TOMA
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Book-Keeping and Accounting

Introduction

Book-keeping and Accounting is the process of identifying, measuring, recording, and communicating economic information about an organization or other entity, in order to permit informed judgments by users of the information. Book-keeping encompasses the record-keeping aspect of accounting and therefore provides much of the data in the preparation of financial statements and other financial information.

Personal record keeping often uses a simple single-entry system, in which amounts are usually recorded in column form. Record keeping of organizations, however, is based on a double-entry system, whereby each transaction is recorded on the basis of its dual impact on the organization's financial position or operating results or both. Information relating to the financial position of an enterprise is presented on a balance sheet, while disclosures about operating results are displayed on an income statement. Information relating to an organization's liquidity—namely, how it obtains and spends cash—is shown on a statement of cash flows. These three financial statements provide information about past performance, which in turn becomes a basis for readers to try to project what might happen in the future.

Short History of Accounting

Accounting was born before writing or numbers existed, some 10,000 years ago, in the area known as Mesopotamia, later Persia, and today the countries of Iran and Iraq. This area contains the Tigris Euphrates river valley, a large fertile area 10,000 years ago with a large thriving population and active trading between towns and cities up and down the two rivers.

At that time, merchants faced many of the same problems businesses face today. They had to ship their merchandise up and down the rivers, and that meant trusting a boatman with their goods. Unfortunately, not all boatmen were honest, and disagreements often arose about how much was shipped versus what was received at the other end. It is hard for us today to imagine a world without writing and numbers. Try to imagine yourself in their position ... what would you do?

To deal with the problem, merchants came up with an ingenious plan. They made small clay tokens, in various shapes and with various markings, to indicate different products. One would mean a basket of grain, another would mean a pot of oil, etc. They had over 200 such tokens to indicate a large variety of common goods, including food, leather, clothing, utensils, tools, jewelry, etc.

Before shipping their goods, a merchant would take one token for each item in the shipment, and encase the tokens in a ball of clay, called a "bollae" (pronounced "bowl-eye") - meaning ball. The ball would be dried in the sun, given to the boatman, and then broken by the buyer on the other end of the transaction. The buyer would match the tokens with the items in the shipment, to verify that everything sent was accounted for.

systems. It was important 10,000 years ago and is just as important [illegible] are merchants doing the same thing as their counterparts 10 millennia ago - today they get a bill of lading - a listing of the merchandise entrusted to a shipper.

Book-keeping and record-keeping methods were created in response to the development of trade and commerce, are preserved from ancient and medieval sources. Double-entry bookkeeping began in the commercial city-states of medieval Italy and was well developed by the time of the earliest preserved double-entry books, from 1340 in Genoa.

Luca Pacioli (pot-chee-O-lee) set down in writing for the first time a description of the double-entry system of accounting, which we still use today in much the same form. Although he didn't actually invent the system he is called "the father of accounting" for his contributions and for documenting the system in his fifth book on mathematics *Summa de Arithmetica, Geometria, Proportioni et Proportionalita (Everything About Arithmetic, Geometry and Proportion)*. Written as a digest and guide to existing mathematical knowledge, bookkeeping was only one of five topics covered. The Summa's 36 short chapters on bookkeeping, entitled *De Computis et Scripturis (Of Reckonings and Writings)* were added "in order that the subjects of the most gracious Duke of Urbino may have complete instructions in the conduct of business," and to "give the trader without delay information as to his assets and liabilities" *(All quotes from the translation by J.B. Geijsbeek, Ancient Double Entry Bookkeeping: Lucas Pacioli's Treatise, 1914)*..

Luca Pacioli was a remarkable man. He was one of the best mathematicians of his time, and was a close friend of Leonardo DaVinci. They collaborated on many projects. Pacioli helped DaVinci lay out his painting, *The Last Supper*, with mathematical precision. And Leonardo illustrated Luca's books on mathematics and accounting. History is full of instances of collaboration between these two great thinkers and Renaissance men

Modern accounting follows the same principles set down by Luca Pacioli over 500 years ago. However, today it is a highly organized profession, with a complex set of rules for the fair disclosure and presentation of information in financial statements. Every day trillions of dollars in transactions are recorded by business, government and financial institutions world-wide. They all follow the same general set of rules.

The Industrial Revolution of the mid-1700s created a need for accounting techniques that would be adequate to handle mechanization, factory-manufacturing operations, and the mass production of goods and services. With the emergence in the mid-19th century of large, publicly owned business corporations, owned by absentee stockholders and administered by professional managers, the role of accounting was further redefined

...ng in the mid-20th century, machines—particularly computers—performed many of the bookkeeping functions that are vital to accounting systems. The widespread use of computers broadened the scope of bookkeeping, and the term *data processing* now frequently encompasses bookkeeping.

Definition of Accounting

Accounting is a professional service activity that identifies, measures, records, and communicates economic information about an enterprise such as a business, a health care organization, or a governmental unit. It is a language of financial activities of any organization and is used to communicate financial and other information to people, organization, governments, and some technical information processing and storage devices.

Different people and organizations define accounting from different point of views. According to American Institute of Certified Chartered Public Accountant (AICPA),"Accounting is a discipline which provides financial and other information essential to the efficient conduct and evaluation of the activities of any organization."

American Accounting Association (AAA) defines Accounting as - "the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by the users of the information."

In effect, 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 results thereof.

Bookkeeping and Accounting

The term book-keeping and accounting are often used synonymously, because the distinction between the two is to some extent arbitrary. In fact, book-keeping is complementary to the Accounting process, where book-keeping is the systematic recording of financial and economic transactions, and accounting is the analysis and interpretation of book-keeping records.

Types of Accounting

Management Accounting

- Cost Accounting
- Responsibility Accounting
- Human Resource Accounting
- Social Accounting

Financial Accounting

Users of Accounting Information

The information that a user needs depends upon the kinds of decisions the user makes. The difference in the decision divide the users of financial information into two broad groups i) Internal users and ii) External users. **Internal User** is the Management while **External Users** include Owners, Lenders, Suppliers, Investors and Creditors, Employees, Customers, Financial analysts and advisors, Brokers and underwriters, Stock exchange, Lawyers, Economists, Taxing and regulating authorities, Financial press and reporting agencies, Labor unions and Trade Associations, Business researchers, Teachers and student and Public in general.

Characteristics of Accounting

The characteristics of Accounting are as follows

1. Accounting is a social science.
2. Accounting is an art & science.
3. Accounting is a system of keeping accounts of transactions.
4. Transactions are the basic input to accounting system and are measured in terms of money or money's worth.
5. Accounting discloses operational results and exhibits financial position of an organization.
6. It follows dual aspects of every transaction.
7. It is a well established discipline and self-sufficient.
8. Accounting is an important tool to management as well as to external parties for collecting and providing necessary information to effective planning and control.

Functions of Accounting

The functions of Accounting are as follows:

1) Historical functions

a) Recording of financial transactions

b) Classifying and summarizing events

c) Finding of results.

d) Analysis of financial data.

e) Communicating the financial information

2) Managerial functions

a) Control of financial policy and formulation of planning

b) Preparation of budgets.

c) Cost control.

d) Evaluation of workers performance

e) Prevention of errors and frauds.

Accounting Profession

What would you do if you join the accounting profession? You probably would work in one of three major fields, i) Public Accounting, ii) Private accounting and iii) Not-for-Profit accounting.

...onship of Accounting with Other Subjects

1) Accounting and Management.
2) Accounting and Economics.
3) Accounting and Mathematics.
4) Accounting and Computer Science
5) Accounting and Statistics.
6) Accounting and Law.
7) Accounting and Political Science.
8) Accounting and Engineering

Limitations of Accounting:

The Limitations of Accounting are as follows.

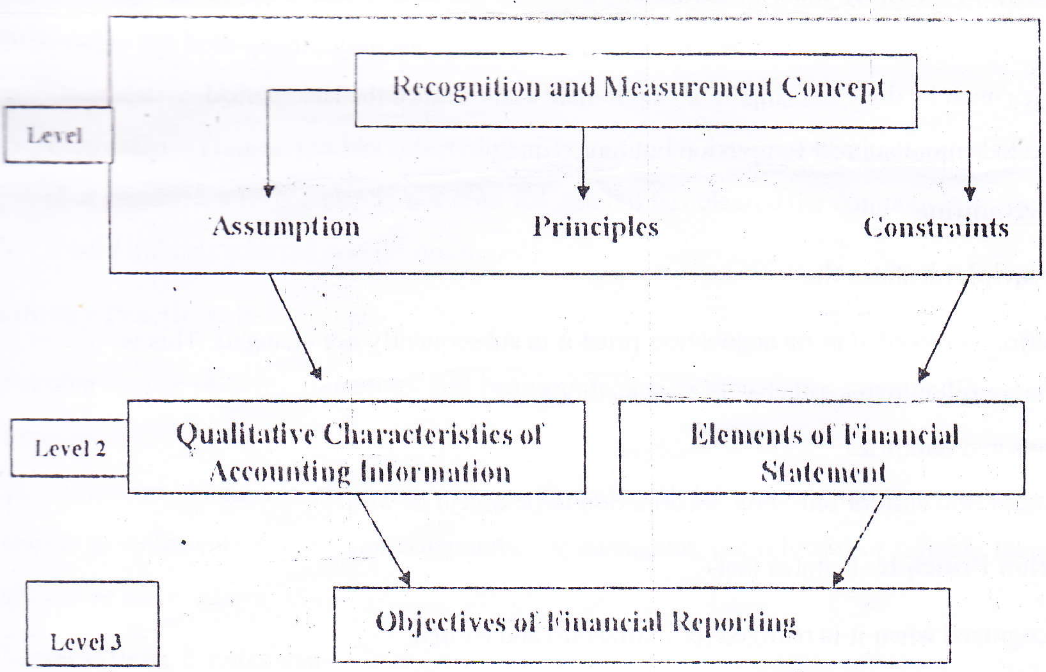
1) Recording of monetary items
2) Money value.
3) Recommendation of alternative methods.
4) Limitation of accounting principles.
5) Recording of past events.
6) Allocation problem.
7) Form over substance.

Generally Accepted Accounting Principles (GAAP)

Generally Accepted Accounting Principles (GAAP)

Generally Accepted Accounting Principles (GAAP) may be descried as broad rules adopted by the accounting profession as guides in measuring, recording, and reporting the financial affairs and activities of a business. They consist of a number of concepts, principles and procedure. Every business enterprise prepares its financial statements in accordance with the GAAP. GAAP are some accounting rules and regulations, which are to follow in preparing financial statements by the preparers of an enterprise. These rules and regulations constitute *conceptual framework of accounting* altogether. A conceptual framework is like a constitution. It is "a coherent system of interrelated objectives and fundamentals that can lead to consistent standard and that prescribes the nature, function, and limits of financial accounting and financial statements." In other words, we can state that conceptual framework is like a boundary. The preparers and users of accounting information are permitted to work within this boundary and they are not allowed to encroach this rules and regulations.

An Overview of Conceptual Framework of Accounting:



Basic Assumptions in Accounting

a) Economic Entity/Separate Entity Assumption: It states that-

- The economic entity can be identified with a particular unit of accountability.
- The business is separate and distinct from its owners. No commingling of assets and other financial elements.
- Departments or divisions of an entity may be considered separate entities.
- Accounting assumption not necessarily a legal one

b) Going Concern Assumption: It states that-

- That the business will be in business tomorrow.
- Implies accrual, historical accounting should be followed.
- Liquidation accounting is not followed unless indicated.

c) Monetary Unit: It states that-

- Money is the common unit of measure of economic transactions.
- Use of a monetary unit is more relevant, simple, available, understandable and useful
- The dollar is assumed to remain relatively stable in value.

d) Periodicity (Time Period) Assumption: It states that-

- Economic activity of an entity must be artificially divided into time periods for reporting purposes.
- Adjusting entries must be done to bring books up to date at the end of the time period.
- Shorter time periods more subject to revision but more timely

Basic Principles in Accounting

a) Historical Cost Principle: It states that-

- Once a transaction is recorded at its acquisition price it is subsequently not changed. This is deemed to be more reliable than other valuation methods.
- Applies to assets and liabilities.
- Prepares and users find current fair value information to be useful as well.

b) Revenue Recognition Principle: It states that-

- Revenue is recognized when it is realized (or realizable) and earned.
- Revenue normally recognized at time of sale, with exceptions.

...ching Principle: It states that-

- "Let expenses follow revenues"
- Match (record) expenses to the revenues, which they helped generate.
- Match revenues and expenses to the time period benefited.

d) Full Disclosure Principle: It states that-

- To report what a reasonable person would need to know to make an informed decision.
- Disclosure may be achieved within the body of the financial statements, the notes to those statements, or as supplementary information
- Disclosure is not a substitute for proper accounting!

Constraints or Limitations of Accounting

a) Cost-Benefit Relationship: It states that-

- The cost of information to be provided should not outweigh the benefit derived.
- Costs and benefits are not always derivable, obvious or quantifiable.
- Sound judgment must be used.

b) Materiality: It states that-

- Relates to an item's importance to a firm's overall financial operations.
- An item must make a difference to be material and be disclosed.
- Materiality has both quantitative and qualitative characteristics.
  - Quantitative--Amount must be significant to be separately disclosed.
  - Qualitative--Transaction has selected characteristics that require close attention, disclosure. (For example, a forged check of a minimal amount has cleared the company's account. This would indicate internal control problems!)

c) Industry Practices: It states that-

- Peculiar nature of some industries and business concerns sometimes requires departure from basic theory.
- The financial statements shall not mislead a reader. If following "pure" accounting theory results in statements that are not comparable or consistent, not relevant or reliable then theory should be adjusted.

d) Conservatism: It states that-

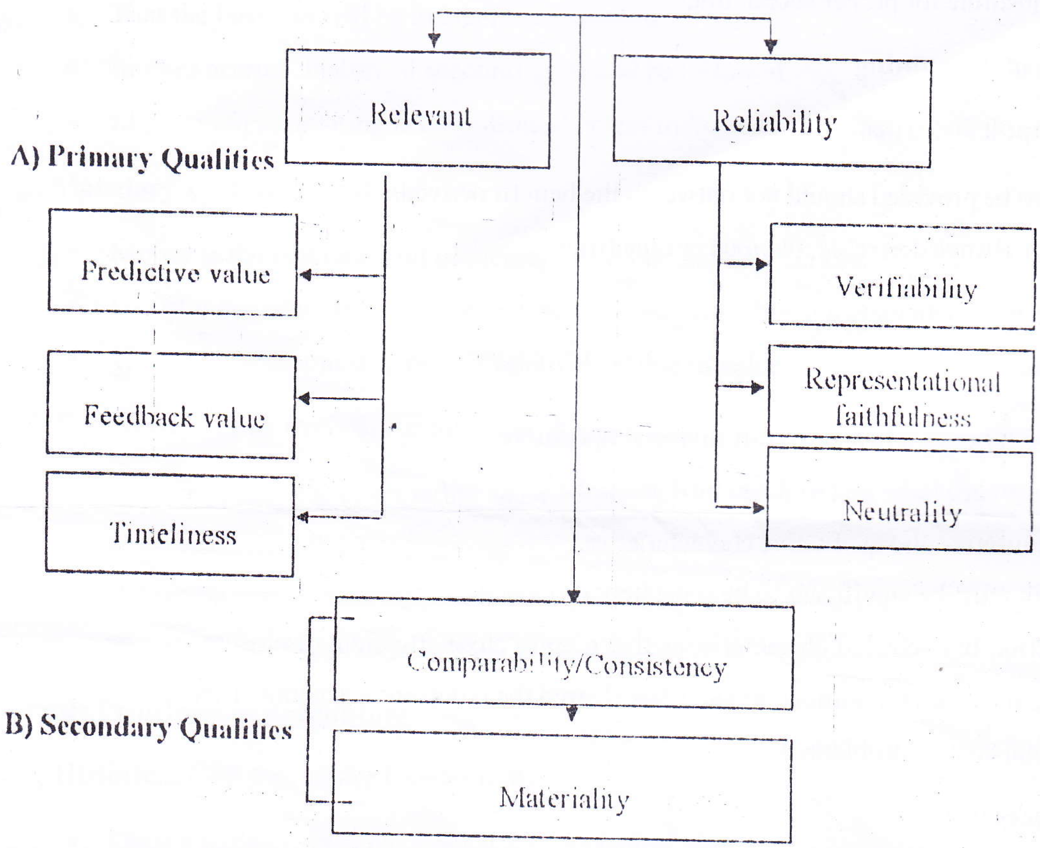
- If there is a range of equally acceptable values, select the alternative that will be least likely to overstate assets or understate liabilities.

Qualitative Characteristics of Accounting Information

Qualitative Characteristics of Accounting Information are those that help distinguish better (more useful) information from inferior (less useful) information. The understandability of accounting information depends on the following points:

- There must be a connection between users of information and the decisions they make.
- Users must be knowledgeable and information presented in a form, which users will understand and be able to employ appropriately.

Qualitative Characteristics of Accounting Information:



Primary Characteristics of Accounting Information

Primary Characteristics: Relevance and Reliability

Relevance: It states that the information should be-

- Capable of making a difference in a decision.
- Helpful in making predictions about ultimate outcomes of past, present and future events: 'Predictive value'.
- Helps users to confirm or correct prior expectations: 'feedback value'.

contains the element of 'timeliness'. The information is available in time to influence a decision.

Reliability: It states that -

- Information can be relied on to represent the true, underlying situation to those who do not have the time or ability to verify it.
- 'Verifiability' is the ability to arrive at the same conclusion, given the same information, by independent evaluators or users.
- 'Representational faithfulness' is an important element of reliability in that it means the information represents what really existed or happened.
- 'Neutrality' is the characteristic that the information presented is free from bias. The information presented does not favor one party's interests over another.

Secondary Characteristics of Accounting Information

Secondary Characteristics are: Comparability and Consistency

Comparability: It states that-

- Information is more useful if it lends itself to comparison with similar information about another enterprise.
- Information is measured and reported in a similar manner for different enterprises.
- This characteristic allows users to identify real differences between enterprises, not those due-to non-comparable accounting methods
- Allows for the allocation of resources to the areas of greatest benefit.

Consistency: It states that-

- This is achieved when an enterprise applies the same accounting principles in a similar manner from one period to the next.
- Accounting principles may be changed when it can be demonstrated the result would be preferable.

Basic Elements of Financial Statements

- **Assets:** Probable future economic events obtained or controlled by a particular entity as a result of past transactions or events.
- **Liabilities**: Probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.

- **Owner's Equity:** Residual interest in the assets of an entity that remains after deducting its liabilities.
- **Revenues:** Inflows or other enhancements of assets of an entity or settlement of its liabilities during a period from delivering or producing goods, rendering services, or other activities that constitute an entity's major, ongoing operations.
- **Expenses:** Outflows or other using up of assets or incurrence of liabilities during a period from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing, major or central operations.
- **Gains:** Increases in net equity from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity during a period except those that result from revenues or investments by owners.
- **Losses:** Decreases in equity from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity during a period except those that result from expenses or distributions to owners.

Elements of Financial Statements

→ Income Statement
- Revenues
- Expenses
- Gains
- Loss

→ Balance Sheet
- Assets
- Liabilities
- Owner's Equity

Objective of Financial Reporting

Basic Objective of Financial Reporting is to provide information that is:

- Useful to those making investment and credit decisions
- Directed at persons with a reasonable level of understanding of business and economic activities.
- Helpful to present and future investors, creditors in assessing future cash flows.
- About economic resources, the claims on those resources and changes in them.

The Accounting Cycle

Accounting Cycle

In the process of accounting information system, accounting activities rotate in a similar way or follows the same procedure in each year. The sequence or process or steps maintained or followed by the accounting activities is called '*Accounting Cycle*'.

Steps in Account Cycle

The following steps are followed in the accounting cycle.

1. Source document collection and recording in Journal.
2. Classified posting into 'General Ledger'
3. Proving periodic arithmetical accuracy into 'Trial Balance'.
4. Adjusting General Ledger Accounts and preparation of Work Sheet.
5. Preparation of Final Financial Statement.
6. Analysis and interpretation of financial statements.

In every transaction the above-mentioned steps are followed. First the transactions are recorded in the Journal and classified them and posting into the ledger account. The third step is to check the arithmetical accuracy of the entries made through Trial Balance. In the fourth stage, adjusting entries are incorporated with the Trial Balance accounts and worksheet is prepared. And finally, various financial statements such as Income Statement, Cash Flow Statement, Retained Earnings Statements, and Balance Sheet etc. are prepared and analyzed. This entire process is called '*Accounting cycle*'.

Step 1: Identification and recording of transaction and other events into Journal.

The first step in the Accounting cycle is to record the transactions in the books of accounts. This process is called 'to record' into the journals books. The books are also called 'Book of original Entry' as transactions occur they are recorded first in the journal. Simply Journal can be defined as recordings of transactions in a set of books in a systematic way according to days. Before starting to record the transactions into the journal book, we will discuss about the '**Accounts.**' An account is simply a place where similar transactions and events, which occur during a particular period, are summarized and accumulated.

What is a Journal Entry in Accounting?

Journal entry is an entry to the journal. Journal is a record that keeps accounting transactions in chronological order, i.e. as they occur. Ledger is a record that keeps accounting transactions by accounts. Account is a unit to record and summarize accounting transactions. All accounting transactions are recorded through journal entries that show account names, amounts, and whether those accounts are recorded in debit or credit side of accounts.

Double-Entry Accounting

To record transactions in the books of accounts, accounting system uses double-entry accounting. Double-entry implies that transactions are always recorded using two sides, debit and credit. Debit refers to the left-hand side and credit refers to the right-hand side of the journal entry or account. The sum of debit side amounts should equal to the sum of credit side amounts. A journal entry is called "balanced" when the sum of debit side amounts equals to the sum of credit side amounts.

Classification of Accounts

Various types of accounts maintained in an accounting system can be grouped into three classes as follows:

1. **Personal Account:** Any person or organizations. Example: Mr. X's A/C, Bexim Co. Ltd. A/C.
2. **Real A/C:** any assets i.e. cash, bank, machinery, motorcar etc.
3. **Nominal A/C:** Nominal accounts are of two types:

   (a) Expense A/C: Any expenses i.e. salary paid, commission paid etc.

   (b) Income A/C: Any earnings or revenues i.e. interest earned, commission earned etc.

Debit & Credit:

The term 'Debit' & 'Credit' gives an accounting explanation of the mathematical changes in the individual accounts. There must be always equal increases and decreases for each and every transaction so that equality of the two sides of the accounting equation is maintained.

Golden Rules of Journal Entry:

1. In case of Personal Account: Receiver-------Dr

Donor-------------Cr

Example: Mr. Hasan gives Tk 100 to Mr Jaman. Here Mr. Hasan and Mr. Jaman both are personal A/C and Jaman is the receiver. So Jaman's A/C will be debited. On the other hand Hasan is the donor and his A/C will be credited.

Journal entry:

Mr. Jaman's A/C Dr 100

Mr. Hasan's A/C Cr 100

2. In case of Real Account: Asset increases------Dr

Asset decreases-------Cr

Example: Equipment purchased at a cost of Tk 1,00,000. Equipment is an asset for the organization. So it will be debited. On the other hand cash is also an asset for the organization. It will be decreased and will be credited.

...al entry:

Equipment A/C Dr 1,00,000

Cash A/C Cr 1,00,000

3. Nominal Account:

(a) In case of Expense: **Expenses increases----Dr**

Expenses decreases ------Cr

(b) In case of Income or Revenue: **Income decreases-----Dr**

Income increases-------Cr

Example 1: Salaries paid Tk.10,000. Salaries are an expense for the organization and it will be debited. On the other hand salary is been paid in cash. Cash is an asset and it decreases so will be credited.

Journal entry would be:

Salaries A/C Dr. 10,000

Cash A/C Cr. 10,000

Example 2: Interest income Tk.5000. Interest is an income for the organization and will be credited. On the other hand income is earned in cash. So it will be debited.

Journal entry:

Cash A/C Dr. 5000

Interest income Cr. 5000

4. In case of Capital, Reserves, and Liabilities Accounts: **Any decreases -----Dr**

Any increase -----Cr

Example: Mr. Hasan invested tk.100, 000 in the business. Here cash is increased and on the other hand Capital is increased (*Anything given by the owner's to the business is the considered as the Capital of the business*). So it will be credited.

Journal entry:

Cash A/C Dr 100, 000

Capital A/C Cr 100, 000

The Specimen Form of a General Journal:

Date	Particular	L.F.	Debit(Tk.)	Credit(Tk.)

Exercise No. 1

Ahmed Nabi completed the following transactions during August of this current year:

- Aug. 1: Begin a Public Accounting practice by investing Tk 1500 in cash and office equipment having a fair value of Tk 1200.

Aug. 1: Purchased office supplies Tk. 75 and office equipment Tk 250, from Rawsan Brothers on credit.

Aug. 1: Paid three months rent in advance for office space, Tk 900.

Aug. 5: Completed accounting work for a client and collected Tk 60 cash from there.

Aug. 11: Paid Rawsan Brothers Tk 125 of the amount owed for the items purchased on August 1.

Aug. 12: Paid the premium on insurance policy, Tk 375.

Aug. 15: Completed accounting work for Niloy Co. on credit, Tk 350.

Aug. 20: Ahmed Nabi withdrew Tk100 from the firm for his personal expenses.

Aug. 23: Completed Accounting work for Danner Company on credit, Tk 200.

Aug. 25: Received Tk 350 from Niloy Co. for the work completed on August 15.

Aug. 31: Paid the utility bills Tk 35.

***Required:* Prepare journal entries for the above transactions.**

Exercise No. 2

Listed below are the January transactions for Big Ben Clock Store, owned by Daud Hyder:

Jan. 1 Invested Tk.70,000 cash and equipment with a book value of Tk.28,000.

3 Paid first month's rent, Tk.7,000

4 Purchases for cash Tk. 30000

5 Cash sales, Tk.14,000.

7 Purchased supplies on account, Tk 3,250

8 Sold a clock on account, Tk 9,000

9 Paid wages, Tk 2,750.

11 Purchased equipment, Tk.5,500 cash

12 Cash sales, Tk.27,000.

15 Purchased equipment on account, Tk 4,000

17 Paid for advertising, Tk.3,250

19 Daud Hyder withdrew Tk.5,000 from the business

21 Collection from customers Tk 5,000

23 Paid Tk.4,000 on account from Jan 15 transaction

28 Paid wages, Tk 3,250.

29 Sold clock on account, Tk 3,450

30 Purchased merchandise for resale on account Tk 32,000.

Requirement: Journalize the above transactions into Journal.

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Recording Transactions into the Journal

Illustration 1

Journalize the following transactions of Mr. Belal's business:

Jan.	4	Mr. Belal invested Tk.50,000 in his law practice
	4	Bought supplies for cash, Tk.3,000
	4	Bought equipment from Aotobi Furniture Company on Account, Tk.25,000
	15	Received Tk.20,000 in fess earned during the month
	30	Paid office rent for January, Tk.5,000
	30	Paid salary for part-time help, Tk.2,000
	31	Paid Tk.10,000 to Aotobi Furniture Company, on account
	31	After taking an inventory, Mr. Belal found that he had used Tk.2,000 worth of supplies
	31	Withdrew Tk.3,000 for personal use

A/c payable
To, cash

supplies exp
To supplies

Solution to Illustration 1

General Journal

Date	Description	P.R.	Debit Tk.	Credit Tk.
19X3				
Jan. 4	Cash		50,000	
	Belal, Capital			50,000
	(Investment in law practice.)			
4	Supplies		3,000	
	Cash			3,000
	(Bought supplies in cash.)			
4	Equipment		25,000	
	Accounts Payable			25,000
	(Bought equipment from Aotobi.)			
15	Cash		20,000	
	Fees Income			20,000
	(Received payment for services)			
30	Rent Expense		5,000	
	Cash			5,000
	(Paid rent for the month of Jan.)			
30	Salaries Expense		2,000	
	Cash			2,000
	(Paid salaries for part-time help.)			
31	Accounts Payable		10,000	
	Cash			10,000
	(Payment on account to Aotobi.)			
31	Supplies Expense		2,000	
	Supplies			2,000
	(Supplies used during the month.)			
31	Belal, Drawings		3,000	
	Cash			3,000
	(Personal withdrawal.)			

Abraham started a business on 1st April, 2002 with Plant and Machinery Tk.40,000; Furniture Tk.10,000; Building Tk.50,000; and Cash Tk.80,000. Journalize the following transactions for the month of April:

2002			
April	1	Purchased goods for cash from Ronais	Tk.35,000
	4	Purchased goods from Nick	Tk.40,000
	7	Sold goods for cash	Tk.70,000
	12	Cash deposited into Bank	Tk.80,000
	14	Purchased Machinery for cash	Tk.10,000
	15	Sold goods to Jones	Tk.30,000
	16	Returned goods to Nick	Tk.2,000
	18	Paid to Nick by cheque	Tk.20,000
	20	Withdrew from Bank for personal use	Tk.10,000
	25	Received cheque from Jones and deposited into Bank	Tk.20,000
	25	Paid salary for the month of April	Tk.5,000
	30	Received Bank interest	Tk.400
	30	Purchased Stationery for cash	Tk.1,000

Solution to Illustration 2

General Journal

Date	Account Titles and Explanation	Ref.	Debit (Tk.)	Credit (Tk.)
2002				
April 1	Plant and Machinery		40,000	
	Furniture		10,000	
	Building		50,000	
	Cash		80,000	
	Abraham, Capital			1,80,000
	(Invested Plant and Machinery, Furniture, Building and Cash in business)			
1	Purchase		35,000	
	Cash			35,000
	(Goods purchased in cash)			
4	Purchase		40,000	
	Accounts Payable-Nick			40,000
	(Credit purchase of goods from Nick)			
7	Cash		70,000	
	Sales			70,000
	(Cash sales of goods)			

Date	Account Titles and Explanation	Ref.	Debit (Tk.)	Credit (Tk.)
12	Bank		80,000	
	Cash			80,000
	(Cash deposited into Bank)			
14	Plant & Machinery		10,000	
	Cash			10,000
	(Machinery purchased for cash)			
P 15	Accounts Receivable- Jones		30,000	
	Sales			30,000
	(Credit sales of goods to Jones)			
P 16	Accounts Payable- Nick		2,000	
	Return Outwards			2,000
	(Goods returned to Nick)			
P 18	Accounts Payable- Nick		20,000	
	Bank			20,000
	(Nick paid by cheque)			
20	Abraham, Drawings		10,000	
	Bank			10,000
	(Withdrew cash from bank for personal use)			
25	Bank		20,000	
	Accounts Receivable- Jones			20,000
	(Cheque received from Jones and paid into the bank)			
25	Salary		5,000	
	Cash			5,000
	(Paid Salary for the month of April)			
30	Bank		400	
	Interest Revenue			400
	(Bank interest credited by bank)			
30	Stationery		1,000	
	Cash			1,000
	(Stationery purchased in cash)			

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12 Cash sales, Tk.27,000.

15 Purchased equipment on account. Tk.4,000.

17 Paid for advertising. Tk.3,250

19 Daud Hyder withdrew Tk.5,000 from the business.

21 Collection from customers Tk. 5,000

23 Paid Tk.4,000 on account from Jan. 15 transaction.

28 Paid wages. Tk.3,250.

29 Sold clock on account, Tk.3,450.

30 Purchased merchandise for resale on account. Tk.32,000.

Journalize the above transactions in the books of Big Ben Clock Store.

Exercise No. 3

Journalize the following transactions of Mr. Belal's business for the month of January 2009:

Jan. 4 Mr. Belal invested Tk.50,000 in his law practice

4 Bought supplies for cash Tk.3,000

4 Bought equipment from Alway Furniture Company on Account Tk.25,000.

15 Received Tk.20,000 in fees earned during the month

30 Paid office rent for January Tk 5,000

30 Paid salary for part-time help Tk 2,000

31 Paid Tk.10,000 to Alway Furniture Company on account.

31 After taking an inventory Mr. Belal found that he had used Tk 2,000 worth of supplies.

31 Withdrew Tk 3,000 for personal use

073008

GENERAL LEDGER AND TRIAL BALANCE

Ledger is a book where individual accounts are maintained separately. It is the most important book of accounts, because it includes all the summaries of transactions. Therefore, it is called the 'principal book' of all the books of accounts. It forms a permanent record of the financial transactions of a firm.

The specimen form of a General Ledger is giver below:

Dr. **Accounts Name** **Cr.**

Date	Particulars	Jounal Folio	Amount (Tk)	Date	Particulars	Iounal Folio	Amount (Tk)

Exercise

Mr. Paul is a licensed architect. During the first month of operation of his business, the following events and transactions occurred.

April	1	Invested Tk.150,000 cash.
	1	Hired a secretary-receptionist at a salary of Tk.3,000 per week payable monthly.
	2	Paid office rent for the month, Tk.8,000.
	3	Purchased architectural supplies on account from Bulu Company, Tk.15,000.
	10	Completed blueprints on a carport and billed client Tk.9,000 for services.
	11	Received Tk.5,000 cash advance from Md. Rahim for the design of a new home.
	20	Received Tk.15,000 cash for services completed and delivered to Mr. Bhatia.
	30	Paid secretary-receptionist for the month, Tk.12,000.
	30	Paid Tk.6,000 to Bulu Company on account.

Instructions

(a) Journalize the transactions.

(b) Post to the ledger accounts.

(c) Prepare a trial balance on April 30, 1999.

Normal Balances of Accounts

- Accounts have normal balances on the side where the increases in such accounts are recorded.
- Asset accounts have normal balances on debit side.
- Expense accounts have normal balances on debit side.
- Liability accounts have normal balances on credit side.
- Equity accounts have normal balances on credit side.
- Revenue accounts have normal balances on credit side.
- On the financial statements, accounts are reported on the sides where they have normal balances.
- Liability accounts have normal balances on credit side.
- Equity accounts have normal balances on credit side.

Trial Balance

Under double entry system, for every debit entry there is a corresponding credit entry of the same amount. Consequently, the total amount of all the debit entries should be equal to the total of all credit entries. In order to verify, whether the two totals are equal, a statement is prepared periodically showing the debit items in one column and the credit items in another. This statement is called the "Trial Balance".

There are two methods of preparing a trial balance- (1) Trial Balance prepared with the gross totals of the debit and credit sides of each ledger account and (2) Trial Balance prepared with the balance of each account. When both gross amounts and balances of the accounts are shown in the trial balance it becomes a third method and it is called a mixed Trial Balance. In actual practice, the first and the third methods are used very rarely while the second method is used generally.

Errors cannot be detected by Trial Balance

Different classes of errors that may exist in spite of the agreement of the Trial Balance are discussed below:

(a) Errors of Omission: Such an error arises when any transaction is either wholly or partially unrecorded in the in the books. In the former case, the trial balance will not be affected, and thus the error will be more difficult to detect. Where only one aspect of a transaction is recorded, the omission will throw the Trial Balance out of agreement.

(b) Errors of Commission: Errors of commission arise when transactions are incorrectly recorded, either wholly or partially. In the former case the Trial Balance will not the trial balance out of agreement to that extent.

(c) ***Clerical Errors:*** A clerical error is a form of error of commission. It may consist of an incorrect posting, or a mistake in casting, or the transposition of figures, or posting to the wrong account. Unless the error affects the debit and credit equally, the incorrect posting and mistakes in casting will cause the trial balance to be out of the agreement. Posting to the wrong account but on correct side, however, will not affect the agreement of the Trial Balance.

(d) ***Errors of Principle:*** An error of principle arises by reason of a transaction being recorded in a fundamentally incorrect manner. Certain errors of principle may not affect the ultimate profit, but it may cause a revenue item being posted to wrong revenue account. Major errors of principle directly affect profit. They may be caused by treating a revenue item as an asset or liability, or vice versa. These errors will not throw the trial balance out of agreement.

(e) ***Compensating Errors:*** A compensating error is one, which is counter balanced by another error or errors of the same amount either in the same account or other accounts. Such error will not cause the Trial Balance to disagree.

Above discussion made it clear that a Trial Balance may agree in spite of the presence of some errors mentioned above. Hence an agreed Trial Balance cannot be regarded as a conclusive evidence of the correctness of the books of accounts, rather it may be regarded as a prima facie proof that the posting are arithmetically correct.

Rules Regarding Trial Balance

The following rules are followed in solving a Trial Balance-

1. All assets are recorded in the Debit side
2. All the expenses are recorded in the Debit side
3. All revenues are recorded in the Credit side
4. Capital, liabilities and Reserves are recorded in the Credit side

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Trial Balance

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4. Capital, liabilities and Reserves are recorded in the Credit side

Examples:

From the following balances of accounts prepare a Trial Balance as at 31st December 1991:

Particulars	Tk	Particulars	Tk
Opening Stock Dr	41,000	Bad Debts Dr	600
Purchases Dr	1,10,000	Sales Cr	1,80,000
Drawings Dr	18,000	Sundry Debtors Dr	14,000
Sales Return Dr	6,000	Fixed Assets Dr	35,000
Wages Dr	5,400	Creditors Cr	62,500
Salaries Dr	9,000	Cash Dr	8,200
Travelling Dr	950	General Expenses Dr	1,200
Rent, Rates and Taxes Dr	2,400	Advertisements Dr	900
Purchase Returns Cr	1,500	Capital Cr	8,750
Interest Paid Dr	1,200	Investments Dr	3,500
Discount Allowed Dr	800	Bank Overdraft Cr	5,000
Insurance Charges Dr	600	Commission Received Cr	1,000

On 31st December 1991 Closing Stock was valued at Tk 16,000.

Solution:

Trial Balance

as at 31 December, 1991

Accounts	L.F.	Debit (Tk)	Credit (Tk)
Opening Stock		41,000	
Purçhases		1,10,000	
Drawings		18,000	
Sales Returns		6,000	
Wages		5,400	
Salaries		9,000	
Traveling		950	
Rent, Rates and Taxes		2,400	
Purchase Returns			1,500
Interest Paid		1,200	
Discount Allowed		800	
Insurance Charges		600	
Bad Debts		600	
Sales			1,80,000

Sundry Debtors		14,000	
Fixed Assets		35,000	
Creditors			62,500
Cash		8,200	
General Expenses		1,200	
Advertisements		900	
Capital			8,750
Investments		3,500	
Bank Overdraft			5,000
Commission Received			1,000
Total		**2,58,750**	**2,58,750**

Note: Closing Stocks are not included in the Trial Balance

Problems 1:

From the following balances of accounts prepare a Trial Balance as at 31st July2000:

Accounts	**Tk**
Capital Cr	8,900
Drawings Dr	1,000
Stock (1.7.1999) Dr	3,700
Purchases Dr	23,125
Sales Cr	39,400
Motor Vehicles Dr	1,450
Cash in hand Dr	135
Sundry Creditors Cr	4,976
Sundry Debtors Dr	13,970
Bank Overdraft Cr	900
Wages and Salaries Dr	6,200
Lighting and Heating Dr	315
Equipment Dr	3,500
Carriage Outward ~~Dr~~ ~~Cr~~ Dr	231
Return Inwards Dr	205
Provision for Bad Debts Cr	425
Returns Outward Cr	316
Discount Allowed Dr	280
Discount Received Cr	315
Rent, Rates and Insurance Dr	1,121

inward - ~~Cr~~ Dr

inward Dr

❖ Answer: Total of the Debit and Credit are **Tk 55,232.**

Notes:

1. Stock (1.7.1999) is the Opening Stock
2. 'Provision for Bad Debts' is a liability
3. Discount Allowed is an expense Dr
4. Discount Received is a revenue Cr

Problem no.: 2

The accounts in the ledger of ***Nandan Park Inc.*** are listed in alphabetical order as follows. All accounts have normal balances. The balance of the cash account has been intentionally omitted.

Cr	Accounts Payable	Tk 18,750
Dr	Accounts Receivable	Tk 20,500
Cr	Capital Stock	Tk 50,000
Dr	Cash	?
Dr	Dividends (received)	Tk 20,000
Cr	Fees earned	Tk 3,15,000
Dr	Insurance Expense	Tk 5,000
Dr	Land	Tk 1,25,000
Dr	Miscellaneous Expense	Tk 9,900
Cr	Notes Payable	Tk 35,000
Dr	Prepaid Insurance	Tk 3150
Dr	Rent Expense	Tk 58,000
Cr	Retained Earnings	Tk 60,290
Dr	Supplies	Tk 4,100
Dr	Supplies Expense	Tk 5,900
Cr	Unearned Rent	Tk 6,000
Dr	Utilities Expense	Tk 41,500
Dr	Wages Expense	Tk1,75,000

Prepare a Trial balance, listing the accounts in their proper order and inserting the missing figure for cash.

কোন কিছু earn করার হলে ~~Debit~~ Credit

অগ্রিম সব কিছু Debit.

সকল প্রকার ঋণ Credit.