Auditing Course Material

Part 18 of 61 (Chapters 1701-1800)

5. Double Column Cash Book

Murli commenced business on 1st April, 2024 with Rs. 5,000 as capital. He had the following cash transactions in the month of April 2024:

2024		Amount (in Rs.)
April 1	Purchased furniture for cash	250
April 2	Purchased goods	500
April 4	Sold goods for cash	950
April 5	Paid cash to Ram, discount allowed by him	560 10
April 6	Received cash from Mahesh & Co. Allowed discount	600 20
April 7	Paid for petty expenses	15
April 8	Cash purchases	150
April 13	Paid for Labour	1,000
April 13	Paid Simran & Sons Discount allowed by them	400 8

Make out the two-column Cash Book (Cash and discount column) for the month of April, 2024.

Solution:

Dr. **Cash Book** Cr.

Date	Receipts	L. F.	Discount	Amount (Rs.)	Date	Payments	L. F.	Discount	Amount (Rs.)
01.04.24	To Balance b/d			5,000	01.04.24	By Furniture A/c			250
04.04.24	To Sales A/c			950	02.04.24	By Purchases A/c			500
06.04.24	To Mahesh & Co.		20	600	05.04.24	By Ram A/c		10	560
					07.04.24	By Petty Expenses A/c			15
					08.04.24	By Purchases A/c			150
					13.04.24	By Wages A/c			1,000
					13.04.24	By Simran & Sons A/c		8	400
					30.04.24	By Balance c/d (Bal. figure)			3,675
			20	6,550				18	6,550
01.05.24	To Balance b/d			3,675					

Notes:

(i) the discount columns in the cash book are totalled;
(ii) they are not balanced; and
(iii) their totals shall be entered in the discount received/paid account in the ledger.

5. Double Column Cash Book

A post-dated cheque is a cheque written by the drawer for a date in the future. The cheque cannot be cashed or deposited until the date specified on the cheque. For example, a company might issue a post-dated cheque dated July 15th for Rs. 50,000 to a vendor on June 1, ensuring the cheque can only be deposited after July 15th.

Post-dated cheque may be discounted by a bank charging discounting charges for the remaining period of the cheque.

For example, a business might issue a post-dated cheque to a supplier dated 30 days ahead. If the cheque amount is Rs. 1,00,000 and the bank charges a discounting fee of 1% per month, the supplier can discount this cheque with the bank, which will deduct Rs. 1,000 (1% of Rs. 1,00,000) as the discounting charge for the 30-day period.

Accounting of Post-dated Cheque Received

Let us understand the accounting of post-dated cheque with the help of an example. Let say, consider a cheque of Rs. 25,000 dated 01.06.2024 but received on 01.05.2024, so, this is a case of post-dated cheque received and is accounted for by passing the entry in Journal Proper as follows.

Date	Particulars	L. F.	Debit (Rs.)	Credit (Rs.)
	Cheques-in-Hand Dr. To Suman A/c (Being post-dated cheque received from the party)		25,000	25,000

As on the date written on the cheque (continuing with the given example), it will be deposited in bank. Entry for deposit of cheque is written in the debit of Cash Book in the Bank Column as follows.

Dr. Cash Book Cr.

Date	Receipts	L. F.	Cash (Rs.)	Bank (Rs.)	Date	Payments	L. F.	Cash (Rs.)	Bank (Rs.)
01.06.24	To Cheques-in-Hand A/c		--	25,000					

In case, the cheque is discounted with Rs. 200 as discounting charges, entry will be recorded in the Cash Book as follows.

Dr. Cash Book Cr.

Date	Receipts	L. F.	Cash (Rs.)	Bank (Rs.)	Date	Payments	L. F.	Cash (Rs.)	Bank (Rs.)
01.05.24	To Suman		--	24,800					

Another entry will be passed in Journal Proper as follows.

Date	Particulars	L. F.	Debit (Rs.)	Credit (Rs.)
	Discounting Charges A/c Dr. To Suman		200	200

Accounting of Post-dated Cheques Issued

Post-dated cheque issued are accounted in the Bank Column of the Cash Book on the date it is issued and not on the date of the cheque.

For example, a cheque dated 31st July, 2024 for Rs. 1,00,000 is issued to Mr. Sudheer on 5th June, 2024. It will be recorded in the credit (payments) side in Bank Column of the Cash Book on 5th June, 2024 only, as follows.

Cash Book

Dr. Cr.

Date	Receipts	L. F.	Cash (Rs.)	Bank (Rs.)	Date	Payments	L. F.	Cash (Rs.)	Bank (Rs.)
					05.06.24	By Sudheer			1,00,000

Key Points

1. When a cheque is received from a customer and deposited in the bank is returned dishonoured (i.e., is not paid), the Customer's Account is debited and the Bank Account is credited.

2. A cheque received may be given to another party, i.e., endorsed to another party. The receipt and endorsement of cheque is recorded through a Journal Entry because cheque in this case is not deposited in the Bank Account. For example, cheque for Rs. 20,000 received from Rajesh is endorsed in favour of Ajay, the Journal entry will be as follows.

Date	Particulars	L. F.	Debit (Rs.)	Credit (Rs.)
	Ajay Dr. To Rajesh (Cheque received from Rajesh endorsed in favor of Ajay)		20,000	20,000

3. Cheques or drafts deposited by customers directly into the bank are entered in the bank column in the debit or receipts side of the Cash Book.

4. If the firm pays charges for services to the bank, these charges are called Bank Charges. These are written in the payments or credit side of the Cash Book in the bank column.

5. Cash Discount Allowed or Received are recorded by passing a Journal Entry.

5. Double Column Cash Book

Contra entries are transactions that are recorded to reflect the transfer of funds within the same entity, typically between cash and bank accounts. These entries appear on both sides of the cash book because they affect both cash and bank balances simultaneously.

For example, consider a transaction for cash deposited in Bank Rs. 50,000.

In this transaction, Bank Account is to be debited and Cash Account is to be credited. Debit aspect is recorded in the receipts or debit side of the Double Column Cash Book in the Bank Column and credit aspect is recorded in the payments or credit side or Double Column Cash Book in the Cash Column.

In the Cash Book, the above transaction will be recorded as follows.

Dr. **Cash Book** Cr.

Date	Receipts	L. F.	Cash (Rs.)	Bank (Rs.)	Date	Payments	L. F.	Cash (Rs.)	Bank (Rs.)
	To Cash A/c	C	--	50,000		By Bank A/c	C	50,000	--

Similarly, a transaction for cash withdrawn from bank for office use for Rs. 25,000

In this transaction, Cash Account is to be debited and Bank Account is credited, Debit aspect is recorded in the receipts or debit side of the Double Couumn Cash Book in the Cash Column and credit aspect is recorded in the payments or credit side of the Double Column Cash Book in the Bank Column.

In the Cash Book, it will be recorded as follows.

Dr. **Cash Book** Cr.

Date	Receipts	L. F.	Cash (Rs.)	Bank (Rs.)	Date	Payments	L. F.	Cash (Rs.)	Bank (Rs.)
	To Bank A/c	C	25,000	--		By Cash A/c	C	--	25,000

Note that Contra entries are not posted in the Ledger Account and are marked with letter 'C' written in the L. F. column to indicate that these are contra transactions and are not posted in the Ledger Account.

5. Double Column Cash Book

Overdraft facilities are often used by businesses and individuals to manage cash flow and cover short-term financial needs.

A bank overdraft is a facility provided by a bank that allows an account holder to withdraw more money than what is available in their account, up to a specified limit. This creates a negative balance in the account, essentially providing short-term credit to the account holder.

For example, suppose Ramesh has a current account with ABC Bank with a balance of Rs. 5,000. His bank has approved an overdraft limit of Rs. 20,000 for his account. One day, Ramesh needs Rs. 10,000 to pay for an emergency expense. Although his account balance is only Rs. 5,000, he can withdraw the additional Rs. 5,000 needed, putting his account balance at (-) Rs. 5,000. Ramesh will be charged interest on the overdrawn amount (Rs. 5,000) until he deposits enough money to bring his account back to a positive balance.

Bank overdraft has credit balance, i.e., is a liability meaning that such amount is payable to the Bank.

If a business has credit bank balance (i.e., overdraft) in the beginning of a period, it is shown in the payments or credit side of the Cash Book as 'By balnce b/d'.

An example showing Cash Book with overdraft balance in the opening and at the closing with hypothetical figures is given below.

Bank overdraft

Dr. **Cash Book (Double Column)** Cr.

Date	Receipts	L. F.	Cash (Rs.)	Bank (Rs.)	Date	Payments	L. F.	Cash (Rs.)	Bank (Rs.)
2024 Jan. 1	To balance b/d		12,000	--	2024 Jan. 1	By balance b/d		--	16,000
Jan. 3	To Cash A/c	C	--	5,000	Jan. 3	By Bank A/c	C	5,000	--
Jan. 31	To balance c/d (Bal. figure)		--	21,650	Jan. 10	By Purchases A/c		--	10,000
					Jan. 31	By Bank Charges A/c		--	650
					Jan. 31	By Balance c/d (Bal. figure)		7,000	--
			12,000	26,650				12,000	26,650
Feb. 1	To balance b/d		7,000	--	Feb. 1	By balance b/d		--	21,650

Bank overdraft

At the end of the period, bank column is balanced and if debit side total is short (i.e., overdraft), the bank column is balanced by entering 'To balance c/d' in the bank column in the receipts or debit side of the Cash Book.

Then, in the beginning of the following year, it is entered in the payments or credit side of the Cash Book as 'By balance b/d'.

6. Triple Column Cash Book

Triple Column Cash Book has three amount columns, one for cash, one for bank and one for discount on each side.

Dr. **Format of Triple Column Cash Book** Cr.

Date	Receipts	L. F.	Discount (Rs.)	Cash (Rs.)	Bank (Rs.)	Date	Payments	L. F.	Discount (Rs.)	Cash (Rs.)	Bank (Rs.)

All cash receipts, deposits into book and discounts allowed are recorded on the debit side and all cash payments, withdrawals from bank and discounts received are recorded on the credit side.

In fact, a triple-column cash book serves the purpose of both cash account and bank account. Thus, there is no need to create these two accounts in the ledger.

The discount columns are totalled but not balanced. The cash columns are balanced exactly in the same manner as indicated for the simple cash book. The process is similar for balancing the bank columns also.

6. Triple Column Cash Book

Enter the following transactions in Cash Book with Discount and Bank Columns. Cheques are first treated as cash receipt.

2024		Amount (in Rs.)
April 1	Mansi commences business with Cash	30,000
April 3	She paid into Current A/c	29,000
April 4	She received cheque from Kirti & Co. on account	600
April 7	She pays in bank Kirti & Co.'s cheque	600
April 10	She pays Rattan & Co. by cheque and is allowed discount Rs. 20	330
April 12	Tripathi & Co. pays into his Bank A/c	475
April 15	She receives cheque from Warsi and allows him discount Rs. 35	450
April 20	She receives cash Rs. 75 and cheque Rs. 100 for cash sale	
April 25	She pays into Bank, including cheques received on 15th and 20th	1,000
April 27	She pays for cash purchase	275
April 30	She pays sundry expenses in cash	50

Solution:

The Triple Column Cash Book is given below.

Dr. **Cash Book** Cr.

Date	Receipts	L. F.	Discount (Rs.)	Cash (Rs.)	Bank (Rs.)	Date	Payments	L. F.	Discount (Rs.)	Cash (Rs.)	Bank (Rs.)
01.04.24	To Capital A/c			30,000		03.04.24	By Bank A/c	C		29,000	
03.04.24	To Cash	C			29,000	07.04.24	By Bank A/c	C		600	
04.04.24	To Kirti & Co.			600		10.04.24	By Ratan & Co.		20		330
07.04.24	To Cash	C			600	25.04.24	By Bank A/c	C		1,000	
12.04.24	To Tripathi & Co.				475	27.04.24	By Purchases A/c			275	
15.04.24	To Warsi		35	450		30.04.24	By S. Exp. A/c			50	
20.04.24	To Sales A/c			175							
25.04.24	To Cash	C			1,000						
						31.04.24	By balance c/d (Bal. figure)			300	30,745
			35	31,225	31,075				20	31,225	31,075
01.05.24	To Balance b/d			300	30,745						

7. Petty Cash Book

Petty Cash Book is used for recording payment of petty expenses, which are of smaller denominations like postage, stationery, conveyance, refreshment, etc. Person who maintains petty cash book is known as *petty cashier* and these small expenses are termed as *petty expenses*.

SPECIMEN PETTY CASH BOOK (IMPREST SYSTEM)

(WITH IMAGINARY FIGURES)

Amount in Rs.

Receipts	Date 2024	Voucher No.	Particulars	Total	Con-veyance	Cartage	Stationery	Postage	Wages	Sundries
100	Jan.1		To Cash							
	2	1	By Conveyance	.50	.50					
		2	By Cartage	2.50		2.50				
	3	3	By Postage	5.00				5.00		
		4	By Wages	6.00					6.00	
	4	5	By Stationery	4.00			4.00			
		6	By Conveyance	2.00	2.00					
	5	7	By RepairstoFurniture	15.00						15.00
		8	By Conveyance	1.00	1.00					
		9	By Cartage	4.00		4.00				
	6	10	By Postage	7.00				7.00		
	6	11	By Conveyance	3.00	3.00					
	6	12	By Cartage	3.00		3.00				
	6	13	By Stationery	2.00			2.00			
	6	14	By General Expenses	5.00						5.00
				60.00	6.50	9.50	6.00	12.00	6.00	20.00
			By Balance c/d	40.00						
100				100.00						
40.00			To Balance b/d							
60.00	8		To Cash							

Petty Cash Book is prepared by the following methods:

1. Ordinary system: In this case, a fixed sum of money is paid to petty cashier for the payment of petty expenses and after spending the whole amount, the account is submitted by the petty cashier to the main cashier.

2. Imprest system: Under this system, a definite sum, say Rs. 2,000 is given to the petty cashier at the beginning of a certain period. This amount is called imprest amount. The petty cashier goes on making all small payments out of this imprest amount and when he has spent the substantial portion of the imprest amount say Rs. 1,780, he gets reimbursement of the amount spent from the head cashier. Thus, he again has the full imprestamount in the beginning of the next period. The reimbursement may be made on a weekly, fortnightly or monthly basis, depending on the frequency of small payments.

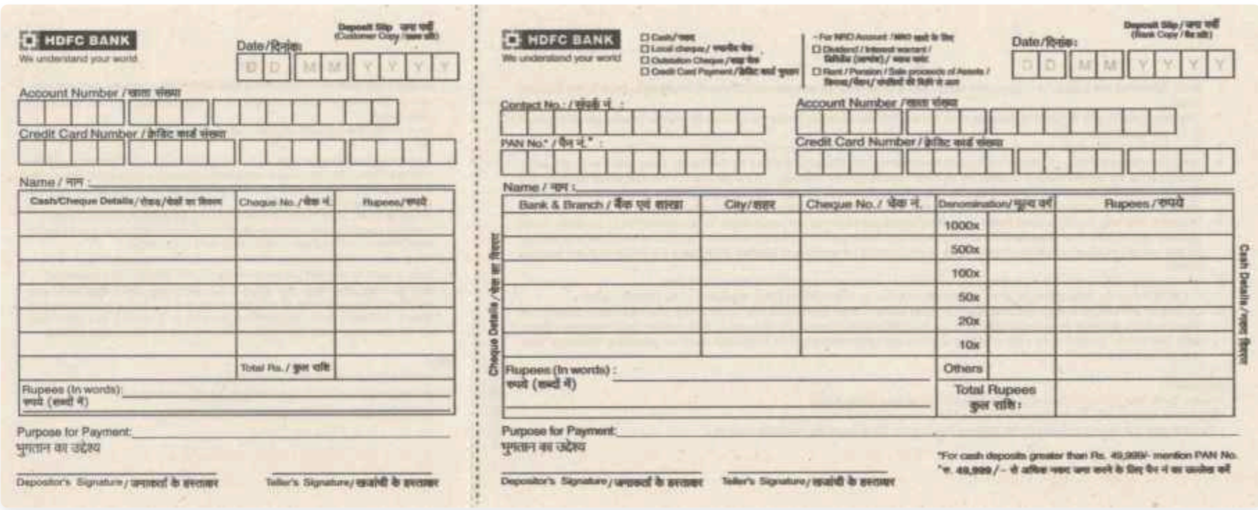
Posting from the Petty Cash Book

The petty cash book is balanced periodically. The difference between the total receipts and total payments is the balance with the petty cashier. The balance is carried to the next period and the petty cashier is paid the amount actually spent.

A petty cash account is opened in the ledger. It is debited with the amount given to petty cashier. Each expense account is individually debited with the periodic total as per the respective column by writing "petty cash account" and the petty cash account is credited with the total expenditure incurred during the period by writing sundries as per petty cash book. The petty cash account is balanced. It reflect the actual cash with the petty cashier.

8. Cheques and related terms

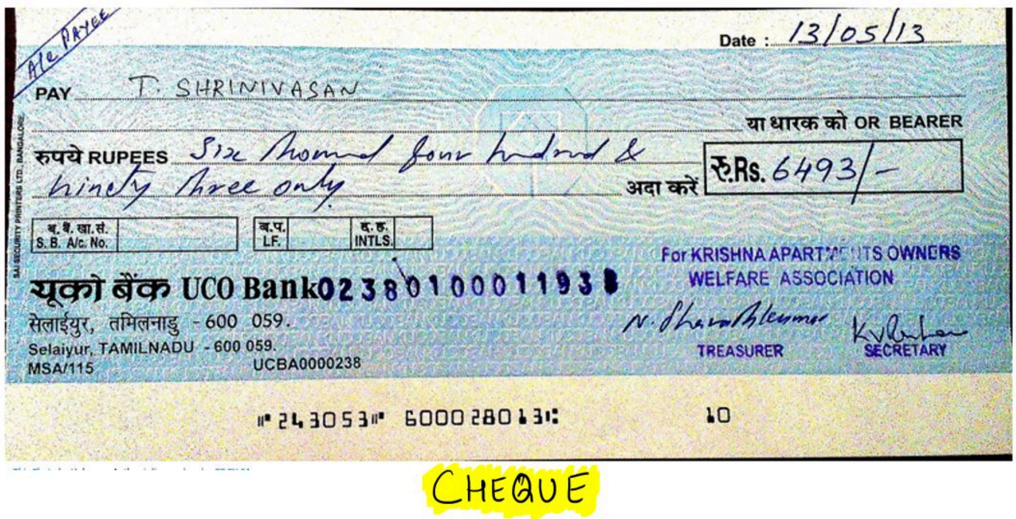
A businessman generally opens a current account with a bank. Bank, do not allow any interest on the balance in current account but charge a small amount, called incidental charges, for the services rendered.



For depositing cash/cheques in the bank account, a form has to be filled, which is called a **pay-in-slip**. It contains a counterfoil also which is returned to the customer (depositor) with the signature of the cashier, as receipt.

Bearer Cheque and Order Cheque

The bank issues blank cheque forms, to the account holder for withdrawing money. The depositor writes the name of the party to whom payment is to be made after the words 'Pay' printed on the cheque. Cheque forms have the printed word bearer, which means payment is to be made to the person whose name has been written after the words “pay” or the bearer of the cheques.



When the world ‘bearer’ is struck off by drawing a line, the cheque becomes an order cheque. It means payment is to be made to the person whose name is written on the cheque or to his order after proper identification.

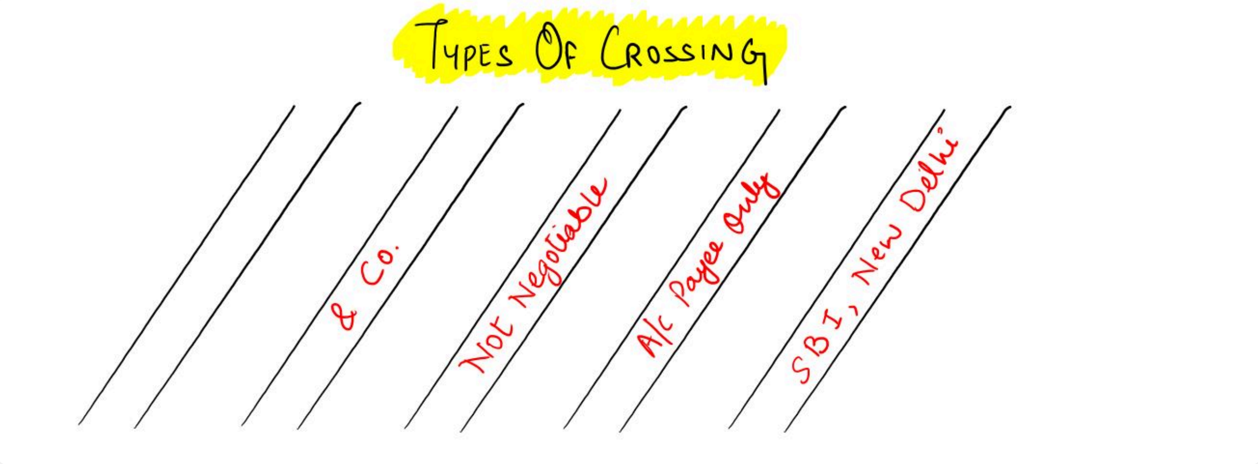
A bearer cheque can be passed on by mere delivery.

An order cheque can be transferred by endorsement and delivery. **Endorsement** means the writing of instructions to pay the cheque to a particular person and then singing it on the back of the cheque.

8. Cheques and related terms

Cheque crossing is a simple way to make cheques safer by restricting how they can be cashed. When you cross a cheque, you draw two parallel lines on the top left corner of the cheque, which means the cheque can’t be cashed directly at the bank counter. Instead, the money must be transferred through a bank account, making it more secure. Sometimes, the words "& Co." are written between these lines, but this is optional.

Here are the different types of cheque crossings:



1. General Crossing
Two parallel lines are drawn on the cheque, with or without the words "not negotiable." This means the cheque cannot be cashed at the counter but must go through a bank account.

2. Special Crossing
In addition to the lines, the name of a specific bank is written on the cheque. Only the bank named can collect the cheque, adding an extra layer of security.

3. Account Payee or Restrictive Crossing
The words "Account Payee" or "Account Payee Only" are added to the general or special crossing. This ensures that the cheque amount is credited only to the payee’s account, providing even more protection.

4. Not Negotiable Crossing
When a cheque has the words "not negotiable," it means that the person receiving the cheque cannot get a better title to the cheque than the original holder. This type of crossing is used to protect the drawer from loss or theft.

8. Cheques and related terms

If a cheque received from a customer is dishonoured, the bank will return the dishonoured cheque and debit the firm's account. On receipt of such cheque or intimation from the bank, the firm will make an entry on the credit side of the cash book by entering the amount of the dishonoured cheque in the bank column and the name of the customer in the particulars column.

This entry will restore the position prevailing before the receipt of the cheque form the customer and its deposit in the bank.

Dishonour of a cheque means return of the cheque unpaid, generally due to insufficient funds in the customer's account with the bank.

If the bank debits the firm on account of interest, commission or other charges for bank services, the entry will be made on the credit side in bank column. If the bank credits the firm's account, the entry will be made on the debit side of the cash book in the appropriate column.

9. Sales through Debit or Credit Cards

Sales through credit and debit cards are facilitated by almost every bank, either directly or in collaboration with other agencies. Popular cards include HSBC, SBI, BOB, ICICI Bank, HDFC, and Andhra Bank cards.

Procedure for Issuing Credit/Debit Cards

The procedure for issuing Credit or Debit Cards is given below.

1. Issuance: Banks issue a small plastic card (credit or debit) after verifying the customer's credibility, typically measured by their income. Debit cards are issued to customers with a bank account, and ATM cards can also function as debit cards. These cards have an embossed 16-digit number and the cardholder's name.

2. Fees: Banks generally charge an annual subscription fee for credit cards. Debit cards usually have no fee, though some banks may charge a nominal fee.

3. Transaction Process: When buying goods or services, the seller swipes the customer's card and inputs the sale amount. The customer then authorizes the transaction by entering their PIN. The customer receives a receipt, and the seller keeps a copy for records.

4. Settlement: The seller submits the sales amounts to their bank daily. The bank credits the seller's account and debits the card-issuing bank or company's account.

5. Commission: The card-issuing bank charges a commission of 1% to 4% per transaction, debited from the seller's bank account.

6. Statements: The bank sends a monthly statement to the cardholder. Debit card transactions immediately debit the cardholder's account. For credit cards, the cardholder must pay the amount in full or part; unpaid amounts incur interest.

Accounting for Credit/ Debit Card Sale

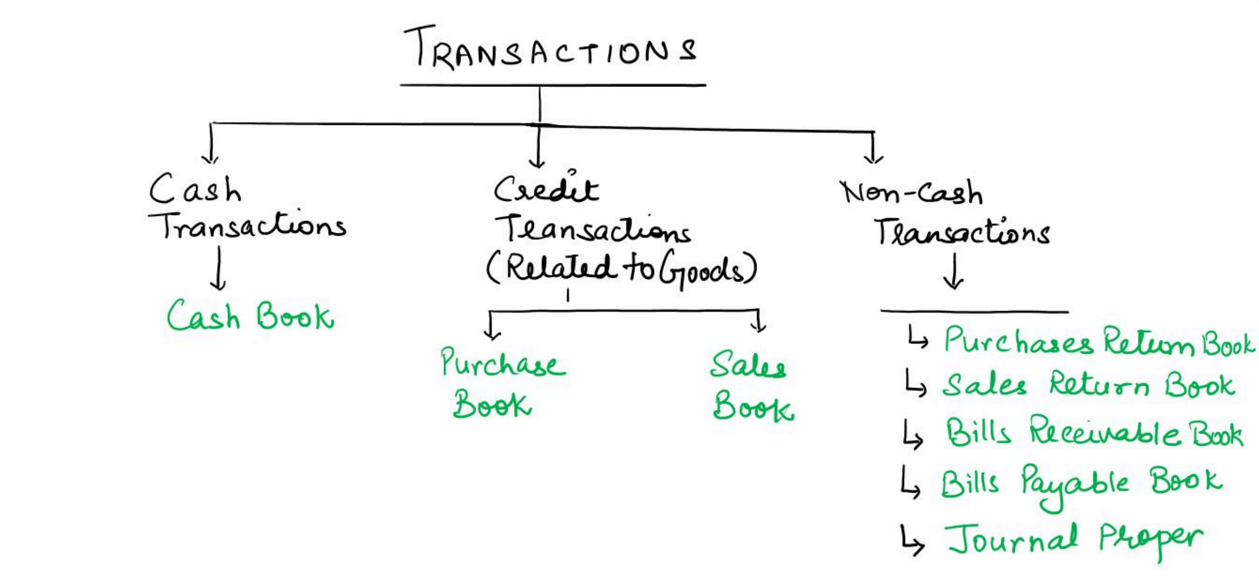
From the seller's point of view, this type of sale is equivalent to a cash sale. Commission charged by the bank will be treated as selling expenses.

Sl. No.	Particulars	L. F.	Debit (Rs.)	Credit (Rs.)
1.	Bank A/c Dr. To Sales A/c (Sales made through Credit/Debit Card)			
2.	Commission A/c Dr. To Bank A/c (Commission charged by Bank)			

The above journal entries will be made in the seller's books of accounts.

1. Introduction

In a business, most transactions involve cash receipts and payments, and the sale and purchase of goods. To manage these, separate registers or books of original entry are maintained for each type of transaction. These registers, also known as subsidiary books, do not require journal entries and form the basis for preparing ledger accounts.

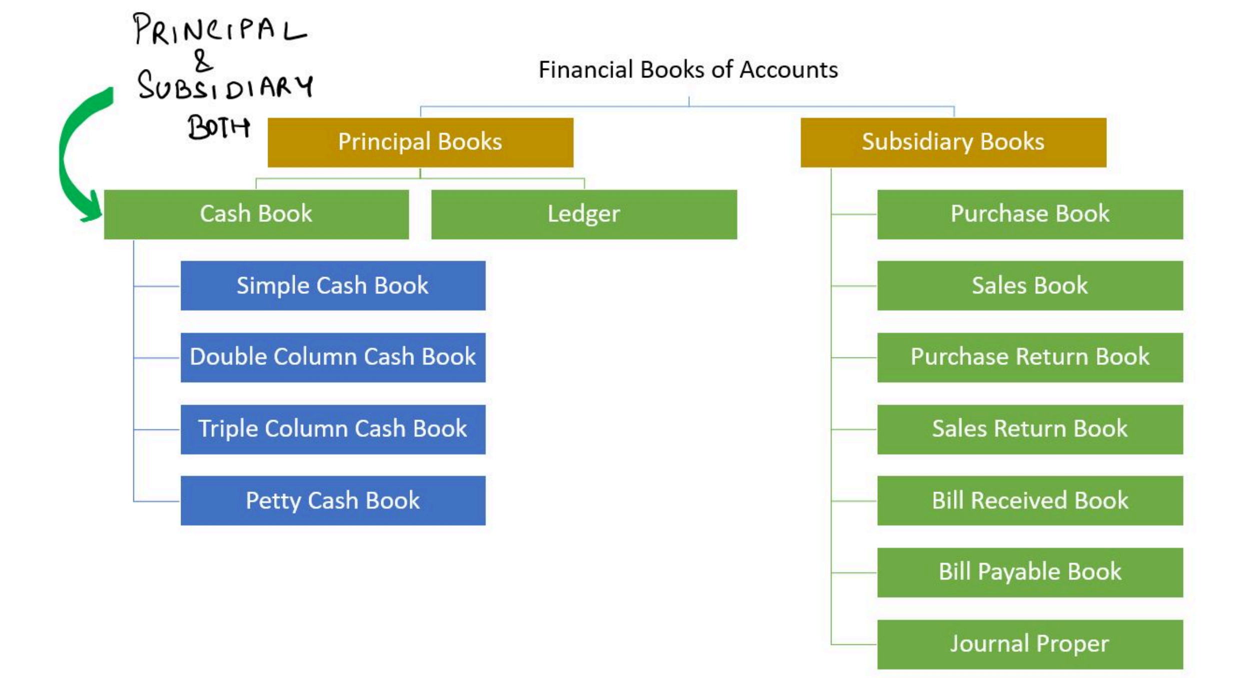


To put it in simple words, all cash transactions are recorded in the cash book. Credit purchases go in the purchases book, and credit sales are recorded in the sales book. For non-cash transactions, such as purchase returns, sales returns, bills receivable, and bills payable, separate books are maintained. Any transactions that don't fit into these special books are recorded in the Journal Proper.

2. Types of Books of Account

Financial books of account are divided into principal books and subsidiary books. The principal books include the cash book and the ledger. The cash book serves a dual purpose, acting as both a journal and a ledger, recording all cash transactions, whether receipts or payments. The ledger is the main book that contains all the individual accounts for assets, liabilities, equity, income, and expenses, summarizing all transactions and providing the financial position of the business.

Subsidiary books, also known as special journals, are used for recording specific types of transactions in detail before they are posted to the ledger. These include the purchases book (for credit purchases), sales book (for credit sales), purchases returns book, sales returns book, bills receivable book, and bills payable book. Additionally, the journal proper records miscellaneous transactions that do not fit into the other special books.



Common subsidiary books used in business include:

1. **Cash Book:** Records all cash transactions, including bank receipts and payments.
2. **Purchases Book:** Records credit purchases of goods and materials.
3. **Purchase Returns Book:** Records returns of previously purchased goods.
4. **Sales Book:** Records sales of goods.
5. **Sales Returns Book:** Records returns of goods sold to customers.
6. **Bills Receivable Book:** Records receipts of promissory notes or hundies.
7. **Bills Payable Book:** Records the issuance of promissory notes or hundies.
8. **Journal (Proper):** Records transactions not covered by the other seven books.

These books of original or primary entry are also called **Special Purpose Books** or **Special Journals** or **Subsidiary books**.

Note that the books in which transactions are first recorded to enable further processing are called subsidiary books. The ledger and the cash book are the principal books since they furnish information for preparation of the trial balance and financial statements.

These subsidiary books are discussed next one by one.

3. Purchases Book

To record credit purchases of goods or materials used in a business, firms typically maintain a separate register known as the Purchases Book or Purchases Journal.

FORMAT OF PURCHASES BOOK

Date	Particulars	Details	Amount

It should be noted that:

1. Cash purchases are not recorded in this book, as they are entered in the Cash Book.
2. Credit purchases of non-goods items, such as office furniture or typewriters, are journalized and not entered in the Purchases Book.

In the 'particulars' column, the supplier's name and the details of the purchased articles, including quantities, are recorded. The amount for each article is entered in the 'details' column. After totaling the amounts for a single purchase, any packing or other charges are added, and any trade discount is deducted. The net amount is entered in the 'amount' column. The total in the amount column reflects the total purchases made during a period.

Posting from the purchases journal

Posting from the purchases journal is done daily to their respective accounts with the relevant amounts on the credit side. The total of the purchases journal is periodically posted to the debit of the purchases account normally on the monthly basis. However, if the number of transactions is very large, this total may be done and posted at some other convenient time interval such as daily, weekly or fortnightly.

Purchases Book Vs. Purchases Account

The difference between Purchases Book and Purchases Account is given below.

Basis	Purchases Book	Purchases Account
Part	It is a part of Journal.	It is a part of Ledger.
Format	Like Ledger account, it does not have debit and credit columns.	It has debit and credit columns.
Contents	Only credit purchases of goods dealt in or consumed for production are recorded.	Credit as well as cash purchases of goods dealt in or consumed for production are recorded.
Amount	Total of Purchases Book is posted to the Purchases Account.	Balance in the account is transferred to the Trading Account.

3. Purchases Book

The Rough Book of M/s. Satya & Co. contains the following.

Date	Transaction
2024	
April 1	Purchased from Orange & Co. on credit: 5 gross pencils @ Rs. 200 per gross, 3 dozen registers @ Rs. 240 per doz. Less: Trade Discount @ 10%
April 2	Purchased for cash from Gupta Stationery Mart: 10 gross exercise books @ Rs. 300 per doz.
April 3	Purchased computer for office use from M/s Naveen Goods Co. on credit for Rs. 40,000
April 4	Purchased on credit from The Wood pulp Co. 7 reams of white paper @ Rs. 100 per ream 8 reams of ruled paper @ Rs. 150 per ream Less: Trade Discount @ 10%
April 5	Purchased one dozen gel pens @ Rs. 15 each from M/s Sharma Bros. on credit

Make out the Purchase Book of M/s. Satya & Co.

Solution:

Purchases Book

(Amount in Rs.)

Date	Particulars	Details	Amount
2024 April 1	M/s. Orange & Co. 5 gross pencils @ Rs. 200 per gross 3 dozen register @ Rs. 240 per doz. *Less:* 10% trade discount	 1,000 720 1,720 172	1,548
April 4	The Wood pulp Co. 7 reams white paper @ Rs. 100 per ream 8 reams ruled paper @ Rs. 150 per ream *Less:* 10% trade discount	 700 1,200 1,900 190	1,710
April 5	M/s Sharma Bros. 1 doz. Gel pens @ Rs. 15 each	180	180
	TOTAL		3,438

Note

Purchases of cash and purchase of computer are not recorded in the Purchase Book.

3. Purchases Book

Enter the following transactions in Purchase Book.

Date	Transaction
2024	
April 4	Purchased from Sachin Enterprises, Delhi 200 Doz. Hawai Chappal @ Rs. 120 per dozen 300 Doz. Leather Chappal @ Rs. 300 per dozen Less: Trade Discount @ 10% Freight charges Rs. 150
April 15	Purchased from Shiv Traders, Delhi 30 doz. Boxer Shoes @ 400 per doz. 80 pair Sports Shoes @ Rs. 140 per pair Less: Trade Discount @ 10% Freight Charges Rs. 200
April 28	Purchased from Seema Industries, Aligarh 50 pair leather shoes @Rs. 400 per pair 100 doz. Silky Hawai Chappal @ Rs. 180 per doz. Less: Trade Discount @ 10% Packing Charges Rs. 200

Solution:

Purchases Book (Amount in Rs.)

Date	Particulars	Details	Gross Amount	Trade Discount	Net Price	Freight	Packing Charges	Total Amount
2024 April 4	Sachin Enterprises, Delhi 200 Doz. Hawai Chappal @ Rs. 120 per dozen 300 Doz. Leather Chappal @ Rs. 300 per dozen *Less:* 10% trade discount	24,000 90,000	1,14,000	11,400	1,02,600	150	--	1,02,750
April 15	Shiv Traders, Delhi 30 doz. Boxer Shoes @ 400 per doz. 80 pair Sports Shoes @ Rs. 140 per pair *Less:* 10% trade discount	12,000 11,200	23,200	2,320	20,880	200	--	21,080
April 28	Seema Industries, Aligarh 50 pair leather shoes @Rs. 400 per pair 100 doz. Silky Hawai Chappal @ Rs. 180 per doz. Less: Trade Discount @ 10% Freight Charged Rs. 200	20,000 18,000	38,000	3,800	34,200	--	200	34,400
	TOTAL		1,75,200	17,520	157,680	350	200	158,230

4. Purchases Return Book or Returns Outward Book

The Purchases Return Book, also known as the Returns Outward Book, is a subsidiary book used to record goods or materials returned to sellers that were purchased on credit. Returns of goods purchased with cash or the return of any assets are not recorded in this book.

FORMAT OF PURCHASES RETURN BOOK

Date	Particulars	Debit Note No.	L. F.	Details	Amount

Goods may be returned for several reasons:

- Goods do not match the sample.
- Goods are defective.
- Goods do not match the order.
- Goods were delivered late and the customer refused to accept them.

In these cases, the purchaser prepares a Debit Note and sends it to the supplier.

A Debit Note is a document notifying the supplier that a debit has been made to their account, including the reason for the debit. Entries in the Purchases Return Book are made based on the Debit Note.

Posting from the purchases returns journal

Posting from the purchases returns journal requires that the supplier’s individual accounts are debited with the amount of returns and the purchases returns account is credited with the periodical total.

4. Purchases Return Book or Returns Outward Book

Record the following transactions in Purchases Return Book.

Date	Transaction
2024	
June 12	Returned 3 washing machines purchased from M/s Kanhaiya Electronics at the list price of Rs. 9,000 per machine, less Trade Discount 20%
June 20	Returned 6 cameras to M/s Mahi Electronics purchased at Rs. 3,000 each

Solution:

Purchases Return Book (Amount in Rs.)

Date	Particulars	Debit Note No.	L. F.	Details (Rs.)	Amount (Rs.)
2024					
June 12	M/s Kanhaiya Electronics				
	3 Washing Machines @ Rs. 9,000 each			27,000	
	Less: Trade Discount 20%			5,400	21,600
June 20	M/s Mahi Electronics				
	6 Cameras @ Rs. 3,000 each			18,000	18,000
	TOTAL				39,600

4. Purchases Return Book or Returns Outward Book

Consider the following details obtained from M/s Kanika Traders.

Record the transactions in the purchase journal. Also show the posting from the purchases journal to the ledger accounts.

Date	Transaction
2024	
Aug. 04	Purchased from M/s Neema Electronics (invoice no. 3250): 20 Mini-size T.V. @ Rs. 2,000 per piece, 15 Tape recorders @ Rs. 12,500 per piece. Trade discount on all items @ 20%.
Aug. 10	Bought from M/s Pawan Electronics (invoice no. 8260): 10 Video cassettes @ Rs. 150 per piece, 20 Tape recorders @ Rs. 1,650 per piece. Trade discount @ 10% on purchases.
Aug. 26	Purchased from M/s Neema Electronics (Invoice No. 3294): 10 Mini-size T.V. @ Rs. 1,000 per piece, 5 Colour T.V. @ Rs. 12,500 per piece. Trade discount @ 20%.

Solution:

Purchases Journal Book will be prepared as follows.

Books of Kanika Traders
Purchases (Journal) Book

(Amount in Rs.)

Date	Particulars	Details	Amount
2024			
Aug. 04	Neema Electronics		
	20 Mini-size T.V. @ Rs. 2,000 per piece	40,000	
	15 Tape recorders @ Rs. 12,500 per piece	1,87,500	
		2,27,500	
	Less: 20% trade discount	45,500	1,82,000
Aug. 10	M/s Pawan Electronics		
	10 Video cassettes @ Rs. 150 per piece	1,500	
	20 Tape recorders @ Rs. 1,650 per piece	33,000	
		34,500	
	Less: 10% trade discount	3,450	31,050
Aug. 26	Neema Electronics		
	10 Mini-size T.V. @ Rs. 1,000 per piece	10,000	
	5 Colour T.V. @ Rs. 12,500 per piece	62,500	
		72,500	
	Less: 20% trade discount	14,500	58,000
	TOTAL		2,71,050

The posting from the purchases journal to the ledger accounts is illustrated as follows:

Books of Kanika Traders

Neema Electronics

Dr. Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
			2024		
			Aug. 04	Purchases	1,82,000
			Aug. 26	Purchases	58,000

Pawan Electronics

Dr. Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
			2024		
			Aug. 10	Purchases	31,050

Purchases Account

Dr. Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
2024 Aug. 31	Sundries as per Purchase Journal	2,71,050			

Now, in the books of Kanika Traders you will notice that 20 mini size T.V.'s and 15 tape- recorders were bought from Neema Electronics for Rs. 1,82,000. However, on delivery 2 mini T.V.'s and a tape recorder were found defective and were returned back vide debit note no. 03/2024.

In this case, the purchases return books will be prepared as follows:

Books of Kanika Traders

Purchases Return (Journal) Book

Date	Debit No.	Name of the Supplier (Account to be debited)	L. F.	(Amount in Rs.)
	03/2024	Neema Electronics		
		2 Mini-size T.V. @ Rs. 2,000 per piece		4,000
		1 Tape recorder @ Rs. 12,500 per piece		12,500
				16,500
		Less: 20% Trade Discount		3,300
				13,200

Posting from the purchases returns journal requires that the supplier's individual accounts are debited with the amount of returns and the purchases returns account is credited with the periodical total.

Dr. Neema Electronics Account Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
	Purchases Return	13,200			

Dr. Purchases Return Account Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
				Sundries as per Purchases Returns book	13,200

5. Sales Book

The Sales Book is a register specifically maintained to record credit sales of goods dealt in by the firm. Cash sales are recorded in the Cash Book, not in the Sales Book. Credit sales of items other than the firm's goods are journalized instead of being entered in the Sales Book. The rules for the Sales Book are the same as for the Purchases Book.

FORMAT OF SALES BOOK

Date	Particulars	Details	Amount

Entries in the Sales Book are made in the same manner as in the Purchases Book. The 'particulars column' records the names of customers along with details and quantities of goods sold. For each item, the amount is entered in the 'details' column. After totaling the amounts for a single sale, packing charges and other fees are added, and any trade discount is deducted. The net amount is recorded in the outer column. The total of this column shows the total credit sales for a period.

Posting from the sales journal to Ledger

Posting from the sales journal are done to the debit of customer's accounts kept in the ledger. Like the purchases journal, individual customer's accounts are generally posted daily, with the amount involved. The sales journal is also totaled periodically (generally monthly), and this total is credited to sales account in the ledger.

Sales Book Vs. Sales Account

The difference between Sales Book and Sales Account is given below.

Basis	Sales Book	Sales Account
Part	It is a part of Journal Book.	It is a part of Ledger.
Format	Like a Ledger account, it does not have debit and credit columns.	It has debit and credit columns.
Contents	Only credit sales of goods are recorded.	Credit as well as cash sales of goods are recorded.
Amount	Total amount of Sales Book is posted to the Sales Account periodically.	Balance in the account is transferred to the Trading Account.

5. Sales Book

The following are some of the transaction of M/s Kishori Lal & Sons of the year 2024 as per their Waste Book. Make out their Sales Book.

Date	Transaction
2024	
April 4	Sold to M/s Shamim & Co. on credit 50 shirts @ Rs. 800 per shirt 40 trousers @ Rs. 1,000 per trouser Less: Trade Discount @ 10%
April 10	Sold furniture to M/s Kapoor & Co. on credit Rs. 7,000
April 16	Sold 70 shirts to M/s Sharma & Sons @ Rs. 800 per shirt
April 19	Sold 25 shirts to Excellent Stores @ Rs. 750 each for cash
April 25	Sold on credit to M/s Paleta Bros. 100 shirts @ Rs. 750 per shirt 10 overcoats @ Rs. 3,000 per overcoat Less: Trade Discount @ 10%

Solution:

Sales Book (Amount in Rs.)

Date	Particulars	Details	Amount
2024			
April 4	M/s. Shamim & Co.		
	50 shirts @ Rs. 800 per shirt	40,000	
	40 trousers @ Rs. 1,000 per trouser	40,000	
		80,000	
	Less: 10% trade discount	8,000	72,000
April 16	Sharma & Sons		
	70 shirts @ Rs. 800 per shirt	56,000	56,000
April 25	M/s Paleta Bros.		
	100 shirts @ Rs. 750 per shirt	75,000	
	10 overcoats @ Rs. 3,000 per overcoat	30,000	
		1,05,000	
	Less: 10% trade discount	10,500	94,500
	TOTAL		2,22,500

Note:

Cash sale and sale of furniture are not entered in Sales Book.

5. Sales Book

From the following information of M/s Khanduja & Sons, prepare Sales Book.

Date	Transaction
2024	
April 1	Sold to M/s Gulshan Tea, Assam 3 chests of tea for Rs. 6,000 per chest Less: Trade Discount @ 5%
April 4	Sold to M/s Sohan & Sons, Kolkata 30 Kg White Butter @ 275 per kg Less: Trade Discount @ 5%
April 5	Sold to Jerry & Sons, Delhi 40 Kg Assam Tea @ 400 per kg Less: Trade Discount @ 5% Freight Rs. 1,000 Packing Charges Rs. 600
April 6	Sold to Heera Bros. Delhi White Butter for cash @Rs. 275 per kg
April 7	Sold office furniture to Aman & Co. for Rs. 6,000

Solution:

Sales Book (Amount in Rs.)

Date	Particulars	Details	Sales Value	Trade Discount	Net Price	Freight	Packing Charges	Total Amount
2024 April 1	M/s Gulshan Tea, Assam 3 chests of tea for Rs. 6,000 per chest	18,000						
	Less: Trade Discount @ 5%		18,000	900	17,100	--	--	17,100
April 4	M/s Sohan & Sons, Kolkata 30 Kg White Butter @ 280 per kg	8,400						
	Less: Trade Discount @ 5%		8,400	420	7,980	--	--	7,980
April 5	Sold to Jerry & Sons, Delhi 40 Kg Assam Tea @ 400 per kg	16,000						
	Less: Trade Discount @ 5% Freight Rs. 1,000 Packing Charges Rs. 600		16,000	800	15,200	1,000	600	16,800
	TOTAL		42,400	2,120	40,280	1,000	600	41,880

Notes:

1. Transaction of 6th April 2024 will not be written in the Sales Book, it being Cash Sales.

2. Transaction of 7th April 2024 will not be written in the Sales Book, it being sale of asset and not goods.

6. Sales Returns Book or Returns Inward Book

The Sales Return Book, also known as the Returns Inward Book, is a subsidiary book used to record goods or materials returned by customers that were originally sold on credit. This book is maintained if returns are frequent; otherwise, they can be recorded in the Journal.

FORMAT OF SALES RETURN BOOK

Date	Particulars	Credit Note No.	L. F.	Details	Amount

Note that a credit note is prepared when goods are returned by the purchaser, and it serves as the basis for recording the entry in the Sales Return Book. This document provides evidence that a credit entry has been made to the debtor's account.

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6. Sales Returns Book or Returns Inward Book

Prepare Sales Return Book in the Books of Paul & Co., Mumbai from the following transactions:

Date	Transaction
2024	
April 6	Goods returned by Saga Co., Delhi 4 Table Fans @ Rs. 1,000 each Less: Trade Discount 15%
April 12	Nikhil Electricals, Surat returned defective Room Cooler Rs. 6,250

Solution:

Sales Return Book

(Amount in Rs.)

Date	Particulars	Credit Note No.	L. F.	Details (Rs.)	Amount (Rs.)
2024 April 6	Saga Co., Delhi 4 Table Fans @ Rs. 1,000 each Less: Trade Discount 15%			4,000 600	3,400
April 12	Nikhil Electricals 1 Room Cooler			6,250	6,250
	TOTAL				9,650

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6. Sales Returns Book or Returns Inward Book

M/s Koina Suppliers sold on credit:

(i) 2 water purifiers @ Rs. 2,100 each and 5 buckets @ Rs. 130 each to M/s Raman Traders (Invoice no. 178 dated April 06, 2024).

(ii) 5 road side containers @ Rs. 4,200 each to M/s Nutan enterprises (Invoice no. 180 dated April 09, 2024) .

(iii) 100 big buckets @ Rs. 850 each to M/s Raman traders (Invoice no. 209, dated April 28, 2024).

Enter the above stated transactions in a sales journal and post them into related ledger accounts.

Solution:

Books of Koina Suppliers

Sales (Journal) Book

(Amount in Rs.)

Date	Invoice No.	Particulars	Details	Amount
2024 April 6	178	M/s. Raman Traders 2 Water Purifiers @ Rs. 2,100 each 5 Buckets @ Rs. 130 each	 4,200 650	 4,850
April 9	180	M/s Nutan Enterprises 5 Roadside Containers @ Rs. 4,200 each	 21,000	 21,000
April 28	209	M/s Raman Traders 100 big buckets @ Rs. 850 each	 85,000	 85,000
April 30		TOTAL		1,10,850

The sales (journal) book illustrated above will be posted in the related ledger account in the following manner:

Dr. Raman Traders Account Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
2024 06 April 28 April	 Sales Sales	 4,850 85,000			

Dr. Nutan Enterprises Account Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
2024 01 April	 Sales	 21,000			

Dr. Sales Account Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
			2024 30 April	Sundries as per Sales Book	1,10,850

Now, refer to the sales (journal) book of Koina Suppliers, you will find that two water purifiers were sold to Raman Traders for Rs. 2,100 each, out of which one purifier is returned back due to the manufacturing defect (credit note no. 10/2024).

In this case, the sales return (Journal) book will be prepared as follows:

Books of Koina Suppliers
Sales Return (Journal) Book

Date	Debit No.	Name of the Customer (Account to be credited)	L. F.	(Amount in Rs.)
	10/2024	Raman Traders 1 water purifier @ Rs. 2,100 each		2,100
				2,100

Posting to the sales return journal requires that the customer's account be credited with the amount of returns and the sales return account be debited with the periodical total in the same way as is done in case of posting from the purchases journal.

Dr. Raman Traders Account Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
				Sales Return	2,100

Dr. Sales Return Account Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
	Sundries as per Sales Returns book	2,100			

7. Bills Receivable Book

If a firm frequently receives promissory notes or hundies, it is convenient to record these transactions in a separate book known as the Bills Receivable Book.

This subsidiary book is specifically maintained to keep track of all promissory notes or hundies received by the firm, allowing for organized and systematic recording of these credit instruments. By doing so, the firm can efficiently manage and monitor the status and maturity of the bills receivable, ensuring accurate accounting and ease of reference.

8. Bill Payable Book

If promissory notes or hundies are frequently issued by a firm, it is convenient to use a separate book known as the Bills Payable Book. This subsidiary book is specifically designed to record all transactions related to promissory notes or hundies issued by the firm.

By maintaining a Bills Payable Book, the firm can systematically track and manage its liabilities, ensuring that all issued bills are recorded accurately and monitored until they are settled. This helps in maintaining organized records and facilitates easy reference and efficient financial management.

9. Journal Proper or General Journal

Journal Proper is used for recording those transactions which cannot be recorded in any of the other subsidiary books.

In other words, the Journal Proper serves as a catch-all for recording transactions that cannot be accommodated in any of the other subsidiary books. Its purpose is to capture miscellaneous or non-routine transactions that do not fit the specific categories covered by other subsidiary books.

The Journal Proper usually handles the following types of entries:

1. Opening entries
When a new accounting year begins, the opening balances of assets and liabilities are recorded through journal entries.

Opening entry is recorded in the beginning of a financial year to open the books by debiting assets and crediting liablities and the capital appearing in the Balance Sheet of the previous year.

2. Closing entries
At the year-end, the profit and loss account is prepared, and nominal accounts are transferred to the profit and loss account using closing entries.

These entries are passed at the end of the year to close the accounts relating to expenses and revenues by transferring them to the Trading Account and Profit & Loss Account. For example, the Salary Account is closed by transferring its balance to Profit & Loss Account, the Purchases Account is closed by transferrring its balance to the Trading Account and so on.

3. Rectification entries
Entries to rectify the errors in the books of original entries or of a Ledger are recorded in the Journal Proper.

4. Transfer entries
Amounts transferred from one account to another are processed via journal entries.

5. Adjusting entries
At the end of the year the amount of expenses or income may have to be adjusted for amounts received in advance or for amounts not yet settled in cash. Such an adjustment is also made through journal entries.

Usually, the entries pertain to the following:
(a) *Outstanding expenses*, i.e., expenses incurred but not yet paid;
(b) *Prepared expenses*, i.e., expenses paid in advance for future period;
(c) *Interest on capital*, i.e., the interest on proprietor's investment in the business; and
(d) *Depreciation*, i.e., fall in the value of the assets used on account of wear and tear.

For the above types of transactions/events, journal entries are essential.

6. Entries on dishonour of Bills
If a promissory note or bill is not honored on the due date, a journal entry is required to record the dishonor.

7. Miscellaneous entries
Various other transactions necessitate journal entries, including:

(a) Credit purchases of items not directly related to goods traded or materials needed for production.
(b) Adjustments for customer allowances or charges post-invoicing.
(c) Receipts or issuances of promissory notes when separate bill books are not maintained.
(d) Write-offs due to irrecoverable amounts, such as customer insolvency.
(e) Recording the effects of accidents, such as property loss from fire.
(f) Transferring net profits to the capital account.

Few of the above entries are explained with the help of illustrations provided next.

9. Journal Proper or General Journal

Following are the Ledger Balances as on 31st March 2024.

Building Rs. 6,00,000; Furniture Rs. 3,00,000; Debtors Rs. 2,00,000; Creditors Rs. 1,80,000; Bank Overdraft Rs. 1,40,000; Capital Rs. 9,30,000; Cash Rs. 1,50,000.

Journalize the above to open the accounts in the books of account for the financial year ending 31.03.2024.

Solution:

Journal Proper

Date	Particulars	L. F.	Debit (Rs.)	Credit (Rs.)
01.04.2024	Building A/c Dr.		6,00,000	
	Furniture A/c Dr.		3,00,000	
	Debtors A/c Dr.		2,00,000	
	Cash A/c Dr.		1,50,000	
	To Creditors A/c			1,80,000
	To Bank Overdraft A/c			1,40,000
	To Capital A/c			9,30,000
	(Last year's balances of assets, liabilities & Capital brought forward)			

9. Journal Proper or General Journal

Enter the following in the books of Mohan, Varanasi to close his accounts on 31st March 2024. Pass the closing entries.

Opening Stock Rs. 20,000; Purchases Rs. 60,000; Wages Rs. 16,000; Salaries Rs. 16,000; Sales Rs. 88,000; Purchases Return Rs. 2,000; Sales Return Rs. 3,000; Carriage Outwards Rs. 2,500; Rent Rs. 3,000; Insurance Rs. 1,000; Discount Allowed Rs. 2,000; Discount Received Rs. 1,000; Electricity Rs. 2,500; Commission Received Rs. 5,800; Interest (Dr.) Rs. 1,000; Closing Stock Rs. 40,000.

Solution:

In the Books of Mohan

Journal Proper

Date	Particulars	L. F.	Debit (Rs.)	Credit (Rs.)
31.03.2024	Trading A/c Dr. To Opening Stock A/c To Purchases A/c To Wages A/c To Sales Return A/c (Transferred to Trading Account to determine gross profit)		99,000	 20,000 60,000 16,000 3,000
31.03.2024	Sales A/c Dr. Purchases Return A/c Dr. Closing Stock A/c Dr. To Trading A/c (Transferred to Trading Account to determine gross profit)		88,000 2,000 40,000	 1,30,000
31.03.2024	Trading A/c (Rs. 1,30,000 − Rs. 99,000) Dr. To Profit & Loss A/c (Gross Profit transferred to Profit & Loss A/c)		31,000	 31,000
31.03.2024	Profit & Loss A/c Dr. To Salaries A/c To Carriage Outwards A/c To Rent A/c To Insurance A/c To Discount Allowed A/c To Electricity A/c To Interest A/c (Transferred to Profit and Loss Account for determining net profit)		28,000	 16,000 2,500 3,000 1,000 2,000 2,500 1,000

31.03.2024	Discount Received A/c Dr. Commission Received A/c Dr. To Profit & Loss A/c (Transferred to Profit & Loss A/c for determining net Profit)		1,000 5,800	6,800
31.03.2024	Profit & Loss A/c Dr. To Capital A/c (Net Profit transferred to Capital A/c)			

9. Journal Proper or General Journal

Pass necessary adjustment entries for the following in the books of Rupesh at the end of accounting year on 31.03.2024.

(i) Salary of Rs. 20,000 for March 2024, is outstanding.
(ii) Interest accrued on investment Rs. 3,000.
(iii) Rent received in advance Rs. 5,000.
(iv) Insurance prepaid Rs. 4,000.
(v) Closing Stock Rs. 1,00,000
(vi) Depreciate furniture by Rs. 9,000.

Solution:

Journal Proper

Date	Particulars	L. F.	Debit (Rs.)	Credit (Rs.)
31.03.2024	Salaries A/c Dr. To Outstanding Salaries A/c (Adjustment of salaries due but not paid)		20,000	20,000
	Accrued Interest A/c Dr. To Interest Received A/c (Adjustment of Interest accrued but not received)		3,000	3,000
	Rent Received A/c Dr. To Rent Received in Advance A/c (Adjustment of rent received in advance)		5,000	5,000
31.03.2024	Prepaid Insurance A/c Dr. To Insurance A/c (Adjustment of Prepaid Insurance premium)		4,000	4,000
Either →	Closing Stock A/c Dr. To Trading A/c (Adjustment of closing stock)		1,00,000	1,00,000
Or →	Closing Stock A/c Dr. To Purchases A/c (Adjustment of closing stock)		1,00,000	1,00,000
	Depreciation A/c Dr. To Furniture A/c (Adjustment of depreciation on furniture)		9,000	9,000

Note:

Closing stock means goods purchased but not yet sold. Therefore, it should be adjusted against purchases. Alternatively, it can be transferred to the credit side of the Trading Account.

9. Journal Proper or General Journal

Record the following transactions in the 'Journal Proper' of M/s Tarun Traders:

2024	
March 5	Sunil who owed Rs. 50,000 was declared insolvent and 40% is received as full and final payment.
March 10	An old machinery was sold to Kailash for Rs. 10,000 on credit.
March 12	The proprietor withdrew for personal use cash Rs. 10,000 and goods Rs. 4,000
March 15	Goods worth Rs. 40,000 was destroyed by fire.
March 20	Insurance company admitted a fire insurance claim of Rs. 25,000
March 22	Bills receivable for Rs. 10,000 endorsed to Mr. Mehta
March 31	Wages outstanding for March 2024 Rs. 15,000
March 31	Insurance prepaid at the end of the year was Rs. 2,000.

Solution:

Journal Proper

Date	Particulars	L. F.	Debit (Rs.)	Credit (Rs.)
Mar 5	Bad Debts A/c Dr. To Sunil's A/c (60% of the amount due from Sunil, turned into bad debts)		30,000	30,000
Mar 10	Kailash's A/c Dr. To Machinery A/c (Machinery sold to Kailash on credit)		10,000	10,000
Mar 12	Drawings A/c Dr. To Purchases A/c (Goods withdrawn by proprietor for personal use)		4,000	4,000
Mar 15	Loss by fire A/c Dr. To Purchases A/c (Goods worth Rs. 40,000 were destroyed by fire)		40,000	40,000
	Total c/f		84,000	84,000

Date	Particulars	L. F.	Debit (Rs.)	Credit (Rs.)
	Total b/f		84,000	84,000
Mar 20	Insurance Company's A/c Dr. Profit and Loss A/c Dr. To Loss by Fire A/c (Fire insurance claimed received for Rs. 25,000)		25,000 15,000	40,000
Mar 22	Mehta's A/c Dr. To Bills Receivable A/c (B/R of Rs. 10,000 endorsed to Mr. Mehta)		10,000	10,000
Mar 31	Wages A/c Dr. To Outstanding Wages A/c (Wages outstanding for March 2024 Rs. 15,000)		15,000	15,000
Mar 31	Prepaid Insurance A/c Dr. To Insurance A/c (Insurance premium paid in advance)		2,000	2,000
	Total		1,51,000	1,51,000

Notes:

No journal entry involving cash will appear in the journal proper; cash entries are recorded only in the cash account.

1. In transaction 1, the full journal entry is:

Cash A/c Dr. 20,000
Bad Debts A/c Dr. 30,000
To Sunil's A/c 50,000

However, only the bad debts portion will be recorded in the journal proper, while the cash received will be recorded in the cash account.

2. For transactions related to drawings, the withdrawal of goods for personal use will be recorded in the journal proper.

10. Special Journal Vs. General Journal

The distinction between Special Journal and General Journal is given below.

Basis	Special Journal (Subsidiary Books)	General Journal (Journal Proper)
Nature of Transactions Recorded	It records transactions of similar nature, e.g., Purchases Book records only credit purchases.	It does not record transactions of a similar nature.
Format	It is in the form of a statement.	It is in the form of a Journal.
Need	A business unit may not have a Special Journal.	A business unit must have a Journal Proper.
Posting	Each transaction is not recorded in the Ledger separately.	Each transaction is recorded in the Ledger separately.
Rectification	An error in the Journal Proper is not rectified by a Special Journal.	An error in Special Journal is rectified by the Journal Proper.

1. Trial Balance and Errors

It is important for an accountant that the trial balance should tally. Normally a tallied trial balance (TB) means that both the debit and the credit entries have been made correctly for each transaction.

However, the agreement of trial balance is not an absolute proof of accuracy of accounting records. A tallied trial balance only proves, to a certain extent, that the posting to the ledger is arithmetically correct. But it does not guarantee that the entry itself is correct. There can be errors, which affect the equality of debits and credits, and there can be errors, which do not affect the equality of debits and credits.

Errors affecting Trial Balance

Errors affecting Trial Balance can be of following types:
(a) Only one effect of a transaction is posted to ledger e.g. for rent paid in cash, if entry is posted to cash but not to rent account, then obviously the TB will not match.
(b) Posting of wrong amount in one of the ledger accounts e.g. rent of Rs. 1,000 is paid in cash. The posting to Rent A/c is done for Rs. 1,000, Cash A/c is recorded at Rs. 10,000. The TB will not tally.
(c) If one of the posting is entered twice, TB will not match.
(d) If the balance in a ledger is not correctly taken to the TB e.g. the Rent A/c has a balance of Rs. 1,000, but while taking it to the TB, it is taken as Rs. 100, the TB will through up difference.
(e) Taking balance to the wrong side in the TB e.g. a debit balance of Rs.5,00,000 in Debtors A/c is taken as credit balance in the TB, then there will be a mismatch.
(f) Wrong carry forwards also will result in the TB mismatch.

No financial statements can be prepared if the TB does not tally. Hence, the errors will have to be rectified before proceeding further. The accountants therefore endeavour to minimize errors by being more careful and by doing periodical scrutiny of the entries.

Errors which are not disclosed by a Trial Balance

Note that there are certain type of errors that will not affect tallying of the TB i.e. it will tally but still there will be errors. The following errors cannot be detected by a Trial Balance:

(a) Errors of Omission

The errors of omission may be committed at the time of recording the transaction in the books of original entry or while posting to the ledger. These can be of 2 types:
(i) error of complete omission
(ii) error of partial omission

When a transaction is completely omitted from recording in the books of original record, it is an error of complete omission. For example, credit sales to Laxman Rs. 5,000, not entered in the sales book. Trial Balance will match in this case.

When the recording of transaction is partly omitted from the books, it is an error of partial omission. If in the above example, credit sales had been duly recorded in the sales book but the posting from sales book to Laxman's account has not been made, it would be an error of partial omission. Trial Balance will not match.

(b) Errors of Commission

These are the errors which are committed due to wrong posting of transactions, wrong totalling or wrong balancing of the accounts, wrong casting of the subsidiary books, or wrong recording of amount in the books of original entry, etc. For example, where there is any variation in figure/amount, such as, instead of Rs. 800 either Rs. 80 or Rs. 8,000 is recorded, in both sides of ledger accounts – trial balance will agree.

(c) Errors of Principle

Accounting entries are recorded as per the generally accepted accounting principles. If any of these principles are violated or ignored, errors resulting from such violation are known as errors of principle. An error of principle may occur due to incorrect classification of expenditure or receipt between capital and revenue. This is very important because it will have an impact on financial statements. It may lead to under/over stating of income or assets or liabilities, etc.

For example, amount spent on additions to the buildings should be treated as capital expenditure and must be debited to the asset account. Instead, if this amount is debited to maintenance and repairs account, it has been treated as a revenue expense.

This is an error of principle. Similarly, if a credit purchase of machinery is recorded in purchases book instead of journal proper, these are errors of principle. These errors do not affect the trial balance.

(d) Errors of Misposting

When wrong posting is made to a wrong account instead of a correct one although amount is correctly recorded, e.g., sold goods to B but wrongly debited to D's Account – trial balance will agree.

(e) Compensating Errors

When two or more errors are committed in such a way that the net effect of these errors on the debits and credits of accounts is nil, such errors are called compensating errors. Such errors do not affect the tallying of the trial balance.

For example, if purchases book has been overcast by Rs. 5,000 resulting in excess debit of Rs. 5,000 in purchases account and sales returns book is undercast by Rs. 5,000 resulting in short debit to sales returns account is a case of two errors compensating each other's effect.

One plus is set off by the other minus, the net effect of these two errors is nil and so they do not affect the agreement of trial balance.

(f) Error of duplication

If a transaction is recorded twice, again the TB will match.

For the above type of errors, the identification process is very time consuming. Only strict vigil and ongoing audit of entries could minimize such errors. Of course, the computerised accounting packages do provide built mechanisms to avoid occurrence of these mistakes. After preparation of TB, if the difference not major, it is temporarily transferred to **Suspense Account** until the errors are located and corrected. After detection of error or errors, they are rectified and the suspense account is closed.

2. Steps to locate Errors

If the trial balance doesn't balance, it clearly indicates that one or more errors have occurred. These errors need to be identified and corrected before the financial statements can be prepared.

When the trial balance doesn't tally, the accountant should follow these steps to find and fix the errors:

1. **Recalculate the totals** of the debit and credit columns in the trial balance to ensure they have been added correctly.
2. **Compare the account names and amounts** listed in the trial balance with those in the ledger to spot any discrepancies or omissions.
3. **Compare the current year's trial balance** with that of the previous year to identify any accounts that have been added or removed and to check for any large, unexpected differences in amounts.
4. **Recheck the accuracy** of the balances of individual accounts in the ledger to ensure they are correct.
5. **Review the posting of entries** from the books of original entry to ensure they have been recorded correctly in the ledger.
6. If the difference between the debit and credit columns is divisible by 2, it might indicate that an amount equal to half of the difference was posted to the wrong side of another ledger account. For instance, if the debit column total is greater by Rs. 1,500, it's possible that a credit item of Rs. 750 was mistakenly posted as a debit. The accountant should review all debit entries of Rs. 750 to locate such errors.
7. The difference could also be due to a complete omission of a posting. For example, the Rs. 1,500 difference might be because a credit entry of that amount was entirely missed. The accountant should verify all credit entries of Rs. 1,500.
8. If the difference is divisible by 9, the error might be due to a transposition of figures. For instance, if a debit of Rs. 459 was recorded as Rs. 954, the trial balance would show a difference of Rs. 495 (954 – 459 = 495), which is divisible by 9. This method can also help identify errors due to incorrect placement of a decimal point.

3. Rectification of Errors

From the perspective of rectification, we have already discussed that errors can be categorized into 2 types:

(a) Errors that do not affect the trial balance.
(b) Errors that do affect the trial balance.

This distinction is important because errors that do not affect the trial balance typically involve two accounts and can be easily corrected with a journal entry.

On the other hand, errors that do affect the trial balance usually impact only one account, making a journal entry impossible for rectification unless a suspense account has been opened. These types of errors are corrected by making a nullifying entry in the affected account.

Let us understand next these rectification of errors in more detail.

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4. Rectification of Errors that do not affect the Trial Balance

These errors occur in two or more accounts and are also known as two-sided errors. They can be corrected by making a journal entry that properly debits and credits the affected accounts.

Examples of such errors include:

- Completely omitting to record a transaction in the books of original entry.
- Recording a transaction incorrectly in the accounts.
- Failing to post an entry to the correct account but on the correct side.
- Errors of principle, where the wrong type of account is used.

The rectification process involves two main steps:

1. **Canceling the effect of the incorrect debit or credit** by reversing it.
2. **Restoring the correct debit or credit** to the appropriate account.

To do this, you need to analyze the error based on its impact on the involved accounts, which could be:

- A **short debit or credit** in an account (where the correct amount was less than what should have been recorded).
- An **excess debit or credit** in an account (where the incorrect amount was more than what should have been recorded).

Therefore, the rectification can be done by:

- **Debiting** the account with a short debit or excess credit.
- **Crediting** the account with an excess debit or short credit.

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4. Rectification of Errors that do not affect the Trial Balance

We will now discuss the process of rectification of errors that do not effect the Trial Balance.

Consider the following transactions which are either ommitted or wrongly recorded in books of account in one way or other.

Let us understand each of its wrong effect as well as the correct and rectified entry in this regard.

(i) Credit sales to Sandeep Rs. 10,000 were not recorded in the sales book. This is an error of complete omission. Its affect is that Sandeep's account has not been debited and Sales account has not been credited.

Accordingly, recording **usual entry** for credit sales will rectify the error.

Particulars		Debit (Rs.)	Credit (Rs.)
Sandeep's A/c	Dr.	10,000	
To Sales A/c			10,000

(ii) Credit sales to Sandeep Rs. 20,000 were recorded as Rs. 2,000 in the sales book. This is an error of commission.

The effect of **wrong recording** is shown below:

Particulars		Debit (Rs.)	Credit (Rs.)
Sandeep's A/c	Dr.	2,000	
To Sales A/c			2,000

Correct effect should have been:

Particulars		Debit (Rs.)	Credit (Rs.)
Sandeep's A/c	Dr.	20,000	
To Sales A/c			20,000

Now that Sandeep's account has to be given an additional debit of Rs. 18,000 and sales account has to be credited with additional amount of Rs. 18,000, **rectification entry** will be:

Particulars		Debit (Rs.)	Credit (Rs.)
Sandeep's A/c	Dr.	18,000	
To Sales A/c			18,000

(iii) Credit sales to Sandeep Rs. 10,000 were recorded as Rs. 12,000. This is an error of commission.

The effect of **wrong entry** made has been:

Particulars		Debit (Rs.)	Credit (Rs.)
Sandeep's A/c	Dr.	12,000	
To Sales A/c			12,000

Correct effect should have been:

Particulars	Debit (Rs.)	Credit (Rs.)
Sandeep's A/c Dr.	10,000	
To Sales A/c		10,000

You can see that there is an excess debit of Rs. 2,000 in Sandeep's account and excess credit of Rs. 2,000 in sales account.

The, **rectification entry** will be recorded as follows:

Particulars	Debit (Rs.)	Credit (Rs.)
Sales A/c Dr.	2,000	
To Sandeep's A/c		2,000

(iv) Credit sales to Sandeep Rs. 10,000 was correctly recorded in the sales book but was posted to Jeevan's account. This is an error of commission.

The effect of **wrong posting** has been:

Particulars	Debit (Rs.)	Credit (Rs.)
Jeevan's A/c Dr.	10,000	
To Sales A/c		10,000

Correct effect should have been:

Particulars	Debit (Rs.)	Credit (Rs.)
Sandeep's A/c Dr.	10,000	
To Sales A/c		10,000

Notice that there is no error in sales account. But Jeevan's account has been debited with Rs. 10,000 instead of Sandeep's account.

Hence **rectification entry** will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Sandeep's A/c Dr.	10,000	
To Jeevan A/c		10,000

(v) Rent paid Rs. 5,000 was wrongly shown as payment to landlord in the cash book:

The effect of **wrong posting** has been:

Particulars	Debit (Rs.)	Credit (Rs.)
Landlord's A/c Dr.	5,000	
To Cash A/c		5,000

Correct effect should have been:

Particulars	Debit (Rs.)	Credit (Rs.)
Rent A/c Dr.	5,000	
To Cash A/c		5,000

Landlord's account has been wrongly debited instead of Rent account. Hence, **rectification entry** will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Rent A/c Dr.	5,000	
To Landlord's A/c		5,000

4. Rectification of Errors that do not affect the Trial Balance

Rectify the following errors:
Credit purchases from Rajeev Rs. 20,000
(i) were not recorded.
(ii) were recorded as Rs. 10,000.
(iii) were recorded as Rs. 25,000.
(iv) were posted to Rajneesh's account.
(v) were recorded through sales book.

Solution:

(i) Credit purchases from Rajeev Rs. 20,000 were not recorded.

The rectified entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Purchases A/c Dr. To Rajeev's A/c (Credit purchases from Rajeev omitted to be recorded, now corrected)	20,000	 20,000

(ii) Credit purchases from Rajeev Rs. 20,000 were recorded as Rs. 10,000.

The rectified entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Purchases A/c Dr. To Rajeev's A/c (Credit purchases from Rajeev recorded as Rs. 10,000 instead of Rs. 20,000, now corrected)	10,000	 10,000

(iii) Credit purchases from Rajeev Rs. 20,000 were recorded as Rs. 25,000.

The rectified entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Rajeev's A/c Dr. To Purchases A/c (Credit purchases from Rajeev recorded as 25,000 instead of Rs. 20,000)	5,000	 5,000

(iv) Credit purchases from Rajeev Rs. 20,000 were posted to Rajneesh's account.

The rectified entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Rajneesh's A/c Dr. To Rajeev's A/c (Credit purchases from Rajeev wrongly credited to Rajneesh, now corrected)	20,000	 20,000

(v) Credit purchases from Rajeev Rs. 20,000 were recorded through sales book.

The rectified entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Sales A/c Dr.	20,000	
Purchases A/c Dr.	20,000	
To Rajeev's A/c		40,000
(Credit purchases from Rajeev Rs. 20,000 wrongly recorded through sales book, now corrected)		

4. Rectification of Errors that do not affect the Trial Balance

Rectify the following error:
Cash sales Rs. 16,000 were posted to commission account.

Solution:

The **wrong effect** in the given case would have been:

Particulars	Debit (Rs.)	Credit (Rs.)
Cash A/c Dr.	16,000	
To Commission A/c		16,000

The **correct effect** would have been:

Particulars	Debit (Rs.)	Credit (Rs.)
Cash A/c Dr.	16,000	
To Sales A/c		16,000

The **rectified entry** will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Commission A/c Dr.	16,000	
To Sales A/c		16,000
(Cash sales posted to commission account instead of sales account, now corrected)		

4. Rectification of Errors that do not affect the Trial Balance

Rectify the following error:
Depreciation written-off as the machinery Rs. 2,000 was not posted at all.

Solution:

The **rectification entry** will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Depreciation A/c Dr. To Machinery A/c (Depreciation on machinery not posted, now corrected)	2,000	 2,000

4. Rectification of Errors that do not affect the Trial Balance

Pass necessary journal entries to rectify the following errors:

(i) A credit sale of Rs. 1,700 to Krishan was posted to Kishan's Account.
(ii) A cash sale of Rs. 1,700 to Meena was posted to the credit of Meena.
(iii) A credit sale of old furniture to Prem for Rs. 1,700 was credited to the Sales Account.
(iv) A credit sale of old furniture to Rohan for Rs. 1,700 was posted as Rs. 7,100.
(v) A cheque for Rs. 640 received from Guru was dishonored and was posted to the debit of the Sales Return Account.
(vi) An amount of Rs. 2,860 due from Prasad, written off as bad in the previous year, was recovered and credited to his personal account.
(vii) Rs. 10,000 paid for the electricity bill of the proprietor's residence was debited to the Electricity Expenses Account.
(viii) An amount of Rs. 7,500 withdrawn from the bank by the proprietor for his personal use was debited to the Purchases Account.
(ix) An amount of Rs. 15,000 withdrawn from the bank by the proprietor for office use was debited to the Drawings Account.
(x) Rs. 8,000 salary paid to Varun, an employee, was debited to his personal account.

Solution:

(i) A credit sale of Rs. 1,700 to Krishan was posted to Kishan's Account.

The wrong effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Kishan's A/c Dr.	1,700	
To Sales A/c		1,700

The correct effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Krishan's A/c Dr.	1,700	
To Sales A/c		1,700

The rectifying entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Krishan's A/c Dr.	1,700	
To Kishan's A/c		1,700
(Credit sale to Krishan was posted to Kishan's Account, now rectified)		

(ii) A cash sale of Rs. 1,700 to Meena was posted to the credit of Meena.

The wrong effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Cash A/c Dr.	1,700	
To Meena's A/c		1,700

The correct effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Cash A/c Dr.	1,700	
To Sales A/c		1,700

The rectifying entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Meena's A/c Dr.	1,700	
To Sales A/c		1,700
(Cash sale posted to credit of Meena's Account, now rectified)		

(iii) A credit sale of old furniture to Prem for Rs. 1,700 was credited to the Sales Account.

The wrong effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Prem's A/c Dr.	1,700	
To Sales A/c		1,700

The correct effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Prem's A/c Dr.	1,700	
To Furniture A/c		1,700

The rectifying entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Sales A/c Dr.	1,700	
To Furniture A/c		1,700
(Credit Sale of old furniture credited to Sales Account, now rectified)		

(iv) A credit sale of old furniture to Rohan for Rs. 1,700 was posted as Rs. 7,100.

The wrong effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Rohan's A/c Dr.	7,100	
To Furniture A/c		7,100

The correct effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Rohan's A/c Dr.	1,700	
To Furniture A/c		1,700

The rectifying entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Furniture A/c Dr.	5,400	
To Rohan's A/c		5,400
(Credit Sale of old furniture to Rohan for Rs. 1,700, posted as Rs. 7,100, now rectified)		

(v) A cheque for Rs. 640 received from Guru was dishonored and was posted to the debit of the Sales Return Account.

The wrong effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Sales Return A/c Dr.	640	
To Bank A/c		640

The correct effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Guru's A/c Dr.	640	
To Bank A/c		640

The rectifying entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Guru's A/c Dr.	640	
To Sales Return A/c		640
(Dishonour of Guru's cheque debited to Sales Return, now rectified)		

(vi) An amount of Rs. 2,860 due from Prasad, written off as bad in the previous year, was recovered and credited to his personal account.

The wrong effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Bank A/c Dr.	2,860	
To Prasad's A/c		2,860

The correct effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Bank A/c Dr.	2,860	
To Bad Debts Recovered A/c		2,860

The rectifying entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Prasad's A/c Dr.	2,860	
To Bad Debts Recovered A/c		2,860
(Bad debts recovered credited to personal account of Prasad, now rectified)		

(vii) Rs. 10,000 paid for the electricity bill of the proprietor's residence was debited to the Electricity Expenses Account.

The wrong effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Electricity Expenses A/c Dr.	10,000	
To Cash A/c		10,000

The correct effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Drawings A/c Dr.	10,000	
To Cash A/c		10,000

The rectifying entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Drawings A/c Dr.	10,000	
To Electricity Expenses A/c		10,000
(Payment of electricity bill of proprietor's residence wrongly debited to electricity expenses account, now rectified)		

(viii) An amount of Rs. 7,500 withdrawn from the bank by the proprietor for his personal use was debited to the Purchases Account.

The wrong effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Purchases A/c Dr.	7,500	
To Bank A/c		7,500

The correct effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Drawings A/c Dr.	7,500	
To Bank A/c		7,500

The rectifying entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Drawings A/c Dr.	7,500	
To Purchases A/c		7,500
(Rs. 7,500 withdrawn from bank for personal use wrongly charged to Purchases Account, now rectified)		

(ix) An amount of Rs. 15,000 withdrawn from the bank by the proprietor for office use was debited to the Drawings Account.

The wrong effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Drawings A/c Dr.	15,000	
To Bank A/c		15,000

The correct effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Cash A/c Dr.	15,000	
To Bank A/c		15,000

The rectifying entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Cash A/c Dr.	15,000	
To Drawings A/c		15,000
(Cash withdrawn from bank for office use debited to Drawings Account, now rectified)		

(x) Rs. 8,000 salary paid to Varun, an employee, was debited to his personal account.

The wrong effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Varun's A/c Dr.	8,000	
To Cash A/c		8,000

The correct effect would be:

Particulars	Debit (Rs.)	Credit (Rs.)
Salary A/c Dr.	8,000	
To Cash A/c		8,000

The rectifying entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Salary A/c Dr.	8,000	
To Varun's A/c		8,000
(Salary paid to Varun debited to his account, now rectified)		

5. Rectification of Errors Affecting Trial Balance

Errors that affect only one account can be corrected either by adding an explanatory note in the affected account or by recording a journal entry using the Suspense Account. Examples of such errors include errors in adding up (casting), errors in carrying forward balances, errors in balancing, posting to the correct account but with the wrong amount, posting to the correct account but on the wrong side, posting to the wrong side with the wrong amount, and omitting an account from the trial balance.

If an error is found in the books of original entry before it has been posted to the ledger, it can be corrected by drawing a single line through the incorrect amount and writing the correct amount above it, along with an initial.

Similarly, an error in the amount posted to the correct ledger account can be corrected in the same way or by making an additional posting for the difference and adding an explanatory note in the particulars column. However, errors should never be corrected by erasing or overwriting, as this reduces the authenticity of accounting records and may suggest an attempt to conceal something.

A better approach is to neutralize the error by making a corrective entry on the appropriate side of the account.

Take for example a case where Shyam's account was credited short by Rs. 250. This will be rectified by an additional entry for Rs. 250 on the credit side of his account as follows:

Dr. Shyam's Account Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
				Difference in amount posted short on.....	250

Take another example, purchases book was undercast by Rs. 2,000. The effect of this entry is on purchases account (debit side) where the total of purchases book is posted.

Purchases Account

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
	Under casting purchases book for the month of	2,000			

5. Rectification of Errors Affecting Trial Balance

Even if the trial balance doesn't tally due to the presence of one-sided errors, the accountant must continue with the accounting process and prepare the financial statements. To balance the trial balance, the accountant records the difference on the shorter side as a 'suspense account.'

The concept of opening a suspense account can be illustrated with the following example:

Let's assume that after transferring all ledger balances, the trial balance does not agree, and we use a suspense account to balance it. Here is an example:

Debit Balances	Rs.	Credit Balances	Rs.
Building	60,000	Capital	1,00,000
Machinery	45,000	Sales	1,20,000
Furniture	5,000	Interest Received	2,000
Cash in hand	15,000	Creditors	15,000
Cash at Bank	20,000		
Stock	12,000		
Purchases	10,000		
Debtors	40,000		
Drawings	13,000		
Suspense Account	17,000		
TOTAL	**2,37,000**		**2,37,000**

Here, the difference of Rs. 17,000 has been added to the debit side as a Suspense Account to balance the trial balance.

Take another example. Consider the sales book of an organization.

Sales Book (Journal)

Date	Name of Customers (Accounts to be debited)	L. F.	Amount (in Rs.)
	Ashok Traders		20,000
	Bimal Traders		10,000
	Chopra Enterprises		5,000
	Dinesh and sons		15,000
			50,000

If sales to Dinesh and sons were not posted to his account, ledger will show the following position:

Dr. **Ashok Traders Account** Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
	Sales	20,000		Balance c/d	20,000
		20,000			20,000

Dr. **Bimal Traders Account** Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
	Sales	10,000		Balance c/d	10,000
		10,000			10,000

Dr. **Chopra Enterprises Account** Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
	Sales	5,000		Balance c/d	5,000
		5,000			5,000

Dr. **Sales Account** Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
				Sundries	50,000

When the trial balance is prepared based on the above balances, it will not tally. The credit column will total ₹50,000, while the debit column will total ₹35,000, resulting in a difference of ₹15,000. This difference is temporarily recorded in the suspense account to balance the trial balance in the ledger.

Debit Balances	Rs.	Credit Balances	Rs.
Ashok Traders	20,000	Sales	50,000
Bimal Traders	10,000		
Chopra Enterprises	5,000		
Suspense Account	15,000		
TOTAL	**50,000**	**TOTAL**	**50,000**

In this example, the difference in the trial balance arises due to a one-sided error (the omission of posting to Dinesh and Sons' account).

In reality, there may be many other one-sided errors that cause discrepancies in the trial balance, leading to the need for a suspense account. Until all errors affecting the trial balance are identified and corrected, the difference is shown in the suspense account, the debit and credit columns are totaled, and the accounting process continues.

Once the errors are found and the specific accounts and amounts involved are determined, the amounts are transferred from the suspense account to the relevant accounts, closing the suspense account. The suspense account is not a permanent category of accounts but rather a temporary tool used to address discrepancies.

Steps to rectify errors using Suspense Account

To rectify one-sided errors using the suspense account, the following steps are taken:

1. Identify the account affected by the error.
2. Determine the amount of excess debit/credit or short debit/credit in the affected account.
3. If the error has caused an excess debit or short credit in the affected account, credit the account with the amount of the excess debit or short credit.
4. If the error has caused an excess credit or short debit in the affected account, debit the account with the amount of the excess credit or short debit.
5. Complete the journal entry by debiting or crediting the suspense account as the corresponding account.

5. Rectification of Errors Affecting Trial Balance

An inexperienced bookkeeper has drawn up a Trial Balance for the year 30th June, 2024.

Sl. No.	Name of Account	L. F.	Debit Total (Rs.)	Credit Total (Rs.)
1.	Provision for Doubtful Debts		200	
2.	Bank Overdraft		1,654	
3.	Capital			4,591
4.	Trade Payables			1,637
5.	Trade Receivables		2,983	
6.	Discount Received		252	
7.	Discount Allowed			733
8.	Drawings		1,200	
9.	Office Furniture		2,155	
10.	General Expenses			829
11.	Purchases		10,923	
12.	Returns Inward			330
13.	Rent & Rates		314	
14.	Salaries		2,520	
15.	Sales			16,882
16.	Inventory		2,418	
17.	Provision for Depreciation on Furniture		364	
	TOTAL		**24,983**	**25,002**

Draw up a 'Corrected' Trial Balance, debiting or crediting any residual errors to a Suspense Account.

Solution:

The corrected Trial Balance is as follows.

Sl. No.	Name of Account	L. F.	Debit Total (Rs.)	Credit Total (Rs.)
1.	Provision for Doubtful Debts		-	200
2.	Bank Overdraft		-	1,654
3.	Capital		-	4,591
4.	Trade Payables		-	1,637
5.	Trade Receivables		2,983	-
6.	Discount Received		-	252
7.	Discount Allowed		733	-
8.	Drawings		1,200	-
9.	Office Furniture		2,155	-
10.	General Expenses		829	-
11.	Purchases		10,923	-
12.	Returns Inward		330	-
13.	Rent & Rates		314	-
14.	Salaries		2,520	-
15.	Sales		-	16,882
16.	Inventory		2,418	-
17.	Provision for Depreciation on Furniture		-	364
18.	Suspense Account (Bal. figure)		1,175	-
	TOTAL		25,580	25,580

5. Rectification of Errors Affecting Trial Balance

We will now discuss the process of rectification using suspense account. Consider the following transactions which were wrongly recorded in books of account in one way or other.

Let us understand each of its wrong effect as well as the correct and rectified entry in this regard.

(a) Credit sales to Mohan Rs. 10,000 were not posted to his account. This is an error of partial omission comitted while posting entries of the sales book.

Wrong effect has been:

Particulars	Debit (Rs.)	Credit (Rs.)
Mohan's A/c Dr.	Nil	
To Sales A/c		10,000

Correct effect should have been:

Particulars	Debit (Rs.)	Credit (Rs.)
Mohan's A/c Dr.	10,000	
To Sales A/c		10,000

The **rectification entry** will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Mohan's A/c Dr.	10,000	
To Suspense A/c		10,000

(b) Credit sales to Mohan Rs. 10,000 were posted to his account as Rs. 7000. This is an error of commission. Mohan's account has been debited with Rs. 7,000 instead of Rs. 10,000 resulting in short debit of Rs. 3,000.

The **wrong effect** has been:

Particulars	Debit (Rs.)	Credit (Rs.)
Mohan's A/c Dr.	7,000	
To Sales A/c		10,000

Correct effect should have been:

Particulars	Debit (Rs.)	Credit (Rs.)
Mohan's A/c Dr.	10,000	
To Sales A/c		10,000

Hence, **rectification entry** will be:

Particulars		Debit (Rs.)	Credit (Rs.)
Mohan's A/c	Dr.	3,000	
To Suspense A/c			3,000

(c) Credit sales to Mohan Rs. 10,000 were posted to his account as Rs. 12,000. This is an error of commission.

The **wrong effect** has been:

Particulars		Debit (Rs.)	Credit (Rs.)
Mohan's A/c	Dr.	12,000	
To Sales A/c			10,000

Correct effect should have been:

Particulars		Debit (Rs.)	Credit (Rs.)
Mohan's A/c	Dr.	10,000	
To Sales A/c			10,000

The **rectification entry** will be:

Particulars		Debit (Rs.)	Credit (Rs.)
Suspense A/c	Dr.	2,000	
To Mohan's A/c			2,000

(d) Purchases book overcast by Rs. 1,000. Errors in casting of subsidiary books affect only those accounts where totals of the subsidiary books involved are posted. The accounts of individual parties are not affected.

Consider the following example.

POR10

Dr. Samarveer's Account Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
				Purchases	8,000

Dr. Chintan Sahay's Account Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
				Purchases	7,000

Dr. Ajeet Kapoor's Account Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
				Purchases	6,000

Dr. Purchases Account Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
	Sundries	22,000			

As you can notice that there is no error in accounts of Samarveer, Chintan Sahay and Ajeet Kapoor. Only purchases account has been debited with Rs. 1,000 extra.

Hence, **rectification entry** will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Suspense A/c Dr.	1,000	
To Purchases A/c		1,000

5. Rectification of Errors Affecting Trial Balance

Rectify the following errors:
Credit purchases from Rajeev Rs. 20,000
(i) were not posted to his account.
(ii) were posted to his account as Rs. 2,000.
(iii) were posted to the debit of Rajeev's account.
(iv) were posted to the debit of Rajneesh account.

Solution:

(i) Credit purchases from Rajeev Rs. 20,000 were not posted to his account.

The rectified entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Suspense A/c Dr. To Rajeev's A/c (Credit purchases from Rajeev not posted to his account, now corrected)	20,000	 20,000

(ii) Credit purchases from Rajeev Rs. 20,000 were posted to his account as Rs. 2,000.

The rectified entry will be:

Errors affecting TB Illustration1(ii)

(iii) Credit purchases from Rajeev Rs. 20,000 were posted to the debit of Rajeev's account.

The rectified entry will be:

Errors affecting TB Illustration1(iii)

(iv) Credit purchases from Rajeev Rs. 20,000 were posted to the debit of Rajneesh account.

The rectified entry will be:

Errors affecting TB Illustration1(iv)

5. Rectification of Errors Affecting Trial Balance

Rectify the following errors:
Cash sales Rs. 16,000
(i) were not posted to sales account.
(ii) were posted as Rs. 6,000 in sales account.

Solution:

(i) Cash sales Rs. 16,000 were not posted to sales account.

The rectified entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Suspense A/c Dr.	16,000	
To Sales A/c		16,000
(Cash sales not posted to sales account, now rectified)		

(ii) Cash sales Rs. 16,000 were posted as Rs. 6,000 in sales account.

The rectified entry will be:

Suspense Account Illustration 2(2)

5. Rectification of Errors Affecting Trial Balance

Rectify the following errors:

Depreciation written-off as the machinery Rs. 2,000
(i) was not posted to machinery account.
(ii) was not posted to depreciation account.

Solution:

(i) Depreciation written-off as the machinery Rs. 2,000 was not posted to machinery account.

The rectified entry will be:

Depreciation Illustration 2(1)

(ii) Depreciation written-off as the machinery Rs. 2,000 was not posted to depreciation account.

The rectified entry will be:

Depreciation Illustration 2(2)

5. Rectification of Errors Affecting Trial Balance

Trial balance of Anurag did not agree. It showed an excess credit Rs. 10,000. Anurag put the difference to suspense account. He located the following errors :
(i) Sales return book over cast by Rs. 1,000.
(ii) Purchases book was undercast by Rs. 600.
(iii) In the sales book total of page no. 4 was carried forward to page 5 as Rs. 1,000 instead of Rs. 1,200 and total of page 8 was carried forward to page 9 as Rs. 5,600 instead of Rs. 5,000.
(iv) Goods returned to Ram Rs. 1,000 were recorded through sales book.
(v) Credit purchases from M & Co. Rs. 8,000 were recorded through sales book.
(vi) Credit purchases from S & Co. Rs. 5,000 were recorded through sales book. However, S & Co. were correctly credited.
(vii) Salary paid Rs. 2,000 was debited to employee's personal account.

Rectify the above errors and prepare suspense account to ascertain the original difference in trial balance.

Solution:

(i) Sales return book over cast by Rs. 1,000.

The rectified entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Suspense A/c Dr.	1,000	
To Sales Return A/c		1,000
(Sales returns book overcast by Rs. 1,000, now corrected)		

(ii) Purchases book was undercast by Rs. 600.

The rectified entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Purchases A/c Dr.	600	
To Suspense A/c		600
(Purchases book undercast by Rs. 600, now corrected)		

(iii) In the sales book total of page no. 4 was carried forward to page 5 as Rs. 1,000 instead of Rs. 1,200 and total of page 8 was carried forward to page 9 as Rs. 5,600 instead of Rs. 5,000.

The rectified entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Sales A/c Dr.	400	
To Suspense A/c		400
(Error in carry forward of sales book, now corrected)		

Note: Errors in carry forward the total of one page to another during a period finally affects the total of that book resulting in error of under/overcasting. In this case, carry forward from page 4 to 5 resulted in undercasting of Rs. 200 and carry forward from page 8 to page 9 resulted in overcasting of Rs. 600. Overall overcasting being Rs. 600–200 = Rs. 400.

(iv) Goods returned to Ram Rs. 1,000 were recorded through sales book.

The rectified entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Sales A/c Dr.	1,000	
To Return Outwards A/c		1,000
(Return Outwards wrongly recorded through sales book, now rectified)		

(v) Credit purchases from M & Co. Rs. 8,000 were recorded through sales book.

The rectified entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Purchases A/c Dr.	8,000	
Sales A/c Dr.	8,000	
To M & Co.'s A/c		16,000
(Credit purchases wrongly recorded through sales book, now rectified)		

(vi) Credit purchases from S & Co. Rs. 5,000 were recorded through sales book. However, S & Co. were correctly credited.

The rectified entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Purchases A/c Dr.	5,000	
Sales A/c Dr.	5,000	
To Suspense A/c		10,000
(Credit purchases wrongly recorded through sales book, however suppliers account correctly credited, now rectified)		

(vii) Salary paid Rs. 2,000 was debited to employee's personal account.

The rectified entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Salary A/c Dr.	2,000	
To Employee's Personal A/c		2,000
(Salary paid wrongly debited to employee's personal account, now corrected)		

After all the errors are rectified, the trial balance is prepared to check whether the total debits equal the total credits. This re-preparation is necessary because the initial trial balance did not balance due to the errors. The goal is to ensure that, after all adjustments, the trial balance is correct and reflects the accurate financial position of Anurag's accounts.

Dr. **Suspense Account** Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
	Difference as per trial balance	10,000		Purchases	600
				Sales	400
				Purchases	5,000
	Sales Return	1,000		Sales	5,000
		11,000			11,000

5. Rectification of Errors Affecting Trial Balance

Trial balance of Rahul did not agree. Rahul put the difference to suspense account. Subsequently, he located the following errors:
(i) Wages paid for installation of Machinery Rs. 600 was posted to wages account.
(ii) Repairs to Machinery Rs. 400 debited to Machinery account.
(iii) Repairs paid for the overhauling of second hand machinery purchased Rs. 1,000 was debited to Repairs account.
(iv) Own business material Rs. 8,000 and wages Rs. 2,000 were used for construction of building. No adjustment was made in the books.
(v) Furniture purchased for Rs. 5,000 was posted to purchase account as Rs. 500.
(vi) Old machinery sold to Karim at its book value of Rs. 2,000 was recorded through sales book.
(vii) Total of sales returns book Rs. 3,000 was not posted to the ledger.
Rectify the above errors and prepare suspense account to ascertain the original difference in trial balance.

Solution:

(i) Wages paid for installation of Machinery Rs. 600 was posted to wages account.

The rectified entry will be:

Rahul Illustration1

(ii) Repairs to Machinery Rs. 400 debited to Machinery account.

The rectified entry will be:

Rahul Illustration2

(iii) Repairs paid for the overhauling of second hand machinery purchased Rs. 1,000 was debited to Repairs account.

The rectified entry will be:

Rahul Illustration3

(iv) Own business material Rs. 8,000 and wages Rs. 2,000 were used for construction of building. No adjustment was made in the books.

The rectified entry will be:

Rahul Illustration4

(v) Furniture purchased for Rs. 5,000 was posted to purchase account as Rs. 500.

The rectified entry will be:

Particulars	Debit (Rs.)	Credit (Rs.)
Furniture A/c Dr.	5,000	
To Purchases A/c		500
To Suspense A/c		4,500
(Furniture purchased for Rs. 5,000 wrongly debited to purchases account as Rs. 500, now rectified)		

(vi) Old machinery sold to Karim at its book value of Rs. 2,000 was recorded through sales book.

The rectified entry will be:

Rahul Illustration6

(vii) Total of sales returns book Rs. 3,000 was not posted to the ledger.

The rectified entry will be:

Rahul Illustration7

The **Suspense Account** showing the difference is as follows.

Rahul Illustration Suspense Account

Hence, original difference in Trial Balance was Rs. 7,500 excess on the Credit side.

6. Rectification of Errors in the Subsequent Accounting Year

If errors made during an accounting year are not identified and corrected before finalizing the financial statements, the suspense account cannot be closed, and its balance will be carried forward to the next accounting period. When these errors are discovered and corrected in the following accounting year, the profit and loss adjustment account is debited or credited instead of the accounts related to expenses/losses and incomes/gains.

This approach prevents the errors from affecting the income statement of the subsequent accounting period.

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1. Introduction

Goods and Services Tax (GST) is a comprehensive indirect tax in India that has replaced multiple indirect taxes, such as State VAT, Excise Duty, and Service Tax. GST is a single tax levied on the supply of goods and services from the manufacturer to the consumer.

Pre-GST Scenario

Before GST, various taxes were levied by different authorities:

Excise Duty: Levied on the manufacture of goods by the central government.

State Value Added Tax (VAT): Levied on the sale of goods within a state.

Central Sales Tax: Levied on the sale of goods outside a state by the central government.

Service Tax: Levied on the provision of services by the central government.

Due to different authorities collecting these taxes, there was no mechanism for crediting taxes paid at earlier stages. This led to a cascading effect, where a tax was levied on a tax, increasing the product's cost and unfairly burdening the final consumer.

Post-GST Scenario

With the introduction of GST, a single tax is levied at all stages from manufacture to consumption, with credits for taxes paid at previous stages available as a set-off. For example, if a trader pays GST of ₹18,000 on goods costing ₹1,00,000, this amount can be credited against the GST the trader charges when selling to the consumer. Thus, the cost of goods remains ₹1,00,000 for the trader, as the input tax (GST paid on purchase) is offset against the output tax (GST charged on sales). Only the value added by each stage is taxed, reducing the overall tax burden on the consumer.

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2. Key Features of GST

Following are some of the key features of Goods and Services Tax (GST):

1. GST is **imposed on the supply of goods and services**, meaning that the act of supplying them—either through manufacturing or sale—triggers the obligation to pay the tax.

2. Tax under GST is **charged only on the value added** at each stage of the supply chain.

3. GST is a **destination-based consumption tax**, meaning the tax is collected at the location where the goods or services are consumed, not where they are produced.

4. The GST system **eliminates the cascading effect of taxes**, ensuring there is no tax on tax.

5. GST harmonizes laws, procedures, and tax rates across the country.

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3. Types of Taxes under GST

Before exploring the types of taxes under GST, it is crucial to understand the concepts of intra-State and inter-State supply, which determine the applicable tax.

Intra-State Supply

When the location of the supplier and the place of supply (where goods or services are consumed) are within the same State or Union Territory, it is considered an intra-State supply.

Inter-State Supply

When the location of the supplier and the place of supply are in different States, different Union Territories, or a combination of a State and a Union Territory, it is treated as an inter-State supply.

GST has a dual structure where both the Centre and States simultaneously levy taxes on a common base.

Working of Dual GST

Components of GST

The main components of GST are as follows.

1. Central Goods and Services Tax (CGST)

It is levied and collected by the Centre on intra-State supplies of goods and services.

2. State Goods and Services Tax (SGST)

It is levied and collected by State Governments (including Union Territories with legislatures, such as Delhi, Puducherry, Jammu and Kashmir) on intra-State supplies of goods and services.

3. Union Territory Goods and Services Tax (UTGST)

It is levied and collected by Union Territories without legislatures (such as Andaman and Nicobar Islands, Lakshadweep, Ladakh, Dadra and Nagar Haveli & Daman and Diu, and Chandigarh) on intra-State supplies of goods and services.

4. Integrated Goods and Services Tax (IGST)

It is levied on inter-State supplies of goods and services and collected by the Centre. IGST is equivalent to the sum of CGST and SGST.

Note that GST is a consumption-based tax, meaning the tax revenue is received by the State where the goods or services are consumed, rather than where they are produced.

4. Input and Output GST

Input Tax Credit (ITC) is considered to be the lifeline of the GST regime. It is the provisions of ITC which essentially make GST a value added tax, i.e., collection of tax at all points of supply chain after allowing credit of tax paid at earlier points. The scheme is designed to avoid cascading effect of taxes and make GST a destination-based tax. In other words, Input Tax Credit is the tax that a business pays on a purchase and that it can use to reduce its tax liability when it makes a sale. Thus, businesses can reduce their tax liability by claiming credit to the extent of GST paid on purchases.

For example, if a manufacturer owes Rs. 750 in tax on their final product but has already paid Rs. 500 in tax on inputs (purchases), they can claim an Input Credit of Rs. 500 and will only need to pay Rs. 250 in cash.

Output Tax: The GST charged on the supply of goods or services made by a supplier.

Input Tax: The credit of the Input Tax already paid.

Order of utilization of credit

There is a specified order in which ITC should be utilized. First IGST credit should be utilized towards IGST payment, and then towards payment of CGST and SGST/UTGST in any order and in any proportion.

After entire ITC of IGST is utilized, ITC of CGST should be utilized for payment of CGST and IGST in that order. Thereafter, ITC of SGST /UTGST should be utilized for payment of SGST/UTGST and IGST in that order.

Credit of	To be utilized for the payment of	Utilized further for the payment of
IGST	IGST	CGST then, SGST/UTGST
CGST	CGST	IGST
SGST/UTGST	SGST/UTGST	IGST

It may be noted that **ITC of CGST cannot be utilized for payment of SGST/UTGST and vice versa.** Also, ITC of SGST/UTGST should be utilized for payment of IGST, only after ITC of CGST has been utilized fully.

5. Double entry book-keeping with GST

The Double entry book-keeping records need to show the GST values separately so that the purchases, expenses and sales are posted net i.e. without the addition of GST.

Following entries will be passed:

Journal entry in case of Sales of Goods or services

GST_JE_Sale of Goods

Journal entry in case of Purchase of Goods or services

GST_JE_Purchase of Goods

Journal entry in case of Utilization of Input Tax Credit towards payment of Output Tax

Output CGST A/c	Dr.	(Amount of GST liability)
Output SGST A/c	Dr.	(Amount of GST liability)
Output IGST A/c	Dr.	(Amount of GST liability)
To Input CGST A/c		(Amount of output GST liablity paid utilizing input CGST)
To Input SGST A/c		(Amount of output GST liability paid utilizing input SGST)
To Input IGST A/c		(Amount of output GST liability paid utilizing input IGST)

5. Double entry book-keeping with GST

Journalise the following transactions in the books of Mr. Binny:

(i) Purchased goods from Mihir for Rs. 60,000 plus CGST and SGST @ 9% each.

(ii) Purchased goods from Jimmy for Rs. 50,000 at a trade discount of 10% plus CGST and SGST @ 9% each. Rs. 30,000 was paid immediately and balance payable after 3 months.

(iii) Goods costing Rs. 30,000 withdrawn for personal use. Such goods were purchased by paying CGST and SGST @ 9% each.

(iv) Paid rent to Karanpreet for Rs.40,000 plus CGST and SGST @ 6% each.

(v) Goods costing Rs. 5,000 (before trade discount of 10%) returned to Jimmy. Such goods were purchased by paying CGST and SGST @ 9% each.

(vi) Purchased furniture for Rs. 56,000 including IGST @ 12%.

(vii) Purchased machinery from M/s Harmony industries for Rs. 1,50,000 plus CGST and SGST @ 9% each. Paid Rs. 1,10,000 immediately and balance to be paid after two months.

Solution:

GST Illustration 1(1)

GST Illustration 1(2)

GST Illustration 1(3)

GST Illustration 1(4)

Notes

1. The input tax availed earlier is reversed, because these goods are 'consumed' by Mr. Binny himself. Since he cannot 'sell' goods to himself and charged output tax, the input tax thereon is reversed, since in this case, Mr. Binny himself is the ultimate consumer of those goods.

2. Since goods are returned to the supplier, the input tax credit availed earlier on those goods is to be reversed, since these goods are no longer available to be sold.

Working Note

Furniture purchased is including IGST @ 12%. So, value of furniture excluding IGST = Rs. 56,000 × $\frac{100}{112}$ = Rs. 50,000. IGST = Rs. 50,000 × 12% = Rs.6,000.

5. Double entry book-keeping with GST

Journalise the following transactions in the books of M/s. Santosh traders.

July, 2024	Transactions
3	Sold goods for Rs. 60,000, charged CGST and SGST @ 6% each.
4	Sold goods to Himanshu for Rs. 33,600 including CGST and SGST @ 6% each.
5	Received Rs. 30,240 from Himanshu in full settlement of his account of Rs. 33,600.
6	Sold goods to Manav for Rs. 40,000 charged IGST @ 12%. Received Rs. 22,000 immediately and balance to be received after one month.
10	Manav was allowed rebate of Rs. 6,000 as goods supplied to him were defective. These goods were sold by charging IGST @ 12%.
12	Sold goods to Ravi for Rs. 1,10,000 at trade discount of 20% and charged IGST @ 12%
13	Goods of list price Rs. 30,000 returned by Ravi.
17	Received commission of Rs. 25,000, charged CGST and SGST @ 6% each.

Solution:

GST Illustration 2(1)

5 July	Bank A/c Dr. Discount Allowed A/c Dr. To Himanshu A/c (Being amount received from Himanshu in full settlement Rs 33,600 after allowing him discount of Rs. 3,360)		30,240 3,360	 33,600
6 July	Bank A/c Dr. Manav A/c Dr. To Sales A/c To output IGST A/c (Being goods sold to Manav, charged IGST @ 12% and received Rs. 22,000)		22,000 22,800	 40,000 4,800

GST Illustration 2(3)

GST Illustration 2(4)

Notes

1. Since rebate is on account of defective goods which cannot be sold/utilized further by Manav, the output GST charged thereon is also reversed. This treatment is like that of Sales Return. If rebate was on account of other reasons (such as prompt payment), Output IGST would not be reversed.

Working Note

Goods sold to Himanshu is including CGST and SGST @ 6% each. So, sales excluding CGST and SGST = Rs. 33,600 × $\frac{100}{112}$ = Rs. 30,000. CGST and SGST = Rs. 30,000 × 6% = Rs. 1,800 each.

1. Introduction

Business organizations maintain a record of their cash and bank transactions in a cash book. The cash book functions as both the cash account and the bank account, showing the balance of each at the end of a period. After balancing the cash book, it is customary to verify its details against the firm's bank transactions as recorded by the bank. To perform this check, the cashier must ensure that the cash book is fully updated and that a recent bank statement (or passbook) has been obtained from the bank.

A **bank statement** or **Bank passbook** is essentially a copy of the bank account as recorded by the bank, enabling customers to regularly monitor their funds and update their own transaction records.

The balance shown in the passbook or bank statement should match the balance in the cash book. However, in practice, these balances often differ. Therefore, it becomes necessary to identify the reasons for such discrepancies.

It should be noted that a bank statement or passbook lists all deposits in the credit column and all withdrawals in the debit column. If deposits exceed withdrawals, the statement shows a credit balance, and if withdrawals exceed deposits, it reflects a debit balance (overdraft).

To understand the Bank Reconciliation Statement, let us first understand next how bank transactions are recorded.

2. Recording of Bank Transactions

Before diving into the concept of 'reconciliation,' let's first cover a few essential basics.

Introduction to BRS

The bank transactions are recorded in 2 different places: Cash Book and Bank Pass Book.

1. Cash Book

The Cash Book is maintained by the firm itself. It has a Bank Column where bank-related transactions are recorded.

The recording is done in the debit and credit columns:
Debit (Dr): When money is deposited into the bank, the Bank Account is debited.
Credit (Cr): When money is withdrawn from the bank, the Bank Account is credited.

2. Bank Pass Book

The Bank Passbook is maintained by the bank itself.

Similar to the Cash Book, it also has Debit and Credit columns but from the bank's perspective:
Debit (Dr): When the customer withdraws money, it's debited from the customer's account in the Pass Book.
Credit (Cr): When the customer deposits money, it's credited to the customer's account in the Pass Book.

Therefore, when a customer deposits cash in the bank, the firm debits the Bank Account (because the bank balance increases), and in the bank's books (Pass Book), the customer's account is credited with the deposited amount. This double-entry system shows how transactions reflect differently in both records (Cash Book vs. Pass Book).

3. Need for Reconciliation

It is commonly observed that the bank balance shown in the firm's cash book does not match the balance shown in the bank statement. Therefore, it is necessary to first identify the reasons for this difference and then address them in a statement called the **Bank Reconciliation Statement**, which is used to reconcile (or match) the two balances.

To prepare a bank reconciliation statement, the bank balance as per the cash book and the bank statement on a specific date are required, along with the details of both records. If the balances differ, the entries in both books are compared, and the items causing the discrepancy are identified along with their respective amounts.

This information is then used to prepare the bank reconciliation statement, with the format illustrated below.

1. When balance as per Cash Book is given
When balance as per cash book is given, the following format is used.

Format of BRS

2. When balance as per Passbook is given
When balance as per bank passbook is given, the following format is used.

	Particulars	**+ (Rs.)**	**- (Rs.)**
	Balance as per Passbook	....	
Less:	Cheques issued but not presented for payment		....
	Any increase in Bank Balance		....
Add:	Cheque deposited but not credited/ collected/ cleared by the bank	....	
	Any decrease in Bank Balance	....	
	Balance as per Cash book (balancing figure, either Dr. Balance or Cr. Balance)	....	....
	TOTAL	**....**	**....**

Note that the first format is essentially the reverse of the second format. In the first format, we start with the cash book balance and adjust it to arrive at the pass book balance. In the second format, we begin with the pass book balance and adjust it to determine the cash book balance. As a result, any items that are added in the first format are subtracted in the second, and vice versa.

4. Reasons for Differences

Reconciliation in a Bank Reconciliation Statement (BRS) refers to the process of matching and comparing the balances between the Cash Book (maintained by the company) and the Pass Book (maintained by the bank). The differences arise due to timing discrepancies in recording transactions, such as cheques issued but not yet cleared, deposits made but not credited, bank charges, or interest credited by the bank without the company's immediate knowledge.

These variations cause the balances in the Cash Book and Pass Book to differ temporarily, and reconciliation helps identify and explain these differences to ensure accurate financial records.

Thus, the differences between the cash book and the bank passbook is caused by:

- **timing differences** on recording of the transactions.
- **errors** made by the business or by the bank.

Let us discuss each of these reasons of differences one by one.

4. Reasons for Differences

When a business compares the balance in its cash book with the balance shown in the bank passbook, there is often a discrepancy due to the time gap in recording transactions related to payments or receipts.

In other words, there is always a time gap between recording a transaction in the Cash Book and it being recorded by the bank.

For example, a cheque issued is recorded in the Cash Book on it being issued on 1st June 2024 but the bank records it when its presented for payment, let's say, 20th June 2024. Similarly, a cheque deposited is recorded in the Cash Book on it being deposited whereas the bank credits it when it is cleared, i.e., bank has received the amount.

The factors that contribute to this time gap include:

1. Cheques issued but not yet presented for payment
When a firm issues cheques to its suppliers or creditors, they are immediately recorded on the credit side of the cash book. However, the recipient may not present the cheque to the bank for payment right away. The bank only debits the firm's account once the cheque has been paid. This time lag between issuing the cheque and its presentation can lead to differences between the two balances.

For example, when a firm issues a cheque for Rs. 50,000 to a supplier on September 29, it is immediately recorded on the credit side of the cash book. However, if the supplier presents the cheque on October 10, the bank will only debit the firm's account on that day, creating a difference between the cash book and bank balance during the period from September 29 to October 10. Thus, on September 30, the cash book balance will be less by Rs. 50,000 due to this reason.

2. Cheques deposited but not yet collected
When a firm receives cheques from its customers (debtors), they are recorded on the debit side of the cash book, increasing the bank balance. However, the bank credits the firm's account only when the cheque is cleared. This process often takes a few days, especially with outstation cheques or those deposited at a different branch. As a result, there may be a discrepancy between the bank balance in the cash book and the bank passbook.

For example, when a firm receives a cheque for Rs. 30,000 from a customer on October 5 and deposits it the same day, it is recorded on the debit side of the cash book. However, if the bank clears the cheque on October 8, the firm's bank account will only be credited on that day, leading to a difference between the cash book and bank balance from October 5 to October 8.

3. Direct debits made by the Bank without the firm's Knowledge
At times, the bank deducts amounts for services such as cheque collection charges, incidental charges, interest on overdraft, or unpaid cheques (bounced or stopped) without notifying the firm. The firm only becomes aware of these deductions upon receiving the bank statement, leading to a lower balance in the passbook than in the cash book.

4. Amounts directly deposited in the Bank Account
Occasionally, customers (debtors) deposit money directly into the firm's bank account without informing the firm. The bank records these receipts in the firm's account, but the firm may only learn about them when it receives the bank statement. This causes the balance in the passbook to be higher than the balance in the cash book.

5. Interest and Dividends collected by the Bank
When the bank collects interest or dividends on behalf of the firm, these amounts are credited to the firm's account immediately. However, the firm may not be aware of these transactions until it receives the bank statement, causing a difference in the balances between the cash book and the passbook.

6. Direct payments made by the Bank on the firm's behalf
Sometimes, firms instruct the bank to make regular payments on specific dates to third parties (e.g., for telephone bills, insurance premiums, rent, or taxes). The bank debits these payments from the firm's account, but the firm may not be aware until it receives the bank statement. This causes the passbook balance to be lower than the cash book balance.

7. Dishonoured cheques or bills discounted
If a cheque deposited by the firm is dishonoured, or if a bill of exchange discounted by the bank is dishonoured on maturity, the bank will debit the firm's account. As the firm may not receive immediate notice of this, no corresponding entry will be made in the cash book until the bank statement arrives. This results in the passbook balance being lower than the cash book balance.

4. Reasons for Differences

Now let us see how differences can arise between the Cash Book and the Pass Book due to timing differences in recording transactions, specifically regarding the issuance and clearance of a cheque.

BRS IE1

Transaction on 1st April
A bank account is opened with an initial deposit of Rs.10,000, which is recorded in both the Cash Book (maintained by the company) and the Pass Book (maintained by the bank).

Both books show a balance of Rs. 10,000.

Transaction on 20th April
The company issues a cheque for Rs.2,000, which is recorded in the Cash Book as a deduction, bringing the balance to Rs.8,000.

However, the cheque has not yet been cashed by the customer, so no entry is made in the Pass Book. The balance in the Pass Book remains at Rs.10,000, creating a difference between the two books.

Bank Reconciliation Statement
A Bank Reconciliation Statement (BRS) resolves differences between the Cash Book and the Passbook balances.

Balance as per Cash Book: Rs. 8,000
Add: Cheque issued but not presented

A cheque for Rs. 2,000 was issued but has not yet been presented to the bank for payment. Since this amount is already deducted from the Cash Book but not from the Pass Book, it needs to be added back to reconcile the balance.

BRS IE2

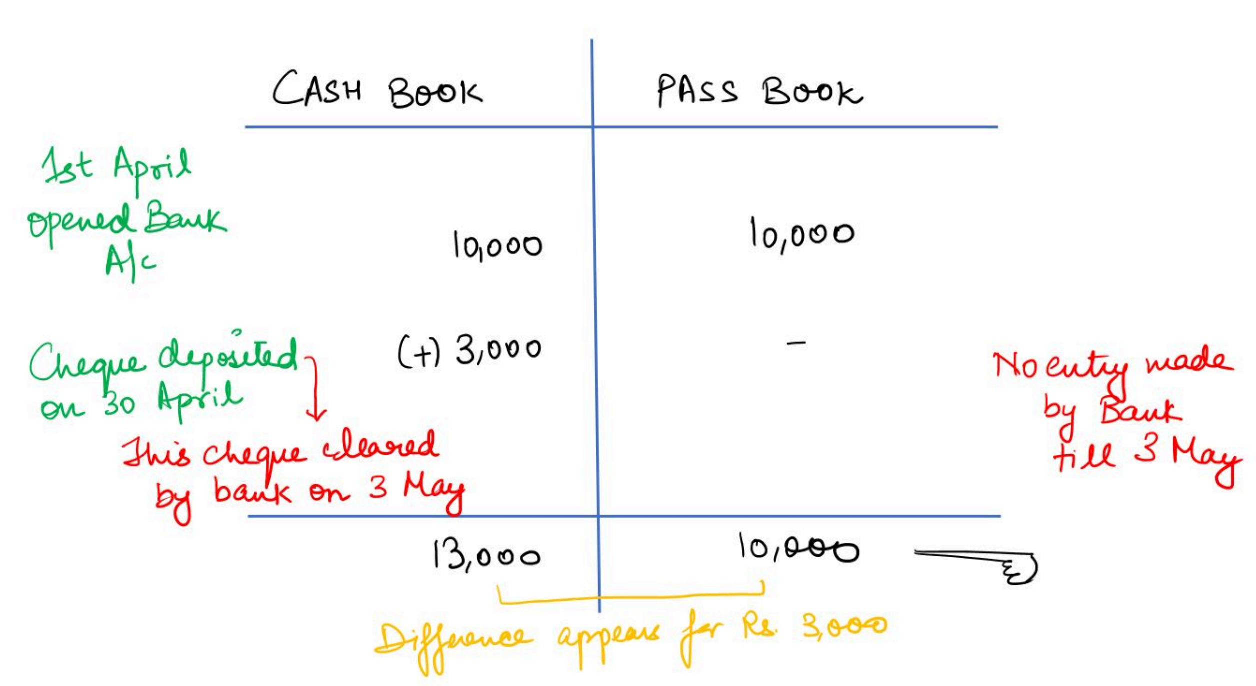
After adding Rs. 2,000 to the Cash Book balance, the reconciled balance matches the Pass Book at Rs. 10,000.

4. Reasons for Differences

Let us also understand the specific discrepancy which arises because of a timing difference in recording a cheque deposit between the Cash Book and the Pass Book:

Cash Book
On 1st April, the account was opened with a balance of Rs.10,000.

On 30th April, a cheque for Rs.3,000 was deposited in the bank, bringing the balance in the Cash Book to Rs.13,000.

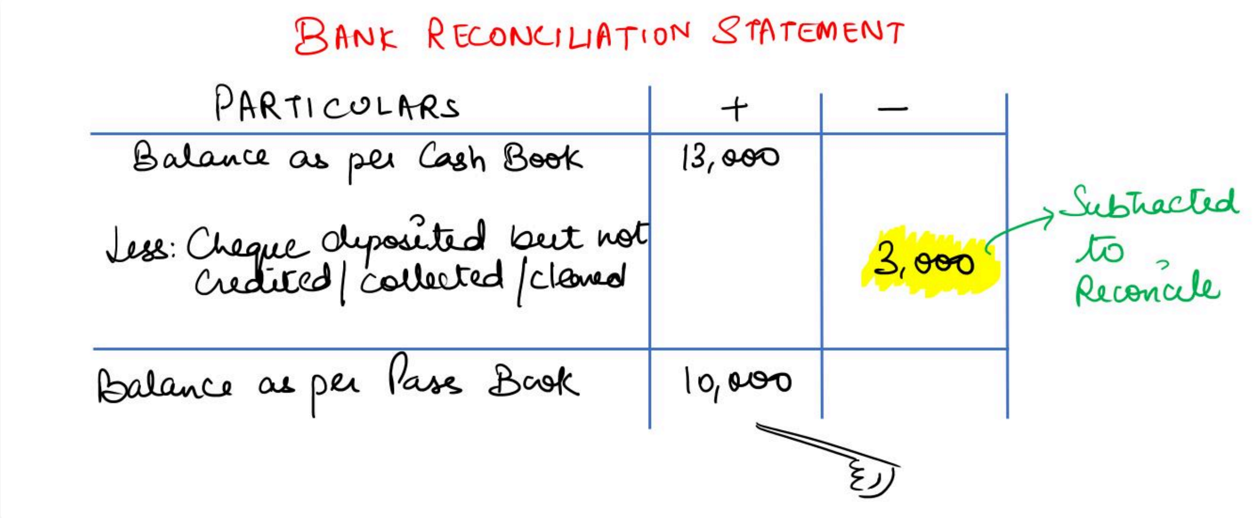


Pass Book
The initial balance was also Rs.10,000, but no entry is recorded for the cheque deposited on 30th April because the bank has not cleared the cheque yet. The cheque was cleared by the bank on 3rd May.

Difference
Due to the delayed clearing of the cheque, the balance in the Cash Book is Rs.13,000, while the Pass Book shows Rs.10,000, creating a difference of Rs.3,000.

Bank Reconciliation Statement
Balance as per Cash Book: Rs.13,000 (which includes the deposited cheque).
Less: Cheque deposited but not credited

Rs.3,000 cheque deposited on 30th April is yet to be cleared by the bank, so it is deducted.



Balance as per Pass Book
After reconciling, the balance matches the Pass Book at Rs.10,000.

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4. Reasons for Differences

At times, the discrepancy between the two balances can be due to errors made either by the bank or in the firm's cash book. These mistakes can result in differences between the bank balance recorded in the cash book and the one shown in the bank statement.

1. Errors made by the Firm in recording Transactions
Mistakes such as omitting or incorrectly recording transactions related to cheques issued or deposited, or errors in totaling, can lead to differences between the cash book and passbook balances.

2. Errors made by the Bank in recording Transactions
Similarly, errors made by the bank, such as omissions or incorrect recording of deposited cheques or incorrect totaling while posting entries in the passbook, can also cause discrepancies between the passbook and cash book balances.

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4. Reasons for Differences

Here are rules related to adjustments regarding overcasting or undercasting of Cash Book or Bank passbook.

Undercasting refers to an error where an amount is recorded less than its actual value in the books of accounts. For example, if a payment of Rs.1,000 is recorded as Rs. 800, the account has been undercast by Rs. 200.

Overcasting refers to an error where an amount is recorded more than its actual value in the books of accounts. For example, if a receipt of Rs. 2,000 is recorded as Rs. 2,500, the account has been overcast by Rs. 500.

If we start with the cash book balance during reconciliation, while making adjustments for overcasting or undercasting, whether in the cash book or passbook, it's important to remember that only the cash book can be changed, not the passbook. Regardless of whether the error is made by the bank, the firm must adjust its cash book to match the passbook during reconciliation.

Also, if we start with the passbook balance during reconciliation, all the adjustment rules will be reversed.

The exemplified undercasting and overcasting adjustments are given below.

Here, we are assuming that balance as per Cash Book is given to start with.

(i) Payment side of Cash Book undercasted by Rs.500
Impact: Cash book shows Rs.500 less than the actual payments.
Action: Subtract Rs.500 from Cash Book to match bank balance.

(ii) Payment side of Cash Book overcasted by Rs. 500
Impact: Cash book shows Rs.500 more than the actual payments.
Action: Add Rs.500 to Cash Book to match bank balance.

(iii) Receipt side of Cash Book overcasted by Rs.500
Impact: Cash book shows Rs.500 more than the actual receipts.
Action: Subtract Rs.500 from Cash Book to match bank balance.

(iv) Receipt side of Cash Book undercasted by Rs.500
Impact: Cash book shows Rs.500 less than the actual receipts.
Action: Add Rs.500 to Cash Book to match bank balance.

(v) Payment side of Pass Book undercasted by Rs.500
Impact: Pass book shows Rs.500 less than the actual payments.
Action: Add Rs.500 to Cash Book to reconcile with the passbook.

(vi) Payment side of Pass Book overcasted by Rs.500
Impact: Pass book shows Rs. 500 more than the actual payments.
Action: Subtract Rs.500 from Cash Book to reconcile with the passbook.

(vii) Receipt side of Pass Book overcasted by Rs.500
Impact: Pass book shows Rs. 500 more than the actual receipts
Action: Add Rs.500 to Cash Book to reconcile with the passbook.

(viii) Receipt side of Pass Book undercasted by Rs.500
Impact: Pass book shows Rs.500 less than the actual receipts.
Action: Subtract Rs.500 from Cash Book to reconcile with the passbook.

5. Preparation of Bank Reconciliation Statement

Now, we have already understood that in preparing the bank reconciliation statement, the starting point is either the balance according to the cash book or the passbook.

A debit balance in the cash book indicates the amount of deposits held at the bank, which will appear as a credit balance in the passbook. This scenario occurs when the firm's deposits exceed its withdrawals, reflecting a **favorable balance** in both the cash book and the passbook.

Conversely, a credit balance in the cash book signifies a bank overdraft, meaning that the amount withdrawn exceeds the amount deposited. This situation is referred to as an **unfavorable balance** in both the cash book and the passbook.

Situations in preparting BRS

There are 4 different scenarios that may arise while preparing the bank reconciliation statement:

1. When a Debit Balance (Favorable Balance) is provided in the Cash Book and the Balance in the Passbook needs to be determined.
2. When a Credit Balance (Favorable Balance) is provided in the Passbook and the Balance in the Cash Book needs to be determined.
3. When a Credit Balance in the Cash Book (Unfavorable Balance/Overdraft) is provided and the Balance in the Passbook needs to be determined.
4. When a Debit Balance in the Passbook (Unfavorable Balance/Overdraft) is provided and the Balance in the Cash Book needs to be determined.

6. Dealing with Favorable Balances

Let us understand the preparation of BRS with the help of illustrative examples for positive balances.

To prepare the bank reconciliation statement for favorable balances, the following steps can be followed:

1. Record the Date
Write the date on which the statement is prepared at the top as part of the heading.

2. Starting Balance
The first item in the statement is typically the balance shown in the cash book. Alternatively, the statement can also begin with the balance from the passbook.

3. Deduct Uncollected Deposits
Subtract the amount for cheques deposited but not yet collected.

4. Add Outstanding Cheques
Add the amounts for cheques issued but not yet presented for payment, as well as amounts directly deposited into the bank account.

5. Deduct Charges
Subtract any charges such as interest on overdrafts, payments made by the bank on standing instructions that are debited in the passbook but not recorded in the cash book, and amounts for dishonored bills and cheques.

6. Add Bank Credits
Add all credits provided by the bank, such as interest on dividends collected and any direct deposits into the bank account.

7. Make Adjustments for Errors
Adjust for any errors according to the principles of rectification. (The rectification of errors is discussed in detail in Chapter 6.)

8. Verify the Net Balance
The net balance shown in the statement should match the balance shown in the passbook.

It is important to note that if the passbook balance is used as the starting point, the treatment of all items will be the reverse of the steps outlined above.

6. Dealing with Favorable Balances

Following is the illustrative example of situation when a Debit Balance (Favorable Balance) is provided in the Cash Book and the Balance in the Passbook needs to be determined.

Prepare a Bank Reconciliation Statement from the following information as on 31st March 2024.

(i) Debit balance as per bank column of cash book Rs. 3,72,000
(ii) Cheques for Rs. 72,000 issued to creditors, but not yet presented to the bank for payment
(iii) Dividend of Rs. 5,000 received by the bank
(iv) Interest allowed by Bank Rs. 1,250
(v) Cheques of Rs. 15,400 deposited into Bank for collection, but not collected by Bank up to this date
(vi) Bank Charges Rs. 200
(vii) A cheque of Rs. 320 deposited into bank was dishonoured, but no intimation received
(viii) Bank paid house tax to the tune of Rs. 350, but no information received from bank in this connection.

Now, following BRS will be prepared to reconcile the difference between cash book and passbook.

BRS IE7

6. Dealing with Favorable Balances

Following is the illustrative example of situation, when a Debit Balance (Favorable Balance) is provided in the Cash Book and the Balance in the Passbook needs to be determined.

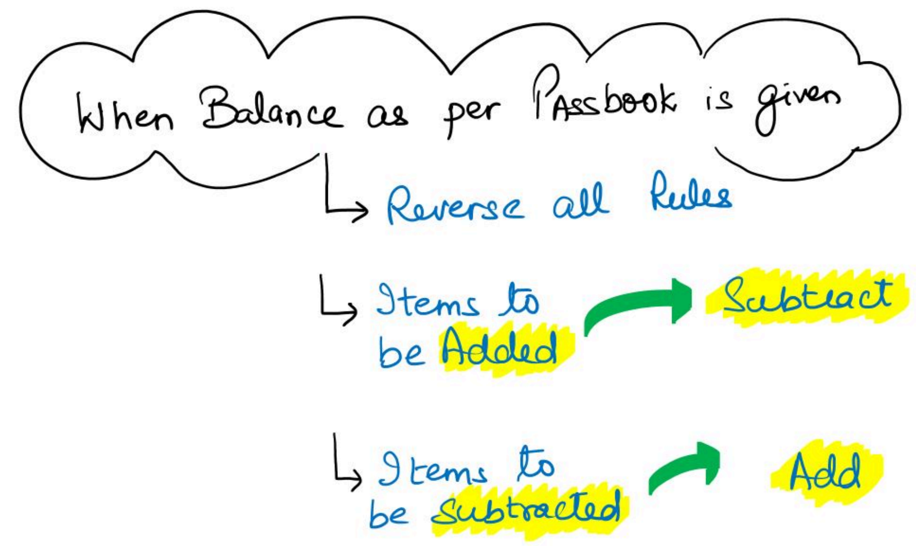
From the following particulars, prepare Bank Reconciliation Statement as on 31st December 2024.
(a) Debit Balance as per Cash Book Rs. 10,000
(b) A cheque for Rs. 500 issued in favour of Karan has not been presented for payment
(c) A bill for Rs. 700 retired (paid) by Bank under a rebate of Rs. 20
(d) A cheque for Rs. 295 deposited in bank has been dishonoured
(e) A sum of Rs. 800 deposited in Bank has been credited as Rs. 80 in the passbook
(f) Payment side of Cash Book has been undercasted by Rs. 200
(g) A bills receivable for Rs. 11,000 (discounted with bank in November 2024), dishonoured on 31st December, 2024,but the dishonour was not recorded in Cash Book.

Now, following BRS will be prepared to reconcile the difference between cash book and passbook.

	Particulars Positive Balance	+ (Rs.)	- (Rs.)
	Balance as per Cash book (Debit)	10,000	
Add:	Cheque issued but not presented Cash Book (-) Cash Book (+)	500	
Add:	Rebate not considered in cash book Bank (+); 680 paid. Cash Book (+) 700 paid	20	
Less:	Cheque dishonored Bank (-) Cash Book (-)		295
Less:	Under casting in Passbook Bank (+); 80 Cash Book (+); 800		720
Less:	Payment side under casted Bank (-) Cash Book (-)		200
Less:	Bill discounted and dishonored Bank (-) Cash Book (-)		1,000
	Balance as per passbook (balancing figure, Cr. Balance)		8,305
	TOTAL	**10,520**	**10,520**

6. Dealing with Favorable Balances

Following is the illustrative example of situation, when a Credit Balance (Favorable Balance) is provided in the Passbook and the Balance in the Cash Book needs to be determined.



Prepare Bank Reconciliation Statement from the following particulars on 31st March 2024.

Bank Statement showed a favourable balance of Rs. 12,400
(a) Cheques amounting to Rs. 45,000 were drawn on 27th March, 2024, of which, cheques of Rs. 33,000 were encashed on 2nd April 2024.
(b) Cheque issued returned on technical grounds Rs. 4,000.
(c) Bank recorded a cash deposit of Rs. 3,210 as Rs. 3,120.
(d) Bill for collection not advised by the Bank but credited to account by bank for Rs. 2,000.
(e) A bill for Rs. 10,000 was retired by the bank under a rebate of Rs. 200 but the full amount of the bill was credited in the bank column of the Cash Book.

Now, following BRS will be prepared to reconcile the difference between cash book and passbook.

	Particulars Reverse all rules (in case Pass Book Balance is given)	+ (Rs.)	- (Rs.)
	Balance as per Passbook	12,400	
Less:	Cheques issued but not uncashed		33,000
Less:	Cheque issued and returned by Bank		4,000
Add:	Bank recorded deposited of Rs. 3,210 as Rs. 3,120	90	
Less:	Bill directly credited by the Bank		8,000
Less:	Bill paid under discount but full amount credited in cash book		200
	Balance as per Cash Book (balancing figure, Cr. Balance)	32,710	
	TOTAL	**45,200**	**45,200**

6. Dealing with Favorable Balances

From the following particulars of Mr. Vikas, prepare bank reconciliation statement as on March 31, 2024.
1. Bank balance as per cash book Rs. 50,000.
2. Cheques issued but not presented for payment Rs. 6,000.
3. The bank had directly collected dividend of Rs. 8,000 and credited to bank account
but was not entered in the cash book.
4. Bank charges of Rs. 400 were not entered in the cash book.
5. A cheques for Rs. 6,000 was deposited but not collected by the bank.

Solution:

BRS Illustration1

6. Dealing with Favorable Balances

From the following particulars of Tarun & Co. prepare a bank reconciliation statement as on August 31, 2024.

1. Balance as per the cash book Rs. 54,000.
2. Rs. 100 bank incidental charges debited to Tarun & Co. account, which is not recorded in cash book.
3. Cheques for Rs. 5,400 is deposited in the bank but not yet collected by the bank.
4. A cheque for Rs. 20,000 is issued by Tarun & Co. not presented for payment.

Solution:

BRS Illustration2

6. Dealing with Favorable Balances

The bank passbook of M/s. Simran & Co. showed a balance of Rs. 45,000 on May 31, 2024.
1. Cheques issued before May 31, 2024, amounting to Rs. 25,940 had not been presented for encashment.
2. Two cheques of Rs. 3,900 and Rs. 2,350 were deposited into the bank on May 31 but the bank gave credit for the same in June, 2024.
3. There was also a debit in the passbook of Rs. 2,500 in respect of a cheque dishonoured on 31.5.2024.

Prepare a bank reconciliation statement as on May 31, 2024.

Solution:

BRS Illustration3

6. Dealing with Favorable Balances

From the following particulars, prepare a bank reconciliation statement as on March 31, 2024.

(a) Debit balance as per cash book is Rs. 10,000.

(b) A cheque for Rs. 1,000 deposited but not recorded in the cash book.

(c) A cash deposit of Rs. 200 was recorded in the cash book as if there is not bank, column therein.

(d) A cheque issued for Rs. 250 was recorded as Rs. 205 in the cash column.

(e) The debit balance of Rs. 1,500 as on the previous day was brought forward as a credit balance.

(f) The payment side of the cash book was under cast by Rs. 100.

(g) A cash discount allowed of Rs. 112 was recorded as Rs. 121 in the bank column.

(h) A cheque of Rs. 500 received from a debtor was recorded in the cash book but not deposited in the bank for collection.

(i) One outgoing cheque of Rs. 300 was recorded twice in the cash book.

Solution:

Bank Reconciliation Statement of as on March 31, 2024			
	Particulars	**+ (Rs.)**	**- (Rs.)**
1	Debit balance as per cash book	10,000	
2	Error in carrying forward	3,000	
3	Cheque recorded twice in cash book	300	
4	Cheque deposit not recorded in bank column	200	
5	Cheque deposit but not recorded	1,000	
6	Under casting of payment side		100
7	Cheque issued but not entered		250
8	A cash discount wrongly recorded in bank column		121
9	Cheque recorded but not deposited		500
10	Credit balance as per passbook		13,529
		14,500	**14,500**

6. Dealing with Favorable Balances

From the following particulars, prepare the bank reconciliation statement of Shri Bhanu Prasad as on March 31, 2024.

(a) Balance as per passbook is Rs. 10,000.

(b) Bank collected a cheque of Rs. 500 on behalf of Shri Bhanu but wrongly credited it to Shri Bhan's account.

(c) Bank recorded a cash book deposit of Rs. 1,589 as Rs. 1,598.

(d) Withdrawal column of the passbook under cast by Rs. 100.

(e) The credit balance of Rs. 1,500 as on the pass-book was recorded in the debit balance.

(f) The payment of a cheque of Rs. 350 was recorded twice in the passbook.

(g) The pass-book showed a credit balance for a cheque of Rs. 1,000 deposited by Shri Bhan.

Solution:

Bank Reconciliation Statement of Shri Bhanu Prasad as on March 31, 2024			
	Particulars	**+**	**-**
		(Rs.)	**(Rs.)**
1	Credit balance as per passbook	10,000	
2	Cheque wrongly credited to another customer account	500	
3	Error in carrying forward (1,500 + 1,500)	3,000	
4	Cheque recorded twice	350	
5	Excess credit for cash deposit (1,598 – 1,589)		9
6	Under casting of withdrawal column		100
7	Wrong credit		1,000
8	Debit balance as per cash book		12,741
		13,850	**13,850**

6. Dealing with Favorable Balances

On 31st March 2024, Bank Statement of Kapil showed credit balance of Rs. 15,650 whereas the Cash Book showed debit balance of Rs. 15,200. The reasons for difference were:
(i) Cheques issued to Rohan for Rs. 6,000 and to Daniel for Rs. 3,840 were not presented for payment.
(ii) Bank charged Rs. 350 for bank charges, which was not recoreded in the Cash Book.
(iii) Nitesh directly deposited Rs. 8,160 into the Bank Account of the trader which was not entered in the Cash Book.
(iv) Two cheques one from Shyam for Rs. 5,150 and another from Kailash for Rs. 12,500 were collected by bank on 2nd April, 20024, although they were deposited on 29th March, 2024.
(v) Interest credited by bank was Rs. 450, which was not recorded in the Cash Book.

Prepare Bank Reconciliation Statement on 31st March 2024.

Solution:

BRS Illustration6 New

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7. Dealing with Overdrafts

Up to this point, we have focused on bank reconciliation statements where the bank balance is positive, indicating that there is money in the account. However, businesses can sometimes have overdrafts, which occur when the bank account balance becomes negative, effectively meaning that the business has borrowed money from the bank. This situation is represented as a credit balance in the cash book.

In the bank statement, if the balance is indicated by "Dr." (or sometimes "OD"), it signifies an overdraft, which is referred to as a debit balance as per the passbook.

In a bank reconciliation statement, an overdraft is treated as a negative figure.

Let us now understand the preparation of BRS with the help of illustrative examples for negative balances.

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7. Dealing with Overdrafts

Following is the illustrative example of situation, i.e., when a Credit Balance in the Cash Book (Unfavorable Balance/Overdraft) is provided and the Balance in the Passbook needs to be determined.

Prepare a Bank Reconciliation Statement from the following information:

Credit Balance as per Cash Book Rs. 20,000
(i) Bank has paid for Insurance of Rs. 550
(ii) Cheque of Rs. 25,000 were issued but cheques of Rs. 21,000 were presented for payment
(iii) Interest collected by Bank Rs. 740
(iv) Cheques of Rs. 9,000 were deposited, of which Rs. 7,000 were cleared.
(v) A customer deposited Rs. 800 in bank directly.

Now, following BRS will be prepared to reconcile the difference between cash book and passbook.

BRS IE5

7. Dealing with Overdrafts

Following is the illustrative example of situation, i.e., when a Credit Balance in the Cash Book (Unfavorable Balance/Overdraft) is provided and the Balance in the Passbook needs to be determined.

Prepare a Bank Reconciliation Statement from the following information:
Overdraft as per Cash Book Rs. 2,500
(i) Cheque of Rs. 15,000 paid into Bank, of which only 12,000 were credited.
(ii) Cheques issued Rs. 10,000 of which only cheque of Rs. 3,000 were presented for payment.
(iii) Cheque of Rs. 500 debited into cash book but not sent to Bank.
(iv) There is a debit of Rs. 50 for interest and Rs. 100 for Bank Charges.
(v) A customer paid Rs. 3,000 directly into our Bank Account.

Now, following BRS will be prepared to reconcile the difference between cash book and passbook.

BRS IE6

7. Dealing with Overdrafts

On March 31, 2024, Neeraj had on overdraft of Rs. 8,000 as shown by his cash book. Cheques amounting to Rs. 2,000 had been paid in by him but were not collected by the bank. He issued cheques of Rs. 800 which were not presented to the bank for payment. There was a debit in his passbook of Rs. 60 for interest and Rs. 100 for bank charges. Prepare bank reconciliation statement.

Solution:

BRS Illustration4

7. Dealing with Overdrafts

On March 31, 2024 the bank column of the cash book of Alagh Traders showed a credit balance of Rs. 1,18,100 (Overdraft). On examining of the cash book and the bank statement, it was found that:

1. Cheques received and recorded in the cash book but not sent to the bank of collection Rs. 12,400.
2. Payment received from a customer directly by the bank Rs. 27,300 but no entry was made in the cash book.
3. Cheques issued for Rs. 1,75,200 not presented for payment.
4. Interest of Rs. 8,800 charged by the bank was not entered in the cash book.

Prepare bank reconciliation statement.

Solution:

BRS Alagh Traders

7. Dealing with Overdrafts

From the following particulars of Asha & Co. prepare a bank reconciliation statement on December 31, 2024.

(i) Overdraft as per passbook Rs. 20,000
(ii) Interest on overdraft Rs. 2,000
(iii) Insurance Premium paid by the bank Rs. 200
(iv) Cheque issued but not presented for payment Rs. 6,500
(v) Cheque deposited but not yet cleared Rs. 6,000
(vi) Wrongly debited by the bank Rs. 500

Solution:

BRS Illustration6

7. Dealing with Overdrafts

Bank Reconciliation Statement is to be prepared as on 31st March, 2024 starting with credit balance as per Cash Book. State whether the following transactions will be shown in the Bank Reconciliation Statement by adding or deducting it from the given balance giving reason:

(i) Cheque of Rs. 10,000 deposited was dishonored.

(ii) Cheque of Rs. 5,000 was recorded in Cash Book but was not deposited.

(iii) Post-dated cheque of Rs. 20,000 discounted from Bank was dishonoured.

(iv) A cheque issued to Ramesh for Rs. 5,500 was not recorded in Cash Book.

(v) Receipts side of the Cash Book was overcast by Rs. 1,000.

(vi) Payments side is overcast by Rs. 10,000.

Solution:
(i) **Rs. 10,000 will be added to Overdraft Cash Book balance** since dishonour of cheque is not recorded in the Cash Book and Bank Pass Book shows higher overdraft or lower credit balance. By adding the amount, Overdraft Cash Book balance will increase and will be at par with Bank Pass Book balance.

(ii) **Rs. 5,000 will be added to Overdraft Cash Book balance** since it is recorded in the Cash Book but not deposited. Bank Pass Book shows higher overdraft balance or lower credit balance. By adding the amount, Overdraft Cash Book balance will increase and will be at par with Bank Pass Book balance.

(iii) **Rs. 20,000 will be added to the Overdraft Cash Book balance** since it has increased the overdraft Pass Book balance. As a result, overdraft Cash Book balance will increase and will be at par with the Bank Pass Book balance.

(iv) **Rs. 5,500 will be added to Overdraft Cash Book balance** since it has not been recorded in the Cash Book but has either decreased the bank balance or has increased the debit bank balance. As a result, Overdraft Cash Book balance will increase and will be at par with the Bank Pass Book balance.

(v) **Rs. 1,000 will be added to Overdraft Cash Book balance** since the error has reduced the overdraft balance. By adding the amount to Overdraft Cash Book balance, the balance as per Cash Book and Bank Pass Book will be at par.

(vi) **Rs. 10,000 will be deducted from Overdraft Cash Book balance** as it has increased the overdraft balance.

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1. Introduction

Accounting, in today's business world, is regarded as a 'language of business' and communicates the financial results of an enterprise to various stakeholders in the form of financial statements. Regulation of the financial accounting process is necessary to reduce the possibility of financial statements being misleading and providing a distorted picture of the business, instead of true and fair.

To ensure transparency, consistency, comparability, adequacy, and reliability of financial reporting, it is vital to standardize the accounting principles and policies. Accounting Standards (ASs) provide framework and standard accounting policies for treatment of transactions and events so that the financial statements of different enterprises become comparable in the industry and globally as well.

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2. Generally Accepted Accounting Principles (GAAP)

The Generally Accepted Accounting Principles (GAAP) refers to a common set of accepted accounting principles, standards, and procedures that business reporting entity must follow, when it prepares and present its financial statements. It is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information.

GAAP

GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information. At international level, such authoritative standards are known as **International Financial Reporting Standards (IFRS)** at many places and in India, we have authoritative standards named as **Accounting Standards (ASs)** and **Indian Accounting Standard (Ind AS)**.

The difficulty with GAAP is that, it permits a variety of alternative treatments for the same item. For example, various methods of calculation of cost of inventory are permissible which may be followed by different enterprises. This may cause problem to the external users, as the information becomes inconsistent and incomparable. This necessitates bringing in uniformity and consistency in the reporting of accounting information.

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3. Accounting Standards

Accounting Standards are defined as written policy documents issued by the expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements.

The Institute of Chartered Accountants of India (ICAI) has issued Accounting Standards to standardise the accounting practices adopted to prepare financial statements. Initially, the accounting standards were recommendatory but were gradually made mandatory. Presently, the accounting standards issued by ICAI are applicable on non-corporate enterprises (firm). The accounting standards notified under the Companies Act, 2013 are applicable and mandatory on Companies.

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3. Accounting Standards

The whole idea of accounting standards revolves around harmonisation of accounting policies and practices followed by different business entities. Accounting Standards aim to standardise the diverse accounting policies and procedures followed by different business entities with a view to:

i. Eliminate the non-comparability of financial statements;
ii. Improving the reliability of financial statements; and
iii. Provide a set of standard accounting policies, valuation norms and disclosure requirements.

Accounting standards

The accounting standards deal with the following:

a. **Recognition** of events and transactions in the financial statements;
b. **Measurement** of these transactions and events;
c. **Presentation** of these transactions and events in the financial statements in a manner that is meaningful and understandable to the user; and
d. The **disclosure** requirements which should encourage and enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and further facilitating them to take prudent and informed business decisions.

Thus, an Accounting Standard is a selected set of accounting policies or broad guidelines regarding the principles and the methods to be chosen out of several alternatives. These Accounting Standards conform to applicable laws, customs, usage, and business environment. In other words, these are written policy documents issued by the Government with the support of other regulatory bodies.

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

3. Accounting Standards

The following are the benefits of Accounting Standards:

1. Accounting Standards r**educe or eliminate, to a reasonable extent, any confusing variations** in the accounting treatment and presentation of economic events while preparing financial statements.
2. In certain areas, where information is not statutorily required to be disclosed, ASs may call for **appropriate disclosures** of accounting policies followed and other required information in the financial statements which would be helpful for users to understand the accounting treatment done for various items in those financial statements.
3. ASs helps to **improve the credibility of accounting data**. In addition, standardisation of accounting procedures helps to improve comparability of financial statements, both intra-enterprise and inter-enterprise.
4. Another advantage of **standardisation** is reduction of scope for creative accounting. The creative accounting refers to twisting of accounting policies to produce financial statements favourable to a particular interest group. In other words, accounting standards reduce the accounting alternatives in the preparation of financial statements within the bounds of rationality, thereby, ensuring easy comparability and reliability of financial statements.

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4. Accounting Standards in India

The Institute of Chartered Accountants of India, (ICAI), which is the regulatory body for standardization of accounting policies in the country, has issued Accounting Standards which are expected to be uniformly adhered to, in order to bring consistency in the accounting practices. ICAI, recognizing the need to harmonize the diverse accounting policies and practices, constituted Accounting Standard Board (ASB) on 21st April 1977.

Thus, it can be stated that the Accounting Standards are developed by the Accounting Standards Board (ASB) of ICAI and are issued under the authority of its Council. The institute not being a legislative body can enforce compliance with its standards only by its members. Also, the standards cannot override laws and local regulations. These Accounting Standards are nevertheless made mandatory from the dates specified in respective standards and are generally applicable to all enterprises, subject to certain exceptions. The implication of mandatory status of an Accounting Standard depends on whether the statute governing the enterprise concerned requires compliance with the Accounting Standards. The Companies Act had earlier notified 28 ASs and mandated the corporate entities to comply with the provisions stated therein. However, in 2016 the MCA withdrew AS 6. Hence, there are now only 27 notified ASs as per Companies (Accounting Standards) Rules, 2006 (as amended in 2016).

The ICAI has, so far, issued 29 Accounting Standards. However, AS-6 on ‘Depreciation Accounting’ has been withdrawn on revision of AS 10 ‘Property, Plant and Equipment’ and AS-8 on ‘Accounting for Research and Development’ has been withdrawn consequent to the issuance of AS-26 on ‘Intangible Assets’. Thus, effectively, there are 27 Accounting Standards at present. The Accounting Standards issued by the ASB, establish standards which must be complied by the business entities so that the financial statements are prepared in accordance with generally accepted accounting principles (GAAP).

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4. Accounting Standards in India

Accounting standards	**Description**
AS 1	Disclosure of Accounting Policies / Presentation of Financial Statements
AS 2	Valuation of Inventories (Revised)
AS 3	Cash Flow Statements
AS 4	Contingencies and Events Occurring after the Balance Sheet Date (Revised)
AS 5	Net Profit or Loss for the Period, Prior Period items and Changes in Accounting Policies
AS 6	Depreciation Accounting-*has been withdrawn, pursuant to revision in AS 10*
AS 7	Construction Contracts
AS 8	Accounting for Research and Development-*has been withdrawn, pursuant to issuance of AS-26 on 'Intangible Assets'*
AS 9	Revenue Recognition
AS 10	Accounting for Fixed Assets-*now renamed Accounting for Property, Plant and Equipment (Revised)*
AS 11	The Effects of Changes in Foreign Exchange Rates (Revised)
AS 12	Accounting for Government Grants
AS 13	Accounting for Investments (Revised)
AS 14	Accounting for Amalgamations (Revised)
AS 15	Accounting for Retirement Benefits in the Financial Statements of Employers (now titled as 'Employee Benefits')
AS 16	Borrowing Costs
AS 17	Segment Reporting
AS 18	Related Party Disclosures
AS 19	Leases
AS 20	Earnings Per Share
AS 21	Consolidated Financial Statements (Revised)
AS 22	Accounting for Taxes on Income
AS 23	Accounting for Investments in associates in Consolidated Financial Statements
AS 24	Discontinuing Operations
AS 25	Interim Financial Reporting
AS 26	Intangible Assets
AS 27	Financial Reporting of Interests in Joint Ventures
AS 28	Impairment of Assets
AS 29	Provisions, Contingent Liabilities and Contingent Assets (Revised)

5. International Accounting Standards

International Financial Reporting Standards (IFRSs) are globally accepted accounting standards developed by International Accounting Standard Board (IASB). IFRS is a set of accounting standards for reporting different types of business transactions and events in the financial statements. The objective is to facilitate international comparisons for true and fair valuation of a business enterprise.

Components of financial statement

Components of financial statements under IFRS are given below:

1. **Statement of financial position:** The elements of this statement are:

- Assets
- Liability
- Equity

2. Comprehensive Income statement: The elements of this statement are:

- Revenue
- Expense

3. Statement of changes in Equity

4. Statement of Cash flow

5. Notes and significant accounting policies.

5. International Accounting Standards

The list of IFRS standards is given below:

International Accounting Standards	Description
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-current Assets Held for Sale and Discontinuing Operations
IFRS 6	Exploration and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRS 9	Financial Instruments
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IFRS 14	Regulatory Deferral Accounts
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 17	Insurance Contracts

5. International Accounting Standards

The primary difference between the two systems is that GAAP is rules-based; and IFRS is principles-based. The IFRS are based on Fair Value, while GAAP are based on historical cost.

6. Regulatory Authorities

Let us discuss the authorities or boards which are associated with formulation, development and applicability of Accounting Standards in India.

6. Regulatory Authorities

In India, the Institute of Chartered Accountants of India (ICAI), recognising the need to harmonise the diverse accounting policies and practices prevalent in India, constituted the Accounting Standards Board of India (ASB) in 1977.

The main function of ASB is to formulate Accounting Standards, so that such standards may be established by the ICAI in India. While formulating the Accounting Standards, the ASB will take into consideration the applicable laws, customs, usages, and business environment prevailing in India.

The ASB has also been entrusted with the responsibility of propagating the Accounting Standards and of persuading the concerned parties to adopt them in the preparation and presentation of financial statements. The ASB will provide interpretations and guidance on issues arising from Accounting Standards. The ASB will also review the Accounting Standards at periodical intervals and, if necessary, revise the same.

Composition of ASB

The composition of ASB is broad-based and ensures participation of all interest-groups in the standard-setting process. Apart from the elected members of the Council of the ICAI nominated on the ASB, the following are represented on the ASB:

i. Nominee of the Central Government representing the Ministry of Corporate Affairs on the Council of the ICAI.
ii. Nominee of the Central Government representing the Office of the Comptroller and Auditor General of India on the Council of the ICAI.
iii. Nominee of the Central Government representing the Central Board of Direct Taxes on the Council of the ICAI.
iv. Representative of the Institute of Cost and Works Accountants of India.
v. Representative of the Institute of Company Secretaries of India.
vi. Representatives of Industry Associations (one each from Associated Chambers of Commerce and Industry (ASSOCHAM), Confederation of Indian Industry (CII) and Federation of Indian Chambers of Commerce and Industry (FICCI).
vii. Representative of Reserve Bank of India.
viii. Representative of Securities and Exchange Board of India.
ix. Representative of Controller General of Accounts.
x. Representative of Central Board of Excise and Customs.
xi. Representatives of Academic Institutions (1 from Universities and 1 from Indian Institutes of Management).
xii. Representative of Financial Institutions.
xiii. Eminent professionals co-opted by the ICAI (they may be in practice or in industry, government, education, etc.)
xiv. Chairman of the Research Committee and the Chairman of the Expert Advisory Committee of the ICAI if they are not otherwise members of the Accounting Standards Board.
xv. Representative(s) of any other body, as considered appropriate by the ICAI.

Objectives of ASB

The following are the objectives of the Accounting Standards Board:

- To conceive of and suggest areas in which Accounting Standards need to be developed.
- To formulate Accounting Standards with a view to assist the Council of the ICAI in evolving and establishing Accounting Standards in India.
- To examine how far the relevant International Accounting Standard/International Financial Reporting Standard can be adapted while formulating the Accounting Standard and to adapt the same.
- To review, at regular intervals, the Accounting Standards from the point of view of acceptance or changed conditions, and, if necessary, revise the same.
- To provide, from time to time, interpretations, and guidance on Accounting Standards.
- To carry out such other functions relating to Accounting Standards.

6. Regulatory Authorities

As per Section 133 of the Companies Act, 2013, the Central Government, through Ministry of Corporate Affairs (MCA), may prescribe the standards of accounting or any addendum thereto, as recommended by ICAI, in consultation with and after examination of the recommendations made by National Financial Reporting Authority (NFRA).

National Advisory Committee on Accounting Standard (NACAS) and National Financial Reporting Authority (NFRA)

National Advisory Committee on Accounting Standard (NACAS) was set up under Companies Act, 1956 and National Financial Reporting Authority (NFRA*)* is set up under Companies Act, 2013. These are the bodies for the purpose of advisory and regulation of compliances with the standards notified in relation to accounting and auditing. The objective of NACAS was to advise the Central Government on the formulation and lying down of accounting policies and accounting standards for adoption by companies or class of companies under Companies Act 1956, but, the role of NACAS was only restricted to the advisory.

Note: The NACAS will no longer be in action after applicability of section 132 of the Companies act 2013, which deals with NFRA.

The National Financial Reporting Authority (NFRA) was constituted on 1 October 2018 by the Government of India under section 132 (1) of the Companies Act, 2013, with the following duties:

- To recommend accounting and auditing policies and standards to be adopted by companies for approval by the Central Government.
- To monitor and enforce compliance with accounting standards and auditing standards.
- To oversee the quality of service of the professions associated with ensuring compliance with such standards and suggest measures for improvement in the quality of service.
- To perform such other functions and duties as may be necessary or incidental to the aforesaid functions and duties.

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6. Regulatory Authorities

To develop International Accounting Standards, the London based group namely the International Accounting Standards Committee (IASC) was established in June 1973. It is presently known as International Accounting Standards Board (IASB).

Between 1973 and 2001, the IASC released International Accounting Standards. Between 1997 and 1999, the IASC restructured their organization, which resulted in formation of IASB in 2001. IASB publishes its own standards in a series of pronouncements called International Financial Reporting Standards (IFRS). However, IASB has not rejected the standards issued by ISAC and such standards continue to be designated as International Accounting Standards (IAS). The Standards issued by IASC till 31.03.2001 are known as IASs and the standards issued by IASB since 01.04.2001 are known as IFRS.

International Federation of Accountants (IFAC) is a global organization for the accountancy profession, comprising more than 175 member and associate organizations in 130 countries and jurisdictions, representing nearly 3 million professional accountants. It supports the development, adoption, and implementation of high-quality international standards.

The ICAI, being a full-fledged member of the International Federation of Accountants (IFAC), is expected, inter alia, to actively promote the International Accounting Standards Board's (IASB) pronouncements in the country with a view to facilitate global harmonisation of accounting standards. Accordingly, while formulating the Accounting Standards, the ASB will give due consideration to International Accounting Standards (IASs) issued by the International Accounting Standards Committee (predecessor body to IASB) or International Financial Reporting Standards (IFRSs) issued by the IASB, as the case may be, and try to integrate them, to the extent possible, in the light of the conditions and practices prevailing in India.
