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ELEMENTS OF ACCOUNTS

(Part 1)

Standard 11



PLEDGE

India is my country.

All Indians are my brothers and sisters.

I love my country and I am proud of its rich and varied heritage.

I shall always strive to be worthy of it.

I shall respect my parents, teachers and all my elders and treat everyone with courtesy.

I pledge my devotion to my country and its people.

My happiness lies in their well-being and prosperity.

Price : ₹ 67.00



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PREFACE

The Gujarat Secondary and Higher Secondary Board has prepared new syllabi in accordance with the syllabi at the national level. These syllabi are approved by the Government of Gujarat.

The Gujarat State Board of School Textbooks takes pleasure in presenting this textbook to the students. It is prepared according to the new syllabus of **Elements of Accounts (Part 1) for Standard 11**.

This textbook is written and reviewed by expert teachers and professors. This textbook is published after incorporating the necessary changes suggested by the reviewers.

The Board has taken ample care to make this textbook interesting, useful and free of errors. However, suggestions are welcome to improve the quality of this book from persons taking interest in education.

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FUNDAMENTAL DUTIES

It shall be the duty of every citizen of India :*

- (a) to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;
 - (b) to cherish and follow the noble ideals which inspired our national struggle for freedom;
 - (c) to uphold and protect the sovereignty, unity and integrity of India;
 - (d) to defend the country and render national service when called upon to do so;
 - (e) to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;
 - (f) to value and preserve the rich heritage of our composite culture;
 - (g) to protect and improve the natural environment including forests, lakes, rivers and wild life, and to have compassion for living creatures;
 - (h) to develop the scientific temper, humanism and the spirit of inquiry and reform;
 - (i) to safeguard public property and to abjure violence;
 - (j) to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement;
 - (k) who is a parent or guardian to provide opportunities for education to his child or, as the case may be, ward between the age of six and fourteen years.
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*Constitution of India : Section 51-A

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Accounting and Its Terminology

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1. Introduction

Human being has its separate and special existence in the universe. Human being is an intellectual animal. Human being has different life style. Its life style is related with social, religious, economic needs. To fulfill these needs, he has to take support of other people. Every individual has one's own distinct existence, skill and limitations. Every individual exchanges his skill with other individuals in the society. Every individual gives benefits of their personal skills to others and takes benefits of other's skills due to his own limitations. In this fashion an individual meets his own needs.

Barter system was prevailing in economy due to the absence of money as a medium of exchange. In this system product was exchanged against product or product was exchanged against service. e.g. A farmer has grain and he is in need of cloth and who has cloth is in need of grain. In this case both the parties used to fulfill their needs by exchange of products. In this barter system product or service was used in exchange to purchase another product or service. Barter system had practical limitations. Due to limitations of barter system a need was emerged for such medium of exchange which would be acceptable to all.

In present time money is used as medium of exchange. In present time coins, currency notes and now even plastic currency is used in the form of money. For such system, where money is used as medium of exchange, it is known as monetary economy. Under this system by selling product, money is procured and from acquired money, product is purchased. Thus it can be said that product purchases money and money purchases product.

So, in present time, human being uses money to fulfill his own needs. Generally, this medium of money is acceptable to all parties. Due to acceptability quality of money transactions take place. When transactions are made through money, they are called economic transactions. In absence of money, transactions used to take place; those transactions were based on barter system. Transactions made with the help of money as a medium are known as monetary transactions.

Transactions, whether are made through barter system or monetary system are required to record and prepare accounts. It is mentioned in the history that accounts were maintained in ancient time also.

Social and economic needs of society are changing with time and requirements. Like legal, medical, engineering, science subjects, accounting subject has also emerged to assist social and economic activities

of the society. From ancient times accounting system prevails in one or another way. Indian historians have described economics of Chanakya and explained the existence and significance of accounting. Western historians have given credit for the same to the mathematician named Mr. Luca Pacioli of Italy. There are several opinions about origin of accounting but for its use and significance, common practices prevail across the world. Due to industrial revolution and expansion of business – trade activities, the use and the significance of accounting has increased day by day. Before acquiring information of accounting let us acquire primary knowledge of accounting.

Accounts, in normal term are record of receipt and payment as well as of income and expenditure. (In addition to this record, difference of receipt and payment account and income and expenditure account is ascertained. This difference can be in the form of benefit means profit or in the form of loss or deficit.) When payment is deducted from receipt or expenditure from income, difference is called benefit or profit. When receipt is deducted from payment or income from expenditure, difference is called as loss or deficit. For e.g. A trader has purchased goods of ₹ 10,000. Transportation expense is paid of ₹ 2000. The entire goods are sold for ₹ 15,000. Here receipt or income is of ₹ 15,000 against which payment or expenses are ₹ 12,000 (₹ 10,000 + ₹ 2000). Thus difference of ₹ 3000 (₹ 15,000 – ₹ 12,000) is called as profit or gain.

A method or system which is maintained to keep accounts is called as accounting. Accounts are also known as bookkeeping. **Accounting term is used as synonym of bookkeeping. In this book, accounting term is used in place of bookkeeping.** Subjects like Physics, Chemistry, Mathematics; accounting subject also has its own existence and significance in the society. Accounting has its own special utility. Accounting has its own rules and principles. It is also an Art and science. Professional bodies are working at national and international level for smooth functioning of accounting system.

2. Accounting

Accounting is presented in the form of definition by different accounting professional bodies. On the basis of definitions the concept of accounting can be understood the following definition is given by American Institute of Certified Public Accountants (AICPA).

“Accounting is an art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are in part at least of a financial character and interpreting the results thereof.”

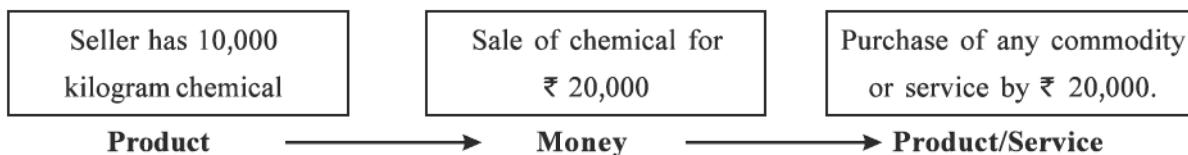
But keeping development of accounting in mind, the following definition is given by American Standards Council (ASC) : **“It is a service activity. Its function is to provide quantitative information, primarily financial in nature, about economic entities, that is intended to be useful in making economic decisions.”**

From the above mentioned definitions the following characteristics of accounting can be ascertained.

3. Characteristics of Accounting

(1) Financial characteristic : Transactions or events, which are recorded in accounting, must be measurable in monetary value. e.g. 10,000 kg of chemical is purchased. The value of this purchase has to be determined in terms of money. This chemical is purchased for ₹ 20,000 which means that 10,000 kg chemical = ₹ 20,000. In exchange of chemical ₹ 20,000 are payable. Rupee is money. Transaction made through money is known as economic transaction. This transaction has financial characteristics.

(2) Money as a medium of exchange : Transactions or events recorded in accounting come into existence through the usage of money. Money as an exchange will be received by seller for 10,000 kg of chemical sold and by this money he can purchase any other product or service. Let us understand the transaction of seller :



Thus, instead of having exchange of product / service against product, now the product is exchanged against money and subsequently money is converted into product / service. In this manner money becomes medium of exchange for any transaction or event.

(3) **Classification and analysis of transactions** : In accounting, different types of transactions are recorded. These transactions are made in cash form or non-cash form (also known as credit transactions), these transactions are performed for any income, expenses, asset or liability based activity. These transactions are classified and analyzed on basis of their nature which is derived from debit credit rules of accounting (which are discussed here after). Due to characteristic of classification and analysis, transactions of prescribed time can be seen together at one place. e.g. what was opening balance of assets? How many assets were purchased? How many assets were sold? What is the closing balance of assets ? Answers of all these questions are obtained because of classification and analysis.

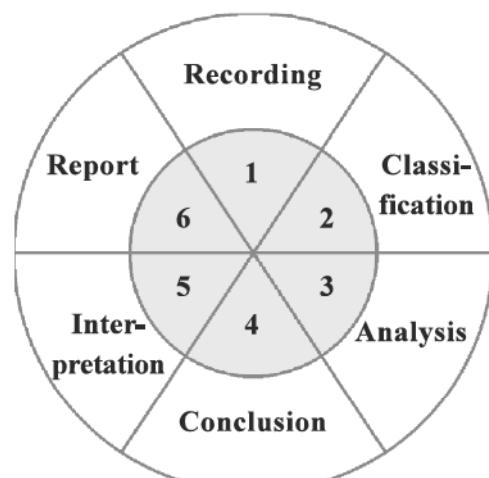
(4) **Interpretation of transactions** : In accounting, only accounts are not prepared. But after accounts are prepared as per the prescribed norms, they are also interpreted on the basis of disclosed details and figures (which is called as quantitative information). e.g. when blood pressure of a person is measured and if it comes to 120-80, it indicates that the person is healthy from the view point of blood pressure. 120-80 is the measure of blood pressure and the comment "healthy" is the interpretation. In accounting, interpretation can be done from the accounts prepared. e.g. Total Income is ₹ 20,000 and Total expense is ₹ 12,000, the difference of ₹ 8000 is the excess of income over expenses. This indicates that person has benefited from this transaction. The difference of income and expense is in the form of benefit, which is interpretation of these figures. In this manner transactions recorded in accounting, can be interpreted, and their results can be understood.

(5) **Quantitative information** : Information recorded in accounts is in the monetary form. So, this information is known as quantitative information.

(6) **Economic decisions** : Different stakeholders take their decisions based on accounts prepared by accounting. e.g. creditors make decision to lend money to the company. Potential share holder make decision to invest their funds. Company itself makes decision for its own development. All these decisions are based on money, thus are known as economic decisions. Thus, accounting assists to make economic decisions.

(7) **Historical information** : In accounting all past transactions and events are recorded. These past transactions or events become history. Past always discloses history. Accounts prepared on the basis of history represent historical information and results. Thus, accounting has relation with historical information.

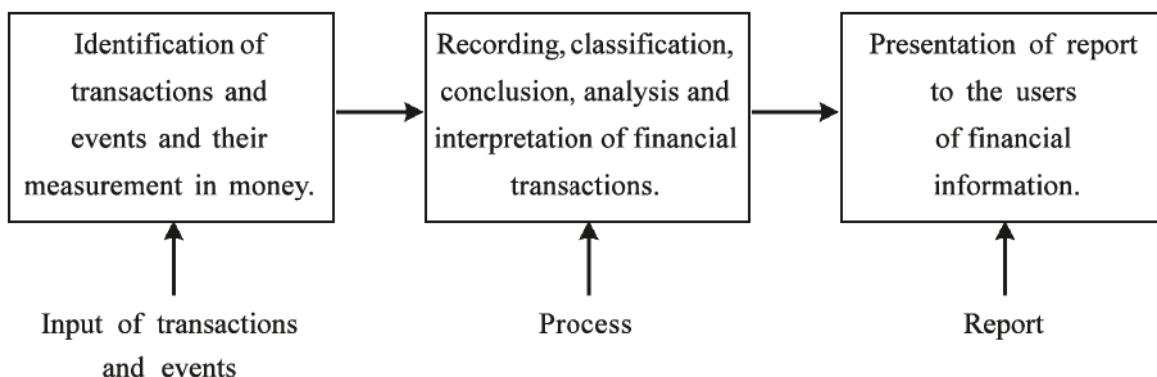
Characteristics, which are derived from definitions, explain the process of accounting. From where this process commences? From which stages does it pass ? What is derived from each stage? What is derived at the end of the process? Definitions and characteristics present information about all these issues. The stages of accounting process are given here in the form of figures :



Accounting Cycle

In brief, accounting records, classifies, analyses transactions and events; and gives conclusions. After having an interpretation on the basis of these conclusions, a report is prepared. Here, the meaning of report is accounts i.e. annual accounts. (This is discussed in subsequent chapter).

Accounting process can be presented as follows:



The characteristics of accounting explain the nature of accounting. The functions or objectives of accounting are provided as under :

4. Objectives of Accounting

(1) **Permanent records** : In accounting, transactions and events are recorded in written form. These records are kept either in the form of books or recorded in computer on permanent basis.

(2) **To know the effect of each transaction** : Each transaction has its effect on overall profitability or economic condition of the business. Thus accounting helps in obtaining this information. (This is discussed in subsequent chapter).

(3) **To know influential factors** : The information of factors affecting profit or loss as well as economic condition of the business can be obtained by preparing accounts. This objective plays vital role in the preparation of accounts.

(4) **To determine tax liability** : Generally, the tax payment liability is determined on the basis of prepared accounts. The burden of tax is determined on the basis of income of a tax payer. Therefore, the objective to prepare accounts is to determine tax liability.

(5) **To know quantum (size) of payables** : In business, in place of cash transactions, credit transactions are also made. e.g. purchase of raw material on credit. However, this payment is to be made in future. Till the nonpayment of this transaction, it is treated as liability. At the end of the year, what is the quantum of liability can be ascertained from accounts.

(6) **To know quantum of receivables** : Like credit purchase, goods are sold on credit to customers. This amount is receivable in the future. Until the non-receipt of this amount it is shown in the books as receivables. This information can be obtained from accounts.

(7) **To measure profitability of business** : The significant objective of accounts is to measure earned profit or incurred loss for respective period. The measurement of profitability is made available by accounting.

(8) **To know economic status of the business** : At the end of the year what is the size of liabilities, assets and receivables of the business can be seen from the accounts under accounting system. When assets and receivables are more than liabilities, it can be said that it is good economic condition. So economic condition, which is known as solvency, can be known from accounts.

(9) To detect and avoid errors and frauds : By investigating prepared accounts, financial mistakes or crimes can be traced out. Accounting helps to prevent such kinds of undesirable events. Accounting maintains indirect control to avoid errors and frauds.

Accounting is used for above-mentioned purposes. There are several benefits due to the existence and use of accounting. These are discussed as follows :

5. Advantages of Accounting

Accounting is a social science. This science is used in the entire world. Its utility discloses its advantages. These advantages are as under :

(1) Availability of accounting information : Accounting information is prepared by any owner of any business. If this information is readily available, it can be used by the owner as and when it is needed. e.g. an owner wants to obtain a loan from a bank, he can produce prepared accounting information of his economic status and can obtain the loan.

(2) To know profitability : During specific accounting period, how much profit is earned or how much loss is incurred by the business, this information is provided by accounting. This information is ascertained from profit and loss account.

(3) To know financial status : At the end of the period, what is the size of liability for the business can be ascertained. If the size of liability of business is more, it indicates weak economic condition and if the size of liability of business is less, it indicates good economic condition. This economic status can be ascertained through balance sheet.

(4) Tax planning : Tax on earned income has to be paid by every business unit, in different forms. The determination of tax size is based on quantum of transactions of business. Keeping in mind quantum of transactions, what amount of tax is to be paid for respective period is ascertained from accounts. From this information, planning for tax payable during the period can be made.

(5) Valuation of business : In practice sometimes an owner sells his own business to another person. Under these circumstances, what should be selling price of business? Accounting is helpful to determine this selling price. What is the profitability of business? What is the economic condition? This sort of information is provided by accounting. Therefore, in this manner, accounting assists in business valuation.

(6) Decision making : Different forms of business like sole proprietorship, partnership firm, and company prepare their own accounts. Specifically accounts of company are used by several stakeholders like creditors, shareholders, investors for their investment decision. Accounting plays vital role in decision making.

(7) As an evidence : The formation of accounts is based on accounting rules and principles. Thus, accounts prepared in such manner are considered reliable. Due to this quality of reliability, at the time of any dispute accounts are used as evidences. e.g. in case of any dispute in the context of account between partners of a partnership firm, accounts become evidence to bring solution for the purpose of justice.

(8) Comparison with past operations : The rules and principles of accounts do not change. Due to this feature present performance of profitability or economic condition can be compared with past and information for the development of business can be obtained. If development has not taken place or is not as per the expectation, planning can be undertaken to achieve it in future. Apart from this, accounts can be compared with the accounts of competitors.

(9) Moral control : Accounts are in written form. These are used as evidence. Thus, the chances of fraud made by employees are reduced. Accounting assists to keep moral control over the employees.

(10) Corrective measures : In practice, it so happens that the business suffers due to some past decisions made by the owners or the management of business. The effects of these decisions are reflected in the accounts. To avoid the recurrence of such mistakes corrective measures and necessary care is generally taken.

As a component of social science, accounting has its own separate existence. As stated earlier accounting works under predetermined rules and principles. Because of change in society, or because of predetermined rules or principles, some limitations also arise. These limitations are discussed as under :

6. Limitations of Accounting

(1) Non-financial transactions : In accounting, those transactions are recorded, the value of which can be measured in terms of money. e.g. purchase-sale of material, purchase-sale of assets etc. The qualities like honesty, loyalty, commitment of employees working in the organization play significant role for the development of business. These aspects are not considered in accounting.

(2) Stable value of money : Accounting assumes that value of money is stable. e.g. an asset was purchased before five years for ₹ 50,000, if replacement is required to be done, then in this case more than ₹ 50,000 has to be paid to acquire same type of asset due to inflation. Accounting assumes that value of money remains stable. Practically this is not possible. A stable value of money assumption can be treated as a limitation of accounting.

(3) Historical transactions - events : In accounting historical transactions or events are recorded. No corrections are allowed in transactions for any mistakes but still historical transactions and events are useful to take future decisions.

(4) Avoidance of market value : The value of assets keeps on changing. Their market price keeps on changing. In accounting, market value is ignored and only actual cost based treatments are given.

(5) Use of estimates : In accounting, items like bad debt reserve is determined on estimation. If estimates are mistake oriented (wrong), it will be reflected in the accounts. But these kinds of estimates are done on the basis of past experience and logic. So, possibility of mistake remains minimum.

(6) Dual standards : There are two important components of accounts – Profit and Loss Account and Balance sheet. Profit and Loss Account (which is known as income statement) is prepared on current prices while items of Balance Sheet are disclosed at old price (historical price). This kind of disparity prevails.

In spite of having these limitations, accounting has very practical and important role for owners of business, government, other stakeholders like investors, creditors, lenders etc. These limitations of accounting do not work as hurdles in the development of accounting. Besides, these limitations can be removed because accounting has been developed as a language of business and science / art.

Accounting as a Language of Business :

Accounting is known as a language of business. Through accounting, information of business transactions is provided. Through language either by writing or speaking or analyzing or interpreting any content is described or explained by one person to other. This function is performed by accounting, by providing information of business activities or results to the related parties. Language is used with its own predetermined norms; accounting is also used with its own predetermined rules. Language has a feature of flexibility hence time based changes are incorporated in it. In accounting also time based changes are incorporated.

In brief, accounting provides information of accounts. Thus, it works as a language.

Is Accounting a Science or an Art ?

Science is always based on rules and principles. These rules and principles are universally accepted. Accounting is also a science. Its formation is based on rules and universally accepted principles prepared by human beings. To record economic transactions of the business they are classified on the basis of accounting rules. To record transactions an individual skill is not required. Only rules are to be followed. When accounts are prepared by different persons, the process of preparation of accounts and its results would remain the same. Thus, due to rules and principles accounting is known as science.

Apart from science, accounting is known as an art also. Accounting is mainly categorized into three categories (i) Financial Accounting (ii) Cost Accounting and (iii) Management Accounting. Keeping the limitations of these accounting in mind, a specific skill to prepare account is also required. The presentation of anything in a different manner without changing its nature and meaning is known as an art.

7. Qualitative Characteristics of Accounting Information

The use of the accounts prepared is not confined to accounts preparers and owners of the business. The information presented in the accounts is used by different parties. Parties such as creditors, government, lender institutions are included. It is expected from accounting that, whichever accounts are prepared or presented should have qualitative characteristics. The characteristics like reliability, relevance, understandability and comparison are qualitative characteristics. These characteristics cannot be measured. These qualities assist to sustain trust of users in accounting information. They use this information without any fear. They take their relevant decisions. The explanation of these characteristics is given as under :

(1) **Reliability** : The first qualitative feature of accounting is reliability. The users of information believe that prepared information represents real picture. The task of information preparer is to sustain the trust of users. The prepared information has to be completely errorless. There should not be inclusion of opinion of an accountant or any other party. If rules and principles are fully followed the prepared information would automatically disclose trustworthy presentation. Under the head of reliability, trustworthy presentation, neutrality and full disclosure are included as sub characteristics.

(2) Relevance : Relevant information is that information which meets the needs of users and is competent enough to meet the needs of users of information. Relevance is that kind of characteristic which assists users to take decisions based on this information. The information prepared or presented by the accountant, has to be of such kind on the basis of which investor can decide that (i) Whether his past decisions were appropriate or not? (ii) Whether his present decisions are appropriate or not? (iii) Whether his future decisions will be appropriate or not?

In brief, presented information should be useful in the context of past, present and future decisions.

(3) Understandability : In addition to relevance, the presented information should be of that kind which can be easily understood and interpreted by the information users. Understandability means provided information should have clear meaning. At the same time preliminary knowledge of business activities and accounting is expected from users of information. Accounting has its own terminology, rules and principles. If information user is not acquainted with this, he will not be able to understand presented information easily. In brief, information presented in accounts should have quality of understandability. The user also should have knowledge of expected content.

(4) Comparability : Another qualitative characteristic of accounting is comparability. Accounting information should be prepared and presented in such a manner where user can undertake comparison of profitability and economic solvency of two periods. Due to quality of comparability, users take their decision by undertaking the comparison of results of two different periods. In case of company accounts it includes accounting information of previous year and current year for income statement, Balance sheet and cash flow statement. Here, the comparison of accounting information of two different periods is made.

Besides, this, inter firm comparison also can be made.

In brief fully correct and useful information by including qualitative characteristics can be presented as follows:

$$\boxed{\text{Fully correct and useful information}} = \boxed{\text{Reliability}} + \boxed{\text{Relevance}} + \boxed{\text{Understandability}} + \boxed{\text{Comparability}}$$

8. Users of Accounting Information and their needs

The form of business is developed from sole proprietorship to partnership firm and partnership firm to company. Due to this development the boundaries of the use of information are also extended. The accounts are made by the sole proprietors or partnership firms to meet with their personal and legitimate requirements. In these forms of business, generally owners and management are same entity. Thus, the use of information is confined to them. In company form of business, owners and management are different entities. Thus, because of government restrictions the information of companies becomes public information. Therefore, there are several users of information. Who can be included in the group of users? Which kind of information do they require? are explained below :

(1) Management: In the company form, shareholders are treated as owners and the board of directors undertakes management. The effect of policy decision made by them is reflected in the accounts. Whether they have achieved determined goals or not? That information can be obtained from accounts. Their function is to achieve predetermined goals through planning and control. They identify the variances

by comparing planned estimates with actual results and they take corrective measures to avoid repetition of these kinds of variances. Accounts is the best tool to measure efficiency of management. Management can be classified as internal user. Thus, accounts are very important for management.

(2) Share holders: As per legal provisions, management has to send the certified copy of accounts to all the shareholders in prescribed time period. It is a right of shareholders to obtain a copy of accounts and at the same time it is a duty of the company. Shareholders analyze published financial and non-financial information, and undertake review of decision for their investment in the company. They can learn about the development and forecast the future of the company. They make decision either to dispose off or to retain the shares of the company on the basis of this information. Now companies have started to send accounts through email for environmental protection.

(3) Potential shareholders: This category of shareholders desire to buy shares of the company. After investing in the company, to decide whether they will have expected return or not, they use accounting information of the company.

(4) Creditors: In creditors, short-term creditors are those who provide facility of goods on credit to the business enterprise. Besides, in long-term creditors financial institutions and debenture holders are included. These parties have to collect their dues in future from the company. These parties use published accounts to know the present and future earning capacity and economic condition of the company.

(5) Employees: From accounts of the company, the employees of the company acquire the information about their salary improvement, bonus and job safety. Generally, profit of accounts is important for employees. They present their demands before management on the basis of profit. If the economic condition of the business enterprise is sound, they can estimate the security status of their service and development of the company. In this manner accounts has utility for them also.

(6) Tax authorities: Different types of taxes are collected by the government in the country keeping in mind business income, activities of business and other factors. To collect these taxes, in the budget of every year, government makes provisions. On the basis of these provisions taxes are paid by business enterprises / companies. Tax payment liability is determined from accounts. Accounts prepared and taxes paid whether are prepared or paid as per budgetary provisions or not is checked by the tax authorities. These taxes are collected by the state and the central government. For this purpose, accounts are used by the tax authorities.

(7) Customers: Customers of business can be considered one of the significant components of profit creation (earning). Existing market is not the market of seller but it is the market of buyer. For buyer means for customers, various acts are prevailing; and they are fully aware of their rights for purchased product. They are also aware of the price of product and service. Customers can get idea about price of product or service from accounts of the company. So accounts are useful to customers also.

(8) Foreign Entrepreneur: Due to facility of communication and transport the world has become very small. Besides, economic restrictions are liberalized due to liberalization. Consequently foreign enterprises wish to sell their products or services in other countries. Besides, they are interested to undertake amalgamation with company of other country. However, before execution of these kinds of decisions, they examine the aspects like solvency, liquidity, profitability etc of the company. After having this analysis, they make their decisions. So, accounts have importance from the view point of foreign entrepreneurs.

(9) Regulatory bodies: A company form of business is controlled either by the government or the regulatory bodies formed by the government. So, that the general public will not have any kind of financial loss due to any steps / activities of the company.

For this purpose, SEBI (Securities and Exchange Board of India), and IRDA (Insurance Regulatory Development Authority) are established. These bodies use accounts for preparation of rules and guidelines. Apart from this, whether accounts are prepared as per the norms or not, is also examined by these bodies. Therefore, accounts are essential for regulatory bodies also.

(10) Professional bodies: Accounts preparers are known as professionals. Accounting is a profession. For fair management of profession each country has professional bodies. From 1949 onwards, the Institute of Chartered Accountants of India is functioning for accounting profession in this country. In the context of accounts, this body prepares guidelines and accounting standards. So that uniformity and integration can be maintained in prepared accounts. In addition to this Institute of Chartered Secretary of India and the Institute of Cost Accountants of India also render necessary suggestions. So accounts assist professional bodies to prepare guidelines and accounting standards.

(11) Researchers and Analysts: There is one category of users of accounting information, researchers and analyst. This group is interested to know what the profitability of the company is and what the solvency of the company is ? Apart from this, they undertake research and analysis – why this kind of profitability – or economic status exists. Why in this quantum? This kind of research and analysis helps the company and investors. The contribution of this group of users is also significant. This group is not working only for its own interest but they work for the benefits of the others. So accounting information is necessary for these users. The institutions determining credit worthing function in India and abroad. CRISIL, CIBIL, ICRA etc. are included. These agencies also use the published accounts.

(12) Government: It is the responsibility of government to bring efficient and effective management in the country. The government forms policies for the development of the country. For the formation of policies, relevant information is required. The information presented by the companies is collected and is used for the formation of national policies. This accounting information plays vital role in policy oriented decisions of the government.

From the above discussion, the answers of who are users of accounting information? For which purpose accounting information is useful ? can be found out. The horizons of the use of accounting information are being expanded. This explains the significance of accounting information.

9. Terminology of Accounting

Education is acquired in different fields. Education is provided in different fields. An individual becomes an engineer, a doctor, an artist or a sportsman. Each individual takes education in the field of his choice. Each field of education has its own terminology; it means it has its own vocabulary. Each field uses its own specific words. These words provide explanation and meaning of respective content (terminology) of respective field. Respective word / words are used in the context of respective meaning. There is no possibility of subjectivity.

In accounting also, special words explain specific and clear meaning in the given context. The terminology of accounting is as follows:

(1) Business transaction : “Business transaction means exchange of product or service of business between two or more persons in the form of cash and / or on credit”. Business transaction

means an act of business. Business transaction is always economic transaction. Economic transaction means a transaction which can be measured in terms of money. Cash transaction, made in the form of money. Clearly depicts economic value. Dues of credit transaction are receivable in future but its economic value is determined in present. The prerequisite condition of business transaction is to have its economic value i.e. financial value. Business transaction comes into existence through medium of cash or on credit condition.

E.g. Cash transaction of business : Goods of ₹ 5000 sold to Rajnikant for cash. This is an act of business. Cash is received against goods. Its economic value is ₹ 5000. This is a business transaction.

Where, — Rajnikant is a separate person

- Goods is a product
- ₹ 5000 is economic value which is received on the spot
- Money is exchanged against goods.

All conditions of business transaction are fulfilled.

Credit transaction of business : Goods of ₹ 5000 sold on credit to Rajnikant with condition to pay the amount within 10 days.

Goods sold on credit. Money of which is receivable within 10 days. This is a credit business transaction.

Where, — Rajnikant is a separate person

- Goods is a product.
- ₹ 5000 is economic value which will be received after 10 days.
- Money will be received in future against goods, this is a guarantee.

The above justification, explains the business transaction. A detailed classification and explanation about business transactions is specified subsequently.

(2) Event : Event is recognized as an incidence. Event means situation or result created from transaction. Transaction has its own explicit features, which are studied as above.

E.g. assume that goods sold to Rajnikant is purchased for ₹ 3000. Wages is paid ₹ 500. Transaction and event can be presented as follows.

Sales	₹ 5000	Sales is an act, thus it is transaction.
Less Purchase	₹ 3000	Purchase is an act, thus it is transaction.
+ Wages	₹ 500	Wages paid, it is an act, and thus it is transaction
Profit	₹ 1500	It is result, thus it is an event.

In brief transaction discloses an act done by the business while event represent situation or result created from transaction.

(3) Capital : An investment made by the owner to commence the business is known as capital. Investment in business is done in cash form or in the form of any asset. All those items are included in capital which is provided by owners and their value is measurable in terms of money.

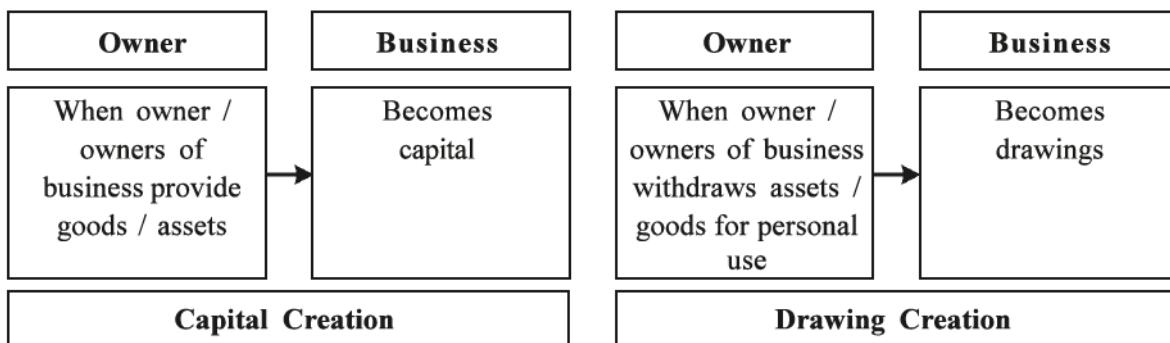
E.g. To commence business owner has brought ₹ 10,000 cash, furniture of ₹ 6000, Goods of ₹ 8000. Here the capital of owner will be ₹ 24,000. Items provided by the owner, each of them has

monetary value and will be used for business. Owner gives money to commence business as well as to expand the business. Capital is identified on basis of nature of business, which is as follows:

- For sole proprietorship capital word is used, which owner provides.
- For partnership, partners' capital word is used which partners provide.
- For company, share capital word is used, which is provided by shareholders. (Equity share capital word is more popular)

(4) Drawings : For creation of capital, owner of business provides his personal property to the business. Personal assets (properties) given by owners becomes assets of business.

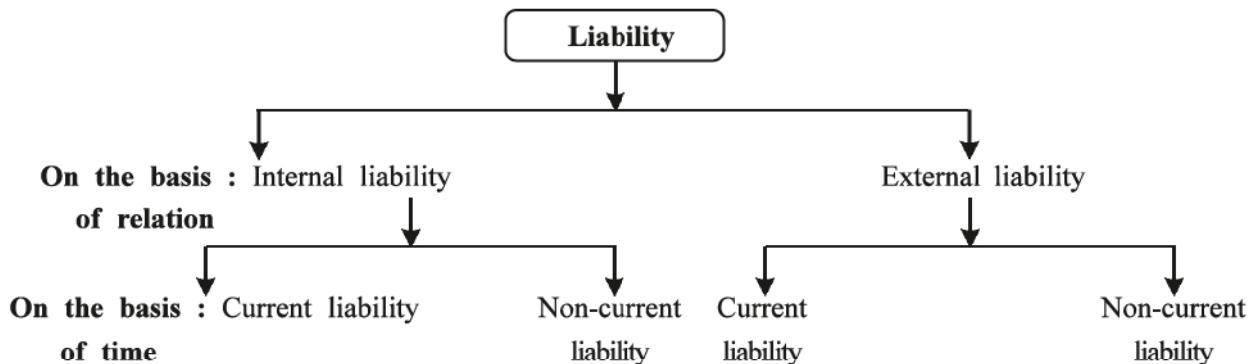
When owner of business withdraws assets from business means cash or goods for personal purpose this is known as drawings. Drawing indicates capital reduction. Instead deducting it directly from capital, it is shown separately as a drawing.



Generally, drawing word is used for sole proprietorship and partnership firm. **Owner gives capital to business. Business gives drawing to owner.**

(5) Liability : Amount payable by the business for credit purchase of goods / asset or amount payable for borrowed money is known as liability. This amount is payable in the future. It is treated as liability till it is not paid by the business.

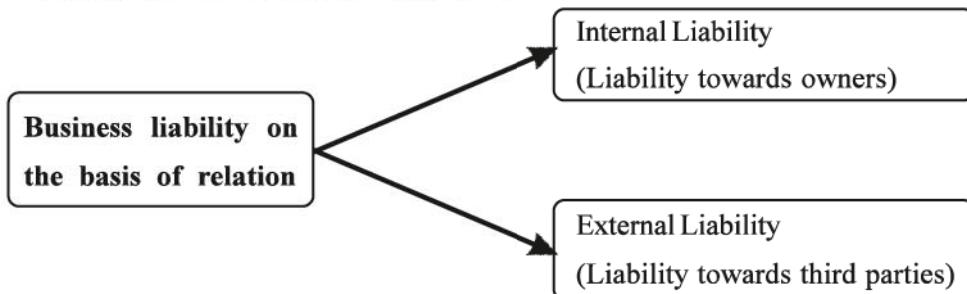
Liability can be classified as under :



(6) Internal liability and external liability : In accounting, business and owner are treated as separate entity. When owner of business is providing capital to the business, it becomes internal liability of the business. It is a liability of business towards owner. In brief, amount payable by the business to the owner is internal liability. Owner of business has provided capital of ₹ 1,00,000. This ₹ 1, 00,000 is a liability of business towards owner. This is an internal liability of business.

The amount payable by the business to the third party for credit purchase of goods / assets / services or payable amount for borrowed money is known external liability. E.g. ₹ 50,000 are borrowed from Bhavnaben with the condition to redeem after three years. Goods of ₹ 2000 purchased on credit

from Raman. ₹ 1000 are outstanding for the payment of rent. Furniture of ₹ 5000 is purchased on credit from Devang. All these dues are payable in future. These are all third parties.

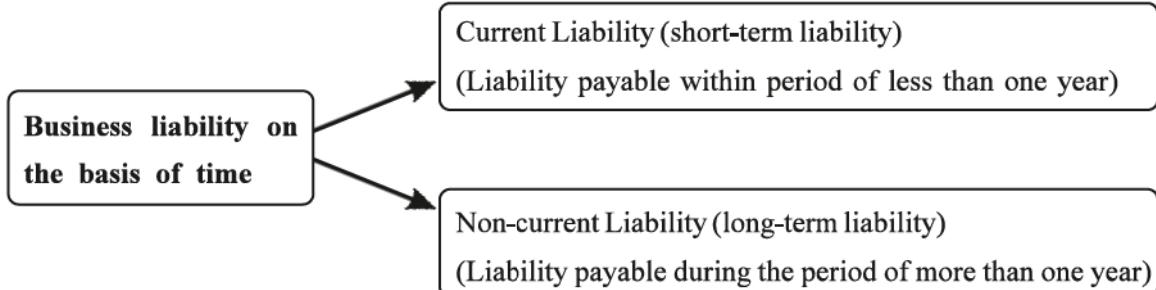


Internal and external liabilities are determined on the basis of relation of business with the owner and the third party.

(7) Current liability and non-current liability : As stated earlier, internal and external liability is determined on the basis of relation of the business with other person. While current and non-current liability is determined on the basis of time. Its explanation is as follows:

A liability, which is to be paid within one year by the business, is known as current liability. Current liability is treated as short-term liability also. Generally, in short-term liability; goods purchased on credit, expenses outstanding etc are included. E.g. as above stated goods purchased on credit from Raman, outstanding payment for rent, credit purchase of furniture etc.

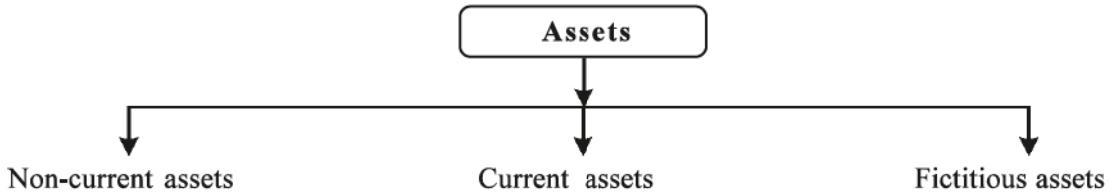
A liability, which is to be paid during the period of more than one year by the business, is known as Non-current liability. Non-current liability is also known as long-term liability of the business. In non-current liability bank loan, debenture etc are included. e.g. as above mentioned amount borrowed from Bhavnaben.



As described, above liability can be classified according to their different nature. Each liability plays, its specific role in business.

(8) Assets : There are two important aspects in business – liability and assets. We have obtained the information about liability. Now, let us have information about assets. Under double entry system at one side liability takes place and simultaneously on the other side asset emerges at the time of commencement of business.

Asset means any such tangible or intangible product or item which is of ownership of business and has economic value. In other words asset means economic resources which are held by owner and from which there is expectation of economic benefit to the business in the future. Classification of assets is as follows:



(9) Non-current assets: Non-current assets are identified on the basis of time. Like non-current liability, non-current assets are also for the period of more than one year. They are known as long-term assets or fixed assets. Land and building, plant, machineries, furniture, trademark, copy right, patent, goodwill, franchises etc are included in noncurrent assets. These assets have life of more than one year. Non-current assets can be categorized into further two categories: (i) Tangible assets (ii) Intangible assets. Their explanation is as under :

(10) Tangible assets: Tangible assets are those assets which are having physical existence. Tangible assets can be seen and can be touched. Tangible assets are subcategory of non-current assets. In tangible assets land, building, plant, machineries, furniture etc. are included.

(11) Intangible assets: Intangible word itself clarifies the meaning of these assets. Intangible assets do not hold physical existence. These cannot be seen and touched. Intangible assets are also subcategory of noncurrent assets. Trade mark, copyrights, patent, goodwill etc. are included in intangible assets.

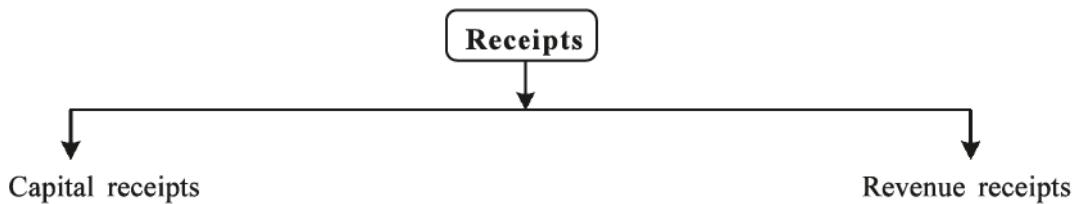
(12) Current assets: These assets are of that kind whose time duration is of less than one year. These assets can be converted into cash. For day to day transactions of business, these assets are used. In current assets cash balance, bank balance, debtors, bills receivable, raw material stock, finished stock etc. are included. A product for which trading is done by business is known as goods of business. For e.g. Grains is a goods for the business man of grains.

(13) Liquid assets: Liquid assets are recognized as sub category of current assets. All current assets excluding stock are recognized as liquid assets. These assets (excluding stock) can be converted into cash quickly, it means in short period. e.g. debtors, bill receivable etc. can be quickly converted into cash.

(14) Real assets: Real assets means assets that have value in reality. These assets have market price. This means it has realizable value. These assets can be converted into cash. In these assets, tangible, intangible and current assets are included. From sale of such assets, if money can be realized, then they are known as real assets. Through sale of real assets cash can be procured.

(15) Fictitious assets: Fictitious assets do not have physical form (existence). Realizable value of fictitious assets is zero. These assets cannot be converted into cash. This is non-recurring expense. The benefit of this expense is available for the period of more than one year. This amount is to be written off in certain years, thus shown as an asset. Every year predetermined amount is written off and shown as an expense. Issue cost of share and debenture, preliminary expense, share or debenture discount etc. are illustrations of fictitious assets. Fictitious assets are also known as spread revenue expenses or differed revenue expenses.

(16) Receipts: When money is received due to consequence of business transactions, it is known as receipt. These receipts are classified on the basis of their nature – receipts regularly received during the year and not regularly received during the year. Business receives regular receipts from day-to-day activities. E.g. receipt of the sale in business, receipt of commission, receipt of dividend. These receipts are received on regular basis. Certain receipts do not have regular nature. These receipts are categorized into two categories : (i) Regular Receipts which are known as Revenue Receipts (ii) Capital Receipts which are not regular in nature.

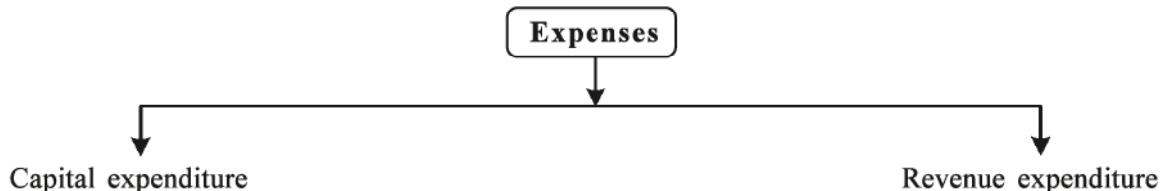


The explanation about types of receipts is given below :

(17) Capital receipts: This receipt is not received regularly. This receipt is procured from the sale of assets, this receipt is obtained by issuing debentures. Assets are not sold frequently; debentures are not issued frequently. These kind of receipts are not received frequently. Such kind of receipts are known as capital receipts.

(18) Revenue receipts: The flow of these receipts would remain constant. From these receipts, profit earned during the year or loss incurred can be ascertained. In this category of receipts income of sales, income of commission, income of discount, income of rent etc. are included. This kind of receipt arises frequently. Revenue receipt is also known as revenue income.

(19) Payments: Money paid due to consequence of business transactions is known as payments. These payments are classified on the basis of their nature – payment regularly paid during the year and not regularly paid during the year. e.g. Business is run in rented premises and rent is paid regularly every month. This is regular payment. Throughout the year it is paid. Assume, that machine is purchased for business, this expenditure is not regular expense. Like receipts, payments (expenses) are also classified into two categories.



The explanation about types of payment is given below :

(20) Capital expenditure : This payment is not regular in nature. Generally, when fixed assets are purchased capital expenditure arises. E.g. purchase of machine. Assets are not purchased frequently. Thus it is capital expenditure. The redemption of debenture is also a capital payment.

(21) Revenue expenditure : The flow of these payments would remain constant. From these payments, profit / loss is determined. In this category payment of salary, wages, telephone expense, advertisement expense etc. are included.

(22) Deferred revenue expenses : These expenses are known as fictitious assets. About this, discussion is undertaken in point no 15.

(23) Expense: The amount spent and benefit of which is available to the respective accounting year is expense. Accounting year is of 12 months. This is called as revenue expense. e.g. salary expense, wages expense, brokerage expense, commission expense, discount expense etc.

(24) Revenue: Goods and services are sold and provided to the customers respectively. If credit sales are made and amount is receivable it is also a revenue. Besides other incomes – interest, rent, commission, dividend received for the respective period and even outstanding are included in revenue.

(25) Profit : After deduction of regular payments (which is known as revenue payment) from regular receipt (which is known as revenue receipt) of the year, the remaining surplus is known as profit. The excess of day to day incomes over expenses of the business is called profit. This is revenue profit. In accounts, this kind of profit is computed from profit and loss account. This kind of profit is called revenue profit, because this profit is the difference of revenue incomes and revenue expenses. This is regular profit. But, many times there is a creation of irregular profit, known as capital profit.

(26) Loss : The computation of loss is contrary to profit computation. The difference obtained by the deduction of regular incomes from the regular expenses is called loss. This is called revenue loss. Deficit word is popular for loss in practice.

In another type of loss, there can be happening of loss without doing any kind of activity. This is also recorded in books of accounts. e.g.; Goods destroyed by fire. If cost of these goods is ₹ 5000, then loss will be of ₹ 5000. Goods stolen, destroyed in transit due to accident, goods destroyed due to rain etc, are illustrations of these sorts of loss. If any asset meets with an accident, this event is also treated as loss. Any asset is sold less than book value; amount which is not received is also called loss. This is known as capital loss.

(27) Gain : Profit and gain are popular as synonyms.

(28) Purchase: Many items or services are purchased in the business. All these purchases are not treated as purchase of business. They are expenses of business. A businessman does the business of goods, purchase of that goods is treated as purchase in accounting. e.g., when stationery is purchased by grain merchant, it is stationery expense but if he purchases grain, it is treated as purchase. This purchase can be in cash or in credit form.

(29) Sales: Businessman receives different types of incomes from business. All these incomes are not treated as sale. A businessman does the business of goods, sales of that goods is treated as sales in accounting. Income generated by grain merchant through sell of grain is called sales.

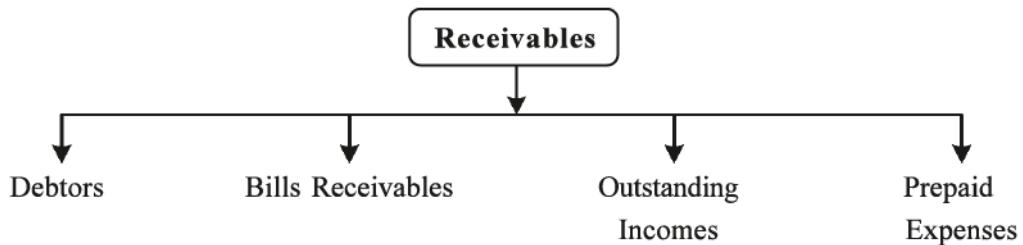
(30) Stock: Goods purchased by businessman for business purpose (trading purpose), goods remained unsold from that goods is called as stock. e.g. A businessman has purchased goods of ₹ 70,000 out of which that goods worth ₹ 45,000 sold for ₹ 75,000, then stock will be of ₹ 25,000 ($\text{₹ } 70,000 - \text{₹ } 45,000$). At the end of the accounting year, the closing stock would be ₹ 25,000 and it would be opening stock of ₹ 25,000 for the next year. Closing stock is current asset. In brief stock means surplus of goods from purchase.

(31) Debtors: When a businessman sales goods on credit to his own customers, those customers are called as debtors. Customer becomes debtor of that amount for which goods is sold on credit. **Debtors are treated as current assets.**

(32) Bills receivable: Bills receivable is a written document where there are two parties, one is the bill writer and other is the bill acceptor. Where bill writer acquires right to receive certain amount as per predetermined date in the future; it becomes receivable. Bill is a bill receivable for the bill writer.

In this written document, bill accepter accepts the written responsibility to pay specified amount on maturity date. Generally bill receivable emerges from debtors. Accommodation bills are also popular in practice. In this regard, detailed discussion is made in a separate chapter.

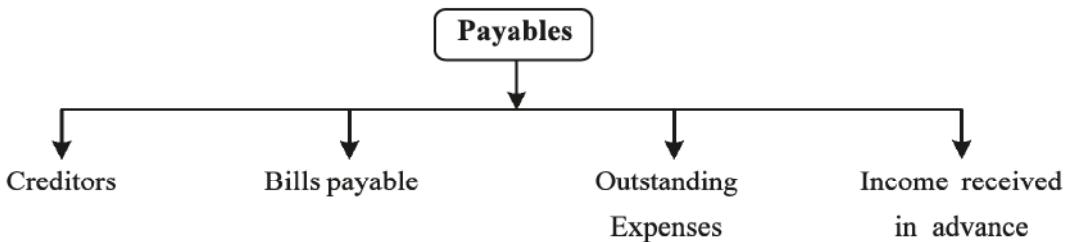
(33) Receivable: Any amount to be received by businessman in the future from any person or persons is known as receivables. Debtors and bills receivable are included in receivables. In other receivables; commission outstanding, rent outstanding, interest outstanding, prepaid expense etc are included. Loan, advances etc are also included in it.



(34) Creditors: As Businessman does credit sales, in the same way he undertakes credit purchase. A person from whom goods are purchased on credit, that particular person becomes creditor of business. A trader becomes creditor of the business, for that amount for which goods are purchased on credit. Creditors are treated as current liability.

(35) Bills payable: Bills payable is a written document. Where, there are two parties – bill writer and bill accepter. Where bill acceptor accepts responsibility to pay certain amount as per predetermined date in the future, it becomes payable. In this written bill acceptor accepts written responsibility to pay specified amount on specified date. In case of bills payable, bill acceptor pays the amount written in bill to the bill writer on maturity date. Generally, bill payable emerges from creditors.

(36) Payables: Any amount to be paid by the business person in the future to any person or persons is known payables. Creditors and bill payable are included in payables. In other payables outstanding salary, outstanding wages, any expense outstanding, pre-received incomes are included. Pre-received incomes are one kind of liability. All these payables are current liabilities. There can be long-term liabilities which are discussed hereafter.



(37) Cost: To produce any product or to provide any service whatever expenses are required, the sum of these expenses is cost. Generally, in cost; raw material cost, labor cost and other costs are included.

(38) Voucher: Voucher is a written document of business transaction. A type of transaction is determined on the basis of voucher. A type of transaction like cash transaction, credit transaction, purchase transaction, sales transaction, transaction with bank, expense transaction, income transaction,

asset transaction, liability transaction etc. are determined from voucher. After deciding the types of transaction, transactions are recorded in the books according to the rules of accounts.

(39) Discount: Emergence of discount is from purchase-sales. Many times, from total amount of purchase or sales as per conditions, certain amount is deducted and net amount is paid. The amount, which is deducted from the total amount is known as discount. Out of the total amount of purchase-sale, the amount which is procured or decuted is known as discount. There are two main types of discounts : (a) Trade discount and (b) Cash discount.

(a) Trade discount: At the time of sales, a businessperson deducts certain percentage / amount from sales price, it is known as trade discount. Trade discount is not recorded in the books. Assume that the goods worth ₹ 10,000 sold at 2% trade discount. In this case, from selling price ₹ 10,000 after deducting 2 % ($\text{₹ } 10,000 \times 2 \% = \text{₹ } 200$) sales of ₹ 9800 will be recorded in the books.

(b) Cash discount: To attract the customers with the purpose to receive quick collection of credit sales, the amount which is deducted from receivable amount is known as cash discount. Cash discount is recorded in the books. After deduction of trade discount, cash discount is determined. As above stated in (a), if ₹ 200 as discount is allowed on ₹ 9800, customer would pay ₹ 9600 to supplier. Thus, ₹ 200 will be treated as cash discount. This discount is allowed at the time of collection of cash, thus, it is called cash discount.

(40) Discount received – Discount allowed: Discount received or discount allowed are cash discounts. This discount is recorded in the books. Discount received is treated as income and discount allowed is treated as expense.

(a) Discount received: When a businessman purchases goods and pays less amount, amount which is not paid is called as discount received. This is income of business. e.g. goods of ₹ 10,000 purchased from Ramilaben and 2 % discount will be allowed if amount is paid in 15 days. If ₹ 10,000 are paid to Ramilaben within 15 days, in this case, instead of ₹ 10,000, ₹ 9800 (after deduction of 2 % on ₹ 10,000) will be paid. Now, ₹ 200 will be treated as discount received. This will be recorded in the books.

(b) Discount allowed: When businessman sales goods, and receives less amount, amount which is not received is called as discount allowed. This is expense of business e.g. goods of ₹ 15,000 sold to Kalpanaben. If amount is received in 10 days. 2 % discount will be allowed. If collection is received from Kalpanaben within 10 days in place of ₹ 15,000, ₹ 14,700 ($\text{₹ } 15,000 \times 2 \% = \text{₹ } 300$) will be received. Now ₹ 300 will be treated as discount allowed. It will be recorded in books. This is an expense of business.

(41) Depreciation: Depreciation is expense of business. Every year the value of assets is reduced by certain rate. Amount which is reduced, is called as depreciation. Before making tax payment to the government depreciation is deducted. Depreciation is non-cash expense of the business.

(42) Bad debts: When goods sold on credit by the business, person to whom goods sold is debtor of the business; from him the amount of sales is to be collected. Many times debtor of business may not be in a position to pay full amount, due to his weak financial condition. If the amount is not collected even after the necessary efforts; the amount which is not received is known as bad debts. Bad debt is not an expense of business but it is a loss.

(43) Solvent: In accounting a person who pays his financial obligations regularly and whose assets are more than liabilities, that person is known as solvent person.

(44) Insolvent: In accounting a person who doesn't pay his financial obligations regularly it means he is not in a position to pay these obligations and whose assets are less than liabilities. That person is known as insolvent person. Unless the person is declared insolvent, by the court, he cannot be treated as insolvent.

(45) Debit and credit: There are two important words of accounting. Every transaction has two effects in double entry system – **debit and credit**. True and fair understanding of debit and credit is true and fair understanding of accounting.

In accounting, two sides are used. The **left hand side in accounting is called as debit side**. The **right hand side is in accounting called credit side**. Any account to be debited means accounting treatment at debit side of account i.e. the treatment at left hand side. Any account to be credited means accounting treatment at credit side of accounts is the treatment at right hand side.

Discussion about rules of debit and credit is undertaken subsequently.

(46) Account: Business transactions pertaining to certain items and persons would take place frequently. These transactions may be of debit side having debit effect – may be of credit side having credit effect. Transaction pertaining to respective item or person is recorded at one place and from where the summary of transactions of that item or person can be obtained, it is called account. e.g. Pushpaben is a customer of business. Goods are sold on credit to her. Assume that credit sales are made 20 times in a year and she also settles her account 20 times. Now there will be $20 \times 2 = 40$ transactions with Pushpaben during the year. All these transactions are recorded at one place in the books of accounts. Where, all these transactions are recorded is called Pushpaben's account. Pushpaben is a person. Thus, it is a personal account. Like personal account, goods account, asset account, income account, expenses account etc. are also prepared. As per rules of accounting even if there is one transaction, respective account is to be prepared.

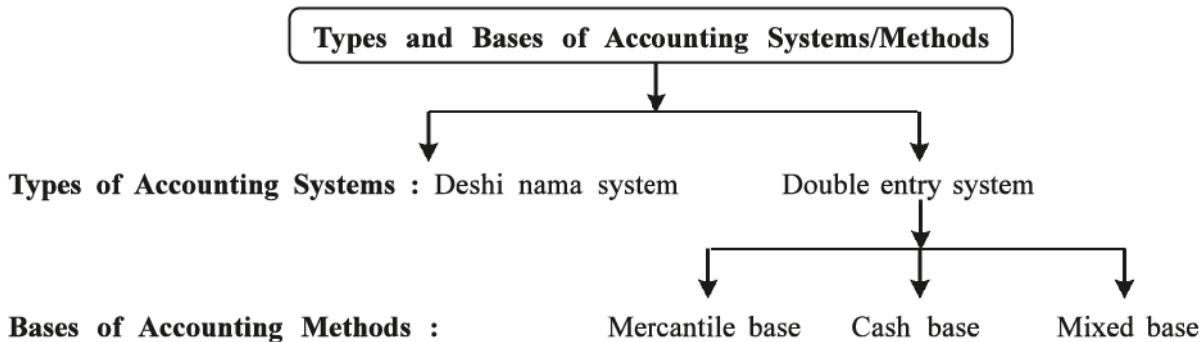
These terminologies make the subject of study easy. The terminologies clarify meanings of the concerned topics so that there is no space for any controversy.

Terminology has significant place and importance in every branch of education.

Let us know about the types of accounting systems after having studied the meaning, the characteristics and many other things of Accounting.

10. Methods of Preparing of Accounts

As stated earlier accounting is a social science. It is essential for this subject to incorporate social changes and new researches. There are two types of accounting in practice. They also keep on changing. (i) Deshi nama system (ii) Double entry system are included in these two types. The organization of the preparation of accounts under both the types is different but the rules and principles are identical. Both the types are permissible. In present time, double entry system is more popular than the deshinama; because the accounts are prepared through computer rather than manually written. Computer based accounts are prepared under double entry system.



(i) Deshi nama system : It is an ancient method of writing accounts. Generally it was used by sole proprietor and partnership firms. Gradually, the use of this system is getting reduced. Under this system, how accounts are prepared? Which accounting books are maintained? Information in this context is discussed in the subsequent chapter.

(ii) Double entry system : According to historians, the mathematician of Italy Luca Pacioli is considered as the father of the double entry system.

The understanding of the double entry system is based on the rules of debit and credit. Basically there are three rules of debit and credit, which are discussed in detail subsequently. These rules are the pillars of the double entry system. A correct and full understanding of these rules is the correct and full understanding of double entry system. Under the double entry system what will be the debit effect and credit effect of each transaction is included in these rules.

To prepare accounts under double entry system, three different bases are used.

(1) Mercantile base (2) Cash base (3) Mixed base

(1) Accrual or Mercantile base : Under this method when accounts are prepared.

- All transactions of that respective year are considered.
- In transactions of that accounting year, transactions pertaining to receipts, payments, liability and assets are included.
- Incomes and expenses of respective accounting year are considered. Where outstanding income, expenses paid in advance, expenses outstanding, incomes received in advance etc. are included.
- The incomes and expenses of that particular financial year only are considered. It includes the receivable incomes of the current year and the payable expenses of the current year. Cash incomes and expenses related transactions of previous year or next year are not considered to determine profit / loss. The transactions of the previous year are recorded in the previous year and the transactions of the next year will be recorded in the next year.

e.g. Assume that accounts are prepared for the period 1-4-2014 to 31-03-2015 and salary of ₹ 5000 is paid every month. Further assume that salary of March is outstanding. It will be recorded as under :

$$\begin{array}{rcl}
 \text{Salary paid for 11 months } (5000 \times 11) & = & ₹ 55,000 \\
 + \text{ Salary outstanding of 1 month (March)} & & ₹ 5000 \\
 \hline
 & & ₹ 60,000
 \end{array}$$

will be considered as expense
of year 2014-15

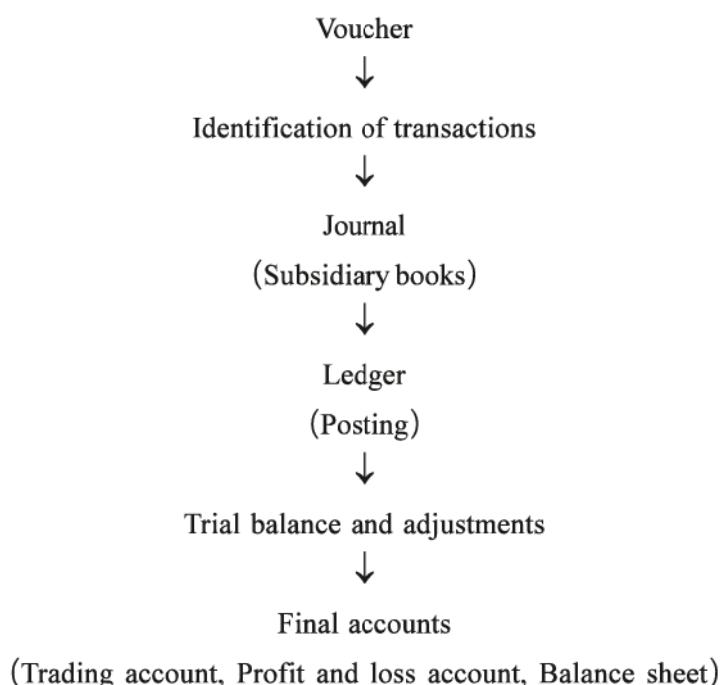
In practice, excluding certain sectors, in all the other sectors, the accounts are maintained under mercantile (accrual) system. This is a very popular method. All the chapters in this book are presented on the basis of this method.

(2) **Cash or receipt base** : Under this method, the accounts of whichever accounting year are being prepaid :

- Only all cash transactions of that respective accounting year are recorded.
- Cash transactions of that respective accounting year include transactions pertaining to receipts, payments, liability and assets
- The cash transactions of the previous year and the current year are also considered.
The use of this method is very limited.

(3) **Hybrid Method - Mixed Method** : This method is identified as modified method of mercantile system. It is known as mixture of the mercantile system and the cash system. This method is not popular. In India, generally, the companies maintain their accounts under the mercantile system and as per accounting standard 1, the companies give certificate that the accounts are prepared as per the mercantile (accrual) base.

11. Steps to Prepare Accounts



Account is a science developed by the human being. Since accounting is a science, it has its rules. In accounting, the operation regarding the preparation of accounts is made. Operations are made on the basis of rules, where accounts are prepared as per the different, developed steps. These steps are followed in the chronological order.

(1) **First step : Voucher** : Voucher is the first step of a business transaction which is a valid written document of the transaction made.

(2) **Second step : Identification of Transaction** : Whether transaction of business is economic or non-economic, whether the transaction is cash or credit is determined at this stage.

(3) Third step : Recording of Transaction : Under this stage, economic transactions of business are recorded in journals or subsidiary books.

(4) Fourth step : Posting in Ledger : Transactions recorded in journals or subsidiary books are classified through posting in a ledger it is managed that the transactions of that account can be availed at one place.

(5) Fifth step : Trial Balance : In trial balance, all balances of accounts disclosed in fourth stage are disclosed. It is the prior stage of the preparation of final accounts.

(6) Final step : Annual Accounts : These are prepared on the basis of Trial Balance and adjustments where trading account, Profit and Loss account and Balance Sheet are included.

Apart from this, other aspects which are associated with accounts like bank balance, rectification of errors, depreciation, reserves and provisions etc. are to be studied simultaneously.

Exercise

1. Select appropriate option for each question :

- (1) Under barter system, which of the following is not correct?
 - (a) Exchange of money for product
 - (b) Exchange of product for product
 - (c) Exchange of product for service
 - (d) Exchange of product / service for product / service
- (2) What is the limitation of accounting?

(a) Shows profitability	(b) Shows economic status
(c) Tax planning	(d) stable value of money
- (3) Accounting is known as

(a) Historical accounting	(b) Future accounting
(c) Present accounting	(d) Unnecessary accounting

2. Answer in one sentence :

- (1) Who provides capital to the business?
- (2) What is bad debt for business?
- (3) What is stable value of money?
- (4) What is double entry system of accounting?
- (5) State whether discount received is an income or expense?

3. Answer in two or three sentences :

- (1) Explain economic transaction
- (2) Describe types of liabilities
- (3) Discuss types of assets
- (4) Explain accounting as an art and science

- (5) Accounting is a language of business. Explain.
- (6) Describe definition of accounting.
4. **Answer in detail :**
- (1) Explain Deshi Nama system and double entry system.
 - (2) Explain process of accounting
 - (3) Discuss characteristics of accounting
 - (4) Describe advantages of accounting
 - (5) What are the limitations of accounting ?
 - (6) Who are the users of accounting information ?
 - (7) Explain the qualitative characteristics of accounting
 - (8) Explain the following terms :
 - (i) Capital and drawings
 - (ii) Capital receipts and revenue receipts
 - (iii) Payable and receivable
 - (iv) Debit and credit
 - (v) Account
 - (vi) voucher
 - (9) Explain the methods of maintaining accounts on mercantile system and cash system (Basis).



Dual Effect of Transactions and Types of Accounts

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- | | |
|--|--|
| 1. Meaning of business transaction | 5. Dual effect of transaction |
| 2. Classification of business transactions | 6. Types of account |
| 3. Identification of cash and credit transaction | 7. Rules of debit and credit of accounts |
| 4. Voucher | 8. Steps of debiting, crediting of accounts - Exercise |
-

1. Meaning of Business Transactions

The first step for preparation of account is the creation of transaction and its identification. No transaction, no accounts. When the word transaction is used in accounting.

- It has to be business transaction.
- It has to be economic transaction of business.
- Economic transaction should have monetary value.
- Business transaction can be in cash or in credit form.
- Business transaction can be internal.
- Business transaction can be external.

“Business transaction means the exchange of products / services of business for cash and/or on credit between two or more than two persons.”

To understand the precise meaning of transaction the explanation of the above-mentioned matter is given below. This explanation is given on the basis of transactions classification.

2. Classification of Business Transactions

The classification of business transactions explains types of business transaction and their characteristics. With the help of the classification, the difference between business transactions and non-business transactions can be understood. Only business economic transactions are recorded in the books.

Non-economic transactions are not recorded in the books. The classification of business transactions can be presented as under :

- **Economic transaction :**

Cash / credit transaction view point :

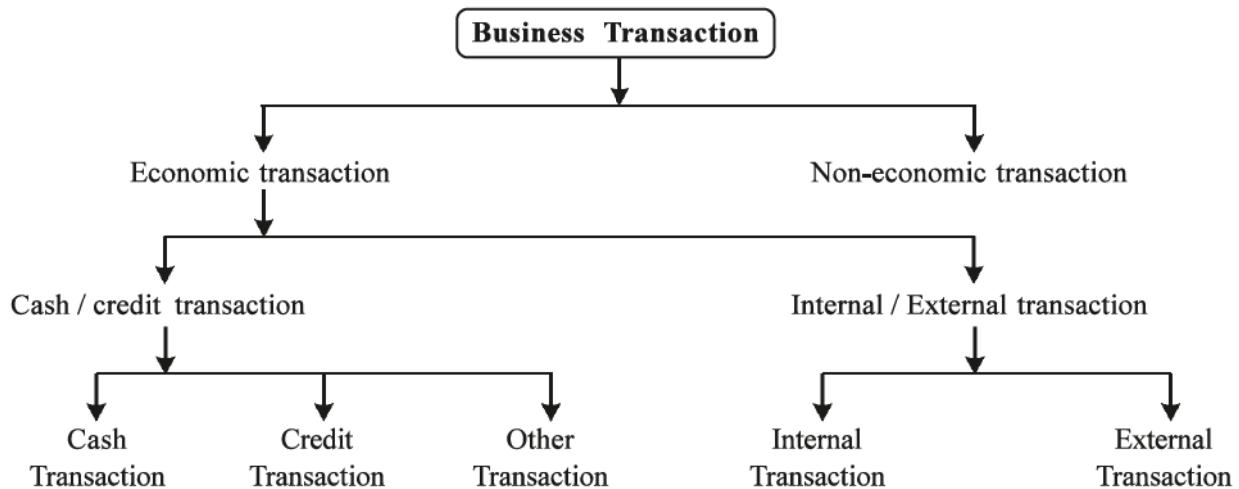
- Cash transaction
- Credit transaction
- Other transaction

Internal/External transaction view point :

- Internal transaction
- External transaction

- **Non-economic transaction :**

Following is the presentation in tabular form :



The illustrative explanation of the above stated types of business transactions is as under :

(A) Economic transactions : Only economic transactions of business are recorded in the books of business. Those business transactions the value of which can be measured in money form or cash; and where the exchange of money in cash is to be made immediately or in future is called economic transaction. The transactions at present keeping the proposed exchange of money in future, which create a relation of debtor or creditor, are included in the economic transactions.

There are two important aspects of economic transaction :

- Exchange of cash for asset – goods – service.
- Creation of relationship of debtor – creditor for asset – goods – services

Out of these two conditions if one condition is fulfilled, the transaction can be measured in terms of money and consequently that transaction becomes economic transaction.

The core characteristic of an economic transaction is its value in money. Economic transaction is recorded in the books. e.g. Radheshyam is in the business of furniture manufacturing. He purchased wood costing ₹ 30,000. This transaction is the transaction of business of Radheshyam. This transaction will be recorded by Radheshyam in his books. Economic transactions can be classified as mentioned below :

- **Cash/credit transaction view point :**

These transactions take place in three forms :

(1) Cash transaction : In this type of transaction money is paid / received for the exchange of assets, goods or service.

(i) Cash transaction for asset: In this category asset is purchased by the payment of money, or money is realized by the sale of asset. e.g. furniture worth ₹ 10,000 is purchased for business. (cash paid and asset is purchased). A scooter sold for ₹ 40,000 (Asset sold and cash is received).

(ii) Cash transaction for goods: Goods is purchased in exchange of money or money is realized from sale of goods. e.g., goods worth ₹ 15,000 is purchased in cash. Goods worth ₹ 18,000 is sold for cash.

(iii) Cash transaction for services: Cash is paid for acquired services or cash is received for provided services. e.g., salary of ₹ 12,000 paid to employee (employee gives service). Brokerage received ₹ 9000. (Broker provides service).

Note: Here, the meaning of service is, in business transaction, when money is paid or received in exchange for the work except physical asset, they are treated as service. Thus, here, the meaning of service is different.

(iv) **Transaction for receivable/payables:** Any amount, which is outstanding to pay for assets, goods or service acquired in the past, is known as payables. These are paid in present. Any amount, which is outstanding to receive for assets, goods or services, provided in the past is called receivable. These are received in present. e.g., The outstanding payment of ₹ 3000 for goods purchased from Ramila, is made. The goods worth ₹ 4000 was sold to Rashmi. The outstanding amount is received in cash.

Note: Instead of cash transaction, if transactions are made through cheques i.e. by bank. This is also included in cash transaction.

(2) **Credit transaction :** In this type of transaction, money is not paid immediately for purchase – sales transactions of asset, goods and service. Money for those purchase – sale is to be paid in future. However, exchange of asset, goods and service is made in present. Accounts are settled in future. **From this, the transaction, relation of debtor – creditor comes into existence.** In brief, purchase – sales of asset, goods, service are made in present but their money is payable or receivable in future. These transactions are recognized as **credit transactions**. e.g. Goods worth ₹ 4000 is sold to Kalpana on credit. Kalpana becomes debtor of business and business becomes creditor for Kalpana. Goods worth ₹ 6000 is purchased from Dipika on credit. Dipika becomes creditor of business, business becomes debtor for Dipika.

(3) **Other transaction :** The transaction that do not fall in the above mentioned two types, are special transactions. These are neither cash nor credit transactions. These are special transactions. These transactions are recorded in the books. e.g. Goods destroyed in accident, theft of goods, goods given for donation, goods given for advertisement, asset turned defective or useless, etc.

- **Internal/external transaction view point :** These transactions take place in two forms :

(1) **Internal transaction :** In certain transactions, there is no need of other parties. These transactions would take place within business. These transactions are recorded in the books of accounts. e.g., Depreciation on asset, loss due to natural calamity, etc. These are all economic transactions but are non-cash transactions.

(2) **External transactions :** These transactions are between business and other parties. These are economic transactions of business. These transactions are recorded in the books of accounts. e.g., sale of goods to customers, payment of wages to workers, interest received from bank, amount paid for insurance premium, purchase of machinery, cash deposited in bank etc.

- **Non-economic transaction :**

In the book of accounts of business, only economic transactions of business are recorded. Non-economic transactions are not recorded in the books. There is no significance of non-economic transactions in accounting.

“Non-economic transactions are those transactions whose value cannot be measured in terms of money.” e.g. An order is received to supply goods after one month. A meeting held with consultants for expansion of business.

So, familiarity with economic transactions and non-economic transactions provides simplicity in the writing of accounts.

Illustration 1 : Describe whether the following transactions are economic or non-economic transactions and clarify the reason for it.

- (1) Assets purchased for ₹ 10,000
- (2) Assets purchased from Radha for ₹ 12,000 on credit
- (3) Asset sold for ₹ 20,000
- (4) Assets sold to Mira on credit for ₹ 22,000.

- (5) ₹ 8000 paid for wages
- (6) ₹ 9000 received for rent
- (7) Liability of ₹ 15,000 is settled
- (8) Receivable of ₹ 18,000 is received
- (9) An order is received to supply goods of ₹ 10,000
- (10) A planning is made to buy one asset
- (11) To enhance sales, for discussion, a meeting is arranged with salesmen

Sr. No.	Transaction	Economic / Non-economic transaction	Reason
1	Assets purchased for ₹ 10,000	Economic	Cash is paid against asset
2	Assets purchased from Radha for ₹ 12,000 on credit	Economic	Relation of debtor – creditor
3	Asset sold for ₹ 20,000	Economic	Cash is received against asset
4	Assets sold to Mira for ₹ 22,000 on credit	Economic	Relation of debtor – creditor
5	₹ 8,000 paid for wages	Economic	Cash paid against service
6	₹ 9,000 received for rent	Economic	Cash received against service
7	Liability of ₹ 15,000 is settled	Economic	Liability is paid in cash
8	Receivable of ₹ 18,000 is received	Economic	Receivable is received in cash
9	An order is received to supply goods of ₹ 10,000	Non-economic	It is neither cash transaction nor establishes relation of debtor and creditor.
10	A planning is made to buy one asset	Non-economic	It is neither cash transaction nor establishes relation of debtor and creditor.
11	To enhance sales, for discussion, a meeting is arranged with salesmen	Non-economic	It is neither cash transaction nor establishes relation of debtor and creditor.

Note: To recognize economic transaction from the following two questions, when the answer of one question is “yes” then the respective transaction will be treated as economic transaction. Otherwise it will be non-economic transaction.

- (1) Is there any exchange of cash ?
- (2) Does the relation of debtor and creditor come in to existence ?

After having recognition of economic and non-economic transaction, the knowledge of the cash and credit transaction is also important.

3. Identification of Cash and Credit Transaction

- (1) **Cash Transaction :** In this kind of transaction
 - (i) There is an exchange through cash or bank.
 - (ii) In such transaction the word cash is mentioned. If the word cash is not mentioned and the name of a person is not mentioned, then also it is treated as a cash transaction.
 - (iii) In this transaction bank/cash account is definitely affected and consequently bank/cash increases and/or decreases.

(2) **Credit Transaction** : In this kind of transaction

- (i) No exchange through cash / bank
- (ii) There is emergence of relation of debtor and creditor
- (iii) Name of the person is mentioned. The word cash/bank is not mentioned.
- (iv) It definitely affects the account of a person.

Illustration 2 : Describe whether the following transactions are cash or credit and explain the reasons for it :

- (1) Goods sold in cash for ₹ 500.
- (2) Goods purchased for ₹ 800.
- (3) Goods of ₹ 900 sold to Mina.
- (4) Goods of ₹ 2000 sold to Nutan for cash.
- (5) Salary paid ₹ 5000.
- (6) Insurance premium paid ₹ 8000.
- (7) Goods of ₹ 200 received as a free sample.
- (8) Furniture of ₹ 5000 purchased from Shreeji Furniture.
- (9) ₹ 3000 paid to Shah Agency for advertisement.
- (10) Commission received ₹ 3200.
- (11) Goods of ₹ 5000 purchased for cash, payment is made by cheque.
- (12) Goods of ₹ 6000 sold, payment is received by cheque.
- (13) Rent received by Cheque ₹ 500.
- (14) Telephone bill of ₹ 700, paid by cheque.
- (15) A cheque of ₹ 3000 issued to Laxmiben for her dues.

The explanation is as under :

Sr. No.	Transaction	Cash/ Credit	Reason
1	Goods sold for cash ₹ 500	Cash	Cash increases
2	Goods purchased for ₹ 800	Cash	Cash decreases
3	Goods of ₹ 900 sold to Mina	Credit	No cash word and sold to Mina
4	Goods of ₹ 2000 sold to Nutan for cash	Cash	Cash increases
5	Salary paid ₹ 5000	Cash	Cash decreases
6	Insurance premium paid ₹ 8000	Cash	Cash decreases
7	Goods of ₹ 200 received as a free sample	Non economic	Neither cash nor credit (no person is affected)
8	Furniture of ₹ 5000 purchased from Shreeji Furniture	Credit	No cash word and purchased from Shreeji Furniture
9	₹ 3000 paid to Shah Agency for advertisement	Cash	Cash decreases
10	Commission received ₹ 3200	Cash	Cash increases
11	Goods of ₹ 5000 purchased for cash, payment is made through cheque	Cash	Bank balance decreases
12	Goods of ₹ 6000 sold, payment is received by cheque	Cash	Bank balance increases
13	Rent received by Cheque ₹ 500	Cash	Bank balance increases
14	Telephone bill of ₹ 700 paid by cheque	Cash	Bank balance decreases
15	A cheque of ₹ 3000 issued to Laxmiben for her dues.	Cash	Bank balance decreases

In brief, transactions through which the cash/bank balance increases/decreases are called as cash transaction.

4. Voucher

The pillar of accounting is voucher. First step to write accounts is voucher. Voucher is a written document of business transaction. The nature of transaction is determined through voucher. Purchase transaction, sales transaction, bank transaction, expense transaction, income transaction, assets transaction, payable transaction etc. types are determined on the basis of voucher. A voucher is used as written and authentic evidence, for which two parties transaction is made, where one party is voucher giver and another party is voucher receiver / acceptor. The same voucher has different purpose for both the parties. After recognizing the nature of transaction, transactions are recorded in the books of business as per the applicable rules of accounting. In the wide meaning of vouchers, the followings can be included in vouchers :

(1) Types of vouchers

- (1) Sales bill : voucher of sale of goods.
- (2) Purchase bill : voucher of purchase of goods
- (3) Credit note : note for sales return
- (4) Debit note : note for purchase return
- (5) Counter foil of cheque : evidence of cash withdrawn from bank
- (6) Pay-in-slip : voucher used to deposit cash in bank
- (7) Receipt issued : written certificate for amount received
- (8) Receipt received : written certificate for amount paid
- (9) Expense bills : evidence of expenses paid by cheque or cash

(2) Components of vouchers : Generally the following content (component) is covered in voucher. Each component has significance from the view point of accounting.

- (1) Name and address of voucher issuer
- (2) Name and address of voucher receiver
- (3) Date
- (4) Serial Number of voucher
- (5) Amount in figures and words
- (6) Signature of bill preparer
- (7) Signature of bill receiver (where ever necessary)
- (8) Type of voucher
- (9) Other details : each voucher differs from other in certain context. Thus the other details differ from each other.

5. Dual Effect of Transaction

Under double entry system as per its name itself two entries are done for each transaction. Normally business transaction is also between two parties. The transaction between these two parties may be of following matter.

- (1) Any person takes benefit of business or gives benefit to business (personal accounts).

(2) Increase or decrease in goods / assets (real accounts)

(3) Either expense is incurred or revenue is realised in the business (nominal accounts)

(About these three types of accounts, detailed explanation is given in point no. 6. Rules of incorporating effects in these accounts are foundation of accounting. True and appropriate understanding of these rules is true and appropriate understanding of accounting.)

As and when business transaction takes place, two effects emerge from it. These effects should be studied, keeping in mind the above-mentioned explanation.

Let us understand the dual effect of accounting with the following illustration :

Illustration 3 : Which two effects would take place for the following transactions ? Explain.

- (1) Manoj commenced business with introduction of capital of ₹ 20,000.
- (2) The account is opened with the State Bank of India by depositing ₹ 40,000.
- (3) Manoj has purchased goods worth ₹ 3000 from Bharatiben.
- (4) Manoj sold goods worth ₹ 5000 to Vipul.
- (5) Goods sold worth ₹ 2000 for cash.
- (6) Manoj purchased furniture worth ₹ 1500.
- (7) Commission paid ₹ 200.
- (8) Vipul returned goods worth ₹ 200.
- (9) Manoj returned goods worth ₹ 150 to Bharatiben.
- (10) Cheque of ₹ 2850 issued to Bharatiben.
- (11) Vipul gave a cheque for ₹ 4800.

Above mentioned transactions are business transactions by Manoj. The explanation of its dual effect is as follows:

Dual effect of all the transactions means, two effects :

- (1) First effect and (2) Second effect

Dual effect of transactions in the books of Manoj

Sr.No.	Transaction	First Effect	Second Effect
1.	Business commenced with capital of ₹ 20,000	Cash comes in → Effect on cash account	Owner introduced capital → Effect on capital account
2.	Bank account opened with SBI ₹ 40,000	Bank receiver → Effect on bank account	Cash goes out → Effect on cash account
3.	Goods worth ₹ 3000 purchased from Bhavnaben	Goods comes in → Effect on purchase account	Bharatiben giver → Effect on Bharatiben's account
4.	Goods worth ₹ 5000 sold to Vipul	Vipul receiver → Effect on Vipul's account	Goods goes out → Effect on sales account
5.	Goods sold worth ₹ 2000 for cash	Cash comes in → Effect on cash account	Goods goes out → Effect on sales account
6.	Furniture purchased worth ₹ 1500	Furniture comes in → Effect on furniture account	Cash goes out → Effect on cash account

Sr.No.	Transaction	First Effect	Second Effect
7.	Commission paid ₹ 200	Expense incurred → Effect on commission account	Cash goes out → Effect on cash account
8.	Vipul returned goods worth ₹ 200	Goods sold comes in → Effect on sales return account	Vipul is giver → Effect on Vipul's account
9.	Goods returned worth ₹ 150 to Bharatiben.	Bharatiben receiver → Effect on Bharatiben's account	Goods goes out → Effect on purchase return account
10.	Cheque of ₹ 2850 issued to Bharatiben.	Bharatiben receiver → Effect on Bharatiben's account	Bank is giver → Effect on Bank account
11.	Vipul gave cheque for ₹ 4800	Bank receiver → Effect on Bank account	Vipul is giver → Effect on Vipul's account

After having knowledge of the first effect and second effect of double entry system, let us take information about the types of accounts and their rules. Student friends, if you appropriately study the first effect and second effect, it will be easy for you to understand the types of accounts and their rules.

6. Types of Accounts

What is an account? Information about it is obtained in Chapter No. 1 under accounting terms. In accounts, personal account, goods account, asset account, income account, expenses accounts etc. are included. In double entry system, there are rules for all these accounts. Accounts are written on the basis of these rules. Due to these rules of accounts, accounting is known as social science. Rules of accounts are formed on the basis of the types of accounts.

The information and knowledge with the classification of accounts and their rules are given below:

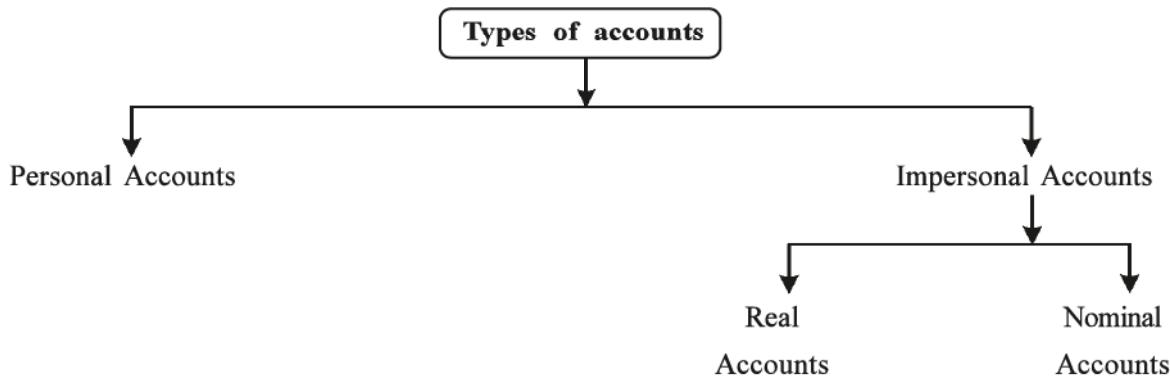
(1) **Classification of accounts :** The classification of accounts is categorized mainly into two categories.

- Personal accounts
- Impersonal accounts

Impersonal accounts are also categorized into two categories:

- Real accounts
- Nominal accounts

In tabular form accounts can be presented as follows:



Generally, personal accounts, real accounts and nominal accounts are considered as main accounts. These rules are framed for these three accounts. Before having information about rules for accounts, let us study the sub categories of these accounts and accounts included therein.

(1) Personal accounts : In business, when transactions are made on credit, the counter party is person. This person may be natural person or legal artificial person. Due to credit transaction, debtor – creditor relation comes into existence between business and the other person.

Live persons are included in natural person. Accounts of their names are maintained in the books. E.g. Hetal's account, Dharmendra's account, Raman's account etc. Business undertakes a transaction with a legal artificial person also. Bank of Baroda's account, Jivan Jyoti high school's account, Parag medical store's account, LIC's account etc. are included in such person. In brief, partnership firm, company, co-operatives, association, club, social organizations, religious institutes etc. are included in artificial person. When natural or artificial person takes benefit of business, he becomes debtor of the business and business becomes creditor for that person. When natural or artificial person gives benefit to business, he becomes creditor of the business and business becomes debtor for that person. e.g. Ramesh sold goods worth ₹ 50,000 to Shiv Ltd on credit. Here Shiv Ltd is debtor of Ramesh, while Ramesh is creditor of Shiv Ltd. If Shiv Ltd sold goods to Ramesh, then Ramesh will be debtor for Shiv Ltd and Shiv Ltd will be creditor for Ramesh.

(2) Real accounts : Here two types of accounts arises. Goods accounts and assets accounts.

(i) Goods accounts: Products, which are dealt with by the business man, are treated as goods. Different kinds of goods related transactions are made. Keeping in mind the type of transaction, it is recorded in the goods related appropriate account. Following goods related transactions are used.

For example, (1) Purchase account, (2) sales account, (3) purchase return account, (4) sales return account, (5) goods withdrawn for personal use account, (6) goods destroyed by fire account, (7) goods given for advertisement account, (8) goods given for donation account. (Point no. (5) to (8) is discuss in latter.)

(ii) Asset account: When business holds ownership for any tangible or intangible thing and has monetary value of it is known as an asset. Business is done with the help of assets.

Business may have tangible or intangible assets. Tangible assets include accounts like land, building, plant, machinery, furniture, vehicles, etc. Intangible assets include goodwill, copy rights, patents, trademark etc.

In addition to tangible and intangible assets investments like investment in shares of company, investment in debentures, investment in deposit accounts are also included in assets accounts.

As another sub category of assets, current assets are also included. Where accounts like cash balance, bank balance, debtors, stock, expenses paid in advance, incomes outstanding are included.

(3) Nominal accounts : These accounts of business perform their operation throughout the year. These accounts are called as income-expenditure accounts. The computation of profit-loss of business is ascertained on the basis of these accounts.

(i) Accounts of income : Interest received, discount received, dividend received, rent received, brokerage received etc are included in these accounts.

(ii) **Accounts of expense** : Wages, carriages, postage expense, stationery expense, salary expense, taxes, depreciation, discount allowed, insurance premium, advertisement expense, bank charges etc are included in these accounts.

Illustration 4 : Classify the following accounts and give explanation in brief:

(1)	Navjivan Commerce College Account	(2)	Drawings account
(3)	Cash account	(4)	Donation account
(5)	Machinery account	(6)	Land account
(7)	Raj Medical Stores account	(8)	Salary account
(9)	Carriage inward account	(10)	Furniture account
(11)	Carriage outward account	(12)	Stationery account
(13)	Wages account	(14)	Copyright account
(15)	Interest received account	(16)	Union Bank account
(17)	Rent paid account	(18)	Reliance shares account
(19)	Discount received account	(20)	Ahmedabad Branch account
(21)	Bad debts account	(22)	Karnavati club account
(23)	Debtors account	(24)	Goods distributed as sample account
(25)	Creditors account	(26)	Factory expense account
(27)	Nilamben's account	(28)	Depreciation account
(29)	Gujarat Government account	(30)	Received bank interest account
(31)	Goods given for advertisement account	(32)	Dividend received account
(33)	Commission received account	(34)	Goodwill account
(35)	Commission allowed account	(36)	Bills receivable account
(37)	Discount allowed account	(38)	Stock account
(39)	Capital account	(40)	Purchase account

Sr.No.	Name of Account	Types of Account	Explanation
(1)	Navjivan Commerce College Account	Personal account	Legal artificial person
(2)	Drawings	Personal account	It discloses particular about withdrawal done by owner of business
(3)	Cash account	Real account (Asset Account)	Cash is current asset of business
(4)	Donation account	Nominal account (Expense account)	Donation is business expense
(5)	Machinery account	Real account (Asset Account)	Machinery is noncurrent (fixed) asset of business

Sr.No.	Name of Account	Types of Account	Explanation
(6)	Land account	Real account (Asset Account)	Land is non-current (fixed) asset of business
(7)	Raj Medical Stores account	Personal account	Raj medical store is legal artificial person
(8)	Salary account	Nominal account (Expense account)	Salary is business expense
(9)	Carriage inward account	Nominal account (Expense account)	Carriage inward is expense of business
(10)	Furniture account	Real account (Asset Account)	Furniture is asset of business
(11)	Carriage outward account	Nominal account (Expense account)	Carriage outward is expense of business
(12)	Stationery account	Nominal account (Expense account)	Stationery is expense of business
(13)	Wages account	Nominal account (Expense account)	Wages is expense of business
(14)	Copyright account	Real account (Asset Account)	Copyright is non-current (fixed) intangible asset of business
(15)	Interest received	Nominal account (Income account)	Received interest is income of business
(16)	Union Bank account	Personal account	Union Bank account is legal artificial person
(17)	Rent paid account	Nominal account (Expense account)	Rent paid is expense of business
(18)	Reliance shares account	Real account (Asset Account)	Reliance share account is asset of business
(19)	Discount received account	Nominal account (Income account)	Discount received is income of business
(20)	Ahmedabad Branch account	Personal account	Ahmedabad Branch is a artificial person
(21)	Bad debts account	Nominal account (Expense account)	Bad debt is loss of business
(22)	Karnavati club account	Personal account	Karnavati club is legal artificial person
(23)	Debtors account	Personal account	Goods is sold on credit (This may be natural or legal artificial person)

Sr.No.	Name of Account	Types of Account	Explanation
(24)	Goods distributed as sample account	Nominal account (Expense account)	Goods distributed as sample is expense of business
(25)	Creditors account	Personal account	Goods is purchased on credit (This can be natural or legal artificial person)
(26)	Factory expense account	Nominal account (Expense account)	Factory expense is expense of business
(27)	Nilamben's account	Personal account	Nilamben is natural person
(28)	Depreciation account	Nominal account (Expense account)	Depreciation is expense of business It is non-cash expense.
(29)	Gujarat Government account	Personal account	Gujarat government is legal artificial person
(30)	Received bank interest account	Nominal account (Income account)	Received bank interest is income of business
(31)	Goods given for advertisement account	Nominal account (Expense account)	Goods given for advertisement is expense of business
(32)	Dividend received account	Nominal account (Income account)	Dividend received is income of business
(33)	Commission received account	Nominal account (Income account)	Commission received is income of business
(34)	Goodwill account	Real account (Asset Account)	Goodwill is non-current fixed intangible asset
(35)	Commission allowed account	Nominal account (Expense account)	Commission allowed is expense of business
(36)	Bills receivable account	Personal account	Bills receivable is receivable of business
(37)	Discount allowed account	Nominal account (Expense account)	Discount allowed is expense of business
(38)	Stock account	Real account (Asset Account)	Stock is asset of business
(39)	Capital account	Personal account	Owner of business provides capital to business. Owner of business is natural person
(40)	Purchase account	Real account (Asset Account)	Purchase of goods is asset of business

Classification of accounts can be as follows also:

Personal Accounts		Real Accounts		Nominal Accounts	
Sr.	Name of Account	Sr.	Name of Account	Sr.	Name of Account
	Natural Person Account		Goods Accounts		Income Accounts
(2)	Drawings account	(38)	Stock account	(15)	Interest received account
(23)	Debtors account	(40)	Purchase account	(19)	Discount received account
(25)	Creditors account			(30)	Received bank interest a/c
(27)	Nilamben's account			(32)	Divident received account
(36)	Bills receivable account			(33)	Commission received a/c
(39)	Capital account				
	Legal Artificial Person		Assets Account		Expense Account
	A/c	(3)	Cash account	(4)	Donation account
(1)	Navjina Commerce College	(5)	Machinery account	(8)	Salary account
(7)	Raj Medical Stores a/c	(6)	Land account	(9)	Carriage inward account
(16)	Union Bank account	(10)	Furniture account	(11)	Carriage outward account
(20)	Ahmedabad Branch a/c	(14)	Copyright account	(12)	Stationery account
(22)	Karnavati club account	(18)	Reliance shares account	(13)	Wages account
(29)	Gujarat Government a/c	(34)	Goodwill account	(17)	Rent paid account
				(21)	Bad debts account
				(24)	Goods distributed as sample account
				(26)	Factory expense account
				(28)	Depreciation account
				(31)	Goods given for advertisement account
				(35)	Commission allowed account
				(37)	Discount allowed account

Note : (1) Debtors and creditors can be included as natural person or artificial person. Here, debtors and creditors are included as natural person. (2) Bills receivable can be included in assets account. (3) In item no. (24) and (31) mentioned in the question the emphasis is given to the expense. There is outward of goods. Thus, considering other aspect it can be treated and credited as a type of real account.

Illustration 5 : Classify the following accounts and give brief explanation :

(1)	Bills receivable account	(2)	Demurrage account
(3)	Bills payable account	(4)	Bijal's account
(5)	Closing stock account	(6)	Himani's account
(7)	Patent account	(8)	Bank of Baroda account

(9)	Bank overdraft account	(10)	R & L Pandya High school account
(11)	Petty cash account	(12)	Gujarat University account
(13)	Interest on drawings account	(14)	Tata company account
(15)	Interest on capital account	(16)	Share of Tata Company account
(17)	Loan borrowed account	(18)	Debenture of Tata Company account
(19)	Interest paid account	(20)	Interest received on debenture account
(21)	Insurance premium account	(22)	Bad debts return account
(23)	Office expenses account	(24)	Salary outstanding account
(25)	Sales expense account	(26)	Rent payable account
(27)	Wages payable (outstanding) account	(28)	United Insurance Co. account
(29)	Railway freight account	(30)	Royalty account
(31)	Machine repairing account	(32)	Vehicle account
(33)	Dividend received account	(34)	Income tax account
(35)	Ramaben account	(36)	Sharmisthaben account
(37)	Vasani Brothers account	(38)	Jasani & Sons account
(39)	Vasani account	(40)	Jasani account
(41)	Commission received account	(42)	Commission allowed account
(43)	Discount received account	(44)	Discount allowed account
(45)	Stationery stock account	(46)	Sales account
(47)	Sales return account	(48)	Purchase return account
(49)	Purchase account	(50)	Goods destroyed by fire account

Answer :

Sr.No.	Name of Account	Type of Account	Explanation
(1)	Bills receivable account	Personal account	Bills receivable is receivable of business
(2)	Demurrage account	Nominal account (Expense account)	Demurrage account is expense of business
(3)	Bills payable account	Personal account	Bills payable is payable of business
(4)	Bijal's account	Personal account	Bijal is natural person
(5)	Closing stock account	Real account (Asset Account)	Closing stock is asset of business
(6)	Himani's account	Personal account	Himani is natural person
(7)	Patent account	Real account (Asset Account)	Patent is non-current fixed intangible asset
(8)	Bank of Baroda account	Personal account	Bank of Baroda is legal artificial person
(9)	Bank overdraft account	Personal account	Bank overdraft is liability of business

Sr.No.	Name of Account	Type of Account	Explanation
(10)	R & L Pandya high school account	Personal account	R & L Pandya High school is legal artificial person
(11)	Petty cash account	Real account (Asset Account)	Petty cash account is asset of business
(12)	Gujarat University account	Personal account	Legal artificial person
(13)	Interest on drawings account	Nominal account (Income account)	Interest on drawings is income of business
(14)	Tata company account	Personal account	Legal artificial person
(15)	Interest on capital account	Nominal account (Expense account)	Interest on capital is expense of business
(16)	Share of Tata Company account	Real account (Asset Account)	Share of Tata company (investment) is asset of business
(17)	Loan borrowed account	Personal account	Borrowed loan is to be obtained from person. It is liability of business
(18)	Debenture of Tata Company account	Real account (Asset Account)	Debenture of Tata company (investment) is asset of business
(19)	Interest paid account	Nominal account (Expense account)	Interest paid is expense of business
(20)	Interest received on debenture account	Nominal account (Income account)	Interest received on debenture is income of business
(21)	Insurance premium account	Nominal account (Expense account)	Insurance premium is expense of business
(22)	Bad debts return account	Nominal account (Income account)	Bad debts return is income of business
(23)	Office expense account	Nominal account (Expense account)	Office expenses, is expense of business
(24)	Salary outstanding account	Personal account	Salary outstanding is liability of business
(25)	Sales expense account	Nominal account (Expense account)	Sales expenses is expense of business
(26)	Rent payable account	Personal account	Rent outstanding is payable to person, thus it is liability
(27)	Wages payable (outstanding) account	Personal account	Wages is payable to workers, thus it is liability
(28)	United Insurance Co. a/c	Personal account	United Insurance co is legal artificial person
(29)	Railway freight account	Nominal account (Expense account)	Railway freight is expense of business
(30)	Royalty account	Nominal account (Expense account)	Royalty is expense of business

Sr.No.	Name of Account	Type of Account	Explanation
(31)	Machine repairing account	Nominal account (Expense account)	Machine repairing is expense of business
(32)	Vehicle account	Real account (Asset Account)	Vehicle is asset of business
(33)	Dividend received account	Nominal account (Income account)	Dividend received is income of business
(34)	Income tax account	Personal account	Income tax is personal expense of owner
(35)	Ramaben's account	Personal account	Ramaben is natural person
(36)	Sharmisthaben's account	Personal account	Sharmisthaben is natural person
(37)	Vasani Brothers account	Personal account	Vasani Bros is legal artificial person (it is firm)
(38)	Jasani & Sons account	Personal account	Jasani & Sons is legal artificial person (it is firm)
(39)	Vasani's account	Personal account	Vasani is natural person
(40)	Jasani's account	Personal account	Jasani is natural person
(41)	Commission received account	Nominal account (Income account)	Commission received is income of business
(42)	Commission allowed account	Nominal account (Expense account)	Commission allowed is expense of business
(43)	Discount received account	Nominal account (Income account)	Discount received is income of business
(44)	Discount allowed account	Nominal account (Expense account)	Discount allowed is expense of business
(45)	Stationery stock account	Real account (Asset Account)	Closing stock of stationery is asset of business
(46)	sales account	Real account (Asset Account)	Due to sales goods decreases from business
(47)	Sales return account	Real account (Asset Account)	Due to sales return goods increase in business
(48)	Purchase return account	Real account (Asset Account)	Due to purchase return goods decreases in business
(49)	Purchase account	Real account (Asset Account)	Due to purchase goods increase in business
(50)	Goods destroyed by fire	Nominal account (Expense (loss) account)	Goods destroyed by fire is loss of business

Classification of accounts can be as follows also:

Personal Accounts		Real Accounts		Nominal Accounts	
Sr. No.	Name of Account	Sr. No.	Name of Account	Sr. No.	Name of Account
	Natural Person Account		Goods Accounts		Income Accounts
(1)	Bills receivable account	(5)	Closing stock account	(13)	Interest on drawings account
(3)	Bills payable	(46)	Sales account	(20)	Interest received on debenture account
(4)	Bijal's account	(47)	Sales return account	(22)	Bad debts return account
(6)	Himani's account	(48)	Purchase return account	(33)	Dividend received account
(17)	Loan borrowed account	(49)	Purchase account	(41)	Commission received a/c
(24)	Outstanding salary			(43)	Discount received account
(26)	Rent payable				
(27)	Wages payable (outstanding)				
(34)	Income tax account				
(35)	Ramaben's account				
(36)	Sharmisthaben's account				
(39)	Vasani's account				
(40)	Jasani's account				
	Legal Artificial Person		Assets Account		Expense Account
	A/c	(7)	Patent account	(2)	Demurrage account
(8)	Bank of Baroda account	(11)	Petty cash account	(15)	Interest on capital account
(9)	Bank overdraft account	(16)	Share of Tata Company account	(19)	Interest paid account
(10)	R & L Pandya High School account	(18)	Debenture of Tata Company	(21)	Insurance premium account
(12)	Gujarat University account	(32)	Vehicle account	(23)	Office expenses account
(14)	Tata company account	(45)	Stationery stock account	(25)	Sales expense account
(28)	United Insurance Co. account			(29)	Railway freight account
(37)	Vasani Brothers account			(30)	Royalty account
(38)	Jasani & Sons account			(31)	Machine repairing account
				(42)	Commission allowed account
				(44)	Discount allowed account
				(50)	goods destroyed by fire

In item no. (50) of question, the emphasis is given to the expense (loss). There is outward of goods. Thus, considering other aspects it can be treated and credited as a type of real account.

Precautions to be taken to recognize types of accounts: There will be wrong accounting effect for transaction if there is error to identify types of account. It is very essential to identify the applicable account of respective transaction. E.g. For both Salary and outstanding salary, separate accounts are applicable. For salary income-expenditure account (expense account) is applicable and to outstanding salary personal account (Natural person account) is applicable. Let us have further study of it in the context of income expenditure account.

Illustration 6 : Transactions in reference to expenses and types of accounts:

Sr.No.	Transaction	Types of Account
(1)	Salary Salary Outstanding Salary paid in Advance	Nominal Account (It is expense) Personal Account (It is liability) Personal Account (It is receivable)
(2)	Rent paid Rent Outstanding Rent paid in Advance	Nominal Account (It is expense) Personal Account (It is liability) Personal Account (It is receivable)
(3)	Commission paid Commission Outstanding Commission paid in Advance	Nominal Account (It is expense) Personal Account (It is liability) Personal Account (It is receivable)
(4)	Brokerage paid Brokerage Outstanding Brokerage paid in Advance	Nominal Account (It is expense) Personal Account (It is liability) Personal Account (It is receivable)

Note: Some transactions of business can be expense and income. Rent paid, Rent received, Commission paid, Commission received, Brokerage paid, Brokerage received, Discount allowed, Discount received etc are illustrations for this.

Transactions in reference to income types of accounts :

Sr	Transaction	Types of Account
1	Commission received Commission Outstanding Commission received in Advance	Nominal Account (It is income) Personal Account (It is receivable) Personal Account (It is liability)
2	Brokerage received Brokerage Outstanding Brokerage received in Advance	Nominal Account (It is income) Personal Account (It is receivable) Personal Account (It is liability)
3	Dividend received Dividend Outstanding Dividend received in Advance	Nominal Account (It is income) Personal Account (It is receivable) Personal Account (It is liability)
4	Rent received Rent Outstanding Rent received in Advance	Nominal Account (It is income) Personal Account (It is receivable) Personal Account (It is liability)

Students should undertake frequent exercises for the above-mentioned transactions. Due to frequent exercises the fundamental rules and principles can be easily understood.

7. Rules of Debit and Credit of Accounts

In this chapter, we have studied dual effect of transaction in point No. 5. Under double entry system (accounting) as per its name, it is a method to give two effects of transaction.

While giving two-fold effect, it may affect two or more than two accounts. Transaction of business is also made between two parties.

We have acquired information of dual effect in the form of first effect and second effect.

First effect means, debit effect of transaction.

Second effect means, credit effect of transaction

From the above presentation, it can be said that the dual effect of transaction means first debit effect and second credit effect. In brief, every transaction of business has effect means debit and credit.

There are pre-determined rules in accounting for debit effect and credit effect. Debit and credit rules are made for the following three accounts.

- (1) Personal Account : (Any person taking benefit from business or giving benefit to business)
- (2) Real Account : (Increase (receipt) of goods / assets in business or decrease of goods / asset in business.)
- (3) Nominal Account : (Occurrence of expense / loss to the business or realization of income / gain to the business.)

The Table explains First (Debit) and Second (Credit) effect of transaction :

Sr. No.	Types of account	First effect of transaction means debit effect of transaction		Second effect of transaction means credit effect of transaction	
(1)	Personal accounts	1(a)	Debit the receiver	1(b)	Credit the giver
(2)	Real accounts	2(a)	Debit what comes in	2(b)	Credit what goes out
(3)	Nominal accounts	3(a)	Debit expense and loss	3(b)	Credit income and gain

(1) Personal Accounts: Two types of persons are included in personal accounts : (i) Natural Persons (ii) Legal Artificial Persons. Business undertakes transactions with the persons, who takes benefit from business or gives benefit to business.

Rule of Personal Account : “Debit the Receiver, Credit the Giver.”

If person has taken the benefit of business, debit his account and if person has given benefit to business credit his account. In brief, debit the receiver account and credit the giver account. Let us understand this matter with the following illustration :

Illustration 7 :

- (1) Goods sold worth ₹ 20,000 sold to Jayshree.
- (2) ₹ 10,000 deposited with Bank of Baroda.
- (3) ₹ 30,000 paid to Bhumika.
- (4) Rent receivable from Shilpa ₹ 2000.
- (5) Goods worth ₹ 20,000 purchased from Jayshree.
- (6) ₹ 10,000 withdrawn from Bank of Baroda.
- (7) ₹ 30,000 received from Bhumika.
- (8) Rent payable to Shilpa ₹ 2000.

Note: In personal account for transaction, the name of person is at centre.

For above-mentioned transaction no 1 to 4 all persons have taken benefit from business. Thus, their accounts will be debited. While for transaction no 5 to 8 all persons have given benefit to business, thus, their accounts will be credited.

Ans. : Explanation:

- (1) Goods sold to Jayshree ₹ 20,000. Jayshree is benefit receiver. Her account will be debited.
- (2) ₹ 10,000 deposited with Bank of Baroda. Bank is benefit receiver. Its account will be debited.
- (3) ₹ 30,000 paid to Bhumika. Bhumika is benefit receiver. Her account will be debited.
- (4) Shilpa has taken service from business, her account will be debited.
- (5) Goods worth ₹ 20,000 purchased from Jayshree. Jayshree is benefit giver. Her account will be credited.
- (6) ₹ 10,000 withdrawn from Bank of Baroda. Bank is benefit giver. Its account will be credited.
- (7) ₹ 30,000 received from Bhumika. Bhumika is benefit giver. Her account will be credited.
- (8) Business has taken benefit of service of Shilpa. Her account will be credited.

(2) Real accounts: Real accounts also can be categorized into two categories : (i) Goods accounts (ii) Assets accounts.

Transactions take place pertaining to goods and assets. Either goods or an asset comes in or goods or an asset goes out.

Rule of Real Account : “Debit what comes in, Credit what goes out.”

If goods or an asset comes in business, debit respective goods or asset account and if goods or an asset goes out from business, credit respective goods or asset account. Let us understand this matter with following illustration.

Illustration 8 :

- (1) Goods of ₹ 20,000 purchased from Rohini.
- (2) Goods of ₹ 8000 purchased from Salama on cash.
- (3) Furniture of ₹ 10,000 purchased from Rajesh.
- (4) Machine of ₹ 20,000 purchased on cash.
- (5) Goods of ₹ 20,000 sold to Rohini.
- (6) Goods of ₹ 8000 sold to Salama on cash.
- (7) Old furniture of ₹ 10,000 sold to Rajesh.
- (8) Machine of ₹ 20,000 sold on cash.

Note: In real account for transaction, the goods / asset is at center.

From above-mentioned transactions no 1 to 4 goods or asset comes in. Thus, their accounts will be debited. While for transactions no 5 to 8 goods or asset goes out, their accounts will be credited.

Ans. : Explanation:

- (1) Goods of ₹ 20,000 purchased from Rohini. Goods comes in, purchase account will be debited.
- (2) Goods of ₹ 8000 purchased from Salama on cash. Goods comes in, purchase account will be debited.
- (3) Furniture of ₹ 10,000 purchased from Rajesh. Furniture is an asset. Furniture comes in, furniture account will be debited.
- (4) Machine of ₹ 20,000 purchased on cash machine comes in. Machine is an asset, machine account will be debited.
- (5) Goods of ₹ 20,000 sold to Rohini. Goods goes out, sales account will be credited.
- (6) Goods of ₹ 8000 sold to Salama on cash. Goods goes out, sales account will be credited.

- (7) Old furniture of ₹ 10,000 sold to Rajesh. Furniture is an asset. furniture goes out. Furniture account will be credited.
- (8) Machine of ₹ 20,000 sold on cash. Machine is an asset. Machine goes out. Machine account will be credited.

(3) Nominal Accounts: Under nominal accounts due to transaction Either : (i) Income (revenue) realizes or (ii) Expense incurs.

All expenses are debited and incomes are credited.

Rule of Nominal account : “Debit expense and losses, Credit incomes and gains.”

Let us understand this matter with following illustration :

Illustration 9 :

- | | |
|---------------------------------|------------------------------------|
| (1) ₹ 5000 paid for salary. | (2) ₹ 3000 paid for rent. |
| (3) Paid telephone bill ₹ 2000. | (4) Bad debts incurred for ₹ 3000. |
| (5) Brokerage received ₹ 2500. | (6) Dividend received ₹ 3300. |
| (7) Commission received ₹ 1800. | (8) Interest received ₹ 2200. |

Note: In nominal account, for transaction, income or expense is at center.

For above-mentioned transaction no 1 to 4 pertaining to expense or loss. Thus, their accounts will be debited. While for transaction no 5 to 8 pertaining to income. Thus, their accounts will be credited.

Ans. : Explanation:

- (1) ₹ 5000 paid for salary. Salary is expense. Salary account will be debited
- (2) ₹ 3000 paid for rent. Rent is expense. Rent account will be debited
- (3) Paid telephone bill ₹ 2000. Telephone bill is expense. Telephone bill account will be debited
- (4) Bad debts incurred for ₹ 3000. A bad debt is loss. Bad debt account will be debited.
- (5) Brokerage received ₹ 2500. Brokerage is income. Brokerage account will be credited.
- (6) Dividend received ₹ 3300. Dividend is income. Dividend account will be credited.
- (7) Commission received ₹ 1800. Commission is income. Commission account will be credited.
- (8) Interest received ₹ 2200. Interest is income. Interest account will be credited.

- **Rules of debit – credit :** Study the following table to remember debit – credit rules:

Rules of Debit – Credit		
Types of account :	Debit	Credit
Personal Account :	Debit Receiver	Credit Giver
Real Account :	Debit what comes in	Credit what goes out
Nominal Account :	Debit expense / loss	Credit income / gain

8. Steps to Debit-Credit Account :

(1) Determines whether transaction is economic or non-economic : Only economic transactions are recorded in the books of accounts. Non-economic transactions are not recorded in the books of business. e.g. An order is received for goods of ₹ 2000. This transaction does not affect any above mentioned account. Thus it is not economic transaction.

(2) Determine two different accounts associated with transaction: Every transaction has dual effect. Dual effect means debit and credit effect. Determine which account has debit effect and which account has credit effect. On that basis both the accounts will be determined. On the basis of above mentioned table, first determine debit effect and subsequently determine credit effect. In this context let us undertake study of the following illustration.

Illustration 10 : To which account the following transactions will be debited and credited in the books of Ranchhod ? Describe :

- (1) Ranchhod commenced business with capital of ₹ 50,000.
- (2) ₹ 20,000 deposited with Bank of Baroda.
- (3) Goods of ₹ 2000 purchased on cash.
- (4) Goods of ₹ 6000 sold to Radha.
- (5) Goods of ₹ 1000 purchased on cash.
- (6) Goods of ₹ 2000 purchased from Mira.
- (7) Purchased furniture of ₹ 1000.
- (8) Sundry expense incurred for ₹ 300.
- (9) Dividend received ₹ 200.
- (10) Wages paid ₹ 200.
- (11) Machine of ₹ 15,000 purchased from Ramesh Bros.

Ans. :

Sr. No.	Transaction	Debit Effect			Credit Effect		
		Benefit receiver person	Goods / Asset comes in	In case of Expense/ Loss	Benefit giver person	Goods / Asset goes out	In case of Income / gain
1.	Ranchhod commenced business with capital of ₹ 50,000	-	Debit to cash account	-	Credit to capital account	-	-
2.	₹ 20,000 deposited with Bank of Baroda	Debit to Bank of Baroda account	-	-	-	Credit to cash account	-
3.	Goods of ₹ 2000 purchased on cash	-	Debit to purchase account	-	-	Credit to cash account	-
4.	Goods of ₹ 6000 sold to Radha	Debit to Radha account	-	-	-	Credit to sales account	-
5.	Goods of ₹ 1000 purchased on cash	-	Debit to purchase account	-	-	Credit to cash account	-
6.	Goods of ₹ 2000 purchased from Mira	-	Debit to purchase account	-	Credit to Mira account	-	-
7.	Purchased furniture of ₹ 1000	-	Debit to Furniture account	-	-	Credit to cash account	-
8.	Sundry expense incurred for ₹ 300	-	-	Debit Sundry expense account	-	Credit to cash account	-
9.	Dividend received ₹ 200	-	Debit to Bank account	-	-	-	Credit to dividend account
10.	Wages paid ₹ 200	-	-	Debit wages account	-	Credit to cash account	-
11.	Machine of ₹ 15,000 purchased from Ramesh Bros.	-	Debit to Machine account	-	Credit to Ramesh Bros. a/c	-	-

Explanation :

1	Cash comes in business Cash A/c Debit	Owner gave capital to business Capital A/c Credit
2	Bank has received cash Bank A/c Debit	Cash goes out from business Cash A/c Credit
3	Purchase made. Goods comes in Purchase A/c Debit	Cash goes out from business Cash A/c Credit
4	Radha has received goods Radha A/c Debit	Sales made. Goods goes out Sales A/c Credit
5	Purchase made. Goods comes in Purchase A/c Debit	Purchase in cash. Cash goes from business Cash A/c Credit
6	Purchase made. Goods comes in Purchase A/c Debit	Not through cash. Mira is giver. Mira A/c Credit
7	Purchase of furniture. Asset comes in Furniture A/c Debit	Purchase in cash. Cash goes from business Cash A/c Credit
8	Sundry expense incurred Sundry expense A/c Debit	Cash goes out from business Cash A/c Credit
9	Cash comes in business Cash A/c Debit	Dividend is income Dividend A/c Credit
10	Wages paid. It is expense Wages A/c Debit	Cash goes out from business Cash A/c Credit
11	Machine purchased. Asset comes in business Machine A/c Debit	Not through cash. Ramesh Bros is giver. Ramesh Bros A/c Credit

Illustration 11 : To which account the following transactions will be debited and credited in the books of Amrut ? Describe :

- (1) Commenced business with introduction of capital ₹ 40,000.
- (2) Loan obtained of ₹ 60,000 from Ramnik.
- (3) ₹ 20,000 deposited with Union Bank and opened account.
- (4) Brokerage received of ₹ 4000.
- (5) Goods of ₹ 10,000 purchased on credit from Bachubhai.
- (6) Goods of ₹ 20,000 sold on credit to Laxmi.
- (7) Shop rent paid ₹ 5000. (8) ₹ 200 paid to Ramakant for carriage.
- (9) ₹ 500 becomes receivable for interest from Kundan.
- (10) Salary paid to Dinesh ₹ 1200. (11) Commission received ₹ 3000.
- (12) Goods of ₹ 15,000 purchased on cash. (13) Goods of ₹ 20,000 sold on cash.
- (14) Vehicle purchased of ₹ 10,000.
- (15) Furniture of ₹ 2000 purchased from Raj furniture mart.
- (16) Laxmi returned goods of ₹ 400. (17) Goods of ₹ 500 returned to Bachubhai.
- (18) Withdrawn ₹ 2000 from Union Bank.
- (19) ₹ 300 paid for postage. (20) ₹ 200 paid for advertisement.

Ans. :

Sr. No.	Transaction	Debit Effect			Credit Effect		
		Benefit receiver person	Goods / Asset comes in	In case of Expense/ Loss	Benefit giver person	Goods / Asset goes out	In case of Income / gain
1.	Commenced business with introduction of capital ₹ 40,000	-	Debit to cash a/c	-	Credit to capital a/c	-	-
2.	Loan obtained of ₹ 60,000 from Ramnik	-	Debit to cash account	-	Credit to Ramnik Loan Account	-	-
3.	₹ 20,000 deposited with Union Bank and opened account	Debit to Union Bank account	-	-	-	Credit to cash account	-
4.	Brokerage received of ₹ 4000	-	Debit to cash account	-	-	-	Credit to Brokerage account
5.	Goods of ₹ 10,000 purchased on credit from Bachubhai	-	Debit to purchase account	-	Credit to Bachubhai account	-	-
6.	Goods of ₹ 20,000 sold on credit to Laxmi	Debit to Laxmi a/c	-	-	-	Credit to sales a/c	-
7.	Shop rent paid ₹ 5000	-	-	Debit to rent a/c	-	Credit to cash a/c	-
8.	₹ 200 paid to Ramakant for carriage	-	-	Debit to carriage a/c	-	Credit to cash a/c	-
9.	₹ 500 becomes receivable for interest from Kundan	Debit to Kundan a/c	-	-	-	-	Credit to interest a/c
10.	Salary paid to Dinesh ₹ 1200	-	-	Debit to salary	-	Credit to cash a/c	-
11.	Commission received ₹ 3000	-	Debit to cash account	-	-	-	Credit to commission account
12.	Goods of ₹ 15,000 purchased on cash	-	Debit to purchase account	-	-	Credit to cash account	-
13.	Goods of ₹ 20,000 sold on cash	-	Debit to cash a/c	-	-	Credit to cash a/c	-
14.	Vehicle purchased of ₹ 10,000	-	Debit to vehicle a/c	-	-	Credit to cash a/c	-
15.	Furniture of ₹ 20,000 purchased from Raj furniture mart	-	Debit to Furniture account	-	-	Credit to Raj Furniture Mart	-
16.	Laxmi returned goods of ₹ 400	-	Debit to sales return account	-	Credit to Laxmi	-	-
17.	Goods of ₹ 500 returned to Bachubhai	Debit to Bachubhai account	-	-	-	Credit to purchase return a/c	-
18.	Withdrawn ₹ 2000 from Union Bank	-	Debit to cash a/c	-	Credit to Union Bank a/c	-	-
19.	₹ 300 paid for postage	-	-	Debit to postage a/c	-	Credit to cash a/c	-
20.	₹ 200 paid for advertisement	-	-	Debit to advertisement account	-	Credit to cash account	-

Explanation:

1	Cash comes in business Cash A/c Debit	Owner gave capital to business Capital A/c Credit
2	Cash comes in business Cash A/c Debit	Ramnik is giver Ramnik A/c Credit
3	Bank has received cash Bank A/c Debit	Cash goes out from business Cash A/c Credit
4	Cash comes in business Cash A/c Debit	Commission is income Commission A/c Credit
5	Purchase made. Goods comes in Purchase A/c Debit	Not through cash. Bachubhai is giver. Bachubhai A/c Credit
6	Laxmi is receiver Laxmi A/c Debit	Sales made. Goods goes out Sales A/c Credit
7	Shop rent is expense Rent A/c Debit	Cash goes out from business Cash A/c Credit
8	Carriage is expense Carriage A/c Debit	Cash goes out from business Cash A/c Credit
9	Kundan has not paid interest (Kundan is benefit receiver) Kundan A/c Debit	Interest is income Interest A/c Credit
10	Salary is expenses. Dinesh gave service Salary A/c Debit	Cash goes out from business Cash A/c Credit
11	Cash comes in business Cash A/c Debit	Commission is income Commission A/c Credit
12	Purchase made. Goods comes in Purchase A/c Debit	Cash goes out from business Cash A/c Credit
13	Cash comes in business Cash A/c Debit	Sales made. Goods goes out Sales A/c Credit
14	Asset comes in business Vehicle A/c Debit	Cash goes out from business Cash A/c Credit
15	Furniture purchased, asset comes in Furniture A/c Debit	Raj Furniture Mart is giver Raj Furniture A/c Credit
16	Sales return. Goods comes in Sales return A/c Debit	Laxmi is person. Laxmi is giver. Laxmi A/c Credit
17	Bachubhai is person. Bachubhai is receiver Bachubhai A/c Debit	Purchase returned. Goods goes out Purchase return A/c Credit
18	Cash comes in business Cash A/c Debit	Bank is person. Bank is giver. Union Bank A/c Credit
19	Postage is expense Postage expense A/c Debit	Cash goes out from business Cash A/c Credit
20	Advertisement is expense Advertisement expenses A/c Debit	Cash goes out from business Cash A/c Credit

Remember specifically :

(1) First effect is always debit effect:

Person A/c Debit	}	Person takes benefit of business
OR		
Goods / Asset A/c Debit		Goods / Asset comes in business
OR		
Expenses / Loss A/c Debit	Expenses / Loss incurred to business	

(2) Second effect is always credit effect

Person A/c Credit	}	Person gives benefit to business
OR		
Goods / Asset A/c Credit		Goods / Asset goes from business
OR		
Income / Gain A/c Credit	Income / Gain realizes by business	

Exercise

1. Select appropriate alternative for each question :

2. Answer in one sentence :

- (1) What is dual effect?
 - (2) What is cash transaction?
 - (3) Explain credit transaction.
 - (4) Give illustration of cash transaction of goods.
 - (5) Give illustration of cash transaction of service.

- (6) Give illustration of credit transaction of goods.
(7) Give illustration of credit transaction of service.
(8) Which transaction is called non economic transaction?
- 3. Answer in two or three sentences :**
- (1) Distinguish between cash and credit transaction.
 - (2) Distinguish between economic and non economic transaction.
 - (3) Explain internal and external transaction.
 - (4) Explain other transactions.
- 4. To which account, the following transactions will be debited and credited in the books of Nilima? Describe with reason :**
- (1) ₹ 50,000 brought in cash and started business.
 - (2) A loan of ₹ 10,000 taken from Jasleen.
 - (3) Bank account opened by depositing ₹ 30,000.
 - (4) A computer purchased for ₹ 8000.
 - (5) Stationery purchased ₹ 1000.
 - (6) Purchase made of ₹ 20,000.
 - (7) Purchase is made of ₹ 30,000 from Raman.
 - (8) Goods of ₹ 15,000, sold on cash for ₹ 28,000.
 - (9) Goods of ₹ 8000 sold to Nila for ₹ 15,000.
 - (10) Goods returned to Raman of ₹ 2000.
 - (11) Goods retuned by Nila of ₹ 1500.
 - (12) Paid ₹ 500 for carriage.
 - (13) Goods of ₹ 200 destroyed by fire.
 - (14) Commission received ₹ 5000.
 - (15) ₹ 2000 paid for salary.
- 5. To which account, the following transactions will be debited and credited in the books of Ganesh? Describe with reason.**
- (1) ₹ 75,000 brought in cash and commenced business.
 - (2) Incurred Puja expenses of ₹ 2000.
 - (3) Brought personal furniture of ₹ 10,000.
 - (4) Deposited ₹ 30,000 to the State Bank of India.
 - (5) Obtained loan of ₹ 30,000 from wife .
 - (6) Purchase is made of ₹ 20,000 and amount is paid by cheque.
 - (7) Sales is made of ₹ 42,000 and amount is received by cheque.
 - (8) Withdrawn ₹ 22,000 from Bank.
 - (9) ₹ 2000 paid Insurance premium by cheque.

- (10) ₹ 3500 received for brokerage.
- (11) Goods of ₹ 12,000 sold to Dani. Amount received by cheque.
- (12) Goods of ₹ 8000 purchased from Dipak. Amount paid by cheque.
- (13) Withdrawn ₹ 2500 from business for personal use.
- (14) Withdrawn goods of ₹ 1500 from business for personal use.
- (15) Dividend received ₹ 2000 through cheque. Cheque deposited with bank.
- (16) Bank has credited ₹ 200 of interest.
- (17) Bank has debited ₹ 100 of bank charges.
- (18) Wages paid ₹ 300.
- (19) Paid loan interest of ₹ 350.
- (20) Machine purchased of ₹ 12,000.



Introduction To Goods and Services Tax

- | | |
|--|------------------------------------|
| 1. Introduction | 4. Benefits of GST |
| 2. Meaning and Special Features of GST | 5. Rate of GST |
| 3. Supply of Goods or Services or Both | 6. Terminologies of GST – Exercise |

Special Note

Goods and Services Tax (GST) is implemented in the year 2017, across the country. This is a mandatory requirement. Hence primary theoretical and practical explanation is given in this regard. For better understanding of the subject Elements of Accounts, practical illustrations and questions are covered exclusive of GST. Keeping in mind the level of students. GST related theoretical and practical explanation are covered only in the chapter of journal entries and subsidiary books. It is suggested that proper focus should be given to this during academic work.

Standard 11th onwards the information about GST is very significant. Thus sufficient care should be taken for this while teaching.

1. Introduction

To meet economic needs of the country, taxes are collected by the government. These taxes are categorised into two categories (1) Direct taxes (ii) Indirect taxes.

Indirect taxes are collected by central government, state governments and governments of union territories. In Indian context different types of taxes were collected by different governments. Because of variety of indirect taxes and compliance of their separate legal provisions from the view point of its managements it was a very complex, affair for governments, tax authorities and tax payers. To eliminate such type of complexities in indirect taxes, instead of having different provisions of central governments, state government and governments of union territories, new tax act is introduced with slogan of 'one nation one tax' that is 'Goods and services tax act' (GST Act). It became effective from 1st July 2017 in the country. GST can be explained as follows.

Indirect taxes of central government	Indirect taxes of state + governments and union territory governments	= GST
– Central sales tax	– Value added tax	
– Central excise duty	– Purchase tax	
– Central custom duty	– Sales tax	
– Service tax	– Entertainment tax	

Old taxes are withdrawn/cancelled
New tax came into effect from 1-7-2017

To bring uniformity and object oriented implementation of GST for center, states and union territories, five GST Acts are formed, which are as follows :

(1) **Central Goods and Service Tax Act (The CGST Act)** : In this act provisions pertaining to central goods and services tax are covered.

(2) **State Goods and Service Tax Act (The SGST Act)** : In this act provisions pertaining to state goods and services tax are covered.

(3) **Union Territories Goods and Services Tax Act (The UTGST Act)** : In this act provisions pertaining to union territories goods and services are covered.

(4) **Integrated Goods and Services Tax Act (The IGST Act)** : In this act provisions pertaining to supply of goods or services or both mode other than own state / union territories are covered.

(5) Goods and Service (State compensation) Act (The GST Compensation Cess Act) : (Due to implementation of GST those states who are having loss of tax collection, for their compensation this act is formed.) Under the compensation Act, the state government, whose tax collection will be reduced, will be compensated with the same.

(These five acts are shown for knowledge of students and not expected for examination)

2. Meaning and Special Features of GST

Meaning : • Different taxes of central government and state governments are withdrawn and goods and services are covered under one tax. This tax is known as goods and services tax (GST).

• Tax which is applicable on supply of goods and services is known as goods and services tax. Its acronym form is GST. The special features of GST are as follows.

(1) One tax : Goods and services are covered under one tax only.

(2) Tax collection on supply : Tax is collected on supply of goods and completion of services instead of tax collection on production or sales of goods or providing of services.

(3) GST council : Entire operations and regulations of GST are done through GST council. Each state has representation in GST council. The finance minister of centre works as chairman of this council. (Goods and Services Tax council)

(4) GST rates : All GST rates are recommended by the GST council.

(5) Import and GST : Imports of goods and services are treated as inter state supply.

(6) Input Tax Credit : GST paid on purchase is allowable deduction from sale of goods and sale of goods and services.

(7) Tax distribution : An appropriate tax distribution system for central and state government is made available in this tax.

(8) Tax determination : All tax rates on goods and supply are determined on the basis of heads of goods and services.

(9) Predetermined tax rate structure : For applicable tax rates predetermined tax structure is made available.

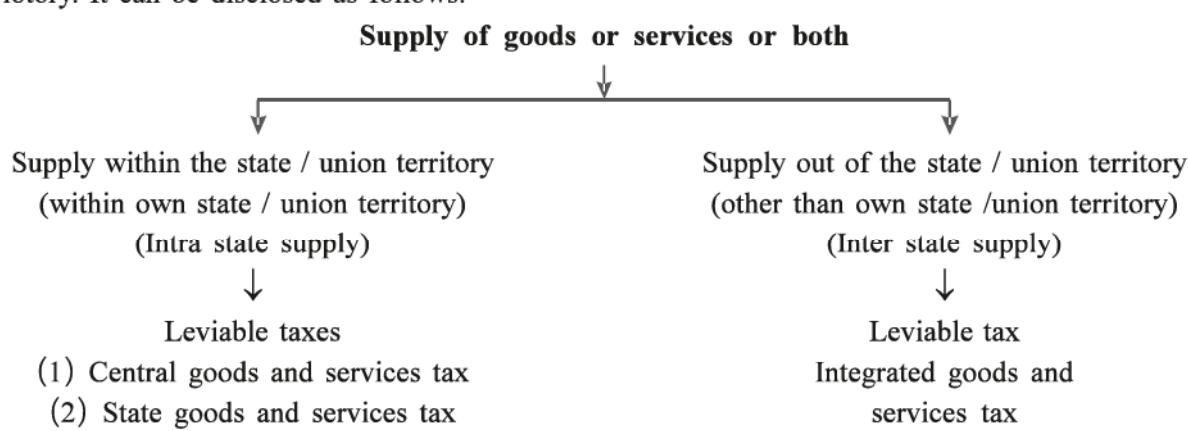
(10) Five GST Acts : In the context of GST five acts are passed.

(11) Uniformity : GST laws, rules, procedure and rate of taxes are similar, across the country.

Note : For goods and services tax the word GST is used.

3. Supply of Goods or Services or Both

The terminology of supply is used in place of rule of goods and services or both. The supply of goods or services or both are supplied (a) within the state / union territory and (b) out side the state / union territory. It can be disclosed as follows.



(A) Supply with in own state / union territory : Under this caterogy of supply (purchase / sale) the supply of goods or services or both are confined to own state or own union territory.

In this case of supply, two types of taxes are collected – (i) Central goods and services tax - CGST and (ii) State goods and services tax - SGST.

e.g. - Goods of ₹ 10,000 is sold by the trader of Ahmedabad to the trader of Rajkot. GST rate is 12 %.

Here, GST will be levied and collected on ₹ 10,000 at 12 % ₹ 1200. 50 % of 12 % will be recorded as CGST and remaining 50 % as SGST. In brief,

(i) ₹ 600, 6 % of ₹ 10,000 is known as CGST and is for central government and for union territories it is known as union territories goods and services tax (UTGST)

(ii) ₹ 600, 6 % of ₹ 10,000 is known as SGST and or respective state here gujarat government. If this transaction was done union territory Chandigarh, in this case ₹ 600 at 10 % will be collected as UTGST.

Any supply of goods and services or both done by the state / union territory in their own geographical territory. GST collected on such supply is distributed equally between CGST and SGST/ UTGST.

(B) Supply out side state / union territory : Under this category of supply, the supply of goods or services or both are out side of own state / union territory.

In this case of supply, only one type of tax is levied or collected. This GST is known Integrated Goods and Services Tax - IGST.

e.g. goods of ₹ 10,000 is sold by the trader of Ahmedabad to the trader of Jaipur. GST rate is 12 %.

Here, GST will be levied and collected on ₹ 10,000 at 12 % ₹ 1200, will be recorded as IGST and entire tax goes to central government.

When transaction of supply is done by the trader within our state / union territory is known as intra state supply. While transaction of supply is done by the trader out side of own state / union territory is known as inter state supply.

Details of applicable GST for acquisition (purchase) and supply (sale) of goods and services or both.

Sr.	Transaction	Supply within own state / union territory (intra state) and GST	Supply out side state / union territory (Inter state) and GST
1.	Acquisition (purchase) of goods or services or both	(i) Input CGST (ii) Input SGST / UTGST	Input IGST
2.	Supply (sale) of goods or services or both	(i) Output CGST (ii) Output SGST / UTGST	Output IGST

Note : In all subsequent chapters, above stated terminologies are used in the context of GST. Students should carefully study these. (i) For intra state supply SGST is applicable while for intra union territory supply UTGST is applicable. (ii) For transactions between state / union territory and other state / union territory (Inter state transactions) IGST is applicable.

4. Benefits of GST

- (1) **One tax :** In place of different indirect taxes of central government and state governments these taxes are subsumed in one tax only and that is GST.
- (2) **Simple tax system :** (Indirect tax system becomes very simple) Due to withdrawal (elimination) of different indirect taxes.
- (3) **Removal of double taxation :** Before implementation of GST, tax payers had to pay double taxes, which is removed under GST.
- (4) **Benefit of price reduction :** GST implementation has brought price reduction in goods and services.

- (5) **Uniform prices** : Uniform price system is emerged across the nation.
- (6) **Reduction in tax evasion** : There is a reduction in size of tax evasion and tax system has got success to establish transparency.
- (7) **Input tax credit** : GST paid on purchase is deducted from GST payable on sale, hence net amount of GST is payable by the tax payer.
- (8) **Useful for economy** : Economy of the nation gets stable.
- (9) **Balanced regional development** : Balanced development of region would take place and consequently regional imbalance would reduce.
- (10) **Reduction in administrative work** : There is significant reduction in administrative work.
- (11) **Reduction in government operations** : Another benefit of GST is reduction in government operations.

5. Rate of GST

Goods and services are covered under one indirect tax; that is known as goods and services tax (GST).

Under this act, different tax rates are determined on the basis of necessity of goods and services. These tax rates are decided keeping in mind the nature of needs, from basic needs to luxury needs. The range of GST rates is between 0 % and 28 %.

GST rates for intra and inter state supply of goods or services or both. [Notification no. 1/2017 Central Tax (Rate) and 1/2017 Integrated Tax (Rate)]

Schedule and GST rate	Inter states / union territories supply (IGST)	Intra state / union territory supply	
		(CGST)	(SGST)
Schedule 1	5 %	2.5 %	2.5 %
Schedule 2	12 %	6 %	6 %
Schedule 3	18 %	9 %	9 %
Schedule 4	28 %	14 %	14 %
Schedule 5	3 %	1.5 %	1.5 %
Schedule 6	0.25 %	0.125 %	0.125 %

Note : (1) For special goods GST rates are 0.25 % and 3 %.

(2) In case of supply 4 tax slabs applicable are 5 %, 12 %, 18 % and 28 %.

(3) There can be periodical changes in GST rate, prevailing rates are shown at the time of preparation of this book.

6. Terminologies of GST

Sr. No.	Particular
1	Supply (Purchase - Sales)
2	Input Central GST (CGST)
3	Input State GST (SGST)
4	Input Union Territory GST (UTGST)
5	Input Integrated GST (IGST)
6	Output Central GST (CGST)
7	Output State GST (SGST)

8	Output Union Territory GST (UTGST)
9	Output Intergrated GST (IGST)
10	Intra State Supply
11	Inter State Supply

Exercise

1. Select appropriate option for each question :

- (1) GST includes taxes of central and state government.
(a) Indirect taxes (b) Direct taxes
(c) Direct and indirect taxes (d) Indirect and direct taxes

(2) Which of the following was state government indirect tax, prior to GST ?
(a) Custom duty (b) Excise duty (c) Value added tax (d) Service tax

(3) Which of the following was central government indirect tax prior to GST ?
(a) Custom duty (b) Excise duty (c) Service tax (d) purchase tax

(4) Implementation of GST is
(a) 2016 (b) 2017 (c) 2015 (d) 2014

(5) Which of the following is correct for supply of within state / union territory ?
(a) CGST + SGST/UTGST (b) IGST + SGST/UTGST
(c) CGST + IGST (d) IGST – SGST/UTGST

(6) Which tax is applicable for supply of outside state / union territory ?
(a) CGST (b) IGST (c) SGST (d) UTGST

2. Answer the following in one sentence :

- (1) In India to meet economic needs of the nation which kind of taxes were collected by the government ?
 - (2) Which items are taxable under GST ?
 - (3) Which terminology is used for sale and purchase of goods and services under GST ?
 - (4) What is inter state supply transaction ?
 - (5) Which GSTs are applicable to inter state supply ?
 - (6) What is intra state supply transaction ?
 - (7) Which GSTs are applicable to intra state supply ?
 - (8) Under which supply transaction, GST is distributed equally between central and respective state government ?
 - (9) When input GST is chargeable ?
 - (10) When output GST is chargeable ?
 - (11) What is input tax credit ?
 - (12) Which types of needs are considered to determine GST rates ?
 - (13) What are the present slabs of GST ?

3. Answer the following questions in brief :

- (1) Explain any two special features of GST.
 - (2) Explain any two benefits of GST.



Journal

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|--|--|
| 1. Introduction | 7. Journal entry for different transactions |
| 2. What is Journal Book ? | 8. Transactions through bank |
| 3. Characteristics of Journal book | 9. Loan and interest on loan |
| 4. Significance of journal | 10. Trade discount, cash discount and allowance |
| 5. Specimen and explanation of journal | 11. Transactions of income and expense |
| 6. Combined journal entry | 12. Transactions of bad debts and bad debts return |
| | 13. Transactions with GST – Exercise |
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1. Introduction

Day to day, many economic accounting transactions take place in trade, business and industry. To remember economic accounting transactions easily, some businessmen, record transactions in rough book immediately, so that recording of transactions would not be skipped. From this rough book businessmen write accounts. While some businessmen, instead of having rough book, write accounts directly from vouchers.

According to the principles of dual effect, minimum two accounts are associated for each accounting transaction. After determining the type of such accounts which account would get benefit or consideration; and which account would give benefit or consideration is determined. Applying debit credit rules of accounts, it is determined that which account will be debited and which account will be credited to record transaction.

A recording process of accounting transaction based on rules of debit and credit in the first book of accounts is journal. So, the book in which first effect of accounting transaction is made, is known as journal or journal book.

2. What is a Journal Book ?

A journal book is a fundamental book of double entry system. It is such a basic fundamental book on the basis of which the remaining books of accounts are prepared.

French word Jour means day. From which the word 'Journal' is derived, meaning of which is daily recording of business transactions. English word 'Journal' is originally of Latin language. The meaning of it is a note or a diary.

So, a journal book is known as the book of original entries. It is such a book of accounts where all accounting transactions are recorded in the order of date. It is also determined which account will be debited or credited with what amount. Transactions are first recorded here with brief explanation.

From rough book, on the basis of vouchers, accounting transactions are recorded in the journal book. Vouchers are maintained in the file in the order of date. After having entry in journal book, different accounts are opened and posting is made. On the basis of it balances of all accounts are ascertained and trial balance is prepared. In rough book transactions are not recorded in systematic manner. Thus, rough book is not treated as a component of books of accounts. Journal book is the original, fundamental, or first book of account.

3. Characteristics of Journal Book

From the above discussion, the characteristics of journal can be described as follows:

(1) Original book: The very first treatment of accounting transaction is recorded in the journal. Thus, journal is an original or fundamental book.

(2) Dual effect: According to debit credit-rule, dual effects are recorded of accounting transaction in it.

(3) Two columns for amount: As per dual effect, amount of debit account will be recorded in debit column and amount of credit account will be recorded in credit column.

(4) Order of date: In journal book, accounting transactions are recorded on daily basis in the order of date.

(5) Narration: After recording journal entry, a brief of transaction is mentioned below journal entry, which is known as narration. This narration provides information about transaction.

4. Significance of Journal

The significance of journal can be described as follows:

(1) All accounting transactions: Since in journal accounting transactions are recorded in the order of time and date, no transaction remains unrecorded.

(2) Detailed information: In journal book a systematic and detailed information of each transaction is maintained. Thus, when any information is required, can be obtained.

(3) Information useful for future: In journal, at the end a brief information of each accounting transaction is provided, thus in the future, information pertaining to transaction becomes available.

(4) Easy for posting: In a journal, two separate columns for debit and credit are maintained. Thus, it becomes easy that which account is to be debited and which account is to be credited.

(5) Systematic recording: Since before recording transactions in ledger, transaction are recorded in the journal books as per rules, the transactions are recorded in systematic manner in ledger.

(6) Errorless accounts: In a journal, according to rules of double entry, two effects of transactions are passed, thus the possibility of accounting errors can be minimized.

5. Specimen of Journal and its Explanation

Journal book of Shri.....

Date	Particulars	L.F.No.	Debit (₹)	Credit (₹)
2015 Jan. 1 A/c Dr To A/c [Being]	

Explanation: Now, let us have explanation of above mentioned columns of the journal book.

(1) Date: In journal entry, the first column is of date. Accounting transaction is recorded in the order of time and date, in journal. In this column first of all year, then month and finally date is mentioned.

(2) Particulars: The second column in journal book is of particulars. Particulars is very important column of journal book. As per the rules of debit – credit account which account is to be debited – is to be recorded first in the column of particular. E.g. cash account debit, but instead of debit Dr is written.

Then account, which has credit effect is recorded subsequently. A credit affected account is recorded in second line and it is written after keeping some space, where the word 'To' is written, then the name of account would appear. At the end, the word 'Credit' is not written. E.g. 'To sales account' will be written. Then brief information is written as narration, which is disclosed as 'being'. As a indication of completion of transaction, line is drawn below transaction.

(3) Ledger folio: In the third column of journal, ledger folio number is to be disclosed. In short form, it is called as L.F. No. After passing of journal entry during posting of this transaction in ledger; the page no is to be written where respective posting of account is made. Due to this arrangement whenever any information is required, it can be easily availed from the concerned books.

(4) Debit: In the fourth column of journal, the amount of debited account is to be written. An account which is debited in column of particulars, the amount of it is to be written in debit column.

(5) Credit: In the fifth column of journal, the amount of credited account is to be written. An account is credited in column of particulars, the amount of it is to be written in credit column.

Finally, according to double entry system, in each transaction which ever amount is debited, the same amount is credited. Thus, the total of both the columns is always identical.

Whatever transactions are recorded in a journal on respective page, after having total, at the end of page, the word, 'balance carried forward' is written.

Above 'total' one line is to be drawn and below 'total' two lines are to be drawn, which indicates that the journal entries are completed. On subsequent page, before recording transactions, in the beginning of page again total of debit and credit is written with the words, 'balance brought forward'.

At the end of specific time period, when all the transactions are recorded, then total of debit and credit column is made and in the column of particular, the word '**total**' is written.

Explanation of journal entry through illustration:

Illustration 1 : Record the following transactions in the journal books of Priya

2014

- March 1 Goods of ₹ 5000 is purchased on cash.
- 4 Goods of ₹ 8000 is purchased from Nandan on credit.
- 7 Goods of ₹ 4000 is sold to Jigna.
- 12 Commission received ₹ 200.
- 15 Wages expense paid ₹ 150.

Journal book of Priya

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
2014 March 1	Purchase A/c To cash A/c [Being goods of ₹ 5000 purchased on cash.]		5000	5000
4	Purchase A/c To Nandan A/c [Being goods of ₹ 8000 purchased from Nandan on credit.]		8000	8000
7	Jigna A/c To sales A/c [Being goods of ₹ 4000 sold to Jigna on credit.]		4000	4000
12	Cash A/c To commission A/c [Being commission of ₹ 200 is received.]		200	200
15	Wages A/c To cash A/c [Being wages of ₹ 150 is paid.]		150	150
	Total		17,350	17,350

Explanation of transactions :

- Date 1:** This is cash transaction. Goods comes in this business transaction and as a consideration, cash is paid. In this transaction, purchase account and cash account are associated. Both these accounts are real accounts. As per rule of this account, debit what comes in and credit what goes out, purchase account will be debited and cash account will be credited.
- Date 4:** This is credit transaction. In this, goods comes in business and Nandan is benefit giver. Thus, purchase account and Nandan account are associated. Since purchase account is real account, debit what comes in and as Nandan account is personal account credit the giver account.
- Date 7:** This is credit transaction. Jigna is benefit receiver. As per the rules of personal account, Jigna's account will be debited. Goods goes out from business, sales account will be credited.
- Date 12:** This is cash transaction. In this transaction, cash comes in business. As per the rule of debit what comes in, cash account will be debited. Commission is income (revenue). As per the rule of the credit income, commission account will be credited.
- Date 15:** This is expense transaction. Wages is expense of business. As per the rule of debit expense, wages expense account will be debited and as per the rule of credit what goes out, cash goes out from business, cash account will be credited.

6. Combined Journal Entry

Generally for each accounting transaction, separate journal entry is passed. But sometimes, only one account is required to debit or credit more than one time, when multiple transactions take place in a day or during specific period of time. In this case, instead of passing separate entry, only one entry passed, is known as combined entry.

In brief, when two or more than two accounts are associated for a transaction, in such case combined journal entry can be passed.

In brief, when more than two accounts are associated at the same time in any accounting transaction, combined entry is passed.

E.g. On 15th January, 2015 for wages ₹ 300, as salary ₹ 2000 and for telephone bill ₹ 500 are paid in cash. Through this illustration, let us have explanation for combined entry. At first, let us study separate journal entry.

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
2015 Jan. 15	Wages A/c To cash A/c [Being ₹ 300 paid for wages.]		300	300
	Salary A/c To cash A/c [Being ₹ 2000 paid for salary.]		2000	2000
	Telephone expense A/c To cash A/c [Being ₹ 500 paid for telephone bill.]		500	500
	Total		2800	2800

For same transactions, combined entry will be as follows :

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
2015 Jan. 15	Wages A/c Salary A/c Telephone expense A/c To cash A/c [Being ₹ 300 paid for wages, ₹ 2000 paid for salary and ₹ 500 paid for telephone bill in cash.]		300 2000 500	2800
	Total		2800	2800

Illustration for the combined entry of mixed accounting transactions is as follows :

Illustration 2 : To commence business with the name Radhika Help Line, brought in business ₹ 20,000 in cash, Machineries of ₹ 10,000 and stock of ₹ 15,000.

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
1	Cash A/c Dr Machineries A/c Dr Stock A/c Dr To capital A/c [Being ₹ 20,000 in cash, machineries of ₹ 10,000 and stock of ₹ 15,000 brought and commenced business.]		20,000 10,000 15,000 45,000	
	Total		45,000	45,000

7. Journal for Different Types of Transactions

In the business, varieties of transactions take place. Keeping in mind different types of transactions, how to write their journal entries let us study from the following illustrations:

(1) Transactions for capital and drawings when new business is commenced:

From the view point of accounting a business entity or firm and the owner of business are considered as separate, independent entities. We, as accountant have to write the accounts of the business, not of the owner of the business. Always remember this rule.

Owner invests capital in different forms at the time of commencement of business as well as in current business. This investment is made by the owner in the form of cash, in asset or as receivable (debtors). As per the rule of credit the giver, the owner of business (capital) account will be credited. Here, the owner's capital account is a liability of business entity towards its owner.

When the owner of a business consumes goods of business, asset, cash or any other service for his personal consumption, it reduces the capital of the owner. It is known as drawings. Here, since the owner of business is benefit receiver, owner's account (drawings) will be debited on the basis of the rule of debit the receiver's account. If the owner of business pays his personal expenses from business, that also is treated as drawing. e.g. payment of medical bill, life insurance premium of owner's wife, son or daughter, income tax, etc. from business.

So, drawings account is receivable of business from its owner.

Illustration 3 : Ajay has commenced his business with the name Avadh enterprise. Write Journal entries from transaction of July 2014.

2014

- July 1 Introduced capital of ₹ 50,000 and commenced business.
- 4 Brought goods of ₹ 10,000, furniture of ₹ 2000 and debtors of ₹ 30,000 in business.
- 10 Sold bike of ₹ 20,000 for ₹ 15,000 out of which ₹ 10,000 introduced in business.
- 14 Brought in business personal receivable of ₹ 6000 and payables ₹ 4000.
- 16 Paid of income tax ₹ 500.
- 20 Withdrawn ₹ 1000 from business for personal use.
- 22 Paid ₹ 200 for life insurance premium from business.
- 25 Withdrawn goods of ₹ 400 for personal use from business.
- 31 College tuition fees of son ₹ 500 paid from business.

Journal entries in the journal of Avadh Enterprise

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
2014 July 1	Cash A/c Dr To capital A/c [Being ₹ 50,000 brought in and commenced business.]		50,000	50,000
4	Goods A/c Dr Furniture A/c Dr Debtors A/c Dr To capital A/c [Being goods of ₹ 10,000, furniture of ₹ 2000, and debtors of ₹ 30,000 brought in business.]		10,000 2000 30,000	42,000
10	Cash A/c Dr To capital A/c [Being personal bike sold and brought ₹ 10,000 in business.]		10,000	10,000
14	Receivable (debtors) A/c Dr To payable (creditors) A/c To capital A/c [Being personal receivable of ₹ 6000 and payable of ₹ 4000 introduced in business.]		6000	4000 2000
16	Drawings A/c Dr To cash A/c [Being ₹ 500 of income tax paid from business.]		500	500
20	Drawings A/c Dr To cash A/c [Being ₹ 1000 withdrawn from business.]		1000	1000
22	Drawings A/c Dr To cash A/c [Being ₹ 200 of life insurance premium paid from business.]		200	200
25	Drawings A/c Dr To purchase A/c [Being goods of ₹ 400 is withdrawn for personal use.]		400	400
31	Drawings A/c Dr To cash A/c [Being ₹ 500 paid from business for college fees of son.]		500	500
	Total		1,10,600	1,10,600

(2) Transactions for goods and assets: In this classification two types of accounts are included. (i) Goods related transactions (ii) Assets related transactions. For both these types of transactions, rule is the same. Debit what comes in, credit what goes out.

(i) Goods related transactions : The basic objective of business activity is to earn profit from purchase and sales of goods. Whatever commodities are traded by the businessman, that respective commodity is goods of business. e.g. cloth is goods for cloth merchant.

Goods comes in, when businessman purchases goods. Thus as per the rule debit what come in, goods account is debited. Due to day-to-day purchase of goods, purchase account is debited instead of debiting goods account. When purchased goods is defective, not as per sample, of inferior quality, in this case, goods will be returned back to the supplier from whom goods is purchased. It is known as purchase return. In this circumstances, goods goes out of business. Thus, as per the rule credit what goes out, goods account will be credited. Purchase return account is credited in the books of account.

Goods goes out, when businessman sells goods. Thus as per rule of credit what goes out, goods account is credited. Due to day-to-day sales of goods, sales account will be credited instead of crediting goods account. Goods sold by the businessman is found to be defective, not as per sample, of inferior quality, in such circumstances customer returned the goods to businessman. This is known as sales return. When goods come back, as per rule of debit what comes in, goods account will be debited. Goods coming back in this form, is debited to sales return account.

Under all such circumstances, a specific name is given to the respective goods account like purchase account, sales account, purchase return account and sales return account etc.

(ii) Assets related transactions : Funds are arranged to commence business or for expansion of business, these funds are invested in tangible or intangible items. Items for which these funds are invested are known as assets. A study pertaining to different types of assets is undertaken in chapter no 1. As per the rule of accounting, debit assets account when it comes in, and credit when it goes out. In this case land, building, plants, machineries, furniture, investments, goodwill, patent, copyrights etc are included.

At the time of acquisition of such assets, documents expense, advocate fees, stamp duty, brokerage etc expenses are to be paid. All these expenses are treated as capital expense and added in the value of respective asset. When asset is purchase for business, as per the rule of "debit what comes in", respective asset account will be debited and when asset is sold from business, as per the rule of "credit what goes out" respective asset account will be credited.

Illustration 4 : Pass journal entries for the following transactions of Gokul Traders.

2014

- | | | |
|-------|----|---|
| April | 1 | Brought cash of ₹ 10,000, stock of ₹ 10,000 and Furniture of ₹ 5000 and commenced business. |
| | 3 | Goods purchased of ₹ 5000 from Mathura traders. |
| | 4 | Goods sold for cash ₹ 4000. |
| | 6 | Goods purchased from Rushikesh of ₹ 8000 and paid an half amount in cash. |
| | 7 | Goods of ₹ 1600 returned to Mathura Traders. |
| | 9 | Goods of ₹ 600 given for Prime Minister relief fund. |
| | 10 | Electronic weight machine purchased for ₹ 450. |
| | 15 | 100 shares of Shri Barsa Ltd. purchased at ₹ 30 and 2 % brokerage is paid. Both the payment paid by cheque. |
| | 18 | Goods of ₹ 4000 sold to Kedarnath. |
| | 20 | Goods of ₹ 1500 destroyed by fire. |
| | 22 | Half the goods returned back from Kedarnath. |
| | 25 | Goods of ₹ 500 withdrawn for personal use. |
| | 28 | furniture of ₹ 3000 purchased from Bansidhar Furniture Mart. |
| | 30 | After adding 20 %, goods of ₹ 1000 sold to Chandni. Carriages of ₹ 50 paid on her behalf. |

Journal Entry of Gokul Traders

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
2014 April 1	Cash A/c Dr Stock A/c Dr Furniture A/c Dr To capital A/c [Being cash of ₹ 10,000, stock of ₹ 10,000 and furniture of ₹ 5000 brought and commenced business.]		10,000 10,000 5000 25,000	
3	Purchase A/c Dr To Mathura Traders A/c [Being goods of ₹ 5000 purchased from Mathura Traders on credit.]		5000	5000
4	Cash A/c Dr To sales A/c [Being goods of ₹ 4000 sold in cash.]		4000	4000
6	Purchase A/c Dr To cash A/c To Rushikesh A/c [Being goods of ₹ 8000 purchased from Rushikesh and paid an half amount in cash.]		8000 4000 4000	
7	Mathura Traders A/c Dr To purchase return A/c [Being goods ₹ 1600 returned to Mathura Traders account.]		1600	1600
9	Donation A/c Dr To purchase A/c [Being goods of ₹ 600 given for Prime Minister relief fund.]		600	600
10	Dead stock A/c Dr To cash A/c [Being electronic weight machine of ₹ 450 purchased.]		450	450
15	Share of Shri Barsana Ltd. A/c Dr To Bank A/c [Being 100 shares at ₹ 30 purchased of Shri Barsana Ltd and paid 2 % brokerage.]		3060	3060
18	Kedarnath A/c Dr To sales A/c [Being goods of ₹ 4000 sold on credit to Kedarnath.]		4000	4000

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
20	Loss on goods destroyed by fire A/c To purchase A/c [Being goods of ₹ 1500 destroyed by fire.]	Dr	1500	1500
22	Sales return A/c To Kedarnath A/c [Being goods of ₹ 2000 returned by Kedarnath.]	Dr	2000	2000
25	Drawings A/c To purchase A/c [Being goods of ₹ 500 is withdrawn for personal use.]	Dr	500	500
28	Furniture A/c To Bansidhar Furniture Mart A/c [Being furniture of ₹ 3000 purchased from Bansidhar Furniture Mart.]	Dr	3000	3000
30	Chandani A/c To sales A/c To cash A/c [Being goods of ₹ 1000 sold to Chandani after adding 20 % profit and paid carriage of ₹ 50 on her behalf.]	Dr	1250	1200 50
	Total		59,960	59,960

(3) Other forms of goods outward:

Apart from sales and purchase return, there are some other forms for goods outward. Under these kind of cases outward of goods is recorded at cost price. These kind of goods outward are disclose as purchase reduction of business. Thus, this amount is credited to purchase account. This explanation is given as per CPT study material of ICAI (March, 2015) page no. 2.23. It's accounting treatment is to be given accordingly, let us acquire information about it.

(a) Goods withdrawn for personal use: When owner of the business has withdrawn goods for his personal use, it is essential to give accounting treatment of goods at cost price. Here, owner is benefit receiver. Thus, as per rule of debit the receiver, business owner's account (drawings) will be debited. Here goods goes out from business, hence purchase account is credited with cost price.

(b) Goods distributed as sample for advertisement: Businessmen, distribute goods as free sample for advertisement purpose. Thus, accounting treatment at cost price of goods becomes essential. Advertisement is treated as expense of business. Thus, as per the rule debit expenses, advertisement expense account will be debited. Goods goes out from business, thus purchase account is credited with cost price.

(c) Goods given as donation: Businessmen give goods as donation from business to religious organizations and charitable trusts. Thus, as per the rule debit expense, donation expense account will be debited and goods goes out from business, thus purchase account is credited with cost price.

(d) Goods destroyed by fire: Accidentally fire takes place in the shop or godown of businessman, and goods get burnt by fire. This is treated as loss of business. Thus, as per the rule of debit loss,

loss on goods destroyed by fire account will be debited and goods goes out from business. Thus purchase account is credited with cost price of goods.

If goods of business is not insured the, owner has to bear the entire loss which has taken place due to fire. If goods destroyed, is fully insured, this loss will be borne by insurance company. Insurance company would become debtor for amount of admitted claim. In this case insurance company account will be debited and purchase account will be credited.

Insurance company admits claim in proportion of insurance policy, if goods is partially insured. The remaining amount of loss will be treated as loss of business and debited to loss on goods destroyed by fire account and goods destroyed by fire account will be credited, with cost price. Likewise goods destroyed by accident, goods destroyed by rain, goods lost due to sinking of steamer etc are treated as goods destroyed which will be credited to purchase account.

(e) Goods received as free sample: For the purpose of advertisement of product, manufacturer or whole saler give goods (products) to the retailers as free sample. Generally retailer has to distribute these goods to customers for free. In this case, there is no monetary exchange for goods. Thus, it is non-economic transaction. It will not be recorded on the basis of accounts. When goods received as free sample, and are sold by the retailer, he would receive cash. In this case, cash account will be debited and sales account will be credited in the books of retailer.

(f) Thefts of goods from business: When goods are stolen from shop or godown of businessman, it is loss to the business to the extent of cost price of goods. As per the rule of debit the loss, loss on goods stolen account will be debited and as a rule, credit what goes out, purchase account will be credited.

Accounting treatments for goods related accounts, emerging from exchange of goods are as follows:

Sr. No.	Nature of transaction	Account to be debited	Account to be credited
(1)	When goods purchased on credit	Purchase Account	Trader / Creditor A/c
(2)	When goods sold on credit	Customer / Debtor A/c	Sales Account
(3)	When sales return, of credit sales	Sales Returns Account	Customer / Debtor A/c
(4)	When purchase return, of credit purchase	Trader / Creditor A/c	Purchase Returns A/c
(5)	When owner of business withdraw goods for personal use	Drawings Account	Purchase A/c (Goods withdrawn for personal use Account)
(6)	When goods given as donation	Donation Account	Purchase A/c (Goods given as Donation Account)
(7)	When goods distributed as free sample for advertisement	Advertisement Account	Purchase A/c (Goods distributed for Advertisement Account)
(8)	When goods destroyed by fire	Loss on goods destroyed by Fire Account	Purchase A/c (Goods destroyed by Fire Account)
(9)	When goods stolen	Loss on goods stolen Account	Purchase A/c (Goods stolen Account)
(10)	When goods received as free sample, sold	Cash Account	Sales Account

Now, we will write journal entries for outward of goods in different forms with illustration :

Note : Journal entry for above mentioned item no. (5) to (9) shown in bracket is also popular but in present time, this amount is credited to purchase account.

Illustration 5 : Write Journal entries for the following transactions in the books of Murlidher.

2014

- May 1 Goods of ₹ 1000 is withdrawn from business for personal use.
- 3 Goods of ₹ 700 destroyed by fire. It was not insured.
- 5 Goods of ₹ 500 is stolen from business.
- 8 Goods stolen received back of ₹ 100 on police investigation.
- 12 Goods of ₹ 2500 is destroyed by fire. Insurance company has admitted claim for it.
- 15 Goods of ₹ 4000 is destroyed due to sinking of steamer. For which insurance company has admitted claim of 50 % amount.
- 16 Goods of ₹ 500 given as donation
- 20 Goods of ₹ 200 distributed as free sample for advertisement purpose.
- 22 Goods of ₹ 400 received as a free sample from manufacturer.
- 25 Goods received on 22, sold and realize ₹ 300.
- 28 Goods of ₹ 1500 is destroyed by fire. Insurance company has admitted claim of ₹ 900. ₹ 200 realize from scrap of this goods.
- 30 Goods of ₹ 600 destroyed in rain, which is sold for ₹ 200.

Journal Entry of Murlidhar

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
2014				
May 1	Drawings A/c To purchase A/c. [Being goods of ₹ 1000 withdrawn for personal use]	Dr	1000	1000
3	Loss on goods destroyed by fire A/c To purchase A/c [Being goods of ₹ 700 is destroyed by fire]	Dr	700	700
5	Loss on goods stolen A/c To purchase A/c [Being goods of ₹ 500 is stolen]	Dr	500	500
8	Purchase A/c To loss on goods stolen A/c [Being goods of ₹ 100 received back, which was stolen earlier.]	Dr	100	100
12	Insurance company A/c To purchase A/c [Being claim of ₹ 2500 is admitted by insurance company]	Dr	2500	2500

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
15	Insurance company A/c Loss on goods destroyed due to sinking of steamer A/c To purchase A/c [Being goods of ₹ 4000 lost due to sunk of steamer, insurance co. admitted claim of ₹ 2000]	Dr	2000 2000	4000
16	Donation A/c To purchase A/c [Being goods of ₹ 500 given as donation]	Dr	500	500
20	Advertisement A/c To purchase A/c [Being goods of ₹ 200 is distributed as free sample]	Dr	200	200
22	Non economic transaction			
25	Cash A/c To sales A/c [Being goods received as a free sample is sold for ₹ 300]	Dr	300	300
28	Insurance company A/c Cash A/c Loss on goods destroyed by fire A/c To purchase A/c [Being goods of ₹ 1500 destroyed by fire, insurance co. admitted claim of ₹ 900, scrap sold for ₹ 200 and loss of ₹ 400 is recorded]	Dr Dr Dr	900 200 400	1500
30	Cash A/c Loss on goods destroyed in rain A/c To purchase A/c [Being goods of ₹ 600 destroyed by rain, sold for ₹ 200 and difference of ₹ 400 debited as loss]	Dr Dr	200 400	600
	Total		11,900	11,900

8. Transactions through Bank

In present time majority of financial transactions, businessman undertake through bank. Two types of financial transactions are made with banks in business, (1) Cash transaction (2) Non-cash transaction.

(1) Cash transactions:

(a) **When cash deposited in bank:** Businessman deposits surplus cash in bank. Bank is cash receiver. Bank account is personal account. Thus as per the rule of debit the receiver, the bank account will be debited. Cash goes from business, so, as per the rule of credit what goes out, cash account is credited.

(b) When cash withdrawn from bank: Cash is withdrawn from bank for business expense or any other reason as per need of business. Business receives cash, thus as per rule debit what comes in, cash account will be debited. Bank is giver. Thus as per rule credit the giver, bank account will be credited. When businessman withdraws cash for personal use from bank account of business, in this case, drawings account is debited and bank account is credited.

(2) Non-cash transaction:

(a) When cheque received, deposited with bank: When cheque is received from debtor (customer) or any other person, its accounting treatment is given in bank account. Bank is cheque receiver, bank account is debited and customer or any other person is cheque giver, his account is credited.

(b) When payment made through cheque: Businessman, pay their almost all expenses to creditors through cheque. In each circumstances of this type, cheque receiver person account or expense account is debited. Bank is payer, thus bank account is credited.

(c) Bank Interest: When bank credits interest in the bank account of businessman, businessman obtains this information from bank pass book or bank statement. In the books of businessman bank account is debited and bank interest account is credited. If there is bank overdraft in the account of businessman, bank recovers interest from businessman. This interest is expense of business. Thus, in the books of businessman bank overdraft interest account is debited and bank account is credited.

(d) Bank charges: Bank provides services to the traders, for which bank recovers (charges) certain amount. It is known as bank charge. Since it is expense of business, bank charges is debited in the books of businessman, and bank account is credited.

In brief, remember the important rule in the context of transaction with bank, “Due to respective transaction when bank balance increase in the books of businessman debit bank account and credit bank account when bank balance reduces.

From the following illustration, now we will study journal of bank related transactions:

Illustration 6 : Write Journal in the books of shree Vasant Traders for the following transaction:

2014

- | | |
|--------|--|
| June 1 | A current account is opened with SBI bank by depositing ₹ 20,000. |
| 2 | Goods sold for ₹ 5000, the amount of which directly deposited in bank. |
| 4 | Furniture of ₹ 10,000 is purchased, payment is made through cheque. |
| 8 | Withdrawn from bank ₹ 400 for personal expense and ₹ 700 for office expenses. |
| 10 | A cheque of ₹ 1500 received from Virat. |
| 15 | Goods of ₹ 3000 sold on cash to Parthiv, Out of which 50 % amount received by cheque. |
| 18 | Fire insurance premium ₹ 450 and life insurance premium of ₹ 300 are paid by cheque. |
| 22 | A cheque of dividend warrant of ₹ 200 deposited in bank |
| 25 | Bank has credited ₹ 100 for bank interest and debited ₹ 50 as bank charges to our account. |
| 28 | A cheque of ₹ 800 issued to Param as final settlement |
| 30 | A cheque of ₹ 600 is received from Shivaji |

Ans. :

Journal Entry of Shree Vasant Traders

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
2014 June 1	SBI Bank A/c To Cash A/c [Being ₹ 20,000 deposited with SBI bank and opened an account.]	Dr	20,000	20,000
2	Bank A/c To Sales A/c [Being goods sold for ₹ 5000 on cash, amount deposited in bank]	Dr	5000	5000
4	Furniture A/c To Bank A/c [Being furniture of ₹ 10,000 purchased and amount paid by cheque]	Dr	10,000	10,000
8	Drawings A/c Cash A/c To Bank A/c [Being ₹ 400 for personal use and ₹ 700 for office expense, withdrawn from bank]	Dr Dr	400 700	1100
10	Bank A/c To Virat A/c [Being a cheque of ₹ 1500 is received from Virat]	Dr	1500	1500
15	Cash A/c Bank A/c To Sales A/c [Being goods of ₹ 3000 sold for cash and half amount deposited in bank]	Dr Dr	1500 1500	3000
18	Fire insurance premium A/c Drawings A/c To Bank A/c [Being ₹ 450 for fire insurance and ₹ 300 for life insurance premium paid by cheque]	Dr Dr	450 300	750
22	Bank A/c To Dividend A/c [Being dividend warrant of ₹ 200 deposited in bank]	Dr	200	200

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
25(A)	Bank A/c To Bank Interest A/c [Being bank has credited interest of ₹ 100]	Dr	100	100
(B)	Bank charges A/c To Bank A/c [Being bank has debited bank charges of ₹ 50]	Dr	50	50
28	Param A/c To Bank A/c [Being a cheque of ₹ 800 issued to Param for full settlement]	Dr	800	800
30	Bank A/c To Shivaji A/c [Being a cheque of ₹ 600 received from Shivaji, deposited in bank]	Dr	600	600
	Total		43,100	43,100

9. Loan and Interest on Loan

Transactions of loan and interest on loan can be categorized into two categories : (i) Loan borrowed; and paid / payable interest (ii) Loan lent; and received / receivable interest. An additional capital is required besides owner's capital to run business. In these circumstances businessman borrows money from bank, financial firm, other person or financial institutions. This obtained loan is known as loan borrowed. Many times surplus / idle funds of the business are lent to the employees or third person. It is known as lent loan. Both types of loan accounts are personal accounts. Thus, the rule of personal account is applicable to it. Interest amount is calculated at predetermined rate and at the end of specified time period. Interest on borrowed loan is an expense of business, thus interest account is debited. While interest is received on the lent loan, interest is revenue, interest account is credited. Borrowed loan is liability of business, therefore, it is credited. Lent loan is receivable of business, therefore, it is debited.

From the following illustration let us understand transactions pertaining to loan and loan interest.

Illustration 7 : Write journal entries for the following in the books of Pranam :

2015

- January 1 A loan of ₹ 15,000 at 14 % is borrowed from Pawan for business.
- March 1 A loan of ₹ 18,000 at 18% is given (lent) to Pushkar.
- June 30 Paid interest of six month on loan borrowed from Pawan.
- August 31 From Pushkar, interest on loan is received for six months.

Ans. :

Journal Entry of Pranam

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
2015 January 1	Cash A/c To 14% Loan of Pawan A/c [Being a loan of ₹ 15,000 at 14 % is borrowed from Pawan]	Dr	15,000	15,000

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
March 1	Loan to Pushkar A/c To cash A/c [Being a loan of ₹ 18,000 at 18% is given to Pushkar]	Dr	18,000	18,000
June 30	Loan interest A/c To cash A/c [Being interest on loan of ₹ 1050 is paid at 14 % for six month]	Dr	1050	1050
August 31	Cash A/c To Loan interest A/c [Being interest on loan of ₹ 1620 is received at 18% for six months]	Dr	1620	1620
Total			35,670	35,670

14 % loan is borrowed on January 1, which is liability, therefore loan account is credited. On 30th June, interest of six months is paid on this loan, which is an expense. It is debited to interest loan account and credited to cash account.

18% loan is given on March 1, which is receivable, therefore loan account is debited. On 31 st August, interest of six month is received, which is revenue. It is debited to cash account and credited to interest loan account.

10. Trade Discount, Cash Discount and Allowance

Many times, at the time of purchase or sales of goods and at the time of collection very small amount from total price is either not paid or not received. This non paid or non received small amount is discount. There are two types of discount : (1) Trade discount (2) Cash discount.

(1) Trade discount : Companies display total price on packing of commodities. Company mentions total price on packing of almost all products. At this price products are sold in open market. At the time of sale, manufacturer or wholesaler allows certain discount to retailers from selling price, which is known as trade discount. This trade discount is an expense neither for manufacturer or wholesaler nor income for retailer. Hence, **trade discount does not have any accounting treatment in the books of accounts.**

A trade discount is deducted from total price during preparation of bill for purchase or sale of goods and net amount of bill is recorded in the books of purchaser and seller. e.g. Goods of ₹ 5000 purchased from Paras at 10% trade discount. In this transaction, 10% discount will be deducted during preparation of bill. Here

$$\begin{array}{r}
 \text{₹ } 5000 \quad \text{Total price} \\
 - \text{₹ } 500 \quad 10 \% \text{ Trade discount} \\
 \hline
 \text{₹ } 4500 \quad \text{Net amount will be recorded in the books}
 \end{array}$$

(2) Cash discount : To enhance competitive sales, businessman sells goods on credit. Customers pay dues on completion of credit maturity period. Thus, business faces problem of cash scarcity. To receive back quick collection of credit sales from customers, certain fixed percentages are allowed as incentive discount. This discount is known as cash discount. Thus, cash discount is one kind of factor of attraction to pay due within prescribed time or before that. Allowed cash discount is an expense to the businessman, thus it is debited to discount account, for cash discount receiver businessman / customer, it is a revenue, thus it is credited to discount account.

Cash discount is income as well as expense, thus it is recorded in the books of businessman and customer. Remember : If amount is not paid in stipulated period of time, the benefit of cash discount is not allowable.

For example, goods of ₹ 10,000 at 10 % trade discount and 5 % cash discount purchased from Rameshwar on cash. Here, total price ₹ 10,000 – Trade discount 10 % of ₹ 1000 = ₹ 9000 purchase will be recorded. Less 5 % cash discount ₹ 450 = ₹ 8550 is net payable amount.

Difference between trade discount and cash discount :

Sr.	Trade discount	Cash discount
(1)	Trade discount is calculated on total price or catalog are price.	(1) Cash discount is calculated on net of total price and trade discount.
(2)	Trade discount is not recorded in the books.	(2) Cash discount is recorded in the books.
(3)	Trade discount is allowed because retailers sells product on total price, so that they can generate certain profit after deduction of their expenses.	(3) To attract the customers to pay due in prescribed time or before that, cash discount is allowed.
(4)	At the time of preparation of invoice trade discount is deducted.	(4) At the time of preparation of invoice cash discount is not deducted.
(5)	Sometimes customer get tempted to purchase in big quantity due to trade discount.	(5) Due to cash discount customers are tempted to pay amount in prescribad time or before that.

(3) Allowance : Many times businessman pays less amount or receives less amount at the time of final settlement. Whatever short amount is paid or received is known as allowance.

Since, such allowed allowance is an expense of business, it is debited to discount or allowance account. If such allowance is received it is an income of business, it will be credited to discount or allowance account. The accounting treatment of this allowance is identical to cash discount. There is no predetermined tradition or system for allowance. In case of allowance, after deduction of insignificant amount payables and receivables are settled. e.g. ₹ 500 paid to Varun as a final settlement against outstanding of ₹ 515. Here payables are ₹ 515 but ₹ 500 are paid, so the amount of ₹ 15 of difference is allowance.

Let us acquire explanation for above mentioned transactions through illustration:

Illustration 8 : Record the following transaction in the journal of Mahendra Sanghvi.

2014

- July 1 Goods of ₹ 10,000 purchased at 10 % trade discount from Taruna Traders.
- 5 Goods of ₹ 7000 sold to Gandhi Brothers on cash at 5 % trade discount.
- 8 Goods of ₹ 12,000 purchased from Mangaldas at 10 % trade discount and 5 % cash discount. Payment is made in cash.
- 10 Goods of ₹ 11000 sold to Viral at 10% trade discount and 5% cash discount. Payment is received in cash.
- 12 Goods of ₹ 8000 purchased from Bihari Brothers at 10 % trade discount and at 10 % cash discount. Paid half the amount immediately by cash.
- 15 Goods of ₹ 15,000 sold to Bimal at 10 % trade discount and if due is paid up to 20th July, 10 % cash discount will be allowed.
- 18 For sale of 15 July, Bimal has issued cheque for an half amount, which is deposited in bank.
- 22 Bimal has settled the remaining balance in cash.
- 25 ₹ 1020 was due from Sunita, she paid ₹ 1000 as a final settlement.
- 31 A cheque of ₹ 800 was issued to Vaishali as a final settlement for due of ₹ 810.

Ans:

Journal Entry of Mahendra Sanghvi

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
2014 July 1	Purchase A/c Dr To Taruna Traders A/c [Being goods of ₹ 10,000 purchased from Taruna Traders at 10 % trade discount]		9000	9000
5	Cash A/c Dr To Sales A/c [Being goods of ₹ 7000 sold to Gandhi Brothers on 5 % trade discount]		6650	6650
8	Purchase A/c Dr To cash A/c To Discount A/c [Being goods of ₹ 12,000 purchased on cash at 10% trade discount and at 5 % cash discount]		10,800	10,260 540
10	Cash A/c Dr Discount A/c Dr To sales A/c [Being goods of ₹ 11,000 sold on cash at 10 % trade discount and at 5 % cash discount]		9405 495	9900
12	Purchase A/c Dr To Cash A/c To Discount A/c To Bihari Brothers A/c [Being goods of ₹ 8000 purchased from Bihari Brothers at 10 % trade discount and at 10 % cash discount. Half amount is paid in cash.]		7200 3240 360 3600	
15	Bimal A/c Dr To Sales A/c [Being goods of ₹ 15,000 sold to Bimal at 10 % trade discount]		13,500	13,500
18	Bank A/c Dr Discount A/c Dr To Bimal A/c [Being Bimal has paid half amount and 10 % cash discount allowed to him]		6075 675	6750

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
22	Cash A/c To Bimal A/c [Being Bimal has paid remaining balance of ₹ 6750]	Dr	6750	6750
25	Cash A/c Discount A/c To Sunita A/c [Being ₹ 1000 received from Sunita as final settlement for due of ₹ 1020]	Dr Dr	1000 20	1020
31	Vaishali A/c To Bank A/c To Discount A/c [Being for due of ₹ 810, ₹ 800 paid to Vaishali as a final settlement]	Dr	810	800 10
	Total		72,380	72,380

11. Transactions of Revenue and Expense

Regularly, different types of expenses take place during accounting period of business. Different types of revenues also take place, regularly. As per the rule of nominal account, expenses and loss are debited and revenue and gain are credited.

To operate business, certain day-to-day expenses like paper, pencil, rubber, ink, pen statements, register etc are sundry items of office are required, they are known as stationery. Painting work, repairing etc. are maintenance expenses of business. Besides this, salary, wages telephone expenses etc. are also regular expenses of business.

Sundry expenses of business like tea-refreshment, hospitality expense or other entertainment expenses are debited to sundry expense account. Incomes like interest received, commission, rent, brokerage, and dividend are regular incomes of business.

Let us acquire explanation for revenue and expenses transactions from the following illustration.

Illustration 9 : Record the following transactions in the journal of Arun Parekh :

2014

- August 1 For business books of accounts purchased ₹ 650.
- 2 Wages of ₹ 200 and carriage of ₹ 100 paid in cash.
- 8 Commission received ₹ 800.
- 10 Paid ₹ 2500 for painting work of shop.
- 20 Light Bill of ₹ 1800 paid by cheque.
- 25 ₹ 1200 paid for refreshment at inaugural function of shop.
- 30 A cheque of ₹ 900 received for brokerage.
- 31 A currency note of ₹ 50 eaten by goat.

Ans.:

Journal Entry of Shri Arun Parekh

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
2014 August 1	Stationery expense A/c To Cash A/c [Being stationery of ₹ 650 is purchased]		650	650
2	Wages A/c Carriage A/c To Cash A/c [Being wages of ₹ 200 and carriage of ₹ 100 are paid in cash]		200 100	300
8	Cash A/c To Commission A/c [Being commission received of ₹ 800]		800	800
10	Maintenance A/c To Cash A/c [Being ₹ 2500 paid for painting work of shop]		2500	2500
20	Electricity expense A/c To Bank A/c [Being electricity bill of ₹ 1800 paid by cheque]		1800	1800
25	Sundry expenses A/c To Cash A/c [Being ₹ 1200 paid for refreshment at inaugural function of shop]		1200	1200
30	Bank A/c To Brokerage A/c [Being a cheque of ₹ 900 received for brokerage]		900	900
31	Sundry expense A/c To Cash A/c [Being a currency note of ₹ 50 eaten by goat]		50	50
	Total		8200	8200

Remember: If any shop (business) related expenses cannot be debited to specific or certain account, it is debited to sundry expense account.

12. Transactions of Bad Debts and Bad Debts Recovered

(1) Bad debts : To enhance the sales of business, goods are sold on credit to customers. When customer becomes insolvent, either entire receivable amount or partial amount due from the customer cannot be recovered. Such non-recoverable amount is known as bad debts.

Since bad debt is loss of business, it is debited, and respective customer who is unable to pay his due; the customer or debtor account is credited and finally his account will be closed. E.g. Anil becomes insolvent. Thus, receivable amount from him of ₹ 500 is to be written. In this case, by debiting Bad debts account for ₹ 500 and by crediting Anils account for ₹ 500, his account will be closed.

(2) Bad debts recovered : An amount is written off in the past, if the customer or debtors returns it back due to improvement in his economic condition, this amount is known as Bad debt recovered. Since Bad debts return is revenue of business, it is credited. Due to the receipt of cash, cash account is debited. In no circumstance, debtor account is credited, because in the past the account of debtor is already closed.

From the following illustration, these transactions will be understood in better form.

Illustration 10 : Record the following transactions in journal of Prerna :

2014

- March 1 Vishal is declared insolvent, thus amount due to him ₹ 2000 cannot be recovered.
- 5 ₹ 3000 was due from Param, he become insolvent and only ₹ 1800 are recovered. A balance amount is written off.
- 10 ₹ 1500 previously written off, as Bad debts of Rohan, are received.

Ans.:

Journal Entry of Shri Prerna

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
2014 March 1	Bad debts A/c To Vishal A/c [Being since Vishal declared insolvent, ₹ 2000 was due from him are written off]	Dr	2000	2000
5	Cash A/c Bad debts A/c To Param A/c [Being ₹ 3000 was due from Param, he become insolvent only ₹ 1800 are recovered from him and balance amount is written off]	Dr Dr	1800 1200	3000
10	Cash A/c To Bad debts return A/c [Being ₹ 1500 were previously written off are recorded]	Dr	1500	1500
	Total		6500	6500

Comprehensive Illustrations:

Illustration 11 : Record the following transactions in journal of Shri Omkar Traders :

2014

- October 1 A business is commenced with introduction of cash of ₹ 40,000, furniture of ₹ 10,000, stock of ₹ 8000 and 8 % loan of Pragna ₹ 20,000.
- 2 At the time of inaugural of shop paid for ice-cream and other expenses ₹ 3500.
- 3 Opened bank account with Bank of Broda, by depositing ₹ 25,000 in cash.
- 4 Electronic weighing machine purchased for ₹ 4000.
- 5 Machine of ₹ 5000 is purchased from Navkar Traders and paid machine installation charges ₹ 500.
- 8 Goods of ₹ 10,000 are purchased from Shivam Traders at 10% trade discount, ₹ 50 paid for carriage.
- 10 House rent paid ₹ 7000 and life insurance of ₹ 1200 paid by cheque.
- 12 Goods of ₹ 5000 sold to Akash Traders at 10% trade discount, 10 % cash discount will be allowed if due paid in 10 days.
- 15 Akash Traders paid half amount by cheque for transaction dated 12th.
- 18 Akash Traders has returned back goods of ₹ 700.
- 20 ₹ 2000 withdrawn from Bank of Baroda for shop expense.
- 21 Goods of ₹ 6000 purchased from Amar Traders at 10% trade discount and 5% cash discount. Half the amount is paid in cash
- 24 Goods worth ₹ 500 is donated to Mahila Vikas Grah
- 25 Goods of ₹ 150 is distributed as free sample.
- 26 An order is issued to Vikas Agency for goods of ₹ 3000
- 28 The business owner has withdrawn goods of ₹ 2000 and paid tuition fees of son ₹ 800 from business
- 31 Interest of 3 months, paid on 8 % loan of Pragna

Ans.:

Journal Entry of Shri Omkar Traders

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
2014				
October 1	Cash A/c Dr Furniture A/c Dr Goods A/c Dr To Pragna's Loan A/c To Capital A/c		60,000 10,000 8000 20,000 58,000	
	[Being a business is commenced with introduction of cash ₹ 60,000, Furniture ₹ 10,000, Goods ₹ 8000 and 8 % loan of Pragna ₹ 20,000.]			

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
2	Sundry expense A/c To Cash A/c [Being ₹ 3000 paid for icecream and other expenses for inauguration of shop]	Dr	3500	3500
3	Bank A/c To Cash A/c [Being an account is opened with Bank of Baroda by depositing ₹ 25,000 in cash]	Dr	25,000	25,000
4	Dead Stock A/c To Cash A/c [Being electronic weighing machine of ₹ 4000 is purchased]	Dr	4000	4000
5	Machine A/c To Navkar Traders A/c To Cash A/c [Being machinery of ₹ 5000 purchased on credit from Navkar traders and paid ₹ 500 in cash for installation]	Dr	5500	5000 500
8	Purchase A/c Carriage A/c To Shivam Traders A/c To Cash A/c [Being goods of ₹ 10,000 purchased from Shivam Traders at 10% trade discount and paid carriage of ₹ 50 in cash]	Dr	9000 50	9000 50
10	Drawings A/c To Cash A/c To Bank A/c [Being house rent of ₹ 7000 paid in cash and ₹ 1200 LIC premium paid by cheque]	Dr	8200	7000 1200
12	Akash Traders A/c To Sales A/c [Being goods of ₹ 5000 sold to Akash Traders at 10% trade discount]	Dr	4500	4500
15	Bank A/c Discount A/c To Akash Traders A/c [Being from Akash Traders for half payment of ₹ 2250 a cheque of ₹ 2025 is received and 10% discount is allowed]	Dr	2025 225	2250

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
18	Sales Returns A/c To Akash Traders A/c [Being goods of ₹ 700 is returned by Akash Traders]	Dr	700	700
20	Cash A/c To Bank of Baroda A/c [Being ₹ 2000 withdrawn from bank for shop expense]	Dr	2000	2000
21	Purchase A/c To Cash A/c To Discount A/c To Amar Traders A/c [Being goods of ₹ 6000 purchased from Amar Traders at 10% trade discount and 5% cash discount. Half amount is paid in cash]	Dr	5400	2565 135 2700
24	Donation A/c To Purchase A/c [Being goods of ₹ 5000 given for donation]	Dr	500	500
25	Advertisement expense A/c To Purchase A/c [Being goods of ₹ 750 issued distribution for free sample]	Dr	750	750
26	Non-economic transaction			
28	Drawings A/c To Purchase A/c To Cash A/c [Being goods of ₹ 2000 and cash ₹ 800 withdrawn for personal use]	Dr	2800	2000 800
31	Interest on loan A/c To Cash A/c [Being 8% interest for three months on loan of ₹ 20,000 of Pragna is paid]	Dr	400	400
	Total		1,52,550	1,52,550

Brief explanation of transactions:

October 1 Total assets : Cash ₹ 60,000, furniture ₹ 10,000 and stock of ₹ 8000 = ₹ 78,000.

Loan obtained ₹ 20,000. Thus remaining assets of ₹ 58,000 will be capital of owner.

4 Electronic weighing machine purchase for business is treated as dead stock.

- 5 Wages paid for machine installation is added to machinery cost and debited to machinery account.
- 8 From total amount 10% cash discount is deducted and net effect is given
- 15 Under this transaction, after deduction of trade account of ₹ 500 from ₹ 5000 net will be ₹ 4500. Half amount of this ₹ 2250 and from it deduction of at 10% cash discount ₹ 225 is debited to discount account.
- 20 Under this transaction cash is withdrawn from bank. Expense is not done, thus debited to cash discount.
- 28 Owner of business withdraws goods and cash for personal use, thus debited to drawings account
- 31 Under this transaction interest on loan is calculated as follows:

₹	Months	₹ interest
100	12	8
20,000	3	?
$= \frac{20,000 \times 3 \times 8}{100 \times 12}$		
= ₹ 400 Interest		

Illustration 12 : From the following transactions, write journal in the books of Shree Rajvir :

2014

- August 1 A business is commenced with introduction of cash of ₹ 50,000, receivables of ₹ 25,000, liability of ₹ 10,000, stock of goods of ₹ 15,000.
- 2 A 10 % loan of ₹ 30,000 is borrowed from Srimati.
- 3 Laptop purchased from Jayveer for cash ₹ 20,000 and paid other expenses ₹ 500.
- 4 Opened bank account with Dena Bank by depositing ₹ 15,000.
- 5 Goods of ₹ 30,000 purchased from Royal Stores on credit at 10 % trade discount. Royal stores paid railway freight ₹ 200 and wages ₹ 1000 on our behalf.
- 6 Goods purchased from Royal Traders out of which goods of ₹ 15,000 sold to Bhagvati at 10 % trade discount, after adding 20 % profit on it. Paid railway freight ₹ 1000 and wages ₹ 500 on their behalf.
- 7 Goods of ₹ 50,000 purchased from Kruti at 10 % trade discount and 10 % cash discount. Half amount paid by cheque.
- 8 Goods sold to Bhagvati, returned back, goods of ₹ 540, which we have returned back to Royal Stores.
- 9 Goods of ₹ 15,000 after adding 20% profit sold to Nirali at 10 % trade discount and at 10% cash discount, half amount received in cash.
- 10 Goods of ₹ 20,000 after adding 30 % profit sold to Bhaumik at 10 % trade discount and at 10 % cash discount (if amount is paid in 10 days)
- 11 Paid ₹ 1500 for advertisement bill of Gujarat Samachar.
- 12 Received personal dividend ₹ 800, which is deposited to bank account of business.
- 13 Nirali returned goods ₹ 650 (from sales of 9th)
- 14 Goods of ₹ 400 received as free sample, which is distributed to customer in free for advertisement.
- 15 A cheque of half amount is received from Bhaumik and cash discount allowed.
- 16 Goods returned by Nirali (of 13th), sent to Kruti

- 17 A machine purchased for ₹ 7000, and paid ₹ 500 cash for installation of machine.
- 18 Goods of ₹ 300 received as free sample.
- 19 After deducting ₹ 100 discount cheque issue to Royal Traders as final settlement
- 20 Nirali deducted allowance ₹ 50, and settled the account
- 21 On account, Bhaumik paid cash ₹ 5000 and issue cheque for remaining balance, and settled account
- 22 Goods of ₹ 4000 destroyed by fire and insurance company admitted claim for ₹ 3000, ₹ 200 realized from sale of destroyed goods.
- 23 To earn 20 % profit on selling price goods of cost price of ₹ 5000 sold.
- 24 Interest for one month paid on loan of Srimati.
- 25 Goods destroyed in railway accident ₹ 2500.
- 26 50 shares of Adani Power Ltd. purchased at market price of ₹ 300 per share and including 2 % brokerage, amount paid by cheque.
- 27 A computer of business of ₹ 2500, sold to Karuna for ₹ 1000.
- 28 A electricity bill of ₹ 1800 and telephone bill of ₹ 700 of firm paid by cheque.
- 29 Bank has credited ₹ 200 for interest and debited ₹ 100 for bank charges.
- 30 Goods of ₹ 500 was stolen and of ₹ 200 was ruined in rain.
- 31 Obtain change for ₹ 1000, but currency note of ₹ 100 was duplicate, nothing can be realized.

Ans.:

Journal Entry of Rajveer

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
2014 August 1	Cash A/c Debtors A/c Stock of goods A/c To Creditors A/c To Capital A/c [Being cash of ₹ 50,000 debtors of ₹ 25,000 stock of goods of ₹ 15,000 and creditors of ₹ 10,000 introduced and commenced business]	Dr Dr Dr 	50,000 25,000 15,000 	10,000 80,000
2	Cash A/c To Smt's Loan A/c [Being 10% loan of ₹ 30,000 borrowed from Srimati]	Dr	30,000	30,000
3	Laptop A/c To Cash A/c [Being laptop of ₹ 20,000 purchased and for expense of ₹ 500]	Dr	20,500	20,500

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
4	Dena Bank A/c To Cash A/c [Being ₹ 15,000 deposited with Dena Bank and opened account]	Dr	15,000	15,000
5	Purchase A/c Railway freight A/c Wages A/c To Royal Store A/c [Being goods of ₹ 30,000 purchased from Royal Stores at 10% Trade Discount and paid railway freight and wages on our behalf.]	Dr	27,000 2000 1000	30,000
6	Bhagavati A/c To Sales A/c To Cash A/c [Being goods of ₹ 15,000 sold to Bhagavati by adding 20% profit at 10% trade discount and paid railway freight and wages on their behalf.]	Dr	17,700	16,200 1500
7	Purchase A/c To Kruti A/c To Bank A/c To Discount A/c [Being goods of ₹ 50,000 purchased from Kruti at 10 % trade discount and 10% cash discount, and paid half amount by cheque]	Dr	45,000	22,500 20,250 2250
8	Sales returns A/c To Bhagavati A/c [Being Bhagavati has returned book goods of ₹ 540]	Dr	540	540
8	Royal Stores A/c To Purchase returns A/c [Being goods returned by Bhagavati Tons, sent back to Royal Traders ₹ 500]	Dr	500	500
9	Nirali A/c Cash A/c Discount A/c To Sales A/c [Being goods of ₹ 15,000 sold to Nirali by adding 20% profit, at 10% trade discount and 10% cash discount, half amount is received in cash]	Dr	8100 7290 810	16,200

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
10	Bhaumik A/c To Sales A/c [Being goods of ₹ 20,000 sold to Bhaumik by adding 30% profit on it at 10% trade discount]	Dr	23,400	23,400
11	Advertisement A/c To Cash A/c [Being advertisement bill of Gujarat Samachar paid ₹ 1500]	Dr	1500	1500
12	Bank A/c To Capital A/c [Being a cheque of personal dividend ₹ 800, deposited with bank account of business]	Dr	800	800
13	Sales returns A/c To Nirali A/c [Being goods of ₹ 650 is returned by Nirali]	Dr	650	650
14	Non-economic transaction			
15	Bank A/c Discount A/c To Bhaumik A/c [Being for receivable of ₹ 11,700, a cheque of ₹ 10,530 received from Bhaumik and discount allowed ₹ 1170]	Dr	10,530	11,700
16	Kruti A/c To Purchase returns A/c [Being goods returned by Nirali, returned to Kruti ₹ 602]	Dr	602	602
17	Machine A/c To Cash A/c [Being machine purchased for ₹ 7000 and installation ₹ 500 paid]	Dr	7500	7500
18	Non-economic transaction			

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
19	Royal Stores A/c To Bank A/c To Discount A/c [Being for payable of ₹ 29,500 to Royal Stores obtain allowance ₹ 100 and account is settled by cheque]	Dr	29,500	29,400 100
20	Cash A/c Discount A/c To Narali A/c [Being after deducting allowance of ₹ 250 Nirali has settled account]	Dr Dr	7400 50	7450
21	Cash A/c Bank A/c To Bhaumik A/c [Being for due of ₹ 11700, Bhaumik paid ₹ 5000 in cash and given cheque of ₹ 6700 and settled account]	Dr Dr	5000 6700	11,700
22	Insurance Co. A/c Cash A/c Loss due to fire A/c To Purchase A/c [Being goods destroyed from fire of ₹ 4000, insurance co. admitted claim for ₹ 3000, realized from sale of destroyed goods of ₹ 200 and lost of difference amount of ₹ 800.]	Dr Dr Dr Dr	3000 200 800	4000
23	Cash A/c To Sales A/c [Being goods of cost price of ₹ 5000 sold to earn 20% profit on selling price]	Dr	6250	6250
24	Interest on loan A/c To Cash A/c [Being interest on loan for one month is paid ₹ 250]	Dr	250	250
25	Loss due to accident A/c To Purchase A/c [Being goods of ₹ 2500 is destroyed in railway accident]	Dr	2500	2500

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
26	Investment in Adani Power Ltd A/c To Bank A/c [Being 50 shares of Adani Power Ltd purchased at market price of ₹ 300 per share 2% brokerage]	Dr	15,300	15,300
27	Karuna A/c Loss on sale of computer To Computer A/c [Being computer of ₹ 2500 sold to Karuna for ₹ 1000]	Dr Dr	1000 1500	2500
28	Electricity Expense A/c Telephone Expense A/c To Bank A/c [Being electricity expense ₹ 1800 and telephone expense ₹ 700 paid by cheque]	Dr Dr	1800 700	2500
29	Bank A/c To Bank Interest A/c [Being bank credited interest of ₹ 200 to our account]	Dr	200	200
29	Bank Charges A/c To Bank A/c [Being bank debited bank charges ₹ 100 to our account]	Dr	100	100
30	Loss due to theft of goods A/c To Purchase A/c [Being ₹ 500 is stolen]	Dr	500	500
30	Loss due to rain of goods A/c To Purchase A/c [Being goods of ₹ 200 is ruined due to the rain]	Dr	200	200
31	Sundry Loss A/c To Cash A/c [Being on exchange of ₹ 1000, a duplicate currency note of ₹ 100 was received]	Dr	100	100
	Total		3,94,642	3,94,642

Explanation for typical transactions is as follows:

August 1 ₹ 50,000 cash + ₹ 25,000 debtors + ₹ 5000 goods – ₹ 10,000 creditors = ₹ 80,000 capital.

5 Goods of ₹ 30,000 purchased from Royal Store and after deduction 10 % trade discount, net purchase of ₹ 27,000 is debited to purchase account and credited Royal Stores Account.

6 Computation for sales made to Bhagavati 20 % addition of profit on ₹ 15,000,

₹ Net Amount	₹ Profit
--------------	----------

100	20
-----	----

15,000	?
--------	---

$$= \frac{15,000 \times 20}{100}$$

$$= ₹ 3000 \text{ Profit}$$

$$\text{Selling price} = ₹ 15,000 + ₹ 3000$$

$$= ₹ 18,000$$

Now, 10 % trade discount allowed on selling price

$$\text{Net Amount} = ₹ 18,000 - ₹ 1800$$

$$= ₹ 16,200 \text{ Selling price}$$

7 Computation for purchase made from Kruti :

₹ 50,000	Total price
– ₹ 5000	10 % trade discount
<hr/>	Net price
– ₹ 22,500	Non payment of half the amount
<hr/>	
₹ 22,500	For 10 % cash discount
– ₹ 2250	Cash discount
<hr/>	
₹ 20,250	Cheque issued

8 Computation for goods returned by Bhagvati :

Goods got returned back ₹ 540, which was sold to Bhagvati. This is debited to sales returns account and credited to Bhagvati Account. This will be returned back to Royal Stores at cost price, its computation is as follows:

Assume that cost price of goods is ₹ 100 + ₹ 20 profit = Selling price ₹ 120. After deduction of 10 % trade discount ₹ 12 from it, net amount will be ₹ 108.

Goods returned	Cost price
----------------	------------

₹ 108	₹ 100
-------	-------

₹ 540	?
-------	---

$$= \frac{540 \times 100}{108}$$

= ₹ 500 will be the cost price (see journal entry of date 8.)

- 9 Computation for goods sold to Nirali :

₹ 15000 cost price of goods + 20 % profit ₹ 3000 = ₹ 18,000 selling price from which after deduction of 10 % trade discount ₹ 1800 net will be ₹ 16,200. From this half amount ₹ 8100 is paid. Thus after deducting 10% cash discount ₹ 810, ₹ 7290 is balancing amount which is treated as cash. See journal entry of 9th.

- 10 Computation for goods sold to Bhaumik :

₹ 20,000	Total price
+ ₹ 6000	30 % profit ($\frac{20000 \times 30}{100}$)
₹ 26,000	Selling price
- ₹ 2600	10 % trade discount
₹ 23,400	Net selling price

- 12 A personal dividend deposited in bank account of business is treated as capital, thus it is treated as capital.

- 13 Nirali has returned goods ₹ 650, which is treated as sales returns.

- 15 Accounts of goods sold to Bhaumik :

As per transaction of 10th goods sold is of ₹ 23,400. From which half amount ₹ 11,700 is receivable. As per condition of 10 % cash discount $\frac{11700 \times 10}{100} = 1170$ are deducted and cheque of ₹ 10,530 is received. See journal entry of 15th.

- 16 Nirali has returned goods worth ₹ 650, in which 20 % profit is included. Its original cost will be ascertained as follows. Assume that after adding 20 % profit to goods of ₹ 100, selling price will be ₹ 120. After deduction of 10 % trade discount from it (120 - 12) net amount will be ₹ 108.

Goods returned	Cost price
₹ 108	₹ 100
₹ 650	?
= $\frac{650 \times 100}{108}$	= ₹ 601.85

∴ ₹ 602 cost price. See journal entry of 16th.

- 17 Cost price of machine ₹ 7000 and machine installation wages ₹ 500 = ₹ 7500 are paid.

- 19 Accounts of Royal Stores :

Goods purchased on 5th	₹ 30,000
Less : Goods returned (Transaction of 8th of Bhagavati)	₹ 500
Payable amount	₹ 29,500
Less : Discount	₹ 100
Cheque of amount paid	₹ 29,400

20	Accounts of Nirali :	
	Balance amount of goods sold on 9th	₹ 8100
	Less : Goods returned (Transaction of 13th)	₹ 650
	Balance receivable	₹ 7450
	Less : Allowance	₹ 50
	Amount received as final settlement	₹ 7400

21	Accounts of Bhaumik :	
	Goods sold on 10th	₹ 23,400
	Less : Half amount received on 15th	₹ 11,700
	Balance receivable	₹ 11,700

Note : Bhaumik paid after completion of discount maturity period, he would not be entitled to receive benefit of cash discount. Here cash is received of ₹ 5000 and for balancing amount a cheque of ₹ 6700 is received.

- 22 Goods destroyed by fire of ₹ 4000. Out of which insurance company has admitted claim of ₹ 3000 and realized ₹ 200 from sale of goods, thus total receipt is ₹ 3200. Thus, difference of ₹ 800 is loss. It is debited to loss due to fire account.
- 23 20 % profit is required to earn on selling price. Assume that selling price ₹ 100 and 20 % profit received on it. Thus, cost price = Selling price – Profit (100 – 20) = ₹ 80. Now,

$$\begin{array}{ll} \text{₹ Cost price} & \text{₹ Selling price} \\ 80 & 100 \\ 5000 & ? \\ \hline = \frac{5000 \times 100}{80} & = \text{₹ 6250 will be selling price.} \end{array}$$

- 24 Computation of loan on interest of Srimati.

$$\begin{array}{lll} \text{₹} & \text{Months} & \text{Interest (₹)} \\ 100 & 12 & 10 \\ 30,000 & 1 & ? \\ \hline = \frac{30,000 \times 1 \times 10}{100 \times 12} & = \text{₹ 250 Interest} & \end{array}$$

- 26 Amount of investment in shares of Adani Power Ltd. :

$$\begin{array}{ll} 50 \text{ shares} \times \text{₹ 300 price per share} = \text{₹ 15,000} \\ + \text{Share brokerage } 2 \% \left(\frac{15,000 \times 2}{100} \right) = \text{₹ 300} \\ \hline \text{Amount paid by cheque} & = \text{₹ 15,300} \end{array}$$

- 29 Bank has credited for interest, it is revenue of business and bank charges is as expense of business.
- 31 Exchange of ₹ 1000 was obtained from which a currency note of ₹ 100 was found to be duplicate, it is sundry loss to business, thus debited to sundry loss account, since cash goes out from business, it is credited to cash amount.

13. Transactions with GST

In chapter no. 3 explanation is given for goods and services tax (GST).

The accounting treatment of GST for business transactions is explained with relevant illustrations. Since goods and services are included in this act, thus computation and accounting treatments of GST are explained here.

The following classification of transactions is done to explain the impact of GST :

- (1) Goods related transactions and GST (Illustration no. 13)
- (2) Income-expense related transactions and GST (Illustration no. 14)
- (3) Assets related transactions and GST (Illustration no. 15)
- (4) Joint transactions and GST (Illustration no. 16)
- (5) Transactions of account settlement and GST (Illustration no. 18, 19)

Note : GST rates given in illustrations and exercise of this book are for theoretical explanation. The actual GST rates can be different.)

(1) Goods related transactions and GST :

Illustration 13 : Pass journal entries the following transactions in the books of Shri Ashwin Patel of Ahmedabad for January 2019. CGST 6 % and SGST 6 % are applicable to the business transactions of Shri Ashwin Patel. At the same time IGST 12 % is applicable. GST is not included in the following transactions. Pass journal entries by adding applicable GST.

2019

- Jan. 1 Goods of ₹ 10,000 is purchased from Sureshbhai of Surat and Railway freight ₹ 2000 and labour ₹ 500 are paid by cheque.
- 4 Goods of ₹ 8000 is purchased from Amulbhai of Anand.
- 7 Goods of ₹ 15,000 is purchased from Rajeshbhai of Jaipur (Rajasthan) and amount is paid by cheque.
- 9 Goods of ₹ 12,000 is purchased from Manojbhai of Mumbai (Maharashtra).
- 10 Goods of ₹ 2000 returned by Amulbhai of Anand.
- 12 Goods of ₹ 3000 returned to Manojbhai of Mumbai (Maharashtra).
- 15 Goods of ₹ 15,000 sold to Kevalbhai of Kesod and payment is received by cheque.
- 17 Goods of ₹ 20,000 sold to Vinodbhai of Valsad. Railway freight ₹ 1000 and ₹ 1000 of wages paid on his behalf.
- 20 Goods of ₹ 12,000 sold to Dineshbhai of Delhi and payment received by cheque.
- 22 Goods of ₹ 18,000 sold to Bhaveshbhai of Bhopal (Madhya Pradesh).
- 25 Goods of ₹ 2500 of original cost returned by Vinodbhai of Valsad. (Here cost price means excluding GST.)
- 31 Goods of ₹ 3000 returned by Bhaveshbhai of Bhopal (Madhya Pradesh)

Note : Whenever, location of business is not specified in the question, the computation of CGST and SGST of respective transaction will be considered as intra state (within the state) transaction. For inter state transaction and name of respective state in bracket is mandatory.

Journal Entry of Shri Ashwin Patel

Date	Particular	LF No.	Debit (₹)	Credit (₹)
2019				
Jan. 1	Purchase A/c Dr		10,000	
	Railway freight A/c Dr		2000	
	Wages A/c Dr		500	
	Input CGST A/c Dr		750	
	Input SGST A/c Dr		750	
	To bank A/c			14,000
	[Being goods is purchased inclusive of GST.]			

Date	Particular	LF No.	Debit (₹)	Credit (₹)
4	Purchase A/c Dr Input CGST A/c Dr Input SGST A/c Dr To Amulbhai A/c [Being goods is purchased inclusive of GST.]		8000 480 480 8960	
7	Purchase A/c Dr Input IGST A/c Dr To bank A/c [Being goods is purchased inclusive of GST.]		15,000 1800 16,800	
9	Purchase A/c Dr Input IGST A/c Dr To Manojbhai A/c [Being goods is purchased inclusive of GST.]		12,000 1440 13,440	
10	Amulbhai A/c Dr To purchased return A/c To input CGST A/c To input SGST A/c [Being goods purchased is returned book.]		2240 2000 120 120	
12	Manojbhai A/c Dr To purchase return A/c To input IGST A/c [Being goods purchased is returned book.]		3360 3000 360	
15	Bank A/c Dr To sales A/c To output CGST A/c To output SGST A/c [Being goods is sold, inclusive of tax.]		16,800 15,000 900 900	
17	Vinodbhai A/c Dr To sales A/c To cash A/c To output CGST A/c To output SGST A/c [Being goods is sold, inclusive of GST.]		24,640 20,000 2000 1320 1320	
20	Bank A/c Dr To sales A/c To output IGST A/c [Being goods is sold, inclusive of GST.]		13,440 12,000 1440	

Date	Particular	LF No.	Debit (₹)	Credit (₹)
22	Bhaveshbhai A/c To sales A/c To output IGST A/c [Being goods is sold, inclusive of tax.]	Dr	20,160	18,000 2160
25	Sales return A/c Output CGST A/c Output SGST A/c To Vinodbhai A/c [Being goods returned, inclusive of GST.]	Dr Dr Dr Dr	2500 150 150 2800	
31	Sales reeturn A/c Output IGST A/c To Bhaveshbhai A/c [Being goods returned, inclusive of GST.]	Dr Dr Dr	3000 360 3360	
	Total		1,40,000	1,40,000

Note : On 25th goods sold to Vinodbhai is returned by him. In this regard Ashwinbhai will issue credit note infavour of Vinodbhai. On the other side, Vinodbhai will issue debit note against Ashwinbhai. On the basis of this respective output GST account will be debited and Vinodbhai's account will be credited.

(2) Income-Expense related transactions and GST :

Illustration 14 : From the following services related transactions pass necessary journal entries in the books of Shreyas Trading of Ahmedabad.

Applicable GST to Shreyas Trading are CGST at 2.5 %, SGST at 2.5 % and IGST at 5 %. GST is not included for the following transactions, Add applicable GST and pass necessary journal entries.

2019

- Jan. 1 Transportation expenses paid by cheque ₹ 1800.
- 4 Courier expense paid by cheque ₹ 3000.
- 8 Insurance premium paid by chque ₹ 4000.
- 10 Advertisement expenses paid by chque ₹ 6000.
- 18 Rent received by cheque ₹ 5000.
- 20 Carriage inward paid by cheque ₹ 8000 to the transport company having registered office in Mumbai (Maharastra).

Journal Entry in the basis of Shreya Trading

Date	Particular	LF No.	Debit (₹)	Credit (₹)
2019				
Jan. 1	Transport expense A/c Input CGST A/c Input SGST A/c To bank A/c [Being transport expense paid inclusive of GST.]	Dr Dr Dr Dr	1800 45 45 1890	

Date	Particular	LF No.	Debit (₹)	Credit (₹)
4	Courier expense A/c Dr Input CGST A/c Dr Input SGST A/c Dr To cash A/c [Being courier expense paid inclusive of GST.]		3000 75 75 3150	
8	Insurance premium A/c Dr Input CGST A/c Dr Input SGST A/c Dr To bank A/c [Being insurance premium paid inclusive of GST.]		4000 100 100 4200	
10	Advertisement expense A/c Dr Input CGST A/c Dr Input SGST A/c Dr To bank A/c [Being advertisement expense inclusive of GST.]		6000 150 150 6300	
18	Bank A/c Dr To rent received A/c To output CGST A/c To output SGST A/c [Being rent received recorded with GST.]		5250 5000 125 125	
20	Carriage inward A/c Dr Input IGST A/c Dr To bank A/c [Being carriage inward paid inclusive of GST.]		8000 400 8400	
	Total		29,190	29,190

(3) Asset related transactions and GST :

Illustration 15 : Write journal entries from the following transactions in the books of Shri Vipul Patel of Vadodara.

Applicable GST to business of Shri Vipul Patel are CGST 9%, SGST 9% and IGST 18%) GST is not included for the following transactions. Add applicable GST and pass necessary journal entries.

2019

- Jan. (1) Furniture of ₹ 20,000 purchased from Surti Furniture Mart of Surat and payment made by cheque.
- (2) Computer of ₹ 30,000 purchased from 'James computer' of Jamnagar.
- (3) Machine of ₹ 1,00,000 purchased from Raj Machinery Store of Delhi and payment made by cheque.
- (4) Airconditioners of ₹ 3,00,000 are purchase for business from Sahajanad Enterprise of Ahmedabad and payment is made by cheque.

Journal Entry in the books of Shri Vipul Patel of Vadodara

Date	Particular	LF No.	Debit (₹)	Credit (₹)
2019 Jan. 1	Furniture A/c Dr Input CGST A/c Dr Input SGST A/c Dr To bank A/c [Being furniture purchased and payment made by cheque inclusive of GST.]		20,000 1800 1800 23,600	
2	Computer A/c Dr Input CGST A/c Dr Input SGST A/c Dr To James Computer A/c [Being computer purchased on credit and recorded inclusive of GST.]		30,000 2700 2700 35,400	
3	Machine A/c Dr Input IGST A/c Dr To bank A/c [Being machine is purchased from Delhi and recorded in book inclusive of GST.]		1,00,000 18,000 1,18,000	
4	Airconditioners A/c Dr Input CGST A/c Dr Input SGST A/c Dr To bank A/c [Being airconditioners are purchased for business and payment made by cheque inclusive of GST.]		3,00,000 27,000 27,000 3,54,000	
	Total		5,31,000	5,31,000

(4) Joint transactions and GST :

Illustration 16 : From the following transactions, write journal entries in the books of Shri Vishnubhai of Vapi.

The following GST rates are applicable to the business of Shri Vishnubhai. GST is not included in the following transactions. Add applicable GST amount and pass necessary journal entries.

Particular of GST	On goods	On services
CGST	6 %	2.5 %
SGST	6 %	2.5 %
IGST	12 %	5.0 %

2019

- Jun 1 Goods of ₹ 20,000 purchased at 10 % trade discount from Jayeshbhai of Jamnagar and payment made by cheque.
- 3 Goods of ₹ 30,000 purchased at 10 % trade discount and 5 % cash discount from Bhadreshbhai of Bhuneswar (Orissa).
- 5 Goods of ₹ 25,000 sold at 10 % trade discount to Bhumikbhai of Bhopal (Madya Pradesh) and payment received through cheque.
- 8 Goods of ₹ 40,000 sold at 10 % trade discount and 5 % cash discount on credit to Anilbhai of Amreli.
- 10 $\frac{1}{3}$ goods is returned to Bhadreshbhai of Bhuneswar (Orrisa). The proportionate IGST is adjusted.
- 15 $\frac{1}{4}$ goods is returned by Anilbhai of Amrali. The proportionate CGST and SGST are adjusted.
- 20 A machine of ₹ 50,000 purchased from Ram & Sons of Amritsar (Punjab).
- 22 Shop rent ₹ 10,000 received by cheque.
- 25 A commission of ₹ 20,000 received from trader of Mumbai.

Journal Entries in the books of Shri Vishnubhai of Vapi

Date	Particular	LF No.	Debit (₹)	Credit (₹)
2019				
June 1	Purchase A/c Dr Input CGST A/c Dr Input SGST A/c Dr To bank A/c [Being goods purchased from Jamnagar and recorded inclusive of GST.]		18,000 1080 1080	20,160
3	Purchase A/c Dr Input IGST A/c Dr To Bhadreshbhai A/c [Being goods purchased on credit from Bhadreshbhai and recorded inclusive of tax.]		27,000 3240	30,240
5	Bank A/c Dr To sales A/c To output IGST A/c [Being goods sold to customer of Bhopal on cash and recorded inclusive of GST.]		25,200	22,500 2700
8	Anilbhai A/c Dr To sales A/c To output CGST A/c To output SGST A/c [Being goods sold on credit to Anilbhai and recorded inclusive of GST.]		40,320	36,000 2160 2160

Date	Particular	LF No.	Debit (₹)	Credit (₹)
10	Bhadreshbhai A/c To purchase return A/c To input IGST A/c [Being purchase returned to the bhadreshbhai of Bhuneswar and proportionate IGST is adjusted.]		10,080	9000 1080
15	Sales returned A/c Dr Output CGST A/c Dr Output SGST A/c Dr To Anilbhai A/c [Being sales returned from Anilbhai and proportionate CGST and SGST are adjusted.]		9000 540 540	10,080
20	Machine A/c Dr Input IGST A/c Dr To Ram and Sons A/c [Being machine purchased from Amritsar and recorded inclusive of GST.]		50,000 6000	56,000
22	Bank A/c Dr To rent received A/c To output CGST A/c To output SGST A/c [Being rent received and recorded inclusive of GST.]		10,500	10,000 250 250
25	Bank A/c Dr To commission received A/c To output IGST A/c [Being commission received and recorded inclusive of GST.]		21,000	20,000 1000
	Total		2,23,580	2,23,580

Illustration 17 : From the following transactions write journal entries in the books of Shri Ajitbhai Shah of Ankleshwar.

The following GST rates applicable to business transaction of Shri Ajitbhai. The amount of GST is not included in these transactions. Write journal entries after adding GST.

Particular of GST	On goods	On services
CGST	9 %	2.5 %
SGST	9 %	2.5 %
IGST	18 %	5.0 %

2019

- July 1 Goods purchased of ₹ 10,000 at 10 % trade discount from Ashishbhai of Anand.
- 4 Goods purchased of ₹ 20,000 at 10 % trade discount from Ranchodhbhai of Ranchi (Jharkhand). The payment is made by cheque.
- 7 Goods sold of ₹ 15,000 at 10 % trade discount to Piyushbhai of Palanpur. The payment is received through cheque.
- 10 Goods sold of ₹ 20,000 at 10 % trade discount on credit to Indrajit of Indore (Madhya Pradesh).
- 14 Goods of ₹ 2000 returned to Ashishbhai of Anand.
- 18 Goods of ₹ 5000 returned by Indrajit of Indore.
- 20 A computer of ₹ 50,000 purchased from 'Noble Infotech' of Delhi and payment made through cheque.
- 24 Telephone bill paid by cheque of ₹ 5000.

Journal Entries in the books of Shri Ajitbhai of Ankleshwar

Date	Particular	LF No.	Debit (₹)	Credit (₹)
2019				
July 1	Purchase A/c Dr Input CGST A/c Dr Input SGST A/c Dr To Ashishbhai A/c [Being goods purchased on credit from Anand and recorded inclusive of GST.]		9000 810 810 10,620	
4	Purchase A/c Dr Input IGST A/c Dr To bank A/c [Being goods purchased by cheque from Ranchi and recorded inclusive of GST.]		18,000 3240 21,240	
7	Bank A/c Dr To sales A/c To output CGST A/c To output SGST A/c [Being goods sold on cash to customer of Palanpur.]		15,930 13,500 1215 1215	
10	Indrajit A/c Dr To sales A/c To output IGST A/c [Being goods sold on credit to Indrajit of Indore and recorded inclusive of GST.]		21,240 18,000 3240	

Date	Particular	LF No.	Debit (₹)	Credit (₹)
14	Ashishbhai A/c To purchase return A/c To input CGST A/c To input SGST A/c [Being goods purchased returned to Ashishbhai and proportionate CGST and SGST are adjusted.]	Dr	2360	2000 180 180
18	Sales return A/c Output IGST A/c To Indrajit A/c [Being goods returned by Indrajit and proportionate IGST is adjusted.]	Dr Dr	5000 900	5900
20	Computer A/c Input IGST A/c To bank A/c [Being computer purchased from Delhi and recorded inclusive of GST.]	Dr Dr	50,000 9000	59,000
24	Telephone bill A/c Input CGST A/c Input SGST A/c To bank A/c [Being telephone bill paid and recorded inclusive of GST.]	Dr Dr Dr	5000 125 125	5250
	Total		1,41,540	1,41,540

(5) Transactions of Accounting Settlement of GST :

(Note : Illustration no. 18 and 19 are pertaining to accounting settlement of GST. These are only for information for students. These are not expected in exam.)

(I) When input GST amount is less than output GST amount :

(When GST amount of purchase is less than GST amount of sales)

Illustration 18 : Avinash of Ahmedabad has purchased goods of ₹ 2,00,000 from Rajesh of Rajkot and payment is made by cheque. The entire goods he has sold to Bhavesh of Bhavnagar for ₹ 2,40,000 and payment received through cheque.

12 % GST rate is applicable to these transactions, where CGST is 6 % and SGST is 6 %.

Pass journal entries till the accounting settlement of GST in the book of Avinash.

Journal Entries in the books of Avinash

Date	Particular	LF No.	Debit (₹)	Credit (₹)
1	Purchase A/c Input CGST A/c Input SGST A/c To bank A/c [Being goods purchased payment is inclusive of GST.]		2,00,000 12,000 12,000 2,24,000	
2	Bank A/c To sales A/c To output CGST A/c To output SGST A/c [Being goods sold and amount received inclusive of GST.]		2,68,800	2,40,000 14,400 14,400
3	Output CGST A/c Output SGST A/c To input CGST A/c To input SGST A/c To bank A/c [Being dues of GST are paid and GST accounts are settled.]		14,400 14,400 12,000 12,000 4,800	
	Total		5,21,600	5,21,600

(II) When input GST amount is more than output GST amount :

(When GST amount of purchase is more than GST amount of sales)

Illustration 19 : Avinash of Ahmedabad has purchased goods of ₹ 2,00,000 from Rajesh of Rajkot and payment is made by cheque. From this goods of ₹ 1,30,000 sold for ₹ 1,60,000 to Bhavesh of Bhavnagar and payment received through cheque.

12 % GST rate is applicable to these transactions, were CGST is 6 % and SGST is 6 %.

Pass journal entries till the accounting settlement of GST in the books of Avinash.

Journal Entries in the books of Avinash

Date	Particular	LF No.	Debit (₹)	Credit (₹)
1	Purchase A/c Input CGST A/c Input SGST A/c To bank A/c [Being goods purchased and payment is inclusive of GST.]		2,00,000 12,000 12,000 2,24,000	

Date	Particular	LF No.	Debit (₹)	Credit (₹)
2	Bank A/c To sales A/c To output CGST A/c To output SGST A/c [Being goods sold and amount received inclusive of GST.]	Dr	1,79,200	1,60,000 9600 9600
3	Output CGST A/c Output SGST A/c To input CGST A/c To input SGST A/c [Being accounts of GST are settled.]	Dr Dr	9600 9600	9600 9600
	Total		4,22,400	4,22,400

Note : In this question ₹ 24,000 are paid in the form of Input CGST ₹ 12,000 and Input SGST ₹ 12,000, at the time of purchase. At the time of sale ₹ 19,200 are received in the form of output CGST ₹ 9600 and output SGST ₹ 9600. So ₹ 4800 (₹ 2400 of input CGST and ₹ 2400 of input SGST) are shown as credit balance in the books of government. This amount can be adjusted against sale of future.

Exercise

1. Select appropriate option of each question :

- (1) Journal is a of accounting transactions

(a) Original Book	(b) Main Book
(c) Closing Book	(d) Other Book
- (2) An amount withdrawn from bank account for personal expense will be debited to account.

(a) Bank	(b) Cash
(c) Drawings	(d) Person
- (3) Expense incurred to purchase asset is debited to account.

(a) Expense	(b) Asset
(c) Cash	(d) Sundry
- (4) The total of debit and credit side of journal are

(a) Non identical	(b) Identical
(c) Debit	(d) Credit
- (5) Goods goes out for sample is debited to account.

(a) Advertisement expense	(b) Goods issued for sample
(c) Purchase	(d) Sale

2. Answer the following questions in one sentence :

- (1) What is Journal ?

- (2) Describe types of discounts.

- (3) When combined journal entries are written ?
- (4) When is purchase returns made ? To which account it will be credited ?
- (5) Give three illustrations of goods going out in other ways.
- (6) Describe main types of exchange transactions of business with bank.
- (7) To which account bad debts return will be credited, which is received from the debtor who became insolvent in past ?

3. Describe whether following statements are true or false:

- (1) Income tax of sole proprietor is expense of business, this will be debited to income tax accounts.
- (2) Cheque received from customer is debited to bank account.
- (3) House rent and shop rent both are business expenses.

4. Answer the following questions in brief :

- (1) Describe the characteristics of journal.
- (2) Distinguish between trade discount and cash discount.
- (3) Why journal is known as the first book of accounts ?
- (4) Write a note on the significance of journal.
- (5) Write journal for any two imaginary transactions.

5. From the following transactions write journal in the books of Pranjal:

- (1) Introduced ₹ 10,000 cash and commenced business
- (2) Goods of ₹ 5000 purchased on cash.
- (3) Goods of ₹ 8000 purchased on credit from Rajan.
- (4) Goods of ₹ 2000 given for donation.
- (5) Given order to Shivani to dispatch goods of ₹ 3000.
- (6) Shivani has dispatched the goods as per order.
- (7) Paid ₹ 2500 for life insurance premium.

6. Transactions for capital and drawings.

Write journal entries for the following transaction in the books of Shubham :

2014

- | | | |
|-----|----|--|
| Jan | 1 | Introduced goods of ₹ 10,000, cash ₹ 15,000, furniture ₹ 5000, debtors of ₹ 10,000 and commenced business. |
| | 12 | Personal motor car sold for ₹ 80,000 and introduced ₹ 50,000 in business. |
| | 13 | ₹ 1000 withdrawn from bank for personal use. |
| | 15 | Income tax refund of ₹ 500 of owner of sole proprietor deposited with bank account of business. |
| | 20 | From business goods of ₹ 1000 and cash ₹ 400 are withdrawn for personal use. |
| | 21 | Travelling expense of daughter ₹ 1500 paid from business |
| | 28 | Furniture of ₹ 2000, purchased from Ganga Furniture Mart for house |
| | 31 | Life insurance premium of ₹ 500 paid by cheque |

7. Transaction for loan and interest.

Write following transactions in the journal of Pushkar :

2014

- Feb 1 Due to additional requirement of Funds, 12 % loan of ₹ 20,000 borrowed from Ram.
3 ₹ 8000 lent to Laxman at interest rate of 8 %.
8 Received cash ₹ 800 for loan lent to Bharat and ₹ 200 for interest.
10 ₹ 5000 returned back to Seeta for borrowed loan and paid interest ₹ 400.
12 Received interest ₹ 200, for loan lent to Kaushal.
15 Interest for one month paid for loan obtained from Ram.
18 ₹ 75 became receivable for interest on loan of Laxman.

8. Transaction of Bank :

Write Journal Entry for Krishna for the following transaction:

2014

- March 1 ₹ 20,000 deposited with bank and opened account.
5 A cheque of ₹ 5000 received from Hari, which immediately deposited with bank.
6 A cheque of ₹ 2000 received from Ramaniklal for dues
10 Goods sold to Rupali ₹ 14,000, out of which cheque received for half amount, which deposited with bank
12 Goods of ₹ 10,000 purchased from Deepkala and paid half amount by cheque.
15 ₹ 400 withdrawn from bank for personal expenses and ₹ 800 for office expense.
18 Life insurance premium ₹ 300 and fire insurance premium ₹ 450 paid by cheque.
20 Bank has approved over draft of ₹ 25,000.
25 Bank has credited interest of ₹ 250 and debited bank charges of ₹ 100.
31 A cheque of ₹ 5000 issued for foreign visit of son of owner from business.

9. Transaction of Goods :

Write journal entry for the following transactions in the books of Ramesh :

2014

- April 1 Cash purchase ₹ 15,000 and cash sales ₹ 14,000.
5 A personal goods of ₹ 10,000, brought to business.
7 Goods of ₹ 12,000 purchased from Harsh.
10 Out of goods purchased due to defective goods half goods returned to Harsh.
12 Goods of ₹ 10,000 purchased from Ramila and half amount paid by cheque.
15 Goods purchased from Ramila sold to Mita after adding 30 % profit, at 10 % trade discount.
18 Mita returned goods of ₹ 1000.
20 Goods of ₹ 20,000 sold to Kalpana at 10 % trade discount and 5 % cash discount.

- 22 Goods of ₹ 2000 destroyed by fire and insurance company admitted claim of ₹ 1000.
- 25 Goods of ₹ 500 ruined in rain, ₹ 200 are realized by selling it.
- 27 Goods of ₹ 300 received as free sample.
- 29 Goods of ₹ 250 was received as free sample sold for ₹ 400.
- 30 A mobile of ₹ 1500 purchased against exchange of goods of ₹ 1000.

10. Transactions of Asset :

Write journal entry for the following transactions in the books of Shri Laxman Chandera :

- 1 A machine purchased by cheque ₹ 20,000 and paid for machine installation ₹ 500 in cash.
- 2 Furniture of ₹ 3000 purchased from Kaveri Furniture and carriage paid in cash ₹ 50.
- 3 50 shares of Maha Laxmi Mill purchased at ₹ 100 per share and brokerage 20 paise per share, paid by cheque
- 4 For furniture of ₹ 5000 goods given of ₹ 4000.
- 5 An old machine of ₹ 6000 sold for ₹ 5000.
- 6 Land purchased ₹ 50,000 and incurred ₹ 2000 for documentation and legal charges. Payment is made in cash.

11. Transaction of Revenue – Expense :

For following transactions of May 2014, write journal entry in the books of Shashank :

- 1 Paid ₹ 500 for refreshment at inaugural function of shop.
- 2 Purchased necessary books of accounts ₹ 400 for business.
- 3 Paid ₹ 200 for wages and ₹ 100 for carriage.
- 5 Paid ₹ 500 for shop rent ₹ 300 for house rent.
- 10 ₹ 400 received for commission.
- 12 A cheque of ₹ 800 received for brokerage.
- 15 Paid advertisement bill of Gujarat Samacher ₹ 300.
- 20 Received equity share dividend ₹ 500.
- 24 Essar company has paid debenture interest by cheque ₹ 1000.
- 25 ₹ 3000 paid for sign board of business.

12. Transaction of trade discount, cash discount and bad debts. Write journal entry for the following transactions in the books of Parmeshwar :

2014

- | | | |
|------|---|---|
| June | 1 | Introduced cash ₹ 50,000, stock of goods ₹ 10,000 debtors of ₹ 15,000 and commenced business. |
| | 2 | 10 % loan of ₹ 20,000 is borrowed from Smt. Sharda. |
| | 3 | Goods ₹ 8000 purchased from Rameshwar Stores at 10 % trade discount. |
| | 5 | Goods of ₹ 5000 sold to Gayatri Stores at 10 % trade discount. |

- 7 Goods of ₹ 15,000 purchased from Radha Kishan Store at 10 % trade discount and 10 % cash discount, issued cheque for half amount.
- 10 An order of ₹ 5000 received from Vibhuti to send goods.
- 12 As per order of Vibhuti, goods sent at 10 % trade discount. Paid ₹ 50 carriage in cash.
- 15 Vibhuti became insolvent and bad debts recorded of ₹ 300, a cheque received for remaining amount.
- 16 On payable amount to Anup ₹ 1050, paid ₹ 1000 by cheque and settled the account.
- 20 Received ₹ 1500 for written off bad debts of Imandar.

13. Transactions of inclusive of all :

Write journal entry of business commenced by Shri Maulik Shah with a name of Shah Traders :

2014

- | | |
|------|---|
| July | <ul style="list-style-type: none"> 1 Brought ₹ 50,000 cash, debtors ₹ 20,000, stock of goods ₹ 10,000 and creditors of ₹ 5000 and commenced business. 2 Deposited cash ₹ 20,000 with Vijaya Bank and opened account. 3 Goods of ₹ 20,000 purchased from Sumul at 10 % trade discount and 10 % cash discount. Paid half amount by cheque. 4 A furniture of ₹ 15,000 purchased on credit from “Punit Furniture Mart”. A carriage of ₹ 100 paid in cash. 5 A defective goods of ₹ 3000 returned to Sumul. 6 Goods of ₹ 12,000 sold to Rajshri at 10 % trade discount and 10 % cash discount. Paid half amount by cheque. 8 Goods of ₹ 15,000 sold to Mahendra on cash at 10 % trade discount and 10 % cash discount. 10 Withdrawn goods of ₹ 300 and cash ₹ 200 for personal use. 11 Purchased plastic bags of ₹ 200 for goods packing by cash. 12 ₹ 2000 paid by cheque for salary and wages. 13 Bad debts took place ₹ 300 which was due from Rajshri and received remaining amount in cash. 14 Due to additional requirement of funds, 12 % loan of ₹ 25,000 obtained from Axis Bank. 15 Goods of ₹ 2000 destroyed by fire, for which insurance company has admitted claim of ₹ 1500. Realized ₹ 200 from goods burnt by fire. 16 Both life insurance premium of son ₹ 450, and fire insurance premium of ₹ 550 paid by cheque. 18 Nirma company gave 30 number of soap free of cost as a sample, which are sold for ₹ 250. 20 Received ₹ 100 from Rajshri for bad debts written off. 25 Axis Bank has charged loan interest of ₹ 250. 28 Paid ₹ 2000 for painting work of personal building and ₹ 1000 for painting work of shop. 29 Paid internet connection deposit ₹ 2000 by cheque. |
|------|---|

14. A learner student has written following journal entry. Journal entry which are incorrect, correct them and rewrite :

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
2014 August 1	Insurance Premium A/c To Cash A/c [Being ₹ 700 paid for life insurance premium.]		700	700
5	Cash A/c To Jay A/c To Ajay A/c [Being received ₹ 200 of brokerage from Jay and ₹ 100 of commission from Ajay]		300	200 100
7	Purchase A/c To Vivek A/c [Being goods of ₹ 5000 purchased from Vivek on cash at 10 % cash discount]		4500	4500
10	Bank A/c To Cash A/c [Being bank has approved over draft of ₹ 7000.]		7000	7000
11	Vivek A/c To Purchase returns A/c [Being 20 % goods returned to Vivek and cash received from Vivek]		1000	1000
12	Cash A/c To Debtors A/c [Being ₹ 500 received from debtor which was written off in past]		500	500
13	Repairing expenses A/c To Cash A/c [Being paid cash ₹ 500 for shop repairing and ₹ 1000 for house repairing]		1500	1500
15	Wages A/c To Cash A/c [Being paid cash ₹ 800 for machine installation]		800	800
	Total		16,300	16,300

15. An accountant has written following journal entry without narration. You are required to give information for transactions from the following journal entry :

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
1	Insurance company A/c Dr		2000	
	Loss due to accident A/c Dr		400	
	To purchase A/c			2400
2	Bank A/c Dr		500	
	To Interest A/c			500
3	Cash A/c Dr		1600	
	To Bicycle A/c			1600
4	Bank A/c Dr		700	
	To Dividend A/c			700
5	Cash A/c Dr		7200	
	Discount A/c Dr		800	
	To Sales A/c			8000
6	Donation A/c Dr		2500	
	To Cash A/c			1000
	To purchase A/c			1500
	Total		15,700	15,700

16. From the following transaction write journal entries in the books of Shri Dineshbhai of Dahod :

The following GST rates are applicable to business transactions of Shri Dineshbhai. GST is not included for following transactions. Add applicable amount of GST and write journal entries.

Particular of GST	On goods	On services
CGST	6 %	2.5 %
SGST	6 %	2.5 %
IGST	12 %	5.0 %

2019

- April 1 Goods of ₹ 50,000 purchased at 10 % trade discount from Sureshbhai of Surendranagar.
The payment is made by cheque.
- 4 Goods of ₹ 40,000 purchased at 10 % cash discount from Vishnubhai of Varansi (UP).
- 7 Goods of ₹ 60,000 sold at 10 % trade discount to Himanshubhai Himatnagar.
- 11 Goods of ₹ 50,000 sold at 10 % trade discount to Shashikant of Simla (H.P.) and payment received through cheque.

- 15 $\frac{1}{4}$ goods returned to Vishnubhai and proportionate GST is adjusted.
- 18 $\frac{1}{3}$ goods returned by Himanshubhai and proportionate GST is adjusted.
- 25 A cupboard of ₹ 20,000 purchased from Sahajanand Furniture Mart of Ahmedabad.
- 28 Shop rent paid ₹ 8000.
- 17. From the following transactions write journal entries in the books of Kiyansh Patel of Kesod :**

The following GST rates are applicable to business transactions of Shri Kiyansh. GST is not included in these transactions. Add applicable amount of GST and write journal entries :

Particular of GST	On goods	On services
CGST	9 %	2.5 %
SGST	9 %	2.5 %
IGST	18 %	5.0 %

2019

- May 1 Goods of ₹ 40,000 purchased at 10 % trade discount and 10 % cash discount from Savan Patel of Surat.
- 3 Goods of ₹ 30,000 purchased at 10 % trade discount from Ayush Shah of Amravati (Maharashtra). The payment is made by cheque.
- 5 Goods of ₹ 50,000 sold at 10 % trade discount to Ansh Avasthi of Ahmedabad. Half amount received through cheque.
- 8 Goods of ₹ 20,000 sold at 10 % trade discount and at 5 % cash discount to Neel Mehta of Nagpur (Maharashtra).
- 11 $\frac{1}{4}$ goods returned to Savan Patel of Surat. The proportionate amount of GST is adjusted.
- 16 $\frac{1}{5}$ goods received book from Neel Mehta of Nagpur the proportionate amount of GST is adjusted.
- 24 A computer of ₹ 40,000 for office from Shubh Infotech. The payment is made by cheque.
- 30 Office rent of ₹ 10,000 paid by cheque.
- 31 Godown rent of ₹ 20,000 received by cheque.
- 31 ₹ 25,000 received for commission by cheque from trader of Bhopal (Madhya Pradesh)



Accounting Equation and Business Transactions

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|-----------------|---|
| 1. Introduction | 2. Accounting equation and transactions |
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1. Introduction

The significant objective of financial accounting is to prepare financial accounts. In accounts, trading account, profit and loss account and balance sheet are included. In the company form instead of trading account and profit and loss account, income statement is prepared. At the end of the year profit and loss will be closed and will be transferred to balance sheet. (A detailed explanation in this regard is undertaken in subsequent chapter.) Generally at the end of year balance sheet is prepared.

There are two important components of balance sheet : (1) Capital and Liability (2) Asset

The final effect of every business transaction goes to above mentioned two components of balance sheet. i.e. capital and liability, and assets. As per the norms of double entry system, the total of above mentioned two components remains identical. According to the terminology of accounting these two components are known as Capital and Liability side and Assets side. This can be represented in the equation form as follows :

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

$$\text{In brief, } A = C + L$$

This is an American method for presentation of accounting transactions. This is a modern approach.

Under traditional approach, rules of personal account, real account and nominal account are used. Under this traditional approach, on the basis of these rules, initially, journal is prepared and finally, final accounts are prepared. And at last, balance sheet is prepared. In accounting equation, effect of transaction is directly given in the balance sheet.

2. Accounting Equation and Transactions

In equation approach, effect of transaction is directly given to the assets and capital liability side. Prior to this we have undertaken study of types of accounts and their rules. We have acquired acquaintance about how to write journal entry. Keeping these rules in mind, let us understand the equation method.

At the time of execution of equation method. Equation method can be understood easily, if business transactions are classified as under :

(1) **Transactions related to goods** : Purchase, sales, purchase return, sales return and goods goes out in any other form.

(2) **Revenue-expense related transactions** : Rent received, commission received, dividend etc are included in revenue. Salary, wages, advertisement expense, administrative expense etc are included in expenses.

(3) Assets purchase-sales transactions.

(4) Transactions related to borrowing of funds and lending of funds.

There can be following effect on $A = C + L$ of above mentioned transactions :

- (1) Increase and decrease in A only. (Increase in one asset and decrease in another asset.)
- (2) Increase / Decrease in A and C.
- (3) Increase / Decrease in A and L.
- (4) Increase – Decrease in C and L.

Let us understand this matter with illustrations, which are given hereafter.

Illustration 1 : Journal entries are written as follows and effect of transaction is explained in equation form.

Sr.No.	Transaction and Journal Entry		Debit (₹)	Credit (₹)	Effect
1.	Brought ₹ 50,000 and commenced business. Cash A/c Dr To capital A/c		50,000	50,000	Cash increased. Capital increased.
2.	Furniture purchased for ₹ 10,000. Furniture A/c Dr To cash A/c		10,000	10,000	Furniture increased. Cash decreased.
3.	Goods for ₹ 12,000 purchased in cash. Purchase A/c Dr To cash A/c		12,000	12,000	Goods increased. Cash decreased.
4.	Goods for ₹ 8000 is purchased from B. Purchase A/c Dr To B's A/c		8000	8000	Goods increased. Liability increased.
5.	Goods of ₹ 7000 is sold for ₹ 10,000 in cash. Cash A/c Dr To sales A/c		10,000	10,000	Cash increased. Goods decreased.
6.	₹ 6000 paid for wages. Wages A/c Dr To cash A/c		6000	6000	Due to wages paid. Capital decreased. Cash decreased.
7.	Wages outstanding ₹ 1000. Wages A/c Dr To ourstanding wages A/c		1000	1000	Due to wages paid. Capital decreased. Liability increased.

A (Assets) =	C (Capital)	+ L (Liability)
Cash <u>50,000</u> <u>50,000</u> <u>=====</u>	= Capital <u>50,000</u> <u>50,000</u> <u>=====</u>	+ <u>0</u> <u>0</u> <u>=====</u>
Cash <u>50,000</u> Furni. purchase <u>10,000</u> → Furniture <u>10,000</u> <u>50,000</u> <u>=====</u>	Capital = <u>50,000</u> <u>=====</u>	0 + <u>0</u> <u>=====</u>
Cash <u>40,000</u> - Purchase <u>12,000</u> → Furniture <u>10,000</u> Stock <u>12,000</u> <u>50,000</u> <u>=====</u>	Capital = <u>50,000</u> <u>=====</u>	0 + <u>0</u> <u>=====</u>
Cash <u>28,000</u> Stock <u>12,000</u> + Purchase <u>8000</u> → Furniture <u>10,000</u> <u>58,000</u> <u>=====</u>	Capital = <u>50,000</u> <u>=====</u>	Liability (B) <u>8000</u> + <u>8000</u> <u>=====</u>
Cash <u>28,000</u> + Sales (S.P.) <u>10,000</u> → Stock <u>20,000</u> - Sales (C.P.) <u>7000</u> → Furniture <u>10,000</u> <u>61,000</u> <u>=====</u>	Capital + Profit on sales <u>50,000</u> <u>(10,000 - 7000)</u> = <u>53,000</u> <u>=====</u>	Liability (B) <u>8000</u> + <u>8000</u> <u>=====</u>
Cash <u>38,000</u> - Wages <u>6000</u> → Stock <u>13,000</u> Furniture <u>10,000</u> <u>55,000</u> <u>=====</u>	Capital - Wages = <u>47,000</u> <u>=====</u>	Liability (B) <u>8000</u> + <u>8000</u> <u>=====</u>
Cash <u>32,000</u> Stock <u>13,000</u> Furniture <u>10,000</u> <u>55,000</u> <u>=====</u>	Capital - Wages = <u>46,000</u> <u>=====</u>	Liability (B) <u>8000</u> + Wages (O/s) <u>1000</u> + <u>9000</u> <u>=====</u>

Sr.No.	Transaction and Journal Entry		Debit (₹)	Credit (₹)	Effect
8.	Commission received ₹ 4000. Cash A/c To commission A/c	Dr	4000	4000	Cash increased. Capital would increase due to commission income.
9.	Dividend receivable ₹ 9000. Receivable dividend A/c To dividend A/c	Dr	9000	9000	Asset increased. Capital increased.
10.	Machine purchased ₹ 8000. Machine A/c To cash A/c	Dr	8000	8000	Asset increased. Cash decreased.
11.	Land purchased from Radha of ₹ 25,000. Land A/c To Radha A/c	Dr	25,000	25,000	Asset increased. Liability increased.
12.	Borrowed bank loan of ₹ 20,000 and cash withdrawn. Cash A/c To bank loan A/c	Dr	20,000	20,000	Cash increased. Liability increased.

A (Assets) =	C (Capital)	+ L (Liability)
Cash 32,000 + Commission $\xrightarrow{4000}$ 36,000 Stock 13,000 Furniture 10,000 $\underline{\quad}$ $\underline{\quad}$ $\underline{\quad}$	Capital 46,000 Commission 4000 $=$ $\underline{\quad}$ $\underline{\quad}$ $\underline{\quad}$	Liability (B) 8000 Liability (O/s) 1000 $+ \quad$ $\underline{\quad}$ $\underline{\quad}$ $\underline{\quad}$
Cash 36,000 Stock 13,000 Furniture 10,000 Dividend receivable 9000 $\underline{\quad}$ $\underline{\quad}$	Capital 46,000 Commission 4000 Dividend 9000 $=$ $\underline{\quad}$ $\underline{\quad}$	Liability (B) 8000 Liability (O/s) 1000 $+ \quad$ $\underline{\quad}$ $\underline{\quad}$
Cash 36,000 - Machine $\xrightarrow{8000}$ 28,000 Stock 13,000 Furniture 10,000 Dividend receivable 9000 Machine 8000 $\underline{\quad}$ $\underline{\quad}$	Capital 46,000 Commission 4000 Dividend 9000 $=$ $\underline{\quad}$ $\underline{\quad}$	Liability (B) 8000 Liability (O/s) 1000 $+ \quad$ $\underline{\quad}$ $\underline{\quad}$
Cash 28,000 Stock 13,000 Furniture 10,000 Dividend receivable 9000 Machine 8000 Land 25,000 $\underline{\quad}$ $\underline{\quad}$	Capital 46,000 Commission 4000 Dividend 9000 $=$ $\underline{\quad}$ $\underline{\quad}$	Liability (B) 8000 Liability (O/s) 1000 Liability (Radha) 25,000 $+ \quad$ $\underline{\quad}$ $\underline{\quad}$
Cash 28,000 + Loan $\xrightarrow{20,000}$ 48,000 Stock 13,000 Furniture 10,000 Dividend receivable 9000 Machine 8000 Land 25,000 $\underline{\quad}$ $\underline{\quad}$	Capital 46,000 Commission 4000 Dividend 9000 $=$ $\underline{\quad}$ $\underline{\quad}$	Liability (B) 8000 Liability (O/s) 1000 Liability (Radha) 25,000 Bank loan 20,000 $+ \quad$ $\underline{\quad}$ $\underline{\quad}$

Note : After having treatment of above mentioned transactions, total of asset side (of A side) and total of Capital-Liability side (C + L side) is always equal. Here A = 1,13,000 and C = 59,000 + L = 54,000 = 1,13,000.

The following observations can be obtained due to use of equation method :

Sr. No.	Transaction	Assets = (A) =	Capital + (C) +	Liability (L)
1(A)	When capital introduced by owner in business.	Increase	Increase	—
1(B)	When withdrawn made by owner from business.	Decrease	Decrease	—
2.	Purchase of goods in cash.	One would increase. Another would decrease.	—	—
3.	Purchase of goods on credit.	Increase	—	Increase
4.	Sale of goods in cash.	One would increase. Another would decrease.	Would increase. (in profit)	—
5.	Sale of goods on credit.	One would increase. Another would decrease.	Would increase. (in profit)	—
6.	Payment of revenue expense in cash.	Decrease	Decrease	—
7.	Revenue expenditure outstanding.	—	Decrease	Increase
8.	Receipt of revenue income in cash.	Increase	Increase	—
9.	Revenue income outstanding.	Increase	Increase	—
10.	Purchase of asset in cash.	One would increase. Another would decrease.	—	—
11.	Purchase of asset on credit.	Increase	—	Increase
12.	Sale of asset in cash.	One would increase. Another would decrease.	—	—
13.	Sale of asset on credit.	One would increase. Another would decrease.	—	—
14.	When funds borrowed.	Increase	—	Increase
15.	Out going material. e.g. goods destroyed by fire.	Decrease	Decrease	—

Note : In above mentioned transaction No. 4 and 5, when sales is made with profit, capital would increase and sales is made with loss capital would reduce.

Illustration 2 : Write journal entries for the following transactions and explain accounting treatments based on equation.

- (1) Ramesh has brought cash of ₹ 20,000 and furniture of ₹ 10,000 to commence business.
- (2) ₹ 5000 deposited in bank and opened account.
- (3) Goods of ₹ 8000 purchased from Rajesh.
- (4) Goods of ₹ 6000 purchased for cash.
- (5) Goods of ₹ 5000 sold for ₹ 9000 to Raman on credit.
- (6) Goods of ₹ 3000 sold for ₹ 6000 in cash.
- (7) Goods of ₹ 1000 returned to Rajesh. (Purchase return)
- (8) Goods of ₹ 2000 returned by Raman. (Sales return)
- (9) Goods of ₹ 1000 destroyed by fire.
- (10) Salary paid ₹ 2000.
- (11) Salary outstanding is ₹ 1000.
- (12) Commission received ₹ 4000.
- (13) Receivable dividend ₹ 2000.
- (14) Insurance premium of shop paid ₹ 500.
- (15) A computer of ₹ 8000 is purchased from Shree Krishna Computer Co.
- (16) Owner withdraw ₹ 1000 from business.
- (17) Account settled of Rajesh.
- (18) Account settled by Raman.

Ans. : Back page.

Sr.No.	Journal Entry	Debit (₹)	Credit (₹)	Effect
1.	Cash A/c Furniture A/c To capital A/c	Dr 20,000 Dr 10,000 	30,000	Cash increased. Furniture increased. Capital increased.
2.	Bank A/c To cash A/c	Dr 5000	5000	Bank balance increased. Cash decreased.
3.	Purchase A/c To Rajesh A/c	Dr 8000	8000	Stock increased. Liability increased.
4.	Purchase A/c To cash A/c	Dr 6000	6000	Stock increased. Cash decreased.
5.	Raman A/c To sales A/c	Dr 9000	9000	Receivable increase Good decreased.
6.	Cash A/c To sales A/c	Dr 6000	6000	Cash increased. Stock decreased.

A (Assets) =	C (Capital)	+ L (Liability)
Cash 20,000 Furniture 10,000 30,000 =====	Capital 30,000 = 30,000 =====	+ 0 0 =====
Cash 20,000 - Deposited in Bank 5000 → 15,000 Bank balance 5000 Furniture 10,000 30,000 =====	Capital 30,000 = 30,000 =====	0 0 =====
Cash 15,000 Bank balance 5000 Furniture 10,000 Stock (Purchase) 8000 38,000 =====	Capital 30,000 = 30,000 =====	Liability (Rajesh) 8000 + 8000 =====
Cash 15,000 - Purchase 6000 → 9000 Stock 8000 + Purchase 6000 → 14,000 Bank balance 5000 Furniture 10,000 38,000 =====	Capital 30,000 = 30,000 =====	Liability (Rajesh) 8000 + 8000 =====
Cash 9000 Stock 14,000 - Sales (Cost) 5000 → 9000 Receivable (debtors)(SP) 9000 Bank balance 5000 Furniture 10,000 42,000 =====	Capital 30,000 + Sales profit 4000 (9000 - 5000) = 34,000 =====	Liability (Rajesh) 8000 + 8000 =====
Cash 9000 + Sales 6000 → 15,000 Stock 9000 - Sales (Cost) 3000 → 6000 Receivable (debtors) 9000 Bank balance 5000 Furniture 10,000 45,000 =====	Capital 34,000 + Sales profit 3000 (6000 - 3000) = 37,000 =====	Liability (Rajesh) 8000 + 8000 =====

Sr.No.	Journal Entry		Debit (₹)	Credit (₹)	Effect
7.	Rajesh A/c To purchase return A/c	Dr	1000	1000	Liability decreased. Stock decreased.
8.	Sales return A/c To Raman A/c	Dr	2000	2000	Stock increased. Receivable decreased.
9.	Loss due to fire A/c To purchase A/c (Goods destroyed by fire.)	Dr	1000	1000	Loss (Capital decreased). Goods decreased
10.	Salary A/c To cash A/c	Dr	2000	2000	Expense (Capital decreased) Cash decreased

A (Assets) =	C (Capital)	+ L (Liability)
Cash 15,000 Stock 6000 - Purchase return 1000 → 5000 Receivable (debtors) 9000 Bank balance 5000 Furniture 10,000 44,000 =====	Capital 37,000 = 37,000 =====	Liability (Rajesh) 8000 - Purchase return 1000 → 7000 + 7000 =====
Cash 15,000 Stock 5000 + Sales return 2000 → 7000 Receivable (debtors) 9000 - Sales return 2000 → 7000 Bank balance 5000 Furniture 10,000 44,000 =====	Capital 37,000 = 37,000 =====	Liability (Rajesh) 7000 + 7000 =====
Cash 15,000 Stock 7000 - Loss 1000 → 6000 Receivable (debtors) 7000 Bank balance 5000 Furniture 10,000 43,000 =====	Capital 37,000 - Loss 1000 → 36,000 = 36,000 =====	Liability (Rajesh) 7000 + 7000 =====
Cash 15,000 - Salary 2000 → 13,000 Stock 6000 Receivable (debtors) 7000 Bank balance 5000 Furniture 10,000 41,000 =====	Capital 36,000 - Expense (Salary) 2000 → 34,000 = 34,000 =====	Liability (Rajesh) 7000 + 7000 =====

Sr.No.	Journal Entry		Debit (₹)	Credit (₹)	Effect
11.	Salary A/c To outstanding salary A/c	Dr	1000	1000	Expense (Capital decreased) Liability increased.
12.	Cash A/c To commission A/c	Dr	4000	4000	Cash increased. Capital increased.
13.	Receivable dividend A/c To dividend A/c	Dr	2000	2000	Receivable increased. Capital increased.
14.	Insurance Premium A/c To cash A/c	Dr	500	500	Expense (Capital decreased) Cash decreased.

A (Assets) =	C (Capital)	+ L (Liability)
Cash 13,000 Stock 6000 Receivable (debtors) 7000 Bank balance 5000 Furniture 10,000 <hr/> <hr/>	Capital 34,000 - Expense (Salary) 1000 <hr/> <hr/>	Liability (Rajesh) 7000 Liability 1000 (O/s salary) <hr/> <hr/>
	= 33,000	+ 8000
	<hr/>	<hr/>
Cash 13,000 + Commission $\xrightarrow{4000}$ 17,000 Stock 6000 Receivable (debtors) 7000 Bank balance 5000 Furniture 10,000 <hr/> <hr/>	Capital 33,000 + Income (Commission) 4000 <hr/> <hr/>	Liability (Rajesh) 7000 Liability 1000 (O/s salary) <hr/> <hr/>
	= 37,000	+ 8000
	<hr/>	<hr/>
Cash 17,000 Stock 6000 Receivable (O/s dividend) 2000 Receivable (debtors) 7000 Bank balance 5000 Furniture 10,000 <hr/> <hr/>	Capital 37,000 + Income (Dividend) 2000 <hr/> <hr/>	Liability (Rajesh) 7000 Liability 1000 (O/s salary) <hr/> <hr/>
	= 39,000	+ 8000
	<hr/>	<hr/>
Cash 17,000 - Insu. Premium $\xrightarrow{500}$ 16,500 Stock 6000 Receivable (O/s dividend) 2000 Receivable (debtors) 7000 Bank balance 5000 Furniture 10,000 <hr/> <hr/>	Capital 39,000 - Expense (Insurance premium) 500 <hr/> <hr/>	Liability (Rajesh) 7000 Liability 1000 (O/s salary) <hr/> <hr/>
	= 38,500	+ 8000
	<hr/>	<hr/>

Sr.No.	Journal Entry		Debit (₹)	Credit (₹)	Effect
15.	Computer A/c To Shree Krishna Computer A/c	Dr	8000	8000	Asset increased. Liability increased.
16.	Drawings A/c To cash A/c	Dr	1000	1000	Capital decreased. Cash decreased.
17.	Rajesh A/c (8000 – 1000) To cash A/c	Dr	7000	7000	Liability decreased. Cash decreased.
18.	Cash A/c (9000 – 2000) To Raman A/c	Dr	7000	7000	Cash increased. Receivable decreased.

A (Assets) =	C (Capital)	+ L (Liability)
Cash 16,500 Stock 6000 Receivable (O/s dividend) 2000 Receivable (debtors) 7000 Bank balance 5000 Furniture 10,000 Computer 8000 <hr/> 54,500	Capital 38,500 <hr/> = 38,500	Liability (Rajesh) 7000 Liability(O/s salary) 1000 Liability (Shree 8000 Krishna computer) + 16,000
Cash 16,500 - Drawings $\xrightarrow{1000}$ 15,500 Stock 6000 Receivable (O/s dividend) 2000 Receivable (debtors) 7000 Bank balance 5000 Furniture 10,000 Computer 8000 <hr/> 53,500	Capital 38,500 - Drawings $\xrightarrow{1000}$ 37,500 <hr/> = 37,500	Liability (Rajesh) 7000 + Liability(O/s salary) 1000 + Liability (Shree 8000 Krishna computer) + 16,000
Cash 15,500 - Rajesh $\xrightarrow{7000}$ 8500 Stock 6000 Receivable (O/s dividend) 2000 Receivable (debtors) 7000 Bank balance 5000 Furniture 10,000 Computer 8000 <hr/> 46,500	Capital 37,500 <hr/> = 37,500	Liability (Rajesh) 7000 - Paid $\xrightarrow{7000}$ Liability(O/s salary) 1000 Liability (Shree 8000 Krishna computer) + 9000
Cash 8500 + Raman $\xrightarrow{7000}$ 15,500 Stock 6000 Receivable (O/s dividend) 2000 Receivable 7000 - Received $\xrightarrow{7000}$ - Bank balance 5000 Furniture 10,000 Computer 8000 <hr/> 46,500	Capital 37,500 <hr/> = 37,500	Liability(O/s salary) 1000 Liability (Shree 8000 Krishna computer) + 9000

To prepare final (annual) accounts the accountant has to pass through different stage under financial accounting. Annual accounts are prepared on the basis of Journal – Subsidiary books – Posting - Trial Balance and Adjustments. There are three components of annual accounts :

- (1) Trading Account
- (2) Profit-Loss Account
- (3) Balance Sheet

Under double entry system, balance of Trading Account is transferred to Profit and Loss Account. The balance of Profit and Loss Account is transferred to capital account in Balance sheet. And finally, Balance sheet disclosed financial states of business.

Under equation all rules of accounting are followed. But, how Balance sheet can be prepared directly from transaction is explained.

The explanation in this regard is given in the chapter Financial (accounting) Statements of business enterprises. Thus the process of equation method can be understood in better manner.

Exercise

1. Select correct option for each equation :

- (1) When an owner introduces capital in business,
 - (a) increase in capital - increase in liability
 - (b) increase in capital - increase in asset
 - (c) increase in one liability - decrease in another liability
 - (d) increase in one assets - decrease in another assets
- (2) When goods purchased on credit,
 - (a) increase in assets - increase in liability
 - (b) decrease in assets - decrease in liability
 - (c) increase in assets - decrease in liability
 - (d) decrease in assets - increase in liability
- (3) When revenue expenses are paid in cash,
 - (a) increase in assets - increase in liability
 - (b) decrease in assets - decrease in capital
 - (c) increase in assets - increase in capital
 - (d) decrease in assets - decrease in liability
- (4) When revenue income received in cash,
 - (a) increase in assets - increase in liability
 - (b) increase in assets - decrease in liability
 - (c) increase in assets - increase in capital
 - (d) increase in capital - decrease in liability

- (5) When goods distributed as sample,
- decrease in assets - decrease in liability
 - increase in assets - increase in liability
 - increase in assets - increase in capital
 - decrease in assets - decrease in capital
2. Write journal entries for the following transactions and explain accounting treatments based on equation :
- Commenced business with capital of ₹ 80,000.
 - ₹ 20,000 deposited with bank and opened account.
 - Goods of ₹ 40,000 purchased from Himani on credit.
 - Goods of ₹ 30,000 purchased for cash.
 - Goods of ₹ 35,000 sold for ₹ 55,000 to Jaslin on credit.
 - Goods of ₹ 10,000 sold for ₹ 18,000 in cash.
 - Goods of ₹ 2000 returned to Himani.
 - Goods of ₹ 4000 returned by Jaslin.
 - Accounts are settled with Himani and Jaslin.
 - Withdrew ₹ 5000 from bank.
 - Salary of ₹ 4000 paid by cheque.
 - Commission received in cash ₹ 3000 and ₹ 2500 are outstanding.
 - Rent paid in cash ₹ 4000 and ₹ 1500 are outstanding.
 - Goods donated ₹ 2000.
 - Furniture of ₹ 15,000 purchased from Prexa Furniture Mart.
 - College fees of daughter paid ₹ 6000.
 - ₹ 500 bank has credited for interest and debited ₹ 200 for bank charges.
 - ₹ 2500 received in advance for interest.
 - Advertisement expense paid in advance ₹ 2000.



Subsidiary Books

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|--------------------------------|-----------------------------------|
| 1. Introduction | 4. Advantages of subsidiary books |
| 2. Meaning of subsidiary books | 5. Subsidiary books for goods |
| 3. Types of subsidiary books | — Exercise |
-

1. Introduction

In the previous chapter, we have studied that the first entry for recording various day to day transactions is known as journal entry. The book in which such journal entries are recorded is also known as Journal.

When the number of transactions increase in large number, entering all transactions in one book becomes difficult. Following are the limitations of a Journal.

- (1) While writing every transaction, the account name has to be mentioned.
- (2) An individual posting of each account has debit and credit and hence, involves the repetitive journalising and posting work.
- (3) The journal becomes bulky and voluminous and becomes difficult to manage.
- (4) Such accounting system does not provide the information on a prompt basis.
- (5) It becomes very difficult to implement effective internal control system.

In order to overcome these limitations, the journal is subdivided into subsidiary books. Because of the use of computer these limitations have been neutralised. For the large number of transactions, which are repetitive, a separate book of journal is kept. For e.g. for credit purchase, for credit sales, cash sales etc. Specific transactions are noted in specific books. Such separate books of journal are known as subsidiary books.

2. Meaning of Subsidiary Books

“Subsidiary books refer to the journals kept for specific transactions of similar nature.”

Subsidiary books are also known as Day Books. A separate book for each sub-division is maintained. For e.g. for recording all credit purchase transactions, purchase book is prepared and for recording all credit sales transactions, sales book is prepared.

3. Types of Subsidiary Books

Each enterprise keeps subsidiary books as per their business requirements. Generally following subsidiary books are, used in large business.

Name of subsidiary Books	Transactions of the subsidiary Books (Use of subsidiary books)
<p>(1) Cash Book (Cash Journal) :</p> <ul style="list-style-type: none"> (a) Simple cash book (single columnar cash book) (b) Cash and bank columnar cash book or cash and discount columnar cash book or bank and discount columnar cash book. (Two columnar cash book) (c) Cash, bank and discount columnar cash book. (Three columnar cash book) 	<ul style="list-style-type: none"> (a) For recording cash transactions (b) For recording cash and bank transactions or cash and discount transactions or bank and discount transactions. (c) For recording cash, bank and discount transactions.

<p>(2) Goods Subsidiary Books :</p> <ul style="list-style-type: none"> (a) Purchase Book (b) Sales Book (c) Purchase Return Book (d) Sales Return Book 	<ul style="list-style-type: none"> (a) For recording credit purchase of goods. (b) For recording credit sales of goods. (c) For recording credit purchase return of goods. (d) For recording credit sales return of goods.
<p>(3) Subsidiary Books for Bills :</p> <ul style="list-style-type: none"> (a) Bills Receivable Book (b) Bills Payable Book 	<ul style="list-style-type: none"> (a) For recording bills receivable drawn. (b) For recording bills payable accepted.
<p>(4) Journal Proper</p>	For recording transactions not covered elsewhere in above subsidiary books.

The detailed explanation of above mentioned subsidiary books follows. This chapter includes only the explanation of the subsidiary books for goods.

4. Advantages of Subsidiary Books

The advantages of using subsidiary books are as under :

(1) Division of work : The accounting work can be divided among different persons. e.g. allocate work for purchase book and sales book to different persons.

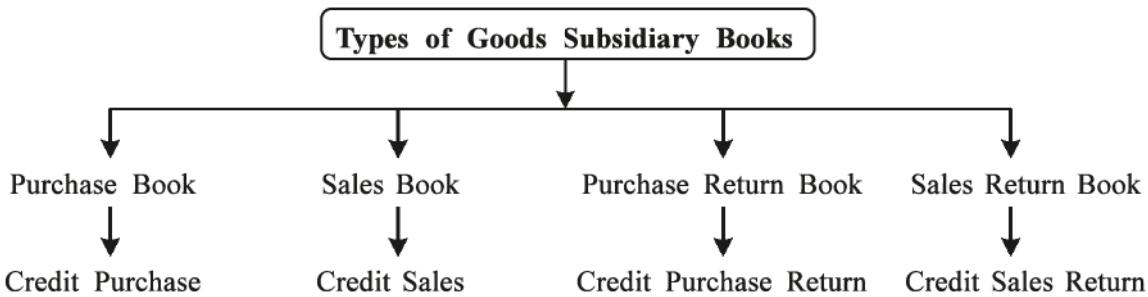
(2) Division of labour : Accounting work in accounts department, may be assigned to a person possessing the required skill. Hence economic, accurate, prompt and easy accounting information can be obtained. Thus keeping subsidiary books, gives the benefit of the division of labour.

Due to the above mentioned benefits, following benefits can also be achieved :

- Audit work becomes simple and prompt.
- Account preparation work becomes simple and prompt.
- Time is saved.
- Analytical information is made available promptly.

5. Subsidiary Books for Goods

The item with which the business enterprise/entity deals is called 'goods' by them. As per the study in previous chapter, cloth is 'goods' for clothing traders. The books in which the business entity, records credit purchase-sales and return transactions are called goods subsidiary books. Hence there are four types of subsidiary books of goods.



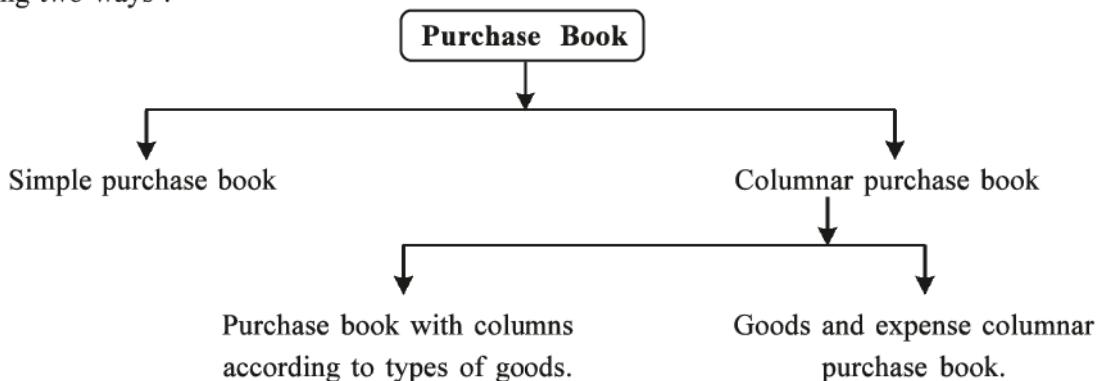
(A) Purchase book : Subsidiary book in which only credit purchase transactions are recorded is called purchase book. The goods in which a trader deals in credit purchase and sales, the credit purchase details are recorded in purchase book.

Cash purchase transactions and purchase of any other assets are not recorded in purchase book. Partial cash transactions and partial credit transactions are considered as credit transactions and are recorded in purchase book.

Net amount of credit purchase of goods is recorded in purchase book.

Net amount of purchase = Total amount of credit purchase – Trade discount. Trade discount is not recorded in a book.

Purchase book can be maintained in different ways. Mainly purchase book can be maintained in following two ways :



Thus, there are two types of purchase books : (i) simple purchase book (ii) columnar purchase book.

Further, columnar purchase book is also divided into two types : (i) Columnar purchase book according to types of goods. (ii) Goods and expenses columnar purchase book. or Purchase book with columns for goods and expenses.

(A) Simple purchase book : When a businessman is purchasing only one type of goods, generally simple purchase book is maintained. Even when more than one type of goods are purchased, separate simple purchase book for each type of goods can be maintained.

Specimen of Simple Purchase Book

Purchase Book of Shri

Date	Name of Supplier	Inward Invoice No.	L.F. No.	Amount (₹)
	Total			

(i) **Date** : In above specimen, first column is of the date. The date on which credit purchase transaction has taken place is recorded in this column.

(ii) **Name of supplier** : In this column, name of supplier from whom goods are purchased and details of goods purchased are entered.

(iii) **Inward invoice no.** : The number of bill or invoice issued by supplier is recorded in this column.

(iv) **Ledger folio no** : The page number of the ledger on which the amount is credited in the account of the concerned supplier is recorded in this column.

(v) **Amount** : Amount of net purchase arrived at after deducting trade discount is recorded in this column. (Besides, expenses paid by supplier on behalf of purchaser are also included which are recorded in journal proper.)

Illustration 1 : From following transactions, prepare a purchase book in the book of Harishkumar.

2015

- March 1 Goods of ₹ 10,000 purchased from Mahesh on one month credit.
- 2 Goods of ₹ 15,000 purchased from Hasmukhbhai at 10 % trade discount. Invoice no. 15.
- 6 Goods of ₹ 8000 purchased from Manish for cash.
- 14 Place an order with Navin for supply goods of ₹ 10,000 at 20 % trade discount.
- 18 Furniture of ₹ 6000 purchased from Shreeji Furniture Mart on one month credit.
- 20 Navin supplied goods as per order and sent his invoice no. 314 after adding railway freight of ₹ 1200.
- 23 Goods of ₹ 4000 purchased at 5 % cash discount.
- 25 Goods of ₹ 16,000 purchased from Babulal at 10 % trade discount and paid half of the amount immediately by cheque.
- 28 Goods of ₹ 6000 purchased from Lalit at 10 % trade discount and 5 % cash discount. Amount of bill paid immediately.
- 30 Goods of ₹ 3000 purchased from Rajesh. Bill No. 101.

Ans. :

Purchase Book of Shri Harishkumar

Date	Name of Supplier	Inward Invoice No.	L.F. No.	Amount (₹)
2015				
March 1	Mahesh Account	—	—	10,000
2	Hasmukhbhai Account	15	—	13,500
20	Navin Account	314	—	8000
25	Babulal Account	—	—	14,400
30	Rajesh Account	101	—	3000
	Total			48,900

Note : (1) Total credit purchase amount is ₹ 48,900. This amount will be recorded on debit side of purchase account.

- (2) The following transactions will not be recorded in purchase book :
- March 6 : Cash purchase will be recorded in cash book.
- March 14 : Non-financial transaction, will not be recorded.
- March 18 : Fixed assets purchased on credit, will be recorded in journal proper.
- March 20 : Railway freight will be recorded in journal proper.
- March 23 : Cash purchase, will be recorded in cash book.
- March 28 : Cash purchase, will be recorded in cash book.
- (3) March 25 : In this transaction, the half amount ₹ 7200 paid to Babulal will be recorded in bank column of cash book, which will be studied in next chapter.

(B) Columnar purchase book : We have seen that columnar purchase book can be prepared in two ways.

(i) According to types of goods and (ii) Purchase book with columns for goods and expense.

(i) Columnar purchase book according to types of goods : When a businessman purchases goods of more than one type, columnar purchase book for each type of goods is prepared instead of simple purchase book to know the details and information about each variety of goods. e.g. when a businessman purchases only T.V. then he would prepare simple purchase book. But if a businessman purchases T.V., Refrigerator and Floor mills then he will prepare columnar purchase book.

The specimen of columnar purchase book according to types of goods

Purchase Book of Shri

Date	Name of Supplier	Inward Invoice No.	L.F. No.	Amount (₹)			Total Amount (₹)
				T.V.	Refrigerator	Floor Mill	
	Total						

From the above specimen it can be seen that the rest of the details remain same as that of simple purchase book. Only in the amount column some more columns are added. Separate column is kept for each type of different goods. In addition to this, a column showing total purchase is kept as the last column. The total of the amount of various goods purchased from one party which are noted in individual column is mentioned in the last column.

Base on this type of purchase book, one can ascertain credit purchase of each type of goods as well as the total credit purchase from a particular supplier.

We can see from the specimen that the businessman purchased TV, Refrigerator and Floor mill on credit and has prepared columnar purchase book to record transactions in respect thereof.

In the same way clothes merchant doing business of pant, shirt and gown prepare columnar purchase book with three column of pant, shirt and gown.

In short, the number of column depends on the number of items purchased on credit by a trader.

Illustration 2 : From the following information, prepare columnar purchase book in the books of Shreeji Furniture Mart. Shreeji Furniture Mart deals in purchase and sales of tables, chairs and cupboard. 2015

April 1 Purchased from Shri Ram Furniture Mart, 10 pieces table at ₹ 1000 per piece, 15 pieces chairs at ₹ 600 per piece and 5 pieces cupboard at ₹ 3000 per piece. Credit period - 1 month and invoice No. 99.

- 5 Purchased from Shree Krishna Furniture Mart 10 pieces table at ₹ 1200 per piece and 12 pieces cupboard at ₹ 2500 per piece at 10 % trade discount. Invoice no. 126 received. Half of the amount is paid immediately by cash.
- 10 A cycle purchased from Shivam Cycle Stores at ₹ 3500.
- 20 Purchased chairs of ₹ 10,000 at 10 % trade discount and 5 % cash discount from Rahim Furniture and amount is paid immediately.
25. An order placed with Shree Ambey Furniture Trading Co., 20 pieces table at ₹ 900 per piece and 5 pieces chairs at ₹ 700 per piece.
30. Purchased from Maheshbhai 5 pieces table at ₹ 1200 per piece, 20 pieces chairs at ₹ 600 per piece and 8 cupboards at ₹ 2500 per piece at 10 % trade discount. Bill no. 500.

Purchase Book of Shreeji Furniture Mart

Date	Name of Supplier	Inward Invoice No.	L.F. No.	Amount (₹)			Total Amount (₹)
				Table	Chairs	Cupboard	
2015							
April 1	Shree Ram Furniture Mart A/c	99	—	10,000	9000	15,000	34,000
5	Shree Krishna Furniture Mart A/c	126	—	10,800	—	27,000	37,800
30	Maheshbhai A/c	500	—	5400	10,800	18,000	34,200
	Total			26,200	19,800	60,000	1,06,000

Note : (1) Total credit purchase is ₹ 1,06,000, which shall be debited on debit side of purchase account.

(2) The following transactions will not be recorded in purchase book :

Date 10 April : Assets purchase on credit shall be recorded in journal proper.

Date 20 April : Total cash purchase will be recorded in cash book.

Date 25 April : Only placed an order. Non-financial transaction. This will not be recorded.

(3) Date 5 April : Cash paid ₹ 18,900 in transaction will be recorded in cash book.

(ii) **Purchase book with columns for goods and expenses :** When a businessman purchases goods on credit, many times, the seller prepares his invoice by adding various other charges apart from sales value of goods. Normally, such charges are in respect of GST, railway freight, carriage, wages etc.

To keep separate record for such different expenses, the purchasing businessman adds more columns in purchase book as required. For each such expenses separate column is kept where respective expense is recorded. Information about different expenses relating to purchases can be obtained from such expenses columns apart from cost of goods.

It should be noted that the amount to be shown in goods column shall be net amount after trade discount.

Specimen of Purchase Book with Goods and Expenses

Date	Name of Supplier	Invoice No.	L. F. No.	Amount (₹)					Total Amount (₹)	
				Net amount of goods	Railway Freight	Wages	Intra state supply			
							Input CGST	Input SGST		
	Total									

From the above specimen it can be observed that all information is similar to simple purchase book. Only columns of amount are categorised for each expense separate column is kept. Price of goods and total amount of each expenses can be ascertained from it. Necessary all stated accounts will be opened in ledger book and posting will be done. All respective accounts will be debited.

Illustration 3 : Bhavesh stores of Ahmedabad is a cloth merchant prepare his purchase book in his books of accounts inclusive of expense. He maintains separate columns to record expenses like GST, railway freight, labour etc. Prepare purchase book on the basis of total GST rate at 12 %. GST is not included for the following transactions. Add applicable amount of GST and prepare purchase book.

2018

- January 1 Goods purchased of ₹ 10,000 at 10 % trade discount from Vipul stores of Rajkot. ₹ 500 for labour and ₹ 400 for railway freight are disclosed in his bill no. 239.
- 7 Goods Purchased of ₹ 15,000 at 5 % trade discount from Gopi of Bhavnagar. Inclusive of wages of ₹ 300 and railway freight ₹ 400, total amount is paid in cash immediate.
- 23 Goods Purchased of ₹ 20,000 at 10 % trade discount from Dhaval of Mumbai (Maharashtra). Invoice no. 971 is received inclusive of labour of ₹ 250 and railway freight ₹ 350. Half amount paid to Dhaval immediately.
- 25 A machine of ₹ 12,000 is purchased on credit of one month. Labour charges of transportation of ₹ 1000 paid in cash.
- 29 Goods Purchased of ₹ 8000 at 10 % trade discount and 5 % cash discount from Poonam of Porbander. Received invoice no. 193, where ₹ 200 are disclosed for railway freight.

Purchase Book of Shri Bhavesh Stores

Date	Name of Supplier	Invoice No.	L. F. No.	Amount (₹)					Total Amount (₹)	
				Net amount of goods	Railway Freight	Wages	Intra state supply			
							Input CGST	Input SGST		
Jan. 1	Vipul Stores A/c	239	—	9000	400	500	594	594	— 11,088	
23	Dhaval A/c	971	—	18,000	350	250	—	—	2232 20,832	
29	Poonam A/c	193	—	7200	200	—	444	444	— 8288	
	Total			34,200	950	750	1038	1038	2232 40,208	

Note : (1) The following transaction will not be recorded in purchase book :

Date 7 Cash purchase will be recorded in cash book.

Date 25 It is purchase of asset on credit and not of goods, hence will be recorded in journal proper and wages paid will be recorded in cash book.

(2) The net amount purchase recorded in the purchase book and GST are calculated as follows :

Particulars	January 1 Intra state supply	January 23 Inter state supply	January 29 Intra state supply
Net amount of goods	9000	18,000	7200
+ Railway freight	400	350	200
+ Labour	500	250	—
Total amount	9900	18,600	7400
Computation of GST : CGST (6 %)	594	—	444
SGST (6 %)	594	—	444
IGST (12 %)	—	2232	—

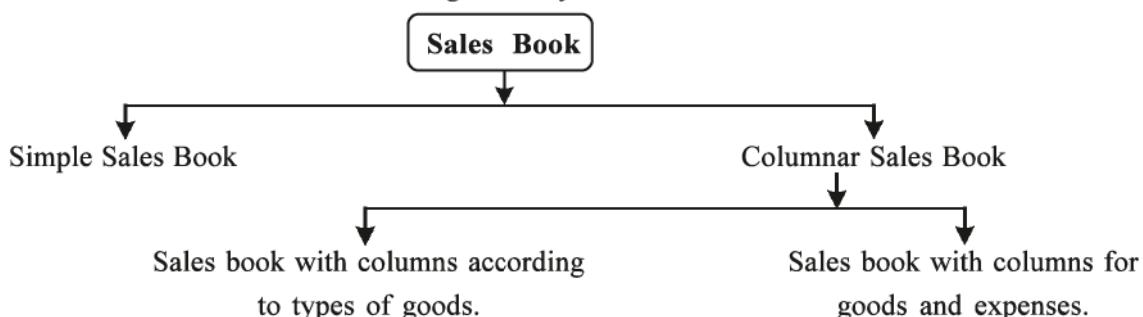
Note : GST rates of different expenses (services) are different. GST is calculated on total amount to make it simpler and for better understanding of students. Thus transactions are treated as composite supply and accordingly calculations of GST are done.

(B) Sales Book : A subsidiary book which is used for the purpose of recording the sale of goods on credit called Sales Book. In any business, the credit sales of the goods in which it deals is recorded in sales book.

Cash sales transactions and assets sales transactions are not recorded in the sale book. These types of transactions are recorded in cash book. Net amount of sales of goods is recorded in Sales book.

Net amount = Total amount of credit sales less trade discount. Trade discount is not recorded in a book.

Sales book can be maintained in following two ways :



As per above mentioned (studied) two types of sales books :

- ### (1) Simple sales book (2) Columnar sales book

Further, columnar sales book is also divided into two ways :

- (i) Sales book with columns according to types of goods (ii) Sales book with columns for goods and expenses.

(1) Simple sales book : When a businessman is selling only one type of goods, generally a simple sales book is maintained. Even when more than one type of goods is sold, separate simple sales book for each type of goods can be maintained. However, when more than one type of goods is sold, generally columnar sales book is maintained.

Specimen of Simple Sales Book

Sales Book of Shri

Date	Name of Customer	Outward No.	L.F. No.	Amount (₹)
	Total			

(i) **Date** : In the above specimen, first column is of date. The date on which credit sale transaction has taken place is recorded here.

(ii) **Name of customer** : Name of the customer to whom goods are sold and details of goods sold are entered in this column.

(iii) **Outward invoice no.** : The number of bill or invoice issued to buyer is recorded in this column.

When the goods are sold, invoice is prepared. This invoice no. is called outward invoice no. Many times it is recorded in the outward register and the same no. is considered as outward invoice no.

(iv) **Ledger folio no.** : The page number of the ledger on which the amount is debited in the account of the concerned customer is recorded in this column.

(v) **Amount** : Net amount of sales arrived after deducting trade discount from total sales is recorded in this column. (Apart from this the expenses paid on behalf of customer are also recorded. But are recorded in cash book.)

Illustration 4 : Shri Jagdish Hardware stores dealing with iron. From the following transactions, prepare its sales book.

2015

June 1 Sold goods of ₹ 13,000 to Manan on 3 months credit and sent bill number 1967.

6 Sold goods of ₹ 8000 at 5 % trade discount to Anand stores. Labour of ₹ 300.
Bill no. 1970.

10 Sold goods of ₹ 5000.

20 Sold a machinery of ₹ 20,000 to Bharat for ₹ 16,000.

25 Sold goods of ₹ 9000 at 10 % trade discount to Ashwin. Ashwin paid 50 % of the amount immediately.

27 Sold goods of ₹ 11,000 to Roshan at 10 % cash discount by cash.

29 Mohit placed an order for supply of goods of ₹ 10,000.

30 Sold goods of ₹ 30,000 at 10 % trade discount to Khusboo and with a condition that she will be given 5 % cash discount, if she pays the amount of bill within 30 days.
Bill no. 1995 sent to Khusboo.

Sales Book of Shri Jagdish Hardware

Date	Name of Customer	Outward No.	L.F. No.	Amount (₹)
2015				
June 1	Manan A/c	1967	—	13,000
6	Anand stores A/c	1970	—	7600
25	Ashwin A/c	—	—	8100
30	Khusboo A/c	1995	—	27,000
	Total			55,700

Note : (1) Here, total credit sales of ₹ 55,700 which will be recorded on credit side of sales account.

(2) The following transactions will not be recorded in sales book :

Date 10 : Cash sales which will be recorded in cash book.

Date 20 : Fixed assets sold on credit which will be recorded in journal proper.

Date 27 : Cash sales which will be recorded in cash book.

Date 29 : Non-financial transaction. It will not be recorded at all.

(3) Date 25 : ₹ 4050 ($\text{₹ } 9000 - 10\% = \text{₹ } 8100 \times 50\% = \text{₹ } 4050$) received from Ashwin will be recorded in cash book.

(4) Date 6 : ₹ 300 paid on behalf of Anand Stores for labour will be recorded on the payment side of the cash book.

(2) Columnar sales book : We have seen that columnar sales book can be prepared in two ways :

(i) According to types of goods and (ii) Sales book with columns for goods and expenses.

(i) Sales book according to types of goods : When a businessman sells only one type of goods, transactions are recorded in simple sales book. However when he sells goods of more than one type, columnar sales book for each type of goods is prepared to know the details and information about each variety of goods.

Specimen of Columnar Sales Book

Sales Book of Shri

Date	Name of Supplier	Outward Invoice No.	L. F. No.	Amount (₹)			Total Amount (₹)
				Table	Chair	Cupboard	
	Total						

It can be seen from the above specimen that the rest of the details remain same as that of simple sales book. Only in the amount column, more than one columns are kept. For each different type of goods, separate column is kept. In addition to this, a column showing total sales is kept as the last column.

On the basis of this type of sales book, one can ascertain credit sales of each type of goods as also the credit sales to particular customer.

We can see from the specimen that the businessman sells Table, Chair and Cupboards on credit and has prepared columnar sales book to record transactions in respect thereof.

Same way a businessman keeps columns as per types of goods sold on credit. e.g. clothing merchant can keep columns of shirts, pants and T-shirts.

Illustration 5 : From the following transactions of Shri Bhavna Telecom prepare a columnar sales book. Bhavna Telecom sells mobile, cordless phones and simple telephones.

2015

- July 1 Sold to Bharat 5 mobiles ₹ 9000 per piece, 5 cordless phones at ₹ 4000 per piece and 10 simple telephones at ₹ 2000 per piece. Invoice no. 101 and credit period is 2 months.
- 7 Sold 3 mobiles at ₹ 8000 per piece and 2 simple phones at ₹ 1800 per piece.
- 15 Sold to Dipak 4 mobiles at ₹ 7500 per piece and 10 simple phones at ₹ 1700 per piece, all at 10 % trade discount. Credit period 3 months. Invoice no. 105.
- 20 A machine sold to Mahendra at ₹ 12,000 and credit period is 1 month.
- 23 Sold to Arvind 8 mobiles at ₹ 9000 each and 10 cordless phones at ₹ 1900 each. Trade discount is 10 %. Arvind paid 50 % of the amount immediately. Invoice no. 115.
- 26 Shri Ghansyam placed an order for supply of 5 mobiles at ₹ 8500 and 10 simple phones at ₹ 2100 each.
- 28 Goods sent to Shri Ghansyam as per his order. Invoice no. 120.
- 31 Sold to Milan 2 mobiles at ₹ 7000 each and 3 cordless phones at ₹ 3500 each by cash.

In the Book of Bhavna Columnar Sales Book

Date	Name of Customer	Out-ward No.	L. F. No.	Amount (₹)			Total Amount (₹)
				Mobile Phone	Cordless Phone	Simple Phone	
2015							
July 1	Shri Bharat A/c	101	—	45,000	20,000	20,000	85,000
15	Shri Dipak A/c	105	—	27,000	—	15,300	42,300
23	Shri Arvind A/c	115	—	64,800	17,100	—	81,900
28	Shri Ghansyam A/c	120	—	42,500	—	21,000	63,500
	Total			1,79,300	37,100	56,300	2,72,700

Note : (1) Total credit sales ₹ 2,72,700 which will be recorded on credit side of the sales account.

(2) The following transactions will not be recorded in sales book :

Date 7 and 31 : Cash sales which will be recorded in cash book.

Date 20 : Assets sold on credit which will be recorded in journal proper.

Date 26 : Non-financial transaction. It will not be recorded at all.

- (3) Date 23 : ₹ 40,950 received from Arvind will be recorded in cash book.

(ii) **Sales Book with Columns for Goods and Expenses** : When a businessman sells goods on credit, many a times other charges are to be recovered from purchaser (customer) apart from the sales value of goods. Normally, such charges are in respect of GST, railway freight, carriage, packing charges etc. Out of such amounts charged to customers, certain charges are such as GST payable to government, whereas other expenses are incurred on behalf of customers and hence are to be recovered from them.

To obtain information for each such different expenses, sales book with columns for goods and expenses is prepared.

Many times, sales invoice is prepared by adding such charges. Charges recovered as per sales book are credited to respective charges and these accounts are debited when such charges are actually paid by the firm. For example, when GST is added in sales invoice, the amount of GST is credited to sales tax payable account. When this amount is paid to government GST account shall be debited.

In sales book with columns for expenses, the amount column is divided into more than one columns and separate column is kept for each such expense :

Specimen of Sales Book with Expense Column is as under :

Sales Book of Shri

Date	Name of Customer	Outward Invoice No.	L. F. No.	Amount (₹)					Total Amount (₹)	
				Net amount of goods	Railway Freight	Labour	Intra state supply			
							Input CGST	Input SGST		
	Total									

From the specimen of sales book it can be observe that all information is similar to simple sales book. Only columns of amount are categorised. For each expense separate column is kept. Total amount of each expense can be ascertained from it. In ledger for all above stated accounts, account will be opened and position will be done. All respective accounts will be credited.

Illustration 6 : From the following transactions, prepare sales book inclusive of expenses in the books of Sardar Stores of Surat. Sardar Stores keeps record of GST, railway freight and labour. Prepare sales book on the basis total GST rate 12 %. GST is not included for following transactions. Add applicable amount of GST and prepare sales book.

2015

- June 1 Goods sold of ₹ 30,000 at 10 % trade discount to Pankaj. Railway freight ₹ 1000 wages ₹ 300 and invoice no. 123.
- 10 Goods sold of ₹ 50,000 at 10 % trade discount on cash to Nilesh. Labour charges of ₹ 200.
- 14 Goods sold of ₹ 20,000 at 5 % trade discount on credit on 3 months to Jayeshbhai of Jaipur (Rajasthan). On the behalf of Jayeshbhai paid labour ₹ 250 and railway freight ₹ 400. Invoice no. 130 sent by adding labour and railway freight.

- 15 A old machine sold to Kishan for ₹ 1500. For it labour paid ₹ 320. Kishan gave gaurantee to pay within 15 days.
- 25 Goods sold of ₹ 10,000 at 5 % trade discount on credit of 3 months to Vaibhavi railway freight was of ₹ 800. Vaibhavi paid half amount of total amount. Invoice no. 135.
- 30 Goods sold of ₹ 40,000 at 10 % trade discount on credit of 1 month to Gaurang. Railway freight ₹ 1500 added in invoice no. 140 and sent it.

Sales Book of Sardar Stores

Date	Name of Customer	Outward Invoice No.	L. F. No.	Amount (₹)					Total Amount (₹)	
				Net amount of goods	Railway Freight	Labour	Intra state supply			
							Output CGST	Output SGST		
2019 June 1	Pankaj A/c	123	—	27,000	1000	300	1698	1698	— 31,696	
14	Jayeshbhai A/c	130	—	19,000	400	250	—	—	2358 22,008	
25	Vaibhavi A/c	135	—	9500	800	—	618	618	— 11,536	
30	Gaurang A/c	140	—	36,000	1500	—	2250	2250	— 42,000	
	Total			91,500	3700	550	4566	4566	2358 1,07,240	

Note : (1) Following transactions will not be recorded in sales book :

Date 10 : Cash sales will be recorded in cash book.

Date 15 : Machine (asset) is sold on credit, will be recorded in journal proper and labour will be recorded in cash book.

- (2) Transaction of 25th were Vaibhavi has paid ₹ 5387.50 will be recorded in cash book.
(3) The net amount of sales recorded in the sales book and GST are calculated as follows :

Particular	June 1	June 14	June 25	June 30
	Intra state supply	Inter state supply	Intra state supply	Intra state supply
Net amount of goods	27,000	19,000	9500	36,000
+ Railway freight	1000	400	800	1500
+ Labour	300	250	—	—
Total amount	28,300	19,650	10,300	37,500
Computation of GST : CGST (6 %)	1698	—	618	2250
SGST (6 %)	1698	—	618	2250
IGST (12 %)	—	2358	—	—

(3) Purchase return book : Two types of return books : (1) purchase return book and (2) sales return book.

Generally goods once purchased are returned under the following circumstances :

- (1) When the goods are not as per sample.
- (2) When goods are of inferior quality.

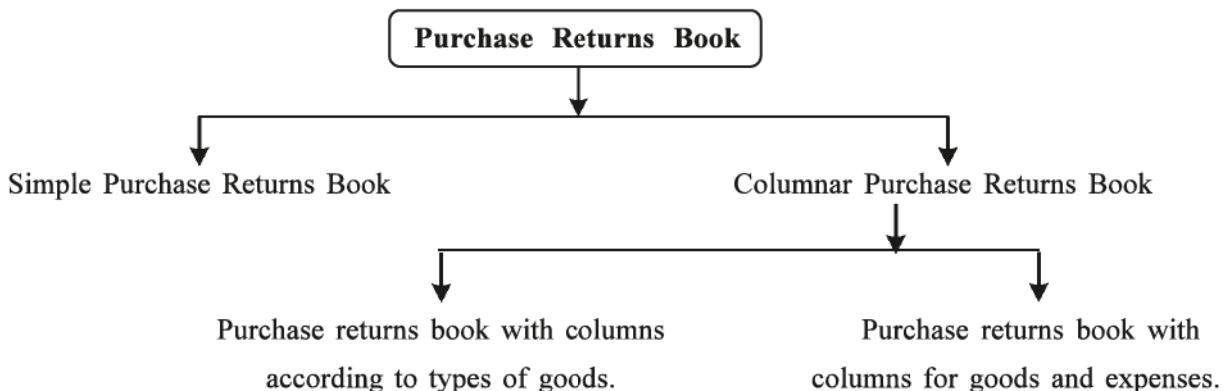
- (3) When goods are in damaged condition.
- (4) To get rebate or refund by returning container or packing of the goods.
- (5) Goods are not delivered at time.
- (6) Goods returned for any other reason.

When goods purchased on credit are returned for any of the above stated reasons, such returns are recorded in purchase returns book. Only those purchase return transactions where cash is not received or paid are recorded in purchase returns book. Generally, following journal entry will be passed :

Suppliers (Traders) A/c Dr ✓
 To purchase return A/c ✓

In the above journal trader's account (individual account) is debited. So while returning the goods debit note is sent. When the trader receives the goods, he sends in the credit note.

Purchase returns book can be mainly prepared in two ways :



The specimens of purchase returns books

(i) Simple Purchase Returns Book : (For only one type of goods)

Purchase Returns Book of Shri

Date	Name of Supplier	Debit Note No.	L.F. No.	Amount (₹)
	Total			

(ii) Columnar Purchase Returns Book :

(a) Columnar purchase returns book according to types of goods :

Purchase Returns Book of Shri

Date	Name of Supplier	Debit Note No.	L.F. No.	Amount (₹)			Total Amount (₹)
				Table	Chair	Cupboard	
	Total						

(b) Specimen of Purchase Returns Book with Goods and Expenses :

Date	Name of Supplier	Debit Note No.	L. F. No.	Amount (₹)					Total Amount (₹)
				Net amount of goods	Railway Freight	Labour	Intra state supply		
							Input CGST	Input SGST	IGST
	Total								

Generally, purchase returns book is maintained exactly as the purchase book is maintained. Simple purchase returns book is maintained when purchase book is simple. In the same way, if the purchase book is with columns for different types of goods or goods and expenses, the purchase returns book will also be maintained with different columns for types of goods or goods and expenses. No. of columns are kept in purchase returns book are same as the number of columns in the purchase book.

(i) Date : In above specimens, first column is of date. The date on which goods are returned is shown here.

(ii) Name of supplier : In this column, name of the supplier to whom goods are returned and details of goods returned are entered.

(iii) Debit note no. : The number of debit note sent along with goods returned is recorded here.

(iv) Ledger folio no. : The page number of the ledger on which the amount is debited in the account of the concerned supplier is recorded in this column.

(v) Amount : Amount of net purchase return is recorded in this column.

Debit note : When the goods purchased on credit are returned to the supplier, the note sent to the supplier to claim rebate for the returned goods is known as debit note.

While returning goods, a letter or note is sent along with returned goods showing the amount which is debited to supplier's account. Such note is known as debit note.

The following details are shown in debit note :

- (1) Name and address of the supplier to whom the goods are returned.
- (2) Debit note number and date.
- (3) Full particulars of goods returned.
- (4) Net amount of goods returned.
- (5) The reason for return of goods or debit note.

Debit note is prepared in the following circumstances :

(1) Debit note is prepared while returning the purchased goods which are not as per sample or are of inferior quality or are damaged.

(2) When the invoice received is for more amount than the amount of actual goods purchased or when the quantity shown in invoice is more than the actual quantity of goods received.

(3) If more amounts are credited to supplier's account due to error calculation at the time of accounting.

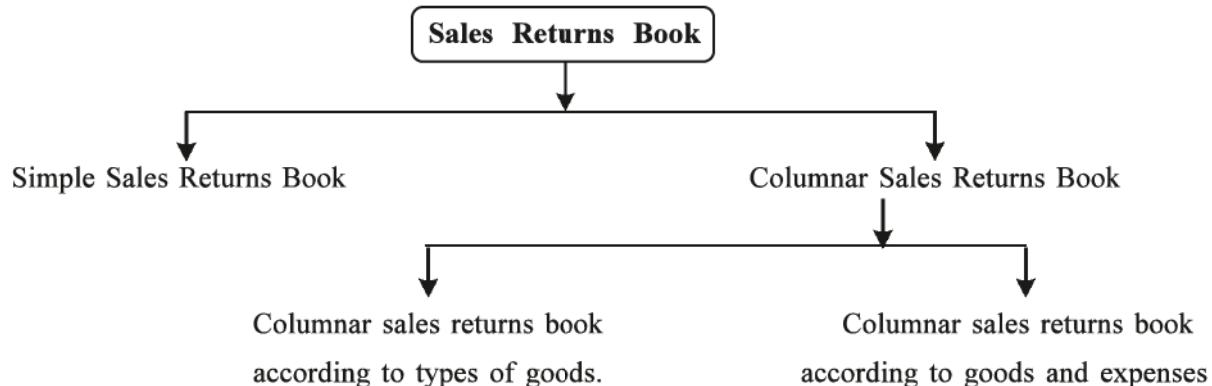
- (4) Debit note is also prepared when the amount of empty bags or containers returned is to be recovered.
- (5) Debit notes is also prepared when the discount is received from the trader.

Specimen of Debit Note

Debit Note		
No. 108		
Shree Patel Trading Company Dealers of Chocolate 16, Shreeji Complex, Vasna, Ahmedabad-380007		
Shree Shivam Traders A/c		
Date	Particulars	Amount (₹)
2015 March 7	10 Chotolate boxes, returned due to inferior quality. Each box of ₹ 2000.	20,000
	Total	20,000
E.&O.E. For, Patel Trading Company, Signature (Partner)		

(4) Sales return book : An enterprise records transaction of goods returned in sales returns book, if the goods sold on credit are returned by its customers. Generally goods once sold are returned under the same circumstances of purchase returns.

When goods sold on credit are returned for any reasons, the customer sends a debit note along with the returned goods. Similarly, the enterprise receiving back the returned goods issues credit note when it receives such goods and sends the same to the customer. Only those sales return transactions where cash is not received or paid are recorded in sales return book.



Specimens of Sales Returns Book

(i) **Simple Sales Returns Book** : (For only one type of goods)

Sales Return Book of Shri

Date	Name of Customer	Credit Note No.	L.F. No.	Amount (₹)
	Total			

(ii) **Columnar Sales Returns Book** :

(a) Sales return book according to types of goods. (More than one type of goods)

Sales Returns Book of Shri

Date	Name of Customer	Credit Note No.	L.F. No.	Amount (₹)			Total Amount (₹)
				Table	Chair	Cupboard	
	Total						

(b) Sales return book with goods and expenses columns :

Sales Returns Book of Shri

Date	Name of Supplier	Invoice No.	L.F. No.	Amount (₹)					Total Amount (₹)	
				Net amount of goods	Railway Freight	Labour	Intra state supply			
							Output CGST	Output SGST		
	Total									

Generally, when simple sales book is maintained the sales return book also would be simple. Similarly, when columnar sales book according to types of goods or columns with expenses is maintained, the returns book also would be columnar.

(i) **Date** : The date on which goods are returned is shown in this column.

(ii) **Name of customer** : Name of the customer who has returned the goods and details of goods returned are entered in this column.

(iii) **Credit note no.** : The number of credit note sent for return of goods is recorded in this column.

(iv) **Ledger folio no. (L.F.No.)** : The page number of the ledger on which the amount is credited in the account of concerned customer is recorded in this column.

(v) **Amount** : Amount of net sales is recorded in this column.

When sales returns book is maintained with columns for expenses, proportionate rebate of GST, carriage, railway freight etc. will also be claimed by customer in respect of returned goods. Such amount of rebate is shown in respective columns.

From sales returns book, total amount of sales return is determined. For this purpose, enterprise can maintain sales returns book for a fixed convenient period like weekly, fortnightly, monthly, quarterly, half yearly or yearly. The period depends upon the need of information, convenience and the method of preparing sales book.

Credit Note : Credit note is an important document related to sales returns book. When the goods sold on credit are returned by the customer, the proportionate amount for the returned goods is credited to the account of such customer. A note sent to the customer confirming such credit is known as credit note.

Whenever a businessman sells goods on credit he debits the customer account and credits the sales account. Now, when any of the said goods are returned by the customer, the proportionate amount of goods returned is credited to the respective customer's account.

Similarly, while intimating the customer about credit to his account in respect of returned goods, a letter or note is sent showing the amount which is credited to his account. Such note is known as credit note. Following details are shown in the credit note :

- (1) Name and address of the customer who has returned the goods.
- (2) Credit note number and date.
- (3) Full particulars of goods returned.
- (4) Net amount of goods returned.
- (5) The reason for return of goods or credit note.

Specimen of Credit Note

Credit Note		No. 223
Shree Shivam Traders		
Traders of Chocolate		
7, Shri Hari Building, Navrangpura,, Ahmedabad-380009		
Shree Patel Trading Company A/c		
Date	Particulars	Amount (₹)
2015 March 7	Today received back 10 chocolate boxes of ₹ 2000 each.	20,000
	Total	20,000
E.&O.E.		
For Shivam Traders		
Signature (Manager)		

Credit note is prepared in the following circumstances :

- (1) When customer returns goods out of credit sales made.
- (2) When the invoice is sent for more amount than the amount of actual goods sold.
- (3) If any error in calculation at the time of accounting.
- (4) If any type of rebate is given to the customer e.g. rebate for empty bags or containers returned by customer.

It can be seen in the above specimens of Debit Note and Credit Note, Patel Trading Company had sent debit note while returning the goods and Shivam Traders had sent credit note after the said goods received. It can be seen that the amount of both notes is same.

Illustration 7 : From the following transactions prepare purchase book, sales book, purchase returns book and sales return book in the book of Shri Hasmukhbhai.

2015

- January 1 Purchased goods of ₹ 10,000 from Dhruvil at 10 % trade discount. Bill no. 110.
- 3 Purchased goods of ₹ 4000 from Komal at 10 % cash discount. Credit 2 months.
- 7 Sold goods of ₹ 8000 to Sajan at 5 % trade discount and 2 % cash discount. Invoice no. 90.
- 10 Purchased goods of ₹ 4000. Cash memo no. 30.
- 11 Goods of ₹ 2000 returned by Sajan for which credit note no. 15 was sent to him.
- 15 10 % goods returned to Dhruvil and debit note no. 16 sent to him.
- 16 Purchased furniture of ₹ 5000 from Shree Bahuchar Furniture Mart.
- 18 Purchased goods of ₹ 30,000 from Nirmi and half of the amount paid immediately.
- 19 The entire goods purchased from Nirmi sold to Haily for ₹ 36,000 at 10 % trade discount. Invoice no. 100. Credit period of 3 months.
- 20 Haily returned half of the goods sold to her and same were returned to Nirmi.
- 21 Kanu placed an order for supplying goods of ₹ 12,000 at 10 % trade discount.
- 24 Supplied goods to Kanu for his order. ₹ 300 added for labour. Invoice 102.
- 25 Cash purchase ₹ 20,000 and cash sales ₹ 25,000.
- 31 Kanu returned half of the goods sold to him and it was agreed to give rebate of carriage in proportion.

Ans. :

Purchase Book of Hasmukhbhai

Date	Name of Supplier	Inward Invoice No.	L.F. No.	Amount (₹)
2015				
Jan. 1	Dhruvil A/c	110	—	9000
3	Komal A/c	—	—	4000
18	Nirmi A/c	—	—	30,000
Total				43,000

Sales Book of Shri Hasmukhbhai

Date	Name of Customer	Outward Invoice No.	L.F. No.	Amount (₹)
2015 Jan. 7	Sajan A/c	90		7600
19	Haily A/c	100		32,400
24	Kanu A/c (Goods ₹ 10,800)	102		10,800
Total				50,800

Purchase Returns Book of Shri Hasmukhbhai

Date	Name of Supplier	Debit Note No.	L.F. No.	Amount (₹)
2015 Jan. 15	Dhruvil A/c	16		900
20	Nirmi A/c			15,000
Total				15,900

Sales Returns Book of Shri Hasmukhbhai

Date	Name of Customer	Credit Note No.	L.F. No.	Amount (₹)
2015 Jan. 11	Sajan A/c	15		2000
20	Haily A/c			16,200
31	Kanu A/c (Goods 5400)			5400
Total				23,600

Note : The following transactions shall not be recorded :

- (1) Dt. Jan. 10 Cash purchase transaction which will be recorded in cash book.
- Jan. 16 Purchase of fixed assets. This will be recorded in journal proper.
- Jan. 21 Non-financial transaction. This will not be recorded.
- Jan. 24 ₹ 300 will be recorded in cash book.
- Jan. 25 Cash purchase and cash sales transactions will be recorded in cash book.
- (2) Dt. Jan. 15 : 10 % goods of 1st January were returned. Net amount of 1st January purchase was ₹ 9000. Therefore, ₹ 9000 × 10 % = ₹ 900 will be recorded as purchase return.
- (3) Dt. Jan. 19 : Goods sold to Haily ₹ 32,400. Half of the goods sold to her returned. So, ₹ 32,400 × 50 % = ₹ 16,200 will be recorded as sales return on 20th January. The entire goods was purchased from Nirmi. Net amount of goods purchased from Nirmi was ₹ 30,000. Therefore ₹ 30,000 × 50 % = ₹ 15,000 recorded as purchase return.

- (4) Dt. Jan. 31 : Kanu returned goods out of transaction of Dt. Jan. 24. Therefore goods amount $\text{₹ } 10,800 \times 50\% = \text{₹ } 5400$ is recorded as Sales Return and carriage $\text{₹ } 300 \times 50\% = \text{₹ } 150$ is recorded in journal proper. Here, wages (for sales) A/c is debited and Kanu A/c is credited.

Illustration 8 : From the following transactions, prepare columnar purchase book, sales book, purchase returns book and sales returns book in the book of Shree Pushpa Trading Company, which deals in cereals.

2015

- Sep. 1 Purchased from Bhavna Trading Company 1000 kg of Wheat at ₹ 20 per kg, 400 kgs of Rice at ₹ 40 per kg and 500 kg Bajra at ₹ 15 per kg at 10 % trade discount.
- 3 Purchased from Pratibha traders 500 kg of Wheat at ₹ 25 per kg and 300 kg of Bajra at ₹ 12 per kg on 1 month credit. Invoice no. 223.
- 8 Sold to Khushi Traders 700 kg Wheat at ₹ 30 per kg and 200 kg Rice at ₹ 50 per kg. Trade discount 10 %. Invoice no. 102.
- 12 Purchased from Ram-Rahim Trading Company 300 kg Wheat at ₹ 15 per kg. 50 % of the amount paid immediately. Invoice no. 250.
- 15 Khushi Traders returned 100 kg Wheat as the same was of inferior quality. Issued credit note no. 10 was given for the same.
- 18 Goods received back from Khushi Traders was sent to Pratibha Traders. Debit Note no. 15.
- 20 Purchased 400 kg Wheat at ₹ 20 per kg from Hetvi Traders on cash. Cash discount 10 %. Invoice no. 40.
- 21 50 kg Wheat returned to Hetvi Traders and immediately cash received.
- 23 Purchased from Pooja Traders 500 kg Rice at ₹ 60 per kg and 1000 kgs Bajra at ₹ 18 per kg. Trade discount 10 %, credit 1.5 month. Invoice no. 301.
- 25 50 % of the goods purchased from Pooja Traders were sold to Prarthna Traders, by adding 20 % profit. Invoice No. 115. 50 % of the amount was paid immediately by Prarthna Traders.
- 27 Prarthna Traders returned 50 % of the goods which was immediately returned to Pooja Traders.
- 30 Archana Trading Company placed an order for supplying 800 kgs Wheat at ₹ 30 per kg and 400 kg Rice at ₹ 70 per kg.

Ans. :

In the Book of Pushpa Trading Company

Purchase Book

Date	Name of Supplier	Inward Invoice No.	L. F. No.	Amount (₹)			Total Amount (₹)
				Wheat	Rice	Bajra	
2015							
Sept. 1	Bhavna Trading Co. A/c	—		18,000	14,400	6750	39,150
3	Pratibha Traders A/c	223		12,500	—	3600	16,100
12	Ram-Rahim Trading Co. A/c	250		4500	—	—	4500
23	Pooja Traders A/c	301		—	27,000	16,200	43,200
	Total			35,000	41,400	26,550	1,02,950

Sales Book

Date	Name of Customer	Outward Invoice No.	L. F. No.	Amount (₹)			Total Amount (₹)
				Wheat	Rice	Bajra	
2015 Sept. 8 25	Khushi Traders A/c Prarthna Traders A/c	102 115		18,900 —	9000 16,200	— 9720	27,900 25,920
	Total			18,900	25,200	9720	53,820

Purchase Returns Book

Date	Name of Supplier	Debit Note No.	L. F. No.	Amount (₹)			Total Amount (₹)
				Wheat	Rice	Bajra	
2015 Sept. 18 27	Pratibha Traders A/c Pooja Traders A/c	15		2500 —	— 6750	— 4050	2500 10,800
	Total			2500	6750	4050	13,300

Sales Returns Book

Date	Name of Customer	Credit Note No.	L. F. No.	Amount (₹)			Total Amount (₹)
				Wheat	Rice	Bajra	
2015 Sept. 15 27	Khushi Traders A/c Prarthna Traders A/c	10 115		2700 —	— 8100	— 4860	2700 12,960
	Total			2700	8100	4860	15,660

Note : Date 20 and 21 : Cash purchase transactions shall not be recorded.

Date 30 : Non-financial transaction will not be recorded.

Illustration 9 : Prepare different subsidiary books inclusive of columns of expense of Shri Asha Traders of Gandhinagar, from the following transactions. Prepare subsidiary book by applying total GST rate of 18 % GST is not included for following transactions. Add applicable amount of GST and prepare subsidiary books.

2015

April 1 Goods purchased of ₹ 10,000 at 10 % trade discount from Juveria Corporation. Railway freight is of ₹ 500 and Invoice no. 21.

- 5 Goods purchased of ₹ 15,000 from Mansi of Pune (Maharashtra). Railway freight is ₹ 400, labour is ₹ 200. Invoice no. 40.
- 10 Goods sold of ₹ 12,000 at 10 % trade discount to Salvi Corporation of Bhopal (Madhya Pradesh). Labour ₹ 300 and railway freight ₹ 800. Invoice no. 60.
15. The entire goods purchased from Mansi is sold to Karan by adding 20 % on cost price. Railway freight ₹ 600, labour ₹ 200, credit period 1 month and invoice no. 70.
17. 50 % goods is returned by Karan. The proportionate amount of GST, railway freight and labour is adjusted. Credit note no. 5. This goods immediately returned back to Mansi. The proportionate amount of GST, railway freight and labour charges are adjusted. Debit note no. 8.
- 20 Goods of ₹ 10,000 sold to Maruf. Labour ₹ 100, railway freight ₹ 100. Invoice no. 75.
- 24 Furniture of ₹ 10,000 purchased from Jay and invoice is receive.
- 25 50 % goods is returned by Salvi Corporation. The proportionate amount of GST is adjusted. Labour of ₹ 150 and railway freight of ₹ 400 credited to his account. Credit note no. 6.
- 26 Goods of ₹ 10,000 is purchased from Nivanjal on cash.
- 30 Goods of ₹ 11,000 is sold to Rutu on cash at 5 % cash discount.

Subsidiary books in the books of Aksa

Purchase Book

Date	Name of Supplier	Inward Invoice No.	L. F. No.	Amount (₹)					Total Amount (₹)
				Net amount of goods	Railway Freight	Labour	Intra state supply	Inter state supply	
				Input CGST	Input SGST		IGST		
2015 April 1	Juveriya A/c	21	—	9000	500	—	855	855	—
	Mansi A/c	40	—	15,000	400	200	—	—	2808
	Total			24,000	900	200	855	855	2808
									11,210
									18,408
									29,618

Sales Book

Date	Name of Customer	Outward Invoice No.	L. F. No.	Amount (₹)					Total Amount (₹)
				Net amount of goods	Railway Freight	Labour	Intra state supply	Inter state supply	
				Output CGST	Output SGST		IGST		
2015 April 10	Salvi Corporation A/c	60	—	10,800	800	300	—	—	2142
	Karan A/c	70	—	18,000	600	200	1692	1692	—
	Maruf A/c	75	—	10,000	100	100	918	918	—
	Total			38,800	1500	600	2610	2610	48,262

Purchase Returns Book

Date	Name of Supplier	Debit Note No.	L. F. No.	Amount (₹)					Total Amount (₹)	
				Net amount of goods	Railway Freight	Labour	Intra state supply			
							Input CGST	Input SGST		
2015 April 17	Mansi A/c	8		7500	200	100	—	—	1404	9204
	Total			7500	200	100	—	—	1404	9204

Sales Returns Book

Date	Name of Customer	Credit Note No.	L. F. No.	Amount (₹)					Total Amount (₹)	
				Net amount of goods	Railway Freight	Labour	Intra state supply			
							Output CGST	Output SGST		
2015 April 17	Karan A/c	5		9000	300	100	846	846	—	11,092
25	Salvi Corporation A/c	6		5400	400	150	—	—	1071	7021
	Total			14,400	700	250	846	846	1071	18,113

Note : Following transactions will not be recorded in these subsidiary books :

Date 24 Asset is purchased on credit, will be recorded in proper journal.

Date 26 Cash purchase will be recorded in cash books.

Date 30 Cash sales will be recorded in cash book.

(5) Bills receivable book : When a seller has to receive payment from some customer, at times, generally the seller draws necessary bill on the customer for the sum due. The customer accepts and record such bill and returns to the seller. Such bill is known as Bills Receivable for the person who draws it and it is known as Bills Payable for the person who accepts the same. For the holder of such bill also it is Bills Receivable.

Detailed record of such bills received from various customers is kept in Bills Receivable Book.

Specimen of Bills Receivable :

Bills Receivable Book of Shri

Bill No.	Date of bill and its receipt	Name of Acceptor	Period of Bill	Condition	Date of Maturity	L. F. No.	Place of Payment	Amount (₹)	Remark

It can be seen from the above specimen that the last column of bills receivable book is for remarks. In this column, details of use or disposal of such bill is shown. For example, bills discounted in bank, endorsed in favour of creditor etc.

(6) **Bills payable book** : We have seen that when a bill drawn by other party is accepted, it becomes bills payable for the person who accepts the same.

Details of bills drawn by traders and accepted as payable are recorded in Bills Payable Book.

Specimen of Bills Payable Book

Bill No.	Date of Acceptance	Name of Drawer	Date of Bill	Period of Bill	Condition	Date of Maturity	L.F. No.	Amount (₹)	Remark

(7) **Cash Book** : We have seen that in the subsidiary books discussed above, cash transactions are not recorded. Every enterprise or unit prepares cash book to record such cash transactions.

Generally, cash book is prepared in three ways :

(1) Simple cash book (2) Two columnar cash book (3) Three columnar cash book

Currently, three columnar cash book is more popular. Cash, discount and bank transactions included in cash book is more popular. Which we shall discuss in next chapter.

Petty cash book is only a part of cash book. Petty cash book is prepared to record day to day petty business expenses like stationery expense, post and telegraph charge etc. Detailed discussion about this will be made in the next chapter.

(8) **Journal proper** : Journal proper is prepared to record the transactions which are not recorded in any of the seven subsidiary books discussed above. Generally all adjustments, closing entries and transfer entries are recorded in journal proper. This is discussed in detail in the chapter after the chapter of cash book.

Exercise

1. Select appropriate option for each question :

- (1) Credit purchase will be recorded in

(a) Purchase return book	(b) Purchase book
(c) Cash book	(d) Journal proper
- (2) Credit purchase of assets will be recorded in

(a) Purchase book	(b) Journal proper
(c) Cash book	(d) Bills payable book
- (3) Cash purchase of goods will be recorded in

(a) Cash book	(b) Journal proper
(c) Purchase book	(d) Bills receivable book
- (4) Credit sales of goods will be recorded in

(a) Sales book	(b) Purchase book
(c) Journal proper	(d) Bills receivable book
- (5) What is sent to the traders along with goods returned which is purchased on credit ?

(a) Debit note	(b) Credit note
(c) Bills receivable	(d) Bills payable

2. Answer in one sentence :

- (1) What is meant by subsidiary books ?
 - (2) How many types of subsidiary books are there ?
 - (3) Which types of transactions are recorded in journal proper ?
 - (4) What is meant by debit note ?
 - (5) What is meant by credit note ?

3. Answer in two or three sentences :

- (1) State the advantages of preparing subsidiary books.
 - (2) Distinguish between debit note and credit note.
 - (3) Give the specimen of debit note.
 - (4) Explain the purchase book and types of purchase book with example.
 - (5) Give the specimen of sales book and sales returns book.

4. Prepare purchase book in the books of Shri Suresh :

2015

- Oct. 1 Purchased goods of ₹ 10,000 from Dipak on one month credit.

3 Purchased goods of ₹ 20,000 from Sardar Stores at 10 % trade discount. Invoice no. 116.

7 Purchased goods of ₹ 18,000 from Pankaj on cash.

15 Placed order with Rajesh for supply goods of ₹ 20,000 at 10 % trade discount.

20 Purchased furniture of ₹ 16,000 from Vyas Furniture Mart on one month credit.

21 Rajesh has sent goods as per order and sent invoice no. 350 after adding ₹ 1000 for railway freight.

24 Purchased goods of ₹ 14,000 at 5 % cash discount.

25 Purchased goods of ₹ 30,000 from Nilesh at 10 % trade discount and half of the amount paid immediately by cheque.

- 26 Purchased goods of ₹ 15,000 from Chirag at 10 % trade discount and 5 % cash discount. Amount paid immediately.
- 30 Purchased goods of ₹ 40,000 from Nitin. Invoice no. 151.
- 5. From the following transactions of Shri Gadda Electronics Store, prepare columnar purchase book. Shri Gadda Electronics deals with T.V., Refrigerator and Washing Machine.**
- 2015
- May 1 Purchased 10 T.V. set at ₹ 30,000 each set, 5 Refrigerators at ₹ 15,000 per piece and 2 Washing Machines at ₹ 18,000 per piece from Shri Daya Electronic Stores. Credit period 1 month. Invoice no. 100.
- 7 Purchased from Shri Tarak Electronic Stores, 5 pieces T.V. at ₹ 25,000 per piece and 10 Refrigerator at ₹ 16,000 per piece at 10 % trade discount. Received invoice no. 151. Half of the amount paid immediately.
- 12 Purchased cycle of ₹ 5000 from Shree Ambey Cycle Store.
- 20 Purchased 5 Refrigerators at ₹ 20,000 per piece and 10 Washing Machine at ₹ 15,000 per piece at 10 % trade discount and 5 % cash discount from Shree Atmaram Electronic Store and amount paid immediately.
- 25 Placed an order to Smt. Babita for supplying 20 pieces T.V. at ₹ 28,000 per piece and 6 pieces Washing Machines at ₹ 21,000 per piece.
- 31 From Shree Gokuldham Electronic Store, purchased 5 pieces T.V. sets at ₹ 30,000 per piece and 5 Washing Machines at ₹ 23,000 per piece. Trade discount at 10 %. Invoice no. 123.
- 6. Abhishek Stores of Rajkot is iron merchant. Prepare purchase book in his books of account with columns of expenses. He maintain separate columns for expenses like GST. Railway freight, labour, prepare purchase book by applying total 12 % GST rate. GST is not included for following transactions. Add applicable amount of GST and prepare purchase book.**
- 2018
- April 1 Goods purchased of ₹ 50,000 10 % trade discount from Shahrukh Store, labour of ₹ 2000 and railway freight of ₹ 5000 are disclosed invoice no. 51.
- 5 Goods purchased of ₹ 30,000 at 5 % trade discount from Dipika. Total amount paid immediately inclusive of labour ₹ 500 and railway freight ₹ 600.
- 20 Goods purchased of ₹ 40,000 at 10 % trade discount from Amitabh of Mumbai (Maharashtra). Bill no. 251 received inclusive of labour ₹ 1000 and railway freight ₹ 2500.
- 25 A machine of ₹ 35,000 is purchased from Pooja on credit of 1 month. Transportation labour of ₹ 2000 is paid in cash.
- 30 Goods purchased of ₹ 25,000 at 10 % trade discount and 5 % cash discount from Anushka of Chennai (Tamilnadu). Invoice no. 44 is received, inclusive of railway freight of ₹ 500.
- 7. From the following transactions prepare sales book in the books of Shree Prabhat Hardware Stores who is an iron trader :**
- 2015
- June 1 Sold goods of ₹ 20,000 to Neha on 3 months credit and bill no. 80 sent.
- 8 Sold goods of ₹ 10,000 to Vidhi Store at 5 % trade discount and sent bill no. 85 with carriage of ₹ 400.

- 12 Sold goods of ₹ 15,000.
- 15 Sold machinery of ₹ 10,000 for ₹ 3000 to Krima.
- 23 Sold goods of ₹ 15,000 to Shimoli at 10 % trade discount and half of the amount immediately paid by Shimoli. Bill no. 90.
- 28 Sold goods of ₹ 20,000 to Riddhi at 10 % cash discount on cash.
- 29 Met placed an order for supply of goods of ₹ 15,000.
- 30 Sold goods of ₹ 30,000 to Vraj at 10 % trade discount. Bill no. 95.
- 8. Nitin Stores deals in clothes. From the following transactions, prepare columnar sales book in the books of Nitin Stores. Nitin Stores deals in three types of clothes namely cotton, khadi and silk.**
- 2015
- May 1 Sold to Janki Stores 100 meters cotton cloth at ₹ 40 per meter, 200 meters khadi at ₹ 20 per meter and 50 meters silk at ₹ 200 per meter with 10 % trade discount. Bill no. 125. Credit period 3 months.
- 8 Sold to Gopi traders 200 meters cotton cloth at ₹ 60 per meter and 80 meters silk at ₹ 190 per meter at 10 % trade discount. Goods sold on 2 months credit. Bill no. 126 sent. Gopi traders paid half of the amount immediately in cash.
- 15 Sold to Nisarg Trading Co. 100 meters khadi and 50 meters silk at ₹ 40 and ₹ 200 respectively. Nisarg Trading Company paid amount immediately by cheque at 10 % trade discount and 10 % cash discount. Bill no. 127.
- 20 Preeti Stores place an order for the supply of 40 meters khadi, 60 meters cotton cloth and 100 meters silk cloth.
- 22 Supplied goods to Preeti Stores as per order under bill no. 128 at ₹ 30 per meter, ₹ 50 per meter and ₹ 220 per meter at 10 % trade discount allowed.
- 26 Sold to Desai & Company cotton cloth of ₹ 15,000 at 10 % trade discount under bill no. 129.
- 30 Sold to DCM Stores cotton cloth goods of ₹ 20,000 at 5 % trade discount. Sent bill no. 130 after adding 13 % value added tax.
- 9. From the following transactions prepare sales book with columns of expence in the books of Sachin Stores of Navsari. Sachin Stores maintains record of expenses like GST, railway freight and labour. Prepare sales book by applying total GST rate of 18 %. GST is not included for the following transactions. Add applicable amount of GST and prepare sales book.**
- 2018
- December 1 Goods sold of ₹ 60,000 at 10 % trade discount to Dhoni Stores. Railway freight is ₹ 2000 and invoice no. 101.
- 10 Goods sold of ₹ 40,000 at 10 % trade discount to Virat Stores on cash of Gangtok (Sikkim). Labour charge ₹ 200.
- 16 Goods sold of ₹ 30,000 at 5 % trade discount on credit of 1 month to Raina. Bill no. 110 send after adding ₹ 500 for labour and ₹ 1000 for railway freight.
- 20 A machine of ₹ 35,000 sold to Jadeja Stores. Labour charges paid ₹ 700. Jadeja Stores gave guarantee to pay amount in 15 days.

- 25 Goods sold of ₹ 25,000 at 5 % trade discount on credit of 1 month to Rohit of Jodhpur (Rajasthan). Railway freight ₹ 1000. Rohit paid half amount of total amount immediate. Bill no. 115.
- 30 Goods sold of ₹ 15,000 at 10 % trade discount on credit of 1 month to Umesh of Kolkatta (West Bengal). By adding railway freight of ₹ 1000. Invoice no. 118 sent.
- 31 An order of ₹ 70,000 is received from Yuvraj.

10. From the following prepare purchase book and purchase returns book in the books of account of Gujarat Traders :

2018

- Jan. 1 Goods purchased of ₹ 1,00,000 at 5 % trade discount from Punjab Stores.
- 3 Goods purchased of ₹ 60,000 on Credit of 1 month from Maharashtra Stores. Trade discount 10 %, bill no. 330.
- 10 Goods purchased of ₹ 50,000 from Kerala Stores on credit and 50 % amount is paid immediately.
- 17 $\frac{1}{3}$ goods is returned to Maharashtra Stores. Along with debit note no. 43 of appropriate amount is sent.
- 21 Goods purchased of ₹ 40,000 at 10 % trade discount from Rajasthan Stores. Rajasthan Stores has sent invoice no. 160 after adding 5 % GST and labour ₹ 400.
- 25 Goods purchased of ₹ 50,000 on credit from Uttar Pradesh Stores. Credit period is of 2 months and trade discount is 10 %. Bill no. 380.
- 29 Out of total goods purchased from Uttar Pradesh Stores, 30 % goods is returned. Along with goods debit note 44 is sent.
- 30 An order of goods purchased of ₹ 80,000 at 10 % trade discount is placed to Madhya Pradesh Stores.
- 31 Goods of ₹ 30,000 purchased at 10 % trade discount and 5 % cash discount on cash from Haryana Stores.

11. From the following transactions prepare sales book and sales returns book in the books of account of Pratibha Furniture Mart :

2018

- Sept. 1 Goods of ₹ 10,000 at 10 % cash discount sold to Rajesh Furniture Mart. He has paid an half amount.
- 5 Goods of ₹ 8000 at 10 % trade discount and 5 % cash discount sold to Pushpa. Credit period of 1 month. Bill no. 130 sent by adding ₹ 100 of labour charge.
- 12 Goods of ₹ 4000 sold at 10 % trade discount and 5 % cash discount.
- 15 Goods of ₹ 5000 is returned by Rajesh Furniture Mart. Goods received back, thus sent credit note no. 16.
- 20 A old machine sold to Manju on credit for ₹ 3000. Credit period is 1 month.
- 22 Goods sold of ₹ 30,000 at 5 % trade discount to Harish. Invoice no. 136 sent by adding 5 % GST and ₹ 200 labour charge.
- 23 Goods sold of ₹ 20,000 to Nita on credit of 1 month. Trade discount is 10 % and cash discount is 10 %.
- 30 An order for goods for ₹ 15,000 is received from Mukesh.

- 12. Prepare purchase book, sales book, purchase returns book and sales returns book in the books of P. K. Stores from the following transactions :**

2015

- Nov. 1 Purchased goods of ₹ 30,000 from Ramanuj at 10 % trade discount. Bill no. 120.
- 4 Purchased goods of ₹ 12,000 from Nirmi at 10 % cash discount. Credit period 1 month. Bill no. 130.
- 6 Sold goods of ₹ 15,000 to Suresh at 5 % trade discount and 3 % cash discount under Bill no. 350.
- 11 Purchased goods of ₹ 10,000. Cash Memo no. 58.
- 15 Suresh returned goods of ₹ 3000. Credit note no. 20 sent.
- 17 40 % goods returned to Nirmi and debit note no. 17 sent.
- 19 Purchased furniture of ₹ 7000 from Shree Saraswati Furniture Mart.
- 20 Purchased goods of ₹ 90,000 from Aunti. Half of the amount paid immediately.
- 21 All the goods purchased from Aunti sold to Bala for ₹ 1,08,000. Credit one month. Trade discount 10 %. Bill no. 360.
- 23 Bala returned half of the goods which was sent to Aunti.
- 24 Karan placed an order for ₹ 30,000 at 10 % trade discount for supply of goods.
- 25 Goods sent to Karan as per order. ₹ 500 added for carriage under bill no. 365.
- 26 Cash purchase ₹ 16,000 and cash sales ₹ 20,000.
- 27 Returned goods to Sweety of ₹ 10,000 which was purchased in October and sent debit note no. 20.
- 30 Karan returned half of the goods and proportionate amount of carriage was given credit.

- 13. From following transactions prepare subsidiary books along with expenses amount in the books of Shri Sajan Traders of Surendranagar prepare subsidiary book on the basis of total GST rate of 12 %. GST is not included for following transactions. Add applicable amount of GST, prepare subsidiary books :**

2018

- August 1 Goods purchased of ₹ 20,000 at 10 % trade discount from Viramgam Stores. Railway freight ₹ 1000. Invoice no. 171.
- 5 Goods of ₹ 30,000 purchased from Manisha of Varanasi (UP). Railway freight ₹ 1200, labour charges ₹ 400. Invoice no. 204.
- 11 Goods of ₹ 15,000 sold to Dattu Corporation at 10 % trade discount. Labour charges ₹ 600, railway freight ₹ 900. Invoice no. 231.
- 16 Goods purchased from Manisha, sold to Aaliya of Mumbai (Maharashtra) after adding 20 % profit on cost price. Railway freight ₹ 1200, labour ₹ 300, credit period 1 month and invoice no. 232.
- 18 Aaliya has returned 50 % goods. The proportionate amount GST, railway freight and labour charges are adjusted. Credit note no. is 15. This goods immediately returned back to Manisha. The proportionate amount of GST, railway freight and labour charges are adjusted. Debit note no. 30.
- 20 Goods of ₹ 30,000 sold to Shresth Corporation. Labour charge ₹ 250, railway freight ₹ 600. Invoice no. 240.

- 25 Furniture of ₹ 18,000 purchased from Gandhi Furniture Mart. Invoice no. 120.
- 27 50 % goods returned by Dattu Corporation. The Proportionate amount of railway freight, labour and GST are adjusted. Credit note no. 16.
- 28 Goods of ₹ 10,000 purchased on cash from Raju.
- 30 Goods sold of ₹ 15,000 on cash to Kanu.

14. Prepare columnar subsidiary books viz. Purchase Book, sales book, purchase returns book and sales returns book in the book of Nirmi sports stores :

2015

- May 1 Purchased following goods from Sania at 10 % trade discount and 5 % cash discount with 1 month credit.
 - Balls 200 nos. at ₹ 150 per piece
 - Bats 100 nos. at ₹ 800 per piece
 - Stump pair (nos.) 50 at ₹ 300 per pair
- 5 Sold following goods to Malik at 5 % trade discount.
 - Balls 60 nos. at ₹ 250 per piece
 - Bats 30 nos. at ₹ 1000 per piece
 - Stump pair (nos.) 10 at ₹ 500 per pair
- 10 Purchased following goods from Kapil at 10 % trade discount.
 - Balls 30 nos. at ₹ 160 per piece
 - Bats 20 nos. at ₹ 1200 per piece
 - Stump pair (nos.) 6 at ₹ 400 per pair
- 13 Following goods sold to Yusuf at 5 % trade discount.
 - Balls 40 nos. at ₹ 200 per piece
 - Bats 30 nos. at ₹ 1300 per piece
 - Stump pair (nos.) 10 at ₹ 700 per pair
- 15 Yusuf returned half of the goods. Credit note no. 21 sent to him.
- 20 Following goods returned to Sania :
 - Balls 10 nos.
 - Bats 5 nos.
 - Stump pair 3 nos.
- 25 Half of the goods purchased from Kapil were sold to Sehwag after adding 20 % profit on cost.
- 27 Sehwag returned all of the goods which were returned to Kapil.
- 30 Cash purchase :
 - Balls : 60 nos. at ₹ 120 each
 - Bats : 50 nos. at ₹ 400 each
 - Stump pair : 10 pairs at ₹ 200 each

Cash sales :

 - Balls : 40 nos. at ₹ 200 each
 - Bats : 30 nos. at ₹ 800 each



Cash Book and Its Types

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|--|--|
| 1. Introduction | 5. Electronic Banking Transactions |
| 2. Meaning of Cash Book | 6. Bank Book |
| 3. Utility / Importance of the Cash Book | 7. Petty Cash Book |
| 4. Types of Cash Book | 8. Types of Petty Cash Book - Exercise |
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1. Introduction

We have studied some subsidiary books in the chapter on subsidiary books. In this chapter, we will study cash book, the most important type of subsidiary book. Cash book is one type of subsidiary book.

Generally, in any business or profession, two types of transactions are seen :

- (1) Cash transactions
- (2) Credit transactions

Credit transactions also get converted in cash transactions in future. For example, if the goods are sold on credit, then it is treated as credit transactions for the time being, but in the future, at a fixed time, the cash is received and at that time transaction which took place on credit, gets converted into cash transaction. Cash book is a type of subsidiary book in which cash transactions are recorded.

2. Meaning of Cash Book

“A subsidiary book is prepared to keep record of cash transactions it is called cash book.”

Cash transactions are recorded in the cash book. Cash Receipt and Payments are recorded in the cash book. At the end of the given period, cash balance can be known from cash book.

Cash book serves the purpose of journal entry and cash account both, as cash book is prepared in the form of a ledger account. Debit side of cash book is known as Income or Receipt side and Credit side is known as Payment side.

3. Utility / Importance of the Cash Book

(1) **Saving of time and labour** : Cash transactions are directly recorded in a cash book without recording in journal therefore separate cash account is not needed. Therefore, cash book serves the purpose of both a journal and a ledger, it saves time and labour.

(2) **Benefit of division of labour** : Cash book is maintained separately from the journal, therefore, responsibility of preparing it can be definitely allotted to a different person and the benefit of division of labour can be obtained.

(3) **Cash balance can be known** : Cash balance can be known daily or at the end of the given period by maintaining the cash book.

(4) **Cash embezzlement** : The balance of cash book is worked out daily or at the end of the given period, therefore, the physical cash balance can be compared with it and if there is any error or cash embezzlement then it can be known immediately.

(5) Inclusion of Bank Account : As per the requirement of business, the nature and volume of transactions, the cash book can be prepared in various different types. If three-columnar cash book is prepared, then the transactions of cash, bank and discount can be recorded. Therefore, separate bank account also need not be prepared.

4. Types of Cash Book

According to necessity of any business or profession, cash book can be prepared. Following are the three types of cash book.

- (1) Simple cash book
 - (2) Two columnar cash book : it can be of three types :
 - (A) Cash and discount columnar
 - (B) Cash and bank columnar
 - (C) Bank and discount columnar
 - (3) Three columnar cash book : Cash, discount and bank columnar cash book.
 - (1) **Simple cash book :**

(1) Simple cash book :

Only cash transactions are recorded in the simple cash book. Cash receipts and payments are recorded in the simple cash book. As the format of cash book is like the structure of an account, it is divided into two parts. The left side of the cash book is known as debit side or receipt side and the right side of the cash book is known as credit side or payment side.

Cash account is a 'Real account'. Therefore, when the cash comes in the business, it is debited to cash account and when cash goes out, it is credited to cash account. Therefore, debit side of cash book is shown as receipt side and credit side is shown as payment side.

Cash payment is never more than cash receipts, therefore balance of cash account is debit. Therefore, in the beginning of the cash book, the cash balance is shown as '**balance brought forward**' or opening balance on the debit side and at the end on the credit side, closing balance is worked out and it is shown as '**balance carried forward**'.

In short, in the cash book, on the debit side, the opening cash balance and cash receipts are recorded, whereas, on the credit side of cash book, cash payments and closing cash balance are recorded at the end.

Format (Specimen) of Simple Cash Book

Cash Book of Shri

Date	Particular (Receipts)	Rec. No.	L. F.	Amount (₹)	Date	Particular (Payments)	Vou. No.	L. F.	Amount (₹)
	To opening balance (Balance b/f) – Receipts –					– Payments – By closing balance (Balance c/f)			

(A) Receipt side or Debit side :

In cash book cash column is considered as 'Real Account'. "Debit what comes in and credit what goes out". - This rule is applied. Therefore, when the cash is received, it is recorded on the debit side of the cash book and following particulars are mentioned along with it :

(1) Date : In this column, the date on which cash is received it is chronologically recorded.

(2) Particulars [Receipts] : In this column, the ledger account other than cash account of the transaction due to which the cash is received, is shown. It means, as per the journal entry, the account which is credited is shown here. Many times, the brief explanation about the transaction is also written here in brackets.

(3) Receipt No. : When the cash is received in the business, a receipt is given to the payer against it. If cash is received on account of cash sales, then cash memo is given. The no. of such receipts or cash memo is written in this column. It is recorded on the basis of copy of receipt or cash memo retained by us.

(4) L.F. (Ledger Folio No.) : The page number of the ledger on which the account is credited, is recorded in this column.

(5) Amount : The amount received is recorded in this column.

(B) Payment Side or Credit Side :

According to rule for Real Accounts, when cash goes out it is recorded on the credit side of the cash book. The following particulars are mentioned in it.

(1) Date : In this column, the date on which the cash is paid, is chronologically recorded.

(2) Particulars [Payment] : In this column, the ledger account other than cash account of the transactions due to which the cash goes out, is shown. It means, as per the journal entry, the account, which is debited, is shown here. Many times, the brief particulars about the transaction is also written here in the bracket.

(3) Voucher No. : When the cash is paid, the payee issues a receipt of cash received or cash memo of cash purchase. The no. of such receipt or cash memo or the no. given by us to it is written in this column.

(4) L.F. (Ledger Folio No.) : The page number of the ledger on which the account is debited, is recorded in this column.

(5) Amount : In this column, the amount paid or the amount of cash given away is recorded.

(C) Closing cash balance :

In simple cash book, on the debit side, opening cash balance and cash receipts are recorded. Whereas, on the credit side, cash payments are recorded. Everyday or at the end of given period, cash book is closed and closing cash balance is worked out. The total of payment side of such cash book is deducted from the total of receipt side, the amount of difference is known as closing cash balance.

Here, the important point is that the total of receipts side of cash book can never be less than the total of payments side, as more cash cannot be paid than what is received. Therefore the total of receipt side is always more than or equal to the total of payment side of simple cash book.

As the total of debit side is more than the total of credit side of cash book, the closing balance is treated as debit balance. In any type of cash book, while balancing the 'cash' column, the above situation is seen.

Effect of 'Non cash transaction' are not recorded in cash book.

Illustration 1 : Prepare simple cash book from the following transactions of Rajeshbhai for February, 2015.

2015

- Feb. 1 Cash on hand ₹ 5000.
- 3 Goods of ₹ 3000 sold to Gita for cash.
- 5 Goods of ₹ 2000 purchased from Amit for cash.
- 7 Cash of ₹ 5000 brought in the business, as more funds are required in the business.
- 9 Insurance premium ₹ 800 paid.
- 10 Furniture of ₹ 4000 purchased from Ganesh Furniture Mart for cash.
- 12 ₹ 1500 received towards commission and ₹ 1200 paid towards brokerage.
- 14 ₹ 3000 received from Mahesh towards receivable.
- 16 Salary ₹ 1000 and freight ₹ 200 paid.
- 18 ₹ 3000 paid to Prakruti towards an old account.
- 20 Machinery purchased for the business ₹ 2000.
- 23 As more funds are required in the business, ₹ 10,000 borrowed as loan bearing 10 % rate of interest from Rameshbhai.
- 26 Cash purchase ₹ 7000.
- 28 ₹ 3000 deposited in Prime Co-operative Bank.

Ans. :

Simple Cash Book of Rajeshbhai for February, 2015

Date	Particular (Receipts)	Rec. No.	L. F.	Amount (₹)	Date	Particular (Payments)	Vou. No.	L. F.	Amount (₹)	Cr.
2015					2015					
Feb. 1	To Balance b/f (Opening balance)			5000	Feb. 5	By Purchase A/c			2000	
3	To Sales A/c (Cash sales)			3000	9	By Insur. Premi. A/c			800	
7	To Capital A/c			5000	10	By Furniture A/c			4000	
12	To Commission A/c			1500	12	By Brokerage A/c			1200	
14	To Mahesh A/c			3000	16	By Salary A/c			1000	
23	To Rameshbhai's 10 % loan A/c			10,000	16	By Freight A/c			200	
					18	By Prakruti A/c			3000	
					20	By Machinery A/c			2000	
					26	By Purchase A/c			7000	
					28	By Bank (Prime Co. Bank) A/c			3000	
					28	By Balance c/f			3300	
2015				27,500					27,500	
March 1	To Balance b/f			3300						

(2) Two Columnar Cash Book :

Following are the three types of two columnar cash book : (A) Cash and Discount Columnar Cash Book, (B) Cash and Bank Columnar Cash Book, (C) Bank and Discount Columnar Cash Book.

(A) Cash and Discount Columnar Cash Book : In this type of simple cash book one additional column of discount is added. Trade discount is not recorded in the cash book, the discount column is kept to record only the cash discount. In this type of cash book, cash and discount columns are kept. For cash column, the cash account is a 'Real Account'. Rule of 'Real Account' is applied.

For discount column, discount is a nominal account, rule of nominal account is applied.

Format of Cash and Discount Columnar Cash Book

Cash Book of Shri

Dr.											Cr.
Date	Particular (Receipts)	Rec. no.	L. F.	Disco. Allo- wed	Cash Amount (₹)	Date	Particular (Payments)	Vou. no.	L. F.	Disco. Rec- eived	Cash Amount (₹)

'Cash discount' is included in Nominal Account. Hence, 'Debit the expenses and losses, credit the income and gains' rule is applied. Cash discount is expense for traders. Therefore, discount (discount allowed) is debited. Cash discount is income for the trader who is the receiver of the benefit. Therefore discount (discount received) account is credited.

E.g. Debtor Parth makes the payment ₹ 3000 as against his debt of ₹ 3080 and if we accept it towards full settlement of account, then ₹ 80 (3080 – 3000) is said to be discount allowed. As per the rule of Real Account 'Debit what comes in' and so the cash received from Parth is debited. Similarly, as per the rule, the expenses and loss are debited and so the 'discount allowed' is recorded on the debit side of the cash book.

Similarly, when cash purchase is made or payment is made to any creditor, if less amount is paid than the amount payable, then the difference amount is known as cash discount. The 'discount received' is gain. Therefore as per the rule credit the incomes or gain. Here, discount received is credited. For example, goods of ₹ 2040 purchased from Ashok for cash. ₹ 2000 paid towards final settlement. Here cash goes out and discount received is gain, both are recorded on the credit side of the cash book.

Here, the important point is that, in two columnar cash book, the balance of cash column is worked out but the balance of discount column is not worked out. Here, the total of discount column on debit side is made and total amount is debited to discount allowed account. Whereas, discount received column on credit side is totalled and total amount is credited in the discount received account.

Illustration 2 : Prepare two columnar cash book (cash and discount columns) of Shri Girishbhai from the following transactions :

2015

March 1 Opening cash balance ₹ 8000.

4 Goods of ₹ 6000 purchased at 10 % trade discount.

- 7 Goods of ₹ 3000 sold to Pravin for cash at 5 % cash discount.
- 10 Goods of ₹ 4000 sold for cash at 10 % trade discount and 5 % cash discount.
- 12 Furniture of ₹ 5000 is purchased from Gopal Furniture Mart.
- 15 ₹ 1000 paid to Vishnu towards full settlement of ₹ 1020.
- 16 ₹ 900 paid for commission.
- 18 ₹ 1500 received from Kamlesh towards full settlement of ₹ 1560.
- 20 Paid ₹ 2000 for salary and ₹ 400 for wages.
- 23 Goods of ₹ 2000 purchased from Vishwa for cash at 10 % trade discount and 10 % cash discount.
- 26 Cash of ₹ 4000 brought in the business.
- 28 Machine of ₹ 8000 is purchased from Maheshwari Engineering, for which ₹ 5000 is paid and the balance amount is agreed to be paid after one month.

Ans. :

Cash Book of Shri Girishbhai for March, 2015

Dr.

Cr.

Date	Particular (Receipts)	Rec. No.	L. F.	Disc. Allowed	Amount (₹)	Date	Particular (Payments)	Vou. No.	L. F.	Disc. Received	Amount (₹)
2015 March 1	To Balance b/f (Cash balance)				8000	2015 March 4	By Purchase A/c (Cash purchase)				5400
7	To Sales A/c (Cash sales)			150	2850	15	By Vishnu A/c		20		1000
10	To Sales A/c			180	3420	16	By Commi. A/c				900
18	To Kamlesh A/c			60	1500	20	By Salary A/c				2000
26	To Capital A/c				4000	23	By Wages A/c				400
						28	By Purchase A/c (Cash purchase)		180		1620
							Machinery A/c (Partial amount is paid for the purchase of machine of ₹ 8000)				5000
						31	Balance c/f (closing balance)				3450
					390				200		19,770
April 1	To balance b/f				3450						

Note : (1) Discount allowed given in the transaction of cash purchase dated March 4, will not be recorded as it is trade discount.

(2) Credit purchase of furniture dated March 12, will not be recorded in cash book.

- (3) Here, the total of discount allowed column is ₹ 390 which will be posted on the debit side of discount account in the ledger.
- (4) The total of discount received column is ₹ 200 which will be posted on the credit side of discount received account in the ledger.

(B) Cash and Bank Columnar Cash Book : In this type of cash book, an additional column (bank) is inserted on both the sides of simple cash book. This column is kept to record the transactions with the bank. Bank account is treated as 'personal account', hence 'debit the receiver, credit the giver' rule for 'personal accounts' will be applicable. Such cash book has bank account and cash account. In this case, as the bank is treated as a person, the rule of 'personal account' will be applied; and the cash account is treated as an asset and so the rule of 'real account' is applicable.

When, (1) cash is deposited, (2) cheque is deposited (3) draft is deposited (4) any debtor deposit money directly in the bank. (5) bank credits interest or various incomes after collecting the same in our account, our bank balance is increased. In these transactions, the bank is a receiver, hence, it will be debited as per rule. In cash book, the above mentioned transactions will be recorded on the debit side in the bank column.

When, (1) cash is withdrawn from the bank (2) amount is paid by cheque, (3) bank debits bank commission, charges, bank overdraft interest (4) bank pays expenses (like electricity bill, insurance premium, telephone bill etc.) on our behalf, our bank balance is reduced. In these transactions, the bank is a giver. Hence, it will be credited as per rule. Therefore, the above mentioned transactions will be recorded on the credit side of cash book in the bank column.

Format of Cash and Bank Columnar Cash Book

Cash Book of Shri

Dr.												Cr.
Date	Particular (Receipts)	Rec. No.	L. F.	Cash Amt. (₹)	Bank Amt.(₹)	Date	Particular (Payments)	Vou. No.	L. F.	Cash Amt. (₹)	Bank Amt. (₹)	

We have seen in the simple cash book that cash payment can never be more than cash receipts, therefore the closing balance of cash account in cash book is always debit balance.

But here, two columnar cash book, 'bank column' is prepared differently. In bank column, if the total of receipt column is more than the total of payment column, bank column will also have a debit balance, which will be treated as **closing bank balance**. In bank column, if the total of payment column is more than the total of receipt column, the difference is called bank overdraft, which is discussed below.

- Bank Overdraft (B.O.D.) :** When the trader make agreement with the bank to withdraw more than the balance in his account upto a fixed amount, such facility is known as bank overdraft.

When the trader gets bank overdraft facility the bank balance can be debit or credit. If the bank column has a credit balance, it shows more withdrawal (overdraft). Interest is payable at a fixed rate on such Bank overdraft amount.

Thus, if the total of receipt side of bank column in the cash book is more than the total of payment side, it is known as 'closing bank balance'. But, if the total of the payment side in the cash book is more than the total of receipt side, it is known as 'closing bank overdraft'.

If the opening balance with the bank is 'bank balance', it is shown on the debit side of cash book in the bank column as 'balance brought down' and if the opening balance with the bank is 'bank overdraft', it is shown on the credit side of cash book in the bank column as 'balance brought down'.

Similarly, if the closing balance of bank column in the cash book is 'bank balance', it is shown on the payment side as 'balance carried forward' and if closing balance of bank column is 'bank overdraft', it is shown on the debit side as 'balance carried forward' (overdraft).

● **Contra Transaction** : 'Contra transaction' means such financial transaction, in which cash and bank, both the accounts get affected'. e.g. cash withdrawn from bank or cash deposited in the bank. This type of transaction is recorded on both the sides of cash book, when cash and bank columnar cash book is kept.

We have seen that such cash and bank columnar cash book serves the purpose of cash account and bank account. Thus when such cash book is maintained, 'cash' and 'bank' accounts are not required to be opened separately. 'Contra transaction' affects only 'cash' and 'bank' account, hence the posting is not required, but 'C' (Contra) will be written in the Ledger Folio No. (L.F.) column.

Generally, contra transactions are of two types : (1) cash deposited in the bank (2) cash withdrawn from the bank.

(i) **Cash deposited in the bank from business** : When the cash is deposited in the bank cash balance is reduced on one hand and bank balance is increased on the other hand. e.g. cash of ₹ 2000 is deposited in the bank.

₹ 2000 will be recorded on the receipt side it means debit side of cash book in the bank column and 'cash account' will be written in the particulars column. Whereas, same of ₹ 2000 will be recorded on the payment side it means credit side of cash book in the cash column and 'bank account' will be written in the particulars column.

Further 'C' (Contra) will be written in the L.F. No. column of cash book on both the sides. As contra transactions are not required to be posted therefore L.F. No. is not required, but in order to know the nature of transaction, 'c' is shown in that column.

(ii) **Cash withdrawn from the bank for business** : When the cash is withdrawn from the bank, cash balance is increased and bank balance is reduced. e.g. cash of ₹ 3000 is withdrawn from the bank.

₹ 3000 will be recorded on the receipt side it means debit side of cash book in the cash column and 'bank account' will be written in particulars column. Whereas same ₹ 3000 will be recorded on the payment side it means credit side of cash book in the bank column and 'cash account' will be written in the particulars column.

Further, 'C' will be written in the L.F. No. column of cash book when above transaction is recorded in cash and bank columnar cash book.

Illustration 3 : From the following transactions, prepare cash and bank columnar cash book in the book of Gayatri Bros.

2015

- | | |
|---------|---|
| April 1 | Opening cash balance ₹ 6000 |
| | Opening bank balance ₹ 5000 |
| 3 | Goods of ₹ 10,000 sold to Pankaj for cash at 10 % trade discount. |
| 5 | Goods of ₹ 3000 purchased for cash from Janki. |
| 7 | Cash of ₹ 1500 is deposited in the bank. |

- 9 Stationery expenses of ₹ 1000 and salary of ₹ 3000 paid by cheque.
 11 ₹ 1100 paid towards shop rent.
 14 Cheque of ₹ 3000 received from Yesha, which is immediately deposited in the bank.
 17 ₹ 1000 withdrawn from the bank to pay fire insurance premium.
 21 Furniture of ₹ 800 purchased for household and cheque for the necessary amount is issued from the bank account of the business.
 23 Fire insurance premium paid.
 27 Placed an order with Akbarbhai for supply of goods of ₹ 5000.

Ans. :

Cash Book of Shri Gayatri Bros. for April, 2015

Dr. Cr.

Date	Particulars (Receipts)	Re. No.	L. F.	Cash Amt. (₹)	Bank Amt. (₹)	Date	Particulars (Payments)	Vou. No.	L. F.	Cash Amt.	Bank Amt.
2015						2015					
April 1	To Balance b/d			6000	5000	April 5	By Purchase A/c			3000	—
3	To Sales A/c (Cash)			9000	—	7	By Bank A/c	C	1500	—	
						9	By Stationery exp. A/c			—	1000
7	To Cash A/c		C	—	1500	9	By Salary A/c			—	3000
14	To Yesha A/c			—	3000	11	By Shop rent A/c			1100	—
17	To Bank A/c		C	1000	—	17	By Cash A/c	C	—	1000	
						21	By Drawings A/c			—	800
						23	By Fire insurance premium A/c			1000	—
						30	By Balance c/f			9400	3700
				16,000	9500					16,000	9500
May 1	To Balance b/d			9400	3700						

Note : (1) Transaction dated 7 is a contra transaction.

(2) In the transaction dated 17, ₹ 1000 has been withdrawn from the bank for the payment of fire insurance premium of the business. Therefore, first it will be recorded as contra transaction. It means bank balance will be reduced and cash balance will be increased by ₹ 1000.

(3) On 23rd, fire insurance premium has been actually paid by cash. Therefore on that date, ₹ 1000 will be recorded in the cash book on the payment side in the cash column.

(4) Transaction dated 27, is a non-economic transaction, only an order is placed, hence it will not be recorded.

● Transactions with Bank :

Now, let us understand, how the transactions between the traders and banks are recorded in the cash bank.

(A) Transactions relating to cash :

When any trader or person opens an account with the bank, then bank gives him (1) pay-in slip book, (2) cheque book and (3) pass-book, for smooth banking transactions.

Pay-in slip is used to deposit cash or cheque received in the bank. Cheque book is used to withdraw cash from the bank or to make payment by cheque. Pass-book is an abstract of the trader's ledger account in the books of the bank.

Presently, use of cheque for payments in the business is very common. Cheque is a negotiable instrument under the provision of Negotiable Instrument Act 1881 in India. There are three parties in the cheque : (1) Drawer of the cheque. (2) Drawee of the cheque (bank) (3) Receiver of money. For example Gaurang has given a cheque of his account in State Bank of India amounting to ₹ 1500 to Preeti towards amount payable. Here Gaurang is drawer, State Bank of India is a drawee, and Preeti is a receiver of money.

When customer or debtor gives a cheque towards amount payable by him, the trader deposits the cheque in his bank. There are two types of cheques : (1) Simple or bearer cheque (2) Crossed cheque.

(1) **Simple or Bearer Cheque** : In bearer cheque the bank makes payment to the person who holds the cheque.

(2) **Crossed Cheque** : In crossed cheque, the amount is credited in the bank account of the person whose name is written in the cheque as payee, cash is not paid.

When the customer or debtor gives a cheque to the trader towards amount payable, then it will be recorded in bank column of cash book on debit side. Customer's name who has given a cheque is written in particulars column.

(3) If no information is given in respect of cheque received, then it is recorded on the debit side of the cash book in the bank column assuming that it is deposited in the bank.

(4) Generally, when the crossed cheque is received, it is recorded on the receipt side, i.e., debit side of the cash book in the bank column, because the amount of crossed cheque is not received in cash but it is credited in the bank account.

When the trader makes the payment of amount payable to any person by cheque, it is recorded on the credit side of the cash book in the bank column. It is recorded on the date on which such cheque is issued for payment.

Endorsement : "When the cheque is received from the customers or debtors, the name of the creditors or traders written on the backside of the cheque (overleaf of cheque) and the payment is made directly, then it is called endorsement." This transaction is recorded in Journal proper.

If the cheque received is recorded in the cash book as cheque deposited in the bank and if such cheque is endorsed, it is recorded on the payment side of the cash book in the bank column. If any cheque is dishonoured, the entry, which was made at the time of receipt or payment of the cheque, will be reversed.

(B) Bank Charges, Commission, Interest etc. :

When the bank provides any service to the trader, it collects 'charges' for that. Similarly, if the bill is discounted with the bank or is sent for collection with the bank, the bank charges commission. If the trader has taken overdraft facility from the bank, the bank charges interest for that. Similarly, bank pays interest on the bank balance.

Bank charges, commission and interest on overdraft are expenses for the trader, hence these are shown on the payment side i.e. credit side of the cash book in the bank column. Whereas interest received on the bank balance is an income for the trader, therefore, it is shown on the receipt side i.e. debit side of the cash book in the bank column.

Illustration 4 : From the following transactions, prepare cash and bank columnar cash book in the books of Dharmistha.

2015 May 1 Cash balance ₹ 7000, bank overdraft ₹ 2500

2 Goods of ₹ 7000 sold to Urvashi crossed cheque is received from her, which is deposited in the bank.

4 Goods of ₹ 2000 sold to Ashok at 10 % trade discount. 50 % amount received in cash and for the balance amount cheque is received, which is deposited in the bank.

- 5 ₹ 2000 cash deposited in the bank.
 7 Machine of ₹ 5000 purchased. Cheque of necessary amount is issued.
 9 Cheque of ₹ 6000 is received from Mansi towards receivable which is immediately deposited in the bank.
 11 Wages ₹ 500; telephone bill ₹ 500 and electricity bill ₹ 1200 paid by cheque.
 13 ₹ 2000 withdrawn from the bank for the payment of insurance premium.
 15 Insurance premium is paid of ₹ 1600.
 21 Bank debited ₹ 150 to our account for interest on overdraft and ₹ 100 for bank charges and it is informed to us through bank advice.
 23 Goods of ₹ 3000 sold to Dharti. Crossed cheque is received.
 24 Cheque of ₹ 3000 received from Tejal, which is endorsed to Sejal.
 26 Bank informed about the dishonour of cheque issued by Dharti.
 28 ₹ 1500 paid to Vibodh for settlement of account. ₹ 2000 withdrawn for personal use from the bank.
 29 Cheque of ₹ 3000 received from the customer Virendra.
 30 Cheque of ₹ 3000 received from the customer Virendra, which is endorsed in favour of Surendra.

Ans. :

Cash Book of Dharmista for May, 2015

Date	Particulars (Receipts)	Re. No.	L. F.	Cash Amt. (₹)	Bank Amt. (₹)	Date	Particulars (Payments)	Vou. No.	L. F.	Cash Amt.	Bank Amt.
2015						2015					
May 1	To Balance b/f			7000	—	May 1	By Balance c/f (Bank overdraft)			—	2500
2	To Sales A/c			—	7000						
4	To Sales A/c			900	900	5	By Bank A/c	C	2000	—	—
5	To Cash A/c		C	—	2000	7	By Machine A/c			—	5000
9	To Mansi A/c			—	6000	11	By Wages A/c			—	500
13	To Bank A/c		C	2000	—	11	By Telephone exp. A/c			—	500
23	To Sales A/c			—	3000	11	By Electricity exp. A/c			—	1200
29	To Virendra A/c			—	3000	13	By Cash A/c	C	—	2000	
						15	By Insurance premium A/c		1600	—	
						21	By Bank Int. A/c			—	150
						21	By Bank chargees A/c			—	100
						26	By Dharti A/c			—	3000
						28	By Vibodh A/c		1500	—	
						28	By Drawings A/c			—	2000
						30	By Surendra A/c			—	3000
						31	By Balance c/f		4800	1950	
				9900	21,900				9900	21,900	
June 1	To balance b/f			4800	1950						

Explanation :

- (1) The transaction dated 24 will be recorded in journal proper, because the cheque of ₹ 3000 received from Tejal was on the same day endorsed in favour of Sejal. The journal entry for this transaction is as under :

Sejal A/c	Dr	3000
To Tejal A/c		3000

- (2) On 29, the cheque received from Virendra is debited to bank account and credited to Virendra account on 30, this cheque is endorsed in favour of Surendra instead of depositing in the bank. Therefore Surendra's account is debited and bank account is credited.

(C) Bank and Discount Columnar Cash Book :

In this type of cash book, bank column and discount column are kept. When the payment is made through cheque and the discount is received or when the amount is received by cheque and the discount is allowed, to record such discount and bank transactions, bank and discount columnar cash book is prepared. As bank is a person, only the rule of 'personal account' will be applicable to the bank column. As discount is an income or expense, rule of 'Nominal Account' will be applicable to the discount column.

This type of cash book is normally prepared when most of the transactions are made through cheque. At the end of given period the cash book is closed and the closing bank balance or overdraft is worked out. On the debit side of the cash book 'discount allowed' and on the credit side 'discount received' are recorded.

Format of Bank and Discount Columnar Cash Book**Cash Book of Shri**

Dr.											Cr.		
Date	Particulars (Income)		Re. No.	L. F.	Disc. Allowed (₹)	Bank Amt. (₹)	Date	Particulars (Payments)		Vo. No.	L. F.	Disc. Rece. (₹)	Bank Amt. (₹)

Transactions of cheques issued and received, bank charges, bank commission, bank interest etc. are recorded in the same manner as are recorded in cash and bank columnar cash book. Here, the cash column is not maintained, hence, when the cheque is deposited in the bank, on that date it is recorded on the debit side of the cash book in the bank column. Similarly, the date on which the cheque is issued it is recorded on the credit side of the cash book in the bank column.

In this type of cash book, in bank column we find, the closing bank balance or overdraft. The total of discount allowed column is debited to the discount allowed account in the ledger, whereas, the total of discount received column is credited to the discount received account in the ledger.

This type of cash book is not very popular, because cash transactions do take place to some extent in any business along with the bank transactions. Here, cash column is not maintained to record cash transactions. To remove such limitation, three columnar cash book is maintained, in which, three columns for cash, bank and discount are maintained on both the sides of cash book.

Illustration 5 : From the following transactions, prepare bank and discount columnar cash book in the books of Suresh stores.

2015

- June 1 Bank overdraft ₹ 12,000
 7 Goods of ₹ 9000 sold to Nila at 10 % trade discount. Nila gave a cheque after deducting discount, which is deposited in the bank.
 14 Cheque of ₹ 5000 issued to Nayana in full settlement of account of ₹ 5050.
 16 Commission of ₹ 1100 paid by cheque.
 20 Vipul has given a cheque of ₹ 11,000 towards amount payable of ₹ 11,125 in full settlement of account.
 23 Goods of ₹ 4000 sold to Chandulal at 10 % trade discount and 10 % cash discount. Chandulal made the payment immediately by cheque. Cheque is deposited in the bank.
 26 ₹ 1800 paid to Devanshi by cheque.
 28 Cheque issued by Vipul is dishonoured.

Cash Book of Shri Suresh Stores for June, 2015

Dr.												Cr.
Date	Particulars (Receipts)	Re. No.	L. F.	Disc. Allo. (₹)	Bank Amt. (₹)	Date	Particulars (Payments)	Vo. No.	L. F.	Disc. Rec. (₹)	Bank Amt. (₹)	
2015						2015						
June						June						
7	To Sales A/c			—	8100	1	By Balance b/f			—	12,000	
20	To Vipul A/c			125	11,000	14	By Nayana A/c			50	5000	
24	To Sales A/c			360	3240	16	By Commi. A/c			—	1100	
30	To Balance c/f				8560	26	By Devanshi A/c			—	1800	
				485	30,900	28	By Vipul A/c			—	11,000	
										50	30,900	
						July 1	By balance b/f				8560	

Note :

- (1) Here, total of discount allowed column is ₹ 485, which will be recorded or posted on the debit side of discount allowed account in the ledger.
- (2) Here, total of discount received column is ₹ 50, which will be recorded on the credit side of the discount received account in the ledger.
- (3) Total of payment side is more, therefore it shows bank overdraft at the end of June.
- (4) Cheque of ₹ 11,000 has been received from Vipul on date 20th towards amount payable of ₹ 11,125 in full settlement of account, which is deposited in the bank and dishonoured on date 28. Generally, in such cases, if the cheque given by the customer is dishonoured, then the discount allowed is also cancelled. Here, cash discount of ₹ 125 has been given to Vipul, which is required to be cancelled due to the dishonour of cheque on date 28th. The journal entry for cancellation of discount is as under :

Vipul account	Dr. 125
To discount allowed A/c	125

From the above journal entry, it can be seen that ₹ 125 will be recorded on the credit side of discount allowed account. Therefore, discount has not been recorded on the credit side where the entry for cheque dishonoured has been made. If the bank balance is reduced by ₹ 11,000 only, and if the effect of discount is given then the amount of discount received and discount allowed would be incorrectly reflected more. Hence, it is required to be cancelled and thereby it is reduced.

Three Columnar Cash Book :

In this type of cash book, three columns are kept on both sides, discount column, cash column and bank column. Presently this type of cash book is more useful. Because cash and bank transactions, discount received and allowed are recorded in the same structure. Discount, cash and bank are the three columns in this type of cash book. For the discount column, discount is the income or expense, therefore rule of 'Nominal Account' is applicable. For cash column, cash is an assets, therefore, rule of 'Real Account' is applicable. At last, for bank column, bank is a person and to the rule of 'Personal Account' is applicable.

On the receipt side of the cash book, the transactions increasing the cash or bank balance and discount allowed are recorded, whereas, on the payment side of the cash book, the transactions reducing the cash or bank balance (increase in overdraft) and discount received are recorded.

The Format of Three Columnar Cash Book :

(Cash, Bank and Discount Columnar Cash Book)

Cash Book of Shri

Dr.										Cr.					
Date	Particulars (Receipts)	Re. No.	L. F.	Disc. Allow- ed (₹)	Cash Amt. (₹)	Bank Amt. (₹)	Date	Particulars (Payments)	Vo. No.	L. F.	Disc. Recd. (₹)	Cash Amt. (₹)	Bank Amt. (₹)		

Points to be considered at the time of preparing the cash book :

(A) Opening balance of cash balance and bank balance are recorded on the debit side. i.e. Receipt side of cash book as balance b/f, whereas the bank overdraft is recorded on the credit side. i.e. payment side of cash book as balance b/f in bank column.

(B) All types of cash receipt transactions are recorded on the debit side / receipt side of the cash book and all types of cash payment transactions are recorded on the credit side / payment side of the cash book.

(C) All types of transactions increasing bank balance or decreasing overdraft are recorded on debit side / receipt side in the bank column and all types of transactions decreasing bank balance or increasing bank overdraft are recorded on the credit side / payment side in the bank column of the cash book.

(D) Contra transactions are recorded on both the sides of cash book.

(E) Discount allowed is recorded on debit side and discount received is recorded on credit side of the cash book.

Illustration 6 : From the following transactions, prepare three columnar cash book of Shri Jethalal.

2015

July 1 Opening cash balance ₹ 10,000, bank overdraft ₹ 4000

3 Goods of ₹ 3000 purchased from Iyer at 10 % cash discount and issued cheque of the necessary amount.

- 5 Salary of ₹ 800 and stationery of ₹ 700 paid by cheque.
- 7 Goods of ₹ 6000 purchased from Babita at 10 % trade discount. Half of the amount paid by cash and the balance amount is paid by cheque.
- 9 ₹ 4000 deposited in the bank.
- 10 Cheque of ₹ 6000 issued to Popatlal towards the full settlement of the account of ₹ 6050.
- 12 Atmaram has given ₹ 6000 cash and cheque of ₹ 4000 which is deposited in the bank towards the amount payable ₹ 10,070.
- 14 Cheque of ₹ 5000 received from Sundar towards payment of an old debt, which is deposited in the bank.
- 19 ₹ 3000 cash paid towards Income Tax of Jethalal.
- 20 Cheque of Sundar is dishonoured.
- 22 50 paisa dividend received from receiver of Sundar.
- 28 Goods of ₹ 10,000 sold to Tipendra at 10 % cash discount. For 60 % of the amount cheque received which is deposited and the remaining amount is received in cash.
- 31 After keeping cash on hand of ₹ 2000, remaining amount is deposited in the bank.

Cash Book of Shri Jethalal for July, 2015

Dr.													Cr.
Date	Particulars (Receipts)	Re. No.	L. F.	Disc. Allow- ed (₹)	Cash Amt. (₹)	Bank Amt. (₹)	Date	Particulars (Payments)	Vo. No.	L. F.	Disc. Recd. (₹)	Cash Amt. (₹)	Bank Amt. (₹)
2015							2015						
July 1	To Balance b/f			—	10,000	—	July 1	By Balance b/f			—	—	4000
9	To Cash A/c		C	—	—	4000	3	By Purchase A/c			300	—	2700
12	To Atmaram A/c			70	6000	4000	5	By Salary A/c			—	—	800
14	To Sundar A/c			—	—	5000	5	By Stationery A/c			—	—	700
22	To Sundar A/c			—	—	2500							
28	To Sales A/c			1000	3600	5400	7	By Purchase A/c			—	2700	2700
31	To Cash A/c		C	—	—	7900	9	By Bank A/c			—	4000	—
							10	By Popatlal A/c			50	—	6000
							19	By Drawings A/c			—	3000	—
							20	By Sundar A/c (cheque dishonour)			—	—	5000
							31	By Bank A/c			—	7900	—
							31	By Balance c/f			—	2000	6900
				1070	19,600	28,800					350	19,600	28,800
2015													
Aug. 1	To balance b/f				2000	6900							

Note :

- (1) Dt. 1 Bank overdraft - recorded on the credit side in the bank column as balance b/f.
- (2) Dt. 9 and 31 - transactions involving both cash and bank - contra transactions.
- (3) In the transaction dated 22, 50 % dividend received from Sundarlal's receiver. Dividend (Recovery) is always received in crossed cheque, therefore it is recorded in the Bank account.
- (4) Here, for the transaction dated 31, we need to find out the amount deposited in the bank.
Amount deposited in the bank = total receipts ₹ 24,600 – (Total payment ₹ 14,700 + Cash on hand ₹ 2000) = ₹ 7900
- (5) Here, discount allowed is ₹ 1070 and discount received is ₹ 350.

5. Electronic Banking Transactions

Promptness of banks' operations depends on electronic banking. Electronic instruments are used by banks to provide quick and secure services to their customers. Banks provide various services to their customers. Of which, fund transfer is a very important service. In traditional method, draft and cheque are used to transfer the funds. In this system fund transfer from one account to another account takes more time. For fund transfer, two types of prompt services are provided by the banks. Following services are included. These services are related to cash book.

- (i) NEFT (National Electronic Fund Transfer) (ii) RTGS (Real Time Gross Settlement)
- (iii) Sales transactions through Debit card and Credit card

(i) NEFT (National Electronic Fund Transfer) : This service is available nation-wide. Individuals, firms and corporate units can get the benefit of this service. This service is provided to the customer by participating banks in this scheme. It is not necessary to have a bank account of the sender to get the benefit of this scheme. For NEFT service, it is necessary to have a bank account of the beneficiaries in such a bank, which provides this service. There is no limit on the amount to be transferred. Banks charge nominal amount for this service. Reserve Bank of India has determined maximum charge for this service. Therefore bank can give this service even free of cost. But it cannot charge more amount than the maximum charge. There is no charge levied on beneficiaries by the bank. Fund sender has to pay charges to the bank. Thus the charge becomes an expense for the Fund Sender and so it has to be recorded in the book. As per the present rule NEFT services are available during 8:00 am to 7:00 pm from Monday to Friday. On Saturday this service will be available as per norms of respective period. Generally, the amount transferred in this way is deposited within two hours in the account of the receiver. There is no minimum or maximum limit of the amount for fund transfer under this service.

For example, Nilesh has an account in State Bank of India, and Ramesh has an account in Bank of Baroda. Nilesh has to pay ₹ 20,000 to Ramesh. Nilesh sent this amount to Ramesh through NEFT. In such situation, bank will debit ₹ 20,000 and NEFT charges from Nilesh's account and ₹ 20,000 will be credited in Ramesh's bank account by the bank. Bank debited ₹ 5.70 from Nilesh's account for NEFT charges. Following is the journal entry for this.

In the book of Nilesh :

Ramesh A/c	Dr.	20,000
Bank charge A/c	Dr.	5.70
To bank A/c		20,005.70

[Narration : ₹ 20,000 paid to Ramesh through NEFT. Bank has charged ₹ 5.70.]

If cash book is maintained by Nilesh with bank columnar then ₹ 20,000 deposited in Ramesh's account and NEFT charge ₹ 5.70 paid are recorded on the credit side of the cash book.

In the books of Ramesh :

Bank A/c	Dr.	20,000
To Nilesh A/c		20,000

[Narration : ₹ 20,000 received from Nilesh through NEFT and credited in his account.]

If cash book is kept by Ramesh with bank columnar then ₹ 20,000 debited as Nilesh's account is recorded on the debit side of the cash book in the bank column.

(ii) **RTGS (Real Time Gross Settlement)** : This service is also provided by the banks to their customers through electronic mode. This service is provided to the customers of the participating banks in this scheme. This service is used to transfer large amount. As per the present norms, the minimum amount to be remitted is ₹ 2,00,000 to get the benefit of this service. There is no upper ceiling of amount for this service. RTGS charge is paid to the bank by the amount sender. Therefore this charge becomes an expense for the amount sender. The RTGS service window is available from 9:00 am to 4:30 pm from Monday to Friday. On Saturday this service will be available as per norms of respective period. However, banks decide the time duration for this service for their customers. This service is real time basis. This amount is transferred immediately or in maximum 30 minutes from sender's account to the receiver's account. Accounting effects of RTGS facility is the same as that of NEFT facility. The amount of charges debited as RTGS charges or bank charges instead of NEFT charges.

For example, Mahesh has to pay ₹ 3,00,000 to Rajesh. Mahesh sent the amount to Rajesh through RTGS. Mahesh paid ₹ 30 for RTGS charges. Following journal entry will be passed.

In the book of Mahesh :

Rajesh A/c	Dr.	3,00,000
Bank charge A/c	Dr.	30
To bank A/c		3,00,030

[Being ₹ 3,00,000 sent to Ramesh through RTGS and ₹ 30 paid for charges.]

If Mahesh keeps bank columnar cash book then ₹ 3,00,000 deposited in Rajesh's account and RTGS charges ₹ 30 paid are recorded on the credit side of the cash book.

In the books of Rajesh :

Bank A/c	Dr	3,00,000
To Mahesh A/c		3,00,000

[Being ₹ 3,00,000 received through RTGS from Mahesh which is credited in his account.]

If Rajesh keeps bank columnar cash book then ₹ 3,00,000 debited as Mahesh's account is recorded on the debit side of the cash book.

Sales Transactions Through Debit Card and Credit Card :

In present times, volume of cash transactions are decreased remarkably due to various services provided by the banks. Debit card, credit card service and Internet service are playing an important role in various services provided by the banks. For example in case of petrol or diesel sales at pertol pump, clothes purchased at cloth shop or purchased from show room etc. the payments made by the customers through debit card or credit card instead of cash.

Debit Card : A card is issued by the bank to an individual / a firm to withdraw the amount or to make payment from the available balance called debit card.

Credit Card : A card is issued by the banks to an individual / a firm to withdraw or to make payment upto certain limit. This type of card may be issued to the account holder and non account holder.

Under this service, purchase amount is debited in purchaser's account by purchaser's bank and sales amount is credited to the seller's account by seller's bank. There is no charge debited by payment making bank but receiving bank charge some amount as commission and the balance amount is credited in the bank account of the account holder. Now understand the effects of this transaction in three columnar cash book through following illustration.

For example, ₹ 10,000 sales made by Ram Stores which amount is recovered through debit card. Bank of Ram Stores deducted ₹ 30 for commission and the balance amount is credited in the Ram stores account. In the books of Ram Stores, following journal entry will be passed to record the transaction in three columnar cash book.

(1) Bank A/c Dr. 10,000

 To Sales A/c 10,000

[Being the sales of ₹ 10,000 made through debit card.]

(2) Commission A/c Dr. 30

 To Bank A/c 30

[Being the ₹ 30 charged for debit card commission by bank.]

Note : Above information is given to the students for the knowledge of modern trend.

Illustration 7 : From the following transactions, prepare three columnar cash book of Shri Jamnadas for first fortnight of April 2016.

April 1 Opening cash balance ₹ 30,000, bank balance ₹ 8,00,000

3 Goods of ₹ 3,00,000 purchased from Nilesh at 2 % cash discount and amount paid by RTGS. RTGS charges ₹ 30. Bank has debited the amount.

5 Goods of ₹ 1,00,000 sold to Rajesh. He has sent amount through NEFT. Bank has credited the amount.

6 Goods of ₹ 4,00,000 sold to Mahesh at 2 % cash discount. He has sent the amount through RTGS. Bank has credited the amount.

- 7 Insurance premium of ₹ 10,000 paid through NEFT and NEFT charges incurred ₹ 3. Bank has debited the amount in our account.
- 9 Salary of ₹ 15,000 paid in cash.
- 10 Cash sales ₹ 30,000.
- 11 ₹ 10,000 withdrawn from bank for personal expenses.
- 12 ₹ 12,000 paid to Ramesh towards payable amount.
- 13 Raman has paid ₹ 22,000 through NEFT towards our receivable amount. Bank has credited the amount.
- 14 Rent paid ₹ 5000.
- 15 Bank has credited ₹ 3000 of dividend.

Ans. : Three Columnar Cash Book of Shri Jamnadas for First Fortnight of April, 2016

	Dr.							Cr.					
Date	Receipts	Re. No.	L. F.	Dis. (₹)	Cash (₹)	Bank (₹)	Date	Payments	V. No.	L. F.	Dis. (₹)	Cash (₹)	Bank (₹)
2016							2016						
April 1	To Balance b/f			—	30,000	8,00,000	April 3	By Purchase A/c			6000	—	2,94,000
5	To Sales A/c			—	—	1,00,000	3	By RTGS charge A/c			—	—	30
6	To Sales A/c			8000	—	3,92,000	7	By Ins. Pre. A/c			—	—	10,000
10	To Sales A/c			—	30,000	—	7	By NEFT charge A/c			—	—	3
13	To Raman A/c			—	—	22,000	9	By Salary A/c			—	15,000	—
15	To Dividend A/c			—	—	3000	11	By Drawings A/c			—	—	10,000
							12	By Ramesh A/c			—	12,000	—
							14	By Rent A/c			—	5000	—
							15	By Balance c/f			—	28,000	10,02,967
				8000	60,000	13,17,000					6000	60,000	13,17,000

6. Bank Book

When the trader keeps more than one account in a bank or keeps accounts in more than one bank, Bank book is maintained to record the bank transactions easily. For example, a trader might keep a savings and a current account in Bank of Baroda or he might keep one account in Bank of Baroda, second in State Bank of India and third in Bank of India.

- In such a situation, Bank book is maintained to facilitate easy recording of the transactions with the bank.
- Various columns are kept in the bank book, same as the accounts in the banks.
If various accounts are kept in one bank, then separate columns for such accounts are maintained and if accounts are kept in various banks, then bankwise separate columns are kept in the bank book.
- The form and structure of the bank book is exactly like the cash book.

Advantages of Bank Book :

- (1) The transactions with the banks can be easily recorded, especially, when the volume of transactions through the banks is more.
- (2) At any given point of time, the bank balance of various bank accounts can be known e.g. Every evening, the bank balance of various bank accounts can be known.
- (3) Reconciliation of bank book and pass book can be easily made and if there is any error, it can be rectified immediately.
- (4) Constant check on the transactions with the bank can be kept, so that while issuing the cheque for making any payment or withdrawing money from the bank, the position of the bank balance (extent of balance or overdraft utilized) can be known.

Illustration 8 : From the following transactions, prepare State Bank of India (SBI) and Bank of India (BOI) columnar Bank book in the books of Mahipatsingh.

2015

- | | |
|----------|---|
| August 1 | Opening bank overdraft (SBI) ₹ 6000, Bank balance (BOI) ₹ 4000. |
| 4 | Goods of ₹ 4000 sold, against that a cheque received, which is deposited in SBI account. |
| 5 | Goods of ₹ 6000 purchased, against that a cheque of ₹ 2000 of BOI is issued and SBI cheque of ₹ 4000 is issued. |
| 7 | Cheque of SBI of ₹ 1400 issued for salary. |
| 11 | Bank interest ₹ 500 and dividend ₹ 2500 collected by SBI and credited in the account. |
| 13 | A cheque of ₹ 7000 received from Anuj towards the payment of an old debt which was deposited in BOI. |
| 18 | Cheque of ₹ 3000 issued from BOI account and deposited in the SBI account. |
| 23 | Goods of ₹ 2500 purchased for which a cheque of full amount is issued from BOI account. |
| 26 | Machinery of ₹ 6000 purchased, for which a cheque of 50 % amount from SBI account and for the remaining amount cheque is issued from BOI account. |

Bank Book of Shri Mahipatsingh for August, 2015

Dr.

Cr.

Date	Particular (Receipts)	Re. No.	L. F.	SBI Amt. (₹)	BOI Amt. (₹)	Date	Particular (Payments)	Vo. No. i.	L. F.	SBI Amt. (₹)	BOI Amt. (₹)
2015						2015					
Aug.1	To Balance b/f			—	4000	Aug.1	By Balance b/f			6000	—
4	To Sales A/c			4000	—	5	By Purchase A/c			4000	2000
11	To Bank int. A/c			500	—	7	By Salary A/c			1400	—
11	To Dividend A/c			2500	—	18	By SBI A/c			—	3000
13	To Anuj A/c			—	7000	23	By Purchase A/c			—	2500
18	To BOI A/c			3000	—	26	By Machinery A/c			3000	3000
30	To Balance c/f			4400	—	30	By Balance b/f			—	500
				14,400	11,000					14,400	11,000
2015						2015					
Sept.						Sept.					
1	To Balance b/f			—	500	1	By Balance b/f			4400	—

7. Petty Cash Book

“The book kept for keeping a record for the payment of small expenses is known as Petty Cash Book.”

When the volume of cash and bank transactions are more in respect of any trader, concern or unit, then generally, to help main (chief) cashier and to keep him free from making payment and recording petty or small expenses, assistant (petty) cashier is employed. The main job of petty cashier is to pay and keep a detailed record of the petty expenses. Petty cashier is given the responsibility for the same by the main cashier and the required amount for the same is received from the main cashier. Normally petty cashier is given the responsibility of the payment and the recording of expenses like postage expenses, tea and refreshment expenses, stationery expenses, freight, wages etc. The book (cash book) kept by petty cashier for keeping a record for the payment of each expense is known as petty cash book.

Petty cashier prepares the petty cash book and pays the specific expenses. So that the information of various types of expenses (and total amount) paid by the petty cashier is available. This facilitates work division and control on the cash transactions.

8. Types of Petty Cash Book

Petty cash book can be prepared in two ways : (A) Simple or columnar petty cash book (B) Petty cash book on Imprest system.

(A) Simple Petty Cash Book : In this type of petty cash book, the petty cashier is given a fixed amount in the beginning. At the end of a given period, the main cashier gives more cash, if required. As and when the expenses are paid, they are recorded in the petty cash book. For example, in the beginning ₹ 1000 is given to the petty cashier and if after the payment made by the petty cashier he has the balance of ₹ 50 and if more cash is required to pay other expenses, then necessary amount is given by the main cashier on the estimated basis.

When any such expense is paid, then it is recorded in petty cash book in a specific column for different expenses, which can be seen in the following specimen (format) of petty cash book.

Format of Petty Cash Book

Receipt (₹)	Date	Particulars	Vou- cher No.	Total Amt. Paid (₹)	Particulars of Various Expenses					Personal L. F., in the Account in the ledger (₹)
					Carri- age (₹)	Post- age (₹)	Stati- onery (₹)	Tea & Refre- shment (₹)	Other Misc. Exp. (₹)	

Particulars of Petty Cash Book :

- **Receipt** : In this column, the opening cash balance and amount received from the main cashier would be recorded.
- **Date** : The date on which, cash is received or expense is paid is recorded here.
- **Particulars** : The particulars of expense paid is recorded here and if the amount is received from the main cashier, it is credited to main cashier account.
- **Voucher No.** : The number of the voucher prepared while making payment of expense or the number of the receipt received is recorded here.
- **Total Amount** : If more than one expenses are paid, then the total of expenses paid on a particular date, is recorded in this total amount column.
- **Particulars of Various Expenses** : Separate columns are kept for various specified expenses to be paid by the petty cashier. As seen in the above form of petty cash book, separate columns are kept for carriage, postage, stationery, tea and refreshments and other misc. expenses. When the given expenses is paid, it is recorded in the respective column at that time in the petty cash book.
- **L.F. No.** : The page number on which the ledger account of the expense paid is opened in the ledger is shown here. If required, the ledger folio number of the personal ledger account is also shown here.
- **Personal Account in the Ledger** : When the transaction takes place with any person, it is recorded in this column. For example, if some amount is given as advance salary to any employee, it is recorded in this column of the petty cash book.

Illustration 9 : From the following transactions, prepare petty cash book of Shri Bharatbhai.

- 2015 Sept. 1 Opening cash balance (with petty cashier) ₹ 3500.
- 1 Amount received from main cashier ₹ 1500.
 - 3 ₹ 1200 paid for stationery.
 - 4 ₹ 800 paid for sundry wages.
 - 5 ₹ 100 paid for carriage.
 - 7 ₹ 200 paid for tea and refreshments.
 - 8 ₹ 250 paid for postage and courier expenses.
 - 10 ₹ 1200 paid to Tushar towards advance salary.
 - 11 ₹ 150 paid for carriage.
 - 12 ₹ 180 paid for wages and ₹ 170 paid for postal stamps.
 - 13 ₹ 150 paid for tea-refreshment expenses.
 - 14 ₹ 150 paid for carriage.
 - 15 Other misc. expenses amounted to ₹ 100.

Ans.

Petty Cash Book of Shri Bharatbhai

Rece- ipts (₹)	Date	Particulars	Vo. No.	Total Amt. Paid (₹)	Particulars of Various Expenses							Person- al A/c in the Ledger
					Wages (₹)	Tea- Refre- shment (₹)	Stati- onery (₹)	Post- age (₹)	Carri- age (₹)	Other Misc. Exp. (₹)	L. F.	
3500 1500	2015 Sep.1	To Opening bal.										
		To Chief cashier A/c										
		1 To Chief cashier A/c	1									
		3 By Stat. exp. A/c	3	1200	—	—	1200	—	—	—	—	—
		4 By Sun. wages A/c	4	800	800	—	—	—	—	—	—	—
		5 By Carri. exp. A/c	5	100	—	—	—	—	100	—	—	—
		7 By Tea-refreshment exp. A/c	7	200	—	200	—	—	—	—	—	—
		8 By Postage exp.A/c	8	250	—	—	—	250	—	—	—	—
		10 By Tushar A/c	10	1200	—	—	—	—	—	—	—	1200
		11 By Carri. exp.A/c	11	150	—	—	—	—	150	—	—	—
		12 By Wages & postal stamp exp. A/c	12	350	180	—	—	170	—	—	—	—
		13 By Tea-refreshment exp. A/c	13	150	—	150	—	—	—	—	—	—
		14 By Carri. exp.A/c	14	150	—	—	—	—	150	—	—	—
		15 By Misc. exp. A/c	15	100	—	—	—	—	—	100	—	—
5000	15	By Balance c/f		4650	980	350	1200	420	400	100	—	1200
					350							
					5000							
350	2015 16	To Balance b/f										

(B) Petty Cash Book on Imprest System : In this type of petty cash book, a fixed amount is given at the beginning of the fixed period (for example every month or fortnight) by the chief cashier to the petty cashier. Petty cashier makes the payment for various expenses from the amount so received and keeps the record of such expenses. At the end of the fixed period, the petty cashier gives the details of expenses made by him to the main cashier. The main cashier provides cash equal to the amount spent by the petty cashier at the beginning of the next period, so that again the pre-decided fixed balance remains with the petty cashier at the beginning of the next period. In this type of system a fixed amount is maintained at the beginning of each period and so it is known as imprest system of petty cash book.

For example, illustration 9, if the petty cash book is maintained as per imprest petty cash book system, then it means that a cash imprest of ₹ 5000 is required to be maintained, because on 1st September, the petty cash balance is ₹ 3500 and ₹ 1500 is given to petty cashier by chief cashier. The petty cashier has paid expenses of ₹ 4650 upto Dt. 15-9-2015 and cash balance is ₹ 350 as on Dt. 15-9-15. Therefore, at the beginning of the new period, i.e. Dt. 16-9-2015 ₹ 350 will be recorded as balance brought forward and the chief cashier will give ₹ 4650 (amount spent by the petty cashier between Dt. 1-9-15 to Dt. 15-9-15) to the petty cashier. Thus, the petty cashier will have petty cash balance of ₹ 5000 at the beginning of the new period, i.e. Dt. 16-9-2015.

Illustration 10 : The following information has been obtained in respect of the petty cash book maintained as per petty cash book on imprest system for the month ending on Dt. 31-3-2015. From this information pass journal entries as chief cashier :

Carriage ₹ 100; misc. expenses ₹ 50; Tea-refreshment expenses ₹ 50; stationery expenses ₹ 90 and postage expenses ₹ 60.

Ans. :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Carriage A/c Misc. expenses Tea-refreshment expenses A/c Stationery expenses A/c Postage expenses A/c To Petty Cashier A/c [Being the particulars of expenses paid as per petty cash book.]	Dr	100 50 50 90 60 350	
1-4-2015	Petty Cashier A/c To Cash A/c [Being cash given to petty cashier.]	Dr	350	350

Illustration 11 : From the following transactions, prepare petty cash book of Shri Darshanbhai on imprest system.

- March, 2015 1 Cash received from chief cashier ₹ 4000.
 3 ₹ 120 paid for carriage.
 5 ₹ 130 paid for misc. expenses.
 7 ₹ 500 paid to Arpit as advance salary.
 10 ₹ 100 paid for postage expenses.
 12 ₹ 250 paid for printing of Bill-book.
 15 ₹ 100 paid for Tea-refreshment and ₹ 100 paid for stationery expenses.
 18 ₹ 100 paid for misc. expenses.

23 ₹ 100 paid for carriage and ₹ 150 paid for stationery.

28 ₹ 50 paid for postal stamps.

29 ₹ 120 paid for carriage and ₹ 80 for Tea-refreshments.

The petty cashier is given cash at the beginning and end of the month.

Ans. :

Petty Cash Book of Shri Darshanbhai for March, 2015

Rece- ipt (₹)	Date	Particulars	V. No.	Total Paid Amt. (₹)	Particulars of Various Expenses					L. F.	Perso- nal A/c in the Ledger
					Postage (₹)	Stati- onary (₹)	Tea- Refre. (₹)	Carri- age (₹)	Other misc. exp. (₹)		
4000	2015 March	To Chief cashier A/c By Carri. exp.A/c By Misc. exp.A/c By Arpit A/c By Postage exp. A/c By Stationery exp. A/c (Bill-book printing) By Tea-refresh- ment and station- ery exp. A/c By Misc.exp. A/c By Carriage and stationery exp.A/c By Postage exp. A/c By Carriage and Tea-refreshment exp. A/c			—	—	—	120	—	—	—
					—	—	—	—	—	130	—
					—	—	—	—	—	—	500
					100	—	—	—	—	—	—
					250	—	250	—	—	—	—
					200	—	100	100	—	—	—
					100	—	—	—	—	100	—
					250	—	150	—	100	—	—
					50	—	—	—	—	—	—
					200	—	—	80	120	—	—
					1900	150	500	180	340	230	—
					2100						500
4000	31	By Balance c/f		2100							
				4000							
2100	April	By Balance b/f									
1900	1	To chief cashier									

Additional Illustrations of Three Columnar Cash Book :

Illustration 12 : From the following transactions, prepare three columnar cash of book of Smt. Mittalben.

July, 2015 1 Opening cash balance ₹ 7000

Bank overdraft ₹ 4000

2 Goods of ₹ 4000 sold to Khushali. A cheque is received from her which is deposited in the bank.

4 Goods of ₹ 8000 sold to Yesha at 10 % cash discount. Half of the amount is received in cash and remaining amount is received by cheque which is deposited in the bank.

- 6 Goods of ₹ 3000 purchased in cash from Dipen at 10 % cash discount.
 7 ₹ 1000 deposited in the bank.
 9 ₹ 800 paid to Gopi for salary by cheque.
 11 Stationery of ₹ 300 purchased from Suresh Stationery Mart and the amount is paid by cheque.
 14 Dipak paid ₹ 5900 by cash towards total debt of ₹ 6005.
 17 Cheque of ₹ 8000 issued to Paresh towards full settlement of account of ₹ 8080.
 20 Rent of ₹ 3000 paid by cash.
 24 ₹ 2000 withdrawn from the business for personal use.
 28 Postage expenses of ₹ 200 paid by cash.
 29 Paid cash of ₹ 600 for wages.
 31 After keeping cash on hand of ₹ 2000, remaining amount is deposited in the bank.

Ans. :

Cash Book of Shri Mittalben for July, 2015

Date	Particulars (Receipts)	Re. No.	L. F.	Dis. Allo. (₹)	Cash Amt. (₹)	Bank Amt. (₹)	Date	Particulars (Payments)	V. No.	L. F.	Dis. Rec. (₹)	Cash Amt. (₹)	Bank Amt. (₹)	Cr.
2015 July 1	To Balance b/f			—	7000	—	2015 July 1	By Balance b/f (O.D.)			—	—	4000	
2	To Sales A/c			—	—	4000	6	By Purchase A/c	300		2700	—		
4	To Sales A/c			800	3600	3600	7	By Bank A/c	C		1000	—		
7	To Cash A/c		C	—	—	1000	9	By Salary A/c			—	—	800	
14	To Dipak A/c			105	5900	—	11	By Stationery exp. A/c			—	—	300	
31	To Cash A/c		C	—	—	5000	17	By Paresh A/c			80	—	8000	
							20	By Rent A/c			—	3000	—	
							24	By Drawings A/c			—	2000	—	
							28	By Postage exp. A/c			—	200	—	
							29	By Wages A/c			—	600	—	
							31	By Bank A/c	C		—	5000	—	
							31	By Balance c/f			—	2000	500	
				905	16,500	13,600					380	16,500	13,600	
2015 Aug.1	To Balance b/f				2000	500								

Note : (1) Transactions dated 7 and 31, effect both cash and bank accounts - contra transactions.

(2) Total discount allowed ₹ 905 which will be posted on the debit side of discount allowed account in the ledger and discount received ₹ 380 which will be posted on the credit side of discount received A/c in the ledger.

Illustration 13 : From the following transactions, prepare three columnars cash book in the book of Shri Krunal.

- Aug. 2015 1 Opening cash balance ₹ 3000; Bank balance ₹ 6000
 2 Goods of ₹ 10,000 sold to Nilesh at 10 % trade discount. Amount is received by cheque, which is deposited in the bank.
 7 Cheque issued by Nilesh is dishonoured.
 9 Receiver of Nilesh paid the dividend of 50 paise against one rupee by cheque.
 10 Goods of ₹ 6000 sold to Bhikhubhai for cash at 10 % cash discount.
 13 Goods of ₹ 5000 purchased from Chetna at 10 % cash discount. Half of the amount is paid by cheque and remaining amount is paid in cash.
 15 Bank has collected a dividend of ₹ 1000 and credited in our account.
 17 Bank has credited ₹ 100 towards bank interest in our account.
 24 Advertisement expense of ₹ 3000 paid by cash.
 26 ₹ 1000 paid from business for 'Satyanarayan Katha' at home.
 27 Furniture of ₹ 3000 purchased for home, the amount is paid by cheque.
 28 A cheque of ₹ 3000 is issued to Girish in full settlement of account of ₹ 3090.
 29 Pravin has paid by cheque ₹ 2500 in full settlement of ₹ 2575.
 31 After keeping cash on hand of ₹ 500, remaining amount is deposited in the bank.

Ans. :

Cash Book of Shri Krunal for August, 2015

Dr.											Cr.		
Date	Particulars (Receipts)	Re. No.	L. F.	Dis. Amt. (₹)	Cash Amt. (₹)	Bank Amt. (₹)	Date	Particulars (Payments)	V. No.	L. F.	Dis. Amt. (₹)	Cash Amt. (₹)	Bank Amt. (₹)
2015 Aug.							2015 Aug.						
1	To Balance b/f				3000	6000	7	By Nilesh A/c			—	—	9000
2	To Sales A/c				—	9000	13	By Purchase A/c		500	2250	2250	
9	To Nilesh A/c (Being the amt. paid by receiver for dividend of 50 paise by cheque)				—	4500	24	By Advertise- ment exp. A/c		—	3000	—	
10	To Sales A/c			600	5400	—	26	By Drawings A/c		—	1000	—	
15	To Dividend A/c			—	—	1000	27	By Drawings A/c		—	—	3000	
17	To Bank interest A/c			—	—	100	28	By Girish A/c		90	—	3000	
29	To Pravin A/c			75	—	2500	31	By Bank A/c		—	1650	—	
31	To Cash A/c	C	—	—	1650		31	By Balance c/f		—	500	7500	
				675	8400	24,750				590	8400	24,750	
Sep.1	To Balance b/f			—	500	7500							

Exercise

1. Select the correct answer for each question :

2. Answer the following questions in two-three sentences :

- (1) Explain the meaning of cash book.
 - (2) What is bank overdraft ?
 - (3) What does balance of bank account indicate ?
 - (4) Explain the meaning of petty cash book.
 - (5) Explain the full form of NEFT and RTGS.
 - (6) Explain the importance of cash book in short.
 - (7) Explain - Contra transactions.
 - (8) Explain Bank Book with illustrations.
 - (9) Explain the meaning of petty cash book on imprest system.

3. Record the following transactions in the cash book of Prapti :

2015

- | | | |
|------|---|---|
| June | 1 | Opening cash balance ₹ 10,000 |
| | 2 | Cash sales ₹ 3000 |
| | 3 | Cash of ₹ 2000 brought in the business, as more funds are required. |
| | 5 | Cash purchase ₹ 6000 |
| | 7 | Salary of ₹ 1000 and brokerage of ₹ 1500 paid by cash. |
| | 9 | Goods of ₹ 5000 purchased from Drona by cash. |

- 11 Goods of ₹ 6000 sold to Mansi for cash.
- 19 ₹ 3000 paid to Nairuti for goods purchased in the previous month.
- 23 Kinjal paid ₹ 1500 for goods sold to her in the previous month.
- 25 Old cycle of ₹ 600 is purchased for business.
- 28 ₹ 1000 received towards commission.
- 30 Machine of ₹ 3500 purchased for business.

4. From the following transactions, prepare cash and discount columnar cash book of Javlit :

2015

- April 1 Opening cash balance ₹ 5500
- 3 Goods of ₹ 4000 sold at 10 % cash discount.
- 4 Goods of ₹ 3000 sold at 10 % trade discount.
- 5 Cash of ₹ 2000 paid to Arth in full settlement of his account of ₹ 2030.
- 10 Goods of ₹ 4000 purchased at 5 % cash discount.
- 13 Salary of ₹ 1000 and wages of ₹ 600 are paid by cash.
- 15 Commission of ₹ 100 and brokerage of ₹ 900 are received.
- 17 Cash of ₹ 1400 paid to Krishna in full settlement of account of ₹ 1420.
- 18 Goods of ₹ 5000 sold at 10 % trade discount and 5 % cash discount.
- 19 A machine of ₹ 6000 purchased from Ramesh, for which ₹ 2000 paid by cash and it is decided that the remaining amount will be paid after one month.
- 23 As more funds are required in the business, household furniture of ₹ 3000 is sold for ₹ 3500 and out of this ₹ 2500 are brought in the business.
- 27 ₹ 225 paid to Vepari Mahamandal towards annual fees.
- 29 Godown rent ₹ 600 paid by cash and carriage of ₹ 300 paid to Shambhu by cash.

5. From the following transactions, prepare cash and bank columnar cash book of Riddhi :

2015

- May 1 Opening cash balance ₹ 4000, Opening bank balance ₹ 6000
- 2 Goods of ₹ 5000 sold to Monika at 10 % trade discount. Monika issued cheque for the necessary amount, which is immediately deposited in the bank.
- 4 ₹ 2000 paid towards salary and ₹ 100 paid towards brokerage by cash.
- 6 ₹ 3000 withdrawn from the bank for personal use.
- 10 Goods of ₹ 6000 sold to Hiren. Hiren paid ₹ 4000 by cash and remaining amount is paid by cheque, which is deposited in the bank.
- 12 Goods of ₹ 5000 purchased and the amount is paid by cheque.
- 17 Shop rent of ₹ 2000 paid by cheque.
- 21 Goods of ₹ 4500 purchased in cash at 10 % trade discount.
- 24 Karishma has paid ₹ 2550 by cash towards her debt.
- 26 Atmakalyani has been paid ₹ 1200 towards full settlement of an old account.

- 29 Jhanvi issued a cheque of ₹ 3000 which is immediately deposited in the bank.
 30 ₹ 1000 cash deposited in the bank.

6. From the following transactions, prepare cash and bank columnar cash book in the books of Bhagwati Traders :

2015

- July 1 Opening cash balance ₹ 5000, Opening bank overdraft ₹ 1500
 3 Goods of ₹ 8000 sold to Janki at 10 % trade discount for cash.
 5 ₹ 3000 deposited in the bank.
 6 Goods of ₹ 2000 sold to Jinal. Jinal paid the amount immediately by cheque which is deposited in the bank.
 8 Furniture of ₹ 2000 purchased and the amount is immediately paid by cheque.
 9 Cheque of ₹ 3000 received from Bhargavi, which is endorsed in favour of Parth.
 13 Goods of ₹ 6000 sold to Harshit. Harshit has paid half of the amount by cash and remaining amount is paid by cheque, which is immediately deposited in the bank.
 15 Goods of ₹ 6000 purchased from Divyesh and amount is immediately paid by cash.
 18 Salary of ₹ 1000 and brokerage of ₹ 500 are paid by cash.
 22 ₹ 1000 withdrawn from the bank for the payment of the electricity bill.
 23 Electricity bill paid.
 24 Goods of ₹ 1400 sold to Smith, for which he issued a cheque of the necessary amount, which is immediately deposited in the bank.
 27 Bank informed that cheque issued by Smith is dishonoured.
 28 Bank debited ₹ 100 to our account for interest on overdraft and it is informed to us through bank advice.

7. From the following transactions, prepare bank and discount columnar cash book of Akhilesh :

2015

- July 1 Opening bank overdraft ₹ 13,500.
 2 Goods of ₹ 5000 sold to Premal, against which he issued a cheque of ₹ 4950 in full settlement of account, which is immediately deposited in the bank.
 8 Goods of ₹ 6000 purchased and a cheque is issued for the necessary amount.
 10 Cheque of ₹ 5000 is received from Gitaben in full settlement of account of ₹ 5060.
 15 Cheque of ₹ 7000 issued to Aradhana in full settlement of the debt of ₹ 7015.
 20 Goods of ₹ 16,000 sold to Kajol, for which she issued a cheque of the necessary amount, which is deposited in the bank.
 25 Cash of ₹ 2000 deposited in the bank.
 29 Cheque issued by Kajol is dishonoured.

8. From the following transactions, prepare three columnar cash book of Namrata :

2015

- August 1 Opening cash balance ₹ 7000; opening bank balance ₹ 6000

- 3 Cash purchase ₹ 6000; cash sales ₹ 7000
- 5 ₹ 3000 is deposited in the bank.
- 6 As more funds are required in the business, a loan of ₹ 5000 is taken from Prabhu bearing 8 % interest rate.
- 8 Goods of ₹ 3000 sold to Mansi at 10 % cash discount, Mansi issued a cheque of the necessary amount, which is deposited in the bank.
- 10 Goods of ₹ 7000 purchased from Drvij and 50 % of the amount is immediately paid by cash.
- 12 Salary of ₹ 3000, wages of ₹ 500 and stationery of ₹ 200 are paid by cheque.
- 14 Commission of ₹ 1000 and brokerage of ₹ 500 received by cash.
- 16 Bank credited interest ₹ 100 on balance in Namrata's bank.
- 17 ₹ 2000 withdrawn from the bank for the payment of the electricity bill.
- 20 ₹ 1000 paid for the electricity bill and remaining ₹ 1000 is taken for personal use from the business.
- 22 Goods of ₹ 5000 sold to Parth, he issued a cheque of the necessary amount after deducting cash discount at the rate of 10 %, which is immediately deposited in the bank.
- 25 Cheque issued by Parth is dishonoured.
- 28 Cheque of ₹ 6050 is issued to Bansri towards an old debt. Total debt was of ₹ 6100.
- 29 Gopi has paid ₹ 2000 by cash in full settlement of the debt ₹ 2040.
- 31 After keeping cash on hand of ₹ 5000, remaining amount is deposited in the bank.

9. From the following transactions, prepare bank book in the books of Kalpana :

2015

- Sept. 1 Opening bank balance (State Bank of India - SBI) ₹ 5000,
Opening bank overdraft (Bank of Baroda - BOB) ₹ 4000
- 2 Goods of ₹ 8000 purchased, for which cheque of ₹ 3000 on SBI and for the remaining amount, a cheque of BOB is issued.
- 4 Goods of ₹ 7000 sold to Jeni, Jeni issued a cheque of the necessary amount, which is deposited in the BOB account.
- 6 Salary of ₹ 3000 paid by cheque of BOB.
- 8 SBI credited ₹ 700 for interest and ₹ 2000 for dividend.
- 10 ₹ 1500 withdrawn from SBI for personal use.
- 12 Crossed cheque of ₹ 15,000 received from Jinal towards her due, which is deposited in the BOB account.
- 20 Cheque of ₹ 2000 issued from SBI bank account and is deposited in the bank account of BOB.
- 22 Goods of ₹ 4000 sold at 10 % cash discount, for which cheque is received, which is deposited in the BOB account.

10. From the following transactions, prepare petty cash book of Jigar :

2015

- Oct. 1 Opening petty cash balance of ₹ 4000.
1 Amount received from the chief cashier ₹ 1000.
3 Wages of ₹ 600 and carriage of ₹ 400 are paid.
5 ₹ 700 paid for postage and postal stamps expenses.
8 ₹ 200 paid for wages.
10 ₹ 400 paid for stationery expenses.
12 ₹ 150 paid for Tea and refreshment expenses.
14 ₹ 500 received from the chief cashier.
15 Misc. expenses paid ₹ 500.
17 ₹ 400 given to Mishal for the payment of misc. expenses.

11. From the following transactions, prepare petty cash book of Shri Prince as per petty imprest system :

2015

- Nov. 1 Cash received from the chief cashier ₹ 5000.
2 ₹ 500 for printing charges of bill book and ₹ 350 for other stationery items are paid.
5 Postage expenses paid ₹ 200.
7 Carriage ₹ 50 and wages of ₹ 50 paid.
10 ₹ 100 is paid to Brij towards salary.
12 ₹ 200 is given to Sandip for the payment of misc. expenses.
18 Carriage of ₹ 50 and stationery expenses of ₹ 300 are paid.
20 ₹ 100 paid for misc. expenses.
24 ₹ 80 paid for postal stamps.
28 ₹ 350 for wages and ₹ 70 for misc. expenses are paid

12. The following information has been obtained in respect of the petty cash book maintained as per petty cash book on imprest system for the month ending on dt. 31-12-2015. From this information pass journal entries by main cashier.

Stationery expenses	₹ 500
Carriage	₹ 90
Wages	₹ 980
Tea & Refreshment	₹ 200
Misc. expenses	₹ 300

• Special exercises for practice of three columnar cash book :

13. From the following transactions, prepare three columnar cash book of Shri Mahendrabhai Bhatt :

2016

- Jan. 1 Opening cash balance ₹ 3500; opening bank overdraft ₹ 6000
2 Goods of ₹ 2000 sold to Parag in cash at 10 % cash discount.

- 4 Goods of ₹ 4000 purchased from Dipak at 10 % trade discount and 5 % cash discount and the amount is paid by cheque.
- 6 Goods of ₹ 7000 sold to Ami. Ami paid 40 % amount by cash and the remaining amount is paid by cheque. Cheque is deposited in the bank.
- 8 Cheque of ₹ 6000 is received, which is issued by Gaurang towards the payment of his old debt of ₹ 6050, which is deposited in the bank.
- 12 Salary of ₹ 2000 paid by NEFT and ₹ 5 paid for NEFT charge.
15. ₹ 1500 paid for stationery by cheque.
- 17 ₹ 4100 deposited in the bank.
- 20 As more funds are required in the business, personal vehicle of ₹ 10,000 sold for ₹ 8000 and ₹ 7000 is brought in the business.
- 23 ₹ 6000 withdrawn from the bank for the payment of school fees of his daughter.
- 25 ₹ 500 paid for the shop rent.
- 28 Bank debited ₹ 30 bank commission and ₹ 20 for SMS charges.
- 29 ₹ 5000 deposited in the bank account.

14. From the following transactions, prepare three columnar cash book of Sonamben :

2016

- Feb. 1 Cash balance ₹ 16,000
Bank balance ₹ 18,000
- 4 Goods of ₹ 8000 sold to Shri Ashokbhai. He has paid the amount in the bank through NEFT.
- 6 Goods of ₹ 10,000 sold to Hetal in cash at 10 % cash discount.
- 9 ₹ 3000 deposited in the bank.
- 11 Life insurance premium of ₹ 2000 is paid by NEFT and bank debited ₹ 3 for charges.
- 13 Salary of ₹ 3000 paid.
- 14 Wages of ₹ 2000 paid.
- 17 Cash purchase ₹ 1000, cash sales ₹ 3000
- 19 Bank credited ₹ 2500 for dividend through NEFT.
- 21 Commission of ₹ 1200 paid.
- 23 Fire insurance premium of ₹ 2500 paid by NEFT and bank debited ₹ 2 for charges.
- 25 Bank credited Bank-interest of ₹ 200 and commission of ₹ 200 in our account through NEFT.
- 28 Bank has paid the vehicle loan installment of ₹ 12,000 on behalf of us through NEFT and bank debited ₹ 3 for charges.

15. From the following transactions, prepare three columnar cash book of Mansi :

2015

- Sept. 1 Cash balance ₹ 10,000, bank overdraft ₹ 5000
- 2 Goods of ₹ 5000 purchased for cash from Keval at 10 % trade discount and 2 % cash discount.

- 6 ₹ 8000 is received through NEFT and ₹ 1900 cash received from Jyoti in full settlement of account of ₹ 10,000.
- 10 Salary of ₹ 500 paid to Vinod through NEFT and ₹ 100 paid for rent by cash and bank debited ₹ 3 for charges.
- 15 Goods of ₹ 3000 sold to Kashmireben for cash.
- 20 ₹ 500 withdrawn for office expenses and ₹ 350 withdrawn for personal use from the bank.
- 25 Machine of ₹ 3000 purchased and machine installation wages ₹ 250 paid.
- 30 After keeping cash on hand of ₹ 1000, the balance amount is deposited in the bank.

16. Record the following transactions in two columnar cash book of Shri Bhupinder for April, 2016 :

2016

- April 1 Opening cash balance ₹ 55,000, bank balance ₹ 5,50,000
- 3 ₹ 5500 is given in donation.
- 3 ₹ 49,500 paid to Mahesh through NEFT for his receivables. NEFT charge is ₹ 5. Bank debited the amount.
- 5 Darshan paid ₹ 66,000 through NEFT towards his debt. Bank credited the amount. Darshan paid NEFT charges ₹ 5.
- 6 Rent of ₹ 14,300 is paid by cash.
- 8 Bank credited ₹ 22,000 for commission.
- 10 Cash purchase ₹ 2,75,000, amount paid through RTGS. RTGS charge is ₹ 30.
- 12 Cash sales ₹ 3,85,000, amount is received through RTGS.
- 13 ₹ 22,000 paid to Kalpana towards her receivables through NEFT and NEFT charge is ₹ 5.
- 20 Cash sales ₹ 44,000.
- 24 Cash purchase ₹ 27,500.
- 25 ₹ 49,500 sent for daughter's medical college fees through NEFT and debited the amount including ₹ 5 for NEFT charge.
- 30 Bank credited ₹ 33,000 of dividend and Life Insurance premium paid ₹ 11,000 through NEFT.



Journal Proper

- | | |
|--|----------------------------|
| 1. Introduction | 5. Closing Entries |
| 2. Meaning of Journal Proper | 6. Adjustment Entries |
| 3. Transactions Recorded in Journal Proper | 7. Rectification of Errors |
| 4. Transactions of Inter Accounts Transfer | — Exercise |

1. Introduction

We studied different subsidiary books in the chapter on Subsidiary Books. The Journal Proper is also a type of subsidiary book. Journal proper is kept in order to record those transactions which cannot be recorded in purchase book, sales book, purchase returns book, sales returns book, cash book, petty cash book, bills receivable book or bills payable book. For example furniture sold to Parthiv for ₹ 5000. This transaction is of credit sale of furniture, which is not recorded in any of the subsidiary book and hence such business transactions are recorded in journal proper, which is a part of subsidiary books.

2. Meaning of Journal Proper

The subsidiary book in which the transactions which are not recorded in any other subsidiary book are recorded is known as journal proper.

Journal proper is used for very limited number of transactions. The format of the Journal Proper is the same as the format prepared to record the journal entries. It has five columns viz. date, particulars, L.F., debit amount and credit amount.

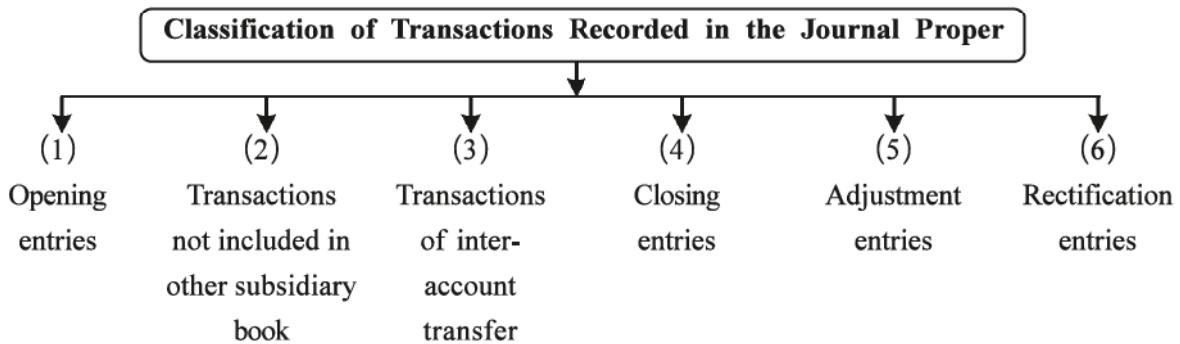
Journal Proper of Shri

Date	Particulars	L.F.	Debit (₹)	Credit (₹)

3. Transactions Recorded in Journal Proper

We have seen that the transactions which cannot be recorded in any other subsidiary books are recorded in the Journal Proper.

The different types of transactions recorded in Journal Proper are given below :



(1) Opening Entries :

When a person starts his business, he brings in personal assets into the business, which is recorded in the Journal Proper.

E.g. while starting the business, Virendra brought cash ₹ 15,000, furniture of ₹ 10,000, stock of goods of ₹ 8000 and personal debtors of ₹ 3000 and personal creditors of ₹ 5000 into the business.

Journal Proper of Shri Virendra

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Furniture A/c	Dr	10,000	
	Stock of goods A/c	Dr	8000	
	Debtors A/c	Dr	3000	
	To creditors A/c			5000
	To capital A/c			16,000
	[Being furniture of ₹ 10,000, stock of goods of ₹ 8000, debtors of ₹ 3000 and creditors of ₹ 5000 brought as capital on starting business.]			
	Total		21,000	21,000

Note : Cash ₹ 15,000 brought in while starting the business will not be recorded in Journal Proper, as it will be recorded in the cash book.

(2) Transaction Not Included in other Subsidiary Books :

Those transactions which cannot be included in any other subsidiary book are included in the Journal Proper. Such transactions can be divided into three categories :

(A) Credit purchase or credit sale of an asset and profit or loss on its sale :

Transaction of Credit Purchase or Credit Sale of an Asset : When asset is purchased or sold for cash, it is recorded in the cash book, but if the asset is purchased or sold on credit and its profit or loss on sale recorded in the Journal Proper. This cannot be recorded in any other subsidiary book.

E.g. (A) Mehl purchased a furniture of ₹ 20,000 from Vivek Furniture Mart on credit.

(B) Sold an old machine whose book value is ₹ 10,000 to Maulik for ₹ 8000 on credit.

Maulik A/c	Dr	8000
Loss on sale of machine A/c	Dr	2000
To Machine A/c		10,000
(Being machine of ₹ 10,000 sold for ₹ 8000 on credit.)		

(B) Transactions for Which Subsidiary Books are Not Kept : Many times when the proportion of a certain type of transactions is very less, a separate subsidiary book is not kept for them. Such transactions are recorded in the Journal Proper. E.g. All traders do not keep subsidiary books for recording transactions of bills. In such a situation, transactions of bill are recorded in Journal Proper. At times, some traders do not keep Returns Books i.e. Purchase Returns Book and Sales Return Book. In such a situation, transaction of purchase returns or sales returns are recorded in Journal Proper only.

Illustration 1 : Yuvraj does not maintain separate subsidiary books for bills receivable, bills payable, purchase returns and sales returns. Pass entries of the following transactions in the Journal Proper.

- (1) A bill of ₹ 8000 drawn on a debtor Mayur for collection of dues from him, which he accepted and returned it to us.
- (2) We accepted a bill of ₹ 5000 drawn by Ketan against his debt of ₹ 7000, which we accepted and returned to him.
- (3) The bill accepted by Mayur was dishonoured on the maturity date.
- (4) Returned goods of ₹ 4000 to Chetan. These goods were purchased before ten days on three months' credit.
- (5) Pranav returned goods of ₹ 2000, which we had sold on two months' credit.

Journal Proper of Shri Yuvraj

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bills receivable A/c Dr To Mayur's A/c [Being bill of ₹ 8000 accepted by Mayur.]		8000	8000
2	Ketan A/c Dr To Bill payable A/c [Being bill of ₹ 5000 drawn by Ketan, accepted by us.]		5000	5000
3	Mayur's A/c Dr To Bill receivable A/c [Being bill receivable of ₹ 8000 dishonoured by Mayur.]		8000	8000
4	Chetan's A/c Dr To Purchase returns A/c [Being goods of ₹ 4000 returned to Chetan.]		4000	4000
5	Sales return's A/c Dr To Pranav's A/c [Being goods of ₹ 2000 returned by Pranav.]		2000	2000
	Total		27,000	27,000

(C) Special Transactions not Recorded in Other Subsidiary Books : Some special transaction are not recorded in any subsidiary book, so they are recorded in the Journal Proper.

E.g. (1) Goods given in charity (2) Goods given as samples (3) Goods taken for personal use (4) Dishonour of a bill (5) Bad debts (6) Endorsement of bill receivable (7) Loss of goods due to fire, accident, theft, etc. (8) Depreciation.

Illustration 2 : Record the following in the Journal Proper of Shri Amarnath.

2014

- Oct. 1 Gave goods of ₹ 1500 in charity.
 2 Distributed goods of ₹ 3000 as free samples.
 3 Took goods of ₹ 2500 from the business for personal use.
 4 A bill of ₹ 4000 accepted by Priyanka, was dishonoured on the maturity date.
 5 An amount of ₹ 3500 receivable from Naresh cannot be collected from him.
 6 A bill of ₹ 2000 endorsed in favour of Pankaj against debt of ₹ 2050.
 7 Goods of ₹ 5000 were destroyed by fire, for which the insurance company accepted a claim of ₹ 4000.
 8 Purchased a furniture of ₹ 8000 against the goods costing ₹ 7000.

Journal Proper of Shri Amarnath

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2014 Oct.				
1	Charity A/c Dr To Purchase A/c [Being goods of ₹ 1500 given in charity.]		1500	1500
2	Advertisement expense A/c Dr To Purchase A/c [Being goods of ₹ 3000 given as free samples.]		3000 3000	
3	Drawings A/c Dr To Purchase A/c [Being goods of ₹ 2500 withdrawn for personal use.]		2500	2500
4	Priyanka's A/c Dr To Bill receivable A/c [Being Priyankas' bill of ₹ 4000 dishonoured.]		4000	4000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
5	Bad debts A/c To Naresh's A/c [Being bad debts of ₹ 3500.]	Dr	3500	3500
6	Pankaj's A/c To Bills receivable A/c To Discount received A/c [Being bill of ₹ 2000 endorsed to Pankaj.]	Dr	2050	2000 50
7	Insurance company's A/c Loss by fire A/c To Purchase A/c [Being goods of ₹ 5000 destroyed by fire and insurance company accepted a claim of ₹ 4000.]	Dr Dr	4000 1000	5000
8	Furniture A/c To Purchase A/c [Being goods of ₹ 7000 given for purchase of a furniture of ₹ 8000.]	Dr	7000	7000
	Total		28,550	28,550

4. Transactions of Inter Accounts Transfer

Sometimes due to some reasons, the amount is to be transferred from one account to another account either partially or fully, such transfer is recorded in the Journal Proper. In the same way when an account is closed at the end of the year and transferred to another account the transfer entry is passed in Journal Proper.

Let us understand it through the following illustration :

E.g. (A) ₹ 5000 payable to Akash is accepted by Dharati to pay.

Journal Proper :

Akash's A/c	Dr	5000
To Dharati A/c		5000
(Being payable to Akash is accepted by Dharati to pay.)		

(B) At the end of the year, drawings A/c closed by transferring it to Capital A/c in the following manner :

Capital A/c	Dr
To Drawings A/c	
(Being balance of drawings A/c transferred to Capital A/c.)	

5. Closing Entries

Closing entries means entries given at the end of the accounting year to close various accounts. At the end of the accounting year, accounts of incomes, account of expenses, account of goods, etc. are closed and transferred to Trading or Profit and Loss account. These entries for closing various accounts are known as closing entries. All the types of closing entries are recorded in the Journal Proper.

For example, at the end of the year, the balance of purchase account is ₹ 75,000, balance of sales account is ₹ 85,000, carriage inward account is ₹ 2000, balance of salary account is ₹ 20,000 and the balance of dividend account is ₹ 3000. Write closing entries.

The following journal entries will be passed in the Journal Proper :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
Dec. 31	Trading A/c To Purchase A/c [Being purchase A/c closed by ₹ 75,000 and transferred to Trading A/c.]	Dr	75,000	75,000
31	Sales A/c To Trading A/c [Being sales A/c of ₹ 85,000 closed and transferred to Trading A/c.]	Dr	85,000	85,000
31	Trading A/c To Carriage inward A/c [Being carriage inward ₹ 2000 transferred to trading account.]	Dr	2000	2000
31	Profit and Loss A/c To Salary A/c [Being salary A/c ₹ 20,000 closed and transferred to Profit and Loss A/c.]	Dr	20,000	20,000
31	Dividend received A/c To Profit and loss A/c [Being dividend received A/c ₹ 3000 closed and transferred to Profit and Loss A/c.]	Dr	3000	3000
	Total		1,85,000	1,85,000

Note : A detailed explanation of such closing entries is given in the chapter of Final Accounts.

6. Adjustment Entries

At the end of every accounting year, entries are to be passed for certain adjustments so that the true performance and the true financial position of the business can be known e.g. closing stock, unpaid expenses, incomes not received, depreciation etc. A detailed explanation of such adjustment entries is given in the chapter on Final Accounts.

E.g. At the end of the accounting year, there is closing stock of ₹ 20,000, salary ₹ 5000 is unpaid, ₹ 400 is accrued for interest and depreciation ₹ 500 on machinery is to be written off.

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
Dec. 31	Closing stock A/c To Trading A/c [Being adjustment entry for closing stock of ₹ 20,000.]	Dr	20,000	20,000
31	Salary A/c To Unpaid salary A/c [Being adjustment entry for unpaid salary of ₹ 5000.]	Dr	5000	5000
31	Interest accrued A/c To Interest A/c [Being adjustment entry for interest accrued ₹ 400.]	Dr	400	400
31	Depreciation A/c To Machinery A/c [Being depreciation of ₹ 500 on machinery written off.]	Dr	500	500
	Total		25,900	25,900

7. Rectification of Errors

Entries passed to rectify the errors committed while recording economic transactions are called as rectification of errors. Many transactions take place in a business during an accounting year and are recorded in the books of accounts. There are chances of errors being committed while making such records.

For certain types of errors, journal entries are to be passed for rectification and such entries for the rectification of error are recorded in the Journal Proper.

Note : A detailed explanation of such entries for rectification of errors is given in the chapter of Errors and Rectification.

E.g. (A) ₹ 500 paid for salary is debited to office expense account. The rectification entry for this error will be passed as under :

(B) The purchase of machinery of ₹ 2000 is recorded as purchase of goods.

Machine A/c	Dr	2000
To purchase A/c		2000
(Being rectification of purchase of machinery recorded in Purchase A/c)		

Exercise

1. Select appropriate alternative for each question :

2. Explain Journal Proper with illustration.

3. Explain the classifications of the transactions recorded in the Journal Proper.

Practical Examples :

4. Dhrumil Kamani starts business with following assets and liabilities on Dt. 1-1-2015. Write opening Journal Proper.

Cash ₹ 18,000, bank balance ₹ 12,000, furniture ₹ 15,000, stock of goods ₹ 20,000, personal debtors ₹ 5000 and 12 % loan from Mayaben ₹ 10,000.

Note : Record cash and bank balance in cash book.

5. Shri Gujarat Stores does not maintain separate subsidiary books for transactions of bill receivable, bill payable, purchase returns and sales return. Record the following transactions in the Journal Proper :
- (1) Drew a bill of ₹ 8000 on Ramnik which he accepted and returned.
 - (2) Accepted a bill of ₹ 3000 drawn by Vijay and returned to him.
 - (3) Bill receivable of Ramnik endorsed to Ramesh.
 - (4) Goods of ₹ 3000 returned by Paresh to us.
 - (5) Goods of ₹ 1500 returned to Mahendra.
6. Record the following transactions in the Journal Proper of Rakesh :
- (1) Gave goods of ₹ 5000 to Anath Ashram.
 - (2) Distributed goods of ₹ 4000 as free samples.
 - (3) Withdrew goods of ₹ 8000 from the business for the personal use.
 - (4) Purchased furniture of ₹ 3000 by giving goods of ₹ 2800.
 - (5) Goods of ₹ 7000 were destroyed by fire, for which the insurance company accepted a claim of ₹ 5500.
 - (6) An amount of ₹ 2000 is receivable from Nirali, which cannot be received now.
 - (7) Write off depreciation on machinery ₹ 800.
 - (8) Salary for the month of March is unpaid ₹ 7800.
7. Record the following transactions in the Journal Proper of Shri Ekta :
- 2014
- March 1 Brought furniture of ₹ 7000, goods of ₹ 15,000 and machinery of ₹ 20,000 to start the business.
- 2 Scientific calculator of ₹ 2000 and cellular phone of ₹ 25,000 purchased from Kamlesh Traders.
- 3 Fan of ₹ 2500 purchased for household use by giving goods of ₹ 3000.
- 4 Drew a bill of ₹ 8000 on Namrata, which he accepted and returned.
- 5 Bill of Namrata endorsed to Yesha against her debt of ₹ 8050.
- 6 A bill of ₹ 6000 drawn by Bharat accepted by us and returned to him.
- 7 Goods of ₹ 8000 were stolen away from the godown, for which the insurance company accepted a claim of 75 % of the amount.
- 8 An amount of ₹ 8000 is receivable from Nirav and ₹ 8200 is payable to Nalin. The account of Nalin was settled by Nirav accepting to pay ₹ 8000.
- 9 Cash received from Rajendra for bad debt recovered ₹ 2000.
- 10 ₹ 300 is payable to Manoj for interest.
8. Pass journal entries for the following transactions in Journal Proper :
- (1) ₹ 700 received from Renuka is recorded in Bhumika's account.
 - (2) ₹ 1000 received from Updesh for bad debt written off in past, which is credited to Updesh's account.

- (3) ₹ 800 paid to Sharma is debited to Varma's account.
- (4) ₹ 1200 paid for insurance premium is debited to drawings account.
- (5) Old furniture of ₹ 6000 of business sold for ₹ 5800.
9. Pass journal entries for closing the following account :
- | | |
|-----------------------------------|----------|
| (1) Interest expense account | ₹ 1000 |
| (2) Sales return account | ₹ 3000 |
| (3) Purchase return account | ₹ 2000 |
| (4) Interest received account | ₹ 800 |
| (5) Advertisement expense account | ₹ 1500 |
| (6) Salary account | ₹ 4000 |
| (7) Dividend received account | ₹ 700 |
| (8) Purchase account | ₹ 5000 |
| (9) Sales account | ₹ 10,000 |



Ledger-Posting

- | | |
|---------------------------------------|--|
| 1. Introduction | 7. Index of a Ledger |
| 2. Meaning of Ledger | 8. Forms of Ledger |
| 3. What is an Account ? | 9. Process of Posting |
| 4. Specimen of an Account | 10. Classification of Ledger (Subdivision of ledger) |
| 5. Meaning of Posting | 11. Balancing of Account |
| 6. Utility and Advantages of a Ledger | — Exercise |
-

1. Introduction

From the earlier chapters, we have learnt, how to prepare a Journal or Subsidiary book from financial transactions of business. In this chapter, we shall learn how to prepare ledger accounts from a journal and the subsidiary books and also how to find balance in ledger accounts. At the time of preparing accounts in any organisation (business), to prepare different ledger accounts and also to find balance in each accounts is very important.

2. Meaning of Ledger

Accounting is a process of recording financial transactions of a business. The objective of a trader is to get the useful information relating to business from the recorded entries for e.g. details of total purchase during the year, details of sales, types and amount of expenses, types and amount of income, total assets and receivables, total liabilities and payables, profit earned, loss suffered etc. These types of various informations can be known or obtained from a journal or subsidiary books.

In view of the above information, separate accounts are prepared for the specific information (or summary) from the accounting entries. The different types of accounts are prepared in a separate book, which is known as a **Ledger Book**.

3. What is an Account ?

An account means summary showing debit and credit effects of transactions affected during a specified period, related to either individual, goods, assets, incomes or expenses, prepared in a specific format according to the rules of accounting.

While preparing any account, debit or credit effects of different transactions, related to that account are given. Thus, an account is prepared with two sides viz., debit side and credit side.

4. Specimen of an Account

Now, from the specimen of an account given here, we shall understand the account in detail and also see how to prepare the account.

..... Account

Debit (Dr.)

Credit (Cr.)

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)

According to double entry system, left hand side of each account is known as debit side and right hand side as a credit side. As given in above specimen columns are drawn in an account. Each column is explained here under :

(1) **Date** : The date of the transactions which affects the account, is shown in this column. The same date is shown in journal or subsidiary book.

(2) **Particulars** : When we record on the debit side of an account, the name of the account having corresponding credit effect of the same transaction, is written here in this column. Similarly, while recording on the credit side of an account, the name of the account having corresponding debit effect of the same transaction, is written here in this column.

(3) **J.F. (Journal Folio number)** : In journal and subsidiary book, each page is numbered serially. For the effect of the entry which is to be recorded in ledger account, the page number given to the entry in journal or subsidiary books is mentioned in this column. Similarly this ledger page number is recorded in that journal or subsidiary books, whenever that transaction is recorded. Because of this, reconciliation or checking the effect of business (unit) transaction in books of account becomes easy.

(4) **Amount** : In this column, the amount which is shown in journal or subsidiary books for a transaction, the same amount is to be written at the time of effect of this transaction in an account.

5. Meaning of Posting

From journal or subsidiary books a process of recording as per the rules of accounting, either on debit or credit side of an affected account, is known as posting.

6. Utility or Advantages of Ledger

Purpose of accounting is not only limited to recording of monetary receipts and payments. Based on an account only, a trader can have an idea regarding the financial position, as well as profit-loss of a business. On the basis of the summary of accounts, proper decisions regarding business policy can be taken. Necessary and useful information to a trader as well as different summaries can be easily and quickly obtained from the ledger. Thus, fulfillment of main objects of accounting is possible, with the help of ledger only. Therefore ledger is known as **King of Books**.

From journal a trader gets information regarding original transactions and basic information of a business. Therefore, a journal book is known as **original book or primary book**. While, from the ledger, information regarding financial position and profit-loss of a business can be obtained. From the view point of the utility of a ledger it is known as a **main book or a principal book** of accounts.

Ledger becomes useful to get the following information :

- (1) **Capital Ratio** : It gives the information about how much capital is employed in the business.
- (2) **For Assets** : Different types of assets are purchased in the business. It gives the information about the total amount of different assets at the end of the year.
- (3) **Receivables and Payables** : It gives the information about how much is the amount of receivables and payables at the end of the year in a business.

- (4) **For Expenses and Incomes** : It gives the information of different expenses and incomes during the accounting year and also its total and individual amount.
- (5) **Information for Purchases and Sales** : It gives the information for total purchases, total sales, total purchase returns, total sales return and also outflow of goods other than sales during the accounting year.
- (6) **To Prepare a Trial Balance** : It prepares a trial balance, to get the information about balances of all accounts from the ledger.
- (7) **To Prepare a Final Accounts** : It gives the information of the different accounts of a ledger for the preparation of final accounts of a business (unit) at the end of the year.
- (8) **For Policy Making Decisions** : It helps a trader by giving useful and important information from ledgers for the policy making decisions.
- (9) **To Get the Statistical Information** : It gives the useful statistical information from accounts and also points out statistical or principal mistakes.

7. Index of Ledger

All accounts arising from business transactions are maintained in a ledger. There are numerous such accounts. At the time of posting process too much time is wasted to find out, which account is on which page. Therefore, for the sake of convenience, in the beginning of ledger itself, a list of all accounts is maintained, which is known as an index or exponent of a ledger. Such list is prepared alphabetically. Here, each page is serially numbered and therefore, against each account, its page number is shown and because of this, any account can be found from the ledger quickly and easily. e.g.

Name of Account	Ledger Page Number
Anup's A/c	1
Akash's A/c	3
State Bank of India's A/c	56
Telephone expenses A/c	61

8. Forms of Ledger

The form in which a ledger book is to be maintained, depends upon the trader's requirement, capacity to afford the same and business facilities. Following three forms of ledger are in practice :

- (1) Bound book ledger, (2) Loose leaf ledger, (3) Card ledger

(1) **Bound book ledger** : Generally most of the traders, specifically small traders, prefer these types of ledger. This type of ledger is overall less expensive and easy from the view point of preservation. This ledger is in the form of a bound book. In the beginning of it, index is given and thereafter each page is serially numbered. As and when required, new page can't be added in this type of ledger because it is a book in bound form.

(2) **Loose leaf ledger** : This type of ledger is in a filed form in between two thick paper covers or in between two metal sheets. The structure is connected with a special type of lock. As it is with lock system, it ensures the facility with safety. Here each page is serially numbered. Here, a trader can increase or decrease the number of pages according to his requirements.

(3) Card ledger : This form of a ledger is a safe form with conveniences. Here, for each account, instead of a page, a card is used. All these cards are arranged with a steel bar. All the cards are preserved in a special steel or wooden cabinet. Of course, overall it is an expensive form. Here, traders can increase or decrease the number of cards as per their requirements. In this form, for index separate cards are required to be arranged.

We have seen three different prevailing forms of ledger. But in this computer age, usage of computers is widely increasing for accounting entries and ledger.

9. Process of Posting

Here, we shall learn, the process of posting in affected accounts which are drawn in the ledger, for all recorded transactions in journal and subsidiary books.

To understand the process of posting easily, we will bifurcate the total process of posting in two parts :

(A) Posting of journal entries

(B) Posting from subsidiary books

(A) Posting of journal entries : Journal entries are passed in books of account for financial transactions of a business. From the view point of the number of accounts affected, journal entry is classified in two parts : (i) Simple journal entry (ii) Combined journal entry.

(i) Process for posting of simple entry : In simple journal entry only two accounts are affected, out of which one gets debit effect and the other one gets credit effect. Let us understand the posting of simple entry with the help of following illustration.

E.g., On 15-4-2015 received ₹ 6500 from Raj towards receivables.

Journal Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2015 April 15	Cash A/c To Raj A/c [Being the amount received from Raj towards amount due.]	Dr	6500	6500

Ledger

Cash Account

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2015 April 15	To Raj A/c		6500				

Raj Account

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				2015 April 15	By cash A/c		6500

In above entry only two accounts are affected, i.e. (1) cash A/c and (2) Raj A/c. Here cash accounts gets a debit effect and Raj account gets credit effect.

We will understand the process of points of a simple entry in following stages :

(1) To prepare accounts : First of all, all the affected accounts in a journal entry have to be drawn in ledger before posting them. In our illustration, cash A/c and Raj A/c are prepared.

(2) To decide the side of the account : After preparing the accounts it is to be decided that, in which account and on which side posting is to be made. This matter becomes clear on the basis of journal entry. In journal entry, the account which is debited, posting is done on its debit side and the account which is credited, posting is done on its credit side. In our illustration cash A/c is debited and therefore, in cash account, posting is made on debit side, whereas Raj A/c is credited and therefore, in Raj account posting is made on credit side.

(3) Date : The date of the entry for which posting is made by us, the same date is to be shown in the column of date in both the accounts prepared. In our illustration, journal entry of the given transaction passed on 15-4-2015. Hence at the time of posting the same date is to be shown in the date column of both the accounts.

(4) Name of the account in the column of particulars : At the time of posting in any account, the account which has corresponding opposite effect (side) is to be shown in the column of particulars. In our illustration, while posting in cash A/c on its debit side, in the column of particular, account having credit effect. i.e. Raj A/c is shown. While posting in Raj A/c on its credit side, in the column of particulars, account having debit effect i.e. Cash A/c is shown.

(5) Amount : The amount which is shown in journal entry against the respective account, the same amount is to be shown in that account. As per our illustration, ₹ 6500 is shown against cash A/c and Raj A/c in journal entry. While at the time of posting the same amount i.e. ₹ 6500 is to be shown in amount column of cash A/c and Raj A/c.

On the basis of the above explanation, the two points are understood clearly. In journal entry, the account which is debited, is to be posted on its debit side and the account which is credited, is to be posted on its credit side, along with the date and amount. In the column of particulars, name of an account having corresponding opposite effect is to be shown. Let us understand this point once again by one illustration.

Illustration 1 : In the book of Shri Harnish, write journal entries, for the following transactions and draw necessary accounts in the ledger and post them in ledger :

2015

- | | |
|--------|--|
| July 1 | Goods of ₹ 45,000 are purchased from Forum. |
| 3 | Brought additional capital of ₹ 60,000 in the business. |
| 5 | Paid ₹ 5000 to Avadh. |
| 6 | Goods of ₹ 20,000 are sold at 20 % profit to Sunny at 10 % trade discount. |
| 8 | Deposited ₹ 11,000 in bank. |
| 9 | Furniture of ₹ 3200 is purchased from Maruti Furniture Mart. |
| 11 | Paid ₹ 4500 from business for household expenses. |

Ans. :

Journal Entries in the Books of Shri Harnish

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2015 July 1	Purchase A/c To Foram A/c [Being the goods purchased of ₹ 45,000.]	Dr	45,000	45,000
3	Cash A/c To capital A/c [Being the additional capital of ₹ 60,000 brought in the business.]	Dr	60,000	60,000
5	Avadh A/c To cash A/c [Being the cash of ₹ 5000 paid to Avadh.]	Dr	5000	5000
6	Sunny A/c To sales A/c [Being the goods of ₹ 20,000 sold after adding 20 % profit, at 10 % trade discount.]	Dr	21,600	21,600
8	Bank A/c To cash A/c [Being the cash of ₹ 11,000 deposited in bank.]	Dr	11,000	11,000
9	Furniture A/c To Maruti Furniture Mart A/c [Being the furniture of ₹ 3200 purchased from Maruti Furniture Mart.]	Dr	3200	3200
11	Drawings A/c To cash A/c [Being the household expenses of ₹ 4500 paid from business.]	Dr	4500	4500
	Total		1,50,300	1,50,300

Ledger of Harnish

Purchase Account

Dr									Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)		
2015 July 1	Foram A/c		45,000						

Foram Account

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				2015 July 1	By purchase A/c		45,000

Cash Account

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2015 July 3	To capital A/c		60,000	2015 July 5 8 11	By Avadh A/c By bank A/c By drawings A/c		5000 11,000 4500

Capital Account

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				2015 July 3	By cash A/c		60,000

Avadh Account

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2015 July 5	To cash A/c		5000				

Sunny Account

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2015 July 6	To sales A/c		21,600				

Sales Account

Dr		Cr					
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				2015 July 6	By Sunny A/c		21,600

Bank Account

Dr		Cr					
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2015 July 8	To cash A/c		11,000				

Furniture Account

Dr		Cr					
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2015 July 9	To Maruti Fur. Mart A/c		3200				

Maruti Furniture Mart Account

Dr		Cr					
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				2015 July 9	By furniture A/c		3200

Drawings Account

Dr		Cr					
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2015 July 11	To cash A/c		4500				

(ii) Process for posting of combined (joint) entry : In combined entry, three or more than three accounts are affected. In this type of journal entry either on debit or credit side, more than one affected accounts are there. Sometimes on both, debit and credit side, there are more than one affected accounts. Because of this, posting process of combined entry requires more care.

- Let us understand the process of posting of the entry in which on credit side two accounts are there, with the help of following illustration.

E.g. On 10-8-2015 goods of ₹ 18,000 are purchased from Vishal and paid ₹ 6000 in cash.

Journal Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2015 Aug. 10	Purchase A/c To Vishal A/c To cash A/c [Being the goods of ₹ 18,000 purchased from Vishal and paid ₹ 6000 to him.]	Dr	18,000 12,000 6000	

Posting in Ledger

Purchase Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	Cr
2015 Aug. 10	To Vishal A/c		12,000					
Aug. 10	To cash A/c		6,000					

Vishal Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	Cr

2015
Aug. 10 By purchase A/c 12,000

Cash Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	Cr

2015
Aug. 10 By purchase A/c 6000

Let us understand the process of posting of above stated combined entry stagewise as under :

(1) To prepare accounts : Here, according to the journal entry, three accounts are affected viz. Purchase A/c., Vishal A/c and Cash A/c.

(2) To Decide the side of an account : As stated in the entry, in purchase A/c posting will be made on debit side and as the Vishal A/c and cash A/c, both are credited and so posting will be made in both of them on credit side.

(3) Date : In the date column of all the three accounts, 2015 Aug. 10 will be written.

(4) Name of the account in the column of particular : While posting in any account, in the column of particular, the name of the account having an opposite effect will be shown. Here, while posting on the debit side of purchase account, there are two accounts having a credit for the same, respectively they are Vishal's A/c and cash A/c. Thus, in purchase account, effect of total purchase of

₹ 18,000 is tallied by ₹ 12,000 by Vishal's account and ₹ 6000 by cash account. While posting on the credit side of Vishal's A/c and cash A/c, account showing opposite effect i.e. purchase account will be written in the column of the particulars.

(5) Amount : Care should be taken regarding the amount, while posting from the combined entry. As per the side of posting, whichever amount is shown against the account in journal entry, the same is to be posted in that account. As per example, ₹ 18,000 is shown on the debit side of purchase A/c, ₹ 6000 on the credit side of cash A/c and ₹ 12,000 on the credit side of Vishal's A/c. So the same has to be posted. But in purchase A/c, while posting, in an account affected on opposite side, there are two accounts viz. Vishal's A/c ₹ 12,000 and cash A/c ₹ 6000 and so they have to be shown. By this posting of purchase account of ₹ 18,000 (₹ 12,000 + ₹ 6000) will be completed.

- Let us understand the process of posting where, in an entry there are two accounts on the debit side. E.g. On 12-8-2015, goods sold to Dhyani of ₹ 24,000, against this she has paid ₹ 8000.

Journal Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2015 Aug. 12	Dhyani's A/c Cash A/c To sales A/c [Being goods sold to Dhyani of ₹ 24,000. For that she has paid ₹ 8000.]	Dr Dr To sales A/c [Being goods sold to Dhyani of ₹ 24,000. For that she has paid ₹ 8000.]	16,000 8000	24,000

Ledger

Dhyani's Account

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2015 Aug. 12	To sales A/c		16,000				

Cash Account							
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2015 Aug. 12	To sales A/c		8000				

Sales Account							
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2015 Aug. 12	To sales A/c		16,000				

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				2015 Aug. 12	By Dhyani A/c		16,000
				Aug. 12	By cash A/c		8000

Let us understand the posting of a journal entry by an illustration, where in, there are more than one affected accounts, on its both debit and credit sides.

E.g. A business is started by Hetansh as on 1-4-2016 with cash ₹ 50,000, goods ₹ 55,000, furniture ₹ 12,000, payables (debits) ₹ 8000 and a loan from Jignesh of ₹ 30,000.

Journal Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2016 April 1	Cash A/c (₹ 50,000 + ₹ 30,000 loan) Stock of goods A/c Furniture A/c To creditors (debts) A/c To Jignesh's loan A/c To capital A/c [Being the business started with cash ₹ 50,000, stock of goods ₹ 55,000, furniture ₹ 12,000, debts ₹ 8000 and loan from Jignesh ₹ 30,000.]	Dr 	80,000 55,000 12,000 	8000 30,000 1,09,000

Ledger

Cash Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Cr
2016 April 1	To capital A/c		50,000				
April 1	To Jignesh's loan A/c		30,000				

Stock of Goods Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Cr
2016 April 1	To capital A/c		55,000				

Furniture Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Cr
2016 April 1	To capital A/c		12,000				

Creditor's Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Cr
				2016 April 1	By capital A/c		8000

Jignesh's Loan Account

Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				2016 April 1	By cash A/c		30,000

Capital Account

Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 April 1	To creditor's A/c		8000	2016 April 1 1 1	By cash A/c By stock of goods A/c By furniture A/c		50,000 55,000 12,000

Illustration 2 : From the following transactions of Kaveesh, prepare a journal and also draw the necessary account in ledger and complete the posting in his books.

2016

- March 1 Brought cash ₹ 39,000 and personal furniture of ₹ 7500 in the business.
- 2 Paid towards our dues ₹ 8200 to Parth and ₹ 3000 to Munj.
- 5 Received a crossed cheque of ₹ 7000 in full settlement of ₹ 7400 due from Mansi.
- 7 Goods sold of ₹ 6400 to Nitin and of ₹ 3200 to Paresh.
- 9 A laptop of ₹ 25,000 purchased from Piyush Electronic and paid ₹ 5000 cash towards this.

Ans. :

Journal Entries in the Book of Kaveesh

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2016 March 1	Cash A/c Dr Furniture A/c Dr To capital A/c [Being the cash and furniture brought in the business as per requirement.]		39,000 7500 46,500	
2	Parth A/c Dr Munj A/c Dr To cash A/c [Being the cash paid towards our dues.]		8200 3000 11,200	

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
5	Bank A/c Discount A/c To Mansi A/c [Being the cheque received against dues from Mansi.]	Dr Dr	7000 400	7400
7	Nitin A/c Paresh A/c To sales A/c [Being the goods sold to Nitin and Paresh.]	Dr Dr	6400 3200	9600
9	Computer (laptop) A/c To cash A/c To Piyush Electronic A/c [Being the laptop purchased of ₹ 25,000 for which ₹ 5000 is paid in cash.]	Dr	25,000	5000 20,000
	Total		99,700	99,700

Ledger of Kaveesh

Cash Account

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 March 1	To capital A/c		39,000	2016 March 2 2 9	By Parth A/c By Munj A/c By computer A/c		8200 3000 5000

Furniture Account

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 March 1	To capital A/c		7500				

Capital Account

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				2016 March 1 1	By cash A/c By furniture A/c		39,000 7500

Parth Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	Cr
2016 March 2	To cash A/c		8200					

Munj Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	Cr
2016 March 2	To cash A/c		3000					

Bank Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	Cr
2016 March 5	To Mansi A/c		7000					

Discount Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	Cr
2016 March 5	To Mansi A/c		400					

Mansi Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	Cr
				2016 March 5	By bank A/c By discount A/c		7000 400	

Nitin Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	Cr
2016 March 7	To sales A/c		6400					

Paresh Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	Cr
2016 March 7	To sales A/c		3200					

Computer (Laptop) Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	Cr
2016 March 9 9	To cash A/c To Piyush Ele. A/c		5000 20,000					

Piyush Electronics Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	Cr
				2016 March 9	By computer A/c		20,000	

Sales Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	Cr
				2016 March 7 7	By Nitin A/c By Paresh A/c		6400 3200	

(B) Posting from subsidiary books : In earlier chapter, we have received a detailed understanding regarding various subsidiary books. Now here, we will understand the process of posting from subsidiary books. From different subsidiary books like purchase book, sales book, purchase returns book and sales returns book, we will understand the process of posting with the help of an illustration of a sales books.

Illustration 3 : From the following transactions, prepare the sales books of Shri Anup and post them in ledger :

On 1-5-2016, goods of ₹ 25,000 are sold to Ankura at 10 % trade discount.

On 4-5-2016 goods of ₹ 6600 are sold to Jigar with 25 % profit thereon.

On 6-5-2016 goods of ₹ 7500 are sold to Hiya at cost price.

Sales Book of Shri Anup

Date	Name of Customer's	Outward inv. No.	L.F.	Amount (₹)
2016				
May 1	Ankura's Account			22,500
4	Jigar's Account			8250
6	Hiya's Account			7500
	Total credit sales (sales A/c)			38,250

Shri Anup's Ledger

Sales Account							
Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				2016 May 6	By sundry debtor's A/c (Total amount as per sales book)		38,250

Ankura's Account

Ankura's Account							
Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 May 1	To sales A/c (As per sales book)		22,500				

Jigar's Account

Jigar's Account							
Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 May 4	To sales A/c (As per sales book)		8250				

Hiya's Account

Hiya's Account							
Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 May 6	To sales A/c (As per sales book)		7500				

Explanations : (1) First of all in ledger, sales account and the accounts of all the customers which are shown in the sales book, are opened. (2) In the particulars column of the credit side of the sales account, sundry debtors are written. While, in the particulars column of the debit side of each customer's account, sales accounts are written. (3) The date recorded in sales book against each customer, is shown in the account of that customer. (4) In the amount column of each customer's account, the amount which is shown against them in sales book, is written. While in the amount column of a sales account, the total shown in the amount column of sales book, is written.

Illustration 4 : From the following transactions, prepare subsidiary books of Hiteshi Trading Company and post them in appropriate accounts :

2016

- Jan. 1 Goods of ₹ 7000 are purchased from Nisarg at 15 % trade discount.
- 2 Goods of ₹ 3500 are purchased from Jay at 10 % trade discount.
- 4 Goods of ₹ 10,500 are sold to Kruti at 10 % trade discount.
- 5 Goods of ₹ 7000 are sold to Devami at 20 % profit thereon.
- 7 Goods of ₹ 900 returned to Nisarg.
- 8 Goods of ₹ 600 returned to Pranav.
- 10 Goods of ₹ 2000 returned by Devami.
- 11 Goods of ₹ 1200 returned by Pavan.

Ans. : **Subsidiary Books of Hiteshi Trading Company**

Purchase Book

Date	Name of the Trader	Inward Inv. No.	L. F.	Amount (₹)
2016				
Jan. 1	Nisarg A/c			5950
2	Jay A/c			3150
	Total credit purchase (To purchase A/c)			9100

Sales Book

Date	Name of the Customer	Outward Inv. No.	L. F.	Amount (₹)
2016				
Jan. 4	Kruti A/c			9450
5	Devami A/c			8400
	Total credit sales (To sales A/c)			17,850

Purchase Returns Book

Date	Name of the Trader	Debit Note No.	L. F.	Amount (₹)
2016				
Jan. 7	Nisarg A/c			900
8	Pranav A/c			600
	Total purchase return (To purchase return A/c)			1500

Sales Returns Book

Date	Name of the Customer	Credit Note No.	L. F.	Amount (₹)
2016				
Jan. 10	Devami A/c			2000
11	Pavan A/c			1200
	Total sales return (To sales return A/c)			3200

Ledger in the Book of Hiteshi

Purchase Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Cr
2016							
Jan. 11	To Sundry creditor's A/c (As per purchase book)		9100				

Nisarg Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Cr
2016							
Jan. 7	To purchase return A/c (As per purchase return book)		900	2016 Jan. 1	By purchase A/c (As per purchase book)		5950

Jay Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Cr
				2016 Jan. 2	By purchase A/c (As per purchase book)		3150

Sales Account

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				2016 Jan. 11	By Sundry debtor's A/c (As per sales book)		17,850

Kruti Account

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 Jan. 4	To sales A/c (As per sales book)		9450				

Devami Account

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 Jan. 5	To sales A/c (As per sales book)		8400	2016 Jan. 10	By sales return A/c (As per sales returned book)		2000

Purchase Returns Account

Dr

Gr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				2016 Jan. 11	By Sundry creditor's A/c (As per purchase return book)		1500

Pranav's Account

Dr								Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	
2016 Jan. 8	To purchase return A/c (As per purchase return book)		600					

Sales Returns Account

Dr								Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	
2016 Jan. 11	To Sundry debtor's A/c (As per sales return book)		3200					

Pavan's Account

Dr								Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	
				2016 Jan. 11	By sales return A/c (As per sales return book)		1200	

Posting of Columnar Subsidiary Books : Traders having large scale business, may keep their subsidiary books with different columns as per their requirements. Columnar subsidiary books are of two types. (1) As per different types of goods. (2) As per different expenses added in the cost price of goods or in an invoice. We have studied this in detail in chapter 5.

To understand the posting of this types of subsidiary books, let us see the following illustrations of columnar sales book :

(1) As per different types of goods :

Illustration 5 : From the following transactions of Aamir Garments, prepare a columnar sales book and post them in respective accounts in the ledger.

- (1) Sold 50 cotton pants at ₹ 300 each and 30 Jeans pants at ₹ 400 each to Farhin garments. Outward invoice number 121.
- (2) Sold 40 Jeans pants at ₹ 400 each and 30 Terry Cotton pants at ₹ 250 each to Jhanvi Fashion. Outward invoice number 122.
- (3) Sold 30 cotton pant at ₹ 300 each, 50 Jeans pants at ₹ 400 each and 20 Terry Cotton pants at ₹ 250 each to Pranav readymade. Outward invoice number 123.

Ans. :

Columnar (Goodwise) Sales Book of Aamir Garments

Date	Customer's Name	Outward Invoice No.	L. F.	Amount (₹)			Total Amount (₹)
				Cotton Pant	Jeans Pant	Terry Cotton Pant	
1	Farhin Garments A/c	121		15,000	12,000	—	27,000
2	Jhanvi Fashion A/c	122		—	16,000	7500	23,500
3	Pranav Readymade A/c	123		9000	20,000	5000	34,000
	Total credit sales			24,000	48,000	12,500	84,500

Ledger of Aamir Garments

Dr								Sales Account				Cr							
Date	Parti-culars	J. F.	Amount (₹)			Amt. (₹)	Date	Parti-culars	J. F.	Amount (₹)			Amt. (₹)						
			Cotton Pant	Jeans Pant	Terry Cotton Pant					Cotton Pant	Jeans Pant	Terry Cotton Pant							
							3	By Sundry debtor's A/c (As sales book)		24,000	48,000	12,500		84,500					

Farhin Garments Account

Dr				Cr			
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
1	To sales A/c (As per sales book - cotton pant)		15,000				
1	To sales A/c (As per sales book - Jeans pant)		12,000				

Jhanvi Fashion Account

Dr				Cr			
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2	To sales A/c (As per sales book - Jeans pant)		16,000				
2	To sales A/c (As per sales book - Terry-cotton pant)		7500				

Pranav Readymade Account

Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
3	To sales A/c (As per sales book - cotton pant)		9000				
3	To sales A/c (As per sales book - Jeans pant)		20,000				
3	To sales A/c (As per sales book - Terry-cotton pant)		5000				

Note : While preparing the sales account from a columnar subsidiary book, goodswise separate columns are prepared; while in individual account posting is made separately for different types of goods.

(2) Expensewise Columnar Sales Book :

Illustration 6 : From the following informations of Chetan, prepare columnar sales book and make its posting :

- (1) Goods of ₹ 8000 sold to Prakhar by adding 10 % profit. Invoice no. 301 of dated 8-6-2015 sent to him inclusive of labour charge ₹ 480 and packing expenses of ₹ 220.
- (2) Goods of ₹ 5400 sold to Birju. Invoice sent inclusive of labour charge ₹ 140 and railway freight of ₹ 100. Outward invoice no. 302 dated 9-6-2015.
- (3) Goods of ₹ 12,000 sold with profit 12 %. Invoice sent inclusive of labour ₹ 720, packing expenses ₹ 300 and railway freight ₹ 200. Outward invoice no. 303 dated 10-6-2015.

Ans. :

Columnar Sales Book of Chetan (Expense columnar)

Date	Name of Customer	Outward Invoice No.	L. F. No.	Amount (₹)				Total Amount (₹)
				Goods Price	Labour	Packing exps.	Railway freight	
8-6-15	Prakhar A/c	301		8800	480	220	—	9500
9-6-15	Birju A/c	302		5400	140	—	100	5640
10-6-15	Mihir A/c	303		13,440	720	300	200	14,660
	Total Credit Sales			27,640	1340	520	300	29,800

Ledger of Chetan

Sales Account

Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				10-6-15	By Sundry debtors A/c (As per columnar sales book)		27,640

Labour Charges Account

Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				10-6-15	By Sundry debtors A/c (As per columnar sales book)		1340

Packing Expenses Account

Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				10-6-15	By Sundry debtors A/c (As per columnar sales book)		520

Railway Freight Account

Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				10-6-15	By Sundry debtors A/c (As per columnar sales book)		300

Prakhar's Account

Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
8-6-15	To sales A/c (As per columnar sales book)		8800				
	To labour A/c		480				
	To packing exp. A/c		220				

Birju's Account

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
9-6-15	To sales A/c (As per columnar sales book)		5400				
	To labour A/c		140				
	To railway freight A/c		100				

Mihir's Account

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
10-6-15	To sales A/c (As per columnar sales book)		13,440				
	To labour A/c		720				
	To packing exp. A/c		300				
	To railway freight A/c		200				

From the following illustration let us understand how to prepare different subsidiary books and their posting of different business transactions :

Illustration 7 : From the following transactions of Pragna Traders of Bhavnagar, prepare subsidiary books and write journal entries and their posting. GST rate is 18 %. GST is not included for line following transactions. Add applicable amount of GST and prepare subsidiary books, their journal entries and posting thereof.

2019

- April 2 Goods purchased of ₹ 30,000 at 10 % trade discount from Parul Traders. Railway freight of ₹ 1200 and invoice no. 101.
- 3 Goods purchased of ₹ 24,000 from Yogesh traders of Bangalore (Karnataka). Railway freight ₹ 800 and labour charge ₹ 150. Invoice no. 102.
- 4 Goods sold of ₹ 18,000 at 10 % trade discount to Radha Corporation of Gandhinagar. Labour charge ₹ 100 and railway freight ₹ 500. Invoice no. 501.
- 6 Goods purchased from Yogesh Traders, sold to Shalimar Traders of Surat by adding 25 % profit on cost price. Credit period allowed is 2 month. Railway freight ₹ 600 and labour charge ₹ 200. Invoice no. 502.

- 8 Radha Corporation has returned goods of ₹ 4000 and their ₹ 150 of railway freight and ₹ 50 of labour charge are adjusted.
- 10 Goods sold of ₹ 30,000 at 10 % trade discount to Raksha Traders of Jaipur (Rajasthan). Labour charge ₹ 150 and railway freight of ₹ 600 are incurred. Invoice no. 503.
- 16 50 % goods returned by Shalimar Traders. ₹ 150 of railway freight and for labour charge of ₹ 50 are adjusted to their account. Credit note no. 12.
- 30 Goods received from Shalimar Traders sent back to Yogesh Traders. ₹ 120 of railway freight and ₹ 30 of labour are adjusted by them. Debit Note no. 32.

Ans. :

In the Books of Pragna Traders

Purchase Book

Date	Name of Supplier	Inward Invoice No.	L. F. No.	Amount (₹)					Total Amount (₹)
				Net amount of goods	Railway Freight	Labour	Intra state supply		
							Input CGST	Input SGST	IGST
2-4-19	Parul Traders A/c	101		27,000	1200	—	2538	2538	—
3-4-19	Yogesh Traders A/c	102		24,000	800	150	—	—	4491
	Total			51,000	2000	150	2538	2538	4491
									62,717

Sales Book

Date	Name of Customer	Outward Invoice No.	L. F. No.	Amount (₹)					Total Amount (₹)
				Net amount of goods	Railway Freight	Labour	Intra state supply		
							Output CGST	Output SGST	IGST
4-4-19	Radha Corporation A/c	501		16,200	500	100	1512	1512	—
6-4-19	Shalimar Traders A/c	502		30,000	600	200	2772	2772	—
10-4-19	Raksha Traders A/c	503		27,000	600	150	—	—	4995
	Total			73,200	1700	450	4284	4284	4995
									88,913

Purchase Returns Book

Date	Name of Supplier	Debit Note No.	L. F. No.	Amount (₹)					Total Amount (₹)
				Net amount of goods	Railway Freight	Labour	Intra state supply		
							Input CGST	Input SGST	IGST
30-4-19	Yogesh Traders A/c	32		12,000	120	30	—	—	2187
	Total			12,000	120	30	—	—	2187
									14,337

Sales Returns Book

Date	Name of Customer	Credit Note No.	L.F. No.	Amount (₹)					Total Amount (₹)
				Net amount of goods	Railway Freight	Labour	Intra state supply	Inter state supply	
				Output CGST	Output SGST		IGST		
8-4-19	Radha Corporation A/c	11		4000	150	50	378	378	- 4956
16-4-19	Shalimar Traders A/c	12		15,000	150	50	1368	1368	- 17,936
	Total			19,000	300	100	1746	1746	- 22,892

Journal Entries in the Books of Pragna Traders

Date	Particular	LF No.	Debit (₹)	Credit (₹)
2019 April, 2	Purchase A/c Dr Railway freight A/c Dr Input CGST A/c Dr Input SGST A/c Dr To Parul Traders A/c [Being goods purchased at 10 % trade discount from Parul Traders of Ahmedabad. Railway freight was of ₹ 1200 and GST recorded at 18 %.]		27,000 1200 2538 2538 33,276	
3	Purchase A/c Dr Railway freight A/c Dr Labour charges A/c Dr Input IGST A/c Dr To Yogesh Traders A/c [Being goods purchased from Yogesh traders of Banglar railway freight was of ₹ 800 and labour ₹ 150 while GST recorded at 18 %.]		24,000 800 150 4491 29,441	
4	Radha Corporation A/c Dr To sales A/c To railway freight A/c To labour charges A/c To output CGST A/c To output SGST A/c [Being goods of ₹ 18,000 at 10 % trade discount sold to Radha corporation of Gandhinagar and railway freight ₹ 500, labour charge ₹ 100 and GST at 18 % are recorded.]		19,824 16,200 500 100 1512 1512	

Date	Particular	LF No.	Debit (₹)	Credit (₹)
6	Shalimar Traders A/c To sales A/c To railway freight A/c To labour charges A/c To output CGST A/c To output SGST A/c [Being goods of ₹ 24,000 sold to Shalimar Traders by adding 25 % profit on cost. Railway freight ₹ 600, labour charges ₹ 200 and GST at 18 % are recorded.]	Dr	36,344	30,000 600 200 2772 2772
8	Sales return A/c Railway freight A/c Labour charge A/c Output CGST A/c Output SGST A/c [Being goods of ₹ 4000 is returned by Radha Corporation. Railway freight ₹ 150, labour charge ₹ 50 and GST at 18 % are adjusted.]	Dr	4000 150 50 378 378	4956
10	Raksha Traders A/c To railway freight A/c To labour charge A/c To sales A/c To output IGST A/c [Being goods of ₹ 30,000 at 10 % trade discount sold to Raksha Traders of Jaipur. Railway freight ₹ 600, labour charge ₹ 150 and GST at 18 % are recorded.]	Dr	32,745 600 150 27,000 4995	
16	Sales return A/c Railway freight A/c Labour charge A/c Output CGST A/c Output SGST A/c [Being 50 % goods returned by Shalimar Traders. Railway freight ₹ 150, labour charge ₹ 50 and GST at 18 % are adjusted.]	Dr	15,000 150 50 1368 1368 17,936	

Date	Particular	LF No.	Debit (₹)	Credit (₹)
30	Yogesh Traders A/c To railway freight A/c To labour charge A/c To purchase return A/c To input IGST A/c [Being goods returned by Shalimar Traders is returned back to Yogesh Traders ₹ 12,000 after deducting added profit. Railway freight ₹ 120, labour charge ₹ 30 and GST at 18 % are adjusted.]	Dr	14,337	120 30 12,000 2187

Ledger book of Pragna Traders

Purchase Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Cr
30-4-19	To Sundry creditors A/c (As per columnar purchase book)		51,000				

Sales Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Cr
				30-4-19	By Sundry debtors A/c (As per columnar sales book)		73,200

Purchase Returns Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Cr
				30-4-19	By Sundry creditors A/c (As per columnar purchase return book)		12,000

Sales Returns Account

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
30-4-19	To sundry debtor's A/c (As per columnar sales return book)		19,000				

Parul Traders Account

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				2-4-19	By purchase A/c (As per purchase book)		27,000
				2-4-19	By railway freight A/c		1200
				2-4-19	By input CGST A/c		2538
				2-4-19	By input SGST A/c		2538

Yogesh Traders Account

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
30-4-16	To purchase return A/c (As per purchase return book)		12,000	3-4-16	By purchase A/c (As per purchase book)		24,000
30-4-16	To railway freight A/c		120	3-4-16	By railway freight A/c		800
30-4-16	To labour charge A/c		30	3-4-16	By labour charge A/c		150
30-4-16	To input IGST A/c		2187		By Input IGST A/c		4491

Radha Corporation Account

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
4-4-16	To sales A/c (As per sales book)		16,200	6-4-16	By sales return A/c (As per sales returns book)		4000
4-4-16	To railway freight A/c		500				
4-4-16	To labour charge A/c		100	8-4-16	By railway freight A/c		150
				8-4-16	To labour charge A/c		50
4-4-16	To output CGST A/c		1512	8-4-16	By output CGST A/c		378
4-4-16	To output SGST A/c		1512	8-4-16	By output SGST A/c		378

Shalimar Traders Account

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
6-4-19	To sales A/c (As per sales book)		30,000	16-4-19	By sales return A/c (As per sales returns book)		15,000
6-4-19	To railway freight A/c		600				
6-4-19	To labour charge A/c		200	16-4-19	By railway freight A/c		150
6-4-19	To output CGST A/c		2772	16-4-19	By labour charge A/c		50
6-4-19	To output SGST A/c		2772	16-4-19	By output CGST A/c		1368
				16-4-19	By output SGST A/c		1368

Raksha Traders Account

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
10-4-19	To sales A/c (As per sales book)		27,000				
10-4-19	To railway freight A/c		600				
10-4-19	To railway freight A/c		150				
10-4-19	To output IGST A/c		4995				

Input CGST A/c

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
30-4-19	To Sundry creditors A/c (As per purchase book)		2538				

Input SGST A/c

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
30-4-19	To Sundry creditor's A/c (As per purchase book)		2538				

Input IGST A/c

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
30-4-19	To Sundry creditors A/c (As per purchase book)		4491	30-4-19	By sundry creditors A/c (As per purchase returns book)		2187

Output CGST A/c

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
30-4-19	To Sundry debtor's A/c (As per sales returns book)		1746	30-4-19	By Sundry debtors A/c (As per sales book)		4284

Output SGST A/c

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
30-4-19	To Sundry debtors A/c (As per sales return book)		1746	30-4-19	By Sundry creditors A/c (As per sales book)		4284

Output IGST A/c

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				30-4-19	By Sundry debtors A/c (As per sales book)		4995

Railway freight A/c (For purchase)

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
30-4-19	To Sundry debtor's A/c (As per sales returns book)		2000	30-4-19	By Sundry debtors A/c (As per sales book)		120

Railway freight A/c (For sales)

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
30-4-19	To Sundry creditors A/c (As per purchase book)		300	30-4-19	Sundry debtors A/c (As per sales book)		1700

Labour charge A/c (For purchase)

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
30-4-19	To Sundry debtors A/c (As per purchase book)		150	30-4-19	By Sundry debtors A/c (As per purchase return book)		30

Labour charge A/c (For sales)

Dr						Cr			
Date	Particulars		J. F.	Amount (₹)	Date	Particulars		J. F.	Amount (₹)
30-4-19	To Sundry debtors A/c (As per sales return book)			100	30-4-19	By Sundry debtors A/c (As per sales book)			450

Note : Two separate accounts are prepared for GST, railway freight and labour charge. Expenses shown in purchase book are expenses of business, thus that respective expense account is debited. On the other hand expenses in purchase return are credited because to that extent respective expense would reduce. Expenses shown in sales book are not expense of business, but these expenses become liability for business, hence these expense account are credited. Thus amount is credited to respective expense account. e.g. railway freight (of sales). This such expenses are to be collected from customer and are to be paid to the respective claimer. e.g. GST to government railway freight to railway, labour charges to respective person. On the other hand expenses in sales return are debited because to that extent respective expense would reduce.

Posting from Cash Book : Cash book is one of the important types of subsidiary books. As per the requirement, a trader keeps simple a cash book or a two columnar cash book or a three columnar cash book or petty cash book. We will understand the process of posting, with the illustration of three columnar cash book.

Illustration 8 : From the following transactions prepare a three columnar weekly cash book in the books of Shethana Stationary Mart and post them in ledger.

2016

- March 1 Opening cash balance ₹ 18,600, bank balance ₹ 62,000
- 2 Paid salary ₹ 6000. Paid electricity bill ₹ 1200.
- 4 Withdrawn ₹ 10,000 from bank for shop expenses.
- 5 Given a cheque of ₹ 8000 to Shah Brothers in full settlement of the debt of ₹ 8200.
- 6 Received a commission of ₹ 2500 in cash from Camlin Company.
- 7 Received a cheque of ₹ 2550 from Desouza in full settlement of our receivables of ₹ 2500. Cheque so received is deposited in a bank.
- 7 Withdrawn ₹ 5000 from business for household expenses.

Ans. :

Three Columnar Cash Book of Shethana Stationery Mart

Dr											Cr		
Date	Receipts	R. No.	L. F.	Dis- count (₹)	Cash (₹)	Bank (₹)	Date	Payments	V. No. i.	L. F.	Dis- count (₹)	Cash (₹)	Bank (₹)
2016							2016						
March 1	To Balance b/f			—	18,600	62,000	March 2	By salary A/c			—	6000	—
4	To bank A/c		C	—	10,000	—	2	By ele.bill A/c			—	1200	—
6	To commi.A/c			—	2500	—	4	By cash A/c			—	—	10,000
7	To Desouza A/c			50	—	2500	5	By Shah bro.		C	200	—	8000
							7	By drawings A/c			—	5000	—
							7	By bal. c/f			—	18,900	46,500
				50	31,100	64,500					200	31,100	64,500

Ledger of Shethana Stationery

Salary Account

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2-3-16	To cash A/c		6000				

Electricity Expenses Account

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2-3-16	To cash A/c		1200				

Shah Brother's Account

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
5-3-16	To bank A/c		8000	1-3-16	By balance b/f		8200
5-3-16	To discount A/c		200				
			8200				8200

Commission Account

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				6-3-16	By cash A/c		2500

Desouza's Account

Dr

Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
1-3-16	To balance b/f		2550	7-3-16	By bank A/c		2500
				7-3-16	By discount A/c		50
			2550				2550

Drawings Account

Dr		Cr					
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
7-3-16	To cash A/c		5000				

Discount Allowed Account

Dr		Cr					
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
7-3-16	Total discount allowed (As per cash book)		50				

Discount Received Account

Dr		Cr					
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
				7-3-16	Total discount received (As per cash book)		200

Note : (1) While maintaining a three columnar cash book, separate cash account and bank account are not prepared in the ledger. Here, cash column itself serves the purpose of cash account and bank account. (2) On the basis of transactions two separate accounts for discount are to be prepared viz. Discount allowed and discount received. In the account of discount allowed, total amount of discount column on receipt side (debit side) of a cash book is to be shown, whereas in discount received account, the total amount of discount column on payment side (credit side) is to be shown.

Opening necessary accounts in ledger for posting of simple cash book and that of a double columnar cash book is made as that of a triple columnar cash book.

Petty Cash Book and it's Posting Process : Big traders (in some business) keep petty cash book for the payment of small and miscellaneous expenses. Let us take an illustration to understand the process of posting of petty cash book.

Illustration 9 : From the following transactions, prepare weekly petty cash book of Pavan Brothers and show its posting in ledger :

2016

- June 1 Petty cashier Tina has a balance of ₹ 3000.
- 1 Chief accountant has given ₹ 2000 to Tina.
- 2 Paid wages of ₹ 600. Paid stationery of ₹ 450.
- 3 Paid carriage ₹ 400.
- 4 Purchased postal stamps of ₹ 250.
- 5 ₹ 1200 is given to office employee Shri Kiritbhai.

Ans.

Petty Cash Book of Pavan Brothers

Receipts (₹)	Date	Particulars	Vou. No.	Total Exp. (₹)	Classification of Expenses				L. F.	Indivi- dual A/c (₹)
					Wages (₹)	Stationery (₹)	Carriage (₹)	Postage Exp. (₹)		
3000	2016 June 1	To balance b/f								
2000	1	To received from chief accountant								
	2	By wages A/c	600	600	—	—	—	—		
	2	By stationery A/c	450	—	450	—	—	—		
	3	By carriage A/c	400	—	—	400	—	—		
	4	By post.exps.A/c	250	—	—	—	250	—		
	5	By Kiritbhai A/c	1200	—	—	—	—	1200		
			2900	600	450	400	250		1200	
	5	By balance c/f	2100							
5000			5000							

**Ledger of Pavan
Wages Account**

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	Cr
2-6-16	To cash A/c (As per petty cash A/c)		600					

Stationery Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	Cr
2-6-16	To cash A/c (As per petty cash A/c)		450					

Carriage Account

Dr	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)	Cr
3-6-16	To cash A/c (As per petty cash A/c)		400					

Postage Expenses Account

Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
4-6-16	To cash A/c (As per petty cash A/c)		250				

Kiritbhai's Account

Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
5-6-16	To cash A/c (As per petty cash A/c)		1200				

Note : As per the classification of the expenses in petty cash book, accounts for all the expenses are prepared and accordingly posting is made therein. Besides this if any transaction is connected with an individual, posting is to be made in that account too, e.g. in above illustration posting is made in Kiritbhai's account.

10. Classification of Ledger (Sub division of Ledger)

Number of accounts drawn in ledger, depends upon the quantum of financial transactions of a business. If the number of accounts are reasonable, the ledger book will not become too bulky, but if number of accounts are more, the volume of ledger book becomes too bulky. If there is only one book of ledger, the work of posting cannot be divided between more than one persons.

At this stage, on the basis of certain criteria, all accounts are classified into different divisions. When more than one ledgers are maintained, by classifying all accounts of a ledger, it is known as **division of ledger or classification of ledger**. It is also called **sub-division of ledger or subsidiary ledger**. By this, more than one books are maintained for the ledger, movements of the books become more easy and the work distribution can be done very easily. Even in the computer age the importance of subsidiary ledger is maintained.

Classification of a ledger can be done in various ways. Considering the receivables, payables and other accounts, the following types of classifications are generally adopted by most of the traders :
(1) Ledger of Individuals (2) General Ledger.

(1) Ledger of individuals : One of the objects of maintain accounts is to get the information regarding receivables and payables of a business, at any point of time easily and quickly. Accounts of traders from whom the goods are purchased on credit are creditor's accounts and account of customers from to goods are sold on credit are debtors accounts. These are called individual's account.

A seperate ledger for business creditors goods is kept and it is known as **Creditor's Ledger (Purchase Ledger)**.

In the same way, a separate ledger for business debtors of goods is kept and it is known as **Debtor's Ledger (Sales Ledger)**.

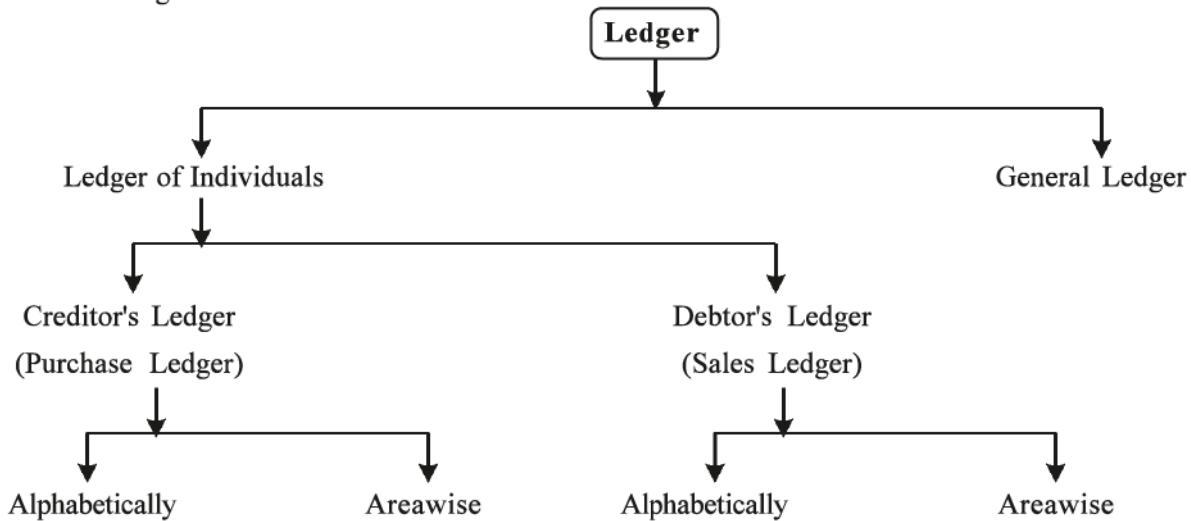
Besides this, the creditors ledger and debtors ledger can also be further classified as per the requirement of a business as under, in the following additional sub-divisions :

(a) Alphabetically (b) Areawise

(a) Alphabetically : Here, the ledger can be divided on the basis of the name of a person. e.g. 'A' to 'N' or 'O' to 'Z' as per the name of individuals account.

(b) **Areawise** : Considering the sales area of a trader, a ledger can be classified. e.g. Accounts of individuals of Gujarat State, Account of individuals of Rajasthan State etc.

(2) **General ledger** : Out of total accounts of the business, except the accounts of debtors and creditors, accounts of all the remaining individuals and other accounts are maintained in one separate ledger, which is known as General Ledger. Classification of a ledger can be understood with the help of the following chart.



11. Balancing an Account

Process of writing accounts, is a continuous process during the whole year. During the year as and when a trader wants to know the position of various accounts, he can get the information through the verification of those accounts from the ledger. A process of preparing a summary of an account at the end of a certain period is known as the **process of finding out the balance** of that account. In order to find out the summary of any account, the difference of the total amount on debit side and that on credit side is to be found out and the difference between the two, is known as the '**Balance of that Account**'. Let us understand the process to find the Balance of Account by the following particulars and illustrations.

(1) In order to find out the balance of an account, we need to find the difference between the amount on the credit side and the side of an account. e.g. In a cash account, total of the amounts on debit side, comes to ₹ 85,000 and the total of the amounts on credit side, comes to ₹ 78,000 and therefore the difference of ₹ 7000 ($85,000 - 78,000$) in the balance of a cash account.

(2) The side on which the total is higher in an account that amount has to be written as a total on both the sides and then we find the differences.

(3) As mentioned above, to find the balance of an account, the side on which the total is higher, the difference is written as a **Balance carried forward (Bal. c/f)** on the opposite side. If the total of debit side is higher, such amount of difference is said as debit balance and it is also called the closing balance of that account. Similarly if the total of the credit side is higher then the amount of difference is written on the debit side as a last item, as a balance carried forward and it is known as credit balance and it is also called the closing balance of that account.

(4) The amount of difference found in an account is shown as the last item in the account and against this last date is written.

(5) Closing balance, as found above is treated as an opening balance for the next accounting period. This opening balance is shown on the opposite side of the closing balance in an account as its first item. This is in the column of the particulars, will be written as a **Balance brought down (Bal. b/d)** or **Balance brought forward (Bal. b/f)**. In the column of date first date of the month of a new period will be written. While in the column of the amount, amount of the closing balance will be written.

In chapter 2 we had studied the three types of accounts and their rules - Personal Account, Real Account and Nominal Account. In Personal Account and Real Account we might have a balance amount and that is shown as the balance carried forward at the end of the year. This is shown as the balance brought forward in the next year. The Nominal Account is closed at the end of the year and the balance amount is transferred to the Trading A/c or the Profit and Loss A/c.

To understand the above particulars, let us read the following specimen account of Sanjay Traders.

Sanjay Traders Account

Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 March 2 16 24	To sales A/c To sales A/c To sales A/c		18,000 21,000 30,000	2016 March 8 18 26 27 31	By cash A/c By bank A/c By bank A/c By cash A/c By balance c/f		5000 16,000 12,000 8000 28,000
			69,000				69,000
2016 April 1	To balance b/f		28,000				

Here, the total amount on debit side is ₹ 69,000. While the total amount on credit side is ₹ 41,000 (₹ 5000 + ₹ 16,000 + ₹ 12,000 + ₹ 8000). Hence, the amount of the difference would be ₹ 69,000 – ₹ 41,000 = ₹ 28,000.

This difference is called a debit balance (closing balance) of this account. It is shown as a balance carried forward and in the column of date, last date of the month (i.e. 31st March, 2016) will be written.

As per the specimen, the closing balance would be shown as the balance brought forward (opening balance) in the next year as on 1st date of the next month on the debit side of the account and which is the opposite side of the closing balance.

(I) In any Account, when the transactions are recorded only on one side : When, in any account transactions are recorded on its one side only, no transactions are recorded on the other side, the balance is found out as per the method stated above only. See the following specimen for this.

Salary Account

Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 June 2 4 5	To bank A/c To cash A/c To cash A/c		25,000 3000 2000	2016 June 30	By balance b/f		30,000
			30,000				30,000
2016 July 1	To balance c/f		30,000				

Note : Here, the total amount on debit side is ₹ 30,000. While, the total amount on credit side is zero. Therefore, difference amount ₹ 30,000 – zero = ₹ 30,000 would be the debit balance. Here, Salary A/c is only for one month. Hence, it shows a balance. Normally, this types of accounts are closed at the end of the year and the balance is transfer to profit and loss a/c.

(II) From the view point of a balance, in any account there can be any one situation, out of the following three situations.

(i) Debit Balance : In any account, when the total of the amount on debit side exceeds the total of the amount on credit side, the balance obtained as a difference is known as a **debit balance**.

(ii) Credit Balance : The account in which the total of the amount on its credit side exceeds than, the total of amount on debit side, the balance arrived as a difference is known as **credit balance**.

(iii) Squared up Account : While making the totals in any account, if totals of both the sides are equal and there is no difference of amounts then the account is said as **squared up or settled**.

From the following illustration, understand the above concepts.

Illustration 10 : Following are the accounts extracted from the ledger of Shailja. From the balance of each account, decide whether it is a debit balance or credit balance.

Ledger of Shailja

Capital Account

Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 July 31	To balance c/f		4,70,000	2016 July 1 1	By cash A/c By building A/c		50,000 4,20,000
			4,70,000				4,70,000

Building Account

Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 July 1	To capital A/c		4,20,000	2016 July 31	By balance c/f		4,20,000
			4,20,000				4,20,000

Furniture Account

Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 July 2	To Ronak Fur. Mart A/c		40,000	2016 July 31	By balance c/f		40,000
			40,000				40,000

Purchase Account

Dr	Cr						
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 July 3	To Rajesh A/c		85,000	2016 July 31	By balance c/f		85,000
			85,000				85,000

Sales Account

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 July 31	To balance c/f		1,20,000	2016 July 7	By Jaineesh A/c		1,20,000
			1,20,000				1,20,000

Jaineesh's Account

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 July 7	To sales A/c		1,20,000	2016 July 8 31	By bank A/c By balance c/f		80,000 40,000
			1,20,000				1,20,000

Rajesh's Account

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 July 6	To cash A/c		15,000	2016 July 3	By purchase A/c		85,000
16	To bank A/c		20,000				
31	To balance c/f		50,000				
			85,000				85,000

Salary Account

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 July 30	To bank A/c		12,000	2016 July 31	By balance c/f		12,000
			12,000				12,000

Commission Received Account

Dr							Cr
Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2016 July 31	To balance c/f		8200	2016 July 25	By cash A/c		8200
			8200				8200

Cash Account

Dr		J. F.	Amount (₹)	Date		J. F.	Amount (₹)
2016 July 1	To capital A/c		50,000	2016 July 2	By bank A/c		5000
25	To commi. rec. A/c		8200	6	By Rajesh A/c		15,000
				31	By balance c/f		38,200
			58,200				58,200

Bank Account

Dr		J. F.	Amount (₹)	Date		J. F.	Amount (₹)
2016 July 2	To cash A/c		5000	2016 July 16	By Rajesh A/c		20,000
8	To Jaineesh A/c		80,000	30	By Salary A/c		12,000
				30	By Ronak Fur.Mart A/c		40,000
				31	By balance c/f		13,000
			85,000				85,000

Ronak Furniture Mart Account

Dr		J. F.	Amount (₹)	Date		J. F.	Amount (₹)
2016 July 30	To Bank A/c		40,000	2016 July 2	By furniture A/c		40,000
			40,000				40,000

Capital A/c : In this account, the total amount of credit side is ₹ 4,70,000. While, the total amount of debit side is zero. Therefore, the difference amount is ₹ 4,70,000 and it is called **Credit balance**.

Building A/c : In this account, the total amount of debit side is ₹ 4,20,000. While, the total amount on credit side is zero.. Therefore, the difference is ₹ 4,20,000 and it is called **Debit balance**.

So, in any account when the total amount of debit side is more than the total amount of credit side, then the difference is written on the credit side and the difference is called as the **Debit balance**.

In the above illustration, in furniture a/c, purchase a/c, Jineesh's a/c, salary a/c, cash a/c and bank a/c, the total of the amount on the debit side is more than the total of the amount on credit side. Therefore, the difference amount is to be shown on the credit side and it is called as the **Debit balance**.

In any account, if the total amount on the credit side is more than the total amount on the debit side, then the difference amount is to be shown on the debit side and it is called as the **Credit balance**. In the above illustration besides the capital a/c, in sales a/c, in Rajesh's a/c and also in commission received a/c, the difference is called **Credit balance**.

While in the Ronak Furniture Mart account the total amount of both sides are equal. Therefore there is no difference. Hence, this account is called '**squared up account**'.

Now let us prepare a statement of balances of all accounts included in above illustration. Thenafter, let us have a total of debit balances and credit balances.

Statement Prepared on the Basis of Balance of Accounts

Name of the Accounts	Debit Balance ₹)	Credit Balance ₹)
Capital Account	—	4,70,000
Building Account	4,20,000	—
Furniture Account	40,000	—
Purchase Account	85,000	—
Sales Account	—	1,20,000
Jaineesh Account	40,000	—
Rajesh Account	—	50,000
Salary Account	12,000	—
Commission Received Account	—	8200
Cash Account	38,200	—
Bank Account	13,000	—
Ronak Furniture Mart Account	—	—
Total Amount	6,48,200	6,48,200

Account of Ronak Furniture Mart is squared up. So, there is no balance.

Here, in the above prepared statement, the total of the amounts of debit balances and credit balances becomes equal. This type of statement is called Trial Balance. We will study this in detail in the next chapter.

In this chapter, we learnt that, the balance of any account is either debit or credit. According to the rules of debit and credit of double entry book-keeping system. Generally the debit or credit balance is fixed in any account.

Exercise

1. Select the correct option for each question :

- (1) What is called a 'King of Books' ?

(a) Journal book	(b) Journal proper book
(c) Ledger book	(d) Book for noting of transactions
- (2) Which book is called the original book ?

(a) Journal	(b) Ledger
(c) Journal proper	(d) Cash book
- (3) In which forms of ledger, the new pages can't be added as per requirement ?

(a) Card ledger	(b) Computer accounts
(c) Loose leave ledger	(d) Bound book ledger

- (4) Which type of account is called squared up account ?

 - (a) When the total amount of the debit side is more
 - (b) When the total amount of both the sides is equal
 - (c) When the total amount of the credit side is more
 - (d) When there is no transaction in the account

(5) Normally, which type of balance is found in asset account ?

 - (a) Credit balance
 - (b) Debit balance
 - (c) Debit or Credit balance
 - (d) Account is settled

(6) Goodwill is which type of asset and what is the type of its balance ?

 - (a) Tangible asset, debit balance
 - (b) Fictitious asset, credit balance
 - (c) Tangible asset, credit balance
 - (d) Intangible asset, debit balance

(7) How to show the closing balance of account in the column of particulars ?

 - (a) Balance carried forward
 - (b) Balance carried down
 - (c) Difference of balance
 - (d) Difference of amount

2. Give the answer of the following questions in one or two lines :

- (1) What is Ledger ?
 - (2) How many sides are there in an account ? Which are they ?
 - (3) What is an index of a ledger ?
 - (4) When do we have a debit balance or credit balance in an account ?
 - (5) What is squared up account ?
 - (6) Which columns are drawn in an account ?
 - (7) What is posting ?
 - (8) Which types of ledgers are popular ?
 - (9) What is the classification of ledger ?
 - (10) Ledger of individuals are shown under which type of classification ?
 - (11) Normally, which accounts are prepared in General ledger ?

3. Give the answer in detail of the following questions :

- (1) What is an account ? Explain it.
 - (2) Prepare a specimen of an account and explain its each column.
 - (3) What is a ledger ? Give the information regarding its utility.
 - (4) Explain the importance of a ledger.
 - (5) "Ledger is a principal book of account." or "Ledger is a king of books." - explain in detail.
 - (6) Give the detailed information regarding different forms (types) of ledger.
 - (7) What is posting ? Explain the process of posting with the help of simple journal entry.
 - (8) Explain the process of posting of a combined journal entry.
 - (9) Give the meaning of the classification of ledgers and explain this classification in detail.
 - (10) Explain the process of balancing an account with an illustration.

- 4. State whether the balances of the following accounts will have a debit balance or credit balance :**
- | | |
|-------------------------------------|---|
| (1) Purchase Account | (2) Sales Account |
| (3) Sales Return Account | (4) Debtor's (customer's) Account |
| (5) Capital Account | (6) Salary Account |
| (7) Rent Received Account | (8) Building Account |
| (9) Drawings Account | (10) Bad debts Account |
| (11) Goods burnt by fire Account | (12) Loss by theft Account |
| (13) Advertisement Expenses Account | (14) Contribution to Provident Fund Account |

- 5. In the books of Shri Katara, write journal entries, for the following transactions, draw necessary accounts in the ledger and post them accordingly :**

- (1) Brought ₹ 3,30,000 in business. From this ₹ 2,30,000 deposited in a bank.
- (2) Cash purchase ₹ 85,000.
- (3) From Ajmal Furniture Mart, a furniture of ₹ 11,500 is purchased for office use.
- (4) A cheque of ₹ 8000 is given to Kanubhai against dues.
- (5) Against the receivables of ₹ 7800 from Rajubhai, cheque received ₹ 7500 for full and final payment.
- (6) Cash sales of ₹ 15,000.
- (7) Credit sales to Rameshbhai of ₹ 75,000.
- (8) Salary paid of ₹ 6200.

- 6. In the book of Panchal Stores, write journal entries, for the following transactions, draw the necessary accounts, in the ledger and post them accordingly :**

2016

- April 1 Cash ₹ 40,000 and furniture of ₹ 20,000 brought in business.
- 2 Goods of ₹ 36,000 are sold to Dhaval stores at 10 % trade discount. For this, Dhaval Stores has paid a cash ₹ 15,000.
- 3 ₹ 18,000 is deposited in a bank.
- 4 Goods of ₹ 20,000 are purchased at 12 % trade discount from Dhara Stores. For this a cheque of ₹ 8000 is given.
- 5 Withdrawn from the bank ₹ 5000 for office expenses and ₹ 4000 for the household expenses.
- 7 Office expenses paid ₹ 2200.
- 8 Against the dues of ₹ 4830, paid ₹ 4800 in cash for the final settlement to Jayeshbhai.
- 9 Due to the fire in godown, goods of ₹ 3200 is burnt by fire and insurance company has accepted a claim of ₹ 2600 for the same.
- 10 Goods of ₹ 6600 are purchased from Anil Traders and towards this, payment of ₹ 2600 is made in cash.
- 12 Paid ₹ 4800 for shop rent and ₹ 6000 for house rent.
- 13 Paid ₹ 4000 to Anil Traders by cheque.

- 7. From the following transactions prepare subsidiary books of Amjad Garments and post them in necessary accounts in the ledger :**

2016

- August 1 Goods of ₹ 48,000 are purchased at 10 % trade discount from Zuben Traders.
- 2 Goods of ₹ 42,000 are purchased at 5 % trade discount from Mazhar.

- 3 Goods of ₹ 20,000 are purchased at 5 % trade discount from Mahesh Stores.
- 4 Purchaed furniture of ₹ 12,000 from Ashraf Furniture Mart.
- 7 Goods of ₹ 24,000 is sold at 20 % profit to Rajabhai at 10 % trade discount.
- 8 Goods of ₹ 36,000 are sold to Salman at 5 % trade discount.
- 9 Goods of ₹ 4000 are returned to Dineshbhai.
- 10 Goods of ₹ 12,000 are sold to Chinubhai at 10 % trade discount.
- 14 Goods of ₹ 6200 are returned by Rajabhai.
- 15 Goods of ₹ 3500 are returned to Salim.
- 16 Goods of ₹ 1600 are returned by Mitul.

8. From the following transactions prepare subsidiary books of Janki Stores and post them in necessary accounts :

2016

- June 1 Goods of ₹ 9000 are sold at 10 % profit to Shakil Traders. Outward invoice no. 251.
- 2 Goods of ₹ 9600 are purchased from Nargis at 10 % trade discount. Inward invoice no. 636.
- 3 Goods of ₹ 5600 are sold at 15 % profit to Nitin Stores. Outward invoice no. 252.
- 4 Goods of ₹ 6000 are purchased from Paresh at 5 % trade discount. Inward invoice no. 525.
- 5 Goods of ₹ 750 are received back from Vishwas. Credit note no. 81.
- 7 Goods of ₹ 900 returned to Bharat. Debit note no. 221.
- 8 Goods of ₹ 1100 returned by Nitin, as the goods were not according to sample. Credit note no. 82.
- 9 As the goods of ₹ 920 are damaged, they are returned back to Nargis. Debit note no. 222.
- 10 Three cupboards at the rate of ₹ 2400 each are purchased from Ashwin Furniture Mart. Credit bill no. 67.
- 14 As one of the cupboard from those which were purchased from Ashwin Furniture Mart, is in damaged condition it is returned to them. Debit note no. 223.

9. The following is the information relating to purchase of goods by Manglam Sari Centre. From this prepare their goods wise columnar purchase book and post them in ledger.

2016

- Sept. 1 40 Cotton sarees at the rate of ₹ 450 and 20 silk sarees at the rate of ₹ 600 are purchased from Ladli Fashion Stores at 10 % trade discount. Inward invoice no. 23.
- 2 25 Silk sarees at the rate of ₹ 750 and 10 Badhani sarees at the rate of ₹ 1000 are purchased from Poonam Sari Centres at 10 % trade discount. Inward invoice no. 204.
- 3 20 cotton sarees at the rate of ₹ 400, 30 silk sarees at the rate of ₹ 800 and 15 Bandhani sarees at the rate of ₹ 1200 are purchased from Rajvi Stores at 20 % trade discount. Inward invoice no. 321.

10. From the following information, prepare a columnar (expense-wise) purchase book of John Fashion and post them in ledger :

2018

- July 1 Goods of ₹ 14,000 are purchased from Pestanji at 10 % trade discount. Trader has given a bill along with wages of ₹ 240 and railway freight of ₹ 200.
- 2 Goods of ₹ 12,800 are purchased from Rustamji at 5 % trade discount. In the invoice of the trader is shown ₹ 220 for the railway freight and ₹ 100 for carriage.
- 3 Goods of ₹ 10,000 are purchased from Tomy Traders at 5 % trade discount. In the invoice which is sent by the trader, it is shown ₹ 200 for wages and ₹ 80 for carriage.

- 11. From the following transactions prepare different subsidiary book with GST at 12 % in the books of Amar Trading of Ahmedabad. Write journal entries also and make posting of them. GST is not included for following transactions. Add applicable amounts of GST and prepare subsidiary books, journal entries and posting of them.**

2019

- May 1 Goods purchased of ₹ 90,000 at 10 % trade discount from Jatin Traders of Jamnagar. Railway freight ₹ 3000. Invoice no. 321.
- 3 Goods purchased of ₹ 80,000 from Vinod Traders of Pune (Maharashtra). Railway freight ₹ 3200, labour charges ₹ 600 and invoice no. 322.
- 5 Goods sold of ₹ 72,000 at 10 % trade discount to Rajiv Trading of Rajkot. Railway freight ₹ 500, labour charge ₹ 300 and invoice no. 471.
- 7 Goods sold of ₹ 50,000 at 10 % trade discount to Uday Trading of Udaipur (Rajasthan). Railway freight ₹ 600 and wages ₹ 300. Invoice no. 472.
- 12 50 % goods returned by Rajiv Trading of Rajkot. ₹ 200 of railway freight and ₹ 150 of labour charge are adjusted. Credit note no. 16.
- 18 Goods of ₹ 20,000 returned to Vinod Traders of Pune (Maharashtra). ₹ 1000 and railway freight and ₹ 200 of labour charge are adjusted. Debit note no. 31.

- 12. From the following information of Mahashankar Stores, prepare three columnar cash book and post it in ledger :**

2016

- Oct. 1 Cash balance ₹ 30,000, bank balance ₹ 42,000
- 3 Withdraw ₹ 12,000 from bank for business.
- 4 Cash purchase ₹ 5500, cash sales ₹ 16,000
- 5 Gave a cheque of ₹ 1200 for the purchase of office stationery.
- 8 A cheque of ₹ 4500 is given to Shivshankar for full settlement towards payables of ₹ 4515.
- 9 Against the receivables of ₹ 16,200, due from Devshankar, received ₹ 6000 in cash and ₹ 10,000 by cheque in full settlement.
- 10 A cheque of ₹ 2100 is given to 'Umashankar News Agency', for the advertisement in newspaper.
- 11 Paid ₹ 2200 as the electricity bill of the shop and ₹ 1200 as the electricity bill of the residence from the business.
- 12 By paying cash of ₹ 8600, Premshankar has closed his account of ₹ 8680.

- 13. From the following information prepare a petty cash book in the books of Anup Stores and post them in ledger :**

2016

- July 1 Cash balance ₹ 2800.
- 2 Received ₹ 5000 from the cashier, Ishan.
- 3 Paid ₹ 250 for wages and ₹ 120 for cartage.
- 4 ₹ 320 paid for the purchase of stationery.

- 5 ₹ 150 paid for sending the post.
 7 Paid cartage of ₹ 130 for the goods purchased.
 8 ₹ 250 paid for recharge of the office mobile.
 10 Paid ₹ 80 for the photocopy of office work.
 11 Paid ₹ 1200 to Purvi and ₹ 800 to Hiya.

14. From the following transactions pass journal entries in the books of Dharmendra and post them in ledger. Find out the balance of each account and decide which account has which balance.

2016

- July 1 Commenced a business by bringing in cash of ₹ 80,000 and furniture of ₹ 20,000.
 2 A bank account is opened, by depositing ₹ 30,000.
 3 Goods of ₹ 12,000 are purchased from Mahendra at 6 % trade discount and paid cash ₹ 4000.
 5 Goods of ₹ 7500 are sold to Narendra at 10 % trade discount and he has paid ₹ 2000.
 6 Paid in cash ₹ 3000 for shop board and ₹ 4000 for advertisement in a newspaper.
 7 Paid life insurance premium of ₹ 6000 and son's school fees of ₹ 2200 from the shop.
 8 Given a cheque of ₹ 7200 to Mahendra and settled his account.
 10 Received a cheque of ₹ 4700 from Narendra in full settlement.
 11 Purchased the furniture of ₹ 5000 from Surendra Hardware. Against this given ₹ 3000 by cheque and ₹ 2000 in cash.

15. From the following transactions pass journal entries in the books of Badshah. Post them in ledger. Find out the balance of each account and state whether it is a debit balance or credit balance and also mention the amount :

2016

- Nov. 1 Brought ₹ 75,000 cash and goods of ₹ 15,000 in the business.
 2 Deposited ₹ 40,000 in bank.
 3 Goods of ₹ 15,000 are purchased from Aunti at 10 % trade discount and paid ₹ 3000 cash.
 5 Goods of ₹ 20,000 are sold at 30 % profit to Govind, at 10 % trade discount. Govind has given a cheque of ₹ 5000, which is deposited in the bank.
 7 Paid salary ₹ 4500 and cartage ₹ 450.
 8 Fire insurance premium of ₹ 2000 is paid by cheque.
 10 Paid ₹ 3500 by cheque to Shah Agency for an advertisement in a newspaper.
 12 Goods of ₹ 24,000 purchased from Chakan at 10 % trade discount and paid ₹ 9600 cash to Chakan.
 14 Paid ₹ 10,000 by cheque to Aunti and the balance amount in cash.
 15 A cheque of ₹ 18,400 send by Govind. Which is deposited in the bank.
 16 Paid ₹ 4000 from the business for the school fees of daughter, Urja.

- 16. Record the following transactions in three columnar cash book of Mohan. Post them in necessary accounts. Find out the balance of each account and show the amount and type of balance :**

2016

- Aug. 1 Opening cash balance ₹ 24,000 and bank balance ₹ 20,000
2 Cash deposited in bank ₹ 14,000.
3 Goods of ₹ 20,000 are sold to Sureshbhai, for which we received cash ₹ 8000 and for the balance we received a cheque which is deposited in the bank.
5 Paid shop rent ₹ 1500 by cheque and salary of ₹ 2500 in cash.
7 Goods of ₹ 8700 are purchased from Dineshbhai, for which paid ₹ 700 in cash.
9 Paid a electricity bill of ₹ 1870 and telephone bill of ₹ 530 by chque.
11 Goods of ₹ 9000 are sold to Kanji at 10 % trade discount. For which, received ₹ 1900 in cash.
13 Jyantibhai has paid ₹ 4800 for his dues of ₹ 5000 and settled his account.
16 Gave a cheque of ₹ 7600 to Dineshbhai and settled his account.
17 Paid ₹ 1800 in cash from business for gift on Shital's marriage function.
20 Goods of ₹ 11,000 are sold to Pandya Brothers and he has paid the full amount at 2 % cash discount.
22 Received a cheque of ₹ 6000 from Kanji in full settlement against his dues of ₹ 6200.
24 Received a cheque of ₹ 1600 for commission, which is deposited in the bank.



Trial Balance

- | | |
|----------------------------|---|
| 1. Introduction | 4. Mathematically Correct Trial Balance but Incorrect as per the Rules of Account |
| 2. True and Fair View | 5. Incorrect Trial Balance as per Mathematical and Accounting Rules |
| 3. What is Trial Balance ? | — Exercise |
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1. Introduction

We have studied in chapter 1 that accounting is a science and an art. Since accounting is a science, it has its own rules, principles and traditions. All these aspects are considered during the preparation of accounts. As we have studied earlier, the accounting system is used by the businessmen as well as other stake holders. Thus, the prepared accounts have to be certified. A certificate in the company form is expected, stating that the accounts disclose true and fair economic condition. In non-corporate form, true and fair view is implicitly expected.

2. True and Fair View

The following points determine that the business accounts are true and fair :

- (1) Accounts are correct as per the mathematical view point.
- (2) Accounts are prepared on the basis of rules.

Accounts preparation method in double entry system where there are minimum two effects for transaction - debit and credit. Thus debit total of all the transactions is equal to the total of credit side or the total of credit side is equal to the total of debit side. If the total of debit and credit side are not identical, than mathematically accounts are not correct.

Accounting is a science, thus to record the transactions three types of accounts are used - Personal accounts, Nominal accounts and Real accounts. If the transactions are recorded on the basis of their rules, accounts would disclose the true position.

How to know that the accounts are mathematically correct or not ? We will study this issue in this chapter.

The statement that discloses that the accounts are mathematically correct is known as trial balance. The writing of accounts starts with transactions. As per the chronological order, the first transaction is identified and recorded in the journal or subsidiary books. Posting is done in Ledger book. Balances of all accounts are ascertained from the ledger book. These balances are debit and credit. A statement where these balances are disclosed is known as trial balance. A total of debit-balances and total of credit balances shown in trial balance has to be identical. This status shows that prime face and mathematically accounts are correct.

3. What is Trial Balance ?

"Trial balance is a statement which shows that debit balances and credit balances disclosed in it are mathematically correct. Here, if the total of debit balances and the total of credit balances is identical, then it can be said that the trial balance is mathematically correct."

Trial balance is prepared for the respective day. For e.g. Trial balance of Shri Ramanlal as on 31-3-2015. Such title is given at the time of the preparation of the trial balance. Balances disclosed in trial balance are a summary in nature of the respective accounting period.

(1) Characteristics of trial balance :

- (i) It is a statement :** Trial balance is in the form of a statement. It is not treated as account.
- (ii) Specific period :** Trial balance has a specified time period. Generally trial balance is prepared at the end of an accounting period. For the period of 1 year means for 12 months. Trial balance for the period of less than 12 months can also be prepared.
- (iii) Mathematical accuracy of accounts :** All the debit balances and credit balances of ledger are disclosed in it. The accuracy of both balances is determined by this trial balance.
- (iv) Double entry system :** Wherever double entry system is used, a trial balance will be prepared.
- (v) Pre-stage of final accounts :** Before preparation of final accounts, a trial balance is prepared. Before preparing final accounts, all possible mistakes are traced, so that the accounts would disclose true and fair view.

(2) Objectives of trial balance :

- (i) Arithmetical accuracy :** A mathematical accuracy of accounts of ledger is done by a trial balance. It is checked that total of the debit balances and credit balances is identical.
- (ii) Locate error and their rectification :** If the total of debit and credit balances of a trial balance is not same, errors are to be located.
- (iii) Easy preparation of final accounts :** Trial balance is a pre stage of the preparation of the final accounts. Possibly, maximum errors are ascertained at this stage. So that there can be minimum mistake in final accounts or non-existence of mistakes. Thus, final accounts are prepared easily and quickly.
- (iv) Balances of accounts :** Balance of each account which is included in the accounts book is disclosed in a trial balance. Thus, the balance of any account is available from a trial balance.

Trial balance is a very significant component of accounting system. When a trial balance discloses identical total on both the sides, then, other than mathematical error are required to be traced.

(3) Methods of preparation of a trial balance :

- (i) Total method :** Under this method total of the debit side and the credit side of an account has to be done. Total of the debit side and the credit side are disclosed. For e.g. Goods of ₹ 20,000 are sold to Ramesh on credit. Received cash ₹ 18,000 from Ramesh. ₹ 20,000 will be debited in Ramesh's A/c and ₹ 18,000 paid by him will be credited to his account. These amounts will be displayed in trial balance. ₹ 20,000 as the total of debit side and ₹ 18,000 as the total of credit side. Generally, this method is not so much popular.

The format of this type of trial balance is as follows :

Trial Balance of Shri Ramanlal as at 31-3-2015

Name of Accounts	L.F.	Total of debit side of a/c (₹)	Total of credit side of a/c (₹)
✓		✓	
✓		✓	
✓		✓	
✓			✓
✓			✓
✓			✓
		✓	✓

Illustration 1 : Total accounts of debit side and credit side from the books of Shri Dharam as on 31-3-2015 are provided. Prepare a trial balance from it.

Name of Accounts	L.F.	Total of debit side of a/c (₹)	Total of credit side of a/c (₹)
Capital Account		—	90,000
Drawings Account		20,000	—
Param's Account		3000	9500
Karam's Account		4000	6000
Asmita's Account		8000	2000
Khusbhu's Account		10,000	3000
Sheth & Brother's Account		9000	2000
Cash Account		57,000	49,500
Bank Account		30,000	8000
Furniture Account		20,000	—
Purchase Account		25,000	—
Sales Account		—	28,000
Salary Account		5000	—
Wages Account		6000	—
Stationery Account		1000	—
Discount Account		2000	—
Purchase Return Account		—	2000

Trial Balance of Shri Dharam as on 31-3-2015

Name of Accounts	L.F.	Total of debit side of a/c (₹)	Total of credit side of a/c (₹)
Capital account		—	90,000
Drawings account		20,000	—
Param's account		3000	9500
Karam's account		4000	6000
Asmita's account		8000	2000
Khusbu's account		10,000	3000
Sheth & Brother's account		9000	2000
Cash account		57,000	49,500
Bank account		30,000	8000
Furniture account		20,000	—
Purchase account		25,000	—
Sales account		—	28,000
Salary account		5000	—
Wages account		6000	—
Stationery account		1000	—
Discount account		2000	—
Purchase return account		—	2000
		2,00,000	2,00,000

(ii) **Balance method** : In this method, the difference of the total of debit side and the total of credit side of the account is disclosed in trial balance. When the total of debit side in the account is more the 'difference would appear at credit side, but it is treated as a debit balance. When total of the credit side is more, difference would appear at the debit side, but it is treated as a credit balance. This method is popular in practice. On the basis of this method, final accounts are prepared.

For e.g. In the above mentioned illustration, in account of Ramesh ₹ 20,000 is shown at the debit side and ₹ 18,000 at the credit side. Under this method, the difference amount of ₹ 2000 will be disclosed as debit balance.

Dr	Ramesh's Account		Cr
Particulars	Amount (₹)	Particulars	Amount (₹)
To Sales A/c	20,000	By cash A/c By balance c/f	18,000 2000
	20,000		20,000

So, now instead of showing ₹ 20,000 on debit side and ₹ 18,000 on credit side in a trial balance, net amount of ₹ 2000 will be shown on the debit side.

Trial balance can be prepared either in the form of a statement or in the form of an account. (In the form of debit balances and credit balances). Illustration 2 shows a trial balance in the form of a statement, where the first column shows the name of account, second has ledger folio number, the third has the amount of debit balance and the fourth has the amount of credit balance.

Illustration 3 is prepared in the form of an account. Where the first column shows the name of account which has the debit balance, second for the amount of the account which has the debit balance, third has the name of the account which has the credit balance and fourth for the amount of the account which has the credit balance.

Illustration 2 : The following balances are extracted from the books of Inder. From these prepare a trial balance as on 31-3-2015.

Name of Account	Amount (₹)	Name of Account	Amount (₹)
Capital account	2,10,400	10 % government securities	25,000
Drawings account	10,000	Opening stock	75,000
Debtors	43,750	Purchase account	73,250
Creditors	35,600	Sales account	1,06,000
Cash	88,050	Purchase return account	9250
Furniture	25,000	Sales return account	6250
Bank balance	39,900	Goods withdrawn for personal use	5000
Commission received	1500	Bank loan	25,000
Bank commission	350	Discount allowed	5000
Electricity expenses	6200	Discount received	1500
Wages	1500	Carriage	1000
Salary	5000	Loss due to fire	3000
Goods destroyed by fire	15,000	Telephone expenses	1000

Explanation for Debit Balance and Credit Balance

Balances	Personal Accounts	Real Accounts	Nominal Accounts
Debit Balances :	Drawings account Debtors	Cash account Furniture Bank balance 10 % government securities Opening stock Purchase account Sales return account	Bank commission Electricity expenses Wages Salary Discount allowed Carriage Loss due to fire Telephone expenses

Balances	Personal Accounts	Real Accounts	Nominal Accounts
Credit Balances :	Capital account Creditors Bank loan	Goods destroyed by fire Sales account Purchase returns account Goods withdrawn for personal use	Commission received Discount received

Trial Balance of Inder as on 31-3-2015

Name of Accounts	L.F.	Debit side of a/c (₹)	Credit side of a/c (₹)
Capital account		—	2,10,400
Drawings account		10,000	—
Debtors		43,750	—
Creditors		—	35,600
Cash		88,050	—
Furniture		25,000	—
Bank		39,900	—
Commission received		—	1500
Bank commision		350	—
Electricity expenses		6200	—
Wages		1500	—
Salary		5000	—
Goods destroyed by fire		—	15,000
10 % government securities		25,000	—
Opening stock		75,000	—
Purchase account		73,250	—
Sales account		—	1,06,000
Purchase returns account		—	9250
Sales returns account		6250	—
Goods withdrawn for personal use		—	5000
Bank loan		—	25,000
Discount allowed		5000	—
Discount received		—	1500
Carriage		1000	—
Loss due to fire		3000	—
Telephone expenses		1000	—
Total		4,09,250	4,09,250

Note : Above mentioned trial balance is prepared in the form of a statement.

The above mentioned illustration can be prepared in the form of account as follows :

Trial Balance of Inder as on 31-3-2015

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Drawings account	10,000	Capital	2,10,400
Debtors	43,750	Creditors	35,600
Cash	88,050	Commission received	1500
Furniture	25,000	Goods destroyed by fire	15,000
Bank	39,900	Sales account	1,06,000
Bank commission	350	Purchase returns account	9250
Electricity expenses	6200	Goods withdrawn for personal use	5000
Wages	1500	Bank loan	25,000
Salary	5000	Discount received	1500
10 % government securities	25,000		
Opening stock	75,000		
Purchase account	73,250		
Sales returns account	6250		
Discount allowed	5000		
Carriage	1000		
Loss due to fire	3000		
Telephone expenses	1000		
	4,09,250		4,09,250

Illustration 3 : The following balances are extended from the book of Shri Amit on 31-3-2016. From these balances prepare a trial balance of Shri Amit.

Name of A/c	Amount (₹)	Name of A/c	Amount (₹)
Owner's capital	48,000	Drawings	2000
Bank balance	14,000	Cash balance	4800
Travelling expenses	480	Salary	800
Debtors	14,040	Interest received	200
Rent	600	Sales returns account	2200
Purchase returns account	1400	Sales	36,800
Purchase	28,000	Provident fund contribution	320
Provident fund	1000	Loan borrowed	9200
Machines	7200	Stock of goods	34,000
Creditors	8640	Advertisement expenses	480
Stationery expenses	400	Furniture	9800
Discount received	280	Discount allowed	400
Bills payable	3000	Bills receivable	6000
Commission received	4000	Bad debts	1000
Loan from friend	6000	Expenses outstanding	8000

Determine the debit balances and credit balances from the above balances. Also determine to which types of account is applicable for these debit and credit balances.

Explanation for Debit Balance and Credit Balance

Balances	Personal Accounts	Real Accounts	Nominal Accounts
Debit Balances :	Drawings Bills receivable Bank balance Debtors	Purchase Machines Cash balance Sales returns Stock of goods Furniture	Travelling expenses Rent Stationery expenses Contribution to Provident fund Advertisement expenses Discount allowed Bad debts Salary
Credit Balances :	Owner's capital Provident fund Creditors Bills payables Loan borrowed Loan from friend Expense outstanding	Purchase returns Sales	Discount received Commission received Interest received

Trial balance of Shri Amit as on 31-3-2016

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Bank balance	14,000	Owner's capital	48,000
Travelling expenses	480	Purchase returns	1400
Debtors	14,040	Provident fund	1000
Rent	600	Creditors	8640
Purchase	28,000	Discount received	280
Machines	7200	Bills payables	3000
Stationery expenses	400	Commission received	4000
Drawings	2000	Loan from friend	6000
Cash balance	4800	Interest received	200
Salary	800	Sales	36,800
Sales returns	2200	Loan borrowed	9200
Contribution to Provident fund	320	Expenses outstanding	8000
Stock of goods	34,000		
Advertisement expenses	480		
Furniture	9800		
Discount allowed	400		
Bill receivable	6000		
Bad debts	1000		
	1,26,520		1,26,520

4. Mathematically Correct Trial Balance but Incorrect as per the Rules of Accounts

Many a times it is observed that the total of debit side and credit side are identical but the item, of debit side is disclosed at the credit side and the item of the credit side is disclosed at the debit side. Thus accounts prepared on the basis of such trial balance do not disclose true and fair view of accounts. Thus it becomes essential to modify a trial balance. Illustration in this context is as follows :

Illustration 4 : Trial balance of Himani as on 31-3-2016 is provided as follows. Determine whether the trial balance is correct or not from the view point of rules of accounts. If mistakes are reported, prepare a modified trial balance.

Trial Balance of Himani as on 31-3-2016

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Suppliers (Creditors)	10,000	Capital	25,000
Bills payables	9000	Salary	5000
Interest received	6000	Bank overdraft	10,000
Discount received	750	Customers (Debtors)	20,000
Machines	10,500	Discount allowed	250
Stock of goods	15,000	Sales	30,000
Purchase	35,000	Sales returns	4250
Wages	4500	Rent paid	9000
Purchase returns	3750		
Commission received	7000		
Dividend received	2000		
	1,03,500		1,03,500

Credit balances disclosed at debit side	Amount (₹)	Debit balances disclosed at credit side	Amount (₹)
Suppliers (Creditors)	10,000	Salary	5000
Bills payables	9000	Customers (Debtors)	20,000
Interest received	6000	Discount allowed	250
Discount received	750	Sales returns	4250
Purchase returns	3750	Rent paid	9000
Commission received	7000		
Dividend received	2000		
	38,500		38,500

Note : Total of items wrongly written on both sides is ₹ 38,500. Thus, mathematically, the trial balance is correct, but as per the rules of account, it is not valid. A modified trial balance is given on next page.

A Modified Trial Balance of Himani as at 31-3-2016

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Salary	5000	Suppliers (Creditors)	10,000
Customer (Debtors)	20,000	Bills payables	9000
Discount allowed	250	Interest received	6000
Sales returns	4250	Discount received	750
Rent paid	9000	Purchase returns	3750
Machine	10,500	Commission received	7000
Stock of goods	15,000	Dividend received	2000
Purchase	35,000	Capital	25,000
Wages	4500	Bank overdraft	10,000
		Sales	30,000
	1,03,500		1,03,500

5. Incorrect Trial Balance as per Mathematical and Accounting Rules :

Many a times total of both the sides of a trial balance are not found identical, due to a mistake by an accountant or due to the lack of experience. In these circumstances, errors are to be traced out and it becomes essential to prepare a modified trial balance. An illustration in this context is as follows :

Illustration 5 : Total of both the sides of trial balance as on 31-3-2016 of Shri Atul are not identical.

Ascertain errors and prepare a modified trial balance.

Trial Balance of Shri Atul as on 31-3-2016

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Opening stock	22,500	Sales	3,75,000
Bad debts reserve	2400	Investments	15,000
Interest on investments	900	Sales returns	25,500
Purchase	2,25,000	Capital	42,000
Salary	25,500	Bills receivable	19,500
Carriage outward	7350	Debtors	75,000
Purchase returns	13,050	Rent received	1050
Motar car	24,000	Interest on loan	1080
Wages	6750	Discount received	2250
Telegram-post	600	Carriage inward	10,500
Drawings	6000		
Cash balance	1500		
Bills payables	9750		
Bank overdraft	12,000		
Sundry expenses	13,050		
Creditors	45,000		
Bad debts	1950		
Taxes-Insurance	6120		
Bank loan	36,000		
Advertisement expenses	7500		
Land-Building	45,000		
	5,11,920		5,66,880

Total of the credit side is ₹ 5,66,880 and of the debit side is ₹ 5,11,920. Total of the credit side is excess by ₹ 54,960. If the difference of wrongly recorded items comes to ₹ 54,960 ÷ 2 = ₹ 27,480, differences ascertained of items would be disclosed by a true trial balance.

Credit balances disclosed at debit side	Amount (₹)	Debit balances disclosed at credit side	Amount (₹)
Bad debts reserve	2400	Investments	15,000
Interest on investments	900	Sales returns	25,500
Purchase returns	13,050	Bills receivables	19,500
Bills payables	9750	Debtors	75,000
Bank overdraft	12,000	Interest on loan	1080
Creditors	45,000	Carriage inward	10,500
Bank loan	36,000		
	1,19,100		1,46,580

Here, the total of credit side is ₹ 1,46,580 and total of the debit side is ₹ 1,19,100. The difference of the credit side is excess by ₹ 1,46,580 – ₹ 1,19,100 = ₹ 27,480. Thus, from the given total of the credit side of the trial balance which is ₹ 5,66,880, ₹ 27,480 would be deducted. Balancing figure ₹ 5,39,400 is the true total on the credit side. Similarly, the total of the debit side of the trial balance which is ₹ 5,11,920, ₹ 27,480 will be added. Total amount would arrive at 5,39,400.

Now, the total of the debit side and credit side will be identical. Thus mathematically and from the view point of rules, trial balance would depict a true picture.

Modified trial balance is as follows :

Trial Balance of Shri Atul as on 31-3-2016

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Investment	15,000	Bad debts reserve	2400
Sales returns	25,500	Interest on investments	900
Bills receivable	19,500	Purchase returns	13,050
Debtors	75,000	Bill payable	9750
Interest of loan	1080	Bank overdraft	12,000
Carriage inward	10,500	Creditors	45,000
Opening stock	22,500	Bank loan	36,000
Purchase	2,25,000	Sales	3,75,000
Salary	25,500	Capital	42,000
Carriage outward	7350	Rent received	1050
Motor car	24,000	Discount received	2250
Wages	6750		
Postage	600		
Drawings	6000		
Cash balance	1500		
Sundry expenses	13,050		
Bad debts	1950		
Taxes-Insurance	6120		
Advertisement expenses	7500		
Land-Building	45,000		
	5,39,400		5,39,400

Exercise

1. Select appropriate option for each question :

- (1) After which stage trial balance is prepared ?
 - (a) after journal
 - (b) after adjustment
 - (c) after ledger
 - (d) before ledger
- (2) What is prepared on the basis of a trial balance ?
 - (a) annual accounts
 - (b) adjustments
 - (c) ledger
 - (d) subsidiary books
- (3) What is the duration of accounts disclosed in a trial balance ?
 - (a) 1 year
 - (b) of any time
 - (c) of 6 months
 - (d) of 3 months
- (4) What are the methods to prepare a trial balance ?
 - (a) only in a statement form
 - (b) only in account form
 - (c) any other method
 - (d) (a) and (b) both
- (5) Mathematically, correct trial balance means,
 - (a) excess balance on debit sides
 - (b) excess balance on credit side
 - (c) identical total on both sides
 - (d) zero total on both sides

2. Answer the following question in one line :

- (1) When is a trial balance called 'mathematically correct' ?
- (2) How many sides are there of a trial balance ?
- (3) What do you know about the total of both the sides of a trial balance ?

3. Answer the following question in two or three lines :

- (1) Explain total methods and balance method.
- (2) Explain statement form and account form of trial balance.
- (3) Explain two features of trial balance.
- (4) Explain two objectives of trial balance.
- (5) When is the concept of true and fair realized ?

4. From the given information prepare trial a balance of Pravin Patel as on 31-3-2016 :

Name of A/c	Amount (₹)	Name of A/c	Amount (₹)
Opening stock	7440	Bank loan	1760
Wages	4000	Carriage inward	1200
Sales	48,000	Purchase	30,000
Repairing	800	Carriage outward	600
Tax	600	Debtors	8000
Land-Building	2400	Cash balance	80
Plant-Machinery	3000	Loose tools	720
Electricity expenses	920	Creditors	3200
Capital	16,000	Sundry incomes	240
Office salary	1000	Office furniture	240
Patent	400	Goodwill	6000
Bank balance	1800		

5. From the following balances of accounts prepare a trial balance of Shri Brijmohan as on 31-3-2016.

Name of A/c	Amount (₹)	Name of A/c	Amount (₹)
Opening stock	7800	Plant - Machineries	4500
Freehold assets	15,000	Wages	1000
Sundry debtors	6000	Carriage inward	90
Factory expenses	800	Royalty	100
Purchase of raw material	7500	Carriage outward	100
Factory rent	700	Capital	8000
Discount allowed	400	Discount received	360
Sundry creditors	2000	Insurance	200
Bad debts reserve	150	Commission received	1500
Commission paid	500	Bad debts	150
Office expenses	750	Salary	1000
Travelling expense	100	Legal expense	100
Bank balance	420	Cash balance	400
Loan borrowed	3000	Office rent	400
Net sales	33,000		

6. Trial balance prepared by Vallabh is as follows. If any error lies in it, prepare a modified trial balance and give reasons for it :

Name of A/c	Amount (₹)	Name of A/c	Amount (₹)
Opening stock	6000	Capital	61,000
Sales	86,000	Discount allowed	1500
Sales return	4000	Commission received	1700
Wages-Salary	31,000	Fixed assets	61,000
Bills receivable	8000	Purchase	46,000
Debtors	10,000	Purchase return	3000
Rent	4000	Carriage inward	1600
Cash	1800	Carriage outward	1700
Creditors	7900	Bills payables	13,000
Closing stock	34,800	Interest paid	3000
	1,93,500		1,93,500

7. The trial balance of Shri Pareshkumar as on 31-3-2016 shows a difference in the total of debit and credit balances. Ascertain errors and prepare a modified trial balance :

Name of Account	L.F.	Debit Balance (₹)	Credit Balance (₹)
Capital		66,000	—
Stock of goods		9000	—
Purchase		—	90,000
Sales		96,000	—
Goods return debit		1200	—
Goods return credit		—	6000
Wages - Salary		11,400	—
Advertisement expense		2580	—
Rend paid		—	1800
Bad debts		1200	—
Building		42,600	—
Creditors		9000	—
Debtors		—	8400
General reserve		5400	—
Income tax		—	1800
Bank balance		2820	—
Dividend		—	5000
Commission received		—	10,000
Bills receivable		15,000	—
		2,62,200	1,23,000



Bank Reconciliation Statement

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1. Introduction

Double column or triple column cashbook is prepared to record cash and bank transactions. In the current scenario bank services are very important for any trade or business. To pay and to receive the amount of payments and recovery through bank is also very popular. In modern age quantum of transactions with bank have also increased manifold. For the transactions with or through bank, when any trader opens a bank account, bank gives a passbook or a statement to him. In this passbook different transactions that have been effected by a trader with the bank are recorded. A passbook is a copy of the trader's account prepared by the bank in its books. The bank fills up the details in the passbook to its customers.

If a trader has maintained a bank account in his ledger or has maintained a bank column in the cashbook to record bank transactions, the balance of bank account is worked out at regular time intervals viz. weekly, fortnightly, monthly etc. Generally, if a trader and the bank, both parties, have recorded all transactions, correctly and without any mistake, the balance of the bank account in the ledger of a trader and balance as per passbook should tally. But because of the errors committed or omission in recording the transactions either by a bank or a trader, or due to other reasons, if a difference arises between the balance as per bank account and the balance as per passbook, it becomes necessary to find out the reasons of such difference. After detection of the reason, a statement prepared to reconcile the balance as per the bank account and as per the passbook, is known as bank reconciliation statement or bank reconciliation.

Bank reconciliation statement is not an account but it is only a statement. It is used in reconciling the balance as per the passbook and balance as per the bank account after finding out the causes and explaining such difference.

Two things are very important to prepare a bank reconciliation statement. Bank account in the books of a trader i.e. cashbook and trader's account in the books of a bank i.e. passbook. Bank account in trader's book is prepared either separately or as a bank column in cashbook as we have studied earlier in the chapter of cashbook. Now let us understand trader's account in the books of a bank. i.e. passbook.

2. Passbook

“Passbook means a copy or extract of a trader's account in the books of a bank.” A passbook therefore, is a book or a statement giving information regarding the transactions recorded by a bank in a trader's account in the ledger maintained by the bank. When a trader opens an account with the bank,

a book given by the bank to record the details of that account is known as passbook. Now a days instead of giving the passbook, the bank gives statement at fixed time intervals which substitutes the passbook.

When a trader deposits cash or cheque in a bank or a bank collects money on behalf of a trader, at that time to give credit of that amount to a trader, bank records it in the credit column of the passbook. Similarly when a trader withdraws from bank or draws a cheque on bank or when bank pays the amount on behalf of a trader or recovers some expenses or commission from the trader, it is recorded by the bank in the debit column of the passbook.

For a bank, trader's account is a personal account and therefore the rules of personal account applies to it i.e. as per the rule, debit the receiver and credit the giver, bank debits or credits the trader's account in the passbook. When a trader withdraws cash from the bank, pays for any expenses or makes any other payments, a trader becomes receiver and therefore that amount is debited to his account and when he deposits cash in the bank or bank collects any other amounts on behalf of a trader, he becomes giver and therefore that amount is credited to his account. In present times, a computerized passbook is issued by the bank to the customers.

Specimen of a Passbook

Date	Particulars	Cheque No.	Amount withdrawn (Debit) (₹)	Amount Deposited (Credit) (₹)	Balance (₹)	Sign. of Bank Officer

(i) Date : In this column the date on which the transaction with bank has taken place, is recorded.

(ii) Particulars : In this column details of the transaction are recorded. By the means through which the bank balance is increased or reduced is recorded in this column. e.g. If payment is made by cheque, cheque number is recorded and if cash is deposited in bank, it is recorded as 'Cash'. The column next to the particulars' column displays the cheque no. issued by the trader.

(iii) Amount Withdrawn : In this column, the amount of cash withdrawn by a trader as well as the amount of payment made by a cheque is recorded. Amount of different types of charges collected by a bank as well as the amount of expenses paid by bank on behalf of a trader is also recorded in this column.

(iv) Amount Deposited : In this column amount of cash and cheque deposited with bank is recorded. Amount of interest payable by bank to the trader and amount collected by bank on behalf of the trader are also recorded in this column.

(v) Balance : After recording the respective transactions, balance amount in the trader's account with the bank is recorded in this column. This balance shows difference between credit amount and amount of withdrawal.

(vi) Signature of Bank Officer : After recording the transaction, an officer who fills up the passbook, puts his initials in this column. Generally, when the passbook or bank statement is prepared on computer, this column is not maintained.

In short, we can say that the way in which a trader records the transaction in a bank account or in a bank column of cashbook, generally opposite or reverse effects will be given in the passbook. e.g. If ₹ 10,000 cash deposited in a bank.

In bank account (in the books of a trader) : This amount will be debited to bank account and credit will be given to cash account.

In passbook (in the books of a bank) : This amount will be debited to cash account and credit will be given to the trader's account.

3. Cashbook

Traders record all transactions with bank in bank column of cashbook. When trader deposits cheques received from the customers with bank, the bank becomes the receiver and the bank balance

increases. Same way when bank collects income of interest or dividend on behalf of a trader, the bank balance increases. Hence bank account is debited by trader when bank becomes a receiver or when bank balance increases. When a trader makes payment to creditor or makes payment of any expenses by cheque, bank becomes a giver and the bank balance decreases, hence the bank account is credited by the trader. Cash book prepared by a trader in the ledger is discussed in earlier chapter of Cashbook.

4. Bank Balance and Bank Overdraft

Bank balance in the books of a trader means the excess of total of receipt side over the total of payment side of a bank column in a cashbook. Thus, bank balance means remaining amount of total of debit side after deducting the total of credit side of a bank column in a cashbook. i.e. **debit balance as per cashbook or bank account is a bank balance.**

Similarly, according to the agreement with the bank, a facility to withdraw more amount than bank balance is known as bank overdraft facility. Here, the payment side exceeds the total of receipt side in a bank column of a cashbook. This difference is known as bank overdraft. Thus, bank overdraft means the remaining amount of the total of credit side, after deducting the total of debit side of a bank column in a cashbook. i.e. **credit balance as per cashbook or bank account is bank overdraft.**

We have seen earlier that a passbook is a copy of a trader's account maintained in the book of a bank. It means, those transactions which are recorded in the bank account by a trader are recorded by giving opposite effects in passbook by the bank. Therefore, bank balance as per passbook means the excess of total of credit column than that of debit column in a passbook. It means **credit balance as per passbook means bank balance for a trader.**

Similarly if the total of a debit column exceeds, the total of a credit column in a passbook, the difference is known as bank overdraft. It means that **debit balance as per passbook means bank overdraft for the trader.**

In short, transactions between business and bank are transactions between two persons. In which rules of Personal account are applied. "Debit the receiver and credit the giver." Under this rule it becomes receivable for one person and the same becomes payable for the other person. Receivables has debit balance while payables has credit balance. Bank balance is receivable for the business hence it shows debit balance. The same are payable for a bank and hence it shows credit balance for the bank. Bank overdraft is payable for the business hence it shows credit balance while it is receivable for the bank; and hence it shows debit balance for the bank.

Particulars	For Business	For Bank
Bank balance	It is receivable therefore shows debit balance in accounts.	It is payable therefore shows credit balance in accounts.
Bank overdraft	It is payable therefore shows credit balance in accounts.	It is receivable therefore shows debit balance in accounts.

Therefore,

(1) Bank balance means, debit balance as per cashbook or bank account = Credit balance as per passbook

(2) Bank overdraft means credit balance as per cashbook or bank account = Debit balance as per passbook

5. Meaning of Bank Reconciliation Statement

In normal circumstances balance as per cashbook and passbook should be the same if at the end of a particular time interval balance of bank account as per cashbook is compared with a balance as per passbook. But if the difference arises, after finding out the reasons thereof, a statement prepared

to explain them and to reconcile the balance as per cashbook and passbook, is known as a bank reconciliation statement. Here it should be noted that, even though the balances as per cashbook and as per passbook are the same, preparation of bank reconciliation statement is necessary because there remains a possibility that the details of transactions in both, may differ.

Here an important point is that, bank reconciliation statement is a statement which explains the difference between the two in detail. Because of the preparation of bank reconciliation statement, if any accounting errors are committed either by a trader or a bank also comes to the notice. But it does not rectify these errors; it shows the difference arising because of such errors.

"Bank reconciliation statement means a statement showing the causes of difference in the balance of a bank as per cashbook and a balance as per passbook, for a particular time or on a particular date."

Bank reconciliation statement is prepared by a trader for a certain time or on a date because of which the difference between balance of a bank as per cashbook and balance as per passbook can be found out and its causes can be noticed. A transaction, because of which the difference does not arise between the bank balance as per cashbook and balance as per passbook, is not recorded in bank reconciliation statement. In other words if as per the rules of debit and credit the same amount is recorded in both the books, it does not become a cause of difference.

6. Purpose of Preparing Bank Reconciliation Statement and its Usefulness or Importance

Purpose of preparation and utility of bank reconciliation statement are as under :

(1) With the help of bank reconciliation statement, reasons of differences between bank balance as per cashbook and bank balance as per passbook, can be found out.

(2) As the causes of difference can be found out between both balances, errors committed, if any, can be rectified with the help of necessary accounting entries.

(3) If any transaction is omitted to be recorded in cashbook, information regarding it can be collected and by recording it, correct bank balance can be arrived at.

(4) If any errors are committed in recording any transactions, they come to know immediately and errors can be rectified. e.g. A cheque of ₹ 5000 is received but by mistake it is recorded as only ₹ 500 in bank column of the cashbook.

(5) By preparing bank reconciliation statement, actual bank balance can be known, which is shown in the balance sheet and thereby real financial picture of a business is obtained.

(6) Embezzlement of cash from bank transactions can be traced out by preparing bank reconciliation statement.

(7) Compensating errors can be traced out by preparing reconciliation statement. Even when both the balances are the same, it doesn't mean that there is no reason of difference or error. In that case also, reason of difference or error may be there but they compensate against each other.

(8) By preparing bank reconciliation statement, information can be obtained regarding cheques deposited but dishonoured as well as interest, commission, charges etc. recorded by the bank in our account.

7. Reasons for Difference for Bank Balance Between Cashbook and Passbook

When a trader enters into a transaction with the bank, he records the same in his cashbook and bank, after recording the same in passbook, gives it to the trader. Therefore at any time if bank balance is verified, it should be the same as per cashbook and passbook. e.g. if as on 31-3-2015 debit balance as per cashbook i.e. bank balance is ₹ 5000, then, on the same date credit balance as per passbook i.e. bank balance must be ₹ 5000.

But in normal circumstances this does not happen because of various reasons which are as given on next page.

(1) Cheques deposited in bank but not credited by bank : Towards the recovery of dues when a trader receives cheques, he deposits the same in the bank, at this time it is recorded on the debit side of a cashbook in a bank column. Considering that bank balance increases because of the deposit of a cheque in the bank. But generally bank does not give credit for the same on the spot. Bank gives the credit of that amount of cheque to a trader only after it recovers the amount of that cheque. Therefore, for the time between the cheque deposited in a bank and actually credited by the bank, difference arises in the bank balance as per both records.

For e.g. on 1-3-15, bank balance as per cashbook and bank balance as per passbook is ₹ 2000. A cheque of ₹ 5000 is received on 4-3-2015 and immediately it is deposited in the bank. Credit for this is given by the bank in the passbook on 6-3-2015.

Here in this case, on 4-3-2015 when a trader deposits the cheque in a bank, it will be recorded on the debit side of cashbook in bank column and bank balance (as per cashbook) will be increased by ₹ 5000. Therefore, bank balance on 4-3-2015 as per cashbook will be ₹ 7000. But bank does not give any credit for the same on 4-3-2015 and therefore bank balance as per passbook on that date will remain only ₹ 2000. There will be difference of ₹ 5000 in bank balance as per cashbook and as per passbook. The reason is that the cheque is deposited by the trader but bank has not given any credit for the same.

(2) Cheques issued but not presented for payment : In order to pay dues, when a trader draws and issues a cheque in favour of any person, he immediately records it on the credit side of the cashbook in the bank column and therefore, bank balance as per cashbook will decrease. But till the person, to whom the cheque is given, presents it in a bank for its payment and bank makes actual payment, bank balance as per passbook does not decrease. Therefore for a time lag between the cheque drawn/issued and presented in a bank for payment, difference will arise in the bank balance as per cashbook and as per passbook.

For e.g. as on 28-3-2015 bank balance is ₹ 4000 as per cashbook as well as pasbook. On the same day a cheque of ₹ 1000 is drawn in favour of a creditor, which is presented for payment in bank by that creditor on 1-4-2015.

Here, the cheque of ₹ 1000 is drawn by a trader on 28-3-15. Immediately it will be recorded on the credit side of the cashbook in bank column and therefore, on 28-3-15 bank balance decreases by ₹ 1000 and it will be ₹ 3000. As the bank pays that amount on 1-4-2015, it will be debited to a trader's account on that date only, not before that. Bank balance as per passbook as on 28-3-15 therefore, will remain that of ₹ 4000 only. A difference of ₹ 1000 in bank balance as per cashbook and passbook arises. The reason being cheque drawn but not presented for payment.

(3) Direct deposit by customers in bank : Sometimes without informing a trader, customers directly deposit cash or cheque in his bank account. Bank gives credit for the same to the trader and therefore bank balance as per passbook increases, but as the trader has no information for the same, it remains unrecorded in cashbook and therefore, bank balance as per cashbook remains less than that of a passbook.

(4) Interest, commission, charges etc. recorded by a bank in traders' account : If a bank has debited or credited any amount of interest, commission etc. in a trader's account, bank balance as per passbook increases or decreases accordingly. But the trader does not record it in his cashbook until he comes to know about it. Therefore bank balance as per cashbook and passbook differs. Similarly if bank has debited any charges to a traders account, which are unknown to a trader, then bank balance as per passbook will be less than that of a cashbook because bank charges recorded by a bank are still to be recorded in cashbook. These types of transactions are pertaining to the amount of interest given by bank or interest recovered by bank on bank overdraft, interest, dividend or commission etc. directly collected on behalf of a trader and are credited in passbook, or expenses, commission etc. are debited by bank in passbook.

(5) Amount recovered on behalf of a trader and credited to his account by bank but not recorded in cashbook : When bank has collected any amount on behalf of a trader and has credited to his account, for which there is no information with a trader, then bank balance as per cashbook will remain less than that of a passbook. E.g. according to the instructions of a trader, bank collects the amount of interest, commission or dividend on behalf of a trader and credits the same in his cashbook. Till he receives the information for the same from the bank a difference arises between both the balances.

(6) Cheque recorded in cashbook but left un-deposited in bank : When a trader receives cheques, they are recorded on the debit side of the cashbook in bank column before they are deposited in a bank and therefore bank balance as per cashbook increases. But later on, due to any reason, if they remain un-deposited in the bank, the bank balance as per passbook does not increase accordingly and balance as per cashbook appears more and therefore a difference arises between both the balances.

(7) Cheque deposited in the bank but not recorded in cashbook : Sometimes it also happens that cheques received are already deposited in bank by the trader but the same are left unrecorded in cashbook. In this case, bank gives the credit of an amount of cheque and therefore bank balance as per passbook increases but as it remains unrecorded in cashbook, bank balance as per cashbook remains less than that of passbook.

(8) Cheque issued and presented for payment in bank but left unrecorded in cashbook : Sometimes it also happens that a trader has drawn a cheque in favour of any person but is omitted to be recorded in cashbook. The cheque so drawn is presented in the bank and bank pays for the same and therefore bank balance as per passbook decreases. But as it is not recorded in cashbook, bank balance as per cashbook remains more than that of a passbook and therefore difference arises between both the balances.

(9) Cheque recorded in cashbook but not given to traders : Sometimes it so happens that a cheque is drawn in favour of any person, and is already recorded on credit side of a cashbook in bank column, but actually it is not given the person whom it is to be given. In such cases bank balance as per cashbook decreases but bank balance as per passbook remains unaffected and therefore, difference arises between both balances.

(10) Payment made by bank but not recorded in cashbook : Sometimes a trader gives instructions to the bank to make direct payments of some fixed amount for some specific purposes on some fixed dates to make direct payments for electricity bills, insurance premium of a shop etc. In such case, bank will record it immediately at the time of its payments and therefore bank balance decreases. But as the trader is ignorant of these payments, it remains unrecorded in cashbook and therefore bank balance as per cashbook remains more than that of passbook and therefore difference arises between both the balances.

(11) Dishonour of a bill exchange discounted with bank unrecorded in cashbook : If a trader has discounted a bill of exchange in the bank and it is dishonoured on the day of its maturity, bank debits the account of a trader with the amount of that bill along with its noting charges. Therefore bank balance as per passbook decreases. As this remains unrecorded in cashbook till it comes to the notice of a trader, bank balance as per cashbook remains more than that of a passbook and therefore difference arises between both the balances.

(12) Other errors : In addition to all the above eleven causes of difference in the bank balance as per both the records, differs because of other errors also. Such errors may be in cashbook or in passbook both. e.g. (i) Errors committed in either totalling or carry forward of a balance (ii) Amount to be recorded in cash column, is recorded in bank column and vice-versa. (iii) Either in cashbook or passbook, a transaction is recorded with wrong amount or on wrong side etc.

8. Methods of Preparing Bank Reconciliation Statement and Illustrations

There are two main methods of preparation of bank reconciliation statement :

- (1) Mathematical method or Add-less method. (2) Accounting method or debit-credit column method.

Special remark : No question will be asked to prepare bank reconciliation statement as per specific method. A student can solve the question as per the method which is convenient to him.

(1) Mathematical method or add-less method : When add-less method i.e. mathematical method is used for the preparation of a bank reconciliation statement, it starts with the bank balance either as per cashbook or passbook. Bank reconciliation statement is prepared by the businessman. Here there are two parties : (i) Business and (ii) Bank. Book of business means cashbook and book of the bank means passbook. As an accountant one party is to be selected while preparing bank reconciliation statement.

Here the books, with which the bank reconciliation statement is started, is to be considered as our side and the other set of books is to be considered as opposite side. E.g. if bank reconciliation statement is started with bank balance as per passbook, then passbook is said our side and cashbook is said to be opposite side.

Our side	Opposite side
Bank (Passbook)	Business (Cashbook)
Business (Cashbook)	Bank (Passbook)

If bank reconciliation statement is started with a bank balance, that amount is shown with '+', a sign of addition and if it is started with bank overdraft, that amount is shown with '−', a sign of subtraction.

For e.g. if bank reconciliation statement is started with a bank balance as per cashbook, and it is a bank overdraft (suppose ₹ 6000) it will be recorded in bank reconciliation statement as under :

Bank Reconciliation Statement of Shri as on

Date Sr. No.	Particulars	Amount (₹)
	Bank overdraft as per cashbook	(-) 6000

We have seen earlier that a debit balance of a bank account as per cashbook means a bank balance, and credit balance of a bank account as per cashbook means bank overdraft. Debit balance of a bank account as per passbook means bank overdraft and credit balance of a bank account as per passbook means a bank balance.

Once the bank balance is recorded in bank reconciliation statement, entries of a cashbook are compared with those of a passbook of the same period and if it differs, reasons of differences are found out.

After the reasons of differences are found out, bank reconciliation statement is prepared on its basis.

Here, in this mathematical method, in order to know which amount is to be added and which one is to be subtracted, in the bank balance, usage of one rule is possible. This rule is as under :

“Do what others have done.”

Now, let us understand this rule. The book, with the bank balance of which, bank reconciliation statement is started is said to be our side and the other is opposite side. Here, as per rule we have to do, as what others have done. Now, let us understand why to do so ?

E.g. As on 31-3-2015 a credit balance of a bank as per passbook is ₹ 6000 and a debit balance of the bank as per cashbook ₹ 5000. A cheque of ₹ 1000 is drawn and issued on 28-3-2015, it was presented in the bank for payment on 1-4-2015.

As stated above, there is a difference of ₹ 1000 in bank balance as per passbook and as per cashbook. **This difference is because of a cheque issued but not presented for payment.** Thus, when the bank reconciliation statement is prepared as on 31-3-2015, the bank balance as per cash book would be ₹ 5000 ($\text{₹ } 6000 - \text{₹ } 1000$). The bank balance as per passbook would be ₹ 6000.

Now, (i) if we start bank reconciliation statement, with a bank balance as per passbook, then passbook is considered as our side and cashbook is considered as an opposite side. Here there is a credit balance of a bank as per passbook, means a bank balance.

Bank Reconciliation Statement as on 31-3-2015

Date Sr. No.	Particulars	Amount (₹)
	Bank balance as per passbook	6000
	Less : Cheques drawn but not presented in bank for payment.	(-) 1000
	Bank balance as per cashbook	5000

Explanation : Here, we have to do, what others have done. Opposite side is a cashbook; if they have decreased bank balance, we also have to decrease it. Here therefore, due to the cheque drawn bank balance is decreased in cashbook and therefore in bank reconciliation statement, from bank balance, that much amount will be deducted. By doing so, the difference of bank balance as per cashbook and as per passbook can be understood.

Now, (ii) If we start bank reconciliation statement with a bank balance as per cashbook, then cashbook is considered as our side and passbook will be opposite side. Here, there is a debit balance of a bank, as per cashbook means bank balance.

Bank Reconciliation Statement as on 31-3-2015

Date Sr. No.	Particulars	Amount (₹)
	Bank balance as per cashbook	5000
	Add : Cheques issued but not presented in bank for payment	(+) 1000
	Bank balance as per passbook	6000

Explanation : Here, opposite side is passbook i.e. bank, and therefore we have to do what is done in passbook. Payment of a cheque is not shown in passbook but as against this, it is already recorded in cashbook. Therefore balance in passbook will be increased by ₹ 1000 which is to be added and therefore a difference of a bank balance as per cashbook and as per passbook will be reconciled.

Prepare the statement as under when mathematical or add-less method is adopted :

Bank Reconciliation Statement of Shri as on

Sr. No.	Particulars	Amount (₹)	Amount (₹)
	Balance as per the party selected (our side) (Cashbook or passbook)		✓
	Add :	✓ ✓ ✓ ✓	✓
	Less :	✓ ✓ ✓ ✓	✓
	Balance as per other party is obtained		✓

Illustration 1 : From the following transactions, prepare a bank reconciliation statement of Shri Jaimini as on 31-3-2015.

On 31-3-2015 as per cashbook bank column, debit balance was ₹ 12,000 whereas per passbook credit balance of bank was ₹ 8300.

- (1) A cheque of ₹ 6000 is deposited in a bank on 28-3-2015, but till 31-3-2015 bank has not credited the same, in Shri Jaimini's account.
- (2) Interest of ₹ 400 is credited by bank in Shri Jaimini's account, which is not recorded in cashbook.
- (3) A cheque of ₹ 2000 is drawn and issued to Dev on 31-3-2015, which is yet not presented for payment in bank.
- (4) Bank has debited bank charges of ₹ 100 in the account of Shri Jaimini, which remains unrecorded in cashbook.

Ans. : (A) If bank reconciliation statement is prepared with a bank balance as per cashbook
Bank Reconciliation Statement of Shri Jaimini as on 31-3-2015

Sr. No.	Particulars	Amount (₹)	Amount (₹)
	Debit balance as per cashbook (bank balance)		12,000
	Add :		
(2)	Bank interest credited by bank but not recorded in cashbook	400	
(3)	Cheque issued but not presented for payment	2000	2400
			14,400
	Less :		
(1)	Cheque deposited, but not credited by bank	6000	
(4)	Bank charges debited by bank but not recorded in cashbook	100	6100
	Credit bank balance as per passbook (bank balance)		8300

Explanation : As bank reconciliation statement is as per cashbook, passbook is considered as opposite side therefore if balance as per passbook increases due to the difference, the amount of difference is added and if balance as per passbook decreases due to the difference, the amount of difference is deducted.

(1) A cheque of ₹ 6000 is deposited with bank on 28-3-2015, balance as per cashbook is increased while in the passbook, bank has not given credit for the amount of cheque and therefore, bank balance in passbook decreases and therefore ₹ 6000 is subtracted.

(2) Bank has credited bank interest, which is not recorded in cashbook, bank balance is increased as per passbook and therefore ₹ 400 is added.

(3) As the cheque is issued, bank balance as per cashbook decreases while the same cheque is not presented in bank for payment therefore balance as per passbook is more therefore ₹ 2000 is added.

(4) Bank has debited bank charges, as a result, bank balance as per passbook is decreased, and therefore ₹ 100 is deducted.

After adding and subtracting the amount of the above transactions, we get net amount of bank balance as per passbook and this amount would be ₹ 8300 (+).

(B) If bank reconciliation statement is prepared with a bank balance as per passbook :

Bank Reconciliation Statement of Shri Jaimini as on 31-3-2015

Sr. No.	Particulars	Amount (₹)	Amount (₹)
	Credit balance as per passbook (bank balance)		8300
	Add :		
(1)	Cheque deposited but not credited by bank	6000	
(4)	Bank charges debited by bank, not recorded in cashbook	100	6100
			14,400
	Less :		
(2)	Bank interest, credited by bank and not recorded in cashbook	400	
(3)	Cheque issued but not presented for payment	2000	2400
	Debit bank balance as per cashbook (bank balance)		12,000

Explanation : Bank reconciliation statement can also be started with balance as per passbook. If bank reconciliation statement is started with balance as per passbook, cashbook is considered as opposite side therefore as per rules of add and less, balance as per cashbook increases due to transactions no. (1) and (4), the amount of difference is added while due to the transactions no. (2) and (3) the balance as per cashbook decreases and therefore the amount of difference is deducted. The final balance obtained is positive, which is the balance as per cashbook (debit balance). Thus if bank reconciliation statement is started with the balance as per cashbook the answer obtained is balance as per passbook and if bank reconciliation statement is started with balance as per passbook the answer obtained is balance as per cashbook.

Illustration 2 : Bank column of the cashbook of Nagin Rana shows a credit balance of ₹ 7500 as on 31-3-2015, which doesn't tally with the balance as per passbook. By comparing passbook and cashbook the following information is obtained. From this, prepare a bank reconciliation statement of Nagin Rana.

- (1) A cheque of ₹ 15,000 is deposited in a bank on 28-3-2015 but still it is not recorded in passbook by bank.
- (2) Interest of ₹ 60 credited by bank on 30-3-2015 is not recorded in cashbook.
- (3) ₹ 18,000 was deposited in bank account directly by a customer, the information is not received upto 31-3-2015.
- (4) Cheque deposited with bank but not recorded in cashbook ₹ 15,000.
- (5) Cheque issued and paid by the bank, left unrecorded in cashbook ₹ 9000.
- (6) A bill receivable discounted with the bank is dishonoured and for the same bank has recorded ₹ 18,030 with noting charges in passbook. Rana is ignorant of this.
- (7) By mistake total of the receipt of side of cashbook, is less by ₹ 3000.
- (8) A cheque of ₹ 3000 is issued but yet not presented for payment in bank.
- (9) A cheque of ₹ 6000 is deposited in bank but still bank has not credited the same.
- (10) Bank commission of ₹ 60 is debited by bank, but not recorded in cashbook.

Bank Reconciliation Statement of Nagin Rana as on 31-3-2015

Sr. No.	Particulars	Amount (₹)	Amount (₹)
	Credit balance of bank account as per cashbook i.e. bank overdraft Add : (+)		(-) 7500
(2)	Interest credited by bank remains unrecorded in cashbook	60	
(3)	Direct deposit by a customer in bank	18,000	
(4)	Cheque deposited but left unrecorded in cashbook	15,000	
(7)	Total of receipt side of a cashbook is under cast	3000	
(8)	Cheque issued but not presented to the bank	3000	(+) 39,060
	Less : (-)		(+) 31,560
(1)	Cheque deposited but not credited by bank	15,000	
(5)	Cheque issued but unrecorded in cashbook	9000	
(6)	Dishonour of a discounted bill of exchange	18,030	
(9)	Cheque deposited but not credited by bank	6000	
(10)	Bank commission debited by bank remains unrecorded in cashbook	60	(-) 48,090
	Debit balance of bank account as per passbook i.e bank overdraft		(-) 16,530

Note : (1) In the beginning, as there is a bank overdraft as per cashbook (–) minus sign is given to an amount. (2) At the end, bank balance as per passbook results into a (–) minus sign, which indicates bank overdraft.

Illustration 3 : Passbook of Kailash showed a credit balance of ₹ 30,000 on 31-3-2015, which does not agree with the bank balance as per his cashbook. The following information is obtained by comparing the cashbook and passbook. Prepare a bank reconciliation statement of Kailash from this information :

- (1) Cheque of ₹ 10,000 was drawn and recorded in cashbook but by mistake it was not handed over to a creditor. This cheque is found out from a drawer of a table.
- (2) A cheque of ₹ 30,000 is banked on 28-3-2015, for which credit is given by the bank on 1-4-2015.
- (3) Bank has paid ₹ 20,000 for insurance premium for which Kailash received information on 2-4-2015.
- (4) ₹ 30,000 are deposited by a customer directly in bank, which is unrecorded in cashbook.
- (5) Interest of ₹ 1000 is credited in passbook by bank, which remains unrecorded in cashbook.
- (6) A cheque of ₹ 60,000 which was deposited in bank is dishonoured and this information is received on 2-4-2015.
- (7) Cheque of ₹ 10,000 were issued but out of these, cheques of ₹ 8000 only are presented for payments till 31-3-2015.
- (8) Cheques of ₹ 50,000 were deposited in the bank but out of these, bank has given credit for only ₹ 30,000 up to 31-3-2015.
- (9) A cheque of ₹ 8000 was deposited in the bank but was left unrecorded in the cashbook.
- (10) Bank charges and commission of ₹ 2000 are debited by the bank in the passbook of Kailash, for which no entry is passed in cashbook.

Bank Reconciliation Statement of Kailash as on 31-3-2015

Sr. No.	Particulars	Amount (₹)	Amount (₹)
	Bank balance as per passbook		(+) 30,000
	Add : (+)		
(2)	Cheque deposited but not credited by bank	30,000	
(3)	Insurance premium paid by the bank	20,000	
(6)	Cheque dishonoured but unrecorded in cashbook	60,000	
(8)	Cheque deposited but not credited by bank	20,000	
(10)	Bank charges and commission	2000	(+) 1,32,000
	Less : (-)		(+) 1,62,000
(1)	Cheque drawn and recorded in cashbook but not handed over to a creditor	10,000	
(4)	Amount directly deposited by a customer in the bank account	30,000	
(5)	Bank interest, not recorded in the cashbook	1000	
(7)	Cheque issued but not presented for payment	2000	
(9)	Cheques deposited but not recorded in cashbook	8000	(-) 51,000
	Bank balance as per cashbook		1,11,000

(2) Debit-Credit Method or Accounting Method :

If the bank reconciliation statement is prepared as per this method, the amount column is classified into two parts viz. Debit and Credit. Here, as per cashbook if there is a debit balance of a bank (bank balance), it is recorded in debit column and if there is credit balance (i.e. bank overdraft) it is recorded in credit column. Similarly as per passbook, if there is a credit balance of a bank (i.e. bank balance) it is recorded in credit column and if there is a debit balance of bank (i.e. bank overdraft) it is recorded in debit column.

Now both the sets of books, i.e. cashbook and passbook will be verified and differences will be found out. In actual entry passed, if this difference is debited, then in bank reconciliation statement it will be recorded in the credit column and if the difference is credited in the actual entry, then, in bank reconciliation statement it will be recorded in the debit column. By doing so, the opposite effect of the actual entry passed will be recorded in the bank reconciliation statement and the causes of the difference in bank balance between cashbook and passbook can be known.

Remember the following points to determine the effect of difference between transactions recorded in cashbook and passbook in debit column or credit column of a bank reconciliation statement.

Sr.	Transaction of Difference	Effect in bank reconciliation statement	
		Debit	Credit
(1)	Cheques received from customers and deposited with bank but not collected by bank. Explanation : This transaction is recorded on the debit side of the cash book; but the bank has not collected the cheque and so it has not been recorded in the passbook, and so it has to be written on the credit side of the bank reconciliation statement.		✓
(2)	Payment made by the bank on behalf of the trader, not recorded in cashbook. Explanation : This transaction has been debited in passbook but it has not been recorded on the credit side of the cashbook. So it has to be written on the credit side in bank reconciliation statement.)		✓
(3)	Cheque received from customers but not deposited with bank		✓
(4)	Bank charges collected and debited the by bank but not recorded in cashbook.		✓
(5)	Cheque deposited with bank dishonoured, cheque dishonour is not recorded in cashbook.		✓
(6)	Bills payable, paid by the bank on behalf of the a trader, which is not recorded in the cashbook.		✓
(7)	Interest allowed by the bank, recorded twice in cashbook.		✓
(8)	Bank charges collected by the bank, recorded in the cashbook on receipt side by mistake.		✓ (Double amount)
(9)	Receipt side of cashbook over cast.		✓
(10)	Debit side of passbook over cast		✓
(11)	Payment side of cashbook under cast		✓
(12)	Credit side of passbook under cast		✓

Sr.	Transaction of Difference	Effect in bank reconciliation statement	
		Debit	Credit
(13)	Bills receivable discounted with bank and dishonoured on due date, which is not recorded in cashbook.		✓
(14)	Cheque presented in bank but not recorded in cashbook		✓
(15)	Cheque issued to creditors or for payment of expenses, which is not presented in bank. Explanation : This transaction is recorded on the credit side of the cashbook; but the bank has not disbursed the amount and so it has not been recorded on the debit side of the passbook. Thus it has to be written on the debit side of the bank reconciliation statement.	✓	
(16)	Amount collected on behalf of the trader and credited by bank, which is not recorded in cashbook. Explanation : This transaction has been credited in the passbook; but it has not been recorded on the debit side of the cashbook and so it has to be written on the debit side of the bank reconciliation statement.)	✓	
(17)	Amounted deposited by customer in a trader's account directly, which is not recorded in the cashbook. Explanation : This transaction has been credited in the passbook; but it has not been recorded on the debit side of the cashbook and so it has to be written on the debit side of the bank reconciliation statement.	✓	
(18)	Cheques drawn but left to be given	✓	
(19)	Interest allowed by bank and credited in passbook, which is not recorded in the cashbook.	✓	
(20)	Cheque issued but not paid by the bank or dishonoured, which is not recorded in cashbook.	✓	
(21)	Bills receivable collected by the bank on behalf of a trader, which is not recorded in the cashbook.	✓	
(22)	Bank charges collected by the bank recorded twice in cashbook.	✓	
(23)	Bank charges waived off by bank and recorded in passbook, which is not recorded in cashbook.	✓	
(24)	Interest allowed by bank, recorded on the payment side of the cashbook by mistake.	✓ (Double amount)	
(25)	Payment side of cashbook over cast.	✓	
(26)	Credit side of passbook over cast.	✓	
(27)	Receipt of cashbook under cast.	✓	
(28)	Debit side of passbook under cast.	✓	
(29)	Cheque credited in passbook, which is not recorded in cashbook	✓	

Illustration 4 : Calculate illustration number 2 as per the debit-credit method.

Bank Reconciliation Statement of Nagin Rana as on 31-3-2015

Sr. No.	Particulars	Amount (₹)	Amount (₹)
(1)	Credit balance as per cashbook. (Bank overdraft)		7500
(2)	Cheque deposited but not credited in passbook.		15,000
(3)	Bank interest credited by bank, left unrecorded in cashbook	60	
(4)	Amount directly deposited by a customer in the bank.	18,000	
(5)	Cheque deposited but not recorded in cashbook.	15,000	
(6)	Cheque issued but not recorded in cashbook.		9000
(7)	Dishonour of a discounted bill, which is not recorded in the cashbook.		18,030
(8)	Receipt side total of the cashbook is under cast.	3000	
(9)	Cheque issued but not paid.	3000	
(10)	Cheque deposited but not credited.		6000
	Bank commission debited by the bank but not recorded in the cashbook.		60
	Debit balance as per passbook (Bank overdraft)	16,530	
		55,590	55,590

Explanation :

Transaction 1 : Cheque is not credited in passbook, therefore write the transaction in the credit column of bank reconciliation statement.

Transaction 2 : Interest credited by bank is income for the trader which is not debited on the bank column of cashbook, therefore write the transaction in the debit column of the bank reconciliation statement.

Transaction 3 : Cash is credited by a customer directly in the bank account of the trader which is credited in the passbook but not debited in the bank column of the cashbook therefore write the transaction in the debit column of the bank reconciliation statement.

Transaction 4 : Cheque deposited with bank must have been credited in the passbook but it is left to be debited in the bank column of cashbook therefore write the transaction in the debit column of the bank reconciliation statement.

Transaction 5 : Cheque drawn means payment made by cheque. It must have been debited in the passbook. But it is forgotten to be credited in the bank column of the cashbook therefore write the transaction in the credit column of the bank reconciliation statement.

Transaction 6 : Bank debits (reduces balance) trader's account as soon as the bills receivable discounted is dishonoured whereas this transaction is not recorded on the credit side of cashbook in bank column therefore write the transaction in the credit column of the bank reconciliation statement.

Transaction 7 : Receipt side, means debit side of the cashbook, is under cast therefore to rectify the mistake, total of the debit side is to be increased. Therefore write the transaction in the debit column of the bank reconciliation statement.

Transaction 8 : Cheque issued means payment made by the cheque to the creditor is credited in the cashbook but not recorded on the debit side of the passbook. Therefore write the transaction in the debit column of the bank reconciliation statement.

Transaction 9 : Cheque deposited with bank is recorded on the receipt side (debit side) of the cashbook but not credited in passbook. Therefore write the transaction in the credit column of the bank reconciliation statement.

Transaction 10 : Commission debited by the bank is expense which is not credited in the cashbook. Therefore, write the transaction in credit column of the bank reconciliation statement.

Illustration 5 : Prepare a bank reconciliation statement according to the Debit-Credit column (method) for the question given in illustration 3 :

Bank Reconciliation Statement of Mr. Kailash as on 31-3-2015

Sr. No.	Particulars	Debit (₹)	Credit (₹)
	Credit balance as per passbook (bank balance).		30,000
(1)	Cheque drawn but not given to a creditor	10,000	
(2)	Cheque deposited but not cleared in bank up to 28-3-2015		30,000
(3)	Insurance premium paid by bank but not recorded in cashbook.		20,000
(4)	Amount directly deposited by a customer in bank, but not recorded in cashbook.	30,000	
(5)	Interest credited in passbook but not recorded in cashbook	1000	
(6)	No effect is given in cashbook for the dishonour of a cheque which was deposited.		60,000
(7)	Cheques issued but not presented for payments	2000	
(8)	Cheques deposited but not credited.		20,000
(9)	Cheques deposited but not recorded in cashbook.	8000	
(10)	Bank charges debited by bank but not recorded in cashbook		2000
	Debit balance as per cashbook (bank balance)	1,11,000	
		1,62,000	1,62,000

Illustration 6 : Bank balance as per cashbook of Rucha on 28-2-2015 was ₹ 10,000 does not tally with the balance as per passbook. Prepare a cashbook of Rucha from the following information :

- (1) Cheques of ₹ 10,000 were deposited with bank, out of which cheques of ₹ 4000 are credited in bank till 28-2-2015.
- (2) A cheque of ₹ 4000 is issued and recorded in cashbook, but it is forgotten to be given to customer.
- (3) Insurance premium of ₹ 12,000 is paid by bank which is not recorded in cashbook.
- (4) A customer has deposited directly ₹ 20,000 in Rucha's account which is known to Rucha on 1-3-2015.
- (5) Bank charges of ₹ 100 recorded by the bank is recorded twice in the cashbook by mistake.
- (6) Cheque of ₹ 6000, deposited with bank on 27-2-2015, is dishonoured. The information is received by Rucha on 3-3-2015.
- (7) Cheques of ₹ 8000 were issued, out of which cheques of ₹ 2000 were presented in bank on 1-3-2015.

- (8) A cheque of ₹ 4000 deposited which is not recorded in cashbook. This cheque is not collected by bank till 28-2-2015.
- (9) Bank has credited ₹ 200 for bank interest and debited ₹ 100 for bank charges in passbook.
- (10) Receipt side of cashbook is over cast by ₹ 4000.
- (11) Bills receivable of ₹ 5000 discounted with bank is dishonoured on 26-2-2015 and bank has debited the same along with noting charges ₹ 50. Entry for dishonour of the bills receivable is not made in cashbook till 28-2-2015.
- (12) Bills payable of ₹ 3000 maturing after one month was retired by the bank under rebate of ₹ 100 on 28-2-2015 which is not recorded in the cashbook.

Ans. :

Bank Reconciliation Statement of Rucha as on 28-2-2015

Sr. No.	Particulars	Debit ₹)	Credit ₹)
	Bank balance as per cashbook	10,000	
(1)	Cheque deposited but not credited		6000
(2)	Cheque issued and recorded in cashbook but not given to creditor	4000	
(3)	Insurance premium paid by bank, not recorded in cashbook.		12,000
(4)	Amount deposited by a customer directly in bank	20,000	
(5)	Bank charges recorded twice in cashbook.	100	
(6)	Cheque deposited with bank dishonoured but dishonour of the cheque is not recorded in cashbook.		6000
(7)	Cheque issued but not presented for payment	2000	
(8)	Explanation : As transaction no. 8 is not recorded in cashbook and passbook till 28-2-2015, it will not be recorded in bank reconciliation statement.		
(9)	Interest credited by bank, not recorded in cashbook	200	
	Bank charges debited by bank, not recorded in cashbook		100
(10)	Receipt side of cashbook over cast.		4000
(11)	Bills receivable discounted with bank dishonoured, not recorded in cashbook.		5050
(12)	Bills payable paid by bank, not recorded in cashbook.		2900
	Bank balance as per passbook		250
		36,300	36,300

Illustration 7 : Prepare a bank reconciliation statement of Faisal for July 2015 from the following information :

- (1) Bank overdraft as per cashbook (31-7-2015) ₹ 2500
 Bank overdraft as per passbook (1-7-2015) ₹ 2000

- (2) Information of cheques deposited with bank and credited in passbook is as under :

Amount (₹)	Date of deposit with bank	Date of credit in passbook
6000	2-7-2015	3-7-2015
500	24-7-2015	26-7-2015
1000	26-7-2015	1-8-2015
3000	30-7-2015	3-8-2015

- (3) Information of cheques issued and presented in bank is as under :

Amount (₹)	Date of cheque issued	Date of cheque presented
400	25-7-2015	31-7-2015
1800	27-7-2015	2-8-2015
12,000	28-7-2015	28-7-2015
7500	31-7-2015	1-8-2015

- (4) Interest credited by bank ₹ 300 is recorded on the payment side of cashbook by mistake.
- (5) Bank has collected ₹ 800 on behalf of Faisal, which is yet to be recorded in cashbook.
- (6) Interest on overdraft ₹ 100 is recorded in passbook by bank but it is not recorded in cashbook.
- (7) Sales made through cheque ₹ 1200 is recorded by bank in the personal account of Faisal.
- (8) On request of Faisal, bank has waived bank charges of ₹ 120, which is credited in passbook but not recorded in cashbook.
- (9) Cheque of ₹ 3000 drawn but signature on the same is forgotten and the cheque is returned by bank to Faisal.
- (10) Bank has collected ₹ 4000 for a bill sent to bank for collection, which is yet to be recorded in the cashbook.

Ans. :

Bank Reconciliation Statement of Faisal as on 31-7-2015

Sr. No.	Particulars	Debit (₹)	Credit (₹)
(1)	Bank overdraft as per cashbook		2500
(2)	Cheques deposited but not credited (₹ 1000 + ₹ 3000)		4000
(3)	Cheques issued but not presented (₹ 1800 + ₹ 7500)	9300	
(4)	Interest credited by bank ₹ 300 recorded in cashbook on payment side by mistake	600	
(5)	Dividend collected by bank, not recorded in cashbook.	800	
(6)	Interest overdraft debited by bank, not recorded in cashbook		100
(7)	Cheque not credited by the bank, in bank account of business		1200
(8)	Bank charges waived by bank, not recorded in cashbook	120	
(9)	Cheque drawn, returned by bank	3000	
(10)	Bills receivable collected by bank, not recorded in cashbook	4000	
	Bank balance as per passbook		10,020
		17,820	17,820

Illustration 8 : From the following information, prepare a bank reconciliation statement of Parth as on 31-12-2015.

- (1) Cheque of ₹ 30,000 is deposited, but not credited by bank.
- (2) Cheque of ₹ 15,000 is issued, but not presented.
- (3) Cheque of ₹ 20,000 received and recorded in cashbook but not deposited with bank.
- (4) Cheque deposited with bank is dishonoured, which is not recorded in cashbook ₹ 2400.
- (5) Interest on investment collected by bank ₹ 700, which is not recorded in cashbook.
- (6) Demate charges paid by bank as per the instruction of Parth ₹ 400, which is not recorded in cashbook.
- (7) Cash purchase recorded on payment side of the cashbook in bank column, ₹ 5000.
- (8) Cheque drawn but not given to creditor, ₹ 7000.
- (9) Cheque issued by Parth out of his personal account which is debited by bank in the account of business, ₹ 8100.
- (10) Payment side of bank column in cashbook over cast ₹ 900.
- (11) Cheque drawn ₹ 2700 is dishonoured on technical ground, dishonour of cheque is not recorded in cashbook.
- (12) Interest credited by bank ₹ 500 and commission debited by bank ₹ 100, not recorded in cashbook.

Passbook of Parth showed overdraft of ₹ 2000 on 31-12-2015.

Ans. : Bank Reconciliation Statement of Parth as on 31-12-2015

Sr. No.	Particulars	Debit (₹)	Credit (₹)
	Bank overdraft as per passbook	2000	
(1)	Cheque deposited but not collected		30,000
(2)	Cheque issued but not presented	15,000	
(3)	Cheque received, not deposited with bank		20,000
(4)	Cheque deposited with bank dishonoured, not recorded in cashbook.		2400
(5)	Interest on investment collected by bank, not recorded in cashbook.	700	
(6)	Demate charges paid by bank, not recorded in cashbook		400
(7)	Cash purchase recorded on payment side of cashbook in bank column	5000	
(8)	Cheque drawn not given to creditor	7000	
(9)	Cheque issued out of personal account which is debited by bank in the account of business.		8100
(10)	Payment side of bank column in cashbook over cast	900	
(11)	Cheque drawn is dishonoured on technical ground, dishonour of cheque is not recorded in cashbook.	2700	
(12)	Interest credited by bank not recorded in cashbook.	500	
	Commission debited by bank, not recorded in cashbook		100
	Bank balance as per cashbook	27,200	
		61,000	61,000

9. Preparing Bank Reconciliation Statement from the Summary of Cashbook and Passbook

When the abstracts of both the passbook and cashbook are given for the same period, first of all the transactions of both the books are compared with each other. If any transaction is recorded in both the books. i.e. in cashbook as well as in passbook, then no difference arises. Therefore it is not recorded in the bank reconciliation statement. If any transaction is recorded in one book, but not in the other, it becomes a cause of difference and it is recorded in the bank reconciliation statement. **The transaction which is debited in cashbook but not credited in passbook, by a bank, it is recorded in the credit column of a bank reconciliation statement. Similarly the transaction which is recorded on the credit side of cashbook but not recorded on the debit side of passbook by a bank, it is recorded in the debit column of a bank reconciliation statement.**

Let us understand with the help of an illustration, that how the difference can be found out from the data of cashbook and passbook.

Illustration 9 : From the information given below, prepare a bank reconciliation statement of Nishant for April, 2016.

Cash Book (Bank column)

Dr.	Cr.								
Date	Particulars (Receipts)	Rec. No.	L. F.	Amount (₹)	Date	Particulars (Payments)	Vo. No.	L. F.	Amount (₹)
2016					2016				
April 1	To balance b/d			4000	April 2	By salary A/c			2000
10	To Tej A/c			12,000		(Cheque given to priya)			
15	To Riya A/c			3000					
26	To Hitesh A/c			200	5	By Mukesh A/c			1000
					12	By Sunil A/c			1600
					20	By commission A/c (Cheque given to Kishan)			200
					24	By Gurmit A/c			4000
					29	By Janki A/c			2000
					30	By balance c/f			8400
				19,200					19,200
2016									
May 1	To balance b/d			8400					

Bank Passbook

Date	Particulars	Debit (₹)	Credit (₹)	Balance (₹)
2016				
April 1	Balance c/d	—	4000	4000
3	Priya's A/c	2000	—	2000
12	Tej's A/c	—	12,000	14,000
14	Sunil's A/c	1600	—	12,400
20	Bank charges A/c	20	—	12,380
23	Aditya's A/c	—	6000	18,380
29	Janki's A/c	2000	—	16,380
30	New India Insurance A/c	10,000	—	6380
30	Balance c/f	6380	—	—
		22,000	22,000	—
May 1	Balance c/d		6380	6380

Ans. :

Bank Reconciliation Statement of Nishant as on 30-4-2016

Sr. No.	Particulars	Debit (₹)	Credit (₹)
	Bank balance as per cashbook	8400	
(1)	Cheques deposited but not cleared Riya 3000 Hitesh 200		3200
(2)	Cheques issued but not presented for payments Mukesh 1000 Commission (Kishan) 200 Gurmit 4000	5200	
(3)	Bank charges, unrecorded in cashbook		20
(4)	Insurance premium paid by bank, unrecorded in cashbook		10,000
(5)	Amount directly deposited by Aditya, unrecorded in cashbook.	6000	
	Bank balance as per passbook		6380
		19,600	19,600

Explanation :

- (1) As bank reconciliation statement is to be prepared for the month of April, it can be started with the balance as per cashbook or passbook from the last date of March, i.e. 31-3-2015 or from 1-4-2015. Here it has been prepared as per the balance in cashbook.
- (2) By comparing the receipt side of cashbook with the credit side of a passbook, it can be seen that circled amounts on receipt side of cashbook are not credited in passbook, which are recorded in credit column of bank reconciliation statement, as cheques were deposited but not credited in passbook. ₹ 3000 + ₹ 200 = ₹ 3200.
- (3) Circled amounts on payment side of cashbook are not debited in passbook which shows cheques drawn but not presented for payment. Therefore ₹ 1000 + ₹ 200 + ₹ 4000 = ₹ 5200 is recorded in debit column of bank reconciliation statement.
- (4) Circled amounts on debit column of passbook, bank charges ₹ 20 and ₹ 10,000 paid to New India Insurance which are not recorded on payment side i.e. credit side of cash book hence these transactions will be recorded in credit column of bank reconciliation statement.
- (5) Circled amount on credit column of passbook is the amount directly deposited by a customer Aditya ₹ 6000, which is not recorded on receipt side i.e. debit side of cashbook hence it will be recorded in the debit column of bank reconciliation statement.
- (6) Difference of ₹ 6380 between debit column and credit column of bank reconciliation statement shows balance as per passbook on the credit column of bank reconciliation statement which is bank balance as per abstract of passbook.

Illustration 10 : From the following information, prepare a bank reconciliation statement of Dinesh :

Bank Passbook

Date	Particulars	Debit (₹)	Credit (₹)	Balance (₹)
2016				
Jan. 1	Balance c/d	—	6000	6000
3	Kavisha's A/c	1500	—	4500
4	Amit's A/c	—	9000	13,500
7	Jaya's A/c	3000	—	10,500
8	Virat's A/c	1740	—	8760
13	Vipul's A/c	—	6000	14,760
15	Yash's A/c	30,000	—	(-15,240)
18	Gujarat Vij Company's A/c	4200	—	(-19,440)
24	Iva's A/c	18,000	—	(-37,440)
30	Interest on overdraft A/c	120	—	(-37,560)
31	Dividend A/c	—	150	(-37,410)
31	Balance c/f	—	37,410	(-37,410)
		58,560	58,560	—

Cash Book (Bank column)

Dr.	Cr.								
Date	Particulars (Receipts)	Rec. No.	L. F.	Amount (₹)	Date	Particulars (Payments)	Vo. No.	L. F.	Amount (₹)
2016					2016				
Jan. 1	To balance b/d			5940	Jan. 1	By bank charges A/c			120
1	To commission A/c (Cheque received from Shreya)			180	2	By Kavisha's A/c			1500
4	To Amit's A/c			9000	5	By salary A/c (Cheque issued to Manan)			3000
5	To Nisha's A/c			15,000	7	By Jaya's A/c			3000
10	To Vipul A/c			6000	7	By Virat's A/c			1740
27	To Vallabhbhai A/c			12,150	10	By Priti's A/c			1380
31	To balance c/f			14,670	14	By Yash's A/c			30,000
				62,940	17	By Guj.Vij.Co.A/c			4200
					22	By Iva's A/c			18,000
									62,940
					2016				
					Feb. 1	By balance c/f			14,670

Ans. :

Bank Reconciliation Statement of Dinesh as on 31-1-2016

Sr. No.	Particulars	Debit (₹)	Credit (₹)
(1)	Bank overdraft as per passbook	37,410	
	Cheque deposited, but not credited in bank Nisha 15,000		
	Vallabhbhai 12,150		27,150
(2)	Cheques issued but not presented Salary (Manan) 3000		
	Priti 1380	4380	
(3)	Interest on overdraft not credited in cashbook		120
(4)	Divident received not debited in cashbook	150	
	Credit balance as per cashbook (Bank overdraft)		14,670
		41,940	41,940

Explanation :

In the given abstract, opening balance as passbook on 1-1-2016 is ₹ 6000 while opening balance as per cashbook is ₹ 5940. On 1-1-2016, commission ₹ 180 on debit side of cashbook and bank charges ₹ 120 on credit side of cashbook are recorded. In fact these transactions are of December 2015, which are recorded in cashbook on 1-1-2016. By considering these transaction as the opening balance of cashbook ₹ 5940 + commission received ₹ 180 – bank charges ₹ 120 = ₹ 6000 tallies with the balance in passbook. Hence there is no need to record these transactions in bank reconciliation statement. Other transactions are compared and the transactions that are not recorded in both books are given effect in bank reconciliation statement.

10. Preparing Bank Reconciliation Statement from Rectified Balance of Cashbook

In this method, a rectified cashbook is prepared before preparing a bank reconciliation statement. Transactions recorded in passbook but not recorded in cashbook are recorded in rectified cashbook.

For example, transactions which are debited in passbook but not credited in cashbook are credited in cashbook and transactions credited in passbook but not debited in cashbook are debited in cashbook.

In addition to this if there is any mistake in preparing a cashbook, the error is rectified by giving the due effect. Therefore rectified bank balance or overdraft as per cashbook is found out. While preparing a bank reconciliation statement, it begins with the rectified balance as per cashbook. Only those transactions which are not recorded in passbook are recorded in the bank reconciliation statement because the transactions not recorded in cashbook are already recorded in the rectified cashbook therefore such transactions are not to be recorded in the bank reconciliation statement.

Illustration 11 : Cashbook of Sanskruti shows debit balance ₹ 10,000 on 31-3-2016, which is different from balance as per passbook. From the information given below prepare a rectified cashbook and a bank reconciliation statement as on 31-3-2016.

2016

- | | |
|---------|--|
| March 1 | A cheque of ₹ 7000 is deposited, but not credited by bank. |
| 3 | A cheque of ₹ 8000 is issued, but not presented in bank. |
| 5 | A cheque of ₹ 4000 is directly deposited in bank by Mayur. |
| 7 | Dividend of ₹ 2000 is collected by bank, not recorded in cashbook. |
| 9 | Bank interest of ₹ 200 is credited by bank, which is not recorded in cashbook. |
| 14 | A bill accepted by Shyam and discounted with the bank earlier, is dishonoured and ₹ 5100 is debited in passbook by bank including noting charges. Sanskruti was unaware of this. |
| 18 | A cheque of ₹ 4000 issued to Mira, which is paid by bank on 4-4-2016. |

- 21 A cheque of ₹ 2000 received from Vinay was banked, but left unrecorded in cashbook.
 - 23 While carrying forward the balance to the next page in cashbook, payment side total was over cast by ₹ 1000.
 - 28 A cheque of ₹ 4000 was issued to Shlok, which is paid by the bank on 29-3-2016, but it was recorded in cashbook as ₹ 400 only.

Ans. :

Rectified Cashbook (Bank column)

Dr.										Cr
Date	Particulars (Receipts)	Rec. No.	L. F.	Amount (₹)	Date	Particulars (Payments)	Vo. No.	L. F.	Amount (₹)	
2016 March					2016 March					
31	To balance b/d			10,000	14	By Shyam's A/c			5100	
5	To Mayur's A/c			4000	28	By Shlok's A/c			3600	
7	To divident A/c			2000	31	By balance c/f (correct balance)			10,500	
9	To bank interest A/c			200						
21	To Vinay's A/c			2000						
23	To totaling mistake rectified			1000						
				19,200					19,200	

Bank Reconciliation Statement of Sanskruti as on 31-3-2016

Date	Particulars	Debit (₹)	Credit (₹)
2016 March 31	Bank balance as per cashbook (rectified)	10,500	
3	Cheque deposited but not credited by bank		7000
18	Cheque issued but not debited by bank	8000	
30	Cheque issued but unpaid till 31-3-2016	4000	
	Bank balance as per passbook		15,500
	Note : Bank reconciliation statement is started with balance as per rectified balance of cashbook.		
		22,500	22,500

Illustration 12 : Kansara Stores is having two accounts with State Bank of India. Account no. 900 and account no. 999. Balance as per cashbook as on 30-4-2016 of account no. 900 is ₹ 6000, while there is overdraft of ₹ 4000 in account no. 999. Prepare a bank reconciliation statement of Kansara Stores of account no. 900 of State Bank of India for the month of April.

- (1) Cheques of ₹ 12,000 and ₹ 6000 were deposited in account no. 900 and account no. 999 respectively. Bank has credited amount of account no. 900 in account no. 999 and amount of account no. 999 in account no. 900 by mistake.

- (2) Cheque of ₹ 4000 were drawn on account no. 999 which is not yet presented for payment.
- (3) Cheques totaling ₹ 4000 were deposited in account no. 900, out of which one cheque of ₹ 1200 was credited by bank in account no. 999 by mistake.
- (4) A cheque of ₹ 1400 was issued on account no. 999, which was paid by bank and debited in account no. 900.
- (5) One customer has deposited directly ₹ 3000 and ₹ 4000 in account no. 999 and account no. 900 respectively, which is not recorded in cashbook.
- (6) Bank has debited ₹ 200 as bank charges in account no. 900 and credited ₹ 160 as bank interest in account no. 999, which are not recorded in cashbook.
- (7) Cheques of ₹ 4000 were drawn from account no. 900 out of which cheques of ₹ 1600 are not yet presented for payment.

Ans. : Bank Reconciliation Statement of Kansar Stores as on 30-4-2016 for Account no. 900

Sr. No.	Particulars	Debit ₹)	Credit ₹)
1	Bank balance as per cashbook (1) Cheque of ₹ 12,000 of account no. 900 credited in account no. 999 by mistake. (2) Cheque of ₹ 6000 of account no. 999 credited in account no. 900 by mistake.	6000 6000	12,000
3	Cheque of ₹ 1200 not credited by bank in account no. 900. (Credited in account no. 999 by mistake)		1200
4	Cheque drawn on account no. 999 debited by bank in account no. 900 by mistake.		1400
5	Amount credited in bank directly by a customer	4000	
6	Bank charges, not recorded in cashbook		200
7	Cheques issued but not presented	1600	
	Bank balance as per passbook		2800
		17,600	17,600

- Note :** (1) Transaction no. 2 will not be recorded because it is relating to account no. 999.
(2) Transaction of bank interest of ₹ 160 in transaction no. 6 is relating to account no. 999, which is not to be recorded.

Exercise

1. Select appropriate alternative for each question :

- (1) Bank reconciliation statement is prepared by
 - (a) Bank
 - (b) Trader
 - (c) Bank and trader both
 - (d) Auditor

2. Answer the following questions in one sentence :

- (1) By whom and when the bank reconciliation statement is prepared ?
- (2) What is the main objective of preparing a bank reconciliation statement ?
- (3) Which transactions are recorded in a bank reconciliation statement ?
- (4) Which transactions are not recorded in a bank reconciliation statement ?
- (5) If total of debit column in passbook and total of credit side in cashbook is more, what is it ?
- (6) What is the other name of bank reconciliation statement ?
- (7) Give the reason for bank balance means credit balance as per passbook and debit balance as per cashbook.

3. Answer the following questions in two or three sentences or answer in short as asked :

- (1) What is Bank Reconciliation Statement ?
- (2) State three reasons for difference between balance as per cashbook and passbook.
- (3) Explain the rule of debit and credit to record the difference in the bank reconciliation statement.
- (4) Cashbook of Ramesh shows bank balance of ₹ 10,000 on 31-3-2016. On 31-3-2016 cheques received from customers of ₹ 5000 are yet to be deposited with bank while cheques of ₹ 7000 drawn on 31-3-2016 are not presented for payment. A cheque of ₹ 8000 was deposited with bank on 29-3-2016 which is dishonoured, which is yet to be recorded in cashbook. What is the bank balance as per passbook on 31-3-2016?
- (5) Passbook shows debit balance of ₹ 6000 on 30-4-2016. During April 2016, interest allowed by bank ₹ 200 and bank charges of ₹ 50 collected by the bank are not recorded in cash book, while cheques of ₹ 4000 are drawn but not presented for payment. A bills receivable of ₹ 7000 maturing on 2-5-2016 was sent for collection to bank on 29-4-2016. What is the balance as per cashbook on 30-4-2016?
- (6) Cashbook shows bank balance of ₹ 3000 on 1-1-2016 while on 31-1-2016 cashbook shows bank overdraft of ₹ 1000. Passbook shows bank balance of ₹ 4000 on 1-1-2016. The bank reconciliation statement prepared for the month of January 2016 will start by which balance and why ?

4. Cashbook of Shri Sudhir shows bank balance of ₹ 5000 on 31-12-2015. Prepare a bank reconciliation statement from the information given below :

- (1) A cheque of ₹ 8000 was deposited with bank on 29-12-2015, but this cheque is not credited in passbook by bank till 31-12-2015.
- (2) A cheque of ₹ 6000 was sent for collection to bank on 30-12-2015 which is not collected by bank till 31-12-2015.
- (3) A cheque of ₹ 3000 was issued on 28-12-2015 for payment of electricity bill, which is not debited by bank in passbook till 31-12-2015.
- (4) A cheque of ₹ 2000 was drawn on 27-12-2015 and given to creditor but it is not presented for payment till 31-12-2015.
- (5) Interest of ₹ 80 credited in passbook by bank, which is not debited in cashbook.
- (6) Bank debited ₹ 100 in passbook for bank charges, which is not credited in cashbook.

- 5.** **Cashbook of Naresh shows credit balance of bank ₹ 12,000 as on 31-3-2016, which does not tally with the balance as per passbook. Following information is obtained while comparing the passbook and cashbook. Prepare a bank reconciliation statement :**
- (1) A cheque of ₹ 10,000 was deposited with bank on 28-3-2016, which is not yet recorded in passbook by bank.
 - (2) Interest credited by bank ₹ 160 on 30-3-2016 is not recorded in cashbook.
 - (3) A customer has deposited ₹ 10,000 directly in bank account, which is not known till 31-3-2016.
 - (4) Cheque deposited with bank, but not recorded in cashbook ₹ 8000.
 - (5) Cheque drawn and paid by bank but not recorded in cashbook ₹ 6000.
 - (6) A bill receivable of ₹ 3000 discounted with bank is dishonoured and bank has recorded the amount in passbook including noting charges of ₹ 40, which is not known to Naresh.
 - (7) Total of receipt side of cashbook cast short by ₹ 2000.
 - (8) Cheque drawn but not presented for payment ₹ 1000.
 - (9) Cheque deposited but not credited in bank ₹ 1500.
 - (10) Bank has debited commission ₹ 80 in passbook, which is not recorded in cashbook.
- 6.** **Bank balance as per passbook of Gaurang on 31-3-2016 was ₹ 10,000 which does not tally with the bank balance as per cashbook. Following information is obtained while comparing the passbook and cashbook. Prepare a bank reconciliation statement :**
- (1) A cheque of ₹ 7000 is drawn and recorded in cashbook but not given to creditor.
 - (2) A cheque of ₹ 12,000 was deposited with bank on 29-3-2016, which is credited by bank on 1-4-2016.
 - (3) Bank has paid ₹ 6000 for insurance premium, which is known to Gaurang on 1-4-2016.
 - (4) A customer has deposited directly with bank ₹ 5000, which is not recorded in cashbook.
 - (5) Bank has credited interest ₹ 200 and recorded in passbook, but not recorded in cashbook.
 - (6) A cheque of ₹ 6700 deposited with bank is dishonoured, of which the information is received on 1-4-2016.
 - (7) Cheques drawn for ₹ 18,000 but out of these cheques of ₹ 6000 were presented for payment till 31-3-2016.
 - (8) Cheques of ₹ 32,000 were deposited with bank, out of which cheques of ₹ 7000 are credited in passbook till 31-3-2016.
 - (9) A cheque of ₹ 1800 was deposited with bank, which is not recorded in cashbook.
 - (10) Bank has debited ₹ 20 in passbook for bank charges, which is not recorded in cashbook.
- 7.** **Cashbook of Aditya shows bank balance of ₹ 9000 on 31-10-2015, which does not tally with the bank balance as per passbook. Prepare Aditya's bank reconciliation statement from the information given below :**
- (1) Cheques of ₹ 51,000 were deposited, out of which cheques of ₹ 41,000 were credited in bank till 31-10-2015.
 - (2) A cheque of ₹ 2300 is drawn and recorded in cashbook but not yet given to creditor.
 - (3) Bank has paid ₹ 1700 for insurance premium through electronic clearing service, which is not recorded in cashbook.
 - (4) A customer has deposited ₹ 3200 directly in Aditya's bank account, which is known to him on 2-11-2015.

- (5) Bank charges recorded by bank ₹ 70, is recorded twice in cashbook by mistake.
- (6) A cheque of ₹ 6750 deposited with bank on 27-10-2015 is dishonoured, the information of which is received by Aditya on 1-11-2015.
- (7) Cheques of ₹ 4780 were drawn out of which, cheques of ₹ 1770 were presented in bank on 2-11-2015.
- (8) A cheque of ₹ 1320 was deposited in the bank but it is not recorded in the cashbook. This cheque is not collected by bank till 31-10-2015.
- (9) Bank has credited ₹ 130 for interest and debited ₹ 60 for bank charges in passbook, which is not recorded in cashbook.
- (10) Total of receipt side of cashbook is over cast by ₹ 900.
- (11) Bills receivable of ₹ 1200, discounted with bank, is dishonoured on 28-10-2015 and bank debited this amount with the noting charges of ₹ 20 but entry for dishonour is not made in cashbook till 31-10-2015.
- (12) Bills payable of ₹ 700 maturing after one month was retired by bank under rebate of ₹ 30 on 30-10-2015, which is not recorded in cashbook.

8. Prepare a Bank Reconciliation Statement of Priyal for December 2015 from the information given below :

(1) Bank overdraft as per cashbook (Dt. 31-12-2015) ₹ 710.

Bank overdraft as per passbook (Dt 1-12-2015) ₹ 261

(2) Information of cheques deposited and credited in passbook is as under :

Amount (₹)	Date of Cheque Deposited in Bank	Date of Cheque Credited in Passbook
2300	15-12-2015	18-12-2015
7200	17-12-2015	17-12-2015
4600	27-12-2015	1-1-2016
1500	30-12-2015	2-1-2016

(3) Information of cheques drawn and presented in bank is as under :

Amount (₹)	Date of Cheque Drawn	Date of Cheque Presented in Bank
8200	26-12-2015	28-12-2015
9300	28-12-2015	1-1-2016
7100	29-12-2015	31-12-2015
1300	31-12-2015	2-1-2016

- (4) Interest ₹ 400 credited by bank in passbook is recorded on payment side in cashbook by mistake.
- (5) Bank has collected dividend of ₹ 360 on behalf of Priya, which is not recorded in cashbook.
- (6) Bank has recorded interest on overdraft ₹ 120 in passbook but this transaction is not recorded in cashbook.
- (7) Sales made by cheque ₹ 2300 recorded by bank in personal account of Priyal.
- (8) Bank has reversed bank charges of ₹ 380 on request of Priyal, which is not recorded in cashbook.

- (9) Signature is forgotten in cheque drawn and hence the cheque of ₹ 2000 is returned by bank.
- (10) Bank has collected bill of ₹ 3000 sent to bank for collection and charged ₹ 100 for the same, this transaction is not recorded in cashbook.

9. Prepare Bank Reconciliation Statement of Dharamsinh as on 29-2-2016 :

- (1) Cheque deposited but not collected ₹ 5200.
- (2) Cheque drawn but not presented in bank, ₹ 37,000.
- (3) Cheque received is recorded in cashbook but not sent for deposit in bank, ₹ 9900.
- (4) Cheque deposited with bank is dishonoured, which is not recorded in cashbook, ₹ 1650.
- (5) Interest on investment collected by bank ₹ 1900.
- (6) Demate charges paid by bank ₹ 1320 as per instruction of Dharamsinh, which is not recorded in cashbook.
- (7) Cash purchase, recorded on payment side of cashbook in bank column, ₹ 8300.
- (8) Cheque drawn but not given to creditors ₹ 4160.
- (9) Cheque drawn by Dharamsinh from his personal account, debited by bank in business bank account, ₹ 3340.
- (10) Payment side of bank column in cashbook is overcast ₹ 1180.
- (11) Cheque drawn ₹ 6400 dishonoured on technical ground, dishonour of cheque is not recorded in cashbook.
- (12) Interest credited by bank ₹ 1240 and commission debited by bank ₹ 1160, not recorded in cashbook.

Passbook of Dharamsinh showed overdraft of ₹ 4000 on 29-2-2016.

10. Prepare bank reconciliation statement of Mecwan for May, 2016 from following information :

Cashbook (Bank column)

Dr.	Particulars (Receipts)	R. No.	L. F.	Amount (₹)	Date	Particulars (Payments)	V. No.	L. F.	Amount (₹)	Cr.
2016					2016					
May 1	To balance b/d			6000	May 3	By rent A/c (Cheque issued to Rama)			3000	
9	To Tapan's A/c			18,000	6	By Ghanshyam's A/c			1500	
16	To Vishva's A/c			4500	13	By Prakash's A/c			2400	
27	To Shan's A/c			300	21	By commission A/c (Cheque issued to Chintan)			300	
					25	By Rajani's A/c			6000	
					30	By Haresh's A/c			3000	
					31	By balance c/d			12,600	
				28,800					28,800	
2016										
June 1	To balance b/d			12,600						

Bank Passbook

Date	Particulars	Debit (₹)	Credit (₹)	Balance (₹)
2016				
May 1	Balance b/d	—	6000	6000
4	Rama A/c	3000	—	3000
10	Tapan A/c	—	18,000	21,000
15	Prakash A/c	2400	—	18,600
21	Bank charges A/c	30	—	18,570
22	Kunjal A/c	—	9000	27,570
30	Haresh A/c	3000	—	24,570
30	Jay A/c	15,000	—	9570
31	Balance c/f	9570	—	—
		33,000	33,000	—
June 1	Balance b/d	—	9570	9570

11. Prepare Bank Reconciliation Statement of Sanjay from following information :

Bank Passbook

Date	Particulars	Debit (₹)	Credit (₹)	Balance (₹)
2016				
March 1	Balance b/d	—	3000	3000
2	Poonam A/c	750	—	2250
5	Amena A/c	—	4500	6750
8	Dharmesh A/c	1500	—	5250
9	Ashvin A/c	870	—	4380
12	Desai A/c	—	3000	7380
14	Bharat A/c	15,000	—	(7620)
17	Bakul A/c	2100	—	(9720)
23	Dalal A/c	9000	—	(18,720)
26	Bank interest A/c	60	—	(18,780)
28	Dividend A/c	—	75	(18,705)
31	Balance c/f	—	18,705	(18,705)
		29,280	29,280	—

Cashbook (Bank Column)

Dr.

Cr.

Date	Particulars (Receipts)	R. No.	L. F.	Amount (₹)	Date	Particulars (Payments)	V. No.	L. F.	Amount (₹)
2016					2016				
March 1	To balance b/d			2970	March 1	Bank charges A/c			60
1	Commission A/c (Cheque received from Alpa)			90	2	By Poonam A/c			750
					6	By salary A/c (Cheque given to Atul)			1500
4	Amena's A/c			4500					
6	Arvind's A/c			7500	8	By Dharmesh A/c			1500
12	Desai's A/c			3000	8	By Ashwin's A/c			870
28	Ashish's A/c			6075	12	By Pradip's A/c			690
31	To balance c/d			7335	13	By Bharat's A/c			15,000
					16	By Bakul's A/c			2100
					23	By broker's A/c			9000
				31,470					31,470
					2016				
					April 1	By balance b/d			7335

12. Cashbook of Balram shows debit balance of ₹ 40,000 on 30-4-2016, which is different from balance as per passbook. From the following information prepare a bank reconciliation statement as on 30-4-2016 :

2016

- April 1 Cheque deposited but not credited by bank ₹ 28,000.
- 4 Cheque issued but not presented ₹ 32,000.
- 6 Cheque deposited by Bunty directly in bank account ₹ 12,000.
- 6 Company has credited dividend of ₹ 8000 in Balram's bank account through National Electronic Fund Transfer, which is not recorded in cashbook.
- 10 Bank has credited ₹ 800 for bank interest, which is not recorded in cashbook.
- 13 Bill of Prabhshankar discounted with bank is dishonoured and bank has debited ₹ 15,300 including noting charges which is not known to Balram.
- 20 A cheque of ₹ 12,000 issued to Seema on 18-4-2016, which is paid by bank on 2-5-2016.
- 22 A cheque of ₹ 6000 received from Bhargav is deposited with bank but not recorded in cashbook.
- 25 Payment side of cashbook was overcast by ₹ 4000 while carry forwarding the balance of cashbook on next page.
- 29 A cheque of ₹ 12,000 was issued to BSNL for telephone bill, which was paid by bank on 30-4-2016 but it is recorded in cashbook by ₹ 1200.

13. Ambica Electronics is having two accounts with Bank of Baroda. Account no. 100 and account no. 101. Cashbook of account no. 100 shows balance of ₹ 9000, while cashbook of account no. 101 shows bank overdraft of ₹ 6000 on 31-3-2016. Prepare bank reconciliation statement of Ambica Electricals for account no. 100 for the month of March :

- (1) A cheque of ₹ 10,000 in account no. 100 and cheque of ₹ 8000 in account no. 101 were deposited. Bank has credited amount of account no. 100 in account no. 101 and the amount of account no. 101 in the account of no. 100 by mistake.
- (2) A cheque of ₹ 3000 was issued on account no. 101 which is not yet presented for payment in bank.
- (3) Cheques totalling ₹ 9000 were deposited in account no. 100 out of a cheque of ₹ 2500 was credited by bank in account no. 101 by mistake.
- (4) A cheque of ₹ 2600 was issued on account no. 101, payment of which is debited by bank in account no. 100.
- (5) A customer has deposited directly ₹ 2000 and ₹ 800 in account no. 101 and account no. 100 respectively, which is not recorded in cashbook.
- (6) Bank has debited ₹ 300 for bank charges in account no. 100 and credited ₹ 170 for bank interest in account no. 101, which is not recorded in cashbook.
- (7) Cheques of ₹ 7000 were issued on account no. 100, out of which cheques of ₹ 1200 are not yet presented for payment.

14. Cashbook of Paresh shows bank balance of ₹ 10,000 on 31-3-2015. This balance does not tally with bank balance as per passbook. From the following information prepare bank reconciliation for March 2015.

- (1) Cheques of ₹ 30,000 were deposited in bank during the month of March out of which cheques of ₹ 16,000 were credited in bank on 2nd April.
- (2) Cheques of ₹ 16,000 were drawn during the month of March out of which a cheque of ₹ 10,000 was presented for payment till 31st March.
- (3) During the month of March, bank paid ₹ 5000 for personal income tax out of bank account of business, which is not recorded in cashbook.
- (4) On 31st March, bank has credited ₹ 120 for interest and debited ₹ 50 for bank charges, which are not recorded in cashbook.
- (5) A cheque of ₹ 1650 received on 30th March is not deposited with bank.
- (6) A debtor has directly deposited ₹ 680 in bank, which is not recorded in cashbook.
- (7) Cash sales of ₹ 2000 is recorded in cashbook in bank column.
- (8) A bill of ₹ 3600 discounted in February 2015 was dishonoured on maturity date during the month of March and bank has recorded the same in passbook including noting charges of ₹ 100, which is not recorded in cashbook.
- (9) ₹ 600 received for dividend on shares is recorded in passbook but not recorded in cashbook.
- (10) Bank has paid ₹ 4500 for insurance premium as per instruction of Paresh, which is not recorded in cashbook.

15. From the following information, prepare Bank Reconciliation Statement of Margi :

Bank Passbook

Date	Particulars	Debit (₹)	Credit (₹)	Balance (₹)
2015				
Dec. 1	Balance b/f	—	4000	4000
6	Ahmedabad Electricity Co. A/c	3200	—	800
10	Mayank A/c	—	2000	2800
15	Divyang A/c	1600	—	1200
19	Dividend A/c	—	300	1500
22	Amena A/c	900	—	600
27	Bank commission A/c	20	—	580
30	Aahna A/c	500	—	80
31	Balance c/f	80	—	80
		6300	6300	—

Cashbook (Bank Column)

Dr.										Cr.
Date	Particulars (Receipts)	R. No.	L. F.	Amount (₹)	Date	Particulars (Payments)	V. No.	L. F.	Amount (₹)	
2015					2015					
Dec. 1	To balance b/d			4000	Dec. 4	By Ahmedabad Ele. Co. A/c			3200	
10	To Mayank A/c			2000	8	By Premal A/c			700	
12	To Gaurang A/c			1900	11	By Sales India A/c			2000	
15	To Bhupendra A/c			2400	16	By Kamal A/c			400	
22	To Chandni A/c			3200	20	By Amena A/c			900	
28	To commission A/c (Cheque received from Meera)			600	26	By interest A/c (Cheque issued to Bank of India)			5000	
					31	By balance c/f			1900	
				14,100					14,100	



Answers

Exercise 1

- 1. Select appropriate option for each question :**

(1) (a) (2) (d) (3) (a)

Exercise 2

- 1. Select appropriate option for each question :**

(1) (d) (2) (c) (3) (d) (4) (b)

Exercise 3

1. Select appropriate option for each question :

(1) (a) (2) (c) (3) (d) (4) (b) (5) (a) (6) (b)

Exercise 4

1. Select appropriate option for each question :

(1) (a) (2) (c) (3) (b) (4) (b) (5) (a)

3. State whether following statements are true or false :

- ### **5. Journal entry from transactions :**

(1) Cash A/c Dr. ₹ 10,000. To capital A/c ₹ 10,000

(2) Purchase A/c Dr. ₹ 5000, To cash A/c ₹ 5000

(3) Purchase A/c Dr. ₹ 8000 To Rajan A/c ₹ 8000

(4) Donation A/c Dr. ₹ 2000 To purchase A/c ₹ 2000

(5) Non-economic transaction, no entry will be done

(6) Purchase A/c Dr. ₹ 3000 To Shivani A/c ₹ 3000

(7) Drawings A/c Dr. ₹ 2500 To cash - A/c ₹ 2500

- ## 6 Transactions of capital and drawings :

2014

Jan. 1 Stock of goods A/c Dr. ₹ 10,000, Cash A/c Dr. ₹ 15,000, Furniture A/c Dr. ₹ 5000,
debtors A/c Dr. 10,000 To capital A/c 40,000

12 Cash A/c Dr. ₹ 50,000 To capital A/c ₹ 50,000

13 Drawings A/c Dr. ₹ 1000 To bank A/c ₹ 1000

15 Bank A/c Dr. ₹ 500 To capital A/c ₹ 500

20 Drawings A/c Dr. £ 1400 To cash A/c £ 400 To purchase A/c £ 1000

21 Drawings A/c Dr. ₹ 1500 To cash A/c ₹ 1500

28 Drawings A/c Dr. ₹ 2000, To Ganga Furniture A/c ₹ 2000

31 Drawings A/c Dr. ₹ 500, To bank A/c ₹ 500

7. Transactions of loan and interest :

2014

Feb. 1 Cash A/c Dr. ₹ 20,000, To 12 % Ram's loan A/c ₹ 20,000

3 Loan advanced A/c Dr. ₹ 5000, To cash A/c ₹ 5000

8 Cash A/c Dr. ₹ 1000, To Bharat's loan A/c 800, To loan interest A/c ₹ 200

10 Sita's loan A/c Dr. ₹ 5000, Loan interest A/c Dr. ₹ 400, To cash A/c ₹ 5400

12 Cash A/c Dr. ₹ 200, To loan interest A/c ₹ 200

15 Loan interest A/c Dr. ₹ 200, To cash A/c ₹ 200

18 Laxman A/c Dr. ₹ 75, To loan interest A/c ₹ 75

8. Transactions of Bank :

2014

March 1 Bank A/c Dr. ₹ 20,000, To cash A/c ₹ 20,000

5 Bank A/c Dr. ₹ 5000, To Shri Hari A/c ₹ 5000

6 Bank A/c Dr. ₹ 2000, To Ramanlal A/c ₹ 2000

10 Bank A/c Dr. ₹ 7000, Rupali A/c Dr. ₹ 7000, To sales A/c ₹ 14,000

12 Purchase A/c Dr. ₹ 10,000, To bank A/c ₹ 5000, To Deepkala A/c ₹ 5000

15 Drawings A/c Dr. ₹ 400, Cash A/c Dr. ₹ 800, To bank A/c ₹ 1200

18 Drawings A/c Dr. ₹ 300, Insurance premium A/c Dr. ₹ 450, To bank A/c ₹ 750

20 It is non-economic transaction. No entry will be done.

25 (1) Bank A/c Dr. ₹ 250, To bank interest A/c ₹ 250

(2) Bank charges A/c Dr. ₹ 100, To bank A/c ₹ 100

31 Drawings A/c Dr. ₹ 5000, To bank A/c ₹ 5000

9. Transactions of Goods :

2014

April 1 (1) Purchase A/c Dr. ₹ 15,000, To cash A/c ₹ 15,000

(2) Cash A/c Dr. ₹ 14,000, To sales A/c ₹ 14,000

5 Stock of goods A/c Dr. ₹ 10,000, To capital A/c ₹ 10,000

7 Purchase A/c Dr. ₹ 12,000, To Harsh A/c ₹ 12,000

10 Harsh A/c Dr. ₹ 6000, To purchase return A/c ₹ 6000

12 Purchase A/c Dr. ₹ 10,000, To bank A/c ₹ 5000, To Ramila A/c ₹ 5000

15 Mita A/c Dr. ₹ 11,700, To sales A/c ₹ 11,700

18 Sales return A/c Dr. ₹ 1000, To Mita A/c ₹ 1000

- 20 Kalpana A/c Dr. ₹ 18,000, To sales A/c ₹ 18,000
 22 Insurance Co. A/c Dr. ₹ 1000, Loss due to fire A/c Dr. ₹ 1000, To purchase A/c ₹ 2000
 25 Cash A/c Dr. ₹ 200, Loss due to rain A/c Dr. ₹ 300, To purchase A/c ₹ 500
 27 It is non-economic transaction. No entry will be done.
 29 Cash A/c Dr. ₹ 400 To sales A/c ₹ 400
 30 Mobile (Asset) A/c Dr. ₹ 1000, To purchase A/c ₹ 1000

10. Transactions of Assets :

- 1 Machine A/c Dr. ₹ 20,500, To bank A/c ₹ 20,000, To cash A/c ₹ 500
 2 Furniture A/c Dr. ₹ 3050, To Kaveri Furniture Mart A/c ₹ 3000, To cash A/c ₹ 50
 3 Investment in share A/c Dr. ₹ 5010, To bank A/c ₹ 5010
 4 Furniture A/c Dr. ₹ 4000, To purchase A/c ₹ 4000
 5 Cash A/c Dr. ₹ 5000, Loss on sale of machine A/c Dr. ₹ 1000, To machine A/c ₹ 6000
 6 Land A/c Dr. ₹ 52,000, To cash A/c ₹ 52,000

11. Transactions of Income and Expense :

2014

- May 1 Sundry expense A/c Dr. ₹ 500, To cash A/c ₹ 500
 2 Stationery A/c Dr. ₹ 400, To cash A/c ₹ 400
 3 Wages expenses A/c Dr. ₹ 200, Carriage A/c Dr. ₹ 100, To cash A/c ₹ 300
 5 Shop rent A/c Dr. ₹ 500, Drawings A/c Dr. ₹ 300, To cash A/c ₹ 800
 10 Cash A/c Dr. ₹ 400, To commission A/c ₹ 400
 12 Bank A/c Dr. ₹ 800, To brokerage A/c ₹ 800
 15 Advertisement expense A/c Dr. ₹ 300, To cash A/c ₹ 300
 20 To bank A/c Dr. ₹ 500, To dividend A/c ₹ 500
 24 To bank A/c Dr. ₹ 1000, To debenture interest A/c ₹ 1000
 25 To furniture A/c Dr. ₹ 3000, To cash A/c ₹ 3000

12. Transactions of Trade discount, Cash discount and bad debts :

2014

- June 1 Cash A/c Dr. ₹ 50,000, Stock of goods A/c Dr. ₹ 10,000, Debtors A/c Dr. ₹ 15,000, To capital A/c ₹ 75,000
 2 Cash A/c Dr. ₹ 20,000, To 10 % Mrs. Sharda's loan A/c ₹ 20,000
 3 Purchase A/c Dr. ₹ 7200, To Rameshwar Stores A/c ₹ 7200
 5 Gayatri Stores A/c Dr. ₹ 4500, To sales A/c ₹ 4500
 7 Purchase A/c Dr. ₹ 13,500, To Radha-Kishan Stores A/c ₹ 6750, To bank A/c ₹ 6075, To discount A/c ₹ 675
 10 It is non-economic transaction.
 12 Vibhuti A/c Dr. ₹ 4500, To sales A/c ₹ 4500
 12 Carriage A/c Dr. ₹ 50, To cash A/c ₹ 50

- 15 Bank A/c Dr. ₹ 4200, Bad debts A/c Dr. ₹ 300, To Vibhuti A/c ₹ 4500
 16 Anupam A/c Dr. ₹ 1050, To bank A/c ₹ 1000, To allowance A/c ₹ 50
 20 Cash A/c Dr. ₹ 1500, To bad debts recovered A/c ₹ 1500

13. Inclusive of all Transactions :

2014

- July 1 Cash A/c Dr. ₹ 50,000, Debtors A/c Dr. ₹ 20,000, Stock of goods A/c Dr. ₹ 10,000, To Creditors A/c ₹ 5000, To capital A/c ₹ 75,000
 2 Vijya Bank A/c Dr. ₹ 20,000, To cash A/c ₹ 20,000
 3 Purchase A/c Dr. ₹ 18,000, To Sumul A/c ₹ 9000, To bank A/c ₹ 8100, To discount A/c ₹ 900
 4 Furniture A/c Dr. ₹ 15,100, To Punit Furniture Mart A/c ₹ 15,000, To cash A/c ₹ 100
 5 Sumul A/c Dr. ₹ 3000, To purchase return A/c ₹ 3000
 6 Rajshri A/c Dr. ₹ 5400, Bank A/c Dr. ₹ 4860, Discount A/c Dr. ₹ 540, To sales A/c ₹ 10,800.
 8 Cash A/c Dr. ₹ 12,150, Discount A/c Dr. ₹ 1350, To sales A/c ₹ 13,500
 10 Drawings A/c Dr. ₹ 500, To purchase ₹ 300, To cash A/c ₹ 200
 11 Packing expense A/c Dr. ₹ 200, To cash A/c ₹ 200
 12 Salary-wages A/c Dr. ₹ 2000, To bank A/c ₹ 2000
 13 Cash A/c ₹ 5100, Bad debts A/c Dr. ₹ 300, To Rajshri A/c ₹ 5400
 14 Bank A/c Dr. ₹ 25,000, To 12 % Axis Bank loan ₹ 25,000
 15 Insurance Co. A/c Dr. ₹ 1500, Loss due to fire A/c Dr. ₹ 300, Cash A/c Dr. ₹ 200, To purchase A/c ₹ 2000
 16 Drawings A/c Dr. ₹ 450, Fire insurance premium A/c ₹ 550, To bank A/c ₹ 1000
 18 Cash A/c Dr. ₹ 250, To sales A/c ₹ 250
 20 Cash A/c Dr. ₹ 100, To bad debts recovered A/c ₹ 100
 25 Loan interest A/c Dr. ₹ 250, To Axis bank loan A/c ₹ 250
 28 Drawings A/c Dr. ₹ 2000, Shop expense A/c Dr. ₹ 1000, To cash A/c ₹ 3000
 29 Internet deposit A/c Dr. ₹ 2000, To bank A/c ₹ 2000

14. 2014

- Aug. 1 Drawings A/c Dr. ₹ 700, To cash A/c ₹ 700
 5 Cash A/c Dr. ₹ 300, To brokerage A/c ₹ 200, To commission A/c ₹ 100
 7 Purchase A/c Dr. ₹ 5000, To cash A/c ₹ 4500, To discount A/c ₹ 500
 10 It is non-economic transaction. No entry will be done.
 11 Cash A/c Dr. ₹ 900, Discount A/c Dr. ₹ 100, To purchase return ₹ 1000
 12 Cash A/c Dr. ₹ 500, To bad debts return A/c ₹ 500
 13 Reparing expense A/c Dr. ₹ 500, Drawings A/c Dr. ₹ 1000, To cash A/c ₹ 1500
 15 Machine A/c Dr. ₹ 800, To cash A/c ₹ 800

15. Narration of transactions from journal is as follows :

- (1) Goods destroyed by fire ₹ 2400. For which insurance company has admitted claim of ₹ 2000. Remaining amount is debited to Profit and Loss Account.
- (2) Bank has credited interest of ₹ 500.
- (3) Bicycle sold for ₹ 1600 in cash.
- (4) Bank has credited dividend of ₹ 700.
- (5) Goods of ₹ 8000 sold at 10 % cash discount.
- (6) Cash of ₹ 1000 and goods of ₹ 1500 given for donation from business.

- 16.** 1. Purchase A/c Dr ₹ 45,000, Input CGST A/c Dr ₹ 2700, Input SGST A/c Dr ₹ 2700,
To Bank A/c ₹ 50,400
4. Purchase A/c Dr ₹ 40,000, Input IGST A/c Dr ₹ 4800, To Vishnubhai A/c ₹ 44,800
7. Himanshubhai A/c Dr ₹ 60,480, To Sales A/c ₹ 54,000, To output CGST A/c ₹ 3240,
To output SGST A/c ₹ 3240
11. Bank A/c Dr. ₹ 50,400, To sales A/c ₹ 45,000, To output IGST A/c ₹ 5400.
15. Vishnubhai A/c Dr ₹ 11,200, To purchase return A/c ₹ 10,000, To input IGST A/c ₹ 1200.
18. Sales return A/c Dr ₹ 18,000, Output CGST A/c Dr ₹ 1080, Output SGST A/c Dr ₹ 1080,
To Himanshubhai A/c ₹ 20,160.
25. Furniture A/c Dr ₹ 20,000, Input CGST A/c Dr ₹ 1200, Input SGST A/c Dr ₹ 1200,
To Sahajanand Furniture Mart ₹ 22,400.
28. Shop rent A/c Dr ₹ 8000, Input CGST A/c Dr ₹ 200, Input SGST A/c Dr ₹ 200, To cash
A/c ₹ 8400.
- 17.** 1. Purchase A/c Dr ₹ 36,000, Input CGST A/c Dr ₹ 3240, Input SGST A/c Dr ₹ 3240,
To Savan A/c ₹ 42,480.
3. Purchase A/c Dr ₹ 27,000, Input IGST A/c Dr ₹ 4860, To bank A/c ₹ 31,860.
5. Ansh A/c Dr ₹ 26,550, Bank A/c Dr ₹ 26,550, To sales A/c ₹ 45,000, To output CGST
A/c ₹ 4050, To output SGST A/c ₹ 4050.
8. Neel Mehta A/c Dr ₹ 21,240, To sales A/c ₹ 18,000, To output SGST A/c ₹ 3240.
11. Savan A/c Dr. ₹ 10,620, To purchase return A/c ₹ 9000, To input CGST A/c ₹ 810,
To input SGST A/c ₹ 810.
16. Sales return A/c Dr ₹ 3600, Output SGST A/c Dr ₹ 648, To Neel Mehta A/c ₹ 4248.
24. Computer A/c Dr ₹ 40,000, Input CGST A/c Dr ₹ 3600, Input SGST A/c Dr ₹ 3600,
To bank A/c ₹ 47,200.
30. Office rent A/c Dr ₹ 10,000, Input CGST A/c Dr ₹ 250, Input SGST A/c Dr ₹ 250,
To bank A/c ₹ 10,500.
31. Bank A/c Dr ₹ 21,000, To godown rent received A/c ₹ 20,000, To output CGST A/c
₹ 500, To output SGST A/c ₹ 500.
31. Bank A/c Dr ₹ 26,250, To Commission received A/c ₹ 25,000, To output IGST A/c ₹ 1250.

Exercise 5

1. Select appropriate option for each question :
 (1) (b) (2) (a) (3) (b) (4) (c) (5) (d)

2. Balance of A = C + L at the end of each transactions :

S.No. of Transactions	A =	C +	L
(1)	80,000	80,000	—
(2)	80,000	80,000	—
(3)	1,20,000	80,000	40,000
(4)	1,20,000	80,000	40,000
(5)	1,40,000	1,00,000	40,000
(6)	1,48,000	1,08,000	40,000
(7)	1,46,000	1,08,000	38,000
(8)	1,46,000	1,08,000	38,000
(9)	1,08,000	1,08,000	—
(10)	1,08,000	1,08,000	—
(11)	1,04,000	1,04,000	—
(12)	1,09,500	1,09,500	—
(13)	1,05,500	1,04,000	1500
(14)	1,03,500	1,02,000	1500
(15)	1,18,500	1,02,000	16,500
(16)	1,12,500	96,000	16,500
(17)	1,12,800	96,300	16,500
(18)	1,15,300	96,300	19,000
(19)	1,15,300	96,300	19,000

Exercise 6

1. Select appropriate option for each question :
 (1) (b) (2) (b) (3) (a) (4) (a) (5) (a)
 (6) (a) (7) (c) (8) (b) (9) (b)
4. Total credit purchase ₹ 1,13,000, ₹ 1000 of freight will be recorded to journal proper.
5. TV ₹ 5,47,500, Fridge ₹ 2,19,000, Washing machine ₹ 1,39,500, Total ₹ 9,06,000
6. Net amount of goods ₹ 1,03,500, input CSGT ₹ 3120, input SGST ₹ 3120, input IGST ₹ 7500, Value added tax ₹ 5175; Railway freight ₹ 8000, Wages ₹ 3000 Total ₹ 1,28,240

7. Total credit sales ₹ 70,000 and ₹ 400 for carriage will be debited to Vidhi store A/c and credited to cash A/c (recorded in cash book).
8. Cotton ₹ 30,600, Khadi ₹ 23,680, Silk ₹ 42,480, Total ₹ 96,760 (output CGST ₹ 1710, output SGST 1710 will be recorded in journal proper)
9. Net amount of goods ₹ 1,19,750; Railway freight ₹ 5000, Wages ₹ 500, Total ₹ 1,47,795, output CGST ₹ 7740, output SGST ₹ 7740, output IGST ₹ 7065)
10. Total credit purchase ₹ 2,80,000 (input CGST ₹ 900, input SGST ₹ 900 and ₹ 400 of wages will be recorded in journal proper). Total credit purchase return ₹ 31,500
11. Total credit sales ₹ 63,700, Total credit sales return ₹ 5000 (Output CGST ₹ 712.50 and Output SGST ₹ 712.50 will be recorded in journal proper and ₹ 300 wages will be recorded in cash book)
12. Total credit purchase ₹ 1,29,000, Total credit sales ₹ 1,38,450, Total credit purchase return ₹ 59,800, ₹ 500 wages paid recorded in cash book.

Total credit sales return ₹ 65,100; ₹ 250 to be debited to wages account and credited to Karan account in journal proper.

Particulars	Purchase Book (₹)	Sales Book (₹)	Purchase Return Book (₹)	Sales Return Book (₹)
Net amount of goods	48,000	79,500	15,000	24,750
Railway freight	2200	2700	600	1050
Wages	400	1150	200	450
CGST	1140	2751	—	450
SGST	1140	2751	—	450
IGST	3792	4500	1896	2250
Total	56,672	93,352	17,696	29,400

14. Total credit purchase ₹ 1,40,580; Total credit sales ₹ 1,15,648; Total credit purchase return ₹ 19,800; Total credit sales return ₹ 42,498

Exercise 7

- Select appropriate option for each question :

(1) (c) (2) (b) (3) (a) (4) (d) (5) (b) (6) (d)
- Cash balance ₹ 2900
- Cash balance ₹ 7650, Discount allowed ₹ 625, Discount received ₹ 250
- Cash balance ₹ 2200, Bank balance ₹ 6500
- Cash balance ₹ 4700, Bank balance ₹ 3400
- Bank overdraft ₹ 14,550, Discount allowed ₹ 110, Discount received ₹ 15
- Cash balance ₹ 5000, Bank balance ₹ 5050, Discount allowed ₹ 840, Discount received ₹ 50
- Bank balance SBI ₹ 1200, BOB ₹ 15,600

10. Closing balance of petty cash balance ₹ 2150
11. Imprest petty cash book : Total expense ₹ 2400, closing balance ₹ 2600
13. Cash balance ₹ 5500, Bank balance ₹ 325, Discount allowed ₹ 250, Discount received ₹ 180
14. Cash balance ₹ 17,800, Bank balance ₹ 15,392, Discount allowed ₹ 1000
15. Cash balance ₹ 1000, Bank balance ₹ 8287, Discount allowed ₹ 100, Discount received ₹ 90
16. Cash balance ₹ 51,700, Bank balance ₹ 6,48,955

Exercise 8

1. Select appropriate option for each question :

- | | |
|---------|---------|
| (1) (b) | (2) (c) |
| (3) (b) | (4) (a) |

4. Furniture A/c Dr. ₹ 15,000, Stock of goods A/c Dr. ₹ 20,000, Debtors A/c Dr. ₹ 5000 will be debited and 12 % credit Mayaben's loan ₹ 10,000, capital A/c ₹ 30,000.

5. Transactions :

- (1) Bills receivable A/c Dr. ₹ 8000, To Ramnik A/c ₹ 8000
- (2) Vijay A/c Dr. ₹ 3000, To bills payable A/c ₹ 3000
- (3) Ramesh A/c Dr. ₹ 8000, To bills receivable A/c ₹ 8000
- (4) Sales return A/c Dr. ₹ 3000, To Paresh A/c ₹ 3000
- (5) Mahendra A/c Dr. ₹ 1500, To purchase return A/c ₹ 1500

6. Transactions :

- (1) Donation expense A/c Dr. ₹ 5000, To purchase A/c ₹ 5000
- (2) Advertisement expense A/c Dr. ₹ 4000, To purchase A/c ₹ 4000
- (3) Drawings A/c Dr. ₹ 8000, To purchase A/c ₹ 8000
- (4) Furniture A/c Dr. ₹ 2800, To purchase A/c ₹ 2800
- (5) Insurance Company A/c Dr. ₹ 5500, Loss due to accident A/c Dr. ₹ 1500, To purchase A/c ₹ 7000
- (6) Bad debts A/c Dr. ₹ 2000, To Nirali A/c ₹ 2000
- (7) Depreciation A/c Dr. ₹ 800, To machine A/c ₹ 800
- (8) Salary A/c Dr. ₹ 7800, To outstanding salary A/c ₹ 7800

- 7.** March 1 Furniture A/c Dr. ₹ 7000, Stock of goods A/c Dr. ₹ 15,000, Machine A/c Dr. ₹ 20,000, To capital A/c ₹ 42,000
- 2 Stationery expense A/c Dr. ₹ 2000, Cellular phone A/c Dr. ₹ 25,000, To Kamlesh Traders A/c ₹ 27,000.
 - 3 Drawings A/c Dr. ₹ 3000, To purchase A/c ₹ 3000
 - 4 Bills receivable A/c Dr. ₹ 8000, To Namrata A/c ₹ 8000

- 5 Yesha A/c Dr. ₹ 8050, To bills receivable A/c 8000, To discount A/c ₹ 50
- 6 Bharat A/c Dr. ₹ 6000, To bills payable A/c ₹ 6000
- 7 Insurance Co. A/c Dr. ₹ 6000, Loss due to goods stolen A/c Dr. ₹ 2000, To purchase A/c ₹ 8000
- 8 Nalin A/c Dr. ₹ 8200, To Nirav A/c ₹ 8000, To allowance A/c ₹ 200
- 9 It being a cash transaction will be recorded in cashbook.
- 10 Interest A/c Dr. ₹ 300, To outstanding interest A/c ₹ 300

8. Transactions :

- (1) Bhumika A/c Dr. ₹ 700, To Renuka A/c ₹ 700
- (2) Updesh A/c Dr. ₹ 1000, To bad debts recovered A/c ₹ 1000
- (3) Sharma A/c Dr. ₹ 800, To Varma A/c ₹ 800
- (4) Insurance premium A/c Dr. ₹ 1200, To drawings A/c ₹ 1200
- (5) Loss on sales of furniture A/c Dr. ₹ 200, To furniture A/c ₹ 200

9. Transactions :

- (1) Profit and Loss A/c Dr. ₹ 1000, To interest A/c ₹ 1000
- (2) Trading A/c Dr. ₹ 3000, To sales return A/c ₹ 3000
- (3) Purchase return A/c Dr. ₹ 2000, To trading A/c ₹ 2000
- (4) Interest received A/c Dr. ₹ 800, To profit and loss A/c ₹ 800
- (5) Profit and Loss A/c Dr. ₹ 1500, To advertisement expense A/c ₹ 1500
- (6) Profit and Loss A/c Dr. ₹ 4000, To salary A/c ₹ 4000
- (7) Dividend A/c Dr. ₹ 700, To profit and loss A/c ₹ 700
- (8) Trading A/c Dr. ₹ 5000, To purchase A/c ₹ 5000
- (9) Sales A/c Dr. ₹ 10,000, To trading A/c ₹ 10,000

Exercise 9

1. Select appropriate option for each question :

- (1) (c) (2) (a) (3) (d) (4) (b) (5) (b) (6) (d) (7) (a)

4. Debit Balance : Purchase A/c, Sales return A/c, Debtors A/c, Salary A/c, Building A/c, Drawings A/c, Bad debts A/c, Loss due to goods stolen A/c, Advertisement expense A/c, Provident Fund contribution A/c.

Credit Balance : Sales A/c, Capital A/c, Rent received A/c, Goods destroyed by fire A/c (Credit to purchase A/c)

11. Net amount of goods as per purchase book ₹ 1,61,000, Railway freight ₹ 6200, Wages ₹ 600, Input CGST ₹ 5040, Input SGST ₹ 5040, Input IGST ₹ 10,056 and Total amount ₹ 1,87,936.

Net amount of goods as per sales book ₹ 1,09,800, Railway freight ₹ 1100, Wages ₹ 600, Output CGST ₹ 3936, Output SGST ₹ 3936, Output IGST ₹ 5508 and Total amount ₹ 1,24,880.

Net amount of goods as per purchase return book ₹ 20,000, Railway freight ₹ 1000, Wages ₹ 200
Input IGST ₹ 2544 and Total amount ₹ 23,744.

Net amount of goods as per sales return book ₹ 32,400, Railway freight ₹ 200, Wages ₹ 150,
Output CGST ₹ 1965, Output SGST ₹ 1965 and Total amount ₹ 36,680.

14. **Debit Balance** : Cash A/c ₹ 30,800, Bank A/c ₹ 24,500, Furniture A/c ₹ 25,000, Purchase A/c ₹ 11,280, Advertisement expense A/c ₹ 4000, Discount allowed A/c ₹ 50, Drawings A/c ₹ 8200, Sundry expenses ₹ 3000

Credit Balance : Capital A/c ₹ 1,00,000, Sales A/c ₹ 6750, Discount received A/c ₹ 80

15. **Debit Balance** : Cash A/c ₹ 12,950, Stock A/c ₹ 15,000, Bank A/c ₹ 47,900, Salary A/c ₹ 4500, Carriage A/c ₹ 450, Purchase A/c ₹ 35,100, Insurance premium A/c ₹ 2000, Advertisement expense A/c ₹ 3500, Drawings A/c ₹ 4000

Credit Balance : Capital A/c ₹ 90,000, Chakan's A/c ₹ 12,000, Sales A/c ₹ 23,400

16. **Debit Balance** : Cash A/c ₹ 30,480, Bank A/c ₹ 42,100, Purchase A/c ₹ 8700, Shop rent A/c ₹ 1500, Salary A/c ₹ 2500, Electricity expense A/c ₹ 1870, Telephone expense A/c ₹ 530, Drawings A/c ₹ 1800, Discount allowed A/c ₹ 620

Credit Balance : Sales A/c ₹ 39,100, Commission A/c ₹ 1600, Discount received A/c ₹ 400

Exercise 10

1. Select appropriate option for each question :

(1) (c) (2) (a) (3) (a) (4) (d) (5) (c)

4. ₹ 69,200 5. ₹ 48,010

6. ₹ 1,79,600 closing stock can not be disclosed in trial balance in this question, suspense A/c ₹ 7000

7. ₹ 1,92,600

Exercise 11

1. Select appropriate option for each question :

(1) (b) (2) (c) (3) (a) (4) (c) (5) (d)
(6) (c) (7) (a) (8) (b) (9) (b) (10) (a)

3. (4) Credit balance as per pass book (Bank balance) ₹ 4000
(5) Credit balance as per cash book (Bank overdraft) ₹ 10,150
(6) Bank reconciliation would commence with Bank overdraft as per cash book ₹ 1000

4. Debit balance as per pass book (Bank overdraft) ₹ 4020

5. Bank overdraft as per pass book ₹ 11,460

6. Bank balance as per cash book ₹ 33,720

7. Bank overdraft as per pass book ₹ 4830
8. Bank balance as per pass book ₹ 7810
9. Bank overdraft as per cash book ₹ 41,610
12. Bank balance as per pass book ₹ 60,700, bank balance as per revised cash book ₹ 44,700
13. Bank balance as per pass book ₹ 3600
14. Bank overdraft as per pass book ₹ 15,500

