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ELEMENTS OF ACCOUNTS

(Part 2)

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.

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Subject Adviser
Shri R. H. Vyas

Authors
Dr H. C. Sardar (Convener)
Dr N. V. Suchak
Shri Pankajbhai C. Raval
Dr Dipak R. Raste
Dr R. K. Patel
Dr Jayesh A. Thakkar
Shri Sureshchandra J. Sahu
Shri Raghubhai T. Socha

Translators
Dr H. C. Sardar
Dr N. V. Suchak
Shri Pankajbhai C. Raval
Dr Dipak R. Raste
Dr R. K. Patel

Reviewers
Prof B. D. Mewada
Shri Bankim N. Pancholi
Prof H. N. Patel
Smt K. S. Vasumathy
Shri Prakash S. Patel
Smt Shreya N. Parikh
Shri Ravi P. Pillai
Dr Neel A. Shastri

Language Reviewers
Dr Bharti G. Dave
Dr Margi Hathi

Co-ordinator
Dr Chirag N. Shah
(Subject Co-ordinator : Commerce)

Preparation and Planning
Shri Haren Shah
(Dy. Director : Academic)

Lay-out and Planning
Shri Haresh S. Limbachiya
(Dy. Director : Production)

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 2)** 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.

P. Bharathi (IAS)
Director
Executive President
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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 or 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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1

Rectification of Errors

1. Introduction

The information regarding arithmatical errors in preparing a journal, posting in ledger and extracting balances of accounts can be obtained by preparing a trial balance.

If debit side and credit side of trial balance tallies, it is believed that there is no arithmatical error in recording the transactions and posting and extracting balances of accounts. But if the trial balance does not tally, there must be some errors in writing books of accounts and the errors are detected and rectified. In fact trial balance is not a final yard stick of accounting errors. Even if the trial balance tallies, it is quite possible that errors may have been committed while preparing accounts. Thus the errors affecting trial balance and errors not affecting trial balance must be detected and rectified. The accounts will reveal the true picture of business only when these errors are rectified. This process is inevitable. The process of detecting errors in accounts and rectifying them is called as Rectification of Errors. Following are the objectives of rectification of errors.

(1) When the error is detected in accounts before preparing a trial balance, it is to be rectified.

(2) When the error is detected after preparing a trial balance of respective accounting year, it is to be rectified.

(3) To determine true profit or loss from correct accounting records by rectifying the errors.

(4) To show true financial position by preparing a balance sheet at the end of an accounting period based on correct accounting information by rectifying the errors.

As per the accounting rules, if there is an error in amounts recorded in accounts, it can not be rectified by deleting the same. To rectify the error, an accounting effect is given related to the respective error. Rectification of error has a virtual importance in accounting system.

2. Types of Accounting Errors

Accounting errors are classified into two parts, based on whether they affect the trial balance or not.

(1) Errors which do not affect the trial balance (2) Errors which affect the trial balance

Types of Accounting Errors

Errors which do not affect the trial balance

(1) Errors of omission
(2) Errors of principle
(3) Errors of recording to a wrong account
(4) Errors committed at the time of recording in primary books
(5) Compensatory errors

Errors which affect the trial balance

(1) Errors regarding posting
(2) Errors regarding balance of an account
(3) Errors in totalling the subsidiary books
(4) Errors committed at the time of the preparing the trial balance.

3. Error do not Affect the Trial Balance

A trial balance is prepared to know whether the accounts are arithmetically correct or not. But it can not be said that the accounts are perfectly correct only because the trial balance tallies. At times some accounting errors exist even if the trial balance tallies. Such errors are known as errors not affecting the trial balance. Such errors can not be detected easily. They can be known by comparing the records of receipts from customers and payments from Traders, by vouchers of purchase and sales of assets, by correspondence with bank, by preparing bank reconciliation statement and by exchange of copies of accounts or at the time of auditing of accounts.

To rectify these errors, whether detected before or after preparing a trial balance or before or after preparing final accounts, a rectification entry must be passed in the journal proper.

Now understand the errors which do not affect the trial balance and how to rectify these errors.

(1) Error of Omission :

When a transaction is totally omitted to be recorded in the journal or the subsidiary book or the ledger, such an error is known as an **error of omission**. The trial balance will tally even though error of omission is committed because posting is omitted on both credit and debit side. Errors of omission take place at two stages :

(i) A transaction is totally omitted to be recorded in the journal or the subsidiary book or the ledger.

e.g. Cash sales of ₹ 2000 is left unrecorded. By writing correct journal entry for this transaction the above error will be rectified.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Cash A/c...Dr To Sales A/c [Being the entry of ₹ 2000 cash sales is left unrecorded.]		2000	 2000

(ii) A transaction is totally recorded in the journal or the subsidiary book or the ledger but posting of both accounts are omitted.

e.g. Furniture purchased on credit from Raj Furniture Mart of ₹ 5000 is recorded in journal proper, but it is forgotten to be posted in the accounts of furniture and Raj Furniture Mart in ledger.

To rectify this error there is no need to record journal entry in journal proper but the error will be rectified by debiting furniture account and crediting Raj Furniture Account in ledger.

(2) Error of Principle :

When an error arises because of non-compliance of accounting principles it is known as an error of principle. These types of errors do not affect the trial balance. Because the amount of the transaction is same but instead of one account any other account is debited or credited.

e.g., (i) ₹ 20,000 worth Machinery purchased is debited to purchase account.

(ii) ₹ 600 commission received from Rahim is credited to Rahim's A/c

Following process is done for the rectification of errors in the above transaction.

	Transaction	Correct Entry	Error Committed	Entry for Rectification
(1)	Machinery purchased ₹ 20,000	Machinery A/c Dr. ₹ 20,000 To Cash A/c ₹ 20,000	Purchase A/c Dr. ₹ 20,000 To Cash A/c ₹ 20,000	Machinery A/c Dr. ₹ 20,000 To Purchase A/c ₹ 20,000 (Being the rectification entry for purchase of machinery wrongly debited to purchase A/c)
(2)	Commission received ₹ 600 from Rahim.	Cash A/c Dr. ₹ 600 To Commission A/c ₹ 600	Cash A/c Dr. ₹ 600 To Rahim's A/c ₹ 600	Rahim's A/c Dr. ₹ 600 To Commission A/c ₹ 600 (Being the rectification entry for commission received from Rahim wrongly credited to Rahim's A/c)

Explanation : In recording both the transactions there is no error in cash account, but in the first transaction purchase account is debited instead of Machine account. To rectify this error the correct account i.e. Machine account will be debited while purchase account is wrongly debited which will be credited to rectify the error.

In the other transaction, Rahim's account is credited instead of commission account, therefore in rectification entry, correct account i.e. commission account will be credited and wrongly credited Rahim's account will be debited.

(3) Error of Debiting or Crediting Wrong Account :

In such type of error, instead of debiting or crediting correct account, the other account is debited or credited. Thus by debiting or crediting a wrong account with correct amount on the correct side the trial balance remains unaffected.

e.g. ₹ 1000 received from Eva is credited to Riya's A/c by mistake. This error will be rectified by the following entry :

	Transaction	Correct Entry	Error Committed	Entry for Rectification
(1)	Received ₹ 1000 from Eva.	Cash A/c Dr. ₹ 1000 To Eva's A/c ₹ 1000	Cash A/c Dr. ₹ 1000 To Riya's A/c ₹ 1000	Riya's A/c Dr. ₹ 1000 To Eva's A/c ₹ 1000 (Being the rectification entry for ₹ 1000 received from Eva wrongly credited to Riya's A/c)

Explanation : Wrongly credited ₹ 1000 to Riya's account will be debited and correct account i.e. Eva's account will be credited in rectification entry.

(4) Error of Commission :

While writing the books of accounts, if the transaction in primary books are recorded either more or less than the correct amount or it is recorded in wrong subsidiary book, such an error is known as an error of commission.

(A) Transaction recorded in correct book by more or less amount :

e.g., (i) Goods of ₹ 500 sold to Shahid is recorded by mistake as ₹ 50.

(ii) Bank charges of ₹ 70 is recorded by mistake as ₹ 700 in cash book.

These errors will be rectified by the following process :

	Transaction	Correct Entry	Error Committed	Entry for Rectification
(1)	Goods of ₹ 500 sold to Shahid.	Shahid's A/c Dr. ₹ 500 To Sales A/c ₹ 500	Shahid's A/c Dr. ₹ 50 To Sales A/c ₹ 50	Shahid's A/c Dr. ₹ 450 To Sales A/c ₹ 450 (Being the rectification entry for the goods purchased from Shahid by less amount.)
(2)	Bank charges ₹ 70	Bank charges A/c Dr. ₹ 70 To Bank A/c ₹ 70	Bank charges A/c Dr. ₹ 700 To Bank A/c ₹ 700	Bank A/c Dr. ₹ 630 To Bank charges A/c ₹ 630 (Being the rectification entry for recorded excess amount.)

Explanation : (1) Shahid's account and sales account are recorded less by ₹ 450, therefore ₹ 450 is debited to Shahid's account and credited to Sales account in rectification entry.

(2) Bank charges are recorded more by ₹ 630 therefore its reverse entry will be made in rectification entry and bank account will be debited by ₹ 630 and bank charges account will be credited by ₹ 630.

(B) Transaction recorded in wrong subsidiary book :

e.g. (1) Goods of ₹ 800 sold to Payal is recorded by mistake in purchase book.

Instead of recording the transaction in sales book it is recorded in purchase book. For rectification of this type of error, following process will be followed.

	Transaction	Correct Entry	Error Committed	Entry for Rectification
(1)	Sold goods ₹ 800 to Payal	Payal's A/c Dr. ₹ 800 To Sales A/c ₹ 800	Purchase A/c Dr. ₹ 800 To Payal's A/c ₹ 800	Payal's A/c Dr. ₹ 1600 To Sales A/c ₹ 800 To Purchase A/c ₹ 800 (Being the rectification entry of goods sold to Payal wrongly recorded in purchase book.)

Explanation : To make correct entry of the transaction, Payal's account will be debited and sales account will be credited while wrong entry of credit purchase will be reversed, therefore Payal's account will be debited and purchase account will be credited by ₹ 800. Thus Payal's account will be debited by double amount of ₹ 1600.

(C) Transaction recorded in wrong subsidiary book with wrong amount :

e.g. (1) Goods of ₹ 400 return from Pradeep is wrongly recorded in purchase book as ₹ 4000.

For the rectification of this error, following process will be followed :

	Transaction	Correct Entry	Error Committed	Entry for Rectification
(1)	Goods of ₹ 400 returned by Pradeep	Sales return A/c Dr. ₹ 400 To Pradeep's A/c ₹ 400	Purchase A/c Dr. ₹ 4000 To Pradeep's A/c ₹ 4000	Sales return A/c Dr. ₹ 400 Pradeep's A/c Dr. ₹ 3600 To Purchase A/c ₹ 4000 (Being the rectification entry of return goods from Pradeep ₹ 400 wrongly recorded in purchase book with wrong amount ₹ 4000.)

Explanation : In rectification entry, correct entry will be made i.e. sales return account will be debited by ₹ 400 and Pradeep's account will be credited by ₹ 3600, because Pradeep's account is wrongly credited by ₹ 4000 while wrongly debited purchase account will be credited by ₹ 4000.

(5) Compensatory Errors :

In the books of accounts, when more than one errors are committed but when their effects are recorded on both debit and credit sides, the trial balance tallies. Such errors are known as compensatory errors. e.g. ₹ 100 is debited instead of ₹ 1000 to Ram's A/c and ₹ 1000 is debited instead of ₹ 100 to Shyam's A/c.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Ram's A/c Dr		900	
	To Shyam's A/c			900
	[Being Ram's account was debited by less amount of ₹ 900 and Shyam's account was excess debited for ₹ 900, for which rectification entry is made.]			

Explanation : Ram's account is debited less by ₹ 900 therefore his account will be debited by ₹ 900 in rectification entry while Shyam's account is debited more by ₹ 900 which will be credited in rectification entry.

Illustration 1 : Pass necessary entries in the books of Shri Rakesh to rectify the following errors :

1 ₹ 1500 withdrawn from bank for personal use is left to be recorded.

2 Installation charges paid ₹ 400 on purchase of machinery is debited to sundry expenses account.

3 ₹ 500 paid to Kajal is debited to Rajal's account by mistake.

4 Our bill receivable of ₹ 1550 accepted by Komal is recorded in the books by ₹ 500.

5 Goods of ₹ 700 sold to Switoo is recorded in purchase book by mistake.

6 Goods of ₹ 1250 purchased from Rekha is recorded in sales book by ₹ 250.

7 ₹ 200 credited by bank as interest in passbook recorded on payment side of cashbook.

8 ₹ 300 paid for salary is debited to salary account by ₹ 400, whereas furniture sold for ₹ 400 is credited to furniture account by ₹ 500.

Ans. : **Rectification Entries in the Book of Shri Rakesh**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Drawings A/c Dr		1500	
	To Bank A/c			1500
	[Being rectification entry for ₹ 1500 withdrawn from bank for personal use is left to be recorded.]			
2	Machinery A/c Dr		400	
	To Sundry expenses A/c			400
	[Being error rectified for charges for machinery ₹ 400 is debited to sundry expenses account.]			
3	Kajal's A/c Dr		500	
	To Rajal's A/c			500
	[Being ₹ 500 paid to Kajal debited to Rajal's account by mistake, now rectified.]			
4	Bills receivable A/c Dr		1050	
	To Komal's A/c			1050
	[Being rectification entry for bills receivable of ₹ 1050 recorded by less amount.]			
5	Switoo's A/c Dr		1400	
	To Sales A/c			700
	To Purchase A/c			700
	[Being goods sold to Switoo of ₹ 700 recorded by mistake in purchase book now rectified.]			
6	Purchase A/c Dr		1250	
	Sales A/c Dr		250	
	To Rekha's A/c			1500
	[Being rectification entry for goods purchased from Rekha of ₹ 1250 recorded in sales book by ₹ 250 by mistake.]			
7	Bank A/c Dr		400	
	To Bank interest A/c			400
	[Being rectification entry for interest credited by bank ₹ 400 recorded on payment side of cashbook by mistake.]			
8	Furniture A/c Dr		100	
	To Salary A/c			100
	[Being compeusation error now rectified.]			
	Total		**6850**	**6850**

Illustration 2 : Pass necessary rectification entries to rectify the following journal entries written by Vandana.

Journal Entries of Vandana

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Rohan's A/c Dr To Cash A/c [Being the salary ₹ 6000 of current month paid to a clerk Rohan.]		6000	6000
2	Purchase A/c Dr To Chetan's A/c [Being the goods of ₹ 8000 sold to Chetan on credit.]		8000	8000
3	Purchase A/c Dr To Cash A/c [Being the goods worth ₹ 20,000 purchased at 10 % trade discount and 4 % cash discount.]		17,280	17,280
4	Brokerage A/c Dr To Cash A/c [Being the brokerage ₹ 10,000 paid for the purchase of building for business.]		10,000	10,000
5	Cash A/c Dr To Mayank's A/c [Being the amount ₹ 3500 written off as bad debts in last year, received in current year from Mayank.]		3500	3500
6	Bhavesh's A/c Dr To Cash A/c [Being the amount ₹ 14,000 paid to Bhavesh for cash purchase.]		14,000	14,000
7	Income Tax A/c Dr To Bank A/c [Being the amount ₹ 18,400 of Income Tax paid by cheque.]		18,400	18,400
8	Rita's A/c Dr To Purchase return A/c [Being the goods of ₹ 12,000 returned by Rita recorded in purchase return book.]		1200	1200
9	Scooter A/c Dr To Cash A/c To Discount A/c [Being the amount of ₹ 20,000 paid after deducting 5 % discount for the scooter purchased for personal use.]		20,000	19,000 1000
	Total		**98,380**	**98,380**

Ans. : **Rectification Entries of Shri Vandana**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Salary A/c Dr		6000	
	To Rohan's A/c			6000
	[Being the rectification of salary ₹ 6000 paid to Rohan wrongly debited to his account.]			
2	Chetan's A/c Dr		16,000	
	To Purchase A/c			8000
	To Sales A/c			8000
	[Being the rectification of credit sales ₹ 8000 to Chetan wrongly recorded in purchase book.]			
3	Purchase A/c Dr		720	
	To Discount A/c			720
	[Being the rectification for cash discount ₹ 720 received, omitted to be recorded at the time of cash purchases.]			
4	Building A/c Dr		10,000	
	To Brokerage A/c			10,000
	[Being the rectification of brokerage ₹ 10,000 paid for purchae of building debited wrongly to brokerage A/c]			
5	Mayank's A/c Dr		3500	
	To Bad debt recovered A/c			3500
	[Being the rectification of bad debts ₹ 3500 written off in last year received, credited wrongly to personal A/c.]			
6	Purchase A/c Dr		14,000	
	To Bhavesh's A/c			14,000
	[Being the rectification of ₹ 14,000 cash purchase, wrongly recorded in Bhavesh's A/c.]			
7	Drawings A/c Dr		18,400	
	To Income tax A/c			18,400
	[Being the rectification of Income tax (personal expense) ₹ 18,400 paid, wrongly recorded.]			
	Total c/f		**68,620**	**68,620**

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	Total b/f			**68,620**	**68,620**
8	Sales return A/c	Dr		12000	
	Purchase return A/c	Dr		1200	
	To Rita A/c				13,200
	[Being the rectification of goods of ₹ 12,000 returned by Rita recorded in purchase return book by ₹ 1200.]				
9	Drawings A/c	Dr		19,000	
	Discount A/c	Dr		1000	
	To Scooter A/c				20,000
	[Being rectification of the scooter purchased at ₹ 20,000 for personal use. Wrongly debited to scooter A/c]				
	Total			**1,01,820**	**1,01,820**

4. Error that affect the Trail Balance

Sometimes the total of debit side and credit side of a trial balance are not equal. i.e. trial balance does not tally. In such circumstances error or errors might have been committed somewhere in posting, in balancing the accounts, in writing the balance of an account on the wrong side of a trial balance or in the preparation of the trial balance. Let us understand the types of errors affecting the trial balance and how they can be rectified, if they are detected before or after the preparation of the final accounts.

(1) Error detected before the preparation of the final account :

Errors affecting the trial balance are one sided errors. So if these types of errors are detected before the preparation of the final account, the effect of rectification of errors will be given to that related account only. So that journal entry of rectification of error is not necessary. These types of errors are as under :

(i) Errors of posting :

(A) Omission of posting in any account : This is also a type of omission.

e.g. Goods of ₹ 7000 sold to Mitesh is correctly recorded in the sales book but the posting in Mitesh's account is omitted. Credit sales of goods of ₹ 7000 to Mitesh is left to be debited to Mitesh's account. So this error will be rectified by posting the amount on debit side of Mitesh's account as under :

Mitesh's Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
	To the amount of posting omitted for goods sold. (Sales book page no....)		7000				

(B) **Posting twice in an account :**

e.g., Payment of rent ₹ 3000 is recorded correctly in cash book, but by mistake it is debited twice in Rent account.

Rent Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
					By rectification of payment of rent posted twice in rent A/c		3000

Explanation : In rent account posting of ₹ 3000 is done twice by mistake, so it will be rectified by giving credit effect in rent account.

(C) **Posting of a wrong amount in an account :**

e.g. Purchase of machinery of ₹ 50,000 is recorded in machinery account as ₹ 5000.

Machinery Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
	To rectification of less amount posted in machinery account.		45,000				

Explanation : Purchase of machinery of ₹ 50,000 is debited as ₹ 5000. So remaining amount ₹ 45,000 is debited to machinery account.

(D) **Posting in an account on the wrong side :**

e.g. Paid commission ₹ 300 is credited to commission account.

Commission Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
	To rectification of commission paid ₹ 300 wrongly credited to commission account.		600				

Explanation : Paid commission of ₹ 300 is wrongly credited instead of debiting to commision account. So here two mistakes take place.

(1) It is not debited to commission account of ₹ 300.

(2) It is wrongly credited to commission account of ₹ 300.

This error will be rectified by debiting double amount ₹ 600 to commission account.

(E) **Posting wrong amount on the wrong side of an account :**

e.g. Paid rent of ₹ 10,000 is correctly recorded in cashbook but by mistake it is recorded on credit side of rent account by ₹ 1000.

Rent Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
	Being rectification of rent paid ₹ 10,000 is by mistake credited to rent account as ₹ 1000. (₹ 10,000 + ₹ 1000)		11,000				

Explanation : Paid rent of ₹ 10,000 is by mistake credited to rent account as ₹ 1000. So here two mistakes are done.

(1) ₹ 10,000 is not debited to rent account.

(2) By mistake ₹ 1000 is credited to rent account.

This error will be rectified by debiting ₹ 10,000 of rent paid and also by debiting ₹ 1000 which is wrongly credited to rent account. So total ₹ 11,000 is debited to rent account.

(ii) Errors regarding balance of an account :

(A) Error in finding out the balance of an account : If the balance of any account is found either more or less the trial balance does not tally. If the calculated balance is less on debit side, then put the deficit amount on the debit side and if the calculated balance is less on credit side then put the defict amount on the credit side to rectify the error.

e.g. The debit balance of purchase account is worked out as ₹ 5000 instead of ₹ 15,000.

Here, write ₹ 10,000 which is debited less, the error will be rectified by making the following entry :

Purchase Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
	To rectification of less balance worked out.		10,000				

Sameway if the balance of purchase account is written ₹ 25,000 instead of ₹ 15,000 then error will be rectified by writing that excess amount on the opposite side of purchase account by ₹ 10,000.

Purchase Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
					By rectification of excess balance of purchase account		10,000

(B) Error in writing the balance of an account :

e.g. Opening balance of ₹ 1,00,000 of machinery account is written as ₹ 10,000.

Here, opening balance of machinery account means debit balance is written less by ₹ 90,000. So more amount is written to the debit side to rectify the errors which is shown as under :

Machinery Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
	To rectification of the opening balance written less.		90,000				

(C) Balance of an account is omitted to be recorded :

e.g. Opening balance of ₹ 50,000 of machinery account remains unrecorded.

Machinery Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
	To rectification of unrecording opening balance		50,000				

(D) Balance of an account is written on the wrong side :

A balance of ₹ 800 of Bharat (a debtor's) account, is written on the credit side.

Error in Bharat (a debtor's) account will be rectified by writing double the amount that is ₹ 800 + ₹ 800 = ₹ 1600 on debit side.

Bharat's Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
	To rectification of the amount written on the wrong side.		1600				

(E) Balance of an account is written on the wrong side with a wrong amount :

e.g. Balance of Bharat (a debtor's) account, ₹ 800 is written on the credit side as ₹ 80.

Bharat's Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
	To rectification of the balance written on wrong side by wrong amount.		880				

(iii) **Errors in totalling the subsidiary books :**

The trial balance does not tally if an error is committed while totalling subsidiary books like purchase book, sales book, goods return book, cash book etc. This error will be rectified by writing necessary note in that respective account. A journal entry is not necessary to rectify this type of error.

e.g. (1) Total of purchase book is under cast by ₹ 700. This error will be rectified by writing in purchase account ₹ 700 on debit side and in the column of particulars 'being the total under cast'.

(2) Total of sales book is undercast by ₹ 800. This error will be rectified by writing in sales account ₹ 800 on credit side and in the column of particulars 'being the total under cast'.

(3) Total of purchase book is over cast by ₹ 400. This error will be rectified by writing in purchase account ₹ 400 on credit side (opposite side) and in the column of particulars 'being the total over cast'.

(4) In cashbook on debit side of bank column total is over cast by ₹ 500. This error will be rectified by writing in bank account ₹ 500 on credit side (payment side) of cashbook and in the column of particulars 'being total over cast'.

(iv) **Errors committed while preparing trial balance :**

While preparing a trial balance there remains a possibility of errors like, error in totalling of the trial balance, balance of an account is omitted to be recorded, recorded twice, recorded with wrong amount, recorded on the wrong side, or recorded on wrong side with the wrong amount. To rectify these types of errors no journal entry is required. After rectifying the errors, a new trial balance is prepared and it will get tallied.

Illustration 3 : Rectify the following errors committed while writing the books of Margi.

(1) Total of goods return book is under cast by ₹ 800.

(2) ₹ 480 received from Prerna a customer, is posted in her account as ₹ 840.

(3) Balance of ₹ 5000 of Kaushik's account, a debtor, is left unrecorded in the trial balance.

(4) ₹ 900 paid to Manan a supplier, is recorded correctly in the cashbook but by mistake it is credited to his account.

(5) Salary paid ₹ 1000 is debited twice to salary account.

(6) ₹ 2500 the balance of drawings account is shown in the credit column of the trial balance.

(7) Wages paid ₹ 3000 are recorded correctly in the cashbook but are not posted to wages account.

(8) Debit balance of rent account ₹ 850 is written as credit balance of ₹ 540 in the trial balance.

(9) ₹ 240 paid for general expenses, posted to that account as ₹ 140.

(10) Opening balance of the cash account ₹ 1500 is brought forward as ₹ 1050.

Ans. : **Rectification Entries in the Journal proper of Margi**

(1) The error will be rectified by writing in goods return book (purchase return) ₹ 800 on credit side and in the column of particulars. 'Being total of goods return book is under cast.'

(2) The error will be rectified by writing in Prerna's A/c ₹ 360 on debit side and in the column of particulars 'being excess amount credited by mistake'.

(3) The error will be rectified by writing ₹ 5000 a balance of Kaushik's account in the debit column of the trial balance.

(4) The error will be rectified by writing in Manan, a supplier's account, ₹ 1800 on debit side and in the column of particulars 'being the amount written on wrong side'.

(5) The error will be rectified by writing in salary account ₹ 1000 on credit side and in the column of particulars 'being the amount debited twice by mistake'.

(6) The error will be rectified be writing ₹ 2500 as the balance of drawings account in the debit column of the trial balance and revised trial balance is prepared there after.

(7) The error will be rectified by writing in wages account ₹ 3000 on debit side and in the column of particulars 'being posting omitted'.

(8) The error will be rectified by writing ₹ 1390 a balance of rent account in the debit balances of the trial balance or by preparing a new trial balance wherein correct debit balance of ₹ 850 of rent account will be shown.

(9) The error will be rectified by writing in general expenses account ₹ 100 on debit side and in the column of particulars 'being the posting done by less amount'.

(10) The error will be rectified by writing in cashbook ₹ 450 on debit side and in the column of particulars 'being the balance brought forward by less amount'.

(2) Errors detected after preparation of the final accounts and use of suspense account

If the accounts are written correctly without any error, the trial balance tallies and thereafter final accounts are prepared. But when trial balance does not tally, because of some errors, many times it is required to detect such errors and consequently final acconts can not be prepared in time. In such circumstances the difference of the trial balance is transferred to suspense account and final accounts are prepared. Afterwards the suspense account is closed, when errors are rectified with or without the help of suspense account as per requirement. Suspense account will be closed automatically when all the errors are rectified.

Suspense Account : When the trial balance does not tally but there is an urgency for preparing final accounts, temporarily the difference in the trial balance is transferred to one account in order to get it tallied and that account is known as a suspense account.

If the difference arises on the debit side of a trial balance, it is treated as a debit balance of suspense account and in final accounts it will be shown on the assets side of the balance sheet.

If the difference arises on the credit side of a trial balance, it is treated as a credit balance of suspense account and in final accounts it will be shown on the Capital-Liabilities side of the balance sheet.

Balance sheet is tallied by transferring the difference of trial balance to suspense account. In the begining or during the next year, the errors because of which the trial balance was not tallied, rectification entries will be passed with the help of suspense account. e.g. The total of purchase book is under cast by ₹ 1000. This error will be rectified by an entry in journal proper which is as under :

Purchase A/c Dr. ₹ 1000

To Suspense A/c ₹ 1000

Sameway if the total of sales book is overcast by ₹ 1000, then this error will be rectified by debiting sales account and crediting suspense account.

Thus, when the error is committed only on one side, the correct accont is debited or credited correctly and the other account. i.e. suspense account is debited or credited. When all the errors are rectified, suspense account is closed automatically.

Other than rectification of errors, suspense account is also useful for various other purposes. Such as when in any transaction the account which is to be debited or credited is not decided, for the time being that amount is debited or credited to suspense account. Later on when the correct head of account is decided, after giving the effect - to that account, the suspense account is closed.

Illustration 4 : Shri Harjit has tallied his trial balance by debiting a difference of ₹ 1000 to suspense account and thereafter he has prepared final accounts. After preparation of final accounts the following errors are detected.

(1) Goods of ₹ 3500 returned by Beena is posted on debit side of her account.

(2) Total of purchase return book is overcast by ₹ 800.

(3) Harjit has paid ₹ 600 for his personal medical bill and the amount is debited to miscellaneous expense account.

(4) ₹ 1200 received from Neela for rent is posted to the credit of her account as well as to rent account.

(5) Goods of ₹ 5000 sold to Surendra is recorded in purchase book.

(6) ₹ 6000 paid to Esha for repayment of loan is not posted to her account.

From the above information pass rectification entries and prepare suspense account :

Ans. : **Rectification Entries of Shri Harjit**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Suspense A/c Dr		7000	
	To Beena's A/c			7000
	[Being the rectification of goods of ₹ 3500 returned by Beena posted on debit side of her account.			
2	Purchase return A/c Dr		800	
	To Suspense A/c			800
	[Being the rectification of overcast total ₹ 800 of purchase return book.]			
3	Drawings A/c Dr		600	
	To Miscellanous expense A/c			600
	[Being the rectification of personal medical bill of ₹ 600 debited to miscellaneous expenses A/c.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
4	Neela's A/c Dr		1200	
	To Suspense A/c			1200
	[Being the rectification of rent ₹ 1200 received from Neela credited to her A/c and also rent A/c.]			
5	Surendra's A/c Dr		10,000	
	To Purchase A/c			5000
	To Sales A/c			5000
	[Being the rectification of goods ₹ 5000 sold to Surendra recorded in purchase book.]			
6	Loan of Esha's A/c Dr		6000	
	To Suspense A/c			6000
	[Being the rectification of loan repaid to Esha ₹ 6000 left unposted to her account.]			
	Total		**25,600**	**25,600**

Suspense Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
	To Balance b/d		1000	2	By Purchase return A/c		800
1	To Beena's A/c		7000	4	By Neela's A/c		1200
				6	By Loan of Esha's A/c		6000
			8000				8000

Notes :

(1) From the above illustration, it will be clear that after detecting all the errors, and giving their effects in suspense account, at the end, suspense account is closed and will not have any balance to be carried forward.

(2) For the rectification of entry number 3 and 5 above. No effect is to be given to suspense account because rectification entry can be passed by debiting and crediting the accounts already affected.

5. Effects of Rectification on Profit-Loss

If errors are rectified before preparing final accounts, correct profit or loss of the business is revealed by final accounts as no error is left in accounts. Therefore at that time there is no question of effect of error on profit or loss of the business. But when trial balance is prepared by not rectifying the accounts and recording suspense account in trial balance in order to get it tallied, profit and loss account may not reveal true profit or loss. Particularly when the error of revenue and expense is transferred to suspense account, the profit and loss account will not reveal true profit or loss. e.g. Purhcase book is undercast by ₹ 500 and this difference is taken to suspense account, the rectification entry will be made as under when the error is detected.

Purchase A/c Dr ₹ 500

To Suspense A/c ₹ 500

Thus the profit will decrease by ₹ 500 as purchase increases. The same way if sales book is undercast by ₹ 1000, the error is rectified by debiting suspense account and crediting sales account by ₹ 1000. The profit will increase by ₹ 1000 as sales is increased when the effect of error on profit is given. If expense is recorded less than actual profit will decrease and if the income is recorded less than the actual profit will increase.

Now let us understand the effect of errors rectified after preparing final accounts on profit by illustration no. 5.

Illustration 5 : As on 31-12-2014 trial balance of Shri Ramanlal does not tally and therefore he has written a difference of ₹ 576 on the credit side of suspense account and gets his trial balance tallied. Later on, after preparing final accounts the following errors are detected in the next year.

(1) ₹ 2596 received from Ashok is posted as ₹ 180 on the debit side of his account.

(2) ₹ 1424 paid for repairing expenses were posted on the debit side of machinery account as ₹ 624.

(3) Discount of ₹ 100 given by Piyush is credited to his account as well as discount received account.

(4) ₹ 1828 paid to Narendra is debited to Mahendra's account as ₹ 1028.

(5) Total of purhcase book is undercast by ₹ 400.

(6) Purchase of furniture of ₹ 1468 debited to purchase account.

To rectify the above errors, pass necessary rectification entries and prepare suspense account. At the end of the year 2014, if profit and loss A/c discloses a profit of ₹ 31,440. Find out correct profit after rectification of errors.

Ans. : **Rectification Entries of Shri Ramanlal**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Suspense A/c Dr		2776	
	To Ashok's A/c			2776
	[Being the rectification of ₹ 2596 received from Ashok posted on the debit side of his account by ₹ 180.]			
2	Repairing expense A/c Dr		1424	
	To Machinery A/c			624
	To Suspense A/c			800
	[Being the rectification of repairing expenses of ₹ 1424 were debited to machinery as ₹ 624.]			
3	Piyush's A/c Dr		200	
	To Suspense A/c			200
	[Being the rectification of discount ₹ 100 given by Piyush credited to his account.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
4	Narendra's A/c Dr		1828	
	To Mahendra's A/c			1028
	To Suspense A/c			800
	[Being the rectification of ₹ 1828 paid to Narendra debited to Mahendra's A/c by ₹ 1028.]			
5	Purchase A/c Dr		400	
	To Suspense A/c			400
	[Being the rectification of purchase book total ₹ 400 undercast.]			
6	Furniture A/c Dr		1468	
	To Purchase A/c			1468
	[Being the rectification of purchase of furniture ₹ 1468 debited to purchase A/c.]			
	Total		**8096**	**8096**

Suspense Account

Dr Cr

Date	Particulars	L. F.	Amount (₹)	Date	Particulars	L. F.	Amount (₹)
1	Ashok's A/c		2776		By Balance b/d (difference)		576
				2	By Repairing exp. A/c		800
				3	By Piyush's A/c		200
				4	By Narendra's A/c		800
				5	By Purchase A/c		400
			2776				**2776**

Because of rectification of these errors the effect on profit-loss can be found out as under :

Effect of Rectification of Error on Profit-Loss

Note No.	Particulars	Increase in Profit (₹)	Decrease in Profit (₹)
(1)	Profit-Loss remains unaffected.	–	–
(2)	Profit decreases because repairing exp. A/c is debited	–	1424
(3)	Profit-Loss remains unaffected.	–	–
(4)	Profit-Loss remains unaffected.	–	–
(5)	Profit decreases because purchase A/c is debited	–	400
(6)	Profit increases because purchase A/c is credited	1468	–
		1468	**1824**

	Profit of the year 2014 before rectification of error	₹	31,440
+	Increase in profit due to rectification of error	₹	1468
		₹	32,908
–	Decrease in profit due to rectification of error	₹	1824
	Rectified correct profit of the year 2014	₹	31,084

Illustration 6 : Trial balance of Pallavi as on 31-3-2015 does not tally. The difference is transferred to suspense account in order to get it tallied which is as under :

Trial Balance of Pallavi as on 31-3-2015

	Name of the Account	L.F.	Debit (₹)	Credit (₹)
	Capital A/c		–	45,000
	Drawings A/c		5000	–
	Purchase A/c		24,000	–
	Sales A/c		–	36,000
	Salary A/c		15,400	–
	Building A/c		11,200	–
	Anita's A/c		2400	–
	Jalpa's A/c		–	4200
	Cash A/c		2100	–
	Bank A/c		18,300	–
	Reshma's A/c		5000	–
	Sundry expenses A/c		1600	–
	Insurance premium A/c		1200	–
	Carriage outward A/c		800	–
	Suspense A/c		–	1800
	Total (₹)		**87,000**	**87,000**

The following errors are detected after the final accounts are prepared :

(1) ₹ 1300 received from Anita is posted on the debit side of her account.

(2) Total of sales book is overcast by ₹ 600.

(3) Personal expense of ₹ 700 is debited to sundry expenses A/c.

(4) Goods of ₹ 700 purchased from Anita are recorded correctly in purchase book but while posting, the same was debited to Anita's A/c.

(5) Salary paid to Jalpa is debited to her personal A/c ₹ 1400.

(6) Opening balance of ₹ 1600 of Meena, a debtor's A/c, is omitted to be carried down.

Give necessary rectification entries to rectify the above errors. Prepare suspense account and the rectified trial balance.

Ans. : **Journal Proper of Pallavi**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Suspense A/c Dr To Anita's A/c [Being the rectification of amount ₹ 1300 received from Anita debited to her account.]		2600	2600
2	Sales A/c Dr To Suspense A/c [Being the rectification of total of sales book overcast by ₹ 600.]		600	600
3	Drawings A/c Dr To Sundry expenses A/c [Being the rectification of personal expense ₹ 700 debited to sundry expense A/c.]		700	700
4	Suspense A/c Dr To Anita's A/c [Being the rectification of goods of ₹ 1400 purchased from Anita debited to her account.]		1400	1400
5	Salary A/c Dr To Jalpa's A/c [Being the rectification of salary paid ₹ 1400 debited to personal account of Jalpa.]		1400	1400
6	Meena's A/c Dr To Suspense A/c [Being the rectification of opening balance ₹ 1600 omitted to be recorded in the account of Meena, a debtor.]		1600	1600
	Total		**8300**	**8300**

Suspense Account

Dr Cr

Date	Particulars	L.F.	Amount (₹)	Date	Particulars	L.F.	Amount (₹)
1	To Anita's A/c		2600	1	By Balance b/d		1800
4	To Anita's A/c		1400	2	By Sales A/c		600
				6	By Meena's A/c		1600
			4000				**4000**

Rectified Trial Balance of Pallavi as on 31-3-2015

	Name of the Account	L.F.	Debit (₹)	Credit (₹)
	Capital A/c		–	45,000
*	Drawings A/c		5700	–
	Purchase A/c		24,000	–
*	Sales A/c		–	35,400
*	Salary A/c		16,800	–
	Building A/c		11,200	–
*	Anita's A/c		–	1600
*	Jalpa's A/c		–	5600
	Cash A/c		2100	–
	Bank A/c		18,300	–
	Reshma's A/c		5000	–
*	Sundry expense A/c		900	–
	Insurance premium A/c		1200	–
	Carriage outward A/c		800	–
*	Meena's A/c		1600	–
	Total		**87,600**	**87,600**

Note : (1) Amount of accounts having * astrik mark is changed after rectification of error.
(2) New account of Meena is added.
(3) Debit balance of Anita's A/c is now converted into a credit balance.
(4) After rectification of all errors, when the effect is given in suspense account it is closed and therefore in new rectified trial balance its balance is not shown.

Exercise

1. Select the right answer from the given alternatives :

(1) When a transaction is left unrecorded in primary books, the error is known as ....
(a) Errors of compensatory (b) Errors of omission
(c) Errors of principle (d) Not carry forward to suspense A/c

(2) An error arises because of non-compliance of accounting principles is known as ....
(a) Errors of compensatory (b) Errors of omission
(c) Errors of principle (d) Not carry forward to suspense A/c

(3) An error arises because of debiting or crediting a wrong account with correct amount on the correct side is known as ....
(a) Errors of compensatory (b) Errors of omission
(c) Errors of principle (d) Errors of recording to a wrong account

(4) When trial balance does not tally, it is tallied temporarily with the help of .... account.
(a) Trading A/c (b) Profit and Loss A/c
(c) Suspense A/c (d) Balance Sheet

(5) By opening suspense account, which of the following accounts brings effect on 'Profit and Loss account' ?

   (a) Error in peronsal A/c

   (b) Error in assets A/c

   (c) Error in both personal A/c and assets A/c

   (d) Error in goods A/c and nominal A/c

2. Answer the following questions in one sentence :

(1) State the types of accounting errors.

(2) State the errors not affecting trial balance.

(3) State the errors affecting trial balance.

(4) When is the suspense A/c used ?

(5) When does the accounting errors affect the profit ?

(6) When does the accounting errors do not effect the profit ?

3. Answer the following questions :

(1) What is errors of omission ? How to rectify these errors ? Explain with illustration.

(2) What is errors of principle ? How to rectify these errors ? Explain with illustration.

(3) What is compensatory errors ? How to rectify these errors ? Explain with illustration.

(4) Write note on suspense accounts.

4. Prepare rectification entries to rectify the following errors detected while preparing final accounts of Shri Balram as on 31-3-2015.

(1) Purchase of goods ₹ 5000 is left to be recorded.

(2) Installation charges paid ₹ 2000 on puchase of machinery is debited to sundry expense account.

(3) ₹ 2400 paid to Devanshi is recorded to Karan's account by mistake.

(4) Goods of ₹ 5000 sold to Nayana is recorded in purchase book by mistake.

(5) Our bill receivable of ₹ 1900 accepted by Rekha is recorded in bills receivable book by ₹ 1000.

(6) ₹ 150 credited by bank as interest in passbook recorded on payment side of cashbook.

(7) Goods of ₹ 1200 sold to Amita is recorded in purchase book by ₹ 200.

5. Pass necessary rectification entries to rectify the following journal entries written by Ishwarlal :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Kishan's A/c Dr		7000	
	To Cash A/c			7000
	[Being the salary of current month ₹ 7000 paid to Kishan.]			
2	Purchase A/c Dr		9500	
	To Clinton's A/c			9500
	[Being the goods of ₹ 9500 sold to Clinton on credit.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
3	Purchase A/c Dr		17,100	
	To Cash A/c			17,100
	[Being the goods worth ₹ 20,000 purchased at 10 % trade discount and 5 % cash discount.]			
4	Brokerage A/c Dr		16,000	
	To Cash A/c			16,000
	[Being the brokerage ₹ 16,000 paid for the purchase of machinery for business.]			
5	Cash A/c Dr		4500	
	To Karina's A/c			4500
	[Being the amount ₹ 4500 written off as bad debts in last year, received in current year from Karina.]			
6	Chaitali's A/c Dr		6900	
	To Cash A/c			6900
	[Being the amount ₹ 6900 paid to Chaitali for cash purchase.]			
7	Income Tax A/c Dr		5000	
	To Bank A/c			5000
	[Being the amount ₹ 5000 of income tax paid by cheque.]			
8	Cash A/c Dr		1200	
	To Bank A/c			1200
	[Being change of ₹ 1200 taken from bank.]			
9	Pushpa's A/c Dr		1800	
	To Purchase return A/c			1800
	[Being the goods of ₹ 1800 returned by Pushpa recorded in purchase return book.]			
10	Furniture A/c Dr		20,000	
	To Cash A/c			18,000
	To Discount A/c			2000
	[Being the amount ₹ 20,000 paid after deducting 10 % discount for the purchase of furniture for personal use.]			
	Total		**89,000**	**89,000**

6. **At the time of preparing final accounts of Vivek as on 31-3-15, the following errors are found out. Pass necessary rectification entries to rectify the same :**
   (1) ₹ 5000 paid for purchase of a computer is debited to purchase account at the time of posting from cashbook.
   (2) ₹ 4800 paid for rent to Vedant, a owner of shop, by mistake is debited to his personal account.
   (3) Goods of ₹ 9000 are completely burnt by fire and insurance co. has accepted a claim at 40 % for the same, which is unrecorded by mistake.
   (4) ₹ 1200 paid for brokerage is posted twice in brokerage A/c.
   (5) ₹ 1,00,000 incurred for extension of building, by mistake, is debited to repairing expense account.
   (6) ₹ 560 paid for general expense is posted to that account as ₹ 650.
   (7) ₹ 720 received towards interest is posted to interest account on debit side.
   (8) A machinery of ₹ 20,400 is sold for ₹ 22,000. It is recorded in sales book by ₹ 22,000.
   (9) Total of bills payable book is undercast by ₹ 300.
   (10) In March 2015 discount received and discount paid are ₹ 3400 and ₹ 3600 respectively. But by mistake they are recorded on their opposite sides.

7. **Trial balance of Shri Marmik as on 31-3-15 does not tally and therefore a difference of ₹ 1440 is credited to suspense account. The following errors are detected after final accounts are prepared.**
   (1) ₹ 6490 received from Paresh is posted as ₹ 450 on the debit side of his account.
   (2) ₹ 3560 paid for repairing expenses were posted on the debit side of machinery account as ₹ 1560.
   (3) Discount of ₹ 250 given by Palak is credited to his account as well as discount received account.
   (4) ₹ 4570 paid to Sureshbhai is debited to Maheshbhai's account as ₹ 2570.
   (5) Total of purchase book is undercast by ₹ 1000.
   (6) Purchase of furniture of ₹ 3670 debited to purchase account.

   To rectify the above errors, pass necessary rectification entries and prepare suspense account. At the end of the year 2015, if profit and loss account discloses a profit of ₹ 78,600. Find out the correct profit after the rectification of errors.

8. **Trial balance of Shri Dinesh as on 31-3-15 does not tally. The difference is transferred to suspense account in order to get it tallied, which is as under :**

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Drawings A/c	1,00,000	Capital A/c	9,00,000
Purchase A/c	4,80,000	Sales A/c	7,20,000
Salary A/c	3,08,000	Jignesh's A/c	84,000
Building A/c	2,24,000	Suspense A/c	36,000
Dev's A/c	48,000		
Manan's A/c	1,00,000		
Cash A/c	42,000		
Bank A/c	3,66,000		
Sundry expense A/c	32,000		
Insurance premium A/c	24,000		
Carriage outward A/c	16,000		
	17,40,000		**17,40,000**

The following errors are detected after the final accounts are prepared :

(1) ₹ 26,000 received from Dev is posted on the debit side of her account.

(2) Total of sales book is overcast by ₹ 12,000.

(3) Personal expense of ₹ 14,000 is debited to sundry expenses account.

(4) Goods of ₹ 14,000 purchased from Dev are recorded correctly in purchase book but while posting the same were debited to Dev's account.

(5) Salary paid to Jignesh ₹ 28,000 is debited to his personal account.

(6) Opening balance of ₹ 32,000 of Manisha, debtor's account, is omitted to be carried down.

Give necessary rectification entries to rectify the above errors. Prepare suspense account and the rectified trial balance.

9. Write rectification entries for the errors found in the books of Priyansh :

(1) Goods purchased of ₹ 3000 from Chiranshi is recorded correctly in purchase book. But posting is omitted in her account.

(2) Goods sold to Tajagna ₹ 5000 is correctly recorded in sales book, but her account is posted twice.

(3) ₹ 500 received from Vaidehi is posted to her account by ₹ 50.

(4) ₹ 2500 received from Ayush is correctly recorded in cash book, but ₹ 500 has been debited to his account.

(5) Opening bnalance of a debtor, Keval, ₹ 5100 is carried forward on credit side.

(6) ₹ 2500 paid to a creditor, Zeel, is debited to her account by ₹ 500 while posting from cash book.

(7) Opening balance of machine ₹ 54,000 is recorded as ₹ 45,000.

(8) Credit balance of bank loan ₹ 7500 is omitted to be recorded in trial balance.

(9) Balance of rent paid ₹ 860 is recorded as credit balance by ₹ 680 in trial balance.

(10) Total of sales return book undercast by ₹ 500.

2

Depreciation Accounts

1. Introduction

Different kind of fixed tangible assets like machines, furniture, building, vehicles, computer, etc. are used in trade-business. Each asset has its own useful life. The useful life is based on, the time period for which it can be used. Due to the use of asset, its efficiency decreases. Due to the natural or physical factors, due to passing of time or due to innovation, the value of asset keeps on decreasing. Sometimes, inspite of having good physical condition of assets, the use of old assets becomes expensive due to the emergence of new and more efficient assets. Due to these reasons, the life of asset becomes finite (limited). Because of the any of the above stated reasons, when the efficiency of asset constantly decreases and consequently the useful value of also contanstly and permanently decreases, it is known as depreciation.

2. Meaning and Definition of Depreciation

(1) **Carter :** "Depreciation is the gradual permanent decrease in the value of an asset due to any reason."

(2) **Spicer and Pegler :** "Depreciation may be defined as a measure of the exhaustion of the effective life of an asset, due to any cause, during a given period."

From the above definitions, it can be understood that, the permanent reduction in value of asset is depreciation. At the end of cretain years, asset becomes useless for determined specific use and object. Depreciation is time related expense. It is debited to Profit and Loss account as non cash revenue expense. It indicates reduction in useful value of an asset; thus it is debited to Profit and Loss account.

3. Characteristics of Depreciation

(1) **Fixed Assets** : Depreciation is to be calculated on fixed tangible assets, thus these assets are known as depreciable assets. Beside this, intangible assets like patent, copy right, trademark are also gradually written off during their estimated life. Depreciation is not calculated on current and liquid asset of the business e.g. cash, stock, debtor etc.

(2) **Useful Value :** Depreciation indicates continous and permanent reduction in the useful value of assets.

(3) **Time :** Depreciation is time related expense.

(4) **Revenue Expense :** As a non cash revenue expense, depreciation is debited to Profit and Loss account.

(5) **Written off Amount :** Inspite of being a revenue expenditure, depreciation is not paid in cash like salary and rent.

(6) **Use of Assets :** Depreciation is based on consumption along with time.

(7) **At the End of Accounting Year :** Generally, amount of depreciation is deducted from the value of assets at the end of an accounting year.

(8) **Provision :** Depreciation is one kind of provision.

4. Necessity (Objectives) of Provision for Depreciation

Depreciation is a different kind of expense then other routine expenses of trade and business. It is not cash expense like rent, salary, wages etc which are paid in respective accouting year. It is provided in respective accounting year and incorporated in the accounts. The following arguments specify the necessity or objectives of depreciation.

(1) **To be treated as business expense :** Depreciation is a revenue expense of the respective accounting year and which is not paid in cash.

(2) **To know true and fair profit :** It is essential to consider depreciation to know the true and fair profit-loss of the business. Thus it is debited to profit and loss account.

(3) **To know true and fair financial position of business :** Balance sheet discloses economic position of the business, where depreciable assets are shown after deducting depreciation. Due to the disclosure of assets after depreciation, balance sheet reflects true position. On the basis of that, true and fair position of entire business can be ascertained.

(4) **To determine correct cost of production :** To determine the cost of goods produced in factory or services, expense affecting production or production related expenses should be considered. Thus, like other expenses depreciation on depreciable assets used in business is essential to be considered to determine the cost.

(5) **To determine correct selling price of product or service :** To arrive at a selling price of a product or service, total cost is determined, where depreciation is included.

(6) **To maintain capital :** The significant share of total capital is employed in fixed assets. These assets become useless at the end of their useful life. To acquire new assets, replacing these assets, capital is needed. To maintain this kind of capital in business, depreciation provision is being made on assets of business.

(7) **To comply with legal provision :** A computation depreciation and its recording in accounts are done according to legal provision.

5. Factors Affecting Depreciation

Depreciation is a reduction in the useful value of asset. Causes of reduction in useful value of asset are as follows :

(1) **Use of asset :** The efficiency of any asset reduces due to its use. The useful life and useful value also reduces due to the reduction in efficiency of asset. During the year, value reduction of asset, shows amount of depreciation.

(2) **Time factor :** The life of some assets come to end automatically on completion of certain period of time. The life of some assets of business is predetermined like lease hold property.

e.g. Lease hold machines for five years. The useful life of such assets gradually reduces with time and at the end of a fixed period its value is considered zero. After deduction of the estimated scrap value, the remaining cost price is written off as depreciation during the useful life of asset. In this case, it can be said that cost price after deduction of scrap value indicates total depreciation of respective asset. Many times assets remain unused, still their value is decreasing. This decrease is also known as depreciation.

(3) **Gradual reduction in quantity :** The value of some assets is determined by the quantity of the respective assets, like mines, gas and oil wells. The value of such assets is based on their size of quantity. The use (acquisition) of such assets, reduce their value. This reduction known as depreciation. In such kind of assets, the depreciation is computed in the proportion of the reduction in quantity. The amount paid, is written off proportionally as a depreciation.

(4) **Permanent reduction in market value :** As and when there is permanent reduction in market value of asset, the amount of reduction is known as depreciation.

(5) **Accident :** Some times accidents create loss during the use of assets. So this reduces the utility and estimated life of the asset and consequently the value of asset reduces. This reduction is known as depreciation.

(6) **New innovation and research :** At times the introduction of new technology or innovation reduces the value of the assets in use. Such reduction is known as depreciation in value.

(7) **Natural factor :** Due to the natural factors like flood, earthquake, rain, climate etc the estimated life of asset decreases or asset becomes useless and consequently the value of asset reduces. This is known as depreciation.

6. Factors to be Considered to Determine Amount and Rate of Depreciation

The depreciation of asset is an estimation based on various factors. Higher the degree of real and accurate estimate, higher the degree of realistic depreciation determination. Thus to determine the amount of depreciation, the computation of depreciation and the rate of depreciation the following important points are required to be considered.

(1) **Cost price of assets :** The computation of depreciation is always done on cost price. Thus the determination of cost price is very significant. During the determination of cost price of asset the transportation cost and installation cost are added to the purchase price of asset. If old asset is purchased, expenses incurred to bring the asset in usable form, are added to the purchase price of an asset. This can be represented in the form of formula as follows.

Cost price = Purchase price + Transportation cost + Installation cost

If old asset (second hand asset) is purchased :

Cost price = Purchase price + Expenses incurred to bring the asset in usable forms. (repairing expenses)

e.g. A company of Ahmedabad has purchased a machine from Surat for ₹ 50,000. The transportation cost to bring this machine from Surat was ₹ 4000. ₹ 2000 paid to install this machine in factory.

The cost price of machine will be, ₹ 50,000 + ₹ 4000 + ₹ 2000 = ₹ 56,000.

(2) **Estimated life of asset :** The time period for which an asset can be used efficiently, is known as estimated life of asset. During the determination of estimated life of an asset, technical aspects and possibility of innovation etc. are considered.

(3) **Estimated scrap value of asset :** The amount which is realizable at the end of the estimated life of an asset is known as scrap value of asset. The depreciable amount of an asset is determined after the deduction of the scrap value from the cost price of a asset. The annual amount of depreciation is determined by dividing this depreciable amount with the estimated life of a asset.

(4) **Use of asset :** The efficiency of any asset depends on its use. Higher the use of asset, higher the amount of depreciation is chargeable. It means that the life of a asset is dependent on the use rather than its life. In a factory, when machines are used in more than one shifts, proportionately high amount of depreciation is chargeable. Thus the use of an asset is considered as a very important factor, to determine the amount of depreciation.

(5) **Repairing and maintenance expense :** The estimated life and efficiency of asset increases, if sufficient amount at appropriate time is spent on repairing and maintenance of asset. Thus, annual depreciation would decrease. Hence, this aspect is also necessary to determine the rate of depreciation. Simultaneously, it is also observed that, a balance should be maintained between amount of depreciation and repairing.

(6) **Interest on capital employed for asset :** When fixed assets are acquired by loan, and production is not commenced after the acquisition of asset, interest of this period is added to the price of asset. The depreciation is calculated on such total amount.

(7) **New innovation and research :** Continuous new innovations and researches are taking place in present times. Consequently, after some time asset become obsolete. Therefore, the remaining time period of asset is also considered to determine the depreciation.

(8) **Other factors :** Besides, above mentioned factors, the objective of the use of asset, possibility of market price reduction, possibility of accident, natural calamities and other factors are also essential to be considered for depreciation.

7. Depreciable Assets

There is reduction in value of some assets due to their limited life, they are called as depreciable assets. While on some assets depreciation is not charged, because their value does not reduce due to use for a passage of time. e.g. Land.

In normal circumstances, the following explanation can be given for depreciable assets.

(1) An asset which is purchased for the purpose of use; it means, not acquired for the purpose of sale, such asset is considered as depreciable asset.

(2) An asset which is used for more than one accounting period, such asset is considered as depreciable asset. It means asset which is useful for one accounting year only, it is not considered as a long term depreciable asset, because the total cost of asset is written off as depreciation.

(3) An asset which has limited life, is considered to be a depreciable asset. But asset which has unlimited life or whose estimation of life is not possbile, this kind of asset is not considered as depreciable asset. e.g. Land.

With observation of above mentioned charateristics the list of depreciable assets is as follows :

(i) Building (ii) Plants and machines (iii) Furniture and fixtures (iv) Loose tools (v) Lease hold properties (vi) Vehicles (vii) Patent, copyright, trade mark (viii) Mines, Gas wells, Oil wells etc.

8. Different Methods of Depreciation

(1) Fixed Instalment or Straight Line Method

(2) Reducing Balance Method or Written down Value Method

(3) Annuity Method

(4) Depreciation Fund or Sinking Fund Method

(5) Insurance Policy Method

(6) Revaluation Method

(7) Compound Interest Method

(8) Depletion Method

(9) Mileage Method

(10) Machine Hour Rate Method

Note : As per syllabus, practical problems only on fixed instalment method and reducing balance method are expected.

(1) Fixed Instalment or Straight Line Method

This is very simple and widely used (popular) method. Under this method the annual amount of depreciation remains identical. The graph of depreciation of each year remains in horizontal line. Thus, this method is known as fixed instalment method or straight line method.

(A) Procedure to determine the amount of depreciation :

(i) Under this method to determine the amount of depreciation, total depreciable amount is determined by deducting estimated scrap value from the cost price of an asset. By dividing this depreciable amount with the total years of estimated life of an asset, the arrived amount is called as the annual amount of depreciation.

The annual amount of depreciation can be obtained with the help of the following formula :

Formula : $D = \frac{C - S}{N}$

Where, D = Annual depreciation

C = Cost Price

S = Scrap Value

N = Number of Years of Useful Life

(ii) Some times to determine the amount of depreciation, depreciation rate is provided under this method. In this circumstances, the multiplication of cost price with the rate of depreciation, gives annual amount of depreciation. For this, the following formula can be used.

Formula : $D = \frac{C \cdot R}{100}$

Where, D = Annual depreciation

C = Cost Price

R = Rate of Depreciation

From the formula given below, the rate of depreciation can be obtained as follows :

$$R = \frac{D}{C} \times 100$$

(B) Benefits :

(i) It is very simple method to compute depreciation on asset.

(ii) This method is very easy to understand.

(iii) Since, the amount of depreciation remains identical every year, no frequent computation of depreciation is required.

(C) Disadvantages (limitations) :

(i) Under this method, the amount of depreciation remains identical every year. Thus no appropriate balance is maintained between depreciation and maintenance expense. In the initial years of a new asset, the repairing expense comes minimum and in subsequent years it increases.

(ii) Under this method, interest on capital is ignored.

(D) For which assets, it is appropriate ?

This method is appropriate for those assets, whose, useful estimated life can be determined very easily. e.g. Leasehold properties, copyright, patent, trade mark etc.

(E) Accounting treatment of depreciation :

(i) For the first year.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	**When asset is purchased :**			
	Asset A/c Dr		Cost price	
	To bank A/c			Purchase price
	To bank/cash A/c			Expenses paid
	(Being asset is purchased and expenses are paid)			
2	**Recording of depreciation at the end of the accounting year :**			
	Depreciation A/c Dr		....	
	To asset A/c			....
	(Being the amount of depreciation is charged.)			
3	**Entry for closing down depreciation account and transfer to profit and loss account :**			
	Profit and loss A/c Dr		....	
	To depreciation A/c			....
	(Being depreciation account is closed and transferred to profit and loss account.)			

(ii) Second year onwards, at the end of each accounting year, until the asset is sold / the completion of life.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	**Recording of depreciation :**			
	Depreciation A/c Dr		....	
	To asset A/c			....
	(Being the amount of depreciation is charged.)			
2	**Entry for closing down depreciation account and transfer to profit and loss account :**			
	Profit and Loss A/c Dr		....	
	To depreciation A/c			....
	(Being depreciation account is closed and transferred to profit and loss account.)			

The annual amount of depreciation is disclosed in annual accounts on debit side of profit and loss account and in balance sheet on asset side it is deducted from the cost price of an asset at the end of each accounting year.

Illustration 1 : Sheela Ltd. has purchased a machine for ₹ 48,000 on 1-04-2012. Installation expense of this machine was ₹ 2000. An estimated life of this machine is 10 years and scrap value of machine is expected to be ₹ 10,000. Determine annual depreciation and annual depreciation rate under straight line method of depreciation. Accounting year of the company is ending on 31st March. Prepare, journal entries, machine account and depreciation accounts for first three years. Disclose accounting effect of it in final accounts of first year.

Ans. :

(1) **Annual depreciation :** $D = \frac{C - S}{N}$

D = Amount of annual depreciation = ?

C = Cost price = Purchase price + Installation expense

= 48,000 + 2000 = ₹ 50,000

S = Scrap value = ₹ 10,000

N = Total life in years = 10 years

$D = \frac{50{,}000 - 10{,}000}{10} = \frac{40{,}000}{10} =$ ₹ 4000

Annual amount of depreciation ₹ 4000

(2) **Rate of depreciation :**

$R = \frac{D}{C} \times 100$

$= \frac{4000}{50{,}000} \times 100$

$R = 8\ \%$

Annual rate of depreciation 8 %

Journal Entries in the Books of Sheela Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-12	Machine A/c Dr		50,000	
	To bank A/c			48,000
	To cash A/c			2000
	(Being machine of ₹ 48,000 purchased and payment is made by cheque and installation expense ₹ 2000 paid in cash.)			
31-3-13	Depreciation A/c Dr		4000	
	To machine A/c			4000
	(Being depreciation of ₹ 4000 is recorded.)			
31-3-13	Profit and Loss A/c Dr		4000	
	To depreciation A/c			4000
	(Being depreciation of ₹ 4000 transferred to profit and loss account.)			
31-3-14	Depreciation A/c Dr		4000	
	To machine A/c			4000
	(Being depreciation of ₹ 4000 is recorded.)			
31-3-14	Profit and Loss A/c Dr		4000	
	To depreciation A/c			4000
	(Being depreciation of ₹ 4000 transferred to and loss account.)			
31-3-15	Depreciation A/c Dr		4000	
	To machine A/c			4000
	(Being depreciation of ₹ 4000 is recorded.)			
31-3-15	Profit and Loss A/c Dr		4000	
	To depreciation A/c			4000
	(Being depreciation ₹ 4000 transfered to profit and loss account.)			
	Total		**74,000**	**74,000**

Ledger of Sheela Limited

Machine Account

Dr | Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
1-4-12	To Bank A/c		48,000	31-3-13	By Depreciation A/c		4000
”	To Cash A/c		2000	31-3-13	By balance c/d		46,000
			50,000				**50,000**
1-4-13	To balance b/d		46,000	31-3-14	By Depreciation A/c		4000
				31-3-14	By balance c/d		42,000
			46,000				**46,000**
1-4-14	To balance b/d		42,000	31-3-15	By Depreciation A/c		4000
				31-3-15	By balance c/d		38,000
			42,000				**42,000**

Depreciation Account

Dr | Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
31-3-13	To machine A/c		4000	31-3-13	By profit and loss A/c		4000
			4000				**4000**
31-3-14	To machine A/c		4000	31-3-14	By profit and loss A/c		4000
			4000				**4000**
31-3-15	To machine A/c		4000	31-3-15	By profit and loss A/c		4000
			4000				**4000**

Accounting Effect in Annual Accounts

Profit and Loss Account

for the Year Ending 31-3-13

Dr | Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To machine depreciation A/c	4000		

Balance Sheet as at 31-3-13

Capital-Liabilities	Amt. (₹)	Assets-Debts		Amt. (₹)
		Machine	50,000	
		− Depreciation	4000	46,000

Note : In the above mentioned illustration the cost of machine is ₹ 50,000. If depreciation it to be calculated at 8 % per annum instead of the estimated scrap value and useful life, the depreciation will be calculated as under. Accounting treatments, (accounting effects) in annual accounts would remain the same.

Annual amount of depreciation :

$$D = \frac{C \therefore R}{100} = \frac{50{,}000 \quad 8}{100}$$

$$\mathbf{D = ₹\ 4000}$$

(2) Reducing Balance Method :

(A) Method to determine depreciation amount : Under this method every depreciation is calculated on opening balance of asset at the predetermined rate. Opening balance means closing balance of the previous year after the deduction of depreciation. Thus due to the substraction of depreciation from the value of asset, the opening balance of asset would reduce to that extent. Consequently, every year amount of depreciation gradually reduces. Thus, this method is known as reducing balance method.

Illustration 2 : Surbhi & Co. purchased a machine at a cost of ₹ 57,000. Installation cost to it was ₹ 3000. Compute depreciation at 5 % under reducing balance method for first three years.

Cost price = 57,000 + 3000 = ₹ 60,000

Computation of Depreciation

Particulars	Amount (₹)
Cost price of machine	60,000
– Depreciation at the end of first year (5 % on 60,000)	3000
Closing balance at the end of first year	57,000
(Opening balance of second year)	
– Depreciation at the end of second year (5 % on 57,000)	2850
Closing balance at the end of second year	54,150
(Opening balance of third year)	
– Depreciation at the end of third year (5 % on 54,150)	2708
Closing balance at the end of third year	51,442
(Opening balance of fourth year)	

Explanation :

(i) Every year depreciation is calculated at 5 %.

(ii) Every year depreciation is calculated on the opening balance of respective year. Due to the depreciation, opening balance of each year reduces. In this case this amount is ₹ 57,000, ₹ 54,150 and ₹ 51,442.

(iii) The amount of depreciation also gradually reduces. It is ₹ 3000, ₹ 2850 and ₹ 2708 respectively. Therefore, this method is known as reducing balance method.

(B) Advantages :

(i) Under this method balance between depreciation amount and repairing expense is maintained. Because in the intial years, the amount of depreciation would remain high and it reduces in subsequent years. While in intial years repairing amount remains insignificant and with passing of time the repairing expenses increases. In this manner, the balance between the amount of depreciation and the repairing expense is maintained.

(ii) This is simple method to compute depreciation.

(C) Disadvantages :

(i) This method is not as simple as the straight line method.

(ii) Under this method, interest on capital employed for asset is not considered.

(D) For which assets it is appropriate : This method is appropriate for those assets which are of long term use and which have balance amount after their use. e.g. furniture, fixtures, plant and machines, building etc.

(E) Accounting treatments of depreciation : Under this method accounting treatments are given like straight line method. Every year only the amount of depreciation reduces gradually.

Illustration 3 : Harpal Limited has purchased a machine for ₹ 1,50,000 on 1-4-12. Installation expense to it was ₹ 10,000. If every year 15 % depreciation is chargeable, under reducing balance method, pass journal entries and prepare machine account, depreciation account for first three years. Disclose accounting effect of it in final accounts of first two years.

Ans. : **Journal Entries in the Books of Harpal**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-12	Machine A/c Dr		1,60,000	
	To bank A/c			1,50,000
	To cash A/c			10,000
	(Being machine purchased for ₹ 1,50,000 and paid installation ₹ 10,000 in cash.)			
31-3-13	Depreciation A/c Dr		24,000	
	To machine A/c			24,000
	(Being depreciation of ₹ 24,000 is recorded.)			
31-3-13	Profit and Loss A/c Dr		24,000	
	To depreciation A/c			24,000
	(Being depreciation of ₹ 20,400 is transferred to Profit and Loss account.)			
31-3-14	Depreciation A/c Dr		20,400	
	To machine A/c			20,400
	(Being depreciation of ₹ 20,400 is recorded.)			
31-3-14	Profit and Loss A/c Dr		20,400	
	To depreciation A/c			20,400
	(Being depreciation of ₹ 20,400 is transferred to Profit and Loss account.)			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-15	Depreciation A/c Dr		17,340	
	To machine A/c			17,340
	(Being depreciation of ₹ 17,340 is recorded.)			
31-3-15	Profit and Loss A/c Dr		17,340	
	To depreciation A/c			17,340
	(Being depreciation of ₹ 17,340 is transferred to Profit and Loss account.)			
	Total		**2,83,480**	**2,83,480**

Ledger of Harpal Limited

Machine Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
1-4-12	To bank A/c		1,50,000	31-3-13	By depreciation A/c		24,000
”	To cash A/c		10,000	31-3-13	By balance c/d		1,36,000
			1,60,000				**1,60,000**
1-4-13	To balance b/d		1,36,000	31-3-14	By depreciation A/c		20,400
				31-3-14	By balance c/d		1,15,600
			1,36,000				**1,36,000**
1-4-14	To balance b/d		1,15,600	31-3-15	By depreciation A/c		17,340
				31-3-15	By balance c/d		98,260
			1,15,600				**1,15,600**

Depreciation Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
31-3-13	To machine A/c		24,000	31-3-13	By Profit and Loss A/c		24,000
			24,000				**24,000**
31-3-14	To machine A/c		20,400	31-3-14	By Profit and Loss A/c		20,400
			20,400				**20,400**
31-3-15	To machine A/c		17,340	31-3-15	By Profit and Loss A/c		17,340
			17,340				**17,340**

Accounting Effect in Annual Accounts

Profit and Loss Accounts

for the year ending 31-3-13

Dr | Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To machine depreciation A/c	24,000		

Balance Sheet as at 31-3-13

Capital-Liabilities	Amt. (₹)	Assets-Debts		Amt. (₹)
		Machine	1,60,000	
		– Depreciation	24,000	1,36,000

Profit and Loss Account for the year ending 31-3-14

Dr | Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To machine depreciation A/c	20,400		

Balance Sheet as at 31-3-14

Capital-Liabilities	Amt. (₹)	Assets-Debts		Amt. (₹)
		Machine	1,36,000	
		– Depreciation	20,400	1,15,600

9. Difference : Straight Line Method and Reducing Balance Method

No.	Aspect of Difference	Straight Line Method	Reducing Balance Method
(1)	Computation of depreciation amount	Under this method depreciation is calculated by deducting scrap value from cost price and dividing arrival amount by number of years of estimated life of asset.	Under this method depreciating amount is calculated on the basis of predetermined rate of depreciation.
(2)	Amount of depreciation	Under this method every year amount of depreciation remains identical.	Under this method every year amount of depreciation reduces.
(3)	Value of asset at the end of estimate life.	Under this method value of asset becomes zero at the end of its estimated life.	Under this method value of asset does not become zero at the end of its estimated life.

No.	Aspect of Difference	Straight Line Method	Reducing Balance Method
(4)	Amount of depreciation and repair expense.	Under this method no balance is maintained between depreciation and maintenance expense. Because during every year depreciation remains identical and during initial years maintenance remains low. While during later years the amount of maintenance increases but amount of depreciation remains identical.	Under this method appropriate balance is maintained between amount of depreciation and maintenance. Because, during initial years depreciation remains high and maintenance remains low. While during later years depreciation amount reduces and maintenance expense increases.
(5)	On which price depreciation is calculated ?	On cost price of asset depreciation is calculated.	On depreciated price depreciation is calculated. It means depreciation is calculated on opening balance of respective years.

On different valid grounds the method of depreciation is changed by business enterprises. Specifically, conversion is done of straight line method into reducing balance method or of reducing balance method into straight line method.

But, one aspect is to be kept in mind that, irrespective of the use of depreciation method, the amount of total depreciation at the end of estimated life remains identical. Under straight line method every year amount of depreciation is identical. Under reducing balance method every year amount of depreciation reduces. To maintain the identical amount of total depreciation and to prevent the violation of this rate, the rate of depreciation of reducing balance method is always higher than the depreciation rate under straight line method. To determine the rate of depreciation the following formula is used under reducing balance method.

$$\text{Rate of depreciation} = 1 - \sqrt[n]{\frac{\text{Scrap value of asset}}{\text{Cost price of asset}}} \times 100$$

n = life in years

Let us understand this aspect with following illustration :

e.g. An enterprise has purchased a machine for ₹ 1,25,000. The estimated scrap value of this machine is ₹ 25,000. The estimated life of machine is 4 years.

From the above information calculate rate of depreciation and total amount of depreciation uder :

(i) Straight line method (ii) Reducing balance method.

(i) Straight line method :

$$\text{Annual depreciation in amount} = \frac{\text{Cost price of machine} - \text{Scrap value}}{\text{Estimated life}} = \frac{1{,}25{,}000 - 25{,}000}{4} = ₹\ 25{,}000$$

$$\text{Rate of annual depreciation} = \frac{\text{Annual depreciation}}{\text{Cost price of machine}} \times 100 = \frac{25{,}000}{1{,}25{,}000} \times 100 = 20\ \%$$

(ii) Reducing balance method :

$$\text{Annual rate of depreciation} = 1 - \sqrt[n]{\frac{\text{Scrap value of asset}}{\text{Cost price of asset}}} \times 100$$

$$= 1 - \sqrt[4]{\frac{25{,}000}{1{,}25{,}000}} \times 100 = \text{Approximatly } 33.13\ \%$$

Straight Line Method		Reducing Balance Method	
Cost price of machine	1,25,000	Cost price of machine	1,25,000
– 20 % depreciation	25,000	– 33.13 % depreciation	41,413
	1,00,000		83,587
– 20 % depreciation	25,000	– 33.13 % depreciation (on reduced balance)	27,692
	75,000		55,895
– 20 % depreciation	25,000	– 33.13 % depreciation (on reduced balance)	18,518
	50,000		37,377
– 20 % depreciation	25,000	– 33.13 % depreciation (on reduced balance)	12,377
Scrap value	25,000	Scrap value	25,000
∴ Total depreciation 25,000 + 25,000 + 25,000 + 25,000 =	1,00,000	∴ Total depreciation 41,413 + 27,692 + 18,518 + 12,377 =	1,00,000

Note : (1) Under reducing balance method when depreciation rate is to be calculated by applying the above mentioned formula, the use of Log method is essential. It is not expected from students.

(2) Only, theoretical explanation is given.

10. Methods of Recording Depreciation

From the view point of accounting, there are two methods for recording depreciation, which are as follows :

(1) Method of providing depreciation on the respective assets

(2) Method of provision for depreciation

(1) Method of Providing Depreciation on the Respective Asset :

Under this method, by applying predetermined method of depreciation, the amount of depreciation is debited to depreciation account and credited to the respective asset, consequently, the book value of asset reduces to the extent of amount of depreciation.

Illustration 4 : Akshara Limited has purchased a machine for ₹ 70,000 on 01-4-2013. 10 % depreciation is to be charged as per straight line method on this machine. Pass journal entries for first two years of depreciation in the books of company and disclose effect in annual accounts.

Ans. : Here, amount of depreciation will be ₹ 7000. Since straight line method of depreciation is applied, the amount of depreciation would remain identical and its accounting treatments will be as follows :

Journal Entries in the Books of Akshara Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-14	Depreciation A/c Dr		7000	
	To machine A/c			7000
	(Being depreciation of ₹ 7000 is recorded.)			
31-3-14	Profit and Loss A/c Dr		7000	
	To depreciation A/c			7000
	(Being depreciation of ₹ 7000 is transfered to Profit and Loss account.)			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-15	Depreciation A/c Dr		7000	
	To machine A/c			7000
	(Being depreciation of ₹ 7000 is recorded.)			
31-3-15	Profit and Loss A/c Dr		7000	
	To depreciation A/c			7000
	(Being depreciation of ₹ 7000 is transferred to Profit and Loss account.)			
	Total		**28,000**	**28,000**

Note : At the end of every accounting year the amount of depreciated will be transfered to Profit and Loss account.

Accounting Effect in Annual Accounts

Profit and Loss Account

for the year ending 31-3-14

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To machine dereciation A/c	7000		

Profit and Loss Account

for the year ending 31-3-15

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To machine depreciation A/c	7000		

Balance Sheet as at 31-3-14

Capital-Liabilities	Amt. (₹)	Assets		Amt. (₹)
		Machine	70,000	
		− Depreciation	7000	63,000

Balance Sheet as at 31-3-15

Capital-Liabilities	Amt. (₹)	Assets		Amt. (₹)
		Machine	63,000	
		− Depreciation	7000	56,000

As disclosed above, at the end of every accounting year depreciation treatments will be given in annual accounts. The book value of asset, after deduction of depreciation of respective year will be shown in the balance sheet.

(2) Method of Provision for Depreciation

Under this method, first of all, the amount of depreciation is decided on the basis of predetermined method of depreciation. Subsequently depreciation amount is debited to depreciation account and credited to depreciation provision account. In this manner, amount written off every year, will be accumulated in depreciation account; consequently the amount of depreciation would increase every year. This accumulated amount shows, total amount of depreciation of the respective period. From the cost price of asset, the total depreciation provision amount is deducted and disclosed on the asset side of balance sheet at the end of every accounting year. While the amount debited to depreciation is transferred to profit and loss acccount.

Depreciation provision account is disclosed in the books of account. Since the amount of depreciation of year gets accumulated in depreciation provision account, it is known as accumulated depreciation account also.

Illustration 5 : On 1-4-2013 book value of an asset is ₹ 70,000. Provide 10 % depreciation under straight line method through creation of depreciation provision account. Pass journal entries show its effects in annual accounts and prepare depreciation provision account for first two years.

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-14	Depreciation A/c Dr		7000	
	To depreciation provision A/c			7000
	(Being depreciation of ₹ 7000 is provided.)			
31-3-14	Profit and Loss A/c Dr		7000	
	To depreciation A/c			7000
	(Being depreciation of ₹ 7000 transferred to profit and loss account.)			
31-3-15	Depreciation A/c Dr		7000	
	To depreciation provision A/c			7000
	(Being depreciation of ₹ 7000 is provided.)			
31-3-15	Profit and Loss A/c Dr		7000	
	To depreciation A/c			7000
	(Being depreciation of ₹ 7000 transferred to profit and loss account.)			
	Total		**28,000**	**28,000**

Depreciation Provision Account

(Accumulated Depreciation Account)

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
31-3-14	To balance c/d		7000	31-3-14	By depreciation A/c		7000
			7000				**7000**
31-3-15	To balance c/d		14,000	1-4-14	By balance b/d		7000
				31-3-15	By depreciation A/c		7000
			14,000				**14,000**

Machine Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
1-4-13	To bank A/c		70,000	31-3-14	By balance c/d		70,000
			70,000				**70,000**
1-4-14	To balance b/d		70,000	31-3-15	By balance c/d		70,000
			70,000				**70,000**

Accounting Effect in Annual Accounts

Profit and Loss Account for the year ending 31-3-14

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To machine depreciation A/c	7000		

Profit and Loss Account for the year ending 31-3-15

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To machine depreciation A/c	7000		

Balance Sheet as at 31-3-14

Capital-Liabilities	Amt. (₹)	Assets		Amt. (₹)
		Machine	70,000	
		– Accumulated depreciation	7000	63,000

Balance Sheet as at 31-3-15

Capital-Liabilities	Amt. (₹)	Assets		Amt. (₹)
		Machine	70,000	
		− Accumulated depreciation	14,000	56,000

Important Note :

(1) As stated above, no effect of depreciation is given in machine account. From the cost price of machine, accumulated depreciation is deducted and shown in balance sheet for annual accounts purpose.

(2) Alternatively, under this method asset is shown at cost price on assets side of balance sheet and depreciation provision accounts is shown on liabilities side.

11. Typical Illustrations

Illustration 6 : There is balance in machine account of ₹ 65,000 in the books of Kashvi Enterprise on 1-4-2015. This machine was purchased five year back. On this machine depreciation was computed as per straight line method, and total written off depreciation is ₹ 55,000.

Ans. : (1) Amount of annual depreciation as per straight line method $= \dfrac{\text{Total depreciation}}{\text{Total years of use}}$

$$= \frac{55{,}000}{5} = 11{,}000$$

Annual amount of depreciation = ₹ 11,000

(2) Cost price of machine = Opening balance of machine + Amount of depreciation till date

= 65,000 + 55,000

= 1,20,000

Cost price of machine = ₹ 1,20,000

Illustration 7 : Shrey Limited has purchased a machine on 1-4-14 for ₹ 1,20,000. Its installation expense is ₹ 30,000. If depreciation is charged at 15 % under straight line instalment method, disclose the effect in annual accounts of first year.

Ans. : R = Annual rate of depreciation = 15 %

C = Cost price of machine = Purchase price + Installation expense

= 1,20,000 + 30,000

= ₹ 1,50,000

Annual depreciation amount = D $= \dfrac{C \times R}{100}$

$$= \frac{1{,}50{,}000 \times 15}{100}$$

D = ₹ 22,500

Accounting Effect in Annual Account

Profit and Loss Account for the year ending 31-3-2015

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To machine depreciation A/c	22,500		

Balance Sheet as at 31-3-15

Capital-Liabilities	Amt. (₹)	Assets		Amt. (₹)
		Machine	1,50,000	
		– Depreciation	22,500	1,27,500

Illustration 8 : There was an opening balance of machine account on 1-4-15 in the book of Shruti Limited ₹ 1,05,000. This machine was purchased four years back. Under straight line method, 10 % depreciation is charged on this machine. From this information ascertain the amount of annual depreciation.

Necessary computation and explanation :

Under straight line method, the amount of depreciation is determined on the basis of cost price of machine. First of all, cost price of machine will be ascertained.

	Assume cost price of machine is	₹ 100
(–)	Depreciation at 10 % for four years (10 × 4)	₹ 40
∴	Book value of machine at the end of fourth year	₹ 60

As given, book value of machine at the end of fourth year is ₹ 1,05,000.

If book value of at the end of fourth year ₹ 60 = cost price ₹ 100

∴ If book value of at the end of fourth year ₹ 1,05,000 = (?)

$$= \frac{1,05,000 \times 100}{60} = 1,75,000$$

∴ Cost price of machine = ₹ 1,75,000

Annual amount of depreciation = $\frac{C \times R}{100}$

Where, C = 1,75,000, R = 10 %

$$\therefore \quad D = \frac{C \times R}{100}$$

$$= \frac{1,75,000 \times 10}{100}$$

Annual amount of depreciation = ₹ 17,500

Ans. : Cost price ₹ 1,75,000

Annual amount of depreciation ₹ 17,500.

Illustration 9 : Yug & Co. had purchased one machine for ₹ 1,10,000 on 1-4-12. Installation cost of this machine was ₹ 6000 and carriage expense was ₹ 4000. Company provides 8 % depreciation under straight line method. On 31-3-15 this machine was sold at a loss of 20 % of book value. Prepare journal entries and machine account for three years.

Ans. : Necessary Calculation :

Annual depreciation :

Cost price of machine = Purchase price + Installation cost + Other expenses

= ₹ 1,10,000 + ₹ 6000 + ₹ 4000

= ₹ 1,20,000

Annual depreciation = Cost price of machine × Depreciation rate

$$= \frac{1,20,000 - 8}{100} = ₹\ 9600$$

Selling price of machine :

		₹
	Cost price of machine on 1-4-12	1,20,000
(–)	Depreciation of three years (₹ 9600 × 3)	28,800
∴	Book value of machine on 31-3-15	91,200
(–)	Sales of 20 % loss (₹ 91,200 × 20 %)	18,240
∴	Selling price of machine	72,960

Journal Entries in the Book of Yug Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-12	Machine A/c Dr		1,20,000	
	To bank A/c			1,10,000
	To cash A/c			10,000
	(Being machine purchased for ₹ 1,10,000 and paid ₹ 10,000 for its installation and other expenses.)			
31-3-13	Depreciation A/c Dr		9600	
	To machine A/c			9600
	(Being depreciation of ₹ 9600 is charged.)			
31-3-13	Profit and Loss A/c Dr		9600	
	To depreciation A/c			9600
	(Being depreciation of ₹ 9600 is transferred to profit and loss account.)			
31-3-14	Depreciation A/c Dr		9600	
	To machine A/c			9600
	(Being depreciation of ₹ 9600 is charged.)			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-14	Profit and Loss A/c Dr To depreciation A/c (Being depreciation of ₹ 9600 is transferred to profit and loss account.)		9600	9600
31-3-15	Depreciation A/c Dr To machine A/c (Being depreciation of ₹ 9600 is charged.)		9600	9600
31-3-15	Profit and Loss A/c Dr To depreciation A/c (Being depreciation of ₹ 9600 is transferred to profit and loss account.)		9600	9600
31-3-15	Bank A/c Dr To machine A/c (Being machine of book value of ₹ 91,200 sold at loss of 20 %)		72,960	72,960
31-3-15	Profit and Loss A/c Dr To machine A/c (Being loss on sale of machine ₹ 18,240 is transferred to profit and loss account.)		18,240	18,240
	Total		**2,68,800**	**2,68,800**

Ledger of Yug & Company

Machine Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
1-4-12	To bank A/c		1,10,000	31-3-13	By depreciation A/c		9600
1-4-12	To cash A/c		10,000	31-3-13	By balance c/d		1,10,400
			1,20,000				**1,20,000**
1-4-13	To balance b/d		1,10,400	31-3-14	By depreciation A/c		9600
				31-3-14	By balance c/d		1,00,800
			1,10,400				**1,10,400**
1-4-14	To balance b/d		1,00,800	31-3-15	By depreciation A/c		9600
				31-3-15	By bank A/c		72,960
				31-3-15	By Profit and Loss A/c (Loss on sale of machine)		18,240
			1,00,800				**1,00,800**

Illustration 10 : Shushma Limited has purchased one machine for ₹ 52,000 on 1-4-12. Installation expense of machine was ₹ 3000. On 1-10-13 second machine purchased for ₹ 19,000, its installation cost was ₹ 1000. Company charges depreciation at 10 % under straight line method of depreciation. On 31-3-15, first machine was sold at profit of 20 % on book value.

Ans. : Necessary calculation : Selling price of first machine (which is sold) :

Cost price of machine = ₹ 52,000 + ₹ 3000 = ₹ 55,000

Annual depreciation amount (at 10 %) = $\frac{55000 \quad 10}{100}$ = ₹ 5500

Selling price of machine :

		₹
	Cost price of machine on 1-4-12	55,000
(–)	Depreciation at 10 % for three years (₹ 5500 × 3)	16,500
∴	Book value of machine on 31-3-15	38,500
(+)	20 % profit on ₹ 38,500	7700
∴	Selling price of machine	46,200

Depreciation on second machine :

Cost price on 1-10-13 ₹ 20,000.

Depreciation at 10 % for six months from 1-10-13 to 31-3-14 ₹ 1000.

Depreciation for 1-4-14 to 31-3-15 for entire year ₹ 2000.

Journal Entries in the Book of Shushma Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-12	Machine A/c Dr		55,000	
	To bank A/c			52,000
	To cash A/c			3000
	(Being machine purhcased for ₹ 52,000 and paid its installation expense ₹ 3000.)			
31-3-13	Depreciation A/c Dr		5500	
	To machine A/c			5500
	(Being depreciation of ₹ 5500 is recorded.)			
31-3-13	Profit and Loss A/c Dr		5500	
	To depreciation A/c			5500
	(Being depreciation of ₹ 5500 is transferred to profit and loss account.)			
1-10-13	Machine A/c Dr		20,000	
	To bank A/c			19,000
	To cash A/c			1000
	(Being machine purchased for ₹ 19,000 and paid its installation expense ₹ 1000.)			
31-3-14	Depreciation A/c Dr		6500	
	To machine A/c			6500
	(Being depreciation of ₹ 5500 on first machine and ₹ 1000 on second machine is recorded.)			

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
31-3-14	Profit and Loss A/c	Dr		6500	
	To depreciation A/c				6500
	(Being depreciation of ₹ 6500 is transferred to profit and loss account.)				
31-3-15	Depreciation A/c	Dr		7500	
	To machine A/c				7500
	(Being depreciation of ₹ 5500 on first machine and ₹ 2000 on second machine is recorded.)				
31-3-15	Profit and Loss A/c	Dr		7500	
	To depreciation A/c				7500
	(Being depreciation of ₹ 7500 is transferred to profit and loss account.)				
31-3-15	Bank A/c	Dr		46,200	
	To machine A/c				46,200
	(Being first machine of book value of ₹ 38,500 sold at 20 % profit.)				
31-3-15	Machine A/c	Dr		7700	
	To profit and loss A/c				7700
	(Being first machine sold on profit of ₹ 7700 and transferred it to profit and loss account.)				
	Total			**1,67,900**	**1,67,900**

Ledger of Shushma Limited

Machine Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
1-4-12	To bank A/c		52,000	31-3-13	By depreciation A/c		5500
1-4-12	To cash A/c		3000	31-3-13	By balance c/d		49,500
			55,000				**55,000**
1-4-13	To balance b/d		49,500	31-3-14	By depreciation A/c		6500
1-10-13	To bank A/c		19,000		(5500 + 1000)		
1-10-13	To cash A/c		1000	31-3-14	By balance c/d		63,000
			69,500				**69,500**
1-4-14	To balance b/d		63,000	31-3-15	By depreciation A/c		7500
31-3-15	To profit and loss A/c		7700		(5500 + 2000)		
	(Profit)			31-3-15	By bank A/c		46,200
				31-3-15	By balance c/d		17,000
			70,700				**70,700**

Depreciation Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
31-3-13	To machine A/c		5500	31-3-13	By profit and loss A/c		5500
			5500				**5500**
31-3-14	To machine A/c		6500	31-3-14	By profit and loss A/c		6500
			6500				**6500**
31-3-15	To machine A/c		7500	31-3-15	By profit and loss A/c		7500
			7500				**7500**

Illustration 11 : In the books of Sanket Enterprise, machine account has balance of ₹ 1,40,000 on 1-4-12. This machine was purchased on 1-4-09. Second machine was purchased on 1-1-14 for ₹ 1,10,000. Its installation expense was ₹ 10,000. Company provides annual depreciation at 10 % under straight line method. First machine was sold on 31-3-15 at 20 % loss on book value. From the above information prepare machine account for last three years, in the books of company.

Ans. : Necessary calculation and explanation :

(1) Amount of annual depreciation is calculated on cost price of an asset under straight line method. First of all cost price of machine is to be ascertained.

	Assume cost price of machine on 1-4-09 is	₹ 100
(–)	Depreciation of three years 1-4-09 to 31-3-12 (10 % $\rightarrow$ 10 $\times$ 3)	₹ 30
	Book value of machine on 1-4-12	₹ 70

∴ ₹ 70 book value = ₹ 100 cost price

∴ ₹ 1,40,000 book value = (?)

$= \frac{1,40,000 \quad 100}{70}$ = Cost price of machine ₹ 2,00,000

∴ On ₹ 2,00,000 depreciation will be charged at 10 % = ₹ 20,000 Annual depreciation

(2) **Selling price of first machine :**

	Book value on 1-4-12	₹ 1,40,000
(–)	Depreciation upto 31-3-15 for 3 years (20,000 $\times$ 3)	₹ 60,000
	Book value on 31-3-15	₹ 80,000
(–)	Loss (25 % of ₹ 80,000)	₹ 20,000
∴	Selling price of machine	₹ 60,000

(3) Second machine was purchased on 1-1-14, thus depreciation of first year, will be calculated for the period of 3 months from 1-1-14 to 31-3-14 ₹ 3000.

Depreciation $= \frac{1,20,000 \quad 10 \quad 3}{100 \quad 12}$ = ₹ 3000

(4) Depreciation of second year for second machine (upto 31-3-15) ₹ 12,000.

Ledger of Sanket Enterprise

Machine Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
1-4-12	To balance b/d		1,40,000	31-3-13	By depreciation A/c		20,000
				31-3-13	By balance c/d		1,20,000
			1,40,000				**1,40,000**
1-4-13	To balance b/d		1,20,000	31-3-14	By depreciation A/c		23,000
1-1-14	To bank A/c		1,10,000		(20,000 + 3000)		
1-1-14	To cash A/c		10,000	31-3-14	By balance c/d		2,17,000
			2,40,000				**2,40,000**
1-4-14	To balance b/d		2,17,000	31-3-15	By depreciation A/c		32,000
					(20,000 + 12,000)		
				31-3-15	By bank A/c (sale)		60,000
				31-3-15	By P & L A/c (loss)		20,000
				31-3-15	By balance c/d		1,05,000
			2,17,000				**2,17,000**

Illustration 12 : In the books of Bulbul corporation, on 1-4-12, machine account shows balance of ₹ 90,000. This machine was purchased 5 years back. Till this date total amount of depreciation on this machine was ₹ 30,000. On 1-1-14 second machine was purchased for ₹ 18,000.

The second machine was not suitable and was sold on 31-12-14 at profit of 10 % on book value. Company charges depreciation at 5 %, every year under straight line method. From the above information prepare a machine account and depreciation account upto 31-3-15 in the books of company.

Ans. : Necessary calculation and explanation :

(1) Depreciation is calculated on cost price of asset under straight line method :

	Book value of machine on 1-4-12	₹ 90,000
(+)	Total depreciation charged for 5 years	₹ 30,000
∴	Cost price of machine before 5 years	₹ 1,20,000

Annual amount of depreciation on ₹ 1,20,000 at 5 % is ₹ 6000.

or

Total depreciation of 5 years is ₹ 30,000. Divide this amount with 5, annual depreciation will be

$$= \frac{30,000}{5} = ₹\ 6000$$

(2) **Selling price of second machine :**

	Purchase price (cost price) on 1-1-14	₹ 18,000
(–)	3 months depreciation 1-1-14 to 31-3-14	
∴	$\frac{18,000 \quad 5 \quad 3}{100 \quad 12} =$	₹ 225
	Book value after depreciation 1-4-14	₹ 17,775
(–)	9 months depreciation 1-4-14 to 31-12-14	
∴	$\frac{18,000 \quad 5 \quad 9}{100 \quad 12} =$	₹ 675
∴	Book value after depreciation 31-12-14	₹ 17,100
(+)	10 % profit on book value ₹ 17,100	₹ 1710
∴	Selling price of machine	₹ 18,810

Ledger of Bulbul Corporation

Machine Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
1-4-12	To balance b/d		90,000	31-3-13	By depreciation A/c		6000
				31-3-13	By balance c/d		84,000
			90,000				**90,000**
1-4-13	To balance b/d		84,000	31-3-14	By depreciation A/c (6000 + 225)		6225
1-1-14	To bank A/c (purchased new machine)		18,000	31-3-14	By balance c/d		95,775
			1,02,000				**1,02,000**
1-4-14	To balance b/d		95,775	31-12-14	By depreciation A/c (for 9 months on machine sold)		675
31-12-14	To P & L A/c (profit)		1710	31-12-14	By bank A/c (Machine sold)		18,810
				31-3-15	By depreciation A/c (For first machine)		6000
				31-3-15	By balance c/d		72,000
			97,485				**97,485**

Depreciation Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
31-3-13	To machine A/c		6000	31-3-13	By profit and loss A/c		6000
			6000				**6000**
31-3-14	To machine A/c		6225	31-3-14	By profit and loss A/c		6225
			6225				**6225**
31-3-15	To machine A/c		6675	31-3-15	By profit and loss A/c		6675
			6675				**6675**

Illustration 13 : Jayesh Limited had purchased some machines on 1-4-12 for ₹ 54,000. Installation expense for those machines was ₹ 6000. Company had purchased other machines on 1-10-14 for ₹ 47,000, its installation expense was ₹ 1000. Company provides depreciation every year at 10 % under straight line method. 40 % machines of first purchase were sold at 30 % profit on book value on 31-3-15.

Prepare machine account upto 31-3-15 and show accounting effect in final accounts for every year in the books of company.

Ans. : Necessary calculation and explanation :

(1) **Cost price of machines sold :**

Cost price of machines of first purchase ₹ 60,000 (₹ 54,000 + ₹ 6000 installation expense), 40 % of its are sold.

$$\frac{60,000 \quad 40}{100}$$

= ₹ 24,000 machines sold

		₹
	Cost price of machines sold	24,000
(–)	Total depreciation at 10 % (2400 × 3)	7200
∴	Book value of machines sold on 31-3-15	16,800
(+)	30 % profit on book value $\left(\frac{16,800 \quad 30}{100}\right)$	5040
∴	Selling price of machines sold	21,840

(2) First year depreciation will be calculated for 6 months on 31-3-15, for the machines which were purchased on 1-10-14. Thus depreciation on those machines will be ₹ 2400 (₹ 47,000 + ₹ 1000, 10 % for 6 months.)

Ledger of Jayesh Limited

Machine Acccount

Dr | | | | | | | Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
1-4-12	To bank A/c		54,000	31-3-13	By depreciation A/c		6000
1-4-12	To cash A/c		6000	31-3-13	By balance c/d		54,000
			60,000				**60,000**
1-4-13	To balance b/d		54,000	31-3-14	By depreciation A/c		6000
				31-3-14	By balance c/d		48,000
			54,000				**54,000**
1-4-14	To balance b/d		48,000	31-3-15	By depreciation A/c		8400
1-10-14	To bank A/c (purchase)		47,000		(6000 + 2400)		
1-10-14	To cash A/c		1000	31-3-15	By bank A/c (sale)		21,840
	(installation exp.)			31-3-15	By balance c/d		70,800
31-3-15	To profit-loss A/c		5040				
			1,01,040				**1,01,040**

Accounting Effect in Annual Accounts

Profit and Loss Account for the Year Ending 31-3-2013

Dr | | | Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To machine depreciation A/c	6000		

Profit and Loss Account

for the Year Ending 31-3-2014

Dr | | | Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To machine depreciation A/c	6000		

Profit and Loss Account

for the Year Ending 31-3-2015

Dr | | | Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To machine depreciation A/c	8400		

Balance Sheet as at 31-3-13

Capital-Liabilities	Amt. (₹)	Assets		Amt. (₹)
		Machines	60,000	
		− Depreciation	6000	54,000

Balance Sheet as at 31-3-14

Capital-Liabilities	Amt. (₹)	Assets		Amt. (₹)
		Machines	54,000	
		− Depreciation	6000	48,000

Balance Sheet as at 31-3-15

Capital-Liabilities	Amt. (₹)	Assets		Amt. (₹)
		Machines	48,000	
		+ New purchase	48,000	
			96,000	
		− Sale (40 % of first sale)	16,800	
			79,200	
		− Depreciation (6000 + 2400)	8400	70,800

Illustration 14 : P. D. Corporation has balance in machine account ₹ 65,000 on 1-4-14. Company charges depreciation every year at 10 % under reducing balance method. On 30-9-14 machine was sold at 10 % loss of book value.

From the above information pass necessary journal entries and machine account in the books of company.

Ans. : Necessary calculation and explanation :

Depreciation on machine will be calculated on opening balance for six month, under reducing balance method.

		₹
	Balance of machine on 1-4-14	65,000
(−)	Depreciation of 6 months = $\frac{65,000 \quad 10 \quad 6}{100 \quad 12}$	3250
∴	Book value of machine on 30-9-14	61,750
(−)	10 % loss on ₹ 61,750	6175
∴	Selling price of machine	55,575

Journal Entries in the Book of P. D. Corporation

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
30-9-14	Depreciation A/c	Dr		3250	
	To machine A/c				3250
	(Being depreciation of ₹ 3250 is recorded.)				
30-9-14	Bank A/c	Dr		55,575	
	Loss on sale of machine A/c	Dr		6175	
	To machine A/c				61,750
	(Being machine of ₹ 61,750 sold at 10 % loss)				
31-3-15	Profit and loss A/c	Dr		3250	
	To depreciation A/c				3250
	(Being depreciation of ₹ 3250 transferred to profit and loss account.)				
	Total			**68,250**	**68,250**

Machine Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
1-4-14	To balance b/d		65,000	30-9-14	By depreciation A/c		3250
				30-9-14	By loss on sale of machine A/c		6175
				30-9-14	By bank A/c		55,575
			65,000				**65,000**

Illustration 15 : Saksham Limited had purchased one machine on 1-4-12 for ₹ 74,000, its installation cost was ₹ 6000. On 1-10-13 second machine was purchased for ₹ 68,000, its installation expense paid ₹ 4000. Company provides depreciation at 10 % every year, under reducing balance method. First machine was sold at 20 % loss of book value on 31-3-15. From the above information, prepare Machine account for three years and pass journal entries for the first year.

Ans. : Necessary calculation and explanation :

(1)	**Selling price of first purchase :**	₹
	Cost price of machine on 1-4-12	80,000
(–)	Depreciation at 10 % for first year	8000
	Book value of machine on 1-4-13	72,000
(–)	Depreciation at 10 % for second year	7200
	Book value of machine on 1-4-14	64,800
(–)	Depreciation at 10 % for third year	6480
	Book value of machine on 31-3-15	58,320
(–)	20 % loss on ₹ 58,320	11,664
∴	Selling price of machine	46,656

(2)	**Depreciation of second machine :**	₹
	Cost price of machine on 1-10-13	72,000
(–)	Depreciation of 6 months, upto 31-3-14 = $\frac{72{,}000 \quad 10 \quad 6}{100 \quad 12}$	3600
	Book value of machine on 1-4-14	68,400
(–)	Depreciation upto 31-3-15	6840
∴	Book value of machine on 31-3-15	61,560

Journal Entry of Saksham Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-12	Machine A/c Dr		80,000	
	To bank A/c			74,000
	To cash A/c			6000
	(Being machine purchased for ₹ 74,000 and paid its installation expense ₹ 6000.)			
31-3-13	Depreciation A/c Dr		8000	
	To machine A/c			8000
	(Being depreciation of ₹ 8000 is charged.)			
31-3-13	Profit and Loss A/c Dr		8000	
	To depreciation A/c			8000
	(Being depreciation of ₹ 8000 is transferred to profit and loss account.)			
	Total		**96,000**	**96,000**

Ledger of Saksham Limited

Machine Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
1-4-12	To bank A/c		74,000	31-3-13	By depreciation A/c		8000
1-4-12	To cash A/c		6000	31-3-13	By balance c/d		72,000
			80,000				**80,000**
1-4-13	To balance c/d		72,000	31-3-14	By depreciation A/c (7200 + 3600)		10,800
1-10-13	To bank A/c		68,000				
1-10-13	To cash A/c		4000	31-3-14	By balance c/d		1,33,200
			1,44,000				**1,44,000**
1-4-14	To balance c/d		1,33,200	31-3-15	By depreciation A/c (6480 + 6840)		13,320
				31-3-15	By bank A/c (Selling price of machine)		46,656
				31-3-15	By P & L A/c (Loss)		11,664
				31-3-15	By balance c/d		61,560
			1,33,200				**1,33,200**

Illustration 16 : Kirtan Enterprise had balance of ₹ 80,000 in the account of furniture and fixtures on 1-4-2012. As per requirement of institute old furniture was purchased for ₹ 47,000 on 1-7-13, for which installation and other necessary expenses were incurred of ₹ 13,000. Furniture which was purchased on 1-7-13 was not found suitable and sold for ₹ 35,000 on 31-3-15. Every year 10 % depreciation is charged on asset under reducing balance method.

From the above information prepare furniture and fixture account upto 31-3-15.

Ans. : Necessary calculation and explanation :

	(1) Computation of depreciation on furniture of 1-4-12	₹
	Opening balance on 1-4-12	80,000
(–)	Depreciation on 31-3-13	8000
	Opening balance on 1-4-13	72,000
(–)	Depreciation on 31-3-14	7200
	Opening balance on 1-4-14	64,800
(–)	Depreciation on 31-3-15	6480
∴	Book value on 31-3-15	58,320

(2) **Computation for old furniture purchased on 1-7-13** ₹

	Cost price on 1-7-13 = 47,000 + 13,000	60,000
(–)	Depreciation as on 31-3-14 for 9 months = $\frac{60,000 \times 10 \times 9}{100 \times 12}$	4500
	Book value on 1-4-14	55,500
(–)	Depreciation on 31-3-15	5550
∴	Book value on 31-3-15	49,950
(–)	Selling price	35,000
∴	Loss on sale of furniture	14,950

Ledger of Kirtan Enterprise

Furniture and Fixtures Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
1-4-12	To balance b/d		80,000	31-3-13	By depreciation A/c		8000
				31-3-13	By balance c/d		72,000
			80,000				**80,000**
1-4-13	To balance b/d		72,000	31-3-14	By depreciation A/c		11,700
1-7-13	To bank A/c		47,000		(7200 + 4500)		
1-7-13	To cash A/c		13,000	31-3-14	By balance c/d		1,20,300
			1,32,000				**1,32,000**
1-4-14	To balance b/d		1,20,300	31-3-15	By depreciation A/c		12,030
					(6480 + 5550)		
				31-3-15	By bank A/c		35,000
				31-3-15	By P & L A/c (Loss)		14,950
				31-3-15	By balance c/d		58,320
			1,20,300				**1,20,300**

Illustration 17 : Yusuf Dodawala Corporation has purchased machine for ₹ 70,000 on 1-4-12. On 1-10-12 purchased second machine for ₹ 40,000. On 31-1-15, second machine sold at 20 % profit of book value. Company provides depreciation at 10 % every year under reducing balance method. Prepare machine account, from above information and show accounting effect in annual account of first year.

Ans. : Necessary calculation and explanation :

(1) Computation of depreciation on first machine purchased on 1-4-12 :

		₹
	Cost price of machine purchased on 1-4-12	70,000
(–)	Depreciation of first year at 10 %	7000
	Book value of machine on 1-4-13 (Opening balance)	63,000
(–)	Depreciation of second year at 10 %	6300
	Book value of machine on 1-4-14 (Opening balance)	56,700
(–)	Depreciation of third year at 10 %	5670
∴	Book value of machine on 31-3-15	51,030

(2) Computation of depreciation on second machine purchased on 1-10-12 :

		₹
	Purchase of machine on 1-10-12	40,000
(–)	Depreciation of first year of six months	2000
	Book value of machine on 1-4-13 (Opening balance)	38,000
(–)	Depreciation of second year	3800
	Book value of machine on 1-4-14 (Opening balance)	34,200
(–)	Depreciation upto 31-1-15 for 10 months = $\frac{34,200 \quad 10 \quad 10}{100 \quad 12}$	2850
∴	Book value of machine on 31-3-15	31,350
(+)	20 % profit on 31,350 = $\frac{31,350 \quad 20}{100}$	6270
∴	Selling price of machine	37,620

Total Ledger of Yusuf Dodawala Corporation

Machine Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
1-4-12	To bank A/c		70,000	31-3-13	By depreciation A/c (7000 + 2000)		9000
1-10-12	To bank A/c		40,000	31-3-13	By balance c/d		1,01,000
			1,10,000				**1,10,000**
1-4-13	To balance b/d (63,000 + 38,000)		1,01,000	31-3-14	By depreciation A/c (6300 + 3800)		10,100
				31-3-14	By balance c/d (56,700 + 34,200)		90,900
			1,01,000				**1,01,000**
1-4-14	To balance b/d		90,900	31-1-15	By depreciation A/c (sold)		2850
31-1-15	To P & L A/c (Profit on sale of machine)		6270	31-1-15	By bank A/c (sold)		37,620
				31-3-15	By depreciation (on remaining machine)		5670
				31-3-15	By balance c/d		51,030
			97,170				**97,170**

Accounting Effect in Annual Accounts

Profit and Loss Account for the Year Ending 31-3-2013

Dr | | | Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To machine depreciation	9000		

Balance Sheet as at 31-3-13

Capital-Liabilities	Amt. (₹)	Assets		Amt. (₹)
		Machine	1,10,000	
		− Depreciation	9000	1,01,000

Illustration 18 : On 1-4-14 in the books of Riya Industries balance of machine account was on ₹ 24,000. This machine was purchased six years back. Every year, company charges depreciation at 10 % under straight line method. On 30-9-14 this was sold at 30 % loss of book value. From the above information pass journal entries in the books of company and prepare machine account.

Ans. : Necessary calculation and explanation :

(1) **Ascertain cost price of machine :**

Under straight line method annual amount of depreciation is charged on cost price of asset. Thus, first of all cost price of machine will be ascertained as follows :

		₹
	Assume before six years cost price of machine was	100
(−)	Depreciation at 10 % for six years, total depreciation (10 × 6)	60
	Balance of machine account on 1-4-14	40

If book value ₹ 40 = cost price ₹ 100

∴ If book value ₹ 24,000 = cost price (?)

$= \frac{24,000 \quad 100}{40}$ = ₹ 60,000 cost price of machine

∴ Every year at 10 % on ₹ 60,000 = ₹ 6000 will be annual depreciation.

(2) **Ascertain selling price of machine :**

		₹
	Opening balance of machine on 1-4-14	24,000
(−)	Depreciation at 10 % for six month upto 30-9-14	3000
∴	Book value of machine on 30-9-14	21,000
(−)	30 % loss on book value $\left(\frac{21,000 \quad 30}{100}\right)$	6300
∴	Selling price of machine sold	14,700

Journal Entry in the Books of Riya Industries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
30-9-14	Depreciation A/c Dr To machine A/c (Being depreciation of ₹ 3000 is recorded.)		3000	 3000
30-9-14	Bank A/c Dr To machine A/c (Being machine of ₹ 21,000 is sold at loss of 30 %)		14,700	 14,700
30-9-14	Loss on sale of machine A/c Dr To machine A/c (Being loss on sale of machine is recorded.)		6300	 6300
31-3-15	Profit and Loss A/c Dr To depreciation A/c To loss on sale of machine A/c (Being depreciation of ₹ 3000 and loss on sale of machine ₹ 6300, transferred to P & L A/c.)		9300	 3000 6300
	Total		**33,300**	**33,300**

Ledger of Riya Industries

Machine Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
1-4-14	To balance b/d		24,000	30-9-14	By depreciation A/c		3000
				30-9-14	By bank A/c (Sale)		14,700
				30-9-14	By loss on sale of machine A/c (Loss)		6300
			24,000				**24,000**

Illustration 19 : On 1-4-14 in the books of Vijay & Company, balance of machine account was of ₹ 87,480. This machine was purchased 3 years back. Depreciation on machine is charged at 10 % every year under reducing balance method. Ascertain the cost price of machine and annual amount of depreciation as on 31-3-15.

Ans. : Necessary calculation and explanation :

(1) Assume before three years on 1-4-11 cost price of machine is ₹ 100.

		₹
	Cost price of machine on 1-4-11	100
(–)	Depreciation of first year at 10 %	10
∴	Opening balance of machine on 1-4-12	90
(–)	Depreciation of second year at 10 %	9
∴	Opening balance of machine on 1-4-13	81
(–)	Depreciation of three year at 10 %	8.1
∴	Opening balance of machine on 1-4-14	72.90

If balance of machine is ₹ 72.90 = Cost price of machine ₹ 100

∴ Balance of machine is ₹ 87,480 = Cost price of machine ₹ (?)

$$= \frac{87,480 \times 100}{72.9} = ₹\ 1,20,000 \text{ cost price of machine}$$

∴ Cost price of machine ₹ 1,20,000

(2) **Annual depreciation amount on 31-3-15 :**

$$= \frac{\text{Opening balance of machine} \times \text{Depreciation rate}}{100} = \frac{87,480 \quad 10}{100} = ₹\ 8748$$

∴ Annual depreciation amount ₹ 8748

Illustration 20 : In the books of Joseph Limited, balance of machine account was ₹ 1,10,000 on 1-4-14. Every year company charges depreciation at 5 % on reducing balance method. On 30-9-14 this machine is sold at a loss of 30 % on book value. From the above information pass necessary journal entries and prepare machine account in the books of company.

Ans. : Necessary calculation and explanation :

Ascertain selling price of machine :

		₹
	Book value of machine on 1-4-14	1,10,000
(–)	Depreciation at 5 % for six months upto 30-9-14 = $\frac{1,10,000 \quad 5 \quad 6}{100 \quad 12}$	2750
∴	Depreciation cost (book value) 30-9-14	1,07,250
(–)	Sale at loss of 30 % of 1,07,250	32,175
∴	Selling price of machine	75,075

Journal Entry of Joseph Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
30-9-14	Depreciation A/c Dr		2750	
	To machine A/c			2750
	(Being depreciation of ₹ 2750 is charged.)			
30-9-14	Bank A/c Dr		75,075	
	To machine A/c			75,075
	(Being machine of book value of ₹ 1,07,250 sold at 30 % loss)			
30-9-14	Loss on sale of machinery A/c Dr		32,175	
	To machine A/c			32,175
	(Being loss on sale of machine ₹ 32,175 is transferred to loss on sale of machine A/c.)			
31-3-15	Profit and Loss A/c Dr		34,925	
	To depreciation A/c			2750
	To loss on sale of machinery A/c			32,175
	(Being depreciation of ₹ 2750 and loss on sale of machine ₹ 32,175 are transferred to profit and loss account.)			
	Total		**1,44,925**	**1,44,925**

Ledger of Joseph Limited

Machine Account

Dr | Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
1-4-14	To balance b/d		1,10,000	30-9-14	By depreciation A/c		2750
				30-9-14	By bank A/c (sale of machine)		75,075
				30-9-14	By P & L A/c (Loss)		32,175
			1,10,000				**1,10,000**

Exercise

1. Select correct option for each question :

(1) Depreciation is what kind of expense of business ?
(a) Capital (b) Revenue
(c) Capital and Revenue (d) Fictitious

(2) On which price of asset, depreciation is calculated under straight line method ?
(a) Book value (b) Depreciated price
(c) Selling price (d) Cost price

(3) Depreciation indicates .... in useful value of assets.
(a) Increase (b) Reduction
(c) Increase-reduction (d) None of the above three

(4) Under which method the annual amount of depreciation remains identical ?
(a) Straight line method (b) Reducing balance method
(c) Revaluation method (d) Mileage method

(5) Which of the following asset is not depreciable ?
(a) Building (b) Furniture
(c) Machines (d) Land

(6) Under which method of depreciation, value of asset never becomes zero ?
(a) Reducing balance method (b) Annuity method
(c) Depletion unit method (d) Equal instalment method

(7) Under which method of depreciation, balance is maintained between depreciation amount and repairing expense ?
(a) Machine hour method (b) Compound interest method
(c) Reducing balance method (d) Straight line method

(8) To which of the following depreciation is applicable ?
(a) Capital (b) Sales
(c) Liabilities (d) None of the above three

(9) Which of the following expense is not paid in cash ?

(a) Rent (b) Commission

(c) Salary (d) Depreciation

(10) Where does the loss on sale of machine will be recorded ?

(a) Credit side of machine account (b) Debit side of machine account

(c) Credit side of depreciation account (d) Debit side of depreciation account

2. Answer the following question in one sentence :

(1) Under which method annual amount of depreciation reduces every year ?

(2) What are depreciable assets ?

(3) Explain the meaning of depreciation.

(4) On which assets of business, depreciation is calculated ?

(5) Write journal entry to transfer depreciation to profit and loss account at the end of the year.

(6) Write the formula to determine the depreciation rate under equal instalment method.

(7) Describe different methods to record depreciation on assets from the view point of accounting.

(8) Which account is credited to record depreciation under depreciation provision method ?

(9) Where and how depreciation is disclosed in the balance sheet ?

(10) To which account and side, profit on sale of asset is recorded ?

3. Answer the following question in brief :

(1) One machine was purchased on 1-4-08. On 1-4-14 the opening balance of machine account is ₹ 28,000. Depreciation on machine is charged at 10 % under straight line method. Write journal entry for depreciation on 31-3-15.

(2) One machine was purchased on 1-4-13 for ₹ 30,000. Depreciation on machine is charged at 10 % under reducing balance method. Write journal entry for depreciation on 31-3-15.

(3) On 1-4-14 book value of machine was ₹ 34,000. Depreciation is calculated at 20 % under reducing balance method. This machine was sold at 35 % profit on book value on 30-9-2014. From this information write journal entry for sale of machine.

(4) Hiral Limited charges depreciation on its assets at 5 % under straight line method. If annual depreciation amount is ₹ 6000, determine cost price of machines.

(5) Sarvesh Limited has purchased a machine on 1-4-13. By charging depreciation at 10 % under reducing balance method, ₹ 3240 is recorded as depreciation on 31-3-15, determine cost price of machine.

4. Answer the following question to the point :

(1) Explain the meaning of depreciation and describe its characteristics.

(2) What are the objectives for charging depreciation ?

(3) Define depreciation and discuss factors of depreciation.

(4) Explain the factors in detail to be kept in mind to determine annual amount of depreciation and rate of depreciation.

(5) What are depreciable assets ? Give its explanation and list out depreciable assets.

(6) Write short-note : (a) Equal instalment method

(b) Reducing balance method

(7) Give difference : Equal instalment method and reducing balance method

(8) Explain, different methods for recording of depreciation in books of accounts.

5. Answer the following questions as directed :

(1) Suresh Limited has purchased machine for ₹ 63,600 on 1-4-2012. Installation expense of machine was incurred ₹ 1000. If scrap value is estimated to be ₹ 14,600 after its estimated life of 8 years, determine annual amount of depreciation and annual rate of depreciation. Accounting year of company ends on 31st March. Write journal entries for first three years and also prepare machine account and depreciation account. Show accounting effect in annual accounts of first year. Company charges depreciation under straight line method of depreciation.

(2) On 1-4-13 Hansa Limited has balance in machine account in its books of ₹ 36,000. This machine was purchased seven years back. This machine was sold at 30 % profit of its book value on 31-3-14. Every year company charges depreciation at 10 % under straight line method. From the above information pass necessary journal entries and prepare machine account.

(3) On 1-4-12, Harun Dodawala Industry has purchased machine for ₹ 2,75,000. The installation expense of this machine was ₹ 15,000 and carriage was ₹ 10,000. Company provides depreciation at 8 % every year under straight line method. This machine was sold at 20 % loss of book value on 31-3-15. Pass journal entires for three years and machine account for three years.

(4) Kaushik Corporation has purchased machine for ₹ 1,24,000 on 1-4-12. The carriage and installation expense of this machine was ₹ 16,000. The repairing expense of ₹ 20,000 was incurred before putting this machine for production. On 1-10-13 second machine was purchased for ₹ 1,36,000, its installation expense was of ₹ 8000. First machine was sold on 30-9-14 at 40 % loss of book value.

Prepare machines account upto 31-3-15 and show its accounting effect in the annual accounts of 2012-13. Company provides depreciation on machines at 10 % every year under straight line method.

(5) Machine account shows balance of ₹ 60,000 in the books of Mehta Limited on 1-4-12. This machine was purchased five years back. Till today, total depreciation written off on this machine was of ₹ 20,000. On 1-1-14 second machine was purchased for ₹ 12,000.

Second machine was not found suitable, and sold at 10 % loss of book value on 31-12-14. Every year company provides depreciation at 5 % under straight line method.

From the above information prepare machine account and depreciation account in the books of company upto 31-3-15.

(6) Raj Kumar Limited had purchased some machines for ₹ 82,000 on 1-4-2012. The installation expense of this machine was of ₹ 8000. On 1-10-14 company purchased another machines

for ₹ 70,000 and their installation expense was of ₹ 2000. Company provides depreciation at 10 % every year under straight line method. 30 % machines from first purchase were sold at 20 % profit of book value on 31-3-15.

From the above information prepeare machines account upto 31-3-15 as well as show accounting effect in annual accounts of each year.

(7) Sharma Limited has purchased a machine for ₹ 67,000 on 1-4-12. Installation expense of this machine was ₹ 3000. Depreciation is to be provided at 10 % every year under reducing balance method.

Ascertain amount of depreciation, pass journal entries and prepare machine account and depreciation account for first three years. Show accounting effect in annual accounts of first two years.

(8) Machine account shows balance of ₹ 60,000 in the books of Betul & Company on 1-4-14. Company provides depreciation at 10 % every year under reducing balance method. This machine was sold at 25 % loss on book value on 1-10-14.

From the above information pass necessary journal entries and prepare machine account to the books of company.

(9) Sudhanshu Limited has purchased one machine for ₹ 22,200 on 1-4-12, its installation expense was of ₹ 1800. Another second machine was purchased on 1-10-13 for ₹ 20,400 and its installation expense paid ₹ 1200. Every year, company provides depreciation at 10 % under reducing balance method. On 31-3-15 first machine was sold at 20 % loss of its book value.

From the above information pass journal entries for first year and prepare Machine account for first three years in the books of company.

(10) Bhalchandra Manufacturing Limited has purchased one machine for ₹ 73,000 on 1-4-2012. It's installation expense was of ₹ 2000. It was decided to provide depreciation at 8 % under straight line method. Company records depreciation by creating depreciation provision.

From the above information pass journal entries, prepare depreciation provision account, depreciation account for first two years in the books of company.

(11) Jenet Limited has purchased one machine for ₹ 78,000 on 1-4-2013. It's installation expense was of ₹ 2000. On this machine depreciation is to be provided at 10 % under reducing balance method. This depreciation is to be recorded by creating depreciation provision account (Accumulated depreciation account).

From the given information, pass journal entries of first two years and show its accounting effect in annual accounts of first two years in the books of company.

3

Provisions and Reserves

1. Introduction

Certain accounting concepts, principles and conventions are followed while recording business transactions in the books of accounts and preparing final accounts. Going concern is a basic assumption among these accounting concepts, principles and conventions. As per this assumption, it is assumed that the existence of firm will be continued for a considerable long period and the firm will not be dissolved within near future or business transactions will not be curtailed considerably. To continue the existence of the firm it is quite essential that financial position of the firm must be very sound. For this purpose, some amount from profit is appropriated and transferred to reserve, so that the firm can exist even in adverse situation and can grow also. To fulfill this objective, the principle of prudence is also followed in accounts. As per this principle a part of the profit of business is kept a side and transferred to provision in advance to protect the business from future probable expenses or losses. Thus reserves and provisions enhance long term financial soundness of the business and protects the business against contengencies. In this chapter we will study reserves and provisions in detail.

2. Meaning, Characteristics and Importance of Provision

(1) **Meaning of provision :** Provision means an amount appropriated from profit to honor probable liabilities which can be identified but the amount of which can not ascertained accurately. e.g. Provision for depreciation, provision for bad debt, provision for repairs and renewals, provision for taxation, provident fund, pension fund, workers profit sharing fund, provision for voluntary retirement scheme etc.

Thus, provision is different from liability. Amount of liability is fixed and it is sure to pay. While provision is an amount appropriated from profit for probable expenses or losses for which the amount can not be ascertained accurately.

Following accounting entry is passed for provision :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Profit and Loss A/c Dr To bad debts reserve A/c To provision for depreciation A/c To provision for taxation A/c			

(2) **Characteristics of Provision :** Characteristics of provision are as under :

(i) Provision is an amount appropriated from profit or income for specific purpose.

(ii) Provision is an amount appropriated from profit for probables expenses or losses or liabilities for which the amount can not be determined accurately.

(iii) Provision is appropriated out of profit and loss account.

(3) **Importance of Provision :** Importance of provision is as under :

(i) Provision is made for probable expense, loss and liability of respective year and therefore it is appropriated out of the revenue of the same year and hence true profit or loss of the business can be ascertained.

(ii) Provision is made to prevent impact of transactions made during the year on the financial performance in future.

(iii) Known liability of future can be spread evenly over certain years by making provision.

(iv) Assumption of going concern and principle of prudence can be followed by making provision.

(v) If provision is not made against decrease in the value of assets in future the capital of the business may be wiped off. Such risk can be avoided by making provision.

(vi) Required funds can be managed by making provision of a certain amount every year out of the profit. On the expiry of the useful life of an asset, the managed funds can be used to purchase new assets.

3. Meaning, Characteristics and Importance of Reserve

(1) **Meaning of Reserve :** An amount appropriated out of profit to increase financial soundness of the business or to meet with contingent loss or liability in future is called as Reserve. Reserve is an appropriation and it is created out of profit and loss appropriation account. Reserve may be for a specific purpose or for solvency of the business also. e.g. General reserve, dividend equilization fund, workers accident compensation fund, debenture redemption fund, investment fluctuation reserve, capital redemption reserve etc.

(2) **Characteristics of Reserve :** Characteristics of reserve are as under :

(i) Reserve is created for financial soundness of the business, for growth of the business or to meet with contingent requirements of business.

(ii) Reserve is created out of profit and loss appropriation account.

(iii) Certain reserves are created to meet with statutory requirements.

(3) **Importance of Reserve :** Importance of creating reserve is as under :

(i) Required funds for expansion of the business is available from profit of the business only and hence there is no need to borrow funds from outside or proprietor does not require to contribute more capital for growth and expansion of business.

(ii) Financial solvency of the firm increases by transferring some amount out of profit to reserves.

(iii) Uncertain or contingent expenses or losses can be met if there is sufficient reserve in the business.

(iv) Reserves can be used to honor long term liabilities.

(v) Company can maintain dividend year after year by using reserves.

(vi) Reserves are created to fulfill some of the statutory requirements.

4. Types of Reserves

Main types of reserves are as under :

Reserve

Revenue Reserve — Capital Reserve

(a) General Reserve

(b) Specific Reserve

(c) Secret Reserve

(1) **Revenue Reserve :** Profit generated out of purchase and sale of goods and other regular activities of business is called as revenue profit. The reserve created out of such revenue profit is called as **revenue reserve**. Revenue reserve is very useful to increase financial soundness of business. Moreover revenue reserves can also be used to pay contingent expenses or losses of the business. Revenue reserve can be classified into three catagories like General reserve, Specific reserve and Secret reserve.

(a) **General Reserve :** The purpose of creating general reserve is to increase financial soundness of the business. Its purpose is not specific. Therefore it can be used to meet with contingent expenses or losses, distribution of dividend, issue of bonus shares and for future growth of the business. Thus general reserve is a helping hand for business in contingencies. General reserve is created out of profit and loss appropriation account, for which following accounting entry is passed.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Profit and loss appropriation A/c Dr To general reserve A/c			

(b) **Specific Reserve :** When a revenue reserve is created out of profit and loss appropriation account for specificd purpose is known as **Specific Reserve**. The purpose of such reserve may be to distribute dividend of shareholders or for redeeming debentures on maturity or to compensate loss against probable decrease in the value of investment or to pay compensation at the time of accident to workers. Thus such reserve is used for the same purpose for which it is created. The most important point about this reserve is that the balance of specific reserve after serving its purpose is transferred to general reserve.

Following accounting entry is passed while creating specific reserve.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Profit and loss appropriation A/c Dr To dividend equilization fund A/c To debenture redemption fund A/c To investment fluctuation fund A/c To workers accident compensation fund A/c			

Examples of specific reserves are as under :

(i) **Dividend equilization fund :** The purpose of creating this reserve is to distribute dividend to shareholders in the year in which the profit is not sufficient or even to maintain dividend in the year of loss.

(ii) **Debenture redemption reserve or debenture redemption fund :** Debenture is a long term debt for the company, which is to be repaid on expiry of its period. For the purpose of redeeming debentures out of profit, a specific amount is appropriated from profit every year and transferred to debenture redemption fund (reserve), and the balance of debenture redemption fund, is transferred to general reserve after redeeming debentures.

(iii) **Investment fluctuation fund :** When market value of investments is already reduced or there is possibility of reduction in the market price, some amount is transferred to investment fluctuation fund out of profit. After sale of investments, a loss amount on this investment deducted from this reserve and balance amouint of investment fluctuation fund, is transferred to general reserve.

(iv) **Workers accident compensation reserve or workers accident compensation fund :** This reserve is created to compensate workers or employees when they meet with an accident during working hours.

(v) **Sinking fund :** The reserve which is created out of profit for the purpose of the payment of long term debt or regular payment of interest or purchase of fixed assets is called as sinking fund. e.g. Depreciation fund for purchase of fixed asset, debenture redemption reserve for redeeming debentures.

Effect in Balance Sheet : General reserve and specific reserves are shown in the balance sheet under the heading of Reserves and Surplus on liabilities side.

(c) Secret Reserve : The reserve created without showing in profit and loss account for the purpose of strengthening financial position of the business is known as Secret Reserve. This is the reserve, of which the existence and amount is not shown in balance sheet and profit and loss appropriation account. Secret reserve is also known a internal reserve. Secret reserve can be created as follows :

(i) By making more provisions for depreciation

(ii) By undervaluing closing stock

(iii) By making more provision for bad debt and contingencies than required.

(iv) By recording capital expenditure in profit and loss account.

(v) By showing contingent liability as actual liability.

(vi) By showing more expenses than actual.

Generally secret reserve can not be created except certain exceptions.

(2) Capital Reserve : The reserve which is created out of capital profit and can not be used for distribution of dividend is known as capital reserve.

Following are the sources of capital reserve :

(i) Profit on sale of fixed assets and investments.

(ii) Profit on revaluation of fixed assets.

(iii) Premium received by the company on issue of shares or debentures.

(iv) Balance of share for feiture account after reissue of shares forfeited by the company.

(v) Profit prior to incorporation of the company.

(vi) Capital redemption reserve for redeeming preference shares.

(vii) Profit on redemption of debentures at discount.

Use of Capital Reserve :

Capital reserve can be used for the following purposes :

(i) To write off loss on sale of fixed assets.

(ii) To write off intangible assets like goodwill and fictitious assets like preliminary expenses, discount on issue of debentures, etc.

(iii) For distribution of bonus shares, if there is provision in Articles of Association of the company.

5. Reserve Fund

Generally the amount of general reserve remains in the business as working capital but if the amount of this reserve is invested outside the business, it is known as reserve fund. Such investments are made in securities which can be easily converted into cash. The company makes investment of reserve outside the business in securities only under following circumstances.

(i) When it is not possible to employ funds in the business profitably.

(ii) When there is need of a specific amount on some specific future date.

6. Difference Between General Reserve and Provision

The difference between general reserve and provision is as follows :

Point of difference	General Reserve	Provision
Purpose	The purpose of creating general reserve is to increase financial soundness of the business or to meet with contingent expenses.	Provision is made for special purpose of meeting with known probable liability or losses. e.g. Provision for depreciation, provision for bad debts.
From which account it is appropriated	General reserve is created out of profit and loss appropriation account.	Provision is created out of profit and loss account.
Voluntary or Mandatory	An amount is appropriated to general reserve only if there is profit at the end of an accounting year and it is voluntary.	Provision is made even if there is loss at the end of an accounting year.
Use	General reserve can be used for any purpose.	Provision can be used only for the purpose for which it is created.
Investment	General reserve can be invested in the business or outside the business.	Provision can not be invested in the business or outside the business.

Point of difference	General Reserve	Provisions
Dividend	General reserve can be used for distribution of dividend.	Provision can not be used for the distribution of dividend.
Presentation in accounts	General reserve is shown in balance sheet on liabilities side under the heading of 'Reserves and Surplus'.	Provision is shown in balance sheet on liabilities side. Provision against an asset is shown by deducting from respective asset on assets side.

7. Difference Between General Reserve and Capital Reserve

The difference between general reserve and capital reserve is as under :

Point of difference	General Reserve	Capital Reserve
From which account it is appropriated	General reserve is appropriated out of profit and loss appropriation account.	Capital reserve arises out of capital profit. The amount of capital profit is transferred to capital reserve.
Use	General reserve can be used for any purpose like for the growth of the business or for distribution of dividend or to meet with contingent requirements.	Capital reserve can be used to write off loss on sale or revaluation of fixed assets or to write off intangible and fictitious assets like goodwill, preliminary expenses, discount on issue of debentures.
Dividend	General reserve can be used for distribution of dividend.	Generally, capital reserve can not be used for distribution of dividend. Dividend can be paid out of capital reserve only under specific circumstances subject to certain canditions.
Bonus Shares	General reserve can be used for distribution of bonus shares to share holders.	Generally capital reserve can not be used for distribution of bonus shares. It can be used only if there is provision in Articles of Association of the company and that too subject to certain conditions.

Exercise

1. Select appropriate alternative for each question :

(1) General reserve is created by debiting .... account.

(a) Profit and loss account (b) Profit and loss appropriation account

(c) Trading account (d) Capital account

(2) Provision is created out of .... account.

(a) Profit and loss account (b) Profit and loss appropriation account

(c) Trading account (d) Capital account

(3) .... account shows that reserves are invested outside the business.

(a) General reserve (b) Provision

(c) Reserve fund (d) Capital reserve

(4) .... balance is generally not used for distribution of dividend.

(a) General reserve (b) Provision

(c) Reserve fund (d) Capital reserve

(5) .... is not advisable to create for business.

(a) General reserve (b) Provision

(c) Secret reserve (d) Capital reserve

2. Answer the following questions in one line :

(1) State types of reserves.

(2) What is reserve fund ?

(3) What is secret reserve ?

(4) Which reserve is used to write off loss on sale of fixed assets ?

(5) Give four illustrations of capital reserve.

(6) Give four illustrations of provision.

3. Balances mentioned below are appropriated from profit. State whether it is reserve or provision :

(1) Bad debts reserve (2) Debenture redemption fund

(3) Depreciation fund (4) Workers accident compensation fund

(5) Discount reserve on debtors (6) Dividend equilization fund

(7) Capital reserve (8) Workers profit sharing fund

(9) General reserve (10) Capital redemption reserve

4. Answer the following questions in two or three lines :

(1) What is provision ?

(2) State the characteristics of provision.

(3) What is the importance of provision ?

(4) Give the meaning of reserve.

(5) What is the importance of reserve in business ?

5. Answer the following questions :

(1) Clarify the importance of provision.

(2) Why a reserve is created in business ?

(3) What is specific reserve ? State its types.

(4) How the secret reserve is created ?

(5) What is capital reserve ? State its uses.

6. Distinguish between :

(1) General reserve and Provision

(2) General reserve and Capital reserve

4

Bills of Exchange

1. Introduction

Generally, there are two types of financial transactions in any types of business : (1) Cash transactions and (2) Credit transactions. Cash transactions are those transactions where there is an immediate give or take of cash. e.g. Cash purchase transactions, cash sales transactions etc. Credit transactions are those transactions where cash is not paid immediately but it is payable during a specific period subject to the conditions agreed at the time of the transaction. e.g. Credit purchase transactions, credit sales transactions etc. In such transactions, the payment of the amount depends on the credit period. The credit period depends on the type of business, current situation, mutual understanding and conditions of the opposite party and the amount of the transactions.

In present times, with the increase in the numbers and size of the business, the number of credit transactions and its importance are also increasing day-by-day. If the payment of the amount of goods given in credit is not received on time, many times businessmen have to face financial problems and it is also effected on their other transactions. Hence, each businessmen wishes to receive the amount of a credit transaction in time. To maintain the financial liquidity, normally businessmen uses a document through which, the person from whom an amount is receivable, accepts his debt in writing and states the time of payment of the amount; or accepts to pay at the time stated in the document. If the debtor fails to pay the amount, this document can be used as a written evidence of the dues.

In this way, the documents which are used, are of two types : (1) Bills of Exchange and (2) Promissory Notes.

2. Meaning and Definition of Bill of Exchange

The definition of a bill of exchange as per the Indian Negotiable Instruments Act, 1881 is as follows :

"A bill of exchange is an instrument in writing containing an unconditional order, signed by the drawer, directing a certain person to pay a certain sum of money only at a specified time to a certain person or according to his order or to the holder of the instrument."

Bill of exchange is also called letter of exchange.

3. Characteristics of Bill of Exchange

Whether any bill is acceptable (legally) or not, it can be known from its characteristics or essential elements.

(1) **In writing :** A bill must be in writing, so an oral order can not be called a bill.

(2) **Unconditional order :** The order made in the bill must be unconditional. This means there should not be any condition for the payment of money. This order should not in the form of request.

(3) **Specific person :** The bill must be addressed to a specific person.

(4) **Bill acceptor and amount receiver :** In a bill, the bill acceptor and amount receiver both are seperate persons. Therefore, their names must be clear and both should be specific persons.

(5) **Order for the payment :** The order must only be for the payment of Indian money, not for a product or consideration of money.

(6) **Definite amount :** The amount shown in the bill must be clear and definite.

(7) **Clear date :** The date of writing the bill must be clear.

(8) **Definite duration :** The duration of the bill must be definite.

(9) **Signature of the person :** The bill must contain the signature of the person who is writing (drawing) the bill.

(10) **Revenue stamp :** Revenue (adhesive) stamp of the prescribed amount must be affixed on the bill depending on the amount of the bill.

(11) **On demand or after specified time :** The payment of the bill is done on the demand of the drawer or after the specified time.

(12) **Acceptance of the bill :** The bill becomes operative only after it is accepted by the person on whom it is drawn.

4. Different parties in a Bill of Exchange

There are three parties in bill of exchange :

(1) **Drawer of the bill :** Generally, he is the creditor or the trader selling the goods.

(2) **Acceptor of the bill :** Generally, he is the debtor or the customer purchasing the goods.

(3) **Payee of the bill :** Generally, he is the drawer of the bill or the person who is going to receive the money or the person who holds the bill.

In some situations, when the drawer and the payee, both are the same, then there are only two parties : (1) Drawer / Payee / Holder of the bill (2) Acceptor of the bill.

Normally, a bill is drawn by a creditor on his debtor, which is accepted by the debtor and returned back to his creditor.

5. Specimen of Bill of Exchange

Mitramilan Society,
₹ 10,000 Naranpura, Ahmedabad-13
Date : 9-8-2016

For the value received by you, pay Rupees Ten thousand only to Ritesh or as per his order after three months from today.

To, Shri Dhaval Sargam Flats, Jodhpur, Ahmedabad	(Dhaval) Signature of the acceptor	(Kaveesh) Signature of the drawer	Revenue Stamp

From the above specimen of Bill of Exchange understand the details of the bill.

(1) **Definite person :** In the bill each person must be definite individuals. Here, Kaveesh is drawer while Dhaval is acceptor and Ritesh is receiver.

(2) **Amount :** The amount payable by the acceptor must be clearly shown in the bill. In the specimen, the amount is shown both in figures and words.

(3) **Date :** The date on which the bill is drawn is shown in the bill. In the specimen, the date of the bill is 9-8-2016.

(4) **Period :** The period after which the amount is payable, that period must be shown clearly in the bill. In the specimen given above, the period is three months.

(5) **Signature :** The bill must contain the signature of two persons - the drawer and the acceptor. In the specimen, the signature of Kaveesh as the drawer of the bill and the signature of Dhaval as the acceptor of the bill.

(6) **Revenue Stamp :** In order to recognise a bill legally, it is necessary to affix a revenue stamp in the proportion of the amount of the bill. A document without a revenue stamp cannot be considered legal.

6. Meaning and Definition of Promissory Note

Generally a creditor draws a bill on his debtor for receiving his dues. Along with a bill, another document is also used for settling the accounts. This document is known as a promissory note.

In a promissory note, a person who has to pay an amount to another person, himself gives a written promise to pay the amount. This means, a debtor himself gives a written promise to the creditor to pay the amount. This promise (document) is known as a **promissory note**.

The definition of a promissory note as per the Indian Negotiable Instruments Act 1881 is as follows :

"A promissory note is an instrument in writing containing an unconditional under taking, signed by the drawer to pay a certain sum of money only at a specified time to a certain person or according to his order or to the holder of the instrument."

7. Characteristics of Promissory Note

(1) **In writing :** A promissory note must be in writing so an oral promise cannot be called a promissory note.

(2) **Certain amount :** The promissory note must contain a promise to pay certain amount.

(3) **Definite and clear :** The amount shown on the promissory note must be definite and clear.

(4) **Promise to pay money only :** The promissory note must contain a promise to pay money only, not a product or consideration of money.

(5) **Unconditional promise :** The promise to pay money made in the promissory note must be unconditional.

(6) **Drawer signature :** The promissory note must be drawn by a definite person and the drawer must put his signature on it.

(7) **Period and time :** The duration of the promissory note and the date of making the promissory note must be clearly stated.

(8) **Revenue stamp :** Revenue stamp of the prescribed amount must be affixed on the promissory note.

(9) **By jointly :** A promissory note can be drawn jointly by more than one person. In this case, each person becomes jointly and individually responsible for making the payment.

8. Different Parties of Promissory Note

Generally there are two parties to a promissory note.

(1) **Drawer or maker of the promissory note :** Generally, he is the debtor.

(2) **Payee or person receiving the money :** Generally, he is the creditor or the holder of the promissory note.

9. Specimen of Promissory Note

Shop no. 21,
Akshat Flat, Bhuyangdev,
Ahmedabad
Date : 21-1-2016

₹ 12,000

I promise to pay Rupees Twelve thousands only to Sanjaybhai Patel or as per his order after two months from today, for the value received.

Revenue Stamp

To,
Sanjaybhai Patel
Ranip, Ahmedabad

Suresh Patel

From the above specimen of promissory note understand the details of the promissory note.

(1) **Definite person :** Drawer of the promissory note and receiver of the amount must be definite person in the promissory note. Here Suresh Patel is drawer and Sanjaybhai Patel is receiver.

(2) **Date :** Generally the date on with the promissory note is made (drawn), the same date is to be shown on the note. Here date of promissory note drawn is 21-1-2016.

(3) **Amount :** The amount payable by the maker should be clearly stated in the promissory note. Here ₹ 12,000 is shown both in figures and words.

(4) **Period :** The period after which the amount is payable should be clearly shown in the promissory note. In the specimen, the period of promissory note is two months.

(5) **Signature :** It is necessary that the promissory note is signed by its maker in order to make the note a legally valid document. In the specimen, Suresh Patel is the maker of the promissory note, so his signature on the note is essential.

(6) **Revenue stamp :** In order to recognise a promissory note legally, it is necessary to affix a revenue stamp in the proportion of the amount of the note. A document without a revenue stamp cannot be considered legal.

10. Difference Between Bill of Exchange and Promissory Note

No.	Points	Bill of Exchange	Promissory Note
(1)	**Order or promise**	A bill of exchange is an unconditional order to pay money.	A promissory note is an unconditional promise to pay money.
(2)	**Who draws on whom**	A bill is drawn by a creditor on his debtor.	A promissory note is made by a debtor and sent to his creditor.

No.	Points	Bill of Exchange	Promissory Note
(3)	**Parties**	There are three parties to a bill. Drawer of the bill, acceptor of bill and receiver of money.	There are two parties to a promissory note. Maker of the note and receiver of the money.
(4)	**Need for acceptance**	A bill does not become operative unless it is accepted by the person on whom it is drawn.	There is no need for acceptance of a promissory note as it is made by the debtor himself.
(5)	**Responsibility of payment**	The acceptor of a bill is responsible for making the payment. If the acceptor becomes insolvent, then in case of bill endorsed, the drawer may also become liable.	Responsibility to pay the amount of the promissory note is that of the drawer.
(6)	**Days of grace**	Three days of grace are allowed after the period of the bill to pay the amount.	No days of grace are allowed in case of promissory note.
(7)	**Dishonour**	When the acceptor of a bill fails to pay the money on the maturity date it is known as dishonour of the bill. Notice to be issued in case of dishonour of the bill.	There is no need of notice for the dishonour of a promissory note.
(8)	**Accommodation bills**	There can be accommodation bills.	There are no accommodation promissory notes.
(9)	**Condition**	Any common person or trader can draw a bill with the condition "Payment to bearer on demand".	Only the Reserve Bank of India can issue a promissory note with the condition "Payable to bearer on demand". i.e. Currency note.

11. Bills Receivable and Bills Payable

A bill is mainly known in two ways : (1) Bills Receivable and (2) Bills Payable.

A person or trader who has to receive money from other person or customer, draws a bill on that person or customer. The person or customer on whom the bill is drawn accepts this bill. Here, it is a bill receivable for the person who draws the bill and it is a bill payable for the person who accepts the bill. This means it is a bill receivable for the creditor and a bill payable for the debtor. e.g. Kamal has to receive ₹ 30,000 from Girish. Here, Kamal would draw a bill of ₹ 30,000 on Girish and Girish would accept the same. This bill is a bill receivable for Kamal and bill payable for Girish. After accepting the bill, the drawee (acceptor) of the bill, returns the bill to the drawer of the bill.

A bill receivable is an asset for the drawer of the bill whereas a bill payable is a liability for the drawee (acceptor) of the bill. If the drawer of the bill and the payee are both the same person, then it is a bill receivable for the drawer and a bill payable for the drawee (acceptor). But when the drawer of the bill and the payee are different persons, it is considered to be a bill receivable for the holder of the bill. In a balance sheet bill receivable shows as current asset while bill payable as current liabilities.

This details can be shown in the table format as given on the next page :

No.	Bills Receivable	Bills Payable
1.	It is drawn or made	It is accepted
2.	Current asset of the business.	Current liabilities of the business.
3.	Money is received in future.	Money is payable in future.
4.	Generally it is created from credit sale.	Generally is it created from credit purchase.

12. Terms of Bill, Due Date and Days of Grace

The date on which the bill is writen (or drawn) is shown in the bill. It's called **date of drawing the bill.**

Same period is allowed for the payment by the bills drawer to the bill acceptor, it's called **Terms of bill.** e.g. Two months bill, Three months bill etc. After the terms of bill, bill acceptor has to pay the amount which is shown in the bill to bill drawer. So, by adding the period of the bill to the date on which the bill is drawn is called **Due date** or **Maturity date of a bill**. e.g. The date of the bill drawn is 21-1-2016 and the period is three months. The due date of the bill is decided as under.

Date of drawing the bill : 21-1-2016

Period of bill : 3 months

Maturity date of a bill : 21-4-2016 (without days of grace)

In order to facilitate the payment of money in the transaction of bill, **three days of grace** are allowed. This means that three days of grace are added to the date which is derived after adding the period of the bill to the date of drawing the bill. This additional three days is called **days of grace**. After adding three days of grace on the maturity (due) date of a bill, a date which come is called **Due date (Maturity date) with days of grace.**

e.g. Date of drawing the bill : 21-1-2016

Period of bill : 3 months

Due date of the bill : 21-4-2016

Due date with days of grace : 24-4-2016 (21-4-2016 + 3 days (grace))

If the maturity date of a bill falls on a public holiday or on a Sunday, the preceding day is considered to be the maturity date of the bill. e.g. if the bill matures on 26th January, 25th January will be considered as the maturity date of the bill because 26th January is a public holiday.

If the payment of the bill cannot be made on the maturity date due to abnormal circumstances like natural calamities, curfew, riots, close down etc, the next working day after the maturity date will be considered as the maturity date.

If terms of bill is given in days instead of months, then number of days should be considered to decide maturity date.

e.g. Date of drawing the bill : 21-1-2016

Period of bill : 90 days

Find maturity date with days of grace for a bill ?

Jan. 2016 (31-21)	= 10 days
Feb. 2016	= 29 days
March 2016	= 31 days
April 2016	= 20 days (90 − 70)
	= 90 days

So that, maturity date of a bill is 20-4-2016 + 3 days of grace = 23-4-2016.

13. Bill at Sight and Bill after Dated

The main types of the bills are as under :

(1) **Bill payable immediately on demand or bill at sight :** The acceptor of the bill is required to pay the amount of the bill immediately whenever the person holding the bill demands the payment. Such a bill is known as a **bill at sight**. Here the acceptor of the bill has to pay the money immediately on the presentation of the bill. A bill in which the payment period is not stated is also considered to be a bill at sight.

(2) **Bill payable after a stipulated period or bill after dated :** The acceptor of the bill is required to pay the amount of the bill after a definite or stipulated period. Normally, such a bill becomes payable in one of the following ways :

(i) after the stated date at a definite time

(ii) after sight at a definite time

(iii) after the occurence of a particular event at a definite time

Since a definite period is allowed for the payment of the amount of the bill, it is also known as a **bill after dated**.

14. Disposal or Uses of a Bill

Normally there are three parties in a bill - the drawer, the acceptor and the payee. Mostly, the drawer of the bill and receiver of the money both are the same person. The possession of the bill remains with the drawer of the bill or the holder of the bill. The following alternatives are available to the person possessing the bill for the disposal or use of the bill :

Disposal or uses of the bill

→ (a) To keep the bill with one self upto the maturity date and collect the money on the maturity date.

→ (b) To discount the bill with a bank or a shroff before the maturity date.

→ (c) To endorse the bill before the maturity date.

→ (d) To send the bill for collection to a bank or a shroff.

Now, understand above four alternatives in detail :

(a) **To keep the bill with one self upto the maturity date and collect the money on the maturity date :** If the drawer of the bill or the holder of the bill does not need the money of the bill earlier than the maturity date; or if the period of the bill is very short, then that person keeps the bill with himself upto the maturity date and collect the money of the bill on the maturity date.

(b) **To discount the bill with a bank or a shroff before the maturity date :** If the holder of the bill is in need of money before the maturity date then the bill can be discounted with a bank or a shroff before its maturity date and money can be received immediately. For that the holder of the bill and the drawer of the bill must have a good credit in the market. The bank or shroff does not pay the entire amount of the bill, but deducts an amount of discount from the total amount and pays the remaining amount. This amount of discount is called **Discount of bills**. This is an income for a bank or a shroff, where as it is an expense for the holder of the bill.

Amount of discount on bill is depends on the amount of bill, terms of bill, time of discounting the bill, rate of discount etc.

e.g. There is a bill of ₹ 20,000 and the period of the bill is three months. The bill is drawn on 1-10-2016. If the bill is discounted on 4-10-2016 at 10 % per annum then,

Amount of discount = Amount of the bill × Rate of annual discount × period from the date of discounting the bill to the maturity date of the bill

$$= 20{,}000 \times \frac{10}{100} \times \frac{3}{12}$$

= ₹ 500

Here, the bank or the shroff will deduct the discount of ₹ 500 and pay the remaining amount (₹ 20,000 − ₹ 500) = ₹ 19,500 to the person discounting the bill.

Now, suppose the bill is discounted on 4-11-2016, instead of discounting immediately, then

Amount of discount = Amount of the bill × Rate of discount × period from the date of discounting the bill to the maturity date of the bill

$$= 20{,}000 \times \frac{10}{100} \times \frac{2}{12}$$

= ₹ 333.33

Here, the discount will be calculated for two months only. Here, the bank will pay ₹ 19666.67 (₹ 20,000 − ₹ 333.33) to the person who discounts the bill.

(c) To endorse the bill before the maturity date : Under the Indian Negotiable Instruments Act 1881, a bill of exchange is a negotiable instrument. It is a document which can be transferred easily. A person holding the bill can endorse a bill receivable in favour of his debt. However, the consent of the creditor is necessary. In order to transfer the bill, necessary details are written on the back side of the bill and signed. This process is known as endorsement. When a bill is endorsed in favour of a creditor for the payment of a debt, the creditor becomes the holder of the bill and can collect the money on the maturity date of the bill.

(d) To send the bill for collection to a bank or a shroff : A trader is very busy in different activities of his business, then, in order to save time and to get facility, he assigns the task of collecting the money of the bill receivable to a bank or a shroff. He sends the bill to the bank or the shroff before its maturity date. This bill is not discounted. The bank or the shroff collects the money on the maturity date on behalf of the trader, and either credits it to his account or pays it to him.

Here, the bank or the shroff acts as an agent of the trader and charges commission at the stipulated rate from the trader for the service provided.

Now, let us understand all above details and discussion by the accounting entries and effects :

Suppose, Nupur Traders sold some goods to Shital Traders on credit. Nupur Traders drew a bill for the necessary amount on Shital Traders, which was accepted by Shital Traders. Here, Nupur Traders is the drawer of the bill (creditor) and Shital Trders is the accepter of the bill (debtor). The following journal entries will be passed for each alternative in the books of both the parties.

Sr.	In the books of drawer of the bill (Nupur Traders)	In the books of acceptor of the bill (Shital Traders)
(1)	**Sale of goods :** Shital Traders (customer) A/c Dr To sale A/c	**Purchase of goods :** Purchase A/c Dr To Nupur Traders (trader) A/c
(2)	**Receipt of bills receivable after accptance :** Bills receivable A/c Dr To Shital Traders A/c	**Acceptance of bills payable :** Nupur Trader's A/c Dr To bills payable A/c
(3)	**Different alternatives for the Disposal / use of the bill :** (A) **Receiving money from the acceptor of the bill on the maturity date :** Cash/Bank A/c Dr To bills receivable A/c	(A) **Paying money on the maturity date to the holder of the bill :** Bills payable A/c Dr To cash/bank A/c
	(B) (i) **Holder of the bill who discounts the bill with a bank or a shroff before the maturity date :** Bank A/c Dr Discount A/c Dr To bills receivable A/c (ii) **On the maturity date :** No entry. (On the maturity date, the acceptor of the bill will pay the money to the bank or the shroff because drawer of the bill discounted this bill with a bank or a shroff.)	(B) (i) **When the drawer of the bill discounts the bill with a bank or a shroff before the maturity date :** No entry. (ii) **On the maturity date :** Bills payable A/c Dr To bank/cash A/c
	(C) (i) **Endorsing the bill in favour of any other person :** (Suppose Nupur Traders endorsed this bill in favour of Pandya Brothers) Pandya Brothers A/c Dr To bills receivable A/c (ii) **On the maturity date :** No entry. (Because on the maturity date Shital Trader will pay the amount of the bill to Pandya Brothers.)	(C) (i) **When the bill is endorsed :** No entry. (Because it is a transaction between Nupur Traders and Pandya Brothers.) (ii) **On the maturity date :** Bills payable A/c Dr To bank/cash A/c

Sr.	In the books of drawer of the bill (Nupur Traders)	In the books of acceptor of the bill (Shital Traders)
	(D) (i) When the bill sent to bank for collection : Bill for collection through bank A/c Dr To bills receivable A/c **(ii) On the maturity date :** Bank A/c Dr Bank commission A/c Dr To bill for collection through bank A/c	**(D) (i) When the bill sent to bank for collection :** No entry. **(ii) On the maturity date :** Bills payable A/c Dr To bank A/c

- **Only for Bills Receivable and Bills Payable :**

Illustration 1 : Amish purchased goods of ₹ 72,000 from Nimesh on 16-9-2016. Nimesh drew a bill of ₹ 72,000 for three months on Amish, which Amish accepted and returned. Record these transactions in the books of Amish and Nimesh.

Ans. : **Journal of Amish**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
16-9-2016	Purchase A/c Dr		72,000	
	To Nimesh A/c			72,000
	(Being purchase of goods of ₹ 72,000 on credit from Nimesh.)			
16-9-2016	Nimesh A/c Dr		72,000	
	To bills payable A/c			72,000
	(Being accepted a bill of ₹ 72,000 drawn by Nimesh.)			

Journal of Nimesh

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
16-9-2016	Amish A/c Dr		72,000	
	To sale A/c			72,000
	(Being sale of goods of ₹ 72,000 on credit of Amish)			
16-9-2016	Bills receivable A/c Dr		72,000	
	To Amish A/c			72,000
	(Being bill of ₹ 72,000 accepted and returned by Amish.)			

- **The Bill is kept with Oneself upto the Maturity Date and the Money is Collected from the Acceptor of the Bill on the Maturity Date :**

Illustration 2 : Ami sold goods of ₹ 25,000 to Rami on 1-7-2016. On 3-7-2016 Ami drew a bill for ₹ 25,000 for 20 days on Rami, which Rami accepted and returned. Rami paid the amount of the bill on the maturity date. Pass necessary journal entries in the books of both parties.

Ans. : **Journal of Ami**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-7-2016	Rami A/c Dr		25,000	
	To sales A/c			25,000
	(Being sale of goods of ₹ 25,000 to Rami on credit.)			
3-7-2016	Bills receivable A/c Dr		25,000	
	To Rami A/c			25,000
	(Being bill of ₹ 25,000 accepted and returned by Rami.)			
26-7-2016	Bank/cash A/c Dr		25,000	
	To bills receivable A/c			25,000
	(Being the amount of the bill of ₹ 25,000 received on maturity date.)			

Journal of Rami

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-7-2016	Purchase A/c Dr		25,000	
	To Ami A/c			25,000
	(Being the purchase of goods of ₹ 25,000 from Ami on credit.)			
3-7-2016	Ami A/c Dr		25,000	
	To bills payable A/c			25,000
	(Being bill drawn by Ami of ₹ 25,000 accepted and returned.)			
26-7-2016	Bills payable A/c Dr		25,000	
	To bank/cash A/c			25,000
	(Being on the date of maturity, payment of ₹ 25,000 of the bills payable.)			

- **When the Bill is Discounted with the Bank or Shroff :**

Illustration 3 : Rajesh sold goods of ₹ 84,000 on credit to Akshay on 10-7-2016. Rajesh drew a bill for the necessary amount on 12-7-2016 for 3 months, which Akshay accepted and returned. On 15-8-2016 Rajesh discounted this bill with the bank at 10 % p.a. discount. Akshay paid the amount of the bill on the maturity date. Pass necessary journal entries in the books of both the parties.

Ans. : **Journal of Rajesh**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
10-7-2016	Akshay A/c Dr		84,000	
	To sales A/c			84,000
	(Being purchase of goods of ₹ 84,000 on credit.)			

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
12-7-2016	Bills receivable A/c	Dr		84,000	
	To Akshay A/c				84,000
	(Being bill accepted of ₹ 84,000 by Akshay.)				
15-8-2016	Bank A/c	Dr		82,600	
	Discount A/c	Dr		1400	
	To bill receivable A/c				84,000
	(Being bill of ₹ 84,000 discounted after one month with the bank.)				

Note : (1) Discount amount $= 84{,}000 \times \frac{10}{100} \times \frac{2}{12} =$ ₹ 1400

(2) There is no entry on maturity date of bill 15-10-2016 in the book of Rajesh.

Journal of Akshay

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
10-7-2016	Purchase A/c	Dr		84,000	
	To Rajesh A/c				84,000
	(Being purchase of goods of ₹ 84,000 on credit.)				
12-7-2016	Rajesh A/c	Dr		84,000	
	To bills payable A/c				84,000
	(Being bill drawn by Rajesh of ₹ 84,000 is accepted.)				
15-10-2016	Bills payable A/c	Dr		84,000	
	To bank/cash A/c				84,000
	(Being ₹ 84,000 paid on the maturity date to holder of the bill.)				

Note : Journal entry for the transaction on 15-8-2016 is not to be written in the books of Akshay.

- **When the Bill is Endorsed :**

Illustration 4 : Rohit sold goods of ₹ 55,000 on credit to Virat on 1-5-2016. On the same day, Rohit drew a bill on Virat for 2 months, which Virat accepted. On 6-5-2016 Rohit endorsed this bill in favour on creditor Shikhar. The amount of the bill was paid on the maturity date. Pass journal entries in the books of Rohit and Virat.

Ans. :

Journal of Rohit

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1-5-2016	Virat A/c	Dr		55,000	
	To sales A/c				55,000
	(Being sale of goods of ₹ 55,000 on credit to Virat.)				

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1-5-2016	Bill receivable A/c	Dr		55,000	
	To Virat A/c				55,000
	(Being bill of ₹ 55,000 accepted by Virat.)				
6-5-2016	Shikhar A/c	Dr		55,000	
	Bill receivable A/c				55,000
	(Being bill of ₹ 55,000 endorsed to Shikhar.)				

Note : No entry in the books of Rohit on maturity date 4-7-2016. Because this bill is endorsed to Shikhar. Hence on the date of maturity Shikhar will receive the amount of bill from Virat.

Journal of Virat

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1-5-2016	Purchase A/c	Dr		55,000	
	To Rohit A/c				55,000
	(Being goods purchased on credit of ₹ 55,000 from Rohit.)				
1-5-2016	Rohit A/c	Dr		55,000	
	To bills payable A/c				55,000
	(Being bill of ₹ 55,000 drawn by Rohit accepted and returned.)				
4-7-2016	Bills payable A/c	Dr		55,000	
	To bank/cash A/c				55,000
	(Being payment of amount of the bill ₹ 55,000 on maturity date.)				

Note : On 6-5-2016 Rohit endorsed this bill to Shikhar, the entry for this is not to be passed in the books of Virat.

- **When the Bill is Sent to the Bank or Shroff for Collection :**

Illustration 5 : Harbhajan drew a bill of ₹ 24,500 on 14-10-2016 for 2 months on Zahirkhan. Zahirkhan accepted and returned the bill. On 10-12-2016, Harbhajan sent this bill to the bank for collection. The bill was paid by Zahirkhan on the maturity date. The bank debited ₹ 245 to Harbhajan's account as commission. Pass necessary journal entries in the books of both the parties.

Ans. : **Journal of Harbhajan**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
14-10-2016	Bills receivable A/c Dr		24,500	
	To Zahirkhan A/c			24,500
	(Being Zahirkhan accepted and returned the bill of ₹ 24,500.)			
10-12-2016	Bill for collection through bank A/c Dr		24,500	
	To bills receivable A/c			24,500
	(Being bill of ₹ 24,500 sent to the bank for collection.)			
17-12-2016	Bank A/c Dr		24,255	
	Bank commission A/c Dr		245	
	To bill for collection through bank A/c			24,500
	(Being remaining amount paid by the bank after deduction his commission on the bill of ₹ 24,500.)			

Journal of Zahirkhan

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
14-10-2016	Harbhajan A/c Dr		24,500	
	To bills payable A/c			24,500
	(Being bill of ₹ 24,500 accepted.)			
17-12-2016	Bills payable A/c Dr		24,500	
	To bank A/c			24,500
	(Being amount of the bill of ₹ 24,500 paid on the date of maturity.)			

Note : On 10-12-2016 Harbhajan sent a bill to the bank for collection, the entry for this is not ot be passed in the books of Zahirkhan.

15. Dishonour of a Bill

In the normal situation the acceptor of a bill has to pay the money of the bill on its maturity date. But on the maturity date, if the acceptor of the bill is not in a position to pay the money of the bill or does not want to pay the money or does not pay the money of the bill due to any other reason, it can be said that **bill is dishonoured**. Due to the dishonour of the bill drawer or other parties have to face the problem of the collection of the money. e.g. If the bill has been endorsed to someone else or has been discounted with the bank, and then it is dishonoured, a question arises as to who will pay the money to whom.

Noting of the dishonour of a bill : Geneally when a bill is dishonoured, then it is required to be **'noted'**. This is a legal procedure. Noting of dishonour of a bill is not compulsory, but it is essential and advisable. When a bill is dishonoured, the holder of the bill can note the dishonour of the bill with the notary. In foreign trade, noting of dishonour of a bill is compulsory.

When a dishonoured bill is presented to the notary for noting, the notary presents the bill again to the acceptor of the bill and orders him to pay the money. Even then if the acceptor of the bill does not pay the money, treating the bill as dishonoured, the notary officially records the dishonour of the bill in his books.

Noting charges : The notary charges a certain fee for noting the dishonoured bill which are called noting charges or dishonour charges. These noting charges are paid by the person for getting the dishonour of the bill noted with the notary. But the final legal responsibility for paying the noting charges is that of the acceptor of the bill; because this expense is incurred due to his failure to pay the money on the maturity date.

Accounting entries on dishonour of a bill : We have seen earlier that there are four methods of the disposal of a bill. In all the four situations due to any reason if bill is dishonoured then accounting entries are as given below.

e.g., Suman drew a bill of a certain amount on Chaman, which Chaman accepted and returned. Chaman does not pay the money on the maturity date. Here, Suman is the drawer of the bill (creditor) and Chaman is the acceptor of the bill (debtor). By considering the four alternatives of the disposal of a bill, the following journal entries will be passed in the books of both the parties.

Sr. No.	Journal of Suman (Drawer of the Bill)	Journal of Chaman (Acceptor of the Bill)
(A)	**When the bill is kept with one self upto the maturity date and is dishonoured on the maturity date :** Chaman A/c...Dr To bills receivable A/c To cash A/c (Being bill dishonoured, amount of bill and noting charges are debited to Chaman A/c.)	Bills payable A/c...Dr Noting charges A/c...Dr To Suman A/c (Being bill dishonoured recorded along with noting charges.)
(B)	**When the bill is discounted with the bank and is dishonoured :** Chaman A/c...Dr To bank A/c (Being dishonour of the bill discounted with the bank, bill amount and noting charges debited to Chaman A/c and total amouint returned to bank.)	Bill payable A/c...Dr Noting charges A/c...Dr To Suman A/c (Being bill dishonoured recorded alongwith noting charges.)
(C)	**When the bill is endorsed to someone (e.g. to Aman) and is dishonoured :** Chaman A/c...Dr To Aman A/c (Being dishonour of the endorsed bill, recorded alogwith noting charges.)	Bill payable A/c...Dr Noting charges...Dr To Suman A/c (Being bill dishonoured recorded alongwith noting charges.)

Sr. No.	Journal of Suman (Drawer of the Bill)	Journal of Chaman (Acceptor of the Bill)
(D)	**When the bill is sent for collection to the bank and is dishonoured :**	
	(i) Chaman A/c...Dr To bill for collection through bank A/c To bank A/c (Being bill dishonoured and noting charges paid by the bank.)	Bill payable A/c...Dr Noting charges...Dr To Suman A/c (Being bill dishonoured recorded alongwith noting charges.)
	(ii) Bank commission A/c...Dr To bank A/c (Being dishonour of the bill, commission charged by bank.)	

After the study above journal entries, now we understand the effect in the books of account for different situations of the dishonour of a bill by the following illustrations :

- **When the Bill is kept with Oneself upto the Maturity Date and is Dishonoured :**

Illustration 6 : Vikasbhai drew a bill of ₹ 32,000 for 2 months on Sunita on 1-11-2016, which Sunita accepted. Sunita could not pay the money on the maturity date. Vikasbhai went through the procedure of dishonour of the bill and paid ₹ 320 as noting charges. Pass necessary entries in the books of both the parties.

Ans. : **Journal of Vikasbhai**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-11-2016	Bills receivable A/c Dr		32,000	
	To Sunita A/c			32,000
	(Being bill of ₹ 32,000 accepted and returned by Sunita.)			
4-1-2017	Sunita A/c Dr		32,320	
	To bills receivable A/c			32,000
	To cash A/c			320
	(Being bill dishonoured of ₹ 32,000 by Sunita and noting charges paid ₹ 320)			

Journal of Sunita

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-11-2016	Vikasbhai A/c Dr		32,000	
	To bills payable A/c			32,000
	(Being bill accepted of ₹ 32,000.)			

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
4-1-2017	Bills payable A/c	Dr		32,000	
	Noting charges A/c	Dr		320	
	To Vikasbhai A/c				32,320
	(Being bill dishonoured of ₹ 32,000 and recorded along with noting charges ₹ 320.)				

- **When the Bill is Discounted with a Bank and is Dishonoured on the Maturity Date :**

Illustration 7 : On 1-6-2016, Dhrumal drew a three months bill of ₹ 36,000 for his outstanding amount due from Avadh, which was accepted by Avadh. On 4-7-2016 Dhrumal discounted this bill with the bank at 10 % p.a. The bill was dishonoured on the maturity date and the bank debited the entire amount including noting charges of ₹ 360 to Dhrumal. Pass necessary journal entries in the books of Dhrumal and Avadh.

Ans. :

Journal of Dhrumal

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1-6-2016	Bills receivable A/c	Dr		36,000	
	To Avadh A/c				36,000
	(Being bill of ₹ 36,000 accepted and returned by Avadh.)				
4-7-2016	Bank A/c	Dr		35,400	
	Discount A/c	Dr		600	
	To bill receivable A/c				36,000
	(Being bill of ₹ 36,000 discounted with bank and bank credited ₹ 35,400.)				
4-9-2016	Avadh A/c	Dr		36,360	
	To bank A/c				36,360
	(Being bill of ₹ 36,000 dishonoured on the maturity date and bank paid noting charges ₹ 360.)				

Journal of Avadh

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1-6-2016	Dhrumal A/c	Dr		36,000	
	To bills payable A/c				36,000
	(Being bill of ₹ 36,000 accepted and returned.)				
4-9-2016	Bills payable A/c	Dr		36,000	
	Noting charges A/c	Dr		360	
	To Dhrumal A/c				36,360
	(Being bill of ₹ 36,000 dishonoured and recorded alongwith noting charges.)				

- **When the Bill is Endorsed to Someone and is Dishonoured on the Maturity Date :**

Illustration 8 : On 1-5-2016, Dharmendra drew a two months bill of ₹ 70,000 on Jitendra, which was accepted by Jitendra. On 10-5-2016, Dharmendra endorsed this bill to Hema. Jitendra dishonoured the bill on the maturity date. Hema debited the entire amount including noting charges ₹ 525 to Dharmendra's account. Pass necessary journal entries in the books of all the parties.

Ans. : **Journal of Dharmendra**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-5-2016	Bills receivable A/c Dr		70,000	
	To Jitendra A/c			70,000
	(Being bill of ₹ 70,000 accepted and returned by Jitendra.)			
10-5-2016	Hema A/c Dr		70,000	
	To bills receivable A/c			70,000
	(Being bill of ₹ 70,000 endorsed to Hema.)			
4-7-2016	Jitendra A/c Dr		70,525	
	To Hema A/c			70,525
	(Being bill of ₹ 70,000 dishonoured on the maturity date and recorded alongwith noting charges ₹ 525)			

Journal of Jitendra

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-5-2016	Dharmendra A/c Dr		70,000	
	To bills payable A/c			70,000
	(Being bill of ₹ 70,000 accepted.)			
4-7-2016	Bills payable A/c Dr		70,000	
	Noting charges A/c Dr		525	
	To Dharmendra A/c			70,525
	(Being bill of ₹ 70,000 dishonoured and recorded alongwith noting charges ₹ 525.)			

Journal of Hema

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
10-5-2016	Bills receivable A/c Dr		70,000	
	To Dharmendra A/c			70,000
	(Being endorsed bill of ₹ 70,000 received from Dharmendra.)			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
4-7-2016	Dharmendra A/c Dr		70,525	
	To bill receivable A/c			70,000
	To cash A/c			525
	(Being bill of ₹ 70,000 dishonoured on the maturity date and recorded alongwith noting charges ₹ 525.)			

- **When the Bill is Sent for Collection to Bank and is Dishonoured on Maturity Date :**

Illustration 9 : Varun drew a bill of ₹ 1,30,000 for 90 days on Dhavan on 3-10-2016. Dhavan accepted the bill and returned it. On 26-12-2016, Varun sent the bill for collection to bank. Dhavan could not pay the money on the maturity date. Bank debited noting charges ₹ 600 and bank commission ₹ 400 to Varun's account. Pass necessary journal entries in the books of Varun and Dhavan.

Ans. : **Journal of Varun**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
3-10-2016	Bills receivable A/c Dr		1,30,000	
	To Dhavan A/c			1,30,000
	(Being bill of ₹ 1,30,000 accepted and returned by Dhavan.)			
26-12-2016	Bill for collection through bank A/c Dr		1,30,000	
	To bills receivable A/c			1,30,000
	(Being bill of ₹ 1,30,000 sent for collection to bank.)			
4-1-2017	Dhavan A/c Dr		1,30,600	
	To bill for collection through bank A/c			1,30,000
	To bank A/c			600
	(Being bill of ₹ 1,30,000 dishonoured and debited alongwith noting charges ₹ 600 to Dhavan A/c.)			
4-1-2017	Bank commission A/c Dr		400	
	To bank A/c			400
	(Being commission ₹ 400 for collection of bill recorded by bank.)			

Journal of Dhavan

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
3-10-2016	Varun A/c Dr		1,30,000	
	To bills payable A/c			1,30,000
	(Being bill of ₹ 1,30,000 accepted and returned.)			
4-1-2017	Bills payable A/c Dr		1,30,000	
	Noting charges A/c Dr		600	
	To Varun A/c			1,30,600
	(Being bill dishonoured ₹ 1,30,000 on maturity date and recorded alongwith noting charges ₹ 600.)			

Note : Bill drawn on : 3-10-2016

Terms of bill : 90 days

Maturity date of the bill : 1-1-2017 + 3 days of grace = 4-1-2017 (28 + 30 + 31 + 1 + 3 days of grace)

16. Insolvency of the Acceptor of the Bill

If the acceptor of a bill is declared insolvent by the count of law, it is understood that the bill accepted by him is dishonoured on the date of his insolvency. Accordingly, the drawer of the bill passes necessary journal entries in his books.

Normally, when the court declares a person as insolvent, it also appoints an officer for the purpose of collection from assets and payments to liabilities, who is known as the receiver. The receiver obtains the possession of the assets of the insolvent person and also dispose them off. This payment is made proportionately on the basis of the proceeds of the assets. The payment so received is legally known as dividend. The amount not received by the creditor is recorded in his books as bad debts.

e.g. Subhash has to collect ₹ 24,000 from Suvas. Suvas became insolvent, so only ₹ 16,000 received from his receiver. Balance amount ₹ 8000 is to be written as bad debt in books of Subhash.

Illustration 10 : On 1-8-2016 Shahid drew a four months bill of ₹ 60,000 on Kapoor, which Kapoor accepted and returned. On 28-9-2016 Kapoor was declared insolvent and on 20-10-2016, his receiver paid dividend at 60 paise. Write a journal entries in the books of Shahid.

Ans. : **Journal Entries in the Book of Shahid**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-8-2016	Bills receivable A/c Dr		60,000	
	To Kapoor A/c			60,000
	(Being bill of ₹ 60,000 accepted and returned by Kapoor.)			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
28-9-2016	Kapoor A/c Dr		60,000	
	To bills receivable A/c			60,000
	(Being bills receivable of ₹ 60,000 cancelled on the insolvency of Kapoor.)			
20-10-2016	Bank/Cash A/c Dr		36,000	
	Bad debts A/c Dr		24,000	
	To Kapoor A/c			60,000
	(Being dividend at 60 paise received against ₹ 1 from the receiver of Kapoor)			
	(Bad debts = 60,000 × 40 paise = 24,000)			

17. Renewal of Bill

The acceptor of a bill pays the amount of the bill to the drawer of the bill or holder of the bill on the maturity date. But if the acceptor of a bill cannot make provision for the money on the maturity date, he has to dishonour the bill. This has an adverse effect on his credit and prestige in the market and he has to face the legal procedure for the payment of the money of the bill. Hence, in his situation acceptor of the bill contacts the drawer of the bill before the maturity date of the bill and requests him to draw a new bill against the old bill for a new period. If the drawer of the bill agrees to his request, the old bill is cancelled and a new bill comes into existence. When a new bill for an extended period is given in exchange of an old bill, it is known as **change of bill period** or **renewal of a bill**.

When a new bill comes into existence in exchange of an old bill, the following three points should be considered :

(1) Cancel the old bill considering it to be dishonoured and pass necessary journal entries in the books of accounts.

(2) Calculate the interest on the additional period due to the extension of the period of the bill and record its accounting effects.

(3) Give the accounting entry for the acceptance of the new bill.

By following illustration understand the accounting entries of above three points :

(1) To cancel the old bills : Here accounting entries are passed in the books of all the parties considering that the old bill has been dishourned. But as noting charges are not incurred, they will not be recorded.

e.g. Govind had drawn a three months bill of ₹ 30,000 on Sudama, which was accepted and returned by Sudama. Before the maturity date due to the lack of financial provision, Sudama requested to Govind to draw a new bill for a two month period which Govind agreed to. The journal entry to cancel the old bill will be as follows :

No.	Journal of Govind			Journal of Sudama		
	Sudama A/c...Dr	30,000		Bills payable A/c...Dr	30,000	
	To bills receivable A/c		30,000	To Govind A/c		30,000
	(Being cancellation the old bill of ₹ 30,000.)			(Being cancellation the old bill of ₹ 30,000.)		

(2) Interest on the additional period : When the renewal of a bill takes place, the drawer of the bill charges interest at a certain rate from the acceptor of the bill for the additional period allowed. The amount of interest depends on the new period of a bill, the rate of interest and amount of the bill. Sometimes the acceptor of the bill pays the amount of interest in cash immediately. Whereas sometimes the drawer of the bill draws a new bill for an amount including interest.

e.g. In point (1) as per the given illustration, suppose Sudama accepted ₹ 600 as interest and has paid in cash to Govind. Accounting entries for this are as under :

No.	Journal of Govind	Journal of Sudama
	(A) When interest is to be charged : Sudama A/c...Dr 600 To interest A/c 600 (Being interest of ₹ 600 recorded as income.)	**(A) When interest be paid :** Interest A/c...Dr 600 To Govind A/c 600 (Being interest of ₹ 600 recorded as expenses.)
	(B) If the interest is received in cash : Cash A/c...Dr 600 To Sudama A/c 600 (Being interest of ₹ 600 received in cash.)	**(B) If the interest is paid in cash :** Govind A/c...Dr 600 To cash A/c 600 (Being interest of ₹ 600 paid in cash.)

(3) Acceptance of a new bill : When an old bill is cancelled and a new bill is drawn against it, the acceptence of the new bill drawn is recorded in the books. The amount of the new bill is to be decided on the basis of different situation.

Like, (a) Amount of interest is paid by the acceptor of the bill, then amount of new bill = Amount of old bill.

(b) If amount of interest is not paid by the acceptor of the bill, then amount of new bill = Amount of old bill + Amount of interest

(c) Some amount is paid against old bill by the acceptor of the bill, then amount of new bill = Balance amount of old bill + Amount of interest

e.g. In point no. (1) as per the given illustration if Sudama pays ₹ 10,000 against the old bill and accept a new bill for the remaining amount including interest of ₹ 600, then following journal entries would be passed in the books of both the parties.

No.	Journal of Govind	Journal of Sudama
	Bank/Cash A/c...Dr 10,000 Bills receivable (new) A/c...Dr 20,600 To Sudama A/c 30,600 (Being Sudama paid ₹ 10,000 in cash and for the balance amount ₹ 20,600 he accept a new bill including interest.)	Govind A/c...Dr 30,600 To bills payable (new) A/c 20,600 To bank/cash A/c 10,000 (Being cash ₹ 10,000 paid to Govind and accepted a new bill for the remaining amount ₹ 20,600, including interest.)

Illustration 11 : On 1-7-16, Krishita drew a three months bill of ₹ 75,000 on Saleem, which Saleem accepted and returned on the same day. Before the maturity date, on 20-9-2016 Saleem requested Krishita to cancel the old bill and draw a new bill of ₹ 60,000 for three months. Krishita accept this request. On 25-9-2016, Krishita collected cash ₹ 15,000 towards the old bill and ₹ 1800 towards interest and drew a new three months bill of ₹ 60,000, which Saleem accepted and returned on the same day. Before the date of maturity, Saleem was declared insolvent as on 20-11-2016 and the receiver paid the money at 75 paise per rupee on 6-12-2016. Pass necessary journal entries in the books of both the parties.

Ans. : **Journal Entries in the Books of Krishita**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-7-2016	Bills receivable A/c Dr		75,000	
	To Saleem A/c			75,000
	(Being Saleem accepted and returned a bill of ₹ 75,000.)			
20-9-2016	Saleem A/c Dr		75,000	
	To bills receivable A/c			75,000
	(Being old bill of ₹ 75,000 cancelled.)			
25-9-2016	Cash A/c Dr		16,800	
	To Saleem A/c			15,000
	To interest A/c			1800
	(Being cash received ₹ 15,000 towards the old bill and ₹ 1800 for interest.)			
25-9-2016	Bills receivable (new) A/c Dr		60,000	
	To Saleem A/c			60,000
	(Being new bill of ₹ 60,000 accepted by Saleem.)			
20-11-2016	Saleem A/c Dr		60,000	
	To bills receivable (new) A/c			60,000
	(Being new bill of ₹ 60,000 calcelled due to insolvency of Saleem.)			
6-12-2016	Bank A/c Dr		45,000	
	Bad debts A/c Dr		15,000	
	To Saleem A/c			60,000
	(Being dividend received from the receiver of Saleem at 75 paise per rupee against due amount of ₹ 60,000.)			

Journal Entries in the Books of Saleem

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1-7-2016	Krishita A/c	Dr		75,000	
	To bills payable A/c				75,000
	(Being bill ₹ 75,000 accepted and returned.)				
20-9-2016	Bills payable A/c	Dr		75,000	
	To Krishita A/c				75,000
	(Being bill of ₹ 75,000 cancelled.)				
25-9-2016	Krishita A/c	Dr		15,000	
	Interest A/c	Dr		1800	
	To cash A/c				16,800
	(Being ₹ 15,000 towards the old bill and ₹ 1800 towards interest paid to Krishita.)				
25-9-2016	Krishita A/c	Dr		60,000	
	To bills payable (new) A/c				60,000
	(Being a new bill ₹ 60,000 accepted and returned.)				
20-11-2016	Bills payable (new) A/c	Dr		60,000	
	To Krishita A/c				60,000
	(Being new bill of ₹ 60,000 cancelled on insolvency.)				
6-12-2016	Krishita A/c	Dr		60,000	
	To bank A/c				45,000
	To realization A/c*				15,000
	(Being amount paid to Krishita at 75 paise per rupee against due of ₹ 60,000.)				

* Due to insolvency of owner of the business, less amount paid to creditors. The amount which is not paid, is debited to respective creditor's A/c and credited to realization A/c. In alternate method amount actually paid to creditors is only recorded and remaining procedure follows procedure of insolvency.

18. Accommodation Bill

Normally, a bill is used for the payment of money in debtor-creditor relationship, arising on account of purchase or sale of goods. But sometimes even when there is no debtor-creditor relationship, traders having credit and prestige in the market draw and accept bill in order to make provision for the short term financial requirements of one another. Here, one party (trader) draws a bill and the other party (trader) accepts it. This bill is discounted with a bank or a shroff and traders can get the required money for a short period. Before the maturity date, the person who has discounted the bill sends the money to the person who has accepted the bill and who pays the amount to the bank or the shroff on the maturity date. In this way, traders can take care of their short term monetary crisis. Sometimes, the money received on discounting the bill is distributed in a definite proportion between the trader, who discounts the bill and the trader who accepts the bill. The discount expense is shared in the proportion of amount distributed. Before the maturity date, the person who has discounted the bill (drawer) sends his share of money to the person who has accepted the bill and who pays the entire amount to the bank or the shroff on the maturity date. Sometimes, the traders draws and accept the bill against each other and they use the money by discounting this bill in a bank.

The main objective of this type of bill is not settlement of debts and dues, but taking care of the convenience of one another or accommodation of one another, and so these bills are known as **accommodation bills.**

Illustration 12 : Write the following transactions in the journal of Shri Dineshbhai :

(1) On 2-1-2017, a bill of ₹ 25,000 accepted by Bharati was discounted with the bank at a discount of ₹ 250.

(2) On 3-1-2017, a bill of ₹ 15,000 accepted by Jayanti was dishonoured on the maturity date and noting charges amounted to ₹ 150.

(3) We dishonoured a bill of ₹ 30,000 drawn by Palash on its maturity date (on 5-1-2017). Palash paid noting charges ₹ 250.

(4) We endorsed a bill receivable of ₹ 45,500, accepted by Anita, in favour of Hansaben in full settlement of a debt of ₹ 46,500 on 7-1-2017.

(5) A bill of ₹ 52,000 drawn by Ramaben and accepted by Lataben and endorsed by Ramaben in our favour, was dishonoured on the maturity date 10-1-2017 and we paid noting charges ₹ 470.

(6) A bill payable of ₹ 80,000 accepted by us and drawn by Paresh, was cancelled by us before the maturity date 12-1-2017 by paying cash ₹ 20,000, and we accepted a new bill for one month for the remaining amount including interest ₹ 600 as on 15-1-2017.

(7) As on 30-1-2017, the bill accepted by Bharati was paid on the maturity date.

Ans. : **Journal of Dineshbhai**

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
2-1-2017	Bank A/c	Dr		24,750	
	Discount A/c	Dr		250	
	To bills receivable A/c				25,000
	(Being bil of ₹ 25,000 accepted by Bharati discounted with the bank by ₹ 24,750.)				
3-1-2017	Jayanti A/c	Dr		15,150	
	To bills receivable A/c				15,000
	To cash A/c				150
	(Being bill ₹ 15,000 dishonoured by Jayanti and noting charges ₹ 150 paid.)				
5-1-2017	Bills payable A/c	Dr		30,000	
	Noting charge A/c	Dr		250	
	To Palash A/c				30,250
	(Being bill dishonoured of ₹ 30,000 and recorded alongwith noting charges ₹ 250 paid by Palash.)				

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
7-1-2017	Hansaben A/c Dr		46,500	
	To bills receivable A/c			45,500
	To discount A/c			1000
	(Being bill ₹ 45,000 endorsed in favour of Hansaben in settlement of a debt and recorded received discount of ₹ 1000.)			
10-1-2017	Ramaben A/c Dr		52,470	
	To bills receivable A/c			52,000
	To cash A/c			470
	(Being bill of ₹ 52,000 endorsed by Ramaben dishonoured and noting charges ₹ 470 was paid by us.)			
12-1-2017	Bills payable A/c Dr		80,000	
	To cash A/c			20,000
	To Paresh A/c			60,000
	(Being old bill cancelled by paying cash ₹ 20,000.)			
15-1-2017	Paresh A/c Dr		60,000	
	Interest A/c Dr		600	
	To bills payable A/c			60,600
	(Being a new bill accepted for the remaining amount ₹ 60,000 and alolngwith interest ₹ 600.)			

Note : A bill accepted by Bharati which was discounted by us in the bank, on the date of maturity 30-1-2017, Bharati was paid the amount of bill to the bank. Hence, there is no accounting effect in our books.

Illustration 13 : Record the following transactions in the books of Patel Traders :

2017

Jan. 1 Purchased goods of ₹ 36,000 from Mukesh Stores at 10 % cash discount.

3 Returned goods of ₹ 8400 to Mukesh Stores and sent a promissory note for two months period for the remaining amount.

5 Purchased goods of ₹ 13,500 from Mukesh Stores at 10 % cash discount. Paid the amount immediately by cheque for goods purchased.

7 Sold goods of ₹ 42,000 to Radha Traders on two months credit.

9 Drew a two months bill of ₹ 42,000 on Radha Traders which they accepted and returned.

11 Purchased goods of ₹ 82,000 from Mukesh Stores.

13 Endorsed the bill accepted by Radha Traders in favour of Mukesh Stores.

15 Returned goods of ₹ 7000 from the last purchased to Mukesh Stores.

18 Accepted a bill of the necessary amount drawn by Mukesh Stores in order to settle the account of Mukesh Stores.

Ans. : **Journal of Patel Traders**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2017				
Jan. 1	Purchase A/c Dr		36,000	
	To Mukesh Stores A/c			36,000
	(Being goods purchased of ₹ 36,000 from Mukesh Stores.)			
3	Mukesh Stores A/c Dr		36,000	
	To purchase return A/c			8400
	To bills payable A/c			27,600
	(Being goods returned of ₹ 8400 from purchased goods and promissory note of ₹ 27,600 given for the remaining amount.)			
5	Purchase A/c Dr		13,500	
	To bank A/c			12,150
	To discount A/c			1350
	(Being goods purchased ₹ 13,500 and payment made by cheque.)			
7	Radha Traders A/c Dr		42,000	
	To sales A/c			42,000
	(Being goods of ₹ 42,000 sold on credit to Radha Traders.)			
9	Bills receivable A/c Dr		42,000	
	To Radha Traders A/c			42,000
	(Being bill of ₹ 42,000 accepted by Radha Traders.)			
11	Purchase A/c Dr		82,000	
	To Mukesh Stores A/c			82,000
	(Being goods purchased of ₹ 82,000 from Mukesh Stores.)			
13	Mukesh Stores A/c Dr		42,000	
	To bills receivable A/c			42,000
	(Being bill receivable of ₹ 42,000 endorsed.)			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
15	Mukesh Stores A/c Dr To purchase return A/c (Being goods returned of ₹ 7000 to Mukesh Stores from purchase.)		7000	7000
18	Mukesh Stores A/c Dr To bills payable A/c (Being bill accepted of ₹ 33,000 in order to settle the account of Mukesh Stores.)		33,000	33,000
	Total		**3,33,500**	**3,33,500**

Note : On 18-1-2017, we accepted and returned a bill of remaining amount of Mukesh Stores. To find this amount, prepare Mukesh Stores' account in the books of Patel Traders.

Mukesh Stores' Account

Dr Cr

Date	Particulars	J. F.	Amount (₹)	Date	Particulars	J. F.	Amount (₹)
2017				2017			
Jan. 3	To purchase return A/c		8400	Jan. 1	By purchase A/c		36,000
3	To bills payable A/c		27,600	11	By purchase A/c		82,000
13	To bills receivable A/c		42,000				
15	To purchase return A/c		7000				
18	To bills payable A/c		33,000				
	(Difference)		**1,18,000**				**1,18,000**

Exercise

1. Select a right option for each question :

(1) Generally, who writes (draws) a bill ?

(a) Debtor (b) Creditor

(c) Governmnt (d) Bank

(2) Generally, who accepts a bill ?

(a) Debtor (b) Governmnt

(c) Creditor (d) Bank

(3) Who writes (draws) a promissory note ?

(a) Insurance Company (b) Creditor

(c) Debtor (d) Governmnt

(4) In order to facilitate the payment of money in the transaction of bill, ... days of grace are allowed.

(a) Four (b) One

(c) Three (d) Two

(5) Before the date of maturity of a bill, from whom is it discounted by the drawer of a bill ?

(a) Debtor (b) State government

(c) Central government (d) Bank

(6) Bill is an instrument under which act ?

(a) Indian Company Act, 2013 (b) Partnership Act, 1932

(c) Indian Contract Act, 1872 (d) Negotiable Instrument Act, 1881

(7) When the court declares a person as an insolvent, it also appoints an officer for the purpose of distribution (collection) of assets and payment to creditors is known as the ....

(a) Receiver (b) Government advocate

(c) Wellknown advocate (d) Notary

(8) Renewal of a bill means –

(a) Old bill is being written again in good handwritting.

(b) New revenue stamp is affixed on old bill.

(c) New bill with new period is drawn against old bill.

(d) Bill is sent by e-mail against old bill.

2. Answer the following questions in one or two sentences :

(1) Define a bill.

(2) Define a promissory note.

(3) How many parties are there in a bill ?

(4) How many parties are there in a promissory note ?

(5) What is the term of bill ?

(6) What is the maturity date of a bill ?

(7) What are the days of grace ?

(8) What is bill at sight ?

(9) What is bill after date ?

3. Answer the following questions in detail :

(1) Define bill and state its characteristics.

(2) Give the specimen of a bill and explain its details.

(3) Define promissory note and state its characteristics.

(4) Give the specimen of a promissory note and explain its details.

(5) Explain the difference between bill of exchange and promissory note.

(6) What is bills receivable and bills payable ?

(7) Explain the main four methods or alternatives of the disposal or uses of a bill.

(8) What is dishonour of a bill ? Discuss about the entries of the dishonour of a bill.

(9) Write a short-note on insolvency of the acceptor of a bill.

(10) What is renewal of a bill ? Which points are considered in that ?

(11) Write a short-note on accommodation bill ?

4. Practical questions (Examples) :

(1) Hetansh sold goods of ₹ 60,000 on two months credit to Hiren on 1-6-2016. On 2-6-2016, Hetansh drew a bill of the necessary amount on Hiren, which Hiren accepted and returned. Hiren paid the money of the bill on the maturity date. Pass necessary journal entries in the books of both the parties.

(2) Sunny sold goods of ₹ 52,000 to Vishnubhai on 16-6-2016, against which Vishnubhai accepted a three months of bill of ₹ 52,000 on 20-6-2016. On 2-7-2016, Sunny discounted this bill with the bank at a discount of ₹ 520. Vishnubhai paid the bill on the maturity date. Pass necessary journal entries in the books of both the parties.

(3) Palak sold goods of ₹ 48,000 on credit to Ansh on 15-5-2016. On the same day, Palak drew a bill on Ansh for 60 days, which Ansh accepted. On 25-5-2016 Palak endorsed this bill in favour on a creditor Jinal. The amount of the bill was paid on the maturity date. Pass necessary journal entries in the books of Palak and Ansh.

(4) Sajid drew a bill of ₹ 28,000 for 2 months on Aamir on 14-6-2016. Aamir accepted and returned the bill. On 6-8-16, Sajid sent this bill to the bank for collection. The bill was paid on the maturity date by Aamir. The bank debited ₹ 120 to Sajid's account as commission. Pass necessary journal entries in th books of both the parties.

(5) Dashrathbhai sold goods of ₹ 1,00,000 to Aakash on credit, for which Dashrathbhai drew a three months bill of ₹ 1,00,000 on Aakash, which Aakash accepted and returned. Aakash could not pay the money on the maturity date and noting charges amounted to ₹ 910 which Dashrathbhai paid in cash. Pass necessary journal entries in the book of both the parties.

(6) On 1-8-16, Jayeshbhai sold goods of ₹ 60,000 to Dhaval on credit. On 3-8-16, Jayeshbhai drew two months bill on Dhaval, which Dhaval accepted and returned. On 6-8-16, Jayeshbhai discounted this bill with the bank at 10 % p.a. Dhaval could not pay the money on the maturity date. The bank debited an amount of ₹ 60,500 to Jayeshbhai's account alongwith noting charges. Pass necessary journal entries in the books of Jayeshbhai and Dhaval.

(7) On 2-9-2016, Rajan sold goods of ₹ 89,000 to Namrata on credit. On 4-9-2016, Rajan drew a three months bill of ₹ 89,000 on Namrata, which Namrata accepted and returned. Rajan endorsed this bill to his creditor Arjun on 6-9-2016. The bill was dishonoured on the maturity date and Arjun paid noting charges of ₹ 440. Pass necessary journal entries in the books of all the parties.

(8) On 1-8-16, Dharmesh drew a one month bill of ₹ 75,000 on Avadh, which Avadh accepted and returned. On 28-8-16, Dharmesh sent this bill for collection through bank. The bill was dishonoured on the maturity date. The bank debited the amount including noting charges ₹ 375 and bank commission ₹ 225 to Dharmesh's account. On 25-9-16, Avadh paid the entire amount payable to Dhermesh by a cheque. Pass necessary journal entries in the books of Dharmesh and Avadh.

(9) On 16-6-2016, Sanjay sold goods of ₹ 78,000 to Harnish. On 20-6-2016, Sanjay drew a bill of the necessary amount and period of bill is four months on Harnish, which Harnish accepted and returned. On 15-10-16, Harnish requested Sanjay to cancel the old bill and draw a new bill for two months period alongwith the interest ₹ 1600. Sanjay agreed to the request of Harnish and drew a new bill for the required amount, which Harnish accepted. Harnish paid the money on the maturity date. Write journal entries in the books of Sanjay and Harnish.

(10) On 1-11-2016, Kamalbhai sold goods of ₹ 2,50,000 to Vishal. On 3-11-16, Kamalbhai drew a four months bill of ₹ 2,50,000 on Vishal, which Vishal accepted on the same day. On 26-2-17, Vishal gave a cheque of ₹ 50,000 and requested Kamalbhai to cancel the old bill alongwith interest of ₹ 3000 for 30 days. Kamalbhai agreed to the request of Vishal and drew a bill for the required amount including interest, which Vishal accepted. Before the maturity date on 24-3-17, Vishal was declared insolvent and on 15-4-17, received the final dividend at 40 paise from his receiver. Write journal entries in the books of Kamalbhai and Vishal.

(11) Record the following transactions in the books of Abraham :

2016

July	1	Drew a bill of ₹ 24,000 on Karina, which she accepted and returned. The period of the bill is of 45 days.
	3	Accepted a one month period bill of ₹ 28,000 drawn by Abhishek and returned it.
	5	Endorsed a bill receivable of ₹ 32,500 received from Ranbir to Dipika in full settlement of an account of ₹ 33,000.
	7	Sold goods of ₹ 48,000 to Priyanka and drew a two months bill of ₹ 40,000 on her which she accepted and paid the remaining amount by cheque immediately.
	10	A bill of ₹ 55,000 drawn by us and accepted by Imran will mature on 16-7-16. Because of this, bill was sent to bank for collection today.
	12	Karina was declared insolvent and her receiver paid the final dividend at 40 paise.
	16	Imran dishonoured the bill and the bank debited to our account an amount including noting charges ₹ 350 and charges for bill collection ₹ 250.
	18	Imran gave a cheque of 50 % amount of the total amount payable to us and accepted a new 2 months bill for the remaining amount. Interest ₹ 1200 is included in the amount of the new bill.

(12) Record the following transactions in the books of Kiritbhai :

2016

Dec.	2	Sold goods of ₹ 49,000 to Pavan on two months credit.
	4	Pavan paid cash ₹ 9000 and sent a promissory note of two months period for the remaining amount.
	6	Sold goods of ₹ 28,000 to Pavan at 10 % cash discount.
	8	Pavan returned 50 % of goods from the goods purchased on Dt. 6th by him.
	10	Sold goods of ₹ 90,000 to Pavan on three months credit.
	12	Pavan endorsed his bill receivable of ₹ 45,000 in our favour.
	14	Pavan returned goods of ₹ 12,000 to us from his purchases on Dt. 10.
	18	Pavan paid ₹ 16,000 by cheque against his account.
	20	We drew a bill on Pavan for the required amount to settle his account, which Pavan accepted and returned.

5

Financial Statements of Business Organisations

1. Introduction

Business is an economic activity which is done with profit object. Therefore number of economic transactions take place during the year in the business entity (or an enterprise). Each business financial transaction is first recorded in journal or subsidiary books. On the basis of journal and subsidiary books, posting is done in ledger and balance of each account is found. On the basis of closing balance of each account trial balance is prepared. If total of Credit balances and debit balances of Trial balance are equal then arithmetically accounts are correct. After preparation of trial balance, next stage is called final account.

The final accounts are prepared at the end of the accounting year to know the result and financial position of the business. Various financial statements are prepared in final accounts.

2. Financial Statements

Meaning, objectives and importance of Financial Statements which are prepared for final accounts are as under.

(1) **Meaning of financial statements :** Financial statements are organised summaries of detail information about the financial position of an enterprise. Traditionally, following two statements are included in financial statements.

(a) Trading account and Profit & Loss Account : An Account which shows the result of profit/loss of business operations during the accounting period.

(b) Balance Sheet : A statement which shows the financial position of an enterprise.

(2) **Objectives of financial statements :** There are different objectives for the preparation of each financial statement. Trading Account, Profit and Loss Account and Balance Sheet are three financial statements which are prepared to obtain these objectives. Main objectives of these financial statements are as under :

(i) To know the gross profit or gross loss of an enterprise : Trading Account is prepared to know the gross profit or gross loss of an enterprise during the accounting period.

(ii) To know the Net Profit or Net Loss of an enterprise: Net Profit or Net loss of an enterprise showing account is called Profit & Loss Account. After finding (knowing) gross profit or gross loss from trading account, net profit or loss is determined from profit & Loss Account after considering business expenses and incomes. Thus, Profit & Loss Account shows the financial performance of business operation of an enterprise (during an accounting period).

(iii) To know the financial position of an enterprise : A Balance sheet is a statement showing assets, liabilities, receivable and capital of the business of a particular date.

Balance Sheet shows the financial position of an enterprise (business).

(iv) For Legal requirements : Financial statements are prepared for various legal requirements also.

Note : Trading Account and Profit and Loss Account are prepared in the form of statement also.

(3) Importance of financial statements : Information shown in financial statements is used by present and potential all stakeholders. Financial statements are used by management, present and potential investors, lenders, short term creditors, employees, customers, governments and various agencies to satisfy their need for different types of information. The importance (usefulness) of the financial statements for various users is as under:

Users of Financial Statements	**Need for information**
(1) **Short-term Creditors :** (For example, raw material suppliers, short term loan or credit providers)	Short-term creditors need information to determine the amount owing to them will be paid when due and whether they should extend, maintain or restrict the flow of credit to an individual enterprise. For this, current ratio and liquidity ratio can be used by short term creditors.
(2) **Long-term Creditors :** (For example, long-term loan suppliers)	Long-term creditors need information for whether their principals and the interest will be paid in time or not when it becomes due. For making decision whether to extend, maintain or restrict the flow of credit to an enterprise. These decisions can be made on the basis of the financial statements. For this, Liquidity ratios and solvency ratios can be used by the long-term creditors.
(3) **Present Investor :** (For example, Equity shareholders)	Present investors need information for making decisions about what is prospect of their investment? Whether they should buy or sell or hold shares? This information is obtained from the financial statements. For this Solvency ratios can be used. What is earning per share? Equity shareholders get this information from financial statements.
(4) **Potential Investor :** (For example, those who want to invest)	Potential investors need the information for how is the prospect of enterprise; and to determine whether they should invest or not. On the basis of the analysis of financial statement, decision can be made.
(5) **Management :** (For example, Owner of the enterprise, partners, Board of Directors)	Management need information to review (a) short term solvency (b) long term solvency (c) effectiveness of activities (d) profitability. This information is obtained from financial statements and future investment decision can be made.
(6) **Employees :**	Employees are interested in information about the stability and profitability of the enterprise. Information about the ability of enterprise to pay their salary or not, increments in their salary and retirement benefits will be paid or not can be received from financial statements.

Users of Financial Statements	Need for information
(7) **Tax Authorities :** (For example, State government – central government)	Tax authorities need the information to assess the tax liabilities of the enterprise. Information about the allocation of capital expenditure and revenue expenditure can be obtained from the financial statements.
(8) **Customers :**	Customers are interested to get information about the continuation of the enterprise. Especially when they want to establish a long term relationship with the enterprise. This information can be obtained from the financial statements.
(9) **Government :**	Government can get the information about the activities of the enterprise to form the policies regarding taxation from financial statements.
(10) **Researchers :**	– Researchers can get the information from financial statements and analyse profitability, liquidity, solvency etc. of the enterprise. – Researchers can forecast about the future performance of the enterprise. – Researchers can make comparative study of various enterprises and get conclusions.
(11) **Public :**	– Public gets various information from financial statements – knows the enterprise's contribution to economy of the country from financial statements – gets the information about how it is providing or will provide employment opportunity – knows what is its social contribution.

(4) **Trial balance and financial statements :** Debit and credit balances are shown in Trial balance, which are classified and shown as per rules at proper place of final accounts - Trading Account, Profit & Loss Account and Balance sheet.

Balances of all accounts are shown in the Trial Balance. Balances regarding Trading Account and Profit & Loss Accounts are closed and transferred to Trading Account and Profit & Loss Account, which is called closing entries. It has been discussed in subsequent chapter. Balances regarding balance sheet are shown in the balance sheet. Two types of balances of trial balance are as under :

Balances of Trial Balance

Debit Balances	Credit Balances
(i) Debit side of Trading Account **OR**	(i) Credit Side of Trading Account **OR**
(ii) Debit side of Profit & Loss Account **OR**	(ii) Credit side of Profit & Loss Account **OR**
(iii) Assets side of Balance sheet	(iii) Liabilities side of Balance sheet

Note : Particulars of all these balances are explained in the specimen of Trading Account, Profit & Loss account and Balance sheet.

3. Trading Account

In the final stage of the preparation of final accounts, trading accounts, profit and loss account and balance sheet are prepared. The first component of final accounts is trading account.

(1) **Meaning of trading account :** Trading Account is a financial statement which shows the result of buying and selling of goods and services during an accounting period.

(2) **Objective of trading account :** Trading Account is prepared to know the gross profit or gross loss during the accounting period. Gross profit is the excess of (net) sales over cost of goods sold; where as gross loss is the excess of cost of sales over sales.

Gross Profit = Sales – Cost of sales

Gross Loss = Cost of Sales – Sales

(3) **Heading of trading account :**

"Trading Account of Shri .... for the period ending on ...."

For Example : Following title of Trading Account of Shri Raman for the period Dt. 1-04-2014 to 31-03-2015. Generally the duration of trading account is 12 months.

"Trading Account of Shri Raman for the year ending 31st March, 2015"

(4) **Items of trading account :**

- **Items to be shown on the Debit side of trading account :** Following items are shown on debit side of trading account.
  - **(a) Opening Stock :** Closing stock of the last accounting period becomes opening stock in the current year.
  - **(b) Purchase :** Purchase refers to those goods which have been brought for resale. Purchases include cash purchases and credit purchases. Purchase returns are shown by way of deduction from total purchases.
  - **(c) Goods purchase expenses :** Expenses relating to purchase of goods like, (i) Railway freight, (ii) Carriage inward, (iii) wages

    Note : If it is a manufacturing unit, the expenses related productions are also shown on debit side of trading account. e.g. Productive wages, royalty, factory expenses (rent, taxes, power and fuel, coal and gas), oil, grease, depreciation of factory building, plant and machinery etc.
- **Items to be shown on Credit side of trading account :**
  - **(a) Sales :** Sales refer to the sales of those goods which were purchased for resale. Sales returns are shown by way of deduction from total sales.
  - **(b) Goods going out other than sales :** Following are included in goods going out other than sales : (Now it is deducted from purchase.)

    (I) Goods burnt by fire (ii) Goods distributed as sample (iii) Goods withdrawn by proprietor for personal use and (iv) Goods given as charity (donation). Now these items are shown as deduction from purchases on the Debit side of Trading Account instead of showing it on Credit side of Trading Account
  - **(c) Closing Stock :** Closing stock refers to unsold goods at the end of the current accounting period. According to convention of conservatism, stock is valued at cost price or market value whichever is less. Discussion in this regard is given in the subsequent chapter of it.

    Note : If closing stock is shown in the trial balance, only one effect of it will be given on Assets side of Balance Sheet.

(5) **Gross Profit or Gross Loss :** If the total of credit side of trading account is more than that of debit side, the balance amount is called as gross profit. It is transferred to credit side of Profit & Loss Account. If the total of debit side of trading account is more than that of credit side, the balance amount is called as gross loss, and it is transferred to debit side of Profit & Loss Account.

(5) **Specimen of Trading Account :**

"Trading Account of Shri .... for the year ending on ...."

Dr | Cr

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Opening Stock	✓	By Sales ✓	
To Purchase ✓		Less : Sales Returns ✓	✓
Less : Purchase Returns ✓	✓		
Less : Goods going out other than sales ✓	✓	By Sale of scrap goods	✓
		By Closing Stock	✓
Expenses relating to Purchase :		By Gross Loss (Transferred to Profit & Loss Account)	✓
To wages	✓		
To Carriage Inward	✓		
To Railway Freight	✓		
To Lorry freight	✓		
To Port charges	✓		
To Dock charges	✓		
To Clearing charges	✓		
To Demurrage	✓		
To Darmayo	✓		
To Kharajat Expenses	✓		
To Wharfage	✓		
Expenses relating to Production:			
To productive wages	✓		
To Royalty	✓		
To Factory expenses (Rent, taxes, power and fuel, coal, gas)	✓		
Material consumed :			
To Oil and grease	✓		
To Depreciation of factory building	✓		
To Depreciation on plant and machinery (factory)	✓		
To Gross Profit (Transferred to Profit & Loss Account)	✓		
	✓✓✓		✓✓✓

- **Demurrage :** The amount of penalty payable on late removal of goods from the railway or port is called demurrage.
- **Darmayo :** Darmayo means monthly salary or wages

- **Kharajat Expenses :** Wages or expenses are incurred on the goods due to wastage is called Kharajat expenses.
- **Wharfage :** The amount of difference payable when less freight is calculated from place of goods consigned is called wharfage.

Note : Preparation of separate Manufacturing Account is not included in the syllabus.

Goods going out other than sales : By Goods destroyed by fire, By Goods given as Charity, By Goods stolen, By Goods withdrawn by the owner for personal use, By Goods distributed as free sample (advertisement). Now, the accounting treatment of all these transactions is recorded to purchase account. It means, that, to that extent purchase is reduced.

(6) **Closing Entries for Trading Account :** At the time of preparation of Trading Account, balances relating to trading account are transferred to trading account. Purchase, purchase returns, sales, sales return, expenses relating to purchase and production, goods going out of the business accounts etc. are transferred to trading account by closing entries. Journal entries are passed in ledger to transfer these account to trading account. These journal entries are called closing entries.

During closing entries trading account related accounts which are having debit balances in ledger are closed by debiting them to trading account. If related account having credit balance in ledger, related account is debited and trading account is credited.

The following are the closing entries for trading account.

Closing Entries for Trading Account

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(1)	**When opening stock account is closed :**			
	Trading Account Dr		✓	
	To Opening Stock Account			✓
	[Being opening stock account is closed and transferred to trading account.]			
(2)	**When purchase account is closed :**			
	Trading Account Dr		✓	
	To Purchase Account			✓
	[Being purchase account is closed and transferred to trading account.]			
(3)	**When purchase returns account is closed :**			
	Purchase Returns Account Dr		✓	
	To Trading Account			✓
	[Being purchase returns account is closed and transferred to trading account.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(4)	**When Direct expenses relating to purchase and production accounts are closed:**			
	Trading Account Dr		✓	
	To Wages Account			✓
	To Carriage Inward Account			✓
	To Railway Freight Account			✓
	To Productive Wages Account			✓
	To Factory expenses Account			✓
	[Being purchase and production related various expense accounts are closed and transferred to trading account.]			
(5)	**When Sales account is closed :**			
	Sales Account Dr		✓	
	To Trading Account			✓
	[Being sales account is closed and transferred to trading account.]			
(6)	**When Sales returns account is closed :**			
	Trading Account Dr		✓	
	To Sales Returns Account			✓
	[Being sales returns account is closed and transferred to trading account.]			
(7)	**When closing stock brought (record) in books of account:**			
	Closing Stock Account Dr		✓	
	To Trading Account			✓
	[Being the closing stock is recorded in the books of account]			
(8)	**When the credit balance (gross profit) of Trading Account transferred to Profit & Loss Account:**			
	Trading Account Dr		✓	
	To Profit & Loss Account			✓
	[Being the result of trading account, gross profit, is transferred to Profit & Loss account.]			
(9)	**When the debit balance (gross loss) of Trading Account transferred to Profit & Loss Account:**			
	Profit & Loss Account Dr		✓	
	To Trading Account			✓
	[Being the result of trading account, gross loss, is transferred to Profit & Loss account.]			
	Total		✓✓✓	✓✓✓

- **Illustration for preparing Trading Account :**

Illustration 1 : Prepare trading account for the year ended on 31-03-2015 from the following balances of Bhavesh :

Particulars	Debit (₹)	Credit (₹)
Stock (Dt. 1-04-2014)	40,000	
Purchase	1,64,000	
Purchase Returns		10,000
Sales		2,20,000
Sales Returns	20,000	
Wages	10,000	
Railway freight	8000	
Carriage Inward	2000	

Cost price of closing stock of goods as on 31-03-2015 was ₹ 44,000, whereas its market value is ₹ 50,000.

Note : In above illustration, only trading account related balances are given therefore total of debit and credit balances are not equal.

Ans. : **Trading Account of Bhavesh for the year ending on 31-03-2015**

Dr Cr

Particulars		Amount (₹)	Particulars		Amount (₹)
To Opening Stock (Dr. 1-4-14)		40,000	By sales	2,20,000	
To Purchase	1,64,000		– Sales returns	20,000	2,00,000
– Purchase returns	10,000	1,54,000			
Purchase related expenses :			By Closing Stock		44,000
To Wages		10,000			
To Railway freight		8000			
To Carriage Inward		2000			
To Gross Profit (?)		30,000			
(Transferred to P & L A/c)					
		2,44,000			**2,44,000**

Note: According to convention of conservatism, stock is valued at cost price or market value whichever is lower. Here, the cost of closing stock is ₹ 44,000, whereas its market price is ₹ 50,000, therefore the lower of two, ₹ 44,000 is taken into consideration.

4. Profit and Loss Account

Profit and Loss account is a second component of final account. After preparing Trading Account, Profit and Loss account is prepared.

(1) Meaning of Profit and Loss Account : After knowing gross profit or gross loss from the trading account, the account is prepared to find out net profit or net loss after considering other income and other expenses of business is called Profit & Loss Account.

(2) Objective (Purpose) of Profit and Loss Account : The Profit and Loss Account is prepared to ascertain the Net Profit or Net Loss incurred during the accounting period. Excess total of credit side of profit and loss account is called Net Profit whereas excess total of debit side of profit & loss account is called Net Loss.

(3) Title Heading of Profit and Loss Account :

"Profit and Loss Account of Shri .... for the period ending on ...."

For Example: Following title of Profit and Loss Account of Shri Raman for the period Dt. 1-04-2014 to 31-03-2015. Generally the duration of Profit and Loss accounts is 12 months.

"Profit and Loss Account of Shri Raman for the year ending 31st March, 2015"

(4) Items of Profit and Loss Account :

- **Items to be shown on the Debit side of Profit & Loss Account :**
  - (a) **Gross Loss:** If result of trading account is shown gross loss then it is brought down to profit & loss account. Gross Loss is shown on the debit side of Profit & Loss Account.
  - (b) **Administrative (Office) Expenses :** Those expenses which are incurred for the administration of the business is known as administrative expenses. e.g. Rent, taxes, office salary, insurance premium, postage exp. etc.
  - (c) **Selling and Distribution Expenses :** Expenses incurred for the sales and distribution of goods are called selling and distribution expenses. e.g. carriage outward, salary and commission of salesmen, etc.
  - (d) **Financial Expenses :** Financial expenses are incurred in business like interest on capital, interest on bank overdraft, interest on bank loan, interest on other loan borrowed, bank charges, bank commission etc.
  - (e) **Other Expenses and Losses :** All expenses other than those given above like repairing expense, depreciation, bad debts, provision for expense or loss, donation, loss due to fire or theft, loss on sale of assets etc.
- **Items to be shown on Credit side of Profit & Loss Account :**
  - (a) **Gross Profit :** If result of trading account is shown gross profit then it is brought down to profit & loss account. Gross profit is shown first on the credit side of Profit & Loss Account.
  - (b) **Other Income and Benefits :** All other incomes and benefits are shown on credit side of this account e.g. discount received, rent received, commission received etc.

(5) Net profit / Net loss :

If the total of credit side of profit & loss account is more than that of debit side, it is a credit balance and called net profit. If the total of debit side of profit & loss account is more than that of credit side, it is a debit balance and called net loss. Net profit is added in the capital of the proprietor and net loss deduct from capital of proprietor in the balance sheet. Hence, the capital of the owner will be increased by net profit and it will be decreased by net loss.

(6) **Specimen of profit and loss account :**

"Profit & Loss Account of Shri .... for the year ending on.........."

Dr | Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Gross Loss (Transferred from Trading Account)	✓	By Gross Profit (Transferred from Trading Account)	✓
Administrative Expenses :		**Other Incomes (Revenues) :**	
To Salary, allowances, bonus	✓	By Discount received	✓
To Rent	✓	By Rent received	✓
To Insurance Premium	✓	By Commission received	✓
To Taxes	✓	By Brokerage received	✓
To Postage expenses	✓	By Commission received from consigner	✓
To Stationery-printing expenses	✓		
To Legal expenses	✓	By interest on investment	✓
To Audit fees	✓	By interest on loan given	✓
To Electricity expenses	✓	By Interest on drawings	✓
To Repairs & Maintenance		By Bad debts returned	✓
expenses of assets	✓	By Profit on sale of assets	✓
To Contribution to provident fund	✓	By Sale of old news papers	✓
To Contribution to Employee		By Sale of Scrap	✓
State Insurance (ESI)	✓	By Miscellaneous Income etc.	✓
To Staff Welfare expenses	✓	By Apprentice premium received	✓
To Staff training expenses	✓		
Selling & Distribution expenses :		By Net Loss (Transferred to Capital Account)	✓
To Carriage Outward	✓		
To Salary of salesmen	✓		
To commission of salesmen	✓		
To Travelling expenses of salesmen	✓		
To Advertisement expenses	✓		
To Discount allowed	✓		
To Delivery van expenses	✓		
To Discount reserved	✓		
To exhibition participation exp.	✓		
To Showroom expenses	✓		
To Godown expenses	✓		
To Packing expenses	✓		
Financial Expenses :			
To interest on capital	✓		
To interest on bank overdraft	✓		
To interest on borrowed loan	✓		
To Bank charges	✓		
To Bank Commission	✓		

Particulars		Amount (₹)	Particulars	Amount (₹)
Other expenses and losses :				
To Donation		✓		
To Depreciation on assets		✓		
To Bad debts (Trial Balance)	✓			
+ Bad debts (Adjustment)	✓			
+ BDR (Adjustment)	✓			
	✓			
– BDR (Trial Balance)	✓	✓		
To Loss by fire		✓		
To Loss by theft		✓		
To Loss on sale of fixed assets		✓		
To Loss on sale of investment		✓		
To Provision for expenses / loss		✓		
To Net Profit (Transferred to Capital Account)		✓		
		✓✓✓		✓✓✓

(5) Closing Entries for Profit & Loss Account : As profit & Loss account is also a ledger account, particulars recorded on debit side and credit side of it are the posting of journal entries. Income and expense accounts are closed and transferred them to Profit and Loss account. Net profit or Net loss of Profit & Loss account is transferred to capital account.

During closing entries Profit and Loss account related account which are having debit balances in ledger are closed by debiting them to Profit and Loss account and credited to respective account. And which are having credit balance in ledger are closed by debiting them to Profit and Loss account and credited to respective account.

The following are the closing entries for profit & loss account :

Closing Entries for Profit & Loss Account

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	**When other expenses accounts are closed :**			
	Profit & Loss Account Dr		✓	
	To Each Administrative expenses A/c			✓
	To Each Selling & Distribution expenses A/c			✓
	To Each Financial expenses A/c			✓
	To Each other expenses & losses A/c			✓
	[Being other expenses accounts are closed and transferred to profit & loss account.]			

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
2	**When Other Incomes (Revenues) Accounts are closed :**				
	Discount received account	Dr		✓	
	Rent received account	Dr		✓	
	Commission received account	Dr		✓	
	Interest on loan given account	Dr		✓	
	Interest on drawings account	Dr		✓	
	Interest on Investments account	Dr		✓	
	Bad debts returned account	Dr		✓	
	Miscellaneous Income account	Dr		✓	
	To Profit & Loss Account				✓
	[Being the accounts of other incomes transferred to Profit & Loss account.]				
3	**When the credit balance (net profit) of Profit and Loss Account transferred to Capital Account**				
	Profit & Loss Account	Dr		✓	
	To Capital Account				✓
	[Being net profit of the business is transferred to capital account.]				
4	**When the debit balance (net loss) of Profit and Loss Account transferred to Capital Account :**				
	Capital Account	Dr		✓	
	To Profit & Loss Account				✓
	[Being net loss of the business is transferred to Capital account.]				
	Total			✓	✓

Note : Goods account, expenses accounts and incomes account are closed by preparing Trading account and Profit & Loss account. Only personal accounts and assets accounts are shown in the Balance Sheet.

5. Difference Between Trading Account and Profit and Loss Account

Trading Account and Profit & Loss Account both are financial statements. Both are prepared at the end of accounting period. Important information for management can be obtained from both accounts. Revenue incomes and revenue expenditures are recorded in both accounts. Trading Account is the part of Profit & Loss Account. In spite of these, there are following differences between Trading Account and Profit & Loss Account.

Points of Difference	Trading Account	Profit & Loss Account
(1) Meaning	The account prepared for calculating profit or loss by recording the transactions of receipts and issues of goods and expenses of production is called Trading account.	The account prepared for calculating net profit or net loss by deducting other expenses and adding other incomes in the gross profit is called Profit & Loss account.
(2) Objectives	Trading account is prepared to know gross profit or gross loss of the business.	Profit & Loss account is prepared to know net profit or net loss of the business.
(3) Items shown on the debit side of account	Opening stock, net purchases of goods and other expenses relating to purchases and production are shown on the debit side of the Trading account.	Gross loss, administrative expenses, selling and distribution expenses, financial expenses and other expenses and losses are shown on the debit side of the Profit & Loss account.
(4) Items shown on the credit side of account	Net sales and closing stock are shown on the credit side of the Trading account.	Gross profit and other incomes (revenues) of the business are shown on the credit side of the Profit & Loss account.
(5) Balance of account	Credit balance of trading account is called Gross profit and debit balance of trading account is called Gross loss.	Credit balance of profit & loss account is called Net profit and debit balance of profit & loss account is called Net loss.
(6) Where the balance of account is transferred	The balance of trading account is transferred to Profit & Loss account.	The balance of Profit & Loss account is transferred to Capital account in the balance sheet.
(7) Compulsory	It is not compulsory to prepare trading account. Many business units (entities) do not prepare separate trading account.	It is compulsory to prepare profit & loss account for all the business units.

6. Types of Profit

Generally profit is excess of incomes over expenses. Amount received after deduction of total expenses from total incomes is called profit. There are three types of profit. These are Gross Profit, Operating profit and Net Profit.

Types of Profit

Gross Profit	Operating Profit	Net Profit
Obtained from Trading A/c	Obtained from Profit & Loss A/c	Obtained from Profit & Loss A/c

(1) Gross Profit : Gross profit means excess of sales over cost of goods sold. Gross profit is a credit balance of trading account.

(2) Operating Profit : Difference between gross profit and operating expenses is called operating profit.

Operating profit = Gross profit − Operating expenses

Operating expenses = General Administrative expenses + Selling-distribution expenses + depreciation

Operating expenses are also called as managerial expenses.

(3) **Net Profit :** Net profit means excess of the total of all incomes over all expenses. Net Profit is a credit balance of Profit & Loss Account. Balance amount after effect of non-operating income/ expenses, interest and tax in operating profit is called Net Profit.

- **Illustration of Profit & Loss Account :**

Illustration 2 : Following balances extracted from the trial balance of Dhaval as on 31-03-2015. Prepare Profit & Loss Account.

Particulars	Amount (₹)	Particulars	Amount (₹)
Gross Profit	70,000	Discount allowed	1400
Carriage Outward	2000	Loss due to fire	800
Postage	1000	Interest received	3000
Salary	12,000	Bad debts	1000
Miscellaneous Expenses	2500	Bank Charges	500
Insurance Premium	1800	Travelling expenses	600
Office expenses	1500	Advertisement expenses	1200
Discount received	4600	Audit fees	3000
Commission received	1400	Interest on loan	3500

Ans. : Profit & Loss Account of Dhaval for the year ending on 31-03-2015

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Carriage Outward	2000	By Gross Profit	70,000
To Postage	1000	By Discount received	4600
To Salary	12,000	By Commission received	1400
To Miscellaneous Expenses	2500	By Interest received	3000
To Insurance Premium	1800		
To Office expenses	1500		
To Discount allowed	1400		
To Loss due to fire	800		
To Bad debts	1000		
To Bank Charges	500		
To Travelling expenses	600		
To Advertisement expenses	1200		
To Audit fees	3000		
To Interest on loan	3500		
To Net Profit (Transferred to Capital A/c)	46,200		
	79,000		**79,000**

Note: Since Gross profit is given in Trial Balance, trading account is not required to be prepared.

Illustration 3 : Following balances extracted from the trial balance of Poonam as on 31-03-2015. Prepare Trading Account and Profit & Loss Account showing Operating profit. Pass closing entries for Trading Account and profit & Loss Account.

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
Stock (Dt. 1-04-2014)	2,00,000	Discount allowed	4000
Purchases	39,83,400	Rent paid	800
Sales	46,00,000	Rent received	6000
Purchase Returns	2,00,000	Interest on long term loan	15,000
Sales Returns	3,00,000	Interest received	5000
Carriage Inward	5000	Loss on sale of fixed assets	5000
Carriage Outward	7000	Profit on sale of fixed assets	8800
Wages	35,000		
Railway Freight	30,000		
Salary	24,000		
General expenses	4000		
Commission allowed	6600		

Closing Stock as on 31-03-2015 was ₹ 1,90,000.

Ans. : **Trading Account of Poonam for the year ending on 31-03-2015**

Dr Cr

Particulars		**Amount (₹)**	**Particulars**		**Amount (₹)**
To Opening Stock (Dt. 1-04-2014)		2,00,000	By sales	46,00,000	
Purchase	39,83,400		− Sales returns	3,00,000	43,00,000
− Purchase returns	2,00,000	37,83,400			
To Carriage Inward		5000	Closing Stock (Dt. 31-03-2015)		1,90,000
To Wages		35,000			
To Railway Freight		30,000			
Gross Profit		4,36,600			
(Transfer to Profit & Loss A/c)					
		44,90,000			**44,90,000**

Profit & Loss Account of Poonam for the year ending 31-03-2015

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Carriage Outward	7000	Gross Profit	4,36,600
To Salary	24,000	(Transferred from Trading	
To General Expenses	4000	Account)	
To Commission allowed	6600		
To Rent Paid	800		
To Discount Allowed	4000		
To Operating Profit (c/f)	3,90,200		
	4,36,600		**4,36,600**
To Interest on Long –term Loan	15,000	By Operating Profit (c/f)	3,90,200
To Loss on sale of fixed assets	5000	By Rent received	6000
Net Profit (Transferred to	3,90,000	By Interest received	5000
Capital Account)		By Profit on sale of fixed assets	8800
	4,10,000		**4,10,000**

Closing Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2015				
March 31	Trading Account Dr		45,53,400	
	To Opening Stock Account			2,00,000
	To Purchase Account			39,83,400
	To Sales Returns Account			3,00,000
	To Carriage Inward Account			5000
	To Wages Account			35,000
	To Railway Freight Account			30,000
	[Being the above mentioned accounts are closed and transferred to trading account.]			
	Sales Account Dr		46,00,000	
	Purchase Returns Account Dr		2,00,000	
	To Trading Account			48,00,000
	[Being the above mentioned accounts are closed and transferred to trading account.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Closing Stock Account Dr		1,90,000	
	To Trading Account			1,90,000
	[Being the closing stock is recorded in the books of account]			
	Trading Account Dr		4,36,600	
	To Profit & Loss Account			4,36,600
	[Being the result of trading account, gross profit, is transferred to Profit & Loss account.]			
	Profit & Loss Account Dr		66,400	
	To Carriage Outward account			7000
	To Salary Account			24,000
	To General Expenses Account			4000
	To Commission given Account			6600
	To Rent paid Account			800
	To Discount allowed Account			4000
	To Interest on long term loan Account			15,000
	To Loss on sale of fixed assets			5000
	[Being the above mentioned accounts are closed and transferred to Profit & Loss Account.]			
	Rent received Account Dr		6000	
	Interest received Account Dr		5000	
	Profit on sale of fixed assets Account Dr		8800	
	To Profit & Loss Account			19,800
	[Being the above mentioned accounts are closed and transferred to Profit & Loss Account.]			
	Profit & Loss Account Dr		3,90,000	
	To Capital Account			3,90,000
	[Being the Net profit transferred to Capital Account.]			
	Total		**1,04,56,200**	**1,04,56,200**

7. Balance Sheet

(1) **Meaning of Balance Sheet :** A Balance Sheet is a statement showing financial position of the enterprise at a given date.

According to Batliboi "A Balance Sheet may be defined as a statement prepared with a view to measures the exact financial position of business on a certain fixed date."

"A statement showing assets, liabilities, receivables and capital of the business on a particular date is known as Balance Sheet."

"Balance Sheet is a statement in which one (left) side shows how many Capital-Liabilities of business are there and second (right) side shows how many Assets-Receivables of business are there."

(2) **Objectives of Balance Sheet:** To show the financial position of a business.

(3) **Items of Balance Sheet:** Balance Sheet is not an account but it is a statement. Its left side shows "Capital and Liabilities or Liabilities". Capital Account of the owner of the business, loan borrowed accounts and creditors' accounts are shown on this side. The right side of the Balance Sheet shows Assets and Receivables accounts.

Items which are shown on the Liabilities side and Assets side of the Balance Sheet are as under :

Items of Balance Sheet

- Items shown on Liabilities Side
  - Owner's fund
    - Capital
    - Reserves and Surplus
  - Non-current Liabilities
  - Current Liabilities
- Items shown on Assets Side
  - Non-current Assets
    - Fixed Assets
    - Non-current Investments
    - Long Term Loan
    - Other Non-current Assets
  - Current Assets

- **Items to be shown on the liabilities side :**

  (a) **Capital :** Personal capital brought in the business by the owner is known as capital. In other words, capital shows the investment made by the owner. Additional capital, interest on capital and profit are added in the capital, whereas, loss, drawings and interest on drawings are deducted from capital.

  (b) **Liabilities:** Liabilities refer to financial obligation for which enterprise is liable to pay. Normally, following items are included in liabilities. There are two types of liabilities, noncurrent liabilities and current liabilities. Current liabilities are also known as short term liabilities.

    (i) **Non-current liabilities or Long term liabilities**: Liabilities which are not payable in short period are called long term liabilities. Normally, non-current liabilities are not payable within 12 months from the date of Balance Sheet. For example : Long term bank loan, debenture in case of company etc.

    (ii) **Current Liabilities:** Liabilities which are payable in a short period are called current liabilities. Normally, liabilities payable within 12 months from the date of balance sheet are known as current liabilities. For example: Creditors for goods, bills payable, outstanding expenses, instalment of loan payable within 12 months.

(iii) **Contingent Liability:** Contingent liability is a liability which is not an actual liability, but it may become one in future. It depends on future event. For example, Bills receivable received from debtor which is discounted in the bank is called contingent liability. If debtor does not pay the amount of discounted bills to bank then its amount will be paid by the enterprise. Therefore, bill discounted in the bank is a contingent liability. If discounted bill gets dishonoured in future it becomes actual liability. Contingent liability is written in the inner column of liabilities side of the balance sheet. Contingent liabilities are not shown in the total of Balance sheet.

- **Items to be shown on the Assets side :**

Normally following items are shown on the assets side.

(a) **Non current assets :**

(1) **Fixed Assets:** Fixed assets are long term assets. Fixed assets are not held for resale. These assets are used to generate revenue income. If it is a manufacturing company, it is used for the production of goods. For example: machinery. Fixed assets are also purchased for office use. For example: Furniture, building etc. Fixed assets are also known as Noncurrent assets. Fixed assets are of two types.

(i) **Tangible fixed assets:** Those fixed assets which can be seen and touched are called tangible fixed assets. For example: Land-building, machinery, furniture etc.

(ii) **Intangible fixed assets:** Those fixed assets which can neither be seen nor touched are called intangible assets. For example: Goodwill, patent, copyright, trademark. These assets have a value.

Fixed assets are shown at depreciated value in the balance sheet.

(2) **Investments:** Investment is an expenditure on assets to earn interest, dividend or other income. For example: Investment in share, debenture, bond, fixed deposits etc.

(3) Long term loans and advances

(4) Other non-current assets

(b) **Current assets:** Those assets which are convertible into cash in a short period are called current assets. Normally, assets which are converted into cash within 12 months and other current assets include the following :

(1) Cash and Bank balance

(2) Convertible into cash e.g. Debtors, Finished goods stock, Bills receivables, Income receivables.

(3) Consumable goods for production e.g. raw material stock, semi-finished goods stock

Note : Stock is shown at cost price or market price whichever is less.

- **Fictitious Assets:** Those assets which cannot be seen and have zero value in the market are called fictitious assets. Deferred revenue expenditures are fictitious assets. In this expenses, the benefit is available for long period, are not written off in one year but they are shown as fictitious assets in the balance sheet and every year certain amount is written off in the profit & loss account e.g. advertisement campaign expenses.

Note : Owners' funds are shown after deduction of fictitious assets from reserve and surplus.

(4) **Presentation of balance-sheet :** Balance Sheet can be prepared in two different arrangements.

(a) **Particulars arranged in the order of permanency :**

(i) The asset having longest life is shown first on the asset side e.g. Goodwill and other fixed assets are shown in order of permanency and cash is shown at last. If there is deferred revenue expenditure, it would be shown at last.

(ii) The liability which is for the longest period is shown first on the liabilities side. Capital and profit are shown first, because they are the most permanent in the business. Current liabilities are shown at last on this side.

(b) **Particulars arranged in the order of Liquidity:** Generally, this order is exactly opposite of the permanency order. Cash and bank balance come first on the basis of liquidity on the asset side. Thereafter, other current assets and finally, fixed assets come.

On the liabilities side, debt payable first is shown first and thereafter long term debt and capital are shown at last.

Generally, in most of the firms, Balance Sheet is prepared in the order of permanency. The order of liquidity is more suitable for banks and financial institutions. As Balance Sheet is not an account, thus there are no closing entries of account.

Balance Sheet in order of permanency

Liabilities	Amount (₹)	Assets	Amount (₹)
(1) Capital	✓	(1) Noncurrent Assets	✓
(2) Noncurrent liabilities	✓	(2) Current Assets, Loans-advances	✓
(3) Current liabilities	✓	(3) Fictitious assets	✓
		(which are shown here separate	✓
	✓	or can be deduct from capital)	✓

Balance Sheet in order of Liquidity

Liabilities	Amount (₹)	Assets	Amount (₹)
(1) Current liabilities	✓	(1) Current Assets,	✓
(2) Noncurrent liabilities	✓	Loan-advances	
(3) Capital	✓	(2) Noncurrent Assets	✓
	✓		✓

(5) **Specimen of balance-sheet :** No specimen of balance sheet is given for proprietary concern or partnership firm. For Company, specimen of Balance Sheet is given in Companies Act, 2013.

After considering the above particulars, the specimen of Balance Sheet can be prepared as under. It is advisable to prepare Balance sheet in important groups (assets and Liabilities (It is not mandatory)) in the case of proprietary concern and partnership firm.

At present, accounts are prepared in computer, in which balances of accounts are shown under various groups.

Specimen of Balance sheet can be shown as under :

Balance Sheet of Shri .... as on ....

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital :		**Noncurrent Assets :**	
Opening Balance ✓		**Fixed Assets :**	
+ Addition in Capital ✓		Goodwill	✓
+ Interest on Capital ✓		Land	✓
+ Net Profit ✓		Building	✓
✓		Leasehold Assets	✓
Less :		Machinery	✓
Drawings ✓		Furniture & Fittings	✓
+ Int. on Drawings ✓		Patents	✓
+ Net Loss ✓ ✓	✓	Trademark	✓
General Reserves	✓	Copy rights	✓
Capital Reserves	✓	Live Stocks	✓
Other Reserves	✓	Vehicles	✓
Workers Compensation fund	✓	Loose Tools	✓
Investment fluctuation fund	✓	Government Securities	✓
Noncurrent Liabilities :		Provident Fund Investments	✓
Bank Loan	✓	Investments in Shares,	✓
Other financial Instit. loan	✓	Debentures or Bonds	
Fixed Deposits	✓	**Current Assets :**	
Loan taken from friends	✓	Closing Stock	✓
and relatives		Sundry Debtors	✓
Current Liabilities		Cash Balance	✓
Bank Overdraft	✓	Bank Balance	✓
Sundry Creditors	✓	Stores & Spare parts	✓
Bills Payable	✓	Income Receivables	✓
Outstanding expenses	✓	**Loans :**	
Income received in advance	✓	Loans lent	✓
Workman profit sharing funds	✓	Bills Receivables	✓

Liabilities	Amount (₹)	Assets	Amount (₹)
Provision for tax	✓	Loans given to Employee	✓
Provident fund	✓	Advance paid for purchase	✓
		Expenses paid in advance	✓
		Expenses not written off and Losses :	
		Deferred Revenue Expenses	✓
	✓✓✓		✓✓✓

Two structures prevail for presenting Balance Sheet :

(1) Horizontal or 'T' Form of Balance Sheet, in which liabilities are shown on the left hand side and assets are shown on the right hand side. This type of form is shown above.

(2) Vertical or 'I' Form of Balance Sheet, which can be prepared as under.

Balance Sheet of Shri ……… as on …………

Particulars (Liabilities)	**Amount (₹)**	**Amount (₹)**	**Amount (₹)**
(1) Owner's Fund :			
(a) Capital : Opening Capital	✓		
+ Additional Capital	✓		
+ Interest on Capital	✓		
+ Net Profit	✓	✓	
Less : Drawings	✓		
+ Interest on Drawings	✓		
+ Net Loss	✓	✓	
		✓	
(b) Reserves & Surplus			
General Reserves	✓		
Other Reserves	✓		
− Fictitious Assets	✓		
Net owners' funds	✓	✓	✓
(2) Non-Current Liabilities :			
(a) Secured Loans	✓		
(b) Unsecured Loans	✓		✓

Particulars (Liabilities)	Amount (₹)	Amount (₹)	Amount (₹)
(3) Current Liabilities :			
(a) Current Liabilities	✓		
(b) Provisions	✓		✓
Total			✓✓✓
Assets :			
(1) Non-Current Liabilities :			
(a) Gross Fixed Assets	✓		
– Depreciation	✓	✓	
(b) Investments		✓	✓
(2) Current Assets, Loans & Advances :			
Current Assets	✓		
Loans & Advances	✓		✓
Total Assets			✓✓✓

8. Comparision of trial balance and balance sheet :

Points of Difference	Trial Balance	Balance Sheet
(1) Meaning	Statement showing debit and credit balance of accounts is called a trial balance.	Statement Showing the financial position of the business on a particular date is called a balance sheet.
(2) Objectives	The objective of preparing trial balance is to know the arithmetical accuracy of the accounts.	The objective of preparing balance sheet is to know the financial position of the business.
(3) Time of preparing the statement	Trial balance is prepared before preparing annual accounts and sometimes more than once during the year for checking the correctness of accounts.	Balance Sheet is generally prepared at the end of the accounting year. It is a part of annual accounts.
(4) Sides	Trial balance has two sides debit & credit.	Balance Sheet has two sides- "Liabilities" and "Assets".
(5) Accounts to be shown	The balances of the ledger accounts. i.e. personal, real and nominal accounts are shown in the trial balance.	In Balance Sheet, the balance of only personal and real accounts are shown.
(6) Necessity	It is not compulsory to prepare trial balance.	The preparation of balance sheet is essential. For the company form, balance sheet is to be prepared in the prescribed form as per companies Act, 2013.

Points of Difference	Trial Balance	Balance Sheet
(7) Adjustment Effect	It can be prepared without incorporating the items of adjustment.	It cannot be prepared without incorporating the items of adjustment.
(8) Net profit/ Net Loss	Information about net profit /net loss is not available in a Trial Balance	Information about net profit /net loss is available in Balance Sheet

Illustrations of Annual Accounts Excluding Adjustments :

Illustration 4 : Prepare annual accounts of Krupa from her trial balance as on 31-03-2015.

Trial Balance of Krupa as on 31-3-2015

Name of Account	L.F.	Debit (₹)	Credit (₹)
Opening Stock		60,000	
Capital and Drawings		12,000	2,00,000
Building		1,00,000	
Machinery		50,000	
Furniture & Fittings		10,000	
Purchase & Sales		1,15,000	3,16,000
Wages		1500	
Carriage Inwards		3000	
Purchase Returns			14,000
Sales Returns		10,000	
Discount allowed		8000	
Discount received			3000
Salary		48,000	
Advertisement expenses		4000	
Rent & Taxes		1500	
Interest received			1000
Stationery & Printing		2000	
Cash on hand		10,000	
Bank balance		80,000	
Bills receivables		5000	
Bills payables			6000
Debtors		80,000	
Creditors			60,000
		6,00,000	**6,00,000**

The cost price of stock as on 31-03-2015 was ₹ 10,000, whereas, its market value was ₹ 12,000.

Ans. : **Trading Account of Krupa for the year ending on 31-03-2015**

Dr | | | | | Cr

Particulars		Amount (₹)	Particulars		Amount (₹)
To Opening Stock		60,000	By Sales	3,16,000	
To purchase	1,15,000		− Sales returns	10,000	3,06,000
− Purchase return	14,000	1,01,000			
To Wages		1500	By Closing Stock		10,000
To Carriage Inward		3000			
To Gross Profit (Transferred to Profit & Loss Account)		1,50,500			
		3,16,000			**3,16,000**

Profit & Loss Account of Krupa for the year ending 31-03-2015

Dr | | | | Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Discount given	8000	By Gross Profit (Transferred from Trading Account)	1,50,500
To Salary	48,000		
To Advertisement Expenses	4000	By Discount received	3000
To Rent & Taxes	1500	By Interest received	1000
To Stationary & Printing	2000		
To Net Profit (Transferred to Capital)	91,000		
	1,54,500		**1,54,500**

Balance Sheet of Krupa as on 31-03-2015

Liabilities		Amount (₹)	Assets	Amount (₹)
(1) **Capital :**	2,00,000		(1) **Non-current assets :**	
+ Profit	91,000		Building	1,00,000
	2,91,000		Machinery	50,000
− Drawings	12,000	2,79,000	Furniture & Fittings	10,000
(2) **Non-current liabilities :**			(2) **Current assets :**	
(3) **Current liabilities :**			Cash on hand	10,000
Bills Payable		6000	Bank Balance	80,000
Creditors		60,000	Bills Receivables	5000
			Debtors	80,000
			Closing Stock	10,000
		3,45,000		**3,45,000**

9. Adjustments

On the basis of transaction taken place during the year, journal, ledger and trial balance are prepared. Those transactions which are recorded have effect on the trial balance.

"Adjustment means those financial transactions of business which are not recorded or wrongly recorded in accounts and it is required for rectifications."

Accounting effects of adjustments are given to know the true and fair profit/loss and financial position of the business.

Now, let us understand adjustments about different particulars with illustration as under :

Rules for Adjustment Effect : Remember following information at the time of giving effect of adjustments.

(1) Give debit effect and credit effect of the same amount of adjustment i.e. If Debit effect of adjustment is of ₹ 10,000 then credit effect has to be of ₹ 10,000.

(2) As per rules of debit and credit effect, adjustment effect will be given in Trading Account, Profit & Loss Account and Balance sheet.

(1) **Closing Stock :** (i) Raw Materials, (ii) Semi-finished goods (iii) Finished goods etc. are included in Closing Stock

Accounting effect of Closing Stock :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Closing Stock Account Dr		✓	
	To Trading Account			✓
	[Being closing stock is brought in the books of account at the end of the year.]			

Effect in Final Accounts

Closing Stock

Assets side of Balance Sheet ↓ Debit balance effect

Credit side of Trading Account ↓ Credit Effect

Illustration 5 : Other than Trial Balance of Rajan, Closing stock of ₹ 8000 is shown as on 31-03-2015. Final accounts are closed (ended) on 31-03-2015. Pass adjustment entry and show its effect in final (annual) accounts.

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Closing Stock Account Dr		8000	
	To Trading Account			8000
	[Being closing stock is brought in the books of account at the end of the year.]			

Effect in Final Accounts :

Trading Account of Rajan for the year ending on 31-3-2015

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
		By Closing Stock	8000
		Credit effect	

Balance Sheet of Rajan as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Current Assets :	
		Closing Stock	8000
		Debit balance effect	

(2) **Unpaid or Outstanding Expenses :** Those expenses which are incurred during the current accounting period but the same were not paid during the current accounting period are called unpaid expenses or outstanding expenses. For example unpaid rent, unpaid telephone bill etc.

Accounting effect of Unpaid Expenses :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Respective Expense Account Dr		✓	
	To Outstanding Expense Account			✓
	[Being the adjustment entry for unpaid expense.]			

Effect in Final Accounts :

Effect of Outstanding Expenses in Final Accounts

On the Debit side of Profit & Loss Account
or Trading Account
Unpaid expenses will be added
in respective expense
↓
Debit effect

On the Liabilities side of
Balance Sheet,
as current liabilities
↓
Credit balance Effect

Illustration 6 : Trial Balance of Mahesh as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Rent-Taxes		11,000	

Adjustment : Rent-taxes of ₹ 1000 unpaid at the end of the year.

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Rent-Taxes Account Dr		1000	
	To Outstanding Rent-Taxes Account			1000
	[Being the adjustment entry for unpaid rent-taxes]			

Effect in Final Accounts

On the Debit side of
Profit & Loss Account
Add in Rent-Taxes
↓
Debit effect

On the Liabilities side of
Balance Sheet, as current liabilities
(unpaid Rent-Taxes)
↓
Credit balance Effect

Profit & Loss Account of Mahesh for the year ending on 31-03-2015

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Rent-Taxes 11,000 + Outstanding 1000 Debit effect	12,000		

Balance Sheet of Mahesh on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Current Liabilities :			
Outstanding Rent-Taxes Credit balance effect	1000		

(3) Prepaid Expenses: Certain expenses like insurance premium, taxes, subscription etc. are paid in advance. Portion of these expenses paid for the next year should not be considered as expense and the same amount will be deducted.

Accounting effect of Prepaid Expenses :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Prepaid Expense Account Dr To Expense Account [Being the adjustment entry for expense paid in advance.]		✓	✓

Effect in Final Accounts

On the Debit side of Trading / Profit & Loss Account, prepaid expenses will be deducted from respective expenses
↓
Credit effect

On the Assets side of Balance Sheet, (as Current Assets)
↓
Debit balance effect

Illustration 7 : Trial Balance of Alay as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Insurance Premium		15,000	

Adjustment: Out of insurance premium paid, ₹ 3,000 insurance premiums is paid in advance.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Drધાર (₹)	જમા (₹)
31-3-2015	Prepaid Insurance premium Account Dr To Insurance premium Account [Being the adjustment entry for insurance premium paid in advance.]		3000	3000

Effect in Final Accounts

On the Debit side of Profit & Loss Account, deducted from Insurances Premium
↓
Credit effect

On the Asset side of Balance Sheet, As Current Assets
↓
Debit balance effect

Profit & Loss Account of Alay for the year ending on 31-03-2015

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Insurance Premium 15,000 – Prepaid 3000 Credit effect	12,000		

Balance Sheet of Alay as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Current Assets : Prepaid Insurance Premium Debit balance effect	3000

(4) **Outstanding Income:** At the end of an accounting year, interest on investment, commission, rent etc. are accrued but some incomes are not received.

Accounting effect of Outstanding Income :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Income Receivable Account Dr To Income Account [Being the adjustment entry for income receivable]		✓	✓

Effect in Final Accounts

On the Credit side of Profit & Loss Account, Income receivable will be added in respective income.
↓
Credit effect

On the Asset side of Balance Sheet, (as Current Assets)
↓
Debit balance effect

Illustration 8 : Trial Balance of Sanket as on 31-03-2015

Name of Account	L.F.	Debit (₹)	Credit (₹)
Rent Received			22,000

Adjustment : Rent receivable ₹ 2000.

Ans. : **Adjustment Entry**

Date	Particulars	L.F.	Drધાર (₹)	જમા (₹)
31-3-2015	Rent Receivable Account Dr		2000	
	To Rent Account			2000
	[Being the adjustment entry for rent receivable.]			

Effect in Final Accounts

On the Credit side of Profit & Loss Account, Added to Rent received
↓
Credit effect

On the Asset side of Balance Sheet, as Current Assets
↓
Debit balance effect

Profit & Loss Account of Sanket for the year ending on 31-03-2015

Dr Cr

Particulars	Amount (₹)	Particulars		Amount (₹)
		By Rent received	22,000	
		+ Receivable	2000	24,000
		Credit effect		

Balance Sheet of Sanket as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Current Assets :	
		Rent Receivables	2000
		Debit balance effect	

(5) Income Received in Advance: In business, sometimes certain income or part of certain income is received in advance. e.g. rent, subscription etc.

Accounting effect of Income received in advance :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Income Account Dr		✓	
	To Income received in advance A/c			✓
	[Being the adjustment entry for Income received in advance.]			

Effect in Final Accounts

On the Credit side of Profit & Loss Account deducted from respective income	On the Liabilities side of Balance Sheet, as Current Liabilities
↓	↓
Debit effect	Credit balance effect

Illustration 9 : Trial Balance of Mansi as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Rent Received			26,000

Adjustment: Rent received in advance ₹ 2000.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Rent Account Dr		2000	
	To Rent received in advance Account			2000
	[Being the adjustment entry for rent received in advance.]			

Effect in Final Accounts

On the Credit side of Profit & Loss Account deducted from Rent received	On the Liabilities side of Balance as Current Liabilities
↓	↓
Debit effect	Credit balance effect

Profit & Loss Account of Mansi for the year ending on 31-03-2015

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
		Rent received 26,000	
		− Received in advance 2000	24,000
		Debit effect	

Balance Sheet of Mansi as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
Current Liabilities :			
Rent received in advance	2000		
Credit balance effect			

(6) **Interest on Capital:** Interest on capital is an expense of the business and it is given as additional capital.

Accounting effect of Interest on Capital :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Interest on Capital Account Dr		✓	
	To Capital Account			✓
	[Being the adjustment entry for Interest calculated on capital.]			

Effect in Final Accounts

On the Debit side of Profit & Loss Account,	On the Liabilities side of Balance Sheet, Added to Capital
↓	↓
Debit effect	Credit balance effect

Illustration 10 : Trial Balance of Manisha as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Capital			5,00,000

Adjustment: Calculate interest at 10 % on capital.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Interest on Capital Account Dr		50,000	
	To Capital Account			50,000
	[Being the adjustment entry for Interest calculated at 10% on capital.]			

Effect in Final Accounts

On the Debit side of Profit & Loss Account. Interest on capital	On the Liabilities side of Balance Sheet, Added to Capital
↓	↓
Debit effect	Credit balance effect

Ans. : **Profit & Loss Account Manisha for the year ending on 31-03-2015**

Dr | Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Interest on Capital Debit effect	50,000		

Balance Sheet of Manisha as on 31-03-2015

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital	5,00,000			
+ Int. on capital	50,000	5,50,000		
Credit balance effect				

(7) **Interest on Drawings:** As interest on capital of the proprietor is calculated, in the same manner Interest on drawings is to be recovered. Interest on drawings is an expense of the proprietor and an income of the business.

Accounting effect of Interest on Drawings :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Drawings Account Dr		✓	
	To Interest on Drawings Account			✓
	[Being the adjustment entry for Interest calculated on drawings.]			

Effect in Final Accounts

↙	↘
On the Credit side of Profit & Loss Account	On the Liabilities side of Balance Sheet Added to drawings or deducted from Capital.
↓	↓
Credit effect	Debit balance effect

Illustration 11 : Trial Balance of Haili as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit(₹)
Capital			5,00,000
Drawings		10,000	

Adjustments : (1) Calculate interest at 10 % on capital. (2) Calculate interest at 5 % on drawings.

Ans. : **Adjustment Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Interest on Capital Account Dr To Capital Account [Being the adjustment entry for Interest calculated at 10% on capital.]		50,000	50,000
31-3-2015	Drawings Account Dr To Interest on Drawings Account [Being the adjustment entry for Interest calculated at 5% on drawings.]		500	500

Profit & Loss Account of Haili for the year ending on 31-03-2015

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Interest on Capital Debit effect	50,000	By Interest on drawings Credit effect	500

Balance Sheet of Haili as on 31-03-2015

Liabilities			Amount (₹)	Assets	Amount (₹)
Capital		5,00,000			
+ Int. on capital		50,000			
Credit balance effect		5,50,000			
Less :					
Drawings	10,000				
+ Int.on drawings	500	10,500	5,39,500		
Debit balance effect					

(8) Depreciation : Due to usage of fixed assets of business and other factors, the utility value of the assets reduced which is called depreciation. Depreciation is a type of expense. Hence, it is debited to profit & loss account and the value of asset is reduced, so the assets account is credited.

Accounting effect of depreciation :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Depreciation Account Dr To Assets Account [Being the adjustment entry for depreciation provided.]		✓	✓

Effect in Final Accounts

On the Debit side of Profit & Loss Account.	On the Assets side of Balance Sheet, deducted from Assets.
↓	↓
Debit effect	Credit balance effect

Illustration 12 : Trial Balance of Gopi as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Plant & Machinery		3,00,000	

Adjustment : Provide depreciation on plant & machinery at 10 %.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Drધાર (₹)	જમા (₹)
31-3-2015	Depreciation Account Dr		30,000	
	To Plant & Machinery Account			30,000
	[Being the depreciation provided at 10 % on plant & machinery.]			

Profit & Loss Account of Gopi for the year ending on 31-03-2015

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Depreciation on Plant & Machinery Debit effect	30,000		

Balance Sheet of Gopi as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Plant & Machinery 3,00,000 – Depreciation(10%) 30,000 Credit balance effect	2,70,000

(9) **Bad Debts :** In spite of all attempts made, the amount which cannot be recovered from customers is called Bad debts. This is a loss of business. After preparing trial balance and before preparing final accounts, if information about bad debt is availed then adjustment entry will be passed.

Accounting effect of Bad debts :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bad debts Account Dr To Debtors Account [Being the adjustment entry for bad debts written off from of debtors.]		✓	✓

Effect in Final Accounts

On the Debit side of Profit & Loss Account
↓
Debit effect

On the Assets side of Balance Sheet, deducted from Debtors
↓
Credit balance effect

Illustration 13 : Trial Balance of Rajesh as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Debtors		3,56,000	

Adjustment : Write off ₹ 6000 as bad debts from debtors.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Bad debts Account Dr To Debtors Account [Being the adjustment entry for bad debts written off from of debtors.]		6000	6000

Profit & Loss Account of Rajesh for the year ending on 31-03-2015

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bad debts Debit effect	6000		

Balance Sheet of Rajesh as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Current Assets : Debtors 3,56,000 – Bad debts 6000 Credit balance effect	3,50,000

(10) **Provision for bad debts or doubtful debts:** The receivables which are doubtful and which are not likely to be received in future from the debtors and there is a doubt that the amount will not be recovered then it is probable loss; and for the same, provision is made from the current year's profit, it is called provision for bad debts. The provision made for future bad debts from current year profit is called provision for bad debts. The provision is made on the basis of past experience. Provision for bad debts is the provision against the probable loss.

Accounting effect of Bad debts provision :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit(₹)
	Profit & Loss Account Dr		✓	
	To Provision for bad debts Account			✓
	[Being the adjustment entry for additional provision made for bad debts.]			

Effect in Final Accounts

On the Debit side of Profit & Loss Account, Bad Debt Reserve as per adjustment.
↓
Debit effect

On the Assets side of Balance Sheet, deducted from Debtors.
↓
Credit balance effect

Illustration 14 : Trial Balance of Sajan as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Debtors		1,00,000	
Bad Debts Reserve			6000

Adjustment : Provide bad debt reserve at 10 %.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Profit & Loss Account Dr		4000	
	To Provision for bad debts Account			4000
	[Being the adjustment entry for additional provision made for bad debts.]			

Profit & Loss Account of Sajan for the year ending on 31-03-2015

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bad Debts Reserve 10,000 (As per Adjustment) – Bad Debt Reserve 6000 (As per Trial Balance) Debit effect	4000		

Balance Sheet of Sajan as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Debtors 1,00,000 – Bad debts Reserve 10,000 (10 %) Credit balance effect	90,000

Notes : (1) The provision for doubtful debts given in trial balance is treated as old provision and the provision for doubtful debts given in adjustment is treated as new provision.

(2) In the above illustration, the amount of new provision is more than the amount of old provision. Hence, on the debit side of Profit & Loss Account, from the new provision amount, the old provision is deducted and ₹ 4,000 is shown. In the reverse case, if old provision amount is more than the new provision then the difference amount would be shown on the credit side of the Profit & Loss Account.

Remember :

(1) If provision for doubtful debts is given in trial balance then it should be understood that the provision is made in last year and the same is carried forward this year.

(2) If in adjustment no information about the doubtful debts is given, then it is deemed that the provision of last year is sufficient and no addition or deduction is required to be made in the current year. Under such circumstances only one effect should be given on the asset side of the balance sheet, i.e. deducted from debtors. It is not shown in the Profit & Loss account.

(3) In the example, it is stated that no provision for doubtful debts is required then the amount is to be shown on the credit side of the Profit & Loss account.

(11) **Provision for Discount on Debtors:** If after credit sales to customers, they make payment in due time then cash discount is given to them. The customers are to be given cash discount in future and the provision is made for the same, which is called discount reserve on debtors.

Accounting effect of Discount on Debtors :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Profit & Loss Account Dr		✓	
	To Discount Reserve on debtors Account			✓
	[Being the adjustment entry for provision for discount on debtors.]			

Effect in Final Accounts

On the Debit side of Profit & Loss Account Discount Reserve on Debtors	On the Assets side of Balance Sheet, deducted from Debtors
↓	↓
Debit effect	Credit balance effect

Notes : (1) If the discount reserve is raised on debtors then discount allowed is transferred to discount reserve on debtors account instead of Profit & Loss Account and the discount allowed will be closed.

(2) Discount reserve on debtors' amount is calculated after deducting bad debts and bad debts reserve as per adjustment.

Now to understand the effect of the adjustment no 9,10 and 11, we will understand the following illustration.

Illustration 15 : The following balances are taken from the trial balance of Meena as on 31-03-2015.

Debtors	2,00,000	Bad Debts	10,000
Bad Debt Reserve	5000	Discount Reserve on Debtors	400
Discount Allowed	600		

Adjustments : (1) Write off ₹ 6,000 as bad debts from debtors. (2) Provision for doubtful debts at 5 % is to be made on debtors. (3) Provision for discount reserve on debtors at 1 % is to be made.

Ans. : **Profit & Loss Account of Smt. Meena for the year ending on 31-03-2015 (Partial)**

Particulars		Amount (₹)	Particulars	Amount (₹)
Bad debts (Trial Balance)	10,000			
+ Bad debts (Adjustment)	6000 ←	Debit Effect		
+ Bad Debts Reserve	9700 ←	Debit Effect		
(Adjustment)	25,700			
− Bad Debt Reserve (Trial Balance)	5000	20,700		
Discount given	600			
+ Discount Reserve on Debtors (Adjustment)	1843 ←	Debit Effect		
	2443			
− Discount Reserve on Debtors (Trial Balance)	400	2043		

Balance Sheet of Smt. Meena as on 31-03-2015

Liabilities	Amount (₹)	Assets		Amount (₹)
		Debtors	2,00,000	
		– Bad Debts (Adj.)	6000	
		Credit balance effect	1,94,000	
		– Bad debts Reserve	9700 ←	Credit Effect
		(5 %)(Adjustment)	1,84,300	
		– Discount Reserve on	1843	1,82,457
		Debtors (Adj.)	Credit Effect	

Explanation : Initially, ₹ 6,000 is deducted as bad debts as per adjustment from debtors balance and the balance is ₹ 1,94,000 for debtors after bad debts, and on this balance 5 % is to be provided for doubtful debts. i.e. ₹ 9700. Provision for doubtful debts will be deducted from ₹ 1,94,000 and the balance amount will be ₹ 1,84,300. Now, on the balance of debtors ₹ 1,84,300, discount reserve on debtors is provided at 1 % i.e. ₹ 1, 843.

(12) **Adjustments for goods :** Sometimes adjustments for transaction pertaining to goods are required to be made.

(A) **Credit purchase not recorded:** Sometimes goods are purchased on credit but the same might not have been recorded in purchase book and its information is given in adjustment.

Accounting effect of unrecorded credit purchase :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Purchase Account Dr To Creditors Account [Being unrecorded credit purchase now recorded.]		✓	✓

Effect in Final Accounts

On the Debit side of Trading Account, Added to Purchase
↓
Debit effect

On the Liabilities side of Balance Sheet, Added to Creditors.
↓
Credit balance effect

Illustration 16 : Trial Balance of Nirmi as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Purchase		5,00,000	
Creditors			80,000

Adjustment : Credit purchases of ₹ 20,000 were not recorded.

Ans. : **Adjustment Entry**

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	Purchase Account	Dr		20,000	
	To Creditors Account				20,000
	[Being unrecorded credit purchase now recorded.]				

Trading Account of Nirmi for the year ending on 31-03-2015

Dr Cr

Particulars		Amount (₹)	Particulars	Amount (₹)
To Purchases	5,00,000			
+ Unrecorded purchase	20,000	5,20,000		
Debit effect				

Balance Sheet of Nirmi as on 31-03-2015

Liabilities		Amount (₹)	Assets	Amount (₹)
Creditors	80,000			
+ Unrecorded purchase	20,000	1,00,000		
Credit balance effect				

(B) Credit Sales is not recorded (Unrecorded sales) : Sometimes goods are sold on credit but the same is not recorded in sales book and its information is provided in adjustment.

Accounting effect of unrecorded credit sales :

Adjustment Entry

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	Debtors Account	Dr		✓	
	To Sales Account				✓
	[Being unrecorded credit sales now recorded]				

Effect in Final Accounts

On the Credit side of Trading Account, Added to Sales	On the Assets side of Balance Sheet, Added to Debtors
↓	↓
Credit effect	Debit balance effect

Illustration 17 : Trial Balance of Datta as on 31-03-2015.

Particulars	L.F.	Debit (₹)	Credit (₹)
Sales			6,00,000
Debtors		90,000	

Adjustment : Credit sales of ₹ 15,000 were not recorded.

Ans. :

Adjustment Entry

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	Debtors Account	Dr		15,000	
	To Sales Account				15,000
	[Being unrecorded credit sales now recorded.]				

Trading Account of Datta for the year ending on 31-03-2015

Dr | Cr

Particulars	Amount (₹)	Particulars		Amount (₹)
		By Sales	6,00,000	
		+ Unrecorded Sales	15,000	6,15,000
		Credit effect		

Balance Sheet of Datta as on 31-03-2015

Liabilities	Amount (₹)	Assets		Amount (₹)
		Debtors	90,000	
		+ Unrecorded Credit sales	15,000	1,05,000
		Debit balance effect		

(C) Unrecorded purchase returns: Sometimes goods returned to traders (purchase returns) but the same is not recorded in purchase returns book and its information is provided in adjustment.

Accounting effect of unrecorded credit purchase :

Adjustment Entry

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	Creditors Account	Dr		✓	
	To Purchase returns Account				✓
	[Being unrecorded purchase returns now recorded.]				

Effect in Final Accounts

On the Debit side of Trading Account, deduct from Purchase OR If purchase return is given in Trial Balance then it is added to purchase return and then deducted from purchase.	On the Liabilities side of Balance Sheet, deducted from Creditors.
↓	↓
Credit effect	Debit effect

Illustration 18 : Trial Balance of Shri Pushpa as on 31-03-2015.

Particulars	L.F.	Debit (₹)	Credit (₹)
Purchase		3,00,000	
Purchase returns			20,000
Creditors			50,000

Adjustment : Credit purchase returns of ₹ 5,000 were not recorded.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Creditors Account Dr		5000	
	To Purchase returns Account			5000
	[Being unrecorded credit purchase returns now recorded.]			

Trading Account of Pushpa for the year ending on 31-03-2015

Dr Cr

Particulars		Amount (₹)	Particulars	Amount (₹)
To Purchases	3,00,000			
−Purchase returns 20,000				
+ Unrecorded 5000	25,000	2,75,000		
Purchase returns				
Credit effect				

Balance Sheet of Pushpa as on 31-03-2015

Liabilities		Amount (₹)	Assets	Amount (₹)
Creditors	50,000			
− Unrecorded	5000	45,000		
Purchase returns				
Debit balance effect				

(D) Unrecorded sales returns (Credit): Sometimes goods are returned from customers but the same is not recorded in sales returns book and its information is provided in adjustment.

Accounting effect of unrecorded credit sales returns :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Sales returns Account Dr		✓	
	To Debtors Account			✓
	[Being unrecorded credit sales returns now recorded.]			

Effect in Final Accounts

On the Credit side of Trading Account, deduct from sales. OR If sales returns is given in the Trial Balance then it is add to sales return and deduct from sales.
↓
Debit effect

On the Assets side of Balance Sheet, deduct from Debtors.
↓
↓
Credit balance effect

Illustration 19 : Trial Balance of Pratibha on 31-03-2015.

Particulars	L.F.	Debit (₹)	Credit (₹)
Sales			6,00,000
Debtors		90,000	
Sales return		10,000	

Adjustment : Credit sales returns of ₹ 5,000 were not recorded.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Sales return Account Dr		5000	
	To Debtors Account			5000
	[Being unrecorded credit sales returns now recorded.]			

Trading Account of Pratibha for the year ending on 31-03-2015

Dr | Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
		By Sales 6,00,000 – Sales returns 10,000 + Unrecorded 5000 15,000 sales returns Debit effect	5,85,000

Balance Sheet of Pratibha as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Debtors 90,000 – Unrecorded 5000 Credit sales returns Credit balance effect	85,000

(E) Unrecorded goods gone out by any other way: Goods withdrawn for personal use, goods lost due to theft, goods burnt by fire, goods go out as advertisement from business etc. are not recorded, and its information is provided in adjustment, when following are the adjustment entries are given.

Adjustment Entry

	Particulars	L.F.	Debit (₹)	Credit (₹)
(1)	**Goods withdrawn for personal use :** Drawings Account Dr To Purchase Account [Being the adjustment entry for goods taken for personal use.]		✓	✓
(2)	**Goods lost due to theft :** Loss due to theft Account Dr To Purchase Account [Being the adjustment entry for goods lost due to theft.]		✓	✓
(3)	**Goods Lost due to fire :** Loss due to fire Account Dr To Purchase Account [Being the adjustment entry for goods lost due to fire.]		✓	✓
(4)	**Goods given as sample (advertisement) :** Advertisement Account Dr To Purchase Account [Being the adjustment entry for goods lost due to fire.]		✓	✓

Effect in Final Accounts

(1) Goods withdrawn for personal use

- On the Liabilities side of Balance Sheet, Added to Drawings. ↓ Debit effect
- On the Debit side of Trading Account, deduct from purchase. ↓ Credit effect

(2) Goods lost due to theft

- On the Debit side of Profit & Loss Account, loss due to theft. ↓ Debit effect
- On the Debit side of Trading Account, deduct from purchase. ↓ Credit effect

(3) Goods lost due to fire

- On the Debit side of Profit & Loss Account, loss due to fire. ↓ Debit effect
- On the Debit side of Trading Account, deduct from purchase. ↓ Credit effect

(4) Goods given as sample (advertisement)

- On the Debit side of Profit & Loss Account, Added to adv. exp. ↓ Debit effect
- On the Debit side of Trading Account, deduct from purchase. ↓ Credit effect

Note : (1) If insurance company accepted claim of whole amount for goods burnt by fire than following adjustment entry will be passed.

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Insurance Company Account Dr		✓	
	To Purchase Account			✓
	[Being the goods burnt by fire and insurance company accepted claim of whole amount.]			

Effect in Final Accounts

- On the assets side of Balance Sheet ↓ Debit effect
- On the Debit side of Trading Account, deduct from purchase. ↓ Credit effect

(2) If goods destroyed by fire and Insurance Company accept a claim of partial amount then balance of loss is to be borne by the trader (business), under such circumstances the entry will be as under:

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Insurance Company Account Dr		✓	
	Loss due to fire Account Dr		✓	
	To Purchase Account			✓
	[Being the goods burnt by fire and insurance company accepted claim of partial amount.]			

Effect in Final Accounts

On the Asset side of Balance Sheet, Insurance Company as a Debtors.	On the Debit side of Profit & Loss Account, loss due to fire. (Loss borne by businessmen.)	On the Debit side of Trading Account, Deduct from purchase.
↓	↓	↓
Debit effect	Debit effect	Credit effect

Illustration 20 : Trial Balance of Bhavna as on 31-03-2015.

Particulars	L.F.	Debit (₹)	Credit (₹)
Capital			1,00,000
Drawings		10,000	
Advertisement Expenses		4000	

Adjustments : (1) Goods of ₹ 1000 withdrawn for personal use.

(2) Goods of ₹ 2000 lost due to theft.

(3) Goods of ₹ 3000 distributed as sample.

(4) Goods of ₹ 20,000 burnt by fire and Insurance Company accepted a claim of ₹ 15,000.

Ans. : **Trading Account of Bhavna for the year ended on 31-03-2015**

Dr / Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Purchase ✓			
− By Goods withdrawn for personal use 1000 Credit effect→			
By Goods lost due to theft 2000 Credit effect→			
By Goods given as sample (adv.) 3000 Credit effect→			
By Goods destroyed by fire 20,000 Credit effect→	✓		

Profit & Loss Account of Bhavna for the year ending on 31-03-2015

Dr / Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Advertisement exp. 4000 + Goods given as sample 3000 (Debit effect)	7000		
To Loss due to theft Debit effect→	2000		
To Loss due to fire Debit effect→	5000		

Balance Sheet of Bhavna as on 31-03-2015

Liabilities			Amount (₹)	Assets	Amount (₹)
Capital		1,00,000		Insurance Company Account	15,000
− Drawings	10,000			Debit effect	
+ Goods withdrawn for personal use	1000	11,000	89,000		
	Debit effect				

Explanation : Goods of ₹ 20,000 destroyed by fire. Insurance company accepted a claim of ₹ 15,000. Hence, ₹ 5,000 loss (20000 − 15000) will be borne by the traders.

(13) **Adjustment relating to Rectification of Errors:** When in the books of accounts while writing the accounts, errors occur due to violation of the fundamental principles of accounting and effect is given in wrong account, then to rectify the same, adjustment entry is to be passed.

Illustration 21 : Trial Balance of Nirmi as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Machinery		1,00,000	
Wages		20,000	
Debtors		80,000	
Creditors			40,000
Purchase		1,40,000	
Sales			4,00,000

Adjustments : (1) Labour charges for installation of machinery ₹ 2,000 wrongly debited to wages account. (2) Credit sales of ₹ 10,000 recorded as credit purchase.

Ans. : **Adjustment Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Machinery Account Dr		2000	
	To Wages Account			2000
	[Being the adjustment entry for rectification of installation charges wrongly debited to labour charges]			
31-3-2015	Creditors Account Dr		10,000	
	To Purchase Account			10,000
	[Being the adjustment entry for rectification of credit sales wrongly recorded as credit purchase.]			
31-3-2015	Debtors Account Dr		10,000	
	To Sales Account			10,000
	[Being the adjustment entry for credit sales not recorded.]			

Explanations : Adjustment No. 1 : Wages for installation of machinery is capital expenditure, hence it should be debited to machinery account. It should not be debited to wages account. To rectify the same, machinery account debited and wages account credited.

Adjustment No. 2: Credit sale is wrongly debited to credit purchase account. The amount of purchase and creditors is wrongly recorded. Hence showing excess amount. Therefore, credit purchase entry is reversed.

Effect in Final Accounts

(Adjustment 1)

On the Assets side of Balance Sheet, add to machinery. ↓ Debit effect

On the Debit side of Trading Account, deducted from wages ↓ Credit effect

(Adjustment 2)

For Purchase

- On the Debit side of Trading Account, deduct from purchase ↓ Credit effect
- On the Liabilities side of Balance Sheet, deduct from creditors. ↓ Debit balance effect

For Sales

- On the Credit side of Trading Account, add to sales. ↓ Credit effect
- On the Assets side of Balance Sheet, add to debtors. ↓ Debit balance effect

Trading Account of Nirmi for the year ending on 31-03-2015

Dr | Cr

Particulars		Amount (₹)	Particulars		Amount (₹)
To Purchase	1,40,000		By Sales	4,00,000	
– Wrongly rec. purchase	10,000	1,30,000	+ Unrecorded sales	10,000	4,10,000
(2) Credit effect					
– To Wages	20,000	18,000	(3) Credit effect		
machinery installation	2000				
(1) Credit effect					

Balance Sheet of Nirmi as on 31-03-2015

Liabilities		Amount (₹)	Assets		Amount (₹)
			Machinery	1,00,000	
			+ Installation charges	2000	1,02,000
			(1) Debit balance effect		
Creditors	40,000		Debtors	80,000	
– wrongly recorded purchase	10,000	30,000	+ Unrecorded sales	10,000	90,000
(2) Debit balance effect			(3) Debit balance effect		

(14) **Stationary stock :** If at the end of the year there is an unused stationary stock then its information is given in adjustment.

Accounting effect of stationary stock :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Stationary stock Account Dr To Stationary expense account [Being the adjustment entry for stationary stock at the end of the year]		✓	✓

Effect in Final Accounts

On the debit side of Profit & Loss Account, deducted from stationary expenses. ↓ Credit effect	On the Assets side of Balance Sheet Stationary stock as an assets. ↓ Debit balance effect

Note : The adjustment entry for the stock of postage and stamps, stock of advertisement, packing materials etc. can be passed in the same manner.

Illustration 22 : Trial Balance of Chirag as on 31-03-2015.

Name of Account	L.F.	Debit (₹)	Credit (₹)
Stationary expense		14,000	

Adjustments : Stationary stock of ₹ 2000 as on 31-03-2015.

Ans. :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2015	Stationary stock Account Dr To Stationary expense account [Being the adjustment entry for stationary stock at the end of the year.]		2000	2000

Profit & Loss Account of Chirag for the year ending on 31-03-2015

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Stationary expense 14,000 − Stationary stock 2000 Credit effect	12,000		

Balance Sheet of Chirag as on 31-03-2015

Liabilities	Amount (₹)	Assets	Amount (₹)
		Stationary stock Debit balance effect	2000

(15) **Commission on Profit:** Many times the manager of the firm gets commission on profit in addition to his salary which being an expense of the firm has to be debited to Profit & Loss account and credited to outstanding commission account.

For example: The profit of a business at the end of the year is ₹ 3,30,000 and the manager of the firm is to be paid 10% commission. Adjustment entry will be passed as under.

Accounting effect of commission on profit :

Adjustment Entry

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Manager commission Account Dr		33,000	
	To Outstanding commission account			33,000
	[Being the adjustment entry for commission of manager on profit.]			

Effect in Final Accounts

On the debit side of Profit & Loss Account, Manager commission as expenses.	On the Liabilities side of Balance Sheet Outstanding manager commission.
↓	↓
Debit effect	Credit balance effect

Note : In the above example, if manager is to be given commission on net profit after charging such commission on profit, then the calculation of manager's commission will be as under. The adjustment entry and the two effects will be same as above.

$$\text{Manager's commission} = \frac{\text{Net Profit} \times \text{Rate of Commission}}{100 + \text{Rate of Commission}}$$

$$= \frac{3{,}30{,}000 \quad 10}{100 - 10}$$

$$= 30{,}000$$

OR

Suppose Net profit after manager's commission = 100

+ Manager's commission = 10

Net profit before manager's commission = 110

₹ Profit before commission	₹ Manager's commission	
110	10	
3,30,000	(?)	₹ 30,000 Manager's commission

(16) **Adjustment for Reserves:** Sometimes in order to increase the financial strength of business and considering the future difficulties, the firm transfers some portion of profit to general reserve. This general reserve is a part of profit only, which is shown separately, and not added to the capital.

Illustration 23 : The net profit of firm of Harish for the year ended 31-03-2015 is ₹ 5,00,000, out of which ₹ 50,000 is to be transferred to General Reserve. Pass the adjustment entry for the same.

Ans. : **Adjustment Entry**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Profit & Loss Account Dr		50,000	
	To General reserve account			50,000
	[Being amount transferred to General reserve from the net profit at the end of the year.]			

Effect in Final Accounts

On the debit side of Profit & Loss Account, General reserve
↓
Debit effect

On the Liabilities side of Balance Sheet, General reserve account
↓
Credit balance effect

Profit & Loss Account of Harish for the year ending on 31-03-2015

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
General Reserve Debit effect →	50,000		
Net Profit (Capital account)	4,50,000		

Balance Sheet of Harish as on 31-03-2015

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital	✓			
+ Net Profit	4,50,000	✓		
Gen. Reserve	Credit bal. effect →	50,000		

(17) Implied or Hidden adjustment: Those adjustments which are not given below the trial balance but are implied or understood from the details given in trial balance and the effects of same are to be given in the annual accounts, are called hidden or implied adjustments. Let us understand such hidden adjustments through illustration.

(a) Unpaid salary (b) Insurance premium (c) Bank loan interest

(d) Leasehold building (e) Investment interest

Trial Balance of R. K. Traders as on 31-03-2015

Name of Account	L.F.	Debit (₹)	Credit (₹)
(a) Salary (up to dt. 28-02-2015)		1,21,000	
(b) Insurance –premium (including premium of ₹ 6000 up to dt. 30-09-2015)		20,000	
(c) 12 % Bank loan			1,00,000
Interest on bank loan paid		10,000	
(d) Leasehold building (Lease expires on dt. 31-03-2019)		5,00,000	
(e) Investment in 12 % debentures of ABC company		2,00,000	
Interest received on investment			12,000

Explanation : (a) Unpaid salary : Here from the trial balance, the salary ₹ 1,21,000 is paid for 11 months. Hence 1 month's (March 2015) salary is unpaid.

$$\text{1 month salary} = \frac{\text{11 months' salary paid}}{\text{11 months}}$$

$$= \frac{1,21,000}{11}$$

$$\text{1 month salary} = ₹\ 11,000$$

Effect in Final Accounts

On the debit side of Profit & Loss Account, add in salary	On the Liabilities side of Balance Sheet Outstanding salary as a liability.
↓	↓
Debit effect	Credit balance effect

(b) Insurance premium: Insurance premium of ₹ 6,000 is paid up to 30-09-2015. Accounting year is ended on dt. 31-03-2015. Hence 6 months (1-04-2015 to 30-09-2015) insurance premium is paid in advance.

6 months insurance premium $= \frac{6000}{2}$

$= ₹\ 3000$

Insurance Premium paid in advance, ₹ 3000 :

Effect in Final Accounts

On the debit side of Profit & Loss Account, deduct from insurance premium.	On the Assets side of Balance Sheet, Prepaid insurance premium as a receivable.
↓	↓
Credit effect	Debit balance effect

(c) Bank loan interest : 12 % bank loan interest = 1,00,000 × 12 % = ₹ 12,000

Total bank loan interest =	₹ 12,000
– Paid bank loan interest =	₹ 10,000
Unpaid interest =	₹ 2000

Effect in Final Accounts

On the debit side of Profit & Loss Account, add in bank interest.	On the Liabilities side of Balance Sheet, add in Bank loan (consider as interest accrued and due).
↓	↓
Debit effect	Credit balance effect

(d) Leasehold building :

Value of Leasehold building = ₹ 5,00,000

Period of the lease = 5 years [expire on 31-03-2019]

[2014-15, 2015-16, 2016-17, 2017-18, 2018-19]

Annual amount written off $= \frac{5,00,000}{5} = ₹\ 1,00,000$

Written off Leasehold building is ₹ 1,00,000 :

Effect in Final Accounts

On the assets side of Balance Sheet, deducted from Leasehold building	On the debit side of Profit & Loss Account, leasehold building written off
↓	↓
Credit balance effect	Debit effect

(e) Interest receivable on investment :

Investment in 12 % ABC Company's debenture	=	₹ 2,00,000
Total Interest receivable = 2,00,000 12 %	=	₹ 24,000
− Actual received interest	=	₹ 12,000
Interest yet to be receivable	=	₹ 12,000

Effect in Final Accounts

On the credit side of Profit & Loss Account, added in Interest on investment.	On the assets side of Balance Sheet, Interest on investment receivable
↓	↓
Credit effect	Debit balance effect

Profit & Loss Account of R. K. Traders for the year ending on 31-03-2015

Dr | Cr

Particulars		Amount (₹)	Particulars		Amount (₹)
To Salary	1,21,000		Interest on investment	12,000	
+ Unpaid salary	11,000	1,32,000	+ Interest receivable	12,000	24,000
(1) Debit effect			(5) Credit effect		
To Insurance – premium	20,000				
− Prepaid ins. premium	3000	17,000			
(2) Credit effect					
To Bank loan interest	10,000				
+ Unpaid	2000	12,000			
(3) Debit effect					
To Leasehold building written off		1,00,000			
(4) Debit effect					

Balance Sheet of R. K. Traders as on 31-03-2015

Liabilities		Amount (₹)	Assets		Amount (₹)
Unpaid salary		11,000	Leasehold building	5,00,000	
(1) Credit effect			– Written off	1,00,000	4,00,000
12 % Bank loan	1,00,000		(4) Credit effect		
+ Unpaid interest	2000	1,02,000	Prepaid insurance premium		3000
(3) Credit effect			(2) Debit effect		
			12 % ABC Company debenture		2,00,000
			Interest receivable on investment		12,000
			(5) Debit effect		

After understanding different adjustments in detail, entries of these adjustments and their effects in final accounts can be briefly summarised in a chart as follows:

No.	Adjustment	Adjustment Entry	First Effect	Second Effect
(1)	Closing Stock	Closing Stock A/c Dr To Trading A/c	Trading account credit side (Credit effect)	Balance sheet assets side as an assets (Debit effect)
(2)	Outstanding expense	Expense A/c Dr To Outstanding expense A/c	Trading account or Profit & Loss account, addition in the respective expense (Debit effect)	Balance sheet liabilities side as liability (Credit effect)
(3)	Prepaid expense	Prepaid expense A/c Dr To Expense A/c	Trading account or Profit & Loss account, deduction from the respective expense (Credit effect)	Balance sheet assets side as an assets (Debit effect)
(4)	Income receivable	Income receivable A/c Dr To Income A/c	Profit & Loss account, addition to the respective income (Credit effect)	Balance sheet assets side as an assets (Debit effect)
(5)	Income received in advance	Income A/c Dr To Income received in advance A/c	Profit & Loss account, deduction from respective income (Debit effect)	Balance sheet liabilities side as a liability (Credit effect)
(6)	Interest on capital	Interest on capital A/c Dr To Capital A/c	Profit & Loss account debit side (Debit effect)	Balance sheet liabilities side as addition to capital (Credit effect)
(7)	Interest on drawings	Drawings A/c Dr To Interest on drawings A/c	Profit & Loss account credit side (Credit effect)	Balance sheet liabilities side addition to drawings and deduction from capital (Debit effect)

No.	Adjustment	Adjustment Entry	First Effect	Second Effect
(8)	Depreciation on Assets	Depreciation A/c Dr To Assets A/c	Profit & Loss account debit side (Debit effect)	Balance sheet assets side deduction from respective fixed assets (Credit effect)
(9)	Bad debts	Bad debts A/c Dr To Debtors A/c	Profit & Loss account debit side, bad debts as per adjustment (Debit effect)	Balance sheet assets side deduction from debtors (Credit effect)
(10)	Provision for doubtful debts	Profit & Loss A/c Dr To Bad debt reserve A/c	Profit & Loss account debit side, bad debts reserves as per adjustment (Debit effect)	Balance sheet assets side deduction from debtors (Credit effect)
(11)	Discount reserve on debtors	Profit & Loss A/c Dr To Discount reserve on debtors A/c	Profit & Loss account debit side (Debit effect)	Balance sheet assets side deduction from debtors (Credit effect)
(12)	Adjustment relating to Goods :			
(i)	Unrecorded credit purchase	Purchase A/c Dr To Creditors	Trading account debit side addition to purchase (Debit effect)	Balance sheet liabilities side addition to creditors (Credit effect)
(ii)	Unrecorded credit Sales	Debtors A/c Dr To Sales A/c	Trading account credit side addition to sales (Credit effect)	Balance sheet Assets side addition to debtors (Debit effect)
(iii)	Unrecorded credit purchase returns	Creditors A/c Dr To Purchase return A/c	Trading account debit side addition to purchase returns and deduction from purchase (Credit effect)	Balance sheet liabilities side deduction from creditors (Debit effect)
(iv)	Unrecorded credit Sales returns	Sales return A/c Dr To Debtors A/c	Trading account credit side addition to sales returns and deduction from sales (Debit effect)	Balance sheet Assets side deduction from debtors (Credit effect)
(v)	Goods withdrawn for personal use and the same is not recorded.	Drawings A/c Dr To Purchase A/c	Trading account debit side deduct from purchase. (Credit effect)	Balance sheet liabilities side deduction from Capital (Debit effect)
(vi)	Goods lost due to theft	Loss due to theft Dr To Purchase A/c	Trading account debit side deduct from purchase. (Credit effect)	Profit & Loss account debit side as loss due to theft (Debit effect)

No.	Adjustment	Adjustment Entry	First Effect	Second Effect
(vii)	Goods distributed as sample for advertisement	Adver. exp. A/c Dr To Purchase A/c	Trading account debit side deduct from purchase. (Credit effect)	Profit & Loss account debit side as advertisement expense (Debit effect)
(viii)	Goods given as donation	Donation A/c Dr To Purchase A/c	Trading account debit side deduct from purchase. (Credit effect)	Profit & Loss account debit side as donation expense (Debit effect)
(ix)	Goods destroyed by fire	Loss due to fire A/c Dr To Purchase A/c	Trading account debit side deduct from purchase. (Credit effect)	Profit & Loss account debit side as loss due to fire (Debit effect)
(x)	Goods destroyed by fire and insurance co. accepted full claim	Insurance Co. A/c Dr To Purchase A/c	Trading account debit side deduct from purchase. (Credit effect)	Balance sheet asset side, Insurance company as debtor (Debit effect)
(xi)	Goods destroyed by fire and insurance co. accepted partial claim	Insurance Co. A/c Dr Loss due to fire A/c Dr To Purchase A/c	Trading account debit side deduct from purchase. (Credit effect)	Accepted Claim amount in Balance sheet asset side, Insurance company as debtor and In Profit & Loss account debit side as loss due to fire (Total amount – Claim amount) (Debit effect)
(13)	Stationary Stock	Stationary Stock Dr To Stationary expense A/c	Profit & Loss account debit side deduction from stationary expense (Credit effect)	Balance sheet asset side, stationary stock (Debit effect)
(14)	Commission payable on profit	Commission A/c Dr To unpaid commission A/c	Profit & Loss account debit side as commission account (Debit effect)	Balance sheet liabilities side, as unpaid comm. (Credit effect)
(15)	Write off proportionate part of leasehold property	Profit & Loss A/c Dr To Leasehold property A/c	Profit & Loss account debit side. (Debit effect)	Balance sheet asset side, deduction from Leasehold property (Credit effect)
(16)	Amount transfer to General reserve from profit	Profit & Loss A/c Dr To General Reserve A/c	Profit & Loss account debit side General reserve account. (Debit effect)	Balance sheet liabilities addition to General reserve if it is otherwise as General reserve (Credit effect)

Accounting effects of adjustments are given in Trading Account, Profit & Loss Account and Balance Sheet. Due to these adjustments, following accounting effects are possible.

(a) Adjustment which is only affected to Trading Account :

(1) Labour expense recorded as railway freight.

(2) Goods given as charity, recorded as personal drawing.

(3) Purchaes recorded as sale etc.

(b) List of adjustments which are affected to Trading Account and Profit & Loss Account :

(1) Goods lost due to theft

(2) Goods distributed as sample

(3) Goods given in donation

(4) Goods destroyed by fire (claim is not accepted by Insurance company)

(c) List of adjustments which are affected to Trading Account and Balance Sheet :

(1) Closing Stock

(2) Unrecorded credit purchase

(3) Unrecorded credit purchase returns

(4) Unrecorded credit sales

(5) Unrecorded credit sales returns

(6) Goods destroyed by fire (Full amount of claim is accepted by Insurance company)

(7) Outstanding expenses which are related to Trading Account (wages, Carriage inward etc.)

(8) Goods withdrawn for personal use

(9) Adjustments relating to rectification of errors which are affected to Trading Account and Balance Sheet. (e.g. Labour charges for machinery installation wrongly debited to labour expense account)

(d) List of adjustments which are only affected to Profit & Loss Account :

(1) Salary expenses recorded as postage expense i.e. expenses on profit & loss account debit side but recorded as other expense.

(2) Income on Profit & Loss account credit side but recorded as other income. i.e. commission income recorded as dividend income.

(e) List of adjustments which are affected to Profit & Loss Account and Balance Sheet :

(1) Outstanding expenses – expenses related to Profit & Loss Account (Salary, Rent etc.)

(2) Prepaid expenses – expenses related to Profit & Loss Account (Salary, Rent etc.)

(3) Income receivables – Income related to Profit & Loss Account (Interest, Dividend, Commission etc.)

(4) Income received in advance – Income related to Profit & Loss Account (Interest, Dividend, Commission etc.)

(5) Interest on capital

(6) Interest on drawings

(7) Depreciation on Assets

(8) Bad debts

(9) Provision for Bad debts

(10) Discount reserve on debtors

(11) Manager's commission on profit

(12) Amount transfer to General Reserve account

(f) List of adjustments which are affected to only Balance Sheet :

(1) Asset is recorded in wrong asset account e.g. By mistake, machinery purchase is recorded in furniture account.

(2) Liability is recorded in wrong liability account e.g. By mistake, entry recorded in expense creditors instead of goods creditors.

(g) **List of adjustments which are affected to Trading Account, Profit & Loss Account and Balance Sheet :**

(1) Goods destroyed by fire and partial claim is accepted by insurance company.

(2) Goods lost due to theft and partial claim is accepted by insurance company.

10. Illustrations for Preparation of Annual Accounts

- **Adjustments Related to Trading Account and Profit & Loss Account**

Illustration 24 : Prepare final account from the Trial Balance and adjustments of Pratibha as on 31-03-2015.

Name of Account	Debit (₹)	Credit (₹)
Capital- Drawings	15,000	1,39,000
Adjusted Purchase-Sales	5,00,000	8,50,000
Goods Return	40,000	–
Discount	4000	6000
Rent	5000	–
Debtors-Creditors	1,00,000	80,000
Commission	6000	–
Bills	15,000	25,000
Cash Balance	10,000	–
Bank Balance	25,000	–
Building	1,00,000	–
Furniture	30,000	–
Machinery	2,00,000	–
Wages	5000	–
Carriage Inward	5000	–
10 % Bank Loan and Bank loan Interest	10,000	1,00,000
Closing Stock	30,000	
Office Expenses	1,00,000	
	12,00,000	**12,00,000**

Adjustments : (1) Goods of ₹ 10,000 lost due to theft. (2) Goods of ₹ 5000 distributed as sample. (3) Goods of ₹ 6000 burnt by fire. (4) Goods of ₹ 3000 given as charity.

Ans. : **Trading Account of Pratibha for the year ending on 31-03-2015**

Dr Cr

Particulars			Amount (₹)	Particulars		Amount (₹)
To Purchase		5,00,000		By Sales	8,50,000	
– Goods gone in other ways				– Sales return	40,000	8,10,000
As theft	10,000					
As sample	5000					
By fire	6000					
As cherity	3000	24,000	4,76,000			
To Wages			5000			
To Carriage Inward			5000			
To Gross Profit (Transferred to Profit & Loss A/c)			3,24,000			
			8,10,000			**8,10,000**

Profit & Loss Account of Pratibha for the year ending on 31-03-2015

Dr | Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
Administrative Expenses :		By Gross Profit	3,24,000
To Rent	5000	(Transferred from Trading A/c)	
To Office expenses	1,00,000	By Discount received	6000
Sales-distribution Expenses :			
To Commission	6000		
To Advertisement Exp. A/c	5000		
To Discount given	4000		
Financial Expenses :			
To Interest on Bank loan	10,000		
Other Expenses and Losses :			
To loss due to theft	10,000		
To Loss due to fire	6000		
To Charity expense	3000		
To Net Profit	1,81,000		
(Transfer to Capital A/c)			
	3,30,000		**3,30,000**

Balance Sheet of Pratibha as on 31-03-2015

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital	1,39,000		**Non Current Assets :**		
+ Net Profit	1,81,000		**Fixed Assets :**	Building	1,00,000
(From P & L A/c)	3,20,000			Furniture	30,000
− Drawings	15,000	3,05,000		Machinery	2,00,000
Non Current Liabilities :			**Current Assets :**		
10 % Bank Loan		1,00,000	Debtors		1,00,000
Current Liabilities :			Bills receivables		15,000
Creditors		80,000	Cash balance		10,000
Bills Payable		25,000	Bank balance		25,000
			Closing stock		30,000
		5,10,000			**5,10,000**

New Purchase = Opening stock + Purchase − Purchase return − Closing stock

Illustration 25 : Prepare final account from the Trial Balance and adjustments of Rajesh as on 31-03-2015.

Trial Balance of Rajesh as on 31-03-2015

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Drawings	12,000	Capital	4,00,000
Purchase	6,00,000	Sales	9,98,000
Stock (Dt. 1-04-2014)	60,000	Purchase return	20,000
Carriage Inward	10,000	Interest on debenture received	10,000
Sales return	40,000	Discount received	4000
Salaries	1,20,000	Commission received	2000
Wages	40,000	10 % Bank Loan	2,00,000
Office expenses	80,000	Bills payable	15,000
Debtors	90,000	Creditors	70,000
Bills receivables	30,000	Outstanding rent	1000
Advertisement expenses	50,000		
Stationery-Printing	6000		
Machinery	90,000		
Buildings	3,00,000		
Furniture	60,000		
Rent	12,000		
Investment in 10 % Debenture	1,00,000		
Interest on Bank loan	20,000		
	17,20,000		**17,20,000**

Adjustments :

(1) Closing Stock of ₹ 1,10,000 out of which market value of 50 % stock is 10 % more.

(2) Unrecorded credit purchase ₹ 40,000.

(3) Unrecorded credit purchase return ₹ 5000.

(4) Unrecorded credit sales ₹ 50,000.

(5) Unrecorded credit sales return ₹ 15,000.

(6) Outstanding wages ₹ 10,000.

(7) Goods destroyed by fire of ₹ 10,000 and insurance company accepted a claim of the whole amount.

(8) Goods of ₹ 5000 withdrawn for personal use.

(9) Labour charges for installation of machinery ₹ 5000 wrongly debited to labour charges.

Ans. : **Trading Account of Shri Rajesh for the year ending on 31-03-2015**

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	60,000	By Sales 9,98,000	
To Purchase 6,00,000		+ Unrecorded sales 50,000	
+ Unrecorded purchase 40,000		10,48,000	
− 6,40,000		− Sales return 40,000	
Purchase return 20,000		+ Unrecorded 15,000 55,000	9,93,000
+ Unrecorded 5000 25,000		sales return	
purchase return 6,15,000			
− Goods given other		By Closing Stock	1,10,000
than sales :			
Loss from fire 10,000			
Goods drawn 5000 15,000	6,00,000		
To Carriage Inward	10,000		
To Wages 40,000			
+ Outstanding 10,000			
50,000			
− Labour for machinery 5000	45,000		
installation			
To Gross Profit	3,88,000		
(Transferred to Profit & Loss A/c)			
	11,03,000		**11,03,000**

Profit & Loss Account of Shri Rajesh for the year ending on 31-03-2015

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
Administrative Expenses :		By Gross Profit	3,88,000
To Salaries	1,20,000	(Transferred from Trading A/c)	
To Office expenses	80,000	By Interest on debenture	10,000
To Stationery-printing	6000	received	
To Rent	12,000	By Discount received	4000
Sales-distribution Expenses :		By Commission received	2000
To Advertisement expense	50,000		
Financial Expenses :			
To Interest on Bank loan	20,000		
To Net Profit	1,16,000		
(Transfer to Capital A/c)			
	4,04,000		**4,04,000**

Balance Sheet of Shri Rajesh as on 31-03-2015

Liabilities			Amount (₹)	Assets		Amount (₹)
				Non Current Assets :		
Capital :				**Fixed Assets :**		
Capital		4,00,000		Building		3,00,000
+ Net Profit		1,16,000		Furniture		60,000
(From P&L A/c)		5,16,000		Machinery	90,000	
− Drawings	12,000			+ Labour for	5000	95,000
+ Goods	5000	17,000	4,99,000	installation of machinery		
withdrawn for				**Investment :**		
personal use				Investment in 10 % debenture		1,00,000
Non Current Liabilities :				**Current Assets :**		
10 % Bank Loan			2,00,000	Debtors	90,000	
Current Liabilities :				+ Unrecorded credit	50,000	
Bills payables			15,000	Sale	1,40,000	
Creditors		70,000		− Unrecorded sales	15,000	1,25,000
+ Unrecorded		40,000		return		
credit purchase		1,10,000		Bills receivables		30,000
− Unrecorded		5000	1,05,000	Closing stock		1,10,000
purchase return				Insurance Company		10,000
Outstanding rent			1000			
Outstanding wages			10,000			
			8,30,000			**8,30,000**

- **Illustration for preparing Profit & Loss Account and Balance Sheet :**

Illustration 26 : The following is the trial balance of Dhaval as on 31-03-2015.

Trial Balance of Dhavel as on 31-03-2015

Name of Account	Debit (₹)	Credit (₹)
Gross Profit	–	5,00,000
Salary	99,000	–
General Expenses	11,000	–
Tax-Insurance	12,000	–
Sundry Debtors	2,00,000	–
Closing Stock	22,000	–

Name of Account	Debit (₹)	Credit (₹)
Bank Overdraft	–	10,000
Commission	–	15,000
Advertisement Expenses	15,000	–
Interest	5000	–
Furniture	80,000	–
Building	3,00,000	–
Motorcar	1,00,000	–
Capital	–	2,38,000
Drawings	10,000	–
Bad-Debts	6000	–
Bad-debts Reserve	–	10,000
Loan	–	40,000
Creditors	–	20,000
Bills Receivable	5000	–
Bills Payable	–	15,000
Carriage outward	4000	–
Discount allowed	8000	–
Discount received	–	4000
General Reserve	–	30,000
Cash Balance	5000	–
	8,82,000	**8,82,000**

Adjustments :

(1) Salary outstanding at ₹ 4,500 per month of two employees for one month.

(2) ₹ 2000 being insurance premium for the year ending on 30-09-2015.

(3) Commission of ₹ 3000 is receivable.

(4) Calculate 10 % interest on Capital and 12 % interest on Drawings

(5) Calculate depreciation at 5% on furniture, at 10 % on building and at 20 % on motorcar.

(6) Write off ₹ 10,000 as bad debts from debtors

(7) Provide 5 % bad debt reserve.

(8) Provide 2 % debtors discount reserve

(9) Transfer ₹ 20,000 to General Reserve

From the above information, prepare final account of Dhaval for the year ending as on 31-03-2015.

Ans. : **Profit & Loss Account of Shri Dhaval for the year ending on 31-03-2015**

Dr Cr

Particulars		Amount (₹)	Particulars		Amount (₹)
Administrative Expenses :			By Gross Profit		5,00,000
To Salary	99,000		(Transferred from Trading A/c)		
+ Unpaid salary	9000	1,08,000	By Commission	15,000	
To General Expenses		11,000	+ Receivables	3000	18,000
To Tax-Insurance	12,000		By Discount received		4000
− Prepaid	1000	11,000	By Interest on drawings		1200
Sales-distribution Expenses :					
To Advertisement expense		15,000			
To Carriage outward		4000			
Financial Expenses :					
To Interest		5000			
To Interest on Capital		23,800			
Other Expenses and Losses :					
Bad Debts(Trial Balance)	6000				
+ Bad Debts (Adj)	10,000				
+ Bad Debts Reserve	9500				
(Adjustment)	25,500				
− Bad Debts Reserve	10,000	15,500			
(Adjustment)					
Discount reserve on debtors :					
Discount allowed	8000				
+ Disc. Res. on debtors	3610				
(Adjustment)		11,610			
Depreciation :					
Furniture	4000				
Building	30,000				
Motor Car	20,000	54,000			
To General Reserve A/c		20,000			
To Net Profit		2,44,290			
(Transfer to Capital A/c)					
		5,23,200			**5,23,200**

Balance Sheet of Dhaval as on 31-03-2015

Liabilities			Amount (₹)	Assets		Amount (₹)
				Non Current Assets :		
Capital :				**Fixed Assets :**		
Capital		2,38,000		Furniture	80,000	
+ Int. on capital		23,800		− Depreciation (5%)	4000	76,000
+ Net Profit		2,44,290		Building	3,00,000	
(From P&L A/c)		5,06,090		− Depreciation (10%)	30,000	2,70,000
− Drawings	10,000			Motorcar	1,00,000	
+ Int. on drawings	1200	11,200	4,94,890	− Depreciation (20%)	20,000	80,000
				Current Assets :		
General Reserve		30,000		Sundry Debtors	2,00,000	
+ Current year addition		20,000	50,000	− Bad Debts	10,000	
Non Current Liabilities :					1,90,000	
Loan			40,000	− Bad Debt Reserve	9500	
Current Liabilities :				(5%)	1,80,500	
Bank Overdraft			10,000	Discount reserve on debtors (2%)	3610	1,76,890
Creditors			20,000	Closing stock		22,000
Bills Payable			15,000	Bills receivables		5000
Unpaid salary			9000	Cash Balance		5000
				Prepaid Insurance premium		1000
				Commission receivables		3000
			6,38,890			**6,38,890**

Explanation :

(1) Two employee unpaid salary.

Monthly salary = ₹ 4500

No of Employeet = × 2

1 Month unpaid salary = ₹ 9000

(2) ₹ 2000 being insurance premium up to 30-09-2015 and final account date is 31-03-2015. Hence, from 1-04-2015 to 30-09-2015, 6 months insurance premium paid in advance. (prepaid)

6 months prepaid insurance premium = $\frac{2000}{2}$ = ₹ 1000

(3) First, ₹ 10,000 deducted as bad debts from Debtors, and on the balance amount ₹ 1,90,000, 5 % is to be provided as Bad debt reserve. Now balance amount of debtors ₹ 1,80,500, discount reserve on debtors is provided at 2 %.

Illustration 27 : Prepare final accounts from the following Trial Balance as on 31-03-2015 of Pushpa.

Trail Balance of Pushpa as on 31-3-2015

Name of Account	Debit (₹)	Credit (₹)
Drawings – Capital	24,000	3,00,000
Purchase-Sales	2,96,000	8,00,000
Goods Returns	80,000	20,000
Provident fund -Contribution to Provident fund	10,000	1,00,000
Provident Fund Investment-Int. on provident fund investment	1,00,000	8000
Debtors-Creditors	2,00,000	1,50,000
Discount	46,000	14,000
Bad-Debts & Bad Debts Reserve	30,000	45,000
Bills Receivables-Bills Payable	15,000	25,000
Goods stock (Dt. 1-04-2014)	80,000	–
Demurrage	3000	–
Tolai	1000	–
Carriage Inward	18,000	–
Trade Expenses	90,000	–
Cash Balance	16,000	–
Bank Balance	25,000	–
Fixed Assets (Cost Price ₹ 5,00,000)	4,00,000	–
Advertisement Expenses	28,000	–
	14,62,000	**14,62,000**

Adjustments :

(1) Stock as on 31-03-2015 is ₹ 2,00,000 out of which market value of 30% stock is 20 % more. Market value of 50 % stock is less by 10 %. Whereas remaining stock need to repairs expenses of ₹ 2000.

(2) Goods of ₹ 5000 given as advertisement.

(3) Credit sales of ₹ 10,000 wrongly recorded as credit purchase.

(4) Write off ₹ 20,000 as bad debts from debtors and provide 10 % Bad debt reserve.

(5) Calculate 10 % interest on Capital and 5 % interest on Drawings.

(6) Calculate depreciation at 10 % on fixed assets as per straight line method.

Ans. : **Trading Account of Pushpa for the year ending on 31-03-2015**

Dr | Cr

Particulars		Amount (₹)	Particulars		Amount (₹)
To Opening Stock		80,000	By Sales	8,00,000	
To Purchase	2,96,000		+ Unrecorded sales	10,000	
− Wrongly recorded	10,000			8,10,000	
purchase	2,86,000		− Sales return	80,000	7,30,000
− Goods given for	5000				
advertisement					
− Purchase return	20,000	2,61,000			
To Demurrage		3000			
To Tolai		1000			
To Carriage Inward		18,000			
To Gross Profit		5,55,000	By Closing Stock		1,88,000
(Transferred to P & L A/c)			(As per WN-1)		
		9,18,000			**9,18,000**

Profit & Loss Account of Pushpa for the year ending on 31-03-2015

Dr | Cr

Particulars		Amount (₹)	Particulars	Amount (₹)
Administrative Expenses :			By Gross Profit	5,55,000
To Contribution to Provi. Fund		10,000	(Transferred from Trading A/c)	
To Trade Expenses		90,000	By Discount received	14,000
Sales-distribution Expenses :			By Interest on drawings	1200
To Discount given		46,000		
To Advertisement exp.	28,000			
+ Goods given as adv.	5000	33,000		
Financial Expenses :				
To Interest on Capital		30,000		
Other Expenses and Losses :				
Bad debt reserve account :				
Bad Debts (Trial Bal.)	30,000			
+ Bad Debts (Adj.)	20,000			
+ Bad Debts Reserve	19,000			
(Adjustment)	69,000			
− Bad Debts Res.	45,000	24,000		
(Trial Balance)				
To Depreciation on Fixed assets		50,000		
To Net Profit (To Capital A/c)		2,87,200		
		5,70,200		**5,70,200**

Balance Sheet of Pushpa as on 31-03-2015

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital :			**Non Current Assets :**		
Capital	3,00,000		Fixed Assets	4,00,000	
+ Int. on capital	30,000		− Depreciation	50,000	3,50,000
+ Net Profit	2,87,200		(Cost price 5,00,000 × 10 %)		
(From P&L A/c)	6,17,200		**Investment :**		
− Drawings 24,000			Provident Fund Investments		1,00,000
+ Int. on 1200	25,200	5,92,000	**Current Assets :**		
drawings			Debtors	2,00,000	
Non-Current Liabilities :			+ Unrecorded sales	10,000	
Current Liabilities :				2,10,000	
Provident Fund	1,00,000		− Bad Debts	20,000	
+ Int. on PF Investment	8000	1,08,000		1,90,000	
Bills Payable		25,000	− Bad Debt Res.(10%)	19,000	1,71,000
Creditors	1,50,000		Bills receivables		15,000
− Wrongly recorded	10,000	1,40,000	Cash Balance		16,000
purchase			Bank Balance		25,000
			Closing stock		1,88,000
		8,65,000			**8,65,000**

Explanation : Note no. 1 : Closing Stock 2,00,000

30 %	50 %	Remaining 20 %
60,000	1,00,000	40,000
60,000	90,000	38,000
	[1,00,000 − 10 %]	[40,000 − 2000]

60,000 + 90,000 + 38,000 = 1,88,000

Market value of 30 % stock is more, hence cost value will be considered.

Market value of 50 % stock is less, hence market value will be considered.

20 % stock has required repairing therefore repairing cost will be deducted from stock value.

Illustration 28 : Prepare final accounts of Nirmi Traders from the following Trial Balance as on 31-03-2015 and adjustments.

Trial Balance of Nirmi Traders as on 31-03-2015

Name of Account	Debit Balance (₹)	Credit Balance (₹)
Capital	–	3,00,000
Drawings	18,000	–
Land & Building	2,00,000	–
Machinery (Office)	1,40,000	–
Furniture and fixtures	25,000	–
Leasehold Building (Dt. 1-04-2014 for five years)	50,000	–
Sales	–	5,00,000
Purchase Returns	–	12,000
Debtors	90,000	
12 % Loan from Sajan (Dt. 1-10-2014)	–	30,000
Purchase	2,00,000	–
Sales returns	10,000	–
Freight	15,000	–
Sundry expenses	1000	–
Stationery -printing	2500	–
Insurance premium	14,200	–
Bad-Debts	15,000	–
Bad-Debts Reserve	–	14,000
Discount Reserve on Debtors	–	500
Commission received	–	8000
Goods Stock (Dt. 1-04-2014)	11,000	–
Salary and wages	54,000	–
Creditors	–	30,000
Dead Stock	5000	–
Bank Overdraft	–	21,000

Name of Account	Debit (₹)	Credit (₹)
Cash Balance	40,800	–
Carriage Inward	11,000	–
Carriage Outward	4000	–
Bills	18,000	10,000
Discounts allowed	1000	–
	9,25,500	**9,25,500**

Adjustments :

(1) Closing stock as on 31-03-2015 was valued at ₹ 41,000.

(2) Fire occurred in business as on 31-01-2015 due to which goods of ₹ 10,000 were destroyed and the insurance company accepted a claim of ₹ 7000.

(3) Out of debtors, ₹ 5000 are not recoverable so they are to be written off. Provide Bad debt reserve 10 % and discount reserve 2 % on debtors.

(4) Nirmi withdrew goods of ₹ 1000 for personal use which are not recorded in the books of accounts.

(5) Credit purchases of ₹ 5000 were not recorded.

(6) Calculate depreciation, at 10 % on land and building, at 20 % on machinery and at 5 % on furniture and fixtures.

(7) Insurance premium included ₹ 1200 for the next year.

(8) Commission of ₹ 1000 is receivable.

Ans. : **Trading Account of Nirmi Traders for the year ending on 31-03-2015**

Dr Cr

Particulars			Amount (₹)	Particulars		Amount (₹)
To Opening Stock			11,000	By Sales	5,00,000	
To Purchase		2,00,000		– Sales return	10,000	4,90,000
+ Unrecorded purchase		5000				
		2,05,000				
– Purchase return		12,000				
		1,93,000				
– Goods burnt by fire	10,000					
Withdrawn for personal use	1000	11,000	1,82,000			
To Freight			15,000			
To Carriage Inward			11,000			
To Gross Profit (Transferred to P & L A/c)			3,12,000	By Closing Stock		41,000
			5,31,000			**5,31,000**

Profit & Loss Account of Nirmi Traders for the year ending on 31-03-2015

Dr   Cr

Particulars		Amount (₹)	Particulars		Amount (₹)
Administrative Expenses :			By Gross Profit		3,12,000
To Sundry expenses		1000	(Transferred from Trading A/c)		
To Stationery-printing		2500	By Commission	8000	
To Insurance Premium	14,200		+ Receivables	1000	9000
− Prepaid	1200	13,000			
To Salary-wages		54,000			
Sales-distribution Expenses :					
To Carriage outward		4000			
Financial Expenses :					
To Interest on loan		1800			
Other Expenses and Losses :					
To written off Leasehold building		10,000			
Bad Debts (Trial Bal.)	15,000				
+ Bad Debts (Adj.)	5000				
+ Bad Debts Res.(Adj.)	8500				
	28,500				
− Bad Debts Reserve	14,000	14,500			
(Trial Balance)					
Dis. reserve on debtors A/c :					
Discount given	1000				
+ Disc. Res. on debtors	1530				
(Adjustment)	2530				
− Disc. Res. on debtors	500	2030			
(Trial Balance)					
To Loss due to fire		3000			
Depreciation :					
Land-Building	20,000				
+ Machinery	28,000				
+ Furniture-Fixture	1250	49,250			
To Net Profit		1,65,920			
(Transfer to Capital A/c)					
		3,21,000			**3,21,000**

Balance Sheet of Nirmi Traders as on 31-03-2015

Liabilities			Amount (₹)	Assets		Amount (₹)
				Non Current Assets :		
Capital :				**Fixed Assets :**		
Capital		3,00,000		Land & Building	2,00,000	
+ Net Profit		1,65,920		− Depreciation (10%)	20,000	1,80,000
(Transferred from		4,65,920		Machinery	1,40,000	
P & L A/c)				− Depreciation (20%)	28,000	1,12,000
− Drawings	18,000			Furniture and Fixtures	25,000	
+ Goods	1000	19,000	4,46,920	− Depreciation (5%)	1250	23,750
withdrawn for				Leasehold Building	50,000	
personal use				− Written off (1/5)	10,000	40,000
Non Current Liabilities :				Dead stock		5000
12 % Sajan's Loan		30,000		**Current Assets :**		
+ Int. on loan		1800	31,800	Debtors	90,000	
Current Liabilities :				− Bad Debts	5000	
Creditors		30,000			85,000	
+ Unrecorded credit		5000	35,000	− Bad Debt Res. (10%)	8500	
purchase					76,500	
Bank Overdraft			21,000	− Discount reserve on	1530	74,970
Bills Payable			10,000	debtors (2%)		
				Cash Balance		40,800
				Bills receivables		18,000
				Closing stock		41,000
				Insurance Company account		7000
				Prepaid Insurance premium		1200
				Commission receivables		1000
			5,44,720			**5,44,720**

Explanation : (1) Outstanding interest on Sajan's Loan.

Loan was taken from Sajan as on 1-10-2014;.

Final Account date : 31-03-2015

Unpaid interest on loan duration = 6 months

Interest $= 30,000 \times 12\ \% \times \frac{6}{12} =$ ₹ 1800

Outstanding Interest = ₹ 1800

Illustration 29 : From the following Trial Balance of Abhishek as on 31-03-2015 and additional information, prepare final account as on 31-03-2015.

Trial Balance of Abhishek as on 31-03-2015

Name of Account	Debit (₹) Balance	Credit (₹) Balance
Capital	–	5,40,000
Drawings	24,000	–
Opening Stock	40,000	–
Purchase	3,00,000	–
Sales	–	5,00,000
Goods return	30,000	50,000
Salary	1,44,000	–
Audit fees	15,000	–
Rent-Taxes-Insurance	20,000	–
Stationery-Printing	5000	–
Unpaid salary	–	12,000
Prepaid Insurance premium	2000	–
Carriage Inward	3000	–
Commission	–	3000
Debtors-Creditors	1,00,000	80,000
Building	2,00,000	–
Addition in Building (Dt. 31-12-2014)	50,000	–
Machinery (Office)	1,00,000	–
Vehicles	50,000	–
Bills	10,000	15,000
Dividend	–	4000
Investment in ABC Company's Shares	40,000	–
Advertisement suspense account	15,000	–
Furniture	5000	–
Maintenance expense	12,000	–

Name of Account	Debit (₹)	Credit (₹)
Electricity expense	28,000	–
Bonus	12,000	–
Discount	5000	6000
	12,10,000	**12,10,000**

Adjustments :

(1) Closing stock is of ₹ 2,01,000 which is included stationery stock of ₹ 1000. Market value of goods of ₹ 20,000 out of which goods stock is less by 20 %.

(2) Unrecorded credit sales ₹ 10,000.

(3) Vehicles were purchased on 31-12-2014. Scrap Value of Vehicles is ₹ 10,000 and estimated life is 5 years.

(4) Calculate depreciation on building at 10 % and rate of depreciation on machinery is 15 %.

(5) Purchase of furniture of ₹ 5000 is wrongly debited to purchase account. This furniture was purchased on 1-10-2014. Rate of depreciation on furniture is 10 %.

(6) Calculate interest on capital at 6 %. Addition capital of ₹ 1,00,000 was brought into business on 1-1-2015.

(7) Expense incurred for advertisement campaign at the beginning of the year is transferred to advertisement suspense account. This expense is to be written off in 5years.

Ans. : **Trading Account of Shri Abhishek for the year ending on 31-03-2015**

Dr Cr

Particulars		Amount (₹)	Particulars		Amount (₹)
To Opening Stock		40,000	By Sales	5,00,000	
To Purchase	3,00,000		+ Unrecorded Sales	10,000	
– Furniture purchase	5000			5,10,000	
	2,95,000		– Sales return	30,000	4,80,000
– Purchase return	50,000	2,45,000			
To Carriage Inward		3000	By Closing Stock		1,96,000
To Gross Profit		3,88,000	(Working Note No. 1)		
(Transferred to P & L A/c)					
		6,76,000			**6,76,000**

Profit & Loss Account of Shri Abhishek for the year ending on 31-03-2015

Dr Cr

Particulars		Amount (₹)	Particulars	Amount (₹)
Administrative Expenses :			By Gross Profit	3,88,000
To Salary		1,44,000	(Transferred from Trading A/c)	
To Audit Fees		15,000	By Commission	3000
To Rent & Tax		20,000	By Dividend received	4000
To Stationery-printing	5000		By Discount received	6000
− Stationery stock	1000	4000		
To Electricity Exp.		28,000		
To Bonus		12,000		
Sales-distribution Expenses :				
To Discount Allowed		5000		
To advertisement campaign exp. written off		3000		
Financial Expenses :				
To Interest on Capital		27,900		
Other Expenses and Losses :				
To repairs & Maintenance Exp.		12,000		
Depreciation :				
Vehicles	2000			
+ Building	21,250			
+ Furniture	750			
+ Machinery	15,000	39,000		
To Net Profit		91,100		
(Transfer to Capital A/c)				
		4,01,000		**4,01,000**

Balance Sheet of Shri Abhishek as on 31-03-2015

Liabilities		Amount (₹)	Assets		Amount (₹)
			Non Current Assets :		
Capital :			**Fixed Assets :**		
Capital	4,40,000		Building	2,00,000	
+ Additional Capital	1,00,000		+ Addition in Buildg.	50,000	
	5,40,000		(Dt. 31-12-2014)		
+ Interest on Capital	27,900			2,50,000	
(WN 5)			– Depreciation (WN-3)	21,250	2,28,750
+ Net Profit	91,100		Machinery	1,00,000	
(Transferred from	6,59,000		– Depreciation	15,000	85,000
P & L A/c)			Vehicles	50,000	
– Drawings	24,000	6,35,000	– Depreciation (WN-2)	2000	48,000
Non Current Liabilities :		–	Furniture	5000	
Current Liabilities :			+ Recorded at purchase a/c	5000	
Outstanding Salary		12,000		10,000	
Creditors		80,000	– Depreciation (WN-4)	750	9250
Bills Payable		15,000	**Investment :**		
			Investment in shares of ABC Ltd.		40,000
			Current Assets :		
			Prepaid Insurance premium		2000
			Debtors	1,00,000	
			+ Unrecorded credit sales	10,000	1,10,000
			Bills receivables		10,000
			Stationery stock		1000
			Closing stock		1,96,000
			Fictitious Assets :		
			Adver. Suspense A/c	15,000	
			– Written off	3000	12,000
		7,42,000			**7,42,000**

Explanation :

WN 1 : Total Closing Stock = ₹ 2,01,000

− Stationery Stock = ₹ 1000

Goods Stock = ₹ 2,00,000

− Under valuation = ₹ 4000

[20,000 × 20 %]

Value of Closing Stock = ₹ 1,96,000

WN 2 : Depreciation on Vehicles :

$$\text{Depreciation} = \frac{\text{Cost Price} - \text{Scrap Value}}{\text{Useful life}}$$

$$= \frac{50,000 - 10,000}{5}$$

$$= \frac{40,000}{5}$$

Annual Depreciation = ₹ 8000

$$\text{3 Months Depreciation} = \frac{8000 \quad 3}{12}$$

3 Months Depreciation = ₹ 2000

WN 3 : Depreciation on Building :

Depreciation on Opening Balance = ₹ 2,00,000 × 10 % = ₹ 20,000

+ Depreciation on Addition in Building = ₹ 50,000 × 10 % × $\frac{3}{12}$ = ₹ 1250

Total Depreciation = ₹ 21,250

WN 4 : Depreciation on furniture :

Depreciation on Opening Balance = ₹ 5000 × 10 % = ₹ 500

+ Depreciation on new purchase furniture = ₹ 5000 × 10 % × $\frac{6}{12}$ = ₹ 250

Total Depreciation = ₹ 750

WN 5 : Interest on Capital :

Interest on Opening Balance = ₹ 4,40,000 × 6 % = ₹ 26,400

+ Interest on additional capital = ₹ 1,00,000 × 6 % × $\frac{3}{12}$ = ₹ 1500

Total Depreciation = ₹ 27,900

Illustration 30 : From the following Trial Balance of Sajan as on 31-03-2015 and additional information, prepare final account as on 31-03-2015 :

Trial Balance of Mansi as on 31-03-2015

Name of Account	Debit (₹)	Credit (₹)
Trading Account (Credit balance)	–	1,90,000
Capital	–	2,40,000
Drawings	14,000	–
Fixed Assets	1,63,000	–
Office Expenses	26,000	–
Bank Overdraft	–	5000
Rent	6000	–
Insurance	12,000	–
Salary - Wages	1,20,000	–
Customers-Traders	80,000	90,000
Bills Receivables-Bills Payables	8000	12,000
Bad debt reserve	–	5000
Discount	2000	3000
Prepaid Insurance premium	1000	–
Outstanding office expense	–	1000
Closing Stock	15,000	–
Stationery stock	1000	–
Cash Balance	8000	–
Selling-distribution expenses	90,000	–
	5,46,000	**5,46,000**

Adjustments :

(1) (1) After preparing trading account, it was found that Sajan has taken goods for personal use of ₹ 2000, which is not recorded in books. Outstanding Carriage Inward ₹ 1000.

(2) Calculate interest on capital is 10 %.

(3) Outstanding Interest on Bank overdraft ₹ 300.

(4) After preparing trading account, it was found that ₹ 5000 received from debtors, which is wrongly credited to sales account.

(5) Provide depreciation on fixed assets at 10 %.

(6) Unrecorded purchases ₹ 5000

(7) Goods of ₹ 10,000 are destroyed by fire, for which the Insurance Company has accepted a claim of ₹ 8000.

(8) A machinery of ₹ 10,000 sold for ₹ 8000 for cash on dt. 1-10-2014 for cash which is not recorded in the book.

Ans. : **Adjusted Trading Account of Sajan for the year ending on 31-03-2015**

Dr Cr

Particulars	Amount (₹)	Particulars		Amount (₹)
To Outstanding Carriage Inward	1000	By Gross Profit		1,90,000
To Cash received from debtors, wrongly credited to sales a/c	5000	By Purchase a/c (Goods taken for personal use)	2000	
To Unrecorded credit purchase	5000	By Goods destroyed by fire	10,000	
To Gross Profit (Adjusted) (Transferred to P & L A/c)	1,91,000			12,000
	2,02,000			**2,02,000**

Note : Goods withdrawn for personal use is deducted from purchase. Since, adjusted trading account is prepared and purchase amount is availed, purchase is credited here.

Profit & Loss Account of Sajan for the year ending on 31-03-2015

Dr Cr

Particulars	Amount (₹)	Particulars	Amount (₹)
Administrative Expenses :		By Gross Profit	1,91,000
To Office expenses	26,000	(Transferred from Trading A/c)	
To Rent	6000		
To Insurance	12,000	By Discount received	3000
To Salary–wages	1,20,000		
Sales-distribution Expenses :			
To Discount Allowed	2000		
To Selling & distribution exp.	90,000		
Financial Expenses :			
To Interest on Capital	24,000		
To Outstanding Interest on bank overdraft	300		
Other Expenses and Losses :			
To Loss due to fire	2000		
To Loss on sale of fixed assets	1500		
To Depreciation on fixed assets [500 + 15,300]	15,800	To Net Loss (Transfer to Capital A/c)	1,05,600
	2,99,600		**2,99,600**

Balance Sheet of Sajan as on 31-03-2015

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital :			**Non Current Assets :**		
Opening Balance	2,40,000		Fixed Assets	1,63,000	
+ Interest on Capital	24,000		− Sales of fixed	10,000	
	2,64,000		assets		
− Net Loss	1,05,600			1,53,000	
(From P & L A/c)	1,58,400		− Depreciation (10 %)	15,300	1,37,700
− Drawings 14,000			**Current Assets :**		
+ Goods			Customers (Debtors)	80,000	
withdrawn for			− Cash received	5000	
household use 2000	16,000	1,42,400	(credited to sales a/c)		
Current Liabilities :				75,000	
Bank overdraft	5000		− Bad debt reserve	5000	70,000
+ Outstanding Interest	300	5300	Bills receivables		8000
Traders (Creditors)	90,000		Prepaid Insurance premium		1000
+ Unrecorded credit	5000	95,000	Closing stock		15,000
purchase			Stationery stock		1000
Bills Payable		12,000	Cash balance	8000	
Outstanding office expenses		1000	+ Sales value of	8000	16,000
Outstanding Carriage Inward		1000	fixed assets		
			Insurance company account		8000
		2,56,700			**2,56,700**

Explanation : For Fixed Assets :

Fixed Assets sold on 1-10-2014

	Original Cost	₹ 10,000
−	6 months depreciation	₹ 500
	(1-4-2014 to 1-10-2014)	
	$(10{,}000 \times 10\ \% \times \frac{6}{12})$	
	Book value	₹ 9500
	(As on 1-10-2014)	

Sales Value 8000   Loss 1500

₹ 10,000 is deducted from fixed assets, which is included depreciation of ₹ 500. Hence depreciation of ₹ 500 is shown in Profit & Loss Account.

Exercise

1. Select the correct answer from the following options are given :

(1) Debit balance of Trading Account means ....

(a) Gross Profit (b) Gross Loss

(c) Net Profit (d) Net Loss

(2) Credit balance of Profit & Loss Account means ....

(a) Gross Profit (b) Gross Loss

(c) Net Profit (d) Net Loss

(3) Which balance of the following balances of trial balance is shown in the Profit & Loss Account?

(a) Salary-Wages (b) Wages-Salary

(c) Outstanding Salary-Wages (d) Outstanding Wages-Salary

(4) Where closing stock of stationery of Trial Balance is shown?

(a) Debit side of Trading Account

(b) Credit side of Profit & Loss Account

(c) Deducted from stationery expense in Profit & Loss account

(d) Assets side of Balance-sheet

(5) Where provident fund interest of trial balance is shown?

(a) Credit side of Profit & Loss Account

(b) Debit side of Profit & Loss Account

(c) Added in provident fund investment on asset side of balance sheet

(d) Added in provident fund on liabilities side of balance sheet

(6) At which price closing stock is shown in the final accounts?

(a) Original Cost (b) Cost Price

(c) Market Price (d) Cost price or market price whichever is lower

(7) Adjusted purchase means ....

(a) Purchase + purchase expenses

(b) Purchase – Purchase return

(c) Opening stock + purchase – closing stock

(d) Opening stock + purchase – purchase return – closing stock

(8) .... shows the financial-economic position of the business.

(a) Trial Balance (b) Trading Account

(c) Profit & Loss Account (d) Balance-sheet

(9) If bad debt reserve is given only in Trial Balance then where its effect would appear in final accounts?

(a) Debit side of Profit & Loss Account

(b) Credit side of Profit & Loss Account

(c) Deducted from debtors, from assets side of balance sheet

(d) Added in assets side of debtors in balance sheet

(10) If goods destroyed by fire and insurance company accepted a claim of full amount then where its effect would appear in final accounts?

(a) Only on credit side of Trading Account

(b) Debit side of Trading Account (deducted from purchase) and debit side of Profit & Loss Account

(c) Debit side of Trading Account (deducted from purchase) and assets side of Balance Sheet

(d) Credit side of Trading Account, debit side of Profit & Loss Account and assets side of Balance sheet

(11) If depreciation on fixed assets is shown in the Trial balance then where its effects would appear in the balance sheet?
   (a) Debit side of Profit & Loss Account
   (b) Added in Fixed assets on assets side of Balance sheet
   (c) Deducted from Fixed assets on assets side of Balance sheet
   (d) Credit side of Profit & loss account

2. Answer the following questions in one sentence :

(1) What are financial statements?
(2) What are closing entries?
(3) What are adjustment entries ?
(4) What is an adjusted purchase?
(5) What is Demurrage?
(6) What is Wharfage?

3. Answer the following questions :

(1) State objectives of financial statements.
(2) State the importance of financial statement.
(3) Explain the meaning of Gross Profit, Operating Profit and Net Profit.
(4) Explain the difference between Trading Account and Profit & Loss Account.
(5) Explain the difference between Trial Balance and Balance sheet.
(6) Explain objectives of Profit & Loss Account.
(7) Explain the objectives of Balance sheet.
(8) What is Trading Account? Write the particulars to be shown in Trading Account and closing entries for preparing Trading Account.
(9) State the specimen of Balance Sheet in order of permanency and liquidity.
(10) What are Final Accounts? State the objectives of preparing final accounts.

4. Pass adjustment entry for the following and also show its effect in final accounts :

(1) Closing stock of ₹ 1,00,000 out of which ₹ 2000 stationery stock.
Out of total goods, goods of ₹ 50,000 required repairing expense of ₹ 2000.
(2) The following expenses are outstanding at the end of the year, Rent-rates ₹ 5,000, Salary ₹ 3000.
(3) Following revenues are receivable at the end of the year, Trainee employee's premium ₹ 2000, Commission ₹ 1,000
(4) Brokerage of ₹ 2700 is received in advance
(5) Proprietor's capital in the business is ₹ 3,00,000 on which 12 % interest is payable.
(6) Drawings of proprietor after 9 months from the business amounted to ₹ 40,000.
(7) Credit sale of ₹ 10,000 is recorded as credit purchase.
(8) Purchase return of ₹ 3000 is recorded as credit sales
(9) Fixed assets of ₹ 1,00,000 is purchased on dt. 1-07-2015. Accounting year of firm is ended on as on 31-03-2016. Calculate depreciation at 12%.
(10) Debtors are amounting to ₹ 1,00,000 out of which write off ₹ 10,000 as bad debts, provide 10 % as bad debts reserve and 2 % as bad debts reserve on debtors.
(11) Goods of ₹ 10,000 destroyed by fire. Insurance company has accepted a claim of ₹ 8000.
(12) ₹ 1000 labour charge of machinery installation is wrongly debited to labour account.

5. **While preparing final accounts of Suresh for the year ended 31-03-2015, close the following accounts and write journal entries to close the accounts :**

(1) **Wages-Salary A/c :**

Dr Cr

Date	Particulars	L. F.	Amount (₹)	Date	Particulars	L. F.	Amount (₹)
	To Cash A/c		60,000				

(2) **Interest received A/c :**

Dr Cr

Date	Particulars	L. F.	Amount (₹)	Date	Particulars	L. F.	Amount (₹)
					By Bhavna A/c		4000

(3) **Sales A/c :**

Dr Cr

Date	Particulars	L. F.	Amount (₹)	Date	Particulars	L. F.	Amount (₹)
					By Cash A/c		5000
					By Customers A/c (As per salesbook)		1,00,000

(4) **Suresh's Drawings A/c :**

Dr Cr

Date	Particulars	L. F.	Amount (₹)	Date	Particulars	L. F.	Amount (₹)
	To Cash A/c		12,000				
	To Purchase A/c		4000				

6. **Prepare final account from the Trial Balance and adjustments of Dipak as on 31-03-2015 :**

Name of the Account	Debit (₹)	Credit (₹)
Capital - Drawings	18,000	3,00,000
Adjusted Purchase-Sales	8,00,000	12,91,000
Goods Return	50,000	–
Discount	6000	8000
Rent	7000	–
Debtors-Creditors	1,10,000	90,000
Commission	8000	–

Name of the Account	Debit (₹)	Credit (₹)
Bills	20,000	30,000
Cash Balance	20,000	–
Bank Balance	90,000	–
Building	1,50,000	–
Furniture	40,000	–
Machinery	3,00,000	–
Wages	60,000	–
Carriage Inward	60,000	–
10 % Bank Loan and Bank loan Interest	20,000	2,00,000
Closing Stock	40,000	–
Office Expenses	1,20,000	–
Total	**19,19,000**	**19,19,000**

Adjustments :

(1) Goods of ₹ 12,000 lost due to theft.

(2) Goods of ₹ 15,000 distributed as sample.

(3) Goods of ₹ 16,000 burnt by fire

(4) Goods of ₹ 1500 given as charity.

7. Prepare final accounts from the Trial Balance and adjustments of Pankaj as on 31-03-2015 :

Name of the Account	Debit (₹)	Credit (₹)
Capital-Drawings	18,000	6,00,000
Purchase-Sales	9,00,000	15,00,000
Purchase Return	–	30,000
Sales Return	60,000	–
Stock (1-04-2014)	90,000	–
Carriage Inward	15,000	–
Salary	1,80,000	–
Wages	60,000	–
Office Expenses	1,20,000	–
Debenture interest received	–	15,000
Discount received	–	6000
Commission received	–	3000
10 % Bank Loan	–	3,00,000
Bills Payable	–	22,500

Name of the Account	Debit (₹)	Credit (₹)
Debtors	1,35,000	–
Bills Receivables	45,000	–
Creditors	–	1,02,000
Outstanding rent	–	1500
Advertisement Expenses	75,000	–
Stationery-printing expenses	9000	–
Machinery	1,35,000	–
Building	4,50,000	–
Furniture	90,000	–
Rent	18,000	–
Investment in 10 % Debentures	1,50,000	–
Bank Loan Interest	30,000	–
	25,80,000	**25,80,000**

Adjustments :

(1) Closing Stock of ₹ 1,65,000 out of which market value of 50 % of stock is 10 % more and market value of remaining goods is 10 % less.

(2) Unrecorded credit purchase ₹ 60,000.

(3) Unrecorded credit purchase return ₹ 7500.

(4) Unrecorded credit sales ₹ 75,000.

(5) Unrecorded credit sales return ₹ 22,500.

(6) Outstanding wages ₹ 15,000.

(7) Goods of ₹ 15,000 destroyed by fire and insurance company accepted a claim of whole amount.

(8) Goods of ₹ 7500 withdrawn for personal use.

(9) Labour charges for installation of machinery ₹ 7500 wrongly debited to labour charges.

8. Following is the Trial Balance of R. K. Stores as on 31-03-2015 :

Name of the Account	Debit (₹)	Credit (₹)
Gross Profit	–	3,00,000
Salary	54,000	–
General Expenses	6600	–
Tax-Insurance	7200	–
Sundry Debtors	1,20,000	–
Closing Stock	13,200	–

Name of the Account	Debit (₹)	Credit (₹)
Bank Overdraft	–	6000
Commission	–	9000
Advertisement Expenses	9000	–
Interest	3000	–
Furniture	48,000	–
Building	1,80,000	–
Motorcar	60,000	–
Capital	–	1,42,800
Drawings	6000	–
Bad-Debts	3600	–
Bad-debts Reserve	–	6000
Loan	–	24,000
Creditors	–	12,000
Bills Receivable	3000	–
Bills Payable	–	9600
Carriage-outward	4000	–
Discount given	3200	–
Discount received	–	2400
General Reserve	–	30,000
Cash Balance	21,000	–
	5,41,800	**5,41,800**

Adjustments :

(1) Salary was paid up to 31-12-2014.

(2) ₹ 1200 being insurance premium for the year ending on 30-09-2015.

(3) Commission of ₹ 2000 is receivable.

(4) Calculate 10 % interest on Capital and 12 % interest on Drawings

(5) Calculate depreciation at 5 % on furniture, at 10 % on building and at 20 % on motorcar.

(6) From debtor of ₹ 20,000 write off 50 %.

(7) Provide 5 % bad debt reserve.

(8) Provide 2 % debtors discount reserve

(9) Transfer ₹ 10,000 to General Reserve

From the above information, prepare final account of R. K. Stores for the year ending as on 31-03-2015.

9. **Prepare final accounts from the Trial Balance and adjustments of Pushpa Traders as on 31-03-2015 :**

Trial Balance of Pushpa Traders as on 31-03-2015

Name of the Account	Debit (₹)	Credit (₹)
Drawings – Capital	26,400	3,30,000
Purchase-Sales	3,24,900	8,80,000
Goods Returns	88,000	22,000
Provident-Fund and Contribution to Provident fund	11,000	1,10,000
Provident Fund Investment and Interest on provident fund investment	1,10,000	8800
Debtors-Creditors	2,20,000	1,65,000
Discount	50,600	15,400
Bad-Debts & Bad Debts Reserve	33,000	49,500
Bills	16,500	27,500
Goods stock (1-04-2014)	88,000	–
Demurrage	3300	–
Carriage Inward	21,000	–
Trade Expenses	1,00,000	–
Cash Balance	10,000	–
Bank Balance	35,100	–
Fixed Assets (Cost Price ₹ 6,00,000)	4,80,000	–
Advertisement Expenses	10,000	–
Other Income	–	19,600
	16,27,800	**16,27,800**

Adjustments :

(1) Stock as on 31-03-2015 is ₹ 2,02,000 out of which ₹ 2000 of stock was for advertisement good stock and from the remaining stock the market value of 30 % stock is 20 % more. Market value of 30 % stock is less by 20 %. Whereas remaining stock needs to be repaired at the expenses of ₹ 5000.

(2) Goods of ₹ 7500 given as advertisement.

(3) Credit sales of ₹ 10,000 wrongly recorded as credit purchase.

(4) Write off ₹ 30,000 as bad debts from debtors and provide 10 % Bad debt reserve.

(5) Calculate 10 % interest on Capital and 6 % interest on Drawings

(6) Calculate depreciation at 10 % on fixed assets as per straight line method.

10. Prepare final accounts from the Trial Balance and adjustments of Nirmi as on 31-03-2015.

Name of the Account	Debit (₹)	Credit (₹)
Capital	–	2,70,000
Drawings	16,200	–
Land & Building	1,80,000	–
Machinery (Office)	1,26,000	–
Furniture	22,500	–
Leasehold Building (Date : 1-04-2014 for five years)	45,000	–
Sales	–	4,50,000
Purchase Return	–	10,800
Debtors	81,000	–
12 % Loan from Dattu (Date : 1-10-2014)	–	27,000
Purchase	1,80,000	–
Sales return	9000	–
Freight	13,500	–
Sundry expenses	3150	–
Insurance premium	14,200	–
Bad-Debts	12,080	–
Bad-Debts Reserve	–	12,600
Discount Reserve on Debtors	–	450
Commission received	–	6000
Goods Stock (Date : 1-04-2014)	9900	–
Salary	42,000	–
Wages	6600	–
Creditors	–	28,200
Dead Stock	4500	–
Bank Overdraft	–	18,900
Cash Balance	36,720	–
Carriage Inward	6000	–
Carriage Outward	7500	–
Bills	12,000	7000
Discount	5100	2000
	8,32,950	**8,32,950**

Adjustments :

(1) Closing stock as on 31-03-2015 was valued at ₹ 50,000.

(2) Fire occurred in business on 31-01-2015 due to which goods of ₹ 8000 were destroyed and the insurance company accepted a claim of 70 %.

(3) Out of debtors, ₹ 6000 are not recoverable so they are to be written off. Provide Bad debt reserve 5 % and discount reserve 2 %.

(4) Credit purchases of ₹ 6000 and Credit purchase return of ₹ 1000 were not recorded.

(5) Calculate depreciation, at 10 % on fixed assets.

(6) Insurance premium includes ₹ 3200 for the next year.

(7) 50 % Commission is received.

11. Prepare final accounts from the Trial Balance and adjustments of Sajan Readymade Stores as on 31-03-2015.

Trial Balance of Sajan Readymade Stores as on 31-03-2015

Name of the Account	Debit (₹)	Credit (₹)
Capital	–	1,08,000
Drawings	4800	–
Opening Stock	8000	–
Purchase	70,000	–
Sales	–	1,30,000
Goods return	6000	10,000
Salary	30,000	–
Audit fees	5000	–
Rent-Taxes-Insurance	4800	–
Stationery-Printing	1200	–
Unpaid salary	–	2500
Prepaid Insurance premium	400	–
Carriage Inward	900	–
Commission	–	800
Debtors-Creditors	29,600	14,000
Building	40,000	–
Addition in Building (31-12-2014)	10,000	–
Machinery (Office)	20,000	–
Vehicles	8000	–
Bills	5000	6000
Dividend	–	1000
Investment in Ram-Rahim Company's Shares	10,000	–
Advertisement suspense account	4000	–
Furniture	6000	–
Maintenance expense	3000	–
Electricity expense	3600	–
Bonus	2500	–
Discount	1000	–
Bad Debt Reserve	–	1500
	2,73,800	**2,73,800**

Adjustments :

(1) Closing stock is of ₹ 12,600, out of which goods worth ₹ 4600 requires repairing of ₹ 600. Remaining stock's market value is less by 20 %.

(2) Unrecorded credit sales ₹ 4400.

(3) Expense incurred for advertisement campaign on 1-10-2014 is transferred to advertisement suspense account. This expense is to be written off in 5 years.

(4) Vehicles of ₹ 20,000 were purchased on 1-04-2009. Scrap Value of Vehicles is ₹ 4000 and estimated life is 10 years. Depreciation is to be calculated by straight line method.

(5) Purchase of furniture of ₹ 2000 is wrongly debited to purchase account. Furniture was purchased on 1-10-2014. Rate of depreciation on furniture is 20 %.

(6) Calculate interest on capital is 6 %. Addition capital of ₹ 8000 was brought into business on 1-10-2014.

(7) Calculate depreciation on building at 10 % and rate of depreciation on machinery is 20 %.

12. Prepare final accounts from the following Trial Balance and adjustments of Baldev as on 31-03-2016.

Trial Balance of Baldev as on 31-03-2016

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Drawings	45,000	Trading Account	5,70,000
Fixed Assets	6,75,000	Capital	7,50,000
Office expenses	82,500	Bank overdraft	18,000
Rent	22,500	Traders	3,00,000
Insurance	45,000	Bills payable	37,500
Salaries-Wages	3,75,000	Bad debt reserve	21,000
Customers	2,25,000	Discount	10,500
Bills receivables	22,500	Outstanding office expenses	3000
Discount	7500		
Prepaid insurance premium	3750		
Closing Stock	45,000		
Cash Balance	22,500		
Selling & distribution expenses	1,20,000		
Bonus	18,750		
	17,10,000		**17,10,000**

Adjustments :

(1) After preparing trading account, it was found that Baldev has taken goods for personal use of ₹ 7500, which is not recorded in the book. Outstanding Carriage Inward ₹ 3750.

(2) Calculate interest on capital is 5 %.

(3) Outstanding Interest on Bank overdraft ₹ 750.

(4) After preparing trading account, it was found that ₹ 22,500 received from debtors, which is wrongly credited to sales account.

(5) Provide depreciation on fixed assets at 10 %.

(6) Unrecorded credit purchases ₹ 12,000.

(7) Goods of ₹ 22,500 are destroyed by fire, for which the Insurance company has accepted a claim of 90 % amount.

(8) A fixed asset of ₹ 30,000 sold for ₹ 22,500 for cash on dt. 1-10-2015 which is not recorded in the book.

13. The following balances are taken from the books of Vipul as on 31-03-2015. Prepare final accounts :

Name of Account	Amount (₹)	Name of Account	Amount (₹)
Capital	2,17,000	Debtors	1,40,000
Drawings	36,000	Creditors	60,000
Sales	6,00,000	Furniture (Dt. 1-4-2014)	1,60,000
Purchase	3,00,000	Addition in Furniture	40,000
Sales return	5000	(Dt. 1-10-2014)	
Purchase return	4000	Office expenses	30,000
Opening stock	10,000	Bad debts	5000
Salary (for 11 months)	1,10,000	Bad debt reserve	6000
10 % Loan from bank	1,00,000	Insurance premium	24,000
Interest on 10 % loan from bank	5000	Cash balance	50,000
Bills receivables	6000	Bank overdraft	18,000
Bills payable	5000	Commission received	5000
Investment in 12 % Debenture	1,00,000		
Interest on 12 % debenture	6000		

Adjustments :

(1) Stock of goods is ₹ 1,50,000 at the end of the year. From which the market value of 50 % goods is ₹ 80,000 and the market value of 50% goods is ₹ 70,000.

(2) Credit sales of ₹ 60,000 is not recorded.

(3) Calculate 20 % depreciation on furniture.

(4) Life Insurance premium of Vipul of ₹ 3000 is included in the insurance premium.

(5) Write off additional bad debts of ₹ 15,000 and provide 5% bad debt reserve on debtors.

(6) Additional capital of ₹ 17,000 brought in the business as on dt. 1-10-2014. Calculate 10 % interest on capital.

(7) Invoice of ₹ 10,000 for purchase is received from the creditor which is not recorded by an error.

14. As on 31-03-2015 the ratio of capital and reserve is 4:1 in the business of Bhavna. The balances of other accounts on that date are as under. Prepare final accounts from the balances and adjustments :

Name of Account	Amount (₹)	Name of Account	Amount (₹)
Opening Stock	30,000	Bad debt reserve	6000
Purchase	1,00,000	Rent paid (₹ 1200 per month)	12,000
Sales	2,50,000	Carriage inward	4000
Debtors	1,00,000	Cash balance	30,000
Creditors	20,000	Office expense	20,000
Machinery (Office)	2,00,000	Rent received	3000
10 % loan taken from Pratibha	50,000	Patents	20,000
(From dt. 1-10-2014)		Discount received	2000
Insurance premium	9000	Depreciation on furniture	2000
Advertisement expense	6000		
Furniture	8000		

Adjustments :

(1) Closing stock is ₹ 80,000 of which market value of 10 % goods is 20 % less. Goods of ₹ 10,000 needs to be repaired for ₹ 1,000.

(2) Goods of ₹5000 are distributed as free sample, which is not recorded.

(3) Goods of ₹ 6000 withdrawn by Bhavna for her personal use, which is recorded in the sales book. Purchase invoice of ₹ 4000 is not recorded in the purchase book.

(4) Insurance premium of ₹ 3000 paid for the year ending as on 30-06-2015 is included in insurance premium.

(5) Out of total debtors a debtor of ₹ 10,000 is declared insolvent and his receiver has declared first and final dividend of 80 paise per rupee. Provide 5 % bad debt reserve on debtors.

(6) Calculate 20 % depreciation on machinery.

(7) Patents are to be revalued at ₹ 17,000.

(8) Office salary of ₹ 1500 is outstanding. Which is included in office expenses.

6

Conventions, Assumption, Concepts and Principles of Accounting

1. Introduction

Accounting is known as the language of business though it is equally important for non business entities. Like every language has certain rules of grammar, for better understanding of accounting, certain principles are used in the accounting. To ensure uniformity in accounting, certain accounting principles or concepts or conventions or postulates or assumptions are used while writing accounts and in preparing financial statements. The terms, principle, concept, convention, doctrine, postulate and assumption are sometimes used interchangeably. These accounting principles provide a theoretical and logical base to accounting. They are based on logic and hence to avoid divergent practices in writing accounts and in preparing financial statements, Accountants accept these principles or concepts which are framed after deliberations amongst the experts in this subject. As these principles are widely accepted and applied in practice by accountants, they are also known as **Generally Accepted Accounting Principles or GAAPs.** According to the American Institute of Certified Public Accountants (AICPA), "Principles of Accounting are the general law or rule adopted or proposed as a guide to action, a settled ground or basis of conduct or practice."

Accounting principles are developed with a view to make users of financial statements understand them uniformly. There is no rigidity in these principles. They can become generally acceptable to all only if they are understood by those who write the accounts and users of accounting information in the same way and are also practical and objective. If these principles are not uniformly understood, accepted and adopted by all, each accountant may use them according to his own perception and understanding. This can result into lack of uniformity and can distort the accounting information instead of such information becoming useful. Therefore, it is essential that these basic accounting principles or concepts or conventions should be understood well by all as Accounting gets its theoretical and logical base only on the strength of these principles.

2. Accounting Principles, Concepts and Conventions

Different authors classify these accounting principles differently. However, without classifying them separately as principles, concepts, conventions, doctrines, postulates and assumptions, some such concepts are given below :

(1) Going Concern
(2) Consistency
(3) Accrual
(4) Accounting Entity
(5) Money Measurement
(6) Periodicity
(7) Full Disclosure
(8) Materiality
(9) Prudence
(10) Cost
(11) Dual Aspect
(12) Matching Cost with Revenue
(13) Realisation or Revenue Recognition
(14) Verifiability and Objectivity of Evidence

Syllabus of Standard 11 covers only first eleven concepts out of those listed above. However, for information of students, brief discussion is included on other concepts also.

(1) **Going Concern Concept:** This is an important concept of accounting. When business is started, it is assumed that the same will continue for very long period in future. Therefore, it is called going concern concept. The following are some of the practices or illustrations based on this concept.

(i) Fixed assets are shown in the balance sheet at their depreciated values. In other words, realisable or market value of fixed assets are not shown in the balance sheet. As the fixed assets are for use in business for long period and not meant for sale, their market values are not shown in the balance sheet based on going concern assumption.

(ii) Prepaid revenue expenses are shown on the asset side of balance sheet because of going concern assumption that business will continue for a long time and it is expected that the entity shall get the benefit of such prepaid expenses in future.

(iii) Deferred revenue expenses are sometimes shown on the asset side of balance sheet because of going concern assumption that business will continue for a long time and it is expected that the entity shall get the benefit of such expenses in future.

(iv) Semi finished goods or work-in-progress is valued at cost incurred thereon and not at their realisable value. This is because of the going concern assumption. At any given moment, business enterprise may have some semi finished goods in process. If the business is to be liquidated today, such semi finished goods may fetch very low value if it is sold as such and it has to be valued at such realisable value. However, because of going concern assumption, we assume that the manufacturing process will be carried out till completion of finished goods and therefore the final product will emerge. Hence, such semi finished goods are valued on the basis of cost incurred thereon and not at their realisable value in semi-finished condition.

(v) Financial statements are prepared at the end of accounting period. When the life of business entity is of very long period, on the basis of assumption of going concern, stakeholders or persons who have stake in this entity cannot wait to know what is the performance or position when it is closed down or liquidated. Hence, to get information about the profit or loss or about assets or liabilities at reasonable interval, accounts are written regularly and periodical financial statements are prepared at the end of accounting period. This statement can also be associated with Accounting Period Concept.

(vi) Distinction is made between 'capital expenditure' and 'revenue expenditure' because of going concern assumption.

It should be noted that in the following circumstances, going concern assumption should not be followed :

(a) When the object for which a business was established is achieved or is likely to be accomplished in very short period;

(b) When an industrial unit is declared sick;

(c) When a business is passing through severe financial crises and is likely to be liquidated very shortly;

(d) When a liquidator is appointed for liquidation of a company/entity/unit/firm;

(2) **Consistency Concept:** The principle of consistency suggests that while writing accounts or for preparing financial statements, the same policies, procedures and methods should be followed every year. In other words, policies, procedures and methods followed while writing accounts or for preparing financial statements should be followed consistently year after year. It can also be stated that the consistency concept requires that once an entity had decided on one accounting method, it should use the same method for all subsequent events of the same type or periods unless there is a sound reason to change the same. Accounts remain comparable only if consistency is maintained. If consistency is not maintained in accounting, the accounts may not remain comparable and can also mislead at times. For example, if stock is valued by FIFO method, the entity should follow the same method year after year as far as possible. If the method used for stock valuation is changed every year, the accounts do not remain comparable and the profit or loss position of different years may also indicate different positions. Consistency also requires that such methods should not be changed frequently, unless there is a compelling reason to do so. It should be remembered that an accounting practice that is followed based on some accounting principle or concept consistently does not violate the principle of consistency. For example, valuation of stock at 'cost or market price whichever is less' this will not violate the principle of consistency. Consistency concept refers to consistency over a time and it does not mean that the treatment of different categories of transactions must be consistent with one another. It only means that transactions in a given category must be treated consistently from one accounting period to the next one. For example, fixed assets are valued at cost whereas inventory or stock-in-trade is valued at cost or market price whichever is less. Here, there is no violation of principle of consistency.

In the consistency principle, personal bias can be avoided, the accountant has to follow consistently the same set of principles, practices, procedures or methods every year.

The logic behind the principle of consistency is that the users of financial statements lose confidence in the accounts if frequent changes are made in the policies or practices based on personal whims and fancy of those preparing the same.

The following are some of the practices or illustrations based on this concept :

(i) If depreciation is provided by 'written down value' method in a year, the same method should be followed consistently every year. The consistency, in method of depreciation allows reader of financial statements ease in comparing the profitability of different periods without any need for adjustment in figures. For example, if method is changed from 'straight line' to 'written down value' method in the next year, the comparison of profit or loss of two years would require analyst to take into account the impact of change in method of depreciation. However, if there is no change in method, the comparison of results of two years would be easier.

(ii) The method of stock valuation should be followed consistently and it should not be changed frequently. This statement is based on principle of consistency as it suggests that the accounting practice should remain the same from one year to another. It is not proper to value stock-in-trade according to one method in one year and according to another method next year.

(3) **Accrual Concept:** This concept is relevant in the area of revenue and costs. Revenue or costs are accrued i.e. recognised, as they are earned or incurred and not only when cash is received or paid. Also the revenue and costs will be recorded in the period to which they relate. This concept implies that the revenue should be recognised and recorded in accounting as and when it is earned or it accrues irrespective of the time or period of receipt. Similarly, expenses should be recognised and recorded in accounting as and when it is incurred irrespective of the period of payment thereof.

There are two systems of accounting. (i) Cash basis and (ii) Accrual basis. In cash basis, the revenue is recognised only when cash is received and expenses or costs are recognised only when cash is actually paid. Only some professional like doctors, lawyers and chartered accountants follow cash system of accounting. For companies, it is mandatory to follow accrual system of accounting. Most of the enterprises follow accrual system in which revenue or costs are recognised as they are earned or incurred irrespective of whether cash is received or not. The cash system is discussed here only for academic interest and for better understanding of the concept of accrual. In absence of any contrary information, it may be assumed that the accounts are maintained by accrual system.

The concept of Accrual of revenue is similar to concept of realisation of revenue or revenue recognition. It guides about the point in time when revenue should be recognised or when revenue should be treated as realised. However, Accrual Concept deals with accrual of not only revenue but also that of costs.

The following illustrations and discussion will help in understanding this concept :

(i) When goods are sold on credit to a customer, the revenue should be recognised in accounting when such goods are sold even though cash is not yet received for such sale. The logic in recognising revenue in this case is that the person to whom the goods are sold has legally become liable to pay the value of goods as agreed and hence this money will come at a future date. The amount that will be recognised as revenue is reasonably certain to be realised. Therefore, the revenue from this sale of goods will be recognised as and when the event of sale of goods has occurred. Thus, accrual concept requires treating revenue as accrued when goods are sold irrespective of the period when cash is received.

(ii) Salary payable for March, 2016 will be treated as expense for the month of March, 2016 even if it is paid in April, 2016 because the benefit of service of employee is taken in the month of March. Based on accrual concept, since the salary expense is incurred for March, 2016, it will be recorded in the period to which it relates.

(iii) Even though cash is received, advance received against sale of goods is not recorded as sales until the goods are supplied against the advance. This is because of accrual concept according to which revenue should be recognised and recorded in accounting as and when it is earned or it accrues irrespective of fact whether cash is received or not. Even if advance is received, as the goods are not supplied against this advance, revenue cannot be said to accrue. Hence, based on accrual concept, revenue will not be recognised when advance is received because the goods are yet to be supplied.

The International Accounting Standards Committee (IASC) and the Institute of Chartered Accountants of India (ICAI) treats following three concepts as the fundamental accounting assumptions :

(i) Going Concern

(ii) Consistency

(iii) Accrual

(4) **Accounting Entity Concept:** This concept is also referred to as Business Entity concept or Entity concept or Separate Entity concept by some authors. According to this concept, it is assumed that for the purpose of accounting, the entity is treated as having separate existence and is different from that of its owner(s). Only when the transactions between owner(s) and business entity are recorded treating them as two separate entities, the true picture of the firm or entity will be available. For example, Renuka Rajdev is proprietor of M/s. Ahmedabad Corporation. In this case, though Renuka Rajdev is sole owner of M/s. Ahmedabad Corporation, she will be treated as an entity separate from that of M/s. Ahmedabad Corporation for the purpose of accounting. Accordingly, if she withdraws any money or goods from business entity M/s. Ahmedabad Corporation, the business entity will debit the amount thereof to her drawings account. In the same manner, if she brings some capital in the business entity, the business entity will credit her Capital Account. This concept can also be extended to accounting separately for various divisions or branches of a firm or a company in order to ascertain the results of each division separately. Due to this concept only, some branches are preparing its own accounts independently.

Based on this concept, accounting is done for only those transactions and events which affect the business. Personal transactions of owner(s) which are not affecting business at all are not recorded in the books of accounts of business.

Each entity is considered as a separate entity from its owners even if such entities have common owners. Treating each entity as separate, accounts are maintained for each entity separately. For example, Navin Khandelwal is proprietor of M/s. Khandelwal Associates and is also a proprietor of another firm M/s. Navin Associates. In this case, all these entities vis. Navin Khandelwal, Khandelwal Associates and Navin Associates will be treated as separate entities for the purpose of accounting. Due to separate entity concept or Accounting Entity Concept, owner's capital is shown on the liability side of balance sheet of business entity.

Forms of business organisation may comprise of proprietorship firm, partnership firm, company, society or any other legal entity. In case of proprietorship firm, the Accounting Entity concept differs from legal concept. According to Accounting Entity concept, owner and business are treated as two separate entities. However, law does not distinguish between a proprietary firm and its proprietor. Legally, since the liability of proprietorship firm or proprietary concern is unlimited, personal assets of proprietor can be attached for payment of business liabilities and business assets could be used for discharging personal liabilities.

In partnership firm other than limited liability partnership (LLP), because of unlimited liability of partners, net personal assets after discharging personal debts can be applied for paying off liabilities of the partnership firm. Similarly, assets remaining in partnership firm after paying of firm's liabilities can be applied for discharging personal liabilities of partners to the extent of their share.

Legally, a company has a status of an artificial person distinct from its owners or shareholders. Once shareholders pay full amount of capital subscribed by them, they are not liable to contribute any additional amount for company's liabilities. Thus, separate entity of owners from business entity can be easily understood in case of company form of organisation.

When owner is considered as an entity separate from the business entity, it helps in preparation of accounts and knowing the result of the business. Based on this concept only, one can know whether business resources are used efficiently or not.

When owner is treated as an entity separate from that of the business enterprise, the owners shall have their claim on the assets of the business entity. Balance sheet also suggests this. For example, if Renuka Rajdev has introduced capital of ₹ 1,00,000 in her proprietary firm M/s. Ahmedabad Corporation, she has claim to that extent on the assets of M/s. Ahmedabad Corporation. Let us understand this with the help of an illustration of Balance Sheet based on immegenary numbers.

Balance Sheet of M/s Ahmedabad Corporation

Capital and Liabilities	Amount (₹)	Assets	Amount (₹)
Renuka Rajdev's capital	1,00,000	Fixed assets	75,000
Creditors	2,00,000	Current assets	2,25,000
Total	**3,00,000**	**Total**	**3,00,000**

It can be seen from the above balance sheet that the owner's capital is also shown on Liabilities side like any other creditors. The above information can also be presented in the form of an accounting equation.

Capital (1,00,000) + Outside liabilities (2,00,000) = Total assets (3,00,000)

Capital + Liabilities = Total assets

In short, $C + L = A$

This fundamental accounting equation also suggests that the owner is an entity different from the business.

The following are some of the practices or illustrations based on this concept :

(i) When college fee of son of proprietor is paid from business entity, the drawings account of proprietor is debited with such amount. This statement is based on Accounting Entity concept as though proprietor is sole owner of the business enterprise, for the purpose of accounting, owner and business are treated as two separate entities. Hence, if proprietor withdraws some money from business for personal use, the business will debit such amount to proprietor's drawings account.

(ii) When partner of a partnership firm introduces his capital into the firm, the partnership firm will credit this amount to partner's capital. This is because the partner and partnership firm are two separate entities for the purpose of accounting based on Accounting Entity concept.

(iii) Partnership firm gives interest on partners' capital and charges interest on partners' drawings depending upon the agreement. This is based on Accounting Entity concept that treats partners and partnership firm as two separate entities for the purpose of accounting.

(iv) Independent branch prepares its own trial balance separately because of Accounting Entity Concept as it is a separate entity for the purpose of accounting.

(5) **Money Measurement Concept:** In business, all transactions are represented in monetary unit. For accounting, money is accepted as common measurement unit. Economic worth of assets and liabilities as also revenue and expenses are stated in monetary terms for the purpose of accounting. Money measurement concept has two implications. Transactions which can be measured in terms of money will be recorded in monetary terms in accounting and the transactions which cannot be measured in terms of money will not be recorded in the books of accounts. Though physical units are involved in many financial transactions, accounting thereof is made in terms of common measurement unit of money only based on Money Measurement Concept. For example, if we purchase 5 chairs and 10 tables, the total amount paid or payable for these furniture items will be debited to Furniture Account and though the quantity of chairs and tables may be recorded in narration of transaction, the accounting entry will be based on monetary value of such items purchased. Similarly, when wages are paid based on number of hours or days worked to different workers, the transaction will be recorded in books of accounts based on the monetary amount involved. Thus, for any revenue expense or revenue income or assets or liabilities, money is the only measurement unit and hence for accounting, the concept of money measurement is well accepted.

This concept has two important limitations. (1) The transactions and events affecting business, though important, are not recorded in the books of accounts of business if they cannot be measured in terms of money. (2) The money value changes from time to time but transactions are recorded in the books of account at their monetary value on the date of transaction and hence the effect of change in value of money is totally ignored. For example, land purchased in the year 2005 is recorded at its historical cost of say ₹ 2 crores and even if the value of such land is ₹ 50 crores in 2016 as the accounts are prepared on the basis of historical cost (the cost at the time when the transaction has taken place) and thereby the effect of change in value of money is ignored. Despite these limitations, Money Measurement concept is generally accepted accounting principle as not following this concept may result into more grave issues or problems than these limitations.

The following are some of the practices or illustrations that can help understand this concept better :

(i) No accounting entry is recorded for strike by factory workers even if it is an important event affecting business. As this event cannot be measured in terms of money, no accounting entry is made according to Money Measurement concept.

(ii) No accounting entry is recorded in books of account for resignation of a competent and efficient production manager that may adversely affect the production. As this event cannot be measured in terms of money, no accounting entry is made according to Money Measurement concept.

(iii) Instead of recording physical quantity of goods sold, the sales will be recorded at monetary value of such goods. This is based on Money Measurement concept as for the purpose of accounting, money is accepted as common measurement unit.

(6) **Periodicity Concept:** This concept is also referred to as Accounting Period concept by some authors. This concept is related to going concern concept. The going concern concept implies that the business activities will continue indefinitely or for a very long time in absence of any contrary indication. If one waits till closure of business, complete picture of profit or loss can be known only at the time of liquidation or closure of business. But, it is not usually possible for a businessman to wait till the closure of business. Moreover, other stakeholders of the business like investors, creditors, tax authorities etc. are generally interested in information of business operations every year. Therefore, the life of the business is divided into specific accounting periods. This is known as Accounting Period. At the end of each accounting period, financial statements are prepared. Such accounting period is also known as accounting year. Usually, the accounting period is of 12 months. Accounting results are also prepared at the end of

every year because the period of 12 months covers the effect of various seasons on the business. Therefore, the accounts are also known as annual accounts. Such an accounting year could be a calendar year, a samvat year, a financial year, co-operative year or any other period. In India, according to Income Tax law, businessmen (assesses) are required to furnish the details of income for income tax purpose for every financial year i.e. For a period of 12 months starting from 1st April and ending on 31st March next year.

All listed companies in India publish interim quarterly financial reports by preparing interim accounts which become useful to investors in their investment decisions. In this case, the accounting period is of 3 months. Some enterprises prepare monthly accounts for their internal use and in that case accounting period could be a month. Thus, whenever accounts are prepared at interval of a particular period such period is known as accounting period and this concept of preparing accounts at regular interval is also known as Periodicity Concept.

The following are some of the illustrations based on this concept :

(i) Based on Periodicity concept or Accounting Period concept, Profit and Loss Account and Balance Sheet are prepared at the end of every accounting period.

(ii) Since the life of the business is assumed to be indefinite or for a very long period, such life is divided into convenient accounting periods to ascertain performance and position of entity at the end of each such accounting period. This practice is based on Periodicity concept.

(7) **Full Disclosure Concept:** This concept is also referred to as Disclosure concept by some authors. According to this concept, all material information should be disclosed in the financial statements. To enable the users of the financial statements to take informed economic decisions, it is necessary to disclose all the relevant information in the financial statements. No material information affecting the interest of general investors should remain undisclosed or concealed. Financial statements should be prepared honestly. According to Section 129(1) of the Companies Act, 2013, the financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the accounting standards notified under section 133 and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III.

According to general instruction No. 2 of Schedule III to the Companies Act, 2013, the disclosure requirements specified in this Schedule are in addition to and not in substitution of the disclosure requirements specified in the Accounting Standards prescribed under the Companies Act, 2013. Additional disclosures specified in the Accounting Standards shall be made in the notes to accounts or by way of additional statement unless required to be disclosed on the face of the Financial Statements. Similarly, all other disclosures as required by the Companies Act shall be made in the notes to accounts in addition to the requirements set out in this Schedule.

The practice of appending notes or schedules to the financial statements has developed as a result of this principle of full disclosure. For example, information about contingent liabilities, market value of certain investments, method of providing depreciation, method of valuation of stock and other accounting policies are disclosed in financial statements with a view to disclose significant or material information. Good accounting practice demands that all significant information should be disclosed irrespective of legal requirements to do so. Even when there is no legal requirement to disclose a particular information, material or significant information is to be disclosed.

The following are some of the illustrations based on this concept :

(i) Change in method of depreciation is material information as it affects the profit or loss of the enterprise and also affects the book value of fixed assets shown in the balance sheet. It also indicates change in policy. Hence, based on Full Disclosure concept, this should be disclosed in financial statements along with the impact of such change.

(ii) Information about the change in method of stock or inventory valuation and its impact should be disclosed in financial statements.

(8) **Materiality Concept:** This concept is associated with the principle of full disclosure. According to full disclosure principle, all material information should be disclosed in the financial statements. Materiality depends on the relevance and reliability of information. Information will be considered material only when the same is relevant and significant.

According to this concept, any information would be shown in detail in financial statements only when the same is useful to the users of such information. While Materiality principle implies that material information should be disclosed, it may also imply that immaterial information may not be disclosed. For example, when small tools like small hammers, nails, screws, screwdrivers, etc. are used, there is no need to maintain separate accounts for each of such items. Only one account of Loose Tools would serve the purpose. Similarly, instead of keeping separate accounts for pencil, erasers, pen, etc., only one account styled as 'Stationery Expense Account' shall be maintained because it is not necessary to maintain separate accounts for small and immaterial items. Therefore, there is no need of separate disclosure or note for such immaterial items in accounts or in financial statements. Materiality also depends on the amount involved in a transaction. For example, purchase of dustbin for ₹ 20 should be considered as an expense instead of considering the same to be a fixed asset. In Schedule III to the Companies Act, 2013, General Instructions for Preparation of Statement of Profit and Loss states that a Company shall disclose by way of notes additional information regarding aggregate expenditure and income on any item of income or expenditure which exceeds one percent of the revenue from operations or ₹ 1,00,000 whichever is higher.

It is not possible to give a definite rule for determining materiality in each case. It depends upon the quantum of amount, relevance or importance of a transaction or information in the business. In terms of materiality concept, an accountant need not attempt to record events so insignificant that the work of recording them is not justified by the usefulness of the results. Whether an event or information or transaction is material or not also depends upon the judgment and common sense of the accountant.

The following are some of the illustrations based on this concept :

(i) Instead of charging expenses of only partly used note pad, full cost of notepad is charged as expense to Profit and Loss Account even if the part thereof is still unused. Conceptually, a writing pad is an asset of the entity. Every time the page from such pad is used, part of the pad is used up and to the extent the same remains unused, it is an asset. Theoretically, it may be possible to ascertain the number of pages used and the remaining pages at the end of an accounting period. But the cost of such effort would be unwarranted and no accountant would usually attempt to do this. Instead, usually, cost of such writing pads are written off as expense either when the same is purchased or when the same is issued for use.

(ii) Any item of income or expenditure which does not exceed one percent. of the revenue from operations or ₹ 1,00,000, whichever is higher is not required to be separately shown in Statement of Profit and Loss of a company, unless specifically mandated otherwise.

(iii) If accounting year ends of 31st March, 2016 and a Telephone bill is received for the period of 2-3-2016 to 01-04-2016, entire value of this bill may be charged as expense to profit and loss account for the period ended 31st March, 2016 instead of charging expense for one day in the year 2016-17.

(9) **Prudence Concept:** This concept is also referred to as Conservatism concept by some authors. Financial statements are usually prepared on conservative basis. Window dressing of accounting i.e. showing the performance or position different than the actual one is not permitted. In other words, showing a position better than what it is, is not good. At the same time, it is also not proper to show performance or position substantially worse than what it is and thus create secret reserve. Prudent reporting based on conservatism builds confidence in the results and, in the long run, best serves the interest of all stakeholders and users of financial statements. This policy of prudent reporting leads to the concept of prudence or conservatism. According to this concept of prudence, an accountant does not take into account anticipated

gain or profit but provides for all anticipated losses. Based on this concept there is preference for understatement of revenue or asset rather than overstatement when dealing with measurement of uncertainties. At the same time there is preference for estimating higher number for liabilities or expenses when dealing with measurement of uncertainties. This concept is also stated as **anticipate no profits but anticipate all losses and provide for them.** The two aspect of prudence can be stated as under.

(i) Recognise revenue or gain only when they are reasonably certain.

(ii) Recognise expenses or losses as soon as they are reasonably possible.

The following are some of the illustrations based on this concept :

(1) Closing stock is valued at cost or market price, whichever is less. For example, if cost of closing stock of inventory is ₹ 20,000 at the end of the year and its market value is ₹ 30,000, the closing stock will be valued at ₹ 20,000. At the same time, if cost of closing stock of inventory is ₹ 20,000 at the end of the year and its market value is ₹ 17,000, the closing stock will be valued at ₹ 17,000. Here, anticipated profit of ₹ 10,000 (₹ 30,000 less ₹ 20,000) is not taken into account as the same is not actually realised. However, the anticipated loss of ₹ 3000 (₹ 20,000 less ₹ 17,000) is taken into account when we value closing stock at ₹ 17,000 against its cost of ₹ 20,000.

(2) Provision for doubtful debts is made in the accounts.

(3) Provision for discount reserve on debtors is made in the accounts.

(4) Provision for discount reserve on creditors is not made in the accounts.

(5) Contingent liabilities are shown in the balance sheet whereas contingent assets are not shown therein.

(6) Provision for reduction or erosion in value of investments is usually made in the books of account.

(7) When goods are supplied on 'sale or return' basis, the revenue is not recognised till the confirmation is received from the buyer for having agreed to purchase the same.

(8) In case of long term contracts, when the work completed is very less or negligible, say less than 25%, the entire profit is reserved for future contingencies and is transferred to work in progress account. In other words, no profit is taken into account or profit is ignored for such long term contracts where very less or negligible work has been completed. However, if there is any loss, the same will be taken into account.

(9) All research and development expenses are usually debited to profit and loss account of the year in which they are incurred even if the benefit of such expenses is derived in future.

(10) Provision for loss of theft of uninsured stock will be made in the books of accounts soon after the theft even if there is possibility of recovery of this stock if police catches the thief.

(11) Banks credit interest on doubtful advances to Interest Suspense Account and not to Interest Account. Recovery of interest on doubtful advances is uncertain and hence based on prudence or conservatism concept, instead of crediting the same to Interest income, it is credited to Interest Suspense Account.

(10) Cost Concept: According to the cost concept, transactions will be recorded in the books of account at their monetary cost of acquisition. In other words, if there is cost, the transaction will be recorded at cost at which the transaction has taken place and not any more or less value than that. It also implies that if there is no cost, the transaction will not be recorded in the books of account. Thus, transactions are recorded based on the amounts actually involved. This is a fundamental concept in accounting in the sense that it prevents recording the transactions at any arbitrary values. This concept is mainly applied in the transactions of acquisition of assets wherein the amount to be recorded is objectively arrived at based on the mutually agreed value between two parties. However, sometimes, accounting has necessarily to be based on estimates. For example, depreciation to be calculated on assets is usually based on estimates as precise life of any asset cannot be known.

The following are some of the illustrations based on this concept :

(1) If a piece of land is purchased by Aditi from Anil for ₹ 5 lakhs, this transaction will be recorded in the books of account at ₹ 5 lakhs only being the monetary cost thereof. Even if Aditi feels that this land is worth ₹ 10 lakhs, she cannot record this transaction at ₹ 10 lakhs in her books as her cost for land is ₹ 5 lakhs. At the same time, even if Anil feels that this piece of land is worth ₹ 3 lakhs, he cannot record this transaction at ₹ 3 lakhs in his books when he has actually sold it for ₹ 5 lakhs.

(2) No accounting entry is made for free samples received as there is no cost.

(11) **Dual Aspect Concept:** Duality principle is a fundamental accounting convention and is the underlying basis for double entry book keeping system or accounting system.

According to Dual Aspect concept, every transaction has two-fold effect or has a dual impact on the accounting records. (i) from the angle of benefit received and (ii) from the angle of benefit given. For example, purchased Furniture of ₹ 10,000 for cash. In this transaction, Furniture of ₹ 10,000 is received and Cash ₹ 10,000 is given or it goes out of business. If Furniture is purchased on credit, Furniture comes in and the equal amount of liability is credited to be discharged in future. Thus, 'every receiver is a giver and every giver is a receiver'. In the above example, purchaser of Furniture gets Furniture and gives cash. On the other hand, seller of furniture gives Furniture and gets cash. Thus, for proper recording of transactions, dual effects are necessary. For recording this two-fold effect in the books of accounts, accounting terminology of 'debit' and 'credit' are used. The structure of Accounting is based on this concept of duality. Accounting Equation or Balance Sheet equation is also based on Dual Aspect concept. Thus, total debit effects and total credit effects of various transactions recorded in books of accounts and posted in ledger accounts are always equal. Accounting system is designed so as to record both these effects of a transaction and hence it is called as double-entry system. It should be remembered that every transaction recorded in the accounts affects at least two items.

The economic resources of an entity are known as assets. The claims of various parties against these assets are called capital and liabilities. Capital is the owners' claim against the assets of the business. In case of proprietary firm, it is known as proprietor's capital. In case of partnership firm, it is known as partners' capital. In case of incorporated entities, capital or owner's equity is also known as shareholders' equity or shareholders' fund. In short, terms like "capital", "owners' fund", "owners' equity", "net worth", "shareholders Fund", "equity", "proprietor's capital" or "partners' capital" denote the claim of owners against the assets of enterprise. Liabilities are the claims of creditors (i.e. every one other than the owners) against the assets of the business. Since all the assets of the business are claimed by its creditors and owners and these claims cannot exceed the amount of assets, the fundamental accounting equation or the balance sheet equation will be as under.

Assets = Liabilities + Capital

Alternatively, Accounting equation can be stated as,

$A = L + C$ where, A = Assets

L = Liabilities

C = Capital

Understanding fundamental accounting equation will be of utmost use in understanding the entire process of accounting.

This equation is not only helpful in understanding the dual aspect of any transaction but it also helps in understanding the account to be debited or credited. For example, when proprietor brings capital of ₹ 10,000 by cash in business name as Radhika Corporation, the business gets cash ₹ 10,000 which is debited to Cash Account and Capital account is credited by ₹ 10,000. The balance sheet of firm will appear as under.

Balance Sheet of Radhika Corporation

Capital and Liabilities	Amt. (₹)	Assets	Amt. (₹)
Capital	10,000	Fixed assets	0
Liabilities	0	Current assets – Cash	10,000
Total	**10,000**	**Total**	**10,000**

The effect of above stated transaction is that asset viz. Cash increases and capital increases. Alternatively, we can say that Cash Account is debited and Capital Account is credited.

We should remember that **Debit** is that portion of transaction that accounts for increase in asset or expense and decrease in liabilities, capital or income. In above stated transaction, debit is on account of increase in cash.

Similarly, we should remember that **Credit** is that portion of transaction that accounts for decrease in asset or expense and increase in liabilities, capital and income. In above stated transaction, credit is on account of increase in capital.

The Dual Aspect concept is of utmost importance in mastering the art of accounting. To understand the rules of debit and credit or journal entries easily with this Dual Aspect concept, one may remember only one thing and the rest would follow as corollary. Remember that increase in Asset means Debit or A+. Now as a corollary to this, decrease in Asset means credit; increase in liability means credit; increase in capital means credit; decrease in liability means debit; and decrease in capital means debit. In the above stated transaction, from the view point of business entity, cash which is an asset increases and hence cash account is debited; and Capital increases and hence Capital Account is credited.

Each transaction has two aspect or effect or dual aspect. This can also be understood by the following example. If business acquires asset, it must result in one of the following.

(i) Decrease in some other asset. For example, purchased machinery for cash. In this case asset viz. Machinery increases and another asset viz. Cash decreases.

(ii) Increase in liability. For example, if asset is acquired on credit, the obligation to pay the amount thereof will result into increase in liability.

(iii) Increase in capital. For example, if owner has brought personal asset into business, capital increases.

The following are some of the illustrations based on this concept :

(i) When goods costing ₹ 5000 is sold for ₹ 7000 for cash, the effect of this transaction will be reduction in asset or inventory by ₹ 5000; increase in cash balance by ₹ 7000 and increase in capital by ₹ 2000 being profit on sale of such goods. Thus, overall net effect or two-fold effect is that capital increases by ₹ 2000; and assets increase by ₹ 2000 (7000 - 5000).

(ii) When goods costing ₹ 4000 is purchased on credit, the effect of this transaction will be increase in stock or inventory or asset by ₹ 4000 and increase in creditors or liability by ₹ 4000. Thus, overall effect or two-fold effect is that asset increases by ₹ 4000; and liability increases by ₹ 4000.

(iii) When loan of ₹ 10,000 is received from a friend by Cheque, overall effect or two-fold effect is that asset i.e. Bank balance increases by ₹ 10,000; and liability i.e. Loan from Friend increases by ₹ 10,000.

(iv) When salary of ₹ 8000 is paid by cash, it being an expense, increases the loss or reduces the profit and thus reducing the capital by ₹ 8000. The second effect is it reduces cash by ₹ 8000. Thus the two fold effect is decrease in capital by ₹ 8000 and decrease in asset by ₹ 8000.

Other Concepts :

(1) **Matching Cost with Revenue :** According to this concept, cost incurred during a particular period should be matched against the revenue of that period to ascertain profit or loss.

(2) **Realisation or Revenue Recognition :** According to this concept, revenue should be recognised in the period in which it is earned irrespective of the fact whether cash is received or not during that period.

(3) **Verifiability and Objectivity of Evidence :** According to this concept, there should be objective evidence, for transactions recorded in accounts, which are capable of verification.

3. Illustrations

(a) State the name of the accounting principle, concept or convention which is followed in the practices or statements given below :

(1) Market value of fixed assets as on 31-03-2016 is ₹ 5 lakhs and depreciated value is ₹ 4 lakhs on this date. In this case, fixed assets will be shown in the balance sheet at ₹ 4 lakhs on 31-03-2016 and not at ₹ 5 lakhs.

(2) Usually, provision for discount reserve on creditors is not made.

(3) Provision is made for doubtful debtors.

(4) Closing stock is valued at the cost price or market price whichever is less.

(5) Revenue from sales is recorded in book of accounts even if goods are sold on credit and the amount is not yet received in cash.

(6) Fixed assets of business are shown in balance sheet at their depreciated value and not at their realisable values.

(7) Partnership firm gives interest on partners' capital and charges interest on partners' drawings if it is so agreed.

(8) Accounts of business are prepared for a specific period.

(9) No accounting entry is passed in books of accounts for resignation of an efficient Plant Manager of a firm even if this event will adversely affect production of the firm.

(10) In addition to book value of investment in listed shares, the market value thereof is also shown as additional information in financial statements.

(11) Entire expense of a ball pen refill purchased for ₹ 5 on 25-03-2016 is debited to Stationery Expenses on date of purchase itself even if only about a half of this refill is used by 31st March, 2016.

(12) As far as possible same method of providing depreciation should be followed year after year.

(13) Mangal Corporation purchased a car for ₹ 5 lakhs and this was the last piece available with seller and now there are buyers ready to pay even ₹ 7 lakhs for this car. Hence, owner of

Mangal Corporation wants to record this transaction of purchase of car at ₹ 7 lakhs even though the car is actually purchased for ₹ 5 lakhs. However, the Accountant of the firm has argued that based on generally accepted accounting principle, this transaction has to be recorded only at ₹ 5 lakhs and it cannot be recorded at ₹ 7 lakhs.

(14) ABC Corporation received free samples of goods worth ₹ 5000 from a supplier but ABC Corporation did not record this transaction in its books of account even though it received the goods.

Answer :

(1) Going Concern concept. The fact that the fixed assets are shown at their depreciated value and not at their realisable values in the balance sheet is based on going concern concept. If the business is not to continue for long period, we would show the fixed assets at realisable value of ₹ 5 lakhs. However, in absence of any contrary information, according to going concern concept, it is always assumed that the entity will continue for a very long time.

(2) Prudence or conservatism Concept. According to prudence or conservatism, revenue or gain should be recognised only when they are reasonably certain. Discount to be earned from creditors is probable and not sure and hence anticipated gain, unless, reasonably certain, is ignored. Hence, no provision is made for discount reserve on creditors.

(3) Prudence or conservatism Concept. Provision is made for doubtful debtors as it is an anticipated loss and according to this principle, all anticipated losses are provided for.

(4) Prudence or conservatism Concept. It is based on the prudence or conservatism concept that takes into account anticipated loss but ignores anticipated gain.

(5) Accrual or conservatism Concept. Based on accrual concept, when sales is made on credit, the third party legally becomes liable to pay the amount of goods and hence revenue should be recognised soon after the sale is made or when ownership in goods are passed to the buyer thereof.

(6) Going Concern Concept. Fixed assets of business are shown in balance sheet at their depreciated value and not at their realisable values as the fixed assets are meant for use in the business and business is to continue for a very long time or for indefinite period.

(7) Accounting Entity Concept. As partnership firm and partners are treated as two separate entities, partnership firm can allow interest on partners' capital and can charge interest on partners' drawings if it is so agreed.

(8) Periodicity Concept. Since life of business is indefinite, Accounts of business are prepared for a specific period to ascertain performance or position of business at regular intervals.

(9) Money Measurement Concept. As the event of resignation of an efficient Plant Manager cannot be measured in terms of money, it cannot be recorded in books of accounts. Only those events or transactions which can be measured in terms of money are recorded in books of accounts.

(10) Full Disclosure Concept. Since all material information should be disclosed in the financial statements, in addition to book value of investment in listed shares, the market value thereof is also shown as additional information in financial statements.

(11) Materiality Concept. Based on materiality concept, all immaterial items will be dealt with in accounts in the most expedient manner. The cost of pen refill being immaterial, its cost can be charged as expense either when the same is purchased or when issued for use.

(12) Consistency Concept. Consistency principle expects that whatever accounting method or policy is followed, should be consistently followed. Hence, based on this principle, as far as possible same method of providing depreciation should be followed year after year.

(13) Cost Concept. According to this concept, the transactions have to be recorded based on the underlying cost thereof. Hence, even though the owner considers an asset purchased as worth more or less than the actual purchase price, the transaction will be recorded at cost thereof and at no other value.

(14) Cost Concept. As there is no cost, the transaction will not be recorded in absence of any cost.

(b) Fill in the blanks choosing the most appropriate option from the given options :

(1) .... Concept suggests that method of valuation of stock should not be changed year after year.

(a) Materiality (b) Cost
(c) Consistency (d) Dual Aspect

(2) Fixed assets are depreciated based on the Principle of ....

(a) Materiality (b) Money Measurement
(c) Accounting Entity (d) Going Concern

(3) Based on .... Concept, provision for outstanding salary for the month of March is made in the month of March while finalising the accounts even though the salary for that month is actually paid in April next.

(a) Accrual (b) Cost
(c) Money Measurement (d) Dual Aspect

(4) Based on .... Concept, amount paid for personal travelling expenses of proprietor from the firm is debited by firm to the drawings account of proprietor.

(a) Materiality (b) Accounting Entity
(c) Periodicity (d) Dual Aspect

(5) Based on .... Concept, no accounting entry is made in the books of accounts for advantage of having a team of sincere, honest, hardworking and efficient employees with the firm.

(a) Materiality (b) Full Disclosure
(c) Money Measurement (d) Dual Aspect

(6) Based on .... Concept, Profit and Loss Account and Balance Sheet are prepared at the end of each accounting period.

(a) Materiality (b) Cost
(c) Money Measurement (d) Periodicity

(7) Whenever there is change in method of providing depreciation, the impact of such change on the profit or loss and in the value of asset should be disclosed in financial statements based on .... Concept.

(a) Full Disclosure (b) Cost
(c) Going Concern (d) Dual Aspect

(8) Instead of preparing separate accounts for items like pen, erasers, rough writing pads, pencil and other stationery items, they are all grouped under one Stationery Expense Account based on .... Concept.

(a)	Dual Aspect	(b)	Materiality
(c)	Consistency	(d)	Accounting Entity

(9) Based on .... Concept, provision may be made for contingent liabilities in books of account but not for contingent assets.

(a)	Materiality	(b)	Cost
(c)	Dual Aspect	(d)	Prudence or Conservatism

(10) Krupa Corporation entered into agreement on 01-06-2016 for purchase of a Factory Building for ₹ 5 crores from Anil Enterprise. Actual payment of ₹ 5 crores was made and deed for this transaction was executed on 15-06-2016 when the market value of this factory building had gone up to ₹ 6 crores. Even though the value has increased to ₹ 6 crores, this transaction will have to be recorded only at ₹ 5 crores in the books of accounts based on .... Concept.

(a)	Materiality	(b)	Dual Aspect
(c)	Consistency	(d)	Cost

(11) Fundamental Accounting equation or Balance Sheet equation i.e. Assets = Liabilities + Capital is based on ______________ Concept.

(a)	Materiality	(b)	Cost
(c)	Dual Aspect	(d)	Consistency

(12) The reason for valuing work in process on the basis of the cost incurred thereon is .... Concept.

(a)	Materiality	(b)	Going Concern
(c)	Full disclosure	(d)	Accounting Entity

Answer :

(1) (c) Consistency	(2) (d) Going Concern	(3) (a) Accrual
(4) (b) Accounting Entity	(5) (c) Money Measurement	(6) (d) Periodicity
(7) (a) Full Disclosure	(8) (b) Materiality	(9) (d) Prudence or Conservatism
(10) (d) Cost	(11) (c) Dual Aspect	(12) (b) Going Concern

Exercise

1. Explain the need for accounting principles or concepts or conventions or postulates or assumptions that are used while writing accounts and in preparing financial statements.

2. **Write a short-note on :**

(i) Going Concern Concept; (ii) Consistency Concept; (iii) Accrual Concept; (iv) Accounting Entity Concept or Business Entity Concept or Entity Concept or Separate Entity Concept; (v) Money Measurement Concept; (vi) Periodicity or Accounting Period Concept; (vii) Full Disclosure or Disclosure Concept; (viii) Materiality Concept; (ix) Prudence or Conservatism Concept; (x) Cost Concept; (xi) Dual Aspect or Duality Concept.

3. Explain the concept of going concern giving example.

4. Explain the concept of consistency giving example.

5. Explain the concept of accrual with example.
6. Explain the concept of accounting entity with example.
7. Explain the concept of consistency with example.
8. Explain the concept of money measurement with example.
9. Explain the concept of periodicity with example.
10. Explain the concept of full disclosure with example.
11. Explain the concept of materiality with example.
12. Explain the concept of prudence with example.
13. Explain the concept of dual aspect with example.
14. Which three accounting principles or concepts or conventions are treated as fundamental accounting assumptions by ICAI?
15. **State the name of the accounting principle, concept or convention with which the following statements or situations are associated :**
    (1) Revenue expenses paid in advance are shown on the asset side of balance sheet.
    (2) Semi finished goods or work-in-progress is valued at cost incurred thereon and not at their realisable value.
    (3) Financial statements are prepared at the end of accounting period.
    (4) If depreciation is provided by straight line method in a year, the same method should be followed consistently every year.
    (5) Frequent changes in the methods of depreciation or stock valuation should be avoided.
    (6) When goods are purchased on credit from a supplier, the Purchase should be recorded in accounts immediately, even though cash is not yet paid for such purchase as the amount becomes payable once the goods are purchased.
    (7) When partner of a partnership firm withdraws any amount from the firm, the partnership firm will debit this amount to partner's drawings account.
    (8) No accounting entry is recorded for death of a key employee of the firm even if it is an important event affecting business.
    (9) In absence of any contrary information, life of the business is assumed to be indefinite or for a very long period and hence such life is divided into convenient accounting periods to ascertain performance and position of entity at the end of each such accounting period.
    (10) Any item of income or expenditure which does not exceed one percent. of the revenue from operations or ₹ 1,00,000, whichever is higher is not required to be shown separately in Statement of Profit and Loss of a company, unless specifically required otherwise.
    (11) Information about the change in method of stock or inventory valuation and its impact should be disclosed in financial statements.
    (12) Information about the change in method of providing depreciation and its impact should be disclosed in financial statements.
    (13) Provision for discount reserve on debtors is made in the accounts but Provision for discount reserve on creditors is not usually made in the accounts.
    (14) Provision for loss of theft of uninsured machinery will be made in the books of accounts soon after the theft even if there is possibility of recovery of this machinery if police catches the thief.
    (15) Anil purchased a shop from Bimal for ₹ 10 lakhs. Anil feels that he has got a very good bargain and he would have paid even ₹ 20 lakhs for this shop as he felt that this shop is at

prime location. On the other hand, Bimal feels that this shop was very unlucky for him and he would have sold it even for ₹ 5 lakhs. Because of these perceptions, though actual transaction has taken place at ₹ 10 lakhs, Anil wants to record this transaction in his books at ₹ 20 lakhs and Bimal wants to record this transaction in his books at ₹ 5 lakhs but their accountants have told them that the transaction should be recorded at ₹ 10 lakhs only based on some accounting principle, concept or convention which they do not remember.

(16) It should be remembered that every transaction recorded in the accounts affects at least two items and accounting system is designed so as to record dual effects of a transaction. Hence, Accounting is called as '**double-entry system' or 'double-entry book keeping system'**.

(17) Excellent quality management system of an entity is not reflected in its books of accounts even if such system enhances goodwill of the entity.

(18) Advance received from a customer cannot be credited to sales account.

(19) Capital is shown on the liability side of Balance Sheet of a business entity.

(20) Independent branch prepares its own trial balance separately.

(21) Trial Balance tallies if arithmetical accuracy is ensured.

16. Answer the following questions :

(1) The owner of a business takes away goods of ₹ 3000 from business for personal use. Where will you debit this? According to which Concept?

(2) Fixed assets are shown in the balance sheet at their cost or market price whichever is less. Is this statement true or false? If the same is false, rewrite the correct statement and state the principle associated with it.

(3) According to which accounting principle or concept does Bank credit interest on doubtful advances to Interest Suspense Account?

(4) A trader has taken a loan of ₹ 1,00,000 from a friend on 01-06-2016 at an interest rate of 12 % per annum and interest is payable annually on 1st June every year. The first interest on this loan will be payable by trader on 1st June, 2017. Accounting year of this trader ends on 31st March every year. Will there be any accounting entry for interest in the books of this trader for the year ending on 31st March, 2017? If yes, for which amount? According to which Concept?

(5) An employee has filed a suit against a company claiming compensation of ₹ 1,00,000 for dismissing him from his job. According to the estimate of Advocate of the Company, sum of ₹ 40,000 is likely to become payable. Will there be any entry in the books of the company for this event? If yes, for which amount? According to which Principle? If the matter is pending in the court of law, is there any requirement to disclose the details of claim for compensation in financial statement? If yes, according to which concept?

7

Accounting Standards : Concept and Objectives

1. Introduction

Accounting principles, concepts and conventions are used in writing accounts and in preparing financial statements. As seen in the discussion on Accounting Principles, Concepts and Conventions, there can be diverse accounting practices. Accountants have different opinions on various practices. Therefore, the same transaction may be recorded differently based on various accepted practices. For example, straight line method or written down value method or any other method may be used for providing depreciation. Stock can be valued by FIFO or by LIFO method. Out of various options available, the choice of a particular practice depends upon the management policy. If different entities adopt different policies for the same accounting matter, accounts do not remain comparable and useful conclusions cannot be drawn from such accounts. Therefore, to bring uniformity in preparation and presentation of financial statements, attempts are made at the international and national level to formulate and issue accounting standards. For the purpose, in the year 1973 International Accounting Standards Committee (IASC) was set up. On 1st April, 2001, International Accounting Standards Board (IASB) took over the responsibility for setting International Accounting Standards. In India, the Institute of Chartered Accountants of India (ICAI) set up the Accounting Standards Board (ASB) on 21st April, 1977 to formulate accounting standards.

The Institute of Chartered Accountants of India (ICAI) issues Indian Accounting Standards. IASB issues International Financial Reporting Standards (IFRS) with a view to unify the accounting practices worldwide. Now, preparation is on in India also for applying IFRS and ICAI has started issuing Indian Accounting Standards (Ind ASs) compliant with IFRS.

2. Meaning and Concepts of Accounting Standards

Accounting standards are written statements of uniform accounting rules and guidelines issued by the accounting bodies (like ICAI or IASB) to be followed while preparing and presenting the financial statements. The rules, policies or guidelines stated by Accounting Standards are usually for measurement, valuation and disclosure of accounting information in the financial statements.

According to Kohlar, Accounting Standards are a Code of Conduct imposed on accountants by custom, law and a professional body.

In India, Central Government, in consultation with the National Advisory Committee on Accounting Standards (NACAS), notified Companies (India Accounting Standards) Rules, 2015 on 16th February, 2015 to come into force from 1st April, 2015. Under these rules, the Companies as specified therein and their auditors shall comply with the Indian Accounting Standards (Ind AS) specified therein in preparation of their financial statements and audit respectively.

Professional accounting bodies (Such as ASB set up by ICAI) identify areas of accounting where alternative and diverse practices are followed. After detailed deliberations, a draft of Accounting Standard on specific area of accounting is issued. Thereafter, suggestions or comments are also invited on such draft Accounting Standard. Then, after considering all the aspects, Accounting Standard is issued. In the initial years, sometimes, such accounting standards are recommendatory for entities and are made mandatory gradually after some time. Such accounting standards may be made mandatory for specified entities or they may be made applicable to all entities. Accounting standard recommends the practice out of diverse accounting practices that are available or evaluates them in detail to ascertain acceptability thereof. However, accounting standards are not rigid. They also permit adoption of a particular practice out of various options available. Accounting standards are prepared keeping in view the business environment and laws of the country. Therefore, when business environment or laws change, the accounting standards are revised. In case of conflict between the accounting standard and law, the law shall prevail.

3. Objectives and Uses of Accounting Standards

The objectives and utility of accounting standards are as under :

(1) The objective of setting accounting standards is to bring uniformity in accounting policies and practices and to ensure transparency, consistency and comparability.

(2) It is also an objective of accounting standard to allow flexibility of adopting a particular practice or method with suitable disclosure to entities out of various acceptable accounting methods or practices available.

(3) Accounting standards have objective to enhance the reliability of financial statements among their users.

(4) Accounting standards provide rules and guiding principles for preparation and presentation of financial statements.

(5) When financial statements are prepared in compliance with accounting standards and auditors have certified such compliance, it enhances the reliability of financial statements.

4. Accounting Standards issued by ICAI

The Institute of Chartered Accountants of India (ICAI) has issued following accounting standards.

No.	Standards	Title
1	Ind AS-1	Presentation of Financial Statements
2	Ind AS-2	Inventories
3	Ind AS-7	Statement of Cash Flows
4	Ind AS-8	Accounting Policies, Changes in Accounting Estimates and Errors
5	Ind AS-10	Events After the Reporting Period
6	Ind AS-12	Income Taxes
7	Ind AS-16	Property, Plant and Equipment
8	Ind AS-17	Leases
9	Ind AS-19	Employee Benefits
10	Ind AS-20	Accounting for Government Grants and Disclosure of Government Assistance
11	Ind AS-21	The Effects of Changes in Foreign Exchange Rates
12	Ind AS-23	Borrowing Costs
13	Ind AS-24	Related Party Disclosures
14	Ind AS-27	Separate Financial Statements
15	Ind AS-28	Investments in Associates and Joint Ventures
16	Ind AS-29	Financial Reporting in Hyperin flationary Economies
17	Ind AS-32	Financial Instruments : Presentation
18	Ind AS-33	Earnings Per Share
19	Ind AS-34	Interim Financial Reporting
20	Ind AS-36	Impairment of Assets
21	Ind AS-37	Provisions, Contingent Liabilities and Contingent Assets
22	Ind AS-38	Intangible Assets
23	Ind AS-40	Investment Property
24	Ind AS-41	Agriculture
25	Ind AS-101	First-time Adoption of Indian Accounting Standards
26	Ind AS-102	Share-based Payment
27	Ind AS-103	Business Combinations
28	Ind AS-104	Insurance Contracts
29	Ind AS-105	Non-current Assets Held for Sale and Discontinued Operations
30	Ind AS-106	Exploration for and Evaluation of Mineral Resources
31	Ind AS-107	Financial Instruments : Disclosures
32	Ind AS-108	Operating Segments
33	Ind AS-109	Financial Instruments
34	Ind AS-110	Consolidated Financial Statements
35	Ind AS-111	Joint Arrangements
36	Ind AS-112	Disclosure of Interests in Other Entities
37	Ind AS-113	Fair Value Measurement
38	Ind AS-114	Regulatory Deferral Accounts
39	Ind AS-115	Revenue from Contracts with Customers

Exercise

1. Write a short note on Accounting Standards.

2. State meaning of Accounting Standards and explain the concept thereof.

3. State the objective and utility of accounting standards.

4. Very short questions :

(1) In which year International Accounting Standards Committee (IASC) was established ?

(2) In which year ASB was set up by ICAI ?

(3) For what purpose ASB was set up ?

8

Introduction of Deshi Nama System

1. Introduction

Two methods of writing accounts are prevalent :(1) Double Entry system and (2) Deshinama System. Deshi nama system is a very old system, derived and adopted in the Indian subcontinent, to write accounts. This system is older than double entry system. There is a good deal of similarity between the two systems, from the view point of accounting principles. Still, however because of its specific peculiarities this system shines out as against other systems. In this system the books are known as 'Vahi' and therefore this system is also known as 'Vahi Khata paddhati'. This system is written in the regional language. However, the system is very old, it is a scientific and complete method. It is very easy to write and understand the accounts by Deshi Nama System.

2. Characteristics of Deshi Nama System

Characteristics of deshi nama system are as under :

(1) **Books :** The books under deshi nama are covered with the red cloth and are hard bound. A design is made on this cover by thick string. These books are in the vertical form and contain plain white blank sheets tied with strings. However, now a days simple books of accounts, with lined pages are also in use.

(2) **Vikram Samvat :** Deshi nama is usually maintinaied for a vikram samvat year. i.e. from Kartak sud 1(ekam) to Aso vad-30 (Amaas). Now-a-days it is also maintained as per income-tax rules for a financial year (From 1st April to 31st March)

(3) **Page for Pooja :** On the first page of Rojmal or Bethomel the businessman writes the name of God; he worships and also writes a prayer to the God like "Shri Ganeshay Namah", "Shri Laxmi Matajinu Tej Hajo" etc. This page is termed as puja page. No accounting entry is recorded on this page.

(4) **Use of the word 'Shri' :** In deshi nama, while recording an entry in the Rojmel, bethomel or subsidiary books, the name of the account(khata) is preceded with the word 'Shri' e.g. if Interest (Vyaj) account is to be written, it will be written as "Shri Vyaj Khate'. Shri is considered as sign of omen.

(5) **Sal / Folds :** The pages in each of the books of accounts are with folds(sal). Rojmel, bethomel and Khatavahi have pages with eight folds. But pages in subsidiary books have six folds. However, now in changing times, pages without folds and with columns drawn are being used.

(6) **Credit (Jama) and debit (Udhar) side :** In the books for deshi nama system, out of total eight folds, first four folds on the left hand side are known as jama (credit) side and the remaining four folds as udhar (debit) side. Thus, the left hand side is known as Jama side and the right hand side is known as Udhar side.

Jama				Udhar			
1	2	3	4	5	6	7	8

Note : To explain the folds (sal)here a line is drawn instead of the folds.

(7) **Methods of writing in folds/sal :** In deshi nama, while recording a transaction in rojmel or bethomel on either the credit or debit side, the amount of the economic transaction is recorded in the first fold(sal) of the side. In the remaining three folds, the name of the account affected and the debit or credit to it; is written. Below the name of the account, a brief detail/narration of the economic transaction is given and below such brief detail/ narration, ledger folio number is written in the third or fourth fold. In deshi nama, the name of the account of the transaction is written after drawing a line. Generally, the first fold, is for the amount and the remaining three folds are for the particulars of the transaction.

(8) **Method of writing the amount :** While entering the amount in Deshi Nama books, a sign (⌐)known as **'Holayo'** or **'Olayo'** is put between the amount in rupees and paise. Many businessmen now a days use the sign of equality (=), instead of 'Olayo'. E.g.an amount of 121⌐ 25 or 121=25 (Rupees one hundred twenty one and twenty five paise).

(9) **Language :** Books of accounts in Deshi Nama system are written in the regional language, e.g. in Gujarat, Deshi Nama is written in Gujarti language.

(10) **Ink :** Generally, deshi nama is written in black ink. However, blue ink is also used now a days.

3. Books of Accounts under Deshi Nama System

(1) **Rough Book :** In business, transactions take place continuously during a day. It is not convenient to write the books during the day. There is possibility of forgetting to record some transactions while making the transactions of receipts and payments. At the same time, it is also not proper, if receipts and payments. i.e. Transactions are not at all recorded. Therefore, in order not to forget the transactions, small traders record their transactions of the day on a slate or loose sheets or in a diary, such record is known as tanchan or tippan.

For a big businessman, the transactions are many and hence, they record them either in a diary or notebook or a book maintained for this purpose. Such a record book is termed as 'Ghadiya', 'Sudiyun' or 'Daniya'. These are the different terms used for the rough book of record. A book in use for such rough records is known as 'Adadhiya'. The businessman takes brief notes in such 'Adadhiya' as per his requirements. With the help of such a rough book, at the end of the day or at convenient time, organized accounting is done. If any transaction is forgotten to be recorded in the Rojmel or if any error has occurred, it can be traced/ verified with the help of such rough book.

(2) Rojmel : The way in which a journal is maintained under the Double Entry System of accounting, Rojmel is maintained in the same way under Deshi Nama. Thus, Rojmel is the basic or primary book of accounting under Deshi Nama. Cash and credit transactions are recorded in Rojmel. Closing balance derived on the basis of transactions recorded, shows cash on hand, which is termed as 'Purant Baki'.

Rojmel is maintained every day. At the end of the accoutnig entries for the day, cash balance is found out. That is why, it is known as Rojmel. Ledger is prepared with the help of Rojmel.

(3) Bethomel : Bethomel is another form of Rojmel. Small traders/businessmen, whose quantum of transactions is comparatively less, may maintain a complete 'Mel' at the end of a week or fortnight or month and balance is extracted. Such Mel is known as 'Bethomel' or 'Thammel'. Thus, Behtomel or Thammel is a composite or collective Rojmel for a predetermined period of days.

(4) Khatavahi / Ledger : Ledger (khatavahi) is a main book of accounts. In Khatavahi, (ledger), ledger accounts are opened and posting is done in such ledger accounts, from Rojmel, Bethomel and subsidiary books. Like Rojmel, for Khatavahi (ledger) also a book containing eight – fold pages is used. First four folds are for debit side and other four folds are for credit side. Usually, one page is kept for each account.

(5) Peta Nondho / Subsidiary Books : Big businessmen, whose quantum of business/ economic transactions is comparatively larger, maintain certain additional books, in addition to Rojmel which are known Peta Nondh or Peta Vahi (subsidiary books). Transactions, which are recorded in Peta Nondh are not recorded in Rojmel or Bethomel. Following Peta Nondh are used in Deshi Nama.

(i) JamaaNondh (Purchase Book) , (ii) Udharnondh (Sales Book or Vakara nondh), (iii) Dagina Mel (Janas Vahi or Stock Register), (iv) Aankda Vahi (Sudha Vahi or Kachi Vahi) , (v) Ughrani Nondh (vi) Jangad Nondh (vii) Karar Nondh (viii) Vyaj Vahi (ix) Hundi Vahi (x) Kabala Vahi or Karar Nondh (xi) Bank vahi etc.

(6) Aavro : All those transactions recorded in Rojmel or Bethomel and Subsidiary books, are again recorded in another book at the end of fifteen days or a month. Such book is called 'Aavro'. Aavro is prepared like Rojmel and for the purpose, a book that has pages with eight folds is used. After preparing Aavro at the end of a specified period, the closing balance (Purnat Baki) is arrived at. Such closing balance is tallied with the closing balance (Purant Baki) as per Rojmel or Bethomel because such balance in both the books should be the same. When posting is done after completing Aavro, it is known as Paku Namu because Namu is accumulated in one account and recorded again. It is said that "Aavro kare te bhul nahi kare" (The one who makes Aavro will not make any mistake).

Aavro is useful for detecting errors and mistakes in all the transactions in the books of accounts and it is also useful as a tool of control 'Aavro' is generally maintained by shroffs and big businessmen.

4. Terms of Deshi Nama System

Specific words are used in Deshi Nama to record transactions in books of accounts which carry specific meaning, which are as under :

(1) Shri Bhandol Khatu : In deshi nama, capital is known as Shri Bhandol. When the owner starts a new business, as well as during the year of the business, he brings in this personal funds in the form of cash, goods, assets, receivables, they are recorded as capital in 'Shri Bandol Khate'. However, now a days many businessmen record their capital to 'Shri Mudi (capital) khate'.

In a partnership firm, the total capital of the firm is not recorded in Shri Mudi (capital) khate or Shri Bhandol Khate. For this purpose, separate individual (name wise) capital accounts of partners are maintained. E.g. Shri Kirtan Nu Mudi Khatu, Shri Shrey Nu Mudi Khatu.

(2) Shri Gharkharch Khatu : In Deshi Nama, withdrawal by the owner from the firm for personal purpose is debited to 'Shri Gharkharch Khate'. Whenever the owner takes away for personal use, the goods or asset or cash, or pays from the firm for his personal expenses, it is debited to Shri Gharkahrch Khate. In a partnership firm, like capital account - separate drawing accounts for each partner is maintained. E.g. Shri Riya Nu Upad Khatu, Shri Samarth Nu Upad Khatu. Many businessmen maintain 'Shri Upad Khatu' instead of 'Shri Ghrkarch khatu'.

(3) Shri Dukan Kharch Khatu : The businessman keeps such account for small and miscellaneous expenses. When the expense is incurred after a very long time or the amount of expense is very small it is debited to 'Shri Dukan Kharch'. E.g.Wages, Cold drinks, Tea expenses, Postage expenses etc.

(4) Shri Vatav Khatu : Shri Vatav Khatu in Deshi Nama has wide connotation than discount (Vatav) account under Double Entry System. Here cash discount, Allowance, Commission, loss due to fire in the business, bad debts, loss (any other) etc. are debited to 'Shri Vatav Khate'. However, now a days businessmen maintain separate accounts for each expense or loss or profit or gain, e.g., Shri Ghalkhad (Bad Debts) khatu, Shri Commission Khatu etc.

(5) Shri Vigat Khatu : When on any one particular day or in any one particular transaction, more than one accounts get debit or credit effect simultaneously, the total amount of the transaction is recorded against Shri Vigat Khate. In the sub folds below Shri Vigat Khate, the accounts which are affected are written with the amount of each such account, separately. In the ledger, each of the accounts recorded in the sub folds below 'Shri Vigat Khate' are opened and the page no. of the ledger, on which each such account is opened is recorded in Rojmel, below such affected account.

"Shri Vigat Khatu" is not opened in ledger because there is no account affecting Vigat Khatu. The purpose of opening Vigat khatu is to save both the time and labour, but the use of this account is very rare.

(6) Shri Shah Khatu or Shri ...... Khatu : During the course of the business if any transaction takes place with a person and if the name of such person is forgotten, the amount of receipt or payment is recorded to 'Shri Shah Khate'. In future when the name of the person is remembered, a reverse entry is passed by recording the amount to respective person's correct account and Shri Shah khatu is closed. Shri Shah khatu is also used when the name of the person is not to be disclosed. Instead of using Shri Shah khatu in the transaction it is recorded as "Shri….. khate". In such a case whenever the name of the person is remembered, his name is written in the space left after the word 'shri' ….. . For this purpose only, some space is left blank between 'Shri' and 'Khate'. However as this is a faulty method from the view point of accounting, very less use of Shri ….. khate is found . Such tradition is not acceptable from the view point of taxation.

(7) Shri Tasalmat Khatu : This account is a temporary account just like as the suspense account in double entry system. During the trade when there is any receipt or payment but the name of the account is not remembered, the entry for the transaction made is recorded to Shri 'Tasalmat Khate'. When the reason for which the receipt or payment is remembered, the entry passed earlier is reversed and respective receipt or payment account is correctly recorded and Tasalmat Khatu is closed. Sometimes the name of the account to which the transaction is to be recorded but the name is not decided, it is recorded temporarily to Shri Tasalmat Khate and when the account is decided in future, correct account is debited or credited and Shri Tasalmat Khatu is closed by passing reverse entry.

(8) **Shri Desavar Khatu :** Whenever any person of the firm - 'Munim' or the owner himself goes out of station for purchase or sale of goods or for any other business purpose, a certain amount is given to him for the use and expenses. Such amount is debited to such person's "Deshavar kahte". Afterwards when the person returns and submits the details of his transactions,with the help of such details Shri Dehsavar Khatu is credited and closed and the correct entry is recorded for each of the transactions. Thus, this a temporary account.

(9) **Shri Haththu Khatu :** When an amount is to be paid to the creditor of the business and such amount is sent to him through some person or aangadia, such amount is debited to "Shri Haththu khate" instead of debiting it to such creditors account. Afterwards on getting the receipt from the creditor or aangadia, Shri Hathathu khatu is closed by crediting it and the creditors account is debited. Such account is a temporary one.

(10) **Shri Chanlla Khatu :** The businessmen develop business relations during the course of business. Due to such business relations, whenever there is any good occasion at the customers or creditor's place, a gift or chanlla is to be given. Such amount is debited to ''Shri Chanlla kahte''. In the same way on a good occasion at his place, the businessman receives a chanlla or a gift, which is credited to 'Shri Chanlla khate', however, such tradition is now getting extinct. Now whenever chanlla or a gift is to be given it is treated as a business expense and is debited to ''Shri Dukan kharch khate''.

(11) **Shri Silak Vadhghat Khatu :** Closing balance (silak) as per Rojmel or Bethomel should tally with the actual cash on hand. If they do not tally with the closing cash balance, efforts are made to detect the error by due verification. If the error is not detected in spite of such efforts and if the actual cash balance is more or less than balance as per Rojmel or Bethomel, the differential amount is recorded to ''Shri Silak Vadhgat khate''.

If the actual cash balance is more than balance as per books of account, the differential amount is credited to ''Shri Silak Vadhghat Khate'' and if the actual cash balance is found less, it is debited to 'Shri Silak Vadhgat Khate'. In short, cash balance as per books of accounts is made equal to the actual cash balance. When the reason for such difference is traced, the reverse effect is given to ''Shri silak vadhgat khate'' and it is closed and correct effect is given to the concerned account. Thus the correct balance is arrived at automatically.

(12) **Shri Ublek Khatu :** Whenever an amount is lent for a few days to a person in the business, it is debited to such person's ''Ublek Khate''. As such amount is to be received back within two to four days, its account is not opened in the ledger. For this purpose, under such ublek amount in Rojmel instead of L.F., 'U' is written, which indicates that the amount is not to be posted. On receiving back such ublek amount, ''Shri Ublek Khatu'' is credited in Rojmel, thus that account gets closed. If such amount is not received in the given time it is posted to in ledger to respective person's account by opening his account. However, these days the tradition of recording the ublek amount in Rojmel is getting extinct. Presently most of the businessmen do not even show ublek amount in Rojmel. Such note is not acceptable from the view-point of Taxation.

(13) **Upartapke :** When any person is lent an amount for a day or even for a shorter time, the amount so lent is not recorded as an entry in Rojmel. But in Rojmel, aftrer finding out the closing balance such amount is shown separately as a part of balance as 'upertapke'. Assuming the amount of upartapke is in the balance, the amount of upartapke is shown separately. If the amount lent on upartapke is not received on next day, it is considered as ublek amount and recorded in Rojmel.

The amount of upar tapke is also known as 'Haath Uchhini' amount. Now the tradition of upartapke is not in practice. Traders do not even record the amount of Upar Tapke.

In Rojmel, 'upertakpke' as recorded as follows :

J		U		
	21,000=00			19,000=00
		2000=00	Shri purant baki	
			1800=00	Rokad Hath par
			200=00	Given to Shri SudhanshuShah on upartapake.
			2000=00	
				21,000=00

(14) Kabulat and Havalo (Acceptance and Transfer) : On mutual understanding the businessmen agree to pay an amount payable to a creditor to another person, this is known as Kabulat (acceptance). In the same way, when a businessman agrees to accept an amount from another person instead of his debtor, it is also called Kabulat (acceptance).

When instead of arriving at mutual understating or kabulat about a debt or receivable an instruction or order is given for that and it is known as Havalo (transfer). Because of kabulat and havalo, there is an effect on the businessman's debt and receivables. Due to such transactions the account of a person who has accepted to pay or from whom the receivable arises, is debited and the opposite party's account is credited. E.g. Vijay accepted to pay Rs 500 to be paid by Hitesh. Here, Hitesh is a debtor whose amount now will be paid by Vijay . Therefore it will be considered as the amount of Hitesh is paid off and at the same time, now it will considered as the amount due from Vijay. Its effect will be as follows :

Rojmel

J			U		
500=00	Shri Hitesh khate	Jama	500=00	Shri Vijay khate	Udhar
	500=00	Amount due from Hitesh is accepted by Vijay.		500=00	Amount due from Hitesh is accepted by Vijay.
		L.F.			L.F.

(15) Haste : Many times in business the receiver or payer of money may not actually be a creditor or a debtor but he may be a clerk or munimji or any other person. Therefore, for record purposes the name of the person through whom the cash is received or paid is also written. E.g. ₹ 1000 payable to Ranjana Traders is given to Munim Mayank to pay to Ranjana Traders. This transaction is recorded in rojmel by debiting Ranjana Traders and in the other line ''Haste Munim Mayank'' is also written. Sometimes only ''H'' is written instead of haste.

(16) Miti : Vikram Samvat, deshi mass, paksh and tithi are known in Deshi nama as Miti. E.g Samvat 2071 na Chaitra Sud 1.

5. Rules of Debit-Credit

We know rules of debit and credit as per Double Entry System of Accountring. The same rules are applied while writing accounts under the Deshi Nama System. Because there is no difference in the principles under both the systems. However, the method of writing (format) under both the system is different.

Rules of Debit-Credit

Personal Accounts	Real Accounts	Nominal Accounts
(1) Debit the receiver	(1) Debit what comes in	(1) Debit expenses or losses
(2) Credit the giver	(2) Credit what goes out	(2) Credit revenue or gains

The rules of debit and credit are set in such a manner that out of two effects of a transaction, if one effect is debit, the other effect must be credit.

Generally in practice, a business transaction can not have two effects it can be either debit or credit. For Deshi Nama, one important point to be noted is that the Rojmel or Bethomel serves the purpose of cash account also. Hence, in any transaction the effect to cash account. i.e. debit or credit effect to cash account, need not be recorded in Rojmel or Bethomel. Thus in a transaction related with cash receipt or payment, generally, only the effect to the account that is other than the cash account is to be recorded. E.g. in cash purchase, only one effect- debit to the purchase account is recorded and the credit effect to cash account is not recorded. In case of non - cash or credit transaction, two or more effects are to be recorded. E.g. for goods purchased on credit form Hansa, purchase account will be recorded on 'Udhar' side and the other account –Hansa's account being non cash account, will be recorded on 'Jama'side. Thus the effect of cash is recorded automatically in Rojmel.

6. Rojmel

Rojmel is a basic or primary book under Deshi Nama. The businessmen prepare Rojmel with the help of vouchers and the rough book. Rojmel is written and prepared daily and the closing balance is derived daily. Hence, this Mel is known as Rojmel.

(A) The important points regarding 'Rojmel' :

(1) Both cash and credit transactions are recorded in Rojmel. Form this viewpoint Rojmel is like a journal under double entry system of accounting.

(2) In Rojmel, effects to accounts other than cash account are only recorded; and closing balance is arrived at the end of the day, which should be exactly as per the cash balance of cash box. Thus the object of Rojmel is to find cash balance daily. Looking at it from such an angle, Rojmel is like cash book under double entry system of account.

(3) Form the above aspect it can be stated that Rojmel is combined form of journal and a separate cash book under double entry system of account. Hence, under Deshi Nama there is no need to open cash account.

(B) Important points to be considered during recording the transactions in 'Rojmel' :

(1) The book of Rojmel contains blank pages with eight folds. This book is in the vertical form. However, instead of vertical form, the hard-bound books in horizontal form are also being used.

(2) In the book of Rojmel, the daily record of the account is made on a new page.

(3) In the book of Rojmel, every page is given a chronological number which is mentioned at the top of every page and is known as Rojmel page number.

(4) At the top of the Rojmel, page below the Rojmel page number, the name of the owner of the firm is written. Then, below the name of the owner, the year, the month, the tithi, the date and the day are written.

(5) To maintain 'Jama' and 'Udhar' side in Rojmel, in the first fold on the left hand side, 'J' is written and a line is drawn from that up to the four folds. In the beginning of the fifth fold, 'U' for Udhar is written and the line is extended up to the end of the eighth fold.

Format of Rojmel

R.P.No.

Rojmel of Shri Jamnadas Ganeshbhai

Samvat 2071 –Chaitra Sud 1 Saturday Dt. 21-03-2015

J	U

(6) In an economic transaction of the business, the account which gets a credit effect is recorded on Jama side of Rojmel and the account getting the debit effect is recorded on Udhar side.

(7) According to Deshi Nama System, the name of the account affected is recorded in Rojmel after drawing a line above it. The sameway at the end of every entry, after writing L.F. No., also a line is drawn.

(8) Generally both on Jama side and Udhar side the amount of the transaction is recorded in the first fold out of four folds. In the remaining three folds, the name of the account getting effect is written preceded by 'Shri' and besides the name of the account the effect is indicated by the term Udhar or Jama, whichever it is, e.g. 'Shri Shardaben Khate Jama' is written accordingly. In the second fold below the name of the account the amount of the transaction and in the remaining two folds a brief narration of the transaction is written. Below the brief narration L.F. no. is recorded in the third or fourth fold.

Rojmel

J				U
1500=00	Shri Shardaben khate		Jama	
	1500=00	Cash received form Shardaben.		
			L.F.	

(9) Entry for a cash transaction in Rojmel : Rojmel serves the purpose of a cash account. Hence, in any transaction, out of the accounts getting the effect, the effect to a cash account (Udhar or Jama effects) need not be recorded in Rojmel. But, the other effect to an account affected is recorded in Rojmel. If it is a cash transaction, the accounts other than cash account, getting the effect are recorded in Rojmel. E.g. Received rent of ₹ 300. According to rules of debit and credit, cash account is to be debited and rent account is to be credited. But in Rojmel the effect to cash account is not to be recorded. Hence, the other effect to rent account is recorded in Rojmel as 'Shri Bhada Khate Jama.' In this way when there is any cash income other than rent, it should also be recorded in Rojmel on jama side to that income account. If the cash is received from any person, in Rojmel it will be recorded as ……. Person Khate/ account jama.

Now if we try to understand the opposite situation, cash payment will be recored as 'Kharch (expense) khate Udhar', if it is a payment of an expense. E.g. Paid ₹ 100 for wages. Here as per the rule of debit and credit it will be recorded to 'Majuri (wages) khate udhar' and 'Cash khate jama'. However, in Rojmel only 'Majuri (wages) khate udhar' will be recorded, in the same way, any outgoing of cash for any expense will be recorded in Rojmel as 'Udhar' nondh to that specific expense account. If outgoing of cash is due to a payment to any person; in Rojmel there will be an 'Udhar nondh' to that person's account.

From the above it can be understood that in Rojmel, out of the cash transactions, those transactions relating to cash receipts are recorded on 'Jama' side and the cash payments are recorded on the Udhar side. Thus the recording as per this system reflects the effects of cash receipts and payments in Rojmel.

(10) **Record of credit transactions in 'Rojmel' :** In credit transactions cash receipt or payment is not involved and therefore, in such transactions there is no effect to cash account. In a credit transaction, both debit and credit effects are to the accounts other than cash account. In such transactions, the account that is to be debited is recorded in Rojmel on' Udhar side and the account which is to be credited is recorded on 'Jama' side. Thus, it is recorded on both 'Jama' side and 'Udhar' side. This is the reason why such transaction does not have any effect on the cash balance. E.g. Purchased goods of ₹ 700 from Shri Vinod. Here the goods are purchased on credit. As per the rules of debit and credit purchase (kharid) account will be debited and Shri Vinod's account will be credited. In Rojmel, on the debit side it will be recorded as 'Shri Kharid Khate Udhar' and on the credit side 'Shri Vinod khate Jama'. In the same way e.g. Gave a cheque of ₹ 350 to Manisha though a cash transaction, the cash receipt or payment does not take place. Hence, cash account is not involved. As per the rules of debit and credit Manisha's account is to be debited and bank account is to be credited. In Rojmel it will be recorded on Udhar side as 'Shri Manisha khate udhar' and on jama side as 'Shri bank khate jama'.

Form the above explanation, it should be understood that the non cash transaction is recorded on both jama side as well as udhar side by an equal amount. Such transactions are called as 'Jama kharchi' transactions.

(11) **Shri Purant Janse :** Rojmel or Bethomel starts with writing the opening cash balance on that day, which is shown as 'Shri Purant Janase'. If there is no opening balance as cash or if it is a beginning of a new business, on the credit side in the amount column, 'Shri ૧เ' is written as a good omen and in the particulars 'Shri Ganeshay Namah' is written. This amount is not considered while making total.

(12) **Shri Purant Baki :** Closing cash balance of Rojmel or Bethomel is known as 'Shri Purant Baki'. This closing balance is equal to the actual closing cash balance on that day. If the actual cash balance tallies as per Shri Purant Baki, it is called as 'Mel Malyo'.

Illustration 1 : From the transactions given below prepare Rojmel for the day in the books of Shri Shilaben for Samvat 2071 Chaitra Sud 9, Saturday, date 28-03-2015.

(1) Started a business by bringing in ₹ 21000 in cash.

(2) Donated ₹ 101 in the temple.

(3) Opened a current account in Dena bank by deposing ₹ 6000.

(4) Purchased goods of ₹ 10,000 at 10 % trade discount.

(5) Sold goods of ₹ 4000 at 5 % trade discount to Sanket on credit.

(6) Purchased furniture of ₹ 2000 on cash from Santosh furniture stores.

(7) Purchased goods of ₹ 6000 from Seema Stores.

R.P.

Rojmel of Shri Shilaben

Samvat 2071 Chaitra Sud 9, Saturday, Dt. 28-03-2015

J		U	
૦ ૧।	Shri Ganeshay Namah		
21,000=00	Shri Bhandol khate Jama 21,000=00 Business started by bringing cash. L.F.	101=00	Shri Dharmada khate Udhar 101=00 Gifted in temple L.F.
3800=00	Shri Vakara khate Jama 4000=00 Goods sold. – 200=00 5 % trade discount 3800=00 L.F.	6000=00	Shri Dena Bank khate Udhar 6000=00 Account opened by depositing cash. L.F.
6000=00	Shri Seema Stores khate Jama 6000=00 Goods purchased. L.F.	9000=00	Shri Kharid khate Udhar 10,000=00 Goods purchased. – 1000=00 10 % trade discount 9000=00 L.F.
	30,800=00	3800=00	Shri Sanket khate Udhar 4000=00 Goods sold. – 200=00 5 % trade discount 3800=00 L.F.
		2000=00	Shri Furniture khate Udhar 2000=00 Furniture purchased from Santosh Furniture Mart. L.F.
		6000=00	Shri Kharid khate Udhar 6000=00 Goods purchased from Seema Stores L.F.
			26,901= 00
		3899=00	Shri Purant baki
			30,800 = 00

(13) Closing balance in 'Rojmel' (To find out the balance) : After totaling the amounts on the jama side and udhar side of Rojmel, the difference between the two totals is the closing cash balance, which is known as 'Shri Purnat Baki'.

To find out the closing balance in Rojmel, the total on jama side so arrived at is shown in the third fold. The total of the udhar side is shown in the third fold of that side. The difference between the two totals is found out, which will be shown as closing balance. i.e. "Shri Purnat Baki" on udhar side of Rojmel. Below this amount of balance the total of jama amounts is shown.

Here, it should be clearly understood is that the total on the jama side is always more in Rojmel. Therefore 'Shri Purant Baki' has to be on Udhar side. Because, Rojmel is a kind of cash account. As per the rules of debit and credit, cash receipts are recorded on the jama side of Rojmel and expenses-cash payments are recorded on the udhar side. In a business, cash payments can not be more than cash receipts. Therefore, total of the amount on the receipts side i.e. Jama side is more. If the receipts as per Rojmel is equal to cash payments, then in such circumstances the total of the receipt side of Rojmel will be equal to the cash payments. In such circumstances the totals on both the sides of Rojmel will be equal and there will be no closing balance. Generally, there is a closing balance in Rojmel which is recorded as 'Shri Purant Janse' in the beginning of the next day while writing Rojmel.

7. Bethomel

It may not be convenient to prepare Rojmel for small businessmen/traders whose daily transactions are comparatively less in number. Hence such businessmen prepare a composite mel, weekly or fortnightly or monthly; and at the end, the closing cash balance is found out. Such a Mel is known as a Behtomel. Thus, Bethomel is a kind of Rojmel. Bethomel means a composite Rojmel for the days of a fixed period. Bethomel is also known as Thammel.

(A) Points to be remembered while recording in 'Bethomel' : Bethomel is also prepared like Rojmel in a vertical book, with pages that have eight folds. The method of writing Behtomel is the same like Rojmel. Its special aspects / points are as below :

Specimen of Bethomel

B.P. No. ....

Bethomel of Shri Shardaben Jamnadas

(From Samvat 2071, Chaitra Sud 1 to Chaitra Vad 0)))

(B) Tithi of respective transaction is written after writting Jama or Udhar while recording every transaction in Bethomel. e.g.,

J				U			
15,000=00	Shri Saksham's loan khate		Jama Sud-1	4000=00	Shri Bank khate		Udhar Sud-6
	15,000=00	Loan borrowed from him at 12 % interest.	L.F.		4000=00	Cash deposited.	L.F.

(C) Balance of Bethomel is extracted just like as Rojmel.

Illustration 2 : Prepare Bethomel of Shri Narayanbhai Jivabhai Patel for Samvat 2071, Maha mas from the transactions given below :

Maha Sud	1	Balance on hand ₹ 5100 and bank balance ₹ 4800.
	2	Cash sales ₹ 6800
	5	Cash purchase ₹ 3500.
	8	Goods purchased from Prahladbhai ₹ 14,800.

14 ₹ 750 is given by somebody, but the name is not remembered.

15 ₹ 400 paid to someone for payment of expenses, but the reason of expense is not remembered.

Vad 03 It is remembered that on Sud-14 the cash was given by Girishbhai from Vishva Traders and expense paid on Sud-15 was for commission.

09 Havala given to Darshanaben of ₹ 5500 to be paid to Bhalchandrabhai.

10 Goods sold to Dahyabhai ₹ 6000.

0)) ₹ 5000 deposited into bank.

B.P. No. ....

Bethomel of Shri Narayanbhai Jivabhai Patel

Samvat 2071 Maha Mas (from Maha Sud-1 to Maha Vad 0)))

J		U	
5100=00	Shri Purant Janse Sud-1		
6800=00	Shri Vakara khate Jama Sud-2 6800=00 Cash sales L.F.	3500=00	Shri kharid khate Udhar Sud-5 3500=00 Cash purchased. L.F.
14,800=00	Shri Prahladbhai khate Jama Sud-8 14,800=00 Goods purchased on credit. L.F.	14,800=00	Shri kharid khate Udhar Sud-8 14,800=00 Goods purchased. L.F.
750=00	Shri Shah khate Jama Sud-14 750=00 Amount received but name is not remembered. L.F.	400=00	Shri Tasalmat khate Udhar Sud-15 400=00 Expense paid but reason of expense not remembered. L.F.
750=00	Shri Vishva Traders khate Jama Vad-3 750=00 Name remembered for amount received on Sud-14 which is debited to Shri Shah khate, Haste Girishbhai L.F.	750=00	Shri Shah khate Udhar Vad-3 750=00 Name remembered for amount received on Sud-14 which is credited to Shri Vishwa Traders. L.F.
400=00	Shri Tasalmat khate Jama Vad-3 400=00 Expense on Sud-15 was for commission which is debited to commission khate. L.F.	400=00	Shri Commission khate Udhar Vad-3 400=00 Expense on Sud-15 was for commission, which is credited to Tasalmat khate. L.F.

5500=00	Shri Darshnaben khate	Jama Vad-9
	5500=00 Havala given to her for amount payable to Bhalchandrabhai.	L.F.
6000=00	Shri Vakara khate	Jama Vad-10
	6000=00 Goods sold to Dahyabhai on credit.	L.F.
	40,100=00	

5500=00	Shri Bhalchandrabhai khate	Udhar Vad-9
	5500=00 Havala given to Darshanaben for amount payable to him.	L.F.
6000=00	Shri Dahyabhai khate	Udhar Vad-10
	6000=00 Goods sold.	L.F.
5000=00	Shri Bank khate	Udhar Vad-0))
	5000=00 Cash deposited with bank.	L.F.
	36,350=00	
3750=00	Shri Purant baki	Vad-0))
	40,100=00	

> **Note :** In this chapter only conceptual information is given. Examples are given only for explanation in this chapter where ever it is necessary. Therefore no practical question should be asked from this chapter.

8. Peta Nondh or Peta Vahis (Subsidiary Books)

Rojml or Bethomel is prepared in Deshi Nama to record the daily economic transactions in the books of accounts. If the number of transactions are not more, Rojmel or Bethomel - only one book of account is more convenient for the businessman to record all the business transactions. But if the number of transactions are more, big businessmen prepare additional accounts in addition to Rojmel or Bethomel. Such books of accounts are called as Peta Nondho or Peta Vahi. By maintaining Peta Nondho or Peta Vahi work of writing the books of accounts can be divided among many persons by the businessmen and the benefit of divison of labour and specialization can be obtained. The way in which the subsidiary books are used under Double entry system in the same way the Peta nondho or Peta vahis (subsidiary books) are used in Deshi Nama.

The following peta nondho are used under deshi nama in addition to Rojmel :

(1) Jamanondh (Kharidnondh)
(2) Udharnondh (VechanNondh)
(3) Daginamel (Janasvahi or stock register)
(4) Aankada Vahi (Sudha vahi or Kaachivahi)
(5) Ughrani Nondh
(6) Jangadnondh
(7) Kararnondh
(8) Vyaj vahi
(9) Hundi vahi
(10) Kabala vahi
(11) Bank vahi (Bank register)

(1) Jamanondh (Purchase book or KharidNondh) : In a business where the transaction for credit purchase of goods are in substantial proportion, a separate book is maintained to record such transactions. Such book is known as Jamanondh or Jama Vahi or Kharidnondh. When the goods are purchased on credit the purchase of the goods is credited to the seller's (the trader from whom the goods are purchased) account. Thus, every trader's account in this book is credited by the amount of goods purchased and recorded against his name. Hence this book is known as Jamanondh.

(i) Important aspects regarding 'Jamanondh' :

(1) This nondh is maintainded in pages with six folds.

(2) Out of the six folds in jamanondh , the first fold is for the amount of the transaction and the remaining five folds are for the name of the trader and other details

(3) Only Jama side is recorded in this nondh, udhar is not written .

(4) Only the transactions of credit purchase of goods are recorded in Jamanondh. Transactions of cash purchases are recorded in Rojmel or Bethomel.

(5) Transactions of cash or credit purchase of assets are not recorded in this nondh, Such transactions are recorded in Rojmel or Bethomel.

(6) Expenses, like wages, carriage, GST , Mahajan lago, etc., incurred at the time of credit purchase of goods, are added to the cost price of the goods. It means purchase of goods is recorded at cost.

(7) If there are credit purchase returns from the credit purchases from the same month, it is shown by deducting from the transaction of credit purchase.

(8) If there are sales returns out of the goods sold in the previous (last) month, because it is to be credited to the customer's account, such sales return is also recorded in Jamanondh as a purchase.

(9) If Tarij of Jamanondh is already extracted means goods are returned during current month out of the purchase of last month, it is considered as credit sales and recorded in Udhar Nondh.

(10) If the transaction for the purchase of goods is partially on credit and cash i.e.a part of the total amount is paid immediately, such transaction is recorded in Jamanondh, treating the whole transaction as a credit transaction and part of cash transaction is recorded in Rojmel.

(11) The total of credit purchase is determined generally at the end of a week, a fortnight or a month, by totalling the amount column and Tarij is extracted.

(ii) Method of recording the entries in 'Jamanondh' :

(1) At the top of the page of Jamanondh, the page number and below that along with the name of the businessman Samvat year and the month is written.

(2) Out of six folds, in the beginning of the first fold 'J' for Jama is written and a line is drawn below that is extended upto the end of the sixth fold.

(3) Below the line for Jama, Tithi of the transaction is written in the sixth fold and a line is drawn below that. Below this line, the transaction of respective day is recorded.

(4) Here, in the first fold, the net amount of the transaction is written and in the remaining folds the 'trader's name whose account is affected, and 'Jama' is written. In the last fold inward invoice no. (Aavak Bharatiya No.) is written.

(5) Below the name of the trader, whose account is credited, required details of the transaction are written. For this purpose, the amount is mentioned in the second fold and details in the remaining folds. Lastly after recording the whole transaction, L.F. is written below that in the fourth fold and a line is drawn from the second fold up to the end of last fold.

(iii) **Specimen of 'Jamanondh' :**

J. P. No. ....

Jamanondh of Shri Shalikram Mataprasad

Samvat 2073, Ashadh Mas

J

1	2	3	4	5	6
					Sud-1
6826=00	Shri Ashaben khate Jama				Inward Invoice No. 21
	8000=00	Goods purchased.			
	− 800=00	10 % trade discount			
	7200=00				
	+ 216=00	3 % GST			
	+ 80=00	Lari bhadu			
	+ 30=00	Majuri			
	7526=00				
	− 700=00	Goods returned			Udhar Chitthi No. 35
		Vad-10			
	6826=00				
			L.F.		
					Sud-6
2500=00	Shri Sitaram khate Jama				Jama Chitthi No. 05
	2500=00	Goods received back from sale of Jeth Vad-13			
			L.F.		
			9326=00		
		Tarij for Samvat 2073 Ashadh Mas			
U					Vad 0))
9326=00	Shri Kharid khate Udhar				
	9326=00	Total credit purchase			
			L.F.		

(iv) **Tarij (Summary) :** Generally, Jamanondh is prepared for each month. Therefore, at the end of every month, the totalling of the amounts in Jamanondh is done and the total is mentioned in the fourth fold at the end of a Jamanondh. Jamanondh is prepared for credit purchase transactions. Therefore, the total of the amounts of Jamanondh indicates total credit purchases of the month. Thus, the total of the amounts in Jamanondh is debited to Shri Kharid Khate. It is known as Tarij (Summary). As the total amount is debited to Shri Kharid Khate, the Tarij of Jamanondh is debit (Udhar) and therefore it starts with ‘U’. In that the total amount is written in the first fold and in particulars, total credit purchases (Total Udhar Kharid) is written.

(2) **Sales book or Udharnondh :** When in a business, the transactions for credit sales are in substantial proportion a separate book is maintained to record such transactions. Such a book is known as Udharnondh or Udharvahi or Vechan (Vakara) Nondh. When the goods are sold on credit, the amount of sales price of the goods is debited to the customer’s account and therefore this book is known as Udharnondh.

(i) **Important aspects regarding 'Udharnondh' :**

(1) It is prepared on the pages of a book with six folds like Jamanondh.

(2) Here, out of six folds, in the first fold on left side the net amount of the transaction is written and in the remaining five folds the ‘trader’s name whose account is affected and other particulars are written.

(3) As it is Udharnondh, in this nondh only Udhar (Debit) side is wtitten

(4) Only the transactions of credit sales of goods are recorded in Udharnondh. Cash sales of goods are recorded in Rojmel or Bethomel.

(5) Transactions relating to cash or credit sale of assets are not recorded in this Nondh, they are recorded in Rojmel or Bethomel.

(6) Expenses like wages, carriage, packing, mahajanlago, GST etc. incurred at the time of credit sale, are added in the amount of sales price of goods.

(7) Sales returns out of the sale of goods of the current month, are shown as deduction form the transaction of the sale.

(8) Good returned out of the goods purchased in the previous month, it is to be debited to the trader’s account and therefore, it is recorded in the Udharnondh as sales.

(9) If Tarij of Udharnondh is already extracted, and if goods are received back out of the credit sales of last month, it is treated as credit purchase and recorded in Jamanondh.

(10) When the transaction is partly in cash and partly in credit generally the whole transaction is treated as a credit and recorded in Udharnondh.

(11) Generally, a ‘Tarij’of credit sales is prepared every week, fortnight or month by making the total of amount.

(ii) **Method of recording the entries in 'Udharnondh' :**

In Udharnondh, the entries are recored as it is done in Jamanondh. At the top of Udharnondh, the page no. is written. Of the six folds of the page, in the beginning of the first fold ‘U’ for udhar is written and customer’s account is debited and in the last fold Jaavak invoice or Bill No. is written.

(iii) **Specimen of 'Udharnondh' :**

Udharnondh P. No. ....

Udharnondh of Shri Sanketkumar Sureshchandra

For Vaisakh Mas, Samvat 2073

U

1	2	3	4	5	6
					Sud-1
3404=00	Shri Kirtan khate Udhar				Outward Invoice No. 108
	4000=00	Goods sold.			
	− 400=00	10 % Trade discount			
	3600=00				
	+ 144=00	4 % GST			
	+ 25=00	Lari bhadu			
	+ 15=00	Majuri			
	+ 20=00	Mahajan Lago			
	3804=00				
	− 400=00	Goods returned Sud-15			Jama Chitthi No. 20
	3404=00				
			L.F.		
					Vad-11
1800=00	Shri Riya khate Udhar				Udhar Chitthi No. 05
	1800=00	Goods returned from purchased of Chaitra Vad-16			
			L.F.		
			5204=00		
		Tarij for Samvat 2073 Vaishakh Mas			

J

1	2	3	4	5	6
					Vad 0))
5204=00	Shri Vakara khate Jama				
	5204=00	Total credit sales			
			L.F.		

(iv) **Tarij (Summary) :** Generally Udharnondh is prepared for each month. Therfore, at the end of evey month, the total of the amounts in Udharnondh is done and it is mentioned in the fourth fold at the end of the Udharnondh. Udharnondh is prepared on the basis of transactions of credit sales. Therefore, the total of the amounts of Udharnondh indicates the total credit sales of the month. At the end of the month, the summary of the Udharnondh is shown, which is known as Tarij. In such Tarij, the amount of the total credit sales is shown. Tarij of udharnondh starts with ''J'', as 'Shri Vakara Khate' is to be credited. Tarij is written in six folds, the total amount is written in the first fold and in the remaining folds 'Shri Vakara Khate Jama' is written. In the folds below, total Udhar Vakro is indicated as details.

Note : (i) In Deshinama, system sales is called as Vakara.

(ii) Accounts for purchase returns and sales returns are not maintained in Deshinama system. There is outflow of goods in both sales and purchase return and therefore purchase return is treated as sales and it is credited to Vakara Khate. In the same way sales return is treated as purchase and debited to Kharid khate.

(iii) Small businessmen keep only one book to record credit purchase and credit sales instead of maintaining separate books for Udharnondh and jamanondh. In this case eight folds are divided into two parts like Rojmel and Bethomel. Instead of maintaining two separate accounts for Kharid and Vakara a joint account called ''Kharid-Vakara Khatu'' is kept. Purchase is debited to Kharid-Vakara khate and sales is credited to Kharid-Vakara khate.

(3) Daginamel (Janasvahi or stock register) : In Deshinama, a book which is maintained to record the incoming and outgoing of goods, is known as Daginamel or Janasvahi or Stock Register. There are two known methods of preparing a Daginamel. As per one method, Daginamel is prepared like Rojmel, with pages that have eight folds and with two columns Jama and Udhar. As per the other method, it is prepared in the format of a register, with three main columns that is Receipts (Aavak or Incoming), Issues (Javak) and the balance, as stock register prepared under Double Entry System.

(4) Aankadavahi (Sudhavahi or Rough ledger - Kachi Khatavahi) : Aankadavahi is a Kachi Khatavahi in which, the ledger accounts of the customers are opened and daily posting of their accounts is done from the Rojmel, Bethomel and Udharnondh. Afterwards at a convenient time, proper posting is done in the ledger where in, all the ledger accounts for the business are opened. As the posting is done twice, chances of committing the errors or forgetting to record a transaction are reduced. At the same time a person called Gumasto, who goes for collection keeps Aankadavahi with him.

(5) Ugharani Nondh : A clerk or munim who goes for collection keeps with him a book or a dairy. In such book, the brief details or particulars regarding the amounts due from the debtors are shown. Such book or dairy is known as Ugharani Nondh. The person who goes for collection, records therein, the amounts received by him during the collection, based on which the detailed posting is done in the ledger.

(6) Jangad Nondh : In Jangad Nondh, the Jangad sale transactions of the business are recorded. Under Jangad sales transactions (transactions bases on 'Sale or return'), if the customer is not satisfied with the goods, he can return the goods within an agreed time limit. Thus, till the customer confirms the purchase of such goods or the time limit for such Jangad sale is not over, it cannot be treated as actual sale. After the time limit for such Jangad sale is over, even if no intimation of the confirmation is received from the customer, such Jangad sale is considered as actual sale. Jangadnondh is prepared just like as Rojmel. When Jangad sales is made in business, it is recorded in this book on Jama side and when such goods are received back or at the end of the agreed time limit, it is recorded on the debit side. Of course, the entry for the actual sale transaction is recorded in Udharnondh, by the businessmen.

(7) Karar Nondh (Contract Book) : Many a time in business, many contracts are entered regarding purchase, sale or any other matter in a business.Such contracts contain various conditions and are for various time period. These contracts which may be for a longer duration are in written form and it is also necessary to maintain a separate and proper note for each of them. For maintaining a record of such contracts in business, a separate book is maintained, which is called Karar Nondh.

(8) Vyajvahi : Generally, the shroffs or money lenders maintain a seperatebook, for calculation of interest. Such businessmen accept the deposits also and lend money to those, who are in need of funds. For the purpose, the businessmen has to pay the interest to the depositor and charges the interest from the borrower. In Vyajvahi, a separate account for each depositor and borrower is opened and after calculating interest on the amount, an entry for the interest is recorded.

When instalments are given for the payment of money lended and installment is not paid in time limit, interest is calculated on such amount of installment. The amount of installment is called as "Kandha ni rakam" The interest charged on additional amount on the amount of installment after the time limit is called as "Kandha nu vyaj". If the businessmen has borrowed an amount, its details and the interest on it is also recorded.

(9) Hundivahi : When there are numerous bill transactions for the businessmen, they maintain a separate book called 'Hundi Vahi' to record such information. Hundivahi is prepared just like Rojmel or Bethomel. Of course, the accounting entries for the bills are recorded in Rojmel or Behtomel. This Hundivahi provides information regarding the parties to bills, period, amount etc. to the businessmen.

(10) Kabalavahi : The book maintained by the businessmen to record the details of their forward transactions, is known as 'Kabalavahi'. Kabalavahi is also known as 'Sauda Patrak.'

(11) Bank Register : When a businessman maintains more than one bank account for his transactions with the banks, he maintains a register to record his numerous bank transactions. Such 'Register' is known as 'Bank register'. In it different columns for each bank are kept, and the transactions are recorded in it.

9. Khatavahi (Ledger)

(1) Meaning and Importance : In Desinama the first accounting entry of transactions is recorded in Rojmel or Bethomel and in Subsidiary Books. Such entry is as per the date (tithi) and month (maas). The purpose of writing accounts is to obtain useful information to the business from such recorded accounts. On this basis; how much is the purchase (kharid) and sales (vakaro)?, how much amount is due to us and due by us?, How much is the total income ?, What is the total amount of expenses?, How many assets are there in the business?, How much is total capital of the business?. To obtain all this information easily; the businessman opens affected ledger accounts of the business in a separate book. Such a book is known as Khatavahi.

The book in which the personal accounts, real accounts and accounts pertaining to incomes and expenses of the business are opened is known as the book of Khatavahi. Khatavahi is one of the main books of accounts.

The book of khatavahi is like that of Rojmel and Behtomel, hard bound and covered by red cloth, in a vertical form and pages with the eight folds, it is tied with a string. Out of eight folds, four folds on the left hand side are for Jama and the remaining four folds are for Udhar.

On the first page of Khatavahi, the name of the owner of the business and the year for which the Khatavahi is to be prepared is written, then in the beginning of the book there is a page for serial number/ table of contents (Anukramanika), which is known as 'Sankaliyu' or 'Panotri'. In Sankaliyu, the name of the account and the page number of the Khatavahi, on which the said account is drawn, is written. This helps in finding out an account easily. From the next page onwards the ledger accounts are opened. Generally, one page is kept for each account in the khatavahi.

(2) Process of Posting : The process of recording in the relevant ledger account in khatavahi form Rojmel, Bethomel and Subsidiary books (Peta Nondho) is called posting (Khatavahi). In Deshi nama, the method of posting is as given on next page :

The account which is recorded on the credit side in Rojmel or Bethomel is to be credited at the time of posting. Posting in an account is to be done on the debit side, which is to be recorded on the debit side in Rojmel or Bethomel.

While posting in an account, the amount of the transaction is written in the first fold of the relevant Jama side or Udhar side and in the remaining folds Rojmel Page No, or Bethomel Page No. is written. If the posting is to be done from Bethomel, besides writing the Bethomel page No.(B.P.) the tithi of the transaction should also be written.

If the posting is done from Jama Nondh or Udhar Nondh, the details of relevant Jama Nondh Page No. and relevant Udhar Nondh Page No. should be written.

In a khatavahi, while recording a transaction, the Rojmel, Bethomel, Jama Nondh, Udhar Nondh Page Nos. are mentioned against it. Which shows that the transaction recorded (posted) in Khatavahi is on particular page number of particular book. In the same way, the page no. of ledger (khatavahi) on which that ledger account is drawn, should be written in Rojmel or Bethomel or the Subsidiary book.

(3) Fanku Marvu (Sign indicating that the posting is done) : Once the posting (khatvahi) for a transaction is done, a sign '(0)' is marked in the first fold below the amount of the transaction in Rojmel or Bethomel or Petanondh. This sign indicates that the posting is completed. Process of marking sign '(0)' is known as "Fanku Marvu".

Khatavahi of Shri Sarveshkumar (Samvat 2071)

Shri Bhandol Khatu

L.F.No. 1

J			U		
32,000=00 0	R.P. 1	Kartak Sud-1			

Shri Dena Bank Khatu

L.F.No. 09

J			U		
			5000=00 0	R.P. 5	Kartak Sud-4

(4) Khatanu Sandhan : Generally, one blank page is kept for each account in Khatavahi but in case of certain accounts when the space so provided is fully utilized, it is carried forward to any other blank page in Khatavahi. The process of carrying forward an account to other blank pages is known as 'Khatanu Sandhan". On the page, which is completely used for an account, the page number of sandhan is mentioned and on the page of sandhan the original page no. is shown. This helps in tallying the account easily.

(5) Types of Khatavahi : In Deshi Nama the following three types of Khatavahi are maintained (i) simple (sadi) khatavahi (ii) Bethi khatavahi or Thham khatavahi (iii) Sama Daskatni Khatavahi.

(i) Simple (sadi) Khatavahi : The Khatavahi in which all the ledger accounts of the business are maintained, is known as Sadi Khatavhi. At the end of the year, on the basis such Khatavahi, Utaro (Trial Balance) and final accounts are prepared.

(ii) **Bethi khatavahi or Thham khatavahi :** The businessmen, whose transactions are comparatively less in number, they maintain only personal i.e. creditors and debtors accounts in the khatavahi (ledger). Such accounts are known as Betha Khata and such Khatavahi is known as Bethi Khatavahi or Thham Khatavahi. Such businessmen do not maintain Udhar Nondh and Jama Nondh. Instead of recording the transactions of purchase and sale, in Rojmel or Bethomel they are recorded directly in the Khatavahi. Thus, Bethi Khatavahi serves the purpose of both Rojmel and Khatavahi. The main purpose of maintaining such khatavahi is to get the clear information regarding debts and receivables and it can be decided as to how much collection from debtors will be made and against that how much payment is to be made. However, such Khatavahi is not much in practical use these days.

(iii) **Sama Daskatni khatavahi :** The money lenders and shroffs maintain this khatavahi. The shroff opens the customer's account in his books at the time of lending the money and the particulars regarding the amount lent, period for which it is lent, the miti on which the money is lent, rate of interest, the asset mortgaged etc. are shown. Below their particulars, the necessary revenue stamp is affixed and on it the customer's signature is taken. Thus, this khatavahi serves the purpose of both a ledger (khatavahi) and a receipt for the money lent.

Specimen of Sama Daskatni khatavahi :

Samvat 2071

Shri Dilipkumar Jamnadas nu Khatun

J		U	
		15,000=00	Samvat 2071 Chaitra Sud-5 Mangalvar Dt. 24-03-2015, ₹ 15,000=00 received cash, for a period of two years. Interest is to be calculated at 12 % whereas gold chain of 2 Tola is kept as a security. Revenue Stamp Dilipkumar Jamnadas

(6) **Khatu Mandaman :** The shroff charges the customer a certain amount for opening the customer's account in his books. Such an amount is known as ''Khatu Mandamani''. This is not valid now.

(7) **Kothali Chhodamani :** Many a times, the shroff deducts a certain amount in advance out of money lent and remaining amount is given to customer while lending the money, it is known as Kothali Chhodamani. The amount of Kothali Chhodamani is an income for the businessman (Lender) and an expense for the customer (borrower). Such transaction is also not considered valid.

(8) **Khatani Baki (Balance in the Account) :** After posting a respective account, the information regarding the transaction with such account is available. But the final position of the account cannot be known, E.g. how much dues, debts are there and how much expenses are incurred

etc. For the purpose, the account on both the sides is added up and the difference is found out, which is known as ‘Baki’ (balance). Generally, the balance (baki) is arrived at to know the result (profit or loss) of the business at the end of the year or to carry forward the accounts to the new pages.

(9) **Process of finding out Khatani Baki (Balance) :** In order to find the balance of an account, first of all total of both jama and udhar side is made and written in the third fold. The difference between total of both sides of the account is called as balance. The side of which the total is less the balance is recorded on that side.

The side of which the total is more is called as that balance. E.g. if total of jama side is more the balance is called as “Jama baki”and if the total of debit side is more the balance is called as ‘Udhar baki’.

When the total of jama side of the account is more the amount of difference (balance) is recorded on udhar side. If accounts are Pakka, “Baki Deva” is written in the particular column. On the other hand if the total of Udhar side of the account is more the amount of difference (balance) is recorded on Jama side. If accounts are Pakka, “Baki Lena” is written in the particulars column. After recording the balance of an account, a line is drawn below it and total of opposite side is written. Two lines are drawn below the amount of total.

When the total of both sides of an account is the same, it is called as ‘Khatu sarbhar thayu’. ‘Shri Sarbhar khatun’ is written against the amount of total in sarbhar khata.

(10) **Kinds or Types of Khata :** In deshi nama, certain accounts are closed at the end of the year, while a balance (baki) is arrived at for certain accounts. Which accounts are to be closed and in which accounts, the balance is to be arrived at, depends upon the kind of account (Khatu). in Deshi Nama, the accounts are classified into two types : (1) Kacha Khata, (2) Paka Khata).

(i) **Kacha khata :** The accounts pertaining to the purchase and sale of goods and accounts pertaining to incomes and expenses in business are known as Kacha Khata. Kacha Khata are closed at the end of the year and their balances are not carried forward to the new year. E.g. Shri Kharid Khatu, Shri Majuri Khatu, Shri Malel Commission khatu etc.

(ii) **Paka khata :** The accounts pertaining to persons and assets (i.e. personal and real accounts) are known as Paka Khatan. At the end of the year, paka khata are not closed but the balance (Baki) is found out in such accounts and the balances are carried forward in the Khatavahi (ledger) for the New Year. The balances in Paka Khatan are known as : “Baki Deva”, if it is a credit balance and ‘Baki Lena’ if it is a debit balance.

Certain examples are given below to understand the process of balancing the accounts :

Shri Sanket Kumar nu Khatu

J		U		
2000=00	R. P. Asho Sud 2		1200=00	R. P. Asho Sud 8
1500=00	R. P. Asho Sud 15		1900=00	R. P. Asho Vud 12
600=00	R. P. Asho Vud 13			3100=00
	4100=00	1000=00	Shri Baki Deva	Asho Vud 0))
			4100=00	

Shri Surbhiben nu Khatun

J		U	
2500=00	R. P. Asho Vad 10	4000=00	R. P. Asho Sud 7
	2500=00	3000=00	R. P. Asho Vad 3
4500=00	Shri Baki Lena Asho Vad 0))		**7000=00**
	7000=00		

Shri Bhagwandas nu Khatu

J		U	
5000=00	R. P. Asho Sud 9	3200=00	R. P. Asho Vad 4
	5000=00	1800=00	R. P. Asho Vad 12
			5000=00

Shri Sarbhar Khatun

Shri Commission Khatun

J		U	
		400=00	R. P. Asho Sud 3
		500=00	R. P. Asho Vad 1
			900=00

Shri Dividend Khatun

J		U	
250=00	R. P. Asho Vad 12		
375=00	R. P. Asho Vad 14		
	625=00		

Shri Furniture Khatun

J		U	
28,000=00	Shri Baki Lena Asho Vad 0))	23,000=00	R. P. Asho Sud 6
	28,000=00	5000=00	R. P. Asho Sud 12
			28,000=00

10. Utaro (Trial Balance)

The businessman prepares a statement based on the Baki (balance) of each account. This statement is called 'Utaro'. Under Double Entry System of accounting this statement is called 'Trial Balance". With the help of Utaro, it can be ascertained whether the accounts are arithmetically correct or not. Utaro is prepared at the end of an accounting year before preparing final accounts. Shri Purant Baki (closing balance of cash) as per Rojmel or Bethomel can also be obtained on the basis of Utaro.

Utaro is prepard in pages with eight folds like Rojmel. In Utaro , the closing balance (Baki) of each account is written. For this purpose, the account (Khatu) having credit (Jama) balance (Baki) is written on the Jama side of the Utaro and the account (khatun) having Udhar (debit) balance is written on the Udhar (debit) side of the Utaro. Then, the total of the amounts on Jama side and the total of the amounts on Udhar side, are arrived at end they are shown (written) on the respective sides in the third fold. Then, the difference, of the total of the amounts on both the sides, is found out and written on the side which is short (always on Udhar side) and it is written as Shri Purnat Baki in the fold for particulars. Shri Purant Baki as per Utaro, is tallied with Shri Purant Baki as per Rojmel or Bethomel. If Shri Purant Baki and actual cash on hand are the same it can be assured that the accounts are arithmetically correct.

11. Havala and Havalamel

In order to ascertain profit or loss of the business Kacha khata are to be closed and by giving accounting effects for closing stock, unpaid expenses, prepaid expenses, depreciation, bad debts, rectification or errors, true profit or loss can be found out. Besides this, at the end of the year, Gharkharcha khata is closed by transferring it to Bhandol khata. Similarly, profit or loss arrived at in Kharid – Vakara khata or Vatav khata or Nafa Nukshan Khata, is also transferred to bhandol khate. The entries to be passed to give necessary accounting effects for such aspects in the books of accounts, are known as Havala or Havala Nondh.

Such havala nondh is passed, on the last day of the specified period or the year, in a Mel which is called as Havalmel. Besides this, the closing entries passed to close the kacha khata (accounts relating to goods as well as income and expenses) are also included in Havalamel.

Havala mel is prepared after preparing Utaro and before preparing final accounts. Therefore the Havala Mel is a link between Utaro and Final Accounts. Havalamel is written on the last page of Rojmel or Bethomel. In Havalamel, the accounting effects of the above said aspects are given in the same way as they are given in Rojmel or Bethomel. That is, while passing the entries (nondh) for the above aspects, the accounts which is to be credited is written on jama side of Havalamel and the account to be debited is written on Udhar side of Havalamel.

Havalmel is also known as Jama Kharchimel, Mandchhod mel or Achal mel. Entries (nondh) for the following matters are passed in the Havalamel.

(1) **Stock of goods :** Goods that is unsold at the end of the year i.e. closing stock has to be brought into books of accounts to find out the true profit or loss made. For this purpose, kharid-vakara khatu is credited by debiting the closing stock khatu. Closing stock (Akhar Stock) khatu is an asset and therefore shown at the debit side of Sarvaiya as Akharmal Stock khate and on the credit side of Kharid-vakara khate.

In order to ascertain correct profit or loss, for the purpose of havala nondh of the closing stock, the cost price or the market price, whichever is less is taken in to consideration.

In the next year, the debit balance of this stock account will be treated as opening stock (Sharuno Mal Stock) and at the end of the second year it is debited to kharid vakara kahte and credited to Sharuna Mal Stock khate (Opening stock account) and this stock account is closed.

(2) **Unpaid (outstanding) Expenses :** If any expense is outstanding at the end of the year, the respective expense account is debited and credit is given to the outstanding expense account or to the respective person's account. The posting is done on the debit side of the respective expense account and on the credit side of the outstanding expense account or respective person's account and they are shown in sarvaiya. On credit side E.g. Wages unpaid ₹ 600.

(3) **Prepaid Expenses :** If any expense of the following year is paid during the current year, it is said as prepaid expense. The prepaid expense account is debited and the respective expense account is credited. The posting is done on the credit side of the respective expense account and on the debit side of prepaid expense account (Respective person), which is shown on the debit side of Sarvaiya as Lena. E.g. Prepaid insurance premium ₹ 300.

(4) **Outstanding Income :** At the end of the year if any income is due but not received "income due but not received "or 'related person's' account is debited and the respective income/Revenue account is credited. The posting is done on the credit side of the income account and on the debit side of the income due, but not on the received account (or to the related person's account) which is shown in Sarvaiya as Lena. E.g. Interest on investments due but not received ₹ 500.

(5) **Income (Revenue) Received in Advance :** If any income pertaining to the following year is received and recorded in the current year as income, the respective income account is debited and income/revenue received in advance account credited. The posting is done on the debit side of the income account and on the credit side of the income / revenue received in advance account which is shown in Sarvaiya as 'Deva'. E.g. Rent received in advance ₹ 200.

(6) **Depreciation :** At the end of the year, to record the depreciation on depreciable asset, respective asset account is credited by debiting the depreciation account. It is posted on the debit side of the depreciation account and on the credit side of the asset account. As the amount of depreciation is credited to asset account, in Sarvaiya that much amount is shown as deduction from the asset.

(7) **Bad Debts :** To record bad debt at the end of the year, the bad debt (Ghalkhadh khatun) account or vatav account is debited and Debtors (devadar's) account is credited. Which is posted on debit side of ghalkhadh or vatav khate and credit side of respective Devadar's (Debtor) account. The amount of baki lena or devadaro is shown in sarvaiya by deducting the amount of bad debt.

(8) **Interest on Bhandol :** If the owner of the business is to be given the Vyaj (Interest) on Bhandol (capital), then Bhandol account is credited by debiting the Vyaj on Bhandol account. It is posted on the debit side of the Bhandol par Vyaj Khate and on the credit side of the Bhandol (capital) kahte. Vyaj on Bhandol is added to the balance of bhandol in sarvaiyu.

(9) **Transfer of 'Gharkharch khatu' to 'Bhandol khatu' :** The amount of the withdrawals made by the owners of the business during the year is debited to gharkharcha khate. At the end of the year the gharkharcha khate is closed by transferring the amount to Bhandol Khate. For this, Gharkharch Khatun is credited by debiting Bhandol account. It is posted on the debit side of bhandol account and on the credit side of the Gharkharch account, consequently the gharkharch khatu will be closed and the balance of the Bhandol account will be reduced to that extend in Sarvayu.

(10) **Havala for Rectification of Errors :** In order to rectify some of the accounting errors committed during the year, at the end of the year some havalanondh is required to be made before preparing final accounts. E.g. if the wages of ₹ 500 is debited to salaries, to rectify this mistake Majuri Khata is debited by crediting pagar khata. Here it should be noted that if any error is committed in Utaro, it can be rectified in Utaro only for which no Havala nondh will be passed. Utaro will be prepared after rectifying the errors.

(11) **Havala Nondh or Akhar Nondh to Close kacha khata :** All kacha Khata mentioned in Utaro are closed and transferred to Kharid – Vakara khate or Vatav khate after showing all havala nondh in Havala Mel and posting the same. Balance of some of the kacha khata is changed by posting all havala nondh and some new account will be added. All accounts including New balance of kacha khata after making necessary changes and newly added accounts are closed. In order to close kacha khata, following effects are given in Havalamel.

(i) **Kacha Khata with Udhar Baki (Debit Balance) :** In order to close such kacha khata having Udhar baki, either kharid vakara khata or vatav khata is debited and respective kacha khata is credited. The posting of which is made on the debit side of kharid Vakara kahta or vatav kahta and credit side of respective kacha khata.

E.g. Majuri ₹ 1200, Jaherat Kharch ₹ 500.

Kharid Vakara khate/ vatav kahte udhar	1700	
To Majuri khate		1200
To Jaherat kharch khate		500

Note : The above nondh is recorded in havalmel on jama and udhar side as per Deshi nama system.

(ii) **Kacha khata with Jama Baki (Credit Balance) :** In order to close Kacha khata with Jama Baki, the respective kacha khata is debited and either kharid vakara khata or vatav khata is credited. The posting of which is made on the udhar side of kacha khata and on the jama side of the kharid vakara kahta or vatav khata.

E.g. Malel vyaj ₹ 1000 and Malel Commission ₹ 1700

Vyaj khate udhar	1000	
Commission khate udhar	1700	
Kharid Vakara khate/ vatav khate		2700

(12) **Havala to Transfer the Profit or Loss of the Business to Bhandol :** Havala nondh to transfer profit (nafa) or loss (khot) arrived at as a result of the above havala is also recoreded in the havala mel itself.

(i) **If it is Profit :** If the profit is earned, either kharid vakara khata or vatav kahta is debited and bhandol khata is credited and as a result jama baki of the bhandol khata increases and the profit is added to bhandol in sarvayu.

(ii) **If it is Loss :** If a loss is suffered, Bhandol khata is debited and credit is given to either kharid-vakara kahta or vatav khata and as a result, the jama baki of Bhandol khata decreases. The loss is deducted from bhandol in sarvaiyu.

(13) Explanation in a chart form of the entries to be recorded in havalamel :

Havala	Debited (Udhar) to Which Account	Credited (Jama) to Which Account
(1) Opening Stock	Kharid Vakara Khate Udhar	Opening Stock Khate Jama
(2) Closing Stock	Shri Aakhar Stock Khate Udhar	Kharid-Vakara Kahte Jama
(3) Depreciation	Ghasara (Depre.) Khate Udhar	Milkat Khate Jama
(4) Outstanding Expenses	Kharch Kahte Udhar	Kharchana Baki Deva Khate Jama
(5) Prepaid Expenses	Prepaid Expense Khate Udhar	Kharch Khate Jama
(6) Outstanding Income	Outstanding Income Kahte Udhar	Income Kahte Jama
(7) Income Receied in advance	Income (Aavak) Khate Udhar	Income Received in Advance Khate Jama
(8) Ghalkhadh (Bad Debts)	Galkhadh Khate Udhar	Devadar (Debtor) Khate Jama
(9) Ghalkhadh Anamat (B.D.R.)	Kharid Vakara Kahte Udhar	Ghalkhadh Anamaat (B.D.R.)
(10) Vyaj (Int.) on Bhandol	Vyaj on Bhandol Khate Udhar	Bhandol Khate Jama
(11) Interest on Drawings	Gharkharch Khate Udhar	Upad Par Vyaj Khate Jama
(12) To close drawings khata	Shri Bhandol Kahte Udhar	Gharkharch (Upad) Khate Jama
(13) To close Kacha Khatas of Kharch	Kharid Vakara Kahte Udhar	Kharch Khate Jama
(14) To Close Kacha Khata of Incomes	Respective –Upaj Khate Udhar	Kharid Vakara/Vatav Kahte Jama
(15) Result of the Business : Method of Kharid-Vakara Khate		
(i) If it is Profit	Kharid Vakara/Vatav Kahte Udhar	Bhandol Khate Jama
(ii) If it is Loss	Shri Bhandol Khate Udhar	Kharid Vakara/Vatav kahte Jama
(16) Result Of The Business : as per Vatav Khate Method		
(i) If It Is Profit...		
(a) Gross profit	Kharid Vakara Kahte Udhar	Vatav Khate Jama
(b) Net profit	Vatav Khate Udhar	Shri Bhandol Khate Jama
(ii) If It Is Loss....		
(a) Gross Loss	Vatav Khate Udhar	Kharid Vakara Kahte Jama
(b) Net Loss	Shri Bhandol Khate Udhar	Vatav Khate Jama

12. Method of Determining Profit and Loss

Two methods are used in Deshi nama system to determine profit or loss :

(1) By Kharid-Vakara khata : Small traders ascertain the profit or loss by Kharid vakara khata. Instead of keeping a separate account for kharidi and Vakara they keep a combined kharid vakara khaata. The amount of purchase is written on the udhar side of this account while the amount of vakara (sales) is recorded by posting to the jama side of this khata.

As we have already studied earlier, after passing the necessary nondhs in the Havalmel with respect to havalas of stock, income – expenses, bad debts, depreciation, rectification of errors, all the kacha khata are closed by transferring it to kahrid vakara kahta.

After making all Havala nondh for kacha khata, both the sides of kharid vakara khata are totalled and the respective totals are written on the respective sides, there after, the difference between the total of the two sides is found out. The difference so calculated indicates either profit or loss of the business. If the total of the Jama side is excess, it is profit and if the total of the Udhar side exceeds, it is loss. The havala nondh to transfer the profit or loss to bhandol khate, is also written in the Havalamel itself. In case of profit, Bhandol kahta is credited by debiting kharid vakara khata as a result the jama baki of Bhandol kahta increases and in case of loss, bhandol khata is debited by crediting kharid vakara khata consequently, jama baki of Bhandol khata decreases. By the posting of this nondh, the total of both the sides of kharid vakara khata becomes equal.

(2) By Vatav Khata : Big traders who have numerous transactions and those who deal in more than one type of goods, ascertain profit or loss by vatav kahta. For calculating profit or loss, two divisions are made :

(i) Kharid-Vakara Khatu (ii) Vatav Khatu

(i) Kharid-Vakara Khatu : Kharid-vakara khatu is just like a trading account in double entry system. In this account, the entries regarding Opening stock, closing stock, Purchase, sales, purchase expenses, and accounts relating to goods are made.

To ascertain the profit or loss under this method, the difference between two sides of Kharid-Vakara khata is found out. If the jama side total is higher than the total of udhar side, the difference is gross profit. This gross profit is debited to Kharid-vakara khate and credited to Vatav khate. If the Udhar side total is higher than the total of Jama side, the difference is gross loss. The amount of gross loss is debited to vatav khate and credited to Kharid-vakara khate. The entry as above is made in Havala Nondh to transfer gross profit or gross loss of Kharid-vakara khatu.

(ii) Vatav Khatu : After passing all havala nondh for the havala of incomes, expenses, bad debts, depreciation, rectification of errors etc. all the remaining kacha khata e.g. accounts of incomes and expenses, are closed by transferring them to vatav khata. In order to close kacha khata, nondh is made in havalamel. Here only that kacha khata, which are not transferred to kharid vakara kahta are to be transferred to vatav khate and accordingly nondh is made.

Thus, after recording the havalas for Kacha khata, both the sides of vatav khata are added up and on the relevant side the difference in the amount is written. The difference so found out, indicates the profit or loss of the business. If the total on the jama side is more, it is called net profit and if the total of the udhar side is higher, it is called net loss. Havala nondh to transfer this profit or loss to Bhandol khate is also written in the havalmel itself.

In case of profit bhandol kahta is credited by debiting vatav kahta and as a result jama baki of bhandol khata increases. In case of loss, vatav kahta is credited by debiting bhandol khata, as a result jama baki of bahdol khata decreases. By posting this havala nondh, the total of both the sides of vatav khata become equal.

13. Sarvaiyu (Balance-Sheet)

While preparing final accounts, Kacha Khata are closed and to ascertain the profit or loss made by the business, Kharid vakara khata and Vatav khata are prepared.Profit or loss is transferred to Bhandol Khata. There after sarvaiyu is prepared with the help of Pakka khata like personal accounts,

accounts of assets and liabilities (Baki Lena and Baki deva) and Shree Purnat Baki (closing Cash balances) to know the financial position of the business.

Sarvaiyu means the statement showing the financial position of the business as on a particular day of assets, liabilities and bhandol. Sarvaiyu is a statement and not an account.

The format of Sarvaiyu is similar to utaro. Here also the first four folds, (sal) are kept for Jama side and the rest four folds are kept for the Udhar side. On the Jama side of Sarvaiyu, Jama Baki (Baki deva) and on the Udhar side, Udhar Baki (Baki lena and assets) are shown. On Jama side, first of all the balance of the Bhandol Kahta is shown. On both the sides, the amount is shown in the first fold and in the remaining folds, the name of the account and page number of Khatavahi (L.F.NO.) are written.

After wring the balances on both the sides in sarvaiyu the total on both the sides are made and are written on the respective sides. Thereafter, on the udhar side Shree Purant Baki is shown for cash balance. The total of both the sides must be equal on completion of sarvaiyu.

Exercise

1. Select appropriate alternative for each question :

(1) Which is the oldest Indian method of writing books of accounts ?

(a) Deshi Nama System (b) Double Entry System

(c) Single Entry System (d) Deshi Nama and Double Entry system

(2) What is called '⌐' sign used in Deshi Nama between rupees and paise while writing an amount ?

(a) Avro (b) Olayo

(c) Utaro (d) Fanku Marvu

(3) Out of following what is called 'Sudiu' or 'Daniu' ?

(a) Subsidiary book (b) Bethomel

(c) Kachi Nondh (d) Rojmel

(4) Which books in Deshi Nama are called as Basic or Primary books ?

(a) Aam Nondh (b) Karar Nondh

(c) Khatavahi (d) Rojmel

(5) Which Mel is known as Tham Mel ?

(a) Rojmel (b) Jama Kharchi Mel

(c) Bethomel (d) Dagina Mel

(6) If the name of a person with whom financial transation has been taken place is forgotten, the financial transaction is recorded by which name ?

(a) Shri Tasalmat Khate (b) Shri Shah Khate

(c) Shri Hatthu Khate (d) Shri Vatav Khate

(7) The amount payable to a creditor of the business is sent through a person or aangadia, the amount is credited to which account instead of creditor ?

(a) Shri Hatthu Khate (b) Shri Shah Khate

(c) Shri Desavar Khate (d) Shri Tasalmat Khate

(8) When money is lended to a person for one day, the amount is known by which name ?

(a) Ublek (b) Upar Tapke

(c) Desavar (d) None of three

(9) Transactions of credit purchase of goods of business are recorded in which subsidiary books ?

(a) Jama Nondh (b) Udhar Nondh

(c) Kabala Vahi (d) Hundi Vahi

(10) The books kept in Deshi Nama for recording receipt and issue of goods is known by which name ?

(a) Ankda Vahi (b) Sudha Vahi

(c) Kabala Vahi (d) Janas Vahi

(11) Which book is maintained by the traders of forward market to record forward transactions ?

(a) Hundi Vahi (b) Kabala Vahi

(c) Sudha Vahi (d) Vyaj Vahi

(12) Havala Mel is known by which name ?

(a) Utaro (b) Sarvaiyu

(c) Rojmel (d) Achal Mel

(13) Which account of the following is not a Kachu Khatu ?

(a) Shri Ghar Kharch Khatu (b) Shri Pagar Khatu

(c) Shri Vakara Khatu (d) Shri Commission Khatu

(14) Which accounts are closed at the end of the year in Deshi Nama ?

(a) Paka Khata (b) Kacha Khata

(c) Milkat Khata (d) Personal accounts

(15) Where the entry of closing Kacha Khata in Deshi Nama is made ?

(a) Sudha Vahi (b) Jama-Kharchi Mel

(c) Jama Vahi (d) Udhar Vahi

(16) Where the Paka Khata are recorded, in Deshi Nama system ?

(a) Havala Mel (b) Kharid-Vakara Khata

(c) Vatav Khata (d) Sarvaiyun

(17) The difference between the credit side and the debit side of Sarvaiyun in Deshi Nama is recorded on debit side as ....

(a) Akhar stock (b) Silak-Vadhghat

(c) Shri Purant Janse (d) Shri Purant Baki

(18) In Deshi Nama system, the nature of Sarvaiya is like ....

(a) Utaro (b) Dagina Mel

(c) Rojmel (d) Udhar Nondh

(19) Which value of closing stock is taken into consideration for havala nondh of Akhar stock to calculate profit or loss at the end of the year ?

(a) Cost price

(b) Market price

(c) Cost price or market price, which ever is less

(d) Cost price or market price, which ever is more

(20) Profit or loss of Kharid-Vakara Khata is transferred to which account while preparing final accounts by Vatav Khata method in Deshi Nama ?

(a) Bhandol Khate (b) Vatav Khate

(c) Havala Mel (d) Ghar-kharch Khate

2. Answer the following questions in one or two sentences :

(1) By which other name the Deshi Nama system is known ?

(2) Explain the meaning of 'Miti' in Deshi Nama.

(3) What is Rojmel ?

(4) By whom and when the Bethomel is kept ?

(5) State any two types of Khata Vahi.

(6) What is 'Sakadiyu' or 'Panotri' ?

(7) When there is expense or revenue in business, but the name of the account is not remembered, such transaction is recorded in which account ?

(8) What is Ublek amount ?

(9) What is Tarij ?

(10) What is Jangad Nondh ?

(11) What is Fanku Marvu ?

(12) What is Khatanu Sandhan ?

(13) What is Mand Chhod Mel ?

(14) Generally, when is the havalamel prepared ?

(15) Which two methods are prevalent in Deshi Nama for calculating profit or loss ?

(16) Write havala nondh for Vyaj on Bhandol.

(17) Write havala nondh for Ghal-khadh Anamat.

(18) Write havala nondh for transferring profit calculated from Kharid-vakara khate to Bhandol khate.

(19) Write havala nondh for transferring loss calculated from Vatav Khata to Bhandol Khate.

(20) What is called paka khata in Deshi Nama system.

3. Answer following questions in short ?

(1) Explain the following terms used in Deshi Nama :

(1) Avro (2) Vigat Khatu (3) Shah Khatu (4) Tasalmat Khatu (5) Desavar Khatu (6) Hatthu Khatu (7) Kabulat Apvi (8) Bethi Khatavahi (9) Kandhu Kari Apvu (10) Kothli Chhodamani (11) Dagina Mel (12) Ankda Vahi (13) Jangad Nondh (14) Karar Nondh

(2) Write short-notes :

(1) Rojmel (2) Bethomel (3) Extracting Baki of Khata

(3) What is havala ?

(4) What is Utaro ?

(5) Explain kacha khata and pakka khata.

4. Answer following questions as asked :

(1) Write short-note on : Sama Daskat ni Khatavahi

(2) Explain, how the transactions of goods return are recorded in Deshi Nama System.

(3) Write detailed note on Havala Mel.

(4) How the Sarvaiyu is prepared in Deshi Nama ?

(5) How will you record the following items in Havala Mel ?

(i) Akhar Mal stock ₹ 15,000

(ii) Vyaj Malvanu Baki ₹ 3500

(iii) Agau thi Chukvel Vimo ₹ 700

5. Answer following questions as asked :

(1) State characteristics of Deshi Nama.

(2) State types of Khatavahi as per Deshi Nama System and explain each of them.

(3) Explain different Peta Nondh kept under Deshi Nama System.

(4) What is Utaro ? How is it prepared ?

(5) Explain in brief the methods of calculating profit-loss under Deshi Nama System.

9

Accounts of Non-Trading Concerns

1. Introduction

Generally, trading firms or concerns come into existence for profit generation motto. To know the result of any business trading firm or concerns, prepare a trading account, profit and loss account. Balance sheet is prepared to know the economic status of the business. There are several institutions in society, those who do not have an objective of generating profit. They have an aim to serve the society, to provide facilities and services to the members, to undertake the activities for the welfare of the members, to extend the academic activities with an intention to develop academic, social, religious, cultural or art related and donation generating activities. These kinds of concern are known as non-trading concerns. These concerns generate income from their predetermined activities and use it for the society or predetermined aims of the concern. These concerns maintain own accounts, which are known as account of non-trading concerns. Accounts of non-trading concerns are prepared differently than the accounts of trading concerns.

2. Meaning and Characteristics of Non-Trading Concerns

(1) **Meaning :** Concerns which are not having an aim to generate profit but having the aim of social service, welfare of the members of the concern, to protect the interest of the members, to extend academic and sports activities, to develop cultural activities are known as non-trading concerns.

In these concerns sports clubs, Rotary-lions clubs, trade associations like chamber of commerce, political associations, labours associations, medical associations, public hospitals, charitable concerns, library, educational institutes, associations for cultural activities, orphanages, religious organisations etc are included. Such organizations generate income from their activities and pay the expenses, but their intention is not to earn profit.

E.g. Rajpath club, Ahmedabad gymkhana, Maniben library, Jivraj Mehta hospital etc.

(2) **Characteristics :** Characteristics of non-trading concerns are as follows :

(i) **Service :** These kind of concerns do not have profit earning objective but has service objective.

(ii) **Trading Account :** These concerns do not have an objective of trading, thus they do not prepare their trading account. Inspite of this, sports club and other concerns undertake purchase-sale of some items for the facility of the members.

(iii) Income-Expenditure Account : Since their objective is not to generate profit, they do not prepare a profit and loss account at the end of the year, but to know the status of the income-expense, they prepare an income-expenditure account.

(iv) Receipt-Payment Account : Generally, cash transactions take place in a significant size, thus to record such cash transactions in the place of cash account, receipt and payment account is prepared.

(v) Balance sheet : These kind of concerns prepare a balance sheet to know the economic status at the end of the year.

(vi) Capital fund : The capital of non-trading concerns is known as a capital fund or a permanent fund.

(vii) Subscription : The main income of these kind of concerns is subscription for the members. Besides this, the income is obtained through donation, government aid, income of interest on investments, dividend income, charity etc.

3. Accounts of Non-Trading Concerns

Generally, there are two methods to maintain accounts :

(1) Mercantile System : Under this method expense paid and income received during the year are considered with unpaid expenses and outstanding income accounts are prepared. Trading institution maintain accounts under this method.

(2) Cash System : Under this method to prepare accounts only cash expense and incomes are considered.

Generally non-trading concerns prepare their accounts as follows :

(i) Receipt and Payment Account : This account has similar nature to cash account (cash book). In this, balances of cash and banks as well as cash incomes and expenses are recorded.

(ii) Income and Expenditure Account : This account is similar to the Profit and Loss Account of trading concerns. The Income and Expenditure account prepared on the same rules as the Profit and Loss account. The only revenue incomes and revenue expenditures of current year are disclosed. The excess of income over the expenditure of this account is added to the capital fund in the balance sheet. The excess of expenditure over income is deducted from the capital fund in the balance sheet. Alternatively, the balance of income – expenditure account (excess of income or excess of expenditure) are disclosed separately in balance sheet.

(iii) Balance-Sheet : At the end of the year, to know the economic status, the non-trading concern prepare a balance sheet. Capital is known as capital fund or Permanent fund by these kind of concerns. The remaining items are similar to the balance sheet of the trading concerns. E.g. Assets, incomes, received in advance, income outstanding, prepaid expenses, outstanding expenses, payable and receivables etc. The balance of income expenditure account available in the form of excess of income over expenditure is added to the capital fund on the liability side of the balance sheet and the excess of expenditure over income is deducted from the capital fund on the liability of the balance sheet.

4. Difference Between the Accounts of Trading and Non-Trading Concerns

Sr. No.	Point of Difference	Trading concern	Non Trading concern
(1)	Meaning and objective	The concern which has an objective to generate profit through purchase-sales activities or through other trading activities is a trading concern.	The concern which has an objective to provide social service is a non-trading concern.

Sr. No.	Point of Difference	Trading concern	Non Trading concern
(2)	Trading Account	To know the gross profit or gross loss at the end of the year trading concerns prepares trading account.	Non trading concerns do not have an objective to generate profit as well as they do not undertake purchase-sale of goods, so they are not required to prepare a trading account.
(3)	Method for disclosing the result at the end of the year	Trading concerns prepares a profit and loss account to know the result.	Non trading concerns prepares an income and expenditure account to know excess of income over expenditure or excess of expenditure over income.
(4)	Identification of result	The result of trading concerns is either net profit or net loss.	The result of non trading concerns is either 'excess of income over expenditure' or 'excess of expenditure over income'.
(5)	Source of Income	The main income of trading concern is income from sales.	The main source of income for non trading concerns is the subscription of members, entrance fees, donations as well as incomes from other main activities.
(6)	Annual Accounts	(i) Trading Account (ii) Profit and Loss Account and (iii) Balance sheet are prepared by these concerns.	(i) Income-Expenditure Account (ii) Balance sheet and to know cash balance and cash transaction receipt payment account is prepared.
(7)	Capital – Capital Fund	In trading concerns the difference of amount of assets and liabilities is capital (Investment of owners)	In non trading concerns the difference between the amounts of assets and liabilities is capital fund or permanent fund.
(8)	Cash Transactions	For cash transactions cash book is prepared by the trading concerns.	For cash transactions at the end of the year receipt payment account is prepared.

5. Classification of Incomes

Incomes are of two types :

(1) **Capital Income :** Income of a concern which is not regular in nature, as well as the benefit of which income is available for a longer period of time is known as the capital income.

E.g. Donation received for a specific purpose, legacy, life membership fees or life subscription, loan borrowed etc.

The capital income received by non trading concerns other than loan borrowed like donation, legacy etc are capitalized and added to the capital fund. In addition to this the prize fund, construction fund etc. are disclosed separately at the liability side of the balance sheet.

(2) **Revenue Income :** Income of the concern which is regular in nature and arising from the activities of concern is known as revenue income.

E.g. Annual subscription of members, Fees, Interest on investments, Sale of old news papers, Income of entertainment programme, rent, income of sports ground, lockers rent, rent of hall, income from amenities provided to members, aid (subsidy, grant) received from the government etc.

The revenue income are disclosed at the credit side of the income - expenditure account by the non-trading concerns.

(3) Difference Between Capital Income and Revenue Income :

Sr. No.	Points of Difference	Capital income	Revenue Income
(1)	Meaning	Income of concerns which is not regularly received as well as the benefit of which available to the concerns for a longer period of time and which is capitalized is known as capital income.	Income of concerns which is regularly received and arising from the activities of the concern is known as revenue income.
(2)	Objective	The objective of capital income is to procure long term fund.	The objective of revenue income is to procure regular income.
(3)	Presentation in accounts	Capital income is disclosed on the liability side of the balance sheet.	Revenue income is disclosed on the credit side of the income-expenditure account.
(4)	Balance	Every year the balance of capital income is carried forwarded.	Revenue income is transferred to the income expenditure account.
(5)	Illustrations	Capitalized legacy, donation for specific purpose, charity, income from sale of assets etc.	Subscription, Lockers rent, sale of old news papers, rent of hall, etc.

6. Classification of Expenses

Expenses are of three types :

(1) Capital Expense : Expense which is not incurred regularly and the benefit of which is available to the concern for a longer period of time from which fixed assets are acquired by the concern, is known as capital expense.

E.g. Land, building, machineries, investments, books for library, X-ray machines, sports equipments, swimming pools etc.

Capital expense is disclosed at the asset side of the balance sheet. Apart from the purchase price of asset, its installation expenses, its stamp fees and document expense, expense incurred to increase efficiency of assets are also capital expense, which are added to the cost of the respective asset.

(2) Revenue Expense : Expense which is incurred on regular basis to run a routine activity of the concern and the benefit of which is available to the concern for the respective year only is known as revenue expense.

E.g. Daily administrative expenses like salary of employees, rent, taxes, postage expense, telephone expense, stationery- printing, entertainment programme expense, subscription of news papers and periodicals, assets repairing expense, depreciation on assets, ground maintenance expense etc.

(3) **Difference Between Capital Expense and Revenue Expense :**

Sr. No.	Points of Difference	Capital Expense	Revenue Expense
(1)	Meaning	An expense which is not incurred regularly and the benefit of which is to the concern for a longer period of time and through which the concern acquires fixed asset is the capital expense.	To run a routine activity of the concern, expense which is incurred and benefit of which is available to the concern for the current year is the revenue expense.
(2)	Objective	The objective of the capital expense is either to acquire fixed assets and with their help to create facilities to generate income.	The objective of the revenue expense is to run activities of the concern.
(3)	Presentation in accounts	Capital expense is disclosed on the asset side of balance sheet.	Revenue expense is disclosed on the debit side of income-expenditure account.
(4)	Balance	Every year the balance of capital expense is carried forwarded.	Revenue expense are transferred to income expenditure account.
(5)	Illustrations	Fixed assets purchase of land, building, machine, furniture and their installation expense etc.	Routine administrative expenses like salary, postage, stationery etc.

(4) **Deferred Revenue Expense :** The benefit of revenue expense is for that respective year, in which it is paid. But, there are certain expenses for which the benefit is available in certain subsequent years, along with the year in which they are paid. Thus instead of writing off these expenses as the revenue expenses of that year in which they are incurred, they are allocated over estimated numbers of the years for which benefit will be available or allocated to the predetermined number of years. This means they are written off proportionately. This expense is known as spread expense or deferred revenue expense.

The amount written off is disclosed at the debit side of income-expenditure account. The portion of this expense, which is not written off is disclosed on the asset side at the end of the balance sheet. E.g. building colour work, ground levelling expense etc.

7. Special Issues Associated with Accounts of Non-Trading Concerns

(1) **Capital Fund or Permanent Fund :** Capital income except special fund received or income capitalized by the concern are disclosed under this head. It means they are added to the capital fund. The 'excess of income over expenditure' of income - expenditure account is added to the capital fund and 'excess of expenditure' is deducted from the capital fund.

Sometimes instead of adding 'excess of income over expenditure' to the capital fund and deducting 'excess of expenditure over income' from the capital fund it is shown separately in liability side of the balance sheet. The excess of income of the respective year is added to it and the excess of expenditure is deducted from it. Excess of income is known as 'surplus' and excess of expense is known as 'deficit'.

(2) **Subscription or Membership Fees :** Generally to continue the membership of the members, the concern regularly collects subscription or membership fees from the members. This is the main source of income for the concern. This income is treated as the revenue income and disclosed on the income side of the income – expenditure account.

(3) **Admission Fees or Entrance Fees :** To be a member of a concern new members have to pay admission fees or entrance fees. As per the provision of the constitution of the concern, entrance fees is treated as capital income or revenue income. Sometimes, as per the instructions some part of amount of the entrance fees is considered as the capital income and some part of the amount is considered as the revenue income. When no instruction is given the entrance fee income is treated as the revenue income.

(4) **Life Membership Fees :** Many members acquire life membership by paying the full amount pre-determined by the concern, instead of making payment every year to the concern. When no instruction is given the entrance fee is considered as the capital income and added to the capital fund in the balance sheet.

(5) **Donation :** Generally, donation income is treated as the capital income and added to the capital fund. If a concern, receives donation in the regular form, it is disclosed as the revenue income at the income side of the income-expenditure account. When a concern receives donation frequently and no instruction is given for the donation, in this case donation is added to the capital fund in the balance sheet.

Donation or charity received for a specific purpose will be treated as the capital income and disclosed separately as a specific fund in the balance sheet on the liability side.

(6) **Funds for Specific Purpose :** Donation or charity received for a specific purpose is used for that specific purpose only. This kind of amount of donation is not added to the capital fund in the balance sheet but disclosed as a specific fund. E.g. President Felicitation fund, prize fund, building fund etc. As and when any expense is incurred in this regard, it is not disclosed in the income and expenditure account, but it is deducted from the respective fund account on the liability side of the balance sheet. E.g. If prize fund is received, then prize expense is disclosed by deducting it from the prize fund on the liability side of the balance sheet. If the amount of fund is invested in certain types of securities, the amount of interest received is added to the respective fund.

If expense incurred is more than the specific fund amount, the amount of difference is treated as revenue expense and debited to the income expenditure account.

(7) **Legacy :** When individuals give their own assets as legacy through will in this case, respective income is added to the capital fund as capital income.

(8) **Locker's Rent :** Clubs provide facility of lockers to the members to keep sports equipments, pairs of clothes or any other belongings in an organized manner and safely. Members keep their belongings in these lockers. To provide this service, club collects rent from the members, which is known as locker's rent. Locker's rent is a revenue income for the concern.

8. Classification of Income and Expenses

Capital Income	Revenue Income	Capital Expense	Revenue Expense	Deferred Revenue Expense
(1) Life Membership Fees (2) Entrance Fees (as per instruction) (3) Donations (4) Charity (5) Legacy (6) Donation for a specific purpose (7) Sale of assets (8) Capital fund (9) Loan borrowed	(1) Subscription of members (2) Entrance Fees (as per instruction) (3) Rent received (4) Ground rent (5) Income of ground (6) Rent of Hall (7) Profit on sale of asset (8) Interest on Investments (9) Bank interest (10) Sale of old news papers (11) Income of canteen (12) Locker's rent (13) Government grant or subsidy (14) Income of lectures (15) Sale of drama tickets (16) Sale of old sports equipments (17) Small amount of donation or charity (18) Entertainment programme income	(1) Purchase of assets (Building, furnitures, ground, land, sports equipments, purchase of books) (2) Purchase of investments (3) Colour expense of new buildings (4) Expense to increase efficiency of assets (5) Expense for a specific purpose (6) Electricity connection expense (7) Expense of swimming pool (8) Purchase of X-ray machine	(1) Insurance premium (2) Rent-Taxes (3) Advertisement expense (4) Repairing expense (5) Postage expense (6) Stationery and printing (7) Salary (8) Administration expense (9) Ground maintenance expense (10) Sundry expenses (11) Entertainment programme expense (12) Expenses of Programme (13) Loss on sale of assets (14) Depreciation (15) Canteen expenses (16) Salary of grounds men (17) Telephone bill (18) Subscription of newspapers and periodicals	(1) Colouring Work expense (2) Ground levelling expenses

Now let us understand the classification of several incomes and expenses of non-trading concern from the following illustrations :

Illustration 1 : Classify the following incomes and expenses as capital income, revenue income, capital expense and revenue expense.

(1) Donation received for club pavilion (2) Electric fittings (3) Legacy (4) Purchase of sports equipments (5) Membership fees (6) Wages for machine installation (7) Donation received for tournament fund (8) Investment of prize fund in government securities (9) Books of Library (10) Rent of Hall (11) Sale of old news papers (12) President felicitation fund (13) Entrance fees (14) Sonography machine (15) Billiard table (16) Charity (17) Annual dinner programme expense (18) Sale of sports equipments (19) Subscription

of news papers (20) Electricity connection expense (21) Ground maintenance expense (22) Tournament expense (23) Club pavilion construction (24) Sports ground (25) Income of lectures (26) Building fund (27) Interest on investments (28) Painting work expense of new buildings (29) Canteen expense (30) Audit fee (31) President felicitation programme expense (32) Locker's rent (33) Entertainment programme expense (34) Life membership fees.

Ans. : Classification of incomes and expenses on the basis of their types

Capital Income	Revenue Income	Capital Expense	Revenue Expense
(1) Donation received for pavilion (3) Legacy (7) Donation received for tournament fund (12) President Felicitation fund (16) Charity (26) Building fund (34) Life membership fees	(5) Membership fees (10) Rent of Hall (11) Sale of old news papers (13) Entrance fees (18) Sale of sports equipments (25) Income of lectures (27) Interest on investments (32) Lockers rent	(2) Electric fittings (4) Purchase of sports equipments (6) Wages for installation of machine (8) Investment of prize fund in government securities (9) Books of Library (14) Sonography machine (15) Billiard table (20) Electricity connection expense (22) Tournament exp. (23) Club pavilion construction (24) Sports ground (28) Painting work expense of new buildings	(17) Annual dinner programme expense (19) Subscription of news papers (21) Ground maintenance expense (29) Canteen expense (30) Audit fee (31) When there is no president felicitation fund created, president felicitation programme expenses is treated as revenue expense. (33) Entertainment programme expense

9. Receipts - Payments Account

Generally, non trading concerns, mostly undertake their transactions in cash. Whatever summary is prepared by a non trading concern, for their cash income and cash expense done during the year, is known as receipt-payment account. This account is an abstract of cash transactions done during the year. On its Debit (left) side cash incomes and on its Credit (right) side cash payments are recorded. In this account, besides this the cash transactions with bank are also recorded. Its form is similar to the cash account / cashbook.

Points to be considered during Preparation of Receipt-Payment Account :

(1) Opening cash or bank balance is disclosed on the debit side of the receipt-payment account and if there is opening bank overdraft, it is disclosed on credit side, which is recorded as balance brought down.

(2) In this account on the debit side all the incomes received during the year in cash or by cheque are recorded and on the credit side all the payments made during the year in cash or by cheque are recorded.

(3) In this account income received and amount paid of any year are recorded.

(4) In this account capital income and revenue income, capital expense and revenue expense are recorded.

(5) In this account non cash transactions like depreciation, bad debts, unpaid expenses, outstanding incomes, credit transactions are not recorded.

(6) At the end of the year closing balance is ascertained : (i) If total of credit side is in excess, the amount of difference would appear on the debit side and is known as closing bank over draft and (ii) If total of debit side is in excess, the amount of difference would appear on the credit side and is known as closing cash balance and bank balance. It is disclosed as balance carried forward.

Specimen of Receipt – Payment Account

Receipt – Payment Account for the year ending ....

Dr Cr

Receipt	**Amt. (₹)**	**Payment**	**Amt. (₹)**
To balance b/d : Cash balance ✓		By Balance b/d (Bank overdraft)	✓
Bank balance ✓	✓	By Revenue and capital expenses of current year, previous year and nexr year paid in cash only	✓
To Revenue and Capital incomes of current year, previous year and next year received in cash only.	✓	By Amount deposited with bank	✓
To Amount withdrawn from bank	✓	By Balance c/d :	
To Balance c/d (Bank overdraft)	✓	Cash balance ✓	
		Bank balance ✓	✓
	✓✓✓		✓✓✓

Note : There can be either bank balance or bank overdraft.

Illustration 2 : From the following information of Shrey club, prepare Receipt-Payment account for the year ending 31-3-2014.

Particulars	**Amt. (₹)**	**Particulars**	**Amt. (₹)**
Cash balance (1-4-13)	30,000	Hall rent paid	6000
Bank balance (1-4-13)	40,000	Contribution of entertainment prog.	16,700
Entrance fee	15,000	Donation	21,000
Member fee : 2013-14 35,000		Donation for Pavilion	40,000
2014-15 4000	39,000	Salary	23,900
Furniture purchase	9000	Sale of old news papers	1400
Books purchase	8000	Expense of entertainment prog.	26,600
Equipments purchase	55,000	Electricity bill	7600
Subscription of news papers	2500	Sale of old furniture	4400
Lectures income	1800	(Book value ₹ 7000)	
Life time membership fee	11,000	Pavilion construction expense	28,000
		Cash balance (31-03-2014)	23,200

Ans. : **Receipt – Payment Account of Shrey Club**

for the year ending 31-3-2014

Dr Cr

Receipt	Amt. (₹)	Payment	Amt. (₹)
To balance b/d :		By Furniture purchase	9000
(opening balance 1-4-13)		By Books purchase	8000
Cash	30,000	By Equipments purchase	55,000
Bank	40,000	By Subscription of news paper	2500
To Entrance fee	15,000	By Hall rent paid	6000
To Membership fee :2013-14 35,000		By Salary	23,900
2014-15 4000	39,000	By Entertainment programme exp.	26,600
To Lectures income	1800	By Electricity bill	7600
To Life time membership fee	11,000	By Pavilion construction expense	28,000
To Contribution of entertainment prog.	16,700	By Balance c/d (31-3-'14) :	
To Donation	21,000	Cash balance	23,200
To Donation for Pavilion	40,000	* Bank balance	30,500
To Sale of old news papers	1400		
To Sale of old furniture	4400		
	2,20,300		**2,20,300**

Note : * The total of debit side of receipt – payment account is more. Thus the difference of ₹ 30,500 would appear at credit side, which discloses bank balance.

10. Income-Expenditure Account

The account which is prepared at the end of an accounting period to know the result of non trading concern is called as income – expenditure account. In this account, on the debit side all the revenue expenses of current year and on the credit side all the revenue incomes of current year are disclosed. This account is like a profit and loss account of a trading concern. Whether concern has sufficient income to meet routine expense or not, can be ascertained with the help of the income – expenditure account.

(A) Points to be Considered During Preparation of Income-Expenditure Account :

(1) On the credit side of this account, revenue incomes of current year are disclosed and on the debit side revenue expenses of the current year are disclosed.

(2) Do not consider capital expenses and capital incomes.

(3) Since account is prepared under mercantile system, revenue incomes (received of current year + outstanding of current year + received in advance during previous year) are considered. In the same manner revenue expenses (paid of current year + outstanding of current year + paid in advance during pervious year) are considered.

(4) If incomes are exceeding expenses, the closing balance is known as 'excess of income over expenditure', which is similar to the profit of a trading concern. This is added to the capital fund on the liability side of a balance sheet. If expenses are exceeding incomes the closing balance is known as 'excess of expenditure over incomes', which is similar to the loss of a trading concern. This is deducted from the capital fund on the liability side of a balance sheet.

Specimen of Income – Expenditure Account

Income – Expenditure Account for the year ending ....

Dr | | | Cr

Expense	Amt. (₹)	Income	Amt. (₹)
Revenue expenses of current year :		**Revenue income of current year :**	
To paid in cash during current year ✓		By Received in cash during current year ✓	
+ Outstanding of current year ✓		+ Outstanding of current year ✓	
+ Paid in adv. during previous year ✓		+ Received in advance during previous year ✓	
✓		✓	
Less :		Less :	
– Outstanding of previous year paid during current year ✓		– Outstanding of preious year received during current year ✓	
– Paid in advance of next year ✓ ✓	✓	– Received in advance	
To Depreciation	✓	of next year ✓ ✓	✓
To Loss on sale of asset	✓	By Profit on sale of asset	✓
To Excess of income over expenditure (In brief, excess)	✓	By Excess of Expenditure over incomes (in brief, deficit)	✓
	✓✓✓		✓✓✓

(B) Difference Between Receipt-Payment Account and Income-Expenditure Account :

Sr. no.	Points of difference	Receipt – Payment Account	Income – Expenditure Account
(1)	Meaning	A summary of cash received and cash paid prepared by a non trading concern is known as receipt – payment account.	To know the result of a concern at the end of the year, the account which is prepared is known as income – expenditure account.
(2)	Nature	Is similar to cash account.	Is similar to Profit and Loss account.
(3)	Opening Balance	Opening balance is cash balance and bank balance or bank overdraft.	No opening balance prevails.
(4)	Closing Balance	Closing balance is cash balance and bank balance or bank overdraft.	Closing balance is either excess of income over expenditure or excess of expenditure over income.
(5)	Treatment of transactions	Debit side receipts and credit side payments are recorded.	On debit side revenue expenses and on credit side revenue incomes are recorded.

Sr. no.	Points of difference	Receipt – Payment Account	Income – Expenditure Account
(6)	Effect of closing balance	Cash balance and bank balance are disclosed on the asset side of a balance sheet. Bank overdraft on the liability side.	Excess of income over expenditure is added to the capital fund and excess of expenditure over income is deducted from the capital fund. Sometimes consolidated balance of income expenditure accounts is shown separately in the balance sheet.
(7)	Time Period	Receipts – Payments of any accounting year, received during current year are recorded.	In this account revenue incomes and revenues expenditures of current year only are recorded.

(C) Factors (Points) to be Considered During Preparation of Income-Expenditure Account from Receipt-Payment Account :

Revenue incomes and revenue expenditures recorded in the receipt – payment accounts are considered for the preparation of the income – expenditure account. Moreover, the effect of related adjustments is also recorded in the income and expenditure account.

Illustration 3 : From the following information of R. K. Sports, prepare an income – expenditure account for the year ending 31-3-2015.

Particulars	Amt. (₹)	Particulars	Amt. (₹)
Subscription received	10,000	Sale of old furniture (Book value ₹ 7000)	5800
Sale of old news papers	1200		
Investment in government security	10,800	Expense of charity show	6000
Purchase of furniture	7300	Charity	15,000
Income of entertainment programme	9650	Hall rent received	3700
Building construction expense of club	38,000	Expense of entertainment prog.	6100
Legacy received	21,700	Locker rent	1400
Honorarium to Secretary	4100	Government grant	13,800
Postage	1600	Donation received for building of club	45,000
Closing cash balance and bank balance	15,900	Printing and stationary expense	2000
		Tournament expense	3300
Bank expense	600	Subscription of news paper	2800
Income of charity show	14,000	Opening cash and bank balance	1650
Ground maintenance expense	2600	Investment interest	1400
Purchase of Library books	13,300	Purchase of sports equipments	12,000
General expenses	3400	Canteen expense	2800
Life time membership fee	4500	Income from sale of sports equipments	700
Repairing expense	1750		
Entrance fee (40% to be capitalized)	6000	Annual function expense	2700

Additional information :

(1) Subscription outstanding is of ₹ 10,000.

(2) Total honorarium of secretary is payable of ₹ 14,100.

Ans. : **Income–Expenditure Account of R K Sports Club**

Dr **for the year ending 31-3-2015** Cr

Expense		Amt. (₹)	Income		Amt. (₹)
To Honorarium to Secretary	4100		By Subscription	10,000	
+ Outstanding	10,000	14,100	+ Outstanding	10,000	20,000
To Postage		1600	By sale of old news paper		1200
To bank expense		600	By Income of entertainment prog.		9650
To Ground maintenance expense		2600	By Income of charity show		14,000
To General expenses		3400	By Entrance fee		3600
To Repairing expense		1750	(40 % to be capitalized)		
To loss on sale of old furniture		1200	By Hall rent received		3700
To Expense of charity show		6000	By Locker rent		1400
To Expense of entertainment prog.		6100	By Government grant		13,800
To Printing and stationary expense		2000	By Investment interest		1400
To Tournament expense		3300	By Income from sale of sports equipments		700
To Subscription of news paper		2800			
To Canteen expense		2800			
To Annual function expense		2700			
To Excess of income over exp.		18,500			
		69,450			**69,450**

Illustration 4 : Disclose the following information in the Income – Expenditure Account for the year ending 31-3-2015 and in Balance sheet as on that day.

Subscription received in the year 2014-15 ₹ 1, 50,000.

Particulars	Dt. 1-4-2014 Amt. (₹)	Dt, 31-3-2015 Amt. (₹)
Subscription outstanding	16,000	8000
Subscription received in advance	9000	10,000

Ans. : **Income – Expenditure Account**

Dr **for the year ending 31-3-2015 (Partial)** Cr

Expense	Amt. (₹)	Income		Amt. (₹)
		By Subscription	1,50,000	
		– Outstanding (2013-14)	16,000	
		– Received in advance (2014-15)	10,000	
		+ Outstanding (2014-15)	8000	
		+ Received in advance (2013-14)	9000	1,41,000

Balance Sheet as on 31-3-2015 (Partial)

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Subscription received in advance	10,000	Subscription outstanding	8000

Illustration 5 : Disclose the following information in Income – Expenditure Account for the year ending 31-3-2015.

Dr **Receipt – Payment account for the year ending 31-3-2015** Cr

Receipt		Amt. (₹)	Payment	Amt. (₹)
To Subscription :			By Taxes and Insurance	4800
2013-14	700		By Salary	25,300
2014-15	60,000		By Stationery Expense	1750
2015-16	850	61,550		

Note : (1) Salary outstanding 2013-14 ₹ 5800
2014-15 ₹ 4200

(2) Opening stock of stationery ₹ 560 and closing stock ₹ 740.

Ans. :

Income – Expenditure Account

Dr **for the Year ending 31-3-2015 (Partial)** Cr

Expense		Amt. (₹)	Income	Amt. (₹)
To Salary	25,300		By Subscription : 2014-15	60,000
– Outstanding of previous year (2013-14)	5800			
	19,500			
+ Outstanding of current year (2014-15)	4200	23,700		
To consumption of stationery :				
Opening stock	560			
+ Purchase	1750			
	2310			
– Closing stock	740	1570		
To Taxes and Insurance		4800		

Illustration 6 : The following balances of 31-3-2015 are disclosed in the balance sheet of Ahmedabad cricket club.

Balances	Amt. (₹)	Balances	Amt. (₹)
Match Fund	40,000	Match Fund investment interest	4850
Match Fund investments	50,000	Donation received for match fund	21,000
Price distribution to match winners	6700	Permanent fund	1,25,000
Match expense	9150	Permanent fund investments	1,25,000

Ans. : **Balance Sheet of Ahmedabad Cricket Club as on 31-3-2015 (Partial)**

Liabilities			Amt. (₹)	Assets	Amt. (₹)
Permanent Fund			1,25,000	Permanent Fund Investments	1,25,000
Match fund :		40,000		Match fund investments	50,000
+ Interest on match					
fund investment	4850				
+ Donation of					
match fund	21,000	25,850			
		65,850			
Less : Price distribution					
to match winners	6700				
Match expense	9150	15,850	50,000		

Illustration 7 : There are 150 members of Mirazapur Gymkhana Club; every member pays annual subscription of ₹ 400. During the year 2013-14, 20 members have paid subscription for 2014-15. Subscription outstanding for 2013-14 was ₹ 12,000. ₹ 45,000 received for current year. Prepare Income – Expenditure Account for the year ending 31-3-2015.

Ans. : **Income – Expenditure Account of Mirazapur Gymkhana Club (Partial)**
for the Year ending 31-3-2015.

Dr Cr

Expense	Amt. (₹)	Income		Amt. (₹)
		By subscription (2014-15)	45,000	
		+ Received during previous		
		year for current year		
		(400 × 20)	8000	
		+ Outstanding	7000	60,000

Explanation : 150 members of club × ₹ 400 Subscription = ₹ 60,000 receivable subscription.

During pervious year 20 members had paid at ₹ 400 for 2014-15 (current year) (₹ 400 × 20) ₹ 8000 + ₹ 45,000 received during current year.

∴ Outstanding subscription = ₹ 60,000 – (₹ 8000 + ₹ 45,000)
= ₹ 7000

Illustration 8 : From the Receipt – Payment Account for the year ending 31-3-2015 and from other information of Andhjan Mandal, prepare an Income – Expenditure Account for the year ending 31-3-2015 and a Balance Sheet as on that day.

Receipt – Payment Account for the year ending 31-3-2015 of Andhjan Mandal.

Dr | | | Cr

Receipt	Amt. (₹)	Payment	Amt. (₹)
To balance b/d :		By Salary	4200
Cash balance	1000	By Stationery – printing	700
Bank balance	2000	By Insurance –Taxes	400
To Subscription received	7000	By Subscription of news papers	600
To hall rent	2000	By Repairing expense	500
To Interest received	1500	By purchase of Investments	2800
To Sale of old news papers	200	By purchase of books	5000
To Donation received	5000	By Balance c/d :	
To sale of old furniture		Cash balance	1900
(Book value ₹ 1000)	800	Bank balance	3400
	19,500		**19,500**

Other information :

(1) Balances as on 01-01-2014: Building ₹ 30,000, Furniture ₹ 4000, Books ₹ 10,000, Investments ₹ 40,000, Subscription outstanding ₹ 1000 and Permanent fund ₹ 88,000.

(2) Subscription received includes ₹ 500 for the year 2015-16.

(3) Subscription outstanding ₹ 700 for the year 2014-15.

(4) Interest outstanding on investment ₹ 500. (5) Salary outstanding ₹ 600.

(6) On 31-3-2015, stationery stock was of ₹ 100.

(7) 10 % provision of depreciation is to be made on the closing balance of building, furniture and books.

Ans. : Income – Expenditure Account for the year Ending 31-3-2015 of Andhjan Mandal

Dr | | | Cr

Expense		Amt. (₹)	Income			Amt. (₹)
To Salary	4200		By Subscription		7000	
+ Outstanding	600	4800	+ Outstanding of current year		700	
To Stationery-Printing	700				7700	
– Stationery stock	100	600	Less : Received			
To Insurance – Taxes		400	of previous year	1000		
To Subscription of news papers		600	Recd. of next year	500	1500	6200
To Repairing expense		500	By Hall rent			2000
To Loss on sale of furniture		200	By Interest received		1500	
To Depreciation :			+ Outstanding		500	2000
Building	3000		By Sale of old news paper			200
Furniture	300		By Excess of expenditure			1500
Books	1500	4800	over income			
		11,900				**11,900**

Balance Sheet as on 31-3-2015 of Andhjan Mandal

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Permanent Fund	88,000		Building	30,000	
+ Donation received	5000		− Depreciation	3000	27,000
	93,000		Furniture	4000	
− Excess of expenditure	1500	91,500	− Sale	1000	
over income				3000	
Subscription received in advance		500	− Depreciation	300	2700
Salary outstanding		600	Books	10,000	
			+ Purchase	5000	
				15,000	
			− Depreciation	1500	13,500
			Investments	40,000	
			+ Purchase	2800	42,800
			Subscription outstanding		700
			Interest outstanding		500
			Stationery Stock		100
			Cash balance		1900
			Bank balance		3400
		92,600			**92,600**

Illustration 9 : From the following details of Vishmay Sports club, prepare Income – Expenditure Account for the year ending 31-3-2015 and Balance Sheet as at that date.

Dr **Receipt – Payment Account for the year ending 31-3-2015** Cr

Receipt		Amt. (₹)	Payment	Amt. (₹)
To balance b/d (Bank balance			By Salary	32,500
as on 1-4-2014)		17,500	By Rent – Taxes	4500
To Subscription :			By Purchase of Stationery	2250
2013-14	450		By Purchase sports equipments	
2014-15	43,500		(1-10-2014)	15,000
2015-16	300	44,250	By Sundry Expense	6000
To Expense of entertainment		10,000	By 12% Bank deposit	
programme			(From 1-1-2015)	12,500
To Interest on 12% investment		3000	By Income of entertainment	5300
(entire year)			programme	
To Donation		5000	By Balance c/d	
To Entrance fee		1000	(Bank balance as on 31-3-2015)	3000
To Sale of old news papers		300		
		81,050		**81,050**

Additional Information :

(1) There are total 150 members of club, each member pays annual subscription of ₹ 300.

(2) Opening capital fund ₹ 67,500

(3) Salary outstanding : on 31-3-2014 ₹ 2500 on 31-3-2015 ₹ 3750.

(4) Opening stock of stationery was of ₹ 250, while closing stock was of ₹ 375.

(5) Sports equipments on 1-4-2014 were of ₹ 25,000, while their value on 31-3-2015 was of ₹ 35,000.

Ans. : Income – Expenditure Account for the year ending 31-3-2105 of Vismay Sports Club

Dr | Cr

Expense		Amt. (₹)	Income		Amt. (₹)
To Salary	32,500		By Subscription	43,500	
– Outstanding of previous year	2500		+ Outstanding	1500	45,000
Paid of current year	30,000		By Income of entertainment programme		10,000
+ Outstanding of current year	3750	33,750			
To Rent – Taxes		4500	By Interest on 12 % investment		3000
To Stationery exp. : Opening stock	250		By Interest on 12 % bank deposit (for 3 months)		375
+ Purchase of stationery	2250				
	2500		By Entrance fee		1000
– Closing stock	375	2125	By Sale of old news papers		300
To Sundry expense		6000			
To Expense of entertainment programme		5300			
To Depreciation on sports equipments		5000			
To Excess of income over expenses		3000			
		59,675			**59,675**

Balance Sheet as on 31-3-2015 of Vismay sorts club

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital fund :			**Sports Equipments :**		
Opening balance	65,700		Opening balance	25,000	
+ Donation	5000		+ Purchase	15,000	
+ Excess of income over expenditure	3000	73,700		40,000	
			– Depreciation	5000	35,000
Subscription received in advance		300	Stationery Stock		375
Salary outstanding		3750	12 % Investments		25,000
			12 % Bank deposit		12,500
			Bank balance		3000
			Subscription outstanding		1500
			Interest outstanding on 12 % bank deposit (for 3 months)		375
		77,750			**77,750**

Explanation and calculation :

(1) **Sports equipments depreciation :**

		₹
	Opening stock of sports equipments	25,000
+	Purchase during the year	15,000
=	Total	40,000
–	Closing stock of the year	35,000
=	Annual depreciation of sports equipments	5000

(2) **Calculation of investments :**

$\because$ ₹ 12 interest = ₹ 100 investment

$\therefore$ ₹ 3000 interest = ? = $\frac{3000 \quad 100}{12}$ = ₹ 25,000

(3) **Total annual subscription :**

	Total members 150 × ₹ 300 =	₹ 45,000
–	Subscription received in 2014-15	₹ 43,500
=	Outstanding subscription	₹ 1500

(4) **3 months interest on 12% bank deposit :** = $\frac{12500 \quad 12 \quad 3}{100 \quad 12}$ = ₹ 375

(5) Consumption of stationery = opening stock + purchase – closing stock

Illustration 10 : From the given below trial balance and additional information of Madhuram trust prepare an Income – Expenditure Account for the year ending 31-3-2015 and Balance Sheet as on that day.

Trial Balance as on 31-3-2015 of Madhuram Trust

Particular	Debit Balance Amt. (₹)	Credit Balance Amt. (₹)
Capital Fund	–	20,000
Cash on hand	3000	–
Bank balance	2500	–
15 % loan (1-7-2014)	–	20,000
Furniture	10,000	–
Club house	40,000	–
Taxes and Insurance	3000	–
Honorarium to Secretary	4500	–
Entrance fee (1/2 to be capitalized)	–	5000
Subscription received in advance	–	1500
Colour work expense	6600	–
Stationery – Printing	2000	–
Legal charges	500	–
Subscription	–	20,000
Repairing expense	500	–
Interest on loan	1000	–
Income of entertainment programme	–	10,000
Expense of entertainment programme	6400	–
Hall rent	–	3500
	80,000	**80,000**

Adjustments :

(1) Subscription of ₹ 1500 outstanding for the year 2014-15.

(2) Provide 5 % depreciation on club house and furniture.

(3) Closing stock of stationery is ₹ 200.

(4) Honorarium outstanding of secretary ₹ 1500.

(5) $\frac{2}{3}$ of colour work expense is to be carried forward to next year

(6) Insurance paid in advance ₹ 400.

Ans. : Income-Expenditure Account for the year ending 31-3-2015 of Madhuram Trust

Dr | Cr

Expense		Amt. (₹)	Income		Amt. (₹)
To Taxes and Insurance	3000		By Entrance fee	5000	
− Prepaid	400	2600	− 1/2 Capitalized	2500	2500
To Honorarium to secretary	4500		By Subscription	20,000	
+ Outstanding	1500	6000	+ Outstanding	1500	21,500
To colourwork expense	6600		By Income of entertainment		10,000
− 2/3 for next year	4400	2200	By Hall rent		3500
To Stationery-Printing	2000				
− Stationery Stock	200	1800			
To Legal charges		500			
To Repairing expense		500			
To Interest on loan	1000				
+ Outstanding	1250	2250			
To Expense of entertainment programme		6400			
To Depreciation :					
Club house	2000				
Furniture	500	2500			
To Excess of income over expenses		12,750			
		37,500			**37,500**

Balance Sheet as on 31-3-2015 of Madhuram Trust

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital fund	20,000		Furniture	10,000	
+ 1/2 entrance fees	2500		− Depreciation	500	9500
+ Excess of income over exp.	12,750	35,250	Club house	40,000	
15 % Loan		20,000	− Depreciation	2000	38,000
Loan interest outstanding		1250	Colour work exp. not written off		4400
Honorarium outstanding of secretary		1500	Stationery stock		200
Subscription received in advance		1500	Subscription outstanding		1500
			Prepaid insurance		400
			Cash on hand		3000
			Bank balance		2500
		59,500			**59,500**

Explanation and Calculation :

(1) **Colour work expense :** $\frac{2}{3}$ is to be carried forwarded to next year.

$\therefore \quad \frac{6600 \quad 2}{3}$ = ₹ 4400 Colour work expense not written off.

Colour work expense written off during the year= ₹ 6600 − ₹ 4400 = ₹ 2200

(2) **Interest on 15 % loan :**

Interest of 9 month from 1-7-2014 to 31-3-2015 will be calculated.

$I \; = \frac{PRN}{100} = \frac{20000 \quad 9 \quad 15}{100 \quad 12}$ = ₹ 2250 Payable interest

Interest paid on loan ₹ 1000 is disclosed in trial balance.

$\therefore$ Interest outstanding = ₹ 2250 − ₹ 1000 = ₹ 1250

(3) **Entrance fees :** Amount to be capitalized = $\frac{5000 \quad 1}{2}$ = 2500

$\therefore$ ₹ 2500 shown as revenue income on credit side of Income – Expenditure account and ₹ 2500 is shown with capital fund in balance sheet.

Illustration 11 : From the given trial balance as on 31-3-2015 and additional information of Vishwavidyalay, prepare an Income – Expenditure Account and Balance Sheet.

Trial Balance as on 31-3-2015 of Vishwavidyalay

Debit Balances	Amt. (₹)	Credit Balances	Amt. (₹)
Furniture	15,000	Tuition Fee	40,000
Purchase of Furniture during the year (1-10-14)	2000	Entrance Fee	3000
		Membership Fees	20,000
Books of library	16,000	Rent of Hall	2000
Purchase of books during the year	4000	Government grant	20,000
Building	60,000	Interest on Investment	12,000
Laboratory	40,000	Sundry incomes	800
Investments	1,20,000	Prize trust fund	31,000
Annual sports festival expense	5000	Income of prize trust fund	2200
Staff salary	48,000	Charity	25,000
Tax – Insurance	1500	Capital Fund	1,88,000
Stationery – Printing	2500		
Subscription of news papers	1000		
Bank Balance	4300		
Cash on hand	500		
Investment of prize trust fund	20,000		
Prize distribution expense	1500		
Bank balance of prize trust fund	2700		
	3,44,000		**3,44,000**

Additional information :

(1) Outstanding membership fees ₹ 5000

(2) Membership fees received in advance ₹ 1000

(3) Interest outstanding on investments ₹ 2000

(4) Salary outstanding ₹ 2000

(5) Prepaid insurance ₹ 200

(6) Tuition fees outstanding ₹ 1000

(7) Annual Depreciation provision: 20 % on library books, 10 % on laboratory, 5 % on furniture and 2 % on building.

Ans. : **Income – Expenditure Account for the year ending 31-3-2015 of Vishwavidyalay**

Dr | Cr

Expense		Amt. (₹)	Income		Amt. (₹)
To Annual Sports festival expense		5000	By Tuition Fees	40,000	
To Staff salary	48000		+ Outstanding	1000	41,000
+ Outstanding	2000	50,000	By entrance Fees		3000
To Taxes Insurance	1500		By Membership Fees	20,000	
– Prepaid	200	1300	+ Outstanding	5000	
To Stationery Printing		2500		25,000	
To Subscription of newspaper		1000	– Prepaid	1000	24,000
To Depreciation :			By Rent of Hall		2000
Books	4000		By Government grant		20,000
Furniture	800		By Interest on Investment	12,000	
Building	1200		+ Outstanding	2000	14,000
Laboratory	4000	10,000	By sundry incomes		800
To Excess of income over expenditure		35,000			
		1,04,800			**1,04,800**

Balance Sheet as on 31-3-2015 of Vishwavidyalay

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital fund	1,88,000		Building	60,000	
+ Charity	25,000		− Depreciation	1200	58,800
+ Excess of income over exp.	35,000	2,48,000	Furniture	15,000	
Prize trust fund	31,000		+ Purchase	2000	
+ Income of prize trust fund	2200			17,000	
	33,200		− Depreciation (750 + 50)	800	16,200
− Prize distribution exp.	1500	31,700	Library books	16,000	
Salary outstanding		2000	+ Purchase	4000	
Membership fees received in advance		1000		20,000	
			− Depreciation	4000	16,000
			Laboratory	40,000	
			− Depreciation	4000	36,000
			Investments		1,20,000
			Interest on investment outstanding		2000
			Investment of Prize trust fund		20,000
			Bank balance of Prize trust fund		2700
			Outstanding membership fees		5000
			Prepaid insurance		200
			Tuition Fees outstanding		1000
			Cash balance (Cash on hand)		500
			Bank Balance		4300
		2,82,700			**2,82,700**

Explanation and Calculation :

(1) **Depreciation on furniture :** Depreciation on old furniture at 5 % ₹ 15,000 = ₹ 750

New Furniture purchased on 1-10-2014, thus

Depreciation of 6 months on it = $\frac{2000 \quad 5 \quad 6}{100 \quad 12}$ = ₹ 50

∴ Total depreciation = ₹ 800

(2) Since prize trust fund is created, the income of prize trust and prize distribution fund are not recorded in the income – expenditure account. They are disclosed (Add, deduct) in the balance sheet.

Illustration 12 : From the given below Receipt – Payment Account for the year 31-3-2015 and additional information of Sahyog Dharmada hospital, prepare an Income – expenditure Account and Balance Sheet.

Receipt – Payment Account for the year ending 31-3-2015 of Sahyog Dharmada Hospital

Dr Cr

Receipt	Amt. (₹)	Payment	Amt. (₹)
To balance b/d	10,000	By medicine payment	30,000
To subscription	50,000	By Honorarium to Doctors	15,000
To donation	15,000	By salary	25,000
To interest on 10 % investments	10,000	By sundry expense	1000
To income of charity show	12,000	By equipments purchase	20,000
		By expense of charity show	2000
		By balance c/d	4000
	97,000		**97,000**

Additional information :

Particular	1-4-2014, Amt. (₹)	31-3-2015, Amt. (₹)
Subscription outstanding	800	1200
Subscription received in advance	1500	500
Stock of medicines	5000	8000
Outstanding to suppliers of medicines	6000	10,000
Equipments	20,000	30,000
Building	40,000	38,000

On 1-4-2014 capital fund was of ₹ 1,68,300. During the year medicine was purchased for ₹ 34,000.

Ans. : Income – Expenditure Account for the year ending 31-3-2015 of Sahyog Dharmada Hosital

Dr Cr

Expense		Amt. (₹)	Income		Amt. (₹)
To consumption of medicines :			By subscription	50,000	
Opening stock	5000		– Received of previous during		
+ Medicine purchase	34,000		current year (2013-14)	800	
	39,000			49,200	
– Closing stock	8000	31,000	+ Outstanding of current year		
			(2014-15)	1200	
To Honorarium to doctors		15,000		50,400	
To Salary		25,000	+ Received in advance during		
To Sundry expense		1000	last year (2013-14)	1500	
To Expense of charity show		2000		51,900	
To Depreciation :			– Received in advance during		
Equipments	10,000		current year (2014-15)	500	51,400
Building	2000	12,000	By Interest on investments		10,000
			By Income from charity show		12,000
			By Excess of expenses over income		12,600
		86,000			**86,000**

Balance Sheet as on 31-3-2015 of Sahyog Dharmada Hospital

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital fund	1,68,300		Building	40,000	
+ Donation	15,000		− Depreciation	2000	38,000
	1,83,300		Equipments	20,000	
− Excess of Expenditure Over income	12,600	1,70,700	+ Purchase	20,000	
				40,000	
Subscription received in advance		500	− Depreciation	10,000	30,000
Creditors of medicines		10,000	Subscription outstanding		1200
			Stock of medicine		8000
			Cash balance		4000
			Investments		1,00,000
		1,81,200			**1,81,200**

Explanation and calculation :

(1) Depreciation :

(i) Opening balance of equipments ₹ 20,000 + Purchase ₹ 20,000 = ₹ 40,000

− Closing balance (31-03-15) = ₹ 30,000

= Reduction in value of equipments (depreciation) = ₹ 10,000

(ii) Opening balance of building (1-4-14) = ₹ 40,000

− Closing balance (31-03-15) = ₹ 38,000

= Reduction in value of building (depreciation) = ₹ 2000

(2) Value of investments : Price of investment is not given, but interest ₹ 10,000 at 10 % is given, thus calculation will be done as follows.

∵ ₹ 10 interest = investment ₹ 100

∴ ₹ 10,000 interest = (?)

$$= \frac{10000 \cdot 100}{10}$$

= ₹ 1,00,000 investments

(3) The computation of the subscription received and the consumption of medicines is disclosed in the income – expenditure account.

Illustration 13 : From the following information prepare Income – Expenditure Account for the year ending 31-3-2015 and Balance sheet as on that date of Abhijit Sports Club.

Balance Sheet as at 31-3-2014 of Abhijit Sports Club

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Capital fund	51,000	Furniture	5000
Excess of income over expenditure	6000	Sports equipments	30,000
Subscription received in advance	1000	10 % Investments	20,000
Salary outstanding	2000	Subscription outstanding	3000
		Prepaid rent	500
		Cash balance	1500
	60,000		**60,000**

Receipt – Payment Account for the Year ending

31-3-2015 of Abhijit Sports Club.

Dr Cr

Receipt	Amt. (₹)	Payment	Amt. (₹)
To Balance b/d	1500	By Salary	8000
To Entrance fee	2000	By Rent	4500
To Subscription	25,000	By Sports – equipments	
To Interest on Investments	1500	(1-10-2014)	10,000
To Donation	2500	By Subscription of periodicals	1000
To Sale of old news papers	400	By Sundry expense	1500
To Sundry income	100	By Balance c/d	8000
	33,000		**33,000**

Additional information :

(1) At the end of the year, subscription of current year is outstanding ₹ 6000.

(2) At the end of the year, salary of current year is outstanding ₹ 1000.

(3) Subscription includes ₹ 2000 for the year 2015-16.

(4) Provide 10 % and 20 % depreciation p.a. on furniture and sports equipments respectively.

(5) Half amount of the entrance fee is to be capitalized.

Ans. : Income – Expenditure Account for the year ending 31-3-2015 of Abhijit Sports Club

Dr Cr

Expense		Amt. (₹)	Income		Amt. (₹)
To salary	8000		By entrance fees (50 %)		1000
+ Outstanding of current year			By subscription	25,000	
(2014-15)	1000		+ Outstanding	6000	
	9000		+ Received in advance	1000	
– Paid for previous year during			of current in previous year	32,000	
current year (2013-14)	2000	7000	Less :		
To rent	4500		Received of		
+ Paid in advance	500	5000	previous year 3000		
during previous year			+ Received in adv. for		
To Subscription of periodicals		1000	next year (2015-16) 2000	5000	27,000
To sundry expense		1500	By investments interest	1500	
To depreciation :			+ Outstanding		
Furniture	500		(₹ 20,000 at 10 %)	500	2000
Sports equiements	7000	7500	By sale of old news papers		400
To Excess of income over expenditure		8500	By Sundry income		100
		30,500			**30,500**

Balance Sheet as on 31-3-2015 of Abhijit Sports Club

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital Fund	51,000		Furniture	5000	
+ Donation	2500		– Depreciation	500	4500
+ Entrance fees (50 %)	1000	54,500	Sports equipments	30,000	
Excess of income over	6000		+ Purchase (1-10-14)	10,000	
expenditure (1-4-2014)				40,000	
+ Excess of income	8500	14,500	– Dep. (6000 + 1000)	7000	33,000
(2014-2015)			10 % investments		20,000
Subscription received in advance		2000	Int. outstanding on 10 % investments		500
Salary outstanding		1000	Subscription outstanding		6000
			Cash balance		8000
		72,000			**72,000**

Explanation and calculation :

(1) Excess of income over expenditure is not added to the capital fund; it is disclosed in the balance sheet separately by adding excess of income of current year to the balance of the previous year's excess of income over expenditure.

(2) In the balance sheet (2013-14) of previous year, investments of ₹ 20,000 are disclosed.

∴	Interest payable at 10 %	= ₹ 2000
–	Interest of investment received shown in receipt – payment a/c	= ₹ 1500
∴	Interest outstanding of investments	= ₹ 500

(3) Depreciation on furniture of ₹ 5000 at 10 % ₹ 500 is calculated.

(4) Depreciation on sports – equipments :

On balance 1-4-2014 of ₹ 30,000 depreciation is charged at 20 % for the whole year	= ₹ 6000
On furniture of ₹ 10,000 purchased on 1-10-14, depreciation is charged at 20 % for 6 months	= ₹ 1000
∴ Total depreciation	= ₹ 7000

Illustration 14 : From the following information of Yusuf Yuva Club, prepare Receipt – Payments Account, Income – Expenditure Account for the year ending 31-3-2015 and Balance Sheet as on that date.

(A) Balance as on 1-4-2014 :

Capital Fund ₹ 80,000, Building of club ₹ 40,000, investments ₹ 15,000, library books ₹ 20,000, cash balance ₹ 4000, salary outstanding ₹ 1000. Subscription outstanding ₹ 2000.

(B) **Cash Transactions for the year 2014-15**

Particular	Amt. (₹)	Particular	Amt. (₹)
Subscription received	33,000	Festivity income	12,000
Salary	15,000	Purchase of furniture (1-7-2014)	10,000
President Facilitation fund contribution	22,000	Donation	10,000
Entrance fee	5000	Government aid	10,000
Sale of old news papers	500	Stationery and printing	3000
Refreshment expense	1000	Repairing expense of club building	6000
Annual function expense	5000	Purchase of investment	15,000
Resident felicitation expense	12,000	Purchase of books (1-10-14)	20,000
Subscription of periodicals	3000	Interest on investments	2500
Festivity expense	7000		

(C) Other information :

(1) Subscription of ₹ 1000, for the year 2015-16 is included in subscription received.

(2) Subscription outstanding for current year ₹ 1500

(3) Salary outstanding ₹ 3000

(4) 50 % of entrance fees is to be transferred to the capital fund.

(5) Write off depreciation at 10 % p.a. on building, furniture and books.

Ans. : **Receipt - Payment Account for the year ending 31-3-2015 of Yusuf Yuva Club.**

Dr Cr

Receipt	Amt. (₹)	Payment	Amt. (₹)
To Balance b/d	4000	By salary	15,000
To Subscription received	33,000	By Refreshment expense	1000
To President Felicitation fund	22,000	By annual Function expense	5000
contribution		By President felicitation expense	12,000
To Entrance fee	5000	By Subscription of periodicals	3000
To Sale of old news papers	500	By Festivity expense	7000
To Festivity income	12,000	By furniture purchase (1-7-2014)	10,000
To Donation	10,000	By Stationery and printing	3000
To Government aid	10,000	By Repairing exp. of club building	6000
To Interest on investment	2500	By purchase of investments	15,000
		By purchase of books (1-10-2014)	20,000
		By Balance c/d	2000
	99,000		**99,000**

Income - Expenditure Account for the year ending 31-3-2015 of Yusuf Yuva Club

Dr Cr

Expense		Amt. (₹)	Income		Amt. (₹)
To Salary	15,000		By Subscription	33,000	
− Paid of previous year			− Received of previous year		
(2013-2014)	1000		(2013-2014)	2000	
	14,000			31,000	
+ Outstanding of current year	3000	17,000	− Received in advance of		
To refreshment expense		1000	current year (2015-2016)	1000	
To annual function expense		5000		30,000	
To Subscrition of periodiclas		3000	+ Outstanding of current		
To Festivity expense		7000	year (2014-2015)	1500	31,500
To stationery and printing		3000	By entrance fees (50 %)		2500
To depreciation :			By sale of old news papers		500
Building	4000		By Festivity income		12,000
Furniture	750		By Government aid		10,000
Books	3000	7750	By Interest on investments		2500
To Building repairing expense		6000			
To Excess of income over expenditure		9250			
		59,000			**59,000**

Balance Sheet as on 31-3-2015 of Yusuf Yuva Club

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Capital Fund	80,000		Clubs building	40,000	
+ Donation	10,000		− Depreciation	4000	36,000
+ Entrance fees	2500		Furniture	10,000	
+ Excess of income over exp.	9250	1,01,750	− Depreciation (9 months)	750	9250
President felicitation	22,000		Books	20,000	
contribution			+ Purchase	20000	
− President felicitation exp.	12,000	10,000		40,000	
Subscription received in advance		1000	− Depreciation (2000 + 1000)	3000	37,000
Salary outstanding		3000	Investments	15,000	
			+ Purchase	15,000	30,000
			Subscription outstanding		1500
			Cash balance		2000
		1,15,750			**1,15,750**

Exercise

1. Select appropriate option for each question :

(1) What kind of concern has not the aim of profit generation but to undertake activity of welfare and to provide service to members?

(a) Company (b) Government

(c) Trading (d) Non – trading

(2) Receipt – Payment Account is similar to .... Account. While Income – Expenditure Account is similar to .... Account.

(a) Profit and Loss, Cash (b) Balance Sheet, profit and Loss

(c) Profit and Loss, Balance Sheet (d) Cash, Profit and Loss

(3) Where are the capital type expenses disclosed ?

(a) Asset side of balance sheet. (b) Liability side of balance sheet.

(c) Debit side of Income – Expenditure A/c (d) Debit side of Receipt-Payment A/c

(4) A significant expense of painting work is a .... kind of expense.

(a) Revenue Expense (b) Capital Expense

(c) Deferred Revenue Expense (d) Administration Expense

(5) Where to record capitalized income?

(a) Debit side of Income – Expenditure Account

(b) Credit side of Income – expenditure Account

(c) Added to Capital fund in balance sheet

(d) Deducted from capital fund in balance sheet.

(6) What is credit balance of Income – Expenditure Account?

(a) Excess of income over expenditure (b) Excess of expenditure over income

(c) Opening cash / bank balance (d) Closing cash / bank balance

(7) In which account interest on investments of permanent fund will be recorded?

(a) Will be added to permanent fund in Balance Sheet.

(b) Will be added to capital fund in balance sheet.

(c) Will be added to investments of permanent fund in balance sheet.

(d) Will be recorded at the credit side of the Income – Expenditure Account.

(8) Where will the prizes distribution recorded?

(a) Debited to Income – Expenditure Account.

(b) Debited to Receipt-Payment Account.

(c) Deducted from prize fund in Balance Sheet.

(d) Deducted from prize fund investments in Balance Sheet.

(9) The Credit balance of receipt and payment account of non-trading concern is ....

(a) Bank balance (b) Cash balance

(c) Bank overdraft (d) Excess of income over expenditure

(10) The accounting treatment of depreciation is not recorded in ....

(a) Receipt-payment account (b) Income-Expenditure account

(c) Balance sheet (d) All of the above three

2. Answer the following questions in one Sentence :

(1) In which account only cash transactions is recorded ?

(2) What kind of income a Charity is ?

(3) What is the debit balance of income-expenditure account called ?

(4) What kind of expense is that which is incurred to pay fixed asset for business ?

(5) What kind of income is that which is regularly received and arise from routine activities ?

(6) What is non-trading concern ? Give its illustrations.

(7) Which are different main methods to maintain accounts of non-trading concern ?

(8) What is mainly prepared in the accounts of non-trading concern ?

(9) What is legacy ? Where is it recorded ?

3. (A) Write short notes :

(1) Specific purpose fund (2) Deferred revenue expense

(3) Receipt-payment account (4) Income-Expenditure Account (5) Subscription

(B) Explain differences :

(1) Accounts of trading concern and Accounts of non-trading concern.

(2) Capital income and Revenue income

(3) Capital expense and Revenue expense.

(4) Receipt-Payment Account and Income-Expenditure Account.

4. Explain classification of incomes of a non-trading concern with illustrations.

5. Explain classification of expenses of a non-trading concern with illustrations.

6. Explain the meaning of receipt-payment account. Write the points to be considered for the preparation of it.

7. Explain the meaning of Income-Expenditure Account. Write the points to be considered for the preparation of it.

8. Do as directed :

(1) Classify the following details into revenue income, capital income, revenue expense, and capital expense :

(1)	Membership Fee	(2)	Prize Fund
(3)	Life Membership Fee	(4)	Legacy
(5)	Donation	(6)	X'ray machine
(7)	Investment of prize fund	(8)	Subscription of periodicals
(9)	Annual day expense	(10)	Purchase of sports equipment
(11)	Ground maintenance expense	(12)	Sale of tickets of drama
(13)	Expense of drama	(14)	Government aid (subsidy)
(15)	Rent of locker	(16)	Purchase of national savings certificate
(17)	Machine installation wages and expense	(18)	Annual meal expense
(19)	Contribution for annual meal	(20)	Entertainment Programme income
(21)	Annual Function expense	(22)	Sale of sports equipments
(23)	Purchase of billiard table	(24)	Repairing expense
(25)	Entrance fee	(26)	Expense to bring an old asset in operation
(27)	Loss on sale of assets	(28)	Interest on Investments
(29)	Canteen income	(30)	Depreciation of asset.
(31)	Charity	(32)	Purchase of HDFC bond
(33)	President Felicitation fund	(34)	President Felicitation expense

(2) Disclose the following information in the Income-Expenditure Account ending on 31-03-2015 and Balance Sheet as of that day. Subscription received in the year 2014-15 is ₹ 80,000.

Particulars	1-4-2014, Amt. (₹)	31-3-2015, Amt. (₹)
Subscription outstanding	12,000	15,000
Subscription received in advance	8000	6000

(3) Disclose the following information in Income-Expenditure account for the year ending 31-3-2015.

Receipt – Payment Account for the Year ending 31-3-2015

Dr Cr

Receipt		Amt. (₹)	Payment	Amt. (₹)
To Subscription :			By Taxes and Insurance	6500
2013-14	1200		By Salary	32,800
2014-15	75,000		By Stationery Expense	2500
2015-16	1650	77,850		

Note : (i) Salary outstanding 2013-14 : ₹ 3000, 2014-15 : ₹ 6300.

(ii) Opening stock of stationery ₹ 670 and closing stock ₹ 250.

(4) Disclose the following balances in the Balance Sheet of Vinayak cricket Club.

Balances of Accounts	Amt. (₹)	Balances of Accounts	Amt. (₹)
Match Fund	70,000	Interest on match fund investment	4000
Investments of Match fund	35,000	Donation received for match fund	16,000
Prize distribution to match winners	5700	Permanent fund	1,05,000
Match Expense	8250	Investments of Permanent fund	1,05,000

(5) Income of subscription ₹ 45,000 is disclosed in the Income-Expenditure account for the year ending 31-3-2015. Other details of subscription are as follows :

Particulars	31-3-2014, Amt. (₹)	31-3-2015, Amt. (₹)
Subscription outstanding	2700	3600
Subscription received in advance	1800	900

Disclose the amount of subscription in the receipt-payment account for the year ending 31-3-2015.

(6) How would you disclose the following details on 31-3-2015, during the preparation of annual accounts ?

Balance Sheet as on 01-04-2014

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Creditors for sports equipments	300	Sports Equipments	400

Receipt Payment - Account for the year ending 31-3-2015

Dr | Cr

Receipt	Amt. (₹)	Payment	Amt. (₹)
To Sports equipments	180	By Sports equipments	7000

Additional information : Sports equipments on hand on 31-3-2015 ₹ 1100.

9. From the following given information, prepare a receipt-payment account for the year ending 31-3-2015 of Omkar club.

Particulars		Amt. (₹)	Particulars	Amt. (₹)
Donation for club pavallion		70,000	Sale of old Furniture	1000
Entrance Fees (40% capitalized)		3000	(Book value ₹ 750)	
Membership fees :			Cash balance (1-4-2014)	3000
2014-15	20,000		Bank balance (1-4-2014)	2000
2015-16	5000	25,000	Rent of Hall paid	2000
Income of lectures		3000	Salary	10,000
Dinner party expense		4000	Subscription of newspapers	2000
Club pavilion construction expense		60,000	Sale of old news papers	500
Electricity expense		1000	Charity	8000
Purchase of Furniture		5000	Dinner party contribution	5000
Life membership fee		4000	Purchase of national saving certi.	20,000
			Purchase of sport equipments	15,000
			Cash balance (31-3-2015)	1000

Additional information :

(1) Salary outstanding ₹ 10,000

(2) Provide 10 % depreciation on sports equipments.

(3) Subscription outstanding ₹ 2500.

(4) Prepaid hall rent ₹ 500.

10. From the following information prepare an Income-Expenditure Account for the year ending 31-3-2015 of Divya cricket club.

Particulars		**Amt. (₹)**	**Particulars**	**Amt. (₹)**
Cash balance (1-4-2014)		30,000	Tournament fee received	1,35,000
Bank overdraft (1-4-2014)		24,000	Ground maintenance expense	27,000
Subscription received :			Donation received	1,20,000
2014-15	84,000		Honorarium to secretary	36,000
2015-16	6000	90,000	Sale of Memoir	72,000
Remuneration to cricket coach		36,000	Donation received for tournament	1,20,000
Salary of grounds men		15,000	Investment of tournament fund	1,20,000
Purchase of sports Equipments			Expense of 'Kavi Sammelan'	42,000
(1-10-2014)		1,08,000	Stationery expense	15,000
Entrance fees (60% to be capitalized)		36,000	Repairing expense	18,000
Subscription from members			Bank interest received	3000
participating in sports		24,000	Tournament expense	96,000
Wicket preparation expense		18,000	Empire fee	24,000
Tournament prize distribution expense		54,000	Main club affiliation fee	12,000
Income of 'Kavi Sammelan'		75,000	Taxes-Insurance	12,000
Memoir printing expense		24,000	Int. on invest. of tournament fund	30,000

Additional information :

(1) Prepaid insurance is ₹ 2400.

(2) Subscription outstanding from members participating in sports ₹ 6000.

(3) Subscription outstanding from members for current year ₹ 6000.

(4) 10 % depreciation p.a. is to be provided on sports equipments.

(5) Salary outstanding is ₹ 3000.

11. From the following information of Surbhi Club, prepare a receipt-payment and an income-expenditure account.

Particulars	**Amt. (₹)**
Subscription (including ₹ 30,000 of 2013-14)	3,00,000
Outstanding at the end of year	20,000
Donation (revenue)	30,000
Purchase of furniture	70,000

Particulars	Amt. (₹)
Purchase of sports equipments	40,000
Subscription of news papers	15,000
Sale of old furniture (Book value ₹ 5000)	2000
Opening cash and Bank balance	60,000
Rent paid	28,000
Bank expense	1000
Stationery & printing (inclusive a bill of ₹ 5000 of previous year)	20,000
Entrance fees (50 % to be capitalized)	20,000
Legacies	50,000
Honorarium to secretary (Inclusive ₹ 4000 of previous year)	48,000
Honorarium outstanding	4000
Postage and Telephone	10,000
Sundry Expenses	10,000
Income of cultural programme	80,000
Expenses of Cultural Programme	60,000
Depreciation written off on furniture	5000
Purchase of investment	1,00,000
Interest on investments	7000

12. From the following information of Sanket sports club for the year ending 21-3-2015, prepare an Income Expenditure account for the year ending on that date.

Receipt & payment account for the year ending 31-3-2015

Dr Cr

Receipt	Amt. (₹)	Payment	Amt. (₹)
To balance b/d	8000	By Salary	24,000
To subscription	50,000	By Drama Expense	10,000
To entrance Fees	4000	By General Expense	6000
To Annual Function income	10,000	By Audit Fees	2000
To Sale of scrap of old sports		By Sports equipments	17,000
equipments	2000	By Honorarium to Secretary	5000
To Donation for sports prizes	10,000	By Stationery-printing	4000
To sale of tickets of Drama	20,000	By Annual function expense	8000
		By bank interest expense	1000
		By tournament expense	5000
		By Ground maintenance expense	6000
		By Repairing expense	3000
		By sports prizes distribution	3000
		By Balance c/d	10,000
	1,04,000		**1,04,000**

Adjustments :

(1) Subscription includes, subscription of ₹ 2000 for the year 2015-16.

(2) Subscription outstanding ₹ 3000 for the year 2014-15.

(3) General expenses include, prepaid insurance of ₹ 500.

(4) Salary outstanding ₹ 2000.

(5) Depreciation on sports equipments is to be provided ₹ 3000.

(6) 50 % of entrance fees is to be capitalized.

(7) Stationery stock ₹ 200.

13. From the Receipt-Payment account for the year ending 31-3-2015 and other given information of Sheela Mahila Vikas Mandal, prepare an Income Expenditure Account for the year ending 31-3-2015 and the Balance Sheet as of that day.

Receipt & Payment Account of Sheela Mahila Vikas Mandal
for the year ending 31-3-2015

Dr Cr

Receipt		Amt. (₹)	Payment		Amt. (₹)
To balance b/d			By Salary		12,600
Cash balance	6000		By Stationery – Printing		2100
Bank balance	3000	9000	By Insurance-Taxes		1200
To Subscription received		21,000	By Subscription of newspapers		1800
To Interest received		6000	By Repairing expense		1500
To Donation received		15,000	By Purchase of Investments		8400
To sale of old furniture			By purchase of books		15,000
(Book value ₹ 3000)		2400	By balance c/d :		
To Rent of Hall		4500	Cash balance	5700	
To Sale of old news papers		600	Bank balance	10,200	15,900
		58,500			**58,500**

Other Information :

(1) Balances as on 1-4-2014 :

Building ₹ 90,000, Furniture ₹ 12,000, Books ₹ 30,000, Investments ₹ 1,20,000, Subscription outstanding ₹ 3000 and permanent fund ₹ 2,64,000.

(2) Subscription included ₹ 1500, subscription of the year 2015-16.

(3) Subscription outstanding for the year 2014-15 ₹ 2100.

(4) Salary outstanding ₹ 1800.

(5) Unused Stationery on 31-3-2015 was of ₹ 300.

(6) Provide 10 % depreciation on closing balance of Building, Furniture and Books.

(7) Interest outstanding on investment ₹ 1500.

14. From the following information of Pankaj Sports Club, prepare an Income-Expenditure Account for the year ending 31-3-2015 and Balance Sheet as of that date.

Receipt & Payment Account of Pankaj Sports Club as on 31-3-2015

Dr Cr

Receipt		Amt. (₹)	Payment	Amt. (₹)
To balance		87,500	By Salary	1,62,500
(1-4-2014 Bank balance)			By Rent taxes	22,500
To Subscription :			By Stationery purchase	11,250
2013-14	2250		By purchase of Sports equipment	75,000
2014-15	2,17,500		(1-10-2014)	
2015-16	1500	2,21,250	By sundry expense	30,000
To Income of entertainment		50,000	By 12 % Bank deposit	62,500
programme			(from 1-1-2015)	
To Interest on 12 % Investments		15,000	By Expense of entertainment	26,500
(for entire year)			programme	
To donation		25,000	By Balance c/d	15,000
To entrance Fees		5000	(Bank balance as on 31-3-2015)	
To Sale of old news papers		1500		
		4,05,250		**4,05,250**

Additional information :

(1) There are 300 members of club, each member pays annual subscription of ₹ 750.

(2) Opening capital fund is of ₹ 3,28,500.

(3) Outstanding salary on 31-3-2014 ₹ 12,500 and on 31-3-2015 ₹ 18,750.

(4) Opening stock of stationery was of ₹ 1250 while at closing stock was of ₹ 1875.

(5) The value of sports equipment was of ₹ 1,25,000 on 1-4-2014 while ₹ 1,75,000 on 31-3-2015.

15. From the given below trail balance of Suresh Youth Club prepare an Income-Expenditure Account and a Balance Sheet as of that day.

Trail Balance as on 31-3-2015 of Suresh Youth Club

Name of Account	L.F.	Debit (₹)	Credit (₹)
Colour work Expense		9000	–
Stationery-Printing		2000	–
Capital Fund		–	36,000
Donation received		–	2000
Cash Balance		3000	–
Bank Overdraft		–	1000
12 % Loan (from 1-4-2014)		–	15,000
Furniture		8000	–

Name of Account	L.F.	Debit (₹)	Credit (₹)
Building of Club		35,000	–
Lifetime Subscription		–	2000
Taxes-Insurance		2500	–
Honorarium to Secretary		6000	–
Entrance Fees		–	6000
Sports equipments		10,000	–
Subscription received in advance		–	2000
Salary wages		9000	–
Outstanding salary		–	1000
Legal expenses		600	–
Subscription		–	25,000
Interest on loan		900	–
Electricity expense		1000	–
Electric fittings		4000	–
Locker rent		–	1000
		91,000	**91,000**

Adjustment :

(1) Subscription outstanding ₹ 2000 for the year 2014-15.

(2) $\frac{2}{3}$ Colour work expense is to be carried forward to next year.

(3) Unused stationery is of ₹ 100.

(4) Provide 10 % depreciation on building, sports equipments and furniture of club.

(5) Consider amount of donation as revenue income.

(6) Prepaid insurance is of ₹ 200.

16. From the trial balance as on 31-3-2015 and additional information of Kankuba Jivabhai Parivar Adarsh Vidyalaya given below, prepare an Income-Expenditure Account and a Balance Sheet.

Trail balance as of 31-3-2015 of Kankuba Jivabhai Parivar Adarsh Vidalaya

Debit Balance	Amt. (₹)	Credit Balance	Amt. (₹)
Building	62,500	Capital Fund	1,15,000
Furniture	29,000	Donation	30,000
Laboratory	25,000	Creditors of Stationery	1000
12 % Investments (31-3-2015)	25,000	Tuition Fees	62,500
Library	25,000	Entrance Fees	750
Salary	40,000	Rent of Hall	1250
Stationery	6500	Sundry income	250
Annual sports day expense	3000	Government grant	7500
Cash balance	500	Sale of old Furniture (1-10-2014)	1750
Bank balance	3500		
	2,20,000		**2,20,000**

Additional information :

(1) 50 % entrance fees is to be capitalized.

(2) Tuition fees outstanding of ₹ 1500.

(3) Salary outstanding is of ₹ 6000.

(4) Book value of furniture sold is ₹ 2500.

(5) Provide 10 % depreciation on furniture and library 20 % on laboratory and 5 % on building.

17. Receipt Payment account for the year ending 31-3-2015 of Shardaben Hospital is as follows :

Receipt Payment Account for the year ending on 31-3-2015 of Shardaben Hospital

Dr Cr

Receipt	Amt. (₹)	Payment	Amt. (₹)
Cash on hand	3000	By operation theatre construction exp.	60,000
To subscription	75,000	By Purchase of medicines	42,000
To Donation	37,500	By Honorarium to doctors	37,500
To Interest on investments	7500	By salary	27,000
To charity show income	15,000	By sundry expense	750
To special donation for	75,000	By Equipments purchase	33,000
operation theatre		By Charity show expense	4500
To Government aid	22,500	By periodicals subscription	4500
To sale of old newspapers	750	By fixed deposit with bank	22,500
		By Cash on hand	4500
	2,36,250		**2,36,250**

Other Information :

Particulars	1-4-2014 Amt. (₹)	તા. 31-3-2015 Amt. (₹)
Subscription outstanding	450	750
Subscription received in advance	150	300
Stock of medicines	9000	10,500
Cost of Equipments	52,500	78,000
Building less depreciation	60,000	57,000
Investments	37,500	37,500
Capital Fund	1,62,300	(?)

From the above given receipt-payment account and additional information, prepare an income-expenditure account for the year ending 31-3-2015 and a balance sheet as on that day.

18. From the information given below of Jamnadas trust, prepare an income-expenditure account for the year ending 31-3-2015 and a balance sheet as on that date.

Balance Sheet as on 31-3-2014 of Jamnadas trust

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Capital fund	1,08,000	Land-Building	1,20,000
Excess of income over expenditure	20,000	Cash balance	40,000
Subscription received in advance	2400	Subscription outstanding	1520
Unpaid expense	5600	Locker rent outstanding	960
6 % loan	20,000		
Income expenditure account	6480		
	1,62,480		**1,62,480**

Receipt – Payment Account for the year ending 31-3-2015 of Jamnadas trust

Dr Cr

Receipt		Amt. (₹)	Payment		Amt. (₹)
To balance b/d		40,000	**By Expense :**		
To Subscription :			2013-14	4800	
2013-14	800		2014-15	8000	12,800
2014-15	8400		By Furniture (1-10-2014)		16,000
2015-16	600	9800	By Interest on loan		600
To Entrance fees		3200	By Refreshment expense		9000
To Locker rent		2800	By Balance c/d		33,400
To Refreshment income		16,000			
		71,800			**71,800**

Adjustment :

(1) Subscription outstanding for the year 2014-15 ₹ 3200.

(2) Expenses outstanding for the year 2014-15 ₹ 1000.

(3) Salary outstanding ₹ 2000.

(4) Provide 5 % p.a. depreciation on land-building and 10 % p.a. on furniture.

(5) 50 % of entrance fees is to capitalized.

(6) Locker rent outstanding for the year 2014-15 ₹ 360.

(10)

Accounts from Incomplete Records

1. Introduction

Normally to prepare accounts, in Trading units / Business units they are given two effect for all economical (monetary) transactions. By this, all accounts are prepared in a business by Double Entry accounting method. Some small traders like hawkers, sole traders, small shopkeepers or small retailers do not keep the accounts completely as per double entry accounting system, because their utility of keeping the books of accounts is very limited. Like what is the profit or loss ? How much cash balance is there at the end of the day or month ? What amount is due from the others ? What amount is due to the others ? etc. They are not given double entry effect (two effect) for every economical transactions. For some transactions they are given only one effect in the books as per their requirements.

So, small traders keep the accounts or books with incomplete records. These accounts being in incomplete form, are known as Accounts from Incomplete Records. It is also known as single entry system.

2. Meaning of Single Entry System

Small traders do not maintain complete accounts as in double entry system. Instead of this they keep only cash book and ledger and record transactions relating to cash and personal accounts only. In this system double effect may not be given to each transaction of business. As per requirement of the business only one effect is given to some transactions, hence it is known as single entry system. In fact, single entry system is not an independent method of keeping books of accounts.

3. Characteristics of Single Entry System

(1) **Principles of Double Entry System :** In a single entry system when a businessman has given two effects to any transaction, then he followed the principle of double entry system. e.g. Goods or Assets comes in, it is debited and if it goes out, it is credited.

(2) **Small Retailers :** Normally only sole trader, small shopkeepers and small retailers keep their books as per this system.

(3) **Mixture of Single Entry and Double Entry :** In this method, all transactions are not recorded with single effect. Some transactions are recorded with one effect where others are recorded with double effect.

(4) **Books as per requirement :** Traders keep a few books of accounts like cash book and ledger as per their requirement.

(5) **There is no uniformity :** In this method, there is no uniformity in methods or systems for preparation of an account by traders. Some keep only cash book while the others prepare subsidiary books also.

(6) **Incomplete records :** In this method, there is no complete record of every transactions by a trader. Some transactions are recorded incompletely. This means only one effect has given to the accounts.

(7) **Entry for internal transactions :** In this method, there is no effect (or entry) for internal transaction of business. e.g. depreciation on assets, interest on capital etc.

4. Uses of Single Entry System

(1) **Limited Object :** This method is very useful for small traders like hawkers, small retailers or small shopkeepers because the utility to prepare the accounts is limited.

(2) **Less Expensive and Less Time :** In this method all accounts are not prepared as per double accounting method. So accounts are prepared with less expense and less time.

(3) **Limited Books :** Small traders keep the books as per their business requirement. Normally they prepare only personal accounts but they do not prepare real accounts and income and expenditure accounts. So, it requires limited books.

5. Limitations of Single Entry System

(1) **Trial Balance can not be Prepared :** As dual effect of all the transactions is not recorded by the businessmen, trial balance can not be prepared. Hence, it is not possible to check the arithmetical accuracy of the accounts.

(2) **Profit or Loss can not be Ascertained :** As income and expense accounts are not prepared, it is not possible to know the profit or loss at the end of the year like double entry system.

(3) **Final Accounts can not be Prepared :** In this method as assets accounts are not kept and trial balance is also not prepared, it is not possible to prepare final accouints. It is also not possible to know the true and fair financial position of the business.

(4) **Difficulty in Making Decisions :** Due to inadequate information, difficulties arise in making decisions like determining purchase price of the business, taking a loan, taking an insurance etc.

(5) **Possibilities of Errors, Fraud or Manipulation in Accounts :** There is no control in this method like in the double entry system. So, there are more possibilities of errors, fraud or manipulation in accounts.

(6) **Lack of Acquisition of Accurate Information about the Trading Operations :** It is not possible to get the accurate information about the trading operations because complete records are not kept for all transactions. Hence, it creates problems in trading operation.

(7) **Reliability :** This method is incomplete; so it is not reliable. Hence, accounts by this method are not considered reliable by banks, insurance companies, departments of government or taxation department.

6. Difference Between Single Entry System and Double Entry System

No.	Point of Difference	Single Entry	Double Entry
(1)	Effect of Transaction	Every transaction does not have two effects.	Every transactions have too effects.
(2)	Ledger Accounts	Normally, personal accounts are maintained in the ledger.	All accounts are maintained in the ledger.
(3)	Trial Balance	Trial balance can not be prepared.	Trial balance can be prepared.
(4)	Profit or Loss	As profit and loss account is not prepared, true profit or loss can not be known.	By preparing profit and loss account correct profit or loss can be ascertained.
(5)	True and fair view concept	As the Balance sheet can not be prepared carefully, true and fair view of economical condition of a business can not be found.	Balance sheet can be prepared carefully, so true and fair view of economical condition of a business can be found.
(6)	Who prepares ?	Small businessmen, hawkers, street vendors etc. prepare accounts under this system.	Businessmen, firms, companies etc. prepare accounts under this system.
(7)	Information	As this system is incomplete, necessary information is not available.	This system being complete, necessary information is available.
(8)	Control	It is not possible to keep control over activities of business in this method.	Under this system, it is possible to keep control over various activities of business.
(9)	Decision Making	Due to insufficient record of information, important decisions cannot be made.	Due to sufficient record of information, important decisions can be made.
(10)	Reliability	This system is not reliable because it's incomplete. Banks, Insurance, companies, government authorities or taxation department do not consider this accounting method valid.	This system is reliable because it's complete. Banks, insurance companies, government authorities or taxation department consider this accounting method valid.

7. Calculation of Profit or Loss Under Single Entry System of Accounting

When accounts are prepared under single entry system, to find profit or loss, the two methods mentioned hereafter are used :

(1) Statement of affairs or Capital Comparison Method

(2) Conversion of single entry into double entry.

We are expected to study only first method. i.e. 'Statement of affairs method' as per syllabus. Hence, the discussion regarding how to find profit or loss is explained hereafter.

Statement of Affairs Method (Capital Comparison Method) : As per this method, to find out profit or loss in any trading or business unit, opening capital and closing capital are compared at the year end. If closing capital is more, the difference is treated as profit and if closing capital is less, the difference is treated as loss.

If the amount of opening capital is not given, opening statement of affairs is prepared to find out the same. Similarly, if closing capital is not given, closing statement of affairs is prepared. Therefore, this method is also called 'Statement of affairs' method.

8. What is Statement of Affairs ?

This statement is like balance sheet, on left side liabilities and payables are shown and assets and receivables are shown on the right side.

After having deduction of all debts (excluding capital) from the total of assets side, the arised difference is known as capital.

By showing opening balances of assets, receivables and liabilities in opening statement of affairs, the arised difference is known as opening capital. Similarly by showing closing balances of assets, receivables and liabilities in closing statement of affairs, the arised difference is known as closing capital.

9. Difference Between Statement of Affairs and Balance Sheet

Statement of affairs and balance sheets are the statements that present the economic condition of a business on a specific date. But there are certain differences between the two; mentioned as under :

No.	Point of Difference	Statement of Affairs	Balance Sheet
(1)	Amount	This statement is prepared by balances and estimated values from incomplete records as per single entry system.	This statement is prepared an account of complete records and from the amount of systematic records of double entry system.
(2)	Trial Balance	Trial balance can't be prepared in single entry system. Hence arithmetical accuracy can't be verified.	Before preparing this statement, arithmetical accuracy can be verified by preparing trial balance.
(3)	Financial Picture of Business	A clear picture of the actual financial position of business can not be ascertained from this statement.	This statement shows true and fair view of financial position of business.

No.	Point of Difference	Statement of Affairs	Balance Sheet
(4)	Reliability	The particulars and amounts shown in this statement are not reliable.	The information and amount shown in this statement, are reliable.
(5)	Informations or Particulars	In this statement, the information about the financial position of business may not be complete.	In this statement, the information or particulars are complete.

10. Specimen of Statement of Affairs

The specimen of statement of affairs is as under :

Statement of Affairs of Shri .... as on ....

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Liabilities other than capital :		Land and building	✓
Bank loan	✓	Machinery	✓
Mortagaged loan	✓	Furniture	✓
Creditors	✓	Debtors	✓
Bill payable	✓	Bills receivable	✓
Bank overdraft	✓	Cash balance	✓
Outstanding expenses	✓	Bank balance	✓
Income received in advance	✓	Prepaid expenses	✓
Capital : Difference amount of total amount of assets side less amount of total liabilities other than capital	✓	Income due	✓
Total ₹	✓✓✓	Total ₹	✓✓✓

11. Ascertainment of Profit or Loss by Capital Comparison Method (Statement of Affairs Method)

Following steps are to be followed for ascertainment of profit or loss and also for the preparation of balance sheet by capital comparison method.

(1) First of all prepare opening statement of affairs to find out opening capital.

(2) Prepare closing statement of affairs to find out closing capital.

(3) Prepare statement showing profit or loss as per specimen given as under to find out net profit or loss with adjustments.

(4) Prepare balance sheet after considering the adjustments or any rectification / changes.

The statement given on next page as per specimen can be used to find profit or loss :

Statement Showing Profit or Loss of Shri .... for the Year Ended ....

Particulars	Amount (₹)	Amount (₹)
Closing capital	✓	
Add : (1) Cash withdrawn	✓	
(2) Goods withdrawn	✓	
(3) Personal expenses paid from the business e.g., Life insurance premium, income-tax etc.	✓	
	✓	✓
Less : (1) Opening capital	✓	
(2) Additional capital brought during the year	✓	✓
Profit before adjustments		✓
Less : Adjustments :		
(1) Depreciation on assets	✓	
(2) Interest on capital	✓	
(3) Interest on loan	✓	
(4) Bad debts, bad debts reserve or discount reserve	✓	✓
Add : Interest on drawings		✓
Net Profit / Loss		✓✓✓

The following points may be considered to give effects of adjustments :

(1) **Depreciation on Assets :** The depreciation on opening balance of the assets is calculated for the whole year. Depreciation on assets purchased or sold during the year is calculated in proportion of time from the given date.

(2) **Interest on Capital :** Interest on opening capital is calculated for the whole year while on additional capital, it is calculated from the date of the capital is brought in the business.

(3) **Interest on Loan :** Interest on loan is calculated on the basis of the duration of the use of loan in business. Interest on partner's loan is taken as per the information given or it is calculated at 6 %, which is compulsory.

(4) **Interest on Drawings :** Interest is calculated as per given information and given period.

(5) **Bad Debts, Bad Debt Reserve (Reserve for Doubtful Debts) or Discount Reserve :** Calculation is made on debtor's closing balances only as per the following steps :

Debtor's (Closing belance)	✓
Less : Bad debts	✓
	✓
Less : Bad debt reserve	✓
	✓
Less : Discount reserve	✓
Net balance (amount)	✓

Now, let us see some illustrations of Statement of Affairs Method (Capital Comparison Method).

Illustration 1 : Shri Sanjay Vakil maintains his books of accounts as per single entry system. His assets and liabilities were as under :

Particulars	Dt. 1-4-15 Amount (₹)	Dt. 31-3-16 Amount (₹)
Machinery	42,000	51,000
Land and building	48,000	48,000
Furniture	6000	6000
Stock	21,000	24,000
Investments	3000	–
Debtors	18,000	21,600
Creditors	12,000	21,000
Bills receivable	3000	5000
Bills payables	9000	12,000
Cash and bank balance	12,000	14,000

During the year, his cash drawings was ₹ 7000 and goods withdrawn was ₹ 1800. He brought in ₹ 4000 as an additional capital. Prepare a statement showing his profit or loss for the year ended 31-3-2016.

Above mentioned information is obtained either from books or from the other sources.

Answer : In this example opening capital is not given. So, by preparing opening (Date : 1-4-2015) statement of affairs opening capital is found out. Similarly closing capital is not given. So, by preparing closing (Date : 31-3-2016) statement of affairs closing capital is found out. Then after, we prepare statement showing profit or loss. This problem is easy, because there is no adjustments.

[A] Statement of Affairs as on Date : 1-4-2015

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Creditors	12,000	Machinery	42,000
Bills payables	9000	Land and building	48,000
		Furniture	6000
Opening capital	1,32,000	Stock	21,000
(Amount of difference)		Investments	3000
(1,53,000 – 21,000)		Debtors	18,000
		Bills receivables	3000
		Cash and bank balance	12,000
	1,53,000		**1,53,000**

[B] Statement of Affairs as on Date : 31-3-2016

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Creditors	21,000	Machinery	51,000
Bills payables	12,000	Land and building	48,000
		Furniture	6000
Closing capital	1,36,600	Stock	24,000
(Amount of difference)		Investments	–
(1,69,600 – 33,000)		Debtors	21,600
		Bills receivables	5000
		Cash and bank balance	14,000
	1,69,600		**1,69,600**

[C] Statement Showing Profit or Loss for the Year Ending on 31-3-2016 of Shri Sanjay Vakil

Particulars	Amount (₹)	Amount (₹)
Closing capital (as per statement B)		1,36,600
Add : Cash withdrawn	7000	
Goods withdrawn	1800	8800
		1,45,400
Less : Opening capital (as per statement A)	1,32,000	
Additional capital brought in	4000	1,36,000
Profit before adjustments		9400
Less : Adjustments :		–
Net Profit		**9400**

Illustration 2 : Shri Mahesh Sonara maintains his account as per single entry system. From the follwoing particulars of business, prepare profit and loss account for the year ended 31-3-2016 and a balance sheet as on that date.

Statement of Affairs as on 1-4-2015

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Opening capital	52,500	Building	31,500
Creditors	10,500	Furniture	6300
Bills payables	5250	Activa Scooter	23,625
Bank overdraft	10,500	Debtors	7875
		Stock	5250
		Cash	4200
	78,750		**78,750**

Balances of some assets and liabilities as on 31-3-2016 were as under :

Debtors	₹ 11,550	Cash	₹ 5775
Creditors	₹ 5250	Bank overdraft	₹ 20,700
Goods stocks	₹ 12,075	Outstanding expenses	₹ 1050

Additional Information :

(1) On 1-10-2015, Shri Maheshbhai brought personal furniture of ₹ 3150 into the business.

(2) A cycle of ₹ 5250 was purchased on 1-7-2015.

(3) Goods worth ₹ 2625 were withdrawn for personal use by Shri Maheshbhai and Life Insurance premium of ₹ 525 was paid from the business.

(4) On 31-3-2016, 12 % government securities having face value of ₹ 5250 were purchased for ₹ 5000.

(5) Interest at 10 % p.a. on capital is to be calculated. Depreciation on building at 6 % p.a. and on Scooter at 12 % p.a. is to be calculated.

(6) 10 % bad debt reserve is to be provided on debtors.

Answer : In this illustration opening capital is given. Closing statement of affairs to be prepared to find out closing capital. Then after, statement showing profit or loss is to be prepared. Balance sheet is also to be prepared considering the adjustments.

[A] Statement of Affairs as on 31-3-2016

Liabilities	Amt. (₹)	Assets		Amt. (₹)
Creditors	5250	Building		31,500
Bank overdraft	20,700	Furniture	6300	
Outstanding expenses	1050	+ Personal furniture brougnt in	3150	9450
Closing capital	77,225	Activa Scooter		23,625
(Difference amount)		Debtors		11,550
		Goods stock		12,075
		Cash		5775
		Cycle		5250
		12 % Govt. secutities		5000
	1,04,225			**1,04,225**

[B] Statement Showing Profit or Loss for the Year Ended 31-3-2016

Particulars	Amount (₹)	Amount (₹)
Closing capital (As per statement A)		77,225
Add : Drawings during the year :		
(1) Goods drawings	2625	
(2) Life Insurance premium paid from the business	525	3150
		80,375
Less : Additional capital brought in during the year		3150
(Personal furniture)		77,225
Less : Opening capital		52,500
Gross profit (Before adjustments)		24,725
Less : Adjustments :		
(1) Interest on capital		
On opening capital :		
$52500 \times 10\ \% \times \frac{12}{12} = 5250$		
On additional capital :		
$3150 \times 10\ \% \times \frac{6}{12} = 157.50$	5407.50	
(2) Depreciation on building (On 31,500 at 6 %)	1890	
(3) Depreciation on scooter (On 23,625 at 12 %)	2835	
(4) Bad debts reserve	1155	11,287.50
(On 11,550 at 10 %)		
Net profit		**13,437.50**

[C] Balance Sheet as on 31-3-2016 of Shri Mahesh Sonara

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Opening capital	52,500		Buildings	31,500	
+ Additional capital	3150		− Depreciation	1890	29,610
(Personal furniture)	55,650		Activa scooter	23625	
+ Interest on capital	5407.50		− Depreciation	2835	20,790
+ Net profit	13437.50		Furniture		9450
	74,495		Debtors	11,550	
− Drawings	3150	71,345	− Bad debts reserve	1155	10,395
Creditors		5250	12 % Govt. Secutities		5000
Bank overdraft		20,700	Cycle		5250
Outstanding expenses		1050	Goods stock		12,075
			Cash		5775
		98,345			**98,345**

Illustration 3 : Shri Harish Chaudhary keeps his books as per single entry system. From the following information you have to find out profit for the year 2015-16 and prepare a balance sheet as on 31-3-2016.

Particulars	Date : 1-4-15 Amount (₹)	Date : 31-3-16 Amount (₹)
Machinery	90,000	1,26,000
Debtors	1,08,000	1,06,800
Creditors	72,000	1,31,400
Cash balance	45,000	60,000
Salary due but not paid	4200	5200
Commission due but not received	600	800

The stock as on 1-4-2015 was valued at ₹ 90,000. During the year 2015-16, the purchases amounted to ₹ 3,60,000 while sales amounted to ₹ 4,05,000. The goods were sold so as to earn a profit of 25 % on cost price.

On 1-1-2016, Harish has brought his private furniture of ₹ 19,200 in the firm.

A machine of ₹ 36,000 has been purchased by cash, during the year on 1-10-2015. A bill receivable of ₹ 10,800 was received from one of the customers during the year, which was discounted for cash for ₹ 10,500, which has been recorded in cash book but posting has not been made in the customer's account.

Harish had taken away goods of ₹ 18,000 for personal use and goods of ₹ 9000 have been given as charity. Harish has withdrawn ₹ 36,000 in cash. He had paid ₹ 1800 for his daughter's school fees and life insurance premium of ₹ 900 of his wife from the business.

Provide for depreciation on machinery at 10 % p.a. and on furniture at 6 % p.a. Provide for bad debt reserve at 5 % on debtors and calculate interest on capital at 8 % p.a.

Ans. : In this example, value of opening stock is given but value of closing stock is not given. Hence, first of all stock account is to be prepared just like trading account to find out closing stock. Then after, opening statement of affairs and closing statement of affairs is to be prepared and at the end balance sheet with adjustment is to be prepared.

Stock Account for the year 2015-16

Dr Cr

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Opening stock	90,000	By Sales	4,05,000
To Purchase	3,60,000	By Goods withdrawn	18,000
To Gross profit (as per note)	81,000	By Goods given as charity	9000
		By Closing stock (balancing figure)	99,000
	5,31,000		**5,31,000**

Note : Gross profit is received at the rate of 25 % on cost price. If cost price is ₹ 100 then profit on that would be ₹ 25. Hence sales price would be ₹ 125. As per following step,

Sales price	Profit
125	25
4,05,000	(?) = 81,000 profit

[A] Opening (on 1-4-2015) Statement of Affairs

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Creditors	72,000	Machinery	90,000
Outstanding salary	4200	Debtors	1,08,000
Opening capital (difference)	2,57,400	Cash balance	45,000
		Commission due but not received	600
		Stock	90,000
	3,33,600		**3,33,600**

[B] Closing (on 31-3-2016) Statement of Affairs

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Creditors	1,31,400	Machinery	1,26,000
Outstanding salary	5200	Debtors (as per note)	96,000
Closing capital (difference)	2,64,400	(1,06,800 − 10,800)	
		Cash balance	60,000
		Commission due but not received	800
		Furniture	19,200
		Closing stock	99,000
	4,01,000		**4,01,000**

Note : Debtors as on 31-3-2016 were of ₹ 1,06,800 but the posting of bills receivable of ₹ 10,800 received from debtor is not recorded in debtors account. Hence after deducting the same net amount of debtors would be ₹ 96,000. Bills receivable is discounted, so it is not shown in [B] statement of affairs.

[C] Statement Showing Profit or Loss for the Year Ended 31-3-2016

Particulars	Amount (₹)	Amount (₹)
Closing capital (As per statement of affairs)		2,64,400
Add : Drawings during the year :		
(1) Goods withdrawn	18,000	
(2) Cash withdrawn	36,000	
(3) Daughter's school fees	1800	
(4) Life insurance premium of his wife	900	56,700
		3,21,100
Less : (1) Opening capital	2,57,400	
(2) Additional capital (Personal furniture)	19,200	2,76,600
Profit before adjustments :		44,500
Less : Adjustment :		
(1) Depreciation on machinery (Note 1)	10,800	
(2) Depreciation on furniture (Note 2)	288	
(3) Interest on capital (Note 3)	20,976	
(4) Bad debts reserve on debtors (96,000 × 5 %)	4800	36,864
Net Profit		**7636**

Note 1 : Depreciation on Machinery :

12 month's depreciation on opening balance of machinery,

$$90{,}000 \times 10\ \% \times \frac{12}{12} = ₹\ 9000$$

Depreciation on machine purchased as on 1-10-2015,

$$36{,}000 \times 10\ \% \times \frac{6}{12} = ₹\ 1800$$

Total depreciation (9000 + 1800) = ₹ 10,800

Note 2 : Depreciation on Furniture :

3 month's depreciation on personal furniture brought in as on 1-1-2016,

$$19{,}200 \times 6\ \% \times \frac{3}{12} = ₹\ 288$$

Note 3 : Interest on Capital :

12 month's interest on opening balance of capital,

$$2{,}57{,}400 \times 8\ \% \times \frac{12}{12} = ₹\ 20{,}592$$

3 month's interest on additional capital brought in during the year,

$$19{,}200 \times 8\ \% \times \frac{3}{12} = ₹\ 384$$

Total interest on capital (20,592 + 384) = ₹ 20,976

[D] Balance Sheet as on 31-3-2016 of Shri Harish Chaudhary

Liabilities		Amt. (₹)	Assets		Amt. (₹)
Opening capital	2,57,400		Machinery	1,26,000	
+ Additional capital	19,200		− Depreciation	10,800	1,15,200
+ Interest on capital	20,976		Furniture	19,200	
	2,97,576		− Depreciation	288	18,912
+ Net profit	7636		Debtors	96,000	
	3,05,212		− Bad debts reserve	4800	91,200
− Drawings	56,700	2,48,512	Closing stock		99,000
Creditors		1,31,400	Cash balance		60,000
Outstanding salary		5200	Commission due but not received		800
		3,85,112			**3,85,112**

Exercise

1. Select the right option for each question :

(1) Normally who uses single entry accounting methods ?

(a) Businessmen (b) Small retailers

(c) Public companies (d) Government companies

(2) Which statement is to be prepared to find out opening capital in single entry system ?

(a) Trading account (b) Statement of affairs

(c) Statement of profit-loss (d) Statement of stock

(3) Under single entry system –

(a) Only one effect for all transactions

(b) Two effect (entry) for all transactions

(c) No effect for any transaction

(d) Only one effect for some transactions and two effects of remaining transaction.

(4) What should be prepared to find capital in capital comparision method ?

(a) Statement of Profit/Loss (b) Statement of affairs

(c) Statement of goods for business (d) Balance sheet

(5) Single entry system is also called ....

(a) Accounts from complete records (b) Accounts from incomplete records

(c) Double entry accounting system (d) Independent accounting system

2. Answer the following questions in one or two lines :

(1) What is single entry system ?

(2) How does single entry system differ from double entry system ?

(3) What is statement of affairs ?

(4) Which capitals are compared in capital comparision method ?

(5) Which items are added or which items are deducted from closing capital in statement showing profit or loss ?

3. Answer the following questions in detail :

(1) What is single entry system ? Give the characteristics of single entry system.

(2) Describe the uses (advantages) of single entry system.

(3) Discuss the limitations of single entry system in detail.

(4) Explain the difference between single entry system and double entry system.

(5) What is statement of affairs ? Give specimen to explain.

(6) Explain the difference between statement of affairs and balance sheet.

(7) Discuss in detail how to determine profit or loss in capital comparision method.

4. Smt. Maltiben keeps her books of account as per single entry system. Her assets and liabilities as on 1-4-2015 and 31-3-2016 are as under :

Particulars	Date : 1-4-15 Amount (₹)	Date : 31-3-16 Amount (₹)
Building	84,000	84,000
Machinery	50,400	58,800
Furniture	10,800	10,800
Investments	4000	4000
Stock	25,200	30,400
Debtors	24,000	36,000
Creditors	16,200	33,000
Cash and Bank balance	14,400	22,500
Bills payable	18,000	20,700
Bills receivable	8400	10,700

During the year her cash withdrawal was ₹ 13,200 and goods withdrawal was ₹ 4200. She had brought ₹ 12,000 as additional capital in the business.

Prepare a statement showing profit or loss for the year ended 31-3-2016.

5. Smt. Shubhaben Nanavati keeps her accounts as per single entry system. From the following information find out the profit / loss by capital comparison method :

Particulars	Date : 1-4-15 Amount (₹)	Date : 31-3-16 Amount (₹)
Land - Building	13,000	25,000
Machinery	9000	11,000
Furniture	1500	2500
Investments	2500	3000
Debtors	6250	8250
Bills payable	600	750
Creditors	7500	9000
Bills receivable	1600	1200
Stock	4000	5000
Cash and Bank balance	4000	3000
Loan from bank	5000	5000
Provident fund	2000	2500

During the year, she had brought her personal scooter worth ₹ 11,000 in the business and she had withdrawn ₹ 1750 by cash. Her personal LIC premium of ₹ 3500 and income tax of ₹ 4100 are paid from business, while goods of ₹ 1400 were taken away for from business for her personal use.

6. From the following information, prepare a statement showing profit / loss of Sureshbhai Patel for the year ending 31st March, 2016.

Particulars	Date : 31-3-15 Amount (₹)	Date : 31-3-16 Amount (₹)
Machinery	18,000	18,000
Furniture	3600	3600
Cash balance	6000	4800
Bank balance	8000	10,500
Debtors	64,000	56,000
Stock	38,500	36,000
Bad debts reserve	4500	–
Creditors	52,000	48,000
Outstanding salary	3600	4800

Sureshbhai has withdrawn ₹ 300 every month. He brought ₹ 6000 as additional capital during the year. Provide depreciation on machinery and furniture at 10 %. Provide bad debts reserve on debtors at 5 %

7. Ramesh Priydarshani keeps his account as per single entry system. The statement of affairs of showing his business condition as on 1-4-2016 is as under :

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Creditors	22,000	Building	22,000
Bills payable	8800	Furniture	6600
Opening capital	61,600	Debtors	44,000
		Bills receivable	4400
		Stock	11,000
		Cash and Bank balance	4400
	92,400		**92,400**

Balance as on 31-3-2017 were as under :

Building	26,400	Furniture	11,000
Debtors	55,000	Creditors	17,600
Bills payable	4400	Stock	8800
Cash and Bank balance	8800	Bills receivable	2200

Additional Information :

During the year he had brought his personal furniture worth ₹ 4400 in business and he had withdrawn ₹ 1100 per month. His LIC premium of ₹ 2200 and income tax of ₹ 4400 were paid from the business. Provide 5 % bad debts reserve on debtors. Calculate depreciation on building and furniture of ₹ 2400 and ₹ 1000 respectively.

From the above information, prepare a statement showing profit / loss for the period ending 31-3-2017.

8. Shri Vivek keeps his accounts as per single entry system. His particulars of assets and liabilities are as under :

Particulars	Date : 1-4-15 Amount (₹)	Date : 31-3-16 Amount (₹)
Land - Building	1,40,000	1,40,000
Furniture	30,000	45,000
Computer	–	24,000
Stock	36,000	21,000
Cash balance	11,000	14,000
Bank balance	58,000	32,000
Debtors	23,000	32,000
Creditors	24,000	21,000
Outstanding salary	4500	5400
Prepaid insurance	2100	3000

Additional Information :

His cash withdrawals were ₹ 6000 as on 1-7-2015 and ₹ 4000 on 1-10-2015. On 1-9-2015, he brought personal furniture worth ₹ 15,000, personal computer worth ₹ 24,000 and cash of ₹ 21,000 in the business.

Depreciation is to be provided at 10 % p.a. on land - building and furniture and 20 % p.a. on computer. Provide 5 % for doubtful debts on debtors. Interest is to be calculated at 10 % p.a. on capital and at 8 % p.a. on drawings.

From the above information, prepare statement showing profit / loss and a balance sheet as on 31-3-2016 in the books of Vivek.

11

Computers and Accounting

1. Introduction

Computer is an electronic machine that is capable of making computations or calculations, storing and analysing data and generating useful information or reports by acting on a set of instructions at a phenomenal speed and accuracy. Today, computers have entered in areas like accounting, business, education, research, transportation, weather, printing, communication, banking, defence, literature, space science, sports, music, medicines, spirituality and tax management. Today, most of the entities prepare their accounts using computers. Hence, it is essential for students of commerce to familiarise themselves with computerised accounting system.

When accounts are maintained using computers, raw data based on vouchers and other documents are entered into computer. Computer processes such raw data. This process includes recording, storing, analysing and retrieving information. Computers can store information, analyse them and such information can be retrieved when required. However, they respond according to set of instructions given to it and such instructions are known as programme or software. Based on such software only, computer processes raw data and generates meaningful information or reports as and when required.

Application of computers for accounting has grown phenomenally. Today, small grocery shop to giant business houses like Reliance, Hindustan Lever and ITC are using computers and software to maintain their accounts. Apart from use for routine accounting, computerised accounting system is also used in the accounting related to areas like tax collection and online sales using internet.

2. Components and Characteristics of Computerised Accounting System

Computerised Accounting System would comprise of following three important components :

(1) Hardware (2) Software (3) Humanware

Hardware comprises of computer components that can be physically touched like keyboard, Central processing Unit (CPU), monitor, mouse, pen drive, CD or DVD Drive, speakers and sound card, printer etc. Basic components of a computer collectively form a system. These components of computers are also classified as input devices, CPU and output devices. Input devices can comprise of key board, mouse, pen based system that help in writing directly on the screen, touch screen that accepts input directly through the monitor and bar code reader that can read bar codes and translate them into numbers. CPU is known as brain of computer as it does all calculations, logical decisions and controls activities of machine. It gets instruction from input devices, stores them in memory, carries out different operations thereon and sends the final outcome to output device. Central Processing Unit (CPU) comprises of control unit, memory unit, and arithmetic and logic unit. Output devices comprise of Visual Display Unit or Monitor, Printer, speaker, etc.

Software is a set of instructions that can perform special tasks as required by users or machine. Software is very essential for different computer applications. Software can be divided mainly into two types: (i) System Software and (ii) Application Software. System software is used to control the operations and to extend processing capability of a computer system. Application software is used by users to perform specific functions. For example, Windows 7 is system software and for operating each computer system, usually such system software is used. Tally is application software that is designed to perform the function of accounting for the users thereof.

Humanware is the people who work with computer and software. It will include programmers, computer or data entry operators, software engineer, hardware engineer, system analyst etc. These people also play an important role in effective implementation of computerised accounting system.

It should be noted that each of these components i. e. hardware, software and humanware has its own importance in computerised accounting system. Desired outcome cannot be obtained if there is problem or lacuna in any of these components.

Some features of computerised accounting system are as under :

(1) Speed : It can perform functions at much higher speed than the speed of human beings. For example, if an accountant records transactions manually, he posts them into ledger accounts, then prepares trial balance and finally final accounts. As compared to this, if accounts are prepared with the help of computer, final accounts can be prepared in much lesser time.

(2) Accuracy: Accuracy is more important in accounts then the speed in accounts. Computers perform functions with high degree of accuracy. If hardware, software and humanware are proper, the computerised accounting system can assure of accurate outcome.

(3) Reliability: Computers are immune to tiredness, boredom or fatigue. They do not commit errors even if large volume of data is to be processed by it and thus provides reliable information.

(4) Versatility: Computer and accounting software has ability to perform diverse tasks. For example, by simply recording accounting entries through accounting software, one can get trial balance, profit and loss account, balance sheet and can get diverse reports based on analysis like different ratios, debtors' time-wise analysis etc. Accounting software can also be modified according to need.

(5) Cleanliness: As the computerised accounts are much clean as compared to manual accounts, it is easy to read and understand them.

(6) Automation of Accounting Process and its pros and cons: Automation of accounting process has its own pros and cons. If proper selection of computer system, accounting software and persons to manage them is made, automations will result into so many advantages. At the same time, if any of these components are faulty, it can distort the outcome. Automation can give benefit of speed, accuracy, reliability, versatility, cleanliness, etc. However, limitations of automation like huge investment, resistance from employees, mis-management of different components thereof, etc. should also be kept in mind while resorting to automation.

(7) Instant Information and Statements: One very important feature of computerised accounting system is that one can get instant information about any aspect of accounting and can generate statement or reports at phenomenal speed. For example, salary statements, value added tax (VAT) statements, service tax related statements, statements of tax deducted at source (TDS), profit and loss account, balance sheet, cash flow statement, and much more information and many more reports can be obtained with ease. Further, such information or statements can be printed or can be sent by e-mail easily. Many accounting software permit use thereof from any part of the world with the help of internet.

3. Accounting Software

Accounting software are categorised as :

(1) Readymade Software: They are developed for need of users in general. As such software is developed keeping in mind users in general, it may have many features which may not be useful for all users. At the same time, it is also possible that it may not have features or utility which a particular customer needs. For example, it may have GST module which may not be useful to a service provider who is not liable to pay GST. It is also possible that a customer may need excise duty accounting related module but such module is not available in readymade software. Some readymade software available includes Tally, Tata Ex, Busy, Professional Accountant, Profit, etc. Out of all these readymade software available in market, Tally appears to be most popular and widely used accounting software. Such software is easily available in market. As they are used by so many customers, they are economical also. Such software is developed by a team of experts and hence it will have maximum features. As such software is used by so many people it is easy to get persons for operating the same. As this software is readily available in market, lot of time is saved.

(2) Customised Software: When readymade software is modified according to the need of the customer, it is called customised software. When readymade software is modified according the need of customer, it provides ease to customer. For example, design of invoice is modified according to the need of customer. Some developers of software provide such facility of customisation and sometimes they charge additional cost for the same. Advantages and disadvantages of this type of software are same as that of readymade software.

(3) Tailor-made Software: Some customers get accounting software developed completely as per their need. As such software are designed and developed according to need of a customer, they are not readily available in the market. Such software is designed and developed after detailed discussions and deliberations with the customer and after understanding the need of the customer. As such software is designed keeping in mind the requirements of the customer, customer gets all information, facilities and statements as required using such software. However, cost of developing such software is much more than the readymade software as special efforts are made by developers to develop it. There are so many people in the market who develop accounting software according to the need of customer.

While sourcing the accounting software, its cost, need of the organisation, flexibility, facility of data exchange or transfer, need for training, cost of maintenance etc. should be kept in mind.

Accounting software gives readymade groups of accounts and ledger accounts are opened under these groups. List of such groups appearing in Tally Accounting Software is given below.

(1)	Bank accounts	(2)	Bank OCC A/c
(3)	Bank OD A/c	(4)	Branch/Divisions
(5)	Capital Account	(6)	Cash-in-Hand
(7)	Current Assets	(8)	Current Liabilities
(9)	Deposits (Asset)	(10)	Direct Expenses
(11)	Direct Income	(12)	Duties and Taxes
(13)	Fixed Assets	(14)	Income (Direct)
(15)	Indirect Expenses	(16)	Indirect Incomes
(17)	Investments	(18)	Loans and Advances (Asset)
(19)	Miscellaneous Expenses (Asset)	(20)	Provisions
(21)	Purchase Accounts	(22)	Reserves & Surplus
(23)	Retained Earnings	(24)	Sales Accounts
(25)	Secured Loans	(26)	Stock-in-Hand
(27)	Sundry Creditors	(28)	Sundry Debtors
(29)	Suspense Account	(30)	Unsecured Loans

Accounting Software should provide facility for data exchange with other information system. With such features or facilities, lot of money and time is saved. For example, if information available in accounting software can be sent by e-mail directly from software, lot of time and money can be saved. If software does not have such feature or facility, such information will have to be written with hands or will have to be typed and then the same can be sent by e-mail. Some such features for data or information exchange in Tally software are given below.

(1) Through internet web browser, any information can be accessed at anytime from anywhere in the world. If authorised, such accounting information can be modified, copied, or print out can be taken.

(2) Accounting information can be uploaded. For example, if information about each sale bill is uploaded for filing GST return, filing of return will be very easy. Instead, if one has to enter details of each bill while filing return, lot of time will be wasted.

(3) Accounting information can be transferred by e-mail.

(4) Accounting information or statements can be exported. For example, balance sheet can be exported in Excel Sheet.

Accounting Reports can be prepared easily using accounting software. Data when processed becomes information. When related information is summarised and presented so as to meet a particular need, it is called Report. Accounting reports are designed keeping in mind the need for such report. Such reports become useful to the users thereof in decision making process. Quality of Accounting Report depends on its utility, brevity, accuracy, timeliness and design. While designing an accounting report, its objective, contents, completeness and utility should be kept in mind to make it meaningful. Examples of some such accounting reports are as under :

(1) Balance Sheet	(2) Profit and Loss Account
(3) Cash Flow Statement	(4) Debtors' Report
(5) Creditors' Report	(6) Product wise Cost Report

4. Advantages of Computerised Accounting System

(1) Various accounting information can be obtained speedily.

(2) Chances of errors are reduced.

(3) Accounting information can be obtained at any place and at any time.

(4) Different accounting reports depending upon the need of organisation can be generated.

(5) Information can be transferred or exchanged easily.

(6) Information becomes more reliable.

(7) Information can be manipulated as per need.

(8) Information or report can be uploaded easily.

(9) Cost of maintaining accounts can be reduced.

(10) Chances of fraud or manipulation can be reduced.

(11) Compliance of legal requirements can be made easily.

(12) Space required for storage of accounting data is very less as huge volume of data can be stored in a small hard disc or any other storage device.

5. Limitations of Computerised Accounting System

Though there are so many advantages of automation or computerised accounting system, if the system is not implemented properly, it can have certain limitations or disadvantages. Following are some of the limitations of Computerised Accounting System. These are also limitations of automation.

(1) Trained Manpower: If trained manpower to handle the computerised accounting system is not available, we cannot get optimum benefit of automation.

(2) Investment: If computer hardware and software is selected improperly or without keeping need of the organisation in mind, one cannot derive desired benefit or reward for the investment made. Many times, units invest huge amounts in selection of improper hardware and software and they are not able to take due advantage of such investment.

(3) Unemployment: Computerisation can lead to increased unemployment as the accounting work with the help of automation requires small number of persons as compared to manual accounting. Therefore, if such system is introduced without proper work distribution, it can lead to resistance from employees.

(4) Changes in Technology: Frequent changes take place in computer hardware and software. Therefore, computer hardware and software should be selected keeping in mind the long term need in such manner that the investment does not become useless in a very short time. Investment in outdated technology will result into frequent expenses to upgrade the same.

(5) Defective Programmes: If software or computer programmes are defective, desired benefits thereof cannot be obtained.

(6) Limitation of Machines: A machine works according to the manner in which it is programmed. For any situation for which a machine is not programmed, the programme will have to be modified. For example, if accounting software does not have a module for printing of cheques, the computer and printer cannot print a cheque unless the programme is modified to get this facility. For each such modification, additional expenses have to be incurred.

(7) Dangers of Data Theft: When accounts are maintained with the help of computers, theft of data can be made easily and a third party can steal the data easily even if he gets access to the computer for very less time.

(8) Dangers of Loss of Data: If computer system crashes, all the data therein may get lost and one may lose the important information stored by hard work of so many years.

(9) Lack of Decision Making: Some steps in accounting cycle involve judgment and others are primarily mechanical. Computers lack ability to take decisions. Hence, wherever there is need for judgment, humans with power to think can do such work and machine cannot do it as it does not have the ability to think.

(10) Chances of Manipulation: In computerised accounting system, manipulations in accounting information can be done very easily. Therefore, there is possibility of presenting different information to different stakeholders by manipulating the information quickly.

6. Accounting Information System (AIS)

Accounting information system (AIS) is a system of processing data relating to financial transactions in such a manner that useful information is made available for internal decisions of the unit as also to outsiders. Information provided by AIS is most importance to managers in managing the organisation. Accounting Information System is a part of Management Information System (MIS). Management Information System can comprise of Production Information System, Marketing Information System, Accounting Information System, Human Resources Information System, etc. Basic objective of any information system designed for use of an organisation is to present information that is useful in decision making.

Accounting is a process of recording, classifying, summarising, analysing and interpreting data relating to financial transactions and communicating the results thereof to the parties interested in this information.

Information is food for thought. Such information is useful to managers in internal decision making. Such information also becomes useful to external parties. Accounting information emanates from Accounting Information System, it is money oriented and it helps interested persons in decision making. When raw data is organised in a meaningful manner, it becomes useful information.

System means working of a set of related components that work in cohesive manner in such a way that common objective can be achieved.

From the above discussion, we can state that Accounting Information System (AIS) makes various useful accounting information which available to internal and external users that helps users in decision making. For example, accounting information system can provide following reports or statements relating to accounting. Such reports can be designed according to need of different users.

(1) Profit and Loss Statement: From this statement, external parties can get information about profit or loss of business. This statement can be modified from the view point of internal users depending upon their needs. For example, if Board of Directors of a company wants segment wise profit and loss position, this Accounting Information Report can be designed in such a manner that it gives idea about profitability of each segment. Similarly, such report can be prepared to know profitability of different products or division or department.

(2) Balance Sheet: This is also an accounting report or statement which is used by external parties as also for internal use for useful information. For internal use, this statement can also be modified to give useful accounting information for decision making. For example, it can give information about assets and liabilities of each division.

(3) Debtors' Report: Such report can give information relating to debtors or customers as per organisation's need. For example, it can given information about period of debtors i.e. period since when the amount is due, sales made to say top 10 customers during a given period, list of customers who are paying money within due date, list of customers who always pay later than the due date, etc.

(4) Creditors' Report: Such report can give information relating to creditors or suppliers as per organisation's need. This report is also designed keeping in mind the requirements of each user of information of such report. For example, if Purchase Manager needs to know the top five suppliers in terms of value of goods during a period, such report can be designed to give this information.

(5) Other Reports: Management may require reports based on accounting information from time to time other than specific periodical reports. Such other reports are designed and developed according to need. For example, Managing Director needs daily information in the following format about bank transactions.

Date	Opening Balance	Amount Deposited During the Day	Amounts Paid During the Day	Closing Balance

7. Comparison of Manual and Computerised Accounting System

We have seen that Accounting is a process of recording, classifying, summarising, analysing and interpreting data relating to financial transactions and communicating the results thereof to the parties interested in this information. Such accounting can be carried out manually by an Accountant or by using computers. Following are the differences between the traditional manual system and computerised accounting system.

Basis of Difference	Traditional Manual System	Computerised Accounting System
(1) Recording transaction	Transactions are recorded in manual books of account like journal and subsidiary books	Transactions are recorded using computers and accounting software like Tally.
(2) Posting	Recorded transactions have to be posted in different ledger accounts manually.	Recorded transactions are processed by accounting software and posting into respective ledger account is automatically done.
(3) Trial Balance	After posting, trial balance is to be prepared taking balance of each ledger account.	Trial balance is automatically prepared using accounting software.
(4) Financial Statements	Financial statements like profit and loss account, balance sheet and cash flow statement are prepared based on trial balance and adjustments manually.	With the help of accounting software, such financial statements are automatically prepared after recording adjustment entries.

Basis of Difference	Traditional Manual System	Computerised Accounting System
(5) Rectification of Errors	Rectification entries are required to be passed for rectification of errors or for deletion of any wrongly passed entries.	With the help of Accounting software, any entry can be rectified or deleted easily without passing rectification entry.
(6) Need for recording opening balances	After close of the year, every year, in the beginning of year, opening balances are required to be carried forward in new books of accounts.	There is no need for recording opening balances as the accounting software automatically stores information about the closing balances in its data base.
(7) Chances of errors	There are more chances of errors in this system. For example, error can be there in recording transaction, in posting thereof, or in preparing trial balance.	There are less chances of error as accounting software has certain checks that prevent errors. For example if an account is debited by ₹ 500 and another account is credited by ₹ 50, the software will immediately draw attention that there is mismatch between these amounts.
(8) Grouping of Accounts	In traditional system, title of each account is manually decided and pre-defined groups of accounts also have to be designed manually.	Accounting software gives readymade groups of accounts and ledger accounts are opened under these groups. However, title of each account is to be manually decided.

Exercise

1. Write short note on :

(1) Components of computerised accounting system

(2) Features of computerised accounting system

(3) Accounting Software

(4) Accounting Reports

(5) Accounting Information System (AIS)

2. How does Accounting Software provide facility for data exchange with other information system?

3. State the advantages of Computerised Accounting System.

4. State the limitations of Computerised Accounting System.

5. State the differences between the traditional manual system and computerised accounting system.

6. Give answer in brief :

(1) State names of some readymade accounting software available in the market.

(2) Out of all the readymade accounting software available in market, which one appears to be the most popular and widely used accounting software?

(3) What is tailor-made accounting software?

(4) Give the name of any four groups of accounts.

Answers

Exercise 1

1. **Select appropriate option for each question :**

(1) b (2) c (3) c (4) c (5) d

7. Total of suspense A/c ₹ 6940

Revised profit ₹ 77,710

8. Total of suspense A/c ₹ 80,000

Total revised trial balance ₹ 17,52,000

Exercise 2

1. **Select appropriate option for each question :**

(1) (b) (2) (d) (3) (b) (4) (a) (5) (d)

(6) (a) (7) (c) (8) (a) (9) (d) (10) (a)

3. (1) Depreciation A/c Dr. ₹ 7000, To Machine A/c ₹ 7000

(2) Depreciation A/c Dr. ₹ 2700, To Machine A/c ₹ 2700

(3) Bank A/c Dr. ₹ 41,310, Depreciation A/c Dr. ₹ 3400, To Machine A/c ₹ 34,000, To Profit and Loss A/c ₹ 10,710

(4) Cost price of machine ₹ 1,20,000

(5) Cost price of machine ₹ 36,000

5. (1) Annual depreciation ₹ 6250, Rate of depreciation 9.674 %, Closing balance of machine respectively ₹ 58,350, ₹ 52,100 and ₹ 45,850.

(2) Cost price of machine ₹ 1,20,000, Annual depreciation ₹ 12,000, Profit on sale of machine ₹ 7200, Selling price of machine ₹ 31,200.

(3) Cost price of machine ₹ 3,00,000, Annual depreciation ₹ 24,000, Depreciated cost of machine on 31-3-15 (book value) ₹ 2,28,000, Loss on sale of machine ₹ 45,600, Selling price of machine ₹ 1,82,400.

(4) Depreciation respectively ₹ 16,000, ₹ 23,200, ₹ 22,400, Loss on sale of machine ₹ 48,000, Effect in annual accounts, Depreciation in Profit and Loss account ₹ 16,000. Machine balance in Balance Sheet ₹ 1,44,000.

(5) Depreciation respectively ₹ 4000, ₹ 4150 (₹ 4000 + ₹ 150), ₹ 4450 (₹ 4000 + ₹ 450), Selling price of machine on 31-12-14 ₹ 10,260, Loss on sale of machine ₹ 1140, Depreciation of machine ₹ 450, Balance of machine account on 31-3-15, ₹ 48,000.

(6) Depreciation respectively ₹ 9000, ₹ 9000, ₹ 12,600 (₹ 9000 + ₹ 3600), Book value of machine sold (depreciated cost) ₹ 18,900, Profit on sale of machine ₹ 3780, Selling price machine sold ₹ 22,680, Balance of machine account on 31-3-15, ₹ 1,12,500 (₹ 44,100 + ₹ 68,400)

(7) Depreciation respectively ₹ 7000, ₹ 6300 ₹ 5670, Balance of machine account ₹ 63,000, ₹ 56,700, ₹ 51,030.

(8) Depreciation ₹ 3000, Loss on sale of machine ₹ 14,250, Selling price of machine ₹ 42,750, Book value (depreciated cost) on 1-10-2014, ₹ 57,000.

(9) Depreciation respectively ₹ 2400, ₹ 3240 (₹ 2160 + ₹ 1080), ₹ 3996 (₹ 1944 + ₹ 2052), Machine account balance respectively ₹ 21,600, ₹ 39960 (₹ 19,440 + ₹ 20520) ₹ 18,468 (second machine), Book value (depreciated cost) of first machine on 31-3-2015 ₹ 17,496, Loss on sale of machine ₹ 3499, Selling price of machine ₹ 13,997.

(10) Journal entry at the end of both the years : (i) Depreciation A/c Dr. ₹ 6000, To Depreciation provision A/c ₹ 6000 (ii) Profit and Loss A/c Dr. ₹ 6000, To Depreciation A/c 6000. ₹ 6000 will be recorded at the credit side of depreciation provision A/c (Accumulated depreciation), depreciation A/c, as well as credit balance will be ₹ 6000 and ₹ 12,000 respectively.

(11) Journal entry : On 31-3-2014 (i) Depreciation A/c Dr. ₹ 8000, To Depreciation provision A/c ₹ 8000 (ii) Profit and Loss A/c Dr. ₹ 8000, To Depreciation A/c ₹ 8000. On 31-3-2015 (i) Depreciation A/c Dr. ₹ 7200, To Depreciation provision A/c ₹ 7200. (ii) Profit and Loss A/c Dr. ₹ 7200, To Depreciation A/c ₹ 7200. Debit side of profit and loss A/c - depreciation will be ₹ 8000 and ₹ 7200. In balance sheet, every year after deduction of accumulated depreciation from cost price ₹ 72,000 and ₹ 64,800 will be shown respectively.

Exercise 3

1. Select appropriate option for each question :

(1) (b) (2) (a) (3) (c) (4) (d) (5) (c)

Exercise 4

1. Select appropriate option for each question :

(1) (b) (2) (a) (3) (c) (4) (c)

(5) (d) (6) (d) (7) (a) (8) (c)

Exercise 5

1. Select appropriate option for each question :

(1) (b) (2) (c) (3) (a) (4) (d) (5) (d)

(6) (d) (7) (d) (8) (d) (9) (c) (10) (c) (11) (a)

6. Gross profit ₹ 3,65,500, Net profit ₹ 1,68,000, Balance sheet ₹ 7,70,000

7. Gross profit ₹ 5,76,750, Net profit ₹ 1,68,750, Balance sheet ₹ 12,36,750

8. Net profit ₹ 1,37,850, Balance sheet ₹ 3,97,810

9. Gross profit ₹ 5,87,300, Net profit ₹ 3,20,284, Balance sheet ₹ 9,56,600

10. Gross profit ₹ 2,88,800, Net profit ₹ 1,77,975, Balance sheet ₹ 5,19,495

11. Gross profit ₹ 71,900, Net profit ₹ 4710, Balance sheet 1,36,650

12. Revised gross profit ₹ 5,61,750, Net loss ₹ 2,11,500, Balance sheet ₹ 8,98,500

13. Total of trial balance ₹ 10,21,000 gross profit ₹ 4,84,000, Net profit ₹ 2,39,900, Balance sheet ₹ 6,46,750

14. Total of trial balance ₹ 5,41,000 gross profit ₹ 1,94,400, Net profit ₹ 96,550, Balance sheet ₹ 3,80,950

Exercise 6

14. Select appropriate option for each question :

(1) Going concern (2) Consistency (3) Accrual

15. (1) Going concern concept (2) Going concern concept

(3) Periodicity concept or going concern concept

(4) Consistency concept (5) Consistency concept

(6) Accrual concept (7) Accounting entity

(8) Money measurement concept (9) Periodicity

(10) Materiality concept (11) Full disclosure concept

(12) Full disclosure concept (13) Prudence or conservatism

(14) Prudence or conservatism (15) Cost concept

(16) Dual effect concept (17) Money measurement concept

(18) Accural concept (19) Business entity concept

(20) Business entity concept (21) Dual effect concept

16. (1) As per business entity concept, drawings A/c will be debited.

(2) Given statement is incorrect. Correct statement is "Fixed assets are shown in the balance sheet at depreciated cost". This is as per going concern concept.

(3) On the basis of prudence or conservatism concept, bank credit, interest on doubtful advances account to the "Interest suspense account".

(4) Yes, on 31-03-2017, accounting effect will be given of interest accrued upto 31-3-2017. Interest accrued upto 31-3-2017 will be ₹ 10,000 $(1,00,000 \times \frac{12}{100} \times \frac{10}{12})$. This will be for the period of 10 months from 01-06-2016 to 31-03-2017. This is based on accural concept.

(5) Yes, it will be recorded. ₹ 40,000 is fair expense or loss. This will be recorded on the basis of prudence or conservatism, because probable loss should be taken into consideration. This must be shown contigent liability ₹ 1,00,000 till the final judgement of court. This is on the basis of full disclosure.

Exercise 7

4. (1) In 1973 (2) In 1977 (3) For preparation of accounting standards

Exercise 8

1.	(1) (a)	(2) (b)	(3) (c)	(4) (d)	(5) (c)
	(6) (b)	(7) (a)	(8) (b)	(9) (a)	(10) (d)
	(11) (b)	(12) (d)	(13) (a)	(14) (b)	(15) (b)
	(16) (d)	(17) (d)	(18) (a)	(19) (c)	(20) (b)

Exercise 9

1. Select appropriate option for each question :

(1) (d) (2) (d) (3) (a) (4) (c) (5) (c)

(6) (a) (7) (d) (8) (c) (9) (c) (10) (a)

8. (1) Naturewise classification of Income and Expense :

Revenue Income	Capital Income	Revenue Expense	Capital Expense
(1) Membership fees	(2) Prize fund	(8) Subscription of periodicals	(6) X-ray machine (7) Investment of prize fund
(12) Sale of drama tickets	(3) Life membership fees	(9) Annual Day expense	(10) Purchase of sports equipments
(14) Government aid (Subsidy)	(4) Legacy	(11) Ground maintenance expense	(16) Purchase of National Savings Certificates.
(15) Locker's rent	(5) Donation	(13) Drama expense	
(19) Contribution for annual dinner	(31) Charity	(18) Annual dinner expense	(17) Machinery installation wages and expense.
(20) Income of entertainment prog.	(33) President felicitation fund	(21) Annual programme expense	(23) Purchase of billiard table.
(22) Sale of sports equipments.		(24) Repairing expense (27) Loss on sale of asset	(26) Expense to bring old assets in operational condition
(25) Entrance fees		(30) Asset depreciation	(32) Purchase of HDFC bonds.
(28) Investment int.			
(29) Income of canteen		(34) President felicitation exp.	

(2) On credit side of income-expenditure account subscription received ₹ 85,000, on liabilities side of balance sheet; pre-received subscription ₹ 6000 and on asset side, subscription outstanding ₹ 15,000.

(3) On debit of income-expenditure account; salary ₹ 36,100, Stationery consumption ₹ 2920, Taxes and insurance ₹ 6500 on credit side (income side), subscription ₹ 75,000

(4) On Liability side of balance sheet; Match fund ₹ 76,050, permanent fund ₹ 1,05,000, Assets side investments of match fund ₹ 35,000, Investments of permanent fund ₹ 1,05,000

(5) Amount disclosed in Receipt-Payment A/c ₹ 43,200.

(6) During current year, purchase of sports equipments ₹ 6700 (7000 − 300), Total ₹ 6700 + ₹ 400 = ₹ 7100 Less sale ₹ 180 = ₹ 6920, Closing balance ₹ 1100, thus depreciation ₹ 5820 - will be disclosed on debit side of income-expenditure account.

9. Closing bank balance ₹ 4500, Total of Receipt-Payment account ₹ 1,24,500.

10. Excess of expenditure over income ₹ 600.

11. Closing balance of cash ₹ 1,47,000, Total of Receipt-Payment account ₹ 5,49,000, Excess of income over expenditure ₹ 2,22,000.

12. Excess of income over expenditure ₹ 6700, ₹ 2000 of entrance fees as a revenue income and ₹ 2000 as capital income will be added to capital fund.

13. Excess of expenditure over income ₹ 4500, Permanent fund ₹ 2,74,500, Total of balance sheet ₹ 2,77,800.

14 . Excess of income over expenditure ₹ 15,000, Capital fund ₹ 3,68,500, Total of balance sheet ₹ 3,88,750 (Depreciation on sports equipments ₹ 25,000 (opening balance ₹ 1,25,000 + purchase ₹ 75,000 – closing balance ₹ 1,75,000))

15. Excess of income over expenditure ₹ 5100, Capital fund ₹ 43,100, Donation amount will be shown as revenue income. Since no information is given for entrance fees, it will be treated as revenue income and will be shown in income-expenditure A/c. Total of balance sheet ₹ 63,000, 2/3 of colour work expense will be shown in the balance sheet ₹ 6000. Only 1/3 will be shown on expense side of income-expenditure A/c ₹ 3000. Interest on loan outstanding ₹ 900.

16. Excess of income over expenditure ₹ 3850, Capital fund ₹ 1,49,225, Total of balance sheet ₹ 1,56,225, Loss on sale of furniture ₹ 625, Depreciation on furniture ₹ 2775 (Balance of furniture ₹ 2650 + sold furniture ₹ 125)

17. Excess of expenditure over income ₹ 4350, Consumption of medicine ₹ 40,500, Capital fund ₹ 1,95,450, Total of balance sheet ₹ 2,70,750, Subscription ₹ 75,150 on income side of income-expenditure A/c.

18. Excess of income over expenditure ₹ 5800, Capital fund ₹ 1,41,880, Total of balance sheet ₹ 1,66,880, Capital fund from balance sheet of previous year 31-3-2014 ₹ 1,34,480 (Capital fund ₹ 1,08,000 + Excess of income over expenditure ₹ 20,000 + Income-expenditure A/c ₹ 6480).

Exercise 10

1. **Select appropriate option for each question :**

   (1) (b) (2) (b) (3) (d) (4) (b) (5) (b)

4. Opening capital ₹ 1,87,000, Net capital ₹ 2,03,500, Net profit ₹ 21,900

5. Opening capital ₹ 26,750, Closing capital ₹ 52,700, Net profit ₹ 25,700

6. Opening capital ₹ 78,000, Closing capital ₹ 76,100, Gross loss before adjustments ₹ 4300, Net loss ₹ 9260

7. Closing capital ₹ 90,200, Gross profit before adjustments ₹ 44,000, Net profit ₹ 37,850

8. Opening capital ₹ 2,71,600, Closing capital ₹ 2,84,600, Gross loss before adjustments ₹ 37,000, Net loss ₹ 89,415, Total of balance sheet ₹ 2,88,725.

❖ ❖ ❖

Project-work :

(1) Collection of original documents, preparing vouchers, recording transactions with the help of vouchers.

(2) Preparation of bank reconciliation statement on the basis of given cashbook and passbook.

(3) Prepare chart of voucher, bills of exchange, promisory note.

(4) Collection of original documents, recording transactions with the help of vouchers, preparation of ledger accounts and trial balance.

(5) Project work based on an accounting package of window, arrangement of package, formation of new company, arrangement of titles, recording of vouchers, observe results and making changes in data.