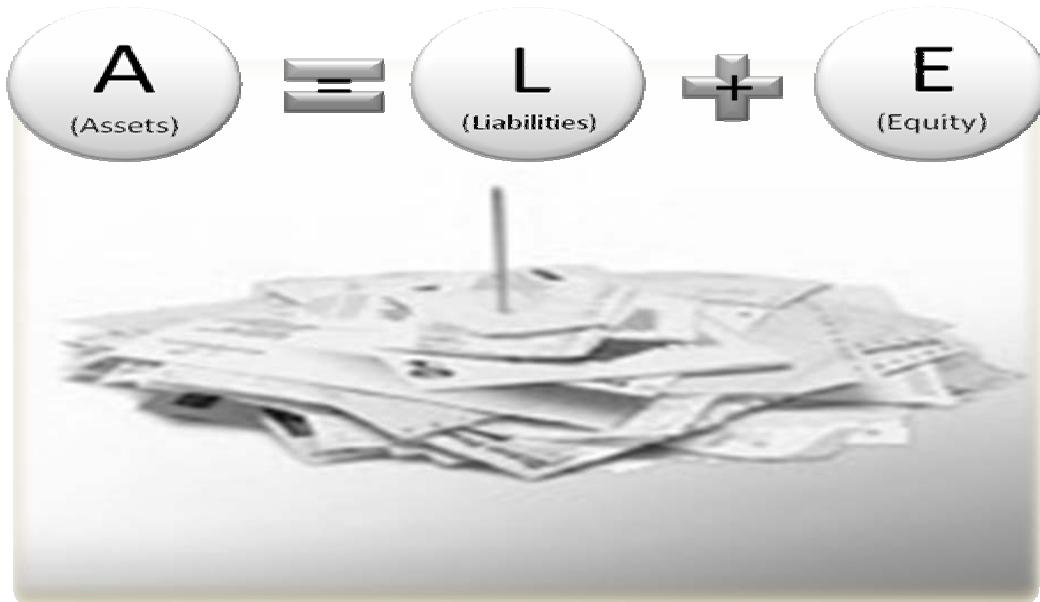


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## Chapter Two Transaction

From the primitive ages, people felt the necessity of keeping accounts. In those days people used to exchange objects among them to meet their daily needs. The event that brings change to the financial position among people is known as transaction. Therefore, it is seen that not all events are transactions. To get the real pen picture of the organization only the financial events are treated as transactions.



**Documents of Transactions**

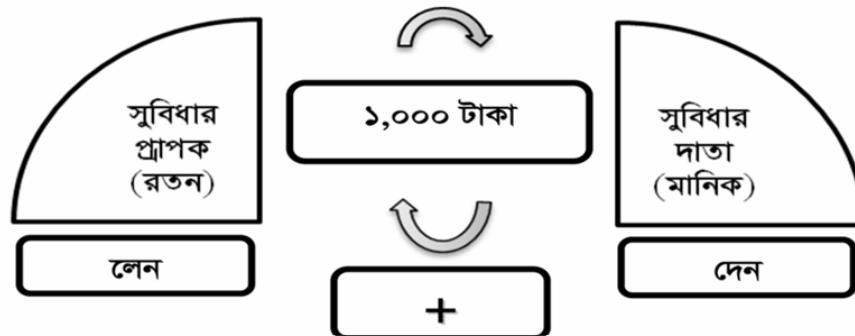
**After studying the chapter, we will be able to -**

- Have an idea about transactions
- Identify the nature of transactions
- Explain accounting equation
- Discuss the impact of transactions over accounting equation
- Prepare and explain the list of documents about the sources of transactions
- Prepare essential documents related to transactions

### Concept of Transaction

In modern society for recording accounts, transaction very is very important. Many events occur in business. However, not all these events can be recorded in the book of accounts. Only the events that are measurable in terms of money or something that brought changes financial position are to be treated as transactions. For example, suppose Mr. Simanto bought an almirah with 5000 taka, again got himself injured coming from the shop. Both these incidents are events. Only the first one is related to financial change and treated, as transaction but the later has no relation to the financial matter and such should not be recorded as transaction.

Literally, the meaning of the word transaction is to ‘give’ and ‘receive’ or give and take. In every transaction, there is one recipient of benefit while the other provides benefit. For example – Ratan gave Manik tk.1,000. With this, we see two parties. Ratan gave tk.1000 while Manik received the same. The matter is discussed through the following diagram:



Without the cash or credit, purchase or sales there can be other exchange of services that lead to transaction. For example, salary paid to Mrs. Mahbuba for her job or received 3000tk because of rent. This is also a transaction. Again, invisible events can also be a transaction. For example, assets used for a long time thus the value depreciation can also be a case of transaction.

Exchange of money or money's worth any event or service that reflects on the financial condition of a firm will be treated as transaction. Apparently if any exchange of product or service that brings a financial change will be known as transaction.

**Activity:** “Every transaction is an event; every event is not a transaction”- Explain.

**Features / nature of transaction:**

So far, we have learnt that every transaction is an event but not every event is a transaction. By analyzing the concept of a transaction, we will get the following features of it:

- i. **Measurable in terms of money:** One of the important features of a transaction is that it has to be measurable in terms of money or else it could not be treated as transaction. For example, the death of manager of a firm is loss to the firm but is not measurable in terms of money. However, goods destroyed by fire worth 20,000 taka are a loss to the firm and will be treated as a transaction.
- ii. **Changes of financial condition:** If any event brings any financial changes of a firm, it will be treated as a transaction. For example: Bought furniture with cash 5000 taka Here the furniture of the business has been increased by 5000 taka at the same time cash 5000 taka has also been decreased. Since this event has brought about a change in the financial position of the business, it will be treated as a transaction. Again, if an order of buying furniture worth 5000tk is placed; it will not be treated as a transaction as it has not brought any financial changes in the business.
- iii. **Dual entity:** Every transaction must include two parties. That is one party will receive benefits while the other will ensure the same. For example – salaries paid to the workers taka 5000. Here one party is the salary expense account while the other one is cash account.
- iv. **Complete and independent:** Another important feature of transaction is that each transaction is completely separate and independent from the others. For example – goods sold on credit taka 10,000 and the payment of which is received after 7 day. Here goods sold on credit are a transaction while 7 days later the payment received is a separate account.
- v. **Visibility:** Transactions can be both visible and invisible. For example – furniture purchased worth 10,000 taka. It is a visible transaction. Again, the depreciation of furniture worth 1000 taka is an invisible transaction.
- vi. **Historical event:** The financial matters that have taken place previously are known as historical transactions. Again, some events that may take in future are also known as transaction. If any future events change the financial position of the business, it will also be treated as transaction. For example – reserve for bad debts, reserve for discount etc.
- vii. **Impact over accounting equation:** Each transaction leaves a direct impact over the accounting equation. The items of transactions are affected by accounting equation. “Asset= Liabilities+ owner’s Equity” this accounting equation. Therefore, any event is justified through accounting equation whether it is a transaction or not.

### **Identifying transaction:**

Which events are transactions and which are not is explained by the following examples-

In the business of Mr. Sohail, the following events took place-

1. Mr. Sohail started business with tk.50,000.
2. He purchased goods with cash tk.15,000.
3. He has paid one of his creditors tk.10,000.
4. He has placed an order for purchasing goods worth tk.8,000.
5. Made an expense for advertisement worth tk.2,000.
6. Mr. Mamun has appointed as manager in business for a monthly salary tk.7,000.
7. Withdrawn from business for his personal use tk.3,000.
8. Tk.500 has stolen from his personal fund.
9. Agreed to purchase goods from Hashem Brother's worth tk.10,000 per month.
10. Sold goods to Hanif on account tk.10,000.

Whether these events are transaction or not explained with reason-

### **Solution:**

No.	Whether Transaction or Not	Explanation with reason
1.	Transaction	Since cash brought in as capital it has brought a financial change and includes two parties involved in it- one the capital of the owner and the other is the cash.
2.	Transaction	Value of product is measurable in terms of money. Purchase of goods is an expense to the business, while the payment has decreased the cash amount.
3.	Transaction	Payment to the creditor has decreased both the liability as well as the cash of the business, so financial condition has been affected.
4.	Not a Transaction	Placing order for the purchase of goods does not mean actual purchase. The buying and selling of the goods have not been taken place, so it is not a transaction.
5.	Transaction	The business has taken a benefit by placing advertisement and the value paid for it has brought a financial change.
6.	Not a Transaction	Giving appointment letter to any person has not brought any financial change to the business ad it does not include any cash flow either.
7.	Transaction	The owner has taken a benefit by withdrawing amount from the business, so the cash of the business has been affected.
8.	Not a Transaction	Loss of personal savings is not related to the business; the loss belongs to the owner alone. So the cash of the business is not affected.
9.	Not a Transaction	Has been agreed to purchase but actual purchase has not been taken place and the payment of which is neither made. So no financial changes occur in the business
10.	Transaction	By selling goods on credit to Hanif, the business has given him a benefit, which is an income to the business. It has brought a financial change.

### **Accounting Equation:**

In a particular time, the total asset of an organization should be equal to the sum of owner's equity and external liabilities. The equation that represents this fundamental concept is known as accounting equation. Accounting scholars have only identified those as transaction that affect the elements of accounting equation (Asset=Liability + Equity). Therefore, the events that make changes in assets, liabilities, and equity considered as transaction.

### **Accounting Equation mentioned below:**



$$A=L+E$$

Here,  
A= Assets  
L= Liabilities  
E= Equity

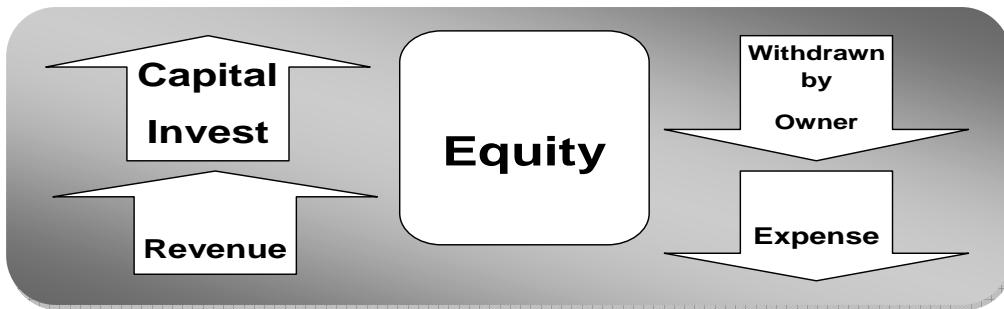
**Asset:** Asset means the economic resources that belong to a business that is invested for making profit. For example, furniture, buildings, machineries of a business.

**Liability:** Liability means the financial rigidity that has to be paid up after a certain period of time. That is it is the claim of the third party over the total assets of the business.

**Owner's Equity:** If the claim of the third party is deducted from the total assets of the business the rest will be known as owner's equity. That is the claim of the owner over the entire assets of the business is known as owner's equity. Four elements affect owner's equity. These are:

- ❖ Investment of owner
- ❖ Income
- ❖ Drawings
- ❖ Expense

### **Showed by the picture -**



### Extending Accounting Equation, we get -

Assets = Liabilities + Capital + Revenue - Expenses - Drawings Means, $A = L + (C + R - E - D)$	Where, A=Assets L=Liabilities C=Capital R=Revenue E=Expenses D=Drawings
--	---

If an event is to be a transaction, it has to satisfy any five of the following changes:

1. If total asset increases total liabilities or owner's equity, will also increase.
2. If total asset decreases total liabilities or owner's equity, will also decrease.
3. If one asset increases, the other asset will decrease.
4. If owner's equity increases, total liabilities will decrease.
5. If owner's equity decreases, total liabilities will increase.

The impact of transactions over accounting equation is shown in the chart-

1. (a) Started business with tk.5,000

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Creditors	$(C + R - E - D)$
5,000			=		5,000

Both Assets (cash) and Equity (capital) increased.

1. (b) Purchase machinery on credit tk.5,000

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Creditors	$(C + R - E - D)$
	5,000		=	5,000	

Both Assets (machine) and Liabilities (creditors) Increased.

2. (a) Paid to creditors tk.3,000

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Creditors	$(C + R - E - D)$
-3,000			=	- 3,000	

Both Assets (cash) and Liabilities (creditors) decreased.

2. (b) Salaries paid in cash tk.2,000

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Creditors	(C + R – E – D)
-2,000			=		-2,000

Both Assets (cash) and Equity (expense) decreased.

3. Furniture purchased in cash tk.1,000

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Creditors	(C + R – E – D)
-1,000		1,000	=		

Assets (cash) decreased and another Asset (furniture) increased

4. Business loan tk.5,000 paid off by the owner personally

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Loan	(C + R – E – D)
			=	-5,000	5,000

Liabilities (loan) decreased and Equity (capital) increased.

5. Goods purchase on credit tk.7,000

A (Assets)			=	L (Liabilities)	E (Equity)
Cash	Machinery	Furniture		Creditors	(C + R – E – D)
			=	7,000	-7,000

Liabilities (creditors) increased and Equity (expense) decreased.

### The impact of transactions over accounting equation is shown in the chart-

Mr. Dipok started his legal practitioner business on January 1, 2012. The transactions of the first month were as follows:

- Jan 1 Invested tk.50,000 in his business.
- Jan 2 Paid the rent for the month of January tk.3000
- Jan 7 Machine purchase on credit worth tk.15,000
- Jan 10 Legal services given to the clients for cash tk.6,000
- Jan 15 Paid salary to the office staff tk.2,000
- Jan 20 Loan taken from the bank tk.20,000.
- Jan 24 Legal services provided to the clients on credit tk.7,000.
- Jan 29 Dues for machine purchase paid tk.10,000.

### **Mr. Depok's**

Effects of transactions over the elements of Accounting Equation is mentioned below for January 2012 -

Date	Related Accounts	Effects on Accounting Equation (A=L+E)
January 1	Cash Account Capital Account	A Increase E Increase
January 2	Rent Expense Account Cash Account	E Decrease A Decrease
January 7	Machinery Account Supplier Account/ Accounts Payable	A Increase L Increase
January 10	Cash Account Service Revenue Account	A Increase E Increase
January 15	Salaries Expense Account Cash Account	E Decrease A Decrease
January 20	Cash Account Bank Account	A Increase L Increase
January 24	Accounts Receivable Service Revenue Account	A Increase E Increase
January 29	Supplier Account/ Accounts Payable Cash Account	L Decrease A Decrease

### **Mr. Depok's**

Effects of transactions over the elements of Accounting Equation is Shown for January 2012 -

Date		Assets			=	Liabilities + Equity			Remarks
		Cash	Debtors/ Accounts Receivable	Machinery	=	Loan	Creditors/ Accounts Payable	Capital	
2012 Jan: 1		50,000			=			50,000	Capital Invested
	Balance	<b>50,000</b>			=			<b>50,000</b>	
Jan: 2		-3,000			=			-3,000	Expense
	Balance	<b>47,000</b>			=			<b>47,000</b>	
Jan: 7				15,000	=	15,000			
	Balance	<b>47,000</b>		<b>15,000</b>	=	<b>15,000</b>		<b>47,000</b>	
Jan: 10		6,000			=			6,000	Revenue
	Balance	<b>53,000</b>		<b>15,000</b>	=	<b>15,000</b>		<b>53,000</b>	
Jan: 15		-2,000			=			-2,000	Expense
	Balance	<b>51,000</b>		<b>15,000</b>	=	<b>15,000</b>		<b>51,000</b>	
Jan: 20		20,000			= 20,000				
	Balance	<b>71,000</b>		<b>15,000</b>	= <b>20,000</b>	<b>15,000</b>		<b>51,000</b>	
Jan: 24		7,000			=			7,000	Revenue
	Balance	<b>71,000</b>	<b>7,000</b>	<b>15,000</b>	= <b>20,000</b>	<b>15,000</b>		<b>58,000</b>	
Jan: 29		-10,000			=		-10,000		
	Balance	<b>61,000</b>	<b>7,000</b>	<b>15,000</b>	= <b>20,000</b>	<b>5,000</b>		<b>58,000</b>	
	Total	<b>83,000</b>			=	<b>83,000</b>			

**Activity:** Show the effect of the following transactions in Accounting Equation using the above table.

Nargis Akter has started a tailoring business on March 1, 2012. Transactions of the first month mentioned below:

March 1	Invested in Business tk.20,000.
" 3	Shop rent for the month of March paid off tk.5000
" 9	Bought sewing machine by cash tk.15,000
" 14	Stitching wages realized tk. 2,000
" 17	Amount spent for publicity of the shop tk.1,000
" 22	Receivable from customer for stitching wages tk.1,500
" 25	Repair of sewing machine tk. 300
" 30	Bill of 22 <sup>nd</sup> march realized tk.1,200.

### Sources of business transactions and related documents:

In support of each transaction, one or many documentary evidence is seen. These carry the evidence of transactions. For example, any businessperson can make several transactions on a single day. Goods sold, purchase of goods, returned of purchased goods, returned of sold goods, depositing money or withdrawing the same in a bank such transactions may occur regularly on regular basis. In addition, these events are actually the main sources of transactions. Transactions made throughout the calendar year are impossible to be memorized. Therefore, the transactions are to be properly recorded in the books of accounts. Whenever an accountant tends to record these transactions, these documents are prepared. These documents are the voucher, cash memo, bill, debit note, credit note, VAT Invoice etc. Explanation, specimen copy, and use of this these documents are described here on.

**1. Invoice:** Invoice is a documentary proof of goods purchase & sales. When a sales representative sale goods, he delivers a written document mentioning the full detail of the goods in it. This written document is Invoice. Buyer's name & address, quantity of goods, description of goods, value of goods and terms of payment etc are mentioned in the invoice. Seller Consider it as outward Invoice and buyer as inward Invoice. On behalf of this invoice buyer prepares Purchase Journal and seller prepares Sales Journal.

Invoice No- 05728	<b>Sumon Traders</b> 53, New Market, Dhaka	Date: 10 March 2011
Buyer's Name: M/S Jadid Traders Address: Board Bazar, Gazipur	<b>Invoice</b>	
S/No.	Description Of Goods	Rate (Taka)
1	Nazir Shail Rice Less: Trade Discount (5%)	40
		1,000 KG
		40,000
		2,000
		<u>38,000</u>
Amount (Words): Thirty Eight Thousand Taka		
Sales Terms: 2/10, Net 30		
N.B. Errors & Omissions Excepted		
		Seller's Signature

Note: The amount that is levied on the buyer for final payment is known as trade discount.

**2. Voucher:** The documentary evidences, which are used for transactions, are known as voucher. For example – the seller gives a voucher to its buyer for goods sold tk.5,000. Again, a property owner gives a voucher to its tenants after receiving rent tk. 2,000.

Voucher is of two types. They are:

- a) Debit voucher
- b) Credit Voucher

**a) Debit Voucher:** Debit voucher is used for goods purchase and different types of expenses. It 's recorded in the credit or payments side of the cash book or cash register attaching invoice, cash memo with a consecutive serial number.

#### Sample of Debit Voucher

<b>Ali &amp; Haider</b> Andor Killa, Chittagong			
Debit Voucher No.-----	Date -----	Receiver's Name -----	Address-----
Head of Account -----			
No.	Description of Expense	Amount (Tk.)	
Cashier's Sign.		Accountants Sign.	Manager's Sign.
			Receiver's Sign.

**b) Credit Voucher:** The voucher, which is used for sale of goods and income received, is called credit voucher. After attaching Invoice, cash memo etc. with the credit voucher, it is recorded with a consecutive serial number on the debit side (Receipts side) of the cashbook.

#### Sample of Credit Voucher

<b>Zahir &amp; Brothers</b> Fultola, Khulna			
Credit Voucher No.-----	Date -----	Receiver's Name -----	Address-----
Head of Account -----			
No.	Description of Income	Amount (Tk.)	
Cashier's Sign. ~		Accountant's Sign.	Manager's Sign.
			Receiver's

**3. Cash Memo:** Cash Memo is given at the time of cash sale. The seller usually gives a cash memo to its buyer. The name and the address of the shop are generally

printed on top of the cash memo. Mentioning name of sold goods, quantity, rate, total value, net value, commission etc seller handed over the cash memo to buyer with his signature. Cash memo is generally prepared in triplicate. First copy to buyer, second copy to seller's accounts department and the third copy is kept in sales department.

#### Sample of Cash Memo

<b>Alam General Stores</b>				
Voucher No.....	35, New Market, Dhaka			
Date.....	<b>Cash Memo</b>			
Buyer's Name: Shemanto & Bros. Address: Chandona, Gazipur.				
No.	Description	Rate	Qty.	Amount (Tk.)
1	Gel Pen	5.00	1000 pcs.	5,000
<i>Amount(words):Five Thousand Taka</i>				
Buyer's Signature N.B.: Sold goods can't be returned			Seller's Signature	

**4. Debit Note:** When bought goods are returned to the seller due to inferior quality or not being according to the letter of order, a note is prepared by the buyer describing detail i.e. quantity, rate and value and the causes of return of the goods. The note is then sent to the seller along with the goods and the supplier is informed this note that his account has been debited with that amount due to those returned goods. This Note is called Debit Note. The buyer usually prepares a Debit Note.

#### Sample of Debit note

<b>Imran Brothers'</b>		
Debit Note No.-173		Malitola, Bangshal
		Date: 18 August 2011
<b>Name:</b> M/S. Shopna Enterprise <b>Address:</b> 37, Rainkhola, Mirpur-6, Dhaka. <b>Ref:</b> Purchase / Invoice No. 1265 / 3 August 2011		
<b>Date</b>	<b>Description &amp; Reason of returning goods</b>	<b>Amount (Taka)</b>
2011 Aug. 18	10 pcs torn Jamdani Saree tk.1,300 each returned. Please deduct the price of 10 sharees from our account Less: Trade discount	13,000 1,000 <u><u>12,000</u></u>
Amount (words): Twelve thousand taka.		
Purchase Manager		

**5. Credit Note:** When the seller receives goods returned by the purchaser, he sends a document to the purchaser stating the description of goods, its quantity, its value

etc and thereby informs the purchaser that his account has been credited with the value of goods returned. This document is called Credit Note.

### Sample of Credit note

<b>M/S. Shopna Enterprise</b> 37, Rainkhola, Mirpur-6, Dhaka.		Date: 20 August 2011
<b>Credit Note</b>		
Credit note no.-237 Name of Receiver: Imran Brothers' Address: Malitola, Bangshal Ref: Debit note 173 / 18 August 2011		
Date	Description & Reason of returning goods	Amount (Taka)
2011 Aug. 18	10 pcs torn Jamdani Saree tk.1,300 each returned. Your account is credited with returned goods price  Less: Trade discount	13,000 1,000 <u>12,000</u>
Amount (words): Twelve thousand taka <span style="float: right;">Sales Manager</span>		

**Activity:** Prepare a debit voucher for goods purchase valued tk.25,000 using any name & address.

### Exercise

#### Multiple Choice Questions:

1. Which of the following is only an event for the business?
  - a) Goods bought from Jamal on credit tk.2,000.
  - b) Goods sold to Palash tk.6,000.
  - c) Placed an order to buy goods tk.2,000 form Tania.
  - d) Goods returned in from Polash tk.2,500
2. Events related to transactions are -----
  - i) Always visible
  - ii) Both visible and invisible
  - iii) Never visible

Which one is correct?

  - a) i
  - b) ii
  - c) i and ii
  - d) i and iii
3. Debit Note is used for
 

a) Goods bought on credit returned out	b) Goods sold on credit returned in
c) Goods bought for cash returned out	d) Goods sold for cash returned in

4.  $A = L + E$  in this equation  $E$  signifies -  
 a) Asset b) Owner's Equity c) Liability d) Profit
5. Which of the following is only an event for the business?  
 a) Purchased goods from Joli on credit tk.2,000.  
 b) Goods sold to Poly worth tk.6,000.  
 c) Placed an order to buy goods tk.5,000 from Tuli.  
 d) Goods returned in from Polash tk.3,500.
6. Events related to transactions are -----  
 i. Always visible  
 ii. Both visible and invisible  
 iii. Never visible  
 Which one is correct?  
 a) i      b) ii      c) i and ii      d) i and iii

### **From the following information answer question no 7, 8 and 9**

Mr. Monir Hossain started business with 50,000 taka on January 1, 2012. Goods sold to Dipok amounting 10,000 taka, value of goods worth 3,000 taka was returned. He personally contribute to a school taka 2,000 as donation.

7. Starting business with 50,000 taka which element of business is going to be affected by this?  
 a) Asset      b) Liability      c) Asset and liability      d) Asset and Owner's Equity
8. The note provided by Monir for goods returned by Dipok will be ---  
 i) Debit Note      ii) Credit Note      iii) Debit and Credit Note  
 Which one is correct?  
 a) i      b) ii      c) iii      d) i and ii
9. Donating 2,000 taka in the school will affect in the business-  
 a) Asset will decrease  
 b) Capital will decrease  
 c) Goodwill will decrease  
 d) Nothing will happen
10. 'Withdrawn for personal use'—in the accounting equation-----  
 i)  $A$  will decrease    ii)  $L$  will decrease    iii)  $E$  will decrease  
 Which one is correct?  
 a) i      b) ii      c) i and ii      d) i and iii

11. Which one is wrong? By transaction-----  
 i) Owner's Equity increases if total asset decrease  
 ii) Total liability decreases if total asset increase  
 iii) If one asset increases, the other asset will also decrease  
 Which one is correct?  
 a) i and ii   b) ii and iii   c) iii   d) i and iii
12. Which one is correct?  
 a)  $A = L - E$    b)  $E = A - L$    c)  $L = A + E$    d)  $A + L = E$

### Creative Questions:

1. Mr. Ashish Kumar Chokroorti is a businessman. Following transactions took place in his business in December 2011-

Dec. 1      Started business with tk.20,000  
 Dec. 3      Open an account in Janata Bank depositing tk.5,000  
 Dec. 5      Goods purchase on credit tk.5,000  
 Dec. 7      Goods sold in cash tk.15,000  
 Dec. 10     Loan taken from Bank for own purpose tk.10,000  
 Dec. 15     Furniture purchase in cash tk.3,000

- a) Calculate the total amount of those events, which are not transaction.  
 b) Identify the transactions from events with explaining reason under equation method.  
 c) Show the effects of the transaction on accounting equation in tabular/statement format.

2. Mr. Shankar Chondro Saha is a businessman. Following transactions took place in his business in January 2012-

Jan. 2      A manager appointed with tk.5,000  
 Jan. 7      Sold goods on credit tk.20,000  
 Jan. 10     Stationary purchase in cash tk.500  
 Jan. 12     Mr. Shankar Chondro Saha pays his son's school salary personally  
 Jan. 20     Received tk.5,000 from Sumona Traders  
 Jan. 25     Paid tk.700 for advertisement

- a) Calculate the total amount of those events, which are not transaction.  
 b) Explain the reason of Mr. Shankar Chondro Saha's transactions under equation method  
 c) Show the effects of Mr. Shankar Chondro Saha's transactions on the elements of accounting equation.

3. Mr. Zakir started his legal practitioner business on 1<sup>st</sup> May 2011. The transactions of the first month were as follows:

May 1      Invested tk.1,50,000 in his business.  
 May 4      Paid office rent for the month of May tk.12,000  
 May 8      Machine purchase for office on credit worth tk.25,000  
 May 12     Legal services provided to the clients for cash tk.8,000  
 May 16     Paid salary to the office staff tk.4,000  
 May 25     Loan taken from the bank tk.35,000.  
 May 27     Legal services provided to the clients on credit tk.10,000.  
 May 30     Dues for machine purchase paid off tk.15,000.

- a) What is the unpaid amount of office machine?
- b) Calculate the amount of Mr. Zakir's equity at the end of the month.
- c) Show the effects of May's transactions on the elements of accounting equation.

4. Salim Traders sold the following goods to Joya Traders on February 2012:

Feb 1      115 Kg sugar tk.55 per Kg for cash  
 Feb 7      56 KG sugar tk.52 per Kg  
 Feb 15     35 Kg Mushur Dal tk.110 per Kg

Salim Traders allowed 12% Trade discount on total sales.

- a) Calculate the total amount of sales of Salim Traders.
- b) Prepare a Cash memo for the transaction of February 1.
- c) Prepare an invoice for the transaction of February 15 considering it as credit.

# Chapter One

## Introduction to Accounting

Economic events are visible in personal, institutional in fact in every sphere of the society. The number of these events is many and diversified. Without the proper technique and its application, it is impossible to know the overall impact of these events. It is only accounting that deals with the overall result and impact of those economic events. Various stakeholders both internal as well as external are keenly interested to know about the information of accounts. Therefore, accounting takes initiatives to record and analyze those transactions and report those to its stakeholders.



Environment and Accounting

### At the end of this chapter, we will be able to

- Generate idea about accounting
- Describe the objectives of accounting
- Describe the necessity and importance of accounting
- Narrate the history and evolution of accounting
- Identify the users of accounting users
- Explain the roles of accounting in creating sense of value and accountability
- Be interested in keeping accounts in daily, personal, family as well as in institutional activities

### **Concept of Accounting**

Accounting is such a subject by studying which the various financial activities of a person or an institution i.e. expenses paid, receive income, purchase and sale of assets, buying and selling of goods, receive from debtors and pay to creditors etc. are correctly recorded in different books of accounts and determine their actual result after a certain period. In accounting the economic transactions of a business are recorded, classified, and summarized. So, the financial position of a business can be ascertained which will lead towards taking proper decisions. The knowledge of accounting can be used to prepare different types of statement and reports to identify the financial condition of a firm. Therefore, accounting is called the 'language of business.' Accounting is that knowledge which helps us to record, classify and summarize the financial transactions that is eventually helpful to determine the overall financial condition of a person or an institution

**Activity:** Prepare a probable list of financial functions of an institution.

### **Objectives and necessity of accounting:**

1. Without proper recording of transactions, it is not possible to know the financial condition of a firm. Therefore, the foremost objective of accounting is to record the transactions properly into the books of accounts.
2. One of the main objectives of accounting is to ascertain financial condition and result. It is possible to locate the motion of a business through identifying the profit and loss. Recording all the incomes and expenses properly the profit and loss of a firm can be obtained.
3. The pen picture of financial condition can be seen by calculation the assets, liabilities, and owners equity of a firm.
4. Reducing cost can optimize the objective of a business. Accounting helps to record the expenses properly and thus helps reducing cost.
5. Accounting has no alternatives in controlling the fraud and forgery of a business firm. With proper recording of accounts, we can resist and control fraud and forgery.
6. Helps in informing financial condition to interested group and thus takes correct decision.
7. Financial information of the previous year helps in taking proper steps by making comparative study.
8. Determines the source of internal and external flow of money of various services oriented nonprofit organizations like schools, colleges, hospitals, clubs and societies and ascertain their accounts balance.
9. Govt. accumulates through collecting VAT, duties and taxes and contributes to different regular and development areas. The role of accounting is great in managing smooth functions of govt. Besides, the books of accounts and related documents are useful to a firm in many ways i.e. for bank or taking loan from money lending organization, fixing the sales price of a product,

identifying future activities etc. The necessity of accounting is very much essential for keeping a fine, disciplined and a thrifty/frugal life. Without keeping accounts properly, the pros and cons of an organization can never be identified. Keeping records properly ensures cost control and wastage of a firm and thus attain financial solvency.

**Activity:** How accounting helps in your daily life?

### **The origin and evolution of accounting:**

From the history of civilization people used to keep records of different important events on the bark of trees, by drawing lines on stones in caves. Later they learnt keeping accounts of stocks and stocks by making marks on the walls at home and making knots with the help of creepers. Gradually the number of population increases, society erupts, exchange system developed, currency was introduced, and trade and commerce was initiated. Purchase-sales, income-expenses and other transactions were recorded mathematically. In 1494, an Italian Mathematician wrote a book entitled 'Summa de arithmeticā, geometriā, proportioni et proportionalitā' (The Collected Knowledge of Arithmetic, Geometry, Proportion and Proportionality) and explained the basic principles of book keeping the double entry system in it.

During the passage of time, progress also occurs in science, technology and in business and as such accounting developed. The stature of business grew from small to large. The use of accounting is visible/ applied in personal and familial life along with commercial, non-commercial, govt. and non-govt., profitable and in non-profitable organizations.

The development of accounting is related to the development of science and technology. Now a day's accounts are kept in computers rather manually. It saves time and labor as well as helps organization taking desired decision.

**Activity:** How does science and technology improves accounting?

### **Users of accounting information:**



Accounting is known as an information system. Thinking about the internal and external users of accounting reports and records of transactions are kept and statements are published.

### **Internal Users**

1. **Owners and managers:** Accountants prepare books of accounts and other necessary documents. The owner as well as manager tries to identify profit and loss and financial condition from this statement. So, future course of action can be ascertained.

### **External**

1. **Loan/ credit providers:** Before granting loans to the recipient organization, the credit providers analyze its financial conditions whether it might be able to pay back the loan or not.
2. **Govt.:** Authority concerned of the govt. might look into the accounts and check whether organizations pay its rates, taxes, and VAT and for taking necessary measures.
3. **Creditors:** Before allowing credit sales, the creditors always want to ensure that the recipients are in a financial state of paying back the due amount. This can only be possible by seeing the records of accounts.
4. **Workers and officers:** Workers and officers of organizations take the assistance of the financial statements to know and have their benefits from the profit of the organization. Besides auditors, investors, consumers and other concerned also use accounting information.

Activity: Prepare a separate list of internal and external users of accounting information.

### **Relation of accounting system with society and environment:**

Accounting is not merely used for obtaining profit. Apart from making profit, it also contributes towards society and environment so that it is not affected by that. From the following illustrations, some contribution of accounting towards society and environment can be determined:

1. Organizations will contribute towards the resistance of environment pollution and accountant will keep its records. This record will tell us about the consciousness and contribution of that owner towards the society and environment. Especially the oil refinery companies contribute generously towards environment from being polluted.



2. Smoke emitted from industry and factories are injurious towards human and environment. The owner and the accountant spent a lot of money for protecting the environment issues. For this, governments' rules and regulations must be followed.
3. While producing a product hygiene raw materials are used, less electricity is consumed, the sound of electricity must be at a tolerable limit, and garbage should be dumped in proper places. To ensure these some expenses are to be made. Besides allocating this fund, an accountant must also make proper records of those expenses.
4. Every Business organizations have to spend for society as a part social commitment, such as providing scholarship among poor and meritorious students. For this, accounts are to be kept for proper fund allocation.

**Activity:** Prepare a probable list of expenses of a firm that are beneficial to the society as well as to the environment.

### **Role of accounting in creating sense of value and accountability:**

Value is the combination of long-term beliefs, thought, concept, and perception that unite a specific standard that helps people accepting the right and ignoring the wrong. Accounting helps creating value perception in the following manner:

1. **Exhibit of honesty and responsibility:** If accounting methods are followed properly while keeping accounts, corruption, fraud, and misappropriation of assets could be kept under control thus ensuring clarity in keeping accounts.
2. **Debt repayment consciousness:** Accounting plays a vital role in removing the mentality of becoming a defaulter of loan repayment. Therefore, it instills value perception of not becoming a defaulter.
3. **Creating religious sense of value:** Proper use of god-gifted resources and reducing unnecessary cost are part of religious value. If accounts are kept properly the concept of, 'cut your coat according to your cloth' can be hence practiced in both individual as well as institutional life.
4. **Responsibly towards society and state:** The main sources of income of govt. are VAT, customs, excise and income tax etc. By utilizing the concept of accounting, accounts are recorded properly hence, the dodging of tax pay tendency reduces.
5. **Prevent fraud and forgery:** If proper accounts are kept the chances of fraud and forgery among the officers and the staff reduces at a substantial amount. As such, they become cautious of misappropriation of funds and reduce anomalies.

### **Accounting in accountability:**

If a specific responsibility is assigned to single person, he will only remain responsible for that job. Remain responsible to third party means accountability. The role of accounting is described in keeping this accountability into action:

- a) **Internal accountability of the firm:** In modern decentralized system, people are empowered for income, expense, and investment so that they may focus and concentrate in accumulating result to their higher authority for answering their various queries.
- b) **Accountability towards owners, creditors, and investors:** People involved in bookkeeping and management of a firm must make sure that the prepared statement gives a clear pen picture of the invested amount; the profit earned is in line with the invested profit. If found otherwise regarding economic accountability there can be a case of great anarchy in every economic and non-economic affair.
- c) **Accountability towards Govt.:** Concerned authorities of the Govt. have legal right to see whether govt. rules are being followed properly or not in industry. They need to see whether govt. tax, VAT, and duties are being paid accordingly. Keeping books of accounts properly ensures such accountability.

## Exercise

### Multiple Choice Questions

1. Accounting -
  - a) Describe relationship with one another in society
  - b) Describe about production systems
  - c) Keep accounts of Goods purchase and sales
  - d) Recording; Classifying and Explaining of all financial transactions
2. How the desired result can be achieved of Business organization?
  - a) By purchasing Assets
  - b) By taking correct decision
  - c) By controlling Expenses
  - d) By purchasing Goods
3. Internal users of accounting information in a Business
  - (i) Owner
  - (ii) Manager
  - (iii) Loan providing Bank

Which one is correct?

  - a) i
  - b) ii
  - c) i & ii
  - d) i, ii & iii
4. Science & Technology –
  - a) Reduce Accounting
  - b) Makes Accounting expensive
  - c) Restrict the movement of Accounting
  - d) Improve Accounting
5. In which name does Accounting appraise?
  - a) Accounting systems
  - b) Information systems
  - c) Auditing systems
  - d) Statement systems

6. Expected profit of an organization can be achieved by –

- a) Increasing Assets
  - b) Decreasing Liabilities
  - c) Controlling Expenditures
  - d) Increasing Expenditure

#### 7. Example of service providing non-profit organization -

- (i) Education institute
  - (ii) Advertising institute
  - (iii) Computer repairing centre

Which one is correct?



8. Principal objective of Accounting is -

- i) Determination of financial result
  - ii) Control expenditure
  - iii) Ascertainment of financial position

Which one is correct?

- a) i
  - b) ii & iii
  - c) i & ii
  - d) i & iii

9. A business can make contribution to the society & environment by-

- i) Using foreign raw materials in production
  - ii) Using local raw materials in production
  - iii) Giving scholarship among poor & meritorious students

Which one is correct?

Which one is correct?  
a) ii

- a) ii
  - b) ii & iii
  - c) i & ii
  - d) i & iii

**Answer question no. 10 and 11 from the following information:**

Dr. Rakib hasan keeps proper records of his clinic's financial transactions. It is possible to calculate his personal income tax easily and quickly. Therefore, income tax authority is satisfied to the process of his keeping accounts.

10. Whose objective is to record transactions correctly?  
→ Business's

- a) Business's
  - b) Debtors and creditors
  - c) Recording Transactions
  - d) Accounting's

11. Properly recorded accounts of Dr. Hasan's clinic will help to –

- i. Increase sales
  - ii. Increase values
  - iii. Determine tax

Which one is correct of the following?

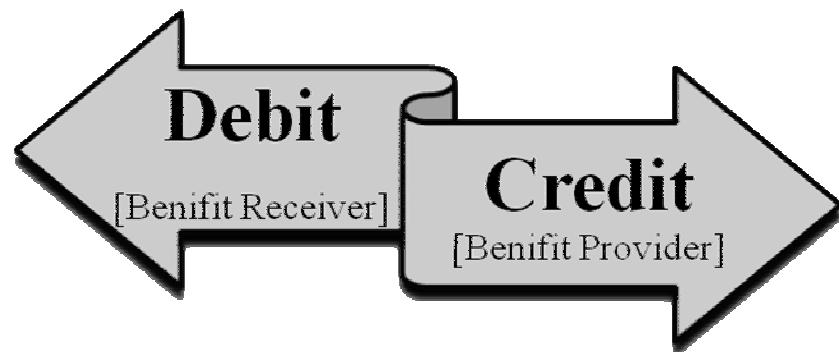
Which one is correct of the following?  
a) i

- a) i
  - b) ii
  - c) ii & iii
  - d) i & ii

## Chapter Three

# Double Entry System

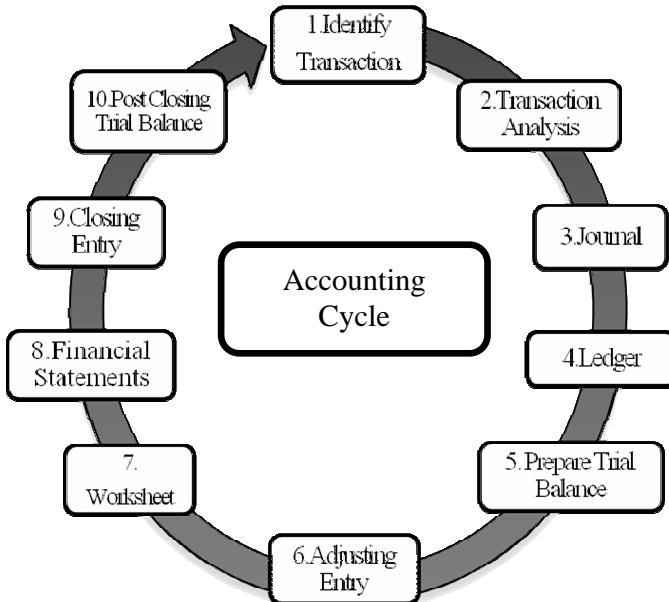
Throughout the world, Double Entry System is established & known as dependable, scientific, and complete system for keeping accounts in the business. In double entry system each transaction that measured or measurable in terms of money is expressed in dual entity. There is no alternative method of Double Entry System to know the actual result and financial condition of business.



**At the end of this chapter**

**we will able to-**

- Explain the dual entity concept
- Discuss the concept & features of double entry system
- Explain the advantages of double entry system
- Identify the two party involved in transaction i.e. Debit and Credit
- Explain the various steps involved in Accounting Cycle
- Identify the appropriate book for transaction
- Calculate the profit of business by taking an idea of Single Entry System



### **Concept of Double Entry System:**

The famous Mathematician Luca Pacioli described about the perfect and proper recording system of financial events in 1494. That system is known as Double Entry System. Double entry system is considered as the only complete, reliable and scientific system. There is a hint of dual entity concept for every transaction in this system. There have been two or more accounts in every transaction. These accounts are written in dual entity concept. One is Debit and the other one is Credit. Two parties of transaction i.e. Debit & Credit are recorded in accounts by Double entry system. In this method, the same amount is written for both debit and credit. Therefore, at any time of the year the total amount of debit is always equal to the total amount of credit. The procedure, which is followed to record dual entity of transactions for preparing accounts correctly, that is called Double Entry System.

The concept has been explained with an example:

Salary paid to office staff tk.5,000.

For recording this transaction under double entry system, we need to identify the two parties involved in it. Two accounts involved in it are –

- a) Salary Account
- b) Cash Account

Since salary is an expense to the business, expense has been increase and so salary 5,000 taka will be debited. Again, cash goes out while salary is paid, so cash or asset will decrease and so cash account will be credited.

So, it is seen that the same amount have been debited both for salary and cash account. This is the basic principle of Double Entry System.

### **Principles or Characteristics of Double Entry System:**

The most reliable, scientific, complete and self-sufficient system of accounting is Double Entry System. In double entry, system each transaction measurable in terms of money or money's worth is recorded in a twofold aspect and one party is debited for taking the benefit while other one will be credited for ensuring the same.

Principles or Characteristics of Double Entry System are as follows:

1. **Dual Entity:** In every transaction, there are at least two accounts. While detecting debit and credit concerned accounts are to be identified first then their classification of account is settled. Then debit and credit is ascertained by double entry system.
2. **Debtor and creditor:** In every transaction, beneficent recipient is debtor and benefit giver acts as the creditor.
3. **Making Debit and credit:** The benefit recipient is made debit while the benefit giver is made credit.
4. **Exchanged equal amount:** In every transaction, the amount of debit and credit will be equal.

5. **Comprehensive result:** Since in every transaction the debit and credit are analyzed and recorded in equal amount, it is easy to detect the comprehensive result. The total of debit side should equal to the total of credit side.

### **Advantages of Double Entry System:**

The double entry system is the complete, dependable, scientific, and self-dependent. This accounts system has many benefits. For this large business, organizations use this method for keeping accounts. These benefits are described below:

1. **Complete account:** Since debit and credit of each transactions are analyzed and recorded in equal amount the complete can be obtained.
2. **Ascertain profit-loss:** As the revenue income-expenditures are recorded correctly and completely in this method, the net profit or loss is possible to calculate preparing comprehensive income statement after a particular time.
3. **Verifying arithmetic accuracy:** With this method, the same amount is credit entry is recorded against the debit. Therefore, the arithmetic accuracy can be tested on a certain date by rearing a trial balance.
4. **Ascertain financial position:** Preparing financial statement on a certain date the financial condition of a firm can be obtained.
5. **Finding fault & forgery and means to prevent the same:** Accounts if kept under the method the faults and forgery can easily be detected and thus be prevented.
6. **Cost control:** Under this method, excessive expenses can easily be controlled.
7. **Identifying total debts & credits:** The owner can detect his total dues and credits any time under this method, and take necessary steps.
8. **Ascertain proper amount of tax:** Accounts if kept under this method. The various types of tax like income tax, import-export duty, VAT etc become acceptable to concern authoritative.
9. **Easy for applying:** Each transaction is recorded scientifically analyzing Debit and Credit in double entry system. Therefore, every small & big organization applied this method easily.
10. **Universal acceptance:** Double Entry System being a scientific, complete, faultless and dependable it has been recognized as universally accepted system.

### **Procedure of Identifying Debit and Credit:**

As said earlier, if accounts kept under double system the total amount of debit is equal to total amount of credit. We prepare accounting equation based on this concept. The main elements of accounting equation are asset, liability, and owner's equity. The income of the business increases owner's equity while the expense decreases the same.

Therefore, it can be said that, we see five types of accounts in business:

1. Asset    2. Liability    3. Owner's equity    4. Income and    5. Expense

**Method of calculating debit credit for different accounts' described below:**

**1. Asset:** Due to transactions, asset may increase or decrease. For example, purchase of furniture increases asset and selling the same decreases asset. Increase of an asset is debit while a decrease of the same is credit.

**2. Liability:** Like asset, liability can also be increased or decreased. For example, taking loan from bank increases liability while paying installment of it decreases. The relation of liability is opposite to asset. Therefore, increase of liability is credit while decreases the same is debit.

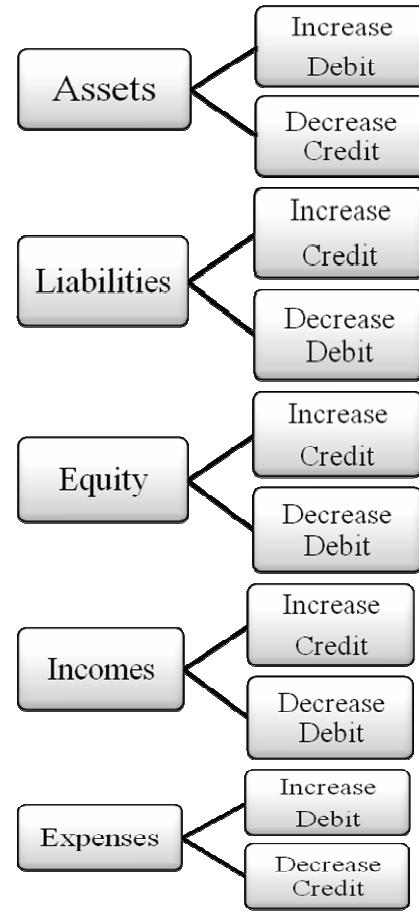
**3. Owners Equity:** For starting the business, the owner brings capital. Owner's equity increases. Again, if the owner withdraws cash from the business the owner's equity decreases. Owner's equity is a kind of liability to the business. Because according to the principle of accounting the owner and the business have separate identity. Therefore, like liability if owner's Equity increases it is credit while decreases the same is debit.

**4. Income:** The only objective of business is to earn profit and the owner alone has the sole interest over it. Actually, profit is the portion of income, which is more than expense. Therefore, we can say that income increases owner's equity. Therefore, increase of income is credit while decreases of the same are debit.

**5. Expense:** Expense is opposite to income. Since income increases owner's equity, so increase of expense is debit and decrease of the same is credit.

**Effects of Double Entry System in Transactions described below with examples:**

1. Mr. Hasan has started business bringing in Tk. 50,000 as Capital.
2. Furniture bought for business Tk. 5,000.
3. Employees salary paid off Tk. 6,000
4. Goods Purchase Tk. 20,000
5. Tk. 25,000 is deposited into Bank.
6. Goods sold Tk. 18,000



7. Cheque paid for advertisement Tk. 7,000
8. Commission received Tk. 3,000.
9. Interest received from bank Tk. 1,200.
10. Goods sold on credit Tk. 15,000.
11. Cheque paid for rent Tk. 6,000
12. Tk. 8,000 has withdrawn from bank for business.

**Solution:**

No	Accounts Head	Taka	Effects of Double Entry System
1	Cash Account Capital Account	Debit Credit 50,000 50,000	As the cash (asset) increased in business, Cash A/c debited. Other side bringing cash to business by owner, owner's equity increased. So, Capital A/c credited
2	Furniture Account Cash Account	Debit Credit 5,000 5,000	For buying furniture, furniture named asset increased & cash decreased. Therefore, Furniture A/c debited & Cash A/c credited.
3	Salaries Account Cash Account	Debit Credit 6,000 6,000	For paying salary, expense of the business increased & cash decreased. So, Salary A/c debited & Cash A/c credited
4	Purchase Account Cash Account	Debit Credit 20,000 20,000	For buying goods, expense of the business increased & cash decreased. So, Purchase A/c debited & Cash A/c credited
5	Bank Account Cash Account	Debit Credit 25,000 25,000	For depositing cash into bank deposited amount in bank increased & cash in hand decreased. Therefore, Bank A/c debited & Cash A/c credited.
6	Cash Account Sales Account	Debit Credit 18,000 18,000	For selling goods in cash, both income & cash of the business increased. Therefore, Cash A/c debited & Sales A/c credited.
7	Advertisement A/c Bank Account	Debit Credit 7,000 7,000	For advertisement expense increased & for cheque issue Deposited amount in bank decreased. Therefore, Advertisement A/c debited & Bank A/c credited.
8	Cash Account Commission A/c	Debit Credit 3,000 3,000	For receiving commission income increased & cash increased. Therefore, Cash A/c debited & Commission A/c credited.
9	Bank Account Bank Interest A/c	Debit Credit 1,200 1,200	For interest allowing by bank deposited amount in bank increased & income also increased. So, Bank A/c debited & Bank interest A/c credited
10	Debtors Account Sales Account	Debit Credit 15,000 15,000	For selling goods on credit, business gets the rights to receive money from debtors and income increased. Therefore, Debtors A/c debited & Sales A/c credited.
11	Rent Account Bank Account	Debit Credit 6,000 6,000	For paying rent, expense increased & giving cheque bank deposit decreased. So, Rent A/c debited & Bank A/c Credited.
12	CashAccount Bank Account	Debit Credit 8,000 8,000	Taking out cash from bank, cash in hand increased & bank deposit decreased. Therefore, Cash A/c debited & Bank A/c credited.

**Activity:** Calculate the debit & credit of the following transactions identifying accounts in the book of M/S. Joya & Co. –

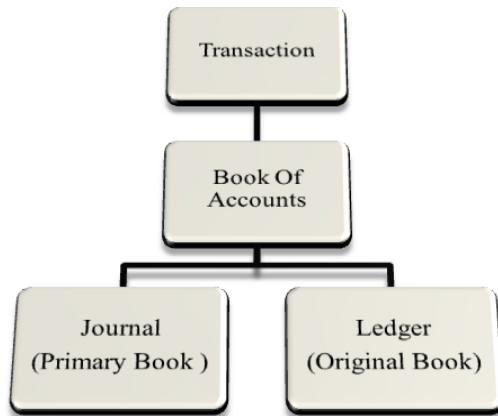
1. Mrs. Joya Mukharjee has made additional investment tk.20,000.
2. Computer purchase for office tk.25,000
3. Office rent paid in advance for three months tk.18,000
4. Sold to Rajon tk.25,000
5. Bank charged tk.1,500
6. Withdrawn from bank tk.6,000
7. Goods purchased on credit tk.15,000
8. Wages paid tk.3,000
9. Purchase return tk.2,000
10. Deposited into bank tk.10,000

### Accounts kept under double entry system:

The main accounts, which are kept under double entry system, are shown below:

a) **Journal:** After transaction occurs then it is identified and debit and credit is ascertained and men it is recorded in a book. This book is known as the primary book of account or Journal. Types of journal are-

1. **Purchase Journal:** Goods purchased on credit are recorded in this journal.
2. **Sales Journal:** Goods sold on credit are recorded in this journal.
3. **Purchase Return Journal:** In sales return journal good sold on credit, returned are recorded in this journal.
4. **Sales Return Journal:** In sales return journal good sold on credit, returned are recorded in this journal.
5. **Cash Receipt Journal:** Transactions that relates to cash receipt are recorded in this journal.
6. **Cash Payment Journal:** Transactions relate to cash paid are recorded in this journal
7. **Journal Proper:** Transaction which are not to be recorded in any of the above journals are recorded in journal proper.



**b) Ledger:** The book where all the transactions of journal are included by transferring individually to related accounts with appropriate title is called Ledger.

### Accounting cycle:

According to ongoing concept, it is expected that the business will go on forever. The continuous cycle of keeping accounts is known as Accounting cycle.

#### 1. Identifying Transactions:

Analyzing each event, transactions are identified in the first stage of Accounting cycle.

#### 2. Analyzing Transactions:

In this stage, each transaction is analyzed and accounts are identified. For example- Machineries bought for Taka 5,000. Here two accounts are involved. One Machinery Account and the other cash Account.

**3. Journalizing:** Analyzed accounts record into the primary Book of Accounts as Debit and credit chronologically and the journalizing is done.

**4. Transfer to Ledger:** In this stage, transactions recorded in journal are recorded into the separate heads of accounts. Different ledgers are prepared for each heads of accounts and the balance of which is determined on a certain date.

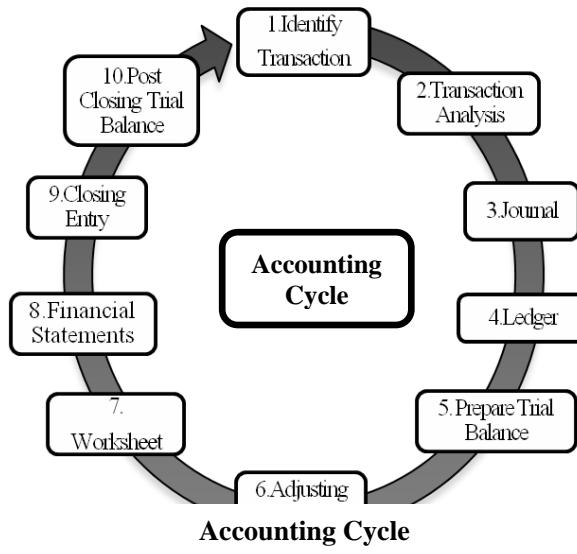
**5. Preparing Trial Balance:** Trial balance is prepared to testify whether the transactions are recorded accurately to their concerned head of accounts and with the balances of debit and credit of ledger, a trial balance is prepared.

**6. Adjusting Entries:** To identify the actual financial condition of a business the receivable income, accrued expense, expenses paid in advance and unearned income these items of a particular accounting period are adjusted through adjusting entries.

**7. Prepare Worksheet:** For the objective of preparing the financial statement easier, an optional multi column statement is prepared. It is known as worksheet.

**8. Preparation of Financial Statement:** With the financial statement, the amount of profit-loss, assets, liability, and owner's equity of a business is determined.

**9. Closing Entry:** The balance of the revenue income, revenue expense, and drawings of a business need to be closed at the end of the year. The income and expense of a business remain closed with the remaining asset, liability, and



owner's equity the next year starts. Therefore, trial balance after accounting year or opening journal is prepared.

**10. Post closing Trial balance or Opening Journal:** Income, Expense & Drawing accounts are being closed by closing entry. Next accounting period starts with the remaining balance of Asset, Liability & Owner's Equity accounts. Post closing trial balance or Opening journal is prepared for this.

### **The continuity concept of Accounts:**

According to going concern concept, a business will go on for an indefinite period. At the end of each accounting year, the functions are continued again with same sequence for keeping accounts. Therefore, at the end of current accounting period consecutively next accounting period starts and recording of accounts starts newly. Therefore, it is observed that subject matters related to accounts are continued each year consecutively. This is the continuity of accounts.

It is mentionable that, according to accounting cycle, at the beginning of each accounting period, all assets are being debited and all liabilities are being credited which were shown in the last year's statement of financial position for starting the journey to the new accounting period.

### **Single Entry System:**

Single entry system is suitable for businesses, which are small, and the transactions are limited. In this method in some transactions only one party, double in others while none is recorded in the remaining ones. Actually, single entry system is not at all a scientific system. In this method, though some accounts related to asset and liability are kept but preservation for the class of income and expense is never emphasized. The following formula /method are applied for determining the profit and loss of the business.

$$\text{Profit/Loss} = \{(\text{Closing Capital} + \text{Drawings}) - (\text{Opening Capital} + \text{Additional Capital})\}$$

$$\text{Opening Capital} = \text{Total opening assets} - \text{Total opening liabilities}$$

$$\text{Closing Capital} = \text{Total closing assets} - \text{Total closing liabilities}$$

The difference is considered as profit when the total amount of closing capital & drawings is bigger than the total amount of opening & additional capital and as loss when it is smaller.

Mrs. Shahela khatun is a small businessperson. Following information are extracted from her accounts book.

	<u>01/01/2012</u>	<u>31/12/2012</u>
Total Assets	1,20,000	1,50,000
Total Liabilities	35,000	55,000

In 2012 her additional capital tk.20,000 and total drawings tk.30,000

**Solution:**

Opening Capital	= Total opening assets - Total opening liabilities = (1,20,000 - 35,000) = 85,000
Closing Capital	= Total closing assets - Total closing liabilities = (1,50,000 - 55,000) = 95,000
Profit/Loss	= {(Closing Capital + Drawings) - (Opening Capital + Additional Capital)} = {(95,000+30,000) - (85,000+20,000)} = (1,25,000 - 1,05,000) = 20,000
	.:. Amount of Profit = 20,000 Taka

**Activity:** Palash kumar pal is a businessperson of grocery shop. His capital was tk.70,000 on 1 January 2012. His amount of drawings tk.15,000 and he didn't bring any additional capital in this year. On 31 December 2012 total assets & total liabilities were tk.1, 20,000 & tk.30,000 respectively. Calculate the amount of Profit/loss.

**Exercise****Multiple Choice Questions**

1. Double Entry System is a –
- a) Reporting system      b) Financial Statement preparation system
  - c) Recording system      d) Debit and Credit determining system

2. The features of Double Entry System are-

- i) It has two parties; Receiver and Giver
- ii) Total amount of Debit will be equal to total amount of Credit
- iii) Receiver is Debit and Giver is Credit.

Which one is correct?

- |            |                |
|------------|----------------|
| a) i & ii  | b) ii & iii    |
| c) i & iii | d) i, ii & iii |

**Considering the following information answer questions no. 3, 4 & 5:**

Mr. Subir Roy keeps the purchase book, sales book, bills receivable book, bills payable book etc. for his business institution. Beside this, he records the discounted entries in other way, because he has clear concept about accounting. Then he prepares the financial statement for knowing about the financial position of the business. And this is how, he operates his business continuously.

3. In purchase book, Mr. Subir Roy records-

- |                    |                    |
|--------------------|--------------------|
| a) Credit purchase | b) Credit sales    |
| c) Cash purchase   | d) Purchase return |

4. Mr. Subir Roy records the discounted entries in the-

- |                          |                      |
|--------------------------|----------------------|
| a) Cash book             | b) Sales return book |
| c) Bills receivable book | d) Journal proper    |

5. Why is opening entry needed for Mr. Subir?

- |   |   |
|---|---|
| a) To follow the accounting cycle       | b) To start the next accounting year              |
| c) To justify the arithmetical accuracy | d) To know the financial position of current year |

6. Generally, what type of accounts is not kept in Single entry system?

- i) Asset
- ii) Income
- iii) Expense

Which one is correct of the following?

- |             |            |
|-------------|------------|
| a) i        | b) i & ii  |
| c) ii & iii | d) i & iii |

7. Which one is correct?

- a) Opening capital = opening total assets - closing total assets
- b) Closing capital = opening total liabilities + closing total liabilities
- c) Opening capital = opening total assets - opening total liabilities
- d) Closing capital = opening total assets + closing total assets

8. Which one is used a rough working for financial statement?

- |                    |                      |
|--------------------|----------------------|
| a) Trial balance   | b) Adjusting entries |
| c) Closing entries | d) Works sheet       |

9. Which sequence is correct?

- a) Trial balance, adjusting entries, works sheet, financial statement
- b) Adjusting entries, trial balance, financial statement, works sheet
- c) Works sheet, trial balance, adjusting entries, financial statement
- d) Trial balance, works sheet, adjusting entries, financial statement

10. If opening capital is tk.70,000 and closing capital is tk.90,000, what is the amount of profit or loss?

- |                     |                     |
|---------------------|---------------------|
| a) Profit tk.20,000 | b) Loss tk.20,000   |
| c) Loss tk.70,000   | d) Profit tk.90,000 |

11. Which one is the principle of Double Entry System?

- a) Purchase increases Debit, income decreases Credit
- b) Expense increases Debit, Income decreases Credit
- c) Receiver is Debit and Giver is Credit
- d) Receiver is Credit and Giver is Debit

12. Now-a-day's base of accounting is

- i) Cost accounting system
- ii) Single entry system
- iii) Double entry system

Which one is correct of the following?

- |        |            |
|--------|------------|
| a) i   | b) ii      |
| c) iii | d) i & iii |

**From the following information, answer the questions no. 13, 14, & 15**

On 1<sup>st</sup> June 2012 Mr. Ishmam started a fast food shop with stock of goods of tk.55,000 at Baily Road in Dhaka. The following transactions occurred in his business in that month:

June 05	Sold goods to Shahed tk.5,000;
June 12	Goods purchased tk.12,000;
June 20	Sold goods on credit tk.35,500;
June 23	Cash received from Rafi tk.5,400;
June 28	Goods returned to seller tk.3,400.

13. Which transactions will be recorded in the journal proper of Mr. Ishmam?

- |                             |                                |
|-----------------------------|--------------------------------|
| a) Sold goods in cash       | b) Sold goods on credit        |
| c) Goods returned to seller | d) Started with stock of goods |

14. In which book the transactions occurred on June 05 and 20 will be recorded?

- |                     |                            |
|---------------------|----------------------------|
| a) Purchase journal | b) Purchase return journal |
| c) Sales journal    | d) Sales return journal    |

15. Mr. Ismam will prepare on returning goods -

- |                  |                   |
|------------------|-------------------|
| a) Debit note    | b) Credit note    |
| c) Debit voucher | d) Credit voucher |

**Creative Questions:**

1. Mr. Shaymol Chandro is a clothes trader. His business is situated at Islampur in Dhaka. He kept the all of books under double entry system. On December, 2011 The following transactions occurred in his business:

Dec-1	Cash brought in tk.7,00,000 into the business as capital
Dec-12	Clothes purchased on credit tk.25,000
Dec-23	Furniture purchased in cash tk.60,000
Dec-24	Salary paid to employee Roton tk.8,000
Dec-31	Commission received in cash tk.6,000

- a) What is the total amount of goods purchased on December?
- b) Determine the Debit and Credit of the above transactions of Mr. Shaymol Chandro.
- c) Record the above transactions in the different primary books of Mr. Shaymol Chandro.

2. Mr. Shahidul Islam does not maintain the books of accounts. On 1 January, 2011 Total assets of his business was tk. 2,00,000 and Liabilities tk.80,000. He newly invested tk.30,000 in the business in this year. In that year, he withdrew tk.15,000 from the business. On 31 December, 2011 assets and liabilities of his business were:

Cash tk.50,000; Furniture tk.40,000; Debtors tk.30,000; Stock of goods tk.70,000; Bank Loan tk.20,000 and Creditors tk.25,000.

- a) Determine the amount of opening capital of Mr. Shahidul Islam.
- b) Determine the amount of closing capital of Mr. Shahidul Islam.
- c) Determine the amount of profit or loss of Mr. Shahidul Islam on 2011.

3. On 1 March, 2012 Ms. Kushi started a confectionery shop with Cash tk.2,40,000; Machinery values of tk.56,000 and goods values of tk.21,000. The following transactions are available in March, 2012:

March 03	Goods purchased from Kashem tk.34,000
March 06	Sold biscuits to Jahid tk.15,000
March 07	Shop rent paid tk.6,500
March 10	Sold goods in cash tk.25,000
March 17	Goods purchased in cash tk. 5,000
March 19	Sold cake tk.6,000
March 21	Flour purchased from Rasy tk.7,500
March 28	Owner withdraw from the business tk.4,500 for own use

- a) What is the amount of Total Sales Ms. Kushi?
- b) Determine the debit and credit form the transactions that occurred on 1, 3, 7, &10.
- c) Show the effect on accounting equation (with proper format) form the transactions, which occurred on 6, 17, 19, & 28.

4. On 1 January, 2012 Mr. Alam started a computer training centre and photocopier shop with Cash tk.5,00,000; Furniture values of tk.25,000 ,goods values of tk.55,000 and Bank Loan tk.85,000. The following transactions are available in that month:

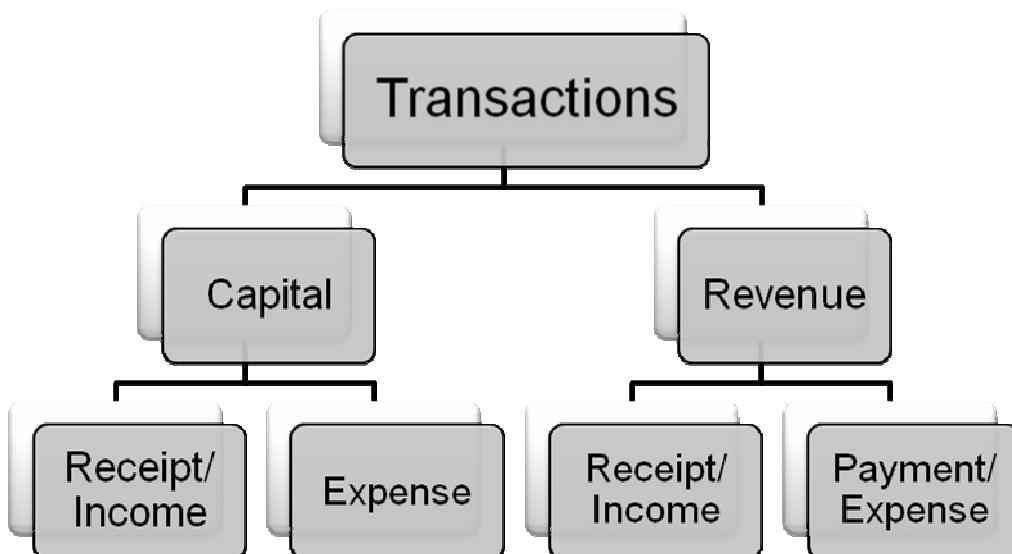
January 02	Office rent tk.12,000
January 10	Paper purchased tk.5,000
January 12	Ink of photocopier machine purchased tk.7,000
January 20	Wages paid tk.1,500
January 25	Training allowance received tk.25,000

- a) What is the amount of Mr. Alam's opening capital?
- b) Show the account's classification of (with proper format) the above transactions.
- c) Determine the debit and credit from the above transactions of Mr. Alam for the month of January.

## Chapter Four

# Capital and Revenue Transactions

Everybody expects that a business will continue for an indefinite period. The features of all the transactions of a concern are analyzed to ascertain the result of all of its business operations and financial position of a particular period. Some transactions are such those benefits are achieved for a longer period. Thinking about the concept transactions are divided into two types as Capital and Revenue. The actual profit and loss and the condition of the financial matter depend largely on dividing the transactions properly. So the object of accounting is achieved through identifying the two types properly.



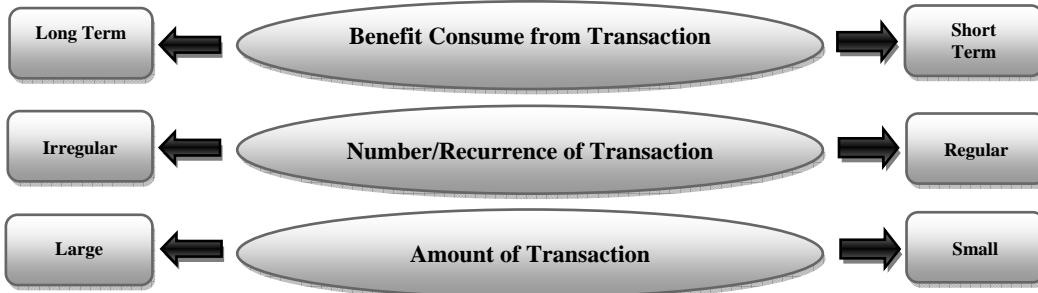
### At the end of this chapter, we will be able to

- Detect the differences between Capital and Revenue transaction
- Identifying the necessity of the difference between capital and revenue transactions
- Apply Capital and Revenue expenditure while preparing financial statement and calculating profit and loss

### Concept of Capital and Revenue Transactions

All the transactions are divided into two types, Capital and Revenue. Capital transactions give more benefits than Revenue transactions over the period. Revenue transactions take place regularly while Capital is rare or irregular. There are other aspect/features to differentiate these two types of transactions from each another.

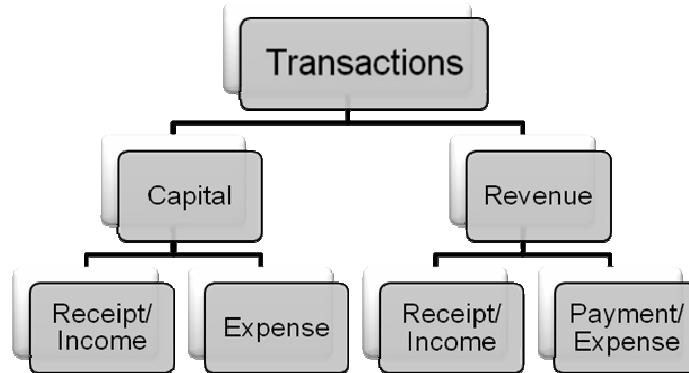
We have seen in transactions until now – Is it cash or accrual, visible or invisible and other things. Transactions can be considered through following aspect –



**Activity:** Considering the above situation divide the following transactions into two types-

- Taking loan from the bank worth 10,000 taka
- Goods sold 5,000 taka
- Purchased an Almirah on credit worth 20,000 taka
- Salary paid to the workers 3,000 taka
- Sold old automobile worth 70,000 taka
- Received interest from money deposited in bank taka 500

The transactions that give long term benefit (More than a year), the amount of which are bigger and not regular in occurrence are known as capital transactions. On the other hand transactions those takes place regularly, the amount of which is comparatively smaller and recurring in nature, are called Revenue transactions.



### **Capital Receipts and Income**

The receipts, which are irregular, amount of which are and the benefits of which are more than a year, are known as Capital Receipts. In business capital, loan taken from bank, selling of fixed asset (land, furniture, machineries etc) are examples of Capital Incomes. However, Capital Receipts and Capital Incomes seem to be synonymous but the difference is identical. Capital Income is a part of Capital Receipt.

Capital Income does not occur regularly and its example is not many. After using machinery for several years, it may generate some income by selling it. For example, old machinery is sold for taka 80,000 taka and the current value of which is fixed at 65,000 taka. Here the capitalistic income is 15,000 taka ( $80,000 - 65,000$ ). It is to be noted that capitalistic receipt 80,000 taka is not the actual Capitalistic income.

**Activity:** Mr. Ratan bought a piece of land for 2,80,000 taka in 2010 and sold the same in 2012 for 4,00,000 taka. Calculate his Capital Receipt and Capital Income.

### **Capital Expenditure:**

All expenditure of non-recurring nature, the benefits of which are enjoyed by the business for a long time is called Capital Expenditure. Fixed asset (land, furniture, machinery, motorcar etc) purchase, other expenditure related to the purchase of fixed asset (import, freight, carriage, installation expense etc.) is known as Capitalistic Expenditure. It is to be remembered here that the expenses that increases the life or volume of asset will also be treated as Capitalistic Expense. Example: taka 10,000 is added to an existing old machinery to make it in a workable condition will increase the life of the machinery. It can be said that the expenses, which will ensure further utility over the period, will belong to Capitalistic Income.



### **Revenue Receipts and Income:**

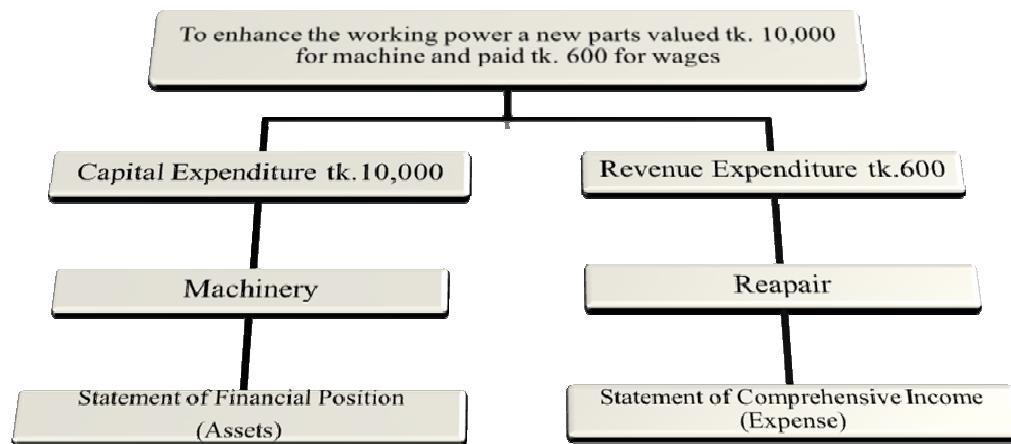
All recurring receipts by way of usual incomes or profit of business, which are used for meeting day-to-day expenses of the business, are called Revenue Receipts. For example sale proceeds of goods, interest on money deposited in bank, rent received, commission received are examples of Revenue Receipts. However, these two sound similar but there are differences between the two. Not all Revenue Receipts at a certain time is supposed to be treated as Revenue Income. For example, rent received taka 50,000 in 2011 but taka 10,000 of which are adjusted for 2012. Here Revenue Receipt is taka 50,000 but Revenue Income is taka 40,000.

**Activity:** Give a tabular presentation of the difference between Capital Receipts and Revenue Receipts.

### **Revenue Payments/Expenses:**

The recurring expenses of an organization are to run the business and the utility of which is expired within short time is called revenue expense. Purchase of goods, rent paid, salary paid, purchase of stationery, advertisement expense etc. are the examples of Revenue Expense. Revenue Expenses do not acquire wealth rather they contribute for the maintenance of asset. However, Revenue payments and Expenses sound similar but there is a minor difference. Revenue Expense is only a part of revenue payments. Often previous accounting periods due and next accounting period's advance are paid along with current year's expenses. The total amount paid together for current, previous, and next accounting period is revenue payments, only the current portion will be considered as revenue expense. If maintenance expense of fixed asset does not affect its lifetime, it will be recorded as revenue expense.

There are some expenses that revenue in nature but benefit obtained from the expense is not for a short term but for a long term of period. Brief idea about the expense is mentioned here:



**Activity:** Give a tabular presentation of the difference between Capital Expenditure and Revenue Expenditure.

### **Deferred Revenue Expenditures**

Expenditure of revenue nature the benefit of which extends beyond the accounting period in which it is incurred, is generally written off over a number of years during which it is expected to benefit the business. The unwritten portion of such an expenditure, which is carried forward to the subsequent years, is called Deferred Revenue Expenditure. expense of prior research for making a new product, expenditure of a big amount for a special type of research, big expenditure on an advertisement campaign, transfer cost of a business are some of the examples of deferred revenue expenditures.

### **Necessity for differentiating between Capital and Revenue Transactions**

A businessperson needs to assess his economic and financial condition after a certain period (generally in year). For this, at least three statements need to be prepared – Statement of Comprehensive Income (which is the mixture of previous trading and profit and loss account or income statement), Statement of Owner's Equity, and Statement of Financial Position (which is the previous balance sheet). From the Comprehensive Income we come to know the amount of profit and loss, from the Owner's Equity Statement the amount of owner's interest to the business and from the Statement of Financial Position we will be able to know about the asset and liability of a business.

Profit and loss of a business is ascertained preparing Comprehensive Income Statement only based on Capital and Revenue Income and Expenses. On the other hand, preparation of Statement of Financial Position based on Capital Receipts and Capital Expenses asset, liability, and Owner's Equity are ascertained. If these two types of transactions exchanges position in financial statement, the actual loss and asset, liability and owner's equity can never be identified.

**Activity:** What trouble would face, if Capital Expense consider as Revenue Expense?

### **The impact of Capital and Revenue Transactions**

The impact of capital and revenue transactions in business is of two types. Capital Receipts indicate the liability of the business. For example – taking loan from bank must be refunded after a long time. Capitalistic Expense is an asset. For example – Purchased machinery will be used to produce goods for a long time and help to earn profit.

On the other hand, Revenue incomes like - goods sold, rent received, commission received, and interest received etc increase the profit of the business. Moreover, Revenue Expenses like – goods purchased, salary paid, interest paid etc decrease the profit of the business. So, deducting Revenue Expenses from the Revenue Income the Net profit or loss of the business can be identified. Identification of this net profit or loss is very important because the owner cannot take more than of his obtained profit.

### **List of Capital and Revenue Accounts**

<b>Capital &amp; Revenue Transaction</b>	<b>Classification</b>	<b>Effects &amp; Reason</b>
1. Capital	Capital Receipts	Will be used in Business for several years & have to return to owner.
2. Sale of Land, Building and old Machinery	Do	Irregular receipts
3. Loan Taken	Do	Will be used in Business for several years and have to return.
4. Sale of goods	Revenue Income	Regular

<b>Capital &amp; Revenue Transaction</b>	<b>Classification</b>	<b>Effects &amp; Reason</b>
5. Interest on Investment	Do	Do
6. Rent received of building	Do	Do
7. Dividend from Invest to Share	Do	Do
8. Commission received	Do	Do
9. Purchase of Land	Capital Expenditure	Irregular & long term benefit
10. Registration Exp. Of Land	Do	Added with cost of Land
11. Building	Do	Irregular & long term benefit
12. Machinery	Do	Do
13. Installation Exp. Of Machine	Do	Added with cost of Machine
14. Transportation cost of Machine	Do	Do
15. Large amount spent for machine repair	Do	Irregular & Enhance the useful life
16. Purchase of Furniture	Do	Irregular & long term benefit
17. Goods purchase	Revenue Expense	Recurring
18. Salaries & wages	Do	Do
19. Interest on Loan paid	Do	Do
20. House rent paid	Do	Do
21. Telephone & Electric Bill	Do	Do
22. Advertising Expense	Do	Do
23. Insurance premium paid	Do	Do
24. Regular repairing of Machine	Do	Do
25. Depreciation on Building, Machine & Furniture	Do	Do

**Activity:** Make an example list of other Capital & Revenue Expenditures.

### Illustration:

Following information are extracted from the accounts book of Bengal Engineering firm on 31 March 2011:

1. Rent tk.750
2. Electric expense tk.7,700(tk.6,000 for new wire)
3. Transportation in cost tk.6,500(tk.5,000 for new cement mixing machine)
4. Drilling machine purchased tk.4100.

Requirements:

What is the amount of capital & revenue expenditure?

### Solution:

#### Capital Expenditure:

New electric wire cost  
New mixing machine transport  
cost  
Drilling machine

#### Revenue Expenditure:

tk.6,000	Rent	tk.750
tk.5,000	Electric expense	tk.1,700
<u>tk.4,100</u>	Transport cost	<u>tk.1,500</u>
<u>tk.15,100</u>		<u>tk.3,950</u>

## Exercise

### Multiple-choice Questions

1. Which one is the Capital Expenditure?
 

a) Capital invested by the owner	b) Selling expense for machine
c) Machine purchased	d) Daily expenses to operate business
2. If capital expense is recorded as revenue expense then which calculation will be wrong?
 

a) Bank balance	b) Debtors
c) Creditors	d) Net profit
3. Capital expenditure –
  - i. Car purchased for sale
  - ii. Machine purchased for business use
  - iii. Road tax and insurance premium of delivery van

Which one is correct of the following?

a) i & ii	b) ii & iii
c) i & iii	d) i, ii & iii
4. Sale of machine of machine merchandising business –
 

a) Capital receipt	b) Capital income
c) Revenue income	d) Revenue receipt
5. Ramjan Mia import goods for his business. Import duty of goods is –
 

a) Capital expenditure	b) Revenue expenditure
c) Non-trading expenditure	d) Revenue income
6. Shukomol Borua purchased a land for his business. He paid tk.5,000 for land's registration. This registration expenses is –
 

a) Revenue expenditure	b) Capital expenditure
c) It can be both capital and revenue expenditure	d) Deferred revenue expenditure
7. In comprehensive income statement we record –
  - i. Revenue receipt
  - ii. Revenue income
  - iii. Capital expenditure

Which one is correct of the following?

a) i & ii	b) ii & iii
c) i & iii	d) ii
8. In statement of financial position we record
  - i. Capital receipt
  - ii. Revenue expenditure
  - iii. Deferred Revenue expenditure

Which one is correct of the following?

- |             |            |
|-------------|------------|
| a) i        | b) i& ii   |
| c) ii & iii | d) i & iii |

9. What type of transaction is Freight inw

- |                     |              |
|---------------------|--------------|
| a) Revenue          | b) Capital   |
| c) Deferred revenue | d) Operating |

10. Deferred Revenue expenditure ----

- i. Paid tk.1,00,000 to Adv. Firm for publicity of goods for 3 years
- ii. Paid rent in advance for 3 months tk.15,000
- iii. Cost of Business transfer cost tk.25,000 from Dhanmondi to Motijheel

Which one is correct of the following?

- |             |            |
|-------------|------------|
| a) i        | b) i& ii   |
| c) ii & iii | d) i & iii |

**Considering the following information answer the questions no. 11, 12 &13:**

On 1 January 2008 Mr. Plabon Voumik purchased a machinery for his business valued tk.40,000 and paid for its installation tk.5,000. He sold this machinery for tk.25,000 in 2011, At this time remaining price of this machinery was tk.24,000 after deducting depreciation.

11. Amount spent tk.45,000 of Plabon Voumik considered as -

- i. Capital receipt
- ii. Capital expenditure
- iii. Deferred Revenue expenditure

Which one is correct of the following?

- |          |             |
|----------|-------------|
| a)i      | b) ii       |
| c)i & ii | d) ii & iii |

12. What was the total amount of depreciation charged in 4 years?

- |              |              |
|--------------|--------------|
| a) tk.15,000 | b) tk.16,000 |
| c) tk.20,000 | d) tk.21,000 |

13. The difference between selling price and present book value of machinery is called.

- |                    |                    |
|--------------------|--------------------|
| a) Capital income  | b) Revenue income  |
| c) Revenue receipt | d) Capital receipt |

### Creative Questions:

1. The following transactions are from the business of Mrs. Suraiya in 2011:

Description of Transactions	Amount (Taka)
Capital invested in the business	5,00,000
Machinery purchased	1,50,000
Loan taken from Bank	3,00,000
Goods purchased	10,00,000
Employee's salary paid	3,80,000
Electricity and telephone bill paid	12,000
Depreciation on machinery	15,000
Goods destroyed by fire	2,000
Rent paid (which includes tk.3,000 for 2012)	40,000
Commission received (which included tk.4,000 for 2012)	50,000
Goods sold	20,00,000

- a) What is the amount of capital receipt?
  - b) What is the total amount of revenue income and revenue expenditure?
  - c) What is the amount of owner's equity of Mrs. Suraiya at the end of year?
2. On April, 2012 The following transactions occurred in Mr. Abhijeet Datta's business:
- April.01-Business transfer expense tk.12,000 from Dhanmondi to Motijheel  
 April.02-Stationery purchased tk.1,000  
 April.04-New machine purchased tk.40,000  
 April.04-New machine installation expense tk.2,500  
 April.05-Repairing expense of old computer tk.1,000  
 April.12-New battery and tire purchased for office car tk.25,000
- a) What is the amount of deferred revenue expenditure?
  - b) What is the amount of capital expenditure?
  - c) What is the amount of capital receipt and capital income, If the machine bought on April 4 sold for tk.45,000?
3. Mrs. Rehana Sultana operates a Restaurant at Uttara in Dhaka. Few transactions of her restaurant is mentioned below :
- 25 dozens utensils purchased for tk.80,000.
  - Decoration cost of restaurant tk.20,000.
  - Publicity expense of restaurant tk.3,000.
  - Repairing expense of Delivery van tk.1,000.
  - Bill realized for arranging a birthday party in restaurant tk.22,000.
  - New compressor purchased for old refrigerator tk.8,000 and paid tk.2,000 for color spray.
  - Employee's salary paid tk.9,000.
  - Received from customer tk.25,000 for providing service.

- Restaurant rent paid tk.5,000.
- a) What is the total amount of revenue incomes of Mrs. Rehana Sultana?
- b) What is the total amount of revenue expenditures of Mrs. Rehana Sultana?
- c) What is the total amount of capital expenditures of Mrs. Rehana Sultana?

4. The following transactions are of Mrs. Nasima Khan's business on June 2012 :

Capital brought into the business	tk. 2,50,000
Goods purchased	tk. 7,00,000
Electrical machine purchased	tk. 4,00,000
Interest on investment received	tk. 4,000
Profit on sale of furniture	tk. 2,400
Import duty paid	tk. 5,000
Bank loan taken	tk. 7,50,000
Goods sold	tk. 30,000
Apprenticeship premium	tk. 40,000

- a) Determine the amount of recurring expenses of Mrs. Nasima Khan.
- b) Determine the total amount that includes in Comprehensive Income Statement.
- c) Determine the total amount of capital receipt and revenue receipt.

5. Two friends Rahman and Roton Lal Shaha started a chain shop. The following transactions are available in their business :

2012

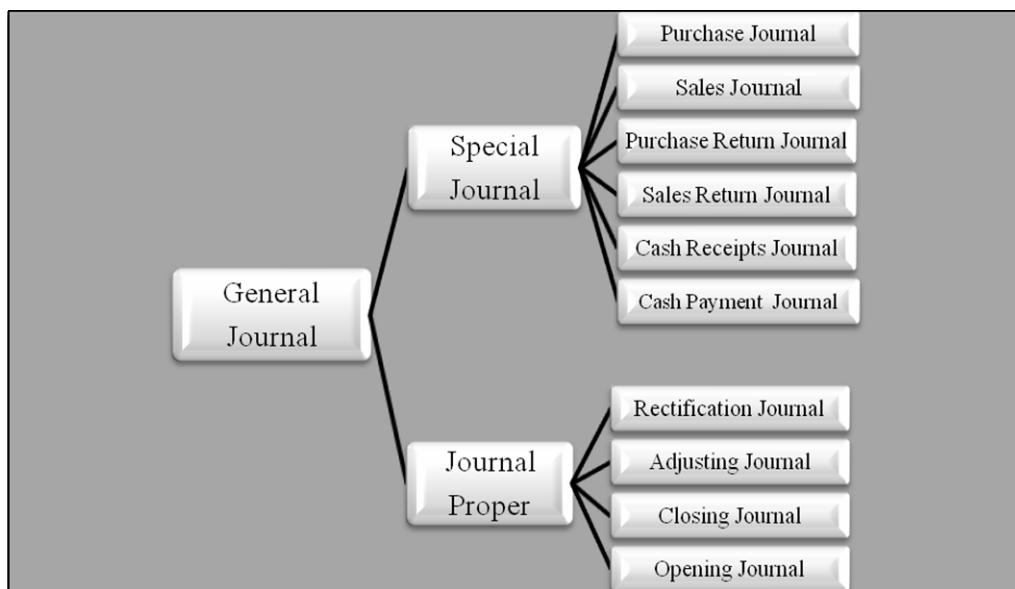
May 04	Goods purchased on credit tk.50,000
May 07	Decoration cost of shop tk.1,00,000
May 10	Carriage expense tk.1,500
May 12	Goods sold tk.18,000
May 15	Discount allowed tk.700
May 16	Goods sold on credit tk.22,000
May 20	A freezer purchased for shop tk.45,000
May 22	Electricity bill paid tk.1,200
May 25	Commission received tk.3,000
May 30	Dividend received tk.2,000

- a) Determine the total amount of capital transactions from the above information.
- b) Determine the total amount of revenue expenditures of their shop.
- c) Determine the total amount of revenue incomes of their shop.

## **Chapter Six**

# **Journal**

After the identification of financial and non-financial events, it is necessary to record the financial transactions in the books of accounts identifying Debit and Credit parties. Transactions have differences in nature; the classification of journal is made considering the nature & features of transactions. A transaction should be recorded in such types of journal, where it is appropriate. If the evidence of transaction is justified during recording, the acceptability of recorded accounts increases enormously.



### **At the end of this chapter, we will be able to**

- identify and importance of journal in case of opening entries.
- classify journal.
- provide general journal Entry.
- prepare purchase and sales journal through invoice, purchase return and sales return journal through debit and credit note.
- prepare cash receipt and cash payment journal.

### **Concept of Journal**

After the transactions occur, we have to record the detail of that as quickly as possible. The detail of the transaction is recorded first in journal primarily. Analyzing the debit and credit side of a transaction it is written chronologically with explanation in a journal. Later on the journal is acted as the subsidiary book for the principal book Ledger. Therefore, the journal is called the primary book of accounts.

Keeping of journal is not compulsory but for the benefit of keeping records, it is required to be kept. If transactions are kept in a journal, the chance of happening omission of errors reduces significantly.

**Activity:** Tell the features of journal based on the above discussion.

### **Importance of Journal**

The book of accounts of an institution must be clear and faultless. The financial result and the financial position of business are calculated based on this account. For achieving these principal objectives of accounting, the role of journal is described-

**Recording transactions:** Many transactions take place in an organization. Transferring those immediately to the ledger may not be possible. The transactions if recorded in a journal then transferring those later on in a ledger become easier.

**Knowing the total number and quantity of transactions:** It is not possible from ledger to know how many transactions took place on a certain day, in a week or in a month. Since transactions are recorded chronologically in a journal, on a certain date, week or month the total number of transaction can be ascertained. It's also possible to know the total amount of transactions in different times.

**Application of Dual Entity:** In double entry system transactions are recorded into concerned Debit & Credit accounts together. So, the application of dual entity can be confirmed from journal.

**Explanation of Transaction:** If any question arises from transaction, its explanation can be obtained from journal. Because after recording the transaction into the journal, its reasons and explanation are also provided.

**Reduce error & faults:** If Transactions are recorded in journal before recording to ledger, the faults and being omitted from ledger become less likely to occur.

**Future Reference:** In journal, transactions are arranged systematically in a chronological manner. In future, it can be used as a proof or evidence.

**Helping aid to principal book:** Since journal act as a subsidiary book to ledger, so preparation of ledger becomes easier, clear and faultless.

**General Journal:** Identifying debit and credit of transaction and recording in the journal proforma is called general journal. A transaction should always consist of a debit and credit is not applicable. Based on transactions there can be more than one debits or credits items. But it should be watched specially that the total amount of debit should equal to the total amount of credit.

### Specimen of General Journal:

Date	Particulars / Account Titles & Explanation	L. F.	Debit Taka	Credit Taka
	Total		*****	<u>*****</u>

**Activity:** Drawing the above table ask the students to tell the nature/features of this.

**Date:** In this column, the date when transaction occurs i.e. year, month and day must be mentioned. Journal must be kept continuously according to the occurrence of the transaction chronologically as they take place.

**Particulars:** In this column the debit & credit accounts/ parties related to the transactions are mentioned. Always the debit party at first and then the credit party are recorded. Besides, a brief explanation is also provided.

**Ledger Folio:** Debited and credited accounts related to transaction will be written later permanently in Ledger, the page number of which is mentioned in this Column. So the transaction can easily be identified from the ledger.

**Debit and Credit:** The amount of Debit and credit is posted in debit and credit column respectively. Each column should equal in terms of amount. Journal if recorded in separate pages the total of which is to be ascertained of both the columns and thereafter in the next page must be written in respective columns. After recording each journal a line should be drawn at the description column.

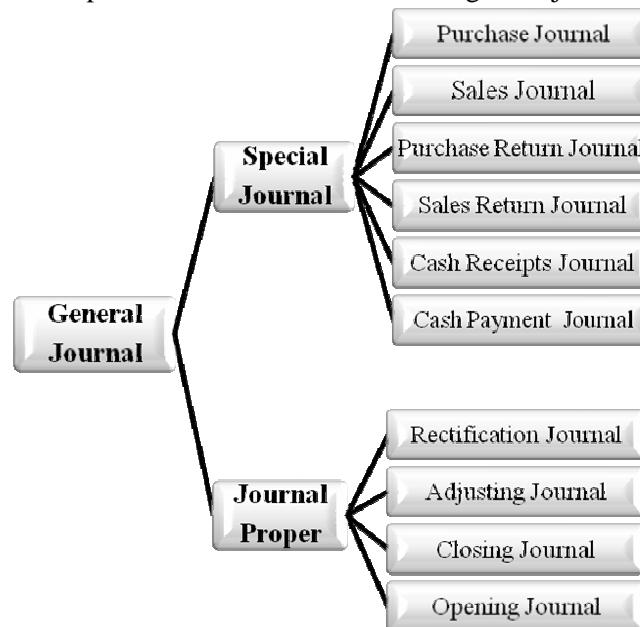
### Classification of Journal

Among the transactions of business based on nature and characteristics lot of differences are seen. Transactions are to be recorded according to their nature. Otherwise users of accounts information will not be beneficent from prepared accounts. For the benefits of accounts information users' journal are classified under the following manner-

#### Special Journal

Almost all the transaction that takes place in a business is recorded in a special journal.

1. **Purchase Journal:** All the credit goods purchases of a business are recorded in this journal.



2. **Sales Journal:** All the credit goods sales of a business are recorded in this journal.
3. **Purchase Return Journal:** Goods purchased on credit but returned are recorded in this journal.
4. **Sales Return Journal:** Goods sold on credit but returned are recorded in this journal.
5. **Cash Receipt Journal:** The transactions that include cash receipts (including goods sold for cash) are recorded in cash receipt journal.
6. **Cash Payment journal:** The transactions that include cash payments (including goods purchased) are recorded in cash payment journal.

### **Factors to be considered for General Journal:**

According to double entry system each financial transaction includes two parties. One party is debit and the other one is credit. We identify both the parties with journal. Here, it is to be remembered that only identifying two parties is not thereby enough, besides the proper title of each heads of accounts is also important. If it is wrongly done, the real financial picture of the business will never be disclosed. In the accounts chapter the idea related to concerned accounts have been discussed.

(a) No accounts will be opened under the name goods, materials, cheque etc.

Transaction	Journal Entry	
Goods sold	Cash Account Sale Account	Debit Credit
Cheque issued for goods purchase	Purchase Account Bank Account	Debit Credit

(b) If name of the seller & buyer respectively for goods purchase & goods sale are mentioned, it will be considered as credit transaction. But besides name- cash, cheque, bank etc. words attached will not be considered as credit.

Transaction	Journal Entry	
Purchase from Hasan	Purchase Account Creditors(Hasan) Account	Debit Credit
Goods sold to Khaled for cash	Cash Account Sales Account	Debit Credit

(c) Goods bought & sold on credit is mentioned but name of seller & buyer is not mentioned than in Creditors account for purchase and Debtors account for sale will be recorded.

Transaction	Journal Entry	
Goods purchase on credit	Purchase Account Creditors Account	Debit Credit
Goods sold on account	Debtors Account Sales Account	Debit Credit

(d) For purchase return and sales return- consider that the purchase & sale had made earlier on credit.

Transaction	Journal Entry		
Returns inward	Sales Returns Account	Debit	
	Debtors Account	Credit	
Purchased goods returned	Creditors Account	Debit	
	Purchase Returns Account	Credit	

(e) Buying & selling assets the words new, old, purchase, sale etc. can not be used. Such as Furniture purchase account, Old furniture sales account, New office equipment account etc. named accounts can't be opened.

Transaction	Journal Entry		
Purchase of new Furniture	Furniture Account	Debit	
	Cash Account	Credit	
Sold of old Machine	Cash Account	Debit	
	Machinery Account	Credit	

(f) There will be no accounted under the name of individual or institute for income & expenses generally. Though the income is accrued and expense is due.

Transaction	Journal Entry		
Salary paid to employee Jamil	Salary Account	Debit	
	Cash Account	Credit	
Stationary purchased on credit from Moni Stationeries	Stationary Account	Debit	
	Stationery Due Account	Credit	

(g) Amount of the goods decreases because of goods is used personally or for business, distributed freely for advertisement, stolen, destroyed etc., so for all these situation Purchase account will be credited.

Transaction	Journal Entry		
Goods withdrawn for personal use	Drawings Account	Debit	
	Purchase Account	Credit	
Goods stolen from shop	Account	Debit	
	Purchase Account	Credit	

(h) Withdrawn from business means owner's drawing. Withdrawn from bank is considered for business. If it is mentioned for owner, will be record in – Drawings account.

Transaction	Journal Entry		
Withdrawn from Business	Drawings Account	Debit	
	Cash Account	Credit	
Withdrawn from Bank	Cash Account	Debit	
	Bank Account	Credit	

(i) Goods, cash, any asset stoled or destroyed will be record in Sundry loss accounts.

Transaction	Journal Entry	
Money stolen from cash box	Sundry Loss Account Cash Account	Debit Credit
Goods destroyed by fire	Sundry Loss / Loss on fire A/c Purchase Account	Debit Credit

(j) Bank account will be always affected by bank interest allowed or charged and charges of bank.

Transaction	Journal Entry	
Interest allowed by Bank	Bank Account Bank Interest Account	Debit Credit
Bank charged for expenses	Bank Charge Account Bank Account	Debit Credit

(k) If the value of the fixed assets decreases because of using or for any other reason, “Accumulated Depreciation account –respective assets” -named account will be credit in place of being credit the respective assets account.

Transaction	Journal Entry	
Depreciation charged on furniture	Depreciation Account Accumulated Depreciation (Furniture) A/c	Dr. Cr.

(l) Cheque received from any source, Bank account will be debited. Because bearer or open cheque never is handed over to organization, Account Payee cheque is provided.

Transaction	Journal Entry	
Cheque received from Rajib for goods sold	Bank Account Debtors (Rajib) Account	Debit Credit
Cheque received from debtors, deposited into bank immediately	Bank Account Debtors Account	Debit Credit

(m) Any service gets from owner or provides to owner Capital account credit and Drawings account debit respectively.

Transaction	Journal Entry	
Salary of the employee paid by the owner personally	Salary Account Capital Account	Debit Credit
Owner's shopping expense paid from Business	Drawings Account Cash Account	Debit Credit

(n) Discount allowed and received at settlement of receivable and payable respectively debtors to creditors account will be affected.

Transaction	Journal Entry	
Discount Received	Creditors Account Discount received Account	Debit Credit
Tk.6,500 received from Debtors in full settlement of tk.7,000	Cash Account Discount allowed Account Debtors Account	Debit Debit Credit

**Activity:** How many parts are in the General Journal?

**Journal Proper:** Meaning of general journal and journal proper is same. The transactions which are not record in Special Journal, those are include in Journal Proper.

**1. Rectifying Journal:** If any mistake occurs on recording transactions, it cannot be made scrabble. The mistake is rectified by giving a journal entry. The entry which is given for the rectification of error is known as rectifying journal.

Furniture purchase tk.10000, wrongly purchase account debited with tk.10,000.

Date	Particulars / Account Titles & Explanation	L. F.	Debit Taka	Credit Taka
2012 Dec. 31	Furniture Account                          Debit Purchase Account                          Credit (Wrongly purchase account was debited in place of furniture account, now rectified)	- -	10,000	10,000

**2. Adjusting Journal:** Financial statements are prepared to determine the financial position of business. Unrecorded and unadjusted items (accrued and advance expense, unearned and receivable income, depreciation, reserve etc) that are included at preparing the financial statements is known as adjusting entries.

In 2011 rent paid tk.10,000; before preparing financial statements it disclosed that prepaid rent tk.2,000 included in rent. Adjusting Journal will be in this regard-

Date	Particulars / Account Titles & Explanation	L. F.	Debit Taka	Credit Taka
2011 Dec. 31	Prepaid Rent Account                          Debit Rent Account                                  Credit (Prepaid rent adjusted with rent account)	- -	2,000	2,000

**Note:** Prepaid expense subtracted from respective expense, since it's an asset. So Expense decreased and Assets increased

**3. Closing Journal:** Revenue incomes and expenses of a particular year will not affect the next year's accounts. So, during the preparation of financial statement revenue income and expenses should be closed. We have learnt in accounts chapter that the balances of income denote credit while the balances of expense denote debit balance. Beside, Drawings account is also closed by closing journal.

Balance of Revenue income & expenditure accounts in 2011 of a business was- Purchase 50,000; Sales 80,000; Salaries 10,000; Rent 5,000.

Date	Particulars / Account Titles & Explanation	L. F.	Debit Taka	Credit Taka
2011 Dec. 31	Sales Account Debit Income Statement Credit (Sales account balance closed by transferring to Income Statement)		80,000	80,000
	Income Statement Debit Purchase Account Credit Salary Account Credit Rent Account Credit (Balance of Purchase Account, Salary Account and Rent Account closed by transferring to Income Statement)		65,000	50,000 10,000 5,000

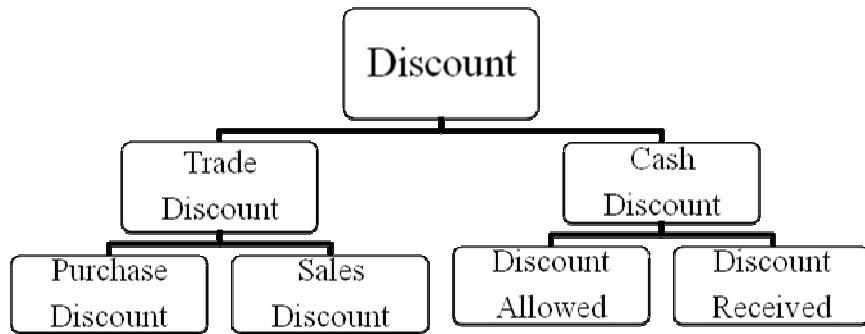
**4. Opening Journal:** Business institution is a continuous process. Assets, liabilities and owner's equity of the last year are brought to beginning of the next year, for which opening journal is made.

On 31 December 2011, Cash Account tk.50,000, Furniture Account tk.30,000, Debtors Account tk.20,000, Creditors Account tk.15,000 and Capital Account tk.85,000

Date	Particulars / Account Titles & Explanation	L. F.	Debit Taka	Credit Taka
2012 Jan. 01	Cash Account Debit Furniture Account Debit Debtors Account Debit Creditors Account Credit Capital Account Credit (Business begin in 2012 with Assets, Liabilities & Equity of 2011)		50,000 30,000 20,000	15,000 85,000

### Discount & Classification of Discount

Generally, when a goods is possible to buy in less price than the predetermind price, the price that paid less is Discount. This type of discount is both paid & received in business.



**Trade Discount:** Seller determines the selling price of goods. When seller sells his goods in a lower price than the predetermined selling price, it is considered as Trade discount. This discount is sales discount for seller and purchase discount for buyer. Neither buyer nor seller keeps this discount in their accounts.

**Cash Discount:** Most of the buying & selling of business take place on credit. The rebate that's provided by seller to buyer to settle the debts between them quickly is Cash discount. This discount is discount paid / allowed for seller & discount received for buyer. Both record this discount in their book of accounts.

**Activity:** Compare between Trade discount and Cash discount.

### Example-1

Mr. Nila Chowdhury is a businessman. During the month of March 2011, the following transactions took place.

March 1	Purchased goods Tk. 9000
,, 2	Purchased furniture Tk. 12,000
,, 3	Sold goods to Bahar for cash Tk. 15000.
,, 7	Deposited in the Bank Tk. 8000
,, 9	Purchased goods on credit Tk. 5000.
,, 12	Withdrawn by the owner for personal requirement Tk. 2000
,, 15	Sold goods Tk. 14000.
,, 18	Purchased stationary Tk. 1000
,, 30	Salaries paid to the employees Tk. 7000.

### **General Journal of Mr. Nila Chowdhury**

Date 2011	Particulars / Account Titles & Explanation	L. F.	Debit Taka	Credit Taka
March 1	Purchase Account                  Debit Cash Account                  Credit (Goods purchase in cash)		9,000	9,000
,, 2	Furniture Account                  Debit Cash Account                  Credit (For furniture purchased for cash )		12,000	12,000
,, 3	Cash Account                          Debit Sales Account                  Credit (For goods sold to Bahar )		15,000	15,000
,, 7	Bank Account                          Debit Cash Account                  Credit (Cash deposited in the Bank)		8,000	8,000

Date 2011	Particulars / Account Titles & Explanation		L. F.	Debit Taka	Credit Taka
March 9	Purchase Account Creditors Account (For goods purchased on credit)	Debit Credit		5,000	5,000
,, 12	Drawings Account Cash Account (Proprietor received cash amount.)	Debit Credit		2,000	2,000
,, 15	Cash Account Sales Account (For goods sold for cash.)	Debit Credit		14,000	14,000
,, 18	Stationary Account Cash Account (For Stationary purchased for cash)	Debit Credit		1,000	1,000
,, 30	Salary Account Cash Account (For salaries paid in cash)	Debit Credit		7,000	7,000
	<b>Total</b>			<b><u>73,000</u></b>	<b><u>73,000</u></b>

### Example-2

On 1st July 2011 Mr. Showkat started a business with cash of Tk. 50,000 and goods of Tk. 20,000 as capital. His transactions for the month were-

2011	
July 2	Opened a bank account with Janata Bank by depositing Tk.20, 000.
,, 7	Purchased computer for business Tk.22, 000.
,, 9	Sold goods to Rumi and received cheque 10,000.
,, 10	Purchased goods from Babul Tk.15,000.
,, 12	Office rent paid in advance Tk. 4,000.
,, 15	Purchased goods returned to Babul Tk. 1,000.
,, 20	Advertisement expenses paid for business Tk. 3,000.
,, 23	Issued cheque to Babul Tk. 5,000.
,, 25	Mr. Showkat's personal expenses paid from the business Tk. 2,000.
,, 30	Salary of Raihan is unpaid Tk.3,500

### Mr. Showkat's Journal (General)

Date 2011	Particulars / Account Titles & Explanation			L. F.	Debit Taka	Credit Taka
July 1	Cash Account Purchase Account Capital Account (For cash and goods brought in as capital.)	Debit Debit Credit		50,000 20,000		70,000
,, 2	Bank Account Cash Account (Opened a Bank account depositing cash)	Debit Credit		20,000		20,000
,, 7	Office equipment Account Cash Account (For purchased computer for cash)	Debit Credit		22,000		22,000
,, 9	Bank Account Sales Account (Sold goods to Rumi by cheque)	Debit Credit		10,000		10,000
,, 10	Purchase Account Creditors Account (Babul) (For goods purchased on credit)	Debit Credit		15,000		15,000
,, 12	Prepaid Rent Account Cash Account (Office rent paid in advance)	Debit Credit		4,000		4,000
,, 15	Creditors Account (Babul) Purchase return Account (For goods returned to Babul)	Debit Credit		1,000		1,000
,, 20	Advertisement Account Cash Account (For expense made for advertisement)	Debit Credit		3,000		3,000
,, 23	Creditors Account (Babul) Bank Account (Issued cheque to Babul )	Debit Credit		5,000		5,000
,, 25	Drawings Account Cash Account (Personal expenses paid from the business)	Debit Credit		2,000		2,000
,, 30	Salary Account Accrued Salary Account (Salary of Raihan is unpaid)	Debit Credit		3,500		3,500
	<b>Total</b>				<b>1,55,500</b>	<b>1,55,500</b>

### Journal of Service Providing Organization

On 1 March 2012 Mr. Pijush Kumar started a theatre business at Baily Road. He invested tk.5,00,000. Transactions on March of his business was-

- March 2      3 months' rent of the theater paid in advance Tk. 90,000.
- ,, 4           publicity expense for the theater Tk. 15,000.
- ,, 6           Purchased chair and table for the theater Tk. 30,000.
- ,, 7           Cost of making & decorating stage tk.50,000

March 12      Entertainment expense for artist & technician tk.2,000  
 „ 15            Sale of ticket for showing drama tk.80,000  
 „ 18            Honorarium paid to artist tk.25,000  
 „ 25            Electricity bill due Tk. 3,000.  
 „ 28            Salaries paid to the theater employees Tk. 12,000.

### Solution

#### Mr. Pijush Kumar's Journal (General)

Date 2012	Particulars / Account Titles & Explanation	L. F.	Debit Taka	Credit Taka
March 1	Cash Account                          Debit Capital Account                          Credit (For cash brought in as capital.)		5,00,000	5,00,000
„ 2	Prepaid Rent Account                 Debit Cash Account                              Credit (For office rent paid in advance.)		90,000	90,000
„ 4	Advertisement Account                Debit Cash Account                              Credit (For advertisement expense paid )		15,000	15,000
„ 6	Furniture Account                     Debit Cash Account                              Credit (For furniture purchased for cash.)		30,000	30,000
„ 7	Stage & Decorate expense Account   Debit Cash Account                              Credit (For making stage & it's decoration paid.)		50,000	50,000
„ 12	Entertainment expense Account       Debit Cash Account                              Credit (For entertaining artist paid.)		2,000	2,000
„ 15	Cash Account                            Debit Service revenue Account                Credit (For selling ticket of drama.)		80,000	80,000
„ 18	Honorarium expense Account         Debit Cash Account                              Credit (For paying honorarium to artist)		25,000	25,000
„ 25	Electricity expense Account         Debit Electricity expense due A/c            Credit (For electricity bill unpaid)		3,000	3,000
„ 28	Salaries expense Account             Debit Cash Account                              Credit (Salaries paid to the theater employees)		12,000	12,000
	Total		<u>8,07,000</u>	<u>8,07,000</u>

**Activity:**

Shachin Kormoker is a businessman. During the month of April 2011 following transactions took place in his business.

- |         |   |
|---------|---|
| April 1 | Received a cheque from debtor and deposited it in the Bank then |
| ,, 3    | Took loan from Maruf Tk. 20000.                                 |
| ,, 5    | Purchase Return Tk. 500.  |
| ,, 8    | Sold old furniture Tk. 2000                                     |
| ,, 10   | Bad debts writing off Tk. 1000                                  |
| ,, 12   | Bank paid notes payable Tk. 3000.                               |
| ,, 15   | Purchased chair and table Tk. 7000.                             |
| ,, 18   | Interest on investment Tk. 1000                                 |
| ,, 20   | Commission receivable Tk. 600.                                  |
| ,, 22   | Withdrawn from Bank Tk. 4000                                    |
| ,, 25   | Paid creditor by cheque Tk. 6500 and received discount Tk. 500. |
| ,, 30   | Charged depreciation of furniture Tk. 800                       |

Record the above transactions in the General Journal Book.

**Purchase Journal:** Whatever purchased in business with the intention of sale is goods. These goods can be bought through both for cash and credit. Goods those are bought on credit are recorded in Purchase Journal. Purchase journal prepared based on invoice. A purchase Journal based on Invoice is prepared below-

Invoice No- 1650		<b>Shaudagar Agency</b>		Date: 2 March 2011
		51/3, Badam Toli Shodorghat, Dhaka		
		<b>Invoice</b>		
Buyer's Name: Raha stores Address: 23/2, Kathal Bagan, Dhaka.				
<b>S/No.</b>	<b>Description Of Goods</b>	<b>Rate (Taka)</b>	<b>Qty.</b>	<b>Amount (Taka)</b>
1	Nazir Shail Rice Less: Trade Discount (5%)	40	1,000 KG	40,000 2,000 <u><u>38,000</u></u>
Amount (Words): Thirty Eight Thousand Taka Sales Terms: 2/10, Net 30				
N.B. Errors & Omissions Excepted			Seller's Signature	

<b>Raha Store's Purchase Journal</b>						
Date 2011	Account Credited	Condition	Invoice No.	Source	Purchase Account Debit Creditors Account	Debit Credit
Mar. 2 ,, 10	Shaudagar Agency Nargis Agency	2/10, net 30 3/5, net 20	1650 1230	✓ ✓	38,000 23,000 <u><u>61,000</u></u>	←

(Name of Nargis agency newly entered)

**Sales Terms:** If the sales terms is like this- 2/10, Net 30. It means, if the buyer is able to pay the dues within 10 days gets 2% cash discount. If failed then dues have to be paid within 30 days of course.

**Sales Journal:** Goods sold on account is recorded in Sale Journal. Sales Journal is also prepared based on invoice. Specimen of Sales Journal mentioned below-

#### Shaudagar Agency's Sales Journal

Date 2011	Account Debited	Invoice No.	Source	Debtors Account Sales Account	Debit Credit
March 2	Raha Stores	1650	✓	38,000	
March 12	Rehana Stores	1651	✓	32,000	
				<u>70,000</u>	

N. B. The part of transferring to Ledger from Purchase & Sales Journal is mentioned in the 'Ledger' chapter.

**Activity:** Mr. Shahjahan is a businessman of Kawran Bazar, Dhaka. During the month of November 2011 following transactions took place in his business-

- Nov. 1      Sold to Mili Stores, Dhaka- 50 Kg. of at Tk.100 per Kg. Trade discount allowed 2%. Invoice No.8. Condition : 3/10, net 20
- ,,    5      Sold to Jony Traders- 500 Pound of Tea at Tk.200 per Pound. Trade discount allowed 5%. Invoice No- 533. Condition : 3/15, net 30
- ,,    8      Sold to Ratan Stores- 100 Pound of Tea at Tk. 220 per Pound .Trade discount allowed 3%. Invoice No.- 254.
- ,,    12     Sold to Zafar Brothers- 120 liters of Soya bean oil at Tk. 300 per liter .Trade discount allowed 4%. Invoice No.- 534.
- ,,    15     Sold to Shikdar and Sons- 100 bags of flour at Tk. 2000 per bag. Trade discount allowed 3%. Invoice No.- 255.
- ,,    20     Sold to Rotna Traders - 50 packet of powder milk at Tk. 350 per packet. Trade discount allowed 2%. Invoice No.- 535.

Prepare Purchase Journal and Sales Journal from above information.

**Purchase Return Journal:** If the delivered goods are not as per order, below standard or expired, bought goods are returned to seller. Buyer send prepared Debit Note to seller for returning goods and prepares Purchase Journal.

Debit Note No.-173	<b>Imran Brothers'</b> Malitola, Bangshal	Date: 18 August 2011
<b>Debit note</b>		
Name: M/S. Shopna Enterprize Address: 37, Rainkhola, Mirpur-6, Dhaka. Ref: Purchase / Invoice No. 1265 / 3 August 2011		
Date	Description & Reason of returning goods	Amount (Taka)
2011 Aug. 18	10 pc. Torn Jamdani Saree tk.1,300 each returned. Please deduct the price of 10 sharees from our account Less: Trade discount	13,000 1,000 <u><u>12,000</u></u>
Amount (words): Twelve thousand taka		
N.B. Errors & Omissions Excepted		Purchase Manager

### Imran Brother's Purchase Return Journal

Date 2011	Account Debited	Debit Note No.	Source	Creditors Account Purchase Return A/c	Debit Credit
Aug. 18	M/s Shopna Enterprise	173	✓	12,000	←
„ 23	Mamun Traders	185	✓	7,000	
„ 29	Nahid Stores	193	✓	5,000	
					<u><u>24,000</u></u>

Transaction of date 23 and 29 newly entered.

**Sales Return Journal:** Receiving returned goods along with debit note from buyer, seller confirms buyer preparing credit note that his account is credited. Seller send credit note to buyer and prepares Sales Journal for having the goods returned to him.

Credit note no.-237	<b>M/S. Shopna Enterprise</b> 37, Rainkhola, Mirpur-6, Dhaka.	Date: 20 August 2011
Name of Receiver: Imran Brothers' Address: Malitola, Bangshal Ref: Debit note 173 / 18 August 2011		
<b>Credit Note</b>		
Date	Description & Reason of returning goods	Amount (Taka)
2011 Aug. 18	10 pc. Torn Jamdani Saree tk.1,300 each returned. Your account is credited with returned goods price Less: Trade discount	13,000 1,000 <u><u>12,000</u></u>
Amount (words): Twelve thousand taka		
N.B. Errors & Omissions Excepted		Sales Manager

### M/S. Shopna Enterprise's Sales Return Journal

Date 2011	Account Credited	Credit Note No.	Source	Sales Return Account Debtors Account	Dr. Cr.
Aug. 20	Imran Brothers	237			12,000
,, 25	Sagar Trades	240			9,000
,, 30	Rupa Traders	243			5,500
					<u>26,500</u>

Transactions dated 25and 30 newly entered

**Activity:** The following returns happened on April 2011 in Fatema Stores-

- April 3 10 packets powder milk tk.250 each returned from Ratul Traders, as they were expired. Trade discount 3%, Credit note no.-165
- ,, 9 40 Kg. detergent tk.50 per kg returned to Jaman & Sons due to inferior quality. Trade discount 2%, Debit note no.-187.
- ,, 17 15 pounds tea tk.170 per pound returned to Latif Stores, since it was not according to sample. Debit note no.-188.
- ,, 24 6 dozens soap tk.180 per dozen returned from Rashed & Bros.due to deliver excess. Trade discount 4%. Credit note no.-166

Record to Purchase return & Sales return journal.

N. B. Example and procedure to prepare Cash Receipts & Cash Payments Journal described in Chapter 8.

### Exercise

#### Multiple Choice Questions

1. Journal is called ---

- i. Primary book
- ii. Subsidiary book
- iii. Permanent book

Which one is correct of the following?

- a) i                      b) ii                      c) i & ii                      d) i & iii

2. It is known from journal ---

- i. Total number of transactions
- ii. Total amount of money
- iii. Reason of transaction

Which one is correct of the following?

- a) i                      b) i & ii                      c) ii & iii                      d) i. ii & iii

3. In the journal proper, we prepare –

- a) Purchase journal      b) Sales journal      c) Adjusting journal      d) Cash journal

4. In the purchase journal, we record-

- |                        |                                 |
|------------------------|---------------------------------|
| a) all goods purchases | b) all goods purchase in cash   |
| c) all purchases       | d) all goods purchase on credit |

5. The documentary evidence of sales return journal is –

- |               |                |                  |                   |
|---------------|----------------|------------------|-------------------|
| a) Debit note | b) Credit note | c) Debit voucher | d) Credit voucher |
|---------------|----------------|------------------|-------------------|

6. Which entry is used for closing the incomes and expenses account?

- |                  |                   |                    |                  |
|------------------|-------------------|--------------------|------------------|
| a) Opening entry | b) Transfer entry | c) Adjusting entry | d) Closing entry |
|------------------|-------------------|--------------------|------------------|

7. Office equipment will be debited for ---

- i. Almirah purchased
- ii. Paper and pen purchased
- iii. Computer purchased

Which one is correct of the following?

- |      |        |            |           |
|------|--------|------------|-----------|
| a) i | b) iii | c) i & iii | d) i & ii |
|------|--------|------------|-----------|

8. Salary due to employee Shakil tk 3,000. The journal entry is –

a) Shakil account	Debit	b) Salary account	Debit
Salary account	Credit	Shakil account	Credit
c) Salary account	Debit	d) Outstanding Salary A/c	Debit
Outstanding Salary A/c	Credit	Salary account	Credit

### **Read the following passage and answer the question no. 9, 10, 11 & 12:**

On 1<sup>st</sup> October 2012 Mrs. Sabina Yasmin started a business with tk.2,00,000 from selling her own land and bank loan tk.1,00,000 in the name of business. On 2<sup>nd</sup> October she purchased goods from Mr. Monir tk.50,000 on credit. On 5<sup>th</sup> October furniture purchased in cash tk.40,000. On 10<sup>th</sup> October sold goods to Masud for tk.30,000. On 15<sup>th</sup> October, goods returned to Monir tk.5,000.

9. What is the amount of capital of Mrs. Sabina Yasmin?

- |                |                |
|----------------|----------------|
| a) tk.1,00,000 | b) tk.2,00,000 |
| c) tk.3,00,000 | d) tk.3,40,000 |

10. The transaction of 5<sup>th</sup> October will be recorded in ---

- i. Purchase journal
- ii. Cash payment journal
- iii. General journal

Which one is correct of the following?

- |           |             |
|-----------|-------------|
| a) i      | b) ii       |
| c) i & ii | d) ii & iii |

11. Correct Journal of October 10<sup>th</sup> -

a) Masud account	Debit	b) Cash account	Debit
Sales account	Credit	Sales account	Credit
c) Cash account	Debit	d) Masud account	Debit
Masud account	Credit	Cash account	Credit

12. Which one is the documentary evidence of October 15<sup>th</sup> transaction?

- |                   |                |
|-------------------|----------------|
| a) Debit voucher  | b) Debit note  |
| c) Credit voucher | d) Credit note |

### Creative Questions:

1. Mrs. Afroza Akhter is a trader of clothes. On December 2011 following transactions occurred in her business :

- Dec. 01 Purchased from Mr. Mahmud tk.10,000 allowing 10% discount.  
Invoice no.78.
- Dec. 03 Sold goods for cash tk.12,000.
- Dec. 08 Goods returned to Mr. Mahmud tk.1,000. Debit note no. 123
- Dec. 10 Repair of old furniture tk.500
- Dec. 15 Goods purchased on credit from Mr. Nazrul Islam tk.20,000. Invoice no.109
- Dec. 20 Paid to Mr. Mahmud tk.4,000.
- a) Prepare a Debit note with the help of transaction December 8.
- b) Prepare a Purchase journal of Mrs. Afroza Akhter from the above transactions.
- c) Pass the general journal entries from the above transactions except purchase journal entries.

2. On May, 2011 The following transactions occurred in the business of Mr.

Bahauddin :

- May 01 Withdrawn from bank for business tk.15,000
- May 03 Sold goods to Mr. Romij tk.10,000 allowing 5% discount. Invoice no.173
- May 05 Rent paid in advance tk.3,000.
- May 08 Goods purchased by cheque tk.7,000.
- May 10 Sold goods to Mr. Shahadat tk.9,000 allowing 25.5% discount. Invoice no.174.
- May 15 Cash withdraw tk.1,000
- a) What is the total amount of sales discount for the month?
- b) Prepare a Sales journal from the above transactions.
- c) Record the above transactions of Mr. Bahauddin in general journal.

3. Mr. Jibon Chowdhury is a business man. On January 2012 following transactions occurred in his business :

- Jan. 01 Started business with cash tk.2,50,000 and plant and machinery tk.65,000.  
Jan. 05 Sold to Suborna Traders tk.48,000 allowing 5% discount. Invoice no.205.  
Jan. 08 Goods purchased from Rajon by cheque tk.41,500.  
Jan.12 Goods returned from Suborna Traders tk.5,000. Credit note no. 109.  
Jan. 15 Stationery items purchased tk.1,200  
Jan. 18 Carriage expense for almirah which bought for business tk.1,500.  
Jan. 28 Goods withdraw for personal needs tk.800

- a) What is the amount of opening capital of Mr. Jibon Chowdhury?
- b) Prepare an Invoice for the transaction dated January 5<sup>th</sup> of Mr. Jibon Chowdhury.
- c) Record the transactions occurred on January 8, 15, 18 and 28<sup>th</sup> into the general journal.

4. Mr. Khan is a computer trader. On July, 2012 The following transactions occurred in his business :

- July.05 Eight computers purchased from Mahi Computers at tk.36,000 each.  
Trade discount @ 6%. Invoice no.509. Carriage expenses tk.1,500.  
July.15 Six computers purchased from Raju Computers at tk.40,000 each.  
Trade discount @ 5.5%. Invoice no.311. Packing expenses tk.500.  
July.20 Three computers returned to Raju Computers due to inferior quality.  
Debit note no. 501.

- a) What is the total amount of incidental expenses of Mr. Khan to purchase in July.
- b) Prepare a Debit note considering the above transactions of July.
- c) Prepare a Purchase journal of Mr. Khan from the above transactions.

## Chapter Five

# Accounts

Financial transactions change the financial position of the business. By transaction sometime cash received sometime paid, sometime income earned sometime expense incurred, sometime asset increase sometime decrease, and again sometime liability increase sometime decrease. Income, Expense, Asset and Liability are not a particular type, there are different types of many such items in business organization. In a particular table/chart the income, the expense, the asset or the liability that is affected by transaction are recorded as per double entry system and it calculates the gross & net amount of that particular item. Accounts are prepared to know the continuous change and the net amount of each item.

<b><u>'T' – Table</u></b>							
Debit		Account's Title				Credit	
Date	Particulars	J.F.	Taka	Date	Particulars	J.F.	Taka

<b><u>'Moving Balance' – Table</u></b>							
Account's Title				Account's code no...			
Date	Particulars	J.F.	Debit Taka	Credit Taka	Balance		
					Debit	Credit	

### Ending this chapter we will be able to

- explain the concept and features of accounts.
- keep accounts using different types of table ('T'- table & 'moving balance' - table).
- classify accounts as per Accounting Equation.
- record Debit and Credit in related accounts as per Double Entry System.

### **Concept of Accounts:**

The main objective of business organizations is to calculate financial result and financial position. It's required to record the transactions in disciplined & proper way to achieve this objective. Because of transactions continuous increase – decrease happen to assets, liabilities, incomes, expenses and to equity. It's needed to record this serially and to know the net amount of each item at an interval of specific time.

### **Event:**

Mr. Shagor is an employee. In march 2012 he gets salary tk.15,000; sold old furniture for tk.3,000 and loan taken from bank tk.5,000. He spent tk.8,000 for house rent; tk.5,000 for food; tk.1,000 for gas & electric bill; tk.500 for conveyance; tk.3,000 for treatment and tk.2000 for children's education.

All cash receipts and all cash payments are mentioned above of Mr. Shagor for the month march 2012. How much cash balance will leave in hand? To know the balance following way can be applied-

$$\text{Total Receipts} = (15,000 + 3,000 + 5,000) = \text{tk.}23,000$$

$$\text{Total Payments} = (8,000 + 5,000 + 1,000 + 500 + 3,000 + 2,000) = \text{tk.}19,500$$

$$\text{Balance} = (23,000 - 19,500) = \text{tk.}3,500$$

Accounting follows a particular table to present the above information -

### **Cash Account**

<b>Debit (Tk.)</b>		<b>Credit (Tk.)</b>	
Salary received	15,000	House rent	8,000
Sale of furniture	3,000	Food	5,000
Bank loan	5,000	Gas & electric bill	1,000
		Conveyance	500
		Treatment	3,000
		Education	2,000
		Balance (Difference)	3,500
	<b><u>23,000</u></b>		<b><u>23,000</u></b>

This type of table is kept for each type of assets, liabilities, incomes, expenses & equity of business organization separately and the balance of each one is calculated after an interval of specific time.

**Activity:** How is the above table of accounts look like and what special things you are observing?

Account is such a table or statement where the changes & position of each financial item are disclosed. Cash Account, Furniture Account, Bank Account, Purchase Account, Sales Account, Salary Account, Rent Account etc.

## Table of Accounts

Two types of accounts table is used in Accounting-

### 'T' – Table

Debit		Account's Title Account's code no.....				Credit	
Date	Particulars	J.F.	Taka	Date	Particulars	J.F.	Taka

### 'Moving Balance' – Table

Account's Title				Account's code no...		
Date	Particulars	J. F.	Debit Taka	Credit Taka	Balance	
					Debit	Credit

#### Features of 'T'- Table

- ❖ There will be a title of Account
- ❖ The table will be divided into two parts Debit & Credit
- ❖ Four columns both side total eight columns
- ❖ Balance of accounts(Difference between total Debit & total Credit) should be calculated after an interval of specific time period
- ❖ Should have a code number for each account

#### Features of 'Moving Balance'- Table

- ❖ There will be a title of Account
- ❖ Should have a code number for each account
- ❖ One column each for date, description & journal folio(J.F.)
- ❖ Total four columns for amount (Taka)
- ❖ Debit & Credit amount column situated side by side
- ❖ Balance of accounts is calculated after each posting of transaction

**Activity:** Identify what are the differences between these two tables.

N: B: Balancing of accounts is described thoroughly in 'Ledger' chapter.

## Classification of Accounts

We can classify accounts very easily by analyzing the Accounting Equation (A=L+E)

Assets	=	Liabilities	+	Equity
or				
Assets	=	Liabilities	+	Capital brought in by the owner + Income – Expense – Withdrawn by the owner

By observing the above equation it possible to identify, that Accounts are five types.

1. Assets
2. Liabilities
3. Equity
4. Income
5. Expense

### **Relation of Transactions with Accounts**

1.	Capital Account	Money, goods, assets, and other services provided by the owner to the business record in Capital Account
2.	Drawings Account	Money, goods, assets, and other services taken for own use by the owner from the business record in Drawings Account
3.	Cash Account	Cash received and cash payments by the transactions record in Cash Account
4.	Bank Account	Deposited amount of bank increase & decrease by the transactions record in Bank Account.
5.	Purchase Account	Goods purchase (anything bought for sale) on cash, cheque, card, credit & bill and Goods stolen, destroyed, used & distributed record in Purchase Account.
6.	Sales Account	Goods sale (anything bought for sale) on cash, cheque, card, credit & bill record in Sales account
7.	Furniture Account	Chair, Table, Almirah, Show-case, File cabinet and other fixed assets buy & sale record in Furniture Account.
8.	Plant & Machinery A/c	Different machine purchase, installation, extension and sale record in Plant & Machinery Account
9.	Return outwards Account	Bought goods returned out record in Purchase return / Return outwards Account
10.	Return inwards Account	Sold goods returned in record in Sales return / Return inwards Account
11.	Creditors Account	Goods purchased on account, goods returned out, paid to creditors, discount received and acceptance of bill record in Creditors Account
12.	Debtors Account	Goods sold on account, goods returned in, received from debtors, discount allowed and acceptance taken of bill record in Debtors Account
13.	Bills Payable Account	Purchase through bill, bill acceptance to creditors, bill paid and nonpayment dishonored record in Bills payable Account
14.	Bills Receivable Account	Sale through bill, bill acceptance by debtors, bill realized and dishonored record in Bills Receivable Account.
15.	Stock of goods Account	At the end of accounting period amount of unsold goods is determined, which is closing stock of goods for that date and opening stock of goods for the 1 <sup>st</sup> day of next accounting period.
16.	Loan Account	Loan taken and repayments of loan for business from individual or organization record in Loan Account. Name of individual or organization can be added. Like- Rakesh's Loan A/c or Bank Loan A/c. If business provide loan 'Loan paid A/c' - should use.
17.	Investment Account	If the idle money of the business invested to Share, savings certificate, prize bond etc. for short or long time and sale of these record in Investment Account.
18.	Salary Account	Salary paid or due to employee record in Salary Account. No account will be opened under the name of employee.
19.	Stationary Account	Purchase of paper, pen, pencil, scale, file cover, pin, clip etc. to operate the administrative activities of business record in Stationary Account

20.	Rent Account	Factory, office, showroom & other places rent paid & due record in Rent Account. If business required, separate rent account can be opened for each type. i.e office rent account, factory rent account, sub tenant account etc.
21.	Carriage expense Account	Carriage inward & Carriage outward accounts are opened to record goods bringing in and sending out expense at the time of buying and selling goods respectively.
22.	Interest Account	Interest Account is to open for interest receive & payment and receivable & accrued interest. Received or receivable interest on investment, on drawings, on loan paid, on bank deposit and on other hand paid or payable interest on capital, on loan, on bank overdraft accounts are opened
23.	Advertisement Account	Advertisement Account open for any kind of promotional & publicity expense of the business. Poster, banner, radio, television, free distribution of goods is most of them.
24.	Bad debts Account	Bad debts account is opened due to debtors' death, bankruptcy or for any other reason. It can be mentioned here that provision for bad debts account is opened for doubtful debts.
25.	Discount Account	Allowing some rebate for realizing the receivable amount to debtors and receiving some rebate on paying the owed amount to creditors record in Discount Account. Allowing & receiving discount is recorded in two separate accounts respectively discount allowed and discount received account.
26.	Depreciation Account	The value of fixed assets decreases for being used, the reduced part records in Depreciation Account
27.	Expense due and Receivable Income Account	Separate accounts are opened for revenue expense due and revenue income accrued. For example, salaries due account, Interest due on loan account, commission receivable account, interest receivable account etc.
28.	Prepaid Expense and Advance Income Account	Prepaid expense & Advance income accounts are opened to record respectively expenses paid before getting service and income realized before providing service. For example-prepaid insurance premium, prepaid rent account, advance apprenticeship premium account, advance sub-tenants account etc. Advance income is considered as unearned income.
29.	Repair Account	Repair of Fixed assets (Furniture, Machinery, Building, Motor vehicle etc.) is generally recorded in Repair account
30.	Office Equipment Account	Office Equipment Account is opened to record purchase & Sale of computer, AC, photocopier, printer etc & other expenses related with purchase.
31.	Office Supplies Account	The price of watch, stapler, calculator, paper weight etc. is comparatively small but provides services for a long time. Office Supplies Account is affected for these purchases.

**N: B:** Idea about some important accounts are shown in the above chart.

**Group Work:** Prepare a list of asset, liability, equity, income and expense account divided into several groups.

## Debit and Credit

We have observed Debit and Credit these two words in both ‘T’ and ‘Moving Balance’ table. Account is not possible to prepare without identifying debit and credit. So, part of this lesson is explained with the principle of identifying debit and credit of different types of accounts.

We have mentioned the left side of the account debit and the right side credit. These two words give direction to accounts. Debit word means left and Credit word means right. That’s why left side of the account is Debit and right side is Credit- it’s a convention of Accounting.

We have learnt in Double Entry System chapter that each transaction brings two equal opposite changes. One change is Debit and other one Credit.

At least two accounts are affected by each transaction, one’s debit side affect so the other’s credit. Same side of two accounts will not be affected by transaction. Means it will not debit & debit or credit & credit.

Both side of the Accounting Equation will be always equal after each transaction and total debit amount of accounts will be equal to total credit amount of accounts. This two theory help in ascertain debit & credit of accounts.

$$\begin{array}{rcl}
 A & = & L + E \\
 \hline
 \text{Assets} & = & \text{Liabilities} + \text{Equity} \\
 \hline
 \text{Total Debit} & = & \text{Total Credit} \\
 \hline
 \begin{array}{c} \text{Assets} \\ \hline \text{Debit} \end{array} & = & \begin{array}{c} \text{Liabilities} \\ \hline \text{Credit} \end{array} + \begin{array}{c} \text{Equity} \\ \hline \text{Credit} \end{array}
 \end{array}$$

Owner’s equity increases by bringing in capital (cash or any other asset) & earned incomes and on other hand owner’s equity decreases by owner’s drawings (cash or any other asset) & expenses incurred. Mentionable here, cash or any other assets brought in or taken out by owner should be recorded in accounts separately, so that the total amount of these two can be known easily. So, now we can say –

<u><b>Debit</b></u>	<u><b>Credit</b></u>
* Assets increase	* Assets decrease
* Liabilities decrease	* Liabilities increase
* Equity decrease	* Equity increase
* Income decrease	* Income increase
* Expense increase	* Expense decrease

### Summary to Calculate Debit-Credit

Assets	=	Liabilities	+	Equity	+	Income	-	Expense
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**Effect of transactions on accounts is shown with examples-**

Started business with cash tk.50,000

Both cash (assets) and equity increased by the transaction-

Cash account (Assets increase)	Debit
Capital account (Equity increase)	Credit

Furniture purchase tk.10,000

Furniture increased & cash decreased by the transaction-

Furniture account (Assets increase)	Debit
Cash account (Assets decrease)	Credit

Open a bank account by depositing tk.5,000

Bank account (Assets increase)	Debit
Cash account (Assets decrease)	Credit

Goods sold for cash tk.12,000

Cash account (Assets increase)	Debit
Sales account (Income increase)	Credit

Cash withdrawn tk.1,000 by the owner

Drawings account (Equity decrease)	Debit
Cash account (Assets decrease)	Credit

**Activity:** Using the following table write the debit & credit party and classification of accounts with reason of each transaction:

1. The owner brought in furniture personally tk.5,000
2. Goods purchase from Bimal tk.7,000
3. Goods sold on credit tk.9,000
4. Goods returned to Bimal tk.1,000
5. Sold out gods on credit returned in tk.2,000
6. Prepaid rent tk.3,000
7. Withdrawn from bank for owner tk.2,000
8. Loan has taken from Ramjan tk.6,000
9. Paid to Bimal tk.3,000
10. Received from debtors tk.5,000

Sl. No.	Transaction	Party / Account		Classification of accounts	Reason
1.	Goods purchase in cash tk.12,000	Purchase account Cash account	Dr. Cr.	Expense Assets	Expense increase Assets decrease

One transaction is presented in the table to understand.

## Exercise

### Multiple Choice Questions

1. Total number of column in ‘T’ table –
  - a) 6
  - b) 7
  - c) 8
  - d) 10
2. The correct equation may be –
  - i) Assets = Liabilities + Owner’s Equity
  - ii) Assets - Owner’s Equity = Liabilities
  - iii) Assets + Owner’s Equity = Liabilities

Which one is correct of the following?

  - a) i & iii
  - b) ii & iii
  - c) iii
  - d) i & ii
3. The difference between total amount of debit and credit of an account is called –
  - a) Profit
  - b) Loss
  - c) Liability
  - d) Balance
4. ‘Debtor’-what type of account?
  - a) Asset
  - b) Liability
  - c) Owner’s equity
  - d) Income
5. Same types of account are –
  - i) Salary account
  - ii) Sales account
  - iii) Advertisement account

Which one is correct of the following?

  - a) i & ii
  - b) ii & iii
  - c) i & iii
  - d) i, ii & iii
6. Concerned account is credited –
  - i) When asset increases
  - ii) When owner’s equity increases
  - iii) When expense decreases

Which one is correct of the following?

  - a) i
  - b) i & ii
  - c) ii
  - d) ii & iii
7. Which one is prepared for knowing continuous change and net amount?
  - a) Account
  - b) Journal
  - c) Ledger
  - d) Trial balance
8. If the idle money of business is invested for long time then it is –
  - i) Asset
  - ii) Liability
  - iii) Owner’s equity

Which one is correct of the following?

  - a) i
  - b) ii
  - c) iii
  - d) ii & iii
9. Account balance is calculated in moving balance format –
  - a) At the end of the week
  - b) At the end of the month
  - c) After recording of each transaction
  - d) At the end of the day
10. As per accounting equation, accounts are-
  - a) 3 types
  - b) 4 types
  - c) 5 types
  - d) 6 types

11. Owner's equity will increase –



Which one is correct of the following?

- a) i                    b) ii & iii            c) i & iii            d) i & ii

**Considering the following information, answer the questions no. 12 & 13:**

On 31 May, 2011 the following accounts balances are available in Mr. Noresh's business:

Furniture account tk.20,000; Cash account tk.30,000; Purchase account tk.10,000;  
Sales account tk.25,000; Capital account tk.40,000 and Drawings account tk.5,000.

12. What is the total amount of assets?

- a) tk.50,000    b) tk.60,000    c) tk.65,000    d) tk.75,000

13. What will be the net amount of Owner's equity?

- a) tk.35,000    b) tk.50,000    c) tk.65,000    d) tk.70,000

**Considering the following information, answer the questions no. 14 & 15:**

On 1 January, 2012 Mr. Jahid started a business with cash tk.2,00,000 and prize bond worth tk.20,000. On 10 January he purchased goods from Mr. Sajid tk.25,000.

14. What is the amount of opening capital of Mr. Jahid?

- a) tk.2,45,000 b) tk.2,20,000 c) tk.2,00,000 d) tk.1,80,000

15. By transaction amounted tk.25,000, The effect on accounting equation –

- i)  $A$  element will decrease      ii)  $L$  element will increase      iii)  $E$  element will decrease

Which one is correct of the following?

- a) i & ii      b) i & iii      c) ii & iii      d) i, ii & iii

## Creative Questions:

1. The following transactions occurred on January 2012 in the business of Mr. Shahin:

- i) Goods purchased on credit tk.10,000
  - ii) Goods sold to Jamal tk.18,000
  - iii) Deposited into bank tk.5,000

- iv) Salary paid to employees tk.3,000

  - a) What changes will bring to owner's equity by the 4<sup>th</sup> transaction?
  - b) Identify the debit and credit party which related to each transaction.
  - c) Draw a format for classifying accounts from the above transactions.

2. Alif Howlader records all transaction under double entry system of business. The following transactions occurred on January 2012 in his business :

- i) Goods purchased on credit tk.40,000
  - ii) Goods sold to Jaman tk.18,000
  - iii) Deposited into bank tk.25,000
  - iv) Salary paid to employee tk.3,000
  - v) Decision taken for recruiting a manager.
- a) What is the decreasing amount of Alif Howlader's equity?
  - b) Show the account's classification of above transactions with explanation in a table/format.
  - c) Determine the debit and credit with explanation of the above transactions.

3. Mr. Nuhad is a trader. On June 2012 the following transactions occurred in his business :

June 1 Capital brought tk.2,00,000  
 June 10 Goods purchased tk.20,000 and immediately paid tk.16,000 by cheque  
 June 20 Stationery expenses tk.1,000  
 June 28 Goods sold by cheque tk.10,000  
 June 30 Ordered a sign board for hanging on shop tk.4,000.

- a) Determine the total amount of expense in Mr. Nuhad's business.
- b) Determine the debit and credit with explanation of the above transactions.
- c) Show the effect of above transactions on accounting equation using Tabular format.

4. Mr. Arup Roton is a retailer. On August 2011 the following transactions occurred in his business:

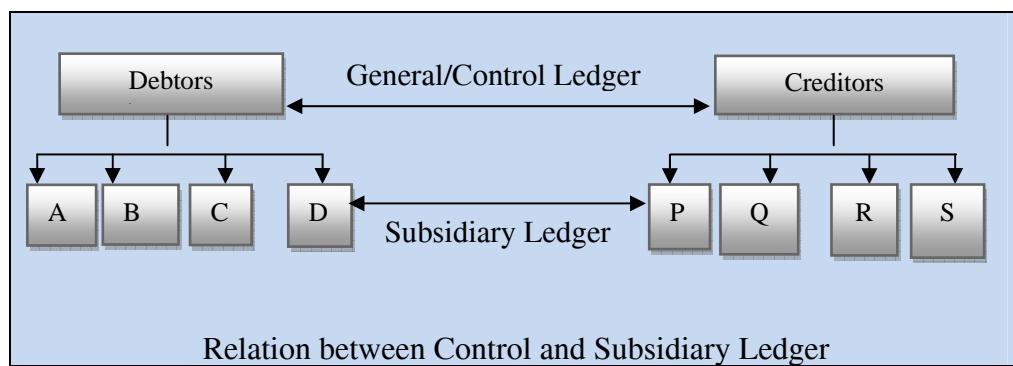
August 01 Loan taken tk.20,000  
 August 03 Goods purchased in cash tk.15,000  
 August 05 Goods sold to Habib in cash tk.25,000  
 August 15 Withdrawn from bank for business tk.5,000.

- a) Determine the increasing amount of assets from the above information.
- b) Mention the concerned account and classification of account for each transaction.
- c) Match the above four transactions with following conditions: 'Asset and Income Increase'; 'Asset Decreases and Expense Increases'; 'Asset and liability Increase'; 'Asset Increases and Asset Decreases'.

## Chapter Seven

# Ledger

After the recording of transactions primarily it's necessary to transfer these to the concerned heads of account following the classification of accounts. Throughout the year at different times goods are bought and sold both on cash and credit. Without accumulating credit purchase from purchase journal and cash purchase from cash book total purchase can never be obtained. Ledger assembles the scattered purchase, sales and other income and expenses and helps in ascertaining total purchase, total sales and other total income & expenses. To know about the balances of accounts and to testify their arithmetic accuracy along with having a primary about the total condition of the business are included in this chapter.



### At the end of this chapter, we will be able to

- explain the idea and importance of ledger as a permanent book
- classify the types of ledger
- detect the differences between Journal & Ledger
- identify the balances by preparing accounts through 'T' and 'Moving balance'-format
- analyze the significance of debit & credit balance of ledgers.

### **Concept of ledger**

If Items are displayed serially and classified properly it can be located and the amount can be obtained easily. After recording transactions in journal are entered into the ledger serially and classified manner permanently. It is not possible from journal to know about the total result and financial condition of a business. In a ledger the same type of classes of accounts are recorded in different heads of accounts. Different type's accounts of an organization like asset, liability, owner's equity, income, expenses are kept. These accounts together are called ledger.

#### **Features:**

- Each account is given a title
- Moving Balance Method and T format are used for keeping ledger
- Balance of each accounts are identified individually
- In preparing ledger journal acts as a helping book. Journal folio no. is mentioned at the time of recording to Ledger.
- Balance of Ledgers help to verify the arithmetical accuracy of keeping accounts
- Trial Balance is prepared with the balance of Ledgers.

Assets	Liabilities	Owner's Equity	Revenues	Expenses
Cash Account	Creditors A/c	Capital Account	Sales Account	Purchase Account
Furniture A/c	Loan Account	Drawings A/c	Rent Received A/c	Salaries Account
Debtors Account	Expense Due A/c		Commission Received Account	Wages Account
Prepaid Expense A/c				Depreciation A/c
				Advertisement A/c

### **Importance of Ledger**

Since transactions are properly arranged in a sequence to accounts, users can easily access their desired information from the ledger. It's possible to get idea about the total amount of assets, liabilities, income and expenses of a business from the ledger. For the purpose of preparing trial balance, the balances of ledger are used and as such arithmetical accuracy is confirmed. The necessity and importance of ledger is amplified by saying that 'Ledger is the king of all books of accounts'.

### **Distinguish between Journal and Ledger**

Journal and ledger both belong to the steps of accounting cycle. Ledger by comparison is more important and useful than journal. Keeping journal is optional while compulsory for the case of ledger. Apart from the arithmetical accuracy of accounts the ledger reflects the financial results and condition of a business. There are differences between the tables of a journal and a ledger. In a journal only the debit and credit side of transaction is identified where as in a ledger balance of each accounts are identified by comparing total debits and total credits. For preparing the ledger properly and accurately journal acts as a supplementary book.

**Activity:** Being divided into groups ascertain the differences between Journal and Ledger

### Includes in Ledger or Posting

**Transaction:** Goods purchase for cash tk.5,000

#### Journal Entry:

Purchase Account	Debit	5,000
Cash Account	Credit	5,000

#### Posting to Ledger:

Debit		Purchase Account				Credit	
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka
	→ Cash Account		5,000				

Debit		Cash Account				Credit	
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka
				→ Purchase Account			5,000

Looking at the posting, as purchase account is debited in journal, it is posted to the debit side of the purchase ledger, but in the particulars column the opposite credited head name i.e. Cash account is mentioned. On the other hand, Cash accounts is credit so it has been posted to credit side of Cash ledger but the particulars column is represented in the name of debit side account i.e. Purchase account. With these it is identifiable that purchase account is debited by which account, while cash account is credited by which account.

Therefore, the debit side posting of an account in a ledger will be recorded in the name of its subsequent account into the particular column vice versa.

### Balancing of Accounts

During the time of preparing a ledger, the first step is posting and the next step is balancing. In general, terms the word balancing means what remains. For example: 5 kg of rice purchased and 3 kg of which have been consumed so the remaining is 2 kg. Ascertaining the balance of an account is almost like this. The difference between the posted amount in debit and credit side of the accounts is known as balancing.

### ‘T’ Table

Cash account balance is calculated after being posted of the following two transactions -

2011

March 3            Goods Sold     Tk. 20,000  
 March 10          Furniture Purchased   Tk.15,000

Date	Particulars	L/F	Debit Taka	Credit Taka
2011 Mar. 3	Cash Account                      Dr. Sales Account                      Cr.		20,000	
				20,000
,, 10	Furniture Account                Dr. Cash Account                      Cr.		15,000	15,000

Debit				Cash Account				Credit	
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka		
2011 Mar. 3	Sales Account		20,000	2011 Mar.10 ,, 31	Furniture Account Balance C/D		15,000 5,000		
			20,000 5,000						
Apr. 1	Balance B/D								20,000

- The debit and credit side summation must be equal. So, the amount which is higher must be recorded on either sides of the accounts, In the above account the debit side indicate the higher amount (20,000) and hence has been written on both debit and credit side.
- Underneath the summation of each side the accounts must be closed by drawing two parallel lines.
- Generally at the end of a specific time the difference between the debit and credit side is ascertained. The difference is then headed by balance C\D i.e. carried down and putting it in the lower side both side equaled. The above account is for the month March, so the difference is calculated at the end 31<sup>st</sup> March.
- Balance c/d at the end of a particular period will be posted to the opposite side of the account mentioning Balance b/d i.e. brought down at the begining of a next period.
- The balance represents the higher amount it indicates. for example- the above cash account indicate debit balance, so on the 1<sup>st</sup> april Balance b/d is written on the debit side of Cash account and the ledger of april has been opened.

C/D	Carried Down
B/D	Brought Down
C/F	Carried Forward
B/F	Brought Forward

**Activity:**

Debit		Cash Account				Credit	
Date	Particulars	J/F	Taka	Date	Particulars	J/F	Taka
2012				2012			
May 1	Capital Account		30,000	May 3	Purchase Account		8,000
,, 5	Sales Account		10,000	,, 7	Furniture Account		4,000
,, 9	Debtors Account		5,000	,, 25	Salaries Account		3,000

Calculate the balance of above account.

### 'Moving Balance' - Table

Date 2011	Particulars	J/F	Cash Account		Code No. of Account...	
			Debit Taka	Credit Taka	Balance	Debit
March 3	Sales Account		20,000		20,000	
March 10	Furniture Account			15,000		5,000

- In moving balance method for ascertaining the balance no particular date is required. The balance is calculated just after each posting.
- There are separate columns for showing the balance in the moving balance method.

Accounts Posting	Balance of Accounts
Debit Posting	Debit Balance +
Credit Posting	Debit Balance -
Credit Posting	Credit Balance +
Debit Posting	Credit Balance -

- The total of debit and credit posting is not ascertained. This summation has no use.

<b>Activity:</b>		Bank Account			Code No of Account...	
Date 2012	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
July 1	Sales Account		8,000			
,, 3	Sales Account		6,000			
,, 8	Purchase Account			3,000		
,, 10	Drawings Account			1,000		
,, 20	Rent Account			2,000		

Calculate the balance of above account.

C/D or C/F is ascertained at the end of a certain time. This balance is again recorded as B/F or B/D to the opposite side at the begining of the next month. whenever the debit posting equals the credit posting the balance becomes Zero and c/d or b/d is not required to be written. This type of account is known as the balanced account.

#### General/ Normal Balance of Accounts

Classification of Accounts	Types of Balance
Assets	Debit Balance
Liabilities	Credit Balance
Equity	Credit Balance
Revenue	Credit Balance
Expense	Debit Balance

#### Preparing of Ledger from General Journal

On 1 February 2011 Mr. Shahin started a business with capital of Tk. 1, 00,000.His transactions for the month were-

- Feb. 2 Furniture purchase Tk.20, 000.
- ,, 3 Goods purchased on credit Tk. 30,000.
- ,, 5 Goods sold Tk. 25,000
- ,, 8 Purchase returns Tk. 2,000.
- ,, 12 Tk.10,000 paid to creditor.
- ,, 18 A bank account opened by depositing Tk. 15,000.
- ,, 22 Goods sold and received a cheque. Tk. 8,000
- ,, 25 Goods Purchased from Shafiq by cheque Tk. 6,000.
- ,, 28 Salaries paid to the employees Tk. 5,000.

Journalize the above transactions and post them to concerned Ledger accounts.

**Solution:**

**Mr. Shahin's General Journal**

Date	Particulars	L/F	Debit Taka	Credit Taka
2011 Feb 1	Cash Account Dr. Capital Account Cr. (For cash bought in as capital.)	-	1,00,000	1,00,000
,, 2	Furniture Account Dr. Cash Account Cr. (Furniture Purchased for cash)		20,000	20,000
,, 3	Purchase Account Dr. Creditors Account Cr. (Goods bought on credit.)		30,000	30,000
,, 5	Cash Account Dr. Sales Account Cr. (For goods sold for cash.)		25,000	25,000
,, 8	Creditor Account Dr. Purchase Return Account Cr. (For returning bought goods)		2,000	2,000
,, 12	Creditor Account Dr. Cash Account Cr. (Paid cash to the creditor )		10,000	10,000
,, 18	Bank Account Dr. Cash Account Cr. (Being account opened with bank.)		15,000	15,000
,, 22	Bank Account Dr. Sales Account Cr. (For Sold goods by cheque)		8,000	8,000
,, 25	Purchase Account Dr. Bank Account Cr. (Purchased from Shafiq by cheque )		6,000	6,000
,, 28	Salaries Account Dr. Cash Account Cr. (Salaries paid to the employees)		5,000	5,000
<b>Total</b>			<b>2,21,000</b>	<b>2,21,000</b>

**List of accounts**

- |                      |                     |                            |
|----------------------|---------------------|----------------------------|
| 1. Cash Account      | 4. Purchase Account | 7. Purchase Return Account |
| 2. Capital Account   | 5. Creditor Account | 8. Bank Account            |
| 3. Furniture Account | 6. Purchase Account | 9. Salaries Account        |

**'T' Format****Cash Account**

Debit			Cash Account			Credit	
Date 2011	Particulars	J/ F	Taka	Date 2011	Particulars	J/F	Taka
Feb. 1	Capital A/c		1,00,000	Feb. 2	Furniture A/c		20,000
„ 5	Sales A/c		25,000	„ 12	Creditors A/c		10,000
				„ 18	Bank Account		15,000
				„ 28	Salaries A/c		5,000
				„ 28	Balance C/D		75,000
Mar. 1	Balance B/D		<u>1,25,000</u>				<u>1,25,000</u>
			75,000				

**Debit****Capital Account****Credit**

Date 2011	Particulars	J/ F	Taka	Date 2011	Particulars	J/F	Taka
Feb. 28	Balance C/D		<u>1,00,000</u> <u>1,00,000</u>	Feb. 1	Cash Account		<u>1,00,000</u> <u>1,00,000</u>
				Mar. 1	Balance B/D		1,00,000

**Debit****Furniture Account****Credit**

Date 2011	Particulars	J/F	Taka	Date 2011	Particulars	J/F	Taka
Feb. 2	Cash Account		<u>20,000</u> <u>20,000</u>	Feb. 28	Balance C/D		<u>20,000</u> <u>20,000</u>
Mar. 1	Balance B/D		20,000				

**Debit****Purchase Account****Credit**

Date 2011	Particulars	J/ F	Taka	Date 2011	Particulars	J/F	Taka
Feb. 3	Creditors Account		30,000	Feb. 28	Balance C/D		36,000
„ 25	Bank Account		6,000				<u>36,000</u>
			<u>36,000</u>				
Mar. 1	Balance B/D		36,000				

Debit				<b>Creditors Account</b>			Credit	
Date 2011	Particulars	J/F	Taka	Date 2011	Particulars	J/F	Taka	
Feb.8	Purchase Return A/c		2,000	Feb.3	Purchase Account		30,000	
,, 12	Cash Account		10,000					
,, 28	Balance C/D		18,000				<u>30,000</u>	
			<u>30,000</u>	Mar.1	Balance B/D		18,000	

Debit				<b>Sales Account</b>			Credit	
Date 2011	Particulars	J/F	Taka	Date 2011	Particulars	J/F	Taka	
Feb: 28	Balance C/D		33,000	Feb.5 ,, 22 Mar.1	Cash Account		25,000	
			<u>33,000</u>		Bank A/c		8,000	
					Balance B/D		<u>33,000</u>	
							33,000	

Debit				<b>Purchase Return Account</b>			Credit	
Date 2011	Particulars	J/F	Taka	Date 2011	Particulars	J/F	Taka	
Feb: 28	Balance C/D		2,000	Feb: 8 Mar.1	Creditors A/c		2,000	
			<u>2,000</u>		Balance B/D		<u>2,000</u>	
							2,000	

Debit				<b>Bank Account</b>			Credit	
Date 2011	Particulars	J/F	Taka	Date 2011	Particulars	J/F	Taka	
Feb. 18 ,, 22 Mar. 1	Cash Account Purchase A/c Balance B/D		15,000	Feb. 25 ,, 28	Purchase A/c		6,000	
			8,000		Balance C/D		17,000	
			<u>23,000</u>				<u>23,000</u>	
			17,000					

Debit				<b>Salaries Account</b>			Credit	
Date 2011	Particulars	J/F	Taka	Date 2011	Particulars	J/F	Taka	
Feb.28 Mar.1	Cash Account Balance B/D		5,000	Feb.28	Balance C/D		5,000	
			<u>5,000</u>				<u>5,000</u>	
			5,000					

**'Moving Balance'- Format**

Date 2011	Particulars	J/F	Cash Account		Code No. of Account...	
			Debit Taka	Credit Taka	Balance	Debit
					Debit	Credit
Feb 1	Capital Account		10,000		10,000	
,, 2	Furniture Account			20,000	80,000	
,, 5	Purchase Account		25,000		1,05,000	
,, 12	Creditors Account			10,000	95,000	
,, 18	Bank Account			15,000	80,000	
,, 28	Salaries Account			5,000	75,000	

Date 2011	Particulars	J/F	Capital Account		Code No. of Account...	
			Debit Taka	Credit Taka	Balance	Debit
					Debit	Credit
Feb. 1	Cash Account			1,00,000		1,00,000

Date 2011	Particulars	J/F	Furniture Account		Code No of Account...	
			Debit Taka	Credit Taka	Balance	Debit
					Debit	Credit
Feb: 2	Cash Account		20,000		20,000	

Date 2011	Particulars	J/F	Purchase Account		Code No. of Account.....	
			Debit Taka	Credit Taka	Balance	Debit
					Debit	Credit
Feb: 3	Creditor Account		30,000		30,000	
,, 25	Bank Account		6,000		36,000	

Date 2011	Particulars	J/F	Creditors Account		Code No of Account....	
			Debit Taka	Credit Taka	Balance	Debit
					Debit	Credit
Feb: 3	Purchase Account			30,000		30,000
,, 8	Purchase Return		2,000			28,000
,, 12	Cash Account		10,000			18,000

**Sales Account**      Code No of Account.....

Date 2011	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
Feb 5 ,, 22	Cash Account Bank Account			25,000 8,000		25,000 33,000

**Bank Account**      Code No of Account....

Date 2011	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
Feb. 18	Cash Account		15,000		15,000	
,, 22	Purchase Account		8,000		23,000	
,, 25	Purchase Account			6,000	17,000	

**Purchase Return Account**      Code No of Account...

Date 2011	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
Feb. 8	Creditors Account			2,000		2,000

**Salaries Account**      Code No. of Account...

Date 2011	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
Feb. 28	Cash Account		5,000		5,000	

**Activity:**

Post the following Transactions into the ledger account and balance the accounts of Rumana Akter.

2011

- August 1      Sold goods on credit Tk.15,000.
- ,,    2      Loan has taken of Tk.30,000.
- ,,    6      Deposited in the Bank Tk.10,000.
- ,,    8      Purchased goods returned Tk.2,000.
- ,,    12     Cash Tk.6,000 received from debtor.
- ,,    15     Withdrawn cash from Bank for personal use Tk.1,000.
- ,,    20     Goods purchased by cheque Tk.4,000.
- ,,    25     goods sold Tk.12,000.

Divided into two groups, one follows ‘T’ and other ‘Moving Balance’ method.

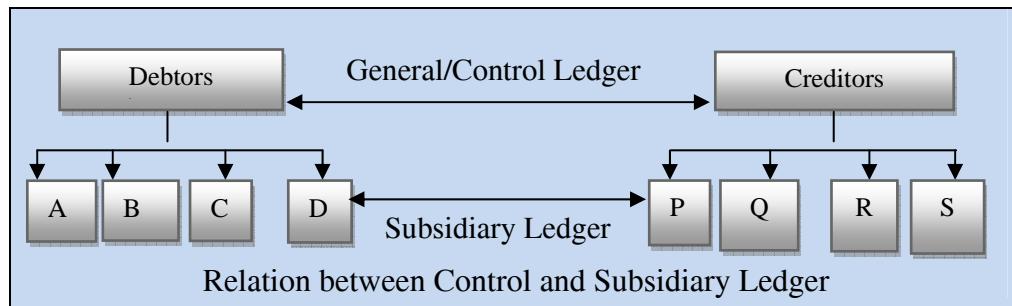
Match the balances with one another.

**General Ledger:**

Cash Account, Capital Account, Purchase Account, Sales Account, Furniture Account, Debtors Account, Creditors Account etc. are General Ledger. There are several Debtors & Creditors in a business. Amongst the all-general ledgers, only the Debtors & Creditors accounts are also known as Control Account. Because both debtors & creditors account are the summation of all debtors & all creditors.

**Subsidiary Ledger:**

Individual account is opened for each debtor and each creditor outside general ledger. Thus, the individual amount due from debtor & due to creditors can be ascertained easily. The account that is prepared for each debtor & creditors are called Subsidiary Ledger.

**Special Journal & Related Ledger Preparation**

We have got the idea about all Special Journals in the chapter- ‘Journal’. Here the procedure of preparing General and Subsidiary ledgers from special journals are shown -

### Purchase Journal and Related Ledgers

#### Momotaj Enterprise's Purchase Journal

Date 2011	Account Credited	Condition	Invoice No.	Source	Purchase A/c Dr. Creditors A/c Cr.
June 3	Rajib stores	2/10, net 30	173		17,600
,, 10	Rakhi Traders	net 20	174		12,300
,, 25	Haider Enterprise	3/5, net 15	175		10,500
					40,400

#### General Ledger Purchase Account

Code No of Account...

Date 2011	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
June 30	Creditors A/c		40,400		40,400	

#### Creditors Account

Code No of Account...

Date 2011	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
June 30	Purchase A/c			40,400		40,400

#### Subsidiary Ledger

##### Rajib Stores

Code No of Account.....

Date 2011	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
June 3	Purchase A/c			17,600		17,600

#### Rakhi Traders

Code No of Account.....

Date 2011	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
June 9	Purchase A/c			12,300		12,300

#### Haider Enterprise

Code No of Account.....

Date 2011	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
June 25	Purchase A/c			10,500		10,500

The posting is made to the subsidiary ledger from special journal everyday and to the general ledger at the end of week/ month.

### Sales Journal and Related ledgers

#### Shahjahan and Sons' Sales Journal

Date 2011	Account Debited	Invoice No.	Source	Debtors Account Sales Account	Dr. Cr.
Aug. 3	Kajol Enterprise	335		25,560	
,, 10	Monika Enterprise	336		17,240	
,, 25	Bimol Brothers	337		13,300	
				56,000	

#### General Ledger

Sales Account      Code No of Account.....

Date 2011	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
Aug. 31	Creditors A/c			56,000		56,000

Debtors Account      Code No of Account.....

Date 2011	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
Aug. 31	Sales Account		56,000		56,000	

#### Subsidiary Ledger

Kajol Enterprise      Code No of Account.....

Date 2011	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
Aug. 3	Sales Account		25,460		25,460	

Monika Enterprise      Code No of Account.....

Date 2011	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
Aug. 10	Sales Account		17,240		17,240	

Bimol Brothers      Code No of Account.....

Date 2011	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
Aug. 25	Sales Account		13,300		13,300	

**Purchase returns Journal and related ledger****Bakshi Electronic Store's Purchase Return Journal**

Date 2012	Account Debited	Invoice No.	Source	Creditors A/c Purchase Return A/c	Dr. Cr.
Jan. 3	Sayed and Brothers	57		13,910	
,, 12	Bakkar and sons	58		17,240	
,, 23	Babu Enterprise	59		7,450	
				<u>38,600</u>	

**General Ledger  
Purchase Return Account**

Date 2012	Particulars	J/F	Debit Taka	Credit Taka	Code No of Account...	
					Debit	Credit
Jan. 31	Creditors Account			38,600		38,600

Date 2012	Particulars	J/F	Debit Taka	Credit Taka	Code No of Account.....	
					Debit	Credit
Jan. 31	Purchase Return A/c		38,600		38,600	

**Subsidiary Ledger  
Sayed and Brothers**

Date 2012	Particulars	J/F	Debit Taka	Credit Taka	Code No of Account.....	
					Debit	Credit
Jan. 3	Purchase Return A/c		13,910		13,910	

**Bakkar and Sons'**

Date 2012	Particulars	J/F	Debit Taka	Credit Taka	Code No of Account.....	
					Debit	Credit
Jan. 12	Purchase Return A/c		17,240		17,240	

**Babu Enterprise**

Date 2012	Particulars	J/F	Debit Taka	Credit Taka	Code No of Account.....	
					Debit	Credit
Jan. 23	Purchase Return A/c		7,450		7,450	

### Sales Return Journal and Related ledgers

#### Alom Trader's Sales Return Journal

Date 2012	Credit Account	Credit Note no.	Source	Sales Return A/c Dr. Debtors Account Cr.
May 2	Rashed and Co.	123		10,350
,, 15	Parvez Stores	124		8,650
,, 27	Runa Enterprise	125		4,500
				<u>23,500</u>

#### General Ledger

##### Purchase Return Account      Code No of Account.....

Date 2012	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
May 31	Debtors Account		23,500		23,500	

#### Debtors Account      Code No of Account.....

Date 2012	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
May 31	Purchase Return A/c			23,500		23,500

#### Subsidiary Ledger

##### Rashed and Co.      Code No of Account.....

Date 2012	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
May 2	Sales Return A/c			10,350		10,350

##### Parvez Store      Code No of Account.....

Date 2012	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
May 15	Sales Return A/c			8,650		8,650

##### Runa Enterprise      Code No of Account.....

Date 2012	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
May 27	Sales Return A/c			4,500		4,500

#### Verifying arithmetical accuracy by Ledger balances

Equal amount of debit and credit is posted for each transaction. Being qual of total debit & total credit balance indicate the arithmetical accuracy of accounts

On 1<sup>st</sup> July 2011 Mr. Rakib started a business with cash tk.30,000 and goods worth tk.15,000. Other transactions were-

July 2 Sold goods for cash Tk.20,000.  
 „ 3 Furniture Purchase 5,000 Taka.  
 „ 5 Tk.3000 deposited into Bank.  
 „ 10 Goods purchased Tk.7,000.  
 „ 15 Withdraw Tk.1,000.  
 „ 20 Salaries Paid to the employees Tk. 2000.

### Table of Accounts

- |                     |                      |                     |
|---------------------|----------------------|---------------------|
| 1. Cash Account     | 4. Sales Account     | 7. Drawings Account |
| 2. Purchase Account | 5. Furniture Account | 8. Salaries Account |
| 3. Capital Account  | 6. Bank Account      |                     |

### General Ledger

#### Cash Account Code No of Account.....

Date 2012	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
July 1	Capital Account		30,000		30,000	
„ 2	Sales Account		20,000		50,000	
„ 3	Furniture Account			5,000	45,000	
„ 5	Bank Account			3,000	42,000	
„ 10	Purchase Account			7,000	35,000	
„ 15	Drawings Account			1,000	34,000	

#### Purchase Account Code No of Account.....

Date 2012	Particulars	J/ F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
July 1	Capital Account		15,000		15,000	
„ 10	Cash Account		7,000		22,000	

#### Capital Account Code No of Account.....

Date 2012	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
July 1	Cash Account			30,000		
	Purchase Account			15,000		45,000

#### Sales Account Code No of Account...

Date 2012	Particulars	J/F	Debit Taka	Credit Taka	Balance	
					Debit	Credit
July 2	Cash Account			20,000		20,000

<b>Furniture Account</b>					Code No of Account..	
Date 2012	Particulars	J/F	Debit	Credit	Balance	
			Taka	Taka	Debit	Credit
July 3	Cash Account		5,000		5,000	

<b>Drawings Account</b>					Code No of Account..	
Date 2012	Particulars	J/F	Debit	Credit	Balance	
			Taka	Taka	Debit	Credit
July 15	Cash Account		1,000		1,000	

<b>Bank Account</b>					Code No of Account.....	
Date 2012	Particulars	J/F	Debit	Credit	Balance	
			Taka	Taka	Debit	Credit
July 5 ,, 20	Cash Account Salaries A/c		3,000	2,000	3,000 1,000	

<b>Salaries Account</b>					Code No of Account.....	
Date 2012	Particulars	J/F	Debit	Credit	Balance	
			Taka	Taka	Debit	Credit
July 20	Bank Account		2,000		2,000	

Arithmetical accuracy of accounts can be verified with the balances of ledger by preparing Trial Balance. Trial Balance is prepared with balances of above ledgers.

#### **Trial balance : 31 July 2011**

Sl. No.	Account Name	L/F	Debit Taka	Credit Taka
1	Bank Account		34,000	
2	Purchase Account		22,000	
3	Capital Account		--	45,000
4	Sales Account		--	20,000
5	Furniture Account		5,000	
6	Drawings Account		1,000	
7	Bank Account		1,000	
8	Salaries Account		2,000	
			<u>65,000</u>	<u>65,000</u>

As the total debit balance Tk. 65,000 is equal to total credit balance, it is easy to say accounts recorded correctly.

N. B. Detail discussion on Trial Balance have mentioned in the chapter 9.

## Exercise

### Multiple Choice Questions

1. Account's Ledger is-
  - i. Primary book
  - ii. Final book
  - iii. Permanent book

Which one is correct of the following?

  - a) i
  - b) ii & iii
  - c) i & ii
  - d) iii
  
2. Expense account always indicates the balance-
  - i. Debit Balance
  - ii. Credit Balance
  - iii. Both Debit and Credit Balance

Which one is correct of the following?

  - a) i
  - b) ii
  - c) i & ii
  - d) iii
  
3. Ledger is prepared following the moving balance method –
  - i. More time and labor is needed
  - ii. Save time and labor
  - iii. Balance of account can be known regularly

Which one is correct of the following?

  - a) i and ii
  - b) ii and iii
  - c) ii
  - d) iii
  
4. Ledger prepared for each Debtors & Creditors separately is called –
  - a) General ledger
  - b) United ledger
  - c) Subsidiary ledger
  - d) Supplementary ledger
  
5. If the debit side of a account is greater than the total of credit side, it will disclose –
  - a) Debit balance
  - b) Credit balance
  - c) Asset
  - d) Expense
  
6. C/D means –
  - a) Carried forward
  - b) Carried down
  - c) Come to down
  - d) Come from back
  
7. Debit balance of Ledger indicates-
  - i. Asset
  - ii. Expense
  - iii. Income

Which one is correct of the following?

  - a) i
  - b) ii
  - c) i & ii
  - d) i, & iii

8. Which ledger does relate to subsidiary ledger?  
 i. Debtor account      ii. Capital account      iii. Purchase account

Which one is correct of the following?  
 a) i                        b) ii  
 c) i & ii                d) i, & iii

9. For preparing ledger-

- i. Journal entry is compulsory  
 ii. Journal entry is not compulsory  
 iii. Specific table necessary

Which one is correct of the following?  
 a) i      b) ii      c) i & iii      d) ii & iii

10. Prepared with the balances of ledger –

- i) Purchase journal      ii) Sales journal      iii) Trial balance

Which one is correct of the following?  
 a) i & ii      b) ii & iii      c) iii      d) i, ii & iii

Considering the following, answer the question no. 11 and 12:

Date 2011	Account title	J. F.	Debit Taka	Credit Taka	Account code no....	
					Balance Taka	
					Debit	Credit
June 01	Balance b/d				10,000	
June 03	Furniture		2,000			
June 08	Purchase			5,000		
June 12	Sales		8,000			

11. Correct journal entry will be for 3<sup>rd</sup> June transaction -

- |                      |        |                      |        |
|----------------------|--------|----------------------|--------|
| a) Furniture account | Debit  | b) Furniture account | Debit  |
| Cash account         | Credit | Bank account         | Credit |
| c) Cash account      | Debit  | d) Furniture account | Debit  |
| Furniture account    | Credit | Sales account        | Credit |

12. On June 08, what is the balance of cash account?

- a) tk.3,000    b) tk.7,000    c) tk.13,000    d) tk.17,000

### Creative Questions:

1. On March 2012 the transactions of Selim and Co. were :

- March 1      Started business with cash tk.50,000
- March 3      Opened an account into bank by depositing tk.15,000
- March 5      Goods purchased on credit tk.20,000
- March 7      Furniture purchased tk.10,000
- March 10     Goods sold tk.30,000
- March 12     Paid to creditors by cheque tk.12,000.

- a) Pass the journal entries for the transactions of March 5 and 12.
- b) Prepare Cash account, Bank account, Purchase account, and Creditors account from the above transactions of Selim and Co.
- c) Show the way of verifying arithmetical accuracy of accounts based on the ledger balances.
2. Mr. Arman is a wholesaler of grocery goods. Few transactions of September 2012 are mentioned below-
- Sep. 01 Purchased from Farhaan Brothers; 50 bales minicate rice at tk.2,500 each bale (50 kg. rice in a bale). Trade discount @3%. Invoice no.123.
- Sep. 05 Purchased from Irfaan Traders; 200 kg. dal at tk.105 per kg. Trade discount 5%. Invoice no.432.
- Sep. 12 5 bales minicate rice returned to Farhaan Brothers due to inferior quality.
- Sep. 18 20 kg. dal returned to Irfaan Traders for not being sample.
- a) Prepare a purchase Journal from the above transactions.
- b) Prepare the general ledger accounts considering the above transactions.
- c) Prepare the subsidiary ledger accounts considering the above transactions.

3. The following account collected from Mr. Masud accounts book:

### **Cash Account**

Debit			Account code no.....			Credit		
Date 2012	Particulars	J. F.	Taka	Date 2012	Particulars	J. F.	Taka	
Jan.01	Balance b/d		20,000	Jan.02	Bank account		5,000	
Jan.03	Jahid account		9,000	Jan.05	Monir account		7,000	
Jan.17	Sales account		8,000	Jan.15	Salary account		3,000	
				Jan.20	Drawings account		1,000	

- a) Determine the balance of cash account of Mr. Masud.
- b) Show the journal entries for the month of January 2012 considering the above account.
- c) Prepare Sales account, Bank account, Salary account, and Drawings account following moving balance format.

4. Mr. Shahid is a businessman. He has a nursery at Ashuliya of Savar. He produces different types of sapling of flowers, fruits, and medicated trees. On July 2010 the following transactions occurred in his business :

July 05	Trees and seeds purchased from Rahim	tk.25,000
July 10	Sold to Rashed & Co in cash	tk.37,000
July 19	Trees returned	tk.2,500
July 30	Salary paid to employee	tk.4,500
July 31	Advertisement expense	tk.1,500

- a) Pass the journal entries for the transactions of July 05 and 10.
- b) Determine the balance of cash account, purchase account, and purchase return account using 'T' ledger format.
- c) Prepare Rahim account, sales account, salary account and advertisement account using 'Moving Balance' ledger format.

## **Chapter Eight**

### **Cash Book**

Business and cash are closely related to each other. In every sphere of business, cash is essentially required. Buying and selling of assets & goods, collection & payments of debts, receipts of income & payments of expenses including all other activities the supply of cash and its proper management is significantly important. Cashbook is prepared based on the nature and size of the business, considering the size and safety of the business, bank plays a supporting role during cash transactions. Recording of transactions done through bank and calculating the amount deposited in the bank keep the activities of a business running. For the sake of business, it is essential to know the procedure of opening a bank account, procedure of depositing and withdrawing money from a bank is evenly important.



Picture : Different types of Cash

#### **At the end of this chapter, we will be able to-**

- explain the concept of cash book and its importance
- prepare various types of cashbook and draw balance
- prepare contra entry
- cash receipt journal and cash payment journal
- record cash discounts
- transfer the balances of cashbook to ledger properly
- have idea about bank statement
- understand the reason behind the differences between the balances of bank statement and cash book

**Concept of Cash Book:**

Everyday numerous transactions take place in business. We can categorize transactions based on a fixed criterion. The criterion is cash. Either there is an involvement of cash with transactions or not. The book where cash received & paid transactions are recorded together is called cash book. Cash book is the primary book of accounts, one of the major branches of journal.

- Goods sold for cash tk.20,000.
- Goods purchased in cash tk.10,000.
- Furniture purchased in cash tk.5,000.
- Received cash from debtors tk.12,000.
- Withdrawn cash from business by the owner tk.3,000.
- Employees salary paid in cash tk.5,000.
- The amount of bill paid in cash tk.4,000.

**Activity:** Find the similarities among the above transactions.

**Features:**

Cash is the operating power of business. Without the proper management of cash the normal activities of business are hampered-

- For preparing cash book a particular table/proforma is followed. All the receipts are recorded in the debit side while the payments on the credit side.
- Though the cash book is known as the primary book of accounts, it acts as a permanent book.
- It can be ascertained from the cash book that how much cash have been received and paid against different sources in a particular period.
- It's possible to know the cash balance by identifying the difference between cash received & cash paid.
- The chances of cash stolen, forgery, wastage and mistake in recording reduce significantly.
- It is possible to have full control over cash reserve.

**Importance of Cash Book**

The proper recording of cash transactions maintained the movement of the business as well as helpful in taking proper decision. We can know about the total amount of cash receipts and payments, cash balance of a particular time, amount of total cash purchase and sale. Whether the amount of cash is sufficient to purchase asset, , to pay creditors and regular expenses of the business or not? If not then cash book help in ascertaining the probable means to collect. It is possible to identify and rectify the mistakes and anomalies by comparing the cash balance with the actual cash in hand. Preparing particular type of cash book, it is also possible to know the bank transactions and bank balance.

**Activity:** What kind of other benefits can we get through preparing cash book?

### Classification of Cash Book

Various types of cash book are seen in the business. The right type of book is selected depending on the nature and size of the business. Cash books being used for a long time are of four types.

1. Single Column Cash Book
2. Double Column Cash Book
3. Treble Column Cash Book
4. Petty Cash Book

Meeting the maximum necessity of a business at present two types of cash book are in use:

1. Cash Receipt Journal
2. Cash Payment Journal

Students need to have a clear concept about each the cash book. So each class and its preparation are described below:

### Single Column Cash Book

Comparatively business of small size prepares single column cash book. Organizations that don't deal with bank rather prefer cash transactions, keep single column cash book. Since transactions through bank are safe, the number of these organizations and keeping accounts under single column cash book is gradually decreasing.

### Format of Single Column Cash Book

Debit							Credit		
Date	Receipts	R. No.	L/ F	Amount Tk.	Date	Payments	V. No.	L/ F	Amount Tk.

Note: R. No. - Receipt Number; V. No. - Voucher Number and L/F – Ledger Folio.

The format of a single column cash book is very much like the- 'T' format of a ledger. The table is divided into Debit and Credit where the receipts are recorded into the debit side while the payments are recorded into the credit side. Single column cash book is prepared with 10 columns where debit and credit side having 5 columns each. Single column cash book generally denotes debit balance because the payments cannot be more than the receipts but can be equal. The procedure of determining the balance is similar to the procedure T format of a ledger. During the settlement of debts and credits if any discount is allowed or received it is recorded in journal proper not in a single column cash book.

### Preparing Single Column Cash Book

Transactions of Mr. Sharif's business are the following-

2011

- |      |   |   |
|------|---|---|
| June | 1 | Opening cash in hand Tk. 2,500            |
| "    | 2 | Additional capital brought in Tk. 10,000. |
| "    | 4 | Purchased goods in cash Tk. 7,000.        |

- June 6 Goods sold to Jamal for cash Tk.8,000.  
 " 10 Took loan from Alam Tk.15,000  
 " 15 Rent paid in advance Tk.4,000  
 " 20 Received from debtor Tk.6,000  
 " 22 Withdrawn cash by the proprietor Tk.1,000  
 " 25 Equipment purchased Tk.9,000  
 " 30 Salary paid to Mamun Tk.3,000

Prepare a Single Column Cash Book from the above transactions -

Mr. Karim's Single Column Cash Book									
Date 2011	Debit Receipts	R. No.	L/ F	Amount Tk.	Date 2011	Credit Payments	V. No.	L/ F	Amount Tk.
Jun 1	Balance b/d			2,500	Jun 4	Purchase A/c			7,000
" 2	Capital A/c			10,000	" 15	Prepaid rent A/c			4,000
" 6	Sales A/c			8,000	" 22	Drawings A/c			1,000
" 10	Alam's loan A/c			15,000	" 25	Equipments A/c			9,000
" 20	Debtors A/c			6,000	" 30	Salaries A/c			3,000
				41,500	" 30	Balance c/d			17,500
Jul 1	Balance c/d			17,500					41,500

**Activity:** On 1st June 2011 Abu Taleb Sarker started a business with a capital of Tk.20,000. His transaction for the month were-

- June 1 Furniture purchased Tk.5,000  
 " 3 Goods purchased on credit Tk.8,000  
 " 4 Goods sold to Azad for cash Tk.6,000  
 " 7 Goods purchased Tk.4,000  
 " 9 Cash paid to creditor Tk.3,000  
 " 11 Advertisement expenses paid Tk.2,000  
 " 16 Stationery purchased Tk.500.  
 " 26 Commission received Tk.1,000  
 " 28 Goods sold Tk.7,000

Prepare a Single Column Cash Book from the following transactions.

### Double Column Cash Book

Organizations that deal with both cash as well as bank transactions prepare double column cash book. The double column cash is more applicable and provide much information in compared to a single column cash book. A part from receipts and payments done in cash, the increase or decrease of cash in bank as well as bank balance can be obtained from a double column cash book.

### Format of Double Column Cash Book

Debit							Credit				
Date	Receipts	R. no.	L/F	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L/F	Cash Tk.	Bank Tk.

**Activity:** Identify the match & mismatches between Single and Double column cash book.

If transactions increase the cash of bank it is to be recorded into the bank column of debit side while decrease of the same will be recorded into the bank column of the credit side. If cheque received because of goods sold or receivables, it will be treated as a crossed cheque because cheque issued in favor of the business is never treated as a bearer or an open cheque. Bank column can exhibit either debit or credit balance. Before preparing a double column cashbook, we need to know the following things:

#### Contra Entry

The transactions that influence both the cash as well as the bank account are known as contra entry. Cash and bank both denote asset. So for a fixed transaction if one account is debited the other account must be credited. After giving posting to both the sides the letter -‘C’ is to be written on both the sides in Ledger folio column.

**Activity:** Mention the transactions that are jointly affects both Cash & Bank accounts

#### Cash deposited into the Bank

Debit							Credit				
Date	Receipts	R. No.	L /F	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L /F	Cash Tk.	Bank Tk.
	Cash A/c		C		✓		Bank A/c		C	✓	

#### Withdrawn cash from Bank for business use

Debit							Credit				
Date	Receipts	R. No.	L /F	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L /F	Cash Tk.	Bank Tk.
	Bank A/c		C	✓			Cash A/c		C		✓

#### Deposited cheque Dishonored

Debit							Credit				
Date	Receipts	R. No.	L /F	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L /F	Cash Tk.	Bank Tk.
							Respective party				✓

**Issued cheque dishonored**

Debit							Credit				
Date	Receipts	R. No.	L /F	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L /F	Cash Tk.	Bank Tk.
	Respective party				✓						

**Received cheque transferred to the third party**

Debit							Credit				
Date	Receipts	R. No.	L /F	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L /F	Cash Tk.	Bank Tk.
	Respective party			✓			Respective party			✓	

*Posting both side of cash column*

Generally, this sought of transaction does not occur. Because when the cheque is received from a party, it's account payee under the name of the business. Therefore, it cannot be handed over to anyone. If the cheque is open/bearer, it's possible to exchange the cheque through endorsement.

**Interest allowed by the bank**

Debit							Credit				
Date	Receipts	R. No.	L /F	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L /F	Cash Tk.	Bank Tk.
	Bank Interest received A/c				✓						

**Interest & Charges charged by the Bank**

Debit							Credit				
Date	Receipts	R. No.	L /F	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L /F	Cash Tk.	Bank Tk.
							Bank Interest paid A/c Bank Charge A/c			✓	✓

**Preparing Double Column Cash Book**

During the month of November 2011 the following transactions took place in Tapan Chowdhury's Business.

- Nov. 1 Cash in hand Tk.5,000 and Cash at Bank Tk. 3000.
- ” 2 Goods purchased by cheque Tk. 2000.
- ” 4 Received cheque from debtor Tk. 6000
- ” 6 Purchased IPS for office Tk. 5000
- ” 8 Old furniture sold Tk. 9000.
- ” 12 Cheque received from Rajib on selling of goods Tk.7,000
- ” 15 Withdrawn cash from Bank for personal use Tk. 2000
- ” 20 Drawings from Bank Tk.5, 000
- ” 23 Received cheque from Mehzabin Tk. 3000 & endorsed to Anowar for debts.

Nov. 28 Interest allowed by Bank Tk. 300

" 30 Bank charged Tk. 200

Prepare a Double Column Cash Book from the above transactions.

### Solution

#### Topon Chowdury's Double Column Cash Book

Date 2011	Receipts	R. No.	L /F	Cash Tk.	Bank Tk.	Date 2011	Payments	V. No.	L /F	Cash Tk.	Credit Bank Tk.
Nov. 1	Balance b/d		C	5,000	3,000	Nov. 2	Purchase A/c		C	5,000	2,000
" 4	Debtors A/c				6,000	" 6	Office Equipment A/c				2,000
" 8	Furniture A/c			9,000		" 15	Drawings A/c				5,000
" 12	Sales A/c				7,000	" 20	Cash A/c				3,000
" 20	Bank A/c			5,000		" 23	Anowar A/c				200
" 23	Mehjabin A/c			3,000		" 30	Bank charge A/c				7,100
" 28	Bank interest				300	" 30	Balance c/d				
				22,000	16,300					22,000	16,300
Dec 1	Balance b/d			14,000	7,100						

**Activity:** Nargis Aktar is a retailer. During the month of November 2011, following transactions took place-

- Nov. 1 Cash in hand Tk. 7,000 and cash at Bank Tk. 5,000.
- ," 2 Goods purchased by cheque Tk. 4,000.
- ," 4 Received a cheque from sale of goods Tk. 6,000
- ," 7 Withdraw from Bank Tk. 3,000.
- ," 10 Cash from Bills receivable received by Bank Tk. 2,000.
- ," 13 Cheque received from debtor Sayed Tk. 8,000.
- ," 20 Purchased furniture in cash Tk. 3,000 and Tk. 2,000 in cheque.
- ," 26 Withdraw by the proprietor Tk. 1,500.
- ," 30 Bank allowed Interest Tk. 500.

Record the transactions in the double column Cash Book and calculate the amount of cash & bank balance at the last date of the month.

### Treble Column Cash Book

Treble column cash book is prepared for transactions with cash and bank along with mitigating debts and credits. We can know about cash balance, bank balance, total discount allowed and total discount received. For collecting the amount of goods sold on credit quickly, the seller used to allow the buyer such kind of discount. This discount is known as cash discount. Discount received is an income for the buyer while discount allowed is an expense for the seller.

### **Format of Treble Column Cash Book**

Debit										Credit				
Date	Receipts	R. No.	L /F	Dis. Tk.	Cash Tk.	Bank Tk.	Date	Payments	V. No.	L /F	Dis. Tk.	Cash Tk.	Bank Tk.	

There are total fourteen columns where debit and credit side having 7 columns each in each side of a treble column cash book. Cash and bank columns are just like the double column cash book for recording and ascertaining balances. The discount columns on either sides of a cash book are recorded separately, but the difference is not obtained. Discount during the time of buying and selling that is trade discount is not at all recorded.

### **Preparing Treble Column Cash Book**

During the month of March 2012 following transactions took place in Salina Akter's business.

2012

- |         |   |
|---------|---|
| March 1 | Cash in hand Tk. 18,000; Bank overdraft Tk. 3,000                       |
| „ 3     | Deposited in the Bank Tk. 5,000.  |
| „ 6     | Received cash Tk.6,800 from Sayem in full settlement of debt Tk. 7,000. |
| .. 10   | A cheque received from Sumi and discount allowed Tk. 100.               |
| „ 14    | Withdraw cash from business for personal use Tk. 500.                   |
| „ 16    | Goods sold for cash Tk. 12,000.   |
| „ 18    | Goods purchased of Tk. 8,000 at a discount of 5%.                       |
| „ 20    | Bank paid the amount of notes payable Tk. 2,000.                        |
| „ 24    | Cheque received from Arif Tk.6,500 and discount allowed Tk.500          |
| „ 30    | Interest charged by the Bank Tk.400                                     |

From the above information, prepare a Treble Column Cash Book.

**Solution:**

Debit					Salina Akter's Treble Column Cash Book					Credit				
Date 2012	Receipts	R. No.	L/ F	Dis. Tk.	Cash Tk.	Bank Tk.	Date 2012	Payments	V. No. . .	L/ F	Dis. Tk.	Cash Tk.	Bank Tk.	
Mar. 1	Balance b/d				18,000		Mar. 1	Balance b/d					3,000	
,, 3	Cash A/c					5,000	,, 3	Bank A/c				5,000		
,, 6	Sayem A/c		C	200	6,800		,, 10	Sumi A/c			C	100	3,400	
,, 16	Sales A/c				12,000		,, 14	Drawings A/c				500		
,, 24	Arif A/c			500		6,500	,, 18	Purchase A/c				7,600	2,000	
							,, 20	Notes payable A/c					400	
							,, 30	Bank interest A/c				23,700	2,700	
							,, 31	Balance c/d						
										100	36,800	11,500		
Apr. 1	Balance b/d				23,700	2,700								

**Activity:** Record the following transactions in Arnob Trader's Treble Column Cash Book.

2011

- |        |   |
|--------|---|
| July 1 | Cash in Hand Tk. 4,000 & Cash at Bank Tk. 5,000                           |
| " 4    | Withdraw from Bank Tk. 3,000.   |
| " 5    | Received Tk. 2,800 from Rotan stores and allowed discount Tk. 200.        |
| " 7    | Goods purchased from Tazul Islam for cash Tk. 6,000 at a discount of 10%. |
| " 12   | At a discount of 5%, the debt of Tk. 4,000 is fully settled.              |
| " 15   | Cheque received from selling of goods Tk. 8,000                           |
| " 20   | Tk. 7,200 received from Salehin in full settlement of his debt Tk. 7,500. |
| " 28   | Salaries paid in cash Tk. 2,000 and cheque Tk. 1,000.                     |
| " 30   | Rent Obtain from tenant Tk. 2,000.  |

### Cash Receipt Journal

The transactions that affects in terms of financial receipts of the business are recorded in cash receipts journal. The cash receipts journal format is prepared in such a way that all the cash receipts are easily visible.

### Cash Receipt Journal

Date	Account Credited	Source	Cash Debit	Discount Debit	Sales Credit	Debtors Credit	Others Account Credit

Date : The date when receiving of cash will occur.

Account Credited : When debts will be received from the debtors, then the name(s) of the debtor(s), and when there will be income from irregular source(s) the name(s) of that item(s) will be recorded.

#### Debit:

1. Cash : In this column, the total amount of cash receipts will be recorded.
2. Discount : If discount is allowed receiving from debtors, the amount of discount will be recorded in this column.

#### Credit:

1. Sales : Goods if sold in cash are recorded in this column.
2. Debtors : The total amount of cash received from debtors & discount allowed, its summation is recorded in this column.
3. Other Accounts : Except from goods sold in cash and received from debtors the other receipts are recorded in this column.

### Preparing Cash Receipt Journal

The following receipts are occurred on May 2011 in Shahjahan's Business-

May 3 Goods sold for cash Tk. 10,000.

,, 5 Cash received from Shafiq Tk. 3,000.

- May 10 Brought extra capital of Tk. 5,000.  
 „ 15 Cash received Tk. 3,800 from Zaman in full settlement of his debt of Tk. 4,000  
 „ 20 Sold old furniture Tk. 1,000

### **Shahjahan's Cash Receipt Journal**

Date 2011	Account Credited	Source	Cash Debit	Discount Debit	Sales Credit	Debtors Credit	Others Account Credit
May 3	Sales		10,000		10,000		
„ 5	Shafiq		3,000			3,000	
„ 10	Capital		5,000				5,000
„ 15	Zaman		3,800	200		4,000	
„ 20	Furniture		1,000				1,000
			22,800	200	10,000	7,000	6,000

Observing the above cash receipt journal, the total Debit amount ( $22,800 + 200$ )=23,000 and the total Credit amount ( $10,000 + 7,000 + 6,000$ )=23,000. These two totals have to be equaled always.

### **Cash Payment Journal**

If cash payment is made through transactions, they are recorded in cash payment journal.

### **Cash Payment Journal (Format)**

Date	Cheque No.	Debit Account	Source	Purchase Debit	Creditor Debit	Others Account Debit	Discount Credit	Cash Credit

Date : The date on which transaction will occur is recorded.  
 Cheque No : If payment is made through cheque then cheque no. is recorded in this column.  
 Debit Account Item : If creditor is paid its name and while payment made to other party, their names will be recorded in this column.

#### **Debit:**

- 1. Purchase : Goods purchases in cash are recorded in this column.
- 2. Creditors : Payments made to creditors and discount received from them its sum is recorded in this column.
- 3. Other Accounts : Except goods purchase in cash and payments made to creditors, the other items that relates to cash payments are recorded in this column.

#### **Credit:**

- 1. Discount received : During the time of payments made to creditors, the amount of discount received is recorded in this column.
- 2. Cash : All the payments made in cash are recorded in this column.

### Preparing Cash Payment Journal

Following cash payment transactions are mentioned of Miss Moushumi for July 2011:

- July 2 Goods purchased for cash Tk. 5,000.
- „ 5 Paid to Milon Tk. 3,000 by cheque no.68943
- „ 8 Furniture Purchased Tk. 4,000.
- „ 15 Interest paid on loan Tk. 500.
- „ 20 Tk. 2,800 paid to Runa and received discount Tk. 200.

Mowsumi's Cash Payment Journal

Date 2011	Cheque No.	Account Debited	Sourc e	Purchase Debit	Creditors Debit	Others Account Debit	Discount Credit	Cash Credit
Jul 2		Purchase		5,000				5,000
„ 5	68943	Milon			3,000			3,000
„ 8		Furniture				4,000		4,000
„ 15		Interest on loan				500		500
„ 20		Runa			3,000		200	2,800
				<u>5,000</u>	<u>6,000</u>	<u>4,500</u>	<u>200</u>	<u>15,300</u>

As like the Cash receipt journal, total debit & total credit amount of Cash payment journal will be always equal. In the above Cash payment journal Total Debit (4,500 + 6,000 + 5,000)=15,500 and Total Credit (200 + 15,300)=15,500.

**Activity :** Prepare Cash Payment Journal from the following transactions of Sohrab Traders for October 2011

- Oct. 1 Goods Purchased by cash Tk. 9, 000.
- „ 4 Paid Khalid and sons Tk. 6,500.
- „ 7 Stationary purchased Tk. 500.
- „ 10 Paid Rasel Tk. 5,300 and received discount Tk. 200.
- „ 16 Purchased goods from Safi enterprise Tk. 14, 000
- „ 20 Loan paid Tk. 8,000
- „ 26 Salaries paid to the employees Tk. 4,500
- „ 30 Withdraw cash Tk. 2,000 by the owner.
- „ 30 Rent obtained from tenant Tk. 2,000.

### Illustration-01

Transactions of Mr. Quamrul Hasan's Business in May 2011 were-

- May 1 Cash in Hand Tk. 9,300
- „ 2 Received from Shamim Tk. 2,000.
- „ 4 Withdraw from business for personal requirement Tk. 3,500.
- „ 6 Repair cost paid for old Furniture Tk. 1,500.
- „ 10 Purchased from Zakir for cash Tk. 4,000.
- „ 16 Interest received of investment Tk. 500.

May 20 Goods sold Tk. 6,000.  
 „ 25 Salary paid Tk. 3,000.  
 „ 28 Realized Tk.1,200 against Bills receivable & paid Tk. 800 for Bills payable.

Prepare Single Column Cash Book from the above transactions.

### Solution

**Mr. Quamrul Hasan's Single Column Cash Book**

Debit					Credit				
Date 2011	Receipts	R. No.	L/ F	Amount Tk.	Date 2011	Payments	V. No.	L/ F	Amount Tk.
May 1	Balance b/d			9,300	May 4	Drawings A/c			3,500
„ 2	Shamim A/c			2,000	„ 6	Repair A/c			1,500
„ 16	Interest on investment			500	„ 10	Purchase A/c			4,000
„ 20	SalesA/c			6,000	„ 25	Salaries A/c			3,000
„ 28	Note receivable A/c			1,200	„ 28	Note payable A/c			800
				19,000	„ 31	Balance c/d			6,200
June 1	Balance b/d			6,200					19,000

### Double Column Cash Book

#### Illustration-02

Prepare Double Column Cash book from the transactions of Mr. Jahid Hasan's Business occurred on April 2011-

April 1 Cash in hand Tk. 12,000 and Bank overdraft Tk. 3500  
 „ 2 Tk.4,000 deposited to Bank.  
 „ 5 Goods sold and received cash Tk. 2,500 and cheque Tk. 1,500.  
 „ 8 Goods purchased from Rajib for Tk. 3,000 and paid cash Tk. 2,000.  
 „ 14 Withdraw from business for personal use Tk. 1,000.  
 „ 19 Issued cheque to Razib Tk. 1,000  
 „ 23 Received a cheque from Mamun Tk. 5,000 and endorsed to Masud for dues.  
 „ 25 Bank charge debited Tk. 300.

**Solution:****Jahid Hasan's Double Column Cash Book**

Debit							Credit				
Date 2011	Receipts	R. No.	L/ F	Cash Tk.	Bank Tk.	Date 2011	Payments	V. No.	L/ F	Cash Tk.	Bank Tk.
Apr. 1	Balance b/d			12,000		Apr. 1	Balance b/d			4,000	3,500
" 2	Cash A/c				4,000	" 2	Bank A/c			2,000	
" 5	Sales A/c			2,500	1,500	" 8	Purchase A/c			1,000	
" 23	Mamun A/c			5,000		" 14	Drawings A/c				1,000
						" 19	Rajib A/c				
						" 23	Masud A/c			5,000	
						" 25	Bank charge A/c			300	
						" 30	Balance c/d			700	
										7,500	
										19,500	5,500
May 1	Balance b/d			19,500	5,500						
				7,500	700						

**Treble Column Cash Book****Illustration-03**

Prepare a Treble Column Cash Book of Mohammad Ali from the following Transactions for February 2012:

- Feb 1 Cash in hand Tk. 9,300 and Bank overdraft Tk. 2,700 .  
 ,, 5 Mr. Ashraf deposited cash in the Bank Tk. 5,000.  
 ,, 7 Withdraw cash from bank for personal use Tk. 2,000.  
 ,, 9 Received a cheque from Mr. Arafat Tk.6,300 in full settlement of his debt Tk.6,500.  
 ,, 13 Goods purchased for cash Tk.2,000 and by cheque Tk.1,000.  
 ,, 19 Paid creditor a cheque of Tk.2,000 and discount received Tk. 200 .  
 ,, 21 Proprietor deposited into bank personally Tk.10,000.  
 ,, 24 Cheque received from Mr. Arafat on Feb. 9 dishonored by the bank.  
 ,, 27 Salaries paid Tk. 3,000 and rent paid by the cheque Tk. 6,000.  
 ,, 28 Bank Interest charged Tk. 400

**Solution:****Mohammad Ali's**

(Treble Column Cash Book)

Debit							Credit						
Date 2012	Receipts	R. No.	L/ F	Dis. Tk.	Cash Tk.	Bank Tk.	Date 2012	Payments	V. No.	L/ F	Dis. Tk.	Cash Tk.	Bank Tk.
Feb. 1	Balance b/d				9,300		Feb.1	Balance b/d					2,700
,, 5	Ashraf A/c			200		5,000	,, 7	Drawings A/c					2,000
,, 9	Arafat A/c					6,300	,, 13	Purchase A/c				2,000	1,000
,, 21	Capital A/c					10,000	,, 19	Creditors A/c					2,000
							,, 24	Arafat A/c			200		6,300
							,, 27	Salaries A/c				3,000	
							,, 27	Rent A/c					6,000
							,, 28	Bank interest A/c					400
							,, 28	Balance c/d				4,300	900
										200		9,300	21,300
Mar. 1	Balance b/d					4,300							
						900							

### Transferring the Balance of Cash Book to Ledger

By preparing Cash Receipt Journal and Cash Payment Journal we come to know the total amount of cash receipts and cash payments. Cash Book is prepared for ascertaining the cash balance of a certain time. Opening cash balance of a certain time is added to the cash receipts while the cash payments are deducted from it to ascertain the closing cash balance.

#### Cash Receipt Journal

Date 2011	Account Credited	Source	Cash Debit	Discount Debit	Sales Credit	Accounts Receivable Credit	Others Account Credit
May 2	Khadija		20,000			20,000	
,, 7	Shawon		7,500	500		8,000	
,, 10	Int. on Investment		1,000				1,000
,, 19	Shaymol		8,000		8,000		
,, 26	Jamal		6,000		6,000		
			42,500	500	14,000	28,000	1,000

#### Cash Payment Journal

Date 2011	Cheque No.	Account Credited	Source	Purchase Debit	Accounts Payable Debit	Others Account Debit	Discount Credit	Cash Credit
May 1		Furniture			4,000		4,000	
,, 3		Purchase		5,000			5,000	
,, 8		Masum			3,800		3,500	
,, 25		Salaries				2,000	2,000	
,, 28		Drawings				1,000	1,000	
				5,000	3,800	7,000	300	15,500

#### Cash Account

#### Code no. of account....

Date 2011	Particulars	J/F	Debit Tk.	Credit Tk.	Balance	
					Debit	Credit
May 1	Balance				7,500	
,, 31	Cash Receipts		42,500		50,000	
,, 31	Cash			15,500	4,500	



### **Bank Account related Transactions**

Innumerable transactions take place in today's business. Transactions made through cash are very risky. Transactions mitigated through bank are very safe. For making transactions through bank at first, a bank account needs to be opened. A person or firm who opens a bank account is known as a depositor.

### **Bank Statement**

The statement that is made by bank mentioning about the full detail of its depositor is known as bank statement. Now a day this statement is done through computer. Money or cheque deposited into bank, money withdrawn from bank or payment made through bank, bank interest or bank charge including all other information are available chronologically in a bank statement. Apart from recording in a bank statement, a depositor also keeps records of all transactions related to bank in a cash book and identify balances. The balance of a bank statement and the bank balance of a cash book should be understandably equal. However, as always, this balance may not be equal, and then bank reconciliation statement is required to be prepared.

### **Bank Reconciliation Statement**

The statement that is prepared for identifying the differences between the balance of bank statement and bank column of cash book is known as bank reconciliation statement.

### **The reasons for differences between the balance of bank statement and the bank column of cash book**

- For collection of cheque through bank, if it is not collected in due time there will be a case of difference between the balances.
- Cheque issued for clearing of debts, if not produced before the bank in due time there will be differences.
- If bank on behalf of its client make any payment or receive any collection without informing the client, there will be differences.

**Activity:** Identify the other reasons for differences between the balances.

## **Exercise**

### **Multiple Choice Questions**

1. Will be recorded in cash book-
    - i) Capital brought in tk.50,000
    - ii) Sold to Janata Traders tk.20,000
    - iii) Stationery goods purchased tk.1,000
- Which one is correct of the following?
- |          |             |            |                |
|----------|-------------|------------|----------------|
| a)i & ii | b) ii & iii | c) i & iii | d) i, ii & iii |
|----------|-------------|------------|----------------|
2. Will be recorded in single column cash book-
    - a) Goods purchased by cheque tk. 4,000
    - b) Furniture purchased tk. 6,000
    - c) Goods drew tk.1,000
    - d) Goods returned tk. 500

**Read the following passage and answer the questions no. 10 and 11:**

On July 10, 2011 Mr. Salauddin tk.10,000 deposited into bank account; paid to samina by cheque tk.11,500 in full settlement of her claim tk.12,000; received a cheque from Mahbub tk.14,000 in full settlement of his debt tk.15,000.

10. Which cash book is suitable for recording the transaction of 10<sup>th</sup> July 2011?

  - a) Single column
  - b) Double column
  - c) Treble column
  - d) Cash receipt journal

11. Contra entry for which transaction?

- a) Deposited into bank      b) Paid to Samina
- c) Received from Mahbub      d) Paid to Samina and Received from Mahbub

12. Mr. Rahman received cheque tk. 10,000 for goods sold.

- i. Crossed cheque      ii. Bearer cheque      iii. Open cheque

Which one is correct of the following?

- a) i      b) ii      c) i & ii      d) ii & iii

13. Accounts that are affected by the Contra entry-

- i) Capital account
- ii) Cash account
- iii) Bank account

Which one is correct of the following?

- a) i      b) ii      c) i & ii      d) ii & iii

**Read the following passage and answer the questions no. 14 and 15:**

Mr. Habib records all kinds of cash receipts and cash payments in the cash book. On 10 March, 2012- Goods purchased tk.20,000 and paid in cash tk.15,000. On 28 March, 2012- received from Robi tk.9,500 in full settlement of his debt tk.10,000.

14. What is the actual amount of debt of Mr. Habib?

- a) tk.35,000      b) tk.20,000
- c) tk.15,000      d) tk.5,000

15. The transaction on 28<sup>th</sup> March should record in the -

- a) Single column cash book
- b) Double column cash book
- c) Treble column cash book

Which one is correct of the following?

- a) i      b) ii      c) iii      d) ii & iii

**Creative Questions:**

1. On March, 2011 The following transactions occurred in the business of Mr. Ferdous:

Mar.	1	Cash balance tk.7,500
Mar.	4	Goods purchased from Suman in cash tk. 4,000
Mar.	8	Goods sold tk. 5,000
Mar.	10	Chair purchased tk. 3,000
Mar.	18	Paid to Arif tk. 2,500
Mar.	20	Depreciation on furniture tk.300
Mar.	25	Drawings tk.1,000
Mar.	28	Salary paid tk.1,500

- a) Identifying transaction that will not include in the cash book and give general journal entry.
- b) Prepare a Cash payments journal from the above transactions.
- c) Determine the cash balance of Mr. Ferdous on 31 March, 2011 considering the above transactions.
2. On August, 2011 The following cash transactions are available in the business of Nasim Enterprise:
- |         |  |
|---------|--|
| Aug. 1  | Cash Balance tk.9,000 and Bank deposit tk.4,000                              |
| Aug. 2  | Goods sold to Rajib by cheque tk.7,000                                       |
| Aug. 5  | Withdraw from bank tk.5,000  |
| Aug. 12 | Received from Jafor Traders tk.5,800 in full settlement of his debt tk.6,000 |
| Aug. 18 | Goods purchased from Sajjad & Sons in cash tk.3,500                          |
| Aug. 20 | Paid to Selima Traders tk.4,300 and discount received tk.200                 |
| Aug. 25 | Bank interest allowed tk.300.  |
- a) Prepare a Debit Voucher for the transaction on August.18.
- b) Prepare a Double Column Cash Book from the above transactions.
- c) Prepare a Treble Column Cash Book with the transactions occurred Aug.12 to Aug.25 considering the closing balance of required 'b' as the opening balance.
3. On November, 2011 The following transactions occurred in the business of Haider and Sons:
- |         |   |
|---------|---|
| Nov. 01 | Sold to Shahid in cash tk.8,000                                 |
| Nov. 04 | Received from Maliha tk.5,400 and discount allowed tk.100       |
| Nov. 05 | Calculator purchased for office tk.500                          |
| Nov.08  | Sold old furniture tk.3,000                                     |
| Nov.12  | Paid to Jamal tk.3,300 in full settlement of his claim tk.3,500 |
| Nov.18  | Office rent paid tk.2,500                                       |
| Nov.20  | Loan taken tk.10,000  |
| Nov.23  | Withdrew for personal use tk.2,000                              |
- a) Prepare a Cash Memo for the transaction on November.01.
- b) Prepare a cash receipts journal from the above transactions.
- c) Prepare a cash payments journal from the above transactions.
4. On Jan. 2012 The following transactions completed in the business of Mr. Kislu:
- |        |   |
|--------|---|
| Jan.01 | Started business with cash tk.50,000 and bank balance tk.2,00,000 |
| Jan.04 | Goods purchased for cash tk.15,000                                |
| Jan.05 | Goods sold tk.2,00,000 and 5% received by cheque.                 |

Jan.07 A measuring scale purchased for business tk.7,000  
 Jan.08 Cheque dishonored which received on Jan.05  
 Jan.10 Salary paid to employee by cheque tk.2,500  
 Jan.12 Withdrawn from bank tk.12,000  
 Jan.15 Sold to Roton tk.3,500  
 Jan.18 Furniture purchased for business tk.25,000  
 Jan.20 Commission paid to salesman tk.5,000  
 Jan.25 Deposited into bank tk.5,000  
 Jan.30 Received from Roton tk.2,500.

- a) What is the amount of Contra Entry of Mr. Kislu's business?
  - b) Prepare a cash receipts journal of Mr. Kislu from the above transactions.
  - c) Prepare an applicable cash book for Mr. Kislu using the above transactions.
5. On January, 2012 The following transactions occurred in the business of Mr. Kishor:

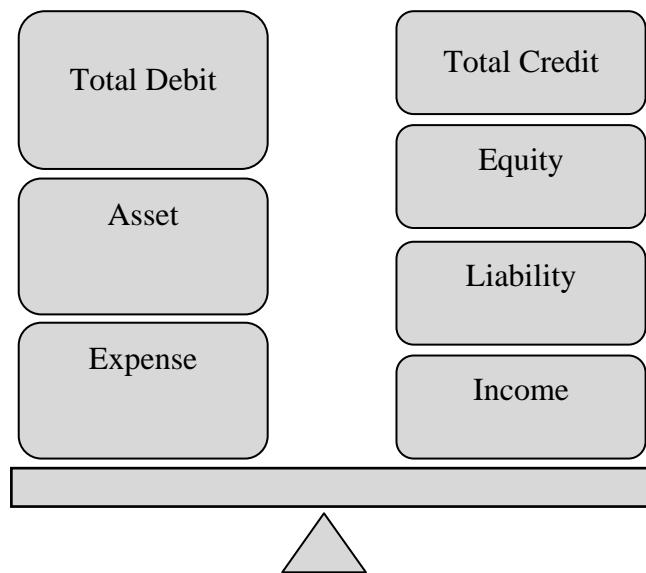
Jan.01 Cash balance tk.30,000 and Bank overdraft tk.25,000  
 Jan.03 Goods purchased from Jahir Brothers tk.10,000 allowing 5% discount  
 Jan.05 Tk.1,500 took from the business by proprietor for his own use  
 Jan.10 Withdrawn from bank tk.10,000  
 Jan.15 Goods purchased by cheque tk.7,000  
 Jan.20 Salary paid to employee tk.4,000  
 Jan.25 Owner personally bought furniture for the business tk.13,000  
 Jan.28 Received from Sumon tk.3,850 and discount allowed tk.150  
 Jan.29 Paid to Jahir Traders tk.9,350 in full settlement of his claim tk.9,500  
 Jan.31 Keeping cash balance of tk.2,500 , the remaining amount deposited into bank.

- a) Give the journal entries of those transactions that will not be included in the cash book.
- b) Prepare a single column cash book from the related transactions mentioned above.
- c) Prepare an appropriate journal for cash payments from the above transactions.

## Chapter Ninth

# Trial Balance

Prior to the preparation of the financial statement to know the results of financial activities of a business concern at the end of the year, it is badly needed to ensure that all the transactions of that period have been recorded and posted correctly in the books of accounts of the organization. If the books of accounts are prepared without proving the arithmetical accuracy then the prepared statement may not convey true information of the organization. A trial balance is prepared with the balances of ledger books with due and careful consideration of all possible errors of recording process in books of accounts. If the posting has been done accurately and the computation of account balances has been corrected, the total of all debits should be equal to the total of credits. In order to prove the accuracy that the total of accounts with debit balances agree with the total of credit balances, a statement i.e. trial balance is prepared. Errors can easily be identified and necessary steps for rectifying them can easily be taken through preparation of trial balance.



### At the end of this chapter, we will be able to –

- examine the arithmetical accuracy if the posting of entries is done accurately.
- find out the agreement and disagreement between debit and credit balances through revealing the errors.
- explain the necessity of using suspense account.
- make agreement between the balances temporarily by opening suspense account.

### **Concept of Trial Balance:**

A trial balance is a list of debit and credit balances extracted from the ledger including the balances of cash and bank columns of the Cash Book on a particular date. When the total of debit becomes equal to total of credit balances of the Trial Balance, generally it is assumed that there is no arithmetical mistake in the Ledger and Cash Book. Otherwise, there might have some sort of errors and mistakes following double entry system of accounting.

### **Objectives of Trial Balance:**

The main objectives of the preparation of trial balance are as follows:

1. Verification of posting the entries in journal and ledger accurately is one of the prime objectives of trial balance.
2. To facilitate in preparation of the Statement of Comprehensive Income and the Statement of Financial Position.
3. To discover the mistakes and rectify the errors, if any, present in the activities of maintaining journal and ledger.
4. To verify whether both the debit and credit aspects of the transactions as per double entry system have been recorded properly in the books of accounts.
5. To bring together all the balances of accounts in one place in order to facilitate the preparation of final accounts and reduce the wastage of labour and time thereby.
6. Trial balance can convey the information to the financial statement.

**Activity:** To test the arithmetical accuracy of the accounts is the main objective of Trial Balance— comments.

### **Procedure of preparing Trial Balance:**

At first, transactions are recorded chronologically in journal and after that they are transferred to different ledger accounts for permanent record keeping. At the end of the accounting period, all the ledger accounts are balanced. Without preparing the journal, transactions can also be posted directly in ledger and then the ledger accounts are balanced as well. Then in a separate sheet of paper all the debit balances of the ledger are put on the debit column and credit balances on the credit column; eventually debit and credit columns of the list are separately totaled. This list is known as trial Balance. It is to be mentioned here that closing stock in trade does not come in trial balance, in general but opening stock is included in it. When totals of both the columns become equal, it is assumed that the stages of accounting cycle are arithmetically accurate.

### **Pro-forma of Trial Balance:**

**Name of the organization**

Trial Balance

As at ----- 20-----

Serial/ Code No.	Name of the Accounts/ Particulars	L.F.	Debit Taka	Credit Taka

Since trial balance is neither any part of accounting nor a compulsion to prepare that is why it does not have any recognized pro-forma to follow. Moreover IASC (International Accounting Standard Committee) has not yet designed any specific pro-forma for preparing trial balance. The above drawn table is popularly used as specimen format for trial balance.

**Brief explanation of different columns of a trial balance is given below:**

1. **Serial/Code No.:** If there is any code no. of accounts then those code no. is put, otherwise the serial no. of ledger accounts are written in this column. Such as 1, 2, 3 etc.
2. **Name of the Accounts/ Particulars:** The full name of ledger accounts whose serial numbers have been written in the first column are put in this column. Such as, capital, furniture, cash etc.
3. **L.F. (Ledger Folio):** The page/pages of the ledger, where the balances of the concerned accounts are shown, are written in this column. By doing so errors can easily be identified and rectified.
4. **Debit Balance:** The amounts of the debit balances of the ledger accounts are written in this column.
5. **Credit Balance:** The amounts of the credit balances of the ledger accounts are written in this column.

**Factors to be considered in preparing Trial Balance:**

Prime objective of trial balance is to test and verify the arithmetical accuracy of accounts that is why, special attention is given and also some important factors are considered in case of including balances from ledger to trial balance.

1. Proper care is taken in case of posting stock in trade. If opening and closing both stocks are given then closing stock in trade does not come in trial balance, because this item remains included in the opening stock in trade and purchases of the concerned year. While opening stock is included in trial balance.
2. Opening cash in hand and opening cash at bank do not come to trial balance; these remain adjusted with the closing balances of cash and bank respectively.
3. Items in which paid or received are not mention specifically, they are considered as expenses and written on the debit side of trial balance. Such as, rent, discount, commission, interest etc.
4. If there is any disagreement between Debit and credit column and the total amount of credit column is found lower than that of debit column then the deficit amount of credit side is considered and put as capital account, rather considering as suspense account because every business concern must have capital.
5. Sales ledger balances are considered as sundry debtors and put on the debit side.
6. Purchase ledger balances are considered as sundry creditors and put on the credit side.
7. Usually apprenticeship allowances are treated as expenses of the business and put on the debit side. Whereas, apprenticeship premium are treated as earning of the business and put on the credit side of the trial balance.

8. Contingent liability and anticipated assets are not included in trial balance because business is not confirmed about their certainty. They are shown in the foot note.

If disagreement is found, even after taking all necessary careful measures, then suspense account is opened to make agreement between the columns. Suspense account is not a permanent kind of solution rather it is a temporary arrangement.

**Activity:** Find out the accounts which are not included in a trial balance.

**Procedure of preparing a Trial Balance taking ledger balances into consideration:**

Where only ledger balances are given in the absence of ledger, the following rules should be followed to ascertain which of the balances will be put on the debit column and on the credit column of a trial balance.

The Ledger balances which will be written on the debit side of Trial Balance	The Ledger balances which will be written on the credit side of Trial Balance
<b>All the assets:</b> Land, building, leasehold property, machinery, furniture, investment, bills receivable, debtors, goodwill, opening stock, cash in hand, cash at bank etc.	<b>All liabilities:</b> creditors, bills payable, capital, bank overdraft, loan, etc.
<b>All expenses:</b> Purchase, wages, salary, advertisement, rent, commission, repairs, office expenses, depreciation, bad debt, and discount allowed.	<b>All types of income and profits:</b> sales, interest received, discount received, apprenticeship premium, interest on investment, interest on bank deposit etc.
<b>Expenses paid in advance:</b> Salaries paid in advanced, wages paid in advanced, rent paid in advanced is treated as an Asset as because the future benefit will come from that type of advance payment.	<b>Outstanding expenses and unearned incomes:</b> Advanced rent income, Advanced consultation fee is treated as a liability as because the future service is to be provided.
<b>Accrued incomes:</b> Interest accrued on investment, commission accrued, rent received is treated as an Asset as because the amount realized in future.	<b>All types of reserves:</b> Reserve for bad and doubtful debt, general reserve, reserve for discount on debtors.
<b>Other items:</b> sales return, loan allowed, drawing.	<b>Other items:</b> purchase returns

**Errors detected in Trial Balance:**

Even after taking all necessary cautionary measures, there might have some unintentional errors which lead to disagreement in trial balance. These errors are less cumbersome to find out and rectify the trial balance. Such errors are:

- Errors of Omission:** While posting from journal to ledger, if mistakenly, debit has been given to the ledger but corresponding credit has not been given to the ledger account or *vice versa*. Moreover if any balance of account is not included in trial balance then it will not agree. Example: Cash paid to Rahim Tk. 5000.

Journal: Rahim A/C----Dr Tk. 5,000  
Cash A/C-----Cr Tk. 5,000

At the time of transferring this to ledger, mistakenly it may so happen that only Rahim A/C or Cash A/C is transfer or only the balance of one account is transferred to trial balance.

2. **Errors of Commission:** Writing debit amount of the account on the credit side of the concerned ledger account or Writing credit amount of the account on the debit side of the concerned ledger account at the time of posting from journal to ledger. Both sides of trial balance will also not agree if any one side of transaction is posted twice in one account by mistake. Example:

Journal:           Rahim A/C----Dr Tk. 5,000  
                      Cash A/C-----Cr Tk. 5,000

If Rahim A/C----Dr is shown in credit along with Cash---- A/C on ledger or Cash A/C Cr. is written in debit along with Rahim A/C----Dr.

3. **Mistake in amounts of money:** While posting from journal to ledger, if mistakenly, not debiting and crediting both the accounts of a transaction with the same amount. That is, writing more or less amount in the ledger mistakenly while posting from journal. Example: Salary paid TK. 2,000. Mistake in Journal as

Salary A/C----Dr Tk. 2,000  
Cash A/C-----Cr Tk. 20,000

OR, while posting in ledger- Mistakenly, Salary A/C is shown as Tk. 20,000 and Cash A/C is shown as Tk. 2,000 while posting in ledger.

4. **Error in Balancing of Ledger Account:** If there is any mistake in balancing the ledger account the trial balance will not agree. Example:

### Cash A/C

Dr.							Cr.
Date 2011	Particulars	J.P.	Taka	Date 2011	Particulars	J.P.	Taka
Feb 1	Capital A/C		1,00,000	Feb 2	Furniture A/C		20,000
Feb 5	Sales A/C		25,000	Feb 12	Creditors A/C		10,000
				Feb 18	Bank A/C		15,000
				Feb 28	Salary A/C		5,000
				Feb 28	Balance C/D		<u>65,000</u>
Mar 1	Balance B/D		<u>1,25,000</u>				<u>1,25,000</u>
			65,000				

The Cash A/C shown above should bear a balance of Tk. 75,000 but mistakenly it is written as Tk. 65,000.

5. **Mistake in transferring ledger balances to trial balance:** While carrying the ledger balances to the trial balance, wrongly written the debit balance in credit side and *vice versa*. Example: Ledger shows the cash balance of Tk. 15,000 (dr.), capital of Tk. 35,000 (cr.), sales of Tk.25,000 (cr.) and furniture of Tk. 12,000 (dr.).

### Trial Balance

As at ----- 20-----

Serial 1 No.	Name of the Accounts	L.F.	Debit Balance (TK.)	Credit Balance (TK.)
1	Cash			15,000
2	Capital			35,000
3	Sales		25,000	
4	Furniture		12,000	

6. **Mistake in totaling both the columns in the trial balance:** Trial balance will never agree if there is any mistake in doing aggregate total of trial balance. Example

### Trial Balance

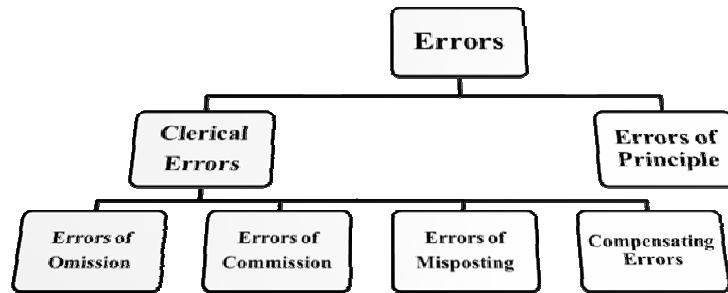
As at ----- 20-----

Serial No.	Name of the Accounts	L.F.	Debit Balance (TK.)	Credit Balance (TK.)
1	Cash		25,000	
2	Sales			30,000
3	Furniture		10,000	
4	Capital			20,000
5	Investment		15,000	
6	Suspense Account			5,000
			<u>55,000</u>	<u>55,000</u>

**Activity:** “Even if the trial balance agrees, we cannot be certain that there is no mistake in accounts” –do you agree? Elucidate your comments.

#### **Errors not detected by the Trial balance:**

Agreement of trial does not cent percent ensure the error freeness of accounts. Usually arithmetical accuracy is assumed if trial balance agrees. But there may be some types of mistakes, which will not be detected by a trial balance. These are of two major types, e.g. clerical errors and errors of principle.



**The detail descriptions of errors given below:****(1) Clerical errors:**

- (a) Errors of omission:** If any transaction is not at all recorded then the amount of the transaction will not be recorded in concerned ledger account and/or if the transaction is not transferred from journal to ledger then both the columns of trial balance will be valued by equal sum lower amount of money. Such as, goods sold to Shimanto, but not at all recorded in sales book. Trial balance will agree because equal amount of debit and credit has been omitted from record.
- (b) Errors of commission:** If any transaction is recorded in primary books of accounts by lower or higher amount of money then such lower or higher amount will also be recorded in the ledger concerned and thus the trial balance will agree as well. Such as, goods sold to Ratan of Tk. 5,000. If it is recorded as Tk. 50,000 then both Sales A/C and Ratan A/C will be higher valued by the amount of Tk. 45,000. Trial balance will agree in this case also.
- (c) Errors of miss-posting:** Such errors are done because of the carelessness of the employees. Suppose Tk. 20,000 has been received in cash from Kalam. Cash book is correctly debited with Tk. 20,000 but while posting to the ledger Salam account is credited in place of Kalam account. Trial balance will agree because the total of credits has been the same, though the amount has been credited to a wrong account.
- (d) Compensating errors:** If one mistake is corrected by another mistake then it is called Compensating errors. Such as, Shiab A/C is supposed to be debited with Tk. 5,000 but it has been debited with Tk. 500. In another occasion, Jamil A/C was credited with Tk. 500 by mistake, instead of Tk. 5,000. In this case, though there are two errors even then the total of the both sides of trial balance will agree. Because both the sides will be less by the same amount i.e. Tk. 4,500.

- (2) Errors of principle:** Errors which are done due to the lack of proper Accounting knowledge and/ or ultra vires of recognized accounting principles are known as errors of principles. When Capital expenditure is recorded as Revenue expenditure and *vice versa* is example of such errors.

For example, wages paid for installation of machinery is debited to wages account (Nominal Account) instead of machinery account (Real Account).

**Activity:** Detect and describe the errors and mistakes which may not be disclosed even if trial balance agrees.

**Method of correcting an incorrect Trial Balance:** If both sides of the trial balance do not agree then it is to be understood that there is some mistake in accounting process. So the cause of this disagreement is to be found out but there is no hard and fast rule to correct an incorrect trial balance. In many cases the following action can be taken:

- (1) Verify the totals of the two columns in trial balance.
- (2) Check whether all the balance of ledger accounts has been correctly entered in the trial balance.
- (3) Check whether posting of the debit and credit balances have been correctly done in the appropriate side of the trial balance.
- (4) Check whether posting from Journals to the ledger accounts have correctly been done.
- (5) Check whether totaling and balancing of the ledger accounts have correctly been done.
- (6) Check whether the cash columns and bank columns of the cash book have been properly balanced or not and whether the balances have been correctly included in the trial balance.
- (7) Find out the difference between the totals of the two columns of the trial balance is divisible by 2 (two). If so, then it is to be noted if there is any similar amount in the trial balance and whether the amount is placed in the right place in trial balance.

In spite of the above mentioned steps taken, if the mistakes or errors can not be detected, then the amount, by which the trial balance disagreed, should be put in "Suspense Account" for time being. Subsequently, when the errors will be detected, those will be rectified through suspense A/C which will be closed after rectification of errors.

### **Suspense Account:**

Finding out the errors is necessary where totals of both the sides of trial balance do not agree. But in most of the cases the detection and rectification of errors take long time. So it is not rational and feasible to keep the work of preparation of Final Accounts pending for such long time. Under the circumstance, disagreement of both the sides of trial balance is made equal through Suspense Account for time being. It is not a permanent solution rather a kind of temporary arrangement. If the total of credit side of trial balance becomes less than that of debit side, the suspense account will be shown on the credit side and *vice versa*. Afterwards, when the errors are detected the suspense account is closed through correction of those errors.

**Activity:** How the disagreement of both the sides of trial balance can be solved?

### **Example-1:**

Following informations are Ledger balance of Mr. Mamun as on 31 December 2011:

Cash - 1,19,000; Capital- 1,00,000; Sales- 60,0000; Debtor -9,000; Purchase - 20,000; Salary- 3,000; House rent expense-7,000; Wages expense-2,000.prepare a trial balance as on 31 march , 2011.

**Solution:****Mr.Mamun**

Trial Balance

31 March 2011

Serial no	Name of accounts	L: F:	Debit Taka	Credit taka
1	Cash		1,19,000	
2	Capital			1,00,000
3	Sales			60,000
4	Sundry Debtors		9,000	
5	Purchase		20,000	
6	Salary expense		3,000	
7	House rent expense		7,000	
8	Wages expense		2,000	
	Total		<u>1,60,000</u>	<u>1,60,000</u>

**Example-2:**

From the following Ledger balance of Mrs. Mukta traders, prepare Trial balance as on 31 December 2011:

Name of accounts	Taka	Name of accounts	Taka	Name of accounts	Taka
Capital	60,000	Drawings	2,480	Depreciation	1,410
Stock (1.1.11)	16,400	Business expense	990	Rent received	430
Sales	81,200	Cash in hand	800	Salary expense	4,300
Gas & Water	840	Cash at Bank	5,260	Insurance premium	1,060
Land & Building	20,000	Purchase	32,160	Return inward	490
Wages expense	18,490	Tax & Rates	840	Bills payable	4,000
Debtors	35,800	Furniture	1,250	Creditors	10,370
Commission	1,470	Bills receivable	1,470	Returns outward	6,400
Equipment	10,270	Cash	6,700	Bank charge	3,370
Transportation	3,370	at Bank(1.1.11)	19,400	Discount received	120

**Solution:****Mrs. Mukta Traders**

Trial Balance

As on 31december 2011

<b>serial</b>	<b>Name of Account</b>	<b>L:F:</b>	<b>Debit Taka</b>	<b>Credit Taka</b>
1	Capital			60,000
2	Stock (1.1.2011)		16,400	
3	Sales			81,200
4	Gas and water		840	
5	Land and building		20,000	
6	Wages		18,490	
7	Debtors		35,800	
8	Commission		1,470	
9	Machinery		10,270	
10	Transportation		3,370	
11	Drawings		2,480	
12	Trade expense		990	
13	Cash		800	
14	Balance Bank		5,260	
15	Purchase		32,160	
16	Tax and rates		840	
17	Furniture		1,250	
18	Bills Receivables		1,470	
19	Depreciation		1,410	
20	Rent received			430
21	Salary Expenses		4,300	
22	Insurance Expenses		1,060	
23	Return inward		490	
24	Bills Payable			4,000
25	Creditors			10,370
26	Return outward			6,400
27	Bank charge		3,370	
28	Discount received			120
	Total=		<u>162,520</u>	<u>162,520</u>

**Task:** Mahbuba Traders prepared Trial Balance wrongly as on 31 December 2010, you are required to prepare right Trial Balance.

Serial no	Name of accounts	L: F:	Debit Taka	Credit Taka
1	Opening Stocks		50,000	
2	Capital		1,00,000	
3	Purchase			80,000
4	Sales			1,00,00
5	Commission received		10,000	
6	Salaries Expenses		20,000	
7	Rent Expenses			12,000
8	Bad debt		3,000	
9	Machinery		5,800	
10	Debtors			35,000
11	Creditors		40,000	
12	6% mortgage Loan		10,000	
13	Closing stock		80,000	
14	Sales return			2,000
15	Suspense Accounts			89,800
			<b>2,18,800</b>	<b>2,18,800</b>

#### **Close Suspense accounts by rectification of errors:**

After careful examination –scrutiny book of accounts if error or errors are not find out then we have to prepare a rectification journal by related ledger balances, if all errors are find out then the difference of Trial Balance will be equal to the summation of error or errors. In that case balance of suspense accounts will be zero and suspense accounts will be closed automatically. If all error is not found out then balance of suspense account will display and it will show in Final account.

#### **Rules for rectification journal:**

Error may be two types (1) one side error that is error occurred in one side, on the other hand another side recorded rightly. In that case rectification of error will be required and another side will show as suspense accounts. (2) Both side errors that are error occurred in Debit and Credit side. In that case both sides will require for rectification. Under this circumstance suspense account may not be affected. Sometimes one account will be posted in Debit side but wrongly it will post in Credit side, in that case double amount will require for rectification at debit side. When we will prepare the rectification Journal then we have to think what right Journal is and what we did. For example we spent taka 5,000 for Advertisement but it was recorded as Stationery.

Right Journal will be:

Advertisement account Debit Tk. 5,000

Cash account Credit Tk. 5,000

Wrongly posted as:

Stationery account debit Tk. 5,000

Cash account credit Tk. 5,000

In that case we have seen that cash account is correct but wrongly we recorded Stationery account in lieu of Advertisement account. So we have to close Stationery account and we have write Advertisement account. So rectification Journal Will be:

Advertisement account    Debit Tk. 5,000  
 Stationery account    Credit Tk. 5,000

**Example:**

We find out that amount of debit side of Trial Balance which was prepared on 31 December 2011 was less then taka 250 to credit side, when preparing Trial Balance for temporary correction we create Suspense account. Following errors are taking into consideration:

1. TK. 1,000 received from Milon but wrongly posted into debit side of Milon account.
2. Purchase return TK. 350 wrongly recorded debit side of purchase book.
3. Addition of purchase book shown in less TK. 400.
4. Addition of sales book shown in less TK. 450.
5. Discount received TK. 950 recorded in debit side of Discount account.
6. Payment to Galib and Co. TK. 1,750 recorded into credit side of them.
7. Sales return TK. 450 recorded into credit side of sales account.
8. Repair to Machinery TK. 5,000 wrongly recorded into debit side of Machinery account.

Rectify by opening Suspense Accounts:

**Rectification Journal**

Date	Account title and explanation	L: F:	Debit Taka	Credit Taka
2011 Dec: 31 (1)	Suspense Account Milon Account (Amount Received from Milon but wrongly debited into his account, now rectified)		2000	2000
Dec: 31 (2)	Suspense Account Purchase Account Return outward Account (Purchase return wrongly posted into debit side of purchase book, now rectified)		700	350 350
Dec: 31 (3)	Purchase Account Suspense Account (Purchase book is under cast, now rectified)		400	400

Date	Account title and explanation	L: F:	Debit Taka	Credit Taka
Dec: 31 (4)	Suspense Account Sales Account (Sales book is under cast, now rectified)		450	450
Dec: 31 (5)	Discount Account Discount received Account Discount payment Account (Discount received but wrongly debited discount account, now rectified)		1900	950 950
Dec : 31 (6)	Galib and Co Account Suspense Account (Galib and Co. account wrongly credited in lieu of debit, , now rectified )		3500	3500
Dec : 31 (7)	Return inward Account Sales Account Suspense Account (Sales return was wrongly credited into sales account, now rectified)		450 450	900
Dec : 31 (8)	Repair Account Machinery Account (Repair to machinery was wrongly debited into Machinery account, now rectified )		5,000	5,000

**Ledger**  
Suspense Account

Debit			Credit		
Date	Particular	Taka	Date	Particular	Taka
2011			2011		
Dec: 31	Milon	2,000	Dec: 31	Balance	250
Dec: 31	Purchase	350	Dec: 31	Purchase	400
Dec: 31	Return outward	350	Dec: 31	Galib and Co.	3,500
Dec: 31	Sales	450	Dec: 31	Return outward	450
Dec: 31	Discount received	<u>1,900</u>	Dec: 31	Sales	<u>450</u>
		<u>5,050</u>			<u>5,050</u>

## Exercise

**Multiple Choice question:**

1. Objective of Trial Balance preparation is-
  - i) To determine financial condition
  - ii) To verify the mathematical accuracy
  - iii) To determine profit or loss
 Which one is correct?  
 A) I              B) ii              C) i & ii              D) iii
  
2. Debit side of Trial Balance will be recorded
  - i) Capital
  - ii) Drawings
  - iii) Sales return
 Which one is correct?  
 A) i              B) ii              C) I & iii              D) ii & iii
  
3. To be recorded in Trial Balance
  - i) Opening stock
  - ii) Opening cash balance
  - iii) Closing stock
 Which one is correct?  
 A) i              B) i & ii              C) ii & iii              D) ii
  
4. Which one is separated from other three?
  - A) Apprentice allowance              B) Apprentice premium
  - C) Insurance premium              D) Rent and Taxes
  
5. In a Trial Balance debit balance of 130 is wrongly recorded into credit side. If all other things remain same what will be the difference of both side of a Trial Balance?
  - A) TK. 130              B) TK. 65
  - C) TK. 310              D) TK. 260
  
6. In Trial Balance Suspense Account indicates-
  - i) Debit Balance
  - ii) Credit Balance
  - iii) Difference between debit and credit column
 Which one correct?  
 A) i              B) i & ii              C) ii              D) iii

## 7. Affect in Suspense Account-

- i) "Furniture purchase TK. 45,000" recorded Purchase Account debit TK. 45,000
- ii) "Goods purchase TK. 10,000" recorded Purchase Account credit Tk. 10,000
- iii) "Repair to Furniture TK. 2,000" recorded Furniture Account debit Tk. 2,000

Which one is correct?

- |             |            |
|-------------|------------|
| A) i        | B) ii      |
| C) ii & iii | D) i & iii |

**Answer to the question No. 8, 9 & 10 on the basis of following paragraph-**

Mr. Rahul divided all transactions into Revenue and Capital class, but in June 2012 he purchased Circular amounting to TK. 40,000 for purpose of business use and he spent TK. 4,000 for establishment of Air conditioner but wrongly recorded into wages account.

## 8. What type of error that Mr. Halim done in recording of transactions?

- |                       |                       |
|-----------------------|-----------------------|
| A. Error of omission  | B. Writing error      |
| C. Compensating error | D. Error of Principle |

## 9. Write rectification of errors journal of Mr. Rahul transactions-

- |                                    |   |
|------------------------------------|---|
| A. Office Equipment Account debit: | B. Office Equipment Account credit:       |
| C. Wages debit, Cash credit:       | D. Establishment Exp. debit. Wage credit. |

## 10. When above TK. 4,000 recorded properly what will be the effect of financial statement-?

- |                      |                        |
|----------------------|------------------------|
| A. Current Asset     | B. Fixed Asset         |
| C. Current Liability | D. long term Liability |

**Creative Questions:**

## 1. Following Ledger balances of Shihab and Brothers as on December 2011 are as follows:-

Capital	80,000	Insurance Premium	5,000
Cash in hand (01/01/11)	15,000	Import duty	3,500
Debtors	25,000	Commission received	2,000
Creditors	15,000	Investment	30,000
Drawings	10,000	Interest on Bank Deposit	500
Purchase	30,000	Furniture	40,000
Sales	45,000	Advertisement	1,000
Interest on Investment	3,000	Opening Stock	25,000
Closing Stock	12,000	Closing Bank balance	6,000

A) In Trial Balance of Shihab and Brothers which items are not recorded and what amount of that?

B) Prepare a Trial balance of Mr. Shihab from the above Ledger balances.

C) From the Trial Balance calculate Revenue nature Income & Revenue nature expenditure.

2. Balances of Mr. Jasid as on 31 December 2011 are as follows:

Capital	150,000	Building	45,000
Drawings	50,000	Debtors	30,000
Bills Receivable	30,000	Creditors	25,000
Bills payable	25,000	Salaries	5,000
General Reserve	5,000	Apprentice premium (prepaid)	3,000
Cash in hand (1-1-2010)	6,000	Bank overdraft	2,000
Stocks (1-1-2010)	40,000	Cash in hand (31-12-2010)	10,000
Bad debt	5,000	Insurance	8,000
Provision for bad debt	3,000	Stocks(31-12-2010)	35,000

- A. In the Trial Balance of Mr. Jasid which balances are not recorded and what amount of that?
  - B. From the above balance prepared a Trial Balance of Mr. Jasid.
  - C. Determine Current Assets and Short-term Liabilities of Mr. Jasid.
3. Accountant of Mrs. Saleh and Co. prepared Trial Balance but there are some irrelevances in that. Wrong Trail Balance is as follows:

**Trial Balance**

31 December 2009

Serial	Title	L.F.	Debit TK.	Credit TK.
1	Opening stocks		34,000	
2	Purchase		1,00,000	
3	Salaries		12,000	
4	Creditors		40,000	
5	Debtors		16,000	
6	Bank balance			45,000
7	Return inward		3,000	
8	Carriage outward			5000
9	Bills payable		20,000	
10	Loan			13000
11	Building		55,000	
12	Discount allowed			10000
13	Capital			67000
14	Sales			140000
<b><u>2,80,000</u></b>				<b><u>2,80,000</u></b>

- A. Calculate Capital nature income for Mrs. Saleh and Co.
- B. From the above information's determine Revenue nature income.
- C. In the light of steams prepared valid Trial Balance.

4. Following Ledger balances of Ohi Ceramics are supplied as on 31 December 2011 for the purpose of mathematical accuracy verification:

	<b>Taka</b>		<b>Taka</b>
Capital	94,000	Insurance premium	5,000
Cash in hand 1/1/2011	15,000	Import duty	3,500
Debtors	25,000	Commission received	2,000
Creditors	15,000	Investments	15,000
Drawings	10,000	Int. on Bank deposit	500
Purchase	30,000	Furniture	40,000
Sales	45,000	Opening Stocks	25,000
Interest on Investment	3,000	Closing Bank balance	6,000
Closing Stocks	12,000		

- A. Determine total amount not included in the Trial Balance of Ohi Ceramics.
  - B. Prepare Trial Balance of Ohio Ceramics in the light of above mentioned information's.
  - C. Calculate capital nature income and capital nature expenditure in the light of above mentioned information's.
5. After preparation of Mr. Salahuddin's Trial Balance as on 30 June 2012 found that total of debit side is more than TK. 2,200 compare to credit side. After scrutiny, he found the following errors:
- 1. Purchase account is under cast by TK. 1,000.
  - 2. Payment to salary TK. 3,000 correctly recorded in credit side of Cash book but wrongly not debited to salary Account.
  - 3. Sales of Machinery TK. 5,000 but wrongly credited to Sales Account.
  - 4. Received from Mahfuz of TK. 2000 but wrongly credited to Mahfuz Account by TK. 200.
- A. From the above errors identify error of principle and error of omission.
  - B. From the above errors prepare rectifying Journal.
  - C. By preparing the Suspense Account Close the account...

## Tenth Chapter

# Financial Statement

Every business organization needs to know the exact financial position at the end of the definite period. There are two aspects of financial condition- (i) ascertainment of profit or loss of the business and (ii) value of different assets and liabilities-debt of business. The statement which is prepared to ascertain the profit and loss of the business is known as the Statement of Comprehensive Income (it was previously known as Income Statement) and the Statement prepared to ascertain the assets, liabilities-debts is called statement of Financial Position. It was previously known as Balance Sheet. Statement of Comprehensive Income and the Statement of Financial Position are known as financial statement. Only the preparation of financial statement is not sufficient, interpretation of financial statements are also needed to fulfill the decision making process.



Picture: Graph indicator of Profit and Loss

**At the end of this chapter, we will be able to –**

- differentiate between the transaction of capital and revenue nature as well as the application of this differentiation in preparation of financial statement.
- prepare the Statement of Comprehensive Income and also be able to explain the profits and losses.
- prepare the financial statement and differentiate between the varieties of fixed and current assets; long term and current liabilities.
- understand how capital accounts can be affected through drawings of cash and merchandise, inclusion of new capital in the business or net profits and losses.
- realize the necessity of consideration of bad debts and provisions for those debts.
- apply depreciation in financial statement by understanding the meanings, objectives and necessity of depreciation.
- interpret the need for evaluating the state of affairs as well as the necessity of ratio analysis.
- determine and analyze different types of ratios, for example net profit to sales ratio, net profit to capital ratio and current to current liabilities ratio etc.
- compare the comprehensive income statement and important figures between two years and understanding the changes of financial position.

### **Financial Statement of Sole Proprietorship:**

Financial statement is a structured, disciplined and continuous process of knowing the financial results and the state of affairs of an organization. Financial statements help the users make economic decision by providing of accounting information of financial results, the state of affairs and cash flow, etc. Financial statement is an important base to evaluate managerial efficiency and overall condition of the organization. According to the International Accounting Standard-01 (IAS-01), we are to prepare a financial statement of which is divided into 5 (Five) parts; the five parts are-

1. the Statement of Comprehensive Income
2. the Statement of Changes in Equity
3. the Statement of Financial Position
4. the Statement of Cash Flows
5. Notes, comprising a summary of significant accounting policies and other explanatory information provided in the financial statement.

In secondary stage (Class 9 & 10) we are illustrating the concept and process of preparation of first 3 parts of final accounts:

### **The Statement of Comprehensive Income:**

Revenue type income and expenditures are recorded in the Statement of Comprehensive Income. In case of, service organizations which do not get involved in trading rather providing services (advertising firm), net profit can be ascertained through deduction of costs of service from income. On the other hand, gross profit of a trading concern can be ascertained by deducting costs of goods sold from earnings from sales. For ascertaining net profit we are to add all indirect income with gross profit get total income and deduct all indirect expenses from that total income.



Picture indicator of profit and loss

### **Objectives of the Statement of Comprehensive Income:**

- 1) We can know net profit and loss from comprehensive income statement. By doing so an important message is sent to the owner that he/she can't claim up over the net profit. Because claiming over net profit means the break down of capital structure which may lead to severe interruption of future business activities of the firm.
- 2) By analyzing different income and expenditures of the Statement of Comprehensive Income, we can know how to increase net profit of a firm by increasing future income and decreasing expenditures.

### **Preparation of the Statement of Comprehensive Income (service providing business):**

The Statement of Comprehensive Income is prepared in each year for particular period of time. Net income is ascertained by deducting the expenditures from the income of that year.

**Illustration:** prepare the Statement of Comprehensive Income of Proshar advertising firm from the information given below for the year ended on 31<sup>st</sup> December 2010. income from services 60,000; interest received 500; dividend earnings 2,500; expenses for advertising goods 25,000; house rent 4,000; electricity & telephone bill 2,000; manager's salary 5,000; insurance expenses 1,000; conveyance 3,000.

**Solution:**

**Proshar advertising firm**  
Statement of Comprehensive Income  
For the year ended on 31<sup>st</sup> December 2010

Particulars	Taka	Taka
<b>Incomes:</b>		
Income from services	60,000	
Interest received	500	
Dividend earnings	<u>2,500</u>	
<b>Less- Expenditures:</b>		63,000
Expenses for advertising goods	25,000	
House rent	4,000	
Electricity & telephone bill	2,000	
Manager's salary	5,000	
Insurance expenses	1,000	
Conveyance	3,000	(40,000)
<b>Net Profit</b>		<u>23,000</u>

**Activity:** Mr. Tapon Chowdhury started an Automobiles Workshop on February 2012. Income and expenditure in the month of February of that Automobiles Workshop is given below:

Rent for garage 5,000; Employee's salary 3,000; electricity bill 1,000; earnings from motor repairing 12,000; expenses for refreshment 500; motor repairing outstanding 20,000; payment of interest on loan 3,000; expenses for spare parts 3,000.

Prepare a Statement of Comprehensive Income based on that information.

For a trading concern, main source of income is earnings from sales. It is the main source of operating income. There are some non operating income too, such as, commission received, rent received, interest received from bank etc. Operating expenses are purchase, wages, manager salaries, travelling expenses, repairing expenses, bad debt, depreciation etc. Statement of Comprehensive Income is prepared mainly in three stages.

**In first stage**, gross profit can be determined by deducting cost of goods sold from sales revenue.

**In second stage**, operating profit can be determined by adding indirect operating incomes with gross profit and then deducting operating expenses from that total.

**In third stage**, net profit can be calculated by adding net non-operating incomes/expenses (non-operating income – less non operating expenses) with operating profit.

The table given below shows the list of operating and non-operating incomes and expenses.

<b>Operating Income</b>	<b>Operating Expenses</b>	<b>Non- operating Income</b>	<b>Non- operating Expenses</b>
<b><u>Direct</u></b>	<b><u>Direct</u></b>	Profit from selling of fixed assets Interest on investment Interest on drawings Interest on loan Interest received from bank Apprenticeship premium received Rent received from sub-let Dividend received	Loss from selling of fixed assets Commission Paid Interest on capital Interest on Bank loan Interest on bank over draft Bank charges Allowance for Apprenticeship Theft or Accidental losses
Sales of goods and services  <b><u>Indirect</u></b> Discount received Commission received	Purchases Carriage Inward Wages Import Duty Freight Dock Charges Factory rent & Electricity Fuel Charges  <b><u>Indirect</u></b> Salaries Carriage Outward Office rent & Electricity Office expenses Discount Allowed Repairs Postage & Telephone Advertisement Stationery Packing Expenses Insurance Travelling Expenses Bad Debt Provision for bad & doubtful debts Depreciation on Assets Write-off of lease hold properties Write-off of Goodwill		

A pro-forma of the Statement of Comprehensive Income is shown in next page:

**Name of the Trading firm-----**  
**Statement of Comprehensive Income**  
**For the year ended on -----**

<b>Particulars</b>	<b>Taka</b>	<b>Taka</b>	<b>Taka</b>
sales	****		
(-) returns	-***		
	****		
(-) Discount on sale	-***		
	****		
<b>Less: Cost of goods sold</b>			
Opening Stock	****		
Purchases	****		
(-) Returns	-***		
	****		
(-) Discount on purchases	-***		
	****		
<b>Net Purchases</b>			
Carriage Inward	***		
Wages	***		
Import Duty	***		
	***		
(-) Closing Stock	-****		
	****		
<b>Gross Profit</b>			
<b>Add: Indirect Operating Income</b>			
<b>Less: Operating Expenses</b>			
Carriage Outward	****		
Salaries	****		
Office rent & Electricity	****		
Office Expenses	****		
Discount allowed	****		
Repairs	****		
Postages, Telegrams & Telephone	****		
Advertising	****		
Stationery	****		
Packing Expenses	****		
Traveling Expenses	****		
Insurance	****		
Depreciation on Assets	****		
Write-off of lease hold properties	****		
Write-off of Goodwill	****		
Bad Debt	****		
(+) New Provision for bad debts	****		
	****		
(-) Old Provision for bad debts (opening balance)	-****	****	****
	****	****	****
<b>Operating profit</b>			

Particulars	Taka	Taka	Taka
<b>Non-operating incomes:</b>			
Profit from selling of fixed assets	****		
Interest on investment	****		
Interest on Drawings	****		
Interest on loan	****		
Interest received from bank	****		
Apprenticeship premium received	****		
Rent received from sub-let	****		
Dividend received	****		
Commission received	****	****	
<b>Less: Non- operating Expenses</b>			
Loss from selling of fixed assets	****		
Commission Paid	****		
Interest on capital	****		
Interest on loan / bank loan	****		
Interest on bank overdraft	****		
Bank charges	****		
Allowance for Apprenticeship	****		
Theft or Accidental losses	****	-****	*****
<b>Non-operating net income/ expenses</b>			
<b>Net Profit</b>			*****

**Activity: Fill in the marked (?) gaps by current figure**

Business	Sales	Cost of goods sold	Operating expenses	Gross profit/ loss	Net profit/ loss
A	10,600	7,800	1,300	?	?
B	9,300	?	1,100	800	?
C	17,200	?	1,400	?	6,200
D	?	11,200	?	4,200	2,650

**Some expenditure is discussed below:**

- 1) **Cost of goods sold:** Total of the expenses incurred on the goods sold during a period to bring them into saleable condition is called cost of goods sold. Cost of goods sold = opening stock + (net purchase + other expenses related with purchase) – closing stock. Here other expenses related with purchase means carriage inward, wages, import duty etc.

- 2) **Insurance:** Assets of business like Building, Machinery, and Stock-in-trade are insured against their destruction in any accident. Premium is to be paid to Insurance Companies at regular intervals. This Premium is treated as insurance expense.
- 3) **Depreciation:** Reduction of fixed asset arises from continuous use. This reduction is called depreciation. On the other hand, depreciation of assets can be formed back dated of assets.
- 4) **Bad Debt:** In case of credit sales the amount not to be realized from debtors is called bad debt. The reason of bad debt is death, bankruptcy and/ or absconding of debtors.
- 5) **Provision for Doubtful Debt:** The amount of debts which may not be realized is called doubtful debt, which is a probable loss and will be included in operating expenses.

**Some incomes are discussed below:**

- 1) **Dividend received:** Excess of necessary income is sometimes invested as shares at other companies. Earning from shares is known as dividend.
- 2) **Interest received:** Additional incomes which are deposited at bank or invested at profitable ventures and get some benefit is called interest.

**Procedure of preparing Statement of Changes in Equity for Sole Proprietorship:**

Statement of Changes in Equity is prepared to ascertain the closing balance of owner's equity at the end of the accounting period. To ascertain so the additional amount of capital, net profit/ loss and drawings are adjusted with the opening balance of owner's equity. A pro-forma of Statement of Changes in Equity for Sole Proprietorship is shown below:

**Name of the organization-----**  
**Statement of Changes in Equity**  
**As at -----**

Particulars	Taka	Taka
Capital (Opening Balance)		****
Add: additional capital employed		****
(+) net profit / (-) net loss		****
Less : Drawings	****	****
Income Tax	****	****
<b>Equity (Closing Balance)</b>		*****

**The Statement of Financial Position:**

To know the financial position of a business at the end of year the Statement of Financial Position is prepared with all assets and liabilities and capital. One can know the amount of fixed or current assets, long or short term liabilities and capital of the business from the Statement of Financial Position. Various decisions can be taken by analyzing this information, for example, we can know proportion of claim over assets;

are current assets sufficient to meet current liabilities? Proportion of net profit over capital employed, etc.

**Procedure of preparing the Statement of Financial Position:**

Information is recorded in the Statement of Financial Position in two stages. First stage consists of assets. Assets are of two types- A) fixed assets e.g. land, buildings and current assets e.g. B) cash, debtors and stock-in-trade. Capital and liabilities are shown in second stage. Liabilities are mainly of two types- A) current liabilities e.g. creditors, outstanding expenses and B) long term liabilities such as loan from bank. Closing Balance of Owner's Equity is shown after total liabilities. Summation of closing balance of owner's equity and total liabilities will be equal to the amount of total assets.

Assets and liabilities are arranged generally, in Liquidity Preference Method, that is assets are arranged in order of easy and quick conversion into cash and liabilities are arranged in order of prompt payment. That's why current assets are shown first then fixed assets are shown in the statement of financial position. Similarly current liabilities are shown earlier than long term liabilities. There is another method of arranging balances known as Permanence Preference Method. This method is reverse to liquidity preference method. Under this method the most permanent asset and liabilities are shown first, then current asset, and liabilities are shown. That is fixed assets shown first then current assets, in the same way long term liabilities are shown first then are current liabilities.

**Importance of classification of assets and liabilities:**

Different assets are of different nature and they have varieties of objectives in business. Necessity of knowing how quickly an asset will be encashed, how quickly a liability will be paid for the sake of efficient management of assets. And thus it will be easier to put emphasis on individual assets and liabilities.

**Current Assets:** Current assets are those assets which can be converted into cash within one accounting period e.g. Stock-in-trade, Debtors, cash in hand, cash at bank etc.

**Fixed Assets:** Fixed Assets are those which are used in the business for long time and bought not for selling again, such as, land and buildings, plant and machinery, furniture, etc.

**Current Liabilities:** Liabilities which are payable within one accounting period is called current liabilities e.g. sundry creditors, outstanding expenses etc.

**Long Term Liabilities:** liabilities which are taken for a long period of time is called long term liabilities e.g. Bank loan, mortgage etc.

Name of the trading firm-----  
 Statement of Financial Position  
 As on ----- Date -----

<b>Assets</b>	<b>Taka</b>	<b>Taka</b>	<b>Taka</b>
<b>Current Assets:</b>			
Cash in hand & cash at bank		****	
Debtors	****		
(-) Reserve for bad debts	***	****	
Bills Receivables	_____	****	
Unused Stationery		****	
Income receivables		****	
Expenses made in advance		****	
Closing Stock		****	
			****
<b>Gross current assets</b>			
<b>Long term investment:</b>			
Investment			****
<b>Fixed Assets:</b>			
Furniture less accumulated depreciation		****	
Office equipment less accumulated depreciation		****	
Machinery less accumulated depreciation		****	
Land & buildings less accumulated depreciation		****	
			****
<b>Gross Fixed assets</b>			
			****
<b>Total Assets</b>			****
<b>Liabilities &amp; Owner's Equity:</b>			
<b>Current liabilities:</b>			
Sundry/ trade creditors	****		
Bills payable	****		
Outstanding expenses	****		
Bank overdraft	****		
			****
<b>Gross current liabilities</b>			
<b>Long term liabilities:</b>			
Bank loan/ Mortgage Loan		****	
			****
<b>Total liabilities</b>			
Capital (closing balance)			****
			****
<b>Total Liabilities &amp; Owner's Equity</b>			****

**Application of accounting principles in preparation of statement of financial position:**

In preparation of the Statement of Comprehensive Income and the Statement of Financial Position certain accounting principles are followed. In order to ascertain accurate profit or loss and to determine the accurate value of assets and liabilities following principles must do activity.

- 1) **Business entity concept:** Under this concept the business is said to be quite distinct from its proprietors. Only for this reason all accounts are kept in the name of the business are not in the name of the proprietors. That's why, capital supplied

by the proprietor is the liability of the business and drawings by the proprietor are his own expense and reduce the value of capital.

- 2) **Going concern concept:** Under this concept, it is taken into consideration that the business will continue for an indefinite period of time and is not organized for a limited period. That is a business will run for unlimited period and there is no plan to stop business. In the light of this concept, the incomes and expenses are divided into capital and revenue nature. Capital items are used to prepare the Statement of Financial Position. According to this concept, depreciation is calculated over the life span of fixed assets. If this concept does not exist it is not possible to prepare financial position and no need of charging depreciation.
- 3) **Periodicity concept:** According to going concern concept there is no specific period of business. But we can't wait for unlimited period to know the financial position of business. For that reason, to know the financial condition of each year we have to prepare comprehensive income statement and statement of financial position. Unlimited period of business can be divided into equal small parts. This small part is called periodicity. Generally periodicity indicates for one year.
- 4) **Accrual concept:** According to this concept, at the time of preparing Statement of Comprehensive Income outstanding references are added to the related expenses which have been paid and outstanding incomes are added to related incomes which are already received during the concerned accounting year. Over and above, unearned incomes and prepaid expenses are shown as deduction from respective account head.
- 5) **Conservatism principle:** According to this principle, to calculate profit you have to conservatism, that is anticipating no profit but provide for all possible losses. It means provision should be created if there is any possibility of loss in future, but anticipated profit should not be taken into consideration unless and until it is realized. If profit or dividend is distributed from anticipation, then it is as if the break down of capital of the business which is not only *ultra vires* to the company act but also harmful for the concern. Such as, provision for bad and doubtful debt is though probable losses, they are shown in the financial statement. Closing stock is valued at cost or market price whichever is lower.
- 6) **Cost price principle:** Under this principle, fixed assets are shown in the financial statement based on their historical cost that is at the price when they were purchased. Fixed assets are not shown at the current market price because they are not purchased for trading rather for long term use in business. Cost price means amount sacrificed for acquiring respective asset and other necessary expenses made to make the asset usable for the business.
- 7) **Consistency principle:** According to this principle, books of accounts are prepared and maintained following the same methodology each and every year. It is so because of comparison and analysis between the years and inter-organization. Otherwise, true financial picture can not be gained.

8) **Materiality convention:** Under this convention, recording of transactions is done through using knowledge, experience and intelligence of the accountant. Accountant himself considers the materiality or immateriality at the time of recording the transaction. For example, stationeries such as calculators, staple machine and punch machine are bought to use long span of time in business but since they are of small price they are not treated as assets and price is not distributed over the useful life rather they are treated as the expenses of the respective year and shown in comprehensive income statement.

**Adjustments to be considered at the time of preparing statement of financial Position:**

All the incomes and expenses of the period for which final statements are prepared are to be included in the financial statement. Incomes and expenses of the preceding and succeeding year cannot be included in the current year's books of accounts.

We know that figure of trial balance are to be taken into consideration at the time of preparing statement of financial position. But some various reasons all accounts are not up to date for whole year. The item which will be measured after preparation of trial balance, for completing accounting cycle adjusting will require for that item.

**Outstanding Expenses:**

After preparation of trial balance it will be found that wages are due Tk. 500. Then according to the accrual concept Tk. 500 will be at Statement of Comprehensive Income because this expense is relating to current accounting period. The same amount will be shown in the Statement of Financial Position as current liability because it needs prompt payment.

**Expenses paid in Advance/Prepaid Expenses:**

At the end of year it is found that house rent for Tk. 800 paid in advance. According to periodicity concept this prepaid rent will be deducted from the total house rent and shown in the Statement of Comprehensive Income because this expense is not relating to current accounting period. The same amount will be shown in the Statement of Financial Position on assets side because it will give benefit in future as like other asset.

**Accrued Income:**

At the end of it is found that interest on investment of Tk. 600 has been earned but not yet received. According to periodicity concept Tk. 600 will be shown in the Statement of Comprehensive Income as income. This interest receivable will be shown in the Statement of Financial Position as current asset.

**Income Received in Advance/Uncashed Income:**

Suppose, in the trial balance of current accounting period, rent received has been shown as Tk. 10,000. Out of this amount Tk. 3,000 received in advance for next year. This prepaid rent of Tk. 3,000 will be deducted from rent received Tk. 10,000, actual rent received for this year Tk. 7,000 will be shown in the Statement of Comprehensive Income. Again, Tk. 3,000 will be shown in the Statement of Financial Position because for this income service is to be rendered or will be adjusted with the income of next year.

**Goods drawn by the Proprietors:**

At the end of year it is found that the Proprietor has used goods for Tk. 4,000 for his/her private purpose from the business. Such type of expenditure is personal expenditure for proprietor and not for business expenditure. So, Tk. 4,000 will be deducted from purchases and will be shown in the Statement of Comprehensive Income statement. The same amount of drawings will eventually be deducted from capital in the Statement of Financial Position.

**Depreciation:**

Depreciation is the reduction of value of an asset i. e. buildings, machineries etc. owing to its use or other causes. Such reduction or loss known as depreciation and it will be shown as operating expenses in the Statement of Comprehensive Income. For example Plant and machinery is shown in the trial balance at Tk. 80,000. Depreciation on plant and machinery is to be charged @ 15% p.a. Here depreciation will be  $(80,000 \times 15\%) =$  Tk. 12,000 will be shown as operating expenses in the Statement of Comprehensive Income. The same amount will be deducted from plant and machinery as accumulated depreciation in the Statement of Financial Position.

**Statement of Comprehensive Income**

	<b>Taka</b>
Operating expenses:	
Depreciation on plant and machinery	12,000

**Statement of Financial Position**

	<b>Taka</b>	<b>Taka</b>
Fixed Assets:		
Plant and machinery	80,000	
Less: Accumulated Depreciation	<u>12,000</u>	68,000

**Bad Debt:**

A bad debt is a loss caused by the failure or bankruptcy of a debtor to pay the amount due from him. This loss is called bad debt. Suppose, Tk. 50,000 shown as sundry debtors. At the end of the year, it was come to know that Tk. 1,000 is totally irrecoverable from one debtor. This loss will be shown in the Statement of Comprehensive Income and according to double entry system of accounting; the same amount will be deducted from debtors as bad debt in the Statement of Financial Position.

**Provisions for Bad and Doubtful Debt:**

After deducting the bad debt from debtors, some portion of the amount from rest of the debtors may not be realized. It is probable loss. Such loss will be shown in the Statement of Comprehensive Income as reserve for bad debts and according to Conservatism principle this amount will be deducted from sundry debtors in the Statement of Financial Position.

**Example:** Let debtors Tk. 50,000 and opening balance of provision for bad debt Tk. 2,000 in the trial balance. There is information that Tk. 1,000 from a debtor is certainly irrecoverable, moreover 5% amount of money from rest of the debtors may not be realized. Effect of this event through bad debt, provision for bad debt, the Statement of Comprehensive Income and the Statement of Financial Position is shown below:

**Comprehensive Income statement**

	<b>Taka</b>
Bad debt	1,000
(+) New provision for bad debt $\{(50,000 - 1,000) \times 5\%\}$	<u>2,450</u>
	3,450
(-) Old provision for bad debt	<u>2,000</u>
	<u>1,450</u>

**Statement of Financial position**

	<b>Taka</b>
Debtors	49,000
(+) New provision for bad debt	<u>2,450</u>
	<u>46,550</u>

**Activity:** Opening balance of provision or bad debt Tk. 4,000 in the year 2011. At the end of year debtor for Tk. 60,000. Suppose that, in current year 10% of debtors may not to be collectable. How much loss to be shown in comprehensive income statement and how much res for reserve debt to be shown in statement of financial position

For the benefit of students some Financial Statement are given bellow:

**Illustration: 1**

Sumangol and Sons is a sole trader ship Furniture businessman. Following Trial Balance was prepared by Accountant of this business:

Trial Balance  
31 December 2011

	Debit Taka	Credit Taka
Purchase & Sales	1,47,000	2,90,000
Goods return	4,000	3,000
Salary	20,000	
Carriage inward	2,000	
Carriage outward	800	
Insurance premium	5,000	
Advertisement expense	2,500	
Cash at Bank	15,000	
Capital		5,00,000
Debtors	7,000	
Creditors		10,000
Machinery	2,80,000	
Land	4,73,200	
10% Loan (Payable at 2015)		1,00,000
Accumulated depreciation		56,000
Provision for bad debt		500
Stock (01 December 2011)	3,000	
	<u>9,59,500</u>	<u>9,59,500</u>

**Adjustments:**

- 1) Closing stock cost 5,000 Taka, market value 4,000 Taka;
- 2) Depreciate 10% on furniture;
- 3) Wages are due 6,000 Taka;
- 4) Prepaid insurance premium are 2,500 Taka;
- 5) Charge provision for bad debt 10% ;
- 6) Interest on loan is due.

You are required to prepare comprehensive Income Statement of Sumangol and Sons for year ended **31** December 2011 and Statement of Financial Position as on that date.

**Solution:**

**Sumangol and Sons**  
 Comprehensive Income Statement  
 For the year ended 31 December 2011

	Taka	Taka	Taka
Net sales:			
Gross Sales		2,90,000	
(-) Return		<u>4,000</u>	
<b>Less: Cost of goods sold</b>			2,86,000
Opening stock		3,000	
Purchase	1,47,000		
(-) Return	<u>(3,000)</u>		
(+ ) Carriage inward	1,44,000		
(-) Closing stock	<u>2,000</u>		
		1,46,000	
		<u>(4,000)</u>	
			<u>1,45,000</u>
			1,41,000
<b>Less: Operating cost</b>			
Salary	20,000		
(+ ) Due	<u>6,000</u>		
Carriage outward		26,000	
Advertisement expense		800	
Insurance expense	5,000		2,500
(-) Prepaid	<u>(2,500)</u>		
Depreciation ( $2,50,000 \times 10\%$ )		2,500	
New provision for bad debt ( $7,000 \times 10\%$ )	700		28,000
(-) Old provision for bad debt (opening balance)	<u>500</u>		
		<u>200</u>	
			<u>(60,000)</u>
			81,000
<b>Less: Non-operating expenses</b>			
Interest on loan ( $1,00,000 \times 10\%$ )			<u>(10,000)</u>
			<u>71,000</u>
<b>Net profit</b>			

**Sumangol and Sons**  
 Statement of changes in equity  
 For the year ended 31 December 2011

	Taka	Taka
Capital	5,00,000	
Add: Net profit	<u>71,000</u>	
<b>Equity (31/12/2011)</b>		<b>5,71,000</b>

**Sumangol and Sons**  
 Statement of Financial position  
 As on 31 December 2011

	Taka	Taka	Taka
<b>Current Asset :</b>			
Cash and Bank	7,000	15,000	
Debtors	<u>700</u>		
Less: Provision for bad debt			
Prepaid Insurance	6,300		
Closing stock	2,500		
<b>Total Current Asset</b>	<u>4,000</u>		27,800
<b>Fixed assets:</b>			
Machinery	2,80,000	1,96,000	
Less: Accumulated depreciation	<u>84,000</u>	<u>4,73,200</u>	
Land			
<b>Total fixed assets</b>			6,69,200
<b>Total assets</b>			<u>6,97,000</u>
<b>Liabilities and Equity</b>			
<b>Short term loan:</b>			
Creditors	10,000		
Arrear Interest	10,000		
Wages due	<u>6,000</u>		
<b>Total current liabilities</b>		26,000	
<b>Long-term loan:</b>			
Loan (Payable at 2015)		<u>1,00,000</u>	
<b>Total liabilities</b>			1,26,000
Capital (Closing balance)			5,71,000
<b>Total liabilities and Equity</b>			<u>6,97,000</u>

**Illustration-2:**

From the following information's you are required to prepare comprehensive Income statement for the year ended 31 December 2010 and Balance Sheet as on that date of Mr. Jahangir Alam:

**Mr Jahangir Alam**

Trial Balance

31 December 2010

Name of the accounts	Debit Taka	Credit Taka
Opening stock	30,000	
Purchase and Sales	76,000	1,57,000
Wages	10,000	
Carriage inward	5,000	
Carriage outward	8,000	
Commission received		500
Salaries	24,000	
Advertisement	10,000	
10% Investment	20,000	
Cash in Hand	3,600	
Debtors and Creditors	30,000	19,500
Import Duty	7,000	
Stationery	3,000	
Office expense	6,000	
Electricity expense	5,000	
Drawings and Capital	40,000	1,70,000
Return	7,000	6,000
Bank overdraft		30,000
Bad debt	8,000	
Discount	1,000	800
Furniture	20,000	
Machinery	70,000	
Interest on Investment		800
Interest on Bank overdraft	1,000	
<b>Total</b>	<b><u>3,84,600</u></b>	<b><u>3,84,600</u></b>

**Adjustments:**

- A. Closing stock (31/12/2010) Tk. 40,000.
- B. Office expense are due Tk.1,000.
- C. Unused stationery Tk.500.
- D. Prepaid salary Tk. 4,000.

**Solution:****Jahangir Alam**

Comprehensive Income statement  
For the year ended 31 December 2012

	Taka	Taka	Taka
Sales		15,7000	
(-) Return		(7,000)	
<b>Less: Cost of goods sold</b>			1,50,000
Opening Stock		30,000	
Purchase	76,000		
(-) Return	(6,000)		
Carriage inward		70,000	
Wages		5,000	
Import Duty		10,000	
		7,000	
(-) Closing stock		1,22,000	
<b>Gross profit</b>		(40,000)	<b>(82,000)</b>
Add : Discount received		800	
Commission received		500	<u>1,300</u>
<b>Less: Operating Cost</b>			69,300
Return outward		8,000	
Salaries	24,000		
(-) Prepaid Salaries	(4,000)	20,000	
Advertisement		10,000	
Stationery	3,000		
(-) Unused Stationery	(500)	2,500	
Office expense	6,000		
(+) Due	1,000	7,000	
Electricity expense		5,000	
Bad debt		8,000	
Discount paid		1,000	
<b>Operating profit</b>			<u>(61,500)</u>
Non-operating income :			7,800
Interest on investment	800		
(+) Due	1,200	2,000	
Non-operating expenses:			
Interest on bank overdraft		(1,000)	
Net non-operating income			1,000
<b>Net profit</b>			<u>8,800</u>

**Jahangir Alam**  
 Statement of changes in equity  
 For the year ended 31 December 2010

	Taka	Taka
Capital (1/1/2010)	1,70,000	
(+) Net profit	<u>8,800</u>	
(-) Drawings		1,78,800 <u>(40,000)</u>
<b>Equity (31/12/2010)</b>		<b>1,38,800</b>

**Jahangir Alam**  
 Statement of Financial position  
 31 December 2010

<b>Asset</b>	<b>Taka</b>	<b>Taka</b>
<b>Current Asset :</b>		
Cash in hand	3,600	
Debtor	30,000	
Unused stationery	500	
Prepaid Salary	4,000	
Accrued interest on Investment	1,200	
Closing stock	<u>40,000</u>	
<b>Total Current Asset</b>		79,300
<b>Investment :</b>		
10% Investment	20,000	20,000
<b>Fixed Assets :</b>		
Furniture	20,000	
Machinery	<u>70,000</u>	
Total fixed assets		90,000
<b>Total Assets</b>		<u>1,89,300</u>
<b><u>Liabilities and Equity</u></b>		
<b>Current Liabilities:</b>		
Creditors	19500	
Bank overdraft	30000	
Office expenditure due	<u>1000</u>	
Total Liabilities		50,500
<b>Capital (Closing balance)</b>		1,38,800
<b>Total Liabilities and equity</b>		<b><u>1,89,300</u></b>

**Illustration: 3**

From the following Trial Balance and adjustments you are required to prepare Comprehensive Income statement for the year ended 31 March 2011 and statement of financial position on that date of Show at traders:

Account name	Debit Taka	Credit Taka
Cash in hand	8,200	
Cash at Bank	11,000	
Bills receivable and Bills payable	3,500	2,000
Capital		1,00,000
Opening stock	11,000	
Purchase and Sales	35,000	58,000
Sales discount and purchase discount	3,000	2,000
Debtors	22,000	
Creditors		20,000
Profit from sale on furniture		1,000
Advertisement	7,000	
Salaries	10,000	
Carriage	1,000	
Bad debt	2,000	
Provision for bad debt		1,500
Commission	300	500
Lease ( 5 years)	30,000	
Furniture	4,000	
Office equipment	5,000	
Drawings	32,000	
	<u>1,85,000</u>	<u>1,85,000</u>

**Adjustment:**

- A. Closing stock TK. 20,000 ;
- B. Salary of two months are due;
- C. TK. 1,000 out debtors are not collectable;
- D. Advertisement expenses paid for two years;
- E. Depreciate on Furniture and Office equipment @ 5%.

**Solution:**

**Showkat traders**  
 Comprehensive Income statement  
 For the year ended 31 March 2011

	Taka	Taka	Taka
Sales	58,000		
(-) Sales discount	<u>(3,000)</u>		
<b>Less : Cost of goods sold</b>			
Opening stock		11,000	
Purchase	35,000		
(-) purchase discount	<u>(2,000)</u>	33,000	
(+) Carriage		<u>1,000</u>	
(-) Closing stock		45,000	
		<u>(20,000)</u>	
			<u>(25,000)</u>
			30,000
			<u>500</u>
			<u>30,500</u>
<b>Gross profit</b>			
Add: Commission received			
<b>Less : Operating expenses</b>			
Advertisement	7,000		
(-) Differed ( $\frac{1}{2}$ )	<u>(3,500)</u>	3,500	
Salary	10,000		
(+) accrued	<u>2,000</u>		
		12,000	
Bad debt	2,000		
(+) New bad debt	<u>1,000</u>		
	3,000		
(-) Provision for bad debt	<u>(1,500)</u>	1,500	
Written off Lease ( $\frac{1}{5}$ )		6,000	
Depreciation- Furniture	200		
Depreciation- Office equipment	<u>250</u>	<u>450</u>	<u>(23,450)</u>
<b>Operating profit</b>			7,050
<b>Non-operating income :</b>			
Profit on sale of furniture		1,000	
<b>Non-operating expenses :</b>			
Commission paid		<u>(300)</u>	
Non-operating income			700
<b>Net profit</b>			<u>7,750</u>

**Showkat traders**  
 Statement of changes in equity  
 For the year ended 31 March 2011

	Taka	Taka
Capital (1.4.2010)	1,00,000	
(+) Net profit	<u>7,750</u>	
(-) Drawings		1,07,750 <u>(32,000)</u>
<b>Equity (31/03/2011)</b>		<b><u>77,750</u></b>

**Showkat traders**  
 Statement of financial position, 31 March 2011

Asset	Taka	Taka	Taka
<b>Current Asset :</b>			
Cash in hand		8,200	
Cash at Bank		11,000	
Bails receivable		3,500	
debtors	22,000		
(-) New bad debt	<u>(1,000)</u>		
Closing stock		21,000 <u>20,000</u>	
<b>Total Current Asset</b>			63,700
<b>Others Asset :</b>			3,500
Differed advertisement			
<b>Fixed asset :</b>			
Lease	30,000		
(-) Written off	<u>(6,000)</u>		
Furniture	4,000		
(-) Accumulated depreciation	<u>(200)</u>		
Office equipment	5,000		
(-) Accumulated depreciation	<u>(250)</u>		
<b>Total Fixed asset</b>		4,750	32,550
<b>Total asset</b>			<b><u>99,750</u></b>
<b>Liabilities and owner's Equity</b>			
<b>Current Liabilities:</b>			
Bills payable :		2,000	
Creditors		20,000	
Accrued salary		<u>2,000</u>	
<b>Total Current Liabilities</b>			24,000
Capital ( closing balance)			77,750
<b>Total Liabilities and Equity</b>			<b><u>99,750</u></b>

**Illustration: 4**

From the following Trial Balance and adjustments of Farhana Akhter you are required to prepare Comprehensive Income statement for the year ended 30 June 2011 and Statement of financial position as on that date:

**Trial Balance**

30 June 2011

Title	Debit Taka	Credit Taka
Debtors and Creditors	20,000	37,000
Building	70,000	
General reserve		10,000
Cash in hand	18,600	
Capital		1,00,000
Drawings	35,000	
Opening Stock	30,000	
Purchase and Sales	84,000	1,54,000
Repair to Building	2,600	
Freight	4,000	
Import Duty	1,000	
Dock charge	1,700	
Salary and wages	18,000	
General expenses	5,000	
Bank overdraft		3,000
Insurance premium	1,500	
Bad debt and provision for bad debt	3,000	2,500
Advertisement	5,500	
Apprentice allowance	3,600	
Interest on Capital	10,000	
Interest on Drawings		4,000
Travelling expenses	3,000	
Rent received from Sub-let		11,000
Income tax	5,000	
	<b><u>321,500</u></b>	<b><u>321,500</u></b>

**Adjustments:**

- Goods drawings for personal uses 1,000 Taka were not recorded.
- Unrecorded Return inward and Return outward 4,000 and 2,000 Taka respectively.
- Insurance premium have paid up to 30 September 2011(For one year).
- Unused stationery 1,000 Taka and sublet for one month is due.
- Write off 2,000 Taka as bad debt and charge 10% doubtful debt on rest debtor.
- Closing stock 40,000 Taka.

**Solution:****Farhana Akhter**

Comprehensive Income statement  
For the year ended 31 March 2011

	<b>Taka</b>	<b>Taka</b>	<b>Taka</b>
Sales		1,54,000	
(-) Return inward		(4,000)	
<b>Less: Cost of goods sold</b>			1,50,000
Opening Stock		30,000	
Purchase	84,000		
(-) Goods Drawings	(1,000)		
	83,000		
(-) Return outward	(2,000)		
		81,000	
Freight		4,000	
Import duty		1,000	
Dock charge		1,700	
(-) Closing stock		1,17,700	
		(40,000)	
			(77,700)
			72,300
<b>Gross profit</b>			
<b>Less: Operating Cost</b>			
Repair to Building		2,600	
Salary and Wages		18,000	
General expenses	5,000		
(-) unused stationery	(1,000)		
		4,000	
Insurance premium	1,500		
(-) Prepaid	(375)		
		1,125	
Bad debt	3,000		
(+) New bad debt	+2,000		
	5,000		
(+) New provision	+1,400		
	6,400		
(-) Old provision	(2,500)		
		3,900	
Advertisement		5,500	
Travelling expenses		3,000	
			(38,125)
			34,175
<b>Operating profit</b>			
<b>Non-operating income :</b>			
Interest on Drawings		4,000	
Rent received from Sublet	11,000		
(+) Sub-let receivable	1,000		
		12,000	
		16,000	

<b>Non-operating expenses :</b>			
Apprentice allowance	3,600		
Interest on Capital	<u>10,000</u>	(13,600)	
Non-operating income			2,400
<b>Net profit</b>			<u>36,575</u>

**Farhana Akhter**

## Statement of changes in equity

For the year ended 31 march 2011

	Taka	Taka
Opening Capital	1,00,000	
(+) Net profit	<u>36,575</u>	1,36,575
(-) Drawings :		
Cash	35,000	
Goods	<u>1,000</u>	(36,000)
(-) Income tax		<u>(5,000)</u>
		95,575
General reserve		<u>10,000</u>
<b>Owner's equity (31/03/2011)</b>		<b><u>1,05,575</u></b>

**Farhana Akhter**

## Statement of financial position

As on 31 March 2011

<u><b>Asset</b></u>	<b>Taka</b>	<b>Taka</b>	<b>Taka</b>
<b><u>Current Asset :</u></b>			
Cash in hand		18,600	
Debtors	20,000		
(-) return inward	<u>(4,000)</u>		
	16,000		
(-) New bad debt	<u>(2,000)</u>		
	14,000		
(-) New provision for bad debt	<u>(1,400)</u>		
		12,600	
Sub-let receivable		1,000	
Prepaid Insurance premium		375	
Unused stationery		1,000	
Closing stock		<u>40,000</u>	
<b>Total Current Asset</b>			73,575
<b><u>Fixed Asset :</u></b>			
Building		<u>70,000</u>	
<b>Total fixed Asset</b>			70,000
<b>Total asset</b>			<u>1,43,575</u>

<b><u>Liabilities and Equity</u></b>			
<b><u>Current Liabilities:</u></b>			
Creditors	37,000		
(-) return outward	<u>(2,000)</u>		
Bank overdraft		35000	
		<u>3000</u>	
<b>Total Current Liabilities</b>			38000
Capital (31/03/2011)			<u>1,05,575</u>
<b>Total Liabilities and Equity</b>			<b><u>1,43,575</u></b>

### Illustration: 5

From the following Trial Balance and adjustments of Sunil Chandra Roy you are required to prepare Comprehensive Income statement for the year ended 31 December 2012 and Statement of financial position as on that date:

#### **Sunil Chandra Roy**

Trial Balance

31 December 2012

Title	Debit Taka	Credit Taka
10% Mortgage loan (1/7/12)		1,00,000
12% Savings certificate	20,000	
Cash at Bank	14,000	
Cash in hand	25,000	
Capital (1/1/12)		1,80,000
Motor car	2,00,000	
Office equipment	20,000	
Machinery	30,000	
Drawings	50,000	
Debtors and Creditors	35,000	25,000
Apprentice premium		15,000
Additional Capital (1/7/12)		50,000
Prepaid rent	3,000	
Accrued stationery		2,000
Purchase and Sales	85,000	1,70,000
Carriage outward	2,000	
Interest on loan	3,000	
Salary	24,000	
Rates and Tax	2,000	
Bad debt and provision for bad debt	1,000	6,000
Return	3,000	1,000
Stock (1/1/12)	32,000	
	<b><u>5,49,000</u></b>	<b><u>5,49,000</u></b>

**Adjustments:**

- A. Closing stock purchase price TK. 33,000 Market value TK. 35,000.
- B. Apprentice premium received for 2 years.
- C. From the cash box 2 notes of TK. 500 has stolen but not yet recorded.
- D. Charge interest on capital @ 5%.
- E. In the current year total amount of bad debt TK.3000.
- F. Charge 3% depreciation on Fixes Assets.

**Solution:**

**Sunil Chandra Roy**  
 Comprehensive Income Statement  
 For the year ended 31 December 2012

	Taka	Taka	Taka
Sales	1,70,000		
(-) Return	<u>(3,000)</u>		
<b>Less: Cost of goods sold</b>			1,67,000
Opening stock	32,000		
Purchase	85,000		
(-) Return	<u>(1,000)</u>		
	<u>84,000</u>		
(-) Closing stock	1,16,000		
	<u>(33,000)</u>		
<b>Gross profit</b>		<u>(83,000)</u>	84,000
<b>Less: Operating cost</b>			
Carriage outward	2,000		
Salary	24,000		
Rates and Tax	2,000		
Bad debt	1,000		
(+) New Bad debt	<u>2,000</u>		
	3,000		
(-) New provision for bad debt	<u>(6,000)</u>	(3,000)	
Depreciation on Fixed Assets :			
Motor Car	6,000		
Office Equipment	600		
Machinery	<u>900</u>	<u>7.500</u>	<u>(32,500)</u>
<b>Operating profit</b>			51,500
<b>Non-operating income :</b>			
Interest receivable on Savings certificate	2,400		
Apprentice premium	15,000		
(-) Unearned	<u>(7,500)</u>	<u>7,500</u>	9,900

<b>Non-operating expenses :</b>				
Interest on loan	3,000			
(+) Accrued	<u>2,000</u>			
		5,000		
Interest on Capital		10,250		
Miscellaneous loss (Stolen from Cash box)		<u>1,000</u>	<u>(16,250)</u>	
Non-operating income				
<b>Net profit</b>				<b><u>(6,350)</u></b>
				<b><u>45,150</u></b>

**Sunil Chandra Roy**  
 Statement of changes in equity  
 For the year ended 31 December 2012

	Taka	Taka
Opening Capital	1,80,000	
(+) Additional Capital	<u>50,000</u>	
	2,30,000	
(+) Interest on Capital	<u>20,250</u>	
	2,40,250	
(+) Net profit	<u>45,150</u>	
	2,85,400	
(-) Drawings	<u>(50,000)</u>	
<b>Equity (31/12/2012)</b>		<b><u>2,35,400</u></b>

**Sunil Chandra Roy**  
 Statement of Financial Position  
 As on 31 December 2012

<b>Assets</b>	<b>Taka</b>	<b>Taka</b>	<b>Taka</b>
<b>Current Asset :</b>			
Cash in hand	25,000		
(-) Miscellaneous loss	<u>(1,000)</u>	24,000	
		14,000	
Cash at Bank	35,000		
debtors	<u>(2,000)</u>		
(-) New provision		33,000	
Interest receivable on Savings Certificate		2,400	
Prepaid rent		3,000	
Closing Stock		<u>33,000</u>	
<b>Total Current Asset</b>			1,09,400
<b>Investment :</b>			
Savings Certificate			20,000
<b>Fixed Assets:</b>			
Motor Car	2,00,000		
(-) Accumulated Depreciation	<u>(6,000)</u>	1,94,000	

<u>Assets</u>	<u>Taka</u>	<u>Taka</u>	<u>Taka</u>
Office Equipment	20,000		
(-)Accumulated Depreciation	<u>(600)</u>	19,400	
 Machinery	30,000		
(-)Accumulated Depreciation	<u>900</u>	<u>29,100</u>	
 <b>Total Fixed Assets</b>			<b>2,42,500</b>
 <b>Total Assets</b>			<b><u>3,71,900</u></b>
 <b><u>Liabilities and Equity</u></b>			
<b>Current Liabilities :</b>			
Creditors	25,000		
Stationer due	2,000		
Accrued interest on loan	2,000		
Unearned Apprentice premium	<u>7,500</u>		
 <b>Total Current Liabilities</b>			<b>36,500</b>
<b>Long term Loan :</b>			
10% Mortgage Loan	<u>1,00,000</u>	<u>1,00,000</u>	
 <b>Total Liabilities</b>			<b>1,36,500</b>
Capital (31/12/2012)			<u>2,35,400</u>
 <b>Total Liabilities and Owner's Equity</b>			<b><u>3,71,900</u></b>

### Evaluation of financial condition of business:

From comprehensive Income statement and statement of financial position any one can know overall condition of business such as profit, loss, fixed assets, current assets, current liabilities, long term loan, capital etc. But these information's are not sufficient. Because most important item is not only to know profit or loss of a business but also to know how much profit has earned against how much capital has invested. Beside these we have to know not only the amount of current asset and current liabilities but also to know how much current assets to current liabilities, which indicate the loan repayment capacity of a business through current assets. So, to know the financial condition of a business perfectly we have to compare each item of comprehensive Income statement and Financial statement to another item, we have to calculate percentage of each account to another account or ratio of each account to another account. From these percentage and ratio it is possible to comparative evaluation of more than one year of a business. Not only these, under these ratio it is possible to compare one business to another business. Some ratio analysis is given bellow:

### Profit ratio:

We can compare net profit to Sales and capital employed. That is, we can calculate percentage of net profit to sales and net income to capital employed. Increase of these ratios indicates good capacity of earning profit. Beside, this profit ratio of business is higher than another business indicates better capacity of earning profit.

$$1. \text{ Net profit ratio} = \left[ \frac{\text{Net profit}}{\text{Net sales}} \times 100 \right]$$

$$2. \text{ Net profit to capital employed ratio} = \frac{\text{Net profit}}{[\text{Capital employed}]} \times 100$$

Capital employed= Total assets-(Intangible assets + investment - Current Liabilities)

### **Capacity of loan repayment:**

We can know the loan repayment capacity of business from compares of current assets and current liabilities that is calculation of current assets and current liabilities ratio. For this reason we have to calculate following two ratios:

$$1. \text{ Current ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

$$2. \text{ Liquid ratio} = \frac{\text{Current Asset} - (\text{Stock} + \text{Prepaid expenses})}{\text{Current Liabilities}}$$

To calculate liquid ratio prepaid expenses should be deducted because of irrecoverable. Beside this closing stock should be deducted because of slow liquidity. Standard current assets and current liabilities ratio will be 2:1, because, for loan repayment purpose collection of 50% assets is enough. Standard liquid ratio is 1:1.

### **Illustration:**

Following information's are collected from the books of Rani Enterprises and Sreelekha Enterprises of 2011:

	Rani Enterprises (Taka)	Sreelekha Enterprises (Taka)
Gross profit	10,000	15,000
Net profit	8,000	6,000
Sales	1,00,000	1,20,000
Capital	60,000	80,000
Current Asset	9,000	10,000
Current liabilities	5,000	6,000
Stock	1,000	1,200

Requirement:

1. Calculate net profit ratio and net profit to capital employed ratio.
2. Current ratio and liquid ratio of two businesses.
3. Which business is better?

**Solution:**

1.

Profit ratio	Rani Enterprises	Sreelekha Enterprises
1. Net profit ratio = $\frac{\text{Net profit}}{\text{Net sales}} \times 100$	$\frac{8,000}{10,000} \times 100 = 8\%$	$\frac{6,000}{12,000} \times 100 = 5\%$
2. Net profit to Capital employed $\text{ratio} = \frac{\text{Net profit}}{[\text{Capital employed}]} \times 100$	$\frac{8,000}{60,000} \times 100 = 13.3\%$	$\frac{6,000}{80,000} \times 100 = 7.5\%$

2.

Current liabilities repayment ratio	Rani Enterprises	Sreelekha Enterprises
1. Current ratio = $\frac{\text{Current Asset}}{\text{Current Liabilities}}$	$\frac{9,000}{5,000} = 1.8 : 1$	$\frac{10,000}{6,000} = 1.67 : 1$
2. Liquid ratio = $\frac{\text{Current Asset} (\text{Stock} + \text{Prepaid expenses})}{\text{Current Liabilities}}$	$\frac{9,000 - 1,000}{5,000} = 1.6 : 1$	$\frac{10,000 - 1,200}{6,000} = 1.46 : 1$

3. Financial condition of Rani Enterprise is better than Sreelekha Enterprise. Profit of Rani is 8% and 13.3% and Sreelekha is 5% and 7.5%. Liquidity or loan repayment capacity of Rani Enterprise is better than Sreelekha Enterprise. Slendered current ratio is 2:1 that indicate sufficient cash will remain after loan repayment.

**Activity:** From the of following information's you are required to calculate net profit ratio, return on capital employed ratio, current ratio and liquid ratio:

Gross profit	40,000	Capital employed	1,00,000
Net profit	18,000	Current Asset	35,000
Sales	1,20,000	Current liabilities	20,000
		Closing stock	5,000

## Exercise

### Multiple choice questions:

1. Operating income
  - i) Sale of Furniture
  - ii) Good sold on credit
  - iii) Goods sold in cashWhich one is correct?

A. i & ii	B. i & iii
C. ii & iii	D. ii
2. Which one is correct?
  - A. Profit changes capital.
  - B. Profit decreases capital.
  - C. Capital comes only from profit.
  - D. Profit increases capital.
3. Gross profit is-

A. Operating profit + operating expenses	B. Sales - Purchase
C. Cost of sales + Opening Stock	D. Net profit – operating expenses
4. Non-operating income is-
  - i. Interest on investment
  - ii. Sales
  - iii. Apprentice premiumWhich one is correct?

A. i & ii	B. i & iii
C. ii & iii	D. ii
5. If Sales 18,000 Taka, Stock 2,500 Taka, Purchase 1,700 Taka, Purchase 13,400 Taka Carriage inward 700 Taka then what will be cost of goods sold?

A. 16,600 Taka	B. 14,900 Taka
C. 15,900 Taka	D. 18,300 Taka
6. Depreciation means-

A. Purchase price of fixed assets	B. Sales price of old fixed assets
C. Written down value of used fixed asset.	D. Replacement value of old fixed asset.
7. Provision for bad debt keeping when-
  - A. Debtors become insolvent.
  - B. Debtors are not found.
  - C. Confirm that money will not collect from debtors.
  - D. Possibility of non-collection of amount due to debtor.
8. If cost of goods sold 20,000 Taka prof on sales 20% what will be the amount of sales?

A. 24,000 Taka	B. 22,000 Taka
C. 25,000 Taka	D. 23,000 Taka

9. If opening Capital Tk.70,000, Closing Capital Tk.85,000, Drawings Tk.15,000 then profit will be
- A. 30,000 Taka
  - B. Zero
  - C. 15,000 Taka
  - D 1,40,000 Taka
10. Kabir and Brothers shows gross profit but net loss, what is the reason for that?
- A. Expenses decreases
  - B. Assists decreases
  - C. Expenses Increases
  - D. Assets Increases
11. When cost of goods sold Tk.16,000 and profit on sales 20%, calculate amount of sales-
- A. 20,160 Taka
  - B. 13,600 Taka
  - C. 21,000 Taka
  - D. 20,000 Taka
12. What will be the operating expenses of comprehensive income statement?
- A. Office expenses
  - B. Goods drawings by owner
  - C. raw materials
  - D. Freight in
13. Creditors show in which part of financial statement?
- A. Current Asset
  - B. Current Liabilities
  - C. Fixed assets
  - D. Long term loan
14. What indicate debit balance amounting to 500 Taka of Bishwanath in the books of Mr. Rahim?
- A. Due to Bishwanath to Rahim TK.500
  - B. Rahim purchase goods from Bishwanath TK. 500
  - C. Due to Rahim to Bishwanath TK.500
  - D. Amount received from Bishwanath TK.500
15. Which one is liquid ratio?
- A.  $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
  - B.  $\frac{\text{Current Assets} + (\text{Stock} - \text{Prepaid expenses})}{\text{Current Liabilities}}$
  - C.  $\frac{\text{Current Assets} - (\text{Stock} + \text{Prepaid expenses})}{\text{Current Liabilities}}$
  - D.  $\frac{\text{Current Liabilities} - (\text{Stock} + \text{Prepaid expenses})}{\text{Current Asset}}$
16. Net non-operating income-
- A. operating income- operating expenses
  - B. Non-operating income-Non operating expenses
  - C. Non-operating income - operating expenses
  - D. Operating income- operating expenses

**Creative questions:**

1. Trial Balance is prepared from the various transactions of Jatin and Brother's.

**Jatin and Brother's**

Trial Balance

31 March 2011

Name of account	Debit taka	Credit Taka
Goods Purchase and goods sales	95,000	1,40,000
Goods return	4,000	3,000
Wages	10,000	-
Carriage in ward	2,000	-
Carriage outward	800	-
Insurance premium	5,000	-
Advertisement expense	2,500	-
Bad debt	1,000	-
Commission received	-	2,600
Machinery	40,000	-
Salary	13,000	
Drawings & Capital	17,000	1,00,000
Debtors and Creditors	35,000	19,700
Cash in hand	25,000	
Closing stock (1 April 2010)	15,000	
	<u>2,65,300</u>	<u>2,65,300</u>

**Adjustments:**

- 1) Closing stock- market price 17,500 Taka and cost price 25,000 Taka
- 2) Depreciate 10% Machinery
- 3) Wages 2,000 Taka are due
  - A. Determine cost of goods sold.
  - B. If Gross profit 31,500 Taka then what will be Net profit?
  - C. Prepare owner's equity statement of Jatin and Brother's.

2. Anmona sen is a businessman. She prepared following Trial Balance.

**Trial Balance: 31december 2010**

Account name	Debit Taka	Credit Taka
Goods sold		35,800
Goods Purchase	14,525	
Salary	2,325	
Conveyance	9,300	
House rent	1,250	
Insurance expense	2,450	
cash	17,500	
bank overdraft		1,250
Capital		19,275
Drawings	12,000	
Debtors	11,725	
Creditors		9,750
Machinery	10,000	
Loan (Payable at 2015)		15,000
	<u>81,075</u>	<u>81,075</u>

**Adjustments:**

1. Stock (31/12/2010) 3,000 Taka.
2. Depreciate 10% fixed assets.
3. Interest on loan @ 6% for 6 months is due.
4. Salary due 2,000 Taka
  - A. Calculate accrued on loan.
  - B. Determine gross profit of Anmona sen for the year ended 31 December 2010.
  - C. How much changes in equity of Anmona sen as on 31 December 2010?

3. Following is the Trial Balance of **Khadija and Co** as on 31 December 2012:

Serial	Account name	L.F	Debit Taka	Credit Taka
1	Opening Stock		15,000	
2	Purchase & sales		40,000	1,05,000
3	Salary		5,000	
4	Return		2,000	1,000
5	Insurance premium		750	
6	Trade discount		1,050	750
7	Carriage		2,500	
8	Advertisement		2,750	
9	Discount received			1,000
10	Apprentice allowance & Premium		1,300	2,600
11	Sundry debtors	Total	40,000	
			<u>1,10,350</u>	<u>1,10,350</u>

**Adjustments:**

1. Closing Stock 12,300 Taka.
  2. Goods Purchase 2,000 Taka are not recorded.
  3. Goods withdraw by the owner of Khadija and Co 1,000 Taka was not recorded in the books.
  4. Charge 4% provision doubtful debt on debtors.
  5. Advertisement was paid for 5 years.
    - A. How much amount of non-operating income?
    - B. Calculate Gross profit on the basis of above information of Khadija and Co.
    - C. Determine operating profit at the end of year of Khadija and Co with use of prescribed form.
4. Trial Balance and other information's of Nikhil Chandra as on 30 June 2012 is given below:

<b>Serial</b>	<b>Title</b>	<b>L.F.</b>	<b>Debit Taka</b>	<b>Credit Taka</b>
1	Purchase & Sales		1,50,000	3,00,000
2	Drawings & Capital		90,000	2,00,000
3	Debtors & Creditors		82,000	42,000
4	Return inward		4,000	
5	Bails payable & Bills receivable		6,000	11,000
6	Discount		4,000	3,000
7	Commission		1,000	400
8	Salary (10 months)		20,000	
9	Various Fixed Assets		1,00,000	
10	Bad debt & Provision for bad debt		3,000	2,600
11	Cash in hand		45,000	
12	Trade discount		3,000	1,000
13	Opening Stock		52,000	
<b>Total</b>			<b>5,60,000</b>	<b>5,60,000</b>

**Adjustments:**

1. Closing stock cost 20,000 Taka and market price 22,000 Taka.
2. Charge 10% provision for bad debt on debtors.
3. Interest @ 5% on capital should be charged.
4. Depreciate @ 5% on fixed assets.
  - A. Calculate current assets of Nikhil Chandra.
  - B. From the above information's you are required to prepare comprehensive income statement.
  - C. Calculate net profit ratio and current ratio of Nikhil Chandra.

5. Following is the Trial Balance of Surovi Traders as on 2011:

Serial	Title	L.F.	Debit Taka	Credit Taka
1	Opening Stock		20,000	
2	Purchase & Sales		80,000	1,20,000
3	Return outward		3,000	
4	Return inward			4,000
5	Furniture		24,000	
6	Wages		3,000	
7	Carriage inward		1,000	
8	Salary		12,000	
9	Rent		5,000	
10	5% Loan			28,000
11	Rates and Tax		6,000	
12	Commission received			2,000
	<b>Total</b>		<b>1,54,000</b>	<b>1,54,000</b>

**Other Informations:**

1. Closing stock 14,000 Taka,                  2. Wages due 500 Taka,  
 3. Depreciate 10% on Furniture and            4. Interest on loan is due for one year.  
     A. Calculate net value of furniture at the end of year of Surovi Traders.  
     B. Determine net profit or loss of Surovi Traders.  
     C. Prepare changes in equity statement of Surovi Traders.

6. Gross profit of Falun Enterprise for the year 2012 is TK. 35,000.Trial Balance of 2012 is as follows:

**Falguni Enterprise**  
Trial Balance: 31 December 2012

S/N	Title	L.F.	Debit Taka	Credit Taka
1	Capital			1,30,000
2	Drawings		1,5,000	
3	Purchase and Sales		46,000	51,000
4	Cash in hand		5,000	
5	Cash at Bank		10,000	
6	Office Equipment		27,000	
7	Building		50,000	
8	Salary		7,000	
9	Rent		10,000	
10	Sales return		4,000	
11	Sundry Debtors		18,000	
12	Sundry Creditors			12,000
13	Apprentice premium			2,000
14	Bad debt		3,000	
			<b>1,95,000</b>	<b>1,95,000</b>

**Other informations:**

1. Closing stock cost TK. 28,000 market value TK. 30,000.
2. Salary due TK. 1,500 and prepaid rent TK. 2,000.
3. Goods sold on credit TK. 6,000 not recorded in the books.
  - A. Calculate cost of goods sold of Falguni Enterprise.
  - B. Determine net profit or loss of Falguni Enterprise.
  - C. Prepare Statement of financial position as on 31 December 2012 of Falguni Enterprise.

7. Following is the Trial Balance of Prionti Traders as on 31 March 2012:

<b>SL no</b>	<b>Account title</b>	<b>L: F:</b>	<b>Debit Taka</b>	<b>Credit Taka</b>
1	Opening Stock		35,000	
2	Purchase and Sales		76,000	1,16,000
3	Carriage inward		3,000	
4	Rent		900	
5	Debtor		80,000	
6	Return		400	300
7	Capital			90,000
8	Creditors			16,000
9	Trade discount		1,500	2,000
10	Fuel		600	
11	Duty		2,000	
12	Wages		500	
13	Commission			700
14	Salary ( 14 months)		14,000	
15	Advertisement		3,000	
16	8% Loan (30/6/10)			30,000
17	Cash in hand		38,100	
			<u>2,55,000</u>	<u>2,55,000</u>

**Other informations:**

1. Unsold goods at the end of year 45,000 Taka,
2. Goods Purchase on credit 6,000 Taka was not recorded,
3. Advertisement  $\frac{2}{5}$  th portion to be deferred,
4. Debtors 4,000 Taka are not collectable.
  - A. Determine Gross profit of Prionti Traders.
  - B. If Net profit of Prionti Traders is 30,500 Taka, what will be the changes in equity statement as on 31/03/2011?
  - C. Prepare Statement of financial position at the end of year.

8. Raihan Enterprise earned gross profit TK. 25,000 in the year of 2012 through whole sale business. His Trial Balance and other information's are as follows:

S.L. no	Account name	L. F.	Debit Taka	Credit Taka
1	Bank overdraft			23,000
2	Purchase and Sales		22,000	60,000
3	Sales return & Purchase return		3,000	1,000
4	Debtors and Creditors		35,000	8,000
5	10% Investment (1-7-10)		20,000	
6	Fixed Assets		80,000	
7	Bad debt		2,000	
8	Provision for bad debt			4,000
9	Capital			1,00,000
10	Interest on Capital		5,000	
11	Opening Stock		23,000	
			<u>1,96,000</u>	<u>1,96,000</u>

#### Other Informations:

1. Closing stock- cost 20,000 Taka and market value 22,000 Taka.
2. Two 500 Taka note was stolen from cash box.
3. Goods Purchase on credit 2,000 Taka was not recorded in the books.
  - A. From the above information's calculate liquid ratio of Raihan Enterprise.
  - B. Prepare Comprehensive Income Statement of Radian Enterprise
  - C. Prepare changes in equity statement of Raihan Enterprise.

9. Trial Balance of Mr. Sadeq as on 31 December 2011 is as follows:

**Mr. Sadeq**

Trial Balance: 31 December 2011

Serial	Account title	Debit Taka	Credit Taka
1	Drawings & Capital	45,000	1,00,000
2	Purchase & Sales	75,000	1,70,000
3	Debtors and Creditor	41,000	21,000
4	Rent	30,000	
5	Bills receivable & Bails payable	3,000	5,500
6	Commission	2,500	200
7	Salary (8 Months)	10,000	
8	Fixed Assets	70,000	
9	Bad debt and provision for bad debt	1,500	1,300
10	Business discount	32,500	
11	Cash in hand	1,500	500
12	Stock ( 1/1/2011)	24,500	
13	Wages	1,500	
14	Interest on Savings certificate		12,500
		<u>3,11,000</u>	<u>3,11,000</u>

**Adjustments:**

1. Closing Stock 20,000 Taka
2. Unrecorded Purchase 20,000 Taka
3. Charge interest on Capital @5%
4. Depreciate @ 5% on fixed assets
5. Debtors of Taka 1,000 become insolvent.

- A. What will be the net purchase of Mr. Sadeq?  
 B. If gross profit 78,000 Taka calculates net profit or loss through statement.  
 C. Determine Assets and Liabilities of Mr. Sadeq as on 31 December.

10. Following is the information's of Raman and Brothers for the year 2010 & 2011-

	<b>2010</b>	<b>2011</b>		<b>2010</b>	<b>2011</b>
Gross profit	16,000	15,500	Current Asset	8,500	11,000
Net profit	6,900	5,600	Current Liabilities	6,400	9,500
Sales	90,000	92,000	Stock	1,200	900
Invested Capital	50,000	75,000			

- A. What will be the operating cost of 2010 & 2011?  
 B. What will be the net profit ratio and Capital employed ratio of 2010?  
 C. Explain short term loan repayment capacity for the year 2011.

## **Eleventh Chapter**

### **Cost Price, Cost of Production and Selling Price**

Pricing is important for the goods and commodities which are produced, purchased and sold for trading purpose. If price is not properly determined then business will suffer loss and many other hazards. To survive in current competitive market situation, determining cost price at the time of production or purchase, also to determine selling price at the time of sales and overall, price is vital for maintaining interest of both purchaser and sellers.



Sales center of manufactured goods

**At the end of this chapter we will be able to –**

- Determine cost and selling price of a trading concern.
- Classify element of cost of productions.
- Prepare cost sheet and determine total cost price and total sales price.

**Determination of Cost Price & Selling Price:**

The prime objective of a business concern is to ascertain actual profit and loss. Determination of actual profit or loss will not be possible if the price of the goods purchased and their selling price are not properly determined. Cost price is determined by adding direct expenses incurred to the value of goods produced or purchased. Indirect expenses are added to them to make up total cost of the goods purchased and a certain percentage of profit is added to this total cost for determining selling price.

**Determination of Cost Price:**

In ordinary sense, cost price is that price which is paid at the time of purchasing goods or commodities. But in the real sense, cost price includes all the cost of carrying goods or commodities to the places where these are stored. Such carrying costs are known as direct expenses. For example freight in railway, packing expense packing, import duties, Dock charge, insurance expense, Payment to porters etc. Samad & Sons of Gazipur purchased 5000 liters of Soya bin oil from Chittagong at Tk. 120 per liter. He paid truck fare of Tk. 25, 000, labor charges of Tk. 1,200, toll charge of Tk. 1,000 and off-loading charge of Tk. 1,500. In this case, the price of per liter oil will be-

<b>Particulars</b>	<b>Taka</b>	<b>Taka</b>
Purchase of Soya bin oil (5000 liter x Tk. 120)		6,00,000
(+) <u>Direct Expenses</u> :		
Truck fare	15,000	
Labor charge	1,200	
Toll charge	1,000	
Off-loading charge	1,500	<u>18,700</u>
Total Cost price		<u>6,18,700</u>

Price per liter ( $6,18,700 \div 5,000$ ) = Tk. 123.74

Table of Purchase cost, cost of goods purchased and selling price are shown in below:  
Name of the firm

For the year ended on ----- Dated -----

<u>Particulars</u>	<u>Taka</u>	<u>Taka</u>
Amount paid for the price of goods purchased		****
Add: Direct expenses:		
• Carriage	***	
• Wage	***	
• Duty	***	
• tax	***	<u>***</u>
<b>Cost price</b>		
Add: Indirect expenses:		
• Rent	***	
• Salary	***	
• Advertisement	***	<u>***</u>
<b>Total cost of goods purchased</b>		<u>****</u>
Add: desired profit		****
<b>Selling price</b>		****

#### **Determination of Selling Price:**

Selling price is that price which is determined by adding profit to the total cost of goods purchased or manufactured. For example, shop rent, staff salary, travelling expenses, electricity, carriage, advertisement etc. are added to the cost of goods purchased to find out the total cost. Then selling price is determined by adding desired profit to the total cost. For example, total cost price of soya bin oil was of Tk. 6, 18,700. To sell the oil they also paid as indirect expenses of Tk. 10,500 staff salary Tk. 6,000; electricity bill Tk. 1,500; advertisement Tk. 2,000 and travelling expense Tk. 1000. If the oil is sold at a profit (desired) of 10% on the total cost, then the selling price will be-

<u>Particulars</u>	<u>Taka</u>	<u>Taka</u>
<b>Total Cost price</b>		6,18, 700
(+) <u>Indirect Expenses</u> :		
Staff salary	6,000	
Electricity bill	1,500	
Advertisement	2,000	
Traveling expense	<u>1,000</u>	<u>10,500</u>
<b>Total Cost</b>		6,29,200
(+) Desired Profit (6,29,200 x 10%)		<u>62,920</u>
<b>Selling Price</b>		<u>6,92,120</u>
Selling price per liter oil (6,92,120 ÷ 5000) = Tk. 138.42		

Purchase cost, cost of goods purchased and selling price are shown below by an example:

**Example:**

Mr. Nasir Uddin, a businessman of Dhaka imported 1,000 bundles of Corrugated Iron Sheets from Vietnam at Tk. 4,000 per bundle. He has also paid Tk. 15,000 as import duty; Tk. 75,000 as freight; Tk. 8,000 as insurance; Tk. 7,000 as clearing charge; Tk. 2,000 as wages to the porters; Tk. 20,000 as transportation by truck. Besides, he paid Tk. 12,000 as Godown and shop rent and Tk. 7,000 as employees' salary. He also paid Tk. 10 as commission for the sale of each bundle corrugated sheet. The said businessman earns 15% of profit on total cost by selling the corrugated sheets.

**Solution:**

**Mr. Nasir Uddin**  
Statement of cost price and selling price

<b>Particulars</b>	<b>Taka</b>	<b>Taka</b>
Purchase of Corrugated Sheets (1,000 bundles X Tk. 4,000)		40,00,000
(+) <b>Direct Expenses</b>		
Import duty	15,000	
Freight	75,000	
Insurance	8,000	
Clearing charge	7,000	
Wages	2,000	
Transportation	20,000	
		1,27,000
<b>Total cost price</b>		41,27,000
(+) <b>Indirect Expenses :</b>		
Goodwin and shop rent Staff salary	12,000	
Employees' salary	7,000	
Commission (Tk. 1,000X 10)	10,000	29,000
		41,56,000
(+) Desired Profit (41,56,000X 15%)		6,23,400
<b>Total Cost</b>		47,79,400
Selling Price		

Cost per bundle of corrugated sheet = (Tk. 41,56,000 ÷ 1000) = Tk. 4,156.

Per bundle selling price of corrugated sheet = (Tk. 47,79,400 ÷ 1000) = Tk. 4,779.40.

**Activity:** Mr. Hannan of Khulna purchased 200 pieces of Pump Machine from Chittagong at Tk. 5,000 each. He paid Tk. 20,000 as carriage; Tk. 2,000 as insurance; Tk. 1,000 as duty and Tk. 1,200 as dock charge. Besides, he paid Tk. 4,000 as Godown rent; Tk. 3,000 as shop rent; Tk. 2,500 as staff salary and Tk. 2,000 as electricity charge.

Find out purchase cost, total cost and selling price.

## Cost and Elements of Cost



Picture: A garment Industry

### Meaning and significance of cost:

Generally, paying the expenses of all kinds for producing or purchasing of any product is called cost of production. The amount is sacrificing or paying for acquiring any economic wealth is called cost. In momentary, the cost of any product is the sum total of all expenses incurred in producing or manufacturing it, so we can say that, the cost of any product is the sum of total expenses incurred at different levels of production in a factory right from the use of raw material up to finished product. For example, the sum total of expenses incurred for timber used in the production of furniture, coloring, burnishing, wages paid for labour, cost of using machinery and other expenses, can be called cost of furniture production. In the same way, the cost of sand, earth and clay, wages and the expenses for bricks baking in total can be considered as production cost of brick manufacturing.

Achieving expected profit through determination and control of cost is one of the basic objectives of business. Cost of production plays vital role in case of determination and control of cost, fixation of selling price, administrative control and managerial policy making of an industry. The determination of total cost and per unit cost of goods produced in factories is of great importance. If we fail to determine the total cost and per unit cost of any goods and services, we can't determine their selling price. Selling price of any product is fixed only after correctly determining its cost of production.

While determining total production cost, accounts with regard to all types of direct and indirect expenses are kept and recorded properly. As a result, while we can keep track of the cost incurred with regard to different elements of cost, we can also know the various element of expenditure, on the other hand, keep track of losses with regard to theft, wastage, misuse and abuse. Thus, it helps us to control and reduce total production cost.

**Activity:** Why determination of cost of production is so important?

**Objectives of determining cost of production:**

Determination of cost of production is the basic objective of cost accounting. Existence and success of a firm majorly depend on perfect determination of cost. Some vital objectives of costing are given below.

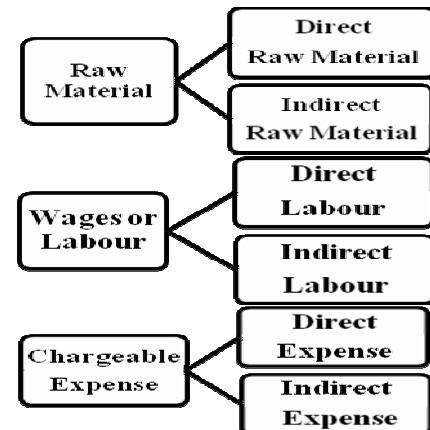
1. **Ascertaining profit or loss:** The prime objective of business is to get true financial picture through ascertaining correct profit or loss. Profit and loss ascertainment can easily be done through determination of cost.
2. **Valuation of stock:** Determination of cost is important to determine the actual value of stocks after an accounting period.
3. **Fixation of responsibility:** Comparison between predetermined and actual cost can not only find the discrepancy but also find out the reason behind such gap. By doing so, it can easily be pin the person pointed out who is responsible for this.
4. **Determination of selling price:** cost is necessary to determine the profitable selling price in a competitive market. Using cost as a strategy, firstly, per unit cost is determined then considering the demand for goods or services, strength of competitors, government policy and profit policy the desired percentage of profit is added with cost of production.
5. **Budget preparation:** Budget is considered as the guide line of future action plan. Budget is prepared for every single unit of expenses of a firm. Since per unit cost is determined so total cost budget can easily be prepared.
6. **project appraisal:** Economic feasibility of a project is evaluated before the project is in actual operation. So, determination of cost plays important role in case feasibility study.

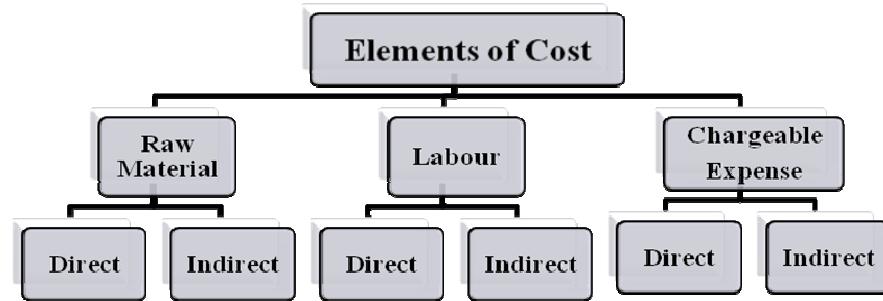
**Working:** Which are the other objectives of cost of production?

**Elements of cost:**

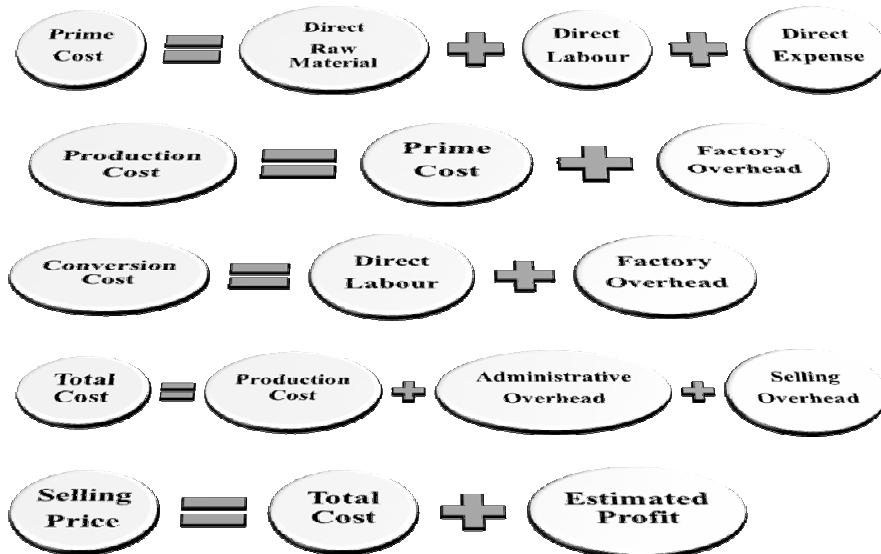
Determination of total cost is not sufficient in case of producing goods or services. For the purpose of appropriate control and decision making, classification and analysis of elements of cost is badly needed. The various elements of cost which go to make up the total cost of any product may be divided into three main heads, Viz: - (a) Raw Materials, (b) Labour and (c) Other expenses.

Each of these three elements is again divided into two classes i.e. direct and indirect and display into chart.





**Total cost can be determined by above mention cost elements. This total cost can also be analyzed through the table given below-**



Elements of cost are discussed below.

### 1) Raw Material

- i) **Direct Raw Material:** Materials which are primarily used for the production of any goods and which are considered to be inseparable parts of those goods are direct raw materials. Direct raw materials are included in case of determining prime cost. For example, paper for making book, wood for making furniture, yarn for the manufacturing of cloth, sugarcane for sugar.
- ii) **Indirect Raw Material:** The materials other than direct raw materials which is used for production is called Indirect raw materials. That is, the materials which are not directly used for production is known as indirect raw materials. Yarn and button making shirt, Glue for making shoe, and screw, wire, sand paper for making furniture are the examples of indirect raw material. Indirect raw materials are used as materials for production.

## 2) Labour/wages

- i) **Direct Labor:** The workers who are directly related with production is called direct labor. The payment that is made to the workers for transforming raw materials into finished product and from working process to finished product is called direct labour or wages. For example, wages paid to the machine operators in factories, Worker cost for making furniture, swing cost for making dress.
- ii) **Indirect Labour:** The workers who are not directly related with the production, but helps for production is called indirect labor. For example, helper's wages in ready made garments factories are indirect labor. These labor help in production rather than direct participation of production process actively. For spending indirect labor, total cost of production will not be increased.

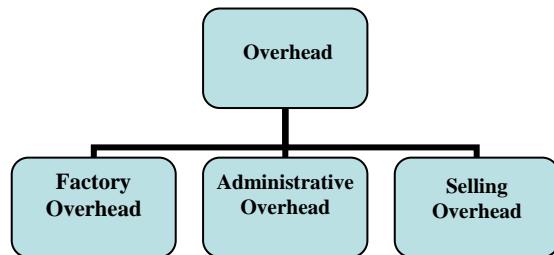
## 3) Chargeable expenses:

- i) **Direct expenses:** The expenses which are incurred neither for direct raw materials nor for direct labour but they are also directly being charged to the production is called direct expenses. These expenses are called also chargeable expenses. For example-

- \* Expenses of architectural design for construction
- \* Engineering designing cost
- \* Special forma making cost for producing shoe
- \* Purchase of tender in case of contractual job, i.e. tender cost, travelling cost for tender, etc.

- ii) **Indirect expenses:** The expenditure which incurred in the production process can't identify separately- is called indirect expenses. For example screw expenditure for making furniture, can't identify separately. These expenditures treated as indirect expenditure. These expenditures incurred for overall management of the organization and help for various logistic and supply regularly. Indirect expenses or Overhead can again be sub-divided into three categories:

- a) **Factory Overhead:** All costs relating to production other than direct materials and direct labour is called factory overhead. For example- Factory rent, Insurance, Municipal taxes, Electricity and water supply etc.



- b) **Administrative Overhead:** Expense relating to office and administration matters is called administrative overhead. It refers to all indirect expenses incurred in connection with overall administration and office management. For example, salary for office staff, office rent, other office expense, for example- rates, taxes, postage & telegram, stationery, etc.

- c) **Selling Overhead:** The sum total of indirect expenses incurred for the sale of finished goods is termed as selling and distributional overhead. All expenses in connection with order collection of produced goods, create new market, possession old

market, attracting the customers. For example, advertisement, sales manager commission and salary, sample distribution, showroom expenses etc. On the other hand all expenses relating to reach to the purchaser is called distribution expenses. For example insurance for sending goods, carrying cost etc. Again, all expenses relating to after sales servicing and repairing, changing the goods is also included in selling expenses.

**Activity:** Give three examples of each of the followings  
 (a) Direct Raw Material and (b) Direct Labour.

#### Cost Sheet:

Cost Sheet is a statement in where element of costs regarding to production are systematically arranged for specific time. Usually, manufacturing organization prepare cost sheet showing the expenses of elements of cost incurred in the process of production as a part of financial statement at the end of the accounting period. Cost sheet can be prepared for monthly, quarterly, half yearly, and yearly, it depends on the nature of job of a particular organization. For the purpose of determining cost of production, cost of goods sold and profit, cost sheet can be prepared in three stages. A specimen form of cost sheet is given below:

Name of the Manufacturing firm  
 Cost Sheet for manufacturing goods  
 ..... Year .....upto date— .....for the period of

Element of cost	Details Taka	Taka	Total Taka
Opening stock of raw materials		xxx	
Add: Raw material purchase	xxx		
Carriage inward	xxx		
	xxx		
Less: Return of purchased raw material	xxx		
Usable raw material	xxx		
Less: Closing stock of raw material	xxx		
<b>Raw material used</b>			
Add: Direct wages		xxx	
Other direct expenses		xxx	
		xxx	
<b>Prime cost</b>			
Add: Factory overhead		xxx	
		xxx	
<b>Factory cost</b>			
Add: Opening Work in process (Half finished)		xxx	
Less: Closing Work in process (Half finished)		xxx	
		xxx	
<b>Cost of good produced</b>			

Name of the organization.....  
 Cost of goods sold statement  
 For the period.....

	Taka	Taka
Opening stock of finished goods		xxx
Add: Cost of goods produced		xxx
<b>Salable goods</b>		xxx
Less: Closing stock of finished goods		xxx
<b>Cost of goods sold</b>		xxx
		xxx
		xxx

Name of the organization.....  
 Comprehensive Income statement  
 For the period.....

	Taka	Taka
Sales	xxx	
Less: Return	xxx	
Net sales		xxx
Less: Cost of good sold		xxx
<b>Gross profit/ loss</b>		xxx
Less Operating cost-	xxx	
Office and administrative	xxx	
Selling and distributing		xxx
<b>Net operating profit</b>		xxx
		xxx
		xxx

**Illustration:** From the following informations of Simanta Food product as on 30 June 2012, you are required to prepare a Cost Sheet:

	Opening		Closing
<b>Stock:</b>	<u>Taka</u>		<u>Taka</u>
Raw materials	6,400		7,600
Work-in-process (Half finished	12,300		15,000
Finished goods	10,500		8,700
Packing materials	1,000		800
<b>Purchase:</b>			
Raw materials	63,000		
Packing materials	3,000	Distribution expenses	2,000
Carriage in ward	1,000	Selling expenses	3,200
Wages	44,300	Salary to manager & sales men	5,000
Factory cost	8,600	Repair to factory building	2,200
Depreciation	4,400	Managing Director allowances	1,500
Office expenses	2,500	sales	1,79,000

**Solution:****Simanta Food product**

## Cost Sheet

As on 30 June 2012 for period of half year

<b>Head</b>	<b>Taka</b>	<b>Taka</b>	<b>Taka</b>
Opening stock of Raw Materials	6,400		
Add: Purchase of Raw Materials	6,300		
Carriage in ward	1,000		
<b>Cost of Raw Materials used</b>		70,400	
Less: Closing stock of Raw Materials		-7,600	
<b>Raw Material Used</b>			62,800
Add: Wages		44,300	
Add: Direct expenses: Opening stock of packing materials	1,000		
Add: Purchase of packing goods	3,000		
	4,000		
Less: Closing stock of packing goods	-800		
	3,200		
<b>Prime cost</b>			47,500
Add: <b>Factory overhead</b>			1,10,300
Factory cost	8,600		
Factory depreciation	4,400		
Repair to Factory Building	2,200		
<b>Factory Cost</b>			15,200
Add: Opening stock of Work-in-process			1,25,500
Less: Closing stock of Work-in-process			12,300
<b>Cost of goods manufactured</b>			1,37,800
			-15,000
			1,22,800

**Simanta Food product**

## Cost of goods sold statement

As on 30 June 2012 for period of half year

<b>Head</b>	<b>Taka</b>
Opening stock of Finished goods	10,500
Add: Cost of goods manufacture	1,22,800
Cost of sales	1,33,300
Less: Closing stock of Finished goods	-8,700
<b>Cost of goods sold</b>	<u>1,24,600</u>

Simanta Food product  
Comprehensive Income statement for half year ended 30 June 2012

<b>Head</b>		<b>Taka</b>	<b>Taka</b>
<b>Sales</b>			1,79,000
Less: Cost of goods sold			<u>1,24,600</u>
	<b>Gross profit</b>		54,400
<b>Less: Operating cost</b>			
<u>Administrative Overhead</u>			
Office Expenses	2,500		
Salary to Managing director	<u>1,500</u>	4,000	
<u>Selling Overhead</u>			
Selling expenses	3,200		
Distribution expenses	2,000		
Salary to sales manager & selling staff	<u>5,000</u>	<u>10,200</u>	<u>-14,200</u>
	<b>Net Operating profit</b>		<u>40,200</u>

**Activity:** Following information's are collected from the book of Sonali Manufacturing limited as on 31 December 2011

	<b>Taka</b>		<b>Taka</b>
Raw materials stock (1.10.2011)	7,500	Fuel & Power	1,250
Raw materials stock (31.12.2011)	9,500	Carriage in ward	1,000
work-in-process stock (1.10.2011)	2,800	Carriage out ward	1,500
work-in-process stock (31.12.2011)	3,600	Indirect wages	1,750
Finished good stock (1.10.2011)	5,400	Depreciation to machineries	2,500
Finished good stock (31.12.2011)	3,500	Direct expenses	1,100
Sales of Finised goods	65,000	Office rent	3,500
Raw materials purchase	7,000	Miscellaneous expenses	4,500
Direct wages	5,650	Salesmen salary & commission	2,250
		Miscellaneous office expenses	2,000
		Advertisement	1,700

Prepare Cost of goods manufactured statement, Cost of goods sold statement and Income statement

## Exercise

**Multiple choice question:**

1. Which one is the Factory overhead?
  - a) Direct Raw materials + Indirect Raw materials + Direct wages
  - b) Direct Raw materials + Direct wages + Factory rent & electricity
  - c) Indirect wages + Depreciation of Furniture + repair to Machinery
  - d) Factory rent + Office rent + Shop rent
2. Mr Kalam is a contractor. His expenses relating to contracting business are as follows-
  - i) Depreciation to machinery
  - ii) Special expenses relating to contract received
  - iii) Repair to furniture

Which one is the Direct Expenses?

- |            |             |
|------------|-------------|
| A) ii      | B) i & ii   |
| C) i & iii | D) ii & iii |
3. Which one are the chargeable expenses relating to show manufacturing?
 

A) Lather purchase	B) Gum purchase
C) Forma	D) Stitching cotton

**On the basis of following information's answer to the question no 4,5 & 6.**

Prime cost 50,000 Taka, Factory overhead 10,000 Taka, Administrative overhead 5000 Taka, Selling overhead 3,000 Taka and profit 20% on total cost

4. Percentage of Prime cost to Factory overhead?
 

A) 15%	B) 20%
C) 25%	D) 30%
5. Amount of sales?
 

A) 81,600 Taka	B) 83,700 Taka
C) 84,500 Taka	D) 98,500 Taka
6. Amount of total overhead?
 

A) 12,000 Taka	B) 18,000 Taka
C) 58,000 Taka	D) 68,000 Taka
7. Factory overhead are-
  - i) Telephone bill
  - ii) Show room rent
  - iii) Stationery purchase

Which one is correct?

A) i & ii	B) i
C) i & iii	D) ii & iii
8. Which one is selling overhead?
 

A) Cost of sample	B) Factory rent
C) Repair to furniture	D) Office electricity bill
9. Convertible cost is
 

A) Finished goods + Opening stock of finished goods	B) Finished goods + Closing stock of finished goods
C) Finished goods - Opening stock of finished goods	D) Finished goods - Closing stock of Finished goods

10. Paper purchase for publishing organization-
- Direct Raw material
  - Indirect Raw material
  - Factory overhead

Which one is correct?

- |           |             |
|-----------|-------------|
| K) i & ii | L) i        |
| M) ii     | N) ii & iii |

### Creative questions:

- Mr. Abdul Hamid is a mango businessman. He purchased mango from Rajshahi as whole sale rate and sold it to Dhaka. His business informations are as follows-
  - Purchased 200 busket of mangoo at the rate of 500 taka per busket;
  - Carring cost 5,000 taka to carriage mangoo to Dhaka;
  - Porter expenses per busket 10 taka.
 After relasing mangos from truck he found that 10 buskets of mangoos are totally damaged and these are not salable.
  - What will be direct expenses?
  - What will be total cost of per busket of Mr. Abdul Hamid?
  - Determine the selling price of per KG mango to earn 20% profit on total cost if there are 5 KG of mangoos in per busket.
- Amin paper house purchased 10 reams of paper at the rate of taka 18 per quire. They paid for wages Taka 500 and carriage Taka 1,000. They spent taka 2,000 for hire of shop and taka 500 for salesman commission for purpose of paper selling. The paper house earned profit of taka 2 per quire of paper.
  - What will the cost of per ream of paper of Amin paper house?
  - Determine total cost of Amin paper house.
  - Determine selling price of per quire of paper of Amin paper house.
- Shapla printers of Comilla have got the work order from Uttara Bank head office for the printing of 5,500 Diary for year of 2012. Following expenses occurred for the purpose of above work:

Paper purchase	-	Taka 70,000
Printing ink purchase	-	Taka 25,000
Direct wages	-	Taka 12,500
Gum and cotton purchase	-	Taka 5,000
Factory rent	-	Taka 10,000
Factory electricity	-	Taka 3,500
Office and Administrative expenses	-	Taka 12,000
Entertainment expenses	-	Taka 1,500
Bill collection expenses on tender price	-	2%
Tender price per Diary	-	Taka 35

- What will be the prime cost on Shapla printers?
- Determine cost of production per Diary of Shapla printers.
- Calculate profit or loss per Diary of Shapla printers.

4) Mr. Nurul Alam is a renowned businessman of Barisal has purchased 1,000 Pcs T-shirts from Dhaka @ 270 per piece. He paid TK. 1,500 for carriage and TK. 500 for porters. He wants to sell per T-shirt at the rate of TK. 30 from above the purchase price but he can't earn expected profit. But his neighbor businessman Mr. Ismail produced shirts of TK.1,00,000 and rent a factory of TK. 4,000. For that purpose he spent TK.20,000 for wages, TK. 26,000 for factory electricity and TK. 5,000 for salesman salaries. He sold all shirts of TK. 2,00,000.

- A. From the above information's calculate total cost of shirts of Mr. Alam.
  - B. Calculate total cost of shirts of Mr. Ismail.
  - C. Determine the difference of profit between Mr. Alam and Mr. Ismail.
5. Mr. Ashraf and Co. made 2,00,000 pieces of brick at the end of year 30/06/2011. Expeness for manufacturing bricks are as follows:

	<b>Taka</b>
Soil purchase	1,60,000
Carriage for soil	40,000
Coal expenses	2,00,000
Wages	40,000
Rent and Electricity for soil set up place	4,000
Soil knead	20,000
Office rent	12,000
Brick keeping cost at sales site	4,000
Brick carrying cost to carry at sales site	10,000
Advertisement	4,000
Salesman Salary	6,000

- A. What will be the total operating cost for brick manufacturing?
- B. Calculate Cost of production of 2,00,000 pieces of brick of Ashraf and Co.
- C. If Ashraf and Co. wants to earn profit at the rate of 20% on total cost what will be the sales Price per thousand of bricks to be determined?

## **Twelfth Chapter**

### **Accounting for family and self-employment Enterprise**

To maintain the life smoothly and nicely, it is very important to have a well designed plan and an applying accounting system at every spheres of life. Application of appropriate accounts of income and expenditure can make life well balanced and discipline. So we have to spent money of our social and family life associated with income. It is not possible to spend on the basis of the income if the accounts of income and expenditure of the family are not maintained. Even without budgeting of income and expenditure a family can't be maintained properly. So every family need to design appropriate plan for maintaining family accounts strongly and budget for project is vital in the case of self-employment enterprise for making one person or a family to become self reliant.



Photo: Self employment Projects

**At the end of this chapter, we will be able to –**

- explain the concept and characteristics of family accounting system.
- prepare a family budget.
- prepare the family financial statement.
- prepare budget for self-employment enterprise and also maintain the accounts there of.

### **Concept of family accounting system:**

Family is said to be the destination of happiness. For the sake of this happiness, each and every person thinks about living an improved family life. Planning is necessary to lead the family nicely and systematically and application of appropriate accounting is indispensable part of that plan. A family without a financial plan can't maintain discipline life lead. Without maintaining of family income expenditure account, family may face indiscipline as a result family happiness may disturb. So maintaining of family income and expenditure account is essential as like business organization. Family is not a business organization so accounting system is not as like as a business entity since family is a non-profit making continuous organization. Family have occurred some financial transaction. That is, there are some income and expenditure. So maintaining of family budget is essential. There should have pre-defined plan for maintaining the family smoothly and happily within the limit of income.

**Activity:** Why family accounting system is vital for peaceful life?

### **Characteristics family accounting system:**

The salient features of family accounting system:

**1. Non-profit making organization:**

Family is considered to be a non-profit making organization. Question of profit and loss does not arise here so family can know surplus or deficit through preparation of income expenditure account and financial statement at the end of a particular period.

**2. Assumption of separate unit:**

Each family member of the family considered separately from the head for completing the accounts.

**3. Responsibilities:**

Family accounts are not to be submitted to anyone. So there is no need of its audit or responsibility.

**4. Cash transaction:**

Most transactions of the family are done in cash so it is easy for record keeping.

**5. Specific head:**

In most of the cases, family transaction has some specific head.

**Activity:** Why the features of family accounting system are different from the features of profit earning organization?

### **Necessity of family accounting system:**

For happy and healthy life within limit of income it is essential for maintaining proper accounts. The necessity of family accounts is as following:

**1. Proper Planning:**

Transparency can be ensured if accounts are kept properly, thus family ties can be enjoyed more vividly.

**2. Family Solvency:**

“Expenditure within income”-if this policy is followed, it may be possible to attain financial solvency and happiness of the family.

**3. Creation of values:**

Family accounting can ensure transparency which can help creating values and ethics between the family members.

**4. Family Budget:**

Preparation family budget and with the help of it proper management of family can be ensured by controlling all the income and expenditure.

**5. Saving and consumption Tendency:**

For better life style in future there should be saved money of present income. If accounts are kept properly, habit of unnecessary expenditure decreases and tendency of saving increases.

**6. Family Discipline:**

Possibility of arising of any dispute and misunderstanding among the head and other members of the family are least if accounts are kept systematically and properly.

**Workings:** Identify and explain some other necessities of family accounting rather than above mentioned necessities.

**Family Budget:**

Budget is a kind of numerical expression of planning. For achieving some specific purpose, numerical expression of pre-defined plan of income and expenditure of a stipulated time is known as budget. There is no hard and fast rule for the specific time frame; it may be weekly, monthly, yearly. Family budget means future plan for income and expenditure of the family. Family budget is designed through a pre plan, based on the sources of income and sector wise demand for expenditure of a family. Budgeting helps to keep the family within a financial framework where over expenditure is not possible. If family is maintained within such financial framework i.e. budget, then we can live a better life with limited income.

**Procedure of Family Budget:**

Some steps are followed to prepare a family budget is essential. If budget is prepared following the systematic procedure then preparation and implementation of budget become easier. Steps are as follows—

- 1. Listing of necessary materials:** Priorities the list of materials based on the need and demand of the family members for budget time frame.

**2. Valuation of materials:**

Price and cost of the product and services are to be determined for including the total cost of the product for budget preparation.

**3. Determination of possible income:**

Expenditure of family budget depends on income. So to make budget more effective, determination of income sources efficiently is needed to include them in budget.

**4. Maintaining balance in budget:**

In each family, budget is prepared with a view to achieve optimum benefit within the limited income and thus to save for better future. That is why; we are to pay attention of maintaining equilibrium between income and expenses at the time of budget preparation.

**5. Suitability of budget:**

A family budget should be as such that it is practical and rational. Budget should be flexible so that in special cases if one or more expenditure increases then it can be set off by reducing other expenditures.

**Specification of family budget:**

Success of budget preparation and implementation mostly depend on socio-economic condition of the family. Forms, size, sources of income, taste and desire of the members etc. are to take into consideration strictly while preparation of family budget. Each family will have separate budget. It is not possible to prepare budget in unique and same standard for each family. Over all family budgets can prepared through equilibrium of income and expenditure. Sector wise allocation of expenses depends upon the structure of the family. For example, expenditure for food 20-30%, clothing 5-10%, housing 30-40%, Education 10-15%, transportation 15-20% approximately.

A pro-forma of Statement of Family Budget is shown below:

**Name of the month-----**

(Number of family members-6)

**Income**

Description of Income	Expected Income (Taka)	Total Income (Taka)
Income from salary	40,000	
Other sources (rent, agriculture etc.)	10,000	50,000

**Expenditure**

Description of Expenses	Expected Expenses (Taka)	Total Expenses (Taka)	Percentage (%)
<b>1) Food Items:</b>			
Rice	1,575		
Pulses	300		
Oil	700		
Salt	75		
Flour	200		
Mayda (White Flour)	100		

Description of Expenses	Expected Expenses (Taka)	Total Expenses (Taka)	Percentage (%)
Noodles	200		
Tea and Sugar	150		
Spices	<u>200</u>	3,500	
<b>Kitchen items:</b>			
Fish	1,500		
Meat	1,000		
Chicken	1,200		
Eggs	700		
Vegetables	1,500		
Fruits	500		
Onion, Garlic and Ginger	<u>400</u>	<u>6,800</u>	21%
		10,300	
<b>2) Housing:</b>			
House rent	15,000		
Electricity	1,000		
Gas	400		
others	<u>300</u>	16,700	33%
<b>3) Clothing:</b>			
Purchasing cloths	500		
Sewing and Tailoring	300		
Washing and laundry	<u>200</u>	1,000	2%
<b>4) Education:</b>			
Tuition fees	1,000		
Books, work books and stationery	500		
Payment for private tutors	2,000		
Transportation	<u>1,000</u>	4,500	9%
<b>5) Medical Expenses:</b>			
<b>6) Personal Expenses:</b>			
Amusements and recreation		2,000	4%
<b>7) Other Expenses:</b>			
Guest entertainments	1,000		
Gifts and charity	1,000		
Subscription of newspapers	400		
Wages of the house-maid	<u>1,000</u>	3,400	7%
<b>8) Savings schemes:</b>			
Provident Fund	7,000		
D.P.S	<u>3,000</u>	<u>10,000</u>	20%
<b>Total Expenditure:</b>		<u>50,000</u>	<u>100%</u>

**Activity:** Identify the facilities of family budgeting from your view point.

**Preparation of Family Financial Statement:**

Transactions relating to income and expenditure of the family are recorded in books of account. But scattered records can not depict the true financial picture of the family. That is why, preparation of financial statement is essential for seeking actual financial picture. Financial statements show the income and expenses of the family for a particular period of time and statement of financial position depicts the financial strength i.e. state of family assets and liabilities. Steps of family financial statement are-

- 1) Receipts and Payments Account
- 2) Statement of Income and Expenditure
- 3) Statement of Financial Position

**1. Receipts and Payments Account:** From summary of family cash transactions an account is prepared at the end of the year by classifying and summarizing the transactions is called Receipts and Payments Account. Although it looks like a cash book of a business concern but it is not a cash book. It is the first step of family accounting system. This account is prepared by all types of cash transactions.

All sorts of cash receipts are shown on the debit side and cash payments are shown on the credit side. Capital and revenue nature income of any year, which is received in this year in cash are shown on the debit side; and Capital and revenue nature expenses of any year, which is paid in this year in cash are shown on the credit side of the Receipts and Payments Account.

**2. Statement of Income and Expenditure:** At the end of the accounting period a statement is prepared to ascertain the excess or deficit of income over expenditure of the family, with the help of revenue nature income and expenditure relating to current year only is known as Statement of Income and Expenditure. In this statement if income is more than expenditure then we call it as surplus or excess of income over expenditure, and if the expenditure is more than income then we call it as deficit or excess of expenditure over income. Excess of income over expenditure increases the family fund while deficit reduces that fund.

**3. Statement of Financial Position:** Shortly It means a statement of assets and liabilities. That is, on a particular date, a statement is prepared showing all assets and liability of the family is known as Statement of Financial Position. Like business organizations, family also has some assets and liabilities. For example, assets are building, furniture, investment, cash and liabilities are loan, outstanding expenses, creditors etc. Families do not have any opening capital because it is not a business organization. But family fund is calculated here. Family fund is shown as liability in the Statement of Financial Position. Excess of income over expenditure from the Statement of Income and Expenditure is added with family fund and deficit is deducted from family fund.

A pro-forma of Receipts and Payments Account is shown below:

Receipts and Payments Account

<b>Receipts</b>	<b>Taka</b>	<b>Payment</b>	<b>Taka</b>
Balance b/d	***	Revenue nature expenses	***
Revenue nature income	***	Capital nature expenses	***
Capital nature income	***	Balance c/d	***
	****		****

**Features of Receipts and Payments Account:**

1. It is like a cash book of a business concern.
2. Left side starts with opening cash and bank balance and right side ends with closing cash and bank balance.
3. All receipts are shown in left side and all payments are shown right side.
4. In case of this account, period is not a matter of consideration i.e. receipts and payments of current, previous and next year is recorded here in this book.
5. Transaction of current year's outstanding income or expenses is not recorded.
6. Quantitative figure of left side is always greater than that of right side because cash payments can never be greater than cash receipt.
7. Transaction relating to depreciation is not shown in this account.
8. Cash flow can be known from this account.

**Activity:** What kind of role can be played by the Receipts and Payments Account while preparing family account?

**Procedure of preparing Statement of Income and Expenditure from Receipts and Payments Account:**

1. Revenue nature incomes are recorded in the income side and revenue nature expenses are recorded in the expenditure side of Statement of Income and Expenditure.
2. Opening and closing balances of Receipts and Payments Account are not needed to show in the Statement of Income and Expenditure.
3. Capital nature income and expenditures are not shown in the Statement of Income and Expenditure.
4. Only revenue nature income and expenditures are shown in the Statement of Income and Expenditure.
5. Only current year's revenue nature income and expenditures are shown in the Statement of Income and Expenditure.
6. Income and expenditures relating to previous or next year will not be shown in the Statement of Income and Expenditure.
7. Transaction relating to purchase and sale of assets will not be shown in the Statement of Income and Expenditure.
8. Income receivables and outstanding expenses of current year will included in the Statement of Income and Expenditure.
9. Depreciation will be shown on the expenditure side of the Statement of Income and Expenditure.

**Activity:** Identify items of the Receipts and Payments Account which will not be included in the Statement of Income and Expenditure.

### **Procedure of preparing Statement of Financial Position from Receipts and Payments Account:**

Basic objective of preparing the Statement of Financial Position is to take perception of assets, liabilities and family fund at a particular point of time at the end of the year.

#### **Procedures are given below:**

1. Family fund is calculated by deducting the opening liabilities from the opening assets of a family.
2. Capital nature incomes of the Receipts and Payments account are shown on the liability side and Capital nature expenditures are shown on the assets side of the Statement of Financial Position.
3. Closing cash and bank balances of the Receipts and Payments Account are shown on the assets side of the Statement of Financial Position.
4. Depreciation is to be deducted from respective assets are shown on the assets side of the Statement of Financial Position.
5. All unearned incomes are to be shown on the liability side and all prepaid expenses are to be shown on the assets side of the Statement of Financial Position.
6. Excess of income over expenditures of the Statement of Income and Expenditure are to be added with Family fund and deficits are to be deducted from the Family fund on the liability side of the Statement of Financial Position.
7. Opening cash and bank balances of the Receipts and Payments Account will not be considered in case of preparation of the Statement of Financial Position. Those balances will be used in case of determining the Family fund.

**Activity:** Identify the items of the Receipts and Payments Account which will be included in calculating the Family fund.

#### **Illustration: 1**

Assets and Liabilities of Osman Gani as on 1 January 2012 are- House 20,00,000; Furniture 20,000; Crockeries 13,000; House building Loan 15,00,000. His Received and Payment account of that year are as follows:

Received and Payment Account

Received	Taka	Payment	Taka
Received from Salary	2,50,000	Food purchase	40,000
Income from agriculture	20,000	Bill for grocer shop	2,280
Sale of old newspaper	2,000	Municipal tax	3,220
		Computer purchase	50,000
		Int. on house building loan	10,000
		Television purchase	32,000
		Refrigerator	60,000
		Water, Gas & Electricity	5,600
		Entertainment	7,000
		Stationery	2,500
		News paper bill	4,800
		Conveyance and other	4,400
		Post office saving bank deposit	48,000
		Cash in hand(31/12/2012)	2,200
	<b>2,72,000</b>		<b>2,72,000</b>

**Prepare:** Income Statement for the year ended 31 December 2011 and Financial Statement as on 31 December.

**Solution:**

**Mr. Osman Gani**

Income Statement

For the year ended 31 December 2011

Particular	Taka	Taka
<b>Income:</b>		
Salaries	2,50,000	
Agricultural Income	20,000	
Sale of old news paper	<u>2,000</u>	
	<b>Total Income</b>	2,72,000
<b>Expenditure:</b>		
Food purchase	40,000	
Bill for grocery shop	2,280	
Municipal tax	3,220	
Interest on house building loan	10,000	
Gas, Water and Electricity	5,600	
Entertainment	7,000	
Stationery	2,500	
Newspaper bill	4,800	
Conveyance and other	<u>4,400</u>	
	<b>Total expense</b>	79,800
Surplus /Excess of Income over Expenditure		<u>1,92,200</u>

**Mr. Osman Gani**

Statement of financial position

As on 31 December 2011

Head	Taka	Taka	Taka
<b>Assets:</b>			
House	20,00,000		
Furniture	20,000		
Crockeries	13,000		
Computer	50,000		
Television	32,000		
Refrigerator	60,000		
Post office saving bank deposit	48,000		
Cash in hand`	<u>2,200</u>		
	<b>Total Assets</b>		<u>22,25,200</u>
<b>Liabilities and Family Fund:</b>			
House building loan	15,00,000		
Family Fund	5,33,000		
(+) Surplus	<u>1,92,200</u>		
	<b>Total Liabilities and Family Fund</b>		<u>22,25,200</u>

**Note: Calculation of Family Fund:**

$$\begin{aligned}
 \text{Family fund} &= \text{Opening Assets} - \text{Opening Liabilities} \\
 &= \text{House} + \text{Furniture} + \text{Crockeries} - \text{House building loan} \\
 &= (20,00,000 + 20,000 + 13,000) - 15,00,000 = \text{Tk.} 5,33,000
 \end{aligned}$$

**Illustration: 2**

Mr Aziz is a doctor. He earns money from private practice beside his service. His Receipts and Payment for the year ended 31 December 2011 are as follows:

Receipts and Payment Account  
For the year ended 31 December 2011

Receipts	Taka	Payment	Taka
Cash in hand (01-01-2011)	25,000	Investment on Share	1,00,000
Cash at Bank (01-01-2011)	35,000	Food purchase	30,000
Income from Salary	1,50,000	Driver salary	36,000
Income from private practice	1,20,000	Car repair	20,000
Income from house rent	30,000	Education expenses	25,000
		Teacher's Salary	18,000
		Computer purchase	40,000
		Medical expenses	7,000
		Electricity expenses	12,000
		Fish, Meat and Egg	10,000
		Elmira purchase	15,000
		Gift item purchase	7,000
		Cash in hand (31-12-11)	40,000
	<b>3,60,000</b>		<b>3,60,000</b>

Assets and Liabilities are as follows as on 1.1.2011:

Furniture- TK. 25,000 Furniture- Tk. 15,000, Creditors- Tk. 12,000.

Other information's as on 31.12.11:

- A. Salary TK. 7,000 are still due for payment.
- B. Rent received includes TK. 2,500 for last year and Tk. 3,200 are still due for current year.
- C. Driver salary due for TK. 2,400.

**Prepare:**

1. Calculate Current Liabilities of Mr. Aziz.
2. Income and expenditure statement of Mr. Aziz for the year ended 31 December 2011.
3. Statement of financial position Mr. Aziz on that date.

**Enterprise for self-employment:**

For the development of family, Society and also State any people can take initiative for small self-employment enterprise. Employment opportunity can be created by taking initiative for the project of poultry farming, fisheries, cattle farming, apiculture, handloom and cottage industry etc. Anyone can take initiative for self-employment. The success of self-employment project depends on entrepreneur efficiency, knowledge, correct accounting system and effective management. Followings are the statement of Income and Expenditure of family self-employment projects:

**Project-1: poultry farm**

**Sources of project fund:**

	Taka
Own Capital	1,45,000
Bank loan (16%)	<u>1,50,000</u>
<b>Total</b>	<b><u>2,95,000</u></b>

**A. Capital Investment:**

Particular	Taka
Yearly leasing cost of project	1,55,000
2 cows purchase with calf	<u>1,40,000</u>
<b>Total Invested cost</b>	<b><u>2,95,000</u></b>

**B. Statement of feeding cost: (Yearly)**

Particular	Taka
Daily 4 KG's granular food for each cow @ TK. 20 per KG ( $4 \times 2 \times 365 \times 20$ )	58,400
Straw and grass for each cow @ TK. 25 per day ( $25 \times 2 \times 365$ )	18,250
Daily 1 KG's granular food for each calf @ TK. 20 per KG ( $1 \times 2 \times 365 \times 20$ )	14,600
Straw and grass for each calf @ TK. 15 per day ( $15 \times 2 \times 365$ )	10,950
Medicine and contingencies	<u>5,000</u>
<b>Total yearly cost</b>	<b><u>1,07,200</u></b>

**C. Production and income of the farm: (Yearly)**

Particular	Taka
Obtaining 10 liter milk per day per cow @ Tk. 50( $10 \times 2 \times 365 \times 50$ )	3,65,000
Income from cow dung	<u>15,000</u>
At the end of year income from sale of cow with calves (Each Tk. 80,000 $\times 2$ )	<u>1,60,000</u>
<b>Total yearly Income</b>	<b><u>5,40,000</u></b>

**D. Brief Income and Expenditure**

Particular	Taka	Taka
Total Income		5,40,000
Less: Total Invested cost	2,95,000	
Feeding cost	1,07,200	
Interest on Bank loan ( $1,50,000 \times 16\%$ )	<u>24,000</u>	
<b>Net income</b>		<b><u>4,26,200</u></b>
		<b><u>1,13,800</u></b>

### **Project-2: Fishing Project**

#### **Sources of project fund:**

	Taka
Own Capital	1,03,950
Bank loan (16%)	<u>2,00,000</u>
<b>Total investment</b>	<b><u>3,03,950</u></b>

#### **A. Capital Investment:**

Particular	Taka
Yearly Leasing cost	1,00,000
Pond renovation	<u>20,000</u>
<b>Total Invested cost</b>	<b><u>1,20,000</u></b>

#### **B. Yearly statement of cost of Rui fish culture project in a pond of an acre:**

Expenditure	Taka	Taka
1) Contingencies expenditure		
Rotinon (5 KG's @, 450 per KG)	2,250	
Lime (100 KG's @, 20 per KG)	2,000	
Water provision expenditure	<u>3,000</u>	7,250
2) Species of fish (20,000 Species @ TK. 5 each)		1,00,000
3) Application of Dung :		
Compost (2000 KG, @ TK.10 per KG)	20,000	
Urea (50 KG, @ TK. 20 per KG)	1,200	
TSP (150 KG, @ 10 per KG)	<u>1,500</u>	22,700
4) Food for fishes:		
Oil cake of Mustards seed (25 KG @ TK. 20 per KG)	5,000	
Packing food (70 KG @ TK. 100 per KG)	<u>7,000</u>	12,000
5) Wages:		
Gourd, food supply, Dunging and cleaning of weeds		15,000
6) Expenditure for fish collection:		
Water removal	2,000	
Fisherman expenditure	20,000	
Miscellaneous	<u>5,000</u>	<u>27,000</u>
<b>Total cost</b>		<b><u>1,83,950</u></b>

**C. Summary of Income and expenditure:**

Particular	Taka	Taka
Total income- Sale of fish (3000 KG @ TK 150 per KG)		4,50,000
Less: Total Invested cost	1,20,000	
Operating cost	1,83,950	
Interest on bank loan ( $200000 \times 16\%$ )	<u>32,000</u>	
		<u>3,35,950</u>
<b>Net profit</b>		<b><u>1,14,050</u></b>

**Project-3: Duck-Chicken farm****Sources of project fund:**

	Taka
Own Capital	1,44,000
Bank loan (15%)	<u>6,00,000</u>
<b>Total Investment</b>	<b><u>7,44,000</u></b>

**A. Capital Investment:**

Particular	Taka
Expenditure on pond leasing	1,00,000
Renovation of pond	10,000
Value of house for chicken	1,20,000
Value of house for duck	1,20,000
Wages	<u>30,000</u>
<b>Total invested cost</b>	<b><u>3,80,000</u></b>

**B. Yearly statement of expenditure for duck-chicken joint culture project:**

Particular	Taka	Taka
<b>Cost for duck:</b>		
200 ducks for 6 month of age @ TK. 200 per duck	20,000	
Daily 30 KG food for duck @ TK. 20 KG per KG ( $30 \times 20 \times 365$ )	2,19,000	
Medicine for duck and miscellaneous	<u>10000</u>	2,49,000
<b>Cost for chicken:</b>		
Boiler (300 boilers of 1 day old @ TK. 60 per boiler)	18,000	
Food for chicken (5000 KG @ TK. 15 per KG)	75,000	
Drinking water container for chicken	5,000	
Medicine	7,000	
Miscellaneous	<u>10,000</u>	1,15,000
<b>Total cost</b>		<b><u>3,64,000</u></b>

**C. Yearly statement of income for duck-chicken joint culture project:**

Particular	Taka	Taka
<b>Duck:</b>		
Egg sales –Yearly 180 eggs per duck @ TK. 6 per egg (180×6×200)	2,16,000	
Duck sales - @ TK. 250 per duck (250×200)	<u>50,000</u>	2,66,000
<b>Chicken:</b>		
Egg sales –Yearly 200 eggs per duck @ TK. 6 per egg (180×6×200)	3,60,000	
Chicken sales - @ TK. 200 per duck (250×200)	<u>60,000</u>	4,20,000
At the end of year duck and chicken house sales		1,80,000
<b>Total income</b>		<b>8,66,000</b>

**D. Summary of Income and expenditure:**

Particular	Taka	Taka
Total income		8,66,000
Less: Total invested cost		
Feeding cost	3,80,000	
Interest on bank loan (6,00,000×15%)	3,64,000	
	<u>90,000</u>	
		8,34,000
<b>Net profit</b>		<b>32,000</b>

**Activity:** Mr. Ashraf Ali has family poultry farm. He filled up his family needs of milk and also augmented his family income. Poultry information's of mr Ashraf Ali are given bellow:

He invested TK. 80,000 as capital for poultry house and value of car, recurring expenditure TK. 20,000 per year. In the first year his income from sale of milk and cow dung TK. 25,000, 2<sup>nd</sup> year to 6<sup>th</sup> year TK. 45,000 per year and 7<sup>th</sup> year he earned from sale of milk, cow dung and cow TK. 75,000. He took bank loan @ 15% interest rate of TK. 50,000 for that project.

Requirement: Calculate net profit for seven year with summary of project Income-expenditure of Mr. Ashraf Ali.

## Exercise

### Multiple choice questions:

1. In the light of Accounting, family means-
 

A. Profitable organization	B. Non profitable organization
C. Ongoing profitable organization	(D) Ongoing non profitable organization
2. Maximum family transaction occurred in-
 

(i) Cash	(ii) Cheque	(iii) Credit
----------	-------------	--------------

Which one is correct?

- |        |             |
|--------|-------------|
| A. i   | B. i & ii   |
| B. iii | D. ii & iii |

3. Preparation of family budget on the-

- |   |   |
|---|---|
| A. Basis of expected income                 | B. Basis of actual income                 |
| C. Basis of expected income and expenditure | D. Basis of actual income and expenditure |

4. To record in Receipt and payment account-

- i. Capital nature income
- ii. Revenue nature income
- iii. Revenue nature expenditure

Which one is correct?

- |             |                |
|-------------|----------------|
| A. i        | B. i & ii      |
| C. ii & iii | D. i, ii & iii |

5. To record in family Income-Expenditure statement-

- A. Revenue nature income of current year
- B. Revenue nature expenditure of current and last year
- C. Revenue nature expenditure of current and next year
- D. Revenue nature expenditure of last, current and next year

6. How many steps have used for preparation of Family Financial Statement?

- |             |             |
|-------------|-------------|
| A. 02 steps | B. 03 steps |
| C. 04 steps | D. 05 steps |

7. Which one is family revenue nature expenditure?

- i) Construction of building
- ii) Cycle purchase
- iii) Maintenance of assets

Which one is correct?

- A. ii    B. iii    C. i, ii    D. i, iii

8. By the self-employment project-

- i. Employment opportunity create for entrepreneur
- ii. Employment opportunity create for family
- iii. Employment opportunity create for society

Which one is correct?

- |             |            |
|-------------|------------|
| A. i        | B. i & ii  |
| C. ii & iii | D. i & iii |

9. Success of self-employment project depends on-

- i. Efficiency of entrepreneur
- ii. Accurate accounting recording system
- iii. Amount of Capital Investment

Which one is correct?

- A. i      B. ii      C. ii & iii      D. i & ii

10. Which one is irregular expenditure of self-employment project?

- A. Pond leasing expenditure for fishing      B. Medical expenditure for duck-chicken  
C. Cow feeding expenditure for milk farm      D. Wages for guard of the project

11. Which one is first step for preparation of family budget?

- A. Listing of necessary goods      B. Determination of possible income  
C. Determination of value of goods or      D. Data collection for demand and service.  
supply of goods or services

12. Steps for family financial statement-

- i. Cash account  
ii. Received-payment account  
iii. Income-expenditure statement

Which one is correct?

- A. i      B. ii  
C. i & ii      D. ii & iii

### Creative questions:

1. Followings are the family information of Dr. Mahady as on 1 January 2012:

Building Tk.10,00,000, Furniture Tk.90,000, Investment Tk. 10,000, Gold Tk. 80,000 ,  
Cash in hand Tk. 3,000 and bank loan Tk. 6,000.

#### Family Receipt and Payment account of Dr. Mahady

For the year ended 31December 2012

<b>Receipts</b>	<b>Taka</b>	<b>payments</b>	<b>Taka</b>
Cash in hand (1-1-10)	3,000	Purchase of food materials	60,000
Salary	3,63,000	Daily shopping	1,20,000
Interest on investment	1,500	Television purchase	23,000
Doctors visit income	1,20,000	News paper	3,500
		Educational expenditure	28,000
		Gas, water and Electricity	21,000
		Bank fixed deposit	2,25,000
		Balance	7,000
	<b>4,87,500</b>		<b>4,87,500</b>

#### Other information's:

- Gas, Water and Electricity are still due for TK. 1,500.
  - Interest on investment one yet received for TK. 1,000.
  - Calculate family fund of Dr. Malady
  - Prepare his Family Income-expenditure statement for the year ended 31December 2012.
  - Prepare his Statement of financial position on that date.
2. Mr. Ahsan Habib has served in a private organization, his monthly salary TK. 12,000. In addition to he got TK. 5,000 honorarium per month by giving part time lecture in a college. In 1<sup>st</sup> January 2012 his cash in hand TK. 2,00,000 and DPS TK. 1,00,000. Following are the transactions of his family of whole year:

Purchase of food materials TK. 30,000, house rent TK. 50,400, regular marketing expenditure TK. 24,000, Furniture purchase TK. 15,000, Grocery and stationery bill TK. 2,500, Gold purchases TK. 60,000 and deposit to DPS TK. 15,200.

- A. Calculate family fund of Mr. Ahsan Habib.
- B. Calculate closing family cash in hand of Mr. Ahsan Habib.
- C. From the above information's calculate family surplus or deficit.

3. Followings are the income and expenditure of a fishing project in the one bigha pond for one year

Yearly leasing and renovation expenses of pond	20,000
Small fish purchase	4,000
Lime purchase 40KG @ TK. 10.00 per KG	
Compost purchase 100 KG @ TK. 5.00 per KG.	
Fertilizer purchase 10 KG @ TK. 10.00 per KG.	
Rice powder 500 KG @ TK. 5.00 per KG.	
Oil cake of mustard seed 100 KG @ TK.15.00 per KG	
Wages for Guard and maintenance cost	15,000
Water pump	2,000
Expenditure on catching fish	2,500
Sundries	3,000

Bank loan has taken for TK. 1,00,000 @ 15% interest rate

- A. How much amount invested in the project?
- B. If 1,000 KG of fish has produced in the fish cultivation project determines total cost of project.
- C. If fish are sold @ TK. 150 per KG what will be the net profit of the project?

4. Nyayntara of Manikgonj has started family poultry farm with help of her husband for four years. Her Investment and other information's regarding project are as follows:

Payment for cow's house and cow	Tk. 1,25,000
Food container, Water container, Basket, Milk sucker machine etc.	Tk. 14,000
Granular food, Medicine and sundries expenses for each year	Tk. 40,000
Income from 1 <sup>st</sup> year	Tk. 1,00,000
Income from 2 <sup>nd</sup> and 3 <sup>rd</sup> year	Tk. 1,50,000
Income from 4 <sup>th</sup> year	Tk.70,000
At end of project income from sale of cow and clave	Tk. 1,20,000
She took loan from local NGO for Tk. 1 lac @ 15% interest rate and also paid TK. 5,000 for insurance premium for the purpose of insurance of project.	
A. How much amount invested as capital of Nayantara project?	
B. Determine total recurring expenditure of the project.	
C. Calculate net profit of Nayantara project at end of project period.	

## The End

**2013**  
**Academic Year**  
**9-10 Accounting**

শিক্ষা ও জ্ঞান অর্জনের মাধ্যমেই জীবনে সাফল্য অর্জন করতে হবে  
– মাননীয় প্রধানমন্ত্রী শেখ হাসিনা

## আত্মবিশ্বাস সাফল্যের চাবিকাঠি



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