



**GOVERNMENT OF TAMILNADU**

# **ACCOUNTANCY**

**VOLUME - I**

**HIGHER SECONDARY FIRST YEAR**

**Untouchability is Inhuman and a Crime**

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- Once the camera detects the QR code, a url appears in the screen.Click the url and goto the content page.

## Dear Students!

This Accountancy textbook is the source of knowledge to provide you with the basic understanding of Accountancy and to make use of your analytical ability to make you an excellent person in applying the accounting principles to real business situations through various activities given in the textbook.

The book contains 14 units, within which the subdivisions and various student activities are given in an organised way to make learning easy, systematic and a pleasure.

The method of using this book effectively to learn the concepts and methods contained in it and explanation of the important items included in the text book are given below to have a better learning experience.

### UNITS

Units are the broad divisions of the book which contain several subdivisions in each of them so that the students can have understanding of the specific substance in various parts of Accountancy education. Each unit gives the specialised knowledge on the content discussed. The units are to be learnt in the order given in the book to have continuity of learning and proper understanding of the subject matter.

### SUBDIVISIONS

All the 14 units in the textbook have been divided into subdivisions that give the basic theory and practice of Accountancy today in an orderly manner.

## HOW TO USE THE BOOK



Learning objectives give the level of knowledge to be attained by the students while learning the contents given in the unit.

### POINTS TO RECALL

These help in proper understanding of the unit contents by providing a base for learning by recalling what is learnt earlier.

### KEY TERMS

The key terms are the important concepts that the students are to be thorough within each unit. The students must be clear about these concepts to have clarity of thought and an able learning about the subject matter.



This section of the unit gives the various information about the present or past events or useful practices in the field of Accountancy relevant to the subject matter discussed in the specific unit.



This is an exercise given to the students to do as class work or home work or as field work on the chosen topic in each unit. Accountancy education requires practical exposure to various business environment around the world. Student activity will ensure practical application of the principles learnt in the real business situations and help to develop the analytical and entrepreneurial ability of the students.



This is an online support to enrich learning. Using a smart phone with applied QR code app, the students can have access to short lectures or demonstrations by experts or experienced teachers. This is to be a leisure time exercise or else teachers can display them in class rooms.



It provides a summary of important subject matter discussed in the unit.

## SELF-EXAMINATION QUESTIONS

This section contains theoretical questions and practical problems to be answered by the students. Multiple choice questions help in thorough understanding of the concepts and procedures.



## TO EXPLORE FURTHER

Case study helps in application of accounting principles and practices learnt in real business environment by analysing a particular situation. It enables the students to reach higher levels of knowledge, namely, applying, analysing, evaluating and creating new models.

## GLOSSARY

This section enables the students to make a further analysis of the concepts and methods learnt through browsing or learning from the reference books. This again is to enrich learning and to help the students to pursue higher education or professional courses.

This section helps in understanding the important terminologies used in the text book through comparison of corresponding Tamil terms.

We wish you a meaningful and successful learning.

Team of Authors.

# SCOPE OF ACCOUNTANCY EDUCATION

“Accountancy” as a field of knowledge is all pervasive in nature. It offers enormous opportunities for higher education and employment both in India and abroad. The scope after higher secondary programme in Accountancy is given below:

## EDUCATIONAL OPPORTUNITIES

Any of the following Degree Programmes can be pursued by the students both on regular mode and distance education mode	Any of the following professional courses/programmes	Any of the following programmes in India or abroad after a formal degree programme anywhere in colleges, Universities	Any of the following professional courses/programmes after a formal degree programme	Any of the research programme after a formal post graduation
<ul style="list-style-type: none"> <li>• B.Com–Bachelor of Commerce (General)</li> <li>• B.Com–(Hons.)</li> <li>• B.Com–(Accounting &amp; Finance)</li> <li>• B.Com–(Corporate Secretaryship)</li> <li>• B.Com–(Computer Applications)</li> <li>• B.Com–(International Business)</li> <li>• B.Com–(Bank Management)</li> <li>• B.B.A–(Bachelor of Business Administration)</li> <li>• B.B.M–(Bachelor of Bank Management)</li> <li>• B.Com–(Co-operation)</li> <li>• M.Com–(Master of Commerce–Five year Integrated programme)</li> </ul>	<ul style="list-style-type: none"> <li>• CA–Chartered Accountancy</li> <li>• CMA–Cost and Management Accountancy</li> <li>• CS–Company Secretaryship</li> <li>• BL–Bachelor of Law – Five year Integrated Programme</li> <li>• CIMA (Chartered Institute of Management Accountants)</li> <li>• ACCA (Association of Chartered Certified Accountants (UK))</li> <li>• CPA (Certified Public Accountant (USA))</li> <li>• CFP–Certified Financial Planner(USA)</li> </ul>	<ul style="list-style-type: none"> <li>• M.Com– Master of Commerce</li> <li>• M.Com– (Accounting and Finance)</li> <li>• M.Com–(Corporate Secretaryship)</li> <li>• M.Com– (Computer Applications)</li> <li>• M.Com– (International Business and Banking)</li> <li>• M.Com– (Co operative Management)</li> <li>• M.B.A–Master of Business Administration</li> <li>• M.B.A–(Finance)</li> <li>• M.B.A–(Marketing)</li> <li>• M.B.A–(Human Resource Management)</li> <li>• M.B.A–(Advertisement and Salesmanship)</li> <li>• M.B.A–(Hospital Management)</li> <li>• MHRM (Master of Human Resource Management)</li> <li>• MLM (Master of Labour Management)</li> </ul>	<ul style="list-style-type: none"> <li>• Indian Administrative Service (IAS)</li> <li>• Indian Police Service (IPS)</li> <li>• Indian Foreign Service (IFS)</li> <li>• Indian Revenue Service (IRS)</li> <li>• Indian Audit and Account Service (IA&amp;AS)</li> <li>• B.Ed., (Bachelor of Education) and followed by</li> <li>• M.Ed., (Master of Education) Programmes</li> <li>• PG Diploma programme</li> </ul>	<ul style="list-style-type: none"> <li>• M.Phil– Master of Philosophy</li> <li>• Ph.D– Doctor of Philosophy</li> </ul>

## EMPLOYMENT OPPORTUNITIES

Accounts assistant	Accountant
Audit assistant	Cost analyst
Investment consultant	Financial advisor
Tax practitioner	Chartered Accountant
Company Secretary	Cost and Management Accountant
Teaching	State and Central Government jobs

## Details of some of the professional courses in India

Professional course	Name of the institute	Southern India Regional Office address	Chapters in Tamil Nadu
Chartered Accountancy	The Institute of Chartered Accountants of India  www.icai.org	ICAI Bhawan, 122, Mahatma Gandhi Road Post box No.3314 Nungambakkam, Chennai - 600034	Coimbatore Erode Madurai Salem Tiruchirapalli Tirunelveli Tirupur Tuticorin Kanchipuram Kumbakonam Sivakasi
Company Secretaryship	The Institute of company secretaries of India  www.icsi.edu	9,Wheat Crofts Road, Nungambakkam, Chennai-600034	Coimbatore Madurai Salem
Cost and Management Accountancy	The Institute of Cost Accountants of India  www.icma.in	Southern India Regional Council, CMA Bhawan 4, Montieth Lane, Egmore Chennai - 600008	Coimbatore Erode Madurai Mettur-Salem Nellai-Pearl Neyveli Ranipet-Vellore Tiruchirapalli

## SCOPE ABROAD

Accountancy students have a wide range of scope abroad.

1. Higher studies
2. Employment opportunities as
  - Teachers
  - Accountants
  - Auditors
  - Financial consultants
  - Export and Import consultants
  - Tax advisors
  - Project consultants.



# Unit 1

## INTRODUCTION TO ACCOUNTING



### Contents

- 1.1 Introduction to Accounting
- 1.2 Evolution of Accounting
- 1.3 Meaning and Definition of Accounting
- 1.4 Accounting cycle
- 1.5 Objectives of Accounting
- 1.6 Functions of Accounting
- 1.7 Importance of Accounting
- 1.8 Basic Accounting terminologies
- 1.9 Branches of Accounting
- 1.10 Bases of Accounting
- 1.11 Users of Accounting information
- 1.12 Role of an accountant



### Points to recall

The following points are to be recalled before learning introduction to Accounting:

- Barter system
- Money as a medium of exchange
- Activities involving transfer of money or money's worth



### Learning Objectives

To enable the students to

- Understand the meaning and functions of accounting
- Analyse the importance of accounting
- Understand the basic accounting terminologies
- Analyse the role of an accountant

### Key terms to know

- Accounting
- Accountant
- Cash basis
- Accrual basis

## **1.1 Introduction to Accounting**

Business entities and other organisations carry on activities which involve exchange of money or money's worth or economic resources. Where the volume of these activities are large in number it is necessary that these are recorded for the purpose of taking important decisions as to whether the activities are viable, gainful and are to be continued or not. Information about the business and other organisations is required not only to the proprietors and managers of business and other organisations but also to various other interested users such as the government, investors, customers, employees and researchers.

Raising and utilising of finance for various purposes must be recorded systematically, scientifically and uniformly. It is very important because finance is the most important resource next to the human element for any economic activity. Hence, there is a need for principles, methods and procedures to be followed to record all these information and to derive from these information, the feasibility and benefit of the activities carried out. Accountancy provides the basic theory, principles and methods to be followed to account for all financial activities taking place in an organisation. Accounting the financial activities in a systematic way helps in ascertaining the efficiency of performance of these activities and provides data about the state of affairs of the organisation for further analysis and planning.

Accounting is the language of business. The most important function of a language is to facilitate communication. The information about business entities regarding their operating performance and financial status can be obtained from the financial information recorded in the accounting records. This information is communicated to the interested users of business information such as proprietors, management, investors, customers and the government.

## **1.2 Evolution of Accounting**

In India, 23 centuries ago, Chandragupta Maurya's Minister Kautilya wrote a book named 'Arthashastra' wherein some references can be traced regarding the way of maintaining accounting records.

In the earliest days of civilisation, accounting was done by stewards who managed the properties of wealthy people. They rendered accounts periodically to the owners of property. The stewardship accounting is said to be the root of accounting. Records of debit and credit were found in the 12<sup>th</sup> century itself.

In 1494, Luca Pacioli an Italian developed double-entry book-keeping system. Due to the industrial revolution in the 18<sup>th</sup> and 19<sup>th</sup> centuries, large scale operations were carried on and joint stock companies emerged as an important form of organisation which required separation of ownership from management. Hence, to safeguard the interest of owners and investors, the business establishments required detailed information about business which paved the way for development of comprehensive financial accounting information system.

In the 20<sup>th</sup> century, the need for analysis of financial information for managerial decision making caused emergence of Management Accounting as a separate branch of accounting.

Though accounting was individual centric in the initial stage of evolution of accounting, it has gradually developed into Social Responsibility Accounting in the 21<sup>st</sup> century, due to the vast growth in business activities as a result of development in various fields. Thus, accounting has become inevitable in the modern world for business.

### 1.3 Meaning and Definition of Accounting



#### Student activity

**Think:** Before the evolution of money, commodities were exchanged for commodities. In such situations, how would people have maintained their accounts?

Accounting is the systematic process of identifying, measuring, recording, classifying, summarising, interpreting and communicating financial information. Accounting gives information on:

- (i) the resources available
- (ii) how the available resources have been employed and
- (iii) the results achieved by their use.

The profit earned or loss incurred during the accounting period, value and nature of assets, liabilities and capital can be ascertained from the information recorded in accounts.

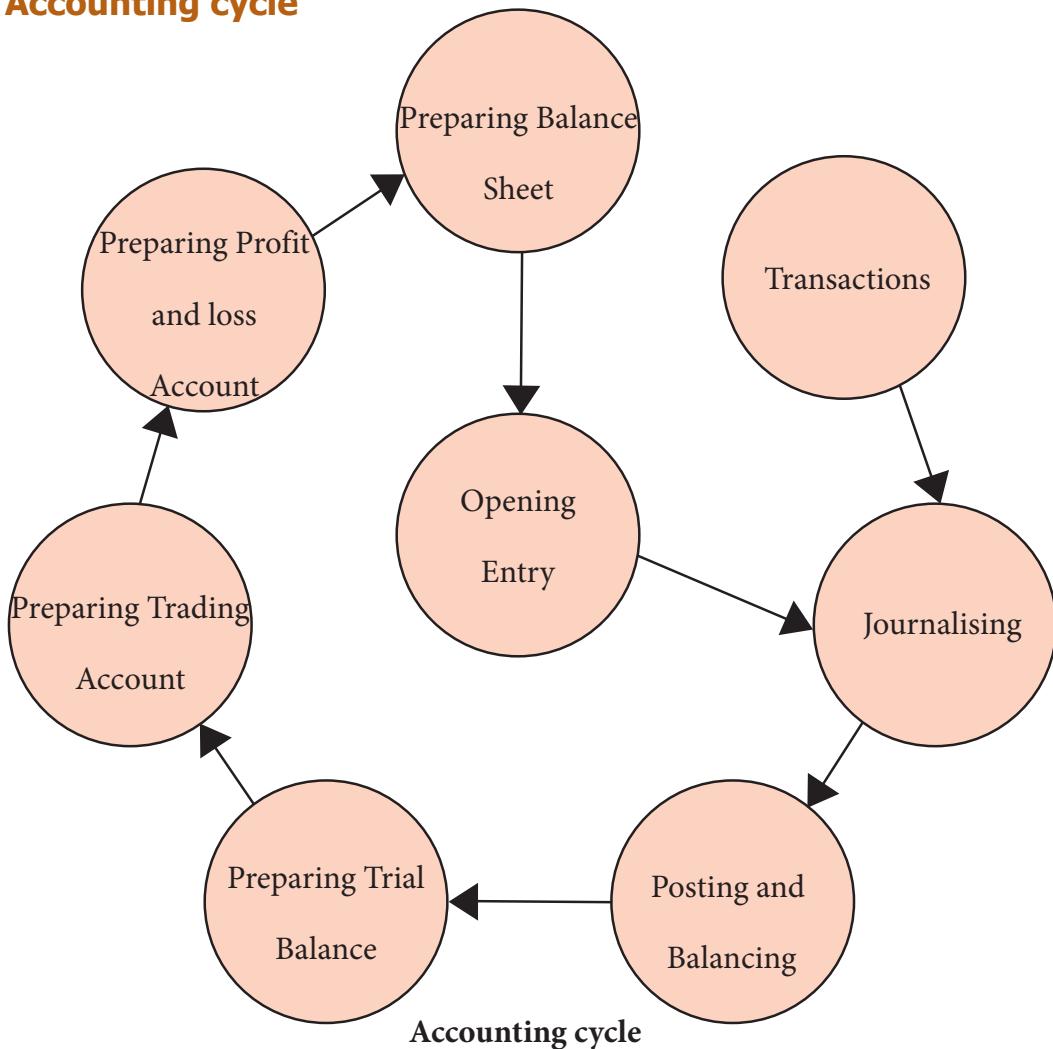
According to the **American Institute of Certified Public Accountants** “Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are in part, at least of a financial character and interpreting the results thereof”.

**American Accounting Association** has defined accounting as “the process of identifying, measuring, and communicating economic information to permit informed judgements and decisions by users of the information”.

From the above definitions, the following attributes of accounting emerge:

- i) Accounting is an art. It requires the expertise and skill of accountants to design accounting system and policies, to decide the accounting process in order to suit the requirements of an organisation.
- ii) The transactions or events of a business must be recorded in monetary terms.
- iii) Accounting process involves recording, classifying and summarising of transactions and analysis and interpretation of the results.
- iv) The results of such analysis must be communicated to the persons who are interested in such information.

## 1.4 Accounting cycle



Accounting cycle is the sequence of steps involved in the accounting process. Accounting cycle starts with the identification and recording of financial transactions of an organisation and ends with the preparation of final accounts for the accounting year. The cycle continues for the next accounting year with the opening balances of assets and liabilities which are the closing balances of the preceding year. The steps involved are:

### (i) Identifying the transactions and journalising

The first step in the accounting process is identifying the financial transactions of a business. All the monetary transactions are recorded in the books of original entry called journals. Recording the transactions in the journal is called journalising. Entries are made in the journals on the basis of source documents in the chronological order, i.e., the order of occurrence of the transactions.

### (ii) Posting and balancing

Transferring the entries from the journal to the ledger is called posting. In the ledger, entries are made in each account after classifying them under common heads. Finding the difference

between the total of the debit column and credit column of all the ledger accounts is called balancing.

### **(iii) Preparation of trial balance**

The list of ledger balances namely trial balance is prepared as the next step. On the basis of ledger balances the financial statements are prepared.

### **(iv) Preparation of trading account**

Next step is preparation of trading account for a particular accounting period. All the direct revenues and direct expenses are transferred to trading account. The balance in the trading account is the gross profit or gross loss.

### **(v) Preparation of profit and loss account**

Profit and loss account is prepared next for a particular accounting period. All the indirect revenues and indirect expenses along with gross profit or gross loss are transferred to profit and loss account. The balance in the profit and loss account is the net profit or net loss.

### **(vi) Preparation of balance sheet**

A statement showing the balances of assets and liabilities namely balance sheet is prepared as the final step in the accounting process. It is prepared on a particular date, normally, on the last day of the accounting period.

The closing balances of an accounting year are taken as the opening balances for the next accounting year. The transactions identified and recorded for the next year are followed by posting and other steps.

The results are communicated to the users of accounting information for the purpose of analysis and decision making.

## **1.5 Objectives of Accounting**

Following are the objectives of accounting:

- i) To keep a systematic record of financial transactions and events
- ii) To ascertain the profit or loss of the business enterprise
- iii) To ascertain the financial position or status of the enterprise
- iv) To provide information to various stakeholders for their requirements
- v) To protect the properties of an enterprise and
- vi) To ascertain the solvency and liquidity position of an enterprise

## 1.6 Functions of Accounting

The main functions of accounting are as follows:

### (i) Measurement

The main function of accounting is to keep systematic record of transactions, post them to the ledger and ultimately prepare the final accounts. Accounting works as a tool for measuring the performance of the business enterprises. It also shows the financial position of the business enterprises.

### (ii) Forecasting

With the help of the various tools of accounting, future performance and financial position of the business enterprises can be forecasted.

### (iii) Comparison

Accounting helps to compare the actual performance with the planned performance. It is also possible to compare with the accounting policies. Through comparison of the actual financial results of the business enterprises with projected figures and standards, effective measures can be taken to enhance the efficiency of various operations.

### (iv) Decision making

Accounting provides relevant information to the management for planning, evaluation of performance and control. This will help them to take various decisions concerning cost, price, sales, level of activity, etc.



Decision refers to choosing a desirable course of action from alternative courses of action.

### (v) Control

As accounting works as a tool of control, the strengths and weaknesses are identified to provide feedback on various measures adopted. It serves as a tool for evaluating compliance of business policies and programmes.



Control refers to comparison of actual performances with planned performances, measure deviation and take corrective action.

### (vi) Assistance to government

Government needs full information on the financial aspects of the business for various purposes such as taxation, grant of subsidy, etc. Accounting provides relevant information about the business to exercise government control on business enterprises.

## 1.7 Importance of Accounting

Accounting is a basic necessity for all enterprises. Importance of accounting is enumerated as below:

### (i) Systematic records

All the transactions of an enterprise which are financial in nature are recorded in a systematic way in the books of accounts. The records are classified under common heads and summaries are prepared.



### (ii) Preparation of financial statements

Results of business operations and the financial position of the concern can be ascertained from accounting periodically through the preparation of financial statements namely, income statement or trading and profit and loss account and balance sheet. This helps in distribution of profits to the owners and to provide funds for future growth of the business.

### (iii) Assessment of progress

Analysis and interpretation of financial data can be done to assess the progress made in different areas and to identify the areas of weaknesses. Management is provided with a complete picture of the liquidity, profitability and solvency of the business.

### (iv) Aid to decision making

Management of a firm has to make routine and strategic decisions while discharging its functions. Accounting provides the relevant data to make appropriate decisions. Future policies and programmes can be planned by the management based on the accounting data provided.

### (v) Satisfies legal requirements

Various legal requirements like maintenance of Provident Fund (PF) for employees, Employees State Insurance (ESI) contributions, Tax Deducted at Source (TDS), filing of tax returns are properly fulfilled with the help of accounting. Preparation of accounts and financial statements as per the legal requirements is also facilitated.

### (vi) Information to interested groups

Accounting supplies appropriate information to different interested groups like owners, management, creditors, employees, financial institutions, tax authorities and the government.

### (vii) Legal evidence

Accounting records are generally accepted as evidence in courts of law and other legal authorities in the settlement of disputes.

### (viii) Computation of tax

Accounting records are the basic source for computation and settlement of income tax and other taxes.

### (ix) Settlement during merger

When two or more business units decide to merger, accounting records provide information for deciding the terms of merger and any compensation payable as a consequence of merger.



Two or more business units forming a single entity is known as merger.

## 1.8 Basic Accounting terminologies

Accounting is a versatile system which serves a large number of purposes in the modern business world. Hence, the following terminologies need to be understood.

Transaction	An activity which involves transfer of money or money's worth (goods, services, ideas) from one person to another.
Cash transaction	It is a transaction which involves immediate cash receipt or immediate cash payment.
Credit transaction	It is a transaction in which cash is not received or paid immediately, but will be received or paid later.
Account	It is the basic unit for measurement in accounting. It is used for identifying a person, or an item in accounting. An account is opened individually for a person, asset, expense, income, etc. In ledger, an account is a summary of transactions under a head.
Capital	It is the amount invested by the owner or proprietor in an organisation.
Drawings	It is the amount of cash or value of goods, assets, etc., withdrawn from the business by the owner for the personal use of the owner.
Voucher	Any written or printed document in support of a business transaction is called a voucher. Examples: cash receipt, invoice, cash memo, bank pay-in- slip, etc.
Invoice	It is a statement prepared by a seller of goods to be sent to the buyer. It shows details of quantity, price, value, etc. of the goods and any discount given, finally showing the net amount payable by the buyer.
Goods	It includes articles, things or commodities in which a business is dealing with. Example: Furniture will be goods for those who deal in furniture.

Purchases	Buying of goods with the intention of resale is called purchases.
Purchases returns or returns outward	When goods bought are returned to the suppliers, it is known as purchases returns or returns outward.
Sales	When goods meant for resale are sold, it is called sales.
Sales returns or returns inward	When goods sold are returned by the customers, it is called as sales returns or returns inward.
Stock	Unsold goods lying in a business on a particular date are known as stock.
Income	It is the amount receivable or realised from sale of goods and earnings from interest, dividend, commission, etc.
Expense	It is the amount incurred in order to produce and sell the goods and services.
Solvency	Solvency is the capability of a person or an enterprise to pay the debts.
Insolvency	Insolvency is the incapability of a person or an enterprise to pay the debts.
Asset	Any physical thing or right owned that has a monetary value is called asset.
Liability	It refers to the financial obligation of the business.
Debtor	A person who receives a benefit without giving money or money's worth immediately, but liable to pay in future or in due course of time.
Creditor	A person who gives a benefit without receiving money or money's worth immediately but to claim in future.
Depreciation	It refers to the gradual reduction in the value of fixed assets due to usage and passage of time.
Bad debt	It is a loss to the business arising out of failure of a debtor to pay the dues. It is irrecoverable debt.

## 1.9 Branches of Accounting

Depending on the informational needs of various users of accounting information, several branches or subfields of accounting have been developed.

The various branches of accounting are:

### (i) Financial Accounting

It involves recording of financial transactions and events. It is historical in nature and records are maintained for transactions and events which have already occurred. It provides financial information to the users for taking decisions. It is concerned with identification, recording, classifying and summarising of financial transactions



and events and ends up with the preparation of financial statements, namely, trading and profit and loss account or income statement and balance sheet and communication of the same to the interested users. Trading and profit and loss account shows the profit or loss made during an accounting period and the balance sheet shows the financial position of the business as on a particular date.

### **(ii) Cost Accounting**

It involves the collection, recording, classification and appropriate allocation of expenditure for the determination of the costs of products or services and for the presentation of data for the purposes of cost control and managerial decision making.

### **(iii) Management Accounting**

It is concerned with the presentation of accounting information in such a way as to assist management in decision making and in the day-to-day operations of an enterprise. The information collected from financial accounting, cost accounting, etc. are grouped, modified and presented as per the requirements of management for discharging their functions and for decision making.

### **(iv) Social Responsibility Accounting**

It is concerned with presentation of accounting information by business entities and other organisations from the view point of the society by showing the social costs incurred such as environmental pollution by the enterprise and social benefits such as infrastructure development and employment opportunities created by them. It arises because of corporate social responsibility.

### **(v) Human Resources Accounting**

It is concerned with identification, quantification and reporting of investments made in human resources of an enterprise.



#### **Student activity**

**Think:** Do you think financial accounting, cost accounting and management accounting can be maintained by the same person?

## **1.10. Bases of Accounting**

There are three bases of accounting in common usage, namely

- i. Cash basis
- ii. Accrual or mercantile basis
- iii. Mixed or hybrid basis.

### **(i) Cash basis**

Under cash basis of accounting, actual cash receipts and actual cash payments are recorded. In this basis, revenue is recognised when cash is received and expenses are recognised when cash is paid. Credit transactions are not recorded till cash is actually received or paid. Under this basis,

- a. Any income received
- b. Any expenditure paid
- c. Any asset purchased for which cash is paid
- d. Any liability paid during the accounting period whether related to the past, present or future is taken into account.

### **(ii) Accrual or mercantile basis**

Under accrual basis of accounting, the revenue whether received or not, but has been earned or accrued during the accounting period and expenses incurred whether paid or not are recorded. In other words, revenue is recognised when it is earned or accrued and expenses are recognised when these are incurred. Under this basis,

- a. Any income earned whether received or not
- b. Any expenditure incurred whether paid or not
- c. Any asset purchased whether cash is paid or not
- d. Any liability incurred whether paid or not during the accounting period is recorded.

Under section 128(3) of the Indian Companies Act, 2013, all the companies are required to maintain the books of accounts according to the accrual basis of accounting.

### **(iii) Hybrid or mixed basis**

This basis is a combination of cash basis and accrual basis of accounting. Under mixed basis of accounting, both cash basis and accrual basis are followed. Revenues and assets are generally recorded on cash basis whereas expenses and liabilities are generally taken on accrual basis.

## **1.11 Users of Accounting information**



### **Student activity**

**Think:** 'Accounting is useful only to the owner of the business' – Do you agree?

There are several persons who need the accounting information for various purposes. They can be classified into two:

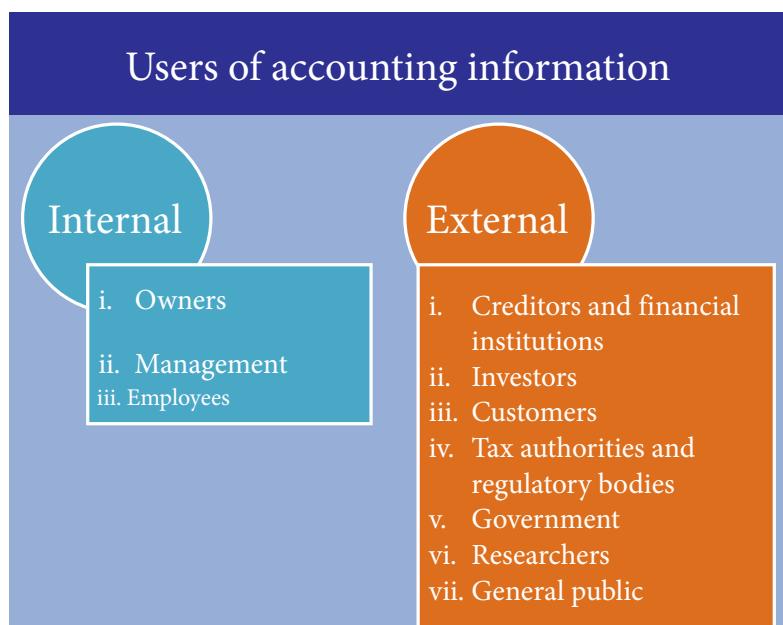
- A) Internal users and
- B) External users

## A) Internal Users

The internal users are owners, management and employees who are within the organisation.

### (i) Owners

The owners of a business provide capital to be used in the business. They are interested to know whether the business has earned profit or not during a particular period and also its financial position on a particular date. They want accounting reports in order to have an appraisal of performance and also for an assessment of future prospects to ensure that they will get their expected returns from the business and get back their capital safely.



### (ii) Management

Accounting data are the basis for most of the decisions made by the management. The trends in sales and purchases, relationship of expenses to the sales, efficiency of employees, comparative profitability of different departments, capital structure and solvency position are some of the vital data required by management for planning and controlling the business operations. Financial statements and other reports prepared under financial accounting provide this information to the management.



Capital structure refers to the mix of a firm's permanent long-term financing represented by debt, preference share capital and equity shareholders' funds.

### (iii) Employees

The employees are interested in the profit earning capacity of the business which will affect their remuneration, working conditions and retirement benefits and stability and growth of the enterprise.

## B) External users

External users are the persons who are outside the organisation but make use of accounting information for their purposes. They are:

### **(i) Creditors and financial institutions**

Suppliers of goods and services, commercial banks, public deposit holders and debentureholders are included in this category. They are interested in knowing the liquidity position and repaying capacity of the business to ensure the safety of getting the amount due to them or interest and the principal amount.

### **(ii) Investors**

Persons who are interested in investing their funds in an organisation should know about the financial condition of a business unit while making their investment decisions. They are more concerned about future earnings and risk bearing capacity of the organisation which will affect the return to the investors.

### **(iii) Customers**

Customers who buy and use the products and services of business enterprises are interested in knowing the details of the products and the prices charged to them. They are interested in knowing the stability and profitability of an enterprise to ensure continued supply of the products or services by the enterprise.

### **(iv) Tax authorities and other regulatory bodies**

Accounting information helps the tax authorities in computing income tax and taxes on goods and services and other taxes to be collected from business units. Other regulatory bodies also require information about revenues, expenses and other financial aspects of business to ensure that the enterprises comply with statutory requirements.

### **(v) Government**

The scarce resources of the country are used by business enterprises. Information about performance of business units in different industries helps the government in policy formulation for development of trade and industry, allocation of scarce resources, grant of subsidy, etc. Government also administers prices of certain commodities. In such cases, government agencies have to ensure that the guidelines for pricing are followed.

### **(vi) Researchers**

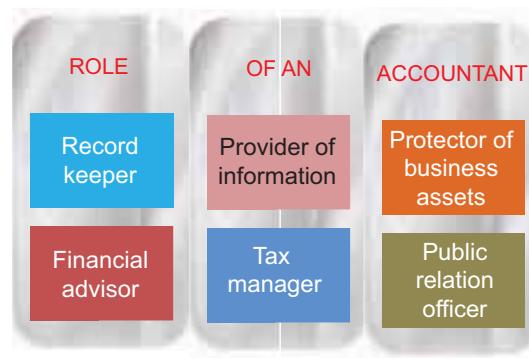
Researchers to carry out their research can use accounting information and make use of the published financial statements for analysis and evaluation.

### **(vii) General public**

From accounting information, the general public at large can get a view of the earning capacity and stability of the enterprise as well as the social responsibility measures undertaken by the enterprise particularly in its area of operation and also the employment opportunities provided to the local people.

## 1.12 Role of an accountant

An accountant designs the accounting procedures for an enterprise. He plays several roles in an organisation as follows:



### (i) Record keeper

The accountant maintains a systematic record of financial transactions. He also prepares the financial statements and other financial reports.

### (ii) Provider of information to the management

The accountant assists the management by providing financial information required for decision making and for exercising control.

### (iii) Protector of business assets

The accountant maintains records of assets owned by the business which enables the management to protect and exercise control over these assets. He advises the management about insurance of various assets and the maintenance of the same.

### (iv) Financial advisor

The accountant analyses financial information and advises the business managers regarding investment opportunities, strategies for cost savings, capital budgeting, provision for future growth and development, expansion of enterprise, etc.

### (v) Tax manager

The accountant ensures that tax returns are prepared and filed correctly on time and payment of tax is made on time. The accountant can advise the managers regarding tax management, reducing tax burden, availing tax exemptions, etc.

### (vi) Public relation officer

The accountant provides accounting information to various interested users for analysis as per their requirements.

#### Points to remember

- Accounting is termed as the language of the business.
- There are various branches of accounting such as financial accounting, cost accounting, management accounting, social responsibility accounting and human resource accounting.
- There are three bases of accounting namely cash basis, accrual or mercantile basis and mixed or hybrid basis.

- There are several persons who need the accounting information - internal users and external users.
- Accountants have several roles and responsibilities.

### Self-examination questions

#### I Multiple choice questions

**Choose the correct answer**



1. The root of financial accounting system is
 

(a) Social accounting	(b) Stewardship accounting
(c) Management accounting	(d) Responsibility accounting
2. Which one of the following is not a main objective of accounting?
 

(a) Systematic recording of transactions
(b) Ascertainment of the profitability of the business
(c) Ascertainment of the financial position of the business
(d) Solving tax disputes with tax authorities
3. Which one of the following is not a branch of accounting?
 

(a) Financial accounting	(b) Management accounting
(c) Human resources accounting	(d) None of the above.
4. Financial position of a business is ascertained on the basis of
 

(a) Journal	(b) Trial balance	(c) Balance Sheet	(d) Ledger
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5. Who is considered to be the internal user of the financial information?
 

(a) Creditor	(b) Employee	(c) Customer	(d) Government
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#### Answers

1 (b)	2 (d)	3 (d)	4 (c)	5 (b)
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#### II Very short answer questions

1. Define accounting.
2. List any two functions of accounting.
3. What are the steps involved in the process of accounting?

4. Who are the parties interested in accounting information?
5. Name any two bases of recording accounting information.

### III Short answer questions

1. Explain the meaning of accounting.
2. Discuss briefly the branches of accounting.
3. Discuss in detail the importance of accounting.
4. Why are the following parties interested in accounting information?  
(a) Investors (b) Government
5. Discuss the role of an accountant in the modern business world.



A Self-Help Group (SHG) is an informal, self-managed voluntary group of 5-20 individuals, who come together to address their common problems and are generally engaged in credit and savings activities operating on principles of mutuality and solidarity. Most SHG members are minimally educated. Regardless, every SHG should be aware of the status of its outstanding loans to members, the status of its loans from external institutions and the member payments due. Book-keeping is a difficult task for SHGs.

Now, discuss on the following points:

How do SHGs maintain their accounting?

Do you think that financial accounting system is suitable for all businesses?

### To explore further

Can each business unit follow its own way for maintaining accounting records?

Will it serve the requirements of different users of accounting information?

### Reference

1. M C Shukla, T S Grewal and S C Gupta, Advanced Accounts, 19<sup>th</sup> ed., 2017, S.Chand Publishing, New Delhi.
2. R L Gupta and V K Gupta, Financial Accounting, 11<sup>th</sup> ed., 2014, Sultan Chand and Sons, New Delhi.
3. S P Jain and K L Narang, Advanced Accountancy Vol – I, 2016, Kalyani Publishers, New Delhi.
4. Dalston L Cecil and Jenitra L Merwin, Financial Accounting, 3<sup>rd</sup> ed., 2017, Learntech Press, Trichy.
5. Fundamentals of Accounting, 2017, The Institute of Chartered Accountants of India, New Delhi.



## ICT CORNER

### INTRODUCTION TO ACCOUNTANCY

Lets get introduced to  
Basic Accounting



#### Steps:

- This is an Android app activity. Open the Browser and type the URL given (or) Scan the QR Code. (Or) search for “Basic Accounting” in google play store. Install and open the app. This is Hands on Lesson.
- Select any one of the topic you want to learn. Open “Introduction to Accounting.
- In the Next page you have sub menus. Select one by one and go through the lesson.



Step1



Step2



Step3

Pictures are indicatives only\*

#### URL:

<https://play.google.com/store/apps/details?id=com.paradigmst.basicaccounting>  
(or) scan the QR Code



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## Unit 2

# CONCEPTUAL FRAMEWORK OF ACCOUNTING



### Contents

- 2.1 Book-keeping – An introduction
- 2.2 Book- keeping Vs. Accounting
- 2.3 Relationship among Book-keeping, Accounting and Accountancy
- 2.4 Accounting Principles
- 2.5 Accounting Standards (AS)
- 2.6 International Financial Reporting Standards (IFRS)
- 2.7 Accounting Standards in India



### Points to recall

The following points are to be recalled before learning conceptual framework of accounting:

- Meaning and definition of Accounting
- Functions of Accounting
- Users of Accounting
- Basic Accounting terminologies



### Learning Objectives

To enable the students to

- Understand the meaning, definition and features of book-keeping
- Evaluate the advantages and limitations of book-keeping
- Understand the accounting concepts and conventions
- Understand the meaning of and need for Accounting Standards

### Key terms to know

- Book-keeping
- Accountancy
- Accounting cycle
- Accounting concepts
- Accounting Standards

## **2.1 Book-keeping-An introduction**

The first step in the accounting process is identifying and recording of transactions in the books of accounts. This is necessary for any business as the transactions happening in a business entity must be recorded so that the information is available for further analysis.

Book-keeping forms the base for the preparation of financial statements and interpretation which are the important functions of accounting. In a broad sense, accounting includes book-keeping also. In a small business, the entire accounting work may be performed by a single accountant. In a large firm, there may be a separate person or department for book-keeping work.

### **2.1.1 Meaning of book-keeping**

Book-keeping is the process of recording financial transactions in the books of accounts. It is the primary stage in the accounting process. It includes recording the transactions and classifying the same under proper heads. Book-keeping work is of routine nature. Transactions may be recorded in the accounting note books and ledgers or may be recorded in a computer.

### **2.1.2 Definition of book-keeping**

“Book-keeping is an art of recording business dealings in a set of books”. - *J.R.Batliboi*.

“Book-keeping is the science and art of recording correctly in the books of account all those business transactions of money or money’s worth”. -*R.N.Carter*.

### **2.1.3 Features of book-keeping**

Following are the features of book-keeping:

- i. It is the process of recording transactions in the books of accounts.
- ii. Monetary transactions only are recorded in the accounts.
- iii. Book-keeping is the primary stage in the accounting process.
- iv. Book-keeping includes journalising and ledger processing.

### **2.1.4 Objectives of book-keeping**

Following are the objectives of book-keeping:

- i. To have a complete and permanent record of all business transactions in chronological order and under appropriate headings.
- ii. To facilitate ascertainment of the profit or loss of the business during a specific period.
- iii. To facilitate ascertainment of financial position.
- iv. To know the progress of the business.
- v. To find out the tax liabilities.
- vi. To fulfil the legal requirements.

### **2.1.5 Advantages of Book-keeping**

Book-keeping has the following advantages:

- i. Transactions are recorded systematically in chronological order in the book of accounts. Thus, book-keeping provides a permanent and reliable record for all business transactions.
- ii. Book-keeping is useful to get the financial information.
- iii. It helps to have control over various business activities.
- iv. Records provided by business serve as a legal evidence in case of any dispute.
- v. Comparison of financial information over the years is possible. Also comparison of financial information of different business units is facilitated.
- vi. Book-keeping is useful to find out the tax liability.

### **2.1.6 Limitations of book-keeping**

Book-keeping has the following limitations:

- i. Only monetary transactions are recorded in the books of accounts.
- ii. Effects of price level changes are not considered.
- iii. Financial data recorded are historical in nature, i.e., only past data are recorded.

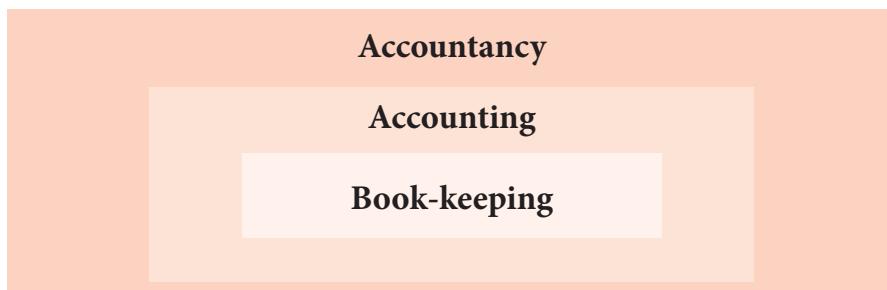
## **2.2 Book-keeping Vs. Accounting**

Following are the differences between book-keeping and accounting:

S. No	Basis of distinction	Book-keeping	Accounting
1	Scope	It is concerned with recording and classifying the business transactions.	It is concerned with recording, classifying, summarising, analysing and interpreting the financial data.
2	Stage	Book-keeping is the primary stage in accounting. It is the base for accounting.	Apart from the primary stage, it includes secondary stage of analysis and interpretation.
3	Nature of job	It is routine and clerical in nature.	It is analytical in nature.
4	Knowledge required	It requires basic knowledge of the principles of journalising and posting.	It requires thorough knowledge of accounting principles, procedures and practices.
5	Skill required	Analytical skill is not required for book-keeping.	It requires analytical skill.

## **2.3 Relationship among Book-keeping, Accounting and Accountancy**

Book-keeping is part of Accounting. It is the primary stage in accounting. It is the process of recording transactions in the books of accounts. Accounting is part of Accountancy. Accounting is the process of reordering, classifying, analysing and interpreting of financial data. Accountancy is the systematic knowledge of accounting process and contains the standards, principles, policies and procedures to be followed in accounting.



## **2.4 Accounting Principles**

Accounting principles are the basic norms and assumptions developed and established as the basis for accounting system. These principles are adopted by the accountants universally. These accounting principles provide uniformity and consistency in the accounting methods and process. Such accounting principles are known as Generally Accepted Accounting Principles (GAAP).

Accounting principles provide the basic framework within which the accounting records and accounting reports are to be prepared. Accounting standards have been issued by national and international regulatory authorities to ensure uniformity of accounting procedure and accounting results. These accounting standards and GAAPs provide the theoretical base of accounting. Accounting principles may be accounting concepts or accounting conventions. Accounting concepts are the basic assumptions whereas conventions are the guidelines based upon practice or usage.

Accounting concepts are the basic assumptions or conditions upon which accounting has been laid. Accounting concepts are the results of broad consensus. The word concept means a notion or abstraction which is generally accepted. Accounting concepts provide unifying structure to the accounting process and accounting reports.

The word convention refers to traditions or usage. The accounting conventions are the usage or practices which are followed as a guide to the preparation of accounting statements.

The utility of these accounting conventions have been recognised by regulatory authorities of accountancy in making financial statements more realistic, reliable, and useful to all concerned parties.

The important accounting concepts and conventions are discussed below:

### **(i) Business entity concept**

This concept implies that a business unit is separate and distinct from the owner or owners, that is, the persons who supply capital to it.

Based on this concept, accounts are prepared from the point of view of the business and not from the owner's point of view. Hence, the business is liable to the owner for the capital contributed by him/her.

According to this concept, only business transactions are recorded in the books of accounts. Personal transactions of the owners are not recorded. But, their transactions with the business such as capital contributed to the business or cash withdrawn from the business for the personal use will be recorded in the books of accounts. It implies that the business itself owns assets and owes liabilities.

### **(ii) Money measurement concept**

This concept implies that only those transactions, which can be expressed in terms of money, are recorded in the accounts. Since, money serves as the medium of exchange transactions expressed in money are recorded and the ruling currency of a country is the measuring unit for accounting.

Transactions which do not involve money will not be recorded in the books of accounts. For example, working conditions in the work place, strike by employees, efficiency of the management, etc. will not be recorded in the books, as they cannot be expressed in terms of money.

It helps in understanding of the state of affairs of the business as money serves as a common measure by means of which heterogeneous facts about the business are recorded. For example, if a business has 5 computers, 2 tables and 3 chairs, the assets cannot be added to give useful information, unless, they are expressed in monetary terms ` 1,00,000 for computers, ` 10,000 for tables and ` 1,500 for chairs.

### **(iii) Going concern concept**

It is the basic assumption that business is a going concern and will continue its operations for a foreseeable future. Going concern concept influences accounting practices in relation to valuation of assets and liabilities, depreciation of the fixed assets, treatment of outstanding and prepaid expenses and accrued and unearned revenues. For example, assets are generally valued at historical cost. Any increase or decrease in the value of assets in the short period is ignored.

### **(iv) Cost concept**

An asset is recorded in the books on the basis of the historical cost, that is, the acquisition cost. Cost of acquisition will be the base for all further accounting. It does not mean that the asset will always be shown at cost. It is recorded at cost at the time of its purchase, but is systematically reduced in its book value by charging depreciation.

The cost concept has the following limitations:

- a) In an inflationary situation, when prices of commodities increase, valuing the assets at historical cost may not represent the true position of the business.
- b) The results of business units established at different dates are not comparable if assets are recorded on historical basis.
- c) Assets which do not have acquisition cost such as human resources are not recognised under this concept.

#### (y) Dual aspect concept

According to this concept, every transaction or event has two aspects, i.e., dual effect.

For example, when Arun starts a business with cash ` 5,00,000, on the one hand, the business gets cash of ` 5,00,000 and on the other hand, a liability arises, that is, the business has to pay Arun a sum of ` 5,00,000.



This is the concept which recognises the fact that for every debit, there is a corresponding and equal credit. This is the basis of the entire system of double entry book-keeping.

From this concept arises the basic accounting equation, that is,

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

#### (iv) Periodicity concept

This concept deals with preparing accounts for a particular period. As the proprietors, investors, creditors, employees and the government are interested in knowing the performance of the business unit periodically, it becomes necessary to select a particular period, normally one year for measuring performance. Hence, financial statements are prepared after every accounting period and not at the end of its life.

This concept helps the business in distribution of income to the owners and comparing and evaluating performance of different periods.

#### (iv i) Matching concept

According to this concept, revenues during an accounting period are matched with expenses incurred during that period to earn the revenue during that period. This concept is based on accrual concept and periodicity concept. Periodicity concept fixes the time frame for measuring performance and determining financial status.

All expenses paid during the period are not considered, but only the expenses related to the accounting period are considered.

On the basis of this concept, adjustments are made for outstanding and prepaid expenses and accrued and unearned revenues. Also due provisions are made for depreciation of the

fixed assets, bad debt, etc., relating to the accounting period. Thus, it matches the revenues earned during an accounting period with the expenses incurred during that period to earn the revenues before sharing any profit or loss.

#### **(iv) Realisation concept**

According to realisation concept, any change in value of an asset is to be recorded only when the business realises it. When assets are recorded at historical value, any change in value is to be accounted only when it realises.

#### **(ix) Objective evidence concept**

Objective evidence concept requires that all accounting transactions recorded should be based on objective evidence. The objective evidence includes documentary evidence like cash receipts, invoices, etc. It ensures authenticity, accuracy and reliability of transactions entered in the books of accounts.

#### **(x) Accrual concept**

According to accrual concept, the effects of the transactions are recognised on mercantile basis, i.e., when they occur and not when cash is paid or received. Revenue is recognised when it is earned and expenses are recognised when they are incurred. All expenses and revenues related to the accounting period are to be considered irrespective of the fact that whether revenues are received in cash or not and whether expenses are paid in cash or not. For example, i) Credit sale is recognised as sale though the amount has not been received immediately. ii) Rent for the month of March-2018 has not been paid and if the accounting period is 1.4.2017 to 31.3.2018, it will still be recorded as an expense for the accounting year 2017-2018 because it had become due.

#### **(xi) Convention of consistency**

The consistency convention implies that the accounting policies must be followed consistently from one accounting period to another. The results of different years will be comparable only when same accounting policies are followed from year to year. For example, if a firm follows the straight line method of charging depreciation since its purchase or construction, the method should be followed without any change. However, it does not mean that changes are not possible.

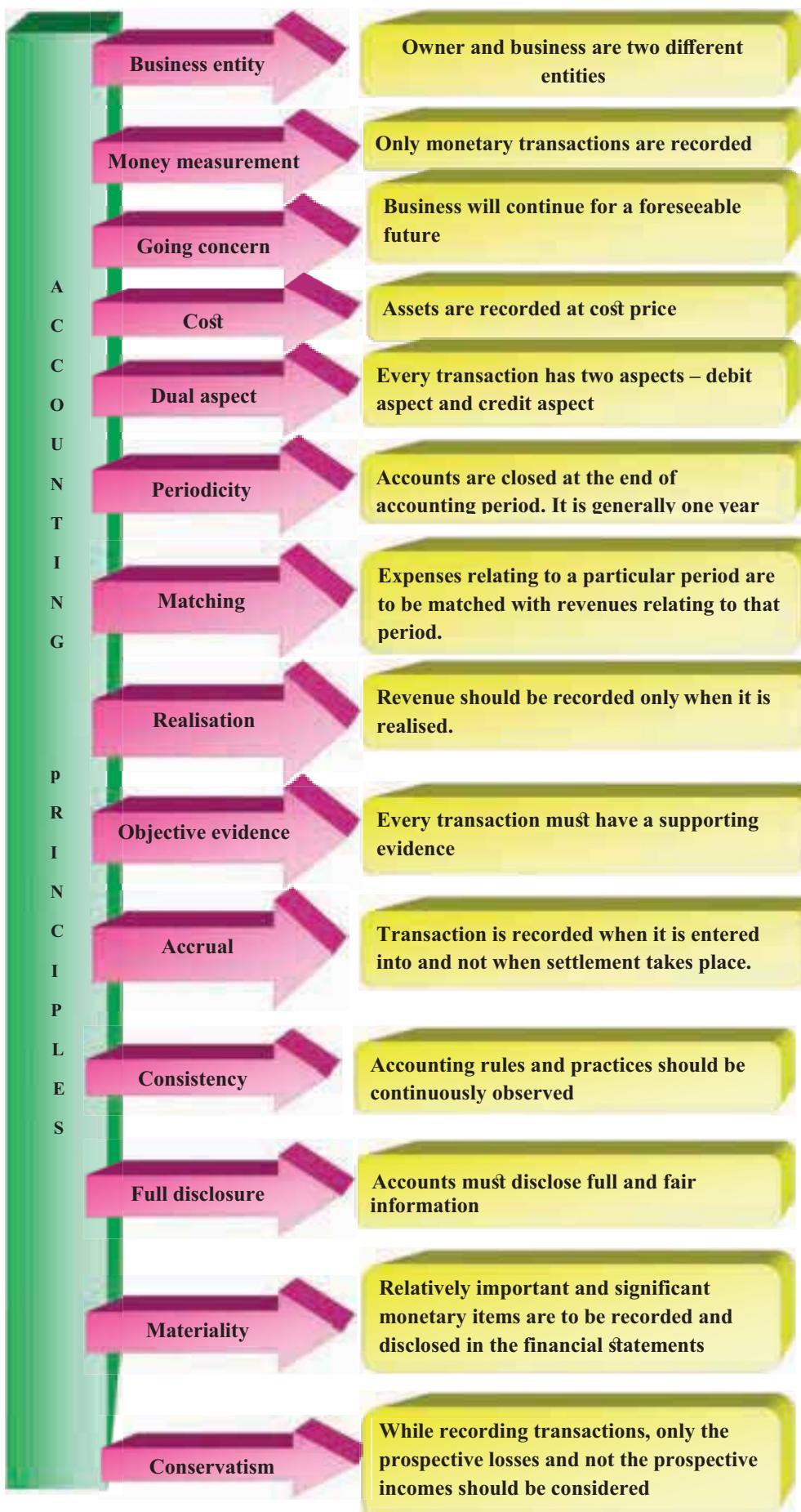
Change in accounting policy can be incorporated in the following circumstances:

- To comply with the provision of law
- To comply with accounting standards issued and
- To reflect true and fair view of state of affairs of the business.

#### **(xii) Convention of full disclosure**

It implies that the accounts must be prepared honestly and all material information should be disclosed in the accounting statement. This is important because the management is different from the owners in most of the organisations.

The disclosure should be full, fair and adequate so that the users of the financial statements can make correct assessment about the financial position and performance of the business unit.



### **(xiii) Convention of materiality**

According to this convention, financial statements should disclose all material items which might influence the decisions of the users of financial statements. Hence, any item which is not significant and is not relevant to the users need not be disclosed in the financial statements.

This principle is basically an exception to the full disclosure principle. The term materiality is subjective in nature. Materiality depends on the amount involved in the transaction, size of the business, nature of information, requirements of the person making decision, etc. An item material to one person may be immaterial to another person.

### **(xiv) Convention of conservatism or prudence**

It is a policy of caution or playing safe. While recording the business transactions one has to anticipate no income but provide for all possible losses.

For example, the closing stock in the factory is valued at ` 35,000 at cost price and ` 25,000 at its realisable price. But while recording in the books the value of ` 25,000 will be considered being the lower of the two. According to realisation concept, any increase in value is not to be accounted unless it has materialised. The conservatism convention puts further restriction on it. Any unrealised gain is not to be anticipated but provision can be made against all possible losses.



Going concern concept, Convention of consistency and Accrual concept are considered as fundamental accounting assumptions.

## **2.5 Accounting Standards (AS)**



### **Student activity**

**Think:** In your school, there are some basic rules to be followed by every student. What are they? What will happen if there is no such rule?

Accounting Standards provide the framework and norms to be followed in accounting so that the financial statements of different enterprises become comparable. It is necessary to standardise the accounting principles to ensure consistency, comparability, adequacy and reliability of financial reporting.

In the words of Kohler, “*Accounting standards are codes of conduct imposed by customs, law or professional bodies for the benefit of public accountants and accountants generally*”

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

### **2.5.1 Need for accounting standards**

The need for accounting standards is as follows:

- i. To promote better understanding of financial statements
- ii. To help accountants to follow uniform procedures and practices
- iii. To facilitate meaningful comparison of financial statements of two or more entities.
- iv. To enhance reliability of financial statements
- v. To meet the legal requirements effectively

### **2.6 International Financial Reporting Standards (IFRS)**

International Financial Reporting Standards (IFRS) are issued by the International Accounting Standard Board (IASB). IFRS is a set of International Accounting Standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued to develop Accounting Standards that would be acceptable worldwide and to improve financial reporting internationally.

### **2.7 Accounting Standards in India**

In India, Standards of Accounting is issued by the Institute of Chartered Accountants of India (ICAI). The Council of the Institute of Chartered Accountants of India constituted Accounting Standards Board (ASB) on 21st April, 1977 recognising the need for Accounting Standards in India. ASB formulates Accounting Standards so that such standards may be established by the Council of the Institute in India. The ASB will consider the applicable law, custom, usage, business environment and the International Accounting Standards while framing Accounting Standards (AS) in India.

Due to globalisation, the accounts prepared in India must be compatible with accounts prepared in other countries. This has resulted in the existing AS being converged with the IFRS. This convergence has resulted in what is known as Ind AS. Ind AS are basically the International Accounting Standards which have been modified in accordance with Indian accounting practices, customs and traditions. Presently, all big companies have to follow Ind AS rules, but smaller business units are allowed to continue using AS. In future, it is expected that all business entities in India will migrate to Ind AS.



#### **Student activity**

Visit [icai.org](http://icai.org). Refer under Resources, Accounting Standards and Ind AS.

#### **Points to remember**

- There are established accounting principles available which are to be applied in the preparation of accounting records and financial statements.
- The Accounting Standards are designed to ensure uniformity in the accounting methods and practices.

## Self-examination questions

### I Multiple choice questions

Choose the correct answer

1. The business is liable to the proprietor of the business in respect of capital introduced by the person according to
  - (a) Money measurement concept
  - (b) Cost concept
  - (c) Business entity concept
  - (d) Dual aspect concept
2. The profounder of double entry system of book-keeping is
  - (a) J. R. Batlibai
  - (b) Luca Pacioli
  - (c) Old Kesal
  - (d) Menhar
3. The concept which assumes that a business will last indefinitely is
  - (a) Business Entity
  - (b) Going concern
  - (c) Periodicity
  - (d) Conservatism
4. GAAPs are:
  - (a) Generally Accepted Accounting Policies
  - (b) Generally Accepted Accounting Principles
  - (c) Generally Accepted Accounting Provisions
  - (d) None of these
5. The rule of stock valuation ‘cost price or realisable value’ whichever is lower is based on the accounting principle of:
  - (a) Materiality
  - (b) Money measurement
  - (c) Conservatism
  - (d) Accrual
6. In India, Accounting Standards are issued by
  - (a) Reserve Bank of India
  - (b) The Cost and Management Accountants of India
  - (c) Supreme Court of India
  - (d) The Institute of Chartered Accountants of India
7. Which of the following does not follow dual aspect concept?
  - (a) Increase in one asset and decrease in other asset
  - (b) Increase in both asset and liability
  - (c) Decrease in one asset and decrease in other asset
  - (d) Increase in one asset and increase in capital



### Answers

1(c)	2(b)	3(b)	4(c)	5(c)	6(d)	7(c)
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## **II Very short answer questions**

1. Define book-keeping.
2. What is meant by accounting concepts?
3. Briefly explain about revenue recognition concept.
4. What is “Full Disclosure Principle” of accounting.
5. Write a brief note on ‘Consistency’ assumption.

## **III Short answer questions**

1. What is matching concept? Why should a business concern follow this concept?
2. “Only monetary transactions are recorded in accounting”. Explain the statement.
3. “Business units last indefinitely”. Mention and explain the concept on which the statement is based.
4. Write a brief note on Accounting Standards.



Magesh started a new trading business. He buys and sells packing materials. He wants to be honest in doing his business. He has plans to establish his business in the future. He has little accounting knowledge but has excellent business skills. At the end of his first year of trading, he wanted to value his closing stock. He finds some of the goods are damaged. If he wants to sell them, then he has to spend some amount for making them in a saleable condition. He also takes some money from his business bank account for his personal use. But, he forgot to record that.

Now, discuss on the following points

- Does every businessman need accounting knowledge?
- Identify some of the accounting concepts in this case study.
- How should his closing stock be valued?
- Is it possible for him to compare his business results with that of his competitors?

### **To explore further**

Is it possible to compare the accounting records of an Indian company with that of an International company? Do all the countries follow the same accounting practices?

### **Reference**

1. M C Shukla, T S Grewal and S C Gupta, Advanced Accounts, 19<sup>th</sup> ed., 2017, S.Chand Publishing, New Delhi.
2. R L Gupta and V K Gupta, Financial Accounting, 11<sup>th</sup> ed., 2014, Sultan Chand and Sons, New Delhi.
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5. Fundamentals of Accounting, 2017, The Institute of Chartered Accountants of India, New Delhi.



## ICT CORNER

### CONCEPTUAL FRAME WORK

Learn the functions, objectives, terms of reference about the accounting standard.



The screenshot shows the 'Welcome to the Accounting Standards Board' page. At the top, there's a navigation bar with links like 'Home', 'About ICAI', 'Charter', 'Examinations', 'Education', 'Research', 'Research', 'Publications', 'News', 'Events', 'Careers', and 'Contact Us'. Below the navigation, there's a section titled 'AS - About Standard'. It contains a list of 18 items under the heading 'What is an Accounting Standard?'. The list includes: 1. To establish clear, simple and objective standards for preparing financial statements; 2. To facilitate the preparation of financial statements which are comparable and transparent; 3. To assist in assessing whether the financial statements give a true and fair view of the state of affairs and the results of operations; 4. To promote consistency in the application of accounting standards; 5. To encourage conformity with the practices of international accounting practice; 6. To assist in developing accounting standards for use in India; 7. To assist in developing accounting standards for use in India; 8. To assist in developing accounting standards for use in India; 9. To assist in developing accounting standards for use in India; 10. To assist in developing accounting standards for use in India; 11. To assist in developing accounting standards for use in India; 12. To assist in developing accounting standards for use in India; 13. To assist in developing accounting standards for use in India; 14. To assist in developing accounting standards for use in India; 15. To assist in developing accounting standards for use in India; 16. To assist in developing accounting standards for use in India; 17. To assist in developing accounting standards for use in India; 18. To assist in developing accounting standards for use in India.

#### Steps:

- Open the Browser and type the URL given (or) Scan the QR Code.
- “The Institute of Chartered Accountants of India” site will open. Click on “Resources” and in the drop-down menu select “Accounting Standard” menu and then click “Knowledge page of Accounting Standards Board “
- Accounting Standards Board page will open. In the page go through the Functions/Objectives/Terms of Reference and go back to see other two menus and explore. Also explore the site to learn other activities related to your book.



Step1



Step2

Pictures are indicatives only\*

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## Unit 3

# BOOKS OF PRIME ENTRY



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## Points to recall

The following points are to be recalled before learning books of prime entry:

- Business entity concept
- Money measurement concept
- Dual aspect concept
- Revenue realisation concept
- Accrual concept
- Materiality concept
- Cost concept



## Learning Objectives

To enable the students to

- Understand the meaning and principles of double entry system
- Analyse the transactions on the basis of accounting equation approach
- Apply the rules of double entry system to pass journal entries for transactions



## Key terms to know

Source documents

Cash receipt

Invoice

Debit note

Credit note

Pay-in-slip

Cheque

Double entry system

Accounting equation

Golden rules of accounting

Journal entry

### 3.1 Introduction



#### Student activity

**Think:** A trader sold goods on credit to one of his customers for ` 2,000. After two days, the customer returned some of the goods worth ` 300, which were in damaged condition. The trader received back the goods. Later, when the customer paid ` 1,700, the trader demanded for full payment. He forgot about the returned goods. How can this situation be avoided?

Accounting process starts with identifying transactions involving money or money's worth and recording these financial transactions in the books of accounts. Transactions are recorded as and when they take place based on authentic documents or proofs or evidences. The authentic proofs are called as the source documents.

### 3.2. Source documents

Source documents are the authentic evidences of financial transactions. These documents show the nature of transaction, the date, the amount and the parties involved. Source documents include cash receipt, invoice, debit note, credit note, pay-in-slip, salary bills, wage bills, cheque record slips, etc. They are the bases of recording transactions in the books of accounts. They also serve as legal evidence in case of any legal dispute. The source documents commonly used are discussed below:

#### (i) Cash receipt/voucher

It is a document that shows the date, amount and details of cash purchases and cash sales or other cash transactions. Business persons receive cash receipt for cash purchases and issue cash receipt for cash sales.

##### Specimen of a cash receipt

TNPL		TAMIL NADU NEWSPRINT AND PAPERS LIMITED CASH PAYMENT VOUCHER			
Organization Name	Tamil Nadu Newsprint & Papers Limited	Voucher No		Party Name	
Invoice Type					
Party Code					
Party Address					
Party Site					
Po No					
BIC Code					
Pay Group					
Transaction Details					
Invoice No.	Date	Invoice Date	Voucher No.	Voucher Date	Amount
					TOTAL
Prepared By _____ Checked By _____ Approved By _____					
Acknowledgement					
Received ₹ _____/- Rupees in words: _____ Only					
Signature with Date PAYMENTS - OTHERS					

## (ii) Invoice

Invoice is used for credit purchases and credit sales. The date, amount and details of credit purchases and credit sales are given in the invoices. Invoice is generally prepared by the seller in three copies. The first copy is given to the purchaser, the second copy is sent along with the goods for checking and the third is retained by the seller and used as the source document for recording the transaction.

### Specimen of an invoice

 <b>TAMILNADU NEWSPRINT AND PAPERS LIMITED</b> (A Government of Tamil Nadu Enterprise) KAGITHAPURAM - 639 136, Karur District, Tamilnadu.		TAX INVOICE	
<div style="text-align: right; margin-top: -20px;">  </div>			
CIN:			
SUPPLIER	TAMILNADU NEWSPRINT AND PAPERS LIMITED KAGITHAPURAM-639136 TAMILNAUDU		GST INVOICE NO. DATE
STATE STATE CODE GSTIN			AR INVOICE NO. DATE
BILL TO	PAN	SHIP TO	PAN
ADDRESS	ADDRESS		
STATE STATE CODE GSTIN	STATE STATE CODE GSTIN		
P.O.NO. SALES ORDER DEALER CODE DEALER NAME	DATE	RANGE & DIVISION COMMISSIONERATE	
DELIVERY ID TRANSPORTER TRUCK NO RR/LR NO	BASIC PRICE VALUE AFTER DISCOUNT + FIXED FREIGHT + INSURANCE TAXABLE AMOUNT SGST @ 6% CGST @ 6%		
HSN CODE DESCRIPTION	NET AMOUNT		
ITEM CODE SUBSTANCE(GSM) SIZE(CM) REAM WT REELS/BUNDLES(No.) REAMS(KG)	AMOUNT IN WORDS		
UNIT CODE (UQC) QUANTITY(MT) LIST PRICE : Rs/Mt	PAYMENT DETAILS Amount      By Date      % Discount Int'l%      From      To      If Paid After		
LC N NO			
Whether tax is payable on reserve charge basic:			
E.I.D.E	DESP / FOA	Prepared By	For Tamil Nadu Newsprint and Papers Limited
<small>Subject to Terms and Conditions given in front. HEAD OFFICE : RT. Meenakshi Road, Kumily, Chennai - 600 020</small>		Checked By	Authorised Signatory

### (iii) Debit note

A buyer may return the goods to the seller in various situations such as when goods are defective or damaged, goods do not meet the specifications, etc. When goods are returned by a buyer, the buyer prepares a debit note and sends it to the seller. It contains details such as the description of the goods, quantity returned and also their value. Two copies are prepared in general, one copy is sent to the seller and another one is retained by the buyer. It is a document issued by a buyer stating the amount owed by the seller. A debit note is also called as debit memo.

#### Specimen of a debit note

GSTIN STATE STATE CODE	Tamil Nadu Newsprint and Papers Limited (A Govt. of Tamil Nadu Enterprise) Kagithapuram-639 136, Karur District, Tamilnadu. Telephone Nos: _____ Fax: _____						
DEBIT NOTE							
GST SERIAL NO			DATE				
TRANSACTION NO			TRANSACTION DATE				
SALES ORDER NO			SALES ORDER DATE				
ORIGINAL AR INVOICE NO			ORIGINAL AR INVOICE DATE				
ORIGINAL GST INVOICE			ORIGINAL GST INV DATE				
			RANGE & DIVISION COMMISSIONERATE				
<u>RECIPIENT</u>			<u>SHIP TO</u>				
BILL TO CODE NAME ADDRESS STATE STATE CODE GSTIN / UIN PAN			CODE CUSTOMER ADDRESS STATE STATE CODE GSTIN / UIN PAN				
S. No.	DESCRIPTION	HSN CODE	ITEM NO.	INV QTY	UOM	RATE(Rs.)	AMOUNT(Rs.)
Taxable Amount							
CGST@6%							
SGST@6%							
NET AMOUNT							
Taxable Amount (in words)							
Tax Amount (in words)							
Net Amount (in words)							
Narration							
Dealer Code & Name							
For TAMILNADU NEWSPRINT AND PAPERS LIMITED							
Prepared By				Authorised Signatory			
Whether tax is payable on reverse charge basis: No E.&O.E							



## Student activity

**Think:** A customer has returned the goods to his supplier along with a debit note. But, the supplier does not agree with the customer's claim that the goods are damaged. Can the customer consider his debit note as a valid source document and enter the purchases returns?

### (iv) Credit note

It is a statement prepared by the seller who receives back from his customer the goods sold. It contains details such as the description of the goods, quantity returned and also their value. It is a document sent by a seller to the buyer, stating that a certain amount is owed to the buyer. It is also called as credit memo.

#### Specimen of a credit note

GSTIN	STATE	STATE CODE	<b>Tamil Nadu Newsprint and Papers Limited</b> (A Govt. of Tamil Nadu Enterprise) Kagithapuram-639 138, Karur District, Tamilnadu. Telephone Nos: _____ Fax: _____			
<b>CREDIT NOTE</b>						
GST SERIAL NO			DATE			
TRANSACTION NO			TRANSACTION DATE			
SALES ORDER NO			SALES ORDER DATE			
ORIGINAL AR INVOICE NO			ORIGINAL AR INVOICE DATE			
ORIGINAL GST INVOICE			ORIGINAL GST INV DATE			
			RANGE & DIVISION			
			COMMISSIONERATE			
<b>RECIPIENT</b> BILL TO CODE NAME ADDRESS STATE STATE CODE GSTIN / UIN PAN			<b>SHIP TO</b> CODE CUSTOMER ADDRESS STATE STATE CODE GSTIN / UIN PAN			
S. No.	DESCRIPTION	HSN CODE	ITEM NO.	INV QTY	UOM	RATE(Rs.)
AMOUNT(Rs.)						
Taxable Amount						
CGST@%						
SGST@%						
NET AMOUNT						
Taxable Amount (in words)						
Tax Amount (in words)						
Net Amount (in words)						
Narration						
Dealer Code & Name:						
For TAMILNADU NEWSPRINT AND PAPERS LIMITED						
Prepared By				Authorised Signatory		
Whether tax is payable on reverse charge basis: No E&OE						

## (v) Pay-in slip

When cash or cheque is deposited in bank, a form is to be filled by a customer and submitted to the banker along with cash or cheque. This is called as pay-in slip or deposit slip. The main part of this will be retained by the bank and the counterfoil duly stamped and signed by the banker is returned to the customer.

### Specimen of a pay-in slip

## (vi) Cheque

Cheque is a negotiable instrument. Cheque book is issued by a bank to its customers for withdrawing money for own use or for making payment to others. By issue of cheque, a bank is directed to pay a specific amount of money from a person's account either to the same person or to the person in whose favour the cheque has been issued. Each cheque book has record slips for entering the details of cheques issued. It remains with the account holder for future reference.

### Specimen of a cheque and record slip





## Student activity

**Think:** Crossed cheque is preferred to a bearer cheque. Why?

### 3.3. Double entry system

Double entry system of book keeping is a scientific and complete system of recording the financial transactions of an organisation. According to this system, every transaction has a two fold effect. That is, there are two aspects involved, namely, receiving aspect and giving aspect. It is denoted by debit (Dr.) and credit (Cr.). The basic principle of double entry system is that for every debit there must be an equivalent and corresponding credit. Debit denotes an increase in assets or expenses or a decrease in liabilities, income or capital. Credit denotes an increase in liabilities, income or capital or a decrease in assets or expenses.



‘Dr.’ is abbreviation of ‘addebitare’, the Italian word and debere, the Latin word meaning ‘debit’. Hence, though there is no ‘r’ in the word debit. It has been abbreviated as ‘Dr’ based on the Italian and Latin words having ‘r’ in these.

#### 3.3.1. Definition

“Every transaction involving money or money’s worth has two fold aspects, the receiving of a value on the one hand and the giving of the same value on the other. This two fold nature in all transactions must be recorded in the books and this gives rise to the term Double Entry Book keeping”.

– Munro and Palmer

“Every business transaction has a two-fold effect and that it affects two accounts in opposite directions and if a complete record is to be made of each such transaction it is necessary to debit one account and credit another account. It is this recording of two fold effect of every transaction that has given rise to the term Double Entry”.

– J.R Batliboi

#### 3.3.2. Principles of double entry system

Following are the principles of double entry system:

- (i) In every business transaction, there are two aspects.
- (ii) The two aspects involved are the benefit or value receiving aspect and benefit or value giving aspect.
- (iii) These two aspects involve minimum two accounts; at least one debit and at least one credit.
- (iv) For every debit, there is a corresponding and equivalent credit. If one account is debited the other account must be credited.

### **3.3.3. Advantages of double entry system**

Following are the advantages of double entry system:

#### **(i) Accuracy**

In this system, the two aspects of each transaction are recorded in the books of accounts. This helps in checking the accuracy in accounting.

#### **(ii) Ascertainment of business results**

Details regarding expenses, losses, incomes, gains, assets, liabilities, debtors, creditors, etc., are readily available. This helps to ascertain the net profit earned or loss incurred during an accounting period and also to know the financial position as on a particular date.

#### **(iii) Comparative study**

The business results of the current year can be compared with those of the previous years and also with other business firms. It facilitates business planning for future.

#### **(iv) Common acceptance**

The business records maintained under this system are accepted by financial institutions, government and others, because it is a systematic and scientific system.

### **3.4. Transaction**

Transaction involves transfer of money or money's worth (goods or services or ideas) from one person to another. Transaction can be classified into cash transaction, bank transaction and credit transaction.

#### **(a) Cash transaction**

When immediate cash is involved in a transaction, it is called cash transaction. For example, goods are sold for cash ` 5,000. In this case, cash ` 5,000 comes into the business and goods worth ` 5,000 go out of the business.

#### **(b) Bank transaction**

In a transaction, if bank is involved, it is a bank transaction. Bank transaction includes the following:

- (i) Cash deposited into the bank
- (ii) Income of the business directly received by the bank
- (iii) Receipts through Cash Deposit Machine (CDM)
- (iv) Payment made by the customers of the business through debit card, credit card, net banking, National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS), etc.
- (v) Cash withdrawn from the bank
- (vi) Bank charges levied by the bank

- (vii) Payments made by the bank as per standing instructions
- (viii) Payments made by cheque
- (ix) Payments made by the business through debit card, credit card, net banking, NEFT and RTGS



**Automated Teller Machine (ATM):** ATM is a computerised machine that provides the customers of banks the facility of accessing their account for dispensing cash and to carry out other financial and non-financial transactions without the need to actually visit their bank branch.

**Cash Deposit Machine (CDM):** It is an ATM like machine that allows depositing cash directly into a customer's account without any manual intervention of the bank employee. There is no need to fill deposit slips.

**Debit card:** The debit cards are used to withdraw cash from an ATM, to purchase goods and services at Point of Sale (POS) and in E-commerce (online purchase). A customer can use debit card for the money he has in the bank account with some restrictions.

**Credit card:** The credit cards are used to purchase goods and services at Point of Sale (POS) and in E-commerce (online purchase). A customer can use credit card within the limit specified by the bank even if there is inadequate balance in the account. The bank may charge interest and other charges for credit card usage.



**NEFT:** National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this scheme, any person can electronically transfer funds from any bank branch to any person having an account with any other bank branch in the country.

**RTGS:** The acronym 'RTGS' stands for Real Time Gross Settlement, which can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis.

### **(c) Credit transaction**

When settlement is not made by cash or through bank immediately in a transaction, it is called credit transaction. But, the amount is to be settled within a specified period. For example, purchase of goods on credit for ` 3,000. In this case, goods worth ` 3,000 come into the business and a liability of creditors worth ` 3,000 arises.

## **3.5. Account**

Every transaction has two aspects and each aspect affects minimum one account. An account is the basic unit of identification in accounting. A ledger account is a summary of relevant

transactions at one place relating to a particular head. Account is the systematic presentation of all material information regarding a particular person or item at one place, under one head.

### **3.6. Approaches of recording transactions**

There are two approaches for recording transactions, namely, i) Accounting equation approach and ii) Traditional approach.

#### **3.6.1. Accounting equation approach**

The relationship of assets with that of liabilities to outsiders and to owners in the equation form is known as accounting equation.

Under the double entry system of book keeping, every transaction has two fold effect, which causes the changes in assets and liabilities or capital in such a way that an accounting equation is completed and equated.

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

Capital can also be called as owner's equity and liabilities as outsider's equity.

Accounting equation is a mathematical expression which shows that the total of assets is equal to the total of liabilities and capital. This is based on the dual aspect concept of accounting. This means that total claims of outsiders and the proprietor against a business enterprise will always be equal to the total assets of the business enterprise.

As the revenues and expenses will affect capital, the expanded equation may be given as under:

$$\text{Assets} = \text{Liabilities} + \text{Capital} + \text{Revenues} - \text{Expenses}$$

Therefore, under this approach, accounts are classified into five categories: (i) Asset account, (ii) Liability account, (iii) Capital account, (iv) Revenue account and (v) Expense account as follows:



##### **(i) Asset account**

Any physical thing or right owned that has a monetary value is called asset. The assets are grouped and shown separately; for example, Land and Buildings account, Plant and Machinery account.

##### **(ii) Liability account**

Financial obligations of the enterprise towards outsiders are shown under separate heads as liabilities; for example, creditors account, expenses outstanding account.

##### **(iii) Capital account**

Financial obligations of a business enterprise towards its owners are grouped under this category; for example, capital contributed by owner.

(iv) **Revenue account**

Accounts relating to revenues of an enterprise are grouped under this category, for example; revenues from sale of goods, rent received.

(v) **Expense account**

Expenses incurred and losses suffered for earning revenue are grouped under this category; for example, purchase of goods, salaries paid.

A transaction may have the effect on either side of the equation by the same amount or it may have the effect on one side of the equation only, by both increasing and decreasing it by an equal amount.

Recording of transactions as per accounting equation approach is explained below:

**(a) Increase in capital and increase in asset**

Commenced business with cash ` 1,00,000

*Effects:* (i) Cash comes in → Increase in asset  
(ii) Capital provided by the owner → Increase in capital of owner

$$\begin{array}{rcl} \text{Capital} & = & \text{Assets} \\ \text{Capital} & = & \text{Cash} \\ (+) ` 1,00,000 & = & (+) ` 1,00,000 \end{array}$$

**(b) Decrease in liability and decrease in asset**

Paid creditors ` 10,000

*Effects:* (i) Cash goes out → Decrease in asset  
(ii) Creditors are paid → Decrease in liability

$$\begin{array}{rcl} \text{Liabilities} & = & \text{Assets} \\ \text{Creditors} & = & \text{Cash} \\ (-) ` 10,000 & = & (-) ` 10,000 \end{array}$$

**(c) Decrease in one asset and increase in another asset**

Bought furniture costing ` 5,000 by paying cash

*Effects:* (i) Furniture comes in → Increase in asset  
(ii) Cash goes out → Decrease in asset

$$\begin{array}{rcl} \text{Liabilities} & = & \text{Assets} \\ \text{Liabilities} & = & \text{Cash} + \text{Furniture} \\ & = & (-) ` 5,000 (+) ` 5,000 \end{array}$$

#### (d) Decrease in one liability and increase in another liability

Accepted a bill drawn by creditors for ` 20,000

- Effects:*
- (i) Bills payable arises → Increase in liability
  - (ii) Reduction in creditors → Decrease in liability

$$\begin{array}{rcl}
 \text{Liabilities} & = & \text{Assets} \\
 + \text{Bills payable} - \text{Creditors} & = & \text{Assets} \\
 (+) ` 10,000 \ (-) ` 10,000 & = & \text{Assets}
 \end{array}$$

#### (e) Transactions affecting more than two accounts:

Goods costing ` 30,000 sold for ` 40,000

- Effects:*
- (i) Goods go out → Decrease in assets
  - (ii) Cash comes in → Increase in assets
  - (iii) Sold goods at a profit → Increase in capital

$$\begin{array}{rcl}
 \text{Liabilities} + \text{Capital} & = & \text{Assets} \\
 \text{Capital} & = & \text{Cash} - \text{Stock} \\
 (+) ` 10,000 & = & (+) ` 40,000 \ (-) ` 30,000
 \end{array}$$

#### Illustration 1

Complete the missing items.

	Assets ` =	Liabilities ` +	Capital `
(a)	30,000	20,000	?
(b)	60,000	25,000	?
(c)	?	25,000	30,000
(d)	?	10,000	80,000
(e)	25,000	?	15,000
(f)	40,000	?	30,000

#### Solution

	Assets ` =	Liabilities ` +	Capital `
(a)	30,000	20,000	10,000
(b)	60,000	25,000	35,000
(c)	55,000	25,000	30,000
(d)	90,000	10,000	80,000
(e)	25,000	10,000	15,000
(f)	40,000	10,000	30,000

## Illustration 2

Show the accounting equation on the basis of the following transactions for Rani, who is dealing in automobiles.

(i) Started business with cash	80,000
(ii) Goods bought on credit from Ramesh	10,000
(iii) Purchased furniture for cash	6,000
(iv) Paid creditors by cash	8,000

## Solution

### In the books of Rani

Transaction	Assets			Capital	Creditors
	Cash	Stock	Furniture		
(i) Started business with cash	+80,000			+80,000	
Equation	+80,000			=	+80,000
(ii) Credit purchases		+10,000			+10,000
Equation	+80,000	+10,000		=	+80,000
(iii) Cash purchase of furniture	-6,000		+6,000		
Equation	+74,000	+10,000	+6,000	=	+80,000
(iv) Paid creditors by cash	-8,000				-8,000
Equation	+66,000	+10,000	+6,000	=	+80,000
					+2,000

## Illustration 3

Show the accounting equation on the basis of the following:

(a) Started business with cash	60,000
(b) Purchased goods for cash	20,000
(c) Sold goods for cash costing ` 10,000 for	15,000
(d) Paid rent by cash	500

## Solution

Transaction	Assets		Capital
	Cash	Stock	
(a) Started business with cash	+60,000		= +60,000
Equation	+60,000		+60,000
(b) Cash purchases	-20,000	+20,000	
Equation	+40,000	+20,000	= +60,000
(c) Sold goods for cash	+15,000	-10,000	+5,000

Equation	+55,000	+10,000	=	+65,000
(d) Paid rent by cash	-500			-500
Equation	+54,500	+10,000	=	+64,500

### Illustration 4

Selvi is a dealer in furniture. Show the accounting equation for the following transactions.

- (i) Started business with cash ` 1,00,000
- (ii) Deposited cash into bank ` 60,000
- (iii) Borrowed loan from bank ` 25,000
- (iv) Bought goods and paid by cheque ` 10,000
- (v) Cash withdrawn for personal use ` 5,000
- (vi) Cash withdrawn from bank for office use ` 300

### Solution

#### In the books of Selvi

Transaction	Assets			Capital `	Bank loan `
	Cash `	Stock `	Bank `		
(i) Started business with cash	+1,00,000			= +1,00,000	
Equation	+1,00,000			+1,00,000	
(ii) Deposited cash with bank	- 60,000		+60,000		
Equation	+40,000		+60,000	= +1,00,000	
(iii) Borrowed loan from bank			+25,000		+25,000
Equation	+40,000		+85,000	= +1,00,000	+25,000
(iv) Bought goods and paid by cheque		+10,000	-10,000		
Equation	+40,000	+10,000	+75,000	= +1,00,000	+25,000
(v) Cash withdrawn for personal use	- 5,000				-5,000
Equation	+35,000	+10,000	+75,000	= +95,000	+25,000
(vi) Cash withdrawn from bank for office use	+3,000		-3,000		
Equation	+38,000	+10,000	+72,000	= +95,000	+25,000

### Illustration 5

Show the effect of following business transactions on the accounting equation.

- (i) Anbu started business with cash ` 20,000; goods ` 12,000 and machine ` 8,000
- (ii) Purchased goods from Ramani on credit ` 7,000
- (iii) Payment made to Ramani in full settlement ` 6,900

- (iv) Sold goods to Rajan on credit costing ` 5,400 for ` 6,000
- (v) Received from Rajan ` 5,800 in full settlement of his account
- (vi) Wages outstanding ` 400

### Solution

Transaction	Assets				Capital	Liabilities
	Cash	Stock	Machine	Debtors		
(i) Started business with cash, stock & machine	+20,000	+12,000	+8,000		+40,000	
Equation	+20,000	+12,000	+8,000	=	+40,000	
(ii) Credit purchases		+7,000				+7,000
Equation	+20,000	+19,000	+8,000	=	+40,000	+7,000
(iii) Payment made to Ramani in full settlement	-6,900				+100	-7,000
Equation	+13,100	+19,000	+8,000	=	+40,100	
(iv) Credit sales		-5,400		+6,000	+600	
Equation	+13,100	+13,600	+8,000	+6,000	=	+40,700
(v) Cash receipt from Rajan. in full settlement	+5,800			-6,000	-200	
Equation	+18,900	+13,600	+8,000	=	+40,500	
(vi) Wages outstanding					-400	+400
Equation	+18,900	+13,600	+8,000	=	+40,100	+400

### Illustration 6

Veena is a dealer in textiles. On January 1, 2018, her business showed the following balances: Cash in hand: ` 20,000; Bank balance: ` 70,000; Stock: ` 15,000. Following are the transactions made during January 2018. Show the effect of the transactions on accounting equation.

- (a) Purchased goods (readymade shirts) on credit from Subbu ` 20,000
- (b) Goods returned to Subbu and no cash is received ` 5,000
- (c) Goods (shirts) costing ` 1,600 was sold to Janani on credit ` 2,000
- (d) Janani returned 1 shirt of sales value ` 500
- (e) Janani deposited the money due in cash deposit machine in a bank ` 1,500
- (f) Insurance on building paid through net banking ` 1,000
- (g) Of the insurance paid, prepaid during the year is ` 100

### Solution

Transaction	Assets					Capital	Creditors
	Cash	Bank	Stock	Debtors	Prepaid insurance		
To Balance b/d	+20,000	+70,000	+15,000			+1,05,000	
Equation	+20,000	+70,000	+15,000		=	+1,05,000	
(a) Purchased goods on credit			20,000				+20,000
Equation	+20,000	+70,000	+35,000		=	+1,05,000	+20,000
(b) Goods returned and no cash received			-5,000				-5,000
Equation	+20,000	+70,000	+30,000		=	+1,05,000	+15,000
(c) Goods sold on credit			-1,600	2,000		+400	
Equation	+20,000	+70,000	+28,400	+2,000	=	+1,05,400	+15,000
(d) Sales return the cost of which is ` 400 and no cash paid			+400	-500		-100	
Equation	+20,000	+70,000	+28,800	+1,500	=	+1,05,300	+15,000
(e) Customer deposited the money in CDM		+1,500		-1,500			
Equation	+20,000	+71,500	+28,800		=	+1,05,300	+15,000
(f) Insurance premium paid through net banking		-1,000				-1,000	
Equation	+20,000	+70,500	+28,800		=	+1,04,300	+15,000
(g) Prepaid insurance				+100		+100	
Equation	+20,000	+70,500	+28,800	+100	=	+1,04,400	+15,000

### **3.6.2. Traditional approach**

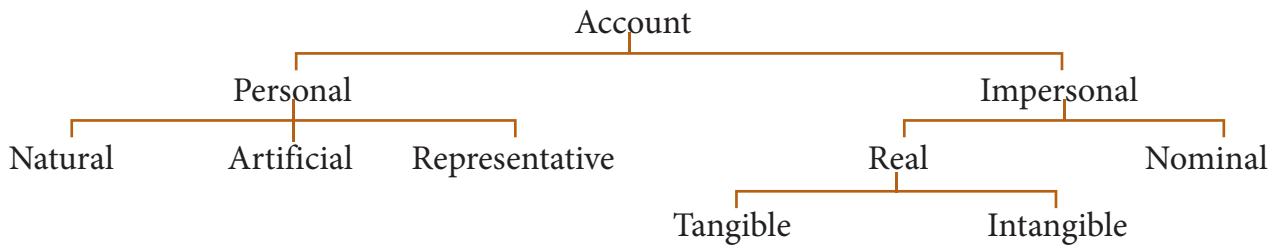
Under this approach, the two fold aspects (debit and credit) in each transaction are recorded in the journal by following double entry system. For the purpose of recording the transactions, accounts are classified into personal and impersonal accounts.

#### **3.6.2.1. Classification of accounts:**

Under double entry system of book keeping, for the purpose of recording the various financial transactions, the accounts are classified as personal accounts and impersonal accounts.

- (i) **Personal account:** Account relating to persons is called personal account. The personal account may be natural, artificial or representative personal account.
  - (a) **Natural person's account:** Natural person means human beings. Example: Vinod account, Malini account.
  - (b) **Artificial person's account:** Artificial person refers to the persons other than human beings recognised by law as persons. They include business concerns, charitable institutions, etc. Example: BHEL account, Bank account.
  - (c) **Representative personal accounts:** These are the accounts which represent persons natural or artificial or a group of persons. Example: Outstanding salaries account, Prepaid rent account. When expenses are outstanding, it is payable to a person. Hence, it represents a person.
- (ii) **Impersonal accounts:** All accounts which do not affect persons are called impersonal accounts. These are further classified into a) Real accounts and b) Nominal accounts.
  - (a) **Real account:** All accounts relating to tangible and intangible properties and possessions are called real accounts.
    1. **Tangible real accounts:** These include accounts of properties and possessions which can be seen and touched. These have physical existence. Example: Plant, Machinery, Building, Furniture, Stock.
    2. **Intangible real accounts:** These include accounts of properties and possessions which can not be seen and touched. These do not have physical existence. Example: Goodwill, Patents, Copy rights.
  - (b) **Nominal account:** The accounts relating to expenses, losses, revenues and gains are called nominal accounts. Example: Salaries, wages, rental income, interest income, etc. These are temporary accounts and are transferred to Trading and Profit and Loss account depending on whether these are direct or indirect respectively.

## Classification of account



### 3.7. Accounting rules

All the above classified accounts have two rules each, one related to debit and another related to credit for recording the transactions which are termed as golden rules of accounting or rules of double entry system.

#### Golden rules of double entry system

Personal account	Debit the receiver	Credit the giver
Real account	Debit what comes in	Credit what goes out
Nominal account	Debit all expenses and losses	Credit all incomes and gains

### Illustration 7

Classify the following into personal, real and nominal accounts.

- |                         |              |
|-------------------------|--------------|
| (a) Capital             | (b) Building |
| (c) Carriage inwards    | (d) Cash     |
| (e) Commission received | (f) Bank     |
| (g) Purchases           | (h) Chandru  |
| (i) Outstanding wages   |              |

### Solution

Sl. No.	Items	Classification
(a)	Capital	Personal account
(b)	Building	Real account
(c)	Carriage inwards	Nominal account
(d)	Cash	Real account
(e)	Commission received	Nominal account
(f)	Bank	Personal account
(g)	Purchases	Nominal account
(h)	Chandru	Personal account
(i)	Outstanding wages	Personal account



- Purchases is treated as a nominal account as it is an expenditure and sales is treated as a nominal account as it is a revenue to the business.
- Purchases, Purchases returns, Sales and Sales returns may also be treated as real accounts as they are related to goods.

## 3.8 Journal entries

The word journal has been derived from the French word 'Jour' which means day. So, journal means daily. Transactions are recorded daily in the journal as and when the transactions take place. As soon as a transaction takes place, its debit and credit aspects are analysed and recorded in the journal together with a short description called narration. This facilitates making entries in the ledger. Since transactions are first recorded in the journal, it is called book of original entry or prime entry or primary entry or preliminary entry, or first entry. Journalising is the beginning of the accounting process for the financial transactions.

### 3.8.1 Meaning

Journal is the book of original entry in which business transactions are recorded in chronological order, that is, in the order of occurrence. Transactions are recorded for the first time in the journal. Entries are made in the journal based on source documents. Record of business transactions in the journal is known as Journal entry. The process of recording the transactions in journal is called as journalising.

According to Professor Carter, "The journal as originally used, is a book of prime entry in which transactions are copied in order of date from a memorandum or waste book. The entries as they are copied are classified into debits and credits, so as to facilitate their being correctly posted, afterwards in the ledger".

### 3.8.2. Format of Journal

The format of journal is given below:

#### In the books of...

#### Journal

Date	Particulars	L.F.	Debit	Credit

A journal contains five columns; Date, Particulars, L.F., Debit and Credit.

**Date column:** In this column the date of the transaction is recorded.

**Particulars column:** The accounts involved in the transaction are recorded in this column. The account debited is recorded first with the word 'Dr.' entered towards the end of the row and the account credited is entered in the next line after leaving a little space on the left and preceded by the word 'To'.

**Leder Folio column (L.F.):** The page number of ledger in which the accounts debited and credited are maintained is recorded here. Folio means page and ledger folio means page number of ledger. This L.F. helps in cross verification of accounts in the ledger and helps in audit of accounts.

**Debit column:** The amount to be debited is recorded in this column. The unit of measurement, that is, amount expressed in the currency of the country is recorded in this column. For example, in India amount is recorded in rupees (₹).

**Credit column:** The amount to be credited is recorded in this column. The unit of measurement, that is, the currency of the country is written in this column. For example, in India amount is recorded in rupees (₹).

**Narration:** A short description of each transaction is written under each entry which is called narration.

### Tutorial note

- (i) While entering the date, the year may be written at the top, then the month and then the particular date.
- (ii) The narration must be simple and complete. The words ‘Being’ or ‘For’ may also be prefixed before the narration.
- (iii) It is customary to write ‘Dr’ and ‘To’ in the journal entries.
- (iv) L.F. column is filled when the transaction is posted to the ledger. In computerised accounting, it is the reference number.
- (v) The amount columns of a journal may be totalled at the end of the each page and the grand total may be given at the end of the month.
- (vi) To show each journal entry separately, a line may be drawn after narration in particulars column.
- (vii) When transactions of similar nature take place on the same date, they may be combined while they are journalised.

### 3.8.3 Steps in journalising

The process of analysing the business transactions under the heads of debit and credit and recording them in the journal is called journalising. An entry made in the journal is called a journal entry. The following steps are followed in journalising:

- (1) Analyse the transactions and identify the accounts (based on aspects) which are involved in the transaction.
- (2) Classify the above accounts under Personal account, Real account or Nominal account
- (3) Apply the rules of debit and credit for the above two accounts.
- (4) Find which account is to be debited and which account is to be credited by the application of rules of double entry system

- (5) Record the date of transaction in the date column.
- (6) Enter the name of the account to be debited in the particulars column very close to the left hand side of the particulars column followed by the abbreviation 'Dr.' at the end in the same line. Against this, the amount to be debited is entered in the debit amount column in the same line.
- (7) Write the name of the account to be credited in the second line starting with the word 'To' prefixed a few spaces away from the margin in the particulars column. Against this, the amount to be credited is entered in the credit amount column in the same line.
- (8) Write the narration within brackets in the next line in the particulars column.

### **3.8.4 Different types of journal entries**

The journal entries may be of the following types:

- (i) Single entry
- (ii) Compound entry
- (iii) Opening entry
- (iv) Closing entry
- (v) Rectifying entry
- (vi) Adjusting entry
- (vii) Transferring entry

- (i) **Single entry:** Single entry is an entry in which only two accounts are involved, one account is debited and another is credited.
- (ii) **Compound entry:** Compound entry is an entry in which more than two accounts are involved. Either more than one account is debited or more than one account is credited or both.
- (iii) **Opening entry:** Through opening entry the balances of assets and liabilities at the end of the previous accounting year are brought forward to the current accounting year. This is dealt in chapter 6.
- (iv) **Closing entry:** At the end of the accounting period, the nominal accounts are closed by transferring to trading account or profit and loss account. All direct expenses and direct revenues are transferred to Trading Account. All indirect expenses and indirect revenues are transferred to Profit and Loss Account. This is dealt in chapter 6.
- (v) **Rectifying entry:** Rectifying entries are passed to make correction of errors in accounting. This is dealt in chapter 9.

- (vi) **Adjusting entry:** Adjusting entry is the entry made for the transactions which remain unrecorded or require adjustment after closing the accounts for the accounting year. This is dealt in chapter 13.
- (vii) **Transfer entry:** Transfer entry is the entry through which amount is transferred from one account to another account.

### **3.8.5 Application of rules of double entry system**

Rules of double entry system of book-keeping are applied for business transactions as follows:

#### **(i) Personal account**

'Debit the receiver and Credit the giver'. In case of personal accounts, the rule is debit the account of the person who receives the benefit and credit the account of the person who gives the benefit.

Example	:	Paid Anbu ` 10,000 by cheque
Accounts affected	:	Anbu account and Bank account
Nature of accounts	:	Both are personal accounts in nature
Rule	:	Debit the receiver and credit the giver
Applying the rule	:	Anbu is the receiver and the Bank is the giver
Debit		Anbu account
Credit		Bank account

#### **(ii) Real account**

'Debit what comes in and Credit what goes out'. In case of real accounts, the rule is debit what comes in and credit what goes out.

Example	:	Furniture purchased for cash ` 5,000
Accounts affected	:	Furniture account and Cash account
Nature of accounts	:	Both are real accounts in nature
Rule	:	Debit what comes in and credit what goes out
Applying the rule	:	Furniture comes in and cash goes out
Debit		Furniture account
Credit		Cash account

### (iii) Nominal account

'Debit all expenses and losses and Credit all incomes and gains'. For nominal accounts, the rule is debit all expenses and losses and credit all incomes and gains.

Example	:	Paid rent of ` 5,000 in cash
Accounts affected	:	Rent account and cash account
Nature of accounts	:	Rent is a nominal account and cash account is a real account
Rule	:	Debit all the expenses and losses and credit all the incomes and gains
Applying the rule	:	Rent is an expense and cash goes out
Debit		Rent account
Credit		Cash account

### 3.8.6 Analysis of transactions

#### Example 1

**Transaction:** Somu commenced printing business with cash ` 50,000.

**Analysis:** This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Somu commenced business with cash ` 50,000	Cash A/c Somu's capital A/c	Real A/c Personal A/c	Cash comes in Somu is the giver	Debit Credit

#### Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Cash A/c To Somu's capital A/c (Somu commenced business with capital)	Dr.	50,000	50,000

#### Example 2

**Transaction:** Bought goods for cash ` 4,000

**Analysis:** This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Bought goods for cash ` 4,000	Purchases A/c Cash A/c	Nominal A/c Real A/c	Expenses made Cash goes out	Debit Credit

### Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Purchases A/c To Cash A/c (Cash purchase made)	Dr.	4,000	4,000

### Example 3

**Transaction:** Purchased goods from Rahul for ` 10,000 on credit

**Analysis:** This is a credit transaction.

Transactions	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Purchased goods from Rahul for ` 10,000 on credit	Purchases A/c Rahul A/c	Nominal A/c Personal A/c	Expenses made Rahul is the giver	Debit Credit

### Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Purchases A/c To Rahul A/c (Bought goods from Rahul on credit)	Dr.	10,000	10,000

### Example 4

**Transaction:** Cash paid to Rahul ` 4,000

**Analysis:** This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Paid Rahul ` 4,000	Rahul A/c Cash A/c	Personal A/c Real A/c	Rahul is the receiver Cash goes out	Debit Credit

### Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Rahul A/c To Cash A/c (Paid Rahul)	Dr.	4,000	4,000

### Example 5

**Transaction:** Withdrew cash for personal use ` 8,000

**Analysis:** This is a cash transaction as cash is involved.

Transactions	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Withdrew cash for personal use ` 8,000	Drawings A/c Cash A/c	Personal A/c Real A/c	Proprietor is the receiver Cash goes out	Debit Credit

### Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Drawings A/c To Cash A/c (Cash withdrawn for personal use)	Dr.	8,000	8,000

### Example 6

**Transaction:** Cash deposited into bank ` 5,000

**Analysis:** This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Cash deposited into bank ` 5,000	Bank A/c Cash A/c	Personal A/c Real A/c	Bank is the receiver Cash goes out	Debit Credit

### Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Bank A/c To Cash A/c (Cash deposited into bank)	Dr.	5,000	5,000

### Example 7

**Transaction:** Paid salary by cheque ` 3,000

**Analysis:** This is a bank transaction as bank is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Paid salary by cheque ` 3,000	Salary A/c Bank A/c	Nominal A/c Personal A/c	Expense made Bank is the giver	Debit Credit

### Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Salaries A/c To Bank A/c (Salary paid by cheque)	Dr.	3,000	3,000

### Example 8

**Transaction:** Sold goods to Mahesh on credit ` 9,000

**Analysis:** This is a credit transaction.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Sold goods to Mahesh on credit ` 9,000	Mahesh A/c Sales A/c	Personal A/c Nominal A/c	Mahesh is the receiver Revenue earned	Debit Credit

### Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Mahesh A/c To Sales A/c (Sold goods to Mahesh on credit)	Dr.	9,000	9,000

### Example 9

**Transaction:** Goods sold to Mahendran for cash ` 5,000

**Analysis:** This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Cash sales made to Mahendran for ` 10,000	Cash A/c Sales A/c	Real A/c Nominal A/c	Cash comes in Revenue earned	Debit Credit

### Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Cash A/c To Sales A/c (Cash sales made)	Dr.	5,000	5,000

### Example 10

**Transaction:** Borrowed loan from Bank ` 10,000

**Analysis:** This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Borrowed loan from Bank ` 10,000	Cash A/c Bank loan A/c	Real A/c Personal A/c	Cash comes in Bank is the giver	Debit Credit

### Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Cash A/c To Bank loan A/c (Borrowed loan from bank)	Dr.	10,000	10,000

### Example 11

**Transaction:** Received commission of ` 5,000 by cash

**Analysis:** This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Received commission ` 5,000	Cash A/c Commission A/c	Real A/c Nominal A/c	Cash comes in Receipt of commission	Debit Credit

### Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Cash A/c To Commission received A/c (Commision received)	Dr.	5,000	5,000

### Example 12

**Transaction:** Paid ` 4,800 in full settlement of ` 5,000 due to the creditor, Keerthana.

**Analysis:** This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Paid ` 4,800 in full settlement of ` 5,000 to Keerthana	Keerthana A/c Cash A/c Discount received A/c	Personal A/c Real A/c Nominal A/c	Keerthana is the receiver Cash goes out Discount is a gain	Debit Credit Credit

### Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Keerthana A/c To Cash A/c To Discount received A/c (Paid Keerthana in full settlement)	Dr.	5,000  4,800  200	

### Example 13

**Transaction:** Dinesh, a customer is declared insolvent and 40 paise in a rupee is received from the estate for his due ` 10,000.

**Analysis:** This is a cash transaction as cash is involved.

Transaction	Accounts involved	Nature of accounts	How affected in business	Debit / Credit
Dinesh who owed ` 10,000, became insolvent and 40 paise in a rupee is received from his estate	Cash A/c Bad debts A/c Dinesh A/c	Real A/c Nominal A/c Personal A/c	Cash comes in Bad debts is a loss Dinesh is the giver	Debit Debit Credit

### Journal entry

Date	Particulars	L.F.	Debit `	Credit `
	Cash A/c Bad debts A/c To Dinesh A/c (Cash received in final settlement on insolvency)	Dr. Dr.	4,000 6,000  10,000	

### Tutorial note

Though the procedure for analysis of transactions, classification of accounts and rules for recording transactions under accounting equation approach and traditional approach are different, the accounts affected and entries in affected accounts remain the same under both approaches. In other words, accounts to be debited and credited to record the dual aspect remain the same under both the approaches.

### Illustration 8

Jeyaseeli is a sole proprietor having a provisions store. Following are the transactions during the month of January, 2018. Journalise them.

Jan.

- |   |                              |        |
|---|------------------------------|--------|
| 1 | Commenced business with cash | 80,000 |
| 2 | Deposited cash with bank     | 40,000 |

3	Purchased goods by paying cash	5,000
4	Purchased goods from Lipton & Co. on credit	10,000
5	Sold goods to Joy and received cash	11,000
6	Paid salaries by cash	5,000
7	Paid Lipton & Co. by cheque for the purchases made on 4th Jan.	
8	Bought furniture by cash	4,000
9	Paid electricity charges by cash	1,000
10	Bank paid insurance premium on furniture as per standing instructions	80

### Solution

#### In the books of Jeyaseeli Journal entries

Date	Particulars	L.F.	Debit `	Credit `
2018 Jan. 1	Cash A/c To Jeyaseeli's Capital A/c (Jeyaseeli commenced business with cash)	Dr.	80,000	80,000
2	Bank A/c To Cash A/c (Deposited cash into bank)	Dr.	40,000	40,000
3	Purchases A/c To Cash A/c (Goods purchased by cash)	Dr.	5,000	5,000
4	Purchases A/c To Lipton & Co. A/c (Goods purchased on credit)	Dr.	10,000	10,000
5	Cash A/c To Sales A/c (Cash sales made)	Dr.	11,000	11,000

6	Salaries A/c To Cash A/c (Salaries paid)	Dr.		5,000	5,000
7	Lipton & Co. A/c To Bank A/c (Payment made by cheque)	Dr.		10,000	10,000
8	Furniture A/c To Cash A/c (Furniture bought for cash)	Dr.		4,000	4,000
9	Electricity charges A/c To Cash A/c (Electricity charges paid)	Dr.		1,000	1,000
10	Insurance premium A/c To Bank A/c (Insurance premium on furniture paid)	Dr.		300	300

### Illustration 9

Ananth is a trader dealing in textiles. For the following transactions, pass journal entries for the month of January, 2018.

Jan.

1	Commenced business with cash	70,000
2	Purchased goods from X and Co. on credit	8,000
3	Cash deposited into bank	40,000
4	Bought a building from L and Co. on credit	95,000
5	Cash withdrawn from bank for office use	5,000
6	Cash withdrawn from bank for personal use of Ananthu	4,000
7	Towels given as charities	300
8	Shirts taken over by Ananth for personal use	12,000
9	Sarees distributed as free samples	300
10	Goods (table clothes) used for office use	200

## Solution

### In the books of Ananth Journal entries

Date	Particulars	L.F.	Debit `	Credit `
2018				
Jan. 1	Cash A/c To Ananth's capital A/c (Commenced business with cash)	Dr.	70,000	70,000
2	Purchases A/c To X and Co. A/c (Credit purchases made)	Dr.	30,000	30,000
3	Bank A/c To Cash A/c (Cash deposited into bank)	Dr.	40,000	40,000
4	Buildings A/c To L and Co. A/c (Building bought on credit)	Dr.	95,000	95,000
5	Cash A/c To Bank A/c (Cash withdrawn from bank for office use)	Dr.	5,000	5,000
6	Drawings A/c To Bank A/c (Cash withdrawn from bank for personal use)	Dr.	4,000	4,000
7	Charities A/c To Purchases A/c (Goods given for charities)	Dr.	3,000	3,000
8	Drawings A/c To Purchases A/c (Goods taken over for personal use)	Dr.	12,000	12,000
9	Sales promotion A/c To Purchases A/c (Goods distributed as free samples)	Dr.	3,000	3,000
10	Office expenses A/c To Purchases A/c (Goods used for office use)	Dr.	200	200

## Illustration 10

Arun is a trader dealing in automobiles. For the following transactions, pass journal entries for the month of January, 2018

Jan.

1	Commenced business with cash	90,000
2	Purchased goods from X and Co. on credit	40,000
3	Accepted bill drawn by X and Co.	20,000
4	Sold goods to D and Co. on credit	10,000
5	Paid by cash the bill drawn by X and Co.	
6	Received cheque from D and Co. in full settlement and deposited the same in bank	9,000
7	Commission received in cash	5,000
8	Goods costing ` 40,000 was sold and cash received	50,000
9	Salaries paid in cash	4,000
10	Building purchased from Kumar and Co. for ` 1,00,000 and an advance of ` 20,000 is given in cash	

### Solution

#### In the books of Arun Journal entries

Date	Particulars	L.F.	Debit `	Credit `
2018 Jan. 1	Cash A/c To Arun's capital A/c (Arun commenced business with cash)	Dr.	90,000	90,000
2	Purchases A/c To X and Co. A/c (Credit purchases made)	Dr.	40,000	40,000
3	X and Co. A/c To Bills payable A/c (Bill drawn by X and Co. accepted)	Dr.	20,000	20,000
4	D and Co. A/c To Sales A/c (Goods sold on credit)	Dr.	10,000	10,000

5	Bills payable A/c To Cash A/c (Bills payable paid)	Dr.		20,000	20,000
6	Bank A/c Discount A/c To D and Co. A/c (Cheque received from D and Co. in full settlement)	Dr. Dr.		9,000 1,000	10,000
7	Cash A/c To Commission A/c (Commission received in cash)	Dr.		5,000	5,000
8	Cash A/c To Sales A/c (Cash sales made)	Dr.		50,000	50,000
9	Salaries A/c To Cash A/c (Salaries paid in cash)	Dr.		4,000	4,000
10	Buildings A/c To Cash A/c To Kumar and Co. A/c (Building bought by giving advance money)	Dr.		1,00,000	20,000 80,000

### Illustration 11

Bragathish is a trader dealing in electronic goods who commenced his business in 2015. For the following transactions took place in the month of March 2018, pass journal entries.

March

1. Purchased goods from Y and Co. on credit 60,000
2. Sold goods to D and Co. on credit 0,000
3. Paid Y and Co. through bank in full settlement 58,000
4. D and Co. accepted a bill drawn by Bragathish 0,000
5. Sold goods to L on credit 20,000
6. Sold goods to M on credit 40,000
7. Received a cheque from M in full settlement and deposited the same to the bank 9,000
8. Goods returned to Y and Co. 4,000

9. L became insolvent and only 90 paise per rupee is received by cash in final settlement
10. Goods returned by M ₹300

**Solution**

**In the books of Bragathish**  
**Journal entries**

Date	Particulars	L.F.	Debit `	Credit `
2018 March 1	Purchases A/c To Y and Co. A/c (Goods purchased on credit)	Dr.	60,000	60,000
2	D and Co. A/c To Sales A/c (Credit sales made to D and Co.)	Dr.	30,000	30,000
3	Y and Co. A/c To Bank A/c To Discount received A/c (Payment made to Y and Co. and discount received)	Dr.	60,000	58,000 2000
4	Bills Receivable A/c To D and Co. A/c (Bills received from D and Co.)	Dr.	30,000	30,000
5	L A/c To Sales A/c (Goods sold on credit to L)	Dr.	20,000	20,000
6	M A/c To Sales A/c (Goods sold on credit to M)	Dr.	40,000	40,000
7	Bank A/c Discount allowed A/c To M A/c (Cheque received and discount allowed)	Dr. Dr.	39,000 1000	40,000
8	Y and A/c To Purchases returns A/c (Goods returned to Y and Co.)	Dr.	4,000	4,000
9	Cash A/c ( $20,000 \times 0.9$ ) Bad debts A/c To L A/c (Cash received from L in final settlement)	Dr. Dr.	18,000 2,000	20,000
10	Sales returns A/c To M A/c (Goods returned by M)	Dr.	3,000	3,000

## Illustration 12

Valluvar is a sole trader dealing in textiles. From the following transactions, pass journal entries for the month of March, 2018.

March

1	Commenced business with cash with goods	90,000 60,000
2	Purchased 20 readymade shirts from X and Co. on credit	10,000
3	Cash deposited into bank through Cash Deposit Machine	0,000
4	Purchased 10 readymade sarees from Y and Co. by cash	6,000
5	Paid X and Co. through NEFT	
6	Sold 5 sarees to A and Co. on credit	4,000
7	A and Co. deposited the amount due in Cash Deposit Machine	
8	Purchased 20 sarees from Z & Co. and paid through debit card	12,000
9	Stationery purchased for and paid through net banking	6,000
10	Bank charges levied	200

### Solution

#### In the books of Valluvar Journal entries

Date	Particulars	L.F.	Debit	Credit
2018 March 1	Cash A/c Stock A/c To Valluvar's Capital A/c (Valluvar commenced business with cash and goods)	Dr. Dr.	90,000 60,000	1,50,000
2	Purchases A/c To X and Co. A/c (Credit purchases made)	Dr.	10,000	10,000
3	Bank A/c To Cash A/c (Deposited cash into bank)	Dr.	30,000	30,000
4	Purchases A/c To Cash A/c (Goods purchased by cash)	Dr.	6,000	6,000

5	X and Co. A/c To Bank A/c (Deposited cash into bank)	Dr.		10,000	10,000
6	A and Co. A/c To Sales A/c (Credit sales made to A and Co.)	Dr.		4,000	4,000
7	Bank A/c To A and Co. A/c (Money received through CDM)	Dr.		4,000	4,000
8	Purchases A/c To Bank A/c (Purchases made)	Dr.		12,000	12,000
9	Stationery A/c To Bank A/c (Stationery purchased)	Dr.		6,000	6,000
10	Bank charges A/c To Bank A/c (Bank charges levied)	Dr.		200	200

### Illustration 13

Deri is a sole trader dealing in automobiles. From the following transactions, pass journal entries for the month of January, 2018.

Jan.

1	Commenced business with cash with goods with buildings	1,00,000 2,00,000 5,00,000
2	Purchased goods from A and Co. on credit	30,000
3	Cash deposited into bank	80,000
4	Purchased goods from B and Co. and payment made through credit card	5,000
5	Paid A and Co. through RTGS	
6	Sold goods to C and Co. and cheque received	50,000
7	Deposited the cheque received from C and Co. with the bank	
8	Purchased goods from Z & Co. and paid through debit card	12,000

9	Stationery purchased for and paid through net banking	6,000
10	Income tax of Deri is paid by cheque	10,000

### Solution

#### In the books of Deri

#### Journal entries

Date	Particulars	L.F.	Debit `	Credit `
2018 Jan. 1	Cash A/c Stock A/c Buildings A/c To Deri's capital A/c (Deri commenced business with cash, goods and buildings)	Dr. Dr. Dr.	1,00,000 2,00,000 5,00,000	8,00,000
2	Purchases A/c To A and Co. A/c (Credit purchases made)	Dr.	3,00,000	3,00,000
3	Bank A/c To Cash A/c (Amount deposited in the bank)	Dr.	80,000	80,000
4	Purchases A/c To Bank A/c (Goods purchased through credit card)	Dr.	5,000	5,000
5	A and Co. A/c To Bank A/c (Payment through RTGS)	Dr.	3,00,000	3,00,000
6	Cash A/c To Sales A/c (Sales made and cheque received)	Dr.	50,000	50,000
7	Bank A/c To Cash A/c (Cheque received from C and Co. deposited in the bank)	Dr.	50,000	50,000
8	Purchases A/c To Bank A/c (Goods purchased by debit card)	Dr.	12,000	12,000
9	Stationery A/c To Bank A/c (Stationery purchased through net banking)	Dr.	6,000	6,000
10	Drawings A/c To Bank A/c (Income tax of the owner paid)	Dr.	10,000	10,000

### Illustration 14

Chandran is a sole trader dealing in sports items. From the following transactions, pass journal entries for the month of March, 2018.

March

1	Commenced business with cash	4,00,000
2	Cash deposited into bank	30,000
3	Purchased goods from Ravi and payment made through net banking	90,000
4	Sales made to Kumar, who deposited the money through CDM	10,000
5	Sales made to Vivek, who made the payment by debit card	60,000
6	Sold goods to Keerthana, who made the payment through credit card	50,000
7	Dividend directly received by bank	2,000
8	Money withdrawn from ATM	300
9	Salaries paid through ECS	6,000
10	Cricket bats donated to a trust	10,000

### Solution

#### In the books of Chandran

#### Journal entries

Date	Particulars	L.F.	Debit	Credit
2018 March 1	Cash A/c To Chandran's capital A/c (Capital contributed by Chandran)	Dr.	4,00,000	4,00,000
2	Bank A/c To Cash A/c (Cash deposited into bank)	Dr.	3,00,000	3,00,000
3	Purchases A/c To Bank A/c (Goods purchased and payment made by net banking)	Dr.	90,000	90,000
4	Bank A/c To Sales A/c (Sales made and money received through CDM)	Dr.	10,000	10,000

5	Bank A/c To Sales A/c (Sales made and money credited through debit card)	Dr.		60,000	60,000
6	Bank A/c To Sales A/c (Sales made and money credited through credit card)	Dr.		50,000	50,000
7	Bank A/c To Dividend A/c (Dividend directly received by bank)	Dr.		2,000	2,000
8	Cash A/c To Bank A/c (Cash withdrawn through ATM)	Dr.		3,000	3,000
9	Salaries A/c To Bank A/c (Salaries paid through ECS)	Dr.		6,000	6,000
10	Donation A/c To Purchases A/c (Cricket bats donated to a trust)	Dr.		10,000	10,000

### Illustration 15

Deepak is a dealer in stationery items. From the following transactions, pass journal entries for the month of January and February, 2018.

Jan.

- |   |  |          |
|---|--|----------|
| 1 | Commenced business with cash                                 | 2,00,000 |
| 2 | Opened a bank account by depositing cash                     | 1,00,000 |
| 3 | 'A 4 papers' sold on credit to Padmini and Co.               | 60,000   |
| 4 | Bills received from Padmini and Co. for the amount due       |          |
| 5 | Bills received from Padmini and Co. discounted with the bank | 58,000   |

Feb.

- 15 Bills of Padmini and Co. dishonoured

## Solution

### In the books of Deepak Journal entries

Date	Particulars	L.F.	Debit `	Credit `
2018 Jan. 1	Cash A/c To Deepak's capital A/c (Capital contributed by Deepak)	Dr.	2,00,000	2,00,000
2	Bank A/c To Cash A/c (Cash deposited with the bank)	Dr.	1,00,000	1,00,000
3	Padmini and Co. A/c To Sales A/c (Credit sales to Padmini and Co.)	Dr.	60,000	60,000
4	Bills receivable A/c To Padmini and Co. A/c (Bill received for the amount due)	Dr.	60,000	60,000
5	Bank A/c Discount A/c To Bills receivable A/c (Bills receivable discounted with the bank)	Dr. Dr.	58,000 2,000	60,000
Feb. 15	Padmini and Co. A/c To Bank A/c (Bill discounted with the bank dishonoured)	Dr.	60,000	60,000

### 3.8.7 Advantages of journal

Following are the advantages of journal:

- (i) Complete information about the business transactions can be obtained on time basis as the transactions are recorded in chronological order.
- (ii) Correctness of the entry can be checked through narration.
- (iii) Journal forms the basis for posting the entries in the ledger.

## Points to remember

- Transactions are recorded in the books of account with the help of source documents.
- There are two aspects involved in every business transaction namely debit and credit.
- Every debit has a corresponding and equal credit.
- Every credit has a corresponding and equal debit.
- Accounts can be classified into personal, real and nominal.
- Assets = Capital + Liabilities
- Transactions are first recorded in journal.

Golden rules of accounting:

Personal account	Debit the receiver	Credit the giver
Real account	Debit what comes in	Credit what goes out
Nominal account	Debit all expenses and losses	Credit all incomes and gains

## Self-examination questions

### I Multiple choice questions

Choose the correct answer:

1. Accounting equation signifies
  - (a) Capital of a business is equal to assets
  - (b) Liabilities of a business are equal to assets
  - (c) Capital of a business is equal to liabilities
  - (d) Assets of a business are equal to the total of capital and liabilities
2. 'Cash withdrawn by the proprietor from the business for his personal use' causes
  - (a) Decrease in assets and decrease in owner's capital
  - (b) Increase in one asset and decrease in another asset
  - (c) Increase in one asset and increase in liabilities
  - (d) Increase in asset and decrease in capital
3. A firm has assets of ` 1,00,000 and the external liabilities of ` 60,000. Its capital would be
  - (a) ` 1,60,000
  - (b) ` 60,000
  - (c) ` 1,00,000
  - (d) ` 40,000



4. The incorrect accounting equation is
- (a) Assets = Liabilities + Capital
  - (b) Assets = Capital + Liabilities
  - (c) Liabilities = Assets + Capital
  - (d) Capital = Assets – Liabilities
5. Accounting equation is formed based on the accounting principle of
- (a) Dual aspect
  - (b) Consistency
  - (c) Going concern
  - (d) Accrual
6. Real account deals with
- (a) Individual persons
  - (b) Expenses and losses
  - (c) Assets
  - (d) Incomes and gains
7. Which one of the following is representative personal account?
- (a) Building A/c
  - (b) Outstanding salary A/c
  - (c) Mahesh A/c
  - (d) Balan & Co
8. Prepaid rent is a
- (a) Nominal A/c
  - (b) Personal A/c
  - (c) Real A/c
  - (d) Representative personal A/c
9. Withdrawal of cash from business by the proprietor should be credited to
- (a) Drawings A/c
  - (b) Cash A/c
  - (c) Capital A/c
  - (d) Purchases A/c
10. In double entry system of book keeping, every business transaction affects
- (a) Minimum of two accounts
  - (b) Same account on two different dates
  - (c) Two sides of the same account
  - (d) Minimum three accounts

### Answers

1. (d)	2. (a)	3. (d)	4. (c)	5. (a)	6. (c)	7. (b)	8. (d)	9. (b)	10. (a)
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### II Very short answer questions

1. What are source documents?
2. What is accounting equation?
3. Write any one transaction which
  - a) Decreases the assets and decreases the liabilities
  - b) Increases one asset and decreases another asset

4. What is meant by journalising?
5. What is real account?
6. How are personal accounts classified?
7. State the accounting rule for nominal account.
8. Give the golden rules of double entry accounting system.

### **III Short answer questions**

1. Write a brief note on accounting equation approach of recording transactions.
2. What is an Account? Classify the accounts with suitable examples.
3. What are the three different types of personal accounts?
4. What is the accounting treatment for insurance premium paid on the life of the proprietor?
5. State the principles of double entry system of book keeping.
6. Briefly explain about steps in journalising.
7. What is double entry system? State its advantages.

### **IV Exercises**

1. Complete the accounting equation

$$\begin{array}{rcl}
 (a) & \text{Assets} & = \quad \text{Capital} \quad + \quad \text{Liabilities} \\
 & `1,00,000 & = \quad `80,000 \quad + \quad ? \\
 (b) & \text{Assets} & = \quad \text{Capital} \quad + \quad \text{Liabilities} \\
 & `2,00,000 & = \quad ? \quad + \quad `40,000 \\
 (c) & \text{Assets} & = \quad \text{Capital} \quad + \quad \text{Creditors} \\
 & ? & = \quad `1,60,000 \quad + \quad `80,000
 \end{array}$$

2. For the following transactions, show the effect on accounting equation.

(a) Raj Started business with cash	` 40,000
(b) Opened bank account with a deposit of	` 30,000
(c) Bought goods from Hari on credit for	` 12,000
(d) Raj withdrew cash for personal use	` 1,000
(e) Bought furniture by using debit card for	` 10,000
(f) Sold goods to Murugan and cash received	` 6,000
(g) Money withdrawn from bank for office use	` 1,000

3. Prepare accounting equation for the following transactions.
- (a) Murugan commenced business with cash ` 80,000
  - (b) Purchased goods for cash ` 30,000
  - (c) Paid salaries by cash ` 5,000
  - (d) Bought goods from Kumar for ` 5,000 and deposited the money in CDM.
  - (e) Introduced additional capital of ` 10,000
4. What will be the effect of the following on the accounting equation?
- (a) Sunil started business with ` 1,40,000 cash and goods worth ` 60,000
  - (b) Purchased furniture worth ` 20,000 by cash
  - (c) Depreciation on furniture ` 800
  - (d) Deposited into bank ` 40,000
  - (e) Paid electricity charges through net banking ` 500
  - (f) Sold goods to Ravi costing ` 10,000 for ` 15,000
  - (g) Goods returned by Ravi ` 5,000
5. Create an accounting equation on the basis of the following transactions:
- (i) Rakesh started business with a capital of ` 1,50,000
  - (ii) Deposited money with the bank ` 80,000
  - (iii) Purchased goods from Mahesh and paid through credit card ` 25,000
  - (iv) Sold goods (costing ` 10,000) to Mohan for ` 14,000 who pays through debit card
  - (v) Commission received by cheque and deposited the same in the bank ` 2,000
  - (vi) Paid office rent through ECS ` 6,000
  - (vii) Sold goods to Raman for ` 15,000 of which ` 5,000 was received at once
6. Create an accounting equation on the basis of the following transactions:
- (i) Started business with cash ` 80,000 and goods ` 75,000
  - (ii) Sold goods to Shanmugam on credit for ` 50,000
  - (iii) Received cash from Shanmugam in full settlement ` 49,000
  - (iv) Salary outstanding ` 3,000
  - (v) Goods costing ` 1,000 given as charity
  - (vi) Insurance premium paid ` 3000
  - (vii) Out of insurance premium paid, prepaid is ` 500

7. Create accounting equation on the basis of the following transactions:

- (i) Opening balance on 1st January, 2018 cash ` 20,000; stock ` 50,000 and bank ` 80,000
- (ii) Bought goods from Suresh ` 10,000 on credit
- (iii) Bank charges ` 500
- (iv) Paid Suresh ` 9,700 through credit card in full settlement.
- (v) Goods purchased on credit from Philip for ` 15,000
- (vi) Goods returned to Philip amounting to ` 4,000

8. Enter the following transactions in the journal of Manohar who is dealing in textiles:

2018

March

1	Manohar started business with cash	60,000
2	Purchased furniture for cash	10,000
3	Bought goods for cash	25,000
6	Bought goods from Kamalesh on credit	15,000
8	Sold goods for cash	28,000
10	Sold goods to Hari on credit	10,000
14	Paid Kamalesh	12,000
18	Paid rent	500
25	Received from Hari	8,000
28	Withdrew cash for personal use	4,000

9. Pass journal entries in the books of Sasi Kumar who is dealing in automobiles.

2017

Oct

1	Commenced business with goods	40,000
3	Cash introduced in the business	60,000
4	Purchased goods from Arul on credit	70,000
6	Returned goods to Arul	10,000
10	Paid cash to Arul on account	60,000
15	Sold goods to Chandar on credit	30,000
18	Chandar returned goods worth	6,000
20	Received cash from Chandar in full settlement	23,000
25	Paid salaries through ECS	2,000
30	Sahil took for personal use goods worth	10,000

10. Pass Journal entries in the books of Hari who is a dealer in sports items

2017

Jan.

1	Commenced business with cash	50,000
2	Purchased goods from Subash on credit	20,000
4	Sold goods to Ramu on credit	15,000
8	Ramu paid the amount through cheque	
10	Cheque received from Ramu is deposited with the bank	
15	Sports items purchased from Gopal on credit	10,000
18	Paid rent for the proprietor's residence	1,500
20	Paid Gopal in full settlement after deducting 5 % discount	
25	Paid Subash ` 4,750 and discount received	` 250
28	Paid by cash: wages ` 500; electricity charges ` 3,000 and trade expenses	` 1,000

11. Karthick opened a provisions store on 1st April, 2017. Journalise the following transactions in his books:

2017

April

1	Paid into bank for opening a current account	` 2,00,000
3	Goods purchased by cheque	` 40,000
5	Investments made in securities	` 40,000
6	Goods sold to Radha for ` 20,000 and cheque received and deposited into bank	
7	Amount withdrawn from bank for office use	` 15,000
10	Purchased goods from Kamala and cash deposited in CDM	` 10,000
12	Sold goods to Vanitha who paid through debit card	` 10,000
15	Interest on securities directly received by the bank	` 1,000
20	Insurance paid by the bank as per standing instructions	` 2,000
25	Sales made to Kunal who made payment through CDM	` 6,000

12. Journalise the following transactions in the books of Ramesh who is dealing in computers:

2018

March

- 1 Ramesh started business with cash ` 3,00,000, Goods ` 80,000 and Furniture ` 27,000.
- 2 Money deposited into bank ` 2,00,000
- 3 Bought furniture from M/s Jayalakshmi Furniture for ` 28,000 on credit.
- 4 Purchased goods from Asohan for ` 5,000 by paying through debit card.
- 5 Purchased goods from Guna and paid through net banking for cash ` 10,000
- 6 Purchased goods from Kannan and paid through credit card ` 20,000
- 7 Purchased goods from Shyam on credit for ` 50,000
- 8 Bill drawn by Shyam was accepted for ` 50,000
- 9 Paid half the amount owed to M/s Jayalakshmi Furniture by cheque
- 10 Shyam's bill was paid

13. Journalise the following transactions in the books of Sundar who is a book seller.

2017

Dec

1	Commenced business with cash	2,00,000
2	Bought goods from X and Co. on credit	80,000
4	Opened a bank account with	50,000
5	Sold goods to Naresh who paid the amount through net banking	5,000
6	Sold goods to Devi who paid through credit card	7,000
7	Sold goods to Ashish on credit	700
8	Money withdrawn from bank through ATM for office use	1,000
9	Purchased a furniture and paid through debit card	2,000
10	Salaries paid by cash	6,000
11	Furniture purchased from Y for ` 25,000 and advance given	5,000

14. Raja has a hotel. The following transactions took place in his business. Journalise them.

Jan.

1	Started business with cash	3,00,000
2	Purchased goods from Rajiv on credit	1,00,000
3	Cash deposited with the bank	2,00,000

- |    |  |          |
|----|--|----------|
| 20 | Borrowed loan from bank  | 1,00,000 |
| 22 | Withdrew from bank for personal use                                | 800      |
| 23 | Amount paid to Rajiv in full settlement through NEFT               | 99,000   |
| 25 | Paid club bill of the proprietor by cheque                         | 200      |
| 26 | Paid electricity bill of the proprietor's house through debit card | 2,000    |
| 31 | Lunch provided at free of cost to a charity                        | 1,000    |
| 31 | Bank levied charges for locker rent                                | 1,000    |
15. From the following transactions of Shyam, a stationery dealer, pass journal entries for the month of August 2017.
- Aug.
- |    |  |
|----|--|
| 1  | Commenced business with cash ` 4,00,000, Goods ` 5,00,000                  |
| 2  | Sold goods to A and money received through RTGS ` 2,50,000                 |
| 3  | Goods sold to Z on credit for ` 20,000                                     |
| 5  | Bill drawn on Z and accepted by him ` 20,000                               |
| 8  | Bill received from Z is discounted with the bank for ` 19,000              |
| 10 | Goods sold to M on credit ` 12,000   |
| 12 | Goods distributed as free samples for ` 2,000                              |
| 16 | Goods taken for office use ` 5,000   |
| 17 | M became insolvent and only 0.80 per rupee is received in final settlement |
| 20 | Bill of Z discounted with the bank is dishonoured                          |
16. Mary is a cement dealer having business for more than 5 years. Pass journal entries in her books for the period of March, 2018.

March

1	Cement bags bought on credit form Sibi	20,000
2	Electricity charges paid through net banking	500
3	Returned goods bought form Sibi	5,000
4	Cement bags taken for personal use	1,000
5	Advertisement expenses paid	2,000
6	Goods sold to Mano	20,000
7	Goods returned by Mano	5,000
8	Payment received from Mano through NEFT	



### Student activity

**Fill in the missing information in the following journal entries:**

Date	Particulars	L.F.	Debit `	Credit `
	.....A/c To .....A/c (Goods purchased for cash ` 20,000)	Dr.	-----	-----
	.....A/c .....A/c To Niha A/c (Received ` 18,800 from in full settlement of the due ` 19,000)	Dr. Dr.	----- -----	-----



### Student activity

**Write the narration with reference to the following journal entries.**

In the books of Shyam

#### Journal entries

Date	Particulars	L.F.	Debit `	Credit `
2018 April 1	Cash A/c To Shyam's capital A/c (.....)	Dr.	3,00,000	3,00,000
2	Bank A/c To Cash A/c (.....)	Dr.	2,70,000	2,70,000



### CASE STUDY

Pearlita is a trader. She buys and sells electronic goods. She maintains double entry book- keeping. She purchases and sells goods both on cash and credit bases. If the purchased goods are not in good condition, she sends them back to her supplier. At the same time, she also accepts if her customers return the goods sold to them, when the goods are not in good condition. She maintains a bank account for her business. She receives and pays money through bank transactions.

Now, discuss on the following:

- Why does she maintain double entry book keeping?
- Do all the business units engage in credit transaction?
- Can you think of some business units that have only cash transactions?
- Is it necessary for Pearlita to maintain a separate bank account for business?
- What will happen if she uses her personal bank account for her business transactions?
- Identify the business documents involved in this case study.
- Can you think of some assets and liabilities for Pearlita's business?

### To explore further

For small business entities generally full set of accounts ay not be maintained. Is it possible to calculate profit or loss for such entities? How?

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# Unit 4

## LEDGER



### Contents

- 4.1 Introduction
- 4.2 Utilities of ledger
- 4.3 Format of ledger account
- 4.4 Distinction between journal and ledger
- 4.5 Procedure for posting
- 4.6 Balancing of ledger accounts



### Points to recall

The following points are to be recalled before learning Ledger:

- Classification of accounts
- Golden rules of double entry system of book keeping
- Steps in journalising the transactions and passing journal entries



### Learning Objectives

To enable the students to

- Understand the meaning of ledger account
- Understand the procedure for posting
- Post the journal entries to the ledger accounts and balance the ledger accounts

### Key terms to know

Ledger

Ledger posting

Balancing the ledger account

Debit balance

Credit balance

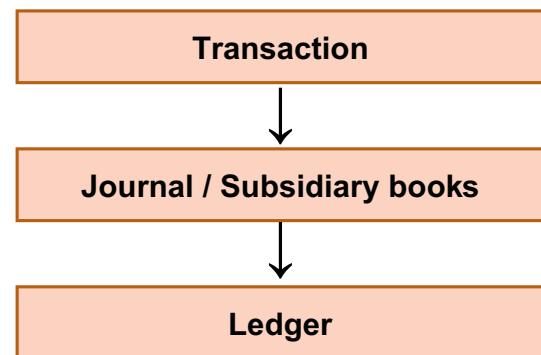
## 4.1 Introduction



### Student activity

**Think:** A trader has been selling goods both on cash and credit bases. Most of the goods are sold on credit. The owner has lost track of 'who has to pay how much?' Is there any quick way to get this information?

Ledger account is a summary statement of all the transactions relating to a person, asset, liability, expense or income which has taken place during a given period of time and it shows their net effect. From the transactions recorded in the journal, the ledger account is prepared. Ledger is known as principal book of accounts. It is a book which contains all sets of accounts, namely, personal, real and nominal accounts. Accountwise balance can be determined from the ledger. The ledger accounts are prepared based on journal entries passed.



The balances in the ledger accounts show the net effect of transactions during a particular period in various accounts. The personal accounts give the net amount due to creditors and the net amount due from debtors, real accounts show the values of assets and nominal accounts show incomes and expenses. The financial statements can be prepared from the ledger balances.

Ledger may be maintained in the business enterprises in the form of a bound register or in the form of loose sheets with spiral binding. Normally one page or one sheet may be provided for one account. An index is provided in the beginning of the ledger giving details of the accounts contained in it such as specific code for each account, page number, etc. Where computerised accounting is followed, once the transactions are recorded in the journal, ledger accounts are automatically prepared.

## 4.2. Utilities of ledger

Following are the utilities of ledger:

### i) Quick information about a particular account

Ledger account helps to get all information about a particular account like sales, purchases, machinery, etc., at a glance. For example, where there are several transactions with a debtor, the net amount due from a debtor can be known from the ledger account.

### ii) Control over business transactions

From the ledger balances extracted, a thorough analysis of account balances can be made which helps to have control over the business transactions.

### iii) Trial balance can be prepared

With the balances of ledger accounts, trial balance can be prepared to check the arithmetical accuracy of entries made in the journal and ledger.

### iv) Helps to prepare financial statements

From the ledger balances extracted, financial statements can be prepared for ascertaining net profit or loss and the financial position.

## 4.3 Format of ledger account

The ledger account is prepared in T format. It is divided into two parts. Left side is debit side and right side is credit side. Each side contains four columns. The name or title of the account is placed at the top middle and the details are entered in the ledger. The format of ledger account is given below:

Dr.	Name of the ledger account				Cr.		
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount

Following are the details contained in the various columns in the ledger:

*Date* : Date of the transaction is recorded in this column.

*Particulars* : The account debited or credited is recorded in this column. On the debit side, the entries are made starting with 'To' and on the credit side, entries are made starting with 'By'.

*Journal Folio (J.F.)*: In this column, the page number of the journal or subsidiary books from which the entry has been posted to the ledger is noted.

*Amount* : The amount of the transaction is recorded in this column.

## 4.4 Distinction between journal and ledger

Following are the differences between journal and ledger:

Basis	Journal	Ledger
1. Recording	As and when transactions take place entries are made in journal.	In ledger, entries may be posted either on the same day or at the end of a specified period such as weekly or fortnightly especially when subsidiary books are maintained.
2. Stage of recording	Recording in the journal is the first stage	Recording in the ledger is the second stage, which is done on the basis of entries made in the journal.

3. Order of recording	Entries are made in the chronological order, i.e., datewise in the order of occurrence.	Entries are made accountwise.
4. Process	The process of recording in journal is called journalising	The process of recording in the ledger is called posting.
5. Facilitating preparation of trial balance	Amount from the journal does not serve as the basis for preparing trial balance.	Ledger balances serve as the basis for preparing trial balance.
6. Basis of entries	Entries in the journal are made on the basis of source documents.	Posting is done in ledger on the basis of journal entries.
7. Net position	Net position of an account cannot be ascertained from journal.	Net position of an account can be ascertained from ledger account.

## 4.5 Procedure for posting

The process of transferring the debit and credit items from the journal to the ledger accounts is called posting. The procedure of posting from journal to ledger is as follows:

- Locate the ledger account that is debited in the journal entry. Open the respective account in the ledger, if already not opened. Write the name of the account in the top middle. If already opened, locate the account from the ledger index. Now entries are to be made on the debit side of the account.
- Record the date of the transaction in the date column on the debit side of that account.
- Record the name of the account credited in the journal with the prefix 'To' in particulars column.
- Record the amount of the debit in the 'amount column'.
- Locate the ledger account that is credited in the journal entry. Open the respective account in the ledger, if already not opened. Write the name of the account in the top middle. If already opened, locate the account from the ledger index. Now entries are to be made on the credit side of the account. Record the date of the transaction in the date column. Record the name of the account debited in the journal entry in the particulars column with the prefix 'By' and write the amount in the amount column.

### Tutorial note

The name of the account in the top never appears in the particulars column. In the particulars column the account entered is the other account in the journal entry.



### Student activity

**Think:** What will happen if an account debited or credited is left out while posting from journal to ledger?

## Illustration 1

Pass journal entries for the following transactions and post them in the ledger accounts.

2017

- June 1 Basu started business with cash ` 50,000  
 4 Purchased furniture by paying cash for ` 6,000  
 7 Purchased machinery on credit from Harish ` 10,000  
 10 Bought goods for cash ` 4,000  
 18 Paid insurance premium ` 100

### Solution

#### In the books of Basu Journal entries

Date	Particulars	L.F.	Debit `	Credit `
2017 June 1	Cash A/c To Basu's capital A/c (Started business with cash)	Dr.	50,000	50,000
June 4	Furniture A/c To Cash A/c (Furniture bought for cash)	Dr.	6,000	6,000
June 7	Machinery A/c To Harish A/c (Machinery bought on credit from Harish)	Dr.	10,000	10,000
June 10	Purchases A/c To Cash A/c (Goods bought for cash)	Dr.	4,000	4,000
June 18	Insurance premium A/c To Cash A/c (Insurance premium paid)	Dr.	100	100

### Ledger accounts

Dr.	Cash account				Cr.		
Date	Particulars	J.F.	`	Date	Particulars	J.F.	`
2017 June 1	To Basu's capital A/c		50,000	2017 June 4 10 18	By Furniture A/c By Purchases A/c By Insurance premium A/c		6,000 4,000 100

**Dr.** **Basu's Capital account** **Cr.**

Date	Particulars	J.F.		Date	Particulars	J.F.	
				2017 June 1	By Cash A/c		50,000

**Dr.** **Furniture account** **Cr.**

Date	Particulars	J.F.		Date	Particulars	J.F.	
2017 June 4	To Cash A/c		6,000				

**Dr.** **Machinery account** **Cr.**

Date	Particulars	J.F.		Date	Particulars	J.F.	
2017 June 7	To Harish A/c		10,000				

**Dr.** **Harish account** **Cr.**

Date	Particulars	J.F.		Date	Particulars	J.F.	
				2017 June 7	By Machinery A/c		10,000

**Dr.** **Purchases account** **Cr.**

Date	Particulars	J.F.		Date	Particulars	J.F.	
2017 June 10	To Cash A/c		4,000				

**Dr.** **Insurance premium account** **Cr.**

Date	Particulars	J.F.		Date	Particulars	J.F.	
2017 June 18	To Cash A/c		100				

#### 4.5.1 Posting of opening journal entry

In case of existing business enterprises, opening entry is made at the beginning of the accounting period to bring into account the balances of accounts which were not closed in the preceding accounting period. The accounts not closed are capital, liabilities and assets appearing in the balance sheet of the previous year. The entry passed is as follows:

Assets A/c (individually) Dr. xxx

To Liabilities A/c (individually) xxx

To Capital A/c xxx

While posting the opening entry in the individual ledgers, the term balance brought down (balance b/d) is used. The steps involved in posting the opening entry are as follows:

**Step 1:** The items debited in the opening entry are entered on the debit side of respective accounts.

The words 'To Balance b/d' are written in the particulars column with respective amounts in the amount column, date being the first day of the accounting period.

**Step 2:** The items credited in the opening entry are entered on the credit side of respective accounts. The words 'By Balance b/d' are written in the particulars column with respective amounts in the amount column, date being the first day of the accounting period.

### Illustration 2

Prepare necessary ledger accounts in the books of Joy from the following opening entry:

#### In the books of Joy

#### Journal entries

Date	Particulars	L.F.	Debit `	Credit `
2017				
Jan 1	Cash A/c	Dr.	45,000	
	Stock A/c	Dr.	50,000	
	Sohan A/c	Dr.	35,000	
	Furniture A/c	Dr.	50,000	
	To Ram A/c			20,000
	To Joy's capital A/c			1,60,000
	(Balances of assets and liabilities brought forward)			

#### Solution

#### Ledger accounts

Dr.	Cash account				Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	
2017							
Jan 1	To Balance b/d		45,000				

Dr.	Stock account				Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	
2017							
Jan 1	To Balance b/d		50,000				

Dr.	Sohan account				Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	
2017							
Jan 1	To Balance b/d		35,000				

Dr.	Furniture account				Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	
2017							
Jan 1	To Balance b/d		50,000				

Dr.	Ram account				Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	
				2017 Jan 1	By Balance b/d		20,000

Dr.	Joy's capital account				Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	
				2017 Jan 1	By Balance b/d		1,60,000

#### **4.5.2 Posting of compound journal entry**

When a journal entry has more than one debit or more than one credit or both, it is called a compound entry. For items debited in the compound entry, entries are made on the debit side in the respective accounts with the respective amount debited. For items credited in the compound entry, entries are made on the credit side in the respective accounts with the respective amount credited. Posting of such entries to ledger accounts is explained in illustrations 3 and 4.

### **Illustration 3**

Journalise the following transactions and post them to ledger. On May 20, 2018, Ram paid salaries ` 15,000; Electricity charges ` 8,000 and wages ` 2,000.

## Solution

## In the books of Ram

## Journal entries

Date	Particulars	L.F.	Debit `	Credit `
2018				
May 20	Salaries A/c	Dr.	15,000	
	Electricity charges A/c	Dr.	8,000	
	Wages A/c	Dr.	2,000	
	To Cash A/c			25,000
	(Expenses paid)			

## Ledger accounts

Dr.	Salaries account				Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	
2018							
May 20	To Cash A/c		15,000				

Dr.	Electricity charges account				Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	
2018							
May 20	To Cash A/c		8,000				

Dr.	Wages account				Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	
2018							
May 20	To Cash A/c		2,000				

Dr.	Cash account				Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	
				2018 May 20	By Salaries A/c By Electricity charges A/c By Wages A/c	15,000 8,000 2,000	

## Illustration 4

On 15th March, 2017, Ramesh paid ` 13,800 in full settlement of his account ` 15,000 due to his creditor Dinesh. Pass journal entry and prepare ledger accounts.

## Solution

## In the books of Ramesh

## Journal entry

Date	Particulars	L.F.	Debit	Credit
2017				
March 15	Dinesh A/c	Dr.	15,000	
	To Cash A/c			13,800
	To Discount received A/c			1,200
	(Paid Dinesh in full settlement of his account)			

## Ledger accounts

Dr.	Dinesh account				Cr.		
Date	Particulars	J.F.	‘`	Date	Particulars	J.F.	‘`
2017 March 15	To Cash A/c  To Discount received A/c		13,800  1,200				

Dr.	Cash account			Cr.			
Date	Particulars	J.F.		Date	Particulars	J.F.	
				2017 March 15	By Dinesh A/c		13,800

Dr.	Discount received account				Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	
				2017 March 15	By Dinesh A/c		1,200



## **Student activity**

**Think:** What will happen to the ledger account postings? Do you think that it will continue for an indefinite period of time? Where will the accounting process stop?

## 4.6 Balancing of ledger accounts

After posting the transactions, the business person is interested to know the position of various accounts. For this purpose, the accounts are balanced at the end of the accounting period or after a certain period to ascertain the net balance in each account. Balancing means that the debit side and credit side amounts are totalled and the difference between the total of the two sides is placed in the amount column as 'Balance c/d' on the side having lesser total, so that the total of both debit and credit columns are equal.

When the total of the debit side is more than the total of credit side the difference is debit balance and is placed on the credit side as 'By Balance c/d'. If the credit side total is more than the total of debit side, the difference is credit balance and is placed on the debit side as 'To Balance c/d'.

#### **4.6.1 Procedure for balancing an account**

Following is the procedure for balancing an account:

- i) The debit and credit columns of an account are to be totalled separately.
- ii) The difference between the two totals is to be ascertained.
- iii) The difference is to be placed in the amount column of the side having lesser total. 'Balance c/d' is to be entered in the particulars column against the difference and in the date column the last day of the accounting period is entered.
- iv) Now both the debit and credit columns are to be totalled and the totals will be equal. The totals of both sides are to be recorded in the same line horizontally. The total is to be distinguished from other figures by drawing lines above and below the amount.
- v) The difference has to be brought down to the opposite side below the total. 'Balance b/d' is to be entered in the particulars column against the difference brought down and in the date column, the first day of the next accounting period is entered.
- vi) If the total on the debit side of an account is higher, the balancing figure is debit balance and if the credit side of an account has higher total, the balancing figure is credit balance. If the two sides are equal, that account will show nil balance.

The rules for determining the balance is as follows:

Total of debit > Total of credit = Debit balance (By balance c/d and To balance b/d)
Total of credit > Total of debit = Credit balance (To balance c/d and By balance b/d)
Total of debit = Total of credit = Nil balance

It may be noted that totalling of a ledger account is known as casting. At the time of balancing an account, debit balance is the balancing figure on the credit side and credit balance is the balancing figure on the debit side. This balance is known as closing balance. The closing balance of an accounting period is the opening balance of the next accounting period.

#### **Tutorial note**

- i. Cash account cannot have a credit balance
- ii. Balances in real accounts and personal accounts are carried forward to the next accounting year.
- iii. Balances in the nominal accounts are not carried forward to next accounting year. They are closed by transferring to trading and profit and loss account.
- iv. Instead of the abbreviations c/d and b/d the abbreviations c/o and b/o (carried over and brought over) may be recorded if the balance is taken to the next successive page. If the balance is taken to a different non-successive page the abbreviation c/f and b/f (carried forward and brought forward) may be used.

### Illustration 5

Thmizhanban started book selling business on 1<sup>st</sup> January, 2018. Following are the transactions took place in his business for the month of January, 2018. Pass journal entries and prepare ledger accounts.

2018

- Jan. 1 Started business with cash ` 3,00,000  
 2 Opened bank account by depositing ` 2,00,000  
 5 Goods bought from Tamilnadu Textbook Corporation for cash ` 10,000  
 15 Sold goods to MM Traders for cash ` 5,000  
 22 Purchased goods from X and Co. for ` 15,000 and the payment is made through net banking.  
 25 Sold goods to Y and Co. for ` 30,000 and the payment is received through NEFT

### Solution

#### In the books of Thamizhanban Journal entries

Date	Particulars	L.F.	Debit	Credit
2018 Jan. 1	Cash A/c To Thamizhanban's capital A/c (Started business with cash)	Dr.	3,00,000	3,00,000
2	Bank A/c To Cash A/c (Cash deposited with the bank)	Dr.	2,00,000	2,00,000
5	Purchases A/c To Cash A/c (Goods purchased for cash)	Dr.	10,000	10,000
15	Cash A/c To Sales A/c (Goods sold for cash)	Dr.	5,000	5,000
22	Purchases A/c To Bank A/c (Goods purchased and payment made through net banking)	Dr.	15,000	15,000
25	Bank A/c To Sales A/c (Goods sold and the payment is received through NEFT)	Dr.	30,000	30,000

**Dr.** **Cash account** **Cr.**

Date	Particulars	J.F.		Date	Particulars	J.F.	
2018 Jan. 1	To Thamizhanban's capital A/c		3,00,000	2018 Jan. 2	By Bank A/c		2,00,000
15	To Sales A/c		5,000	5	By Purchases A/c		10,000
				31	By Balance c/d		<b>95,000</b>
			3,05,000				
Feb. 1	To Balance b/d		95,000				3,05,000

**Dr.** **Thamizhanban's capital account** **Cr.**

Date	Particulars	J.F.		Date	Particulars	J.F.	
2018 Jan. 31	To Balance c/d		3,00,000	2018 Jan. 1	By Cash A/c		3,00,000
			3,00,000				3,00,000
				Feb. 1	By Balance b/d		3,00,000

**Dr.** **Bank account** **Cr.**

Date	Particulars	J.F.		Date	Particulars	J.F.	
2018 Jan. 2	To Cash A/c		2,00,000	2018 Jan. 22	By Purchases A/c		15,000
25	To Sales A/c		30,000	31	By Balance c/d		<b>2,15,000</b>
			2,30,000				
Feb. 1	To Balance b/d		2,15,000				2,30,000

**Dr.** **Purchases account** **Cr.**

Date	Particulars	J.F.		Date	Particulars	J.F.	
2018 Jan. 5	To Cash A/c		10,000	2018 Jan. 31	By Balance c/d		<b>25,000</b>
22	To Bank A/c		15,000				
			25,000				25,000
Feb. 1	To Balance b/d		25,000				

## Illustration 6

Bharathi is a sole trader dealing in oil products for the past five years. The books of accounts showed the following balances on 1<sup>st</sup> April, 2018: Cash in hand ` 25,000; Cash at bank ` 3,00,000. The following transactions took place for the month of April 2018.

April 1 Goods bought by giving cheque ` 30,000

- 5 Goods sold to Naveen and payment received through NEFT ` 40,000
  - 6 Goods sold to Xavier for cash ` 20,000
  - 9 Goods sold on credit to Abdul for ` 25,000
  - 18 Cash received from Abdul ` 10,000

Pass Journal entries for the above transactions and prepare ledger accounts.

## Solution

# In the books of Bharathi

## Journal entries

Date	Particulars	L.F.	Debit	Credit
2018 Apr. 1	Purchases A/c To Bank A/c (Goods purchased and payment made through cheque)	Dr.	30,000	30,000
5	Bank A/c To Sales A/c (Goods sold and payment received through NEFT )	Dr.	40,000	40,000
6	Cash A/c To Sales A/c (Goods sold for cash)	Dr.	20,000	20,000

9	Abdul A/c To Sales A/c ( Goods sold on credit to Abdul)	Dr.		25,000	25,000
18	Cash A/c To Abdul A/c (Cash received from Abdul)	Dr.		10,000	10,000

Cash account			
Dr.			Cr.
Date	Particulars	J.F.	
2018			
Apr. 1	To Balance b/d		25,000
6	To Sales A/c		20,000
18	To Abdul A/c		10,000
			55,000
May 1	To Balance b/d		55,000
			55,000

Dr.		Bank account			Cr.		
Date	Particulars	£ .		Date	Particulars	£ .	
2018				2018			
Apr. 1	To Balance b/d		£30,000	Apr. 1	By Purchases A/c		£0,000
5	To Sales A/c		40,000		By Balance c/d		£0
			£340,000				£340,000
May 1	To Balance b/d		£310,000				

Dr.		Purchases account				Cr.	
Date	Particulars	£ .		Date	Particulars	£ .	
2018				2018			
Apr. 1	To Bank A/c		£,000	Apr. 1	By Balance c/d		£,000
			£,000				£,000
May 1	To Balance b/d		£,000				

Sales account				Dr.	Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	
2018 Apr. 30	To Balance c/d		85,000	2018 Apr. 5 6 9	By Bank A/c By Cash A/c By Abdul A/c		40,000 20,000 25,000
			85,000				85,000
				May. 1	By Balance b/d		85,000

Dr.	<b>Abdul account</b>	Cr.
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Date	Particulars	J.F.		Date	Particulars	J.F.	
2018 Apr. 9	To Sales A/c		25,000	2018 Apr. 18 9	By Cash A/c		10,000
			25,000		By Balance c/d		15,000
May 1	To Balance b/d		15,000				25,000

#### 4.6.2 Direct ledger posting

##### Illustration 7

Prepare cash account from the following transactions for the month of January 2018.

- Jan 1 Commenced business with cash ` 62,000  
 3 Goods purchased for cash ` 12,000  
 10 Goods sold for cash ` 10,000  
 12 Wages paid ` 4,000  
 25 Furniture purchased for cash ` 6,000

##### Solution

Dr.		Cash account			Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	
2018 Jan 1 10	To Capital A/c To Sales A/c		62,000 10,000	2018 Jan 3 12 25 31	By Purchases A/c By Wages A/c By Furniture A/c By Balance c/d		12,000 4,000 6,000 <b>50,000</b>
			72,000				72,000
Feb 1	To Balance b/d		50,000				

##### Illustration 8

The following are the transactions of Kumaran, dealing in stationery items. Prepare ledger accounts.

2017

- June 5 Started business with cash ` 2,00,000  
 8 Opened bank account by depositing ` 80,000  
 12 Bought goods on credit from Sri Ram for ` 30,000  
 15 Sold goods on credit to Selva for ` 10,000  
 22 Goods sold for cash ` 15,000  
 25 Paid Sri Ram ` 30,000 through NEFT  
 28 Received a cheque from Selva and deposited the same in bank ` 10,000

### Solution

Ledger accounts.

Dr.	Cash account				Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	Amount
2017 June 5	To Kumaran's capital A/c		2,00,000	2017 June 8	By Bank A/c		80,000
22	To Sales A/c		15,000	25	By Balance c/d		<b>1,35,000</b>
			2,15,000				
July 1	To Balance b/d		1,35,000				2,15,000

Dr.	Kumaran's capital account				Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	
2017 June 30	To Balance c/d		2,00,000	2017 June 5	By Cash A/c		2,00,000
			2,00,000				2,00,000
				July 1	By Balance b/d		2,00,000

Dr.	Bank account				Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	
2017 June 8 28	To Cash A/c To Selva A/c		80,000 10,000 90,000	2017 June 25 30	By Sri Ram A/c By Balance c/d		30,000 <b>60,000</b> 90,000
July 1	To Balance b/d		60,000				

Dr.	Purchases account				Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	
2017 June 12	To Sri Ram A/c		30,000	2017 June 30	By Balance c/d		<b>30,000</b>
			30,000				30,000
July 1	To Balance b/d		30,000				

Dr.	Sri Ram account				Cr.		
Date	Particulars	J.F.		Date	Particulars	J.F.	
2017 June 25	To Bank A/c		30,000	2017 June 12	By Purchases A/c		30,000
			30,000				30,000

**Dr.** **Selva account** **Cr.**

Date	Particulars	J.F.		Date	Particulars	J.F.	
2017 June 15	To Sales A/c		10,000	2017 June 28	By Bank A/c		10,000
			10,000				10,000

**Dr.** **Sales account** **Cr.**

Date	Particulars	J.F.		Date	Particulars	J.F.	
2017 June 30	To Balance c/d		25,000	2017 June 15 22	By Selva A/c By Cash A/c		10,000 15,000
			25,000				25,000
				July 1	By Balance b/d		25,000

After posting the journal entries to ledger accounts and extracting the balance of ledger accounts, the trial balance is prepared. Trial balance is a statement which shows debit and credit balances of all accounts in the ledger. It helps to test the arithmetical accuracy of entries made in the journal and ledger.



The three accounting concepts – business entity, duality and money measurement - associated with double-entry book keeping are applied in ledger.

**Points to remember**

- Left side of the ledger account is Debit [ Dr.]
- Right side of the ledger account is Credit [Cr.]
- For each type of asset, liability, expense and income, separate ledger accounts are prepared.
- If the total on the debit side exceeds the total on the credit side, it results in debit balance.
- If the total on the credit side exceeds the total on the debit side, it results in credit balance.
- Closing balance of the current year in the ledger account is the opening balance of the next year.

## Self-examination questions

### I Multiple choice questions

**Choose the correct answer**



1. Main objective of preparing ledger account is to
  - (a) Ascertain the financial position
  - (b) Ascertain the profit or loss
  - (c) Ascertain the profit or loss and the financial position
  - (d) Know the balance of each ledger account
2. The process of transferring the debit and credit items from journal to ledger accounts is called
  - (a) Casting
  - (b) Posting
  - (c) Journalising
  - (d) Balancing
3. J.F means
  - (a) Ledger page number
  - (b) Journal page number
  - (c) Voucher number
  - (d) Order number
4. The process of finding the net amount from the totals of debit and credit columns in a ledger is known as
  - (a) Casting
  - (b) Posting
  - (c) Journalising
  - (d) Balancing
5. If the total of the debit side of an account exceeds the total of its credit side, it means
  - (a) Credit balance
  - (b) Debit balance
  - (c) Nil balance
  - (d) Debit and credit balance
6. The amount brought into the business by the proprietor should be credited to
  - (a) Cash account
  - (b) Drawings account
  - (c) Capital account
  - (d) Suspense account

### Answers

1 (d)	2 (b)	3 (b)	4 (d)	5 (b)	6 (c)
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### II Very short answer questions

1. What is a ledger?
2. What is meant by posting?
3. What is debit balance?
4. What is credit balance?
5. What is balancing of an account?

### III Short answer questions

1. Distinguish between journal and ledger.
2. What is ledger? Explain its utilities.
3. How is posting made from the journal to the ledger?
4. Explain the procedure for balancing a ledger account.

#### IV Exercises

1. Journalise the following transactions and post them to ledger.

2016

Jan 1 Started business with cash	10,000
5 Paid into bank	5,000
7 Purchased goods from Ram for cash	1,000

**Answer:**

Cash A/c	` 4,000 Dr.	Bank A/c	` 5,000 Dr.
Capital A/c	` 10,000 Cr.	Purchases A/c	` 1,000 Dr.

2. Give journal entries for the following transactions and post them to ledger.

2015

Mar 1 Goods sold to Somu on credit	5,000
7 Furniture purchased for cash	300
15 Interest received	1,800

**Answer:**

Somu A/c	` 5,000 Dr.	Furniture A/c	` 300 Dr.
Cash A/c	` 1,500 Dr.	Sales A/c	` 5,000 Cr.
Interest received A/c	` 1,800 Cr.		

3. Pass journal entries for the following transactions and post them to ledger.

2017

Aug. 1 Dharma started business with cash	70,000
6 Cash received from Ganesan	10,000
10 Rent paid	3000
20 Received commission from Anand	5000

**Answer:**

Cash A/c	` 82,000 Dr.	Capital A/c	` 70,000 Cr.
Ganesan A/c	` 10,000 Cr.	Rent A/c	` 3,000 Dr.
Commission received A/c	` 5,000 Cr.		

4. Record the following transactions in the journal of Banu and post them to the ledger.

2018

Sep 1 Commenced business with cash	90,000
5 Rent received	4,000
12 Purchased 6 tables from Gobu& Co. for cash	6,000

**Answer:**

Cash A/c	` 88,000 Dr.	Capital A/c	` 90,000 Cr.
Rent received A/c	` 4,000 Cr.	Furniture A/c	` 6,000 Dr.

5. The following balances appeared in the books of Vinoth on Jan 1, 2018  
**Assets:** Cash ` 40,000; Stock ` 50,000; Amount due from Ram ` 20,000;  
Machinery ` 40,000    **Liabilities:** Amount due to Vijay ` 10,000  
Pass the opening journal entry and post them to Vinoth's Capital account.

**Answer:**

Vinoth's Capital A/c	` 1,40,000 Cr.
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6. Prepare Furniture A/c from the following transactions

2016

Jan 1	Furniture in hand	2,000
1	Purchased furniture for cash	4,000
30	Sold furniture	400

**Answer:**

Furniture A/c	` 5,600 Dr.
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7. The following balances appeared in the books of Kumaran on April 1, 2017.

**Assets:** Cash ` 1,00,000; Stock ` 40,000; Amount due from Rohit ` 10,000;  
Furniture ` 10,000; **Liabilities:** Amount due to Anush ` 40,000;  
Kumaran's capital ` 1,20,000

Find the capital and show the ledger posting for the above opening balances.

**Answer:**

Cash A/c	` 1,00,000 Dr.	Stock A/c	` 40,000 Dr.
Rohit A/c	` 10,000 Dr.	Furniture A/c	` 10,000 Dr.
Anush A/c	` 40,000 Cr.	Kumaran's capital	` 1,20,000 Cr.

8. Give journal entries and post them to cash account.

2016

June 1	Commenced business with cash	1,10,000
10	Introduced additional capital	50,000
28	Withdrawn for personal use	20,000

**Answer:**

Cash A/c	` 1,40,000 Dr.
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9. Give journal entries from the following transactions of Mohit, dealing in Textiles and post them to ledger:

2014

Aug 1	Commenced business with cash	1,10,000
7	Opened bank account with SBI	50,000

3 Purchased furniture for cash 20,000

**Answer:**

Cash A/c	` 40,000	Dr.	Capital A/c	` 1,10,000	Cr.
SBI A/c	` 50,000	Dr.	Furniture A/c	` 20,000	Dr.

10. Give journal entries for the following transactions and post them to ledger.

2016

Sep 1	Commenced business with cash	80,000
7	Bought goods for cash from Roopan	10,000
10	Purchased goods from Hema on credit	42,000
22	Goods returned to Hema	2,000
23	Cash paid to Hema	10,000

**Answer:**

Purchases A/c	` 52,000	Dr.	Cash A/c	` 60,000	Dr.
Hema A/c	` 30,000	Cr.	Purchases return A/c	` 2,000	Cr.

11. Give Journal entries for the following transactions and post them to Cash a/c and Sales A/c.

2017

Aug 10	Sold goods and cheque received but not deposited	30,000
14	Sold goods on credit to Gopi	12,000
20	Received cash from Gopi	12,000

**Answer:**

Sales A/c	` 42,000	Cr.	Cash A/c	` 42,000	Dr.
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12. Journalise the transactions given below and post them to ledger.

2017

Oct 18	Paid trade expenses	1,000
25	Bought postage stamps	100
30	Commission received	6,000
30	Rent paid	4,000

**Answer:**

Trade expenses A/c	` 1,000	Dr.	Stationery A/c	` 100	Dr.
Commission received A/c	` 6,000	Cr.	Cash A/c	` 900	Dr.
Rent A/c	` 4,000	Dr.			

13. Journalise the following transactions and prepare ledger accounts.

2015

Feb 1	Sold goods for cash	5,000
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2	Purchased goods from Kumar on credit	4,000
5	Sold goods to Prabu on credit	8,000
12	Received cash from Prabu	1,200
20	Paid to Kumar	2,000
25	Paid salary	3,000

**Answer:**

Sales A/c	` 13,000 Cr.	Cash A/c	` 1,200 Dr.
Purchases A/c	` 4,000 Dr.	Kumar A/c	` 2,000 Cr.
Prabu A/c	` 6,800 Dr.	Salary A/c	` 3,000 Dr.

14. Enter the following transactions in the books of Ganesan and post them into ledger.

2017

Oct 1	Started business with cash	25,000
5	Deposited into bank	12,500
10	Purchased furniture and payment by cheque	2,000
15	Goods purchased for cash	5,000
19	Sold goods to Vasu on credit	4,000
22	Goods worth ` 500 taken for personal use	

**Answer:**

Cash A/c	` 7,500 Dr.	Capital A/c	` 25,000 Cr.
Bank A/c	` 10,500 Dr.	Furniture A/c	` 2,000 Dr.
Purchases A/c	` 4,500 Dr.	Sales A/c	` 4,000 Cr.
Vasu A/c	` 4,000 Dr.	Drawings A/c	` 500 Dr.

15. Journalise the following transactions in the books of Arun and post them to ledger accounts.

2017

Dec 1	Arun started his business with cash	10,000
3	Bought goods for cash	1,500
8	Sold goods to Krishna on credit	4,000
14	Purchased goods from Govind on credit	2,000
25	Received cash from Krishna	3,000
28	Cash paid to Govind	1,000

**Answer:**

Cash A/c	` 10,500 Dr.	Capital A/c	` 10,000 Cr.
Krishna A/c	` 1,000 Dr.	Sales A/c	` 4,000 Cr.
Purchases A/c	` 3,500 Dr.	Govind A/c	` 1,000 Cr.

16. Journalise the following transactions and post them to ledger in the books of Raja.

2018

Mar 1	Sold goods to Senthil for cash	9,000
5	Sold goods to Murali on credit	4,500
9	Cash sales	6,000
18	Bought goods from Mani on credit	3,200
23	Received ` 4,000 from Murali in full settlement of his account	

**Answer:**

Cash A/c	` 19,000	Dr.	Purchases A/c	` 3,200	Dr.
Mani A/c	` 3,200	Cr.	Sales A/c	` 19,500	Cr.
Discount allowed A/c	` 500	Dr.			

17. Journalise the following transactions and post them to the ledger.

2017

July 1	Cash in hand	50,000
5	Goods purchased by cash	30,000
7	Insurance paid	2,500
10	Machinery purchased for cash	9,000
15	Interest received	2,000
18	Goods sold for cash	7,000

**Answer:**

Purchases A/c	` 30,000	Dr.	Cash A/c	` 17,500	Dr.
Insurance A/c	` 2,500	Dr.	Machinery A/c	` 9,000	Dr.
Interest received A/c	` 2,000	Cr.	Sales A/c	` 7,000	Cr.

18. Journalise the following transactions in the books of Vasu and post them to ledger accounts.

2017

Nov 1	Cash in hand ` 1,00,000; Cash at bank: ` 30,000
2	Vasu sold goods to Jothi for ` 25,000 against a cheque and deposited the same in the bank
4	Received as commission ` 5,000
8	Bank paid ` 15,000 directly for insurance premium of Vasu.
15	Cash deposited into bank ` 30,000
20	Cash withdrawn from bank for personal use ` 45,000.

**Answer:**

Bank A/c	` 25,000	Dr.	Commission received A/c	` 5,000	Cr.
Insurance premium A/c	` 15,000	Dr.	Cash A/c	` 75,000	Dr.
Drawings A/c	` 45,000	Dr.	Sales A/c	` 25,000	Cr.

19. Prepare Anand's account from the following details.

2017

July 1	Credit balance of Anand's A/c	4,000
15	Amount paid to Anand	2,000
18	Goods purchased from Anand on credit	8,000
20	Paid to Anand	3,960
	Discount allowed by him	40
25	Goods purchased from Anand	5,000

**Answer:**

Anand A/c	11,000 Cr.
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20. Prepare a Sales account from the following transactions.

2018

Jan 1	Sold goods to Sam	4,000
4	Sold goods to Suresh	2,500
11	Sold goods to Joy	8,000
17	Sold goods to Rajan	3,000

**Answer:**

Sales A/c	17,500 Cr.
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21. Show the direct ledger postings for the following transactions:

2017

June 1	Raja commenced business with cash ` 50,000,
6	Sold goods for cash ` 8,000
8	Sold goods to Devi on credit ` 9,000
15	Goods purchased for cash ` 4,000
20	Goods purchased from Shanthi on credit ` 5,000

**Answer:**

Cash A/c	54,000 Dr.	Capital A/c	50,000 Cr.
Sales A/c	17,000 Cr.	Devi A/c	9,000 Dr.
Purchases A/c	9,000 Dr.	Shanthi A/c	5,000 Cr.

22. Show the direct ledger postings for the following transactions:

2017

July 1	Shankar commenced business with a cash of ` 1,00,000
5	Sold goods for cash ` 10,000
9	Wages paid ` 6,000
19	Salaries paid ` 8,000
20	Advertisement expenses paid ` 4,000

**Answer:**

Cash A/c	` 92,000	Dr.	Capital A/c	` 1,00,000	Cr.
Sales A/c	` 10,000	Cr.	Wages A/c	` 6,000	Dr.
Salaries A/c	` 8,000	Dr.	Advertisement A/c	` 4,000	Dr.



Imagine you have been called for an interview with an auditor. The auditor shows you the following ledger account of Mr. Raheem, a dealer in food products.

Dr.	Sita A/c			Cr.			
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017				2017			
April 1	To Balance b/d		7,000	April 12	By Bank A/c		5,000
Sept. 25	To Sales A/c		10,000	May 2	By Cash A/c		2,000
Dec. 29	To Sales A/c		10,000	Oct. 3	By Sales returns A/c		1,000
				Nov. 17	By Cash A/c		3,000
				Dec. 21	By Bank A/c		4,000
				2018			
				Mar. 31	By Balance c/d		12,000
			27,000				27,000
2018							
Apr 1	To Balance b/d		12,000				

The auditor wants you to explain each posting in the above account and also to state where will the double entry for each posting be found.

**To explore further**

‘Accounts of debtors will always have debit balance’. - Do you agree?

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# Unit 5

## TRIAL BALANCE



### Contents

- 5.1 Introduction to trial balance
- 5.2 Need for preparing trial balance
- 5.3 Definition of trial balance
- 5.4 Features of trial balance
- 5.5 Objectives of preparing trial balance
- 5.6 Limitations of trial balance
- 5.7 Methods of preparing trial balance
- 5.8 Suspense account



### Points to recall

The following points are to be recalled before learning trial balance:

- Rules of double entry
- Balancing ledger accounts
- Dual aspect concept



### Learning Objectives

To enable the students to

- Understand the meaning and features of trial balance
- Understand the objectives of preparing trial balance
- Prepare the trial balance

### Key terms to know

- Trial balance
- Debit balance
- Credit balance
- Arithmetical accuracy

## 5.1 Introduction to trial balance



### Student activity

**Think:** Do you think that the ledger account postings are error free? If not, how do you make sure that the entries are correct?

Trial balance is a statement containing the debit and credit balances of all ledger accounts on a particular date. It is arranged in the form of debit and credit columns placed side by side and prepared with the object of checking the arithmetical accuracy of entries made in the books of accounts and to facilitate preparation of financial statements.

The fundamental principle of the double-entry system of book-keeping is that every debit has a corresponding and equal credit and vice-versa. Therefore, the total of the debit balances must be equal to the total of the credit balances. When such an agreement between the total of all debit balances and the total of all credit balances takes place, it offers an immediate and apparent proof of arithmetical accuracy of the book-keeping work on a particular day. At the same time, it should not be taken as the conclusive proof of arithmetical accuracy as certain errors such as error of principle, compensating errors and complete omission of a transaction are not disclosed by the trial balance.

Though the trial balance can be prepared on any day (at the end of the month, quarter, etc.), it is normally prepared at the end of the accounting period.

The preparation of trial balance is the third step in the accounting process. The first step is recording the business transactions in subsidiary books or journal. The second step is preparing ledger accounts on the basis of subsidiary books or journal.



## 5.2 Need for preparing trial balance

Trial balance helps to check the arithmetical accuracy of entries made in the accounting records. Trial balance serves as a lubricant for the smooth movement and completion of the accounting cycle, because, it is with the help of the trial balance that discrepancies in the book keeping work are detected. If these discrepancies are not detected and set right, the cycle cannot be completed properly. The trial balance helps in discovering errors which may have been committed in the accounting records. However, in computerised accounting system, once the transactions are recorded in the journals, all the



other records are made simultaneously, i.e., ledger postings, trial balance and final accounts. Hence, arithmetic errors and errors in posting the entries from journal to ledger and further will not occur in computerised accounting.

### **5.3 Definition of trial balance**

“A trial balance is a statement, prepared with the debit and credit balances of the ledger accounts to test the arithmetical accuracy of the books”.

– *J.R. Batliboi*

### **5.4 Features of trial balance**

Following are the features of trial balance:

- a) Trial balance contains the balances of all ledger accounts.
- b) It is prepared on a specific date. That is why, the word, “as on...” is used at the top.
- c) When double entry system is followed, the totals of the debit and the credit columns of the trial balance must be equal. Thus, trial balance helps to check the arithmetical accuracy of entries made in the books of accounts.
- d) If there is a difference between the totals of debit column and credit column of the trial balance, it is an indication of errors being committed somewhere.
- e) If both the debit column and the credit column of the trial balance have the same total, it does not mean that there is no mistake in accounting, since some errors are not disclosed by the trial balance.

### **5.5 Objectives of preparing trial balance**

Trial balance is prepared with the following objectives:

#### **i) Test of arithmetical accuracy**

Trial balance is the means by which the arithmetical accuracy of the book-keeping work is checked. When the totals of debit column and credit column in the trial balance are equal, it is assumed that posting from subsidiary books, balancing of ledger accounts, etc. are arithmetically correct. However, there may be some errors which are not disclosed by trial balance.

#### **ii) Basis for preparing final accounts**

Financial statements, namely, trading and profit and loss account and balance sheet are prepared on the basis of summary of ledger balances obtained from the trial balance.

#### **iii) Location of errors**

When the trial balance does not tally, it is an indication that certain errors have occurred. The errors may have occurred at one or more of the stages of accounting process, namely, journalising or recording in subsidiary books, totalling subsidiary books, posting in ledger

accounts, balancing the ledger accounts, carrying ledger account balances to the trial balance, totalling the trial balance columns, etc. Hence, the errors should be located and rectified before preparing the financial statements.

#### **iv) Summarised information of ledger accounts**

The summary of ledger accounts is shown in the trial balance. Ledger accounts have to be seen only when details are required in respect of an account.

### **5.6 Limitations of trial balance**

The following are the limitations of trial balance:

- a) It is possible to prepare trial balance of an organisation, only if the double entry system is followed.
- b) Even if some transactions are omitted, the trial balance will tally.
- c) Trial balance may tally even though errors are committed in the books of account.
- d) If trial balance is not prepared in a systematic way, the final accounts prepared on the basis of trial balance may not depict the actual state of affairs of the concern.
- e) Agreement of trial balance is not a conclusive proof of arithmetical accuracy of entries made in the accounting records. This is because there are certain errors which are not disclosed by trial balance such as complete omission of a transaction, compensating errors and error of principle.

### **5.7 Methods of preparing trial balance**

A trial balance can be prepared in the following methods:

#### **i) Balance method**

In this method, the balance of every ledger account either debit or credit, as the case may be, is recorded in the trial balance against the respective accounts. The balance method is widely used, as it helps in the preparation of financial statements.

#### **ii) Total method**

Under this method, the total amounts on the debit side of the ledger accounts and the total amounts on the credit side of the ledger accounts are ascertained and recorded in the trial balance. This method is not commonly used as it cannot help in the preparation of financial statements.

#### **iii) Total and Balance method**

This method is a combination of both total method and balance method. Under this method, four columns are provided, namely, a) totals of debit side of the ledger accounts, b) totals of the credit side of the ledger accounts c) debit balances of ledger accounts and d) credit balances of the ledger accounts. This method is not in practice.

### 5.7.1 Balance method

Following are the steps to be followed to prepare trial balance under this method:

**Step 1:** Calculate the balances of all ledger accounts including the cash book.

**Step 2:** Record the names of the accounts in the particulars column and the amounts of debit balances in the debit column and credit balances in the credit column.

**Step 3:** Enter the page number of ledger from which the balance is taken in the Ledger Folio column.

**Step 4:** Total the debit and credit columns. It must be equal. If not equal, locate the errors and make the trial balance agree.

Trial balance is prepared in the following format under the balance method:

#### **Trial balance as on ...**

S. No.	Name of account / Particulars	L.F.	Debit balance `	Credit balance `

### Specimen of a trial balance

#### **Trial balance of Mr. X as on ...**

S.No.	Particulars	L.F.	Debit `	Credit `
1	Cash in hand		xxx	
2	Cash at bank		xxx	
3	Bills receivable		xxx	
4	Sundry debtors		xxx	
5	Opening stock		xxx	
6	Plant and Machinery		xxx	
7	Land and Building (Premises)		xxx	
8	Furniture and Fixtures		xxx	
9	Vehicles		xxx	
10	Goodwill		xxx	
11	Investment		xxx	
12	Drawings		xxx	
13	Purchases		xxx	
14	Sales returns		xxx	
15	Carriage inwards		xxx	
16	Carriage outwards		xxx	
17	Rent paid		xxx	
18	Commission paid		xxx	
19	Interest paid		xxx	
20	Bad debts		xxx	

21	Insurance premium		xxx	
22	General expenses		xxx	
23	Sundry expenses		xxx	
24	Electricity charges		xxx	
25	Selling expenses		xxx	
26	Travelling expenses		xxx	
27	Wages		xxx	
28	Sales			xxx
29	Purchases returns			xxx
30	Capital			xxx
31	Bank loan			xxx
32	Sundry creditors			xxx
33	Bills payable			xxx
34	Bank overdraft			xxx
35	Rent received			xxx
36	Interest received			xxx
37	Provision for bad debts			xxx
	<b>Total</b>		<b>xxx</b>	<b>xxx</b>

### Tutorial note

- If the value of closing stock is known on the day when trial balance is prepared, then opening stock and closing stock are adjusted with purchases. Hence, opening stock will not appear in the trial balance. Closing stock and adjusted purchases will appear in the trial balance. If the value of closing stock is not known then opening stock and purchases will appear in the trial balance. Thus, either opening stock and purchases or closing stock and adjusted purchases will appear in the trial balance.
- Under balance method, if an account does not have a balance, it is excluded.

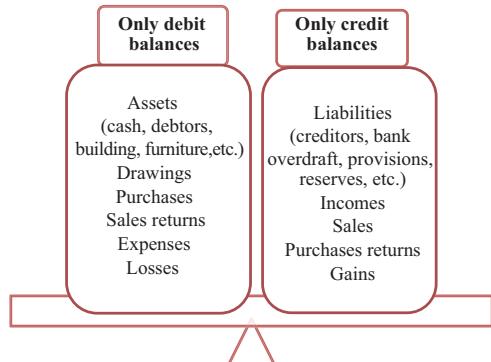


### Student activity

**Think:** Analyse the above format. Can you identify accounts that have only debit balances/credit balances always?

### Tutorial note

There are certain accounts which have only debit balances. Similarly, certain accounts have only credit balances. The following chart gives examples of such accounts:



For example, the following transactions took place in the business of Rathna Kumar, who deals in textiles.

2017

January

1	Commenced business with capital	5,00,000
5	Bought furniture for cash	6,000
10	Purchased goods for cash	10,000
15	Bought goods on credit from Jeyanthi	25,000
18	Returned goods to Jeyanthi	2,500
20	Sold goods for cash	32,000
25	Sold goods to Elizabeth on credit	72,000
30	Paid salaries to Krishnan by cash	7,000
31	Received commission from Kumar by cash	2,800
31	Received cash from Elizabeth	22,000

The journal entries, ledger postings and trial balance for the transactions will appear as below in the books of Rathna Kumar.

### In the books of Rathna Kumar

#### Journal entries

Date	Particulars	L.F.	Debit`	Credit`
2017 Jan 1	Cash A/c To Rathna Kumar's capital A/c (Business commenced with capital)	Dr.	5,00,000	5,00,000
Jan 5	Furniture A/c To Cash A/c (Furniture purchased for cash)	Dr.	6,000	6,000
Jan 10	Purchases A/c To Cash A/c (Goods purchased for cash)	Dr.	10,000	10,000
Jan 15	Purchases A/c To Jeyanthi A/c (Credit purchases from Jeyanthi)	Dr.	25,000	25,000
Jan 18	Jeyanthi A/c To Purchases returns a/c (Goods returned to Jeyanthi)	Dr.	2,500	2,500
Jan 20	Cash A/c To Sales A/c (Goods are sold for cash)	Dr.	32,000	32,000
Jan 25	Elizabeth A/c To Sales A/c (Goods sold on credit)	Dr.	72,000	72,000

Jan 30	Salaries A/c To Cash A/c (Salary paid by cash)	Dr.		7,000	7,000
Jan 31	Cash A/c To Commission A/c (Commission received by cash)	Dr.		2,800	2,800
Jan 31	Cash A/c To Elizabeth A/c (Cash received from Elizabeth)	Dr.		22,000	22,000

### Ledger

**Dr.    Cash Account                                  Cr.**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017				2017			
Jan 1	To Rathnakumar's capital A/c		5,00,000	Jan 5	By Furniture A/c		6,000
Jan 20	To Sales A/c		32,000	Jan 10	By Purchases A/c		10,000
Jan 31	To Commission A/c		2,800	Jan 30	By Salaries A/c		7,000
Jan 31	To Elizabeth A/c		22,000	Jan 31	By Balance c/d		5,33,800
			5,56,800				5,56,800
Feb 1	To Balance b/d		5,33,800				

**Dr.    Rathna Kumar's Capital Account                                  Cr.**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017				2017			
Jan 31	To Balance c/d		5,00,000	Jan 1	By Cash A/c		5,00,000
			5,00,000				5,00,000
				Feb 1	By Balance b/d		5,00,000

**Dr.    Furniture Account    Cr.**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017				2017			
Jan 5	To Cash A/c		6,000	Jan 31	By Balance c/d		6,000
			6,000				6,000
Feb 1	To Balance b/d		6,000				

**Dr.** **Purchases Account** **Cr.**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017 Jan 10	To Cash A/c		10,000	2017 Jan 31	By Balance c/d		35,000
Jan 15	To Jayanthi A/c		25,000				35,000
			35,000				
Feb 1	To Balance b/d		35,000				

**Dr.** **Jeyanthi Account** **Cr.**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017 Jan 18	To Purchases returns A/c		2,500	2017 Jan 15	By Purchases A/c		25,000
Jan 31	To Balance c/d		22,500				25,000
			25,500				
				Feb 1	By Balance b/d		22,500

**Dr.** **Purchases returns Account** **Cr.**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017 Jan 31	To Balance c/d		2,500	2017 Jan 18	By Jeyanthi A/c		2,500
			2,500				2,500
				Feb 1	By Balance b/d		2,500

**Dr.** **Sales Account** **Cr.**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017 Jan 31	To Balance c/d		1,04,000	2017 Jan 20 Jan 25	By Cash A/c By Elizabeth A/c		32,000
			1,04,000				72,000
				Feb 1	By Balance b/d		1,04,000

Elizabeth Account			
Date	Particulars	J.F.	Amount
2017 Jan 25	To Sales A/c		72,000
			72,000
Feb 1	To Balance b/d		50,000
			50,000
			22,000
			50,000
			72,000

Salaries Account			
Dr.			Cr.
Date	Particulars	J.F.	Amount
2017			
Jan 30	To Cash A/c		7,000
			7,000
Feb 1	To Balance b/d		7,000
			7,000
			7,000

Commission Account							
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017 Jan 31	To Balance c/d		2,800	2017 Jan 31	By Cash A/c		2,800
			2,800				2,800
				Feb 1	By Balance b/d		2,800

## Trial balance under balance method

### **Trial balance as on 31<sup>st</sup> January, 2017**

S. No	Particulars	L.F.	Debit balance	Credit balance
1	Cash A/c		5,33,800	-
2	Rathnakumar's capital A/c		-	5,00,000
3	Furniture A/c		6,000	-
4	Purchases A/c		35,000	-
5	Jeyanthi A/c		-	22,500
6	Purchases returns A/c		-	2,500
7	Sales A/c		-	1,04,000
8	Elizabeth A/c		50,000	-
9	Salaries A/c		7,000	-
10	Commission A/c		-	2,800
<b>Total</b>			<b>6,31,800</b>	<b>6,31,800</b>

### 5.7.2 Total method

Steps to be followed to prepare trial balance under total method are given below:

**Step 1:** Calculate the totals of debit side and credit side of all the ledger accounts including cash book individually.

**Step 2:** Enter the name of the account in the particulars column and enter the debit total in the debit column and credit total in the credit column for each account separately.

**Step 3:** Enter the page number of ledger from which the balance is taken in the Ledger Folio column.

**Step 4:** Find the sum of the debit total and credit total columns. It must be equal. If not equal, locate the errors and make the trial balance agree.

For the above example, trial balance will be prepared under total method as follows:

**Trial balance as on 31<sup>st</sup> January, 2017 (total method)**

S. No	Particulars	L.F.	Debit total	Credit total
1	Cash A/c		5,56,800	23,000
2	Rathnakumar's capital A/c		-	5,00,000
3	Furniture A/c		6,000	-
4	Purchases A/c		35,000	-
5	Jeyanthi A/c		2,500	25,000
6	Purchases returns A/c		-	2,500
7	Sales A/c		-	1,04,000
8	Elizabeth A/c		72,000	22,000
9	Salaries A/c		7,000	-
10	Commission A/c		-	2,800
<b>Total</b>			<b>6,79,300</b>	<b>6,79,300</b>

### 5.7.3 Total and Balance method

Steps to be followed to prepare trial balance under total and balance method are given below:

**Step 1:** Calculate the totals of debit and credit columns of all ledger accounts and calculate the balances in each ledger account.

**Step 2:** Enter the name of the account in the particulars column and enter the debit total in the debit total column and credit total in the credit total column for each account separately. Also enter the debit balances in the debit balance column and credit balances in the credit balance column for each account.

**Step 3:** Enter the page number of ledger from which the balance is taken in the Ledger Folio column

**Step 4:** Total all the amount columns. Total of debit total column and total of credit total column must be equal. Also total of debit balance column and total of credit balance column must be equal. If not equal, locate the errors and make the trial balance agree.

For the above example, trial balance will be prepared under total and balance method as follows:

S.No.	Particulars	L.F.	Debit total	Credit total	Debit balance	Credit balance
1	Cash A/c		5,56,800	23,000	5,33,800	-
2	Rathnakumar's capital A/c		-	5,00,000	-	5,00,000
3	Furniture A/c		6,000	-	6,000	-
4	Purchases A/c		35,000	-	35,000	-
5	Jeyanthi A/c		2,500	25,000	-	22,500
6	Purchases returns A/c		-	2,500	-	2,500
7	Sales A/c		-	1,04,000	-	1,04,000
8	Elizabeth A/c		72,000	22,000	50,000	-
9	Salaries A/c		7,000	2,800	7,000	-
10	Commission A/c		-	-	-	2,800
<b>Total</b>			<b>6,79,300</b>	<b>6,79,300</b>	<b>6,31,800</b>	<b>6,31,800</b>

**Note:** Students will be tested on balance method only

## 5.8 Suspense account



### Student activity

**Think:** Do you think the trial balance tallies all the time? What should be done when it does not tally?

After transferring all the ledger account balances, if the trial balance does not tally, steps must be taken to locate and rectify errors. If the errors cannot be rectified, then trial balance is tallied by transferring the difference between the total of debit balances and the total of credit balances to a temporary account, called suspense account for timely preparation of the financial statements. If the trial balance shows lesser debit total, suspense account will be debited. Similarly, if the trial balance shows lesser credit total, suspense account will be credited. Later, when errors are located and rectified, the trial balance will get tallied.

### Illustration 1

State whether the balance of each of the following accounts should be placed in the debit or the credit column of the trial balance:

- 1) Sundry debtors      2) Sundry creditors      3) Cash in hand      4) Bank overdraft
- 5) Salary      6) Discount allowed      7) Plant and machinery      8) Furniture

### Solution

S.No.	Name of account	Debit balance	Credit balance
1	Sundry debtors	Debit	
2	Sundry creditors		Credit
3	Cash in hand	Debit	
4	Bank overdraft		Credit
5	Salary	Debit	
6	Discount allowed	Debit	
7	Plant and machinery	Debit	
8	Furniture	Debit	

### Illustration 2

From the following balances extracted from the books of Raju a trader on automobiles, prepare trial balance as on 31st March, 2017:

Particulars		Particulars	
Cash in hand	5,500	Direct expenses	5,000
Discount received	300	Carriage outwards	3,500
Creditors	15,000	Capital	45,000
Buildings	50,000	Purchases	49,700
Opening stock	6,000	Sales	59,400

### Solution

#### In the books of Raju Trial balance as on 31st March, 2017

S. No	Name of account	L.F.	Debit balance	Credit balance
1	Cash in hand		5,500	
2	Discount received			300
3	Creditors			15,000
4	Buildings		50,000	
5	Opening stock		6,000	
6	Direct expenses		5,000	
7	Carriage outwards		3,500	
8	Capital			45,000
9	Purchases		49,700	
10	Sales			59,400
	<b>Total</b>		<b>1,19,700</b>	<b>1,19,700</b>

### Illustration 3

From the following balances extracted from the books of Pearl, a trader, prepare trial balance as on 31st March, 2017.

Particulars		Particulars	
Capital	44,000	Interest on investment	2,000
Bills receivable	5,000	Customs duty	3,000
Wages	800	Computer	20,000
Drawings	4,000	Sales	72,000
Purchases	75,000	Opening stock	10,200

### Solution

**In the books of Pearl**  
**Trial balance as on 31st March, 2017**

S. No.	Name of account	L.F.	Debit balance	Credit balance
1	Capital			44,000
2	Bills receivable		5,000	
3	Wages		800	
4	Drawings		4,000	
5	Purchases		75,000	
6	Interest on investment			2,000
7	Customs duty		3,000	
8	Computer		20,000	
9	Sales			72,000
10	Opening stock		10,200	
<b>Total</b>			<b>1,18,000</b>	<b>1,18,000</b>

### Illustration 4

The following balances are extracted from the books of Murali, as on 31st March, 2017. Prepare trial balance.

Particulars		Particulars	
Sales	35,000	Audit fees	1,000
Interest paid	350	Octroi duty	8,000
Returns inward	2,500	Land	90,000
Depreciation	2,400	Capital	60,000
Office rent	2,000	Bank overdraft	11,250

## Solution

In the books of Murali

**Trial balance as on 31st March, 2017**

S. No.	Name of account	L.F.	Debit balance `	Credit balance `
1	Sales			35,000
2	Interest paid		350	
3	Returns inward		2,500	
4	Depreciation		2,400	
5	Office rent		2,000	
6	Audit fees		1,000	
7	Octroi duty		8,000	
8	Land		90,000	
9	Capital			60,000
10	Bank overdraft			11,250
	<b>Total</b>		<b>1,06,250</b>	<b>1,06,250</b>

## Illustration 5

From the following balances extracted from the books of Ashok, a merchant of Chennai, prepare trial balance as on 31st December, 2017.

Particulars		Particulars	
Buildings	20,000	Conveyance charges	3,500
Bills payable	3,000	Salary	5,600
Debtors	20,000	Capital	40,000
Cash at bank	16,800	Furniture	10,000
Insurance paid	1,600	Motor vehicles	5,000
Rent received	5,000	Patents	2,000
Donation given	2,500	Goodwill	3,000
Loan borrowed	42,000		

## Solution

In the books of Ashok

**Trial balance as on 31st December, 2017**

S. No.	Name of account	L.F.	Debit balance `	Credit balance `
1	Buildings		20,000	
2	Bills payable			3,000
3	Debtors		20,000	
4	Cash at bank		16,800	
5	Insurance paid		1,600	
6	Rent received			5,000
7	Donation given		2,500	
8	Loan borrowed			42,000
9	Conveyance charges		3,500	
10	Salary		5,600	
11	Capital			40,000
12	Furniture		10,000	
13	Motor vehicles		5,000	
14	Patents		2,000	
15	Goodwill		3,000	
	<b>Total</b>		<b>90,000</b>	<b>90,000</b>

## Illustration 6

Prepare trial balance as on 31st December, 2017 from the following balances of Balaraman.

Capital	2,20,000	Repairs	2,400
Drawings	24,000	Office lighting	2,600
Furniture	63,500	Printing and stationery	2,700
Stock at the beginning	62,050	Bank loan	7,500
Bills receivable	9,500	Computer	25,000
Bills payable	8,750	Debtors	46,500
Purchases	88,100	Cash in hand	15,000
Sales	1,35,450	Cash at bank	27,250
Discount allowed	7,100	General expenses	7,100
Discount received	3,500	Creditors	7,600

## Solution

**In the books of Balaraman**  
**Trial balance as on 31st December, 2017**

S. No.	Name of account	L.F.	Debit balance	Credit balance
1	Capital			2,20,000
2	Drawings		24,000	
3	Furniture		63,500	
4	Stock at the beginning		62,050	
5	Bills receivable		9,500	
6	Bills payable			8,750
7	Purchases		88,100	
8	Sales			1,35,450
9	Discount allowed		7,100	
10	Discount received			3,500
11	Repairs		2,400	
12	Office lighting		2,600	
13	Printing and stationery		2,700	
14	Bank loan			7,500
15	Computer		25,000	
16	Debtors		46,500	
17	Cash in hand		15,000	
18	Cash at bank		27,250	
19	General expenses		7,100	
20	Creditors			7,600
	<b>Total</b>		<b>3,82,800</b>	<b>3,82,800</b>

## Illustration 7

The following balances are extracted from the books of Prabhu, as on 31st March, 2017. Prepare trial balance and transfer the difference if any to suspense account.

Particulars		Particulars	
Discount allowed	250	Loan borrowed	7,000
Cash in hand	4,200	Lighting	12,000
Capital	50,000	Commission paid	3,000
Salaries	12,000	Purchases	29,050
Furniture	7,500	Sales	35,000

## Solution

### In the books of Prabhu

#### Trial balance as on 31st March, 2017

S. No.	Name of account	L.F.	Debit balance	Credit balance
1	Discount allowed		250	
2	Cash in hand		4,200	
3	Capital			50,000
4	Salaries		12,000	
5	Furniture		7,500	
6	Loan borrowed			7,000
7	Lighting		12,000	
8	Commission paid		3,000	
9	Purchases		29,050	
10	Sales			35,000
11	Suspense account*		24,000	
<b>Total</b>			<b>92,000</b>	<b>92,000</b>

\* **Note:** Since the credit balance is more than the debit balance, the difference is transferred to suspense account.

## Illustration 8

From the following balances extracted from the books of Chitra, prepare trial balance as on 31st March, 2017.

Particulars		Particulars	
Adjusted purchases	60,000	Advertisement	4,000
Rent paid	2,000	General expenses	700
Discount received	1,000	Commission paid	1,500
Carriage inward	2,700	Capital	40,000
Closing stock	18,600	Sales	48,500

## Solution

In the books of Chitra

**Trial balance as on 31st March, 2017**

S. No.	Name of account	L.F.	Debit balance `	Credit balance `
1	Adjusted purchases		60,000	
2	Rent paid		2,000	
3	Discount received			1,000
4	Carriage inward		2,700	
5	Closing stock		18,600	
6	Advertisement		4,000	
7	General expenses		700	
8	Commission paid		1,500	
9	Capital			40,000
10	Sales			48,500
	<b>Total</b>		<b>89,500</b>	<b>89,500</b>

## Illustration 9

The following trial balance has certain errors. Redraft it.

**Trial balance as on 31st March, 2017**

Name of account	Debit balance `	Credit balance `
Building	60,000	
Machinery	17,000	
Returns outward	2,600	
Bad debts	2,000	
Cash	400	
Discount received	3,000	
Bank overdraft	10,000	
Creditors	50,000	
Purchases	1,00,000	
Capital		72,800
Fixtures		5,600
Sales		1,04,000
Debtors		60,000
Interest received		2,600
<b>Total</b>	<b>2,45,000</b>	<b>2,45,000</b>

## Solution

### Redrafted Trial balance as on 31st March, 2017

Name of account	Debit balance `	Credit balance `
Building	60,000	
Machinery	17,000	
Returns outward		2,600
Bad debts	2,000	
Cash	400	
Discount received		3,000
Bank overdraft		10,000
Creditors		50,000
Purchases	1,00,000	
Capital		72,800
Fixtures	5,600	
Sales		1,04,000
Debtors	60,000	
Interest received		2,600
<b>Total</b>	<b>2,45,000</b>	<b>2,45,000</b>



Duality concept is applied in trial balance. This concept requires two aspects to be entered for every transaction. This means that there are at least two accounts involved for every transaction.

### Points to remember

- Trial balance is prepared on a particular date. The date must be mentioned in the title of trial balance.
- A trial balance is prepared with the help of balances of ledger accounts.
- Trial balance is prepared to check the arithmetical accuracy of entries made in the books of accounts.
- Under balance method, the debit balances of the accounts are to be written in debit column, and the credit balances of the accounts are to be written in the credit column of trial balance. Under balance method, if an account does not have a balance, it is excluded.
- If the trial balance does not tally, the difference between debit and credit columns should be taken to a temporary account called 'suspense account' if financial statements are to be prepared immediately.

## Self-examination questions

### I Multiple choice questions

#### Choose the correct answer



1. Trial balance is a
  - (a) Statement
  - (b) Account
  - (c) Ledger
  - (d) Journal
2. After the preparation of ledger, the next step is the preparation of
  - (a) Trading account
  - (b) Trial balance
  - (c) Journal
  - (d) Profit and loss account
3. The trial balance contains the balances of
  - (a) Only personal accounts
  - (b) Only real accounts
  - (c) Only nominal accounts
  - (d) All accounts
4. Which of the following is/are the objective(s) of preparing trial balance?
  - (a) Serving as the summary of all the ledger accounts
  - (b) Helping in the preparation of final accounts
  - (c) Examining arithmetical accuracy of accounts
  - (d) a, b and c
5. While preparing the trial balance, the accountant finds that the total of the credit column is short by ` 200. This difference will be
  - (a) Debited to suspense account
  - (b) Credited to suspense account
  - (c) Adjusted to any of the debit balance
  - (d) Adjusted to any of the credit balance
6. A list which contains balances of accounts to know whether the debit and credit balances are matched is
  - (a) Journal
  - (b) Day book
  - (c) Trial balance
  - (d) Balance sheet
7. Which of the following method(s) can be used for preparing trial balance?
  - (a) Balance method
  - (b) Total method
  - (c) Total and Balance method
  - (d) a, b and c
8. The account which has a debit balance and is shown in the debit column of the trial balance is
  - (a) Sundry creditors account
  - (b) Bills payable account
  - (c) Drawings account
  - (d) Capital account

9. The difference of totals of both debit and credit side of trial balance is transferred to:
  - (a) Trading account
  - (b) Difference account
  - (c) Suspense account
  - (d) Miscellaneous account
  
10. Trial balance is prepared:
  - (a) At the end of the year
  - (b) On a particular date
  - (c) For a year
  - (d) None of the above

### Answers

1 (a)	2 (b)	3 (d)	4 (d)	5 (b)
6 (c)	7 (d)	8 (c)	9 (c)	10 (b)

## II Very short answer questions

1. What is trial balance?
2. Give the format of trial balance.
3. What are the methods of preparation of trial balance?
4. State whether the balance of the following accounts should be placed in the debit or the credit column of the trial balance:
 

(i) Carriage outwards	(ii) Carriage inwards	(iii) Sales
(iv) Purchases	(v) Bad debts	(vi) Interest paid
(vii) Interest received	(viii) Discount received	(ix) Capital
(x) Drawings	(xi) Sales returns	(xii) Purchase returns

## III Short answer questions

1. What are the objectives of preparing trial balance?
2. What are the limitations of trial balance?
3. 'A trial balance is only a *prima facie* evidence of the arithmetical accuracy of records'. Do you agree with this statement? Give reasons.

## IV Exercises

1. Prepare a trial balance with the following information:

Name of the account	^	Name of the account	^
Purchases	1,00,000	Sales	1,50,000
Bank Loan	75,000	Creditors	50,000
Debtors	1,50,000	Cash	90,000
Stock	35,000	Capital	1,00,000

(Answer: Trial balance total ^ 3,75,000)

2. Prepare the trial balance from the following information:

Name of the account		Name of the account	
Bank loan	2,00,000	Purchases	1,80,000
Bills payable	1,00,000	Sales	3,00,000
Stock	70,000	Debtors	4,00,000
Capital	2,50,000	Bank	2,00,000

(Answer: Trial balance total ` 8,50,000)

3. Prepare the trial balance from the following balances of Chandramohan as on 31st March, 2017.

Capital	1,24,500	Bank overdraft	5,800
Drawings	2,000	Motor car	20,000
Loan borrowed	7,000	General expenses	2,500
Sales	53,400	Building	1,10,000
Purchases	40,000	Stock	16,200

(Answer: Trial balance total ` 1,90,700)

4. Prepare the trial balance from the following balances of Babu as on 31st March, 2016.

Cash in hand	7,000	Bills receivable	7,000
Sundry debtors	5,400	Sundry creditors	11,800
Salaries	6,800	Capital	25,000
Bad debts	200	Purchases	45,000
Opening stock	15,400	Sales	50,000

(Answer: Trial balance total ` 86,800)

5. From the following balances of Arjun, prepare the trial balance as on 31st March, 2018.

Cash at bank	12,500	Discount received	1,675
Opening stock	25,000	Postage	425
Insurance	1,500	Bills payable	5,600
Purchases	45,000	Capital	20,000
Wages	1,750	Sales	58,900

(Answer: Trial balance total ` 86,175)

6. Prepare the trial balance from the following balances of Rajesh as on 31st March, 2017.

Bills receivable	13,000	Drawings	7,000
Bank charges	750	Sundry debtors	17,100
Conveyance charges	350	Bills payable	12,000
Discount received	1,300	Capital	25,900
Cash in hand	1,000		

(Answer: Trial balance total ` 39,200)

7. Prepare the trial balance from the following balances of Karthik as on 31st March, 2017.

Rent and Taxes	5,000	Rent	6,000
Discount allowed	350	General expenses	3,000
Capital	10,000	Legal expenses	2,000
Insurance premium	4,000	Purchases	40,000
Drawings	5,000	Sales	55,350

(Answer: Trial balance total ` 65,350)

8. From the following balances of Rohini, prepare the trial balance as on 31st March, 2016.

Capital	60,000	Sales	82,000
Discount received	3,250	Lighting	800
Purchases	58,000	Drawings	5,250
Plant and machinery	40,000	Car expenses	1,200
Advertising expenses	5,000	Motor car	35,000

(Answer: Trial balance total ` 1,45,250)

9. Balan who has a car driving school gives you the following ledger balances. Prepare trial balance as on 31st December, 2016.

Computer	26,000	Freehold land	30,000
Salaries to drivers	4,000	Bank loan	15,000
Taxes and insurance	16,500	Fees received	18,150
Fuel and Power	2,000	Capital	53,850
Rent and rates	1,500	Advertisement	7,000

(Answer: Trial balance total ` 87,000)

10. The following balances are extracted from the books of Ravichandran on 31st December, 2016. Prepare the trial balance.

Capital	1,50,000	Sales	75,000
Debtors	22,800	Return inwards	1,000
Rent received	500	Discount allowed	800
Bank overdraft	3,100	Discount received	1,000
Creditors	5,500	Wages	2,900
Premises	1,46,000	Salaries	3,500
Opening stock	10,000	Commission paid	1,100
Purchases	45,000	General expenses	2,000

(Answer: Trial balance total ` 2,35,100)

11. From the following balances, prepare trial balance of Baskar as on 31st March, 2017. Transfer the difference, if any, to suspense account.

Opening stock	40,000	Debtors	25,000
Capital	90,000	Carriage inwards	16,500
Sales	1,77,200	Bills receivable	20,000
Salaries	12,000	Commission received	5,550
Bills payable	9,450	Cash at bank	17,000
Telephone charges	2,350	Furniture	19,000
Creditors	16,000	Plant & Machinery	55,800
Purchases	85,000	Repairs	550

(Answer: Suspense account: ` 5,000 (Dr.) Trial balance Total: ` 2,98,200)

12. From the following balances extracted from the books of Rajeshwari as on 31st March, 2017, prepare the trial balance.

Cash at bank	28,000	Rent and rates	4,000
Sundry debtors	59,600	Bank charges	400
Furniture and Fixtures	1,72,000	Bad debts	4,000
Office equipment	1,10,000	Drawings	20,000
Adjusted purchases	2,80,000	Insurance premium	4,000
Sales returns	3,000	Capital	3,00,000
Closing stock	15,000	Sundry creditors	64,000
Sales	2,36,000	Loan (Cr.)	1,00,000

(Answer: Trial balance total ` 7,00,000)

13. Correct the following trial balance:

Particulars	Debit Balance	Credit Balance
Opening Stock	1,00,000	
Salaries	36,000	
Creditors	1,32,000	
Bank	35,000	
Carriage inwards	18,000	
Rent received	9,000	
Discount allowed	6,000	
Purchases	3,48,000	
Bills payable	60,000	
Debtors		45,000
Carriage outwards		15,000
Capital		1,63,000
Returns inward		9,000
Discount received		12,000
Trade expenses		18,000
Sales		3,68,000
Building		1,14,000
<b>Total</b>	<b>7,44,000</b>	<b>7,44,000</b>

(Answer: Trial balance total ` 7,44,000)



## Student activity

Imagine that you start a small shop with an investment of ₹ 10,000. Record imaginary business transactions for 10 days [include cash and credit transactions]. Prepare journal, ledger and trial balance with them.



Mary runs a textile store. She has prepared the following trial balance from her ledger balances. Her trial balance does not tally. She needs your help to check whether what she has done is correct.

S. No.	Name of account	L.F.	Debit balance	Credit balance
1	Capital		50,000	
2	Discount received			3,000
3	Rent paid			15,000
4	Salaries paid		1,000	
5	Purchases of textiles			20,000
6	Sale of textiles			30,000
7	Salesmen commission paid			9,000
8	Transport charges paid		6,000	
9	Cash balance		32,000	
<b>Total</b>			<b>89,000</b>	<b>77,000</b>

### To explore further

Is it possible to find out the profit earned by the business by preparing trial balance? What can be done to know the profit?

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# Unit 6

## SUBSIDIARY BOOKS - I



### Contents

- 6.1 Introduction
- 6.2 Meaning of subsidiary books
- 6.3 Types of subsidiary books
- 6.4 Advantages of subsidiary books
- 6.5 Purchases book
- 6.6 Purchases returns book
- 6.7 Sales book
- 6.8 Sales returns book
- 6.9 Bills of exchange
- 6.10 Bills receivable book
- 6.11 Bills payable book
- 6.12 Journal proper



### Points to recall

The following points are to be recalled before learning subsidiary books:

- Goods
- Cash purchases
- Credit purchases
- Cash sales
- Credit sales
- Purchases returns
- Sales returns
- Assets
- Ledger account



### Learning Objectives

To enable the students to

- Understand the meaning and kinds of subsidiary books
- Apply the knowledge of accounting process in the preparation of subsidiary books
- Understand the method of recording of bill transactions
- Post entries from subsidiary books to ledger accounts

### Key terms to know

- Purchases book
- Sales book
- Purchases returns book
- Sales returns book
- Debit note
- Credit note
- Bill of exchange
- Bills receivable book
- Bills payable book
- Journal proper

## 6.1 Introduction

Business entities carry on transactions of different nature. The types of transactions depend on the nature of business and the management policy. Many transactions may be of repetitive type, that is, similar nature of transactions take place repeatedly in a business entity. Therefore, transactions can be classified and grouped conveniently according to their nature. Generally, transactions are of two types: cash and non cash transactions (credit). Cash receipts and payments can be grouped in one category and credit transactions in another category. Thus, in practice, for easy, convenient, speedy and appropriate maintenance of accounts, the main journal may be sub-divided in such a way that a separate book is used for each category or group of transactions which are repetitive and sufficiently large in number. Each subdivision of the books is a special journal and a book of primary record or a book of primary entry or subsidiary book.

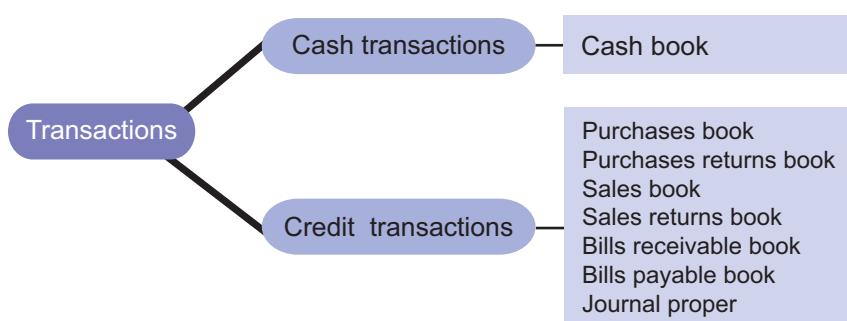
Journal entries are not passed when records are made in subsidiary books. When journal is the only book of prime entry it is possible for only one book-keeper to enter transaction in it at a time. In case of business entities having large volume of transactions, one person cannot do all the recording work by himself. There is a need for sub-division of the book-keeping work leading to the sub-division of the journal into parts or subsidiary journals.

## 6.2 Meaning of subsidiary books

Subsidiary books are sub-divisions of journal in each of which transactions of similar nature are recorded. These are the books of prime entry. Instead of recording in one journal, the transactions are recorded in a number of prescribed books.

## 6.3 Types of subsidiary books

The number of subsidiary books may vary according to the requirements of each business. Based on the nature of business and the volume of transactions, the following subsidiary books are maintained:



- (i) Subsidiary book for entering cash transactions - Cash book
- (ii) Subsidiary books (special journal) for entering non-cash transactions:
  - (a) Purchases book or purchases journal – for recording only credit purchase of goods in which the trader deals.

- (b) Sales book or sales journal—for recording only credit sale of goods dealt in by the trader.
  - (c) Purchases returns or returns outward book – for recording return of goods purchased by the trader, for which no cash is immediately received.
  - (d) Sales returns or returns inward book – for recording the goods returned (out of previous sale) by customers for which no cash is immediately paid.
  - (e) Bills receivable book – to record bills drawn or promissory notes received.
  - (f) Bills payable book – to record bills accepted or promissory notes given.
- (iii) Journal proper – The general journal or all purpose journal to record transactions which do not find a place in the above seven subsidiary books.

#### **6.4 Advantages of subsidiary books**

The advantages of maintaining subsidiary books can be summarised as under:

**(i) Proper and systematic record of business transactions**

All the business transactions are classified and grouped conveniently as cash and non cash transactions, which are further classified as credit purchases, credit sales, returns, etc. As separate books are used for each type of transactions, individual transactions are properly and systematically recorded in the subsidiary books.

**(ii) Convenient posting**

All the transactions of a particular nature are recorded at one place, i.e., in one of the subsidiary books. For example, all credit purchases of goods are recorded in the purchases book and all credit sales of goods are recorded in the sales book. It facilitates posting to purchases account, sales account and concerned personal accounts.

**(iii) Division of work**

As journal is sub-divided, the work will be sub-divided and different persons can work on different books at the same time and the work can be speedily completed.

**(iv) Efficiency**

The sub-division of work gives the advantage of specialisation. When the same work is done by a person repeatedly the person becomes efficient in handling it. Thus, specialisation leads to efficiency in accounting work.

**(v) Helpful in decision making**

Subsidiary books provide complete details about every type of transactions separately. Hence, the management can use the information as the basis for deciding its future actions. For example, information regarding sales returns from the sales returns book will enable the management to analyse the causes for sales returns and to adopt effective measures to remove deficiencies.

**(vi) Prevents errors and frauds**

Internal check becomes more effective as the work can be divided in such a manner that the work of one person is automatically checked by another person. With the use of internal check, the possibility of occurrence of errors or fraud may be avoided or minimised.

**(vii) Availability of requisite information at a glance**

When all transactions are entered in one journal, it is difficult to locate information about a particular item. When subsidiary books are maintained, details about a particular type of transaction can be obtained from subsidiary books. The maintenance of subsidiary books helps in obtaining the necessary information at a glance.

**(viii) Detailed information available**

As all transactions relating to a particular item are entered in a subsidiary book, it gives detailed information. It is easy to arrive at monthly or quarterly totals.

**(ix) Saving in time**

As there are many subsidiary books, work of entering can be done simultaneously by many persons. Thus, it saves time and accounting work can be completed quickly.

**(x) Labour of posting is reduced**

Labour of posting is reduced as posting is made in periodical totals to the impersonal account, for example, Purchases account.



**Student activity**

**Think:** Visit some business units in your area. Find out the books maintained by them. Do they maintain special subsidiary books? If not, discuss with them the need and guide them on maintaining the special subsidiary books.

## **6.5. Purchases book**

Purchases book is a subsidiary book in which only credit purchases of goods are recorded. When business wants to know the information about the credit purchases of goods at a glance, the information can be made available if purchases of goods on credit are separately recorded.

Goods here mean the items in which the business entity is dealing. In other words, it is the item which is purchased for regular sales. For example, furniture will be treated as goods in the case of the firm dealing in furniture. For other firms, which are not dealing in furniture it will be an asset. Hence, while recording transactions in the purchases book, it must be ascertained whether the credit purchase is related to the item in which the firm is dealing. Purchases of assets and purchase of goods for cash are not entered in purchases book.

### Format of purchases book / purchases journal

Date	Particulars (Name of the suppliers and details of goods purchased)	Invoice No.	L.F.	Amount	
				Details	Total
(i)	(ii)	(iii)	(iv)	(v)	(vi)
	Purchase A/c	Dr.			

**(i) Date**

In the date column, the date of purchases of goods on credit is recorded.

**(ii) Particulars**

In this column the name of the supplier from whom goods have been purchased and details of goods purchased are given. It contains the name, quantity, quality and rate of goods purchased, trade discount and any other specification and specialties of the goods are recorded in this column.

**(iii) Invoice number**

Invoice is the statement prepared by the seller of goods. It contains details about the goods, its price and other expenses incurred. The invoice number is entered in this column.

**(iv) Ledger Folio (L.F.)**

The page number of the ledger in which the supplier's account appears is recorded in this column. Purchases of goods must be posted to the personal accounts of suppliers. Purchases book contains the page number of supplier's account in the ledger. It helps in posting and also in checking the records.

**(v) Amount column (Details)**

Amount column is divided into two parts, i.e., details and total. The details column is used to record the amount of various individual items purchased from a particular supplier. The amount of trade discount allowed is deducted. This column is used for adjustment of additions and subtractions.

**(vi) Total amount column (Total)**

The net amount payable to the supplier of goods is recorded in the total amount column.

#### **6.5.1 Invoice**

Entries in the purchases day book are made from invoices which are popularly known as bills. Invoice is a business document or bill or statement, prepared and sent by the seller to the buyer giving the details of goods sold, such as quantity, quality, price, total value, etc. Thus, the invoice is a source document of prime entry both for the buyer and the seller.

## 6.5.2 Trade discount

Trade discount is a deduction given by the supplier to the buyer on the list price or catalogue price of the goods. It is given as a trade practice or when goods are purchased in large quantities. It is shown as a deduction in the invoice. Trade discount is not recorded in the books of accounts. Only the net amount is recorded. Example: Suppose the sale of goods for ` 10,000 was made and 10% was allowed as trade discount, the entry regarding sales will be made for ` 9,000 ( $10,000 - 10$  per cent of  $10,000$ ). In the same way, purchaser of goods will also record purchases as ` 9,000).



### Student activity

**Think:** Is trade discount the same as cash discount?

## Illustration 1

Record the following transactions in the purchases book of Shanthi Furniture Mart:

2017

- March 1 Purchased from Mohan Furniture Mart, Madurai  
20 chairs @ ` 450 each  
2 tables @ ` 1,000 each  
Less: Trade discount @ 10%
- March 7 Bought from Ramesh & Co., Royapettah  
2 stools @ ` 500 each  
10 rolling chairs @ ` 200 each  
Delivery charges and cartage ` 150
- March 21 Purchased from Kamal & Co., Karaikkal  
10 chairs @ ` 750 each  
15 steel cabinets @ ` 1,500 each  
Packing and delivery charges ` 250  
Less: Trade discount @ 10%
- March 25 Purchased from Jemini & Sons, Chennai  
2 typewriters @ ` 7,750 for office use

## Solution

### In the books of Shanthi Furniture Mart

#### Purchases book / Purchases journal

Date	Particulars	Invoice No.	L.F.	Amount	
				Details	Total
2017 March 1	<b>Mohan Furniture Mart, Madurai</b>  20 chairs @ ` 450 each 2 tables @ ` 1,000 each  Less: Trade discount @ 10%			9,000 2,000  11,000 1,100	9,900
March 7	<b>Ramesh &amp; Co., Royapettah</b>  2 stools @ ` 500 each 10 rolling chairs @ ` 200 each  Add: Delivery charges and cartage			1,000 2,000  3,000 150	3,150
March 21	<b>Kamal &amp; Co., Karaikal</b>  10 chairs @ ` 750 each 15 steel cabinets @ ` 1,500 each  Less: Trade discount @ 10%  Add: Packing and delivery charges			7,500 22,500  30,000 3,000 27,000 250	27,250
	Purchases A/c	Dr.			<b>40,300</b>

#### Tutorial note

1. Trade discount is allowed on the purchase price of goods excluding delivery charges and cartage.
2. Delivery charges and cartage are direct expenses, chargeable from purchaser, so they are added to the amount payable.



#### Student activity

Think: Why the purchase of typewriter is not recorded? How do you record this transaction?

## **Illustration 2**

Record the following transactions in the purchases book of Raja Furniture:

2017

- May 4      Purchased from Kasi Furnitures, Kanyakumari  
              10 chairs @ ` 300 each  
              4 tables @ ` 800 each
- May 6      Purchased for cash from Welcome Furniture, Vellore  
              2 almirahs @ ` 2,000 each  
              4 chairs @ ` 200 each  
              Less: Trade discount 5%
- May 10     Bought furniture from Murugan Furniture Mart, Nagapattinam  
              10 chairs @ ` 250 each  
              5 tables @ ` 750 each  
              Delivery and packing charges ` 150
- May 20     Purchased 2 computers for office use from Anandan & Co., Adyar on credit  
              for ` 15,550 each
- May 25     Purchased from Gowtham & Co., Chennai  
              10 chairs @ ` 550 each  
              15 steel cabinets @ ` 2,000 each  
              Delivery charges ` 200  
              Less: Trade discount 10%

## Solution

### In the books of Raja Furniture Purchases Book / Purchases Journal

Date	Particulars	Invoice No.	L.F.	Amount	
				Details	Total
2017 May 4	<b>Kasi Furnitures, Kanyakumari</b> 10 chairs @ ` 300 each 4 tables @ ` 800 each			3,000	6,200
				3,200	
May 10	<b>Murugan Furniture Mart, Nagapattinam</b> 10 chairs @ ` 250 each 5 tables @ ` 750 each			2,500	
				3,750	
				6,250	
	Add: Delivery and packing charges			150	
May 25	<b>Gowtham &amp; Co., Chennai</b> 10 chairs @ ` 550 each 15 steel cabinets @ ` 2,000 each			5,500	
				30,000	
				35,500	
	Less: Trade discount @ 10%			3,550	
	Add: Delivery charges			200	32,150
	Purchases A/c	Dr.			<b>44,750</b>

#### Note:

- (a) Purchases on 6th May, 2017 will not be recorded in the purchases book, because it is cash purchases.
- (b) Purchases of computers on 20th May, 2017 will not be recorded in the purchases book, because computer is an asset for the firm dealing in furniture and it is for office use.

### 6.5.3 Posting from purchases book

After the transactions are recorded in the purchases book, posting them to ledger involves two steps:

**Step 1: Posting to personal accounts of creditors:** Every day, each entry is posted to the credit side of the respective personal account of the creditor by entering the words 'By Purchases account'.

**Step 2: Posting to purchases account:** Generally, at the end of the month, the purchases book is totalled. The monthly total of purchases is posted to the debit side of purchases account by writing the words 'To Sundry creditors A/c'.

### Illustration 3

From the following transactions of Ram Home Appliances for July, 2017 prepare purchases book and ledger accounts connected with this book:

2017

- July 5      Purchased on credit from Kannan & Co.  
               50 iron boxes @ ` 500 each  
               10 grinders @ ` 3,000 each
- July 6      Purchased for cash from Siva & Bros.  
               25 fans @ ` 1,250 each
- July 10     Purchased from Balan & Co. on credit  
               20 grinders @ ` 2,500 each  
               10 mixies @ ` 3,000 each  
               Trade discount 10%  
               Delivery charges ` 1,000
- July 20     Purchased on credit, one copier machine from Kumar for ` 35,000

### Solution

#### In the books of Ram Home Appliances

##### Purchases book

Date	Particulars	Invoice No.	L.F.	Amount`			
				Details	Total		
2017	July 5      Kannan & Co.						
	50 iron boxes @ ` 500			25,000	55,000		
	10 grinders @ ` 3,000			30,000			
	July 10     Balan & Co.			50,000	73,000		
	20 grinders @ ` 2,500			30,000			
	10 Mixies @ ` 3,000			80,000			
	Less: Trade discount 10%			8,000			
	Add: Delivery charges			72,000	1,28,000		
				1,000			
	Purchases A/c      Dr.						

## Ledger Accounts

**Dr.** **Purchases A/c** **Cr.**

Date	Particulars	J.F.	Amount `	Date	Particulars	J.F.	Amount `
2017							
July 31	To Sundry creditors		1,28,000				

**Dr.** **Kannan & Co. Account** **Cr.**

Date	Particulars	J.F.	Amount `	Date	Particulars	J.F.	Amount `
				2017			
				July 5	By Purchases A/c		55,000

**Dr.** **Balan & Co. Account** **Cr.**

Date	Particulars	J.F.	Amount `	Date	Particulars	J.F.	Amount `
				2017			
				July 10	By Purchases A/c		73,000

**Note:** 6th July, transaction is a cash transaction and 20th July, transaction is purchase of an asset. Hence, both will not be recorded in the purchases book.

### 6.6 Purchases returns book

After purchases of goods, the business unit may find that some of the goods are not upto the satisfactory level because of the following reasons:

- (a) Goods may be defective.
- (b) They might have been damaged in transit.
- (c) Quantities delivered may not agree with the invoice.
- (d) They might have been received quite late (off-season).
- (e) They might not be as per the samples or specifications.
- (f) There may be a breach of agreement.

Therefore, the buyer may return them to the suppliers.

Purchases returns book is a subsidiary book in which transactions relating to return of previously purchased goods to the suppliers, for which cash is not immediately received are recorded. Since goods are going out to the suppliers, they are also known as returns outward and the book is called as '*returns outward book or returns outward journal*'. This book is prepared like purchases book and details are entered as mentioned in the format given below:

## Format

### Purchases returns book

Date	Particulars	L.F.	Debit Note No.	Amount		Remarks
				Details	Total	
Date of return	Names of persons to whom goods are returned and the details of goods returned  Purchases Returns A/c Cr.	Posting reference		Detailed calculations		

### 6.6.1 Posting from the purchases returns book

After the transactions are recorded in the purchases returns book, posting them to ledger involves two steps:

**Step 1: Posting to personal accounts of creditors:** Every day, each entry in purchases returns book is posted to the debit side of the respective personal account of the creditor by writing the words ‘To Purchases Returns account’.

**Step 2: Posting to Purchases returns account:** At the end of the month, the aggregate of the purchases returns is ascertained. It is the total purchases returns for the month and is posted to the credit side of purchases returns account by debiting ‘Sundry creditors account’.

### 6.6.2 Debit note – the source document for returns outward

A ‘debit note’ is a document, bill or statement sent to the person to whom goods are returned. This statement informs that the supplier’s account is debited to the extent of the value of goods returned. It contains the description and details of goods returned, name of the party to whom goods are returned and net value of the goods so returned with reason for return.



#### Student activity

**Think:** Do you think the supplier will accept the debit note sent by the customer, as it is? If not, why will he not accept?

### Illustration 4

Enter the following transactions in the purchases returns book of Hari who is dealing in automobiles and post them into the ledger.

2017

Jan. 5      Returned to Anand 5 clutch plates @ ` 200 each, not in accordance with order.

Jan. 14      Returned to Chandran 4 brake shoes @ ` 200 each and 10 rear view mirrors @ ` 350 each, due to inferior quality.

### Solution

#### In the books of Hari Purchases returns book

Date	Particulars	Debit Note No.	L.F.	Amount		Remarks
				Details	Total	
2017 Jan 5	Anand 5 clutch plates @ ` 200 each				1,000	Not in accordance with order
Jan 14	Chandran 4 brake shoes @ ` 200 each 10 rear view mirrors @ ` 350 each Purchases Returns A/c Cr.			800 3,500	4,300	Due to inferior quality
					5,300	

#### Ledger Accounts

Dr.	Purchases returns A/c				Cr.		
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				2017 Jan 31	By Sundry creditors A/c		5,300

Dr.	Anand Account				Cr.		
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017 Jan 5	To Purchases returns A/c		1,000				

Dr.	Chandran Account				Cr.		
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017 Jan 14	To Purchases returns A/c		4,300				

### 6.7 Sales book

Sales book is a subsidiary book maintained to record credit sale of goods. Goods mean the items in which the business is dealing. These are meant for regular sale. Cash sale of goods and sale of property and assets whether for cash or on credit are not recorded in the sales book. This book is also named as sales day book, sold day book, sales journal or sale register.

The preparation of the sales book is similar to that of purchases book. The entries are made in the sales book on the basis of copies of the invoice sent to the buyer.

### Format

**Sales Book**

Date	Particulars	L.F.	Invoice No.	Amount`	
				Details	Total
Date of sale	Name of the customers and the details of goods sold	Posting reference		Detailed calculations	Net amount of the invoice
	Sales A/c Cr.				

In the date column of the sales book, the date of credit sales is recorded. Particulars column contains the name of party purchasing goods or the party to whom goods have been sold. It also shows the details of goods as regards its quantity, quality, other descriptions and the rate of trade discount allowed. In Ledger Folio (L.F.) column the page number of debtors account in the ledger is recorded for reference. The amount of various items of the goods sold is entered in the details column. Adjustments for trade discount, packing charges, etc., are made in the details column. In the total column, the net amount payable by individual customer is recorded. The total of the amount column is the total credit sales during the period.

#### 6.7.1 Posting from sales book

After the transactions are recorded in the sales book, posting them to ledger involves two steps:

**Step 1: Posting to personal accounts of debtors:** Every day, each entry is posted to the debit side of the respective personal account of the debtor.

**Step 2: Posting to Sales account:** At the end of the month, the aggregate of the sales is posted to the credit side of sales account by writing the words 'By Sundry debtors A/c'.

#### Illustration 5

From the transactions given below, prepare the sales book of Kumar Stationery for July 2017.

2017

- July 5            Sold on credit to Saravana Traders of Sayalkudi  
                     10 packs of A4 sheets @ ` 250 per pack  
                     10 dozens of writing pads @ ` 850 per dozen  
                     Less : 10% trade discount for both
- July 8            Sold to Raja for cash  
                     15 packs of A4 sheets @ ` 250 per pack

July 20      Sold to Mohan & Co. of Mudukulathur  
               5 white boards @ ` 2,200 each  
               10 dozens of writing pads @ ` 850 per dozen  
 July 23      Sold on credit to Narayanan old motor car for ` 5,000  
 July 28      Sold to Kumaran for cash 15 packets of marker pens @ ` 250 per packet

### Solution

#### In the books of Kumar Stationery

##### Sales book

Date	Particulars	Invoice No.	L.F.	Amount	
				Details `	Total `
2017	<b>Saravana Traders, Sayalkudi</b>				
July 5	10 packs of A4 Sheets @ ` 250 per pack			2,500	
	10 dozens writing pads @ ` 850 per dozen			8,500	
	Less: 10% Trade discount			11,000	
July 20	<b>Mohan &amp; Co., Mudukulathur</b>			1,100	9,900
	5 white boards @ ` 2,200 each			11,000	
	10 dozens writing pads @ ` 850 per dozen			8,500	19,500
	Sales A/c	Cr.			
					<b>29,400</b>

#### Ledger Accounts

Dr.	<b>Sales A/c</b>				Cr.		
Date	Particulars	J.F.	Amount `	Date	Particulars	J.F.	Amount `
				2017	By Sundry		
				July 31	debtors A/c		29,400

Dr.	<b>Saravana traders A/c</b>				Cr.		
Date	Particulars	J.F.	Amount `	Date	Particulars	J.F.	Amount `
2017							
July 5	To Sales A/c		9,900				

Dr.	<b>Mohan &amp; Co. A/c</b>				Cr.		
Date	Particulars	J.F.	Amount `	Date	Particulars	J.F.	Amount `
2017							
July 20	To Sales A/c		19,500				

**Note:**

- (a) Sales on 8th July and 28th July will not be recorded in the sales because they are cash sales.
- (b) Sale of old motor car on 23rd July will not be recorded in the sales book, because motor car is an asset for the firm dealing in stationery.

## 6.8 Sales returns book

Sales returns book is a subsidiary book, in which, details of return of goods sold for which cash is not immediately paid are recorded. Just as goods may be returned to suppliers, goods may be returned by customers for the following reasons:

- (i) Defect in the goods
- (ii) Delay in the dispatch of goods to the customers
- (iii) Over-supply of goods
- (iv) Goods not being in accordance with the samples and specifications
- (v) Violation of the terms of the contract, etc.

Goods returned by the customers is known as 'returns inwards'.

This book is not concerned with the return of assets or return of goods for which cash is paid. This book is prepared just like the other day books.

### 6.8.1 Posting from sales returns book

After the transactions are recorded in the sales returns book, posting them to ledger involves two steps:

**Step 1: Posting to personal accounts of debtors:** Each entry in the sales returns book is posted to the credit side of the respective personal account of the debtor on daily basis by writing the words 'By Sales returns account'.

**Step 2: Posting to Sales returns account:** At the end of the month, the aggregate of the sales returns is posted to the debit side of sales returns account by writing the words 'To Sundry debtors A/c'.

### 6.8.2 Credit note – Source document for returns inward

A credit note is prepared by the seller and sent to the buyer when goods are returned indicating that the buyer's account is credited in respect of goods returned. Credit note is a statement prepared by a trader who receives back from his customer the goods sold. It contains details such as the description of goods returned by the buyer, quantity returned and also their value.

## Format

### Sales returns book

Date	Name of suppliers	L.F.	Credit Note No.	Amount `		Remarks
				Details	Total	
Date of return	Names of persons from whom goods are received back and details of goods returned	Posting reference		Detailed calculations	Net amount of the invoice	
	Sales returns A/c Dr.					

## Illustration 6

Enter the following transactions in returns inward book of Magesh a textile dealer:

2017 April 6	Returned by Shankar 30 shirts each costing ` 150 due to inferior quality.
April 8	Amar Tailors returned 10 T-shirts, each costing ` 100, on account of being not in accordance with their order.
April 21	Prema Stores returned 12 Salwar sets each costing ` 200, being not in accordance with order.

## Solution

### In the books of Magesh Sales returns book

Date	Particulars	L.F.	Credit Note No.	Amount `		Remarks
				Details	Total	
2017 April 6	<b>Shankar</b> 30 Shirts @ ` 150			4,500		Due to inferior quality
April 8	<b>Amar Tailors</b> 10 T-Shirts @ ` 100			1,000		Not in accordance with the order
April 21	<b>Prema Stores</b> 12 Salwar sets @ ` 200			2,400	7,900	Not in accordance with the order
	Sales Returns A/c Dr.				7,900	

### Ledger Accounts

**Dr.** **Sales returns A/c** **Cr.**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2017 April 30	To Sundry debtors A/c		7,900				

**Dr.** **Shankar A/c** **Cr.**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				2017 April 6	By Sales returns A/c		4,500

**Dr.** **Amar Tailors A/c** **Cr.**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				2017 April 8	By Sales returns A/c		1,000

**Dr.** **Prema Stores A/c** **Cr.**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
				2017 April 21	By Sales returns A/c		2,400



#### Student activity

**Think:** Visit a stationery shop nearby. Observe its business activities for a week. After having discussed with the shop keeper, prepare a list of purchased and sold items by the shop. Record them in the appropriate books.

## 6.9 Bills of exchange

### 6.9.1 Introduction

To increase the sales, a seller sells the goods on credit to his customers. If sale is made on credit, cash will not be received immediately. The seller may draw a bill on the customer for the amount due from him. If the customer accepts it, the seller can get the same discounted with the bank and get cash immediately.

### **6.9.2 Definition of bill of exchange**

According to the Negotiable Instruments Act, 1881, “Bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument”.

### **6.9.3 Features of bills of exchange**

An analysis of the definition given above, highlights the following important features of a bill of exchange:

- (i) It is a written document.
- (ii) It is an unconditional order.
- (iii) It is an order to pay a certain sum of money.
- (iv) It is signed by the drawer.
- (v) It bears stamp or it is drafted on a stamp paper.
- (vi) It is to be accepted by the acceptor.
- (vii) The amount of the bill is paid to the drawer or the endorsee.

### **6.9.4 Specimen of bill of exchange**

#### **Bill of exchange**

Stamp	328, Bazaar Street, Saidapet, Chennai-15 01.06.2017
₹ 10,000/-	
Three months after date pay to me or to my order the sum of Rupees Ten Thousand only for value received	
To Thiru. Jothi Kumar, 430, Mint Street, Chennai- 1.	Ramesh Babu

### **6.9.5 Important terms**

Explanation of some terms connected with bill of exchange is given below:

#### **(i) Drawing of a bill**

The seller (creditor) prepares the bill in the form presented above. The act of preparing the bill by the seller or creditor in its complete form with the signature is known as ‘drawing’ a bill.

## (ii) Parties

There are three parties to a bill of exchange as under:

- (a) **Drawer:** The person who prepares the bill is called the drawer, i.e., a creditor
- (b) **Drawee:** The person who has to make the payment or who accepts to make the payment is called the drawee, i.e., a debtor
- (c) **Payee:** The person who receives the payment is payee. He may be a third party or the drawer of the bill.

In the above specimen, drawer and payee is Ramesh Babu. Jothi Kumar is the drawee.

## (iii) Acceptance

In a bill, drawee gives his/her acceptance by writing the word ‘accepted’ and signs the same with the date. Now the bill becomes a legal document enforceable in the court of law.

## (iv) Due date and days of grace

When a bill is drawn payable after a specified period, the date on which the payment should be made is called ‘**Due date**’. In the calculation of the due date, three extra days are added to the specified period of the bills called ‘**Days of grace**’. If the date of maturity falls on a holiday, the bill will be due for payment on the preceding day.

### Example:

Date of bill	Period of bill	Days of grace	Due date
1st March	2 months	3	4th May
12th July	1 month	3	14 <sup>th</sup> August, since 15 <sup>th</sup> August (being Independence day) is a public holiday.
1 <sup>st</sup> October	30 days	3	3rd November



If the maturity date falls on an emergency holiday, succeeding day will be the due date for payment.

## (v) Endorsement

Endorsement means signing on the face or back of a bill for the purpose of transferring the title of the bill to another person. The person who endorses is called the “Endorser”. The person to whom a bill is endorsed is called the “Endorsee”. The endorsee is entitled to collect the money.

## (vi) Discounting

When the holder of a bill is in need of money before the due date of a bill, cash can be received by discounting the bill with the banker. This process is referred to as the discounting of bill. The banker deducts a small amount of the bill which is called discount and pays the balance in cash immediately to the holder of the bill.

### (vii) Retiring of bill

An acceptor may make the payment of a bill before its due date and may discharge the liability on the bill. It is called as retirement of a bill. Usually, the holder of the bill allows a concession called rebate to the drawee for the unexpired period of the bill.

### (viii) Renewal

When the acceptor of a bill knows in advance that he/she will not be able to meet the bill on its due date, he/she may request the drawer for extension of time for payment. The drawer of the bill may agree to cancel the original bill and draw a new bill for the amount due with interest thereon. This is referred to as renewal.

### (ix) Dishonour

Dishonour of the bill means the non payment of the amount of the bill, when it is presented for payment.

## 6.10 Bills receivable book

Bills receivable refers to bills drawn, the payment for which has to be received. In case of credit sales of goods, the entity may draw a bill on the buyer (debtor), for a certain period. This is called bills receivable for the business entity and bills payable for the debtor who has accepted the bill. Where number of bills receivable is large, then a separate bills receivable book may be maintained by a business entity to record the details of bills receivable. Such bills are drawn on debtor for a specified amount payable at sight or after specified period. Bills receivable book contains the details of bills drawn and its disposal. The format of the bills receivable book is given below:

### Format

**Bills receivable book**

Date of receipt of bill	From whom bill is received	Term of the bill	Due date of the bill	L.F.	Amount of the Bill	Remark
(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)

- (i) **Date:** In this column, the date of the acceptance of the bill is recorded.
- (ii) **From whom received:** In this column, the name of the debtor, who has accepted the bill and promised to make its payment, is recorded. The bill legally comes into existence after its acceptance.
- (iii) **Term or period:** The bill is drawn for a specified period. This period may be one month, two months, three months, etc. or even 60 days, 90 days, 120 days, etc. Period of the bill for which the bill has been drawn is mentioned here.
- (iv) **Due date:** Due date is the date on which the payment of the bill is actually due. It is also known as date of maturity. In order to calculate the due date, three days of grace is added to the term of the bill.

- (v) **Ledger Folio (L.F.):** This column contains the page number of the ledger in which the account of the acceptor of the bill appears.
- (vi) **Amount of the bill:** The actual amount of the bill is recorded in this column.
- (vii) **Remark:** This column contains the details of disposal of the bill, whether the bill has been discounted or endorsed, honoured or dishonoured etc.

## 6.11 Bills payable book

Details recorded in the bills payable book are the names of the parties whose bills are accepted, date of the bills payable, due date, amount, etc. The individual accounts of the parties whose bills are accepted will be debited with the corresponding amount in the bills payable book. The specimen of bills payable book is given below:

### Format

**Bills payable book**

Date of acceptance of the bill	To whom acceptance is given	Term of the bill	Due date of the bill	L.F.	Amount of the bill `	Remark
(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)

These columns record almost the same particulars which are recorded in the bills receivable book. When there is credit purchases of goods, the business entity may accept a bill drawn by the supplier or creditor. It is called bills payable for the business entity. Where there are large number of such bills payable, a separate bills payable book may be maintained. Thus, bills payable book is a subsidiary book maintained to record the details of bills payable.

The preparation of the bills receivable and bills payable book is explained through the following example:

2017

- |         |   |
|---------|---|
| July 1  | Acceptance received from Nirmala for ` 5,000 payable after 3 months.    |
| July 20 | Acceptance given to Shailaja's bill for ` 3,000 payable after 3 months. |
| July 31 | Acceptance received from Faisal for ` 1,000 payable after 60 days.      |
| Aug. 5  | Farid's bill for ` 1,000 payable after 6 months accepted.               |
| Aug.11  | Mohan's acceptance for ` 700 payable after 90 days received.            |

The bills receivable and bills payable books are prepared as follows:

### Bills Receivable Book

Date	From whom received	Term	Due date	L.F.	Amount `	Remark
2017 July 1	Nirmala	3 months	2017 October 4		5,000	
July 31	Faisal	60 days	October 1		1,000	
Aug 11	Mohan	90 days	November 12		700	
	Total				<b>6,700</b>	

**Note:** On 31st July, for Faisal bill, due date is 1st October, since 2nd October, (being Gandhi Jayanthi) is a public holiday.

### Bills Payable Book

Date	To whom accepted	Term	Due date	L.F.	Amount `	Remark
2017 July 20	Shylaja	3 months	2017 October 23		3,000	
Aug 5	Farid	6 months	2018 February 8		1,000	
	Total				<b>4,000</b>	

## 6.12 Journal proper

Journal proper is a residuary book which contains record of transactions, which do not find a place in the subsidiary books such as cash book, purchases book, sales book, purchases returns book, sales returns book, bills receivable book and bills payable book. Thus, journal proper or general journal is a book in which the residual transactions which cannot be entered in any of the sub divisions of journal are entered. The usual entries that are passed through this journal are given below:

- (i) Opening journal entry
- (ii) Closing journal entry
- (iii) Adjusting entries
- (iv) Transfer entries
- (v) Rectifying entries
- (vi) Miscellaneous entries

### (i) Opening journal entry

At the end of the accounting year, all nominal accounts are closed but the business has to be carried on with previous year's assets and liabilities. Hence, these accounts are to be brought into the accounts of the current year. Journal entry made in the beginning of the current year with the balances of assets and liabilities of the previous year is opening journal entry. In this entry, asset accounts are debited, liabilities and capital accounts are credited.

#### Example

Ramnath carried forward the following items. Make the opening entry in journal proper as on 1st January, 2017.

Cash	^ 30,000	Stock	^ 15,000
Furniture	^ 3,000	Sundry Creditors	^ 10,000

#### Opening Entry

Date	Particulars	L.F.	Debit ^	Credit ^
2017	Cash A/c	Dr.	30,000	
Jan 1	Stock A/c	Dr.	15,000	
	Furniture A/c	Dr.	3,000	
	To Sundry creditors A/c			10,000
	To Capital A/c			38,000
	(Balance of assets and liabilities brought forward)			

### (ii) Closing journal entry

At the end of the accounting period, all the ledger accounts relating to purchases, sales, purchases returns, sales returns, stock and other accounts concerning expenses, losses, incomes and gains are closed by transfer to trading and profit and loss account so that financial statements can be prepared. It should be noted that closing entries are made for nominal accounts only.

**Example:** Salaries account ^ 10,000. The closing entry as on 31st December, 2017 is:

#### Closing Entry

Date	Particulars	L.F.	Debit ^	Credit ^
2017	Profit and Loss A/c	Dr.	10,000	
December 31	To Salaries A/c			10,000
	(Salaries A/c transferred to Profit and Loss A/c)			

### iii) Adjusting entries

After preparing the trial balance, but before preparing the final accounts, if any adjustment is required in the accounts for items or transactions left out, adjusting entries are made.

### **Example**

Book value of the machinery as on 1st January, 2017 ` 1,00,000. Rate of depreciation is 10% p.a. Adjusting entry as on 31st December, 2017 is:

#### **Adjusting Entry**

Date	Particulars	L.F.	Debit `	Credit `
2017 Dec 31	Depreciation A/c ( $1,00,000 \times 10\%$ ) To Machinery A/c (Depreciation written off)	Dr.	10,000	10,000

### **(iv) Transfer entries**

Transfer entries are passed in the journal proper for transferring an item entered in one account to another account. For example, transferring net profit of ` 5,000 to capital account, the following entry is passed:

#### **Transfer Entry**

Date	Particulars	L.F.	Debit `	Credit `
	Profit and Loss A/c To Capital A/c (Net profit transferred to capital account)	Dr.	5,000	5,000

### **(v) Rectifying entries**

Rectifying entries are passed for rectifying errors which are committed in the books of accounts.

### **Example**

Purchase of furniture by a stationery dealer for ` 10,000 was debited to purchases account. Pass rectifying entry on December 31, 2017.

#### **Rectifying Entry**

Date	Particulars	L.F.	Debit `	Credit `
2017 Dec 31	Furniture A/c To Purchases A/c (Wrong debit to purchases account rectified)	Dr.	10,000	10,000

### **(vi) Miscellaneous entries**

These are entries which do not occur frequently such as:

- (i) Credit purchases and credit sale of assets which cannot be recorded through purchases or sales book.

- (ii) Endorsement, renewal and dishonor of bill of exchange which cannot be recorded through bills book.
- (iii) Other adjustments like interest on capital, bad debts, reserves, etc.
- (iv) Goods withdrawn by the owner for personal use.
- (v) Goods distributed as samples for sales promotion.
- (vi) Loss of goods by fire, theft and spoilage.

### **Illustration 7**

Record the following transactions of Vijay Electrical & Co., in the purchases book, purchases returns book, sales book and sales returns book.

2017

- Jan 1 Purchased on credit from Preethi & Co.,  
     25 table fans @ ` 1,400 each  
     10 fans @ ` 2,000 each  
     Add: Auto charges @ ` 100
- Jan 5 Sold on credit to Sheela & co.,  
     10 electric iron box @ ` 1,250 each  
     20 electric stoves @ ` 450 each  
     Less: 10% Trade discount
- Jan 10 Purchased for cash from Brinda & Co.,  
     10 electric stoves @ ` 1,300 each
- Jan 18 Returned to Preethi & Co.,  
     5 table fans being defective for which cash is not received
- Jan 20 Purchased from Sathya & Co.,  
     10 fans @ ` 1,200 each  
     Less: Trade discount 5%
- Jan 21 Sheela & Co., returned 3 electric iron boxes as defective for which cash is not paid
- Jan 23 Purchased from Elizabeth & Co., 10 water purifiers @ ` 4,700 each on credit
- Jan 25 Sold on credit to M/s. Bhavani & Co., 7 fans @ ` 1,450 each
- Jan 27 Returned to Sathya & Co., 2 damaged fans for which cash is not received

## Solution

In the books of Vijay Electrical & Co.

### Purchases Book

Date	Particulars	Invoice No.	L.F.	Amount `	
				Details	Total
2017 Jan. 1	<b>Preethi &amp; Co.</b> 25 table fans @ ` 1400 each 10 fans @ ` 2,000 each			35,000 20,000 55,000	
Jan. 20	Add: Auto charges <b>Sathy &amp; Co.</b> 10 fans @ ` 1,200 each Less: Trade discount (5%)			100 12,000 600	55,100 11,400
Jan. 23	<b>Elizabeth &amp; Co</b> 10 water purifiers @ ` 4,700 each				47,000
	Purchases A/c	Dr.			1,13,500

### Sales Book

Date	Particulars	Invoice No.	L.F.	Amount `	
				Details	Total
2017 Jan. 5	<b>Sheela &amp; Co.</b> 10 electric iron boxes @ ` 1,250 each 20 electric stoves @ ` 450 each			12,500 9,000 21,500 2,150	
Jan. 25	Less: Trade discount (10%) <b>M/s. Bhavani &amp; Co.</b> 7 fans @ ` 1,450 each				19,350 10,150
	Sales A/c	Cr.			29,500

### Purchases Returns Book

Date	Particulars	Debit Note No.	L.F.	Amount		Remarks
				Details	Total	
2017 Jan. 18	<b>Preethi &amp; Co.</b> 5 table fans @ ` 1,400 each				7,000	Being defective
Jan. 27	<b>Sathya &amp; Co.</b> 2 fans @ ` 1,140 each (List Price – Trade discount) (1,200 – 60) Purchase Returns A/c	Cr.			2,280	Damaged fans
					<b>9,280</b>	

### Sales Returns Book

Date	Particulars	Credit Note No.	L.F.	Amount		Remarks
				Details	Total	
2017 Jan. 21	<b>Sheela &amp; Co.</b> 3 electric Iron boxes @ ` 1,125 each (List Price – Trade discount) (1,250 – 125)				3,375	Being defective
	Sales Returns A/c	Dr.			<b>3,375</b>	



#### Student activity

**Think:** Prepare a flow chart/mind map to show how entries are posted from subsidiary books to ledger?

### **Points to remember**

- Business transactions are entered in the subsidiary books before they are posted to the ledger.
- Sales book is meant for recording sales of goods on credit.
- Sales book is prepared with the help of invoices sent to the customers.
- Sales returns book is prepared based on the credit notes issued to the customers.
- Purchases book is meant for recording purchases of goods on credit.
- Purchases returns book is prepared based on the credit notes received from the suppliers.
- At the end of each month, totals of the sales, purchases, and returns are transferred to the sales, purchases, and returns accounts respectively.

### **Self-examination questions**

#### **I Multiple choice questions**

##### **Choose the correct answer**

1. Purchases book is used to record
  - (a) all purchases of goods
  - (b) all credit purchases of assets
  - (c) all credit purchases of goods
  - (d) all purchases of assets
2. A periodic total of the purchases book is posted to the
  - (a) debit side of the purchases account
  - (b) debit side of the sales account
  - (c) credit side of the purchases account
  - (d) credit side of the sales account
3. Sales book is used to record
  - (a) all sales of goods
  - (b) all credit sales of assets
  - (c) all credit sales of goods
  - (d) all sales of assets and goods
4. The total of the sales book is posted periodically to the credit of
  - (a) Sales account
  - (b) Cash account
  - (c) Purchases account
  - (d) Journal proper
5. Purchase returns book is used to record
  - (a) returns of goods to the supplier for which cash is not received immediately
  - (b) returns of assets to the supplier for which cash is not received immediately
  - (c) returns of assets to the supplier for which cash is received immediately
  - (d) None of the above



6. Sales return book is used to record
  - (a) Returns of goods by the customer for which cash is paid immediately
  - (b) Returns of goods by the customer for which cash is not paid immediately
  - (c) Returns of assets by the customer for which cash is not paid immediately
  - (d) Returns of assets by the customer for which cash is paid immediately
  
7. Purchases of fixed assets on credit basis is recorded in
 

(a) Purchases book	(b) Sales book
(c) Purchases returns book	(d) Journal proper
  
8. The source document or voucher used for recording entries in sales book is
 

(a) Debit note	(b) Credit note
(c) Invoice	(d) Cash receipt
  
9. Which of the following statements is not true?
 

(a) Cash discount is recorded in the books of accounts	(b) Assets purchased on credit are recorded in journal proper
(c) Trade discount is recorded in the books of accounts	
(d) 3 grace days are added while determining the due date of the bill	
  
10. Closing entries are recorded in
 

(a) Cash book	(b) Ledger
(c) Journal proper	(d) Purchases book

**Answer**

1. (c)	2. (a)	3. (c)	4. (a)	5. (a)	6. (b)	7. (d)	8. (c)	9. (c)	10. (c)
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**II Very short answer questions**

1. Mention four types of subsidiary books.
2. What is purchases book?
3. What is purchases returns book?
4. What is sales book?
5. What is sales returns book?
6. What is debit note?
7. What is credit note?

8. What is journal proper?
9. Define bill of exchange.
10. What is an opening entry?
11. What is an invoice?

### **III Short answer questions**

1. Give the format of purchases book.
2. Mention the subsidiary books in which the following transactions are recorded.
  - (i) Sale of goods for cash
  - (ii) Sale of goods on credit
  - (iii) Purchases of goods on credit
  - (iv) When the proprietor takes goods for personal use
  - (v) Goods returned to suppliers for which cash is not received immediately
  - (vi) Asset purchased as credit.
3. What are the advantages of subsidiary books?
4. Write short notes on:
  - (a) Endorsement of a bill and
  - (b) Discounting of a bill

### **IV Exercises**

1. Enter the following transactions in the Purchases book of M/s. Subhashree Electric Co., which deals in electric goods.

2017

- |          |   |
|----------|---|
| April 5  | Purchased from Karthik Electric Co., on credit<br>10 Electric iron box @ ` 2,500 each<br>5 electric stoves @ ` 2,000 each |
| April 19 | Purchased on credit from Khaitan Electric Co.,<br>3 electric heaters @ ` 6,000 each                                       |
| April 25 | Purchased from Polar Electric Co., on credit<br>10 Fans @ ` 2,000 each  |
| April 29 | Purchased from M & Co. for cash<br>10 electric stoves @ ` 3,000 each  |

**(Answer:** Purchases A/c. (Dr.) ` 73,000)

2. Enter the following credit transactions in the purchases book of Manoharan, a Provisions Merchant.

2017

May 2	Bought from Vasu 100 bags of rice @ ` 800 per bag
May 8	Bought from Cheyyar Sugar Mills Ltd., 20 bags of sugar @ ` 2,600 per bag
May 10	Bought from Ram Flour Mill, Coimbatore, 10 bags of wheat flour @ ` 750 per bag
May 15	Bought from Nilgiri Tea Co., Nilgiris, 15 cases of tea @ ` 900 per case
May 25	Bought from Sairam Coffee Works Ltd., 100 kgs of Coffee @ ` 190 per kg.
May 29	Bought from X & Co. furniture worth ` 2,000

(Answer: Purchases A/c (Dr.) ` 1,72,000)

3. From the following transactions write up the Sales day book of M/s. Ram & Co., a stationery merchant.

2017

Jan. 1	Sold to Anbu& Co., on credit 20 reams of white paper @ ` 150 per ream
Jan. 2	Sold to Jagadish& Sons on credit 6 dozen pens @ ` 360 per dozen
Jan. 10	Sold old newspapers for cash @ ` 620
Jan. 15	Sold on credit M/s. Elango& Co., 10 drawing boards @ ` 170 per piece
Jan. 20	Sold to Kani & Co., 4 writing tables at ` 1,520 per table for cash

(Answer: Sales A/c (Cr.) ` 6,860)

4. Enter the following transactions in the Sales book of Kamala Stores, a furniture shop.

2017

May 2	Sold to Naveen Stores, Trichy on credit 5 computer tables @ ` 1,750 per table
May 9	Sold to Deepa & Co., Madurai on credit 6 dining tables @ ` 1,900 per dining table
May 15	Sold to Rajesh 10 dressing tables @ ` 2,750 each on credit
May 24	Sold to Anil 5 wooden tables @ ` 1,250 per table on credit
May 27	Sold to Gopi 3 old computers @ ` 3,500 each
May 29	Sold 50 chairs to Anil @ ` 275 each for cash

(Answer: Sales A/c (Cr.) ` 53,900)

- 5 Enter the following transactions in the purchases and sales books of Kannan, an automobile dealer, for the month of December, 2017.

2017

Dec. 1	Bought from Sumathi gear boxes on credit	17,800
Dec. 4	Sold goods to Rani on credit	15,200
Dec. 6	Purchased goods on credit from Mani	7,000
Dec. 10	Sold goods on credit to Saranya	12,500
Dec. 17	Sold goods to Hussain on credit	13,250
Dec. 21	Purchased goods on credit from Raghunathan	10,000
Dec. 26	Sold goods to Shyam for cash	3,000

(Answer: Purchases A/c (Dr.): ` 34,800 Sales A/c (Cr.): ` 40,950)

6. Prepare Purchases book and Sales book in the books of Santhosh Textiles Ltd., from the following transactions given for April, 2017.

2017

April 1	Purchased goods from Prasad, Kancheepuram on credit 100 meters Silk @ ` 450 per meter 75 meters Velvet @ ` 180 per meter	
April 10	Sold goods to Rathinam, Chennai on credit 60 meters Silk @ ` 490 per meter 50 meters Velvet @ ` 210 per meter	
April 18	Nathan & Sons purchased from us on credit 100 meters Silk @ ` 510 per meter	
April 20	Purchased goods from Hari Ram & Sons, Madurai on credit 50 rolls kada cloth @ ` 730 per roll 80 rolls cotton cloth @ ` 650 per roll	
April 24	Purchased from Mohan, Karur for cash Shirting cloth @ ` 7,000 Sarees @ ` 25,000	

(Answer: Purchases A/c (Dr.): ` 1,47,000 & Sales A/c (Cr.) ` 90,900)

7. From the following information, prepare purchase day book and purchases returns book for the month of June, 2017 and post them into ledger accounts in the books of Robert Furniture Mart.

2017

June 1	Purchased from Balu Traders 20 chairs @ ` 150 each on credit
June 13	Bought from Subash @ Co., on credit

2 Almirah @ ` 3,100 each  
 10 tables @ ` 1,500 each  
 15 chairs @ ` 200 each  
 Less: 10 % Trade discount on all items  
 Add: Freight charges ` 220  
 June 21 Returned 2 damaged chairs to Balu Traders and cash not received  
 June 24 Purchased from Sunrise Furniture Mart on credit  
 25 Almirahs @ ` 1,300 each  
 June 27 Purchased from Mouli Traders on credit  
 10 executive tables @ ` 3,275 each  
 June 29 Returned 3 Almirahs to Sunrise Furniture Mart and cash not received  
**(Answer:** Purchases A/c(Dr.): ` 90,250 Purchases Returns A/c (Cr.) ` 4,200)

8. Enter the following transactions in the proper subsidiary books of Suman who is dealing in electronic goods for the month of January, 2017.

2017

Jan. 2 Purchased from M/s. Raj Electronics on credit  
 20 cell phones @ ` 5,500 per piece  
 10 colour TVs @ ` 14,500 per piece  
 Jan. 5 Purchased from M/s. Ruby Electronics on credit  
 10 radios @ ` 1,650 per piece  
 8 Tape recorders @ ` 2,500 per piece  
 Trade discount on all items @ 10%  
 Jan. 10 Returned to M/s. Raj Electronics 4 cell phones damaged and cash not received  
 Jan. 20 Purchased from M/s. Suganthi Electronics on credit  
 10 radios @ ` 3,700 per piece  
 2 Sony colour TVs @ ` 27,000 per piece  
 Trade discount @ 5% on all items  
**(Answer:** Purchases A/c. (Dr.) ` 3,74,300; Purchases returns A/c (Cr.): ` 22,000)

9. Enter the following transactions in the sales book and sales returns book of M/s. Guhan & Sons, who is a textile dealer.

2017

May 2 Sold to M/s. Karan & Co., on credit  
 100 pieces towels @ ` 280 per piece  
 200 metres shirtings @ ` 270 per metre

May 5	Sold to M/s. Veeran & Sons on credit 10 pieces ready-made dress @ ` 1,500 per piece
May 16	Sold to M/s. Jain & Sons on credit 50 blankets @ ` 240 each
May 20	Damaged 10 pieces towels returned by Karan & co. and cash not paid
May 25	Sold old furniture to M/s. Saran & Co., on credit ` 18,000
May 27	Returned 2 pieces ready-made dresses by M/s. Veeran & Sons due to inferior quality and cash not paid <b>(Answer:</b> Sales A/c. (Cr.) ` 1,09,000 Sales Returns A/c (Dr.) ` 5,800)

10. Record the following transactions in the sales book and sales returns book of M/s. Ponni & Co., and post them to ledger.

2017	
Aug 1	Sold goods to Senthil as per Invoice No. 68 for ` 20,500 on credit
Aug 4	Sold goods to Madhavan as per Invoice No. 74 for ` 12,800 on credit
Aug 7	Sold goods to Kanagasabai as per Invoice No. 78 for ` 7,500 on credit
Aug 15	Returns inward by Senthil as per Credit Note no. 7 for ` 1,500 for which cash is not paid
Aug 20	Sold goods to Selvam for ` 13,300 for cash
Aug 25	Sales returns of ` 1,800 by Madhavan as per Credit Note No. 11 for which cash is not paid <b>(Answer:</b> Sales A/c (Cr.) ` 40,800; Sales Returns A/c (Dr.) ` 3,300; Senthil A/c (Dr.) ` 19,000; Madhavan A/c (Dr.) ` 11,000 & Kanagasabai A/c (Dr.) ` 7,500)

11. Prepare necessary subsidiary books in the books of Niranjan and also Sachin account and Mukil account from the following transactions for the month of February, 2017.

2017	
Feb. 1	Purchased goods from Mukil Traders on credit 12,480
Feb. 4	Goods sold to Sachin Traders on credit 15,000
Feb. 6	Sold goods to Manish Traders on credi 12,100
Feb. 7	Sachin Traders returned goods for which cash is not paid 1,200
Feb. 9	Returned goods to Mukil Traders for which cash is not received 1,500
Feb. 10	Sold goods to Manish & Co., on credit 13,300
Feb. 14	Purchased from Mukil Traders on credit 15,200
	<b>(Answer:</b> Purchases A/c (Dr.) ` 27,680; Sales A/c (Cr.) ` 40,400, Purchases Returns A/c (Cr.) ` 1,500, Sales Returns A/c (Dr.) ` 1,200; Mukil A/c (Cr.) ` 26,180; Sachin A/c (Dr.) ` 13,800)

12. From the following information, prepare the necessary subsidiary books for Nalanda Book Stores.

2017

Dec. 1	Bought from M/s. Umadevi on credit 100 copies Business Statistics Book @ ` 80 each 100 copies Accountancy Book @ ` 150 each
Dec. 7	Sold to Sridevi & Co., on credit 240 copies Business Statistics @ ` 90 each 250 copies Accountancy books @ ` 170 each
Dec. 10	Bought from Subha & Co., 40 Copies Economics books @ ` 80 each Less: 15% Trade Discount
Dec. 15	Returned to M/s. Uma Devi 10 copies of damaged Accountancy book for which cash is not received
Dec. 18	Sold to Gupta Bros., on credit 200 copies of Economics book @ ` 95 each
Dec. 26	Returned 6 copies of Economics books to Subha & Co., <b>(Answer:</b> Purchases A/c (Dr.) ` 25,720, Sales A/c (Cr.) ` 83,100, Purchases Returns A/c (Cr.) ` 1,908)



Mr. Joseph started a trading business of selling readymade clothes. In the earlier period, he dealt only with cash, because he felt that would be risk-free. But, later on, he had to give credit period for his regular customers in order to retain them. For some customers, when they made bulk purchase, he offered them some discount. That brought him even more customers. But, some of his customers are not prompt in making the payment.

He expanded his business and employed few staff. As the credit transactions were numerous, he found it difficult to maintain properly. One of his friends, who is a Chartered Accountant advised him to maintain subsidiary books.

Discuss on the following points.

- What could be the reason for Joseph's feeling that dealing in cash is risk free?
- What type of discount is offered by Joseph?
- Suggest some ways to Joseph for making his customers to pay on time.
- Do you think that maintaining the subsidiary books will be useful to Joseph?
- What business documents are needed to maintain the subsidiary books?

### To explore further

How do you make sure that the subsidiary books are maintained without any error?

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## Unit 7

# SUBSIDIARY BOOKS - II

## CASH BOOK



### Contents

- 7.1 Introduction
- 7.2 Meaning of cash book
- 7.3 Cash book – A subsidiary book and principal book of accounts
- 7.4 Importance of cash book
- 7.5 Types of cash book
- 7.6 Single column cash book
- 7.7 Cash discount and trade discount
- 7.8 Double column cash book
- 7.9 Three column cash book
- 7.10 Petty cash book



### Points to recall

The following points are to be recalled before learning Subsidiary books-II cash book:

- Golden rules of accounting
- Journal entries
- Ledger account
- Subsidiary books



### Learning Objectives

To enable the students to

- Understand the meaning and importance for cash book
- Apply the rules of double entry system in the preparation of various types of cash book
- Understand the meaning and types of petty cash book
- Prepare petty cash book



### Key terms to know

- Cash book
- Petty cash book
- Bank overdraft
- Cheque

## 7.1 Introduction



### Student activity

**Think:** A stationery shop keeper maintains only one register to record all her business transactions. She finds it difficult to know and check her shop's cash balance at the end of the day. Is there any way to help her? She needs your suggestion.

In any business, many transactions take place every day involving cash such as cash sales, receipts from debtors, cash purchases, payment to creditors and payment towards different expenses. It is therefore necessary, that all the cash transactions are recorded in a separate book, i.e., cash book. Cash book is the most important subsidiary book, because it keeps the initial record of cash transactions of the business. Cash book is maintained by every business, whether small or large in size. It is simply because every business is very cautious about its cash management, i.e., cash receipts and cash payments. The cash book presents the true position of cash transactions. Cash book also serves as a documentary evidence for the available cash balance.

## 7.2 Meaning of cash book

Cash book is the book in which only cash transactions are recorded in the chronological order. The cash book is the book of original entry or prime entry as cash transactions are recorded for the first time in it. Cash transactions here may include bank transactions also. Cash receipts are recorded on the debit side while cash payments are recorded on the credit side.

## 7.3 Cash Book – A subsidiary book and principal book of accounts

All the cash transactions are recorded first in the cash book. It is therefore a subsidiary book. When cash book is maintained, there is no need for preparing cash account and bank account in the ledger because in the cash book cash receipts and cash payments are compared and the cash and bank balances at the end are arrived at. Thus, it serves as a ledger account also. Hence, the cash book, unlike any other subsidiary book, is both a subsidiary book and a principal book.

## 7.4 Importance of cash book

Importance of cash book is discussed below:

### (i) Serves as both journal and ledger

When cash book is maintained, it is not necessary to open a separate cash account in the ledger. Thus, cash book serves the purpose of a journal and a ledger.

### (ii) Saves time and labour

When cash transactions are recorded through journal entries, a lot of time and labour will be involved. To avoid this, all cash transactions are straightaway recorded in the cash book, which saves time and labour.

**(iii) Shows the cash and bank balance**

It helps to know the cash and bank balance at any point of time by comparing the total cash receipts and cash payments.

**(iv) Benefit of division of labour**

As cash book is a separate subsidiary book, an independent person can maintain it. Hence, business can get the benefit of division of labour.

**(v) Effective cash management**

Cash book provides all information regarding total receipts and payments of the business concern during a particular period. It helps in formulating effective policy for cash management.

**(vi) Prevents errors and frauds**

Balance as per cash book and the balance in the cash box can be compared daily. If there is any deficit or surplus, it can be found easily. It helps in preventing any fraud or error in cash dealings.

## **7.5 Types of cash book**

The main cash book may be of various types and following are the three most common types.

- (i) Simple or single column cash book (only cash column)
- (ii) Cash book with cash and discount column (double column cash book)
- (iii) Cash book with cash, discount and bank columns (three column cash book).

Apart from the main cash book, petty cash book may also be prepared to enter the petty expenses, i.e., expenses involving small amount.

## **7.6 Single column cash book**

Single column cash book or simple cash book, like a ledger account has only one amount column, i.e., cash column on each side. Only cash transactions are recorded in this book. All cash receipts and payments are recorded systematically in this book. The format of simple cash book is given as under:

Simple Cash Book									
Date	Receipts	R.N.	L.F.	Amount `	Date	Payments	V.N.	L.F.	Amount `
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)

The format of simple cash book shows that it has been divided into two parts. The left hand side is 'Debit' which represents all cash receipts and the right hand side is 'Credit', showing all cash payments.

**Columns (1) and (6) – Date:** Date of receiving cash is recorded in the debit side and date of paying cash is recorded in the credit side.

**Column (2) Receipts:** Receipts column shows name of persons or parties from whom cash has been received, income received, sale of asset like plant, cash sales and other receipts.

**Column (3) Receipt Number (R.N.):** This column contains the serial numbers of the cash receipts.

**Columns (4) and (9) – Ledger Folio (L.F.):** This column is provided both on the debit and credit side of the cash book. It is used for reference. The Ledger page number of every account in the cash book is recorded in this column. This column facilitates vouching and verification of transactions recorded.

**Columns (5) and (10) – Amount:** This is the last column of the cash book on both the debit and credit sides. In case of cash receipt, the amount of actual cash receipts and in case of payments, the amount of actual cash payment is recorded. The opening balance of cash is recorded on the debit side and the closing balance is the balancing figure on the credit side. Opening balance or capital contributed by cash in case of new business is the first item on the debit side and the closing balance is the last item on the credit side.

The word ‘To’ is conventionally used before different accounts at the debit side of cash book in particulars column. The word ‘By’ is used before the different accounts at the credit side of the cash book in particulars column.

**Column (7) Payments:** The accounts to which payments are made are recorded here such as names of persons to whom payment has been made, expenses paid, assets purchased, cash purchases, etc.

**Column (8) Voucher Number (V.N.):** This column contains the serial number of the voucher towards which payment is made.



### Student activity

**Think:** Credit transactions are not recorded in the cash book. Where will they be recorded?

#### 7.6.1 Balancing of single column cash book

Since the cash book serves as cash account, it must be balanced regularly. The balancing procedure is the same like any other ledger account. It must be remembered that one cannot pay more cash than what one has received. Therefore, the total of receipts is always more than (or at least equal to, but never less than) the credit total (payments) and the cash book always shows a debit balance (or nil balance, but never credit balance).

## Illustration 1

Enter the following transactions in a simple cash book of Kunal:

2017

Jan.

1	Cash in hand	11,200
5	Received from Ramesh	300
7	Paid rent	30
8	Sold goods for cash	300
10	Paid Mohan	700
27	Purchased furniture for cash	200
31	Paid salaries	100

### Solution

#### In the books of Kunal

Dr.	Cash Book (Single column)					Cr.	
Date	Receipts	L.F.	Amount	Date	Payments	L.F.	Amount
2017				2017			
Jan 1	To Balance b/d		11,200	Jan 7	By Rent A/c		30
Jan 5	To Ramesh A/c		300	Jan 10	By Mohan A/c		700
Jan 8	To Sales A/c		300	Jan 27	By Furniture A/c		200
				Jan 31	By Salaries A/c		100
				Jan 31	By Balance c/d		10,770
			11,800				11,800
Feb 1	To Balance b/d		10,770				

### Explanation

**Jan 1:** Cash in hand is the opening balance with the firm. This would have been the closing balance on 31st December, 2017. Cash account always has debit balance so it has been shown in the debit side of the cash book.

**Jan 5:** It is a receipt from Ramesh, so it has been recorded in receipt side (debit side) of the cash book.

**Jan 7:** Payment of rent will decrease cash, so it has been recorded in payment side (credit side) of the cash book.

**Jan 8:** Cash sales of goods will bring cash and increases the cash balance, so it has been recorded in the debit side of the cash book.

**Jan 10:** Payment to Mohan decreases cash, so it has been recorded in the credit side.

**Jan 27:** Purchase of furniture for cash reduces cash, so it has been recorded in credit side.

**Jan 31:** Payment of salaries in cash reduces cash, so it has been recorded in the credit side of cash book.



### Student activity

**Think:** In cash book, receipts are entered on the debit side and payments are entered on the credit side. Why?

### Illustration 2

Enter the following transactions in a single column cash book of Pradeep for April, 2017

April

1	Commenced business with cash	27,000
5	Bought goods for cash	6,000
10	Goods sold for cash	11,000
13	Paid into bank	5,000
14	Goods sold to Sangeetha for cash	9,000
17	Goods purchased from Preethi on credit	13,000
21	Purchased stationery by cash	200
25	Paid Murugan by cash	14,000
26	Commission paid by cash	700
29	Drew from bank for office use	4,000
30	Rent paid by cheque	3,000

### Solution

#### In the books of Pradeep

Dr.	Cash Book (Single column)				Cr.		
Date	Receipts	L.F.	Amount	Date	Payments	L.F.	Amount
2017				2017			
April 1	To Pradeep's capital A/c		27,000	April 5	By Purchases A/c		6,000
10	To Sales A/c		11,000	13	By Bank A/c		5,000
14	To Sales A/c		9,000	21	By Stationery A/c		200
29	To Bank A/c		4,000	25	By Murugan A/c		14,000
				26	By Commission A/c		700
				30	By Balance c/d		25,100
			51,000				51,000
May 1	To Balance b/d		25,100				

**Note:** The transaction dated April 17th will not be recorded in the cash book as it is a credit transaction. The transaction on 30th is not recorded as the payment is made through bank which does not involve cash.

### 7.6.2 Posting from single column cash book

Since cash book serves as ‘journal’ as well as ‘ledger account’, there is no need for preparing separate cash account and posting thereto. But entering cash transactions in cash book means recording only cash aspect of each transaction. The other aspect of the transaction remains to be posted. When the related accounts are posted, the double entry will be completed. The procedure for posting is:

- Credit the accounts mentioned on the receipts (or) debit side by entering ‘By Cash account’ and
- Debit the accounts mentioned on the payment (or) credit side by entering ‘To Cash account’.

For example, for illustration 2, posting is made to sales account and purchases account as follows:

Dr.	Sales				Cr.		
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2017 April				2017 April 10 14	By Cash A/c By Cash A/c		11,000 9,000

Dr.	Purchases A/c				Cr.		
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2017 April 5	To Cash A/c		6,000	2017 April			

### 7.7 Cash discount and trade discount

#### a) Cash discount

Cash discount is allowed to the parties making prompt payment within the stipulated period of time or early payment. It is discount allowed (loss) for the creditor and discount received (gain) for the debtor who makes payment. The discount is allowed when payment is received or made and hence, the entry for discount is also passed with the entry of payment. The earlier the payment, the more may be the discount. Cash discount motivates the debtor to make the payment at an earlier date to avail discount facility. For example, the terms may be.

“5% discount will be allowed if the payment is made within one month.

3% discount will be allowed if the payment is made within two months”

Discount allowed account will be shown on the debit side of profit and loss account and discount received account will be shown on the credit side of profit and loss account. When cash discount is allowed in respect of sale of goods or services, the seller allows cash discount to the buyer when payment is made.

### b) Trade discount

Trade discount is a deduction given by the supplier to the buyer on the list price or catalogue price of the goods. It is given as a trade practice or when goods are purchased in large quantities. It is shown as a deduction in the invoice. Trade discount is not recorded in the books of accounts. Only the net amount is recorded. Example: Suppose the sale of goods for ` 10,000 was made and 10% was allowed as trade discount, the entry regarding sales will be made for ` 9,000 ( $10,000 - 10$  per cent of  $10,000$ ). In the same way, purchaser of goods will also record purchases as ` 9,000).

#### **7.7.1 Differences between cash discount and trade discount**

Following are the difference between cash discount and trade discount:

Basis	Cash discount	Trade discount
1. Purpose	Cash discount is allowed to encourage the buyers of goods to make payment at an early date.	Trade discount is allowed to encourage buyers to buy goods in large quantities.
2. Time of allowance	Cash discount is allowed by the seller or creditor to the buyer or debtor at the time of making payment.	Trade discount is allowed by the seller to the buyer when goods are sold.
3. Amount of discount	Cash discount is related to time. The earlier the payment, the more will be the cash discount.	Trade discount is generally related to the quantity of purchase or sale. The more the purchases, the more will be the rate and amount of discount.
4. Recording in books of accounts	Cash discount is recorded in the books of account. Cash discount allowed is shown on the debit side of cash book. Cash discount received is shown on the credit side of the cash book.	Trade discount is not recorded in the books of account. No journal entry is made for the same. Details are just shown in the purchases or sales book.
5. Deduction from invoice value	Cash discount is not deducted from the invoice value of goods.	Trade discount is deducted from the list price of the goods.

#### **7.8 Double column cash book (Cash book with cash and discount column)**

It is a cash book with cash and discount columns. As there are two columns, i.e., discount and cash columns, both on debit and credit sides, this cash book is known as 'double column cash book'.

The double column cash book is prepared on the lines of simple cash book. It has only one additional column, i.e., discount column on each side. Discount column represents discount allowed on the debit side and discount received on the credit side.

In the discount columns, cash discount, i.e., cash discount allowed and cash discount received are recorded. The net amount received is entered in the amount column on the debit side and the net amount paid is entered in the amount column on the credit side. For the seller who allows cash discount, it is a loss and hence it is debited and shown on the debit side of the cash book. For the person making payment, discount received is a gain because less payment is made and it is credited and shown on the credit side of the cash book.

The cash columns are balanced. Discount columns are not balanced, since debit represents discount allowed and credit represents discount received. They are totalled, separately.

The format of double column cash book is given below:

Cash book with cash and discount columns												Cr.
Date	Receipts	R.N	L.F	Amount`		Date	Payments	R.N	L.F.	Amount`		
				Discount	Cash					Discount	Cash	



### Student activity

**Think:** Cash account cannot have a credit balance. Why?

#### 7.8.1 Balancing the double column cash book

The cash columns should be balanced as usual and the balance should be carried forward to the next date or period.

However, discount columns are not to be balanced. They are to be totalled on the debit side and credit side separately. The total of discount column on the debit side represents total discount allowed to customers and is debited to discount allowed account. Total of discount column on the credit side represents total discount received and is credited to discount received account. The periodical totals of discount columns are posted as under:

- (i) Debit Discount allowed account as ‘To Sundry Accounts as per Cash book’, with the periodical total of the discount allowed column.
- (ii) Credit Discount received account as ‘By Sundry Accounts as per Cash Book’ with the periodical total of the discount received column.

### Illustration 3

Enter the following transactions in a cash book with cash and discount columns:

2017

Jan 1	Cash in hand	11,500
Jan 5	Paid to Ramanathan by depositing in cash deposit machine	300
	Discount allowed by him	10
Jan 8	Purchased goods for cash	400
Jan 10	Cash received from Rajagopal	980
	Discount allowed	20
Jan 15	Sold goods for cash	400
Jan 21	Paid cash to Shanthi	295
	Discount received	5
Jan 25	Paid wages by cash	50
Jan 31	Paid to Sanjeev ` 390 in full settlement of his account	400

### Solution

Dr.			Cash book with cash and discount columns					Cr.	
Date	Receipts	L.F.	Amount		Date	Payments	L.F.	Amount	
			Discount	Cash				Discount	Cash
2017					2017				
Jan 1	To Balance b/d				Jan 5	By Ramanathan A/c		10	300
10	To Rajagopal A/c		20	980	8	By Purchases A/c			400
15	To Sales A/c			400	21	By Shanthi A/c		5	295
					25	By Wages A/c			50
					31	By Sanjeev A/c		10	390
					31	By Balance c/d			11,445
Feb 1	To Balance b/d		20	12,880				25	12,880
				11,445					

**Note:** Discount column is not to be balanced.

### 7.8.2 Posting from double column cash book

Following is the procedure for posting entries from double column cash book:

- (a) **Cash columns:** Debit the accounts mentioned on the credit side and the credit is to Cash A/c with the amount mentioned in cash column; credit the accounts mentioned on the debit side and the debit is for Cash A/c with the amount mentioned in cash column.

- (b) **Discount columns:** Debit the concerned personal account mentioned on the credit side and the credit is to Discount received A/c with the amount mentioned in the discount received column. Credit the concerned personal account mentioned on the debit side and the debit is for Discount allowed A/c with the amount entered in the discount allowed column.

## 7.9 Three column cash book (Cash book with cash, discount and bank column)



### Student activity

**Think:** Is it safe and convenient to carry on the business transactions only in cash?

A three column cash book includes three amount columns on both sides, i.e., cash, bank and discount. This cash book is prepared in the same way as simple and double column cash books are prepared. The transactions which increase the cash and bank balance are recorded on the debit side of the cash and bank columns respectively. Opening balance of cash and favourable bank balance appear as the first item on the debit side of the three column cash book in case of existing business. If the business is a new one, capital contributed in cash and/or bank deposit appear as the first item on the debit side.

All the transactions which decrease the cash and bank balance are recorded in the cash and bank columns on the credit side. The balancing figures will be the closing balances of cash and bank. Cash will always have debit balance. Bank balance may be debit or credit depending on whether the balance is favourable or unfavourable respectively. If there is any discount allowed it is entered in the discount column on the debit side against the particular account. Similarly, if there is any discount received, it is entered in the discount column on the credit side.

### 7.9.1. Format

Format of three column cash book is as follows:

**Dr.                          Cash book with cash, discount and bank columns or three column cash book                          Cr.**

Date	Receipts	L.F	Amount			Date	Payments	L.F.	Amount		
			Discount	Cash	Bank				Discount	Cash	Bank

### Tutorial note

- (i) If a business entity has more than one bank account, columns may be provided in the cash book for each bank account separately.
- (ii) Treatment of cheques: In addition to cash dealings every business may use cheques as a means of payment. For the purpose of accounting, cheques received are treated as cash received. When cheques received are banked on the same day the amount is to be directly debited to the bank account. When payments is made by cheque, the bank account is credited.

## 7.9.2. Contra entry

When the two accounts involved in a transaction are cash account and bank account, then both the aspects are entered in cash book itself. As both the debit and credit aspects of a transaction are recorded in the cash book, such entries are called contra entries.

### Example

- (i) When cash is paid into bank, it is recorded in the bank column on the debit side and in the cash column on the credit side of the cash book.
- (ii) When cash is drawn from bank for office use, it is entered in cash column on the debit side and in the bank column on the credit side of the cash book.

To denote that there are contra entries, the alphabet 'C' is written in L.F. column on both sides. Contra means that particular entry is posted on the other side (contra) of the same book, because Cash account and Bank account are there in the cash book only and there are no separate ledger accounts needed for this purpose. The alphabet 'C' indicates that no further posting is required and the relevant account is posted on the opposite side.

### Illustration 4

Prepare three column cash book in the books of Thiru Durairaj.

2017

March 1	Cash in hand	12,000
	Cash at bank	15,000
2	Cash paid into bank	11,000
3	Goods sold ` 18,500. Half of it is received in cash and half of it is received by cheque which is immediately deposited in the bank	
4	Sold on credit to Jayaraj for	7,000
8	Jayaraj sent a cheque in full settlement	6,900
12	Jayaraj's cheque was sent to bank	
14	Bought goods from Iqbal and issued a cheque to him immediately	8,500
15	Bought goods from Murali on credit	4,000
19	Received a cheque from Kannappan in full settlement of his account of ` 2,000	1,975
20	Drew cash ` 3,000 and by cheque ` 5,000 for personal use	
25	Paid Vinod by cheque in full settlement of his account of ` 2,000	1,850

### Solution

**In the books of Durairaj**  
**Three-column cash book**

Date	Particulars	R.N	L.F	Amount`		Date	Particulars	V.N	L.F	Amount`		
				Discount Allowed	Cash					Discount Received	Cash	Bank
2017						2017						
Mar 1	To Balance b/d											
2	To Cash A/c	C										
3	To Sales											
8	To Jayaraj A/c											
12	To Cash A/c	C										
19	To Kannappan A/c											
Apr 1	To Balance b/d											

## **Illustration 5**

Record the following transactions in three column cash book of Gunasekaran.

2017

Jan

1	Cash in hand	50,000
1	Cash at bank	90,000
2	Goods sold on credit to Rohini	15,000
5	Cheque received from Rohini in full settlement and deposited into bank	14,500
6	Cash deposited into bank through cash deposit machine	18,000
7	Goods sold to Sridhar for ` 12,000. He made the payment of ` 11,800 by debit card in full settlement by availing a cash discount of ` 200	
10	Money withdrawn from bank for office use	2,000
12	Purchased goods from Raja for ` 10,000 and paid through credit card in full settlement by availing a cash discount of ` 200	9,800
14	Nathiya who owed money made the payment through NEFT	18,000
27	Cheque of Rohini dishonoured	

(See the solution in pg number 3)

## **Illustration 6**

Padmini is a dealer in stationery. She maintains three column cash book. Record the following transactions in her cash book for the month of April, 2018.

2018

April

1	Cash in hand: ` 1,00,000; Cash at bank:	1,00,000
3	Goods sold to Raji who made the payment through credit card	10,000
5	Goods purchased for ` 10,000 from Padma Traders. The payment is made after getting a cash discount of ` 500 through net banking	9,500
6	Purchased furniture from ABC Co. and the payment is made by cheque	8,000
9	Purchased goods from TNPL for ` 2,10,000 and the payment is made through RTGS after availing a cash discount of ` 10,000	2,00,000
21	Supplied stationery items to BHEL for ` 33,000 and received the payment through NEFT after allowing a cash discount of for ` 1,000	32,000
23	Supplied goods to Thangaraj who made the payment by cheque which is deposited in the bank	20,000
27	Thangaraju's cheque is dishonoured	
30	Bank charged for overdraft facility	200
30	Cash deposited into bank	10,000

(See the solution in pg number 3)

**Solution for illustration 5**

**In the books of Gunasekaran**

Dr.	Particulars	R.N.	L.F.	Amount`			V.N.	L.F.	Particulars	Amount`		
				Discount	Allowed	Cash	Bank	Date	Discount Received	Cash	Bank	
2017												
Jan. 1	To Balance b/d			-	50,000	90,000		Jan. 6	By Bank A/c			
5	To Rohini A/c			500	-	14,500		10	By Cash A/c			- 2,000
6	To Cash A/c			-	-	18,000		12	By Purchases A/c			9,800
7	To Sales A/c			200	-	11,800		27	By Rohini A/c			- 14,500
10	To Bank A/c			-	2,000	-		31	By Balance c/d			34,000
14	To Nathiya A/c			-	-	18,000						1,26,000
Feb. 1	To Balance b/d				700	52,000	1,52,300			200	52,000	1,52,300

**Solution for illustration 6**

**In the books of Padmini**  
**Three column cash book**

Dr.	Particulars	R.N.	I.F.	Amount`			V.N.	I.F.	Received	Discount	Cash	Bank
				Discount	Allowed	Cash						
2018				-	1,00,000	1,00,000	2018			500		
Apr							Apr					
1	To Balance b/d						5	By Purchases A/c				9,500
3	To Raji A/c			-			6	By Furniture A/c				8,000
21	To Sales A/c			1,000			9	By Purchases A/c				2,00,000
23	To Sales A/c			-			27	By Thangaraj A/c				20,000
30	To Cash A/c			-			30	By Bank charges				200
30	To Balance c/d			-			30	By Bank A/c				-
							30	By Balance c/d				10,000
												90,000
												10,500
												1,00,000
												2,37,700
May 1	To Balance b/d						May 1	By Balance b/d				65,700

## **Illustration 7**

From the following transactions prepare three column cash book of Udhayakumar

2017

Sep 1	Cash balance	25,000
1	Bank Balance (cr.)	13,070
3	Paid into bank	15,000
4	Received cash from Shyamala & Co.,	9,380
	Discount allowed to them ` 120	
10	Goods sold for cash	7,600
11	Cash purchases	11,750
12	Gave Padma a Cheque for ` 21,375 and was allowed a discount of	125
18	Purchased a printer by cheque	7,600
23	Received cash from Rajasekar	14,320
	Discount allowed to him ` 180	

(See the solution in pg number 3

Solution for illustration 7

In the books of Udhayakumar  
Three column cash book

## 7.10 Petty cash book



### Student activity

**Think:** A cashier finds it difficult to maintain record of large volume of cash payments, ranging from ` 5 to ` 10,00,000. Can you suggest a way to reduce his work burden?

Business entities have to pay various small expenses like taxi fare, bus fare, postage, carriage, stationery, refreshment and other sundry items. These are small payments and repetitive in nature. If all these small payments are recorded in the main cash book, it will be loaded with lot of entries. Hence, all petty payments of the business may be recorded in a separate book, which is called as petty cash book and the person who maintains the petty cash book is called the petty cashier. Thus business concerns may maintain main cash book and petty cash book separately.

All the small payments must be supported by vouchers, that is, documentary evidences. The vouchers must be numbered and filed in order. Petty cashier makes only cash payments. He must not be allowed to receive any cash except for reimbursement. Petty cashier has to make payments only within the specified limit. Payments involving large amounts must be made only by main cashier. At the end of the relevant period, petty cash book is balanced. Balancing of petty cash book is similar to the balancing of simple cash book.



### Student activity

**Think:** The main cashier thinks that the petty cashier spends too much on everyday business activities. Is there any way to have a control on such expenses?

### 7.10.1 Imprest system of petty cash

Under this system, a fixed amount necessary or sufficient to meet petty payments determined on the basis of past experience is paid to the petty cashier on the first day of the period. (It may be a week or fortnight or month). The amount given to the petty cashier in advance is known as "Imprest Money". The word imprest means payment in advance. The petty cashier makes payments from this amount and records them in petty cash book. At the end of a particular period, the petty cashier submits the petty cash book to the head cashier. The head cashier scrutinises the petty payments and gives amount equal to the amount spent by petty cashier so that the total amount with the petty cashier is now equal to the amount he had received in the beginning as advance. Under the system, the total cash with the petty cashier never exceeds the imprest at any time during the period. This method thus provides an effective control over petty payments.

For example, On 1st June, 2017, ` 1,000 was given to the petty cashier. He had spent ` 940 during the month. He will be paid ` 940 on 30th June by the cashier so that he may again have ` 1,000 for the next month i.e., July, 2017.

### **7.10.2 Advantages of maintaining petty cash book**

Following are the advantages of maintaining petty cash book:

- (i) There can be better control over petty payments.
- (ii) There is saving of time of the main cashier.
- (iii) Cash book is not loaded with many petty payments.
- (iv) Posting of entries from main cash book and petty cash book is comparatively easy.

### **7.10.3 Types of petty cash book**

There are two types of petty cash books. They are:

- (i) Simple petty cash book
- (ii) Analytical petty cash book

#### **(i) Simple petty cash book**

A simple petty cash book resembles the single column cash book. But the columns are different. On the debit side, only the advance received from the head cashier is recorded. On the credit side, all payments are recorded in only one column. This is known as simple petty cash book.

#### **(ii) Analytical petty cash book**

In analytical petty cash book, a separate column is provided for different heads of payments and one column for total payments. When the petty expenses are recorded in the total payment column, same amount is also recorded in the appropriate expense column. This is known as analytical petty cash book.

<b>Format of analytical petty cash book</b>													
Receipts	C.B F.N	Date	Particulars	V.N.	Total payments	Postage	Stationery	Carriage	Travelling expenses	Refreshments	Sundries	Personal accounts	Cr.

Details entered in the various columns of the petty cash book are as follows:

**1) Receipts**

This is the first column of the petty cash book. The amount received by the petty cashier for meeting petty expenses is recorded in this column. Generally, amount is received once on the first day of every week or month. The opening balance of petty cash is recorded in this column as the first item. This column shows the total amount available with the petty cashier.

**2) Cash Book Folio Number (C.B.F.N.)**

In this column, the page number of the cash book in which the entry is made is recorded.

**3) Date**

In this column, the date of receipt of petty cash and payment of every petty expense is recorded.

**4) Particulars**

The details of transactions are entered in this column. Cash received in the beginning is recorded as 'To Cash A/c' and all the petty expenses are recorded as 'By Concerned Expense A/c' (name of the expense).

**5) Voucher Number (V.N.)**

Every transaction in accounting must be supported by documentary evidence. All the payments must have vouchers which must be arranged in the chronological order of payment and serially numbered. Voucher number of every payment is written in this column.

**6) Total**

The amount of every petty expense is recorded in this column. At the end of the week or month expenses are totalled. The total expenses of the week or the month is compared with the total of the receipts column and balance is obtained.

**7) Postage**

Postal expenses incurred for post card, envelope, inland letter, postage stamps, registered letter, parcel, etc. are recorded in this column.

**8) Stationery**

It includes expenses incurred for purchasing materials such as paper, ink, pencil, eraser, carbon paper and other similar stationery items.

**9) Carriage**

It includes amount paid as wages, transport charges and other expenses.

**10) Travelling or conveyance expenses**

In this column fare for auto rickshaw, taxi, bus, train, etc., are recorded.

**11) Refreshments**

Amount spent for tea, coffee, snacks, etc., is recorded.

## **12) Sundries**

There may be certain expenses which are infrequent for which specific columns are not provided. These are recorded in this column.

## **13) Personal accounts**

Small amount of money paid to individuals are entered in this column.

## **14) Ledger Folio (L.F.)**

This refers to the page number of the ledger where the respective account is recorded.

### **7.10.4 Balancing petty cash book**

At the end of the period, i.e., week or month the total of the total column, individual expenses columns and sundries columns, is obtained. The total of the individual petty expenses column must be equal to the total in the total column. The sum of the total column is compared with the total of receipts column and the balance is obtained. The closing balance is shown as 'By Balance c/d'. The closing balance is carried forward to the next week or month. It is shown as 'To Balance b/d'. Cash received from the main cashier at the beginning of the next period is entered as 'To Cash A/c' and the amount is recorded in the Receipts column.

### **7.10.5 Posting of entries from petty cash book to ledger**

1. When petty cash is advanced at the beginning:

A separate petty cash account is opened in the ledger. When advance is received by the petty cashier, petty cash account is debited and cash account is credited.

2. When individual expenses columns are periodically totalled:

The total of various petty expenses are debited and the petty cash account is credited with the total of the payments made.

The petty cash account will show the balance of petty cash. This balance will be shown in the balance sheet as part of cash balance.

#### **Tutorial note**

Instead of debiting the total of each petty expense directly, a separate journal entry may also be made and then credited to petty cash account. The journal entries are:

- (a) **For receiving petty cash:**

Petty cash A/c	Dr.
To Cash A/c	

- (b) **For expenses paid:**

Respective expense A/c	Dr.
To Petty cash A/c	

## **Illustration 8**

Prepare a analytical petty cash book from the following information on the imprest system:

2017

Jan. 1	Received for petty cash	500
Jan. 2	Paid rickshaw charges	5
	Paid cartage	12
Jan. 3	Paid for postage	15
	Paid wages to casual labourer	66
Jan. 4	Paid for stationery	134
	Paid for auto charges	18
Jan. 5	Paid for repairs	65
	Paid for bus fare	11
	Paid for cartage	24

(See the solution in pg number 9)

## **Illustration 9**

Prepare analytical petty cash book in the books of Robert from the following transactions.

2017

Sept

1	Balance in hand	230
	Received a cheque to make the imprest amount	2,270
2	Postage	314
8	Railway freight	280
10	Repairs to computer	405
12	Printing charges	500
16	Refreshments to customers	72
20	Pen and ink purchased	183
22	Paid auto Charges	75

(See the solution in pg number 9)

### Solution for illustration 8

Analytical petty cash book (in `)							Cr.					
Receipts	C.B F.N	Date	Particulars	V.N.	Total Payments	Conveyance	Cartage	Stationery	Postage	Wages	Sundries	L.F.
500		2017										
		Jan. 1	To Cash									
		Jan. 2	By Conveyance	5								
			By Cartage	12								
		Jan. 3	By Postage	15								
			By Wages	66								
		Jan. 4	By Stationery	134								
			By Conveyance	18								
		Jan. 5	By Repairs	65								
			By Conveyance	11								
			By Cartage	24								
			Total expenses	350								
		Jan. 6	By Balance c/d	150								
				500								
		150	Jan. 6	To Balance b/d								
		350	Jan. 6	To Cash								

### Solution for illustration 9

In the books of Robert

Dr.	C.B E.N	Date	Particulars	V.N.	Total Payments	Postage	Printing & Stationery	Carriage	Travelling Expenses	Repair to computers	Sund- ries	Cr. L.F.
Receipts												
230	2270	Sep. 1	To Balance b/d									
			To Cash A/c									
		2	By Postage									
		8	By Railway Freight									
		10	By Computer Repairs	280								
		12	By Printing Charges	405								
		16	By Refreshment	500								
		20	By Pen and ink	72								
		22	By Auto charges	183								
				75								
			Total expenses	1,829								
		30	By Balance c/d	671								
			2,500									
		671	Oct.1	To Balance b/d								
		1,829	Oct.1	To Cash								



## Student activity

- 1) Interview a banker or invite a banker to your class to know the procedure for opening various types of bank accounts.
- 2) Imagine you have got a cash gift of ` 5,000. Come up with a small business plan. [Example: creating birthday cards on your own and selling them, buying and selling stationery items, etc.] Prepare cash book using imaginary transactions relevant to your chosen business.

## Points to remember

- Three column cash book contains columns for discount, cash and bank on either side.
- Contra entry appears on both sides of a three column cash book. A contra entry occurs when cash is withdrawn from the bank or cash is deposited into the bank.
- A petty cash book is maintained to record small cash payments.

## Self-examination questions

### I Multiple choice questions

Choose the correct answer



1. Cash book is a
  - (a) Subsidiary book
  - (b) Principal book
  - (c) Journal proper
  - (d) Both subsidiary book and principal book
2. The cash book records
  - (a) All cash receipts
  - (b) All cash payments
  - (c) Both (a) and(b)
  - (d) All credit transactions
3. When a firm maintains a simple cash book, it need not maintain
  - (a) Sales account in the ledger
  - (b) Purchases account in the ledger
  - (c) Capital account in the ledger
  - (d) Cash account in the ledger
4. A cash book with discount, cash and bank column is called
  - (a) Simple cash book
  - (b) Double column cash book
  - (c) Three column cash book
  - (d) Petty cash book

Answers

1. (d) 2. (c) 3. (d) 4. (c) 5. (d) 6. (b) 7. (a) 8. (c) 9. (a) 10. (d)

## II Very short answer questions

1. What is cash book?
  2. What are the different types of cash book?
  3. What is simple cash book?

4. Give the format of 'Single column cash book'.
5. What is double column cash book?
6. Give the format of 'Double column cash book'.
7. What is three column cash book?
8. What is cash discount?
9. What is trade discount?
10. What is a petty cash book?

### **III Short answer questions**

1. Explain the meaning of imprest system of petty cash book.
2. Bring out the differences between cash discount and trade discount.
3. Write the advantages of maintaining petty cash book.
4. Write a brief note on accounting treatment of discount in cash book.
5. Briefly explain about contra entry with examples.

### **IV Exercises**

#### **Single Column Cash Book**

1. Enter the following transactions in a single column cash book of Seshadri for May, 2017.

May

1	Cash in hand	40,000
5	Cash received from Swathi	4,000
7	Paid wages in cash	2,000
10	Purchased goods from Sasikala for cash	6,000
15	Sold goods for cash	9,000
18	Purchased computer	15,000
22	Cash paid to Sabapathi	5,000
28	paid salary	2,500
30	Interest received	500

(Answer: Cash Balance ^ 23,000)

2. Enter the following transactions in a single column cash book of Pandeeswari for the month of June, 2017

June

2	Started business with cash	50,000
8	Paid rent in cash	4,000
10	Purchased printer for cash	7,500
11	Cash purchases	15,000
14	Cash sales	10,000
17	Commission received in cash	6,000
19	Interest paid for loan in cash	2,000
20	Cash withdrawn for personal use	3,000
21	Paid speed post charges in cash	3,500

(Answer: Cash Balance ` 31,000)

3. Enter the following transactions in a single column cash book of Ramalingam for month of July, 2017.

July

1	Cash in hand	32,000
5	Received from Keerthana	5,000
6	Paid packing charges in cash	300
7	Cash purchases	12,400
8	Sold goods for cash	2,600
10	Paid salary to manager in cash	7,000
11	Paid to Bala	3,000
12	Purchased goods from Bose	2,500
24	Cash deposited into bank through CDM	4,000
27	Withdraw cash from bank	2,000
31	Paid office rent in cash	6,000

(Answer: Cash Balance ` 8,900)

## Double column cash book

4. Enter the following transactions in Ahamed's cash book with discount and cash columns.

2017

Oct

1	Cash balance	37,500
3	Cash Sales	33,000
7	Paid to Velan Rs. 15,850 and Discount allowed by him	150
13	Sold goods to Perumal on credit	19,200
15	Cash withdrawn for personal expenses	4,800
16	Purchased goods from Subramanian	14,300
22	Paid to Bank	22,700
25	Cash received from Perumal in full settlement	19,000
26	Draw a cheque for office use	17,500
27	Paid cash to Gopalakrishnan	2,950
	Discount received from him	50
28	Paid cash to Subramanian and settled his account	14,200
29	Cash purchases	13,500
30	Cash paid for advertising	1,500

(Answer: Cash Balance ` 31,500)

5. Enter the following transaction in Chandran's cash book with cash and discount column.

2017

Nov

1	Cash balance	22,000
2	Cash Sales	14,000
3	Credit sales to Govindan	12,000
4	Credit purchases from Balaraman	27,000
5	Cash purchases	8,800
8	Govindan settled his account @ 2% cash discount	
12	Paid Balaraman ` 26,800 and settle his account	
15	Cash withdrawn for personal expenses	4,000

28	Cash paid into Bank	5,000
29	Received from Madhan ` 4,800 in settlement of his account for	5,000
30	Paid salaries in cash	4,000

(Answer: Cash balance ` 18,900)

6. Enter the following transactions in cash book with discount and cash column of Anand  
2017

Dec.

1	Cash in hand	19,500
4	Sold goods for cash	32,000
5	Credit purchases from Gandhi	20,000
9	Received from Gopu	11,800
	Discount allowed to him	200
15	Cash paid for Electricity charges	12,500
17	Bought computer and its accessories by cash	16,800
25	Paid cash to Gandhi ` 19,700 in full settlement of his account	
28	Received cash from Thiruvengadam	8,900
	Discount allowed to him	100
30	Paid trade expenses in cash	3,500

(Answer: Cash balance ` 19,700)

### Three column cash book

7. Write out a cash book with discount, cash and bank columns in the books of Mahendran.

2017

Oct

1	Cash balance	12,000
	Bank balance	48,500
3	Received a cheque from Kesavan	15,850
	Allowed him discount	150
4	Paid Shanmuganathan cheque for ` 7950 and discount allowed by him	50
6	Cash Sales	17,800

7	Paid Sivasamy in cash	10,000
15	Withdrew cash from bank	6,000
17	Purchased goods and payment made through credit card	14,500
20	Received cash from Janarthanam Rs. 10,000 and discount allowed to him	100
21	Cash remitted into bank through CDM	12,000
24	Bought furniture for office use by cash	15,000
28	Deepavali advance paid to staff through bank	10,000
30	Salary for staff paid by cash	4,500
	Salary of Manager paid by through net banking	12,500

(Answer: Cash Balance ` 23,050, Bank Balance ` 9,550)

8. Enter the following transactions in the three column cash book of Kalyana Sundaram

2017

Jan.

1	Balance in hand	42,500
	Balance at bank	35,000
3	Received for cash sales	15,700
4	Cash paid into bank	11,500
6	Cash purchases	14,300
9	Received dividend directly by the bank through ECS	2,000
10	Pongal advance to staff paid through bank	17,000
12	Received cash from Nagarajan and allowed him discount	11,850
		150
17	Paid Magesh in full settlement of his account ` 20,000	19,700
20	Cash withdrawn for personal expenses	20,000
30	Withdrawn cash from ATM for office use	1,500

(Answer: Cash Balance ` 6,050, Bank Balance ` 30,000)

9. Enter the following transactions of Fathima in the cash book with cash, bank and discount columns for the month of May, 2017.

2017

May

1	Cash balance	17,200
	Bank balance	43,000
4	Received from Rajkumar by cheque on account	6,500
9	Sold goods to Kumar for cash	12,000
15	Bought laptop for business use and payment made through NEFT	21,000
17	Withdrawn cash from Bank	9,600
24	Goods purchased for cash ` 12,400 and by cheque	18,200
25	Deposited cash with bank	14,000
28	Paid staff salaries by cheque	8,000
29	Dividend received in cash	4,700
30	Paid office rent in cash	12,000

(Answer: Cash Balance ` 11,600, Bank Balance ` 200)

10. Enter the following transactions in the three column cash book of Chozhan.

2017

April

1	Chozhan started business with cash	50,000
2	Opened a current account with a bank	32,000
10	Cash sales	14,000
11	Cash paid in the bank	10,000
19	Purchased computer for office use by cheque	24,000
22	Withdrawn cash from bank	9,000
25	Purchased goods by cheque	7,600
27	Interest on overdraft charged by the bank	350
28	Paid salary by ECS to employees	30,000
30	Drew cahs for household expenses	6,500

(Answer: Cash Balance ` 24,500, Bank Balance (Cr.) ` 28,950)

11. Enter the following transactions in a cash book with cash, bank and discount columns of Sundari.

2017

April

1	Commenced business with cash	80,000
1	Cash at bank	44,000
10	Bought goods for and paid by cheque	13,850
11	Bought furniture for cash	9,500
18	Bought stationery for cash	1,850
20	Received cheque from Santhosh and deposited in the bank	6,800
	Discount allowed to him	200
22	Cheque issued to Rama	4,000
24	Paid to Muralidharan half by cheque, half by cash	12,400
	Discount received from him	100
25	Salaries paid through bank	6,500
27	Withdrawn cash from bank	1,000
31	Locker rent charged by the bank	150

(Answer: Cash Balance ` 69,650, Bank Balance ` 12,900)

12. Record the following transaction in the three column cash book of Rajeswari for the month of June, 2017.

2017

June

1	Cash balance	30,000
	Bank balance	2,55,000
5	Money withdrawn from bank for personal use	7,500
7	Sold goods for cash	9,000
8	Received cheque from Nirmala for ` 9,900 in full settlement of ` 10,000	
10	Nirmala's cheque deposited with bank	
11	Sold goods to Dhanalakshmi on credit	7,000
16	Nirmala's cheque returned dishonoured	
25	Withdrawn cash from bank for office use	5,000

28	Chelladurai a customer paid money into bank by debit card	10,000
30	Cash deposited in CDM	15,000
30	Interest credited by the bank	100
30	Payment made to Aavin through RTGS	2,00,000

(Answer: Cash Balance ` 29,000, Bank Balance ` 67,600)

13. Record the following transactions in three column cash book of Ramachandran.

2017

Jan.

1	Cash in hand	25,000
	Cash at bank	75,000
2	Paid into bank	5,000
5	Goods purchased by cash	5,000
10	Cash received from Manickam	9,800
	Discount allowed to him	200
15	Goods sold for cash	8,000
17	Payment made to Janaki by cheque	14,500
	Discount received from her	500
19	Withdrawn cash from Bank for personal use	6,000
21	Parthiban, a customer made payment through NEFT	15,000
30	Withdrawn from ATM for office use	20,000
30	Paid postal expenses by cash	2,800

(Answer: Cash Balance ` 50,000, Bank Balance ` 54,500)

14. Record the following transactions in the three column cash book of John Pandian.

2017

Dec.

1	Cash balance brought forward	12,600
1	Bank overdraft brought forward	36,000
1	Advance paid to petty cashier by cheque	3,000
5	Goods sold for cash	12,000
7	Dividend on shares collected by the banker	1,000
13	Cash paid into Bank	10,000

14	Interest charged by the bank for bank overdraft	1,500
18	Cheque issued to Siddique	8,000
	Discount received from him	200
24	Insurance claim received by cheque and deposited into bank	17,000
28	Cash received from Baskar	15,000
	Discount allowed to him	150
31	Deposited into Bank all cash excess of ` 18,600	

(Answer: Cash Balance: ` 18,600, Bank Balance: ` 9,500 (Cr.),

Excess cash deposited into Bank (Cr.) 11,000)

15. Prepare a triple column cash book of Rahim from the following transactions:

2017

Feb.

1	Cash in hand	25,000
	Cash at bank	10,000
5	Water purifier purchased for office use by cheque	8,000
6	Purchased goods for cash	9,000
8	Received cash from Daniel	9,900
	Discount allowed to him	100
10	Cheque received for goods sold and deposited in the bank	40,000
12	Paid to Amala by cheque	14,500
	Discount received from her	500
13	Paid transport charges by cash	5,000
14	Withdrawn cash from bank for office use	20,000
24	Cheque received from Kumar and deposited into the bank	15,000
28	Kumar's cheque dishonoured	

(Answer: Cash Balance: ` 25,900, Bank Balance: ` 7,500)

## Petty cash book

16. Prepare analytical petty cash book from the following particulars under imprest system:

2017

July

1	Received advance from cashier	2,000
7	Paid for writing pads and registers	100
8	Purchased white papers	50
10	Paid auto charges	200
15	Paid wages	300
18	Postal charges	100
21	Purchased stationery	450
23	Tea expenses	60
25	Paid for speed post	150
27	Refreshment expenses	250
31	Paid for carriage	150

(Answer: ` 190)

17. From the following information prepare an analytical petty cash book under imprest system:

2017

Oct.

1	Received from the cashier	2,500
2	Paid for wages	260
5	Paid for stationery	300
6	Bus fare to workmen	200
12	Refreshment to customers	180
16	Paid for carriage	160
20	Paid for conveyance	188
25	Paid for travelling expenses	320
27	Paid for revenue stamps	48
28	Paid for office cleaning	140
29	Paid for letters by registered post to suppliers	180
30	Paid for taxi hire	219

(Answer: ` 305)

18. Record the following transactions in an analytical petty cash book and balance the same.  
On 1st November, 2017, the petty cashier started with imprest cash ` 2,000.

2017

Nov.

1	Postage stamps purchased	155
2	Paid to sweeper and scavenger	170
3	Conveyance to Manager	125
6	Lorry hire for goods sent	260
7	Greeting cards purchased	110
10	Carriage paid	70
11	Repairs to furniture	100
13	Ink and gum purchased	50
17	Computer servicing charges paid	250
20	Cleaning charges paid	120
22	Gave charity to beggars	40
23	Paid to Rammohan	80
25	Paid railway fare	150
30	Subscription paid to the Times of India	120

(Answer: ` 200)

19. Enter the following transactions in Iyyappan's petty cash book with analytical columns under imprest system.

2017

Jan.

1	Balance on hand	250
1	Cash received from the chief cashier	1,050
2	Purchased pencil, rubber and paper	200
4	Sent documents to Head Office by registered post	120
5	Travelling expenses paid to salesman	150
7	Paid for sundry expenses	60
9	Paid for office expenses	50
11	Paid for letter pad	175
13	Paid to Amutha on account	66
15	Paid for repairs to furniture	78
18	Carriage paid	83
20	Bought postal stamps	55
22	Paid for telephone charges	175

(Answer: ` 88)



### CASE STUDY

Vetri is a sole trader selling food products. He maintains a simple cash book. He sells and purchases goods both on cash and credit. He maintains the cash book by himself. He allows discount and receives discount. He has his personal bank account. He also has so many petty expenses. Now, he wants to establish his business. But he wants to maintain the cash book all by himself.

Now, discuss on the following points:

- What could be the reason that Vetri maintains the cash book by himself?
- Is it convenient for him to record all the cash transactions in the simple cash book?
- Will his personal bank account serve the purpose of his business transactions?
- Suggest him some better ways of maintaining the cash transactions.
- When his business becomes large, what other books will he be maintaining?

### To explore further

When our country is moving towards cashless economy, will there be any change in the existing system of maintaining cash book?

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## Unit 8

# BANK RECONCILIATION STATEMENT



### Contents

- 8.1. Introduction
- 8.2. Bank Reconciliation Statement (BRS)
- 8.3. Reasons why bank column of cash book and bank statement may differ
- 8.4. Preparation of bank reconciliation statement



### Learning Objectives

To enable the students to

- Understand the meaning and purpose of preparing bank reconciliation statement
- Analyse the causes of disagreement between balance shown by bank column of the cash book and balance shown by bank statement
- Prepare bank reconciliation statement



### Points to recall

The following points are to be recalled before learning bank reconciliation statement:

- When transactions are more in number, subsidiary books are used.
- Cash and bank transactions are recorded in the cash book.
- Deposit made into the bank is debited in the bank column of the cash book.
- Payment made by the bank is credited in the bank column of the cash book.
- Debit balance as per bank column of the cash book is favourable balance.
- Credit balance as per bank column of the cash book is overdraft.

### Key terms to know

Bank statement

Bank overdraft

Unpresented Cheques

Uncleared Cheques

Dishonoured cheques

Standing instructions

Bank reconciliation statement.

## 8.1 Introduction



### Student activity

Imagine that you are the owner of a small shop. You maintain the three column cash book for your business. Now, think on the following points and discuss with the whole class:

- How often would you check your cash balance in hand? Everyday/once in a week?
- Why do you check your cash balance?
- How will you make sure that the bank column in cash book is correct and is the same as shown by the bank statement?

From the above activity, it is clear that physical cash in hand can be checked easily with the cash column of cash book. But, checking the accuracy of transactions in the bank column of the cash book cannot be done without bank statement (pass book).

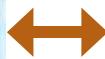
### 8.1.1 Bank statement or bank pass book

It is very common in business these days, to deposit cheques received and cash, with the bank. Payments can also be made through bank. Because, dealing cash through bank is always safe. Also, it is legally necessary to operate the transactions through bank beyond a certain limit.

When any bank transaction is undertaken, two records are kept of the transactions. One is kept by the business [customers to the bank], which is the cash book. The other one is kept by the bank, which is bank record [bank statement]. In other words, it can be said that the cash book maintained by the business [customer of a bank] and the ledger accounts maintained by the bank, record the same transactions. Bank statement or bank pass book is simply a copy of the customer's account in the books of a bank. A bank may send a statement at regular intervals to its customers. It shows all the deposits, withdrawals and the balance available in its customer's account, on a particular date. In recent times, the copy of the records can be obtained by the customer electronically, which is called E-statement.



Bank provides various services to its customers



Business units are customers to banks

Various types of accounts such as savings account, fixed deposit account, current account, etc., can be opened with the bank by different types of customers. But, current account is the most suitable for business concerns. The facility of bank overdraft is not available to any account other than current account.

तिथि Date	वेतन-देवन का विवरण Particular of transactions	जमा Credit	देक्रीकारी Debit	शेष Balance	प्राप्ति / छोड़ा Stamp/ Sign.

Inside the pass book

#### Transaction Details

THE ABC BANK LIMITED  
Regd. Office: Aluva  
Branch : KODDAMUDI  
Email : [kdl@federalbank.co.in](mailto:kdl@federalbank.co.in)  
MICR Code : 630049005  
Toll Free number: 1800 425 1199

Phone :  
Fax :  
IFSC : FDRL0001675  
Date : 16-06-2017  
Page : 1

Page 1 of 6

STATEMENT OF ACCOUNT FROM 16-06-2016 to 16-06-2017 A/C TYPE: CURRENT

SCHEME: F

NAME : H/S. ABC ENTERPRISE

ADDRESS:

E-mail : Communication address last updated on : 16-06-2016

Closing Balance : 243.00 Avl. Balance : 243.00  
FFD Balance : 0.00 Diff. Avl. Balance: 243.00

Joint Holder Name: MATHANAKUMAR S  
MURUGAN A  
RAJENDRAKUMAR K M

A/C NO : 18750200000453 MODE OF OPERATION: DT CURRENCY: INR CUST ID: 28080974

DATE	PARTICULARS	CHQ. NO.	WITHDRAWALS	DEPOSITS	BALANCE
17-06-16	B/F				0
17-06-16	INITIAL REMITTANCE			5,000.00	5,000.00 C
26-06-16	CHQ. BOOK CHARGE 21		60.00		4,932.00 C
16-08-16	BY CASH			10,000.00	14,932.00 C
19-08-16	BY CASH			79,000.00	93,932.00 C
22-08-16	CASH			10,000.00	1,03,932.00 C
23-08-16	A. MURUGAN	10003261	80,000.00		63,932.00 C
23-08-16	TO SREE SRAMA TRAD	10003262	80,000.00		23,932.00 C
26-08-16	BY CASH			10,000.00	33,932.00 C

Specimen of E-Statement



#### Student activity

**Think:** Observe the above format. Why the withdrawals are shown as debit and deposits are shown as credit in a bank statement? [Remember: in the cash book it is the reverse]

When the entries in the bank statement are compared with the cash book, it will be found that the accounting treatment is reverse in the cash book. This is because the cash book is prepared from the point of view of business, whereas the bank statement is prepared from the bank's point of view.

Following the double entry system, the credit balance in the bank pass book represents the debit balance as per the cash book and vice-versa. This is because, bank is a debtor for the business and business unit (customer to the bank) is a creditor for the bank when there is a favourable balance in the bank. When money is deposited by the business into the bank, customers account is credited in the bank's book, as this is the amount owed by the bank to its customer. Similarly, when the money is withdrawn or taken out of the bank by the business, customer's account is debited as this decreases the amount owed by the bank to the customer. As a result of this, favourable balance, as per bank statement (bank pass book), will appear as a credit balance and overdrawn balance as a debit balance.

### **8.1.2 Bank overdraft**

It is not possible to have unfavourable cash balance in the cash book. But, it is possible to have unfavourable balance in the bank account. When the business is not having sufficient money in its bank account, it can borrow money from the bank. As a result of this, amount is overdrawn from bank.

Record	Debit balance	Credit balance
Bank statement	Overdraft (negative balance)	Favourable balance (positive balance)
Cash book	Favourable balance (positive balance)	Overdraft (negative balance)

### **8.1.3 Differences between bank column of cash book and bank statement**

Following are the differences between bank column of cash book and bank statement:

S.No.	Bank column of cash book	Bank statement
1	It is prepared by business concern.	It is prepared by bank (banker).
2	Cash deposits are entered on the debit side.	Cash deposits are entered in the credit column.
3	Cash withdrawals are entered on the credit side.	Cash withdrawals are entered in the debit column.
4	Cheque deposits are debited on the day of deposit.	Cheque deposits are credited only at the time of realisation of cheque.
5	Cheques issued are credited on the day of issue of cheque.	Cheques issued by customers are debited by bank on the date on which the payment is made.
6	Collections and payments as per standing instructions of the business are entered only after checking with the bank statement.	Collections and payments as per standing instructions of the business are entered in the banker's book on the date of realisation or payment.
7	It is balanced at the end of a specific period.	It is balanced after each transaction.

## **8.2 Bank Reconciliation Statement (BRS)**

If every entry in the cash book matches with the bank statement, then bank balance will be the same in both the records. But, practically it may not be possible. When the balances do not agree with each other, the need for preparing a statement to explain the causes arises. This statement is called bank reconciliation statement (BRS). The bank reconciliation statement is a statement that reconciles the balance as per the bank column of cash book with the balance as per the bank statement by giving the reasons for such difference along with the amount. As a result of this, internal record of a business (bank column of cash) can be reconciled with external record (bank statement).

### **8.2.1 Need for bank reconciliation statement**

It is important to compare the bank statement and bank column of cash book. If the two balances do not match, it is necessary to reconcile them to explain why the differences have occurred. It may be prepared every month, every week or even daily depending on the number of transactions and the needs of the business.



The need for bank reconciliation statement is as follows:

- (i) To identify the reasons for the difference between the bank balance as per the cash book and bank balance as per bank statement.
- (ii) To identify the delay in the clearance of cheques.
- (iii) To ascertain the correct balance of bank column of cash book.
- (iv) To discourage the accountants of the business as well as bank from misusing funds.

### **8.3 Reasons why bank column of cash book and bank statement may differ**

The need for reconciliation arises only when there are differences in entries recorded in the cash book and bank statement. Sometimes, the bank balance as per both the records may be the same, but the entries may not match. In such cases also, bank reconciliation statement is to be prepared. But, before preparing the bank reconciliation statement, it is necessary to find out the reasons for the disagreement.

Difference between the two records (bank column of cash book and bank statement) generally occur because of the following reasons:

- (i) Timing differences – The different times at which the same items are entered
- (ii) Errors in recording - Difference arising due to errors in recording the entries

#### **(i) Timing differences**

- (a) cheques issued but not yet presented for payment
- (b) cheques deposited into bank but not yet credited
- (c) bank charges and interest on loan and overdraft
- (d) interest and dividends collected by the bank
- (e) dishonour of cheques and bills
- (f) amount paid by parties directly into the bank
- (g) payment made directly by the bank to others
- (h) bills collected by the bank on behalf of its customer

#### **(ii) Errors in recording**

- (a) errors committed in recording the transactions by the business in the cash book
- (b) errors committed in recording the transactions by the bank.

### 8.3.1 Timing differences

#### (a) Cheques issued but not yet presented for payment

When the cheques are issued by the business, it is immediately entered on the credit side of the cash book by the business. But, this may not be entered in the bank statement on the same day. It will be entered in the bank statement only after it is presented with the bank.

For example, the balances as per cash book and bank statement are ` 20,000 for X & Co. X & Co. issued a cheque in favour of Y & Co for ` 10,000, on 27th March 2017. So, X & Co's cash book is credited with ` 10,000 on 27th March 2017. But, the cheque is presented to bank on 2nd April 2017. In case, bank sends a statement to X & Co, upto 31st March 2017, it will not contain this transaction. As a result, there will be a difference of ` 10,000, between balance shown as per cash book and balance as per bank statement. As a result of this,



#### (b) Cheques deposited into bank but not yet credited

When the cheques are deposited into bank, the amount is debited in the cash book on the same day. But, these may not be shown in the bank pass book on the same day because these will be entered in the bank statement only after the collection of the cheques.

For example, the balances as per cash book and bank statement are ` 20,000 for X & Co. X & Co. receives a cheque on 25th March 2016, from ABC Limited for ` 5,000. On the same day, X & Co, debits its cash book with ` 5,000. But bank credits X & Co's account only when the cheque is collected from ABC Limited's bank. This shows that is a time gap between depositing the cheque by the customer (X & Co) and collection of cheque by the bank. As a result of this,



#### (c) Bank charges and interest on loan and overdraft charged by the bank

The bank has to cover the cost of running the customer's account. So debit is given to the account of the business towards bank charges. Also, if the business had taken any loan or overdrawn, interest has to be paid by the business. These entries for bank charges and interest are made in the bank statement. But, the entry is made in the cash book only when the bank statement is received by the business. Till then, the cash book shows more balance than bank statement.

For example, the opening balance as per cash book and the bank statement as on 1st March 2017 is ` 7,000. Bank debits for bank charges ` 300 as on 27th March 2017. But there is no entry for the same in the cash book as on such date. As a result of this,



**Balance as per cash book**  
(` 7,000) is more than balance as per bank statement



**Balance as per bank statement**  
(` 6,700) is less than balance as per cash book

#### (d) Interest and dividends collected by the bank

The bank may collect dividends on its customer's investment in shares and also interest on any investment. The entry for this will be made in the bank statement on the date of collection. But the entry is made in the cash book only when the bank statement is received by the customer. Till then, the cash book shows less balance than the bank statement.

For example, the balances as per cash book and bank statement are ` 15,000. The bank has collected dividends of ` 1,000. As a result of this, the balance as per bank statement is increased to ` 16,000, whereas until the customer receives such information and records the same, balance as per cash book is lesser by ` 1000. As a result of this,



**Balance as per bank statement**  
(` 16,000) is more than balance as per cash book



**Balance as per cash book**  
(` 15,000) is less than balance as per bank statement

#### (e) Dishonour of cheques and bills

When the cheque is received from outside parties, it is deposited with the bank and debited in the cash book. If the cheque is dishonoured, the bank cannot collect the amount of such cheque from outside parties' bank. It is not credited in the bank statement. As a result of this, the two records would differ.

While discounting the bills receivables, in the cash book it is entered in the debit side and in the bank statement it is credited. When the bill is presented by the bank to the drawee of the bill and the payment is not received, the bank debits the same to cancel the credit. But, credit is made in the cash book only when the customer gets the entries made in the bank statement is received. The bank may also charge some amount for such dishonour.

For example, opening balance as per cash book and bank statement is ` 5,000 as on 1st January, 2017. A cheque for ` 1,000 deposited by the business into bank on 25th January, 2017 is dishonoured and no entry for such transaction is made in the cash book as on that date. As a result of this,



**Balance as per cash book**  
(` 6,000) is more than balance as per bank statement



**Balance as per bank statement**  
(` 5,000) is less than balance as per cash book

#### (f) Amount paid by parties directly into the bank

Sometimes, debtors or the customers of the business may directly deposit the money into bank account of the business. It may be done by directly visiting the branch of the bank by paying cash (including NEFT, RTGS) or swiping debit or credit or business card or depositing the money in cash deposit machine or transfer through online banking facility. This will be credited in the banker's book. But the entry is made in the cash book only when the bank statement is received by the customer. Until then, the cash book shows less balance than bank statement.

For example, as on 1st January, 2017, the balance as per cash book and the balance as per bank statement show the same balance of ` 10,000, but on 22nd January, a debtor directly deposits ` 5,000 into the bank account of the business. But no entry is made in the cash book as on that date. As a result of this,



### (g) Amount paid directly by the bank to others

Sometimes the bank may be instructed to make payments such as, insurance premium, instalment of loan, etc., as an agent of the customer on behalf of its customer. In all such cases, debit is made in bank statement. But, the entry is made in the cash book only when the bank statement is received by the customer. Till then, the cash book shows more balance than bank statement.

For example, on 1st March, 2017, balance as per cash book and balance as per bank statement show the same amount of ` 12,000. But, as per the standing instruction of its customer the bank pays ` 2,000 as insurance premium as on 28th March, 2017. But, no entry for such transaction is made in the cash book as on such date. As a result of this,



### (h) Bills collected by the bank on behalf of its customers

When goods are sold by the business, the documents may be sent through the bank. When the bank collects the amount, it is credited in bank records. But, the entry is made in the cash book only when the bank statement is received by the business. Till then, the bank statement shows more balance than cash book.



### 8.3.2 Errors in recording

#### (a) Errors committed in recording the transactions by the business in the cash book

Sometimes, errors may be committed in the cash book. For example, omission or wrong recording of transaction relating to cheques deposited or issued, wrong balancing, etc. In these cases, obviously, there will be differences between bank balance as per bank statement and bank balance as per cash book.

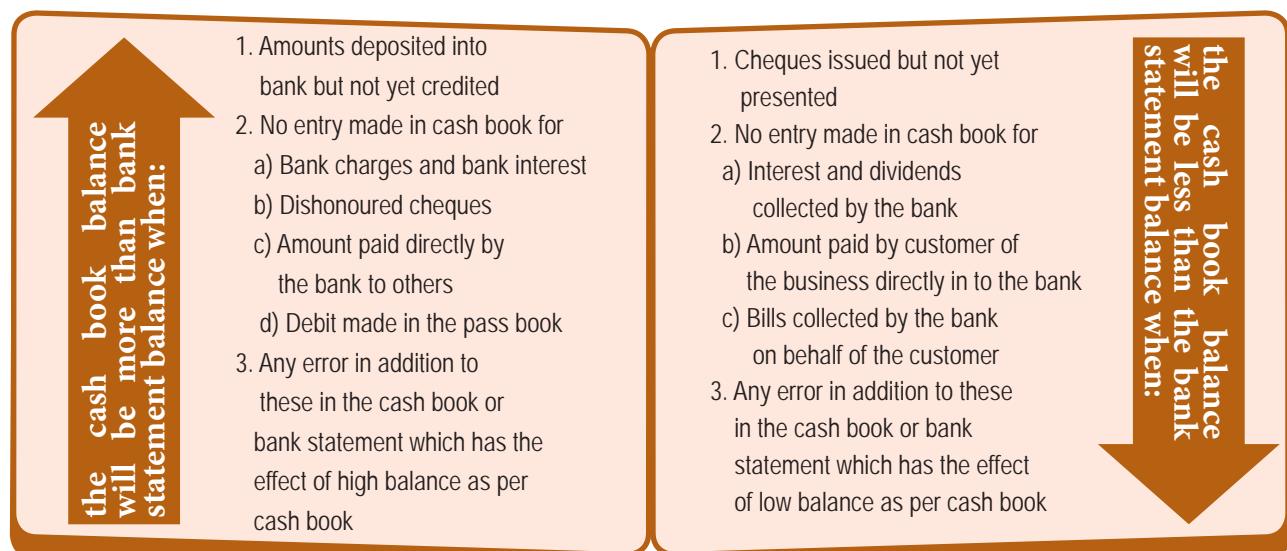
For example, the cheque received for ` 10,000 is not entered in the cash book, but has been deposited with the bank. As a result, on collecting the money the balance as per bank statement will be more by ` 10,000.

### (b) Errors committed in recording the transactions by the bank

Sometimes errors may be committed in the banker's book. For example, omission or wrong recording of transaction relating to cheques deposited and wrong balancing. In these cases, obviously, there will be differences between bank balance as per bank statement and bank balance as per cash book.

For example, the cheque deposited for ` 50000, wrongly entered by the bank as ` 15, 000. This will lead to a difference of ` 35, 000 between the cash book balance and the balance as per bank statement.

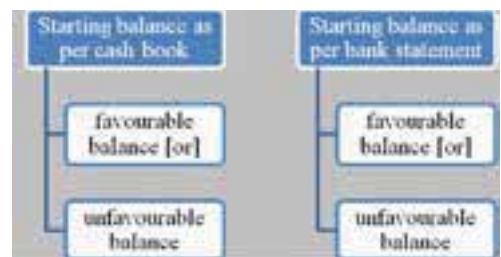
In a nutshell, based on the differences,



### 8.4 Preparation of bank reconciliation statement

After having identified the causes of differences, the reconciliation may be done in the following way:

Bank reconciliation statement can be prepared either from the balance as per cash book or bank statement. If it is prepared from the balance of cash book, the effect of the transaction will be studied on the balance as per bank statement. If it is prepared from the balance as per bank statement, the effect of the transaction will be studied on the balance as per cash book.



**Do You Know?** Adjusting the cash book before preparing the bank reconciliation statement is not compulsory, if reconciliation is done during different months. But if reconciliation is done at the end of the accounting year or financial year, the cash book must be updated so as to reflect the correct bank balance in the balance sheet.



## Student activity

**Think:** Think on the following causes. Complete the following table (Two transactions are done for you):

Reasons for the differences between cash book balance and balance as per bank statement	Effect on bank statement	How to find out balance as per bank statement from cash book balance?
(1) Cheques are issued by the business, but not yet presented for payment	Bank statement balance > cash book balance	Add
(2) Cheque deposited into bank but not yet credited by the bank	Bank statement balance < cash book	Less
(3) Bank charges not yet informed by the bank to the customer		
(4) Rent paid by bank as per standing instruction		
(5) Dividend directly collected by the bank on behalf of the customer		
(6) Debtor directly paid the amount into bank		
(7) Cheque dishonoured		
(8) Wrong credit in the bank statement		
(9) Wrong debit in the bank statement		

Given the causes of disagreement, the balance of one record (cash book or bank statement) can be either more or less compared to the other record (cash book or bank statement).

For example, if the reconciliation is started with debit balance as per cash book and there is a cheque deposited in the bank, but not cleared, the balance as per bank statement will be less. In this case, the amount of cheque should be subtracted from the cash book balance to arrive at the balance as per bank statement. Similarly, after making all the adjustments the balance as per the other book is obtained. It is important to note that the debit balance as per cash book means the credit balance as per bank statement and vice-versa.

To illustrate it further, take an example of bank charges. The balance as per bank statement will be lesser as compared to cash book. This is because, the bank balance has already been reduced with the bank charges, but, it has not yet been recorded in the cash book. In this case, if balance as per cash book is taken to prepare the reconciliation statement, the amount of bank charges has to be subtracted, because the balance as per bank statement is lesser than cash book balance.

Bank reconciliation statement can be prepared on the basis of

- (a) 'Balance' presentation, or
- (b) 'Plus & Minus' presentation

### **8.4.1 Balance presentation method**

When balance of cash book or bank statement is given:

#### **Format**

**Bank Reconciliation Statement as on -----**

Particulars	Amount	Amount
Balance as per cash book (favourable balance)		xxx
<b>Add:</b>		
1. Cheques issued but not presented	xxx	
2. Credits in the pass book only		
(a) Interest credited in bank statement	xxx	
(b) Dividend and other income	xxx	
(c) Direct deposit by a party	xxx	
3. Any error in cash book/ bank statement which has the effect of increasing the balance as per bank statement	xxx	xxx
<b>Less:</b>		xxx
1. Cheques deposited but not credited	xxx	
2. Cheques dishonoured but not entered in cash book	xxx	
3. Debits in bank statement only		
(a) Interest debited	xxx	
(b) Insurance premium, loan instalment, etc., paid as per standing instructions	xxx	
(c) Direct payment by banker	xxx	
4. Any error in cash book/ bank statement which has the effect of decreasing the balance as per bank statement	xxx	xxx
Balance as per bank statement		xxx

The abridged version of the above statement is given below:

**Bank Reconciliation Statement as on \_\_\_\_\_**

Particulars	Amount`	Amount`
Balance as per cash book		
Add:		
The transactions which increase the balance as per bank statement	-----	-----
Less:		
The transactions which decrease the balance as per bank statement	-----	-----
Balance as per bank statement		-----

If unfavourable balance as per cash book is the starting point, then reverse is the procedure for preparing bank reconciliation statement. This means that, items that are added are to be subtracted and items that are subtracted are to be added.

Based on the earlier explanation the following table has been prepared for ready reference when reconciliation is done on the basis of 'balance presentation'. The final balance, which is obtained after addition and subtraction, will be the balance as per the other book.

Sl. No	Causes of differences	Favourable balance (Dr.) as per cash book	Unfavourable balance (Cr.) as per cash book	Favourable balance (Cr.) as per bank statement	Unfavourable balance (Dr.) as per bank statement
1	Cheque issued but not presented to bank	Add	Subtract	Subtract	Add
2	Cheque directly deposited in bank by a customer	Add	Subtract	Subtract	Add
3	Income directly received by bank	Add	Subtract	Subtract	Add
4	Wrong credit in the cash book	Add	Subtract	Subtract	Add
5	Under casting of debit side of bank column of the cash book	Add	Subtract	Subtract	Add

6	Over casting of credit side of bank column of the cash book	Add	Subtract	Subtract	Add
7	Bill receivable collected directly by bank	Add	Subtract	Subtract	Add
8	Cheque deposited but not cleared	Subtract	Add	Add	Subtract
9	Expenses directly paid by bank on standing instructions	Subtract	Add	Add	Subtract
10	Bank charges levied by bank	Subtract	Add	Add	Subtract
11	Locker rent levied by bank	Subtract	Add	Add	Subtract
12	Wrong debit in the cash book	Subtract	Add	Add	Subtract
13	Wrong debit in the bank statement	Subtract	Add	Add	Subtract
14	Over casting of debit side of bank column of the cash book	Subtract	Add	Add	Subtract
15	Under casting of credit side of bank column of the cash book	Subtract	Add	Add	Subtract
16	Interest on bank overdraft charged	Subtract	Add	Add	Subtract
17	Final balance	If answer is positive, then favourable balance (Cr.) as per bank statement and If, negative then unfavorable balance (Dr.) as per bank statement	If answer is positive, then unfavourable balance (Dr.) as per bank statement and If, negative then favorable balance (Cr.) as per bank statement	If answer is positive, then favourable balance (Dr.) as per cash book and If, negative then unfavorable balance (Cr.) as per cash book	If answer is positive, then unfavourable balance (Cr.) as per cash book and If, negative then favorable balance (Dr.) as per cash book



## Student activity

**Think:** Remember, an item entered on the debit side of cash book is entered on the credit side of bank statement and vice-versa. Now, keep this in mind, think on the following:

Is it possible to prepare bank reconciliation statement with bank statement as starting point and ascertain the cash book balance? Prepare a specimen of bank reconciliation statement with balance as per bank statement as the starting point.

### When balances of cash book and/or bank statement is given:

#### Illustration 1 (When balance as per cash book is favourable)

From the following information, prepare bank reconciliation statement to find out balance as per bank statement on 31st March, 2017.

Particulars	`
i) Cheques deposited but not yet collected by the bank	500
ii) Cheque issued but not yet presented for payment	1,000
iii) Bank interest charged	100
iv) Rent paid by bank as per standing instruction	200
vi) Cash book balance	300

#### Solution

#### Bank reconciliation statement as on 31st March, 2017

Particulars	Amount `	Amount `
Balance as per cash book		300
Add: Cheque issued but not yet presented for payment		1,000
		1,300
Less: Cheques deposited but not yet collected by the bank	500	
Bank interest charged	100	
Rent paid by bank as per standing instruction	200	800
Balance as per bank statement		500



## Student activity

**Think:** In the above illustration, what will be the bank statement balance if the cash book balance is unfavourable?

## Illustration 2

On 31st March, 2018, the bank column of the cash book of Senthamarai Traders showed a debit balance of ` 40,200. On examining the cash book and the bank statement, it was found that:

- (a) A cheque for ` 2,240 deposited on 29th March, 2018 was credited by the bank only on 4th April, 2018.
- (b) A payment made through net banking for ` 180 has been entered twice in the cash book.
- (c) A bill of exchange for ` 1,000 was discounted by Senthamarai Traders with its bank. This bill was dishonoured on 30th March, 2018 but no entry had been made in the books of Senthamarai Traders.
- (d) Cheques amounting to ` 500 which were issued to trade payables and entered in the cash book before 31st March, 2018 were not presented for payment until that date.
- (e) Cheque amounting to ` 2,000 had been recorded in the cash book as having been deposited into the bank on 30th March, 2018, but was entered in the bank statement on 3rd April, 2018.
- (f) Transport subsidy amounting to ` 3,000 received from the Government of Tamilnadu directly by the bank, but not advised to the Senthamarai Traders.
- (g) A sum of ` 1,500 was wrongly debited to Senthamarai Traders by the bank, for which no details are available.
- (h) On 31st March, 2018 the payment side of the cash book was undercast by ` 1,200

## Solution

### Bank reconciliation statement of Senthamarai traders as on 31st March, 2018

Particulars	Amount `	Amount `
Balance as per cash book		40,200
<b>Add:</b>		
Net payment entered twice in the cash book	180	
Cheques issued to trade payables not yet presented	500	
Transport subsidy collected by bank	3,000	3,680
<b>Less:</b>		
Cheques deposited but not yet credited by bank	2,240	
Bill of exchange dishonoured	1,000	
Cheques deposited but not yet credited by bank	2,000	
Wrong debit by bank	1,500	
Undercasting of credit side of cash book	1,200	7,940
Balance as per bank statement		35,940

### Illustration 3 (When balance as per cash book shows overdraft)

From the following information, prepare bank reconciliation statement as on 31st December, 2017 to find out the balance as per bank statement.

Particulars	`
(i) Overdraft as per cash book	10,000
(ii) Cheques deposited but not yet credited	5,000
(iii) Cheque issued but not yet presented for payment	1,000
(iv) Payment received from the customer directly by the bank	500
(v) Interest on overdraft debited by bank	1,000
(vi) Amount wrongly debited by bank	300

### Solution

#### Bank reconciliation statement as on 31st December, 2017

Particulars	Amount `	Amount `
Overdraft as per cash book		10,000
Add: Cheques deposited but not yet credited	5,000	
Interest on overdraft debited by bank	1,000	
Amount wrongly debited by bank	300	6,300
		16,300
Less: Cheque issued but not yet presented for payment	1,000	
Payment received from the customer directly by the bank	500	1,500
Overdraft balance as per bank statement		14,800

### Illustration 4

Rony is the proprietor of Veena photos. The bank column of cash account of his business was balanced on 31st March 2018. It showed an overdraft of ` 12,000. The bank statement of Veena photos showed a credit balance of ` 5,000. Prepare a bank reconciliation statement taking the following into account.

- a) The bank had directly collected dividend ` 3,000 but was not entered in the cash book.
- b) Cheques amounting to ` 9,000 were issued on 27th March, 2018, of which, cheques amounting to ` 7,000 were not presented for payment before 31st March 2018.
- c) The debit balance in the cash book of ` 4,100 was brought forward as a credit balance.
- d) Cheque book charges of ` 200 debited by the bank but not recorded in cash book.
- e) Bank locker rent of ` 1,000 debited by the bank but not recorded in cash book.

### Solution

#### **Bank reconciliation statement of Veena photos as on 31st March, 2018**

Particulars	Amount `	Amount `
Overdraft as per cash book		12,000
Add: Cheque book charges not recorded in cash book	200	
Bank locker charges debited by bank	1,000	1,200
		13,200
Less: Dividend directly collected by the bank	3,000	
Cheque issued but not yet presented for payment	7,000	
Debit balance of cash book wrongly brought forward as credit balance	8,200	18,200
Favourable balance as per bank statement*		-5,000

\*Note: Since the balance obtained is negative, it is favourable balance.

#### **Illustration 5 (When balance as per bank statement is favourable)**

Prepare bank reconciliation statement as on 31st December, 2017 from the following information:

- (a) Balance as per bank statement (pass book) is ` 25,000
- (b) No record has been made in the cash book for a dishonour of a cheque for ` 250
- (c) Cheques deposited into bank amounting to ` 3,500 were not yet collected
- (d) Bank charges of ` 300 have not been entered in the cash book.
- (e) Cheques issued amounting to ` 9,000 have not been presented for payment

### Solution

#### **Bank reconciliation statement as on 31st December, 2017**

Particulars	Amount `	Amount `
Balance as per bank statement		25,000
Add: Dishonour of a cheque	250	
Cheques deposited into bank , but not yet collected	3,500	
Bank charges not entered in the cash book	300	4,050
		29,050
Less: Cheques issued, but not presented for payment		9,000
Balance as per cash book		20,050

## Illustration 6

From the following information, prepare bank reconciliation statement as on 31st December, 2017 to find out the balance as per bank statement.

Particulars	`
(i) Balance as per bank statement	6,000
(ii) Cheques deposited on 28th December, 2017 but not yet credited	2,000
(iii) Cheques issued for 10,000 on 20th December, 2017 but not yet presented for payment	3,000
(iv) Interest on debentures directly collected by the bank not recorded in cash book	4,000
(v) Insurance premium on building directly paid by the bank	1,000
(vi) Amount wrongly credited by bank	500

## Solution

### Bank reconciliation statement as on 31st December, 2017

Particulars	Amount `	Amount `
Balance as per bank statement		6,000
Add:		
Cheque deposited but not yet credited	2,000	
Insurance premium on building directly paid by the bank	1,000	3,000
Less:		
Cheque issued but not yet presented for payment	3,000	
Interest on debentures directly collected by the bank not entered in cash book	4,000	
Amount wrongly credited by bank	500	7,500
Balance as per cash book		1,500

## Illustration 7 (When balance as per bank statement is an overdraft)

From the following data, ascertain the cash book balance as on 31st December, 2017.

Particulars	`
1) Overdraft balance as per bank statement	6,500
2) Cheques deposited into the bank but not yet credited	10,500
3) Cheques issued, but not yet presented for payment	3,000
4) Wrong debit by the bank	500
5) Interest and bank charges debited by bank	180
6) Insurance premium on goods directly paid by the bank as per standing instructions	100

## Solution

### Bank reconciliation statement as on 31st December, 2017

Particulars	Amount `	Amount `
Overdraft balance as per bank statement		6,500
Add: Cheques issued, but not yet presented for payment	3,000	3,000
		9,500
Less: Cheques deposited into the bank but not credited	10,500	
Wrong debit by the bank	500	
Interest and bank charges debited by bank	180	
Insurance premium directly paid by the bank as per standing order	100	11,280
Balance as per cash book*		-1,780

\* **Note:** Since the balance obtained is negative, it is favourable balance.



### Student activity

**Think:** In the above illustration, what will be the cash book balance, if the balance as per bank statement is favourable?

## Illustration 8

The bank statement of Sudha and Company showed an overdraft of ` 10,000 on 31st December, 2017, prepare a bank reconciliation statement.

- A cheque deposited on 30th December 2017 for ` 15,000 was not credited by the bank.
- Interest on term loan ` 500 was debited by bank on 31st December, 2017 but not accounted in the books of Sudha and Company.
- A cheque issued for ` 550 on 24th December, 2017, paid by the bank was recorded as ` 505 in the bank column of the cash book.
- One outgoing cheque on 27th December, 2017 of ` 200 was recorded twice in the cash book.
- Bank recorded a cash deposit of ` 2,598 as ` 2,589.
- A sum of ` 2,000 deposited in cash deposit machine by a customer of the business on 31st December, 2017 was not recorded in the books of Sudha and Company.
- Interest on overdraft of ` 600 was not recorded in the books of Sudha and Company.
- Two cheques issued on 29th December, 2017 for ` 500 and ` 700, but only the first cheque was presented for payment before 31st December, 2017.

## Solution

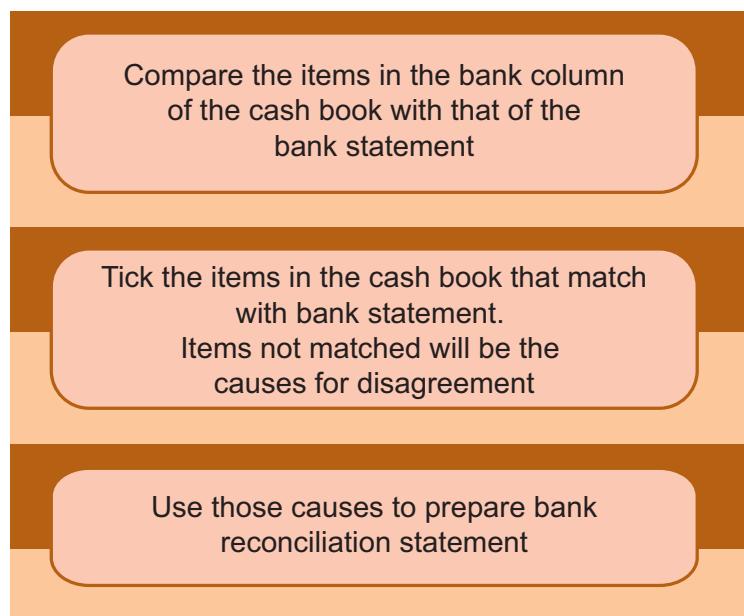
### Bank reconciliation statement of Sudha and Company as on 31st December, 2017

Particulars	Amount `	Amount `
Overdraft as per bank statement (debit balance)		10,000
Add:		
Cheque issued recorded twice in cash book	200	
Direct cash deposit not entered in cash book	2,000	
Unpresented cheque	700	2,900
		12,900
Less:		
Cheque deposited but not credited by bank	15,000	
Interest on term loan not entered in cash book	500	
Cheque issued amount entered lesser in cash book (550-505)	45	
Cash deposit recorded lesser in bank statement (2,598-2,589)	9	
Interest on overdraft not entered in cash book	600	16,154
Favourable balance as per cash book*		-3,254

\* **Note:** Since the balance obtained is negative, it is favourable balance.

### When an extract of cash book and bank statement is given

When an extract of the cash book and bank statement is given, the following points are to be remembered:



Remember, the starting balance in the bank reconciliation statement can be either cash book balance or balance as per bank statement.

### Illustration 9 (When an extract of cash book and bank statement is given)

Given below are the entries in the bank column of the cash book and the bank statement. Prepare a bank reconciliation statement as on 31st October, 2017.

#### Cash book (Bank column)

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2017			2017		
Oct. 1	To Balance b/d	20,525	Oct. 8	By Kamala A/c	12,000
18	To Ram A/c	6,943	26	By Magesh A/c	9,740
19	To Sales A/c ( Ravi)	450	28	By Mala A/c	11,780
20	To Commission A/c (Kala)	200	30	By Salaries A/c	720
20	To Nirmala A/c	7,810	31	By Balance c/d	1,688
Nov. 1	To balance b/d	35,928			35,928
		1,688			

#### Bank statement

Date	Particulars	Dr. Withdrawals	Cr. Deposits	Balance Dr./Cr.
1.10.17	By Balance b/d			20525 Cr
9.10.17	To Kamala	12,000		8525 Cr
19.10.17	To Ram		6,943	15468 Cr
25.10.17	To Ravi		450	15918 Cr
26.10.17	To Magesh	9,740		6178 Cr
27.10.17	To Kala		200	6378 Cr
28.10.17	To Rajan (salaries)	720		5658 Cr
30.10.17	By Bills receivable		20,000	25658 Cr
	By Interest on Investment		1,820	27478 Cr
31.10.17	To Bills payable	4,000		23478 Cr

## Solution

### Bank reconciliation statement as on 31st October 2017

Particulars	Amount ^	Amount ^
Balance as per cash book		1,688
Add: Bills receivable collected, not entered in cash book	20,000	
Interest on investment collected, not entered in cash book	1,820	
Cheques issued but not presented – Mala	11,780	33,600
		35,288
Less: Cheques deposited into bank, but not yet collected – Nirmala	7,810	
Bills payable paid, not entered in cash book	4,000	11,810
Balance as per bank statement		23,478

### 8.4.2 Plus or Minus presentation

Bank reconciliation statement can also be presented in an alternative method. In such presentation, two columns are given, one to record items that increase the balance (plus items) and the other one to record items that decrease the balance (minus items). Balances as per the cash book or bank statement are written as the starting balance.

Points to be noted:

- Debit balance of cash book is written in the “Plus” column.
- Credit balance of cash book (overdraft) is written in the “Minus” column.
- Debit balance as per bank statement (overdraft) is written in the “Minus” column.
- Credit balance as per bank statement is written in the “Plus” column.

After the causes of difference are written, the two columns (plus column and minus column) are totalled and the difference is ascertained. The difference is the balance/ overdraft as per cash book / bank statement, as per the given starting point.

Balance as per bank statement is arrived by comparing the total of plus amount and the minus amount. If the plus amount is more than the minus amount, then show the difference amount in minus column. This represents favourable balance as per bank statement.

If the plus amount is less than the minus amount, then show the difference amount in plus column. This represents bank overdraft (unfavourable balance) as per bank statement.

## Format of Plus or minus presentation of bank reconciliation statement:

**Bank reconciliation statement of \_\_\_\_\_ as on \_\_\_\_\_**

Particulars	Plus amount `	Minus amount `
Balance as per cash book	(if positive) xxx	( if negative) xxx
Cheques issued but not yet presented for payment	xxx	
Amount directly deposited in bank	xxx	
Standing instructions: dividend, interest, etc. directly collected by the bank	xxx	
Wrong credit in the cash book	xxx	
Interest credited by bank	xxx	
Undercasting of debit side in the bank column of cash book	xxx	
Overcasting of credit side in the bank column of cash book	xxx	
Bills receivable collected directly by bank	xxx	
Cheques deposited but not yet collected / cleared		xxx
Expenses directly paid by bank on standing instructions		xxx
Bank charges levied by bank		xxx
Wrong debit in the cash book		xxx
Wrong debit in the bank statement		xxx
Overcasting of debit side of bank column in cash book		xxx
Undercasting of credit side of bank column in cash book		xxx
Interest charged on bank overdraft		xxx
<b>Total</b>	<b>xxx</b>	<b>xxx</b>
<b>Balance as per bank statement</b>		

### Solution as per "Plus" and "Minus" presentation for illustration 1

Bank reconciliation statement as on 31st March, 2017

Particulars	Plus amount `	Minus amount `
Balance as per cash book	300	
Cheques deposited but not yet collected by the bank		500
Cheque issued but not yet presented for payment	1,000	
Bank interest charged		100
Rent paid by bank as per standing instruction		200
<b>Total</b>	<b>1,300</b>	<b>800</b>
<b>Balance as per bank statement</b>		<b>500</b>

\*Note: Students will be tested on balance presentation method only.



Banks provide facility to maintain savings bank account for individuals and trusts. Banks allow interest for such accounts. In such cases, adjustments need to be made in bank reconciliation statement for interest allowed by the bank on savings bank account.

### Points to remember

- Debit balance as per cash book is favourable
- Credit balance as per bank column of the cash book is an overdraft
- Debit balance as per bank statement is unfavourable
- Credit balance as per bank statement is favourable
- Bank reconciliation statement is prepared by the business entity
- The purpose of preparing bank reconciliation statement is to explain the causes of disagreement between balance as per bank column of cash book and bank statement
- Most of the differences are caused by differences in the time at which items are recorded.
- Some items cannot be recorded in the bank column of the cash book until the bank statement is received.

### Self-examination questions

#### I Multiple choice questions

##### Choose the correct answer

1. A bank reconciliation statement is prepared by
  - (a) Bank
  - (b) Business
  - (c) Debtor to the business
  - (d) Creditor to the business
2. A bank reconciliation statement is prepared with the help of
  - (a) Bank statement
  - (b) Cash book
  - (c) Bank statement and bank column of the cash book
  - (d) Petty cash book
3. Debit balance in the bank column of the cash book means
  - (a) Credit balance as per bank statement
  - (b) Debit balance as per bank statement
  - (c) Overdraft as per cash book
  - (d) None of the above



4. A bank statement is a copy of
- (a) Cash column of the cash book
  - (b) Bank column of the cash book
  - (c) A customer's account in the bank's book
  - (d) Cheques issued by the business
5. A bank reconciliation statement is prepared to know the causes for the difference between:
- (a) The balance as per the cash column of the cash book and bank column of the cash book
  - (b) The balance as per the cash column of the cash book and bank statement
  - (c) The balance as per the bank column of the cash book and the bank statement
  - (d) The balance as per petty cash book and the cash book
6. When money is withdrawn from bank, the bank
- (a) Credits customer's account
  - (b) Debits customer's account
  - (c) Debits and credits customer's account
  - (d) None of these
7. Which of the following is not the salient feature of bank reconciliation statement?
- a) Any undue delay in the clearance of cheques will be shown up by the reconciliation
  - b) Reconciliation statement will discourage the accountant of the bank from embezzlement
  - c) It helps in finding the actual position of the bank balance
  - d) Reconciliation statement is prepared only at the end of the accounting period
8. Balance as per cash book is ` 2,000. Bank charge of ` 50 debited by the bank is not yet shown in the cash book. What is the bank statement balance now?
- (a) ` 1,950 credit balance
  - (b) ` 1,950 debit balance
  - (c) ` 2,050 debit balance
  - (d) ` 2,050 credit balance
9. Balance as per bank statement is ` 1,000. Cheque deposited, but not yet credited by the bank is ` 2,000. What is the balance as per bank column of the cash book?
- (a) ` 3,000 overdraft
  - (b) ` 3,000 favourable
  - (c) ` 1,000 overdraft
  - (d) ` 1,000 favourable

10. Which one of the following is not a timing difference?

- (a) Cheque deposited but not yet credited
- (b) Cheque issued but not yet presented for payment
- (c) Amount directly paid into the bank
- (d) Wrong debit in the cash book

### Answers

1. (b)	2. (c)	3. (a)	4. (c)	5. (c)	6. (b)	7. (d)	8. (a)	9. (b)	10. (d)
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## II Very short answer questions

1. What is meant by bank overdraft?
2. What is bank reconciliation statement?
3. State any two causes of disagreement between the balance as per bank column of cash book and bank statement.
4. Give any two expenses which may be paid by the banker as per standing instruction.
5. Substitute the following statements with one word/phrase
  - (a) A copy of customer's account issued by the bank
  - (b) Debit balance as per bank statement
  - (c) Statement showing the causes of disagreement between the balance as per cash book and balance as per bank statement
6. Do you agree on the following statements? Write "yes" if you agree, and write "no" if you disagree.
  - (a) Bank reconciliation statement is prepared by the banker.
  - (b) Adjusting the cash book before preparing the bank reconciliation statement is compulsory.
  - (c) Credit balance as per bank statement is an overdraft.
  - (d) Bank charges debited by the bank increases the balance as per bank statement.
  - (e) Bank reconciliation statement is prepared to identify the causes of differences between balance as per bank column of the cash book and balance as per cash column of the cash book.

### **III Short answer questions**

1. Give any three reasons for preparing bank reconciliation statement.
2. What is meant by the term “cheque not yet presented?”
3. Explain why does money deposited into bank appear on the debit side of the cash book, but on the credit side of the bank statement?
4. What will be the effect of interest charged by the bank, if the balance is an overdraft?
5. State the timing differences in BRS with examples.

### **IV Exercises**

1. From the following particulars prepare a bank reconciliation statement of Jayakumar as on 31st December, 2016.
  - (a) Balance as per cash book ` 7,130
  - (b) Cheque deposited but not cleared ` 1,000
  - (c) A customer has deposited ` 800 into the bank directly

(Answer: Balance as per bank statement ` 6,930)
2. From the following particulars of Kamakshi traders, prepare a bank reconciliation statement as on 31st March, 2018.
  - (a) Debit balance as per cash book ` 10,500
  - (b) Cheque deposited into bank amounting to ` 5,500 credited by bank, but entered twice in the cash book
  - (c) Cheques issued and presented for payment amounting to ` 7,000 omitted in the cash book
  - (d) Cheque book charges debited by the bank ` 200 not recorded in the cash book.
  - (e) Cash of ` 1,000 deposited by a customer of the business in cash deposit machine not recorded in the cash book.

(Answer: Overdraft as per bank statement ` 1,200)

3. From the following information, prepare bank reconciliation statement to find out the bank statement balance as on 31st December, 2017.

Particulars	`
1. Balance as per cash book	15,000
2. Cheques deposited but not yet credited	1,000
3. Cheques issued and entered in the cash book before 31st December 2017 but not presented for payment until that date	1,500
4. Dividend directly received by bank	200
5. Direct payment made by bank for rent	1,000
6. Locker rent charged by the bank not recorded in cash book	1,200
7. Wrong debit given by the bank on 30th December 2017	500
8. A payment made through net banking has been entered twice in the cash book	300

(Answer: Balance as per bank statement ` 13,300)

4. On 31st March, 2017, Anand's cash book showed a balance of ` 1,12,500. Prepare bank reconciliation statement.

- (a) He had issued cheques amounting to ` 23,000 on 28.3.2017, of which cheques amounting to ` 9,000 have so far been presented for payment.
- (b) A cheque for ` 6,300 deposited into bank on 27.3.2017, but the bank credited the same only on 5th April 2017.
- (c) He had also received a cheque for ` 12,000 which, although entered by him in the cash book, was not deposited in the bank.
- (d) Wrong credit given by the bank on 30th March 2017 for ` 2,000.
- (e) On 30th March 2017, a bill already discounted with the bank for ` 3,000 was dishonoured, but no entry was made in the cash book.
- (f) Interest on debentures of ` 700 was received by the bank directly.
- (g) Cash sales of ` 4,000 wrongly entered in the bank column of the cash book.

(Answer: Balance as per bank statement ` 1,03,900)

5. From the following particulars of Siva and Company, prepare a bank reconciliation statement as on 31st December, 2017.

- (a) Credit balance as per cash book ` 12,000
- (b) A cheque of ` 1,200 issued and presented for payment to the bank, wrongly credited in the cash book as ` 2,100.
- (c) Debit side of bank statement was undercast by ` 100

(Answer: Overdraft as per bank statement ` 11,000)

6. From the following particulars of Raheem traders, prepare a bank reconciliation statement as on 31st March, 2018.
- Overdraft as per cash book ` 2,500
  - Debit side of cash book was undercast by ` 700
  - Amount received by bank through RTGS amounting to ` 2,00,000, omitted in the cash book.
  - Two cheques issued for ` 1,800 and ` 2,000 on 29th March 2018. Only the second cheque is presented for payment.
  - Insurance premium on car for ` 1,000 paid by the bank as per standing instruction not recorded in the cash book.

(Answer: Balance as per bank statement ` 1,99,000)

7. From the following information, prepare bank reconciliation statement as on 31st December, 2017 to find out the balance as per bank statement.

Particulars	`
(i) Bank overdraft as per cash book	20,000
(ii) Cheques deposited but not yet credited	4,000
(iii) Cheque issued but not yet presented for payment	1,000
(iv) Rent collected by the bank as per standing instruction	500
(v) Interest on overdraft debited by bank	2,000
(vi) Amount wrongly debited by bank	300
(vii) Cheque issued on 30th December 2017 dishonoured by the bank	5,000
(viii) A customer's cheque deposited in the bank dishonoured by bank not recorded in the cash book	2,000

(Answer: Overdraft as per bank statement ` 21,800)

8. Prepare bank reconciliation statement from the following data.

Particulars	`
Credit balance as per cash book	5,000
Cheques issued, but not yet presented for payment	3,000
Cheques deposited but not yet credited	4,000
Interest on overdraft charged by the bank, not yet entered in the cash book	120
Dividend collected by the bank not shown in the cash book	760
Interest charged by bank recorded twice in the cash book	300
Bills of exchange discounted with the bank, dishonoured	520
Bank charges debited by the bank on dishonour of the bill	55

(Answer: Overdraft as per bank statement ` 5,635)

9. From the following particulars of Veera traders, prepare a bank reconciliation statement as on 31st December, 2017.
- Credit balance as per bank statement ` 6,000
  - Amount received by bank through NEFT for ` 3,500, entered twice in the cash book.
  - Cheque dishonoured amounting to ` 2,500, not entered in cash book.

(Answer: Balance as per cash book ` 12,000)

10. Prepare bank reconciliation statement from the following data and find out the balance as per cash book as on 31st March, 2018.

Particulars	`
(i) Bank balance as per bank statement	15,000
(ii) Cheques issued but not yet presented for payment	2,500
(iii) Bank charges not recorded in the cash book	250
(iv) Interest charged by bank not recorded in the cash book	500
(v) Bank paid insurance premium as per standing instruction but not recorded in the cash book	300
(vi) Cheques deposited but not yet credited	900

(Answer: Balance as per cash book ` 14,450)

11. Ascertain the cash book balance from the following particulars as on 31st December, 2017:
- Credit balance as per bank statement ` 2,500
  - Bank charges of ` 60 have not been entered in the cash book
  - Cheque deposited on 28th December 2017 for ` 1,000 was not yet credited by the bank
  - Cheque issued on 24th December 2017 for ` 700, not yet presented for payment
  - A dividend of ` 400 collected by the bank directly but not entered in the cash book
  - A cheque of ` 600 had been dishonoured, but no entry was made in the cash book
  - Interest on term loan ` 1,200 debited by bank but not accounted in cash book
  - No entry had been made in the cash book for a trade subscription of ` 500 paid vide banker's order on 23rd December 2014

(Answer: Balance as per cash book ` 4,760)

12. From the following particulars of Raja traders, prepare a bank reconciliation statement as on 31st January, 2018.
- (a) Balance as per bank statement ` 5,000
  - (b) Cheques amounting to ` 800 had been recorded in the cash book as having been deposited into the bank on 25th January 2018, but were entered in the bank statement on 2nd February 2018.
  - (c) Amount received by bank through NEFT amounting to ` 3,000, omitted in the cash book.
  - (d) Two cheques issued for ` 3,000 and ` 2,000 on 29th March 2018. Only the first cheque is presented for payment.
  - (e) Insurance premium on motor vehicles for ` 1,000 paid by the bank as per standing instruction not recorded in the cash book.
  - (f) Credit side of cash book was undercast by ` 700
  - (g) Subsidy received directly by the bank from the state government amounting to ` 10,000, not entered in cash book.

(Answer: Overdraft as per cash book ` 7,500)

13. From the following particulars of Simon traders, prepare a bank reconciliation statement as on 31st March, 2018.
- (a) Debit balance as per bank statement ` 2,500
  - (b) Cheques deposited amounting to ` 10,000, not yet credited by bank.
  - (c) Payment through net banking for ` 2,000, omitted in the cash book
- (Answer: Balance as per cash book ` 9,500)
14. From the following particulars, ascertain the cash book balance as on 31st December, 2016.
- (i) Overdraft balance as per bank statement ` 1,26,640
  - (ii) Interest on overdraft entered in the bank statement, but not yet recorded in cash book ` 3,200
  - (iii) Bank charges entered in bank statement, but not found in cash book ` 600
  - (iv) Cheques issued, but not yet presented for payment ` 23,360
  - (v) Cheques deposited into the bank but not yet credited ` 43,400
  - (vi) Interest on investment collected by the bank ` 24,000

(Answer: Overdraft as per cash book ` 1,26,800)

15. From the following particulars of John traders, prepare a bank reconciliation statement as on 31st March, 2018.
- Bank overdraft as per bank statement ` 4,000
  - Cheques amounting to ` 2,000 had been recorded in the cash book as having been deposited into the bank on 26th March 2018, but were entered in the bank statement on 4th April 2018.
  - Amount received by bank through cash deposit machine amounting to ` 5,000, omitted in the cash book.
  - Amount of ` 3,000 wrongly debited to John traders account by the bank, for which no details are available.
  - Bills for collection credited by the bank till 29th March 2017 amounting to ` 4,000, but no advice received by John traders.
  - Electricity charges made through net banking for ` 900 was wrongly entered in cash column of the cash book instead of bank column.
  - Cash sales wrongly recorded in the bank column of the cash book for ` 4,000.

(Answer: Overdraft as per cash book ` 3,100)

16. Prepare bank reconciliation statement from the following data.

Particulars	`
Bank overdraft as per bank statement	6,500
Cheques issued, but not yet presented for payment	8,750
Cheques deposited but not yet credited by the bank	500
Business customer directly deposited into cash deposit machine	3,500
Bank charges not entered in the cash book	200
Bank paid rent as per standing instruction	1,980

(Answer: Overdraft as per cash book ` 16,070)

17. Prepare bank reconciliation statement as on 31st March, 2017 from the following extracts of cash book and bank statement.

Dr.	Cash book (Bank column only)			Cr.	
Date	Particulars	Amount	Date	Particulars	Amount
2017			2017		
March 1	To Balance b/d	9,000	Mar 4	By Drawings	1,700
3	To Ram	2,200	8	By Sumi	3,300
9	To Prem	1,500	12	By Salary	2,800
16	To Pavithra	3,400	16	By Kayal	1,700
23	To Devi	2,600	18	By Pooja	4,200
27	To Mani	1,100	26	By Sam	2,000
30	To Shankar	350	28	By Raheem	1,100
			30	By Rent	1,100
			30	By Balance c/d	2,250
		20,150			20,150

#### Bank statement

Date	Particulars	Dr. Withdrawals `	Cr. Deposits `	Balance Dr./Cr.
2017				
March 1	By balance b/d			9000 Cr.
4	To cheque- drawings	700		8,300 Cr.
5	To cheque- Ram		2,200	10,500 Cr.
9	To cheque – Sumi	3,300		7,200 Cr.
11	To cheque- Prem		1,500	8,700 Cr.
12	To cheque – Salary	2,800		5,900 Cr.
17	To cheque – Kayal	1,700		4,200 Cr.
20	To cheque- Devi		2,600	6,800 Cr.
30	By interest received		900	7,700 Cr.
30	To bank charges	15		7,685 Cr.

18. A trader received his bank statement on 31st December, 2017 which showed an overdraft balance of ` 12,000. On the same day, his cash book showed a debit balance of ` 2,000.

Analyse the following transactions. Choose the possible causes and prepare a bank reconciliation statement to show the causes of differences.

- (a) Cheque deposited for ` 2,000 on 21st December, 2017. Bank credited the same on 26th December, 2017.
- (b) Cheque issued for payment on 26th December, 2017 amounting to ` 2,500, not yet presented until 31st, December, 2017.
- (c) Bank charges amounting to ` 200 not yet entered in the cash book.
- (d) Online payment for ` 1,500 entered twice in the cash book.
- (e) Cheque deposited amounting to ` 1,000, but omitted in the cash book. The same cheque was dishonoured by bank, but not yet entered in cash book.
- (f) Cheque deposited, not yet credited by bank amounting to ` 17,800.



### Student activity

**Think:** Ram enterprises received a bank statement on 31st March, 2018, which showed a credit balance of ` 13,500. On the same date, the balance as per cash book was ` 11,000.

Think of minimum five possible causes of difference [with amount] between these two balances.

## The Bank Reconciliation Game

Roll your dice to start. Advance three steps if you land on green. Go back one step if you land on orange.

Final balance as per bank statement	55	54	Interest on bank overdraft charged	52	51	50	
43	Income directly received by bank	45	46	47	48	49	
42	41	40	39	38	37	Wrong debit in bank statement	
29	Bill receivable collected directly by bank	31	32	Bank charges levied by bank	34	35	
28	27	Wrong debit in the cash book	25	24	23	Wrong credit in the cash book	
15	16	17	18	Locker rent levied by bank	20	21	
14	Cheque directly deposited in bank by a customer	12	11	10	9	Expenses (E.g. Telephone bills) directly paid by bank	
Favourable balance as per cash book	2	3	Cheque issued but not presented to bank	5	Cheque deposited but not cleared	7	



### CASE STUDY

Magesh, an enthusiastic young entrepreneur, started a business on 1st December, 2017. He opened a current account with a nationalised bank for his business transaction. In the same bank, he maintains his personal savings bank account too. He did not find time to maintain his cash book. So he appointed a person called Dinesh to take care of bank transactions. But that person was inexperienced.

On 1st December, 2017, the opening balance as per cash book and bank record was the same. On 2nd December, Magesh issued a cheque for ` 2,000 to a supplier, but the same was entered in the credit side of the cash book as ` 200.

On 3rd, December, Magesh issued his savings bank account cheque for his personal expenses amounting to ` 2,500, but Dinesh assumed this as current account cheque and the same was entered in the cash book as drawings.

Dinesh was asked to deposit cash of ` 1,000 in cash deposit machine in order to make a payment to one of the business' supplier. He credited the same in the bank column of the cash book.

On 15th December, one of his customers made online payment to Magesh's current account, amounting to ` 1,000. There was no entry in the cash book for this.

Dinesh received his salary in cash for ` 5,000. He credited this amount in the bank column of cash book.

Bank made payment on 23rd December, amounting to ` 2,500, as per standing instruction. But, there is no entry in the cash book for the same.

On 31st, December 2017, Magesh received a bank statement from his bank, which showed a credit balance of ` 19,700. He instructed Dinesh to check the statement with the cash book. On comparing both, Dinesh found that the cash book showed a balance of ` 14,500. He was puzzled.

He needs your help to reconcile the balances.

### To explore further

- Are there ways to reduce the number of entries in the bank reconciliation statement? If so, what is to be done?
- “Ten years from now, there will not be any need to prepare bank reconciliation statement”  
- Do you agree? Why? Or why not?
- Can the concept of reconciliation be used other than banking transactions?

## **Reference**

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Account (A/c)	கணக்கு (க/கு)
Accountancy	கணக்குப் பதிவியல்
Accountant	கணக்காளர்
Accounting	கணக்கியல்
Accounting concepts	கணக்கியல் கருத்துகள்
Accounting conventions	கணக்கியல் மரபுகள்
Accounting cycle	கணக்கியல் சுழல்
Accounting equation	கணக்கியல் சமன்பாடு
Accounting principles	கணக்கியல் கொள்கைகள்
Accounting standards	கணக்கியல் தரம்
Accounting Standards Board	கணக்கியல் தரக்குழு
Accounting terminologies	கணக்கியல் கலைச்சொற்கள்
Accrued income	பெறவேண்டிய வருமானம்
Adjusted purchases	சரிக்கட்டப்பட்ட கொள்முதல்
Adjusting entries	சரிக்கட்டுப் பதிவுகள்
Amortisation	போக்கெழுதுதல்
Analytical petty cash book	பாகுபடுத்தப்பட்ட சில்லறை ரொக்க ஏடு
Annuity method	ஆண்டுத் தொகை முறை
Artificial person	சட்டமுறை அமைப்புகள்
Assets	சொத்துகள்
Bad debts	வாராக் கடன்
Balance	இருப்பு
Balance b/d	இருப்பு கீ/கொ (கீழ் கொண்டு வரப்பட்டது)
Balance c/d	இருப்பு கீ/இ (கீழ் இறக்கப்பட்டது)

Balance method	இருப்பு முறை
Balance Sheet	இருப்பு நிலைக் குறிப்பு
Balancing	இருப்புக் கட்டுதல்
Bank	வங்கி
Bank overdraft	வங்கி மேல்வரைப் பற்று
Bank pass book	வங்கிச் செல்லேடு
Bank reconciliation statement	வங்கிச் சரிகட்டும் பட்டியல்
Bank statement	வங்கிப் பட்டியல்
Bank transactions	வங்கி நடவடிக்கைகள்
Barter system	பண்டமாற்று முறை
Bill of exchange	மாற்றுச்சீட்டு
Bills payable	செலுத்துதற்குரிய மாற்றுச்சீட்டு
Bills receivable	பெறுதற்குரிய மாற்றுச்சீட்டு
Book keeping	கணக்கேடுகள் பராமரிப்பு
Books of prime entry	முதன்மைப் பதிவு ஏடுகள்
Branches of accounting	கணக்கியல் பிரிவுகள்
Capital	முதல்
Capital expenditure	முதலினச் செலவினம்
Capital receipts	முதலின வரவுகள்
Capital transaction	முதலின நடவடிக்கை
Carriage	தூக்குக் கூலி
Carriage inwards	உள் தூக்குக் கூலி
Carriage outwards	வெளி தூக்குக் கூலி
Cash	ரொக்கம்
Cash book	ரொக்க ஏரு
Cash discount	ரொக்கத் தள்ளுபடி
Cash receipt	ரொக்கச் சீட்டு

Cash transaction	ரொக்க நடவடிக்கை
Cheque	காசோலை
Closing balance	இறுதி இருப்பு
Closing entries	இறுதிப் பதிவுகள்
Closing stock	இறுதிச் சரக்கிருப்பு
Columnar petty cash book	பல பத்திகளுடையச் சில்லறை ரொக்க ஏரு
Company	நிறுமம்
Compensating errors or Offsetting errors	ஈடுசெய்ய பிழைகள்
Compound journal entry	கூட்டுக் குறிப்பேட்டுப் பதிவு
Computer	கணினி
Computerised accounting	கணினிமயமாக்கப்பட்ட கணக்கியல்
Contra entry	எதிர்ப் பதிவு
Cost accounting	அடக்கவிலைக் கணக்கியல்
Credit	வரவு
Credit balance	வரவு இருப்பு
Credit card	கடன் அட்டை
Credit note	வரவுக் குறிப்பு
Credit side	வரவுப் பக்கம்
Credit transaction	கடன் நடவடிக்கை
Creditor	கடனீங்தோர்
Current account	நடப்புக் கணக்கு
Current asset	நடப்புச் சொத்து
Current liability	நடப்புப் பொறுப்பு
Days of Grace	சலுகை நாட்கள்
Debit	பற்று
Debit balance	பற்று இருப்பு
Debit card	எறுப்பு அட்டை

Debit note	பற்றுக் குறிப்பு
Debit side	பற்றுப் பக்கம்
Debtor	கடனாளி
Deferred revenue expenditure	நீண்டபயன் வருவாயினச் செலவு
Depreciation	தேய்மானம்
Discount	கழிவு
Discounting	தள்ளுபடி செய்தல்
Dishonour	மறுக்கப்படுதல்
Dividend	பங்காதாயம்
Double column cash book	இருபுத்தி ரொக்க ஏடு
Double entry system	இரட்டைப் பதிவுமுறை
Drawings	எடுப்புகள்
Error	பிழை
Error of complete omission	முழு விடு பிழை
Error of partial omission	பகுதி விடு பிழை
Errors in accounting	கணக்கியல் பிழைகள்
Errors of recording	பதிவு செய்தல் பிழைகள்
Errors of balancing	இருப்புக் கட்டல் பிழைகள்
Errors of carrying forward	முன் எடுத்து எழுதுதல் பிழைகள்
Errors of casting	கூட்டல் பிழைகள்
Errors of commission	செய் பிழைகள்
Errors of omission	விடு பிழைகள்
Errors of posting	எடுத்தெழுதுதல் பிழைகள்
Errors of principle	விதிப்பிழைகள்
Expenses	செலவுகள்
Fictitious assets	கற்பனைச் சொத்துகள்
Final Accounts	இறுதிக் கணக்குகள்
Financial accounting	நிதிநிலைக் கணக்கியல்

Financial statement	நிதிநிலை அறிக்கை
Fixed assets	நிலைச் சொத்துகள்
Freight	வண்டிக் கட்டணம்
Furniture	அறைகலன்
General reserve	பொதுக் காப்பு
Goods	சரக்கு
Goodwill	நற்பெயர்
Gross profit	மொத்த இலாபம்
Hardware	வண்பொருள்
Human resources accounting	மனிதவளக் கணக்கியல்
Impersonal accounts	ஆள்சாராக் கணக்குகள்
Imprest system	முன்பண மீட்பு முறை
Income	வருமானம்
Income received in advance	முன்கூட்டிப் பெற்ற வருமானம்
Insolvency	நொடிப்பு நிலை
Institute of Chartered Accountants of India	இந்தியப் பட்டயக் கணக்காளர் நிறுவனம்
Insurance	காப்பீடு
Intangible asset	புலனாகாச் சொத்துகள்
Interest	வட்டி
Interest on capital	முதல் மீது வட்டி
Interest on drawings	எடுப்புகள் மீது வட்டி
Interest on investments	முதலீடுகள் மீதான வட்டி
Interest on loan	கடன் மீதான வட்டி
International Accounting Standards Committee	பன்னாட்டு கணக்கியல் தரக்குழுமம்
International Financial Reporting Standards	பன்னாட்டு நிதி அறிக்கை தரம்
Investments	முதலீடுகள்

Invoice	இடாப்பு
Journal	குறிப்பேரு
Journal entry	குறிப்பேட்டுப் பதிவு
Journal proper	உரிய குறிப்பேரு
Journalising	குறிப்பேட்டில் பதிவு செய்தல்
Ledger	பேரேரு
Ledger posting	பேரேட்டில் எடுத்தெழுதுதல்
Liabilities	பொறுப்புகள்
Liquidity	நீர்மைத் தன்மை
Long term liabilities	நீண்டகாலப் பொறுப்புகள்
Loss	நட்டம்
Machinery	இயந்திரம்
Management accounting	மேலாண்மைக் கணக்கியல்
Merger	இணைப்பு
Narration	விளக்கக் குறிப்பு
Net profit	நிகர இலாபம்
Nominal Accounts	பெயரளவுக் கணக்குகள்
Opening balance	தொடக்க இருப்பு
Opening entry	தொடக்கப் பதிவு
Opening Stock	தொடக்கச் சரக்கிருப்பு
Outstanding	கொடுபட வேண்டியது
Pay-in-slip	செலுத்துச்சீட்டு
Personal A/c	ஆள்சர் கணக்கு
Petty cash book	சில்லறை ரொக்க ஏரு
Posting	எடுத்தெழுதுதல்
Preliminary expenses	தொடக்கச் செலவுகள்
Premium	முனைமம்

Prepaid	முன் கூட்டிச் செலுத்தியவை
Profit	இலாபம்
Profit and Loss A/c	இலாபநுட்பக் கணக்கு
Provision	ஓதுக்கீடு
Provision for bad and doubtful debts	வாரா ஐயக்கடன் ஓதுக்கு
Provision for discount on debtors	கடனாளிகள் மீதான தள்ளுபடி ஓதுக்கு
Purchase returns / Return outwards	கொள்முதல் திருப்பம் / வெளித் திருப்பம்
Purchases	கொள்முதல்
Purchases book	கொள்முதல் ஏரூ
Purchases returns book	கொள்முதல் திருப்ப ஏரூ
Real accounts	சொத்துக் கணக்குகள்
Rectification of errors	பிழைகளைத் திருத்துதல்
Rectifying entries	திருத்தப் பதிவுகள்
Rent	வாடகை
Representative personal account	பிரதிநிதித்துவ நபர் கணக்கு
Reserve	காப்பு
Revenue	வருவாய்
Revenue expenditure	வருவாய்சர் செலவுகள்
Revenue receipts	வருவாய்சர் வரவுகள்
Revenue transactions	வருவாயின நடவடிக்கைகள்
Salary	ஊதியம்
Sale	விற்பனை
Sales book	விற்பனை ஏரூ
Sales returns / Returns inwards	விற்பனைத் திருப்பம் / உள்திருப்பம்
Sales returns book	விற்பனைத் திருப்ப ஏரூ
Savings account	சேமிப்புக் கணக்கு
Scrap	எறி மதிப்பு

Share	பங்கு
Single column cash book	தனிப்பத்தி ரொக்க ஏடு
Single entry system	ஒற்றைப் பதிவுமுறை
Social Responsibility Accounting	சமூகப் பொறுப்புக் கணக்கியல்
Software	மென்பொருள்
Sole proprietor	தனி ஆள் உரிமையாளர்
Solvency	கடன் தீர்க்கும் சக்தி
Source documents	ஆதார ஆவணங்கள்
Stock	சரக்கிருப்பு
Straight line method	நேர்க்கோட்டு முறை
Subsidiary books	துணை ஏடுகள்
Sundry creditors	பற்பல கடனீந்தோர்
Sundry debtors	பற்பல கடனாளிகள்
Sundry expenses	பற்பல செலவுகள்
Suspense account	அனாமத்துக் கணக்கு
Tangible assets	புலனாகும் சொத்துகள்
Three column cash book	முப்பத்தி ரொக்க ஏடு
Total method	மொத்தத் தொகை முறை
Trade discount	வியாபாரத் தள்ளுபடி
Trading account	வியாபாரக் கணக்கு
Transaction	நடவடிக்கை
Transfer entries	மாற்றுப் பதிவுகள்
Travel expenses	பயணச் செலவுகள்
Trial Balance	இருப்பாய்வு
Voucher	சான்று ஆவணம்
Wage	சூலி
Written down value	குறைந்து செல் மதிப்பு

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