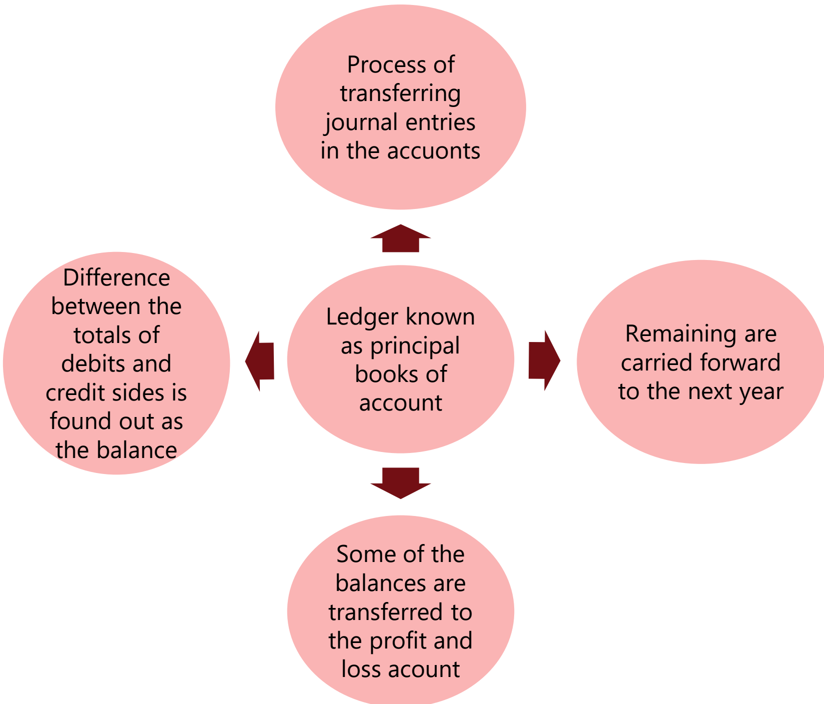
UNIT 2 : LEDGERS

LEARNING OUTCOMES

After studying this unit, you will be able to:

- Understand the concept of Ledgers.
- Learn the technique of ledger posting and how to balance an account.
- Learn the technique of opening accounts each year taking closing balances of the previous year. Note also the use of term 'balance c/d' and 'balance b/d'

UNIT OVERVIEW



2.1 INTRODUCTION

After recording the original transactions in the journal, recorded entries are classified and grouped into by preparation of accounts. The book which contains all set of accounts (viz. personal, real and nominal accounts), is known as Ledger. It is known as principal books of account in which account-wise balance of each account is determined.

2.2 SPECIMEN OF LEDGER ACCOUNTS

A ledger account has two sides-debit (left side of the account) and credit (right side of the account). Each of the debit and credit side has four columns. (i) Date (ii) Particulars (iii) Journal folio i.e. page from where the entries are taken for posting and (iv) Amount.

Dr. Account Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)

2.3 POSTING

The process of transferring the debit and credit items from journal to classified accounts in the ledger is known as posting.

2.3.1 Rules regarding Posting of Entries in the Ledger

1. Separate account is opened in ledger book for each distinct account and entries from Journal are posted to respective account accordingly.
2. It is a practice to use words 'To' and 'By' while posting transactions in the ledger. The word 'To' is used in the particular column with the accounts written on the debit side while 'By' is used with the accounts written in the particular column of the credit side. These 'To' and 'By' do not have any meanings but are used to the account debited and credited.
3. The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.

2.4 BALANCING AN ACCOUNT

At the end of each month or year or any particular reporting period, it may be necessary to ascertain the balance in an account. Suppose a person has bought goods worth ₹1,000 and has paid only ₹ 850; he owes ₹150 and that is the balance in his account. To ascertain the balance in any account, both the sides of the account is totalled and smaller amount is deducted from the bigger amount to ascertain the difference. If the credit side is bigger than the debit side, it is a credit balance and vice a versa. The credit balance is written on the debit side as, "To Balance c/d"; c/d means "carried down". By doing this, two sides will be equal. The totals are written on the two sides opposite one another.

Then the credit balance is written on the credit side as "By balance b/d (i.e., brought down)". This is the opening balance for the new period. The debit balance similarly is written on the credit side as "By Balance c/d", the totals then are written on the two sides as shown above and then the debit balance written on the debit side as, "To Balance b/d", as the opening balance of the new period.

It should be noted that nominal accounts are not balanced; the balance in the end are transferred to the profit and loss account. Only personal and real accounts balances are ultimately shown in the balance sheet at the end of the accounting period. The capital account is adjusted for profit or loss (i.e net of nominal accounts) at the end of accounting period.

ILLUSTRATION 1

Prepare the Stationery Account of a firm for the month of Jan. 2022 duly balanced off, from the following details:

2022		**₹**
Jan. 1	*Inventory of stationery*	*480*
Jan. 5	*Purchase of stationery by cheque*	*800*
Jan. 15	*Purchase of stationery on credit from Five Star Stationery Mart*	*1,280*

SOLUTION

Dr. **Stationery Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
1.1.2022	To Balance b/d	480	31.1.2022	By Balance c/d	2,560
5.1.2022	To Bank A/c	800			
15.1.2022	To Five Star Stationery				

	Mart A/c	1,280			
		2,560			2,560
1.2.2022	To Balance b/d	2,560			

ILLUSTRATION 2

Prepare the ledger accounts on the basis of following transactions in the books of a trader.

Debit Balances on January 1, 2022:

Cash in Hand ₹ 8,000, Cash at Bank ₹ 25,000, inventory of Goods ₹ 20,000, Building ₹ 10,000. Trade receivables: Vijay ₹ 2,000 and Madhu ₹ 2,000.

Credit Balances on January 1, 2022:

Trade payables: Anand ₹ 5,000 and Kapil ₹7,000, Capital ₹ 55,000

Following were further transactions in the month of January, 2022:

Jan. 1 *Purchased goods worth ₹ 5,000 (payable at later date) for cash less 20% trade discount and 5% cash discount.*

Jan. 4 *Received ₹ 1,980 from Vijay and allowed him ₹ 20 as discount.*

Jan. 8 *Purchased plant from Mukesh for ₹5,000 and paid ₹100 as cartage for bringing the plant to the factory and another ₹200 as installation charges.*

Jan. 12 *Sold goods to Rahim on credit ₹600.*

Jan. 15 *Rahim became insolvent and could pay only 50 paise in a rupee.*

Jan. 18 *Sold goods to Ram for cash ₹1,000.*

SOLUTION

Dr. **Cash Account** Cr.

Date 2022	Particulars	J.F.	₹	Date 2022	Particulars	J.F.	₹
Jan. 1	To Balance b/d		8,000	Jan. 1	By Purchases A/c		3,800
Jan. 4	To Vijay		1,980	Jan. 8	By Plant A/c		300
Jan. 15	To Rahim		300	Jan. 31	By Balance c/d		7,180
Jan. 18	To Sales A/c		1,000				
			11,280				11,280
Feb. 1	To Balance b/d		7,180				

Dr. **Bank Account** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 1	To Balance b/d		25,000	Jan. 31	By Balance c/d		25,000
			25,000				25,000
Feb. 1	To Balance b/d		25,000				

Dr. **Inventory Account** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 1	To Balance b/d		20,000	Jan. 31	By Balance c/d		20,000
			20,000				20,000
Feb. 1	To Balance b/d		20,000				

Dr. **Building Account** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 1	To Balance b/d		10,000	Jan. 31	By Balance c/d		10,000
			10,000				10,000
Feb. 1	To Balance b/d		10,000				

Dr. **Vijay** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 1	To Balance b/d		2,000	Jan. 4	By Cash A/c		1,980
					By Discount A/c		20
			2,000				2,000

Dr. **Madhu** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 1	To Balance b/d		2,000	Jan. 31	By Balance c/d		2,000
			2,000				2,000
Feb. 1	To Balance b/d		2,000				

Dr. **Anand** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 31	To Balance c/d		5,000	Jan. 1	By Balance b/d		5,000
			5,000				5,000
				Feb. 1	By Balance b/d		5,000

Dr. **Kapil** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 31	To Balance c/d		7,000	Jan. 1	By Balance b/d		7,000
			7,000				7,000
				Feb. 1	By Balance b/d		7,000

Dr. **Capital Account** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 31	To Balance c/d		55,000	Jan. 1	By Balance b/d		55,000
			55,000				55,000
				Feb. 1	By Balance b/d		55,000

Dr. **Purchases Account** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 1	To Cash		3,800				
Jan. 1	To Cash Discount		200	Jan. 31	By Balance c/d		4,000
			4,000				4,000
Feb. 1	To Balance b/d		4,000				

Dr. **Discount Account** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 4	To Vijay		20	Jan. 1	By Purchases A/c		200
Jan.31	To Balance c/d		180				
			200				200
				Feb. 1	By Balance b/d		180

Dr. **Plant Account** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 8	To Mukesh		5,000	Jan. 31	By Balance c/d		5,300
Jan. 8	To Cash A/c		300				
			5,300				5,300
Feb. 1	To Balance b/d		5,300				

Dr. **Mukesh** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 31	To Balance c/d		5,000	Jan. 8	By Plant A/c		5,000
			5,000				5,000
				Feb. 1	By Balance b/d		5,000

Dr. **Sales Account** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 31	To Balance c/d		1,600	Jan. 12	By Rahim		600
				Jan. 18	By Cash A/c		1,000
			1,600				1,600
				Feb. 1	By Balance b/d		1,600

Dr. **Rahim** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 12	To Sales A/c		600	Jan. 15	By Cash A/c		300
				Jan. 15	By Bad Debts A/c		300
			600				600

Dr. **Bad Debts Account** Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
Jan. 15	To Rahim		300	Jan. 31	By Balance c/d		300
			300				300
Feb. 1	To Balance b/d		300				

ILLUSTRATION 3

The following data is given by Mr. S, the owner, with a request to compile only the two personal accounts of Mr. H and Mr. R, in his ledger, for the month of April, 2022.

1 *Mr. S owes Mr. R ₹ 15,000; Mr. H owes Mr. S ₹ 20,000.*

4 *Mr. R sold goods worth ₹ 60,000 @ 10% trade discount to Mr. S.*

5 *Mr. S sold to Mr. H goods prices at ₹ 30,000.*

17 *Record a purchase of ₹25,000 net from R, which were sold to H at a profit of ₹15,000.*

18 *Mr. S rejected 10% of Mr. R's goods of 4th April.*

19 *Mr. S issued a cash memo for ₹10,000 to Mr. H who came personally for this consignment of goods, urgently needed by him.*

22 *Mr. H cleared half his total dues to Mr. S, enjoying a ½% cash discount (of the payment received, ₹20,000 was by cheque).*

26 *R's total dues (less ₹10,000 held back) were cleared by cheque, enjoying a cash discount of ₹1,000 on the payment made.*

29 *Close H's Account to record the fact that all but ₹5,000 was cleared by him, by a cheque, because he was declared bankrupt.*

30 *Balance R's Account.*

SOLUTION

In the books of Mr. S

Dr. **Mr. H Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
1.4.2022	To Balance b/d	20,000	22.4.2022	By Bank A/c	20,000
5.4.2022	To Sales A/c	30,000	22.4.2022	By Cash A/c (Note 2)	24,775
17.4.2022	To Sales A/c	40,000	29.4.2022	By Discount Allowed A/c	225
			29.4.2022	By Bank A/c	40,000
			29.4.2022	By Bad Debts A/c	5,000
		90,000			90,000

Dr. **Mr. R Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
18.4.2022	To Purchase Returns A/c	5,400	1.4.2022	By Balance b/d	15,000
			4.4.2022	By Purchases A/c	54,000
26.4.2022	To Bank A/c	77,600	17.4.2022	By Purchases A/c	25,000
26.4.2022	To Discount Received A/c	1,000			
30.4.2022	To Balance c/d	10,000			
		94,000			94,000
			1.5.2022	By Balance b/d	10,000

Working Notes:

(1) Sale of ₹ 10,000 on 19th April is a cash sales, therefore, it will not be recorded in the Personal Account of Mr. H; and

(2) On 22nd April, Mr. H owes Mr. S ₹ 90,000, amount paid by Mr. H ½ of ₹ 90,000 less ½% discount i.e., ₹ 45,000– ₹ 225 = ₹ 44,775. Out of this amount, ₹ 20,000 paid by cheque and the balance of ₹ 24,775 in cash.

Note: The balance of all nominal accounts is transferred to Profit and Loss account at the time of preparation of financial statements as the nominal Accounts are in the nature of revenue/incomes/gains or expenses/losses. Thus, the net result of all nominal accounts is reflected in profit and loss Account for an accounting period which is transferred to Capital Account. The balance of all the accounts relating to assets and liabilities (personal and real) are reflected in the Balance Sheet at the end of accounting period.

SUMMARY

- Process of transferring journal entries in the accounts opened in Ledger is called posting.
- Ledger is known as principal books of accounts and it provides full information regarding all the financial transactions pertaining to any individual account.
- The difference between the totals of debits and credit sides is found out as the balance. Some of these balances (i.e nominal accounts) are transferred to the profit and loss account and some are carried forward to the next period/year i.e., shown in the balance sheet, depending upon the nature of the account.

TEST YOUR KNOWLEDGE

True and False

1. *A ledger is also known as the principal book of accounts.*
2. *Cash account has a debit balance.*
3. *Posting is the process of transferring the accounts from ledger to journal.*
4. *At the end of the accounting year, all the nominal accounts of the ledger book are balanced.*
5. *Ledger records the transactions in a chronological order.*

6. *If the total debit side is greater than the total of credit side, we get a credit balance as opening balance.*

7. *Ledger accounts of assets will always be debited when they are increased.*

Multiple Choice Questions

1. *The process of transferring the debit and credit items from a Journal to their respective accounts in the ledger is termed as*

   (a) *Posting*

   (b) *Purchase*

   (c) *Balancing of an account*

2. *The technique of finding the net balance of an account after considering the totals of both debits and credits appearing in the account is known as*

   (a) *Posting*

   (b) *Purchase*

   (c) *Balancing of an account*

3. *Journal and ledger records transactions in*

   (a) *A chronological order and analytical order respectively.*

   (b) *An analytical order and chronological order respectively.*

   (c) *A chronological order only*

4. *Ledger book is popularly known as*

   (a) *Secondary book of accounts*

   (b) *Principal book of accounts*

   (c) *Subsidiary book of accounts*

5. *At the end of the accounting year all the nominal accounts of the ledger book are*

   (a) *Balanced but not transferred to profit and loss account*

   (b) *Not balanced and also the balance is not transferred to the profit and loss account*

   (c) *Not balanced and their balance is transferred to the profit and loss account.*

Theory Questions

1 *What do you mean by principal books of accounts?*

2 *What are the rules of posting of journal entries into the Ledger?*

Practical Questions

1. *Journalize the following transactions, post them in the Ledger and balance the accounts on 31st December.*

   1. *X started business with a capital of ₹ 20,000*
   2. *He purchased goods from Y on credit ₹ 4,000*
   3. *He paid cash to Y ₹ 2,000*
   4. *He sold goods to Z ₹ 4,000*
   5. *He received cash from Z ₹ 6,000*
   6. *He further purchased goods from Y ₹ 4,000*
   7. *He paid cash to Y ₹ 2,000*
   8. *He further sold goods to Z ₹ 4,000*
   9. *He received cash form Z ₹ 2,000*

ANSWERS/HINTS

True and False

1. *True: Since it classifies all the amounts related to a particular account and then it is used as the base for preparing the Trial balance, a ledger is also known as principal books of accounts.*

2. *True: Being an asset under the modern equation approach, cash account has a debit balance.*

3. *False: Posting is the process of transferring the balances from journal to ledger.*

4. *False: At the end of the accounting year, all the nominal accounts of the ledger book are totaled and transferred to P&L A/c.*

5. *False: Ledger records the transactions in analytical order. But journal records the transactions in a chronological order.*

6. *False: If the total of debit side is greater than the total of credit side, we get a debit balance as the opening balance.*

7. *True: The increase to an asset shall be debited since the original balance is also debit.*

Multiple Choice Questions

1.	**(a)**	2.	**(c)**	3.	**(a)**	4.	**(b)**	5.	**(c)**		

Theoretical Questions

1. *Ledger is known as principal books of accounts and it provides full information regarding all the transactions pertaining to any individual account. Ledger contains all set of accounts (viz. personal, real and nominal accounts).*

2. *Rules regarding posting of entries in the ledger:*

a. *Separate account is opened in ledger book for each account and entries from the Journal are posted to respective accounts accordingly.*

b. *It is a practice to use words 'To' and 'By' while posting transactions in the ledger. The word 'To' is used in the particular column with the accounts written on the debit side while 'By' is used with the accounts written in the particular column of the credit side. These 'To' and 'By' do not have any meanings but are used to the account debited and credited.*

c. *The concerned account debited in the journal should also be debited in the ledger but reference should be of the respective credit account.*

Practical Questions

1. **Journal**

Particulars		**L.F.**	**Debit ₹**	**Credit ₹**
Cash A/c	Dr.		20,000	
To Capital A/c				20,000
(Being commencement of business)				
Purchase A/c	Dr.		4,000	
To Y				4,000
(Being purchase of goods on credit)				
Y	Dr.		2,000	
To Cash				2,000
(Being amount paid to Y)				

Z Dr. To Sales A/c (Being goods sold to Z)			4,000	4,000
Bank A/c Dr. To Z (Being amount received from Z)			6,000	6,000
Purchase A/c Dr. To Y (Being purchase of goods on credit from Y)			4,000	4,000
Y Dr. To Cash A/c (Being amount paid to Y)			2,000	2,000
Z Dr. To Sales A/c (Being goods sold to Z)			4,000	4,000
Cash A/c Dr. To Z (Being cash received from Z)			2,000	2,000
TOTAL			48,000	48,000

Dr. **Cash Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Capital A/c	20,000		By Y	2,000
	To Z	6,000		By Y	2,000
	To Z	2000		By Balance c/d	24,000
		28,000			28,000
Feb. 1	To Balance b/d	24,000			

Dr. **Capital Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 31	To Balance c/d	20,000		By Cash A/c	20,000
		20,000			20,000
			Feb. 1	By Balance b/d	20,000

Dr. **Purchase Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Y	4,000	Jan 31.	By Balance c/d	8,000
	To Y	4,000			
		8,000			8,000
Feb.1	To Balance b/d	8,000			

Dr. **Y's Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Cash	2,000		By Purchases	4,000
	To Cash	2,000		By Purchases	4,000
Jan. 31	To Balance c/d	4,000			
		8,000			8,000
				By Balance b/d	4,000

Dr. **Z's Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Sales	4,000		By Cash A/c	6,000
	To Sales	4,000		By Cash A/c	2,000
		8,000			8,000

Dr. **Sales Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
Jan. 31	To Balance c/d	8,000		By Z	4,000
				By Z	4,000
		8,000			8,000
			Feb. 1	By Balance b/d	8,000

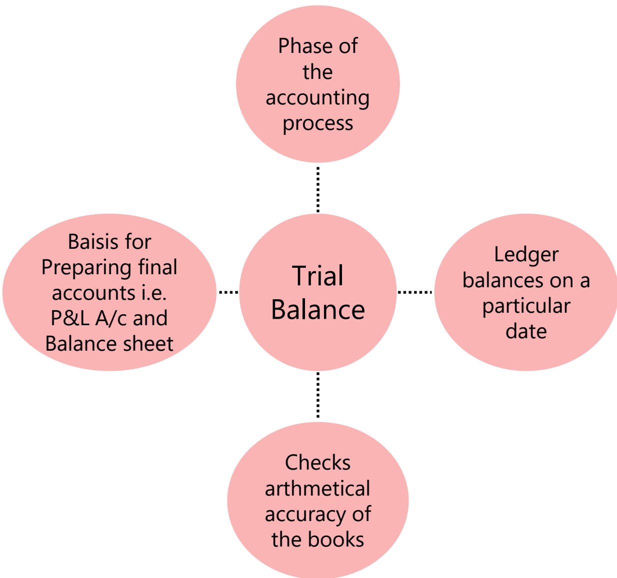
UNIT 3 : TRIAL BALANCE

LEARNING OUTCOMES

After studying this unit, you will be able to:

- Learn the technique of taking balances from ledger accounts to prepare trial balance.
- Understand what is trial balance and what purposes it can serve..

UNIT OVERVIEW



Trial balance contains various ledger balances on a particular date. It forms the basis for preparing the financial statement i.e. profit and loss account and balance sheet. If it tallies, it means that the accounts are arithmetically accurate but certain errors may still remain undetected. Therefore, it is very important to carefully journalise and post the entries, following the rules of accounting.

3.1 INTRODUCTION

Preparation of trial balance is the third phase in the accounting process. After posting the accounts in the ledger, a statement is prepared to show separately the debit and credit balances. Such a statement is known as the trial balance. It may also be prepared by listing each and every account and entering in separate columns the totals of the debit and credit sides. Whichever way it is prepared, the totals of the two columns should agree. An agreement indicates arithmetic accuracy of the accounting work; if the two sides do not agree, then there is simply an arithmetic error(s).

This follows from the fact that under the Double Entry System, the amount written on the debit sides of various accounts is always equal to the amounts entered on the credit sides of other accounts and vice versa. Hence the totals of the debit sides must be equal to the totals of the credit sides. Also total of the debit balances will be equal to the total of the credit balances. Once this agreement is established, there is reasonable confidence that the accounting work is free from clerical errors, though it is not a proof of cent per cent accuracy, because some errors of principle and compensating errors may still remain. Generally, to check the arithmetic accuracy of accounts, trial balance is prepared at monthly intervals. But because double entry system is followed, one can prepare a trial balance any time. Though a trial balance can be prepared any time but it is preferable to prepare it at the end of the reporting period which may be month end/quarter end/year end to ensure the arithmetic accuracy of all the accounts before the preparation of the financial statements. It may be noted that trial balance is a statement and not an account.

3.2. OBJECTIVES OF PREPARING THE TRIAL BALANCE

The preparation of trial balance has the following objectives:

(i) Trial balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish arithmetical accuracy of the books of accounts.

(ii) Financial statements are normally prepared on the basis of agreed trial balance; otherwise the financial statements will not give true and fair picture of the financial transactions.

(iii) The trial balance serves as a summary of what is contained in the ledger; the ledger may have to be seen only when details are required in respect of an account.

The form of the trial balance is simple as shown below:

Trial Balance

as at......................

S.No	Ledger Accounts	Dr. Amount	Cr. Amount
		(Total or Balance)	(Total or Balance)
		₹	₹

The under mentioned points may be noted:

(i) A trial balance is prepared as on a particular date which should be mentioned at the top.

(ii) In the second column the name of the account is written.

(iii) In the third column the total of the debit side of the account concerned or the debit balance, if any is entered.

(iv) In the fourth column, the total of the credit side or the credit balance is written.

(v) The third and fourth columns are totalled at the end.

3.3 LIMITATIONS OF TRIAL BALANCE

One should note that the agreement of Trial Balance is not a conclusive proof of accuracy. In other words, in spite of the agreement of the trial balance some errors may remain. These may be of the following types:

(i) Transaction has not been entered at all in the journal.

(ii) A wrong amount has been written in both columns of the journal.

(iii) A wrong account has been mentioned in the journal.

(iv) An entry has not at all been posted in the ledger.

(v) Entry is posted twice in the ledger.

Still, the preparation of the trial balance is very useful; without it, the preparation of financial statements, would be difficult.

3.4 METHODS OF PREPARATION OF TRIAL BALANCE

1. TOTAL METHOD

Under this method, every ledger account is totalled and that total amount (both of debit side and credit side) is transferred to trial balance. In this method, trial balance can be prepared as soon as ledger account is totalled. Time taken to balance the ledger accounts is saved under this method as balance can be found out in the trial balance itself. The difference of totals of each ledger account is the balance of that particular account. This method is not commonly used as for the preparation of the financial statements, only net balance of the ledger account is required. Therefore, the trial balance compiled under this method cannot be used directly for preparation of the financial statements.

ILLUSTRATION 1

Given below is a ledger extract relating to the business of X and Co. as on March, 31, 2022. You are required to prepare the Trial Balance by the Total Amount Method.

Dr. **Cash Account** *Cr.*

Particulars	₹	Particulars	₹
To Capital A/c	10,000	By Furniture A/c	3,000
To Ram's A/c	25,000	By Salaries A/c	2,500
To Cash Sales	500	By Shyam's A/c	21,000
		By Cash Purchases	1,000
		By Capital A/c	500
		By Balance c/d	7,500
	35,500		35,500

Dr. **Furniture Account** *Cr.*

Particulars	₹	Particulars	₹
To Cash A/c	3,000	By Balance c/d	3,000
	3,000		3,000

Dr. **Salaries Account** *Cr.*

Particulars	₹	Particulars	₹
To Cash A/c	2,500	By Balance c/d	2,500
	2,500		2,500

Dr. **Shyam's Account** Cr.

Particulars	₹	Particulars	₹
To Cash A/c	21,000	By Purchases A/c	25,000
To Purchase Returns A/c	500	(Credit Purchase)	
To Balance c/d	3,500		–
	25,000		25,000

Dr. **Purchases Account** Cr.

Particulars	₹	Particulars	₹
To Cash A/c (Cash Purchases)	1,000	By Balance c/d	26,000
To Sundries as per Purchases Book (Credit Purchases)	25,000		–
	26,000		26,000

Dr. **Purchases Returns Account** Cr.

Particulars	₹	Particulars	₹
To Balance c/d	500	By Sundries as per Purchases Return Book	500
	500		500

Dr. **Ram's Account** Cr.

Particulars	₹	Particulars	₹
To Sales A/c (Credit Sales)	30,000	By Sales Returns A/c	100
		By Cash A/c	25,000
		By Balance c/d	4,900
	30,000		30,000

Dr. **Sales Account** Cr.

Particulars	₹	Particulars	₹
To Balance c/d	30,500	By Cash A/c (Cash Sales)	500
		By Sundries as per Sales Book (Credit Sales)	30,000
	30,500		30,500

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

Particulars	***₹***	***Particulars***	***₹***
To Sundries as per Sales Returns Book	*100*	*By Balance c/d*	*100*
	100		*100*

Dr. ***Capital Account*** Cr.

Particulars	***₹***	***Particulars***	***₹***
To Cash A/c	*500*	*By Cash A/c*	*10,000*
To Balance c/d	*9,500*		
	10,000		*10,000*

SOLUTION

Trial Balance of X and Co. as at 31.03.2022

Sl. No.	**Name of Account**	**Total Debit ₹**	**Total Credit ₹**
1.	Cash A/c	35,500	28,000
2.	Furniture A/c	3,000	
3.	Salaries A/c	2,500	
4.	Shyam's A/c	21,500	25,000
5.	Purchases A/c	26,000	
6.	Purchases Returns A/c		500
7.	Ram's A/c	30,000	25,100
8.	Sales A/c		30,500
9.	Sales Returns A/c	100	
10.	Capital A/c	500	10,000
		1,19,100	1,19,100

2. BALANCE METHOD

Under this method, every ledger account is balanced and those balances only are carried forward to the trial balance. This method is used commonly by the accountants and helps in the preparation of the financial statements. Financial statements are prepared on the basis of the balances of the ledger accounts.

ILLUSTRATION 2

Taking the same information as given in Illustration 1, prepare the Trial Balance by Balance Method.

SOLUTION

Trial Balance of X and Co. as at 31.03.2022

Sl. No.	Name of Account	Debit Balance ₹	Credit Balance ₹
1.	Cash A/c	7,500	
2.	Furniture A/c	3,000	
3.	Salaries A/c	2,500	
4.	Shyam's A/c		3,500
5.	Purchases A/c	26,000	
6.	Purchases Returns A/c		500
7.	Ram's A/c	4,900	
8.	Sales A/c		30,500
9.	Sales Returns A/c	100	
10.	Capital A/c		9,500
		44,000	44,000

3. TOTAL AND BALANCE METHOD

Under this method, the above two explained methods are combined. This has been explained with the help of the following example:

Trial Balance of X as at 31.03.2022

Sl. No.	Heads of Account	Debit Balance (₹)	Credit Balance (₹)	Debit Total (₹)	Credit Total (₹)
1.	Cash Account	7,500		35,500	28,000
2.	Furniture Account	3,000		3,000	
3.	Salaries Account	2,500		2,500	
4.	Shyam's Account		3,500	21,500	25,000

5.	Purchases Account	26,000		26,000	
6.	Purchase Returns Account		500		500
7.	Ram's Account	4,900		30,000	25,100
8.	Sales Account		30,500		30,500
9.	Sale Returns Account	100		100	
10.	Capital Account		9,500	500	10,000
	Total	44,000	44,000	1,19,100	1,19,100

3.5 ADJUSTED TRIAL BALANCE (THROUGH SUSPENSE ACCOUNT)

If the trial balance does not agree after transferring the balance of all ledger accounts including cash and bank balance and also errors are not located timely, then the trial balance is tallied by transferring the difference of debit and credit side to an account known as suspense account. This is a temporary account opened to proceed further and to prepare the financial statements timely.

3.6 RULES OF PREPARING THE TRIAL BALANCE

While preparing the trial balance from the given list of ledger balances, following rules should be taken into account:

1. The balances of all (i) assets accounts (ii) expenses accounts (iii) losses (iv) drawings are placed in the debit column of the trial balance.
2. The balances of all (i) liabilities accounts (ii) income accounts (iii) gains (iv) capital are placed in the credit column of the trial balance.

ILLUSTRATION 3

From the following ledger balances, prepare a trial balance of Anuradha Traders as on 31st March, 2022:

Account Head	₹
Capital	*1,00,000*
Sales	*1,66,000*
Purchases	*1,50,000*

Sales return	*1,000*
Discount allowed	*2,000*
Expenses	*10,000*
Trade receivables	*75,000*
Trade payables	*25,000*
Investments	*15,000*
Cash at bank and in hand	*37,000*
Interest received on investments	*1,500*
Insurance paid	*2,500*

SOLUTION

Trial Balance of Anuradha Traders as on 31.03.2022

Particulars	Dr. balance ₹	Particulars	Cr. balance ₹
Purchases	1,50,000	Capital	1,00,000
Sales return	1,000	Sales	1,66,000
Discount allowed	2,000	Trade payables	25,000
Expenses	10,000	Interest received on investments	1,500
Trade receivables	75,000		
Investments	15,000		
Cash at bank and in hand	37,000		
Insurance paid	2,500		
Total	2,92,500		2,92,500

ILLUSTRATION 4

One of your clients, Mr. Singhania has asked you to finalise his accounts for the year ended 31st March, 2022. Till date, he himself has recorded the transactions in books of accounts. As a basis for audit, Mr. Singhania furnished you with the following statement.

	Dr. Balance (₹)	Cr. Balance (₹)
Singhania's Capital		*1,556*
Singhania's Drawings	*564*	
Leasehold premises	*750*	
Sales		*2,750*
Dues from customers		*530*
Purchases	*1,259*	
Purchases return	*264*	
Loan from bank		*256*
Trade payables	*528*	
Trade expenses	*700*	
Cash at bank	*226*	
Bills payable	*100*	
Salaries and wages	*600*	
Inventories (1.4.2021)		*264*
Rent and rates	*463*	
Sales return		*98*
	5,454	*5,454*

The closing inventory on 31st March, 2022 was valued at ₹ 574. Mr. Singhania claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance.

SOLUTION

Corrected Trial Balance of Mr. Singhania as on 31st March, 2022

Particulars	Dr. Amount ₹	Cr. Amount ₹
Singhania's Capital		1,556
Singhania's Drawings	564	
Leasehold premises	750	
Sales		2,750

Dues from customers (refer note 1 below)	530	
Purchases	1,259	
Purchases returns (refer note 2 below)		264
Loan from Bank		256
Trade payables (refer note 3 below)		528
Trade expenses	700	
Cash at Bank	226	
Bills payable (refer note 4 below)		100
Salaries and Wages	600	
Inventory (1.4.2021) (refer note 5 below)	264	
Rent and rates	463	
Sales return (refer note 6 below)	98	
	5,454	5,454

Notes:

1. Dues from customers is an asset, so its balance will be a debit balance.
2. Purchases return account always shows a credit balance because assets go out.
3. Balance in Trade payables is a liability, so its balance will be a credit balance.
4. Bills payable is a liability, so its balance will be a credit balance.
5. Inventory (opening) represents assets, so it will have a debit balance.
6. Sales return account always shows a debit balance because assets come.

ILLUSTRATION 5

The following trail balance as on 31st March, 2022 was drawn from the books of fintech traders:

	L.F.	**Dr. Balance (₹)**	**Cr. Balance (₹)**
Building		*60,000*	-
Machinery		*17,000*	-
Return Outward		*2,600*	-
Bad Debts		*2,800*	-
Cash		*400*	-

Discount Received		*3,000*	-
Bank Overdraft		*10,000*	-
Creditors		*50,000*	-
Purchases		*1,00,000*	-
Capital		-	*73,600*
Fixtures		-	*5,600*
Sales		-	*1,04,000*
Debtors		--	*60,000*
Interest Received		-	*2,600*
Input CGST A/c		-	*3,000*
Input SGST A/c		-	*3,000*
Input IGST A/c		-	*4,800*
Output CGST A/c		*5,400*	-
Output SGST A/c		*5,400*	-
Total		*2,56,600*	*2,56,600*

Even though the debit and credit sides agree, the trial Balance contains certain errors. Check the accuracy of trial balance.

SOLUTION

Corrected Trial Balance of Fintech traders as on 31st March, 2022

	L.F.	*Dr. Balance (₹)*	*Cr. Balance (₹)*
Building		60,000	-
Machinery		17,000	-
Return Outward		-	2,600
Bad Debts		2,800	-
Cash		400	-
Discount Received		-	3,000
Bank Overdraft		-	10,000
Creditors		-	50,000
Purchases		1,00,000	-
Capital		-	73,600

Fixtures		5,600	-
Sales		-	1,04,000
Debtors		60,000	-
Interest Received		-	2,600
Input CGST A/c		3,000	-
Input SGST A/c		3,000	-
Input IGST A/c		4,800	-
Output CGST A/c		-	5,400
Output SGST A/c		-	5,400
		2,56,600	2,56,600

SUMMARY

- Trial balance contains various ledger balances on a particular date.
- It forms the basis for preparing financial statement i.e. profit and loss account and balance sheet.
- If it tallies, it means that the accounts are arithmetically accurate but certain errors may still remain undetected.
- It is very important to carefully journalize and post the entries, following the rules of accounting.

TEST YOUR KNOWLEDGE

True and False

1. *Preparing trial balance is the third phase of accounting process.*
2. *Trial balance forms a base for the preparation of Financial statement.*
3. *Agreement of trial balance is a conclusive proof of accuracy.*
4. *A trial balance will tally in case of compensating errors.*
5. *A trial balance can find the missing entry from the journal.*
6. *Suspense account opened in a trial balance is a permanent account.*
7. *The balance of purchase returns account has a credit balance.*

Multiple Choice Questions

1. *A trial balance will not balance if ____________________________*

   (a) *Correct journal entry is posted twice.*

   (b) *The purchase on credit basis is debited to purchases and credited to cash.*

   (c) *₹ 500 cash payment to creditor is debited to Trade payables for ₹ 50 and credited to cash as ₹ 500.*

2. *₹ 1, 500 received from sub-tenant for rent and entered correctly in the cash book is posted to the debit of the rent account. In the trial balance ____________________________*

   (a) *The debit total will be greater by ₹ 3,000 than the credit total.*

   (b) *The debit total will be greater by ₹ 1,500 than the credit total.*

   (c) *Subject to other entries being correct the total will agree.*

3. *After the preparation of ledgers, the next step is the preparation of ____________________________*

   (a) *Trading accounts*

   (b) *Trial balance*

   (c) *Profit and loss account*

4. *After preparing the trial balance the accountant finds that the total of debit side is short by ₹ 1,500. This difference will be ____________________________*

   (a) *Credited to suspense account*

   (b) *Debited to suspense account*

   (c) *Adjusted to any of the debit balance account*

5.

S.No.	**Account heads**	**Debit (₹)**	**Credit (₹)**
1.	Sales		15,000
2.	Purchases	10,000	
3.	Miscellaneous expenses	2,500	
4.	Salaries		2,500
	Total	12,500	17,500

The difference in trial balance is due to ____________________________

(a) *Wrong placing of sales account*

(b) *Wrong placing of salaries account*

(c) *Wrong placing of miscellaneous expenses account*

Theory Questions

1. *What is the trial balance? And how it is prepared?*
2. *Explain objectives of preparation of trial balance.*
3. *Even if the trial balance agrees, some errors may remain. Do you agree? Explain.*

Practical Question

1. *An inexperienced bookkeeper has drawn up a Trial Balance for the year ended 30th June, 2022.*

	Debit (₹)	**Credit (₹)**
Provision for Doubtful Debts	200	–
Bank Overdraft	1,654	–
Capital	–	4,591
Trade payables	–	1,637
Trade receivables	2,983	–
Discount Received	252	–
Discount Allowed	–	733
Drawings	1,200	–
Office Furniture	2,155	–
General Expenses	–	829
Purchases	10,923	–
Returns Inward	–	330
Rent & Rates	314	–
Salaries	2,520	–
Sales	–	16,882
Inventory	2,418	–
Provision for Depreciation on Furniture	364	–
Total	24,983	25,002

Required:

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

ANSWERS/HINTS

True and False

1. *True: Preparing trial balance is the third phase of accounting process which forms the base for the preparation of the final accounts.*

2. *True: Based on trial balance only, we can prepare financial statement.*

3. *False: Agreement of trial balance gives only arithmetical accuracy, there can still be errors in preparing the trail balance.*

4. *True: Since compensating errors cancel out due to their compensating nature of the amounts, hence the Trial balance tallies.*

5. *False: A trial balance cannot find the missing entry from the journal.*

6. *False: Suspense account opened in a trial balance is a temporary account*

7. *True: As purchases is debited, any returns shall be credited (treated in opposite way).*

Multiple Choice Questions

1.	**(c)**	2.	**(a)**	3.	**(b)**	4.	**(b)**	5.	**(b)**		

Theoretical Questions

1. Preparation of trial balance is the third phase in the accounting process. After posting the accounts in the ledger, a statement is prepared to show separately the debit and credit balances. Such a statement is known as the trial balance.

Trial balance contains various ledger balances on a particular date. It forms the basis for preparing the financial statements i.e. profit and loss account and balance sheet. If is tallies, it means that the accounts are arithmetically accurate but certain errors may still remain undetected. Therefore, it is very important to carefully journalise and post the entries, following are rules of accounting.

2. The preparation of trial balance has the following objectives:

(i) Trial balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish arithmetical accuracy of the books of accounts.

(ii) Financial statements are normally prepared on the basis of agreed trial balance.

(iii) The trial balance serves as a summary of what is contained in the ledgers.

3. In spite of the agreement of the trial balance some errors may remain. These may be of the following types:

(i) Transaction has not been entered at all in the journal.

(ii) A wrong amount has been written in both columns of the journal.

(iii) A wrong account has been mentioned in the journal.

(iv) An entry has not at all been posted in the ledger.

(v) Entry is posted twice in the ledger.

Practical Question

1. **Trial Balance as on 30th June, 2022**

Heads of Accounts	Debit ₹	Credit ₹
Provision for Doubtful Debts	–	200
Bank overdraft	–	1,654
Capital	–	4,591
Trade payables	–	1,637
Trade receivables	2,983	–
Discount Received	–	252
Discount allowed	733	–
Drawings	1,200	–
Office furniture	2,155	–
General Expenses	829	–
Purchases	10,923	–
Returns Inward	330	–
Rent & Rates	314	–
Salaries	2,520	–
Sales	–	16,882
Inventory	2,418	–
Provision for Depreciation on Furniture	–	364
Suspense Account (Balancing figure)	1,175	–
Total	25,580	25,580

UNIT – 4 SUBSIDIARY BOOKS

LEARNING OUTCOMES

After studying this unit, you will be able to:

- Understand the techniques of recording transactions in Purchase Book, Sales Book; Returns Inward Book and Returns Outward Book; Bills Receivable and Bills Payable Book.
- Learn the technique of posting from Subsidiary Books to Ledger.
- Understand that even if subsidiary books are maintained, journalisation is required for many other transactions and events.
- Learn the difference between the subsidiary books and principal books.

UNIT OVERVIEW

Principle books
- Ledger
- Cash books

Subsidiary books
- Purchases and Sales book, Purchase and Sales return books
- Bill payable and Bills receivable books
- Journal Proper

4.1 INTRODUCTION

In a business, most of the transactions generally relate to receipts and payments of cash, sale of goods and their purchase. It is convenient to keep a separate register for each such class of transactions one for receipts and payments of cash, one for purchase of goods and one for sale of goods. A register of this type is called a book of original entry or of prime entry. The transactions recorded in such books will not require journal entries. The system by which transactions of a class are first recorded in the specified book, specially meant for it and on the basis of which ledger accounts are then prepared is known as the Practical System of Book keeping or even the English System. It should be noted that in this system, there is no departure from the rules of the double entry system.

These books of original or prime entry are also called subsidiary books since ledger accounts are prepared on their basis without further processing of ledger posting. Normally, the following subsidiary books are used in a business:

(i) Cash Book to record receipts and payments of cash, including receipts into and payments out of the bank.

(ii) Purchases Book to record credit purchases of goods dealt in or of the materials and stores required in the factory.

(iii) Purchase Returns Book to record the returns of goods and materials previously purchased.

(iv) Sales Book to record the sales of the goods dealt in by the firm.

(v) Sale Returns Book to record the returns of goods made by the customers sold to them earlier.

(vi) Bills Receivable Book to record the receipts of promissory notes or hundies from various parties.

(vii) Bills Payable Book to record the issue of the promissory notes or hundies to other parties.

(viii) Journal (proper) to record the transactions which cannot be recorded in any of the seven books mentioned above.

It may be noted that in all the above cases the word “Journal” may be used for the word “book”.

Advantages of Subsidiary Books

The use of subsidiary books affords the undermentioned advantages:

(i) **Division of work:** Since in the place of one journal there will be so many subsidiary books, the accounting work may be divided amongst a number of clerks.

(ii) **Specialization and efficiency:** When the same work is allotted to a particular person over a period of time, he acquires full knowledge of it and becomes efficient in handling it. Thus the accounting work will be done efficiently.

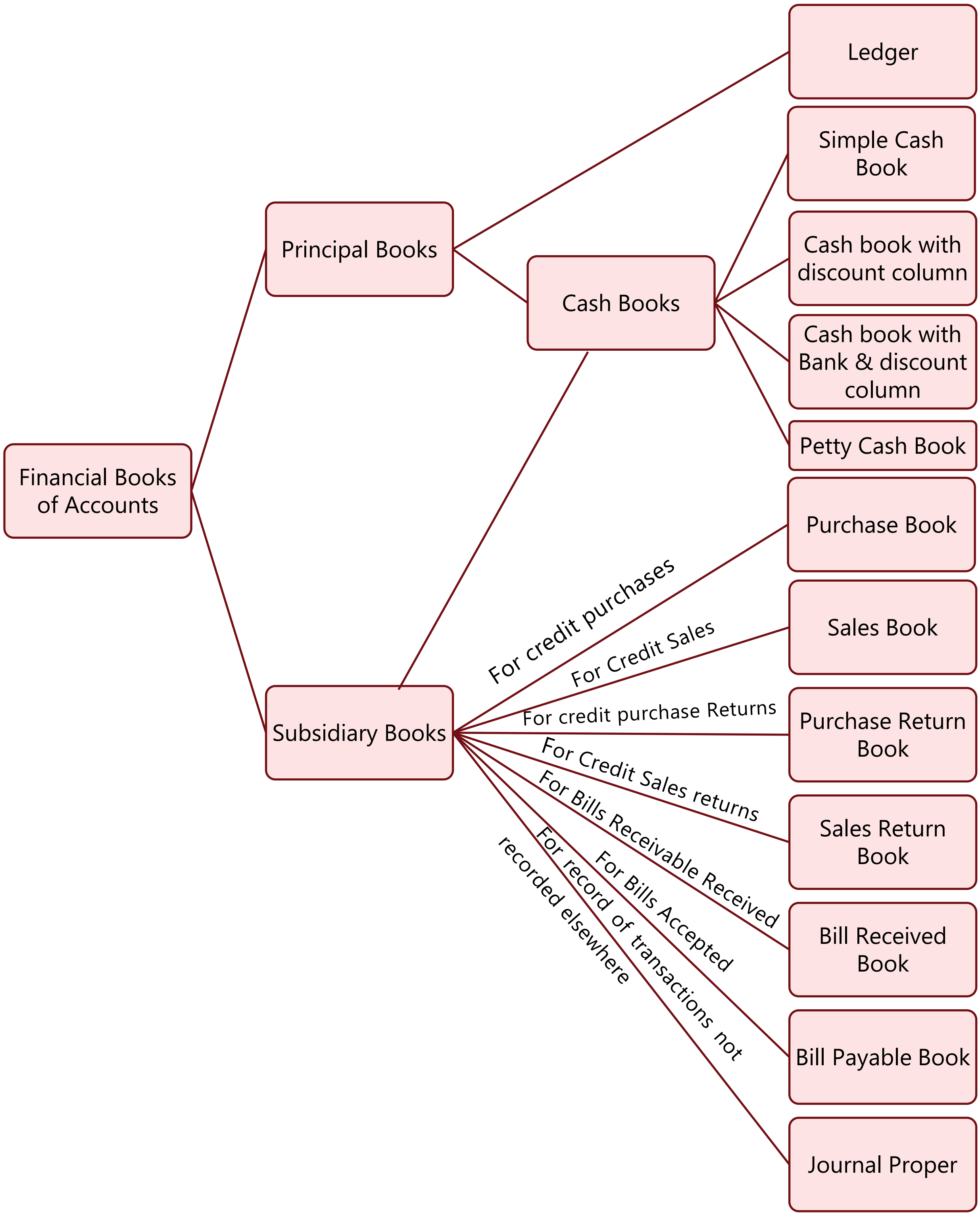
(iii) **Saving of the time:** Various accounting processes can be undertaken simultaneously because of the use of a number of books. This will lead to the work being completed quickly.

(iv) **Availability of information:** Since a separate register or book is kept for each class of transactions, the information relating to each class of transaction be available at one place.

(v) **Facility in checking:** When the trial balance does not agree, the location of the error or errors is facilitated by the existence of separate books. Even the commission of errors and frauds will be checked by the use of various subsidiary books.

4.2 DISTINCTION BETWEEN SUBSIDIARY BOOKS AND PRINCIPAL BOOKS

The books in which transactions are first recorded to enable further processing are called subsidiary books. The ledger and the cash book are the principle books since they furnish information for preparation of the trial balance and financial statements. The following chart will help you in understanding the difference between Subsidiary Books and Principal Books.


Financial Books of Accounts
Principal Books
Subsidiary Books
Cash Books
Ledger
Simple Cash Book
Cash book with discount column
Cash book with Bank & discount column
Petty Cash Book
Purchase Book
Sales Book
Purchase Return Book
Sales Return Book
Bill Received Book
Bill Payable Book
Journal Proper
For credit purchases
For Credit Sales
For credit purchase Returns
For Credit Sales returns
For Bills Receivable Received
For Bills Accepted
For record of transactions not recorded elsewhere

4.3 PURCHASES BOOK

To record the credit purchases of goods dealt in or materials used in the business, a separate register called the Purchases Book or the Purchases Journal, is usually maintained by firms. The format is given below:

Date	Particulars	Details ₹	Amount ₹

It should be remembered that:

(i) Cash purchases are not entered in this book since these will be entered in the cash book; and

(ii) Credit purchases of items other than goods or materials, such as office furniture or typewriters are journalised - they are not entered in the Purchases Book.

The particulars column is meant to record the name of the supplier and name of the articles purchased and the respective quantities. The amount in respect of each article is entered in the details column. After totalling the various amounts included in a single purchase, the amount for packing, or other charges is added and the amount for trade discount is deducted. The net amount is entered in the amount column. The total in the amount column shows the total purchase made in a period.

ILLUSTRATION 1

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

2022

Feb. *1.* *Purchased from Brown & Co. on credit :*

5 gross pencils @ ₹100 per gross,

1 gross register @ ₹ 240 per doz.

Less : Trade Discount @ 10%

2. *Purchased for cash from the Stationery Mart;*

10 gross exercise books @ ₹ 300 per doz.

3. *Purchased computer for office use from M/s. office*

Goods Co. on credit for ₹ 30,000.

4. *Purchased on credit from The Paper Co.*

5 reams of white paper @ ₹100 per ream.

10 reams of ruled paper @ ₹150 per ream.

Less : Trade Discount @ 10%

5. *Purchased one dozen gel pens @ ₹15 each from M/s. Verma Bros. on credit.*

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

SOLUTION

Purchases Book

Date	**Particulars**	**Details**	**Amount**
2022		₹	₹
Feb. 1	M/s. Brown & Co.		
	5 gross pencils @ ₹ 100 per gross	500.00	
	1 gross register @ ₹ 240 per doz.	2880.00	
		3380.00	
	Less : 10% trade discount	(338)	3,042
"4	The Paper Co.		
	5 reams white paper @ ₹ 100 per ream	500.00	
	10 reams ruled paper @ ₹ 150 per ream	1500.00	
		2,000.00	
	Less : 10% trade discount	(200.00)	1,800
5	M/s. Verma Bros.		
	1 doz. gel pens @ ₹ 15 each	180	180
		Total	5022

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

ILLUSTRATION 2

Enter the following transactions in Purchase Book and post them into ledger.

2022

April 4 *Purchased from Ajay Enterprises, Delhi*

100 Doz. Rexona Hawai Chappal @ ₹ 120 per doz.

200 Doz. Palki Leather Chappal @ ₹ 300 per Doz.

Less : Trade discount @ 10%

Freight charged ₹ 150.

April 15 *Purchased from Balaji Traders, Delhi*

50 doz. Max Shoes @ ₹ 400 per doz.

100 pair Sports Shoes @ ₹ 140 per pair.

Less : Trade discount @ 10%.

Freight charged ₹ 200.

April 28 *Purchased from Tripti Industries, Bahadurgarh*

40 pair leather shoes @ ₹ 400 per pair

100 doz. Rosy Hawai Chappal @ ₹ 180 per doz.

Less : Trade discount @ 10%.

Freight charged ₹ 100.

SOLUTION

Purchase Book

Date 2022	Particulars	Details	Gross Amount	Trade Discount	Net Price	Freight	Total Amount
April 4	Ajay Enterprises						
	100 doz Rexona Hawai chappal @ ₹ 120 per doz - ₹ 12,000	12,000					
	200 doz Palki Leather Chappal @ ₹ 300 per doz - ₹ 60,000	60,000					
	Less: trade discount @ 10%		72,000	7,200	64,800	150	64,950
April 15	Balaji Traders, Delhi						
	50 doz max Shoes @ ₹ 400 per doz - ₹ 20,000	20,000					
	100 pair Sports shoes @ ₹ 140 per pair - ₹ 14,000	14,000					
	Less: Trade discount @ 10%		34,000	3,400	30,600	200	30,800

April 28	Tripti Industries, Bahadurgarh 40 pair Leather shoes @ ₹ 400 per pair - ₹ 16,000 100 doz Rosy Hawai Chappal: @ ₹ 180 per doz - ₹ 18,000 *Less*: Trade discount @ 10%	16,000 18,000	34,000	3,400	30,600	100	30,700
			1,40,000	14,000	1,26,000	450	1,26,450

Ledgers

Dr. **Purchases A/c** Cr.

2022		₹	2022		₹
April 30	To amount as per purchase book	1,26,000			

Dr. **Freight A/c** Cr.

2022		₹	2022		₹
April 30	To amount as per purchase book	450			

Dr. **Ajay Enterprises** Cr.

2022		₹	2022		₹
			April 4	By Purchase A/c (From Purchase Book)	64,800
				By Freight A/c (From Purchase Book)	150

Dr. **Balaji Traders** Cr.

2022		₹	2022		₹
			April 15	By Purchase A/c (From Purchase Book)	30,600
				By Freight A/c (From Purchase Book)	200

Dr. **Tripati Industries** Cr.

2022		₹	2022		₹
			April 28	By Purchase A/c (From Purchase Book)	30,600
				By Freight A/c (From Purchase Book)	100

POSTING THE PURCHASES BOOK

The Purchases Book shows the names of the parties from whom goods have been purchased on credit. These parties are now trade payables. Their accounts have to be credited for the respective amounts shown in the purchase book. The total of the amounts column shows the credit purchases made in a period. The amount is debited to the Purchase Account to indicate receipt of goods. In Illustration 1, the Purchases Account is debited by ₹ 5,022, M/s. Brown & Co. is credited by ₹ 3,042, The Paper Company by ₹1,800 and M/s. Verma Bros. by ₹180. The total of the amounts put on the credit side equals the debit. Thus the double entry is completed.

4.4 SALES BOOK

The Sales Book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the Cash Book and not in the Sales Book. Credit sales of items other than the goods dealt in by the firm are not entered in the Sales Book rather they are journalised. The rules are the same as for the Purchases Book.

Entries in the Sales Book are also made in the same manner as in the Purchase Book. The particulars column will record the name of the customers concerned together with particulars and quantities of the goods sold. For each item, the amount is entered in the details column; after totalling the amounts for one sale, charges for packing etc; are added and the trade discount, if any is deducted: the net amount is put in the outer column. The total of this column will show the total credit sales for a period.

ILLUSTRATION 3

The following are some of the transaction of M/s Kishore & Sons of the year 2022 as per their Waste Book. Make out their Sales Book.

Sold to M/s. Gupta & Verma on credit:

30 shirts @ ₹ 800 per shirt.

20 trousers @ ₹1,000 per trouser.

Less : Trade Discount @ 10%

Sold furniture to M/s. Sehgal & Co. on credit ₹8,000.

Sold 50 shirts to M/s. Jain & Sons @ ₹800 per shirt.

Sold 13 shirts to Cheap Stores @ ₹750 each for cash.

Sold on credit to M/s. Mathur & Jain.

100 shirts @ ₹750 per shirt

10 overcoats @ ₹5,000 per overcoat.

Less: Trade Discount @ 10%

SOLUTION

Sales Book

Date	Particulars	Details ₹	Amount ₹
2022	M/s. Gupta & Verma		
	30 shirts @ ₹800	24,000	
	20 Trousers @ ₹1,000	20,000	
		44,000	
	Less : 10%	(4,400)	
	Sales as per invoice no. dated		39,600
	M/s. Jain & Sons 50 shirts @ ₹800		
	Sale as per invoice no. dated		40,000
	M/s Mathur & Jain		
	100 shirts @ ₹750	75,000	
	10 overcoats @ ₹5,000	50,000	
		1,25,000	
	Less : 10%	(12,500)	
	Sales as per invoice no. dated......		1,12,500
		Total	1,92,100

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

POSTING THE SALES BOOK

The names appearing in the Sales Book are of those parties which have received the goods. The accounts of the parties have to be debited with the respective amounts. The total of the Sales Book shows the credit sales made during the period concerned; the amount is credited to the Sales Account. In the Illustration 3, ₹ 1,92,100 is credited to the Sales Account; ₹39,600 is debited to M/s. Gupta and Verma ₹40,000 to M/s Jain and Sons and ₹1,12,500 to M/s Mathur & Jain. The amount put on the credit side is equal to the total of the amount put on the debit side. Thus, the double entry principle is followed correctly.

4.5 SALES RETURNS BOOK OR RETURNS INWARD BOOK

If customers frequently return the goods sold to them, it would be convenient to record the returns in a separate book, which is named as the Sales Returns Book or the Returns Inward Book. The rules of the book is similar to the Sales Book and entries are also made in the same manner. The following, assumed figures, will illustrate this:

Returns Inward Book

Date	Particulars	Details	L.F.	Amount
2022				₹
June 7	Sunil Bank & Co.			
	6 Copies-Double Entry			
	Bookkeeping by T.S. Grewal @ ₹ 7	42.00		
	Less : Trade Discount 10%	(4.20)		37.80
	Kailash & Co.			
	1 Copy-Business Methods by R.K. Gupta			3.50
		Total		41.30

4.6 PURCHASE RETURNS OR RETURNS OUTWARD BOOK

Such a book conveniently records return of goods or material purchased to the suppliers. However, if the returns are not frequent, it may be sufficient to record the transaction in the journal. The rules of the Purchase Returns or Returns Outward Book is similar to that of the Purchase Book; entries are also similarly made, as the illustration given below shows:

Returns Outward Book

Date 2022	**Particulars**	**₹**	**Amount ₹**
June 2	Premier Electric Co.		175.00
	One 36" Usha Ceiling Fan		
" 28	Mohan Electric Co.		
	Ten Iron Heaters	150.00	
	Less : Discount	(15.00)	135.00
	Total		310.00

POSTING OF THE RETURN BOOKS

The Sales Return Book will show the total of the returns made by customers. The total of the sales returns is in reduction of the sales. Therefore, the amount may be debited to the Sales Account but, usually, a separate account called Returns Inward Account is opened and the total of the sales returns is debited to this accounts. The customers who have returned the goods are credited with the respective amounts.

It should be noted that on goods being received and accepted back from the customers, a credit note is issued to the customers concerned. This shows the amount to be credited to the customer's account.

Similarly, when goods are returned to suppliers they will issue the necessary credit note; also the firm returning the goods will issue a debit note to the supplier, indicating the amount for which the supplier account is being debited.

The total of Returns Outwards Book shows the total purchase returns made. The amount can be credited to the Purchase Account, but in practice, it is credited to a separate account called Purchase Returns or Returns Outward Account. The suppliers whose names appear in the Book have received the goods, so their accounts are debited. This is shown in the illustration given below:

ILLUSTRATION 4

Post the following into the ledger

Returns Outward Book

Date 2022	*Particulars*	*Details ₹*	*Amount ₹*
Nov. 20	*Rajindra Prakash & Sons*		
	One 36" Usha Ceiling Fan	*200.00*	
	Less : Trade Discount @ 10%	*(20.00)*	*180.00*
" 30	*Modern Electric Company*		*100.00*
	Total		*280.00*

SOLUTION

Ledger

Dr. **Rajindra Parkash & Sons** Cr.

Date 2022	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Nov. 20	To Returns Outward A/c (From Returns Outward Book)		180.00				

Dr. **Modern Electric Co.** Cr.

Date 2022	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
Nov. 30	To Returns Outward A/c (From Returns Outward Book)		100.00				

Dr. **Returns Outward Account** Cr.

Date 2022	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
				Nov. 30	By Sundries as per Returns Outward Book		280.00

BILLS RECEIVABLE BOOKS AND BILLS PAYABLE BOOKS

If the firm usually receives a number of promissory notes or hundies, it would be convenient to record the transaction in a separate book called the Bills Receivable Book. Similarly, if promissory notes or hundies are frequently issued, the Bills Payable Book will be convenient. This will be discussed later.

4.7 IMPORTANCE OF JOURNAL

Students are now familiar with the journal. They also know that :

(i) Cash transactions are recorded in the cash book;

(ii) Credit purchases of goods or materials are recorded in the purchases book;

(iii) Credit sales of goods are recorded in the sales book;

(iv) Returns from customers are recorded in the sale returns book; and

(v) Returns to suppliers are entered in the purchase returns book.

Bill received or accepted transactions are entered in the bills receivable books or the bills payable books, if these are maintained. Apart from the transactions mentioned above, there are other entries also which have to be recorded. For them the proper place is the journal. In fact, if there is no special book meant to record a transaction, it is recorded in the journal (proper). The role of the journal is thus restricted to the following types of entries:

(i) **Opening entries :** When books are started for the new year, the opening balance of assets and liabilities are journalised.

(ii) **Closing entries :** At the end of the year, the profit and loss account is prepared. For this purpose, the nominal accounts are transferred to profit and loss account. This is done through journal entries called closing entries.

(iii) **Rectification entries :** If an error has been committed, it is rectified through a journal entry.

(iv) **Transfer entries :** If some amount is to be transferred from one account to another, the transfer will be made through a journal entry.

(v) **Adjusting entries :** At the end of the year the amount of expenses or income may have to be adjusted for amounts received in advance or for amounts not yet settled in cash. Such an adjustment is also made through journal entries. Usually, the entries pertain to the following:

(a) Outstanding expenses, i.e., expenses incurred but not yet paid;

(b) Prepared expenses, i.e., expenses paid in advance for future period;

(c) Interest on capital, i.e., the interest on proprietor's investment in the business; and

(d) Depreciation, i.e., fall in the value of the assets used on account of wear and tear.

For above type of transactions/events, journal entries are necessary.

(vi) Entries on dishonour of Bills : If someone who accepted a promissory note (or bill) is not able to pay in on the due date, a journal entry will be necessary to record the non-payment or dishonour of bills.

(vii) Miscellaneous entries : The following entries will also require journalising:

(a) Credit purchase of items other than goods dealt in or materials required for production of goods e.g. credit purchase of furniture or machinery will be journalised.

(b) An allowance to be given to the customers or a charge to be made to them after the issue of the invoice.

(c) Receipt or issue of promissory notes, if separate bill books have not been maintained.

(d) If an amount becomes irrecoverable, say, because, of the customer becoming insolvent.

(e) Effects of accidents such as loss of property by fire.

(f) Transfer of net profit to capital account.

ILLUSTRATION 5

From the following transactions, prepare the Purchases Returns Book of Alpha & Co., a saree dealer :

Date	***Debit Note No.***	***Particulars***
04.01.2022	*101*	*Returned to Goyal Mills, Surat - 5 polyester sarees @ ₹ 1,000.*
09.01.2022		*Garg Mills, Kota - accepted the return of goods (which were purchased for cash) from us - 5 Kota sarees @ ₹ 400.*
16.01.2022	*102*	*Returned to Mittal Mills, Bangalore - 5 silk sarees @ ₹ 2,600.*
30.01.2022		*Returned one computer (being defective) @ ₹ 35,000 to B & Co.*

SOLUTION

Purchase Returns Book

Date	Debit Note No.	Name of supplier	L.F.	Amount
2022				
Jan. 4	101	Goyal Mills, Surat		5,000
Jan. 16	102	Mittal Mills, Bangalore		13,000
Jan. 31		Purchases Returns Account (Cr.)		18,000

SUMMARY

- Instead of recording all journal entries in one register, it is better to categorize the entries on the basis of type of transactions.
- Various subsidiary books are maintained so as to record transactions of one type in each register. These are also called books of original entry or prime entry.
- Example of subsidiary books are purchases book, sales book, purchase returns books, sales returns book, bills receivable book, bills payable book etc. On the basis of these subsidiary books, the ledger accounts are prepared.

TEST YOUR KNOWLEDGE

True and False

1. *Transactions recorded in the purchase book include only purchases of goods on credit transactions.*
2. *Transactions regarding the purchase of fixed asset are recorded in the purchase book.*
3. *Cash sales are recorded in the sales book.*
4. *Subsidiary books are also known as the books of original entry.*
5. *Bills receivable book is a subsidiary book.*
6. *Return inward book is also known as purchase return book.*
7. *Purchase of a second hand machinery will be recorded in purchase book.*
8. *Total of sales return book may be posted to the debit side of sales account.*
9. *If the sales are on a frequent basis, the transactions are recorded in the sales book.*

Multiple Choice Questions

1. *In Purchases Book, the record is in respect of ________________________*

   (a) *Cash purchase of goods.*

   (b) *Credit purchase of goods dealt in.*

   (c) *All purchases of goods.*

2. *The Sales Returns Book records ________________________*

   (a) *The return of goods purchased.*

   (b) *Return of anything purchased.*

   (c) *Return of goods sold.*

3. *The Sales Book ________________________*

   (a) *Is a part of journal.*

   (b) *Is a part of the ledger.*

   (c) *Is a part of the balance sheet.*

4. *The weekly or monthly total of the Purchase Book is ________________________*

   (a) *Posted to the debit of the Purchases Account.*

   (b) *Posted to the debit of the Sales Account.*

   (c) *Posted to the credit of the Purchases Account.*

5. *The total of the Sales Book is posted to ________________________*

   (a) *Credit of the Sales Account.*

   (b) *Credit of the Purchases Account.*

   (c) *Credit of the Capital Account.*

6. *In which book of original entry, will you record an allowance of ₹50 which was offered for an early payment of cash of ₹1,050 ________________________.*

   (a) *Sales Book*

   (b) *Cash Book*

   (c) *Journal Proper (General Journal)*

7. *A second hand motor car was purchased on credit from B Brothers for ₹10,000 will be recorded in ________________________.*

   (a) *Journal Proper (General Journal)*

   (b) *Sales Book*

   (c) *Cash Book*

   (d) *Purchase Book*

8. *In which book of original entry, will you record a bills receivable of ₹1,000, which was received from a debtor in full settlement for a claim of ₹1,100, is dishonoured __________________.*

   (a) *Purchases Return Book*

   (b) *Bills Receivable Book*

   (c) *Journal Proper (General Journal)*

Theory Questions

1 *Which subsidiary books are normally used in a business?*

2. *What are the advantages of subsidiary books?*

Practical Questions

1. *Enter the following transactions in Sales Book of M/s. Pranat Engineers Ltd., Delhi.*

   2022

   Jan. 2. Sold to M/s. Ajanta Electricals, Delhi 5 pieces of Ovens @ ₹6,000/- each less Trade discount @ 10%.

   8 Sold to M/s. Electronics Plaza, 10 pieces of Tablets @ ₹ 8,000/- each less trade discount 5%.

   15 Sold to M/s. Haryana Traders, 5 pieces of Juicers @ ₹3,500/- each less trade discount @ 10%.

2. *Post into the ledger, the entries of Sales Book prepared in Question1.*

ANSWERS/HINTS

True and False

1. True: Since cash purchases are taken to the cash book , it is only credit transactions that are recorded in the purchases book.

2. False: Transactions regarding the purchase of fixed asset are not recorded in the purchase book, only the credit purchases of goods are recorded in it.

3. False: Credit sales are recorded in the sales book.

4. True: Subsidiary books are maintained as an alternate to the journal.

5. True: Bills receivable is one of the subsidiary book.

6. False: Return inward book is also known as sales return book.

7. False: Purchase of a second hand machinery will not be recorded in purchase book.

8. True: Since sales return is reduction from the total sales value, it is debited in the sales account.

9. True: When there are numerous transactions then there are subsidiary books like the sales book where there are recorded instead of regular journal entries.

Multiple Choice Questions

1.	**(b)**	2.	**(c)**	3.	**(a)**	4.	**(a)**	5.	**(a)**	6.	**(b)**
7.	**(a)**	8.	**(c)**								

Theoretical Questions

1. Refer para 4.1 of this unit for subsidiary books normally mainlined in a business.

2. For advantages of Subsidiary Books, refer para 4.1 of this unit.

Practical Problems

1. **Sales Book**

Date	Particulars	Gross Amount (₹)	Trade Discount (₹)	Net Price (₹)
2022 Jan. 2	M/s. Ajanta Electricals			

	5 pieces of Ovens @ ₹ 6,000 each			
	Less: 10% discount	30,000	3,000	27,000
8	M/s. Electronics Plaza			
	10 pieces of Tablets @ ₹ 8,000 each,			
	less 5% trade discount	80,000	4,000	76,000
15	M/s. Haryana Traders			
	5 pieces of Juicers @ ₹ 3,500 each,			
	less 10% trade discount	17,500	1,750	15,750
		1,27,500	8,750	1,18,750

2. **Ledger**

M/s. Ajanta Electricals

Date 2022	Particulars	L.F.	Amount (₹)	Date 2022	Particulars	L.F.	Amount (₹)
Jan. 2	To Sales A/c (From Sales Book)		27,000				

M/s. Electronics Plaza

Date 2022	Particulars	L.F.	Amount (₹)	Date 2022	Particulars	L.F.	Amount (₹)
Jan. 8	To Sales A/c (From Sales Book)		76,000				

M/s. Haryana Traders

Date 2022	Particulars	L.F.	Amount (₹)	Date 2022	Particulars	L.F.	Amount (₹)
Jan. 15	To Sales A/c (From Sales Book)		15,750				

Sales Account

Date 2022	Particulars	L.F.	Amount (₹)	Date 2022	Particulars	L.F.	Amount (₹)
				Jan. 31	By Sundries (As per Sales Book)		1,18,750

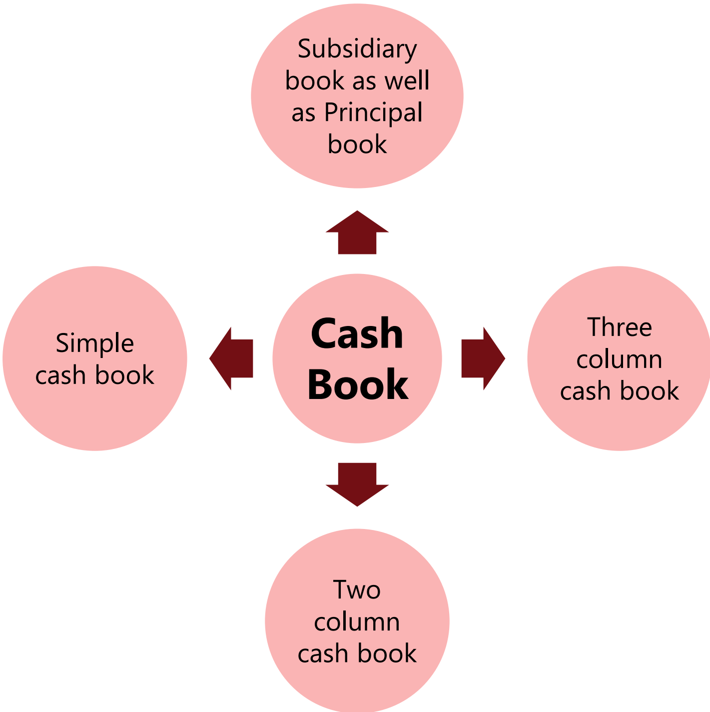
UNIT 5 : CASH BOOK

LEARNING OUTCOMES

After studying this unit, you will be able to:

- ♦ Understand that a Cash Book is a type of subsidiary book but treated as a principal book.
- ♦ Be familiar with various kinds of Cash Books, viz., Simple Cash Book, Two-column Cash Book and Three-column Cash Book.
- ♦ Learn the technique of preparation of Simple Cash Book and how to balance it.
- ♦ See how Double-Column Cash Book is prepared adding discount column alongwith cash column.
- ♦ Understand the techniques of preparing Three-column Cash Book.
- ♦ Understand what is a Petty Cash Book and the Imprest System of Petty Cash.
- ♦ Note the advantages of the Petty Cash Book.
- ♦ Learn how to maintain a Petty Cash Book and how to post the entries of the Petty Cash Book in the ledger.
- ♦ Understand the accounting of credit/debit sales transactions.

UNIT OVERVIEW



5.1 CASH BOOK - A SUBSIDIARY BOOK AND A PRINCIPAL BOOK

Cash transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book. But the Cash Book itself serves as the cash account and the bank account; the balances are entered in the trial balance directly. The Cash Book, therefore, is part of the ledger also. Hence, it has also to be treated as the principal book. The Cash Book is thus both a subsidiary book and a principal book.

5.2 KINDS OF CASH BOOK

The main Cash Book may be of the three types:

(i) Simple Cash Book;

(ii) Two-column Cash Book;

(iii) Three-column Cash Book.

In addition to the main Cash Book, firms also generally maintain a petty cash book but that is purely a subsidiary book.

SIMPLE CASH BOOK

Such a cash book appears like an ordinary account, with one amount column on each side. The left-hand side records receipts of cash and the right-hand side the payments.

Balancing: The cash book is balanced like other accounts. The total of receipts column is always greater than total of payments column. The difference is written on the credit side as 'By balance c/d'. The totals are then entered in the two columns opposite one another and then on the debit side the balance is written as "To Balance b/d", to show cash balance in hand in the beginning of next period.

ILLUSTRATION 1

Enter the following transactions in a Simple Cash Book:

2022		₹
Jan.1	*Cash in hand*	*1,200*
"5	*Received from Ram*	*300*
"7	*Paid Rent*	*30*
"8	*Sold goods for cash*	*300*
"10	*Paid to Shyam*	*700*
"27	*Purchased Furniture*	*200*
"31	*Paid Salaries*	*100*
"31	*Rent due, not yet paid, for January*	*30*

SOLUTION

Dr. **Cash Book** Cr.

Date 2022	Receipts	L.F.	Amount ₹	Date 2022	Payments	L.F.	Amount ₹
Jan. 1	To Balance b/d		1,200	Jan. 07	By Rent A/c		30
" 5	To Ram A/c		300	" 10	By Shyam A/c		700
" 8	To Sales A/c		300	" 27	By Furniture A/c		200

				" 31	By Salaries A/c		100
				" 31	By Balance c/d		770
			1,800				1,800
2022							
Feb. 1	To Balance b/d		770				

Note :

(i) In the simple cash book only the cash receipts and cash payments are recorded.

(ii) The total of debit side is always greater than the total of credit side since the payment cannot exceed the available cash.

(iii) The simple cash book is like an ordinary account.

(iv) Rent due not yet paid for January has not been recorded in the cash book because no cash has been paid, hence it will be recorded through normal Journal entry.

DOUBLE-COLUMN CASH BOOK

If along with column for "Amount" to record cash receipts and cash payments another column is added on each side to record the cash discount allowed or the discount received, or a column on the debit side showing bank receipts and another column on the credit side showing payments through bank. It is a double-column cash book.

Cash discount is an allowance which often accompanies cash payments. For example, if a customer owes ₹ 500 but is promised that 2% will be deducted if payment is made within a certain period, the customer can clear his account by paying promptly ₹ 490. Cash received will be ₹ 490 and ₹ 10 will be the discount for the firm receiving the payment and discount is a loss; for the person making the payment it is a gain. Since cash discount is allowed only if cash is paid, it is convenient to add a column for discount allowed on the receipt side of the cash book and a column for discount received on the payment side of the cash book.

Balancing: It should be noted that the discount columns are not balanced. They are merely totalled. The total of the discount column on the receipts side shows total discount allowed to customers and is debited to the Discount Account. The total of the column on the payments side shows total discount received and is credited to the Discount Account. The Cash columns are balanced, as already shown. The bank columns are also balanced and the balancing figure is called bank balance. Thus a double column cash book should have two columns on each side comprising of either cash and discount transaction or cash and bank transactions.

In the cash column on the debit side, actual cash received is entered; the amount of the discount allowed, if any, to the customer concerned is entered in the discount column. Similarly, actual cash paid is entered in the cash column on the payments side and discount received in the discount column. Also the bank column on the debit side records all receipts through bank and the same column on the credit side shows payment through bank.

ILLUSTRATION 2

Ganesh commenced business on 1st April, 2022 with ₹ 2,000 as capital. He had the following cash transactions in the month of April 2022:

		₹			₹
April 1	*Purchased furniture*		*April 7*	*Paid for petty expenses*	*15*
	and paid cash	*250*	*" 8*	*Cash purchases*	*150*
"2	*Purchased goods*	*500*			
"4	*Sold goods for cash*	*950*			
			13	*Paid for labour*	*1,000*
"5	*Paid cash to Ram Mohan*	*560*			
"6	*He allowed discount*	*10*	*""*	*Paid Ali & Sons*	*400*
"6	*Received cash from*			*They allowed discount*	*8*
	Krishna & Co.	*600*	*""*		
	Allowed discount	*20*			

Make out the two-column Cash Book (Cash and discount column) for the month of April, 2022.

SOLUTION

Cash Book

Dr. Date 2022	Receipts	L.F.	Discount ₹	Amount ₹	Date 2022	Payments	L.F.	Discount ₹	Cr. Amount ₹
April 1	To Capital A/c			2,000	April 1	By Furniture A/c			250
" 4	To Sales A/c			950	" 2	By Purchases A/c			500
" 6	To Krishna A/c		20	600					
					" 5	By Ram Mohan		10	560
					" 7	By Petty Expenses A/c			15

					" 8	By Purchases A/c			150
					" 13	By wages A/c			1,000
					" 13	By Ali & Sons		8	400
					" 30	By Balance c/d			675
			20	3,550				18	3,550
May 1	To Balance b/d			675					

To summarise:

(i) the discount columns in the cash book are totalled;

(ii) they are not balanced; and

(iii) their totals are entered in the discount received/paid account in the ledger.

Note: The person who pays, is credited by both the cash paid by him and the discount allowed to him. Similarly, the person to whom payment is made, is debited with both the amount paid and the discount allowed by him.

THREE-COLUMN CASH BOOK

A firm normally keeps the bulk of its funds at a bank; money can be deposited and withdrawn at will if it is current account. Probably payments into and out of the bank are more numerous than strict cash transactions. There is only a little difference between cash in hand and money at bank. Therefore, it is very convenient if, on each side in the cash book, another column is added to record cash deposited at bank (on the receipt side of the cash book) and payments out of the bank (on the payment side of the cash book).

For writing up the three-column cash book the under mentioned points should be noted:

1. While commencing a new business, the amount is written in the cash column if cash is introduced and in the bank column if it is directly put into the bank with the description "To Capital Account". If a new cash book is being started for an existing business, the opening balances are written as : "To Balance b/d".

2. All receipts are written on the receipts side, cash in the cash column and cheques in the bank column. If any discount is allowed to the party paying the amount, the discount is entered in the discount column. In the particulars column the name of the account in respect of which payment has been received is written.

3. All payments are written on the payments side, cash payment in the cash column and payments by cheques in the bank column. If some discount has been received from the party receiving the payment, it is entered in the discount column.

4. *Contra Entries:* Often cash is withdrawn from bank for use in the office. In such a case the amount is entered in the bank column on the payments side and also in the cash column on the receipts side. In the reverse case of cash being sent to the bank, the amount is recorded in the bank column on the receipts side and in cash column on payment side. Against such entries, the letter "C" should be written in the L.F column, to indicate that these are contra transaction and no further posting is required for them.

   Note: If initially cheques received are entered in the cash column and then sent to the bank, the entry is as if cash has been sent to the bank.

   While recording contra entries, the basic but important rules should be followed -

(a)	The Receiver	Dr.
	The Giver	Cr.
(b)	All what comes in	Dr.
	All what goes out	Cr.

   e.g. where a Cash Book with separate columns for Bank Account is maintained.

   (a) If cash is deposited in Bank Account, the Bank will be the Receiver, hence it will be Debited and as the cash is going out, cash will be credited.

   (b) If cash is withdrawn from the Bank Account, the Bank will be the Giver, hence it will be Credited and, as the cash is coming in, cash will be Debited.

5. If some cheque sent to the bank is dishonoured, i.e., the bank is not able to collect the amount, it is entered in the bank column on the credit side with the name of the concerned party in the particulars column.

6. If some cheque issued by the firm is not paid on presentation, it is entered in the Bank column on the debit side with the name of the party to whom the cheque was given.

7. In a rare case, a cheque received may be given to some other party, i.e., endorsed. On receipt, it must have been entered in the bank column on the debit side; on endorsement the amount will be written in the bank column on the credit side.

   The advantages of such type of Cash Book are that -

   (a) the Cash Account and the Bank Account are prepared simultaneously, therefore the double entry is completed in the Cash Book itself. Thus the contra entries can be easily cross-checked in Cash column in one side and the Bank column in the other side of the Cash Book. Also the chances of error are reduced.

(b) the information regarding Cash in Hand and the Bank Balance can be obtained very easily and quickly as there is no need to prepare Ledger of the Bank Account.

In case of maintaining more than one Bank Account, separate column can be add for each Bank Account. Transactions between these two or more Bank Accounts can be recorded and tallied with a much less effort.

Suppose, there are two Bank Accounts namely PNB Current Account and SBI-Cash Credit Account. Now, if a cheque is issued from PNB cheque Book to SBI Account, the receiver - i.e., SBI Account will be debited and the giver i.e. the PNB Account shall be credited.

Balancing: The discount columns are totalled but not balanced. The cash columns are balanced exactly in the same manner as indicated for the simple cash book. The process is similar for balancing the bank columns also. It is possible, however, that the bank may allow the firm to withdraw more than the amount deposited i.e., to have an overdraft, In such a case, the total of the bank column on the credit side is bigger than the one on the debit side. The difference is written on the debit side as "To Balance c/d." Then the totals are written on the two sides opposite one another, the balance is then entered on the credit side as "By Balance b/d."

However, in usual cases debits into the bank will exceed the withdrawals or payments out of the bank. Then the bank columns are balanced just like the cash columns.

ILLUSTRATION 3

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

2022		₹
Jan. 1	*Chandrika commences business with Cash*	*20,000*
" 3	*He paid into Current A/c*	*19,000*
" 4	*He received cheque from Kirti & Co. on account*	*600*
" 7	*He pays in bank Kirti & Co.'s cheque*	*600*
" 10	*He pays Rattan & Co. by cheque and is allowed discount ₹ 20*	*330*
" 12	*Tripathi & Co. pays into his Bank A/c*	*475*
" 15	*He receives cheque from Warshi and allows him discount ₹ 35*	*450*

" 20	*He receives cash ₹ 75 and cheque ₹ 100 for cash sale*	
" 25	*He pays into Bank, including cheques received on 15th and 20th*	*1,000*
" 27	*He pays for cash purchase*	*275*
" 30	*He pays sundry expenses in cash*	*50*

SOLUTION

Dr. **Cash Book** Cr.

Date	Receipts	L.F.	Discount ₹	Cash ₹	Bank ₹	Date	Payments	L.F.	Discount ₹	Cash ₹	Bank ₹
2022						2022					
Jan. 1	To Capital A/c			20,000		Jan. 3	By Bank A/c	C		19,000	
3	To Cash	C			19,000	7	By Bank A/c	C		600	
4	To Kirti & Co.			600		10	By Ratan & Co.		20		330
7	To Cash	C			600	25	By Bank A/c	C		1,000	
12	To Tripathi & Co.				475	27	By Purchases A/c			275	
15	To Warshi		35	450		30	By S. Exp. A/c			50	
20	To Sales A/c			175							
25	To Cash	C			1,000						
						31	By Balance c/d			300	20,745
			35	21,225	21,075				20	21,225	21,075
Feb. 1	To Balance b/d			300	20,745						

5.3 POSTING THE CASH BOOK ENTRIES

Students would have seen that the cash columns in the cash book is actually the cash account and the bank column is actually bank account. Also, the discount columns are memorandum columns, meant only to provide information about the total discount allowed and total discount received.

The debit side columns for cash and bank indicate receipts. Therefore, the amounts debited in the cash book should be put to the credit of the account in respect of which cash or cheque has been received. For instance, in the cash book given above we see that ₹175 have been received for sale of goods. For posting, the amount is credited to the Sales Account as "By Cash ₹175." We also see M/s. Warsi have paid ₹450 and also they have been allowed ₹ 35 as discount; thus they have discharged a debt of ₹485. In the account of M/s. Warsi, the posting is on the credit side as

By Cash	₹ 450
By Discount	₹ 35
or as:	
By Sundries	₹ 485

All payments are recorded on the credit side. The particulars columns show on what account payments have been made. In the ledger accounts concerned the amount is put on the debit side. For example, the cash book shows that a cheque for ₹ 330 has been issued to M/s. Ratan & Co. and also that they have allowed a discount of ₹ 20; thus an obligation of ₹ 350 has been met. In the account of M/s. Ratan & Co. the posting is:

To Bank	₹ 330
To Discount	₹ 20
Or	
To Sundries	₹ 350

The rule thus develops: From the debit side of the cash book, credit the various accounts with their respective amounts (including any discount that may have been allowed); from the credit side of cash book, the posting will be to the debit of the accounts mentioned in the particular column with their respective amounts (including the discount which may have been received).

As has been shown already, the total of the discount columns on the debit side is debited to the discount account; the total of the column discount on the credit side is credited to the discount account. From the cash book given on the previous page ₹ 35 is debited and ₹ 20 be credited to the discount account.

5.4 PETTY CASH BOOK

In the firm a number of small payments, such as for telegrams, taxi fare, cartage, etc., have to be made. If all these payments are recorded in the cash book, it will become unnecessarily heavy. Also, the main cashier will be overburdened with work. Therefore, it is usual for firms to appoint a person as 'Petty Cashier' and to entrust the task of making small payments say below ₹ 200, to him. Of course he will be reimbursed for the payments made. Later, on an analysis, the respective account may be debited.

IMPREST SYSTEM OF PETTY CASH

It is convenient to entrust a definite sum of money to the petty cashier in the beginning of a period and to reimburse him for payments made at the end of the period. Thus, he will have again the fixed amount in the beginning of the new period. Such a system is known as the imprest system of petty cash.

The system is very useful specially if an analytical Petty Cash Book is used. The book has one column to record receipt of cash (which is only from the main cashier) and other columns to record payments of various types. The total of the various columns show why payments have been made and then the relevant accounts can be debited.

(i) The amount fixed for petty cash should be sufficient for the likely small payments for a relatively short period, say for a week or a fortnight.

(ii) The reimbursement should be made only when petty cashier prepares a statement showing total payments supported by vouchers, i.e., documentary evidence and should be limited to the amount of actual disbursements.

(iii) The vouchers should be filed in order.

(iv) No payment should be made without proper authorisation. Also, payments above a certain specified limit should be made only by the main cashier.

(v) The petty cashier should not be allowed to receive any cash except for reimbursement.

In the petty cash book the extreme left-hand column records receipts of cash. The money column towards the right hand side shows total payments for various purposes; a column is usually provided for sundries to record infrequent payments. The sundries column is analysed. At the end of the week or the fortnight the petty cash book is balanced. The method of balancing is the same as for the simple cash book.

ILLUSTRATION 4

Prepare a Petty Cash Book on the imprest System from the following:

2022			₹
Jan.	*1*	*Received ₹100 for petty cash*	
"	*2*	*Paid bus fare*	*.50*
"	*2*	*Paid cartage*	*2.50*
"	*3*	*Paid for Postage*	*5.00*
"	*3*	*Paid wages for casual labourers*	*6.00*
"	*4*	*Paid for stationery*	*4.00*
"	*4*	*Paid Bus charges*	*2.00*
"	*5*	*Paid for the repairs to chairs*	*15.00*
"	*5*	*Bus fare*	*1.00*

"	5	*Cartage*	*4.00*
"	6	*Postage*	*7.00*
"	6	*Bus charges*	*3.00*
"	6	*Cartage*	*3.00*
"	6	*Stationery*	*2.00*
"	6	*Refreshments to customers*	*5.00*

SOLUTION

Petty Cash Book

Receipts ₹	Date 2022	V. No.*	Particulars	Total ₹	Con-veyance ₹	Cartage ₹	Statio-nery ₹	Postage ₹	Wages ₹	Sundries ₹
100	Jan.1		To Cash							
	2	1	By Conveyance	.50	.50					
		2	By Cartage	2.50		2.50				
	3	3	By Postage	5.00				5.00		
		4	By Wages	6.00					6.00	
	4	5	By Stationery	4.00			4.00			
		6	By Conveyance	2.00	2.00					
	5	7	By Repairs to Furniture	15.00						15.00
		8	By Conveyance	1.00	1.00					
		9	By Cartage	4.00		4.00				
	6	10	By Postage	7.00				7.00		
	"	11	By Conveyance	3.00	3.00					
	"	12	By Cartage	3.00		3.00				
	"	13	By Stationery	2.00			2.00			
	"	14	By General Expenses	5.00						5.00
				60.00	6.50	9.50	6.00	12.00	6.00	20.00
			By Balance c/d	40.00						
100				100.00						
40.00			To Balance b/d							
60.00	8		To Cash							

* Voucher Numbers

ADVANTAGES OF PETTY CASH BOOK

There are mainly three advantages:

(i) Saving of time of the chief cashier;

(ii) Saving in labour in writing up the cash book and posting into the ledger; and

(iii) Control over small payments.

POSTING THE PETTY CASH BOOK

In the ledger, a petty cash account is maintained, when an amount is given to the petty cashier, the petty cash account is debited. Each week or forthnight, the total of the payments made is credited to this account. The petty cash account will then show the balance in the hand of the cashier; on demand he should be able to produce it for counting. At the end of the period/year, the balance is shown in the balance sheet as part of cash balance.

Of course, the payments must be debited to their respective accounts as shown by the petty cash book. For this two methods may be used:

(i) From the petty cash book the total of the various columns may be directly debited to the concerned accounts; or

(ii) A journal entry may first be prepared on the basis of the petty cash book, debiting the accounts shown by the various analysis columns, and crediting the total of the payment of the petty cash accounts.

For Illustration 4 the journal entry and relevant accounts are as follows:

2022		**Dr.** ₹	**Cr.** ₹
Jan. 6	Conveyance Account	6.50	
	Cartage Account	9.50	
	Stationery Account	6.00	
	Postage Account	12.00	
	Wages Account	6.00	
	Repairs Account	15.00	
	General Expenses Account	5.00	
	To Petty Cash Account		60.00
	(Being the analysis of the Petty Cash Book for the week ending Jan. 6)		

	Entry for cash handed over to the Petty Cashier Petty Cash Account To Cash Account (Being Cash received)	60	60

Petty Cash Account

Date 2022	Particulars	Folio	Amount ₹	Date 2022	Particulars	Folio	Amount ₹
Jan.1	To Cash		100.00	Jan. 6	By Sundries:		
"6	To Cash		60.00		Conveyance		6.50
					Cartage		9.50
					Stationery		6.00
					Postage		12.00
					Wages		6.00
					Repairs		15.00
					General Expenses		5.00

ILLUSTRATION 5

Enter the following transaction in Cash Book with Discount and Bank columns. Cheques are first treated as cash receipts –

2022		₹
March 1	*Cash in Hand*	*15,000*
	Overdraft in Bank	*500*
2	*Cash Sales*	*3,000*
3	*Paid to Sushil Bros. by cheque*	*3,400*
	Discount received	*100*
5	*Sales through credit card*	*2,800*
6	*Received cheque from Srijan*	*6,200*
7	*Endorsed Srijan's cheque in favour of Adit*	
9	*Deposit into Bank*	*6,800*
10	*Received cheque from Aviral and deposited the same into Bank by allowing discount of ₹ 50*	*3,600*

12	*Adit informed that Srijan's cheque is dishonoured. Now cash is received from Srijan and amount is paid to Adit through own cheque*	
15	*Sales through Debit Card*	*3,200*
24	*Withdrawn from Bank*	*1,800*
28	*Paid to Sanchit by cheque*	*3,000*
30	*Bank charged 1% commission on sales through Debit/Credit Cards*	

SOLUTION

Dr. **Cash Book** Cr.

Date	Particulars	L.F.	Discount ₹	Cash ₹	Bank ₹	Date	Particulars	L.F.	Discount ₹	Cash ₹	Bank ₹
2022						2022					
March 1	To Balance b/d			15,000		March 1	By Balance b/d				500
2	To Sales			3,000		3	By Sushil Bros.		100		3,400
5	To Sales				2,800	7	By Adit			6,200	
6	To Srijan			6,200		9	By Bank	C		6,800	
9	To Cash A/c	C			6,800	12	By Adit				6,200
10	To Aviral		50		3,600	24	By Cash A/c	C			1,800
12	To Srijan			6,200		28	By Sanchit				3,000
15	To Sales A/c				3,200	30	By Commission				60
24	To Bank A/c	C		1,800		31	By Balance c/d			19,200	1,440
			50	32,200	16.400				100	32,200	16,400

Note: If the received cheque is endorsed to the other party on the same day, then no entry is required. However, in the above case posting has been done through cash column as the endorsement is done on next day.

5.5 ENTRIES FOR SALE THROUGH CREDIT/DEBIT CARDS

Now-a-days sales through Credit/Debit Cards are issued by almost every Bank in India either directly or with collaboration of some other agencies. HSBC Card, SBI Card, BOB Card, ICICI Bank Card, HDFC Card and Andhra Bank Card are some of the popular Cards.

The procedure for issuing Credit/Debit Cards are as follows -

1. A small Plastic Card, called Credit Card is issued by the bank to a prospective customer, after verifying his credibility, which is generally measured by his income sources. Debit Card is issued by bank to a customer who has an account with the bank. Now a days ATM Card issued by the bank can also be used as Debit Card. This card would contain an embossed 16 digit number and also the name of the cardholder.

2. Generally Bank charges annual subscription fees from the credit card holder. No fee is charged in case of Debit Card, though some banks charge a nominal fee on Debit Card also.

3. When the Card holder intends to buy some goods or services through Credit or Debit Card, the seller insert the customer's debit/credit card in the card machine and inputs the amount of sales and gives back to customers for feeding the password (i.e Personal Identification Number – PIN) for authorising the transactions. One copy of the receipt is given to the customer and other once is kept by the sellier for its record.

4. The seller sums up the different amounts sold like this and submits, generally everyday, to his bank all the forms. The amount is credited by the bank to the seller's account and debited to the account of the Bank or the company issuing the Credit/Debit Card.

5. The bank issuing the Card, charges commission for each such transaction, which varies between 1% to 4% and is immediately debited to seller's bank account.

6. The bank sends a monthly statement to the card holder. In case of Debit Card the account is immediately debited to the card holder's account, whereas in case of Credit Card, card holder has to pay the amount in full or part. However, if not paid in full, the interest is charged.

ACCOUNTING FOR CREDIT/DEBIT CARD SALE

From the seller's point of view, this type of sale is equivalent to a cash sale. Commission charged by the bank will be treated as selling expenses. The following journal entries will be made in the seller's books of accounts.

1. Bank A/c Dr.

    To Sales Account

    (Sales made through Credit/Debit Card)

2. Commission Account Dr.

    To Bank Account

    (Commission charged by bank)

SUMMARY

- Cash book contains cash transactions and also bank transactions, if it has a separate book column. It is both a subsidiary book and a principal book.
- Cash book can be prepared with discount column also.
- For small payments, petty cash book is maintained separately for recording the particulars of payment and its amount. The fixed amount is given to the petty cashier for making small payments in the beginning of the period. The amount spent is replenished so that he will have again the fixed sum in the beginning of the next period. This system is known as imprest system of petty cash book.

TEST YOUR KNOWLEDGE

True and False

1. *Cash book is a subsidiary book as well as a principal book.*
2. *Two column cash book consists of two columns cash column & bank column.*
3. *Discount column of cash book is never balanced.*
4. *Contra entry is passed in a two column cash book.*
5. *If the bank column is showing the opening balance on credit side, it is an overdraft.*
6. *A cash book records cash transactions as well as credit transactions.*
7. *Discount column of cash book records the trade discount.*

Multiple Choice Questions

1. *The total of discounts column on the debit side of the cash book, recording cash discount deducted by customers when paying their accounts, is posted to the ________________________*

   (a) *Credit of the discount allowed account.*

   (b) *Debit of the discount allowed account*

   (c) *Credit of the discount received account.*

2. *Cash book is a type of _________ but treated as a ___________ of accounts.*

   (a) *Subsidiary book, principal book*

   (b) *Principal book, subsidiary book*

   (c) *Subsidiary book, subsidiary book*

3. *Which of the following is not a column of a three-column cash book?*
   - (a) *Cash column*
   - (b) *Bank column*
   - (c) *Petty cash column*
4. *Contra entries are passed only when ________________________*
   - (a) *Double-column cash book is prepared*
   - (b) *Three-column cash book is prepared*
   - (c) *Simple cash book is prepared*
5. *The Cash Book records ________________________*
   - (a) *All cash receipts*
   - (b) *All cash payments*
   - (c) *All cash receipts and payments*
6. *The balance in the petty cash book is ________________________*
   - (a) *An expense*
   - (b) *A profit*
   - (c) *An asset*
7. *If Ram has sold goods for cash, the entry will be recorded ________________________*
   - (a) *In the Cash Book*
   - (b) *In the Sales Book*
   - (c) *In the Journal*

Theory Questions

1. *Is cash book a subsidiary book or a principal book? Explain.*
2. *What are the various kinds of cash book?*
3. *What are the advantages of a three column cash book?*

Practical Questions

1. *Shri Ramaswamy maintains a Columnar Petty Cash Book on the Imprest System. The imprest amount is ₹500. From the following information, show how his Petty Cash Book would appear for the week ended 12th September, 2022:*

		₹
7-9-2022	*Balance in hand*	*134.90*
	Received Cash reimbursement to make up the imprest	*365.10*
	Stationery	*49.80*
8-9-2022	*Miscellaneous Expenses*	*20.90*
9-9-2022	*Repairs*	*156.70*
10-9-2022	*Travelling*	*68.50*
11-9-2022	*Stationery*	*71.40*
12-9-2022	*Miscellaneous Expenses*	*6.30*
13-9-2022	*Repairs*	*48.30*

ANSWERS/HINTS

True and False

1. True: Since the balance is directly taken to the Trial balance from cash book. Hence, it is a subsidiary book as well as principal book.

2. False: Two column cash book consists of two columns either cash column & discount column or cash column & bank column.

3. True: Discount column is totalled and transferred to the discount allowed or received account.

4. True: Contra entry can be passed in a two column cash book which includes bank and cash columns.

5. True: The debit side of opening balance shows a favourable balance, whereas the credit balance is an unfavourable balance and treated as overdraft.

6. False: A cash book records only cash transactions.

7. False: Discount column of cash book records the cash discount. Trade discount is not shown in the books of accounts.

Multiple Choice Questions

1.	**(b)**	2.	**(a)**	3.	**(c)**	4.	**(b)**	5.	**(c)**	6.	**(c)**
7.	**(a)**										

Theoretical Questions

1. Cash transactions are straightaway recorded in the Cash Book and on the basis of such a record, ledger accounts are prepared. Therefore, the Cash Book is a subsidiary book. But the Cash Book itself serves as the cash account and the bank account, if bank column is also included; the balances are entered in the trial balance directly. The Cash Book, therefore, is part of the ledger also. Hence, it is also treated as the principal book. The Cash Book is thus both a subsidiary book and a principal book.

2. The main Cash Book may be of the three types:

(i) Simple Cash Book;

(ii) Two-column Cash Book;

(iii) Three-column Cash Book.

In addition to the main Cash Book, firms also generally maintain a petty cash book but that is purely a subsidiary book.

3. The advantages of three column Cash Book are that -

(a) the Cash Account and the Bank Account are prepared simultaneously, therefore the double entry is completed in the Cash Book itself. Thus the contra entries can be easily cross-checked in Cash column in one side and the Bank column in the other side of the Cash Book. The chances of error are also reduced.

(b) the information regarding Cash in Hand and the Bank Balance can be obtained very easily and quickly as there is no need to prepare Ledger of the Cash and Bank Account.

Practical Problems

1. **Petty Cash Book**

Date 2022	Receipts	Amount ₹	Date 2022	Payments	Total Amount ₹	Stationery ₹	Travelling ₹	Misc Exps. ₹	Repairs ₹
Sept. 7	To Balance b/d	134.90	7	By Stationery	49.80	49.80			
	To Reimbursement	365.10	8	By Misc. Expenses	20.90			20.90	
			9	By Repairs	156.70				156.70
			10	By Travelling	68.50		68.50		
			11	By Stationery	71.40	71.40			
			12	By Misc. Expenses	6.30			6.30	
			13	By Repairs	48.30				48.30
					421.90	121.20	68.50	27.20	205.00
				By Balance c/d	78.10				
		500.00			500.00				
	To Balance b/d	78.10							

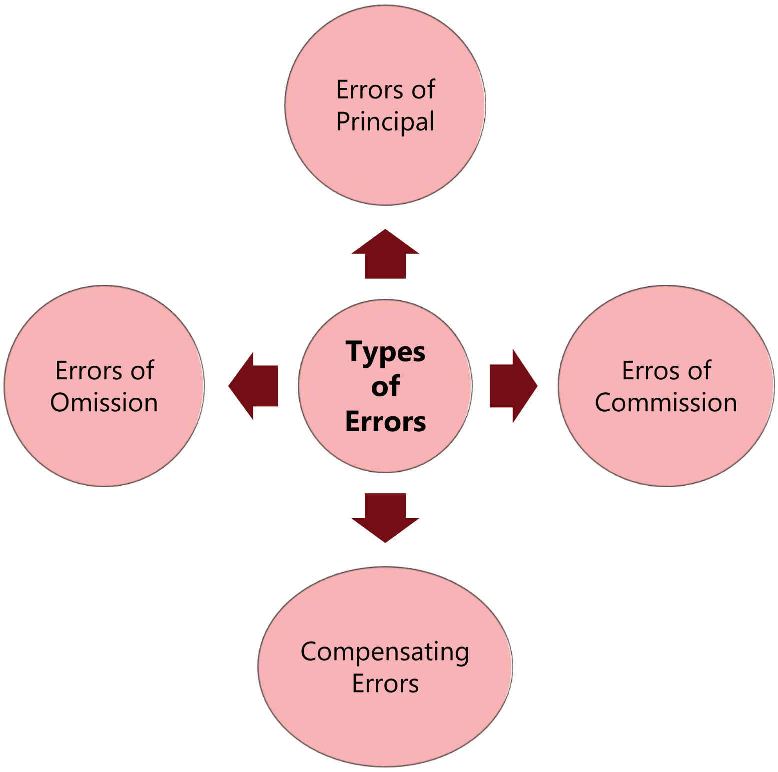
UNIT 6 : RECTIFICATION OF ERRORS

LEARNING OUTCOMES

After studying this unit, you will be able to:

- Understand different types of errors which may occur in the course of recording transactions and events.
- Be familiar with the steps involved in locating errors.
- Learn the nature of one-sided errors and two-sided errors.
- Understand why suspense account is opened for rectification of errors.
- Understand the technique of correcting errors of one period in the next accounting period.

UNIT OVERVIEW



6.1 INTRODUCTION

Unintentional omission or commission of amounts and accounts in the process of recording the transactions are commonly known as errors. These various unintentional errors can be committed at the stage of collecting financial information/data on the basis of which financial statements are drawn or at the stage of recording this information. Also errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, or oversight. To check the arithmetic accuracy of the journal and ledger accounts, trial balance is prepared. If the trial balance does not tally, then it can be said that there are errors in the accounts which require rectification thereof. Some of these errors may affect the Trial Balance and some of these do not have any impact on the Trial Balance although such errors may affect the determination of profit or loss, assets and liabilities of the business.

Illustrative Case of Errors and their Nature

We have seen that after preparing ledger accounts a trial balance is taken out where debit and credit balances are separately listed and totalled. If the totals of debit and credit do not agree, it is definite that there are some errors We shall now study the types of errors which may be committed and how they may be rectified. For this purpose, the working of the following illustrative cases should be carefully seen.

Illustrative Cases of Errors

(a) **Wrong Entry:** Let us start from the first phase of the accounting process. Where wrong amount of transactions and events are recorded in the subsidiary books, Journal Proper and Cash Book.

Example 1: Credit purchases ₹17,270 are entered in the Purchases Day Book as ₹17,720. Credit sales of ₹15,000 gross less 1% trade discount are wrongly entered in Sales Day Book at ₹15,000. Cheque issued ₹19,920 are wrongly entered in the credit of bank column in the Cash Book as ₹19,290.

(b) **Wrong casting of subsidiary books:** Subsidiary books are totalled periodically and posted to the appropriate ledger accounts. There may be totalling errors. Totalling errors may arise due to wrong entry or simply these may be independent errors.

Example 2: For the month of January, 2022 total of credit sales are ₹1,75,700, this is wrongly totalled as ₹1,76,700 and posted to sales account as ₹1,76,700.

(c) **In case of cash book,** wrong castings will result in wrong calculation of the balance c/d.

Example 3: The following cash transactions of M/s. Tularam & Co. occurred:

2023

Jan. 1	Balance - cash ₹1,200 bank ₹16,000;
Jan. 2	Cheque issued to M/s. Bholaram & Co., a supplier, for ₹22,500;
Jan. 6	Cheque collected from M/s. Scindia & Bros. ₹42,240 and deposited for clearance;
Jan. 7	Cash sales ₹27,200 and paid wages ₹12,400;
Jan. 8	Cash sales ₹ 37,730 and cash deposited to bank ₹ 35,000.

The following Cash Book entries are passed:

Dr. **Cash Book** Cr.

Date	Particulars	Cash	Bank	Date	Particulars	Cash	Bank
2023		₹	₹	**2023**		₹	₹
Jan. 1	To Balance b/d	1,200	16,000	Jan. 2	By M/s Bholaram & Co. A/c		22,500

Jan. 6	To M/s. Scindia & Bros. A/c		**42,420**		By Wages A/c	**12,200**	
Jan. 7	To Sales A/c	27,200			By Bank A/c	**34,500**	
Jan. 8	To Sales A/c	**37,370**			By Balance c/d	19,070	71,420
Jan. 8	To Cash A/c		**34,500**				
		65,770	**93,920**			65,770	**93,920**

Wrong entries and wrong casting are shown in bold prints. However, errors of cash entries generally are not carried. Usually cash balances are tallied daily. So errors are identified at an early stage. But bank balance cannot be checked daily and thus errors may be carried until bank reconciliation is done. In the above example, there are four wrong entries and one wrong casting. Bank and cash balances are affected by these errors.

(d) **Wrong posting from subsidiary books:** In this case, the wrong amount may be posted to the ledger account or the amount may posted to the wrong side or to the wrong account. For example, purchases from A may be posted to B's account.

(e) **Wrong casting of ledger balances:** Likewise Cash Book, any ledger account balance may be casted wrongly. Obviously wrong postings make the balance wrong; but that is not wrong casting of balances. Whenever there arises independent casting error as in the case of bank column in the Cash Book of example (4), that is called wrong casting to ledger balances.

Example 4: The following are the credit purchases of M/s. Ballav Bros.:

2023

Jan. 1 Purchases from M/s. Saurabh & Co.- gross ₹1,00,000 less 1% trade discount.

Jan. 3 Purchases from M/s. Netai & Co.- gross ₹ 70,000 less 1% trade discount.

Jan. 6 Purchases from M/s. Saurabh & Co.- gross ₹ 60,000 less 1% trade discount

Let us cast M/s. Saurabh & Co.'s Account:

Dr. **M/s Saurabh & Co. Account** Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2023			**2023**		
Jan. 1	To Balance c/d	1,55,400	Jan. 1	By Purchases A/c	99,000
			Jan. 6	By Purchases A/c	59,400
		1,55,400			***1,55,400**

*While casting the credit side, an error has been committed and so the account is wrongly balanced.

Example 5: Goods are purchased on credit from M/s. Saurabh & Co. for ₹ 27,030 and from M/s. Karnataka Suppliers for ₹ 28,050. The following Purchase Day Book is prepared:

Purchases Day Book

Date	Particulars	Amount
		₹
	M/s. Saurabh & Co.	27,050
	M/s. Karnataka Suppliers	28,030
		55,080

In the above Purchase Day Book, both the transactions are entered wrongly but the first error has been compensated by the second. Even if these errors are not rectified Trial Balance would tally.

Trial Balance

Particulars	Dr.	Cr.
	₹	₹
M/s. Saurabh & Co.		27,050
M/s. Karnataka Suppliers		28,030
Purchases Account	55,080	
	55,080	55,080

6.2 STAGES OF ERRORS

Errors may occur at any of the following stages of the accounting process:

AT THE STAGE OF RECORDING THE TRANSACTIONS IN JOURNAL

Following types of errors may happen at this stage:

(i) Errors of principle,

(ii) Errors of omission,

(iii) Errors of commission.

AT THE STAGE OF POSTING THE ENTRIES IN LEDGER

(i) Errors of omission:

(a) Partial omission,

(b) Complete omission.

(ii) Errors of commission:

(a) Posting to wrong account,

(b) Posting on the wrong side,

(c) Posting of wrong amount.

AT THE STAGE OF BALANCING THE LEDGER ACCOUNTS

(i) Wrong Totalling of accounts,

(ii) Wrong Balancing of accounts.

AT THE STAGE OF PREPARING THE TRIAL BALANCE

(i) Errors of omission,

(ii) Errors of commission:

(a) Taking wrong account,

(b) Taking wrong amount,

(c) Taking to the wrong side.

On the above basis, we can classify the errors in four broad categories:			
Errors of Principle	Errors of Omission	Errors of Commission	Compensating Errors

6.3 TYPES OF ERRORS

Basically errors are of two types:

(a) **Errors of principle:** When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. In this case, there is no effect on the trial balance since the amounts are placed on the correct side, though in a wrong account. Suppose on the purchase of a computer, the office expenses account is debited; the trial balance will still agree.

(b) **Clerical errors:** These errors arise because of mistake committed in the ordinary course of the accounting process. These are of three types:

(i) *Errors of Omission:* If a transaction is completely or partially omitted from the books of account, it will be a case of omission. Examples would be: not recording a credit purchase of furniture or not posting an entry into the ledger.

(ii) *Errors of Commission:* If an amount is posted in the wrong account or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be a case of "errors of commission."

(iii) *Compensating Errors:* If the effect of errors committed cancel out, the errors will be called compensating errors. The trial balance will agree. Suppose an amount of ₹10 received from A is not credited to his account and the total of the sales book is ₹10 in excess. The omission of credit to A's account will be made up by the increased credit to the Sales Account.

From another point of view, error may be divided into two categories:

(a) Those that affect the trial balance - because of these errors, trial balance does not agree; these are the following:

(i) Wrong casting of the subsidiary books.

(ii) Wrong balancing of an account.

(iii) Posting an amount on the wrong side.

(iv) Posting the wrong amount.

(v) Omitting to post an amount from a subsidiary book.

(vi) Omitting to post the totals of subsidiary book.

(vii) Omitting to write the cash book balances in the trial balance.

(viii) Omitting to write the balance of an account in the trial balance.

(ix) Writing a balance in wrong column of the trial balance.

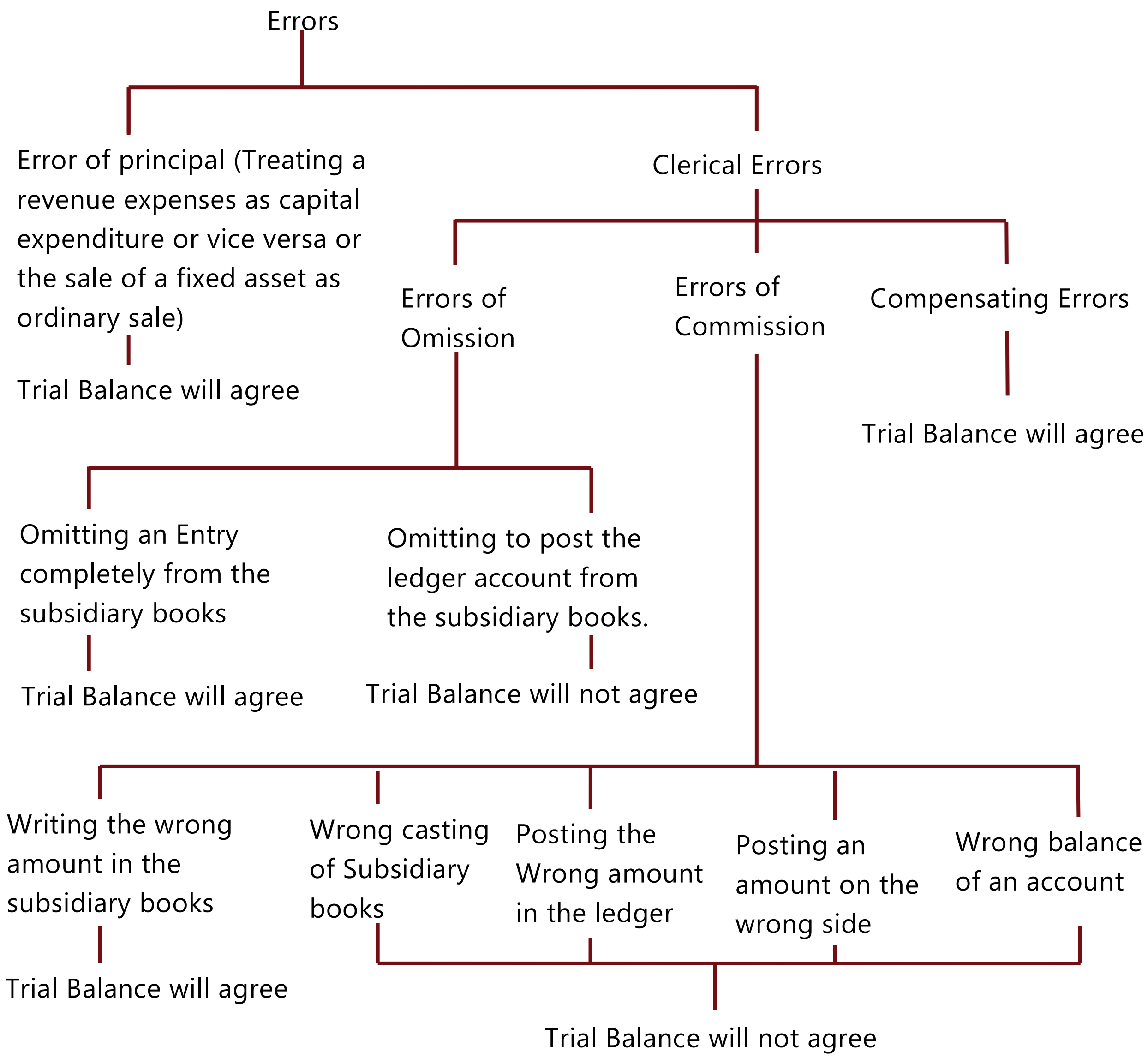
(x) Totalling the trial balance wrongly.

(b) The errors that do not affect the trial balance are the following:

(i) Omitting an entry altogether from the subsidiary book.

(ii) Making an entry with the wrong amount in the subsidiary book.

(iii) Posting an amount in a wrong account but on the correct side, e.g., an amount to be debited to A is debited to B, the trial balance will still agree.



6.4 STEPS TO LOCATE ERRORS

Even if there is only a very small difference in the trial balance, the errors leading to it must be located and rectified. A small difference may be the result of a number of errors. The following steps will be useful in locating errors :

(i) The two columns of the trial balance should be totalled again. If in place of a number of accounts, only one amount has been written in the trial balance the list of such accounts should be checked and totalled again. List of Trade receivables is the example from which Trade receivable balance is derived.

(ii) It should be seen that the cash and bank balances have been written in the trial balance.

(iii) The exact difference in the trial balance should be established. The ledger should be gone through again; it is possible that a balance equal to the difference has been omitted from the trial balance. The difference should also be halved; it is possible that balance equal to half the difference has been written in the wrong column.

(iv) The ledger accounts should be balanced again.

(v) The casting of subsidiary books should be checked again, especially if the difference is ₹ 1, ₹ 100 etc.

(vi) If the difference is very big, the balance in various accounts should be compared with the corresponding accounts in the previous period. If the figures differ materially, those cases should be further scrutinised; it is possible that an error has been committed. Suppose the sales account for the current year shows a balance of ₹ 32,53,000 whereas it was ₹ 36,45,000 last year; it is possible that there is an error in the Sales Account.

(vii) Postings of the amounts equal to the difference or half the difference should be checked. It is possible that an amount has been omitted to be posted or has been posted on the wrong side.

(viii) If there is still a difference in the trial balance, a complete checking will be necessary. The posting of all the entries including the opening entry should be checked. It may be better to begin with the nominal accounts.

6.5 RECTIFICATION OF ERRORS

Errors should never be corrected by overwriting. The correction should be made by making another suitable entry, called as rectification entry. In fact the rectification of an error depends on at which stage it is detected. An error can be detected at any one of the following stages:

(a) Before preparation of Trial Balance.

(b) After Trial Balance but before the final accounts are drawn.

(c) After final accounts, i.e., in the next accounting period.

6.5.1 Before preparation of Trial Balance

There are some errors which affect one side of an account or which affect more than one account in such a way that it is not possible to pass a complete rectification entry. In other words, there are some errors which can be corrected, if detected at this stage, by making rectification statement in the appropriate side(s) of concerned account(s). It is important to note here that such errors may involve only one account or more than one account. Read the following illustrations:

(i) The sales book for November is undercast by ₹ 200. The effect of this error is that the Sales Account has been credited short by ₹ 200. Since the account is posted by the total of the sales book, there is no error in the accounts of the customers since they are posted with amounts of individual sales. Hence only the Sales Accounts is to be corrected. This will be done by making an entry for ₹ 200 on the credit side: "By undercasting of Sales Book for November ₹ 200".

(ii) While posting the discount column on the debit side of the cash book the discount of ₹ 10 allowed to Ramesh has not been posted. There is no error in the cash book, the total of discount column presumably has been posted to the discount account on the debit side. The error is in not crediting Ramesh by ₹ 10. This should now be done by the entry "By omission of posting of discount on ----- ₹10".

(iii) ₹ 200 received from Ram has been entered by mistake on the debit side of his account. Since the cash book seems to have been correctly written, the error is only in the account of Ram - he should have been credited and not debited by ₹ 200. Not only the wrong debit is to be removed but also a credit of ₹ 200 is to be given. This can be done now by entering ₹ 400 on the credit side of his account. The entry will be "By Posting on the wrong side - ₹ 400".

(iv) ₹ 50 was received from Mahesh and entered on the debit side of the cash book but was not posted to his account. By the error, which affects only the account of Mahesh, ₹ 50 has been omitted from the credit side of his account. The rectification will be by the entry. "By Omission of posting on the ₹ 50."

(v) ₹ 51 paid to Mohan has been posted as ₹15 to the debit of his account. Mohan has been debited short by ₹ 36. The rectifying entry is "To mistake in posting on ₹ 36".

(vi) Goods sold to Ram for ₹1,000 was wrongly posted from sales day book to the debit of purchase account. Ram has however been correctly debited. Here the error affects two accounts, viz., purchases account and sales account but we cannot pass a journal entry for its rectification because both the accounts need to be credited. The rectification will be done by the entry "By wrong posting on ₹ 1,000" in the credit of purchases account and also "By omission of posting on - ₹ 1,000" in the credit sales account.

(vii) Bills receivable from Mr. A of ₹ 500 was posted to the credit of Bills payable Account and also credited to A account. Here also although two accounts are involved we cannot pass a complete journal entry for rectification. The rectification will be done by the entry "To wrong posting on ₹ 500" in debit of Bills payable Account and also "To omission of posting on ₹ 500" in the debit of Bills Receivable Account.

(viii) Goods purchased from Vinod for ₹ 1,000 was wrongly credited to Vimal account by ₹ 100. Again we cannot pass a complete journal entry for rectification even though two accounts are involved. The rectification will be done by the entry "To wrong posting on ₹100" in the debit of Vimal account and "By omission of posting on ₹ 1,000" in the credit of Vinod account.

Thus, from the above illustrations, it is clear that the general rule of errors affecting two accounts can be corrected by a journal entry does not hold true always.

ILLUSTRATION 1

How would you rectify the following errors in the book of Rama & Co.?

1. *The total to the Purchases Book has been undercast by ₹ 100.*
2. *The Returns Inward Book has been undercast by ₹ 50.*
3. *A sum of ₹ 250 written off as depreciation on Machinery has not been debited to Depreciation Account.*
4. *A payment of ₹ 75 for salaries (to Mohan) has been posted twice to Salaries Account.*
5. *The total of Bills Receivable Book ₹ 1,500 has been posted to the credit of Bills Receivable Account.*
6. *An amount of ₹151 for a credit sale to Hari, although correctly entered in the Sales Book, has been posted as ₹ 115.*
7. *Discount allowed to Satish ₹ 25 has not been entered in the Discount Column of the Cash Book. the amount has been posted correctly to the credit of his personal account.*

SOLUTION

1. The Purchases Account should receive another debit of ₹100 since it was debited short previously:

   "To Undercasting of Purchases Book for the month of --- ₹100."

2. Due to this error the Returns Inward Account has been posted short by ₹ 50 : the correct entry will be:

   "To Undercasting of Returns Inward Book for the month of --- ₹50."

3. The omission of the debit to the Depreciation Account will be rectified by the entry:

   "To Omission of posting on ₹ 250".

4. The excess debit will be removed by a credit in the Salaries Account by the entry:

   "By double posting on ₹ 75".

5. ₹1,500 should have been debited to the Bills Receivable Account and not credited. To correct the mistake, the Bills Receivable Account should be debited by ₹ 3,000 by the entry:

   "To Wrong posting of B/R received on ₹ 3,000"

6. Hari's personal A/c is debited ₹ 36 short. The rectification entry will be:

   "To Wrong posting ₹ 36".

7. Due to this error, the discount account has been debited short by ₹ 25. The required entry is :

   "To Omission of discount allowed to Satish on ₹ 25."

So far we have discussed the correction of errors which affected only one Account or more than one account but for which rectifying entries were not complete journal entries. We shall now take up the correction of errors which affect more than one account in such a way that complete journal entries are possible for their rectification. Read the following illustrations:

(i) The purchase of machinery for ₹ 2,000 has been entered in the purchases book. The effect of the entry is that the account of the supplier Ram & Co. has been credited by ₹ 2,000 which is quite correct. But the debit to the Purchases Account is wrong : the debit should be to Machinery Account. To rectify the error, the debit in the purchases Account has to be transferred to the Machinery Account. The correcting entry will be to Credit Purchases Account and debit the Machinery Account. Please see the three entries made below: the last entry rectifies the error:

Particulars	**Debits** ₹	**Credits** ₹
Wrong Entry:		
Purchases Account	2,000	
To Ram & Co.		2,000
Correct Entry:		
Machinery Account	2,000	
To Ram & Co.		2,000
Rectifying Entry:		
Machinery Account	2,000	
To Purchases Account		2,000

(ii) ₹100 received from Kamal Kishore has been credited in the account of Krishan Kishore. The error is that there is a wrong credit in the account of Krishan Kishore and omission of credit in the account of Kamal Kishore; Krishan Kishore should be debited and Kamal Kishore be credited. The following three entries make this clear:

Particulars	Debits ₹	Credits ₹
Wrong Entry:		
Cash Account	100	
To Krishan Kishore		100
Correct Entry:		
Cash Account	100	
To Kamal Kishore		100
Rectifying Entry:		
Krishan Kishore	100	
To Kamal Kishore		100

(iii) The sale of old machinery, ₹1,000 has been entered in the sales book. By this entry the account of the buyer has been correctly debited by ₹1,000. But instead of crediting the Machinery Account. Sales Account has been credited. To rectify the error this account should be debited and the Machinery Account credited. See the three entries given below:

Particulars	Debits ₹	Credits ₹
Wrong Entry:		
Buyer's Account	1,000	
To Sales Account		1,000
Correct Entry:		
Buyer's Account	1,000	
To Machinery Account		1,000
Rectifying Entry:		
Sales Account	1,000	
To Machinery Account		1,000

ILLUSTRATION 2

The following errors were found in the book of Ram Prasad & Sons. Give the necessary entries to correct them.

(1) *₹ 500 paid for furniture purchased has been charged to ordinary Purchases Account.*

(2) *Repairs made were debited to Building Account for ₹ 50.*

(3) *An amount of ₹100 withdrawn by the proprietor for his personal use has been debited to Trade Expenses Account.*

(4) *₹100 paid for rent debited to Landlord's Account.*

(5) *Salary ₹ 125 paid to a clerk due to him has been debited to his personal account.*

(6) *₹ 100 received from Shah & Co. has been wrongly entered as from Shaw & Co.*

(7) *₹ 700 paid in cash for a typewriter was charged to Office Expenses Account.*

SOLUTION

Journal

Sr. No.	Particulars	Dr. ₹	Cr. ₹
(1)	Furniture A/c	500	
	To Purchases A/c		500
	(Correction of wrong debit to Purchases A/c for furniture purchased)		
(2)	Repairs A/c	50	
	To Building A/c		50
	(Correction of wrong debit to building A/c for repairs made)		
(3)	Drawings A/c.	100	
	To Trade Expenses A/c		100
	(Correction of wrong debit to Trade Expenses A/c for cash withdrawn by the proprietor for his personal use)		
(4)	Rent A/c	100	
	To Landlord's Personal A/c		100
	(Correction of wrong debit to landlord's A/c for rent paid)		

(5)	Salaries A/c To Clerk's (Personal) A/c (Correction of wrong debit to Clerk's personal A/c for salaries paid)	125	125
(6)	Shaw & Co. To Shah & Co. (Correction of wrong credit to Shaw & Co. Instead of Shah & Co.)	100	100
(7)	Typewriter A/c To Office Expenses A/c (Correction of wrong debit to Office Expenses A/c for purchase of typewriter)	700	700

ILLUSTRATION 3

Give journal entries to rectify the following:

(1) A purchase of goods from Ram amounting to ₹150 has been wrongly entered through the Sales Book.

(2) A Credit sale of goods amounting ₹120 to Ramesh has been wrongly passed through the Purchase Book.

(3) On 31st December, 2022 goods of the value of ₹ 300 were returned by Hari Saran and were taken into inventory on the same date but no entry was passed in the books.

(4) An amount of ₹ 200 due from Mahesh Chand, which had been written off as a Bad Debt in a previous year, was unexpectedly recovered, and had been posted to the personal account of Mahesh Chand.

(5) A Cheque for ₹ 100 received from Man Mohan was dishonoured and had been posted to the debit of Sales Returns Account.

SOLUTION

Journal

Sr.No.	Particulars	Dr.(₹)	Cr.(₹)
(1)	Purchases A/c Sales A/c To Ram (Correction of wrong entry in the sales Book for a purchases of goods from Ram)	150 150	 300

(2)	Ramesh	240	
	To Purchases A/c		120
	To Sales A/c		120
	(Correction of wrong entry in the Purchases Book of a credit sale of goods to Ram)		
(3)	Returns Inwards A/c	300	
	To Hari Saran		300
	(Entry of goods returned by him and taken in inventory omitted from records)		
(4)	Mahesh Chand	200	
	To Bad Debts Recovered A/c		200
	(Correction of wrong credit to Personal A/c in respect of recovery of previously written off bad debts)		
(5)	Man Mohan	100	
	To Sales Return A/c		100
	(Correction of wrong debit to Sales Returns A/c for dishonour of cheque received from Man Mohan)		

Thus, it can be said that errors detected before the preparation of trial balance can be rectified either through rectification statements (not entries) or through rectification entries.

6.5.2 After Trial Balance but before Final Accounts

The method of correction of error indicated so far is appropriate when the errors have been located before the end of the accounting period. After the corrections, the trial balance will agree. Sometimes the trial balance is artificially made to agree despite of errors by opening a suspense account and putting the difference in the trial balance to the account - the suspense account will be debited if the total of the credit column in the trial balance exceeds the total of the debit column and vice as versa.

One must note that such agreement of the trial balance is not real. Effort must be made to locate the errors.

The rule of rectifying errors detected at this stage is simple. Those errors for which complete journal entries were not possible in the earlier stage of rectification (i.e., before trial balance) can now be rectified by way of journal entry(s) with the help of suspense account, for it these errors which gave rise to the suspense account in the trial balance. The rectification entry for other type of error i.e. error affecting more than one account in such a way that a complete journal entry is possible for its rectification, can be rectified in the same way as in the earlier stage (i.e. before trial balance).

In a nutshell, it can be said that each and every error detected at this stage can only be corrected by a complete journal entry. Those errors for which journal entries were not possible at the earlier stage will now be rectified by a journal entry(s), the difference or the unknown side is being taken care of by suspense account. Those errors for which entries were possible even at the first stage will now be rectified in the same way.

Suppose, the sales book for November, 2022 is casted short by ₹100 ; as a consequence the trial balance will not agree. The credit column of the trial balance will be ₹100 short and a Suspense Account will be credited by ₹100. To rectify the error the Sales Account will be credited (to increase the credit to the right figure. Now one error remains, the Suspense Account must be closed by debiting the Suspense Account. The entry will be:

Suspense Account	₹100	
To Sales Account		₹100
(Correction of error of undercasting the sales Book for November 2022)		

ILLUSTRATION 4

Correct the following errors (i) without opening a Suspense Account and (ii) opening a Suspense Account:

(a) The Sales Book has been totalled ₹100 short.

(b) Goods worth ₹150 returned by Green & Co. have not been recorded anywhere.

(c) Goods purchased ₹250 have been posted to the debit of the supplier Gupta & Co.

(d) Furniture purchased from Gulab & Bros, ₹1,000 has been entered in Purchases Day Book.

(e) Discount received from Red & Black ₹15 has not been entered in the Discount Column of the Cash Book.

(f) Discount allowed to G. Mohan & Co. ₹18 has not been entered in the Discount Column of the Cash Book. The account of G. Mohan & Co. has, however, been correctly posted.

SOLUTION

If a Suspense Account is not opened.

(a) Since sales book has been casted ₹100 short, the Sales Account has been similarly credited ₹100 short. The correcting entry is to credit the Sales Account by ₹100 as "By wrong totalling of the Sales Book ₹100".

(b) To rectify the omission, the Returns Inwards Account has to be debited and the account of Green & Co. credited. The entry:

Returns Inward Account	Dr.	₹150	
To Green & Co.			₹150
(Goods returned by the firm, previously omitted from the Returns Inward Book)			

(c) Gupta & Co. have been debited ₹250 instead of being credited. This account should now be credited by 500 to remove the wrong debit and to give the correct credit. The entry will be on the credit side... "By errors in posting ₹500".

(d) By this error Purchases Account has to be debited by ₹1,000 whereas the debit should have been to the Furniture Account. The correcting entry will be:

Furniture Account	Dr.	₹1,000	
To Purchases Account			₹1,000
(Correction of the mistake by which of the Furniture Account)			

(e) The discount of ₹15 received from Red & Black should have been entered on the credit side of the cash book. Had this been done, the Discount Account would have been credited (through the total of the discount column) and Red & Black would have been debited. This entry should not be made:

Red & Black	Dr.	₹15	
To Discount Account			₹15
(Rectification of the error by which the discount allowed by the firm was not entered in Cash Book)			

(f) In this case the account of the customer has been correctly posted; the Discount Account has been debited ₹18 short since it has been omitted from the discount column on the debit side of the cash book. The discount account should now be debited by the entry; "To Omission of entry in the Cash Book ₹18."

If a Suspense Account is opened :

	Particulars	Dr.(₹)	Cr.(₹)
(a)	Suspense Account	100	
	To Sales Account		100
	(Being the correction arising from under- casting of Sales Day Book)		

(b)	Return Inward Account To Green & Co (Being the recording of unrecorded returns)	150	 150
(c)	Suspense Account To Gupta & Co. (Being the correction of the error by which Gupta & Co. was debited instead of being credited by ₹ 250).	500	 500
(d)	Furniture Account To Purchases Account (Being the correction of recording purchase of furniture as ordinary purchases)	1,000	 1,000
(e)	Red & black To Discount Account (Being the recording of discount omitted to be recorded)	15	 15
(f)	Discount Account To Suspense Account (Being the correction of omission of the discount allowed from Cash Book customer's account already posted correctly).	18	 18

Suspense Account

Dr. Date	Particulars	Amount ₹	Date	Particulars	Cr. Amount₹
	To Sales A/c	100		By Difference in Trial Balance	582
	To Gupta & Co.	500		By Discount A/c	18
		600			600

Notes:

(i) One should note that the opening balance in the Suspense Account will be equal to the difference in the trial balance.

(ii) If the question is silent as to whether a Suspense Account has been opened, the student should make his assumption, state it clearly and then proceed.

ILLUSTRATION 5

Correct the following errors found in the books of Mr. Dutt. The Trial Balance was out by ₹ 493 excess credit. The difference thus has been posted to a Suspense Account.

(a) An amount of ₹100 was received from D. Das on 31st December, 2022 but has been omitted to enter in the Cash Book.

(b) The total of Returns Inward Book for December has been casted short by ₹100.

(c) The purchase of an office table costing ₹ 300 has been passed through the Purchases Day Book.

(d) ₹ 375 paid for Wages to workmen for making show-cases had been charged to "Wages Account".

(e) A purchase of ₹ 67 had been posted to the trade payables' account as ₹ 60.

(f) A cheque for ₹ 200 received from P. C. Joshi had been dishonoured and was passed to the debit of "Allowances Account".

(g) ₹ 1,000 paid for the purchase of a motor cycle for Mr. Dutt for his personal use had been charged to "Miscellaneous Expenses Account".

(h) Goods amounting to ₹100 had been returned by customer and were taken into inventory, but no entry in respect thereof, was made into the books.

(i) A sale of ₹ 200 to Singh & Co. was wrongly credited to their account. Entry was correctly made in sales book.

SOLUTION

(a) **Journal Entries**

	Particulars		L.F.	₹	₹
(a)	Cash Account	Dr.		100	
	To D. Das				100
	(Being the amount received)				
(b)	Returns Inward Account	Dr.		100	
	To Suspense Account				100
	(Being the mistake in totalling the Returns Inward Book corrected)				

(c)	Furniture Account Dr. To Purchases Account (Being the rectification of mistake by which purchase of furniture was entered in Purchases book and hence now corrected by crediting the Purchases Account)		300	 300
(d)	Furniture Account Dr. To Wages Account (Being the wages paid to workmen for making show-cases which should have been capitalised and not to be charged to Wages Account)		375	 375
(e)	Suspense Account Dr. To Creditors (personal) Account (Being the mistake in crediting the Trade payables Account less by ₹ 7, now corrected)		7	 7
(f)	P.C. Joshi Dr. To Allowances Account (Being the cheque of P.C. Joshi dishonoured, previously debited to Allowances Account)		200	 200
(g)	Drawings Account Dr. To Miscellaneous Expenses (Being the motor cycle purchased for Mr. Dutt debited to his Drawings Account instead of Miscellaneous Expenses Account as previously done by mistake)		1,000	 1,000
(h)	Returns Inward Account Dr. To Debtors (Personal) Account (Correction of the omission to record return of goods by customers)		100	 100
(i)	Singh & Co. Dr. To Suspense Account (Being the correction of mistake by which the account of Singh & Co. was credited by ₹ 200 instead of being debited)		400	 400

Suspense Account

Dr.					Cr.
Date	**Particulars**	**Amount**	**Date**	**Particulars**	**Amount**
2022		₹	2022		₹
Dec.31	To Difference in Trial Balance	493	Dec. 31	By Returns Inwards A/c	100
" "	To Trade Payables A/c	7	" "	By Singh & Co.	400
		500			500

ILLUSTRATION 6

The following errors, affecting the account for the year 2022 were detected in the books of Jain Brothers, Delhi:

(1) Sale of old Furniture ₹ 150 treated as sale of goods.

(2) Receipt of ₹ 500 from Ram Mohan credited to Shyam Sunder.

(3) Goods worth ₹ 100 brought from Mohan Narain have remained unrecorded so far.

(4) A return of ₹ 120 from Mukesh posted to his debit.

(5) A return of ₹ 90 to Shyam Sunder posted as ₹ 9 in his account.

(6) Rent of proprietor's residence, ₹ 600 debited to rent A/c.

(7) A payment of ₹ 215 to Mohammad Sadiq posted to his credit as ₹125.

(8) Sales Book casted short by ₹ 900 .

(9) The total of Bills Receivable Book ₹ 1,500 left unposted.

You are required to pass the necessary rectifying entries and show how the trial balance would be affected by the errors.

SOLUTION

Journal

	Particulars	**L.F.**	**Dr. Amount ₹**	**Cr. Amount ₹**
(1)	Sales Account Dr.		150	
	To Furniture Account			150
	(Rectification of sales of furniture treated as sales of goods)			

(2)	Shyam Sunder	Dr.		500	
	To Rama Mohan				500
	(Rectification of a receipt from Ram Mohan credited to Shyam Sunder)				
(3)	Purchases Account	Dr.		100	
	To Mohan Narain				100
	(Purchases of goods from Mohan Narain unrecorded, now corrected)				
(6)	Drawing Account	Dr.		600	
	To Rent Account				600
	(Rectification of Payment of rent of proprietor's residence treated as payment of office rent)				

N.B. : For 4, 5, 7, 8, 9 no journal entry can be passed as they affect a single account. The correction will be as under:

(4) Credit Mukesh's Account with ₹ 240.

(5) Debit the account of Shyam Sunder by ₹ 81.

(7) Debit the account of Mohammad Sadiq by ₹ 340.

(8) Credit Sales Account by ₹ 900.

(9) Debit Bills Receivable Account with ₹ 1,500.

Effect of the Errors on Trial Balance

1.	No effect		
2.	No effect		
3.	No effect		
4.	Trial Balance credit total short by	₹	240.
5.	Trial Balance debit total short by	₹	81.
6.	No effect		
7.	Trial Balance debit total short by	₹	340.
8.	Trial Balance credit total short by	₹	900.
9.	Trial Balance debit total short by	₹	1,500.

ILLUSTRATION 7

Write out the Journal Entries to rectify the following errors, using a Suspense Account.

(1) Goods of the value of ₹ 100 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;

(2) An amount of ₹150 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;

(3) A sale of ₹ 200 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as ₹ 20; and

(4) The total of "Discount Allowed" column in the Cash Book for the month of September, 2022 amounting to ₹ 250 was not posted.

SOLUTION

Journal

	Particulars		**L.F.**	**Dr. ₹**	**Cr. ₹**
(1)	Sales Account	Dr.		100	
	Sales Returns Account	Dr.		100	
	To Suspense Account				200
	(The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)				
(2)	Suspense Account	Dr.		300	
	To Mr. Philip				300
	(Wrong debit to Mr. Philip for goods returned by him, now rectified)				
(3)	Mr. Ghanshyam	Dr.		200	
	To Mr. Radheshyam				20
	To Suspense Account				180
	(Omission of debit to Mr. Ghanshyam and wrong credit to Mr. Radhesham for sale of ₹ 200, now rectified)				
(4)	Discount Account	Dr.		250	
	To Suspense Account				250
	(The total of Discount allowed during September, 2022 not posted from the Cash Book; error now rectified)				

6.5.3 Correction in the next Accounting Period

Rectification of errors discussed so far assumes that it was carried out before the books were closed for the concerned year. However, sometimes, the rectification is carried out in the next year, carrying forward the balance in the Suspense Account or even transferring it to the Capital Account. Suppose, the Purchase Book was cast short by ₹1,000 in December, 2022 and a Suspense Account was opened with the difference in the trial balance. If the error is rectified next year and the entry passed is to debit Purchase Account (and credit Suspense Account), it will mean that the Purchases Account for year 2023 will be ₹1,000 more than the amount relating to year 2023 and thus the profit for year 2023 will be less than the actual for that year. Thus, correction of errors in this manner will 'falsify' the Profit and Loss Account.

To avoid this, correction of all amounts concerning nominal accounts, i.e., expenses and incomes should be through a special account styled as "Prior Period Items" or "Profit and Loss Adjustment Account". The balance in the account should be transferred to the Profit and Loss Account. However, these Prior Period Items should be charged after deriving the profit of the current year. 'Prior Period items' are material income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. Prior Period Items should be separately disclosed in the current statement of profit and loss together with their nature and amount in a manner that their impact on current period profit or loss can be perceived.

ILLUSTRATION 8

Mr. Roy was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next Year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:

(1) Purchase of a scooter was debited to conveyance account ₹3,000.

(2) Purchase account was over-cast by ₹10,000.

(3) A credit purchase of goods from Mr. P for ₹2,000 was entered as a sale.

(4) Receipt of cash from Mr. A was posted to the account of Mr. B ₹1,000.

(5) Receipt of cash from Mr. C was posted to the debit of his account, ₹500.

(6) ₹500 due by Mr. Q was omitted to be taken to the trial balance.

(7) Sale of goods to Mr. R for ₹2,000 was omitted to be recorded.

(8) Amount of ₹2,395 of purchase was wrongly posted as ₹2,593.

Mr. Roy used 10% depreciation on vehicles. Suggest the necessary rectification entries.

SOLUTION

Journal Entries in the books of Mr. Roy

Sr. No.	Particulars	Dr.(₹)	Cr.(₹)
(1)	Motor Vehicles Account	2,700	
	To Profit and Loss Adjustment A/c		2,700
	(Purchase of scooter wrongly debited to conveyance account now rectified-capitalisation of ₹ 2,700, i.e.,₹ 3,000 less 10% depreciation)		
(2)	Suspense Account	10,000	
	To Profit & Loss Adjustment A/c		10,000
	(Purchase Account overcast in the previous year; error now rectified).		
(3)	Profit & Loss Adjustment A/c	4,000	
	To P's Account		4,000
	(Credit purchase from P ₹ 2,000, entered as sales last year; now rectified)		
(4)	B's Account	1,000	
	To A's Account		1,000
	(Amount received from A wrongly posted to the account of B; now rectified)		
(5)	Suspense Account	1,000	
	To C's Account		1,000
	(₹ 500 received from C wrongly debited to his account; now rectified)		
(6)	Trade receivables	500	
	To Suspense Account		500
	(₹ 500 due by Q not taken into trial balance; now rectified)		
(7)	R's Account	2,000	
	To Profit & Loss Adjustment A/c		2,000
	(Sales to R omitted last year; now recorded)		

(8)	Suspense Account	198	
	To Profit & Loss Adjustment A/c		198
	(Excess posting to purchase account last year, ₹ 2,593, instead of ₹ 2,395, now adjusted)		
(9)	Profit & Loss Adjustment A/c	10,898	
	To Roy's Capital Account		10,898
	(Balance of Profit & Loss Adjustment A/c transferred to Capital Account)		
(10)	Roy's Capital Account	10,698	
	To Suspense Account		10,698
	(Balance of Suspense Account transferred to the Capital Account)		

Note : Entries No. (2) and (8) may even be omitted; but this is not advocated.

Profit and Loss Adjustment Account

(Prior Period Items)

	₹		₹
To P	4,000	By Motor Vehicles A/c	2,700
To Roy's Capital (transfer)	10,898	By Suspense A/c	10,000
		By R	2,000
		By Suspense Account	198
	14,898		14,898

Suspense Account

	₹		₹
To Profit & Loss Adjustment A/c	10,000	By Trade Receivables (Q)	500
To C	1,000	By Roy's Capital A/c (Transfer)	10,698
To Profit & Loss Adjustment A/c	198		
	11,198		11,198

SUMMARY

- Unintentional omission or commission of amounts and accounts in the process of recording the transactions are commonly known as errors.
- Accounting errors are generally of four types-
  - (a) Errors of Principle;
  - (b) Errors of Omission;
  - (c) Errors of Commission;
  - (d) Compensating Errors.
- Some errors may affect the Trial Balance and some of these do not.
- The method of rectification of errors depends on the stage at which the errors are detected. If the error is detected before the preparation of trial balance, rectification is carried out by making the statement in the appropriate side of the concerned account.
- In case of the errors detected after the preparation of the trial balance, we open a suspense account with the amount of difference in the trial balance. Then complete journal entries can be passed for rectifying the errors.
- For rectifying the errors detected in the next accounting period, a special account 'Profit and Loss Adjustment Account' is opened for correction of amounts relating to expenses and incomes.

TEST YOUR KNOWLEDGE

True and False

1. *The method of rectification of errors depends on the stage at which the errors are detected.*
2. *In case of error of complete omission, the trial balance does not tally.*
3. *When errors are detected after preparation of trial balance, suspense account is opened.*
4. *When purchase of an asset is treated as an expense, it is known as error of principle.*
5. *Trial balance agrees in case of compensating errors.*
6. *When amount is written on wrong side, it is known as an error of principle.*
7. *On purchase of old furniture, the amount spent on repairs should be debited to repairs account.*

8. *'Profit & Loss adjustment account' is opened to rectify the errors detected in the current accounting period.*

9. *Rent paid to landlord of the proprietors house, must be debited to 'Rent account'.*

10. *If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.*

Multiple Choice Questions

1. *Goods purchased from A for ₹10,000 passed through the sales book. The error will result in*

   (a) *Increase in gross profit.*

   (b) *Decrease in gross profit.*

   (c) *No effect on gross profit.*

2. *If a purchase return of ₹1,000 has been wrongly posted to the debit of the sales returns account, but has been correctly entered in the suppliers' account, the total of the*

   (a) *Trial balance would show the debit side to be ₹1,000 more than the credit.*

   (b) *Trial balance would show the credit side to be ₹ 1,000 more than the debit.*

   (c) *The debit side of the trial balance will be ₹ 2,000 more than the credit side.*

3. *If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called*

   (a) *Error of omission.*

   (b) *Error of commission.*

   (c) *Error of principle.*

4. *₹ 200 paid as wages for erecting a machine should be debited to*

   (a) *Repair account.*

   (b) *Machine account.*

   (c) *Capital account.*

5. *On purchase of old furniture, the amount of ₹1,000 spent on its repair should be debited to*

   (a) *Repair account.*

   (b) *Furniture account.*

   (c) *Cash account.*

6. *Goods worth ₹50 given as charity should be credited to*
   (a) *Charity account.*
   (b) *Sales account.*
   (c) *Purchase account.*
7. *Goods worth ₹100 taken by proprietor for domestic use should be credited to*
   (a) *Sales account.*
   (b) *Proprietor's personal expenses.*
   (c) *Purchases account.*
8. *Sales of office furniture should be credited to*
   (a) *Sales Account.*
   (b) *Furniture Account.*
   (c) *Purchase Account.*
9. *The preparation of a trial balance is for:*
   (a) *Locating errors of commission.*
   (b) *Locating errors of principle.*
   (c) *Locating clerical errors.*
10. *₹ 200 received from Smith whose account, was written off as a bad debt should be credited to:*
    (a) *Bad Debts Recovered account.*
    (b) *Smith's account.*
    (c) *Cash account.*
11. *Purchase of office furniture ₹1,200 has been debited to General Expense Account. It is:*
    (a) *A clerical error.*
    (b) *An error of principle.*
    (c) *An error of omission.*

Theory Questions

1. *How does errors of omission differ from errors of commission?*
2. *What is error of principle and how does it affect Trial Balance?*
3. *When and how is Suspense account used to rectify errors?*

Practical Questions

1. *The trial balance of Mr. W & H failed to agree and the difference ₹20,570 was put into suspense account pending the investigation which disclosed that:*

   (i) Purchase returns day book had been correctly entered and totalled at ₹6,160, but had not been posted to the ledger.

   (ii) Discounts received ₹1,320 had been debited to discounts allowed.

   (iii) The Sales account had been under added by ₹10,000.

   (iv) A credit sale of ₹1,470 had been debited to a customer account at ₹1,740.

   (v) A vehicle bought originally for ₹7,000 four years ago and depreciated to ₹1,200 had been sold for ₹1,500 in the beginning of the year but no entries, other than in the bank account had been passed through the books.

   (vi) An accrual of ₹560 for telephone charges had been completely omitted.

   (vii) A bad debt of ₹1,560 had not been written off and provision for doubtful debts should have been maintained at 10% of Trade receivables which are shown in the trial balance at ₹23,390 with a credit provision for bad debts at ₹2,320.

   (viii) Tools bought for ₹1,200 had been inadvertently debited to purchases.

   (ix) The proprietor had withdrawn, for personal use, goods worth ₹1,960. No entries had been made in the books.

   You are required to give rectification entries without narration to correct the above errors before preparing annual accounts.

2. *On going through the Trial balance of Ball Bearings Co. Ltd. you find that the debit is in excess by ₹150. This was credited to "Suspense Account". On a close scrutiny of the books, the following mistakes were noticed:*

   (1) The totals of debit side of "Expenses Account" have been casted in excess by ₹ 50.

   (2) The "Sales Account" has been totalled in short by ₹100.

   (3) Supplier account has been overcasted by 225.

   (4) The sale return of ₹100 from a party has not been posted to that account though the Party's account has been credited.

   (5) A cheque of ₹500 issued to the Suppliers' account (shown under Trade payables) towards his dues has been wrongly debited to the purchases.

   (6) A credit sale of ₹50 has been credited to the Sales and also to the Trade receivables Account.

   You are required to

(i) Pass necessary journal entries for correcting the above;

(ii) Show how they affect the Profits; and

(iii) Prepare the "Suspense Account" as it would appear in the ledger.

3. *Mr. A closed his books of account on September 30, 2021 in spite of a difference in the trial balance. The difference was ₹830 the credits being short; it was carried forward in a Suspense Account. In 2022 following errors were located:*

   (i) A sale of ₹2,300 to Mr. Lala was posted to the credit of Mrs. Mala.

   (ii) The total of the Returns Inward Book for July, 2021 ₹1,240 was not posted in the ledger.

   (iii) Freight paid on a machine ₹5,600 was posted to the Freight Account as ₹6,500. 10% Depreciation is charge on this machines.

   (iv) While carrying forward the total in the Purchases Account to the next page, ₹65,590 was written instead of ₹56,950.

   (v) A sale of machine on credit to Mr. Mehta for ₹9,000 on 30th sept. 2021 was not entered in the books at all. The book value of the machine was ₹6,750.

   Pass journal entries to rectify the errors. Have you any comments to make?

4. *A merchant's trial balance as on June 30, 2022 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:*

   (i) The total of the Purchases Book of one page, ₹4,539 was carried forward to the next page as ₹4,593.

   (ii) A sale of ₹573 was entered in the Sales Book as ₹753 and posted to the credit of the customer.

   (iii) A return to a creditor, ₹510 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.

   (iv) Cash received from C. Dass, ₹620 was posted to the debit of G. Dass.

   (v) Goods worth ₹840 were despatched to a customer before the close of the year but no invoice was made out.

   (vi) Goods worth ₹1,000 were sent on sale or return basis to a customer and entered in the Sales Book. At the close of the year, the customer still had the option to return the goods. The sale price was 25% above cost.

   You are required to give journal entries to rectify the errors in a way so as to show the current year's profit or loss correctly.

ANSWERS/HINTS

True and False

1. True: There are 3 different stages when the mistakes are identified and then the rectification depends on the stage of identification of errors.
2. False: In case of error of complete omission, the trial balance tallies.
3. True: In order to balance the difference of balances in the trial balance suspense account is opened.
4. True: Where the accounts being debited is principally incorrect it is termed as error of principle.
5. True: Compensating errors cancel out each other when Trial balance is prepared as the mistake pertains to the same amount being credited and later debited on account of two different mistakes.
6. False: When amount is written on wrong side, it is known as an error of commission.
7. False: On purchase of furniture, the amount spent on repairs should be debited to furniture account as it is a capital expense.
8. False: 'Profit & Loss adjustment account' is opened to rectify the errors detected in the next accounting period.
9. False: Rent paid to land lord of the proprietors house, must be debited to 'Drawings account'.
10. False: If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be principal errors, which can be rectified without opening a suspense account.

Multiple Choice Questions

1.	(a)	**2.**	(c)	**3.**	(b)	**4.**	(b)	**5.**	(b)	**6.**	(c)
7.	(c)	**8.**	(b)	**9.**	(c)	**10.**	(a)	**11.**	(b)		

Theoretical Questions

1. (i) Errors of Omission: If a transaction is completely or partially omitted from the books of account, it will be a case of omission. Examples would be: not recording a credit purchase of furniture or not posting an entry into the ledger.

(ii) Errors of Commission: If an amount is posted in the wrong account or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be a case of "errors of commission."

2. **Errors of principle:** When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. In this case there is no effect on the trial balance since the amounts are placed on the correct side, though in a wrong account. Suppose on the purchase of a typewriter, the office expenses account is debited; the trial balance will still agree.

The method of correction of error indicated so far is appropriate when the errors have been located before the end of the accounting period. After the corrections, the trial balance will agree. Sometimes the trial balance is artificially made to agree inspite of errors by **opening a suspense account** and putting the difference in the trial balance to the account - the suspense account will be debited if the total of the credit column in the trial balance exceeds the total of the debit column; it will be credited in the other case. Each and every error detected after preparation of trial balance can only be corrected by a complete journal entry. Those errors for which journal entries were not possible at the earlier stage will now be rectified by a journal entry(s), the difference or the unknown side is being taken care of by suspense account. Those errors for which entries were possible even at the first stage will now be rectified in the same way.

Practical Questions

1.

	Particulars	**Dr.**	**Cr.**
(i)	Suspense Account	6,160	
	To Return Outward A/c		6,160
(ii)	Suspense Account	2,640	
	To Discount Allowed Account		1,320
	To Discount Received Account		1,320
(iii)	Suspense Account	10,000	
	To Sales Account		10,000
(iv)	Suspense Account	270	
	To Customer Account		270
(v)	Suspense Account	1,500	
	To Vehicle Account		1,200
	To Profit on Sale of Vehicle Account		300

(vi)	Telephone Charges Account	560	
	To Outstanding Expenses Account		560
(vii)	Bad Debts Account (refer W.N 1)	1,560	
	To Trade receivables Account		1,560
	Provision for Doubtful Debts Account (refer W.N. 2)	164	
	To Profit and Loss Account		164
(viii)	Loose Tools Account	1,200	
	To Purchases Account		1,200
(ix)	Drawings Account	1,960	
	To Purchases Account		1,960

Notes:

1. Bad debts will be debited in the profit and loss account.

2. Provision @ 10% of ₹ 21,560 i.e. 2,156; Excess provision ₹164 (2320 - 2156 = 164).

Working Notes :

(i)	Trade receivables as per books		23,390
	Deduction vide item (iv) 270	270	
	Bad Debts	1,560	1,830
			21,560

(ii) **Suspense Account**

	₹		₹
To Return outward Account	6,160	By balance b/d	20,570
To Discount allowed Account	1,320		
To Discount Received Account	1,320		
To Sales Account	10,000		
To Customers Account	270		
To Vehicles Account	1,200		
To Profit on Sale of Vehicle	300		
	20,570		20,570

2. **Journal Entries**

Particulars		**L.F.**	**Dr. ₹**	**Cr. ₹**
Suspense Account	Dr.		50	
To Expenses Account				50
(Being the mistake in totalling of Expenses Account, rectified)				
Suspense Account	Dr.		100	
To Sales Account				100
(Being the mistake in totalling of Sales Accounts rectified)				
Supplier	Dr.		225	
To Suspense Account				225
(Being the mistake in posting from Day Book to Ledger rectified)				
Sales Returns Account	Dr.		100	
To Suspense Account				100
(Being the sales return from a party not posted to "Sales Returns" now rectified)				
Trade payables Account	Dr.		500	
To Purchases Account				500
(Being the payments made to supplier wrongly posted to purchases now rectified)				
Trade receivables Account	Dr.		100	
To Suspense Account				100
(Being the sales wrongly credited to Customer's Account now rectified)				

Suspense Account

	Dr. ₹		**Cr. ₹**
To Expenses Account	50	By Difference in Trial Balance	150
To Sales Account	100	By Trade payables	225
To Balance c/d	425	By Sales Returns Account	100
		By Trade receivables	100
	575		575
		By Balance b/d	425

Since the Suspense Account does not balance, it is clear that all the errors have not been traced. As a result of the above corrections the Net Profit will be:

	Increased by ₹	Decreased by₹
Mistake in totalling in "Expenses"	50	
Mistake in totalling in "Sales"	100	
Mistake in posting from day book to Ledger under		
"Purchases"	500	
Omission in posting under "Sales Returns"		100
	650	100
Net Increase	550	

As a result of these adjustments, the Profits will be increased by ₹550.

3. **Journal of Mr. A**

Date	Particulars	Dr.	Cr.
		₹	₹
2022 (i)	Mrs. Mala	2,300	
	Mr. Lala	2,300	
	To Suspense A/c		4,600
	(Correction of error by which a sale of ₹ 2,300 to Mr. Lala was posted to the Credit of Mrs. Mala)		
(ii)	Profit and Loss Adjustment A/c	1,240	
	To Suspense A/c		1,240
	(Rectification of omission to post the total of Returns Inward Book for July, 2021)		
(iii)	(a) Machinery A/c	5,600	
	Suspense A/c	900	
	To Profit & Loss Adjustment A/c		6,500
	(Correction of error by which freight paid for a machine ₹ 5,600 was posted to Freight Account at ₹ 6,500 instead of capitalising it)		
	(b) Profit & Loss Adjustment A/c	560	

	To Plant and Machinery A/c (Depreciation @ 10% charged on freight paid on a machine capitalised)		560
(iv)	Suspense A/c To Profit & Loss Adjustment A/c (Correction of wrong carry forward of total in the purchase Account to the next page ₹ 65,590 instead of ₹ 56,950)	8,640	8,640
(v)	Mr. Mehta To Plant & Machinery A/c To Profit & Loss Adjustment A/c (Correction of omission of a sale of machine on credit to Mr. Mehta for ₹ 9,000)	9,000	 6,750 2,250

Comments

The Suspense Account will now appear as shown below:

Suspense Account

Date	Particulars	Dr. Amount ₹	Date	Particulars	Cr. Amount ₹
2022	To Profit and Loss Adjustment A/c	900	2022	By Balance b/d	830
	To Profit and Loss Adjustment A/c	8,640	Oct. 1	By Sundries	
				Mrs. Mala	2,300
				Mr. Lala	2,300
				By Profit and Loss Adjustment A/c	1,240
				By balance c/d	2,870
		9,540			9,540

Since the Suspense Account still shows a balance, it is obvious that there are still some errors left in the books.

Profit & Loss Adjustment A/c

(For Prior Period Items)

Date 2022	Particulars	Dr. Amount ₹	Date 2022	Particulars	Cr. Amount ₹
	To Suspense A/c	1,240		By Machinery A/c	5,600
	To Plant and Machinery A/c	560		By Suspense A/c	900
	To Balance c/d	15,590		By Suspense A/c	8,640
				By Mr. Mehta	2,250
		17,390			17,390

4. **Journal Entries**

	Particulars		Dr. ₹	Cr. ₹
(i)	Suspense Account	Dr.	54	
	To Profit and Loss Adjustment A/c			54
	(Correction of error by which Purchase Account was over debited last year- ₹4,593 carried forward instead of ₹4,539)			
(ii)	Profit & Loss Adjustment A/c	Dr.	180	
	Customer's Account	Dr.	1,326	
	To Suspense Account			1,506
	(Correction of the entry by which (a) Sales A/c was over credited by ₹180 (b) customer was credited by ₹753 instead of being debited by ₹573)			
(iii)	Suspense Account	Dr.	1,020	
	To Profit & Loss Adjustment A/c			1,020
	(Correction of error by which Returns Inward Account was debited by ₹510 instead of Returns Outwards Account being credited by ₹ 510)			

(iv)	Suspense Account	Dr.	1,240	
	To C. Dass			620
	To G. Dass			620
	(Removal or wrong debit to G. Dass and giving credit to C. Dass from whom cash was received).			
(v)	Customer's Account	Dr.	840	
	To Profit & Loss Adjustment A/c			840
	(Rectification of the error arising from non-preparation of invoice for goods delivered)			
(vi)	Profit & Loss Adjustment A/c	Dr.	200	
	Inventory Account	Dr.	800	
	To Customer's Account			1,000
	(The Customer's A/c credited with ₹ 1,000 for goods not yet purchased by him; cost of the goods debited to inventory and "Profit" debited to Profit & Loss Adjustment Account)			
(vii)	Profit & Loss Adjustment A/c	Dr.	1,534	
	To Capital Account			1,534
	(Transfer of Profit & Loss Adjustment A/c balance to the Capital Account)			