96 | 18000 | Balance |
| 31.3.96 | 1800 | Depreciation |
| 1.4.97 | 16200 | Balance |
| 1.10.97 | 810 | Depreciation |
| 1.10.97 | 15390 | Balance |
| 1.10.97 | 12000 | Sold |
| 1.10.97 | 3390 | Loss |

7. HCL Ltd. Purchased Machinery at Rs. 1,60,000 on 1st Jan. 2004. Company purchased further Machinery of Rs.100000 on 30th Sept. 2004 from TCS Ltd. on credit.

One more machinery of Rs. 47,500 was purchased on 1.4.05 and spent Rs. 2,500 immediately on its erection and installation. On 30th June 2006 Company sold the machinery purchased on 30th Sept. 2004 for Rs. 84,500 and on the same date purchased a new machinery of Rs. 75,000.

Company charged depreciation @ 10% p.a. under written down value method on 31st Dec. every year.

Prepare Machinery A/c for the years 2004, 2005 and 2006.

Solution

| Cr. | Amt |
|-----|-------|
| | 2,500 |
| | 2,500 |
| | 2,750 |
| | 2,750 |
| | 2,265 |
| | 2,265 |

In the books of HCL LTD.
Machinery A/c

| Dr. | Particulars | JF | Amt | Date | Particulars | JF | Cr. |
|----------|--|----|----------|----------|---|----|----------|
| 01.01.04 | To Cash / Bank A/c | | 1,60,000 | 31.12.04 | By Depreciation A/c (16,000 + 2,500) | | 18,500 |
| 30.09.04 | To TCS Ltd. | | 1,00,000 | 31.12.04 | By Bal C/d | | 2,41,500 |
| | | | 2,60,000 | | | | 2,60,000 |
| 01.01.05 | To Bal B/d | | 2,41,500 | 31.12.05 | By Depreciation A/c (24,150 + 3,750) | | 27,900 |
| 01.04.05 | To Cash / Bank A/c | | 47,500 | 31.12.05 | By Bal C/d | | 2,63,600 |
| 01.04.05 | To Cash / Bank A/c (Installation Charges) | | 2,500 | 31.12.05 | | | |
| | | | 2,91,500 | | | | 2,91,500 |
| 01.01.06 | To Bal B/d | | 2,83,600 | 30.06.06 | By Depreciation A/c | | 4,388 |
| 30.06.06 | To Profit & Loss A/c | | 1,138 | 30.06.06 | By Cash / Bank A/c | | 84,500 |
| 30.06.06 | To Cash / Bank A/c | | 75,000 | 31.12.06 | By Depreciation A/c (17,582 + 3,750) | | 21,332 |
| | | | | 31.12.06 | By Bal C/d | | 2,29,518 |
| | | | 3,39,738 | | | | 3,39,738 |

Working Note

Calculation of Profit OR Loss on sale of Machinery

| Date | Amount | Particulars |
|----------|----------|--------------|
| 30.09.04 | 1,00,000 | Purchase |
| 31.12.04 | 2,500 | Depreciation |
| 01.01.05 | 97,500 | Balance |
| 31.12.05 | 9,750 | Depreciation |
| 01.01.06 | 87,750 | Balance |
| 30.06.06 | 4,388 | Depreciation |
| 30.06.06 | 83,362 | Balance |
| 30.06.06 | 84,500 | Sold |
| 30.06.06 | 1,138 | Profit |

Exercises.**A. Answer in one sentence only**

1. What is double entry system?
2. What is meant by Account?
3. What are the golden rules of Debit and Credit for different Types of Accounts?
4. What is Bank Reconciliation Statement?
5. Give any four reasons for difference in balances of Cash Book and Pass Book.
6. Give specimen of Ledger A/c.
7. What is debit balance of ledger account?
8. What is Credit balance of ledger account?
9. What is meant by Posting?
10. What are Subsidiary books?
11. What are the different types of Subsidiary Books?
12. By which another name Sales Return Book is also called as?
13. By which another name Return Outward Book is also known as?
14. What is credit note?
15. What is Debit note?
16. Which transactions are recorded in Purchase book?
17. Who sends Debit note and when?

B. Fill in the blanks

1. _____ it is an explanation of the journal entry passed.
2. In case of a credit transaction, one account must be a _____ account.
3. Left hand side of an account is called as _____.
4. In purchase books the entry is recorded on the basis of _____ invoice 3.
5. Sales day book records the transactions relating to _____.
6. A _____ is issued when goods are returned to the supplier.
7. Cash A/c always shows a _____ balance.
8. When debit side of an account is heavier than the credit side of an account it is called as _____ balance.
9. Recording the transaction in ledger from journal it is called as _____.
10. Credit balance of an account is called as _____.

11. Extract as _____
 12. Plant a _____
 13. Credit _____
 14. Under _____
 15. Depr. _____
 16. Balan. _____
 17. Dep. _____
 18. By t. _____
 19. The _____
 20. Gr. _____
 21. In _____
 22. W. _____
C. Tr.
 1. S. _____
 2. C. _____
 3. F. _____
 4. S. _____
 5. _____
 6. _____
 7. _____
 8. _____
 9. _____
 10. _____
 11. _____

11. Extracts of customer's ledger account issued by bank to its customer is known as _____.
12. Plant and Machinery A/c is _____ A/c.
13. Credit balance of personal account indicates that the person is our _____.
14. Under _____ Method amount of depreciation changes every year.
15. Depreciation = $\frac{\text{Value of assets Less } \underline{\hspace{2cm}}}{\text{Estimated working life of asset}}$
16. Balance of depreciation account is transferred to _____.
17. Depreciation is charged on _____ assets.
18. By the amount of depreciation, the value of asset _____.
19. The amount of depreciation goes on decreasing every year under the _____ method of depreciation.
20. Gradual and Permanent decrease in the value of asset is known as _____.
21. In fixed instalment system the amount of depreciation is _____ every year.
22. Wages paid for installation of machinery should be debited to _____ account.

C. True or False

1. Subdivision of journal is called as subsidiary book.
2. Credit sale of any asset is recorded through Sales book.
3. Right hand side of a ledger account is known as credit side.
4. Sales return book is also called as Return Inward Book.
5. Trade Discount is compulsorily recorded in the books of account.
6. Extracts of customer's ledger account issued by bank to it's customer is known as pass book.
7. Bank Account is a Real A/c
8. Suresh industries A/c is a Personal A/c.
9. Furniture account is credited on sale of Furniture by M/s Royal Furniture Mart.
10. Personal account may show debit OR Credit balance.
11. Debit balance of personal account indicates that the person is our debtor.

PROBLEM FOR PRACTICE

1. Journalise the following transactions in the books of Shri. Parshwanath for the month of Jan. 2008.
 1. Parshwanath commenced the business with cash Rs. 10,000, of which Rs. 5,000 borrowed from his friend.
 3. Opened a bank account with bank of India by depositing Rs. 6,000.
 4. Bought goods of Rs. 1600 from Shri Mahavir and paid freight thereon Rs. 40.
 8. A cheque of Rs. 1,000 issued to Shri Mahavir and earned a discount of Rs. 20.
 11. Sold goods to Madhav of Rs. 700 and paid carriage on his behalf Rs. 35.
 15. Parshwanath brought his private furniture into the business worth Rs. 1,600.
 22. Parshwanath received a computer from his father in law as a gift worth Rs. 15,000 which he introduced into the business.
 23. Repairing charges of a machinery paid Rs. 210.
 24. Withdraw Rs. 1,000 for domestic use.
 26. Paid Rs. 280 as advertisement bill
 29. Rs. 120 paid as printing charges.
2. Mr. Ganguli had a Bank balance of Rs. 1,00,000 Furniture Rs. 20,000 and a computer of Rs. 15,000. He deposited the above assets as initial investment and started the business on 1st Jan. 2008. During Jan 2008 he had following transactions.
 2. Withdrew cash Rs. 40,000 for office use.
 4. Purchased goods of Rs. 50,000 from Mr. Dhoni subject to 5% Trade Discount and 50% payment made by cheque immediately.
 6. Cash sale to Shrisant Rs. 25,000 at a cash discount of Rs. 2,500.
 8. Cash sale Rs. 7,500 and amount received by cheque.
 16. Credit sale to Tendulkar goods of Rs. 12,000.
 19. A cheque of Rs. 11,600 received from Tendulkar in full settlement of his account.
 20. Furniture of Rs. 8,000 purchased from Sehwag and he accepted the payment in following form:
 - A. Rs. 3,000 worth of goods and
 - B. Balance in cash

PROBLEM FOR PRACTICE

1. Journalise the following transactions in the books of Shri. Parshwanath for the month of Jan. 2008.
 1. Parshwanath commenced the business with cash Rs. 10,000, of which Rs. 5,000 borrowed from his friend.
 3. Opened a bank account with bank of India by depositing Rs. 6,000.
 4. Bought goods of Rs. 1600 from Shri Mahavir and paid freight thereon Rs. 40.
 8. A cheque of Rs. 1,000 issued to Shri Mahavir and earned a discount of Rs. 20.
 11. Sold goods to Madhav of Rs. 700 and paid carriage on his behalf Rs. 35.
 15. Parshwanath brought his private furniture into the business worth Rs. 1,600.
 22. Parshwanath received a computer from his father in law as a gift worth Rs. 15,000 which he introduced into the business.
 23. Repairing charges of a machinery paid Rs. 210.
 24. Withdraw Rs. 1,000 for domestic use.
 26. Paid Rs. 280 as advertisement bill
 29. Rs. 120 paid as printing charges.
2. Mr. Ganguli had a Bank balance of Rs. 1,00,000 Furniture Rs. 20,000 and a computer of Rs. 15,000. He deposited the above assets as initial investment and started the business on 1st Jan. 2008. During Jan 2008 he had following transactions.
 2. Withdraw cash Rs. 40,000 for office use.
 4. Purchased goods of Rs. 50,000 from Mr. Dhoni subject to 5% Trade Discount and 50% payment made by cheque immediately.
 6. Cash sale to Shrisant Rs. 25,000 at a cash discount of Rs. 2,500.
 8. Cash sale Rs. 7,500 and amount received by cheque.
 16. Credit sale to Tendulkar goods of Rs. 12,000.
 19. A cheque of Rs. 11,600 received from Tendulkar in full settlement of his account.
 20. Furniture of Rs. 8,000 purchased from Sehwag and he accepted the payment in following form:
 - A. Rs. 3,000 worth of goods and
 - B. Balance in cash

21. Dhoni's account settled by cheque.
 26. Paid L.I.C. premium of Mrs. Ganguli by cheque Rs. 2,500.
 31. Salary Paid Rs. 1,800

Journalise the above transactions in the books of Mr. Ganguli and post them to ledger accounts.

PROBLEMS ON SUBSIDIARY BOOKS

From the following particulars prepare the proper subsidiary books for January 2008.

1. Purchased cloths worth Rs. 80,000 from Shriram Mills Ltd. @ 10% Trade Discount.
3. Bought Cloth worth Rs. 90,000 from Tanishka Mills @10% T.D. and 5% C.D. terms.
5. Sold cloth costing Rs. 50,000 @25% profit on cost price
7. Hosiery purchased worth Rs. 60,000 from Bhavani Textiles Ltd. @ 15% T.D.
9. Cash Purchases goods of Rs. 40,000 off 10% C.D. and 5% T.D.
11. Purchased sarees from Mayur Mills for Rs. 56,000.
12. Sold cloth worth Rs. 24,000 to Kathiyawad Garments @ 3% T.D.
14. Returned cloth worth Rs. 5,000 (Gross) to Shriram Mills Ltd.
15. Sold sarees worth Rs. 30,000 to 'Soniya Sarees'.
16. Returned cloth worth Rs. 2,800 to Mayur mills.

2. Record the following transactions in the purchase Book, Sales Book, Purchase Return Book, Sales Return Book of Mr. Keshav for the month of July 2007.

1. Purchased goods from Ravi for Rs. 24,000 at 20% trade discount.
4. Sold 2/3rd of the goods bought from Ravi to Rocky at 20% profit on sales.
8. On our instructions Anu sent goods worth Rs. 8,000 to Sonali for Rs. 9,000.
9. Sonali returned goods worth Rs. 2,000 to us.
11. Sold goods to Amit for Rs. 8,000 against a cheque of the same amount.
13. Invoiced goods to Rahul for Rs. 10,000 at 5% trade discount
17. Lakhan sold goods to Keshav goods of Rs. 6,000 at 15% trade discount.
19. Mr Keshav returned goods of Rs. 510 (Net) to Lakhan.
26. Purchased office furniture costing Rs. 30,000 on credit from M/s Royal Furniture Mart.

3. You are requested to enter the following transactions in the subsidiary books of Rajpal and Co. for the month of March 2008 and post them to ledger accounts.
1. Bought goods worth Rs. 16,000 less 5% trade discount and 2% cash discount.
 3. Invoiced goods worth Rs. 25,000 on 4% T.D. to Jivan and co.
 4. Returned goods to Patel Bros. worth Rs. 2,000 as they were defective.
 6. Bharat mart invoiced goods to us of Rs. 20,000 on 3% T.D.
 11. Jivan and Co. returned goods to us Rs. 1,000 (Gross Value) as they were not as per sample.
 15. Returned goods to Bharat Mart of Rs. 4,000 (gross) as they were received in damaged conditions.
 17. Received an order for the supply of goods of Rs. 62,000.
 19. Placed a purchase order with Raj Traders for the supply of goods Rs. 1,20,000
 30. Bought office furniture Rs. 32000 from Godrej and Co. ltd. on credit.

PROBLEMS ON BANK RECONCILIATION STATEMENT

1. When bank Balance as per Cash Book is given:

On 31st December, 2006 the cash book of Samant showed a debit balance of Rs. 12,500.

Prepare a Bank reconciliation statement from the following particulars:

1. Cheque drawn for Rs. 4,200 but not encashed by supplier before 31st December, 2006.
 2. Cheque deposited for Rs. 1,200 dishonoured was recorded only in the pass book.
 3. On 18th December, 2006, bank paid Rs. 1,000 as life Insurance premium as per our instruction. It was not recorded in the cash book.
 4. A Cheque of Rs.2,350 deposited and encashed by the bank but was recorded in cash book as Rs.2,530.
 5. On 21st December, 2006 Rs.2,300 transferred from fixed deposit account to current account which is not recorded in the cash book.
 6. Bank has debited our account for bank charged Rs.150 and credited our account for collection of dividend Rs.500 which is not recorded in cash book.
2. When bank Balance as per Pass Book is given:

M/s S.K. and Son's Bank Pass Book shows Rs. 25,000 as bank balance on 31st March, 2006. Find balance shown by his Cash book.

1. Cheque issued to Sachin amounted to Rs. 5,200 and encashed by him was shown in cash book as for Rs. 520.
2. Cheque received from Kambali for Rs. 3,000 deposited into the bank and credited by bank but recorded twice in cash book.
3. Transfer Rs. 2,600 from fixed deposit account to current account was not recorded in cash book.
4. Dividend collected by bank Rs. 800 was not shown in cash book.
5. Direct deposit by M/s. Ram and Lekhan a customer Rs. 1,950 was not recorded in cash book.
6. Out of the cheques Rs. 9,600 deposited into the bank only a cheque of Rs. 3,000 collected and credited by bank till 31st March 2006.

3. When Credit bank Balance as per Cash Book is given:

The cash book of Mr. Kunal shows a credit balance of Rs. 5,360 as on 30th September 2007. Prepare a Bank Reconciliation Statement from the following details:

1. Cheques of Rs. 2,350 received and deposited in the bank but same was not collected upto 30th September 2007.
2. Cheque of Rs. 3,450 issued but not presented for payment till 30th September 2007.
3. Bank charges Rs. 95 as interest on overdraft and commission Rs. 60 but these were not recorded in cash book.
4. Bank collected dividend Rs. 200 on our investment and also commission of Rs. 600 on our behalf but do not entered in cash book.
5. Mr. Rahul, a customer directly deposited Rs. 600 into our bank.
6. Receipt side of bank column is short by Rs. 400.

4. When Debit bank Balance as per Pass Book is given:

The pass book of Mr. Mukesh shows an overdraft of Rs. 25,500 on 30th June 2007. Prepare his bank Reconciliation Statement based on the following:

1. A cheque for Rs. 20,000 deposited but still on 30th June it is not collected.
2. Cheque for Rs. 4,000 issued to Sanskar on 15th June but it was misplaced by him.
3. Bank informed that a cheque of Rs. 12,000 which was deposited into the bank 25th June was dishonoured.
4. A cheque for Rs. 6,000 issued to Nayan and it was encashed by her but it was recorded twice in cash book in bank column.
5. A cheque for Rs. 8,000 issued to Anjali and she deposited but it was recorded twice in the cash book bank column.

6. A cheque of Rs. 16,000 received from Aayushi was recorded as deposited into the bank but was not actually deposited.

B. State True OR False

1. Profit can not be calculated properly unless depreciation is provided.
2. Depreciation increases the value of asset.
3. Profit on sale of an asset is credited to asset account.
4. Depreciation is business loss.
5. Installation charges is debited to installation Charges A/c.
6. Expenditure incurred on installation of machinery is capital expenditure.
7. Depreciation on fixed asset for the first year is always same under both the method of depreciation.

Ans: 1. True 2. False 3. False 4. True 5. False 6. True 7. True

C. Answer in short

1. Explain the purpose of providing depreciation.
2. Which method of depreciation would you suggest for depreciating a 5 years lease?
3. What is Depreciation?
4. Which account is credited when depreciation is charged?
5. What journal entry will be passed when expenses are paid for installation of a machinery?
6. What do you mean by scrap value of an asset?
7. Why depreciation is charged even in the year of loss?
8. What do you understand by Reducing Balance Method of depreciation?
9. Why depreciation is charged?
10. What is the formula for calculating depreciation according to Fixed Instalment Method?

D. Problems

1. Sujay Traders, Aurangabad Purchased Machinery on 1.4.1970 for Rs. 68,000 and paid installation charges Rs. 2,000 and decided to depreciate the machinery at 10% p.a. under Fixed Installment method. On 1.10.1972 a machinery having an original cost of Rs. 10,000 was sold for Rs. 5,000 and on the same date a new machinery was purchased for Rs. 10,000.

Give required **Journal entries** for 1972-73 and also write up **Machinery A/c** for 01.04.1970 to 31.03.1973 assuming the accounts of the firm are closed on every 31st March.

2. M/s. Rathi and co. purchased one machinery on 1st April, 83 costing Rs. 38,000. On the same date, firm spent Rs. 2,000 for erection.

On 1st October, 1983 additional machinery purchased for Rs. 20,000. The machine costing Rs. 10,000 purchased on 1st April, 1983 was sold out on 30th September, 1985 for Rs. 6,250. On the same date a new machine costing Rs. 32,000 was purchased. Every year on 31st March depreciation at the rate of 10% on cost price of machinery was charged.

Prepare **Machinery A/c** and **Depreciation A/c** for years 1982-83, 1983-84, 1984-85 in the books of the firms.

3. Wani Trading Co. of Pune, Purchased machinery for Rs. 65,000 on 1st April, 1992 and immediately spent Rs. 5,000 on its fixation and erection. In the same year on the 1st October, an additional machinery costing Rs. 30,000 was purchased. On 1st October, 1994 the machinery purchased on 1st April, 1992 became obsolete and was sold for Rs. 51,000. On 1st January, 1995 a new machine was also purchased of Rs. 41,000.

Depreciation was provided annually on 31st December @ 12% p.a. on **Fixed Installation method**. Prepare **Machinery A/c**, **Depreciation A/c** from 1992 to 95.

4. Saniya Trading Company; Ajmer purchased machinery for Rs. 55,000 on 1st April, 2004 and spent Rs. 5,000 on its fixation and erection. In the same year on 1st October additional machinery costing Rs. 40,000 was purchased. On 1st October, 2006, the machinery purchased on 1st April, 2004 became obsolete and was sold for Rs. 43,000. On 1st January, 2007 new machinery was also purchased for Rs. 20,000. Depreciation was provided annually on 31st March at the rate of 10% p.a. on **Fixed Installment Method**.

Prepare **Machinery A/c** and **Depreciation A/c** as if Depreciation was provided under **Fixed Installment Method** or **Reducing Balance method** for 04-05, 05-06, and 06-07.

5. On 1st April, 1997 Nirali purchased second hand machinery for Rs. 45,000 and spent Rs. 5,000 on reconditioning and installing it. On 1st January, 1998 she purchased new machinery worth Rs. 60,000. On June 30th 1999, the machinery which was purchased on 1st January, 1998 was sold for Rs. 48,000 and on 1st July, 1999 fresh machinery was installed at a cost of Rs. 64,000. She writes off 10% depreciation on the **Diminishing Balance Method**. The accounts are

DEVSTAK
MAN

closed every year on 31st March. Show **Machinery Account and Depreciation Account** up to year ended 31st March, 2000.

6. **Sushil Enterprises Ltd.** purchased a machine for Rs. 30,000 on 1st October, 1991, on 1st April, 1992 company purchased an additional machine costing Rs. 10,000. On 31st March, 1993 the machinery purchased on 1st October, 1991 became obsolete and was sold for Rs. 20,000. On the same date new machinery was purchased for Rs. 50,000. Depreciation was provided annually on 31st March every year at the rate of 10% p.a. On Reducing Balance Method. Prepare **Machinery A/c and Depreciation A/c** for the period 31st March, 1992, 31st March, 1993, 31st March, 1994.
7. On 1st July, 2002 Waikunth Traders, Nashik acquired a building for Rs. 8,00,000. On 1st April, 2003 an extension was made to the above building by spending Rs. 4,00,000.
- On 1st October, 2004 half of the above building was sold through a broker for Rs. 5,60,000 and brokerage at 2% of the selling price was paid. Depreciation is charged on 31st March, every year at 10% p.a. under the Diminishing Balance Method. Prepare the **Building A/c and the Depreciation A/c** for three years.

* * *

FINAL ACCOUNT

4

4.1

INTRODUCTION

During the whole accounting year all the transactions are recorded through various different books such as Journal, Purchase Book, Sales Book, Purchase Return Book, Sales Return Book etc. There after transactions are posted to respective ledger accounts. At the end of the year a list of all ledger account balance is made called as TRIAL BALANCE. Trial Balance provides arithmetic accuracy. But, providing arithmetic accuracy is not the only intention of the businessman, he is also interested in knowing the Profit or Loss made by the business as well as the financial position of the business in the form of it's Assets and Liabilities. Keeping this view in mind every businessman prepares the final account at the end of every financial year which includes Trading A/c, Profit and Loss A/c and Balance Sheet. All the items appearing in the Trial Balance are posted / transferred to either Trading A/c, Profit and Loss A/c OR Balance sheet, where Trading A/c shows the Gross Profit (or Gross Loss) earned by the business. Profit and Loss A/c shows the Net Profit (or Net Loss) earned during the year where as Balance sheet shows the financial position of the business.

Now we will see all these three account / statements in details:

TRADING ACCOUNT

4.2

The profit earned out of the Business / Trading activities or transactions is ascertained by preparing Trading Account. In other words trading account is an account which shows the profit or loss out of the buying and selling of the goods and therefore, it contains transactions of a trading period having direct connection to goods account.

Opening stock of goods, purchase of goods (less purchase return) and all direct expenses are debited to Trading Account. In common parlance Direct expenses are the expense related to Purchases, Factory, Production / Manufacturing such as Wages, Octroi, Carriage on goods purchased etc. whereas sales (Less Sales Return), closing stock are credited to trading account. The debit balance of trading account indicates Gross Loss and whereas credit balance shows Gross profit.

Specimen of Trading A/c

In the books of Mr.-----
Trading Account for the year ended-----

| Dr. | Particulars | Rs. | Particulars | Cr. Rs. |
|-----|----------------------|------|------------------------------|------------|
| | To Opening Stock | xxx | By Sales | xxx |
| | To Purchases | xxx | Less: Return Inward | - xx |
| | Less: Return Outward | - xx | By Goods distributed as free | xxx |
| | To Carriage Inward | xx | Sample | xx |
| | To Import Duty | x | By Goods destroyed by fire | xx |
| | To Wages | xxx | | |
| | To Power Charges | xxx | | |
| | To Royalty | xxx | | |
| | To Gross Profit C/D | xx | By Closing Stock | xxx |
| | | xxxx | | xxxx |

4.3

PROFIT AND LOSS A/C

All indirect items of Income and Expenditure are recorded in Profit and Loss A/c. In common parlance indirect expenses are the expenses related to sales and or office such as salary to office staff, advertisement, printing and stationery, insurance, etc.

Specimen of Trading A/c

Profit & Loss A/c for the year ended -----

| Particulars | Rs. | Particulars | Rs. |
|---|------|---------------------|-------|
| To Advertisements | xxx | By Gross Profit B/D | xxxxx |
| To Salaries | xxxx | By Rent Received | xxx |
| Add: Outstanding | -XXX | | |
| To Stationery | XXX | | |
| To Office Expenses | XXX | | |
| To Bank Charges | XXX | | |
| To Carriage Outward | XXX | | |
| To Interest on Bank Overdraft | XXX | | |
| Add: Outstanding | | | |
| To Depreciation on: | | | |
| Lease hold Land | XXX | | |
| Plant & Machinery | XXX | | |
| Vehicles | XXX | | |
| Furniture etc. | XXX | | |
| To Bad Debts (Old) | XXX | | |
| Add: bad Debts (New) | XXX | | |
| Add: R.D.D. (New) | XXX | | |
| Add: R.D.D. (Old) | -XXX | | |
| To Net Profit | | | |
| (Profit transfer to Capital on Balance Sheet) | xxxx | | xxxx |

The format of a Balance Sheet is given here under.

Balance Sheet of Mr. A as on 31/3/2XXX

| Particulars | Current Year Figure (Rs.) | Particulars | Current year Figure (Rs.) |
|---|------------------------------|--|------------------------------|
| <ul style="list-style-type: none"> * CAPITAL <ul style="list-style-type: none"> General Reserve Sinking Fund Profit & Loss A/c (Cr Bal.) * Loans & Advances from Banks * Other Loans & Advances * Short terms Loans & Advances <ul style="list-style-type: none"> a. From Banks b. From Others <p><u>CURRENT LIABILITY</u></p> <ul style="list-style-type: none"> * Acceptance (Bills payable) * Sundry Creditors * Advance Payments & unexpired discounts * Other liabilities, if any | | <ul style="list-style-type: none"> • Goodwill • Land • Building • Leasehold • Plant & Machinery • Furniture & Fittings • Patents, Trade marks & Designs • Live Stock • Vehicle etc. <p>• INVESTMENTS</p> <ul style="list-style-type: none"> • Interest Accrued on Investments • Stores & Spares • Loose Tools • Stock in Trade • Sundry Debtors <p>Less: R.D.D.</p> <ul style="list-style-type: none"> • Cash In Hand • Bank Balance • Bills Receivable • Prepaid Expenses | |

ILLUSTRATIONS

1. Following is the Trial Balance of Mr. Appu for the year ended 31.3.2002 prepare his Trading Account, Profit and Loss Account for the year ended 31.3.2002 and the balance sheet as at that date.

Trial balance

| Particulars | Debit Rs. | Credit Rs. |
|-------------------|--------------|---------------|
| Stock on 1.4.2001 | 35,000 | |
| Drawings | 12,000 | |
| Purchases | 1,10,000 | |
| Return Inward | 8,000 | |
| Investment | 40,000 | |
| Carriage Inward | 4,700 | |
| Import duty | 2,500 | |

| Business Accounting | 4 > 5 | Final Account |
|-----------------------|----------|---------------|
| Wages | | |
| Power Charges | 32,400 | |
| Salaries | 4,800 | |
| Printing & Stationery | 41,300 | |
| Postage | 5,100 | |
| Plant & Machinery | 200 | |
| Furniture | 2,15,000 | |
| Cash at Bank | 28,000 | |
| Land & Building | 3,500 | |
| Cash in Hand | 1,26,000 | |
| Capital | 700 | |
| Return Outward | | 3,50,000 |
| Sales | | 5,000 |
| Discount Received | | 2,70,000 |
| Interest Received | | 3,200 |
| Creditors | | 4,000 |
| | | 37,000 |
| | 6,69,200 | 6,69,200 |

Closing stock on 31.3.2002, is valued at Rs. 65,000.

Solution:

| Dr. | In the books of Mr. Appu Trading Account for the year ended 31 st March, 2002 | | | Cr. |
|-----|---|-----------|---------------------|----------|
| | Particulars | Rs. | Particulars | Rs. |
| | To Opening Stock | 35,000 | By Sales | 2,70,000 |
| | To Purchases | 1,10,0000 | Less: Return Inward | 8,000 |
| | Less: Return Outward | 5,000 | By Closing Stock | 2,62,000 |
| | To Carriage Inward | 4,700 | | 65,000 |
| | To Import Duty | 2,500 | | |
| | To Wages | 32,400 | | |
| | To Power Charges | 4,800 | | |
| | To Gross Profit C/D | 1,42,600 | | 3,27,000 |
| | | 3,27,000 | | |

Business Accounting 4 > 6 Final Account

Profit & Loss Account
for the year ended 31st March, 2002

| Dr. | Particulars | Rs. | Particulars | Cr. Rs. |
|--|-------------|-----------------|----------------------|-----------------|
| To Salaries | | 41,300 | By Gross Profit B/D | 1,42,600 |
| To Printing & Stationery | | 5,100 | By Discount Received | 3,200 |
| To Postage | | 200 | By Interest Received | 4,000 |
| To Net Profit (Transferred to Capital on B/S) | | 1,03,200 | | |
| | | 1,49,800 | | 1,49,800 |

Balance Sheet of Mr. Appu as on 31st March, 2002

| Liabilities | Rs. | Assets | Rs. |
|-----------------|-----------------|-------------------|-----------------|
| Capital A/c | 3,50,000 | Cash in Hand | 700 |
| Less. Drawings | 12,000 | Cash at Bank | 3,500 |
| | <u>3,38,000</u> | Closing Stock | 65,000 |
| Add. Net Profit | 1,03,200 | Investment | 40,000 |
| Creditors | 37,000 | Furniture | 28,000 |
| | | Plant & Machinery | 2,15,000 |
| | | Land and Building | 1,26,000 |
| | 4,78,200 | | 4,78,200 |

2. Following is the Trial Balance of 'Apple Traders' for the year ended 31.3.2005. Prepare Trading Account, Profit and Loss Account for the year ended 31.3.2005 and the Balance Sheet as on that date.

Trial Balance

| Particulars | Debit Rs. | Credit Rs. |
|-----------------|-----------|------------|
| Rent Received | | 10,000 |
| Sales | | 5,12,000 |
| Creditors | | 56,600 |
| Bank Overdraft | | 1,40,000 |
| Bills Payable | | 23,000 |
| Capital | | 4,05,000 |
| Opening Stock | 72,000 | |
| Purchases | 2,20,000 | |
| Carriage Inward | 8,000 | |
| Wages | 80,000 | |

| | | | |
|----------------------------|--|-----------|-----------|
| Goodwill | | 30,000 | |
| Free Hold Land | | 60,000 | |
| Lease Hold Land | | 1,00,000 | |
| Building | | 2,20,000 | |
| Plant & Machinery | | 1,80,000 | |
| Vehicles | | 70,000 | |
| Furniture | | 20,000 | |
| Advertising | | 10,000 | |
| Salaries | | 38,000 | |
| Stationery | | 8,300 | |
| Office Expenses | | 4,100 | |
| Bank Charges | | 100 | |
| Carriage Outward | | 3,700 | |
| Cash in hand | | 400 | |
| Debtors | | 12,000 | |
| Interest on Bank Overdraft | | 10,000 | |
| | | 11,46,600 | 11,46,600 |

Adjustments

- i. Lease on run for 10 years from 1.4.2004.
- ii. Depreciation Plant and Machinery at 15%, Vehicle at 20%, & Furniture at 10%.
- iii. Stock on 31.3.2005 is valued at Rs. 58,000.
- iv. Outstanding Wages are Rs. 3,800 and Outstanding salaries are Rs. 4,500.
- v. Interest on Bank Overdraft, for the last quarter of the year, Rs. 4,600 is not recorded so far.
- vi. Provide 5% on debtors for Doubtful Debts.

Solution

In the Books of Apple Traders
Trading Account for the year ended 31st March, 2005

Cr.

| Dr. | Particulars | Rs. | Particulars | Rs. |
|---------------------|-------------|----------|------------------|----------|
| To Opening Stock | | 72,000 | By Sales | 5,12,000 |
| To Purchases | | 2,20,000 | By Closing Stock | 58,000 |
| To Carriage Inward | | 8,000 | | |
| To Wages | 80,000 | | | |
| | 3,800 | 83,800 | | |
| Add: Outstanding | | 1,86,200 | | |
| To Gross Profit C/D | | 5,70,000 | | 5,70,000 |

Profit & Loss Account for the year ended 31st March, 2005

| Dr. | | Rs. | Particulars | Cr. |
|--|--------|----------|---------------------|----------|
| | | | | Rs. |
| Particulars | | | | |
| To Advertisements | | 10,000 | By Gross Profit B/d | 1,86,200 |
| To Salaries | 38,000 | 42,500 | By Rent Received | 10,000 |
| Add: Outstanding | 4,500 | 8,300 | | |
| To Stationery | | 4,100 | | |
| To Office Expenses | | 100 | | |
| To Bank Charges | | 3,700 | | |
| To Carriage Outward | | | | |
| To Interest on Bank | | | | |
| Overdraft | 10,000 | 14,600 | | |
| Add: Outstanding | 4,600 | | | |
| To Depreciation on | | | | |
| Lease hold Land | | 10,000 | | |
| Plant & Machinery | | 27,000 | | |
| Vehicles | | 14,000 | | |
| Furniture | | 2,000 | | |
| To R.D.D | | 600 | | |
| To Net Profit | | 59,300 | | |
| (Profit transfer to Capital on Balance Sheet) | | | | |
| | | 1,96,200 | | 1,96,200 |

Balance Sheet of Apple Traders as on 31st March, 2005

| Liabilities | Rs. | Assets | Rs. |
|-----------------------|----------|---------------------|----------|
| Outstanding Wages | 3,800 | Cash in Hand | 400 |
| Outstanding Salaries | 4,500 | Closing Stock | 58,000 |
| Bills Payable | 23,000 | Debtors | 12,000 |
| Creditors | 56,600 | Less: R.D.D | 600 |
| Bank Overdraft | 1,40,000 | Vehicles | 70,000 |
| Add: Outstanding Int. | 4,600 | Less: Depreciation | 14,000 |
| Capital | 4,05,000 | Furniture | 20,000 |
| Add: Net Profit | 59,300 | Less: Depreciation | 2,000 |
| | | Plant and Machinery | 1,80,000 |
| | | Less: Depreciation | 27,000 |
| | | Building | 1,53,000 |
| | | Lease hold Land | 2,20,000 |
| | | Less: Depreciation | 10,000 |
| | | Free hold Land | 90,000 |
| | | Goodwill | 60,000 |
| | | | 30,000 |
| | 6,96,800 | | 6,96,800 |

3. Following is the Trial Balance extracted from the books of Shri. Ankush Choudhary of Mumbai as on 31st March, 2005. You are required to prepare the Trading and Profit and Loss Account for the year ending 31st Marc, 2005. And a Balance Sheet as on that date after taking into consideration the adjustments given below:

Trial Balance as on 31st March 2005

| Particulars | Debit Rs. | Credit Rs. |
|-----------------------------------|-----------|------------|
| Purchases | 1,65,625 | |
| Return Inwards | 4,250 | |
| Sundry Debtors | 40,200 | |
| Stock (1-1-2004) | 26,725 | |
| Wages (Productive) | 20,137 | |
| Salaries | 8,575 | |
| Furniture | 7,250 | |
| Machinery | 4,500 | |
| Postage, Stationery & Insurance | 3,226 | |
| Traveling Expenses | 350 | |
| Trade Expenses | 2,314 | |
| Rent, Rate & Taxes | 3,517 | |
| Bad Debts | 525 | |
| Loan at 5% to B. Jadhav 1-12-2004 | 3,000 | |
| Investments | 11,500 | |
| Prepaid Insurance | 524 | |
| Cash in hand | 752 | |
| Cash at Bank | 5,000 | |
| Bills Receivable | 17,070 | |
| Drawings | 6,000 | |
| Capital | 28,000 | |
| Sales | 2,56,650 | |
| Returns Outwards | 3,120 | |
| Commission | 5,200 | |
| Sundry Creditors | 25,526 | |
| Bills Payable | 8,950 | |
| Outstanding Wages | 2,019 | |
| Rent accrued but not paid | 750 | |
| Dividend from Investments | 825 | |
| Total | 3,31,040 | 3,31,040 |

Adjustments

- Stock on 31-3-2005 was Rs. 10,520.
- Depreciate Furniture at 10% and Machinery at 7%.

- iii. Write off further Bad Debts of Rs. 200 and make a provision for Reserve for Doubtful Debts at 5% on Sundry Debtors.
- iv. Furniture includes additional furniture purchased Rs. 600 on 31-3-05.
- v. Salaries include advance for next year Rs. 575.
- vi. Commission due but not received Rs. 400.

Solution

Shri. Ankush Chaudhari
Trading Account for the year ended 31st March 2005

| Dr. | Particulars | Rs. | Particulars | Cr. Rs. |
|----------------------|-------------|-----------------|---------------------|-----------------|
| To Opening Stock | | 26,725 | By Sales | 2,56,650 |
| To Purchases | 1,65,625 | 1,62,505 | Less: Return Inward | 4,250 |
| Less: Return Outward | 3,120 | | By Closing Stock | 2,52,400 |
| To Wages | | 20,137 | | 10,520 |
| To Gross Profit C/d | | 53,553 | | |
| | | 2,62,920 | | 2,62,920 |

Profit & Loss Account for the year ended 31st March, 2005

| Dr. | Particulars | Rs. | Particulars | Cr. Rs. |
|----------------------------------|-------------|---------------|---------------------|---------------|
| To Salaries | 8,575 | | By Gross Profit B/D | 53,553 |
| Less: Prepaid | 575 | 8,000 | By Interest on Loan | 50 |
| To Rent, Rate & Taxes | | 3,517 | By Dividend on | |
| To Trade Expenses | | 2,314 | Investments | 825 |
| To Postage, Stationery & | | | By Commission | |
| Insurance | | 3,226 | Add: Outstanding | 5,200 |
| To Travelling Expenses | | 350 | | 400 |
| To Bad Debts | 525 | 725 | | |
| Add: Additional | 200 | | | |
| To R.D.D. | | 2,000 | | |
| To Depreciation | | | | |
| Machinery | 315 | | | |
| Furniture | 665 | 980 | | |
| To Net Profit C/D | | 38,916 | | |
| (Balance transferred to Capital) | | | | |
| | | 60,028 | | 60,028 |

Balance Sheet of Shri. Ankush Choudhary as on 31st March, 2005

| Liabilities | Rs. | Assets | Rs. |
|-------------------|--------|---------------------------------|--------|
| Capital | 28,000 | Furniture | 6,650 |
| Less: Drawings | 6,000 | Add: Additional | 600 |
| | 22,000 | | 7,250 |
| Add: Net Profit | 38,916 | Less: Depreciation | 665 |
| Sundry creditors | 25,526 | Machinery | 4,500 |
| Bills Payable | 8,950 | Less: Depreciation | 315 |
| Outstanding Wages | 2,019 | Cash on Hand | 4185 |
| Outstanding Rent | 750 | Cash at Bank | 752 |
| | | Closing Stock | 5,000 |
| | | Investments | 10,520 |
| | | Debtors | 11,500 |
| | | Less: Bad Debts | 40,200 |
| | | Less R.D.D. | 200 |
| | | Bills Receivable | 38,000 |
| | | Outstanding Interest on Loan | 17,070 |
| | | Loan to B. Jadhav | 50 |
| | | Outstanding commission | 3,000 |
| | | Prepaid Insurance | 400 |
| | | Prepaid Salary | 524 |
| | | | 575 |
| | 98,161 | | 98,161 |

4. The following is the Trial Balance extracted from the books of M/s. Naresh and Co. On 31st March, 2006. Prepare Trading and Profit and Loss Account for the year ended 31st March 2006 after taking into consideration the following Matters.

Trial Balance as on 31st March, 2006

| Debit Balance | Rs. | Credit Balance | Rs. |
|----------------------------|--------|--|----------|
| Motor Car | 60,000 | Capital | 1,00,000 |
| Furniture & Fixture | 16,000 | R.B.D. | 2,000 |
| Land & Building | 75,000 | Sundry Creditors | 25,000 |
| Bad Debts | 1,000 | Bank Overdraft | 22,000 |
| Sundry Debtors | 25,000 | Sales | 1,54,000 |
| Stock on 1-4-2005 | 38,000 | Return Outwards | 1,200 |
| Purchases | 50,000 | Commission | 3,000 |
| Returns Inward | 2,000 | Bills Payable | 18,000 |
| Advertisement | 4,500 | 10% Loan from Mr. Naresh (taken on 1-10-05) | 20,000 |
| Interest on Bank overdraft | 1,200 | | |

| Commission | 250 | R.F.D.D.(Discount) | 1,000 |
|--|----------|--------------------|----------|
| Rent, Taxes & Insurance | 3,000 | Royalty Received | 5,000 |
| Cash Balance | 6,000 | | |
| Car repairs | 4,000 | | |
| Salaries (1/3 for Factory) | 33,000 | | |
| Bills Receivable | 3,000 | | |
| Discount | 2,000 | | |
| Rent (Paid for 11 months) | 11,000 | | |
| Royalty paid | 2,000 | | |
| Prepaid Insurance | 200 | | |
| Plant & Equipment (includes Rs. 4,000 purchased on 1-10-05) | 10,000 | | |
| Trade Expenses | 4,050 | | |
| | 3,51,200 | | 3,51,200 |

Adjustments

- i. **Closing stock as on 31-3-06:**
 - a. Cost price Rs. 36,000.
 - b. Market price Rs. 40,000.
- ii. **Provide depreciation on Building @ 10% p.a., Motor Car, 20% @ p.a. Plant @ 15% p.a.**
- iii. **Goods costing Rs.1,000 were distributed as free samples.**
- iv. **Write off:**
 - a. Bad Debts Rs. 1,000.
 - b. Discount on debtors Rs.1,600.
- v. **Create Reserve for debts @ 10% and Reserve for discount on debtors @ 5%.**
- vi. **Provide for**
 - a. Commission receivable Rs. 250.
 - b. Trade expenses outstanding Rs. 300.

Solution

In the Books M/s. Naresh and Co.

Trading Account for the year ended 31st March, 2006

Cr.

| Dr. | Particulars | Rs. | Particulars | Rs. |
|----------------------|-------------|--|-------------|----------|
| To Opening Stock | 38,000 | By Sales | 1,54,000 | |
| To Purchases | 50,000 | Less: Sales Returns | 2,000 | 1,52,000 |
| Less: Return Outward | 1,200 | By Goods distributed as free sample | | 1,000 |
| To Royalty paid | 2,000 | By Closing Stock | | |
| To Factory | 11,000 | (Cost Price) | | 3,600 |
| To Gross Profit C /D | 89,200 | | | |
| | 1,89,000 | | | 1,89,000 |

**Profit & Loss Account
for the year ended 31st March, 2006**

| Dr. | Particulars | Rs. | Particulars | Cr. |
|-------|------------------------------|--------|---------------------|--------|
| 1,000 | To Interest on Naresh Loan | 1,000 | By Gross Profit B/D | 89,200 |
| 5,000 | To Trade Expenses | 4,050 | By Commission | 3,000 |
| | Add: O/s Trade Expenses | 300 | Add: O/s Commission | 250 |
| 1,200 | To Advertisement | 4,500 | By Royalty Received | 5,000 |
| | Add: Free Samples | 1,000 | | |
| | To Int. on Bank Overdraft | | 1,200 | |
| | To Commission | | 250 | |
| Plant | To Rent, Taxes & Insurance | | 3,000 | |
| %. | To Car Repairs | | 4,000 | |
| | To Salaries | 33,000 | | |
| | Less: Factory Salaries | 11,000 | 22,000 | |
| | To Rent | 11,000 | | |
| | Add: Outstanding Rent | 1,000 | 12,000 | |
| | To Depreciation on | | | |
| | Add: Motor Car | 12,000 | | |
| | Add: Land & Building | 7,500 | | |
| | Add: Plant & Machinery | 1,200 | 20,700 | |
| | To Bad Debts (old) | 1,000 | | |
| | Add: New Bad Debts | 1,000 | | |
| | Add: New Provision | 2,400 | | |
| | | 4,400 | 2,000 | |
| | Less: Old Provision | 2,400 | | |
| | To Old Discount | 2,000 | | |
| | Add: New Discount | 1,600 | | |
| | Add: New Provision | 1,000 | | |
| | | 4,600 | 3,600 | |
| | Less: Old Provision | 1,000 | | |
| | To Net Profit C/D | | 17,450 | |
| | (Balance transferred to B/S) | | 97,450 | |

M/s Naresh and Co.'s
Balance Sheet as on 31st March, 2006

| Liabilities | Rs. | Assets | Rs. |
|------------------------|----------|--------------------------|----------|
| Capital | 1,00,000 | Land and Building | 75,000 |
| Add: Net Profit | 17,450 | Less: Depreciation | 7,500 |
| 10% Loan from | | Plant & Equipments | 10,000 |
| Mrs. Naresh | 20,000 | Less: Depreciation | 1,200 |
| Bank Overdraft | 22,000 | Furniture & Fixture | |
| Bills Payable | 18,000 | Motor Car | 60,000 |
| Sundry Creditors | 25,000 | Less: Depreciation 20% | 12,000 |
| Outstanding Trade Exp. | 300 | Sundry Debtors | 25,000 |
| O/s Interest on | | Less: New Bad Debts | 1,000 |
| Mrs. Naresh Loan | 1,000 | | 24,000 |
| Outstanding Rent | 1,000 | Less: New R.D.D | |
| | 2,000 | provision | 2,400 |
| | | | 21,600 |
| | | Less: New Discount | 1,600 |
| | | | 21,000 |
| | | Less: R.F.D.D. provision | 1,000 |
| | | Bills Receivable | 3,000 |
| | | Cash Balance | 6,000 |
| | | Closing Stock | 36,000 |
| | | Prepaid Insurance | 200 |
| | | Commission Receivable | 250 |
| | 2,04,750 | | 2,04,750 |

5. From the following Trial Balance of Shri. Mahesh prepare Trading and Profit & loss Account for the year ended 31st March 2005 and a Balance sheet on that date.

| Particulars | Debit Rs. | Credit Rs. |
|-----------------------|-----------------|-----------------|
| Opening Stock | 2,40,000 | |
| Salaries and Wages | 24,000 | |
| Railway Freight | 10,000 | |
| Purchases | 2,40,000 | |
| Bills Receivable | 2,400 | |
| Rent | 15,000 | |
| Sales | | 5,06,000 |
| Reserve for Bad Debts | | 2,000 |
| Sundry Creditors | | 65,200 |
| Return Outwards | | 3,000 |
| Bad Debts | 600 | |
| Plant & Machinery | 40,000 | |
| Traveling Expenses | 12,000 | |
| Commission | | 2,000 |
| Repairs to Plant | 2,400 | |
| Cash at Bank | 4,800 | |
| Building | 1,00,000 | |
| Return Inward | 2,000 | |
| Sundry Debtors | 70,000 | |
| Office Expenses | 10,000 | |
| Drawings | 13,000 | |
| Capital | | 1,00,000 |
| Maharashtra Bank Loan | | 1,08,000 |
| Total | 7,86,200 | 7,86,200 |

Adjustments

- Closing Stock Rs. 70,000.
- Unexpired insurance amounting to Rs. 1,000 is included in office expenses.
- Office expenses due but not paid Rs. 600.
- Make provision for unpaid salaries Rs. 2,400.
- Commission received but not earned Rs. 800.
- Depreciate Plant and Machinery @ 5% and Building @ 2 1/2 % p.a.
- Provide Reserve at 5% for Bad Debts.

Solution

In the books of Shri. Mahesh
Trading Account for the year ended 31st March, 2005

| Dr. | Particulars | Rs. | Particulars | Cr. |
|------------------------------------|-------------|----------|---------------------|----------|
| To Opening Stock | | 2,40,000 | By Sales | 5,06,500 |
| To Purchases | 2,40,000 | | Less: Return Inward | 2,000 |
| Less: Return Outward | 3,000 | | By Closing Stock | 50,400 |
| To Railway Freight | | 10,000 | | 70,000 |
| To Gross Profit C/D | | 87,000 | | |
| (Transferred to Profit & Loss A/c) | | 2,87,000 | | 2,87,000 |

Profit and loss Account
for the year ended 31st March 2005

| Dr. | Rs. | Particulars | Cr. Rs. |
|-----------------------------------|---------|-----------------------------------|------------|
| To Salaries & Wages | 24,000 | By Gross Profit B/D | 87,000 |
| Add: Outstanding | 2,400 | (Transferred from Trading A/c) | |
| To Office Expenses | 10,000 | By Commission | 2,000 |
| Add: Outstanding | 600 | Less: Received in advance | 800 |
| | 10,600 | | 1,200 |
| Less: Prepaid Insurance | 1,000 | | |
| To Rent | 15,000 | | |
| To Travelling Expenses | -12,000 | | |
| To R.B.D.D (new) | 3,500 | | |
| Add: Bad Debts | 600 | | |
| | 4,100 | | |
| Less: Old Reserve | 2,000 | | |
| To Depreciation | 2,000 | | |
| Add: Plant & Machinery | 2,500 | | |
| | 4,500 | | |
| To Net Profit C/D | 16,200 | | |
| (Transferred to Balance sheet) | | | |
| | 88,200 | | 88,200 |

Balance sheet Shri. Mahesh as on 31st March, 2005

| Liabilities | Rs. | Assets | Rs. |
|-----------------------------------|----------|--------------------|----------|
| Capital | 1,00,000 | Plant & Machinery | 40,000 |
| Less: Drawings | 13,000 | Less. Depreciation | 2,000 |
| | 87,000 | Building | 1,00,000 |
| Add: Net Profit | 16,200 | Less: Depreciation | 2,500 |
| Sundry Creditors | | Cash at Bank | 97,500 |
| Commission received in advance | | Sundry Debtors | 4,800 |
| Outstanding Expenses | | Less: R.D.D | 70,000 |
| Salaries | 2,400 | Bills Receivable | 3,500 |
| Office Expenses | 600 | Prepaid Insurance | 66,500 |
| Maharashtra Bank Loan | | Closing Stock | 2,400 |
| | 3,000 | | 1,000 |
| | 1,08,000 | | 70,000 |
| | 2,80,200 | | 2,80,200 |

6. Following is the Trial Balance of Palak Enterprises for the year ended 31.3.2007.

Trial Balance

| Particulars | Debit Rs. | Credit Rs. |
|-------------------|-----------------|-----------------|
| Salaries | 62,000 | |
| Taxes & Insurance | 20,200 | |
| Stock on 1.4.2006 | 82,000 | |
| Purchases | 1,65,200 | |
| Wages | 9,600 | |
| Furniture | 24,000 | |
| General Expenses | 16,200 | |
| Advertising | 15,800 | |
| Interest on Loan | 5,600 | |
| Debtors | 80,000 | |
| Building | 1,64,000 | |
| Vehicles | 1,24,000 | |
| Bad Debts | 3,600 | |
| Sales | | 2,80,000 |
| Bank Overdraft | | 40,000 |
| Commission | | 4,000 |
| Capital | | 2,60,000 |
| Creditors | | 78,000 |
| R.D.D | | 4,200 |
| Loan | | 1,06,000 |
| Total | 7,72,200 | 7,72,200 |

Prepare Trading Account, Profit and Loss Account and Balance Sheet after passing the following Adjustments:

- Stock at close is valued at Rs. 70,000.
- Depreciate Building at 5%, Furniture at 10% and Vehicles at 20%.
- Rs. 2,400 is due for interest on loan.
- Insurance of Rs. 2,200 is prepaid.
- Half the commission received is for the next year.
- Write off Rs. 2,000 as further Bad Debts and provide 5% on Debtors for doubtful Debts.

Solution

| Dr. | In the books of Palak Enterprises | | |
|---|---|------------------|----------|
| | Trading Account for the year ended 31 st March, 2007 | | Cr. |
| Particulars | Rs. | Particulars | Rs. |
| To Opening Stock | 82,000 | By Sales | 2,80,000 |
| To Purchases | 1,65,200 | By Closing Stock | 70,000 |
| To Wages | 9,600 | | |
| To Gross Profit c/d (Transferred to Profit & Loss A/c) | 93,200 | | |
| | 3,50,000 | | 3,50,000 |

**Profit and Loss Account
for the year ended 31.3.2007**

| Dr. | Particulars | Rs. | Particulars | Cr. |
|----------------------|-------------|----------|-------------------------|----------|
| To Salaries | | 62,000 | By Gross Profit B/d | 93,200 |
| To Taxes & Insurance | 20,200 | | (Transferred from | |
| Less: Prepaid | 2,200 | | Trading A/c) | |
| To General Expenses | | 18,000 | By Commission | |
| To Advertising | | 16,200 | Less: Received in | |
| To Interest on loan | 5,600 | 15,800 | advance | 4,000 |
| Add: Interest Due | 2,400 | | | 2,000 |
| To Bad Debts (Old) | 3,600 | | By Net Loss | |
| Add: Bad debts (New) | 2,000 | | (Transferred to Balance | |
| Add: R.D.D. (New) | 3,900 | | sheet) | |
| Less: R.D.D. (Old) | 4,200 | | | |
| To Depreciation on | | 5,300 | | |
| 5% Building | 8,200 | | | |
| 10% Furniture | 2,400 | | | |
| 20% Vehicle | 24,800 | 35,400 | | |
| | | 1,60,700 | | 1,60,900 |

Balance Sheet of Palak Enterprises as on 31.3.2007

| Liabilities | Rs. | Assets | Rs. |
|------------------------|----------|------------------------|----------|
| Capital | 2,60,000 | Furniture | 24,000 |
| Less: Net Loss | 65,500 | Less: Depreciation 10% | 2,400 |
| Bank Over draft | | Debtors | 80,000 |
| Creditors | | Less: Bad Debts | 2,000 |
| Loan | | | 78,000 |
| Interest due on loan | 2,400 | Less: R.D.D. | 3,900 |
| Commission received in | | Building | 1,64,000 |
| advance | | Less: Depreciation 5% | 8,200 |
| | | Vehicle | 1,24,000 |
| | | Less: Depreciation 20% | 24,800 |
| | | Prepaid Insurance | 2,200 |
| | | Closing Stock | 70,000 |
| | 4,22,900 | | 4,22,900 |

Exercises

A. Answer the following questions

1. What are final accounts? When and why are they prepared?
2. Is Trading account prepared to reflect Trading results? Explain.
3. What is depreciation? And how it is adjusted in final account?
4. What is Balance sheet?
5. What do you mean by carriage inwards?
6. Why Profit & Loss A/c is prepared?
7. What do you mean by goodwill? OR what is Goodwill?
8. What do you mean by credit balance of Trading A/c?
9. What do you mean by debit balance of Profit and Loss A/c?
10. What are bad debts?
11. What do you mean by debit balance of Trading A/c?
12. What do you mean by credit balance of Profit and Loss A/c?

B. Fill in the gaps

1. Books of accounts are maintained to find out profit or loss at the end of the _____.
2. Though _____ forms a part of final accounts, in fact, it is not at all an account.
3. All Real and Personal Account balances except goods are taken to _____.
4. _____ account shows Gross Profit or Gross Loss.
5. _____ is a statement which shows the financial position of the business on a particular date.
6. An outstanding expense appears on _____ side of the _____.
7. Pre received income shown on _____ side of the balance sheet.
8. Closing stock is valued at cost price or market price whichever is _____.
9. Discount received is transferred to _____ side of Profit and Loss Account.
10. Personal and Real accounts are transferred to _____.

11. Left hand side of Balance sheet is _____ side and right hand side is known as _____ side.
12. Gross profit is transfer to _____ account.
13. Income received in advance is shown on _____ side of Balance Sheet.
14. Bank overdraft is shown in the balance sheet _____ side.
15. Capital usually shows _____ balance.
16. All expenses and losses shall show _____ balance.
17. Outstanding incomes are shown on the _____ side of balance Sheet.
18. Assets Account always show _____ balance.
19. The statement which shows the assets and liabilities of the business _____.

Problems

1. Following balances are taken from the books of Mr. Om on 31.3.2001. Prepare his Trading and Profit and Loss A/c for the year ended 31.3.2001 and the Balance Sheet as on that date.

Trial Balance

| Particulars | Debit Rs. | Credit Rs. |
|---------------------|-----------------|-----------------|
| Capital | | 1,42,000 |
| Creditors | | 50,000 |
| Sales | | 1,68,000 |
| Commission Received | | 4,000 |
| Bills Payable | | 14,000 |
| Bank Overdraft | | 4,800 |
| General Expenses | 4,000 | |
| Drawings | 24,000 | |
| Building | 70,000 | |
| Machinery | 20,000 | |
| Stock on 1-4-2000 | 44,000 | |
| Power | 6,200 | |
| Taxes & Insurance | 5,400 | |
| Wages | 28,000 | |
| Debtors | 44,000 | |
| Bad Debts | 3,400 | |
| Purchases | 1,04,000 | |
| Vehicles | 20,000 | |
| Cash | 8,600 | |
| Packing Charges | 1,200 | |
| Total | 3,82,800 | 3,82,800 |

Closing Stock is Valued at Rs. 64,000.

(Answer: Gross Profit Rs. 49,800, Net Profit Rs. 39,800 and Balance Sheet total Rs. 2,26,600).

2. Following is the Balance of Mrs. Anandi prepare her final Accounts:

Trial Balance

| Particulars | Debit Rs. | Credit Rs. |
|----------------------|-----------|------------|
| Purchases | 1,42,000 | 6,800 |
| Bills Payable | 3,000 | 2,400 |
| Return Inwards | | |
| Outstanding Expenses | 37,000 | |
| Stock on 1.4.2005 | | 2,10,000 |
| Sales | 4,200 | 4,400 |
| Carriage | | |
| Return Outward | 8,800 | 2,000 |
| Rent & Taxes | | 70,000 |
| Interest received | | 1,30,000 |
| Creditors | 4,000 | |
| Capital | 3,400 | |
| Discount Allowed | 4,200 | |
| Printing | 800 | |
| Insurance | 3,400 | |
| Sundry Expenses | 2,000 | |
| Bad Debts | 64,000 | |
| Postage & Telegrams | 13,000 | |
| Debtors | 12,000 | |
| Wages | 1,00,000 | |
| Drawings | 1,200 | |
| Building | 22,600 | |
| Cash | | 4,25,600 |
| Furniture | | 4,25,600 |
| Total | | |

Closing Stock on 31.3.2008 is valued at Rs. 44,000.
 (Answers: Gross Profit Rs. 59,200, Net Profit Rs. 34,600, Balance sheet Total
 Rs. 2,31,800).

3. Following is the Trial Balance of Mr. Swaraj for the year ended 31.3.2003.

| Particulars | Debit Rs. | Credit Rs. |
|-------------------------|-----------------|-----------------|
| Drawings | 30,000 | |
| Plant & Machinery | 1,10,000 | |
| Purchases | 1,90,000 | |
| Return Inwards | 6,000 | |
| Fixture | 8,000 | |
| Freight | 3,600 | |
| Opening Stock | 46,000 | |
| Printing and Stationery | 3,400 | |
| Trader Expense | 2,800 | |
| Debtors | 84,000 | |
| Furniture & Fitting | 20,000 | |
| Bills Receivable | 14,600 | |
| Rent & Taxes | 11,000 | |
| Bad Debts | 2,600 | |
| Wages | 14,400 | |
| Cash in Hand | 5,200 | |
| Salaries | 13,400 | |
| Capital | | 2,08,000 |
| Return Outward | | 4,000 |
| R.D.D. | | 4,400 |
| Creditors | | 64,800 |
| Bills Payable | | 13,800 |
| Sales | | 2,70,000 |
| Total | 5,65,000 | 5,65,000 |

Prepare his Trading and Profit Loss Account for the year ended 31.3.2003 and the Balance Sheet as on that date after passing the following adjustments:

- i. Closing Stock is valued at cost Rs. 80,000 and at market price Rs. 96,000.
- ii. R.D.D should be maintained at 5% on debtors.
- iii. Provide 10% depreciation on furniture and fitting and plant and machinery.
- iv. Machinery of Rs. 30,000 is purchased on 1.10.2002.
- v. Outstanding wages are Rs. 1,600 and outstanding Salaries is Rs. 3,200.

(Answers: Gross Profit Rs. 92,400, Net Profit Rs. 44,700 and Balance Sheet Total Rs. 3,06,100).

Following is the Trial Balance of Mr. Shantanu for the year ended 31.3.2002.

Trial Balance

| Particulars | Debit Rs. | Credit Rs. |
|------------------------|-----------|------------|
| Capital | | 2,92,000 |
| Creditors | | 65,600 |
| Loans | | 80,000 |
| Sales | | 3,30,000 |
| Purchases Returns | | 4,200 |
| Discount | | 1,400 |
| Bills Payable | | 19,400 |
| R.D.D | 1,20,000 | 1,000 |
| Debtors | 3,600 | |
| Interest | 82,000 | |
| Stock | 1,90,000 | |
| Freehold Premises | 2,20,000 | |
| Purchases | 1,70,000 | |
| Drawings | 7,000 | |
| Bad Debts | 9,000 | |
| Entertainment Expenses | 16,600 | |
| Office Expenses | 3,600 | |
| Cash | 17,800 | |
| Bank Balance | 12,200 | |
| Taxes & Insurance | 28,600 | |
| Advertisements | 13,600 | |
| Sales Returns | 3,600 | |
| Carriage Inwards | 6,800 | |
| Carriage Outwards | 30,600 | |
| Wages | 11,600 | |
| Bills Receivable | 7,93,600 | 7,93,600 |
| Total | | |

Prepare his Trading and Profit and Loss Account for the year ended 31.3.2002 and the Balance Sheet as on that date after passing the following adjustments:

- i. Closing stock is valued at Rs. 1,16,000.
- ii. Insurance of Rs. 1,600 is prepaid.
- iii. Following expenses are outstanding: Advertising Rs. 4,200 and Wages Rs. 1,700.
- iv. Bank charges of Rs. 100 are recorded in the pass book but not recorded in the Cash book.
- v. Depreciate premises at 10%.
- vi. Provide 5% discount on Creditors.

(Answers: Gross Profit Rs. 97,000, Net Profit Rs. 2,820, Balance Sheet Rs. 4,41,500).

5. From the following particulars prepare Trading and Profit and Loss Account for the year ended 31st March, 2004 and a Balance Sheet as on that date.

Trial Balance

| Particulars | Debit Rs. | Credit Rs. |
|-------------------------------------|-----------|------------|
| Capital | 6,000 | 72,000 |
| Drawings | 40,000 | |
| Purchases | 1,000 | |
| Return Inwards | | 1,600 |
| Return Outwards | 12,000 | |
| Furniture | 16,000 | |
| Building | 2,400 | |
| Office Expenses | 14,000 | |
| Stock on 1.4.2003 | 800 | |
| Trade Expenses | 1,200 | |
| Rent and Taxes | 16,000 | |
| Wages | | 20,000 |
| Sales- Cash | | 40,000 |
| Sales- Credit | | |
| Carriage Inward | 400 | |
| Carriage Outward | 600 | |
| Bills Receivable | 2,400 | |
| Bills Payable | | 1,800 |
| Salaries | 1,500 | |
| Reserve for doubtful as on 1.4.2003 | | 2,400 |
| Bad Debts | 600 | |
| Sundry Debtors | 24,000 | |
| Insurance | 600 | |

| | | |
|---------------------------|-----------------|-----------------|
| Cash in Hand | 1,000 | |
| Cash at Bank | 5,000 | |
| Depreciation on Furniture | 600 | |
| Outstanding Expenses | | 300 |
| Sundry Creditors | | 4,000 |
| Total | 1,46,100 | 1,46,100 |

Adjustments

- i. Closing stock as on 31.3.2004 amounted to Rs. 28,000.
- ii. Depreciate Building at 5%.
- iii. Rent Outstanding Rs. 600.
- iv. Insurance prepaid amount to Rs. 200.
- v. Write off Rs. 4,000 as bad Debts and keep the reserve for doubtful debts at 5% on Debtors.

(Answers: Gross Profit Rs. 17,400, Net Profit Rs. 6,900, Balance Sheet Total Rs. 83,600).

6. From the following Trial Balance of Shri. Chinmay Joshi prepare Trading and Profit and Loss Account for the year ended 31st March, 2001 and a Balance Sheet as on that Date.

Trial Balance 31st March, 2001

| Particulars | Debit Rs. | Credit Rs. |
|------------------|-----------|------------|
| Machinery | 1,80,000 | |
| Building | 80,000 | |
| Stock (1.4.2000) | 40,400 | |
| Purchases | 2,21,600 | |
| Wages & Salaries | 34,000 | |
| Carriage outward | 6,000 | |
| Sundry Debtors | 70,000 | |
| General Expenses | 18,200 | |
| Rent | 3,400 | |
| Bad Debts | 1,300 | |
| Income Tax | 600 | |
| Legal Charges | 800 | |
| Pre-paid Rent | 400 | |
| Loan to Shantanu | 34,000 | |
| Drawings | 8,600 | |
| Cash in Hand | 2,700 | |
| Cash at Bank | 19,500 | |
| Capital | 2,30,400 | |
| Sundry Creditors | 90,000 | |
| Bills Payables | 8,000 | |

| Business Accounting | | 4 / 26 | Final Account |
|------------------------------------|-----------------|-----------------|---------------|
| Returns Outward | | 3,000 | |
| Interest and Commission | | 1,800 | |
| Outstanding Expenses | | 2,300 | |
| Sales | | 3,81,000 | |
| Reserve for Bad and Doubtful debts | | 5,000 | |
| Total | 7,21,500 | 7,21,500 | |

The following adjustments should be taken into consideration:
 i. Stock on 31st March, 2001 was valued at cost Rs. 41,800 Market Price
 was Rs. 28,000.

ii. Depreciate Machinery at 10% and Building at 5%.

iii. The reserve for Bad Doubtful Debts is to be maintain at Rs. 2,000.

iv. Provide for Reserve for Discount on Sundry Creditors at 2%.

(Answer: Gross Profit Rs. 1,29,800, Net Profit Rs. 84,700, Balance Sheet Total - 4,04,400).

7. Trial Balance of Akash

| Particulars | As on 31/3/2005 | Dr.(Rs.) | Cr(Rs.) |
|-------------------------|-----------------|-----------|---------|
| Plant & Machinery | | 30,000 | |
| Insurance | | 5,000 | |
| Audit Fees | | 7,000 | |
| Purchases | | 2,05,000 | |
| Sales Return | | 10,000 | |
| Bad Debts | | 2,000 | |
| Manufacturing Wages | | 70,000 | |
| Salaries | | 20,000 | |
| Printing & Stationery | | 4,000 | |
| Stock on 1/4/2004 | | 50,000 | |
| Rent | | 6,000 | |
| Rates & Taxes | | 7,000 | |
| Interest & Bank Charges | | 8,000 | |
| Carriage Inward | | 9,000 | |
| Fixed Deposit with Bank | | 10,000 | |
| Travelling Expenses | | 11,000 | |
| Cash in Hand & at Bank | | 12,000 | |
| Furniture & Fittings | | 12,000 | |
| Sundry Debtors | | 2,00,000 | |
| Advertising | | 7,000 | |
| Goodwill | | 11,00,000 | |
| Freehold Property | | 6,30,000 | |
| Bills Receivable | | 70,500 | |
| Debenture Interest | | 12,500 | |
| Investment | | 10,000 | |
| Commission Received | | | 5,000 |

Sales
 Purchase Ret...
 Sundry Credit...
 Bad Debts Pr...
 Bills Payable
 Share Capital
 General Res...
Total

You
 i.
 ii.
 iii.
 iv.
 v.
 vi.
 P.
 M.

Building
 Plant &
 Loose I...
 Furnitu...
 Cash I...
 10% G...
 (Face
 Bills P...
 Goodw...
 Motor...
 Sund...
 Carr...
 Loan
 Purc...
 Adv...
 Aud...
 Carr...

| Business Accounting | | 4 x 27 | Final Account |
|-------------------------|--|------------------|------------------|
| Sales | | 6,10,000 | |
| Purchase Return | | 5,000 | |
| Sundry Creditors | | 3,50,000 | |
| Bad Debts Provision | | 5,000 | |
| Bills Payable | | 12,000 | |
| Share Capital called up | | 15,00,000 | |
| General Reserve | | 21,000 | |
| Total | | 25,08,000 | 25,08,000 |

You are required to consider the following adjustments:

- i. Insurance Prepaid Rs. 500.
- ii. Rent Outstanding Rs. 1,000.
- iii. Depreciation to be provided: Plant and Machinery 10%, Furniture and Fittings 10%.
- iv. A Provision for Bad and Doubtful debts to be created at 5% on Sundry Debtors.
- v. Salaries unpaid Rs. 2,000.
- vi. Stock on 31/3/2005 was valued at Rs. 1,00,000.

Prepare Trading Account, Profit and Loss Account, for the year ended 31st March, 2005 and Balance Sheet as on that date.

8. The following is the Trial Balance of Mr. Salunke as on 31st March 2001:

Trial Balance as on 31.3.2001

| Particulars | Debit (Rs.) | Particulars | Credit (Rs.) |
|---|-------------|---------------------------------------|--------------|
| Building | 7,62,400 | Capital | 10,00,000 |
| Plant & Machinery | 5,60,000 | Sundry Creditors | 1,08,880 |
| Loose Tools | 38,000 | Reserve Fund | 1,70,000 |
| Furniture | 42,000 | Deposits | 25,000 |
| Cash in Hand | 38,880 | Outstanding Expenses | 3,200 |
| 10% Govt. Securities (Face Value Rs. 50,000) | 49,000 | Reserve for Doubtful Debts | 2,000 |
| Bills Receivable | 54,720 | Sales | 12,70,000 |
| Goodwill | 63,000 | Rent Received | 3,200 |
| Motor Vehicle | 10,000 | 8% Bank Loan (taken on 30.09.2000) | 3,00,000 |
| Sundry Debtors | 83,000 | Bank over Draft | 1,49,720 |
| Carriage Outward | 16,000 | Interest Received | 4,000 |
| Loan to Mukesh | 50,000 | | |
| Purchases | 9,37,000 | | |
| Advertisements | 10,000 | | |
| Audit Fees | 4,160 | | |
| Carriage Inward | 15,800 | | |

| Business Accounting | | 4 > 28 | Final Account |
|-----------------------|-----------|--------|---------------|
| Wages | 51,800 | | |
| Discount Allowed | 4,000 | | |
| Insurance | 16,600 | | |
| Stock 1/4/2000 | 2,00,000 | | |
| General Expenses | 5,640 | | |
| Printing & Stationery | 4,000 | | |
| Salaries | 20,000 | | |
| | 30,36,000 | | 30,36,000 |

You are required to prepare Trading, Profit and Loss A/c and for the year ending 31st March 2001 and Balance sheet as on that date.

Other information

- i. The Stock on 31st March 2001 was valued at Rs. 200000.
- ii. Create a Reserve for Doubtful Debts at 5% on sundry debtors.
- iii. Provide depreciation on Plant and Machinery at 5% p.a. and Furniture at 10% p.a.
- iv. Prepaid Insurance amounted to Rs. 1,600.
- v. Interest on Debentures and from Government Securities is due accrued for the year
- vi. Provision for taxation to be made at 50% of net profits.
- vii. Write off 40% of the preliminary expenses.

* * *

COMPANY FINAL ACCOUNTS

5

5.1

COMPANY FINAL ACCOUNT

The basic rules for preparing a Company's Final Accounts and Balance Sheet are the same as those used in the case of a sole trader or a partnership concern. But, the Companies Act has made it a statutory requirement for a company to keep proper books of accounts for recording financial transactions and preparing its Final Accounts and Balance Sheet in the prescribed form at the proper time.

The end of the financial accounting process is a set of reports that are called Financial Statements. The financial statements generally includes the following:

- i. Manufacturing A/c
- ii. Profit and Loss A/c
- iii. Profit and Loss Appropriation A/c
- iv. Balance Sheet

Profit and Loss A/c shows the Profit or loss earned or suffered by the business; where as Balance Sheet shows the financial position of the business on a particular date in the form of its Assets and Liabilities.

As per the provisions of section 210 of the companies Act 1956, at every annual general meeting of a company held, the Board Of Directors of the company shall put before the members of the company:

- i. A Balance Sheet as at the end of the period specified in sub-section (3); and
- ii. A Profit and Loss A/c for that period.

In the case of a company not carrying on business for profit, an Income and Expenditure A/c shall be put before the company at its annual general meeting instead of Profit and Loss A/c.

The Companies Act also states that, the Profit and Loss A/c shall relate:

- i. In the case of first annual general meeting of the company, to the period beginning with the incorporation of the company and ending with a day which shall not precede the day of the meeting by more than nine months; and
- ii. In the case of any subsequent annual general meeting of the company, to the period beginning with the day immediately after the period for which the account was last submitted & ending with a day which shall not precede the day of the meeting by more than six months, or in cases where an extension of time has been granted for holding the meeting under the second provision to sub section (1) of section 166 by more than six months and the extension so granted.

The period to which the account aforesaid relates to in this act as a 'financial year', and it may be less or more than a calendar year but it shall not exceed fifteen months.

The Balance Sheet and the Profit and Loss a/c of a company are to be drawn up in conformity with the provisions of section 211 and schedule VI to the company Act, 1956. The form of a company balance sheet has been prescribed under part 1 of schedule VI, but no standard form is prescribed by law for Profit and Loss A/c of a company. According to section 211(2), every Profit and Loss account of a company shall give a true and fair view of profit or loss of the company.

Trading Account

The profit earned out of the Business / Trading activities or transactions is ascertained by preparing Trading Account. In other words trading account is an account which shows the profit or loss out of the buying and selling of the goods & therefore, it contains transactions of a trading period having direct connection to goods account.

Opening stock of goods, Purchase of goods (less purchase return) and all direct expenses are debited to Trading account. In common parlance Direct expenses are the expense related to Purchases, Factory, Production / manufacturing such as Wages, Octroi, Carriage on goods purchased etc. whereas sales (less sales return), closing stock are credited to trading account. The debit balance of trading account indicates Gross Loss and whereas credit balance shows Gross profit.

Specimen of Manufacturing A/c

In the books of —— Ltd.

Manufacturing A/c

For the year ended —————

| Dr. | Particulars | Rs. | Particulars | Cr. |
|----------------------------------|-------------|-----|--------------------------------------|-----|
| To Opening Stock | | | By Sale of Scrap | |
| Raw Material | | | By Closing Stock | |
| Work In Progress | | | Raw Material | |
| To Purchase of Raw Material | | | Work in Progress | |
| Less: Purchase Return | | | By Cost of Production transferred to | |
| To Freight / Carriage etc. on | | | Trading A/c | |
| purchase of Raw Material | | | (Balancing Figure) | |
| To Heating & Lighting | | | | |
| To Coal, Coke Gas & Water etc. | | | | |
| To Fuel, Oil Power etc. | | | | |
| To Motive Power | | | | |
| To Factory / Production Expenses | | | | |
| (Works Manager Salary, Factory | | | | |
| Rent) | | | | |
| To Royalties | | | | |
| To Depreciation | | | | |
| Plant & Machinery | | | | |
| Loose Tools | | | | |
| Factory Building etc. | | | | |

If a company is not a manufacturing company but only a Trading company then it will not prepare Manufacturing account, its Trading account will appear as under:

Specimen of Trading A/c

In the books of —— Ltd

Trading Account

Dr.

For the year ended -----

Cr.

| Particulars | Rs. | Particulars | Rs. |
|----------------------|------|------------------------------|------|
| To Opening Stock | xxx | By Sales | xxxx |
| To Purchases | xxx | Less: Return Inward | xx |
| Less: Return Outward | xx | By Goods distributed as free | xxx |
| To Carriage Inward | | sample | xx |
| To Import Duty | | By Goods destroyed by fire | xx |
| To Wages | | By Closing Stock | xxx |
| To Power Charges | | | |
| To Royalty | xx | | |
| To Gross Profit C/D | | | |
| | xxxx | | xxxx |

Profit and Loss A/c

All indirect items of Income and Expenditure are recorded in Profit and Loss A/c. In common parlance indirect expenses are the expenses related to sales and/or office such as salary to office staff, advertisement, printing & stationery, insurance, etc.

Specimen of Profit and Loss A/c

Profit & Loss A/c

Dr.

For the year ended-----

Cr.

| Particulars | Rs. | Particulars | Rs. |
|---------------------|------|---------------------|------|
| To Advertisements | xxx | By Gross Profit B/D | xxxx |
| To Salaries | xxxx | By Rent Received | xxx |
| Add: Outstanding | xxx | | |
| To Stationery | | | |
| To Office Expenses | | | |
| To Bank Charges | | | |
| To Carriage Outward | | | |
| To Interest on Bank | | | |
| Overdraft | xxx | | |
| Add: Outstanding | xxx | | |
| To Depreciation on: | | | |
| Lease hold Land | xxx | | |

| | | Business Accounting | | 5 > 5 | Company Final Account | |
|-----|-----|---------------------|------|-------|-----------------------|------|
| Cr. | Rs. | | | | | |
| xxx | | | | | | |
| xx | xxx | | | | | |
| | | xx | | | | |
| | | xx | | | | |
| | | xxx | | | | |
| | | | xxxx | | | |
| | | | | | xxxx | |
| | | | | | | xxxx |

Form and Contents of Balance Sheet and Profit and Loss Account

Sec. 211 of the Companies Act, 1956 States that:

1. Every Balance Sheet of a Company shall give a true and fair view of the state of affairs of the company as at the end of the financial year and shall, subject to the provision of this section, be in the form set out in Part I of schedule VI, or as circumstances admit or in such other form as may be approved by the Central Government either generally or in any particular case; and in preparing the Balance Sheet due regard shall be had, as far as may be, to the general instructions for preparation of Balance sheet under the heading 'Notes' at the end of that Part:

Provided that nothing contained in this sub-section shall apply to any insurance or banking company or any company engaged in the generation or supply of electricity or to any other class of company for which a form of Balance Sheet has been specified in or under the Act governing such class of company.

2. Every Profit and Loss Account of Company shall give a true and fair view of the profit and loss of the company for the financial year and shall, subject as aforesaid, comply with the requirements of Part II of schedule VI, so far as they are applicable thereto:

Provided that nothing contained in this sub-section shall apply to any insurance or banking Company or any company engaged in the generation or supply of electricity or to any other class of company of which a form of Profit and Loss Account has been specified in or under the Act governing such class of Company.

and Loss A/c.
and/or office
nce. etc.

Cr.

| | |
|-----|------|
| Rs. | xxxx |
| | xxx |

3. The Central Government may, by notification in the Official Gazette, exempt any class of companies from compliance with any of the requirements in schedule VI, if, in its opinion, it is necessary to grant the exemption in public interest.

Any such exemption may be granted either unconditionally or subject to which conditions as may be specified in the notification.

- 3A. Every profit and loss account and balance sheet of the company shall comply with the accounting standards.
- 3B. Where the Profit & Loss Account and the balance Sheet of the company do not comply with the accounting standards, such companies shall disclose in its profit and loss account and balance sheet the following namely:
- The deviation from the accounting standards;
 - The reasons for such deviation; and
 - The financial effect, if any, arising due to such deviation.
- 3C. For the purposes of this section, the expression "accounting standards" means the standards of accounting recommended by the Institute of Chartered Accountants of India constituted under the Chartered Accountants Act, 1949 (38 of 1949) as may be prescribed by the Central Government in consultation with the national Advisory Committee on Accounting standards established under sub-section (1) of section 210A.

Provided that the standard of accounting specified by the Institute of Chartered Accountants of India shall be deemed to be the Accounting Standards until the accounting standards are prescribed by the Central Government under this sub-section.

4. The Central Government may, on the application or with the consent of the Board of Directors of the company, by order, modify in relation to that company any of the requirements of this Act as to the matters to be stated in the Company's Balance Sheet or Profit & Loss Account for the purpose of adapting them to the circumstances of the company.

Some Special Points Regarding Profit and Loss Account of a Company

The Profit and Loss Account of Company is prepared on the same principles as in the case of a sole proprietorship or a partnership. But there are certain regulations in the schedule VI, Part II of the Companies Act 1956, referring to the information which must be disclosed in the Profit and Loss Account of the company.

Most of these regulations are as follows:

1. The amount provided for depreciation, renewals or diminution in value of fixed assets. If such provision is made by means of a depreciation charges, the method adopted for making such provision shall be disclosed. If no provision is made for depreciation, the fact that no provision has been made shall be stated and the quantum of arrears of depreciation computed in accordance with Section 205(2) of the Act shall be disclosed by way of a note.
2. Debenture interest and interest on other fixed loans, stating separately the amount of interest, if any, paid or payable to managing director and the manager, if any.
3. The amount of charges for Indian income-tax and other Indian taxation on profits.
4. Amount respectively provided for: (a) repayment of share capital; and (b) repayment of loan.
5. The amount of income from investments, distinguishing between trade investments and other investments.
6. Profits or losses on investments showing separately the extent of the profits or losses earned or incurred on account of membership of a partnership firm.
7. Dividends from subsidiary companies and provisions for losses of subsidiary companies.
8. The amounts paid to auditor:
 - a. As auditor;
 - b. As advisor, or in any other capacity, in respect of:
 - i. Taxation matters;
 - ii. Company law matters;
 - iii. Management services; and
 - c. in any other manner
9. Managerial remuneration under Section 198 of the Act paid or payable during the financial year to the directors (including managing directors), or manager, if any, either by the company or its subsidiaries.
10. Previous year's figures relating to all items of the Profit and Loss Account.
11. Prior period adjustment, if material, should be shown separately from the current year's figure, in the appropriation section, i.e., below the line.

The following shall be shown by way of a note:

1. The calculation of managerial remuneration.
2. Particulars in respect of licensed & installed capacity and actual production.
3. Particulars in respect of sales.
4. Details of finished goods.
5. Value of raw materials, spare parts & components consumed during the year.
6. Earnings in foreign exchange during the year.
7. Value of import during the year.
8. Expenditure in foreign currency during the year.
9. Remittances in foreign currency on account of dividend.

Some General Points Regarding Profit and Loss Account of Company

1. It is not necessary to separate the profit & loss Account into three parts (i.e. Trading Account, Profit and Loss A/c and Profit and Loss Appropriation A/c). Only one Profit and Loss Account is prepared in three sections - First section to show Gross Profit; middle section to show Net Profit; and last section to show Appropriation of profit.
2. No statutory format to be followed.
3. Profit and Loss A/c can be prepared in "horizontal form" or "Vertical form"
4. Every Profit and Loss Account of a company shall give a true and fair view of the Profit and Loss of the company for the financial year.

The format of a Balance Sheet, as prescribed in Part I of Schedule VI is given hereunder.

Balance Sheet of A Ltd.
as on 31/3/2005

| Last Year Figure (Rs.) | Particulars | Current Year Figure (Rs.) | Last Year Figure (Rs.) | Particulars | Current year Figure (Rs.) |
|------------------------|--------------------------------------|---------------------------|------------------------|--|---------------------------|
| | SHARE CAPITAL | | | FIXED ASSETS | |
| | Authorised Capital | | | • Goodwill | |
| | Issued Capital | | | • Land | |
| | Subscribed Capital | | | • Building | |
| | Called up Capital | | | • Leasehold | |
| | <i>Paid up Capital</i> | | | • Railway Sidings | |
| | <i>Less: Calls in Arrears</i> | | | • Plant & Machinery | |
| | RESERVE & SURPLUS | | | • Furniture & Fittings | |
| | • Capital Reserve | | | • Development of Property | |
| | • Capital Redemption Reserve | | | • Patents, Trade marks & Designs | |
| | • Share Premium | | | • Live Stock | |
| | • General Reserve | | | • Vehicle etc. | |
| | • Sinking Fund | | | INVESTMENTS | |
| | • Profit & Loss A/c (Cr Bal.) | | | CURRENT ASSETS, LOANS & | |
| | • Any Additions if proposed | | | ADVANCES: | |
| | SECURED LOANS | | | Current Assets | |
| | • Debentures | | | • Interest Accrued on Investments | |
| | • Loans & Advances from Banks | | | • Stores & Spares | |
| | • Loans & Advances from Subsidiaries | | | • Loose Tools | |
| | • Other Loans & Advances | | | • Stock in Trade | |
| | | | | • Work in Progress | |
| | | | | • Sundry Debtors | |
| | | | | a. Debts outstanding for a period more than six months | |
| | | | | b. Other Debts | |
| | | | | Less: R.D.D. | |

| | | | |
|---|--|--|--|
| UNSECURED LOANS | | | <ul style="list-style-type: none"> • Fixed Deposits • Loans & Advances from Subsidiaries • Short terms Loans & Advances <ul style="list-style-type: none"> a. From Banks b. From Others • Other Loans & Advances <ul style="list-style-type: none"> a. From Banks b. From Others |
| | | | <ul style="list-style-type: none"> • Cash In Hand • Bank Balance <p>Loans & Advances</p> <ul style="list-style-type: none"> • Advances & Loans to Subsidiaries • Bills of Exchange • Prepaid Expenses • Balances with customs, Port Trust etc. |
| CURRENT LIABILITY & PROVISIONS | | | <p>MISCELLANEOUS EXPENSES & LOSSES</p> <ul style="list-style-type: none"> • Preliminary Expenses • Commission or Brokerage <ul style="list-style-type: none"> On underwriting subscription of shares or debentures • Discount allowed on issue of shares or Debentures. • Other Items <ul style="list-style-type: none"> Profit & Loss A/c (Debit Bal.) |
| | | | |

Profit
of net pr

Dr.

To Tax Pr
To Propos
To Transf
To Transf
Equilisatio
To Other
To Bal C/

| | | | | | |
|--|--|--|--|--|--|
| | <p>Scheme</p> <ul style="list-style-type: none"> * Other Provision, if any <p>CONTINGENT LIABILITIES</p> <ul style="list-style-type: none"> * Claim against the company not acknowledged as debts * Uncalled Liability or shares partly paid * Arrears of fixed cumulative dividends * Other money for which the company is contingently liable. | | | | |
|--|--|--|--|--|--|

Profit and Loss Appropriation A/c is prepared to show apportionment (Distribution) of net profit of the company. It appears as under:

| Profit & Loss Appropriation A/c | | | |
|---------------------------------|-------------|----------------|--------------------------------------|
| Dr. | Particulars | Amount (Rs) | Cr. |
| To Tax Provision | | | By Bal B/d |
| To Proposed Dividend | | | By Net Profit b/d (Current Year) |
| To Transfer to General Reserve | | | |
| To Transfer to Dividend | | | |
| Equilisation Reserve | | | |
| To Other Reserve (Transfer) | | | |
| To Bal C/d | | | |

ILLUSTRATIONS

1. Divine India Ltd, Nashik, was registered with an Authorised Capital of 2,20,000 Equity Shares of Rs. 10 each. It provides you with their following annual Trial Balance as on 31/03/2005

| Particulars | Dr. (Rs.) | Cr. (Rs.) |
|---|-----------|-----------|
| Sales | | 24,00,000 |
| R.D.D. | | 4,000 |
| Bank Over Draft | | 2,87,440 |
| 7% Debentures | | 6,00,000 |
| Commission Received | | 6,400 |
| Profit & Loss A/c (1/4/2004) | | 1,26,400 |
| Deposit Received | | 40,000 |
| Reserve Fund | | 3,40,000 |
| Sundry Creditors | 40,000 | |
| Salaries | 1,280 | |
| General expenses | 3,80,000 | |
| Opening Stock | 33,200 | |
| Insurance | 8,000 | |
| Discount | 1,03,600 | |
| Wages | 31,600 | |
| Carriage Inward | 8,320 | |
| Audit Fees | 20,000 | |
| Advertisement | 18,74,000 | |
| Purchases | 1,00,000 | |
| Calls in arrears | 32,000 | |
| Interim Dividend Paid | 1,66,000 | |
| Sundry Debtors | 20,000 | |
| Motor Vehicles | 1,26,000 | |
| Goodwill | 1,09,440 | |
| Bills Receivable | 98,000 | |
| 10% Govt. Securities (Face Value Rs.100000) | 77,760 | |
| Cash In Hand | 28,000 | |
| Furniture | 44,000 | |
| Preliminary Expenses | 76,000 | |
| Loose Tools | | 11,20,000 |
| Plant & Machinery | | 15,24,800 |
| Land & Building | | 20,00,000 |
| Share Capital | 60,22,000 | 60,22,000 |

Additional Information:

- The Stock on 31st March, 2005 was valued to be Rs. 3,60,000.
- Provide 5% on Debtors for doubt full debts.
- Depreciate Plant & Machinery and Furniture at 5% p.a. & 10% p.a. respectively.
- Prepaid Insurance amounted to Rs. 3,200
- Interest on Debenture is due for the year.
- Interest on Govt. Securities is due and accrued for the year.
- Tax Provision to be made at 50% of Net profits.
- Write off 40% of the Preliminary expenses.
- Following appropriation of profit was made by directors
 1. To transfer Rs. 10,000 to Reserve Fund.
 2. To declare 5% dividend on paid up capital

From the following information you are requested to prepare Trading A/c, Profit and Loss A/c & Profit & Loss Appropriation A/c for the year ended 31/03/2005 and Balance Sheet as on that date for Divine India Ltd.

Solution

In the books of Divine India Ltd.

Trading Account

For the year ended 31/03/2005

| Dr. | Particulars | Amt. | Particulars | Cr. |
|---|-------------|------------------|-------------|-----------|
| To Opening Stock | 3,80,000 | By Sales | | 24,00,000 |
| To Purchases | 18,74,000 | By Closing Stock | | 3,60,000 |
| To Carriage Inward | 31,600 | | | |
| To Wages | 1,03,600 | | | |
| To Gross Profit (Transferred to Profit & Loss A/c) | 3,70,800 | | | |
| | 27,60,000 | | | 27,60,000 |

Profit & Loss Account

For the year ended 31/03/2005

| Dr. | Particulars | Amt. | Particulars | Cr. |
|-----------------------|-------------|------------------------------------|-------------|----------|
| To Salaries | 40,000 | By Gross Profit | | 3,70,800 |
| To General Expense | 1,280 | (Transferred from Trading Account) | | |
| To Insurance | 33,200 | By Commission Received | | 6,400 |
| Less: Prepaid | 3,200 | By Interest accrued on Investment | | 10,000 |
| To Bad debts (Old) | | | | |
| Add:- Bad debts (Old) | | | | |

| | | | |
|--|-----------------|--------|-----------------|
| Add :- R.D.D. (New) | 8,300 | | |
| Less :- R.D.D. (Old) | 4,000 | 4,300 | |
| To Discount | | 8,000 | |
| To Audit Fees | | 8,320 | |
| To Advertisement | | 20,000 | |
| To Depreciation on | | | |
| Plant & Machinery | | 56,000 | |
| Furniture | | 2,800 | |
| To Interest Due On | | | |
| Debentures | | 42,000 | |
| To Preliminary Expenses | | 17,600 | |
| To Tax Provision | | 78,450 | |
| To Net Profit | | 78,450 | |
| (Transferred to Profit & loss Appropriation A/c) | | | |
| | 3,87,200 | | 3,87,200 |

Profit & Loss Appropriation Account

Dr.

For the year ended 31/03/2005

Cr.

| Particulars | Amt. | Particulars | Amt. |
|--------------------------|-----------------|---------------|-----------------|
| To Interim Dividend Paid | 32,000 | By Bal B/d | 1,26,400 |
| To Reserve Fund | 10,000 | By Net profit | 78,450 |
| To Dividend | 95,000 | | |
| To Bal C/d | 67,850 | | |
| | 2,04,850 | | 2,04,850 |

Balance Sheet of Divine India Ltd. as on 31/03/2005

| Liabilities | Amt. | Amt. | Assets | Amt. | Amt. |
|---------------------------------------|-----------|-----------|-----------------------|-----------|-----------|
| Share Capital | | | Fixed Assets | | |
| Authorised Capital | | | Goodwill | | 1,26,000 |
| 220000 Equity shares of Rs.10 each | | 22,00,000 | Motor Vehicle | | 20,000 |
| Issued, Called up & | | | Furniture | 28,000 | |
| Paid up Capital | 20,00,000 | | Less: Dep.10% | 2,800 | 25,200 |
| 200000 Equity Shares of Rs.10 each | 1,00,000 | 19,00,000 | Plant & Machinery | 11,20,000 | |
| - Calls in arrears | | | Less: Depreciation 5% | 56,000 | 10,64,000 |
| | | | Land & Building | | 15,24,800 |

| | | | |
|---|-----------|--|-----------|
| Reserves Surplus | | Investment | |
| Reserve Fund | | 10% Govt. Securities | |
| Add: Transferred | 3,40,000 | (Face Value | |
| Profit & Loss A/c | | Rs.100000) | 98,000 |
| | 10,000 | | |
| | 3,50,000 | | |
| Secured Loan | | Current Assets & Loans & Advances | |
| 7% Debentures | 67,850 | Sundry Debtors | 1,66,000 |
| Interest due on Debenture | 6,00,000 | Less: R.D.D. 5% | 8,300 |
| | | Cash In Hand | 1,57,700 |
| | 42,000 | Loose Tools | 77,760 |
| Current Liabilities & Provisions | | Closing Stock | 76,000 |
| Bank Over Draft | 2,87,440 | Interest Accrued on Investment | 3,60,000 |
| Deposits Received | 40,000 | Loans & Advances | |
| Sundry Creditors | 2,17,760 | Bills Receivable | |
| Proposed Dividend | 95,000 | Prepaid Insurance | 1,09,440 |
| Tax Provision | 78,450 | Miscellaneous Exp. & Losses | |
| | | Preliminary Exp | 3,200 |
| | | Less: Written off 40% | 44,000 |
| | | | 17,600 |
| | | | 26,400 |
| | 36,78,500 | | 36,78,500 |

2. From the following information you are requested to prepare Trading A/c, Profit & Loss A/c & Profit & Loss Appropriation A/c for the year ended 31/03/2005 & Balance Sheet as on that date for Natraj Corporation.

| Particulars | Dr. (Rs.) | Cr. (Rs.) |
|--|-----------|-----------|
| Bills of Exchange | 3,00,000 | 1,80,000 |
| Accounts Receivable / Accounts Payable | 10,80,000 | 4,50,000 |
| General Expenses | 1,05,000 | |
| Audit Fees | 45,000 | |
| Bad Debts | 60,000 | |
| Rent, Rates & Insurance | 45,000 | |
| Directors Fees | 67,500 | 49,80,000 |
| Sales | 52,500 | |
| Debenture Interest (upto 30/09/2004) | 60,000 | |
| Preliminary Expenses | 30,000 | |
| Cash at Bank | | |

| | Dr. | To | To | To | To | To | (T) |
|---------------------------------|-----|-----------|-------------|----|----------|----|-----|
| Investment at cost | | 90,000 | | | | | |
| Profit & Loss Appropriation A/c | | | 3,00,000 | | | | |
| Development Rebate Reserve | | | 525000 | | | | |
| Bank Over Draft | | | 375000 | | | | |
| Sundry Creditors | | | 450000 | | | | |
| 7% Debentures | | | 1500000 | | | | |
| General Reserve | | | 420000 | | | | |
| Share Capital | | 6,00,000 | | | | | |
| Land & Building | | 22,50,000 | | | | | |
| Plant & Machinery | | 1,20,000 | | | | | |
| Furniture & Fixtures | | 6,60,000 | | | | | |
| Opening Stock (1/4/2004) | | 1,65,000 | | | | | |
| Salaries | | 30,000 | | | | | |
| Printing & Stationery | | 30,00,000 | | | | | |
| Purchases | | 6,00,000 | | | | | |
| Carriage Inward | | 8,40,000 | | | | | |
| Wages | | 30,000 | | | | | |
| Calls In Arrears | | | 1,02,30,000 | | 10230000 | | |

The following additional information was made available

1. The stock on 31/03/2005 was valued at cost price Rs. 2100000 & at market price at Rs. 2350000
2. Write off 25% of the preliminary expenses
3. The authorised capital of the company is 50000 equity shares of Rs. 100 each.
4. Tax provision should be made at Rs. 351000.
5. Plant & Machinery and Land & Building to be depreciated at 10% P.a. & 20% P.a. respectively.
6. Further Bad debts to be written off Rs. 30000 & Provide 5% for doubtful debts on debtors.
7. Outstanding Salaries Rs. 15000 & Insurance Prepaid Rs.6000.
8. The Board of Directors have decided to make the following appropriations
 - i. Proposed Dividend on paid up Equity Capital at 10%
 - ii. Transfer Rs.150000 to Development Rebate Reserve
 - iii. Transfer Rs. 75000 to General Reserve.

Solution

In the books of Natraj Corporation
Trading Account
For the year ended 31/03/2005

| Dr. | Particulars | Amt. | Cr. |
|---|-------------|------------------|-----------|
| To Opening Stock | 6,80,000 | By Sales | 49,80,000 |
| To Purchases | 30,00,000 | | |
| To Carriage Inward | 6,00,000 | | |
| To Wages | 8,40,000 | | |
| To Gross Profit (Transferred to Profit & Loss A/c) | 19,80,000 | By Closing Stock | 21,00,000 |
| | 70,80,000 | | 70,80,000 |

Profit & Loss Account
For the year ended 31/03/2005

| Dr. | Particulars | Amt. | Cr. |
|--|-------------|----------|-----------|
| To Salary | 1,65,000 | | 19,80,000 |
| Add :- Outstanding | 15,000 | 1,80,000 | |
| To Printing & Stationery | | 30,000 | |
| To General Expenses | | 1,05,000 | |
| To Rent, Rates & Ins. | 45,000 | | |
| Less :- Prepaid | 6,000 | 39,000 | |
| To Directors Fees | | 67,500 | |
| To Bad Debts (Old) | 60,000 | | |
| + Bad Debts (New) | 30,000 | | |
| + R. D. D. (New) | 52,500 | | |
| - R. D. D. (Old) | | 1,42,500 | |
| To Audit Fees | | 45,000 | |
| To Debenture Interest | 52,500 | | |
| Add :- Outstanding (for 6 Months) | 52,500 | 1,05,000 | |
| To Depreciation on Land & Building | | 1,20,000 | |
| Plant & Machinery | | 2,25,000 | |
| To Preliminary Expenses | | 15,000 | |
| To Tax Provision | | 3,51,000 | |
| To Net Profit (Transferred to P & L Appr. A/c) | | 5,55,000 | |
| | 19,80,000 | | 19,80,000 |

Profit & Loss Appropriation Account
For the year ended 31/03/2005

| Dr. | Particulars | Amt. | Cr. |
|-------------------------------|-----------------|---------------|-----------------|
| | Particulars | Amt. | |
| To General Reserve | 75,000 | By Bal B/d | 3,00,000 |
| To Development Rebate Reserve | 1,50,000 | By Net profit | 5,55,000 |
| To Proposed Equity Dividend | 1,47,000 | | |
| To Bal C/d | 4,83,000 | | |
| | 8,55,000 | | 8,55,000 |

Balance Sheet of Natraj Corporation as on 31/03/2005

| Liabilities | Amt. | Assets | Amt. |
|---|------------------|--------|----------|
| Share Capital | | | |
| Authorised Capital | | | |
| 50000 Equity shares of Rs.100 each | | | |
| Issued, Called up & | | | |
| Paid up Capital | | | |
| 15000 Equity Shares of Rs.10 each | 15,00,000 | | |
| - Calls in arrears | 30,000 | | |
| | 14,70,000 | | |
| Reserves Surplus | | | |
| General Reserve | 4,20,000 | | |
| Add: Transferred | 75,000 | | |
| | 4,95,000 | | |
| Development Rebate Reserve | 5,25,000 | | |
| Add: Transferred | 1,50,000 | | |
| | 6,75,000 | | |
| Profit & Loss A/c | | | |
| Secured Loan | | | |
| 7% Debentures | | | |
| Outstanding Interest on Debentures (for 6 Months) | | | |
| | 15,00,000 | | |
| Fixed Assets | | | |
| Land & Building | 6,00,000 | | |
| Less: Depreciation | 1,20,000 | | |
| Plant & Machinery | 22,50,000 | | |
| Less: Depreciation | 2,25,000 | | |
| Furniture | | | |
| | | | 90,000 |
| Investments (at cost) | | | |
| Current Assets | | | |
| & Loans & Advances | | | |
| Cash at Bank | | | 30,000 |
| Accounts Receivable (Debtors) | 10,80,000 | | |
| Less: Bad Debts | 30,000 | | |
| | 10,50,000 | | |
| Less: R.D.D. @ 5% | 52,500 | | |
| | 9,97,500 | | |
| Closing Stock | | | |
| Loans & Advances | | | 6,000 |
| Prepaid Insurance | | | 3,00,000 |
| Bills Receivable | | | |

| | | | |
|---|----------------------------------|---------------------------|------------------|
| Unsecured Loan | | Miscellaneous Exp. | |
| Bank Over Draft | 52,500 | Preliminary Expenses | 60,000 |
| Current Liabilities & Provisions | | Less: Written off (25%) | 15,000 |
| Accounts Payable (Creditors) | | | 45,000 |
| Bills Payable (Bills of Exchange) | 3,75,000 4,50,000 1,80,000 | | |
| Outstanding | | | |
| Salary | 15,000 | | |
| Tax Provision | 3,51,000 | | |
| Proposed Dividend | 1,47,000 | | |
| | 61,93,500 | | 61,93,500 |

3. Ajanta Ltd. Bombay was incorporated with an authorised share capital of Rs. 10,00,000 divided into 10000 equity shares of Rs. 100 each. The following is the trial balance as on 31st March 2001:

Trial Balance

| Particulars | Debit (Rs.) | Particulars | Credit (Rs.) |
|--|-------------|---------------------------------|--------------|
| Building | 7,62,400 | Share Capital | 10,00,000 |
| Plant & Machinery | 5,60,000 | Sundry Creditors | 1,08,880 |
| Loose Tools | 38,000 | Reserve Fund | 1,70,000 |
| Preliminary Expenses | 22,000 | Deposits | 25,000 |
| Furniture | 20,000 | Profit & Loss Appropriation A/c | 63,200 |
| Cash in Hand | 38,880 | (1/4/2000) | |
| 10% Govt. Securities (Face Value Rs. 50000) | 49,000 | Reserve for Doubtful Debts | 2,000 |
| Bills Receivable | 54,720 | Sales | 12,10,000 |
| Goodwill | 63,000 | Rent Received | 3,200 |
| Motor Vehicle | 10,000 | 8% Debentures | 3,00,000 |
| Sundry Debtors | 83,000 | Bank over Draft | 1,49,720 |
| | | Share Premium A/c | 4,000 |

| | Dr. | Company Final Account | Cr. |
|-----------------------|------------------|-----------------------|------------------|
| Interim Dividend Paid | 16,000 | | |
| Calls in Arrears | 50,000 | | |
| Purchases | 9,37,000 | | |
| Advertisements | 10,000 | | |
| Audit Fees | 4,160 | | |
| Carriage Inward | 15,800 | | |
| Wages | 51,800 | | |
| Discount Allowed | 4,000 | | |
| Insurance | 16,600 | | |
| Stock 1/4/2000 | 2,00,000 | | |
| General Expenses | 5,840 | | |
| Printing & Machinery | 4,000 | | |
| Salaries | 20,000 | | |
| | 30,36,000 | | 30,36,000 |

You are required to prepare Trading, Profit & Loss A/c and Profit & Loss Appropriation A/c for the year ending 31st March 2001 & Balance sheet as on that date according to the prescribed form in companies Act, 1956.

Other information

1. The Stock on 31st March 2001 was valued at Rs. 200000.
2. Create a Reserve for Doubtful Debts at 5% on sundry debtors
3. Provide depreciation on Plant and Machinery at 5% p.a. & Furniture at 10% p.a.
4. Prepaid Insurance amounted to Rs. 1,600.
5. Interest on Debentures & from Government Securities is due accrued for the year
6. Provision for taxation to be made at 50% of net profits.
7. Write off 40% of the preliminary expenses.
8. The directors propose the following appropriations:
 - a. To declare 5% dividend on paid up capital.
 - b. To Transfer Rs. 5,000 to Reserve Fund.

| In the books of Ajanta Ltd, Bombay Trading Account For the year ended 31/3/2003 | | | |
|---|-----------|------------------|-----------|
| Dr. | | Particulars | Cr. |
| Particulars | Amt. | Particulars | Amt. |
| To Opening Stock | | By Sales | 12,10,000 |
| To Purchases | 2,00,000 | By Closing Stock | 2,00,000 |
| To Carriage Inward | 9,37,000 | | |
| To Wages | 15,800 | | |
| To Gross Profit c/d | 51,800 | | |
| (Transferred to Profit & Loss A/c) | 2,05,400 | | |
| | 14,10,000 | | 14,10,000 |

| Profit & Loss Account For the year ended 31/3/2003 | | | |
|---|----------|--------------------------|----------|
| Dr. | | Particulars | Cr. |
| Particulars | Amt. | Particulars | Amt. |
| To Advertisement | 10,000 | By Gross Profit | 2,05,400 |
| To Audit Fees | 4,160 | (Transferred to Profit & | |
| To Discrepancy allowed | 4,000 | Loss A/c) | |
| To Insurance | 16,600 | By Rent received | 3,200 |
| Less: Prepaid | 1,600 | By Interest on 10% Govt. | |
| To General Expenses | 5,640 | Securities | 5,000 |
| To Printing and Stationery | 4,000 | | |
| To Salaries | 20,000 | | |
| To Bad debts | | | |
| Add: Bad debts (New) | | | |
| Add: R.D.D (New) | 4,150 | | |
| Add: R.D.D. (Old) | 2,000 | | |
| To Depreciation | 2,150 | | |
| Plant & Machinery | 28,000 | | |
| Furniture | 2,000 | | |
| To Interest on debentures | 24,000 | | |
| To preliminary Expenses | 8,800 | | |
| To Provision for Tax | 42,925 | | |
| To Net Profit | 42,925 | | |
| (Transferred to Profit & | | | |
| Loss Appropriation A/c) | | | 2,13,600 |
| | 2,13,600 | | |

Profit & Loss Appropriation Account

| Dr. | For the year ended 31/03/2003 | | Cr. |
|----------------------|-------------------------------|-------------------|----------|
| Particulars | Amt. | Particulars | Amt. |
| To Interim Dividend | 16,000 | By Bal B/d | 63,200 |
| To Proposed Dividend | 47,500 | By Net Profit b/d | 42,925 |
| To Reserve Fund | 5,000 | | |
| To Bal C/d | 37,625 | | |
| | 1,06,125 | | 1,06,125 |

Balance Sheet of Ajanta Ltd, Bombay as on 31/03/2003

| Liabilities | Amt. | Amt. | Assets | Amt. | Amt. |
|--|-----------|-----------|--|----------|-----------|
| Share Capital | | | Fixed Assets | | 62,400 |
| Authorised Capital | | | Building | 5,60,000 | |
| 10000 Equity Shares of Rs. 100 each | | 10,00,000 | Plant & Machinery | 28,000 | 5,32,000 |
| Issued & Subscribed & Paid-up Capital | | | Less: Depreciation | 20,000 | |
| 10000 Equity shares of Rs. 100 each | 10,00,000 | | Furniture | 2,000 | 18,000 |
| Less: Calls In arrears | 50,000 | 9,50,000 | Less : Depreciation | | 63,000 |
| Reserves & Surplus | | | Goodwill | | 10,000 |
| Reserve Fund | 1,70,000 | | Motor Vehicles | | |
| Add: Transferred | 5,000 | 1,75,000 | Investments | | |
| Share Premium | | 4,000 | 10% Govt. Securities | | 49,000 |
| Profit & Loss | | 37,625 | (Face value Rs. 50,000) | | |
| Appropriation A/c | | | Current Assets and Loans & Advances | | |
| Secured Loan | | | Loose Tools | | 38,000 |
| 8% Debentures | | 3,00,000 | Cash in hand | | 38,880 |
| Accrued Interest on 8% Debentures | | 24,000 | Bills receivable | | 54,720 |
| Unsecured Loan | | | Sundry Debtors | 83,000 | |
| Deposits | | 25,000 | Less: R.D.D. | 4,150 | 78,850 |
| Bank Overdraft | | 1,49,720 | Closing stock | | |
| Current Liabilities & Provisions | | | Interest on 10% Govt. | | 2,00,000 |
| Creditors | 1,08,880 | | Securities | | 5,000 |
| Proposed Dividend | 47,500 | | Prepaid Insurance | | 1,600 |
| Provision for Tax | 42,925 | | Miscellaneous | | |
| | 18,64,650 | | Expenditure & Losses | | |
| | | | Preliminary Expenses | 22,000 | |
| | | | Less: Written off | 8,800 | 13,200 |
| | | | | | 18,64,650 |

4.

Greaves India Ltd. has an Authorised Capital of Rs. 10,00,000 divided in 10,000 Equity share of Rs. 100 each. From the following Trial Balance as on 31st March 2003. Prepare Trading A/c, Profit and Loss A/c, Profit and loss Appropriation A/c for the year ended 31-3-2003 and Balance Sheet as on that date in the prescribed form under the Indian Companies Act, 1956.

Trial Balance as on 31/12/2003

| Particulars | Dr. (Rs.) | Cr. (Rs.) |
|--|-----------|-----------|
| Plant and Machinery | 6,00,000 | |
| Discount on Issue of Debentures | 19,600 | |
| Cash in Hand | 2,000 | |
| 5% Kargil War Bonds (Tax-free) (face value Rs. 40,000) | 39,000 | |
| Freehold Land | | |
| Interim Dividend | 1,60,000 | |
| Goodwill | 18,000 | |
| Administration Charges | 51,000 | |
| Profit and Loss A/c as on 1-4-2002 | 3,200 | 35,000 |
| Leasehold Premise | 2,00,000 | |
| Debtors and Creditors | 80,000 | 1,22,400 |
| Bill of Exchange | 54,400 | 20,000 |
| Bank | 4,400 | 44,200 |
| Purchases and Returns | 9,60,000 | 20,000 |
| Sales and Returns | 31,200 | 12,31,200 |
| Discount | 400 | 200 |
| Furniture | 10,000 | 27,000 |
| General Reserve | | |
| Advertisement | 1,000 | |
| Accountancy Charges | 4,000 | |
| Patents | 71,400 | |
| Stores and Spare Parts | 7,600 | |
| Wages | 90,000 | |
| Insurance | 19,600 | |
| Calls-in Arrears | 6,000 | |
| Shares Capital (8000 Equity shares of Rs. 100 each fully paid-up) | | 8,00,000 |
| Loose Tools | 30,000 | |
| Carriage Inward | 10,000 | |
| Carriage Outward | 4,800 | |
| Stock on 1-4-2002 | 1,90,400 | |
| Motor Vehicle | 12,000 | |
| Trade Expenses | 2,800 | |
| General Expenses | 17,200 | 4,00,000 |
| 6% Debentures | | 27,00,000 |
| | 27,00,000 | 27,00,000 |

You are required to consider the following adjustments:

1. Stock on 31-3-2003 amounted to Rs. 1,70,000.
2. Bill discounted not yet matured were Rs. 20,000.
3. Create a reserve for bad and doubtful debts at 5% on sundry debtors.
4. Interest on debentures and from Kargil War Bonds is due and outstanding for the year.
5. Wages payable amounted to Rs. 2,400 and insurance paid in advance was Rs. 1,600.
6. General Reserve is to be increased to Rs. 30,530.
7. Depreciation is to be provided on written down value method at 5% p.a. on Plant and Machinery, $7\frac{1}{2}$ % p.a. Furniture, 15% p.a. on Loose Tools and 20% p.a. on Motor Vehicles.
8. Directors of the company declared on 2-1-2003 and interim dividend for six months ending 30-9-2002 at 3% on paid up equity capital.

Solution

In the books of Greaves India Ltd Trading Account

For the year ended 31/3/2003

| Dr. | Particulars | Amt. | Particulars | Cr. |
|------------------------------------|-------------|-----------|---------------------|-----------|
| To Opening Stock | | 1,90,400 | By Sales | 12,31,200 |
| To Purchases | 9,60,000 | | Less: Return Inward | 31,200 |
| Less: Return Outward | 20,000 | 9,40,000 | By Closing Stock | 1,70,000 |
| To Carriage Inward | | 10,000 | | |
| To Wages | 90,000 | | | |
| Add: Outstanding | 2,400 | 92,400 | | |
| To Trade Expenses | | 2,800 | | |
| To Gross Profit c/d | | 1,34,400 | | |
| (Transferred to Profit & Loss A/c) | | | | |
| | | 13,70,000 | | 13,70,000 |

Profit & Loss Account

For the year ended 31/03/2003

Cr.

| Dr. | Particulars | Amt. | Particulars | Amt. |
|---------------------------|-------------|--------|-----------------------------------|----------|
| To General Reserve | | 17,200 | By Gross Profit B/d | 1,34,400 |
| To Insurance | 19,600 | | (Transferred from Trading A/c) | |
| Less: Prepaid | 1,600 | 18,000 | By Interest on Kargil Bonds (Due) | 2,000 |
| To Administrative Charges | | 3,200 | By Discount | 200 |
| To Accounting Charges | | 4,000 | | |
| To Interest on Debentures | | 24,000 | | |
| Outstanding | | | | |

| | | | |
|--|--------|--|--------|
| To Discount on issue of Debenture 1/10 | 1,960 | | |
| To Advertisement | 1,000 | | |
| To Carriage Outward | 4,800 | | |
| To R.D.D | 4,000 | | |
| To Discount | 400 | | |
| To Depreciation on Plant & Machinery | 30,000 | | |
| Furniture | 750 | | |
| Loose Tools | 4,500 | | |
| Motor Vehicle | 2,400 | | |
| To Net Profit C/d | 20,390 | | |
| (Transferred to Profit & Loss Appropriation A/c) | | | |
| | 136600 | | 136600 |

Profit & Loss Appropriation Account

Dr.

For the year ended 31/03/2003

Cr.

| Particulars | Amt. | Particulars | Amt. |
|---------------------|--------|-------------------|--------|
| To General Reserve | 3,530 | By Bal B/d | 35,000 |
| To Interim Dividend | 23,820 | By Net Profit b/d | 20,390 |
| To Bal C/d | 28,040 | | |
| | 55,390 | | 55,390 |

Balance Sheet of Greaves India Ltd as on 31/03/2003

| Liabilities | Amt. | Amt. | Assets | Amt. | Amt. |
|-------------------------------------|------|------|---------------------|----------|----------|
| Share Capital | | | Fixed Assets | | |
| Authorised Capital | | | Goodwill | | 51,000 |
| 10000 Equity Shares | | | Freehold Land | | 1,60,000 |
| of Rs. 100 each | | | Leasehold Premises | | 2,00,000 |
| Issued & Paid up Capital | | | Plant & Machinery | 6,00,000 | |
| 8000 Equity shares of | | | Less : Depreciation | 30,000 | 5,70,000 |
| Rs.100 each | | | Motor Vehicle | 12,000 | |
| | | | Less : Depreciation | 2,400 | 9,600 |
| | | | Furniture | 10,000 | |
| | | | Less : Depreciation | 750 | 9,250 |

| | | | | |
|--|----------|-----------|--|-----------|
| Subscribed, Called-up & Paid-up Capital | | | Patents | 71,400 |
| 8000 Equity shares of Rs.100 each | | | Investments | 39,000 |
| Fully called | 8,00,000 | | 5% Kargil war Bonds | |
| Less: Calls | | | Current Assets and Loans & Advances | |
| In arrears | 6,000 | 7,94,000 | Interest Accrued | 2,000 |
| | | | On investments | 7,600 |
| Reserves & Surplus | | | Stock & Spare Parts | 25,500 |
| General Reserve | 27,000 | | Loose Tools | 1,70,000 |
| Add:- Transferred | 3,530 | 30,530 | Stock-in -Trade | |
| Profit & Loss | | | Sundry Debtors | 80,000 |
| Appropriation A/c | | 28,040 | Less: R.D.D. | 4,000 |
| Secured Loan | | 4,00,000 | Cash-in-Hand | 2,000 |
| 6% Debentures | | 24,000 | Cash at Bank | 4,400 |
| Interest Accrued Due | | | Loans & Advances | |
| Unsecured Loan | | 44,200 | Prepaid insurance | 1,600 |
| Bank Overdraft | | | Bills Receivable | 54,400 |
| Current Liabilities & Provisions | | | Miscellaneous | |
| Creditors | | 1,22,400 | Exp. & Losses | |
| Bills Payable | | 20,000 | Discount on issue of | |
| Provision | | | Debentures not | |
| Unclaimed Dividend | | 5,820 | Written off | 17,640 |
| Wages payable | | 2,400 | | |
| | | 14,71,390 | | 14,71,390 |

A.

- 1.
- 2.
- 3.
- 4.
- 5.

Ar

Exercise

A. Match the pairs

| Group A | | Group B |
|---------|---------------------------------|------------------------------|
| 1. | Minimum Managerial Remuneration | a. Short Term Loan |
| 2. | Work In Progress | b. Fixed Assets |
| 3. | Discount on Issue of Shares | c. Rs. 75000/- |
| 4. | Share Premium A/c | d. Current Assets |
| 5. | Unsecured Loan | e. Rs. 50000 |
| | | f. Reserves & Surplus |
| | | g. Miscellaneous Expenditure |

Ans. 1 - e, 2 - d, 3 - g, 4 - f, 5 - a.

B. Fill in the blanks

1. Dividends are usually paid on _____.
2. Trading A/c disclose the _____ in a business.
3. _____ on liability side covers the items like debenture, Debenture Interest Due.
4. Issue of _____ is not allowed unless the existing partly paid up shares are made fully paid up.
5. Dividend can not be paid or declared on _____.
6. On Forfeiture of shares amount paid on such shares by shareholders is transferred to _____.

C. True OR False

1. On Forfeiture of shares amount paid on such shares by shareholders is transferred to Calls in Advance.
2. Manufacturing A/c is Prepared where Production activities are carried on.
3. Bank Over Draft is Secured Loan.
4. Preliminary expenses are incurred at the time of commencement of business.
5. Profit on sale of asset is of Revenue Nature.

D. Problems

1. Given below is the Trial Balance of Sarika Products Ltd., as on 31st Dec., 2005.

Trial Balance as on 31/12/2005

| Particulars | Dr.(Rs.) | Cr(Rs.) |
|----------------------------------|-----------|-----------|
| Factory Premises | 2,45,000 | |
| Plant & Machinery | 1,75,000 | 45,000 |
| Profit & Loss A/C | 2,39,750 | 35,000 |
| Sundry Debtors | | |
| Reserve for Bad & Doubtful Debts | 27,250 | |
| Bad Debts | | 1,25,510 |
| Sundry Creditors | 6,250 | |
| Rent, Rates & Taxes | 1,550 | |
| War-Risk Insurance | 50,480 | |
| Office Salaries | 8,570 | |
| Advertisement Expenses | | 100 |
| Share Transfer Fees | 7,450 | |
| Rebates and Discount | 16,500 | |
| Director's Fees | 43,400 | |
| Wages (Manufacturing) | 5,460 | |
| Electricity & Lighting (Factory) | 4,500 | |
| Insurance (Factory) | | |
| Stock (01/01/2005) | 45,500 | |
| Raw Materials | 62,400 | |
| Work-in-Progress | 60,380 | |
| Finished Goods | 4,50,650 | |
| Purchase of Raw Material | 45,450 | |
| Bills Receivable | | 52,370 |
| Bills Payable | 4,000 | |
| Audit Fee | 8,970 | |
| Printing & Stationery | 11,340 | |
| Travelling & Conveyance | 6,590 | |
| Office & Sundry Expenses | 22,450 | |
| Furniture & Fixture | 30,000 | |
| Vehicles | 15,000 | |
| Advances & Deposits | 3,000 | |
| Taxes paid in Advance | 6,700 | |
| Returns Inward | | 4,500 |
| Returns Outward | | 8,950 |
| Staff Welfare Fund | | 7,65,450 |
| Sales | 6,470 | |
| Cash in Hand | 15,670 | |
| Cash with the Sangli Bank Ltd., | | 5,89,120 |
| Share Capital | 16,26,000 | 16,26,000 |

You are required to prepare Manufacturing, Trading and Profit and Loss Account for the year ending 31st December, 2005 and Balance Sheet as on that date, after taking into account the following adjustments:

1. Closing Stock was valued at cost as under: Raw Material Rs. 26,400; Finished Goods Rs. 25,450; Work-in-Progress Rs. 24,600.
 2. Provide for Depreciation on Factory Premises @ 5%, Vehicles @ 20%, on Furniture and Fixtures @ 10% and Plant and Machinery @ 5%. No depreciation to be provided on the assets sold during the year.
 3. On 1-10-2005 the company purchased in an auction some furniture of the value Rs. 1,200, which has been debited to purchases of Raw Material Account.
 4. Sales include Rs. 1,000 being proceeds of Furniture sold on 30-09-2005. The Company has no profit or loss on sale of this.
 5. Maintain the Reserve for Bad and Doubtful Debts @ 10% on Sundry Debtors.
 6. Bad Debts amounting to Rs 1,200 are included in Sundry Debtors, which are to be written off.
 7. Interest of Rs.700 is due on Advances but has not been received.
 8. Provision for outstanding liabilities is to be made as under: Office Salaries Rs. 3,000, Travelling and Conveyance Rs. 2,000.
 9. Provide for Rs. 5,000 to the Staff Welfare Fund.
- Authorised Share Capital of the Company is Rs.10,00,000 divided into 40,000, 8% Preference Shares of Rs.10. each and 60,000 Equity Shares of Rs. 10 each. 20,000 Preference Share have been issued and fully paid up and the remaining amount received is in respect of Equity Shares on which no calls are in arrears.
2. A Ltd. was registered with a nominal capital of Rs.10,00,000 divided into 10,000 equity shares of Rs. 100 each. Prepare Trading Account, Profit & Loss Account, Profit and Loss Appropriation Account for the year ended 31st March, 2005 & Balance Sheet as on that date:

Trial Balance as on 31/3/2005

| Particulars | Dr.(Rs.) | Cr(Rs.) |
|-----------------------|----------|---------|
| Plant & Machinery | 30,000 | |
| Insurance | 3,000 | |
| Audit Fees | 7,000 | |
| Purchases | 2,05,000 | |
| Sales Return | 10,000 | |
| Bad Debts | 2,000 | |
| Manufacturing Wages | 70,000 | |
| Salaries | 20,000 | |
| Printing & Stationery | 4,000 | |
| Stock on 1/4/2004 | 50,000 | |
| Rent | 6,000 | |
| Rates & Taxes | 7,000 | |

| | | |
|-------------------------|-----------|-----------|
| Interest & Bank Charges | 8,000 | |
| Carriage Inward | 9,000 | |
| Calls In arrears | 10,000 | |
| Travelling Expenses | 11,000 | |
| Cash in Hand & at Bank | 12,000 | |
| Furniture & Fittings | 12,000 | |
| Sundry Debtors | 2,00,000 | |
| Advertising | 7,000 | |
| Goodwill | 11,00,000 | |
| Freehold Property | 6,30,000 | |
| Bills Receivable | 70,500 | |
| Debenture Interest | 12,500 | |
| Investment | 10,000 | |
| Preliminary Expenses | 2,000 | |
| Share Transfer Fees | 5,000 | |
| Sales | 4,10,000 | |
| Purchase Return | 5,000 | |
| Sundry Creditors | 2,50,000 | |
| Bad Debts Provision | 5,000 | |
| P & L A/c (1/4/2004) | 3,00,000 | |
| Bills Payable | 12,000 | |
| 5% Debentures | 5,00,000 | |
| Share capital called up | 10,00,000 | |
| Share Premium | 9,000 | |
| General Reserve | 12,000 | |
| | 25,08,000 | 25,08,000 |

You are required to consider the following adjustments:

1. Insurance Prepaid Rs. 500.
2. Rent Outstanding Rs. 1,000.
3. Depreciation to be provided: Plant and Machinery 10%, Furniture and Fittings 10%
4. A Provision for Bad and Doubtful debts to be created at 5% on Sundry Debtors.
5. Salaries unpaid Rs. 2,000.
6. Interest on Debentures outstanding for 6 months.
7. Stock on 31/3/2005 was valued at Rs. 1,00,000.
8. The board directors had decided to make following appropriations:
 - a. Provision for taxation Rs. 50,000.
 - b. Proposed Equity Dividend at 10% on paid up capital.
 - c. Transfer to General Reserve Rs. 1,50,000.

* * *

6.1

Tod
develop
modern
the wo
busine
New d
Techno
walk
Comp
every
person

To

i.

ii.

iii.

iv.

v.