Definition of Accountancy :

The main objective of accounting is to ascertain profit or loss during a specified period, to show financial condition of the business on a particular date. Accounting is a discipline which records, classifies, summarizes and interprets financial information about the activities of a concern so that intelligent decisions can be made about the concern. Accounting is identified with a system of recording of business transactions that creates economic information about business enterprises to facilitate decision making.

In 1941, the American Institute of Certified Public Accountants (AICPA) defined as "The art of recording, classifying, summarizing, analyzing and interpreting the business transactions systematically and communicating business results to interested users is accounting"

The American Accounting Association defined accounting as "It is the process of identifying, measuring, recording and communicating the required information relating to the economic events of an organization to the interested users of such information"

According to R.N Anthony, "nearly every business enterprise has accounting system. It is a means of collecting, summarizing, analyzing and reporting in monetary terms, information's about business".

According to Smith and Ashburne, "Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events, which are, in part at least, of a financial character and interpreting the result thereof".

In short, accounting is a system of collecting, classifying, summarizing, analyzing and reporting financial information about a firm.

Characteristics of Accounting :

Attribute of Accounting	Meaning
Economic Events	It reflected in the financial statements. It must be relevant to the financial condition and objectively measurable in monetary terms of a company.
Identification	Identification of transactions means determination of transactions for the purpose of recording them in the books of accounts.

Measurement	It is economic or financial activity which is measured in terms of financial or monetary units.
Recording	It is concerned with the recording of financial transactions in an orderly manner, soon after their occurrence In the proper books of accounts
Classifying	It Is concerned with the systematic analysis of the recorded data so as to accumulate the transactions of similar type at one place.
Summarizing	It is concerned with the preparation and presentation of the classified data in a manner useful to the users. This function involves the preparation of financial statements
Summarizing	It is concerned with the preparation and presentation of the classified data in a manner useful to the users. This function involves the preparation of financial statements
Communicating	Communication is the presentation of financial information to the organization or other user. Right communication help to assess the financial performance of the organization.
Interpreting	The accountants should interpret the statements in a manner useful to action. This helps the accountant in taking business expansion.

Advantages of Accounting :

Accounting is concerned with recording all business transactions systematically and then arranging in the form of various accounts and financial statements.

1. **It helps the management to plan activities :** The accounting helps the management to plan its future activities of the organisation by preparing necessary books of accounts. It also coordinates of various departments by providing financial information.
2. **It helps in comparison of data :** Accounting provide a base for providing reliable information with comparisons of data within the years. These comparisons will provide necessary data to the interested parties.
3. **Tracking the performance of the organization :** A proper recording of transaction. This will help the business to use the funds in the best utilization.
4. **To ascertain the operational profit or loss :** Accounting helps in ascertaining the net profit earned or loss suffered on account of carrying the business. This is done by keeping a proper record of revenues and expense of a particular period.

Double entry System :

Double Entry System is the modern and scientific system of recording the financial transactions. This system recognizes that every financial transaction has two aspects. One is receiving aspect and the other is giving aspect. The receiving aspect of a transaction is known as debit and the giving aspect of the transaction is known as credit. Better known as receiver and giver.

According to Carter, "The modem system of Accounting in use is known as Double Entry". Double Entry is a system of Book-keeping by means of both personal and impersonal accounts.

M.J. Keller defines Double Entry System as follows: "The most common system of accounting data for an enterprise is the Double Entry System. As the name implies, the entry made for each transaction is composed of two parts, a 'Debit' and a 'Credit'."

The double entry system divides the page into two equal halves. The left hand side of each page is called the debit side, while the right hand side is called the credit side.

For example, when Rishi sell goods to Rinki for Rs. 50,000, on exchanges goods for money. Rishi gets money and he gives away goods. In this transaction, cash is the receiving aspect (debit) and goods are the giving aspect (credit). In order to record a transaction completely, it is necessary to record both aspects of the transaction. The method of recording the two fold aspects of every transaction is called double entry system.

Features of Double Entry System :

Some of the features of double entry system are as follows :

1. **Double Entry of a Transaction :** In case of Double entry system, every transaction has two folds namely debit and credit. Every debit transaction must have a corresponding credit. It provides a complete record of each and every transaction because both aspects of every transaction are recorded.
2. **Both sides are equal :** In case of Double Entry System the overall results assumes that debit must be equal to credit amount i.e. it considers the effect of equal amount on both sides of accounts. The same amount should be on debit and credit.
3. **Provide Arithmetical Accuracy of Books of Accounts :** Book-Keeping provides a basis for checking arithmetical accuracy of the books of accounts. A total debit is always equal to total credits.
4. **Preparation of trail balance and Final Accounts :** Final accounts are prepared for determining profit and loss aspects of a any business organization and trial balance is prepared based on balance of ledger accounts which has both credit and debit balances. Double entry system provides a base for true financial information.
5. **Detailed information and records of the company :** Double Entry provides a systematic and detailed record of assets and liabilities of the company. Even the company's position of true profit and losses can also be ascertained.

Rules of Double Entry System :

For any transaction we have to see which transactions are affected by the Debit and Credit.

Type of Account	Debit	Credit
Personal Account	Receiver	Giver
Real	What Comes in	What Goes out
Nominal	Expenses and Losses	Income and Gains

It should also be noted that the above mentioned like 'giver' and 'receiver', 'coming in' and 'going out' etc. are to be judged not from the proprietor's point of view but from the point of view of the business.

Advantages of Double Entry System :

The following are the advantages of Double Entry :

1. **Scientific and Systematic in nature :** Double Entry system has its own set of rules and principles. And under those principles the two folds of accounts are recorded. Also It records financial transactions in a systematic and chronological order with suitable narration of the financial transaction.
2. **Accuracy in the Books of Accounts :** Double-entry narrates that for every debit amount there is a corresponding credit amount'. In this method of debit and credit can help ensure arithmetical accuracy of the recordings of financial transactions during a financial year.
3. **Profit and Loss of the business concern :** The Double Entry book keeping helps the business in ascertaining true profit and losses by preparing profit and loss account for a given period.
4. **Highlight the Financial Position of the Business :** The Double-entry book-keeping system also helps a business concern to highlight the information about the financial position of the business by preparing a statement called balance sheet.
5. **Controlling and Financial Decision :** Double Entry helps a business to understand the financial controlling and decision from the transaction happened from the business during a financial year.
6. **Comparative Study of Financial Statements :** Double Entry Systems helps in a comparative study of the financial position of the business over past years. This comparative study provides a base for making decision and controlling over the business too.

Disadvantages of Double Entry System :

The following are the limitations of the Double Entry System :

1. **Not Convenient for small scale business :** In double entry system there is maintenance of many books of accounts which are not so easy for a small business. A small business may make just simple lists of his assets, liabilities, bank balance and debtors and creditors on note book under single entry system.
2. **Double Entry system is costly and time consuming :** Double Entry system has huge books of accounts and it requires huge amount of Trained and skilled manpower. Also it requires accounting software also requires a large amount of money. So, simply the system is rather costly and time consuming too.
3. **Errors and Frauds cannot be detected :** Double Entry system cannot detect planned error and frauds in the business. The Books of Accounts involves huge monetary transactions and its impossible to find the calculative errors and frauds.

Meaning of Accounting Terms :

1. **Entity :** An entity is an organization established through laws or accounting principles that separates it from its owners, other organizations, and individuals.
2. **Transactions :** it is an exchange of goods and services for consideration.
3. **Assets :** These are properties or economic resources of an enterprises which can be expressed in monetary terms it can be divided in two parts 1.Fixed assets(more than 1 year period) 2. Current assets(less than 1 year period)
4. **Liabilities :** These are certain obligations or dues which firm has to pay.
5. **Capital :** It is an essential investment for commencement of every business.
6. **Sales :** It can be credit or cash, in which goods are delivered to customers.
7. **Revenues :** It is the amount which is earned by selling of products.
8. **Expenses :** It is known as cost of assets consumed or services which used.
9. **Expenditure :** It means spending money for some benefit.
10. **Profit :** Excess of revenues over expenses is called profit.
11. **Gain :** It generates from incidental transaction such as sales of fixed asset, winning of court case.
12. **Loss :** Excess of expenses over income is termed as loss.
13. **Discount :** It is defined as concession or deduction in price of goods sold.
14. **Voucher :** It is known as evidence in support of a transaction.
15. **Goods :** It refers all the tangible goods (Raw material, work in progress, finished goods.)
16. **Drawings :** Amount of goods or cash which is withdrawn from business for personal use.
17. **Purchases :** It means of procurement of goods on credit or cash.

Chapter 8 Transactions

Transactions are a business event which is monetary in nature. It is recorded in the business and required in financial statements too. In simple terms, an event that has impact on business is transaction. And Business Transactions are normally supported by necessary documents i.e. Vouchers.

Accounting is a method of collecting, recording, classifying, summarizing, presenting and interpreting financial data of an economic activity.

Accounting Equations :

Accounting Equation states that Asset of business concern is equal to total liabilities and capital. In a balance sheet, Asset side is the economic resources of an enterprises and Liabilities are outsider claims and objections.

Assets = Liabilities + Capital

All business transactions can be referred as

Assets = Liabilities + Owners Equity.

Liabilities = Assets – Capital

Capital = Asset – Liabilities.

For Example

Illustration 1:

If the liabilities of the business is Rs 60,000 and Capital is Rs 90,000. Find the Total Assets:

Total Assets = Total Liabilities

Total Assets = Capital + Liabilites

Total Assets = 90,000+60,000= Rs 1, 50,000.

Illustration 2:

A Business has asset of Rs 1, 20,000 and Owners Equity of Rs 40,000. What is the amount of liabilities?

Assets – Liabilities= Capital

1, 20,000 - 40,000= 80,000

RULES FOR DEBIT AND CREDIT

Rules for debit and credit tells us about the accounts to be debited or credited in respect of a particular transaction. The rules are applied with reference to the class of accounts affected by a transaction. As there are two approaches for classification of accounts or accounts heads, the rules applicable for debit and credit also different. These are explained below:

(A) Under English Approach or Traditional Approach:

The rules for debit and credit Under English Approach or Traditional Approach are termed as **'Golden Rules of Debit and Credit'**. These rules are as under :

(i) *In case of Personal Accounts:*

Debit the Receiver of the benefit.

Credit the Giver of the benefit.

(ii) *In case of Real Accounts:*

Debit What comes in.

Credit what goes out.

(iii) *In case of Nominal Accounts:*

Debit Expenses and Losses.

Credit Gains and Incomes.

(A) Under American Approach or Modern Approach:

The rules for ***'Debit'*** and ***'Credit'*** applicable for each type of account under American or Modern Approach are given below:

(a) Assets Account:

(i) When there is an increase in the Asset, it is 'Debited'.

(ii) When there is a decrease in the Asset, it is 'Credited'.

(b) Liabilities Account:

(i) When there is an increase in the Liability, it is 'Credited''

(ii) When there is a decrease in the Liability, it is 'Debited'.

(c) Capital Account:

(i) When there is an increase in the Capital, it is 'Credited'.

(ii) When there is a decrease in the Capital, it is 'Debited'

(d) Revenue Account:

(i) When there is an increase in the Revenue, it is 'Credited''

(ii) When there is a decrease in the Revenue, it is 'Debited'.

(e) Expense Account:

(i) When there is an increase in the Expense, it is 'Debited'.

(ii) When there is a decrease in the Expense, it is 'Credited'.

The rules for 'Debit' and ' Credit' as applicable under Modern classification is summarised below:

Sl. No.	Classes of Account	When to be debited	When to be credited
(a)	Assets Account	Increase	Decrease
(b)	Liabilities Account	Decrease	Increase
(c)	Capital Account	Decrease	Increase
(d)	Revenue Account	Decrease	Increase
(e)	Expense Account	Increase	Decrease

The rules applicable to the different kinds of accounts have been presented below in the form of account as under:

Asset A/c

Dr. **Cr.**

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

Note: For each type of asset, there will be a separate account.

Format of Journal :

The following is the format of journal :

Format of Journal

Date	*Particulars*	*L.F.*	*Amount*	
			Debit	Credit
			(₹)	(₹)
(i)	(ii)	(iii)	(iv)	

The format of journal is sub-divided into five columns. These five columns are (i) Date, (ii) Particulars, (iii) Ledger Folio (L/F), (iv) Amount (Debit) and (Credit). In these columns following information is recorded:

(i) Date: In this column, the date of the transaction with its month and year is recorded. The year is not repeated against every entry because the year is almost the same. The sequence of the dates and months should be strictly maintained *i.e.*, transaction taking place on January 1, 2021 will be recorded in first and afterward the transaction taking place on January 2, 2021 and so on will be recorded. For example, transactions took place in a business on January 3, 2021, January 10, 2021, February 5, 2021 and February 9, 2020.

The date of the above transactions will be recorded as under:

Date
2021
Jan. 3
" 10
Feb. 5
" 9

(ii) Particulars: In this column, both the debit aspect and credit aspect of each transaction is recorded. The name of account to be debited followed by the word 'Dr.' against that account is written in the first line. In the second line, the account to be credited is written. However, the word 'Cr.' is not written against this account. In the next line, a short explanation to the entry called 'narration', is given to explain the transaction. For example, Machinery has been purchased in cash. This transaction will be recorded in the particulars column of the journal as under :

Particulars	
Machinery A/c	Dr.
To Cash A/c	
(Being Machinery purchased)	

(iii) Ledger Folio (L.F.): Journal is the original record of the business transactions. All entries from the journal are posted in the ledger accounts. The page number or folio number of the ledger account where the posting has been made from the journal is recorded in the L.F. column of the Journal. For example, if posting is made in Machinery Account appearing at page number 15 of the ledger and Cash A/c appearing at Page 6 of the ledger, 15 will be entered in the L.F. column in the journal against Machinery A/c and 6 will be entered against Cash A/c in the ledger folio column in the journal. It means that journal and ledger are inter-related and the ledger posting is based upon Journal. Therefore, there should be certain reference as regards the page number of ledger, where the account in the journal is being posted.

(iv) Amount (Debit) and (Credit): Every transaction has got debit and its corresponding credit for the same amount. The amount of the account debited is written at the debit column of the amount column and the amount of the account credited is written at the credit column meant for writing the amount.

(v) Narration: After every journal entry, a brief explanation of the transaction for which the entry has been passed is given. It enables the persons going through the journal entry to have an idea about the transaction. This explanation is known as **'narration'.** Narration is generally preceded by the words 'Being' /'For' but not mandatory. After the narration, a horizontal line is drawn in the particulars column only to separate one journal entry from the other.

Features of a Journal :

The chief features of journal are as under :

(a) ***Original entry:*** Journal is a book in which the transactions are recorded as and when they take place. Hence, it is called a book of original entry.

(b) ***First step of double entry system:*** Recording of transaction in journal is a first step in the process of Double entry system. Both the debit and credit aspects of every transaction is recorded in the journal according to the double entry system of book-keeping.

(c) ***Chronological order:*** In journal, transactions are recorded in a Chronological order, i.e. in order of date.

(d) ***Daily record of transactions:*** A journal is a daily record of transactions taking place on a particular day.

(e) ***Explanation in every entry:*** Each entry in the journal is followed by a brief explanation of the transaction which is called 'Narration'.

(f) ***Book of primary record:*** A journal is only a book of primary entry. All the transactions recorded in the journal are subsequently transferred to the principal book of accounts i.e. ledger.

Functions of a Journal :

The functions of a journal are as under :

(a) ***Keeping record in chronological order:*** The main function of journal is to keep a chronological (i.e. date-wise) record of all transactions.

(b) ***Basis and source for posting:*** Journal provides the basis and source for posting into ledger.

(c) ***Maintain the identity of transactions:*** Journal helps to maintain the identity of each transaction by keeping a complete record of each transaction at one place on a permanent basis.

Advantages/Utilities of a Journal :

Although it is not necessary to maintain a journal and the transactions can be recorded directly in the ledger accounts, the recording of transactions in journal has the following advantages:

(a) ***Immediate Record:*** As the transactions are entered in the journal as and when they take place, the possibility of omission of a transaction in the books of accounts is reduced to a great extent.

(b) ***Easy location of transaction:*** As transactions in journal are recorded in chronological order, it is very easy to locate a particular transaction as and when required.

(c) ***Easy posting to ledger:*** The analysing each and every transaction into debit and credit aspects, the journal facilitates the easy posting into ledger.

(d) ***Facilitates cross checking:*** As the transactions are posted in the ledger from journal, it facilitates cross checking of ledger accounts in case a trial balance does not agree.

(e) ***Permanent Record:*** Since all the transactions are recorded at one place in the journal, the identity of each transaction is maintained on a permanent basis.

Journalising:

Journalising is the process of recording the dual aspects of the transactions in Journal. In other words, recording of entries in the 'journal' is known as journalising. Each and every entry recorded in the journal is followed by a short explanation called 'Narration'. The narration must be short, complete and clear.

Entry: The term "entry" means entering a trasaction in Journal or in the books of original entry.

Process of Journalising/ Steps involved in Journalising:

The process of journalising means the steps to be followed for ascertaining the account heads to be debited/credited for a particular transaction. There are three steps involved in the process of journalising a transaction.

Step 1: *Identification of 'Accounts' or 'Account heads' affected by the transaction.*

Step 2: *Classification of accounts or account heads.*

Step 3: *Application of Rules for Debit and Credit.*

These are explained below:

(i) Identification of accounts or 'account heads' affected by the transaction: Transaction are recorded in the books of account under different accounts or account heads. From the given transaction(s), Accounts or Account heads affected by the transactions will have to be identified correctly. Incorrect identification would lead to incorrect recording of transaction.

(ii) Classification of accounts or account heads: Next step is to classify the identified accounts or account heads affected by the transactions either according to English approach or Modern approach.

(iii) Application of Rules for Debit and Credit: Next step is to apply the rules for Debit and Credit to ascertain the account(s) or account head(s) to be Debited and Credited for recording the transaction.

Types of Journal Entries:

Entries recorded in the journal may be of two types:

(a) Simple Journal Entry; and

(b) Compound Journal Entry:

Simple Journal Entry:

When a transaction affects only one aspect/account in the debit and one aspect/account in the credit, it is known as Simple Journal Entry.

Compound Journal Entry:

When a transaction affects more than two accounts at a time – one or more accounts being debited/ one or more accounts being credited, such entry is known as Compound Journal Entry.

Explanation of some Simple journal entries:

Some transactions involving simple journal entry has been illustrated below. The reason for debiting / crediting a particular account has also been explained.

Illustration 18.

On 1-1-2021, Anil started business with cash ₹ 10,000.

Solution:

Explanation: Business transactions are to be recorded in the books of the business entity and, therefore, these are required to be analysed from the point of view of the business entity. Since the business is owned by Anil only, his name will not be recorded.

Step 1: *Identification of 'Accounts' or 'Account heads' affected:*

In this transaction, the business has received cash from the owner, Anil, to start and carry out its business activities. Such amount brought in by the owner

LEDGER :

The word 'Ledger' is derived from the Dutch word 'Ledger'. It means to 'Lie'. Ledger is a principal book of accounts of the enterprise. It is rightly called as the 'King of Books'. Ledger is a set of accounts. Ledger contains the various personal, real and nominal accounts in which all business transactions of the entity are recorded.

A ledger is to classify and summarize all the items appearing in Journal and other books of original entry under appropriate head/set of accounts so that at the end of the accounting period. In Simple sense it is the summary of all transactions in one place. Ledger is known as the destination of entries in journal. It prepares the business transactions in chronological way.

FORMAT OF LEDGER :

Name of the Account

Dr. Cr.

Date	PARTICULARS	J.F	Amount	Date	PARTICULARS	J.F	Amount

- Each ledger account is divided into two equal parts.

  Left Hand Side—Debit side (Dr)

  Right Hand Side— Credit side (Cr)

Features of Ledger :

The following are the features of ledgers :

1. **Posting of Entries:** Ledger is an account book that contains various accounts to which Various business transactions of a business enterprise are posted. It is master record of all the books of accounts.
2. **Book of Final Entry :** It is a book of final entry because the transactions that are first entered in the journal or special purpose Books are finally posted in the ledger.It is also called the Principal Book of Accounts..
3. **Records all transactions:** In the ledger all types of accounts relating to assets, liabilities, capital, revenue and expenses are maintained. It is a permanent record of business transactions classified into relevant accounts..
4. **Reference of Accounting:** It is the 'reference book of accounting system and is used to classify and summarize transactions to facilitate the preparation of financial statements.

5 **Two side Balancing:** The recording of transaction involves two sides, Debit and Credit. It helps in accumulating information at one place. The balance of cash can be ascertained any time from ledgers.

Importance /Objectives of Ledger Accounts :

The following are the importance of Ledger accounts :

1. **Permanent Record of all Transactions:** Ledger account keeps a permanent record of all financial transactions in a classified manner. It contains all the accounts in which all the business transactions of a business enterprise are classified. At the end of the accounting period, each account will contain the entire information of all the transactions relating to it also provide a clear picture of the accounts.
2. **It Provides the Business Information:** Ledger account shows detailed financial information of a business regarding debtors and creditors, assets, and incomes and expenses. Ledger provides detailed information about revenues and expenses at one place. While finding out business results the revenue and expenses are matched with each other.
3. **Useful for management:** The information given in different ledger accounts will help the management in preparing budgets. It also helps the management in keeping the check on the performance of business it is managing. It also results in getting the actual position of the business.
4. **Helps to Know the profit and loss of the Business concern:** The ledger is a book of accounts relating to all the financial transaction of the business. It contains the accounts of all expenses, losses, incomes and gains.
5. **Arithmetical Accuracy:** Ledger account is prepared under the double-entry system. it helps to provides a check on the arithmetical accuracy of the recording transactions in the books of accounts.

Process of Posting Journal Proper into Ledger :

The following are the process of posting journal into ledger :

1. Enter the date and year of the transaction in the date column then identify both the accounts 'debit' and credit of the journal entry.
2. Open separate accounts for each heads and Post the item in the first account name of the account to be credited in the particulars column and the amount in the amount column of the 'debit' side of the account.
3. Write the page number of the journal from which the item is taken to the ledger in Folio column and write the page number of the ledger from which account is written in L.F. column of the journal.
4. Now take the second Account and give the similar treatment. Write the date in the 'date' column, name of the account in the 'amount' column of the account on its credit side in the ledger.

5. Write page number of journal in the 'folio' column of the ledger and page number of the ledger in the 'LF' of column of the journal.

Examples of Posting :

Example 1:

On 1st August 2018, goods are sold for cash Rs. 8,000.

Solution :

Journal Entry

Cash A/c Dr. To Sales A/c (Being Goods sold for cash	8,0000 ...	... 8,000

LEDGER A/C :

Cash A/c (extract)

Dr. **Cr.**

Date	PARTICULARS	J.F	Rs.	Date	PARTICULARS	J.F	Rs.
2018 Aug.1	To sales A/c		8,000				

Sales A/c (extract)

Dr. **Cr.**

Date	PARTICULARS	J.F	Rs.	Date	PARTICULARS	J.F	Rs.
2018				Aug.1	By Cash A/c		8,000

Example 2: Compound Journal Entry.

Received Rs.19500 in full settlement of a debt of Rs 4500 from Rishi on Aug 8, 2018.

Solution:

Steps for Balancing Ledger Account :

Ledger accounts may be balanced as and when it is required. The balances of various accounts are ascertained as under :

1. Make the total of both sides of an account.
2. Write down the higher amount on the side obtained e.g. if the total of the debit side is 50,000 and the credit side is 60,000 , the amount Rs. 50,000 is first inserted in the total on the debit side.
3. Write down the same total on the other side of the account i.e. the total of Rs. 60,000 is written against the total on the credit side also.
4. Find out the difference between the two sides of the account. In this example debit side is more than credit side; therefore, there is a debit balance of Rs. 10,000 or vice versa.
5. This debit balance of Rs. 10,000 is to be shown as "By Balance c/d" in the account on the credit side.
6. Finally, the amount of the closing balance should be brought down as the opening balance at the beginning of the next day.

Need For Balancing Ledger Account :

The following are the need for balancing ledger accounts :

1. It provides arithmetical accuracy in the books of accounts.
2. It helps in preparation of Trail balance.
3. Helps in business decision in making Trading and profit and Loss Accounts.
4. Reduces duplication of transactions and find the effects of one transaction under various heads.
5. Balancing helps in knowing the closing balance under various heads.

Journal vs Ledger :

Basis of Difference	JOURNAL	LEDGER
1. Account	Journal is a subsidiary book of account. It is the storehouse for recording transactions.	Ledger is the permanent and final book of accounts. It is termed as the means of classified transactions.
Posting of Transactions	In the journal business transactions are recorded as and when they occur i.e. date-wise.	posting from the journal is done periodically, may be weekly, fortnightly as per the convenience of the business

Nature of Transactions	Transactions are recorded in a journal without considering their nature of classification.	Transactions are recorded in the ledger in classified form under respective heads of accounts.
Explanation	Journal needs Explanation after each transactions	Ledger doesn't need Explaination
Format	Journal have Five columns	Ledger has T Format
Order	Journal is recorded in Chronological manner	Ledger is recorded in nature of accounts.

Balancing of different types of Accounts :

Balancing is done weekly, monthly, quarterly, biannually or annually, depending on the requirements of the business concern.

- **Asset Account :** These types of ledger accounts are balanced and there is always a debit balance.
- **Liabilities Account :** These types of ledger accounts are balanced and there is always a Credit balance.
- **Capital Account :** These types of ledger accounts are balanced and there is always a Credit balance.
- **Revenue and Expense Account :** These Accounts are not balanced but are simply totaled up. The debit total of Expense/Loss will show the expense/Loss. In the same manner, credit total of Revenue/ Income will show increase in income.
- **Personal Account :** A debit balance of this account indicate that the person concerned is a debtor of the business concern and a credit balance indicates that he is a creditor of the business concern.
- **Real Accounts :** Real accounts are generally balanced at the end of the accounting year when final accounts are prepared and always show debit balances.
- **Nominal Account :** The Account is not balanced they are to be closed by transferring balance. It is transferred to Trading and profit and Loss Account.

Illustration 1 :

Journalise the following transactions and post them in the ledger :

2018

August 1	Commenced business with cash Rs. 90000
August 3	Paid Cash into bank Rs. 50000
August 5	purchased furniture for cash Rs. 25000

August 8	purchased goods and paid by cheque Rs. 30000
August 8	Paid for Transportation Rs. 500
August 14	Purchased Goods from Rishi Rs. 25000
August 18	Cash Sales of Goods Rs. 20000
August 20	Sold Goods to Rinki on credit Rs. 40000
August 25	Paid cash to Rishi in full settlement Rs. 24000
August 28	Cash received from Sandip Rs. 60000
August 31	Paid Rent for the December Rs. 5000
August 31	Withdrew from bank for personal use Rs. 9000.

DATE	PARTICULARS	LF	DEBIT [RS]	CREDIT [RS]
	Cash A/c Dr. To Capital A/c (Being Commenced business with cash)		90,000	90,000
	Bank A/c Dr To cash A/c (Being Cash paid in the Bank)		50,000	50,000
	Furniture A/c Dr To Cash A/c (Being Purchased furniture for cash)		25,000	25,000
	Purchases A/c Dr 15000 To Bank A/c 15,000 (Being Purchased goods and paid by cheque)		30,000	30,000
	Carriage A/c Dr To Cash A/c (Being Cash paid for carriage charges)		500	500
	Purchases A/c Dr To Rishi (Being Goods purchased on credit)		25,000	25,000
	Cash A/c Dr To Sales A/c Being (Goods sold for cash)		20,000	20,000

	Rinki Dr To Sales A/c (Being Goods sold to Rinki)		40,000	40,000
	Rishi Dr To Cash A/c To Discount A/c (Being Cash paid to Rishi a discount allowed by them)		25,000	24,000 1,000
	Cash A/c Dr To Sandip (Being Cash received)		60,000	60,000
	Rent A/c Dr To Cash A/c (Being Cash paid for rent)		5,000	5,000
	Drawings A/c Dr To Bank A/c (Being Cash withdrawn from bank for domestic use)		9,000	9,000
		TOTAL	**3,84,000**	**3,84,000**

Dr. **Cash A/c** **Cr.**

Date	PARTICULARS	L.F	Amount	Date	PARTICULARS	L.F	Rs.
	To Capital A/c " Sales		90,000 20,000		By Bank		50,000

Chapter 11 | Trial Balance & Error in Accounting

Trial balance is not an account, it's a statement. It is a list of balance of the entire ledger accounts and cash book. It is a working paper prepared any time during an accounting year. It serves as an instrument for verification and testing. A Trial Balance is a two-column schedule listing the titles and balances of all the accounts in the order in which they appear in the ledger. It proves arithmetical accuracy of posting entries. The calculation of trial balance is prove to be right only when total of the two columns are if equal i.e debit side is equal to credit.

In simple sense, a trial Balance may thus be defined as a statement of debit and credit totals or balances extracted from the various accounts in the ledger books with a view to test the arithmetical accuracy of the books.

Characteristic/ Features of Trial Balance :

The following are the characteristics of Trial Balance :

1. It is prepared on a specific date.
2. Trial Balance includes all the ledger balances and total of ledger accounts.
3. The total of debit and credit must be equal.
4. It is not a part of double entry nor is it shown in the books of accounts.
5. The closing balance of stock is not shown in trial balance.
6. Trading, Profit and Loss account is prepared on the basis of trial balance only.
7. Trial balance is not an account, it's a statement.

Objectives and Advantages of Trial Balance :

The following are the objectives and advantages of trial balance :

1. **Arithmetical Accuracy of Books of Accounts:** Every business transaction has two aspects, debit and credit. Trial balance is a proof to calculate the arithmetical accuracy of the ledger in the books of accounts.
2. **Preparing Financial Statements:** Trial balance helps the business enterprise to prepare a true and fair trading, profit and loss account and balance sheet. It is the basis on which the final accounts are prepared.
3. **Comparing the difference:** Trial Balance helps to compare the differences in summarized results of the transactions. This also facilitates in taking managerial decision making.

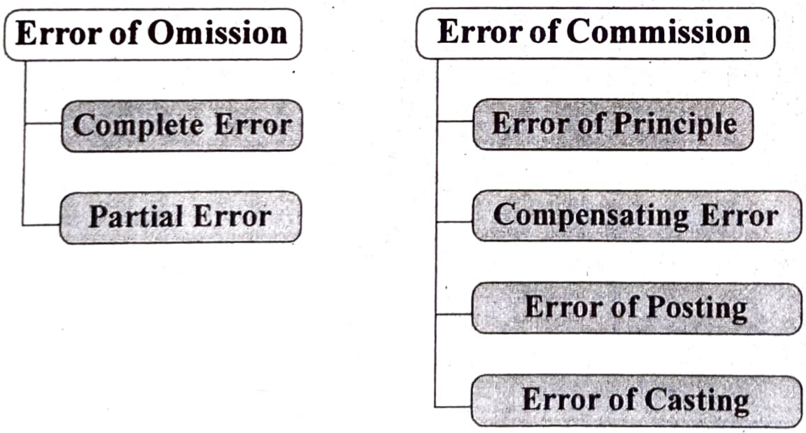
4. **Locating the errors in ledger:** Trail Balance helps in totaling of the two columns of the balance, if there is any difference it indicates that there is some mistake in the ledger accounts and helps in out the errors.
5. **Making necessary adjustments:** Trial Balance helps Trial balance helps in identifying the items requiring adjustments in preparing the financial statements. Trial Balance is generally prepared at the end of the year. It can be prepared anytime during an accounting year.
6. **Supply of all ledger information at one place:** Balances of all the trial balance are shown in one place which helps in getting information about all the summarized transaction and their balance in the business.

Types of Errors in Accounting :

Errors are unintentional misstatements or omission of amount or disclosures in financial statements. It includes mistakes in gathering accounting data which arise from financial statements. In simple sense, Accounting errors are the mistakes committed in bookkeeping and accounting. The mistake may be one relating to routine or one relating to principle. They may occur in entering the transactions in the journal or subsidiary books or they may creep at the time of posting into the ledger.

Classification of Errors :

The following are the classification of errors:



- **Complete Error :** When a transaction is not recorded by mistake in the books of accounts, it is called an error of omission. Errors of Omissions are errors resulting from the complete failure to enter a transaction in the books of accounts. Complete Error means the particular has not been entered in the journal or in the books of original
- **Partial Error:** Partial Omission may happen in relation to any subsidiary book. Here the transaction is entered in the subsidiary book but not posted to the ledger. If a transaction has been journalized or recorded in a subsidiary book but has not been posted in both the ledger accounts.

How to prepare a trial balance?

You can prepare trial balances either manually or by using an accounting system on a computer. While preparing a trial balance for any business, take the following steps:

1. Balance each ledger account

Businesses record their transactions as journal entries at first, and then make the entries in the respective ledger accounts. Then, they calculate the closing balances of each ledger account during the accounting period. Common ledger accounts include inventory, utilities, loans, rent and wages. The closing balances of the ledger accounts go into the trial balance sheet. To ensure there are no errors, determine the closing balances of all accounts you have on your ledger before preparing a trial balance. The balance is the difference between the total credits and the total debits of an account

2. Prepare the trial balance worksheet

The next step is to prepare the trial balance worksheet by creating three separate columns. One column contains the names of each ledger account and the other two columns contain the debit and credit balances of each account. Adding account numbers and other details is optional.

3. Fill out the worksheet

Fill in the names of each account and each ledger account's total debits or credits for the accounting period. Make sure you enter the amounts in the appropriate column. Input the debit transactions in the debit column and credit transactions in the credit column.

4. Add the values in each column

After filling out each column, you can add up the values in each column to find the total of the columns. If your company's ledgers are correct, the totals of the credit and debit columns are going to be equal. This is when you can identify if there are any errors in the entries.

5. Close the trial balance

You can close the trial balance worksheet if your credit and debit columns are equal. If they are not equal to one another, it is necessary to find the error in your ledger. If you are aware of the common errors that can cause unequal credit and debit columns, it can become easier to locate and rectify them. You can only close the account after rectifying all errors.