

Fundamentals of Accounting

A Report on the Day-to-Day Accounting and Final Accounts of a Clothing Retailer



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Introduction to the Business

About the Chosen Line of Business, the Industry and Aspects of Operations

We consider a newly established clothing retailer that caters to local public in a city. It is not a particularly high-end brand outlet store, but rather a mid-range seller catering to a sufficiently sized market, like we commonly observe in the busy markets of Mumbai.

The business operates by purchasing readymade clothes of different brands from their manufacturers in a variety of sizes and retailing these out of a physical store. Multiple brands are kept for sale to cater to a larger customer base on the basis of price points and affordability.

The industry is a particularly competitive one and pricing generally takes place on established Maximum Retail Prices (MRPs). However, quantity discounts are received and also offered and at times, old season stock is also sold on markdowns. General industry practice is that discounted “sale” periods are operated twice in the year, with the mid-season sale around June-August (monsoon sale) and an end-of-season sale around December-early February. Such retail businesses benefit from long-term contracts with brand manufacturers whose products they regularly stock and by entering into mutually beneficial agreements to promote certain brands and their new collections.

Nature of Transactions

The Transactions Undertaken in the Day-to-Day Operation of the Business

Introduction

Being a retail business, the primary activity of the business is procuring products in bulk and selling them to retail customers. The business will purchase stock in bulk and will receive trade/quantity discounts from its suppliers, as per agreements. However, sales will generally be on an MRP basis, since customers will mostly be retail buyers. Therefore, significant trade discounts are not expected to be offered. Moreover, as such most sales will be on cash basis with credit sales not being the regular form of sale.

This section only discusses the types of transactions (and their nature/type) that the business would enter into. The specific transactions for the year are discussed in the section that follows - “Transactions for the Year”.

Business Set-up

As with any new business, the owner first sets up the business by contributing capital in the form of cash or assets or a combination of both. This provides the initial funding to the business and establishes the owners rights over assets and profits by virtue of the contribution.

In this case too, the owner sets up the business by providing cash (in the form of a deposit into the business' bank account). This creates a capital liability and establishes the rights of owner with respect to a share of future profits. Conversely, subsequent withdrawals from the business by the owner will reduce the owner's capital accordingly.

First Investments

From the initial capital received, the business will first invest in a physical location out of which it will operate. It is generally observed that at least during the initial years, retailers find it more cost-effective to operate out of rented/leased premises. Such property will then be further developed to the business' needs such as adding furniture, temporary internal structures, lighting, air conditioning etc. Next, suppliers are identified and agreements with them are negotiated to help with ensuring long-term product availability and competitiveness. Further assets are acquired or developed as per the growth pattern of the business. Over time, the business may also invest in income generating assets from the surplus it generates.

Financing

At one point of time, the company's own funds will run out and there will be some time before the business regenerates money internally. During this time, the business will need external financing to scale operations and grow. This financing comes in the form of either debentures, bank loans etc.

Expenses

The business will incur operational expenses like purchases of inventory, rent for the premises, salary to employees, interest expense on funds borrowed, repairs and maintenance, etc. Depreciation is the relevant non-cash expense for the business.

Income Generation

The primary source of revenue for the business is the sale of the clothes that the business stocks. This will be the main operational revenue that will be recorded in the Trading Account. It is the income that will be accrued to the business due to the sales of the products. It will be affected by the returns that customers make. Most sales will be on MRP with occasional discounts.

Transactions for the Year

Identifying and Assessing the Transactions for the Financial Year

The business was commenced on 9th April 2021 with an initial capital of ₹ 25,00,000. This was deposited into the business' bank account.

A retail store was rented in the Andheri area of Mumbai at a monthly rent of ₹ 70,000. The rent for each month will be paid on the first day of the rental month. The rent agreement was

entered into on 10th April 2021 and the right to occupy premises started from 16th April 2021. The first rent was paid for the proportionate period of April 2021 (i.e. from 16th April 2021).

Negotiations were held with different clothes manufacturers to identify the brands that will be stocked in the showroom. Some of the brands include Van Heusen, Peter England and Louis Philippe. An order was placed with Van Heusen on 20th April 2021 for the following:

Shirts	100 shirts	x	39 size	
	30 shirts	x	40 size	
	30 shirts	x	42 size	
	20 shirts	x	44 size	
Total Amount				₹ 2,25,000

Trousers	30 trousers	x	30 size	
	60 trousers	x	32 size	
	50 trousers	x	34 size	
	40 trousers	x	36 size	
Total Amount				₹ 3,25,000

Prices do not vary according to size. The contract required an upfront payment of 50% of the purchase bill and allows a 2 month credit period for the balance amount. If the balance is paid within one month a further cash discount of 10% is offered on the outstanding amount. The carriage incurred to receive these products at the showroom was ₹ 5,000 and the products were received on 25th April 2021. The balance payment was made on 19th May 2021.

Items of stationery were ordered such as receipt/memo books, pens, notepads, letterheads etc. for day-to-day record keeping and business use. The expense amounted to ₹ 5,250 and was incurred and paid on 25th April 2021.

On 30th April 2021, 5 shirts and 2 trousers were sold at ₹ 7,000 and ₹ 4,000 respectively. Cash was received upfront. Sales have a return period of 14 days. None of the goods sold were returned.

On 1st May 2021, the some furniture was purchased to improve the shopping experience in the store. This amounted to ₹ 75,000 and was installed on the same day. The furniture is expected to last for 12 years and is expected to realise ₹ 3,000 in its final year. The business expects to depreciate the furniture @ 15% on written down value method. Some repairs were also done to turn a small space into a trial room (such as fixing a hook on the wall for hanging clothes, changing door knobs and adding a lock, etc.) which amounted to ₹ 5,750.

To help procure more sales, the business incurs some advertisement expenditure of ₹ 10,000 on 2nd May 2021. The expense is paid for immediately.

Retail businesses have sales transactions on a daily basis and recording each individually would be quite lengthy for the purpose of this report. Therefore, for the purpose of this report, we have aggregated sales per month. During the month of May, 100 shirts and 70 trousers were sold at

₹ 1,40,000 each. Full payment was received at the time of billing itself. Sales paid for in cash were ₹ 70,000 and the balance were done using card or other payment mode.

After demand was established, another purchase order was placed with Van Heusen for 300 shirts and 200 trousers on 31st May 2021. Due to a repeat purchase order the business was offered a 10% trade discount on list prices of ₹ 3,90,000 and ₹ 4,00,000 respectively. In addition to this, the supplier only demanded 25% of upfront payment. The remaining credit terms remained the same as previous transaction with the supplier (2 months credit with 10% cash discount on amount repaid within one month). Carriage paid relating to the transaction was ₹ 6,000 and the stock was received on 5th June 2021. Invoice amount of ₹ 2,33,250 was paid to Van Heusen on 20th June 2021 and the balance of ₹ 3,00,000 was paid on 5th July 2021.

With the increasing customer base, the business hired 3 salesmen to attend customers in the store. The staff will be paid ₹ 10,000 per month. They are hired w.e.f. 1st June 2021. Moreover, an accountant was hired to oversee the day-to-day accounting of the business. He will be paid ₹ 15,000 per month. Salary to all the staff will be paid on the last day of the month.

During the month of June, another supplier of the brand Allen Solly was identified and an agreement for sale of their stock was entered into. Considering the upcoming sale period, on 20th June 2021, an order for 500 shirts and 200 trousers at a price of ₹ 4,50,000 and ₹ 2,80,000, respectively was placed to be sold during the sale period. Similarly, on 25th June 2021, 400 shirts and 150 trousers were purchased from Van Heusen at ₹ 3,20,000 and ₹ 1,87,500, respectively. The credit terms for these offered by the suppliers were as follows:

- Allen Solly: 50% upfront payment and 1 month credit for the balance and an interest rate of 3% p.a. if payment is made thereafter. The balance payment was made on 10th August 2021.
- Van Heusen: 25% payment upfront and 2 months credit for the balance. The balance payment was made on 18th August 2021.

No trade and cash discounts were offered on either purchase as the price was already discounted.

Sales in the month of June consisted of 275 shirts and 208 trousers that amounted to ₹ 3,85,000 and ₹ 4,16,000 respectively. This was followed by the discounted sale period in July and August during which 300 shirts and 100 trousers of Van Heusen were sold for ₹ 3,00,000 and ₹ 1,87,500 respectively, and 300 shirts and 80 trousers of Allen Solly were sold for ₹ 3,00,000 and ₹ 1,00,000 respectively.

Due to the growing demand and to attract more customers, a tailor was hired for in-house alterations on 1st July 2021. The tailor will be paid a monthly salary of ₹ 8,000, which will be paid on the last day of the month. To facilitate this, a sewing machine set-up was also installed on 1st July 2021, which cost ₹ 55,000. The expected life of the machine is 7 years and it is expected to realise ₹ 6,000 in its final year. The business chose to depreciate the machine on written down value @ 10%.

On 1st September 2021, the following purchases were made:

Allen Solly : 250 shirts and 100 trousers at ₹ 2.25,000 and ₹ 1,40,000, respectively
Van Heusen : 400 shirts and 225 trousers at ₹ 5,20,000 and ₹ 4,50,000, respectively

The above were the lists prices. Due to the delay in payment on the first order, Allen Solly did not provide any discounts on this purchase and demanded 50% upfront payment and allowed one month credit on the balance.

However, Van Heusen gave a 10% trade discount on list price and demanded 25% upfront payment with credit terms as per usual (2 months with 10% discount on amount repaid within 1 month). Payment for the balance amount was made to Allen Solly on 20th September 2021 to establish trust and payment was made to Van Heusen for invoice value of ₹ 3,00,000 on 25th September 2021 and for the balance on 5th October 2021.

On 26th September 2021, a local restaurant business - AX Restaurants - approached the store for placing an order for black trousers and white shirts for its wait staff. This resulted in a bulk deal that was entered into on the same day. They required 120 black trousers and 120 white shirts and the terms of the sale were as follows:

- The selling price was quoted at a list price of ₹ 1,000 and ₹ 1,800 for shirts and trousers respectively less 12% trade discount
- Shirts and trousers will be of the Allen Solly brand
- The carriage for the sale is agreed at ₹ 4,000 and the package should be delivered to the customer on 7th October 2021
- 30% of the payment will be made upfront. Balance was received on the date of delivery (i.e. 7th October 2021)

All the stock required to fulfil the sale was available.

Other sales for the month of October comprised of:

Allen Solly : 300 shirts and 100 trousers for ₹ 3,00,000 and ₹ 1,50,000, respectively
Van Heusen : 400 shirts and 250 trousers for ₹ 5,60,000 and ₹ 5,00,000 respectively

Of the products sold, 5 trousers of Allen Solly brand were returned by customers on 3rd November 2021 and 3 shirts of Van Heusen were returned by customers on 3rd November 2021. All sales were made on cash basis.

On 22nd November 2021, the sewing machine had to be repaired and the repairs cost ₹ 5,000. Cost of threads, needles, buttons, zips and other small accessories till date was ₹ 6,400. All of these expenses have been paid in cash on this day.

For the upcoming sale period, a bulk order was placed with the suppliers on 28th November 2021 as follows:

Allen Solly : 600 shirts and 250 trousers for ₹ 5,10,000 and ₹ 3,00,000, respectively
Van Heusen : 800 shirts and 370 trousers for ₹ 6,20,000 and ₹ 4,53,250 respectively

The stock was received on 3rd December 2021. Carriage amounted to ₹ 7,500 and was paid in cash on 28th November 2021. Due to the order being a bulk order for the discounted merchandise, no further discounts were offered and both suppliers gave a 2 month credit. 25% payment was made upfront for both and the balance was paid to Allen Solly on 29th December 2021 and to Van Heusen on 10th January 2021.

This stock was sold over December 2021 and January 2022. Sales were as follows over this period:

Allen Solly : 570 shirts and 200 trousers for ₹ 5,70,000 and ₹ 2,45,000, respectively
 Van Heusen : 855 shirts and 390 trousers for ₹ 8,33,625 and ₹ 4,97,250 respectively

The above amounts were net of discounts. A total cash discount of ₹ 72,255 was allowed during the sale period. Amount received in cash was ₹ 3,65,250 paid by card or digital payment mode and the amounts were directly received in the bank account.

In the month of December 2021, Van Heusen proposed the business to promote its athleisure line of products. They agreed to sell a collection of garments from that range for a discounted price of ₹ 1,56,000 (list price ₹ 1,85,000) and also paid the business ₹ 10,000 to put up promotional banners, posters and brand advertising merchandise at prominent locations in the shop (to encourage sales). The agreement for the transaction was entered into on 28th December 2021. A one month credit period was provided with no further discount. Payment was made on a net basis on 15th January 2022.

During the month of January 2022, the new athleisure line was introduced with the new season collection and the entire collection was sold by 14th February 2022 for ₹ 1,85,000. The following were additional details for the products:

- On 14th February 2022, a customer exchanged his purchase for a different size (the value of goods returned and goods sold were the same i.e. ₹ 11,200) **(the transaction has no net effect on the journal and ledger as one good is returned and another good of the same value is bought and it is given that ultimately all stock is sold);**
- On 15th February 2022, a customer returned their purchase due to a defect. This was the only case of a defect. The defective goods contained two t-shirts from the collection sold to the customer at ₹ 1,500 and that cost the business ₹ 1,200. These were returned to the supplier;
- Customer feedback for the products was positive and many customers asked for the product after it had run out.

In the month of February, there was not much other activity as demand in the market had slowed down. During the month, AX Restaurants, who had previously placed a bulk order and were satisfied with their order, placed a new order for their new restaurant (a branch in Pune). On 20th February 2022, a sale agreement was entered to provide them with 100 white Allen Solly shirts and 100 black Allen Solly trousers at ₹ 1,35,000 and ₹ 1,80,000 respectively. The order is to be delivered on 05th April 2022 (1 week before their restaurant opening) and the carriage for the same amounting to ₹ 7,000 was paid in cash. 30% amount was paid upfront and the balance was paid on 05th April 2022 by directly depositing into the bank account.

An order was placed for shirts and trousers (including to meet the requirement of the above order) as follows:

Allen Solly : 800 shirts and 550 trousers for ₹ 7,12,000 and ₹ 6,02,250, respectively
 Van Heusen : 1200 shirts and 720 trousers for ₹ 12,90,000 and ₹ 10,80,000 respectively

The order was placed on 28th February 2022 and was received on 5th March 2022. Carriage inward amounted to ₹ 6,500 and was paid in cash on 28th February 2022. 30% payment was made upfront to both creditors. Balance was repayable in 2 months with 12.5% discount for

amount paid within one month (for both). Amount paid on 12th March 2022 was ₹ 2,12,000 and ₹ 3,25,000 to Allen Solly and Van Heusen respectively and the remaining was paid on 15th April 2022.

Cumulative sales for February and March 2022 were as follows:

Allen Solly : 800 shirts and 550 trousers for ₹ 7,12,000 and ₹ 6,02,250, respectively
 Van Heusen : 1200 shirts and 720 trousers for ₹ 12,90,000 and ₹ 10,80,000 respectively
 All amounts were received in the bank account on the date of sale.

To renew the rent agreement for a year, the landlord asked for advance rent of ₹ 70,000 which was paid on 31st March 2022.

Books of Accounts

Recording the Transactions in the Books of Accounts

Journal

Based on the transactions identified in the previous section, we prepare the journal as follows:

Date	Particulars		Debit (₹)	Credit (₹)
09-Apr-21	Bank A/c	Dr	25,00,000	
	To Capital A/c			25,00,000
	(Being capital invested in the business by the proprietor)			
16-Apr-21	Rent A/c	Dr	35,000	
	To Bank A/c			35,000
	(Being rent paid for the month of April 2021)			
20-Apr-21	Purchases A/c	Dr	5,50,000	
	To Bank A/c			2,75,000
	To Van Heusen (Creditor) A/c			2,75,000
	(Being shirts and trousers purchased and part payment made)			
20-Apr-21	Carriage Inward A/c	Dr	5,000	
	To Bank A/c			5,000
	(Being carriage paid to receive stock at store)			
20-Apr-21	Stationery Expense A/c	Dr	5,250	

Date	Particulars		Debit (₹)	Credit (₹)
	To Bank A/c			5,250
	(Being stationery expense incurred and paid for business purpose)			
30-Apr-21	Cash A/c	Dr	11,000	
	To Sales A/c			11,000
	(Being 5 shirts and 2 trousers sold)			
01-May-21	Furniture A/c	Dr	75,000	
	To Bank A/c			75,000
	(Being furniture purchased for the store)			
01-May-21	Repairs and Maintenance A/c	Dr	5,750	
	To Bank A/c			5,750
	(Being repairs done to the store)			
01-May-21	Rent A/c	Dr	70,000	
	To Bank A/c			70,000
	(Being rent paid for the month of May 2021)			
02-May-21	Advertisement Expense A/c	Dr	10,000	
	To Bank A/c			10,000
	(Being advertisement expense incurred and paid)			
19-May-21	Van Heusen (Creditor) A/c	Dr	2,75,000	
	To Bank A/c			2,47,500
	To Discount Received A/c			27,500
	(Being repayment to suppliers for purchases less cash discount for paying within time)			
31-May-21	Cash A/c	Dr	70,000	
	Bank A/c	Dr	2,10,000	
	To Sales A/c			2,80,000
	(Being 100 shirts and 70 trousers sold during the month)			
31-May-21	Purchases A/c	Dr	7,11,000	

Date	Particulars		Debit (₹)	Credit (₹)
	To Bank A/c			1,77,750
	To Van Heusen (Creditor) A/c			5,33,250
	(Being shirts and trousers purchased and part payment made)			
31-May-21	Carriage Inward A/c	Dr	6,000	
	To Bank A/c			6,000
	(Being carriage paid to receive stock at store)			
01-Jun-21	Rent A/c	Dr	70,000	
	To Bank A/c			70,000
	(Being rent paid for the month of June 2021)			
20-Jun-21	Van Heusen (Creditor) A/c	Dr	2,33,250	
	To Bank A/c			2,09,925
	To Discount Received A/c			23,325
	(Being repayment to suppliers for purchases less cash discount for paying within time)			
20-Jun-21	Purchases A/c	Dr	7,30,000	
	To Bank A/c			3,65,000
	To Allen Solly (Creditor) A/c			3,65,000
	(Being shirts and trousers purchased and part payment made)			
25-Jun-21	Purchases A/c	Dr	5,07,500	
	To Bank A/c			1,26,875
	To Van Heusen (Creditor) A/c			3,80,625
	(Being shirts and trousers purchased and part payment made)			
30-Jun-21	Salary Expense A/c	Dr	45,000	
	To Bank A/c			45,000
	(Being salary paid for the month of June 2021)			
30-Jun-21	Bank A/c	Dr	8,01,000	
	To Sales A/c			8,01,000

Date	Particulars		Debit (₹)	Credit (₹)
	(Being 275 shirts and 208 trousers sold during the month of June)			
01-Jul-21	Sewing Machine (Asset) A/c	Dr	55,000	
	To Bank A/c			55,000
	(Being sewing machine purchased)			
01-Jul-21	Rent A/c	Dr	70,000	
	To Bank A/c			70,000
	(Being rent paid for the month of July 2021)			
05-Jul-21	Van Heusen (Creditor) A/c	Dr	3,00,000	
	To Bank A/c			3,00,000
	(Being repayment to suppliers for purchases)			
31-Jul-21	Salary Expense A/c	Dr	53,000	
	To Bank A/c			53,000
	(Being salary paid for the month of July 2021)			
01-Aug-21	Rent A/c	Dr	70,000	
	To Bank A/c			70,000
	(Being rent paid for the month of August 2021)			
10-Aug-21	Allen Solly (Creditor) A/c	Dr	3,65,000	
	Interest Expense A/c	Dr	1,530	
	To Bank A/c			3,66,530
	(Being dues to Allen Solly paid late along with interest)			
18-Aug-21	Van Heusen (Creditor) A/c	Dr	3,80,625	
	To Bank A/c			3,80,625
	(Being repayment to suppliers for purchases)			
31-Aug-21	Salary Expense A/c	Dr	53,000	
	To Bank A/c			53,000
	(Being salary paid for the month of August 2021)			
31-Aug-21	Bank A/c	Dr	8,87,500	

Date	Particulars		Debit (₹)	Credit (₹)
	To Sales A/c (Being sales made during July and August 2021)			8,87,500
01-Sep-21	Rent A/c Dr		70,000	
	To Bank A/c (Being rent paid for the month of September 2021)			70,000
01-Sep-21	Purchases A/c Dr		12,38,000	
	To Bank A/c			4,00,750
	To Van Heusen (Creditor) A/c			6,54,750
	To Allen Solly (Creditor) A/c (Being shirts and trousers purchased and part payment made)			1,82,500
20-Sep-21	Allen Solly (Creditor) A/c Dr		1,82,500	
	To Bank A/c (Being dues to Allen Solly paid)			1,82,500
25-Sep-21	Van Heusen (Creditor) A/c Dr		3,00,000	
	To Bank A/c			2,70,000
	To Discount Received A/c (Being repayment to suppliers for purchases less cash discount for paying within time)			30,000
26-Sep-21	Bank A/c Dr		88,704	
	AX Restaurants A/c Dr		2,06,976	
	To Sales A/c (Being 120 shirts and trousers each sold to AX Restaurants in a bulk sale with part payment received)			2,95,680
26-Sep-21	Carriage Outward A/c Dr		4,000	
	To Bank A/c (Being carriage outward in respect of bulk order placed by AX Restaurants)			4,000
30-Sep-21	Salary Expense A/c Dr		53,000	

Date	Particulars	Debit (₹)	Credit (₹)
	To Bank A/c (Being salary paid for the month of September 2021)		53,000
01-Oct-21	Rent A/c Dr	70,000	
	To Bank A/c (Being rent paid for the month of October 2021)		70,000
05-Oct-21	Van Heusen (Creditor) A/c Dr	3,54,750	
	To Bank A/c (Being dues to Van Heusen paid)		3,54,750
07-Oct-21	Bank A/c Dr	2,06,976	
	To AX Restaurants A/c (Being amount received from AX Restaurants against earlier sale made)		2,06,976
31-Oct-21	Salary Expense A/c Dr	53,000	
	To Bank A/c (Being salary paid for the month of October 2021)		53,000
31-Oct-21	Bank A/c Dr	15,10,000	
	To Sales A/c (Being 300 Allen Solly shirts and 100 Allen Solly trousers, and 400 Van Heusen shirts and 250 Van Heusen trousers were sold for cash)		15,10,000
01-Nov-21	Rent A/c Dr	70,000	
	To Bank A/c (Being rent paid for the month of November 2021)		70,000
03-Nov-21	Sales Returns A/c Dr	12,700	
	To Cash A/c (Being goods returned back to the business by customers)		12,700

Date	Particulars		Debit (₹)	Credit (₹)
22-Nov-21	Repairs and Maintenance A/c	Dr	5,000	
	To Cash A/c			5,000
	(Being repairs done to machinery)			
22-Nov-21	Other materials expenses A/c	Dr	6,400	
	To Cash A/c			6,400
	(Being expenses on small items of accessories recorded)			
28-Nov-21	Purchases A/c	Dr	18,83,250	
	To Bank A/c			4,70,812.50
	To Van Heusen (Creditor) A/c			8,04,937.50
	To Allen Solly (Creditor) A/c			6,07,500.00
	(Being shirts and trousers purchased and part payment made)			
30-Nov-21	Salary Expense A/c	Dr	53,000	
	To Bank A/c			53,000
	(Being salary paid for the month of November 2021)			
01-Dec-21	Rent A/c	Dr	70,000	
	To Bank A/c			70,000
	(Being rent paid for the month of December 2021)			
28-Dec-21	Purchases A/c	Dr	1,56,000	
	To Van Heusen (Creditor) A/c			1,56,000
	(Being purchases made of new product line)			
28-Dec-21	Van Heusen (Creditor) A/c	Dr	10,000	
	To Other Income A/c			10,000
	(Being amount received from Van Heusen to promote their athleisure product line)			
29-Dec-21	Allen Solly (Creditor) A/c	Dr	6,07,500	
	To Bank A/c			6,07,500
	(Being balance payment made to creditor)			

Date	Particulars		Debit (₹)	Credit (₹)
31-Dec-21	Salary Expense A/c	Dr	53,000	
	To Bank A/c			53,000
	(Being salary paid for the month of December 2021)			
01-Jan-22	Rent A/c	Dr	70,000	
	To Bank A/c			70,000
	(Being rent paid for the month of January 2022)			
10-Jan-22	Van Heusen (Creditor) A/c	Dr	8,04,937.50	
	To Bank A/c			8,04,937.50
	(Being balance payment made to creditor)			
15-Jan-22	Van Heusen (Creditor) A/c	Dr	1,46,000	
	To Bank A/c			1,46,000
	(Being balance payment made to creditor)			
31-Jan-22	Cash A/c	Dr	3,65,250	
	Bank A/c	Dr	17,80,625	
	Discount Allowed A/c	Dr	72,255	
	To Sales A/c			22,18,130
	(Being sales made during December 2021 and January 2022)			
31-Jan-22	Salary Expense A/c	Dr	53,000	
	To Bank A/c			53,000
	(Being salary paid for the month of January 2022)			
01-Feb-22	Rent A/c	Dr	70,000	
	To Bank A/c			70,000
	(Being rent paid for the month of February 2022)			
12-Feb-22	Bank A/c	Dr	1,85,000	
	To Sales A/c			1,85,000
	(Being products from the athleisure line sold)			

Date	Particulars		Debit (₹)	Credit (₹)
15-Feb-22	Sales Returns A/c	Dr	1,500	
	To Bank A/c			1,500
	(Being refund issued against products returned)			
15-Feb-22	Van Heusen (Creditor) A/c	Dr	1,200	
	To Purchase Return A/c			1,200
	(Being defective goods returned to supplier)			
20-Feb-22	Bank A/c	Dr	94,500	
	AX Restaurants A/c	Dr	2,20,500	
	To Sales A/c			3,15,000
	(Being bulk sale order recorded)			
20-Feb-22	Carriage Outward A/c	Dr	7,000	
	To Cash A/c			7,000
	(Being carriage outward on bulk sale recorded)			
28-Feb-22	Purchase A/c	Dr	36,84,250	
	To Bank A/c			11,05,275
	To Van Heusen (Creditor) A/c			16,59,000
	To Allen Solly (Creditor) A/c			9,19,975
	(Being purchase order recorded)			
28-Feb-22	Carriage Inward A/c	Dr	6,500	
	To Cash A/c			6,500
	(Being carriage inward on purchase recorded)			
28-Feb-22	Salary Expense A/c	Dr	53,000	
	To Bank A/c			53,000
	(Being salary paid for the month of February 2022)			
01-Mar-22	Rent A/c	Dr	70,000	
	To Bank A/c			70,000
	(Being rent paid for the month of March 2022)			
12-Mar-22	Allen Solly (Creditor) A/c	Dr	2,12,000	

Date	Particulars		Debit (₹)	Credit (₹)
	Van Heusen (Creditor) A/c	Dr	3,25,000	
	To Discount Received A/c			67,125
	To Bank A/c			4,69,875
	(Being part of the balance repaid net of discount)			
31-Mar-22	Bank A/c	Dr	36,84,250	
	To Sales A/c			36,84,250
	(Being sales recorded for February to March 2022)			
31-Mar-22	Salary Expense A/c	Dr	53,000	
	To Bank A/c			53,000
	(Being salary paid for the month of March 2022)			
31-Mar-22	Prepaid Rent A/c	Dr	70,000	
	To Bank A/c			70,000
	(Being rent paid in advance for the month of April 2022)			
31-Mar-22	Depreciation A/c	Dr	10,312.50	
	To Furniture A/c			10,312.50
	(Being depreciation charged on furniture)			
31-Mar-22	Depreciation A/c	Dr	4,125	
	To Sewing Machine A/c			4,125
	(Being depreciation charged on furniture)			

Ledger

The transactions recorded in the journal are then classified into the appropriate accounts in the ledger. The following accounts are maintained:

Advertisement Expense A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
02-May-21	To Bank A/c	10,000	31-Mar-22	By Balance c/d	10,000
		10,000			10,000

Allen Solly (Creditor) A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
10-Aug-21	To Bank A/c	3,65,000	20-Jun-21	By Purchases A/c	3,65,000
20-Sep-21	To Bank A/c	1,82,500	01-Sep-21	By Purchases A/c	1,82,500
29-Dec-21	To Bank A/c	6,07,500	28-Nov-21	By Purchases A/c	6,07,500
12-Mar-22	To Bank A/c	1,85,500	28-Feb-22	By Purchases A/c	9,19,975
31-Mar-22	To Balance c/d	7,34,475			
		20,74,975			20,74,975

AX Restaurants A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
26-Sep-21	To Sales A/c	2,06,976	07-Oct-21	By Bank A/c	2,06,976
20-Feb-22	To Sales A/c	2,20,500	31-Mar-22	By Balance c/d	2,20,500
		4,27,476			4,27,476

Bank A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
10-Apr-21	To Capital A/c	25,00,000	16-Apr-21	By Rent A/c	35,000
31-May-21	To Sales A/c	2,10,000	20-Apr-21	By Purchases A/c	2,75,000
30-Jun-21	To Sales A/c	8,01,000	20-Apr-21	By Carriage Inward A/c	5,000
31-Aug-21	To Sales A/c	8,87,500	20-Apr-21	By Stationery Expense A/c	5,250
26-Sep-21	To Sales A/c	2,95,680	01-May-21	By Furniture A/c	75,000
07-Oct-21	To AX Restaurants A/c	2,06,976	01-May-21	By Repairs and Maintenance A/c	5,750
31-Oct-21	To Sales A/c	15,10,000	01-May-21	By Rent A/c	70,000
31-Jan-22	To Sales A/c	17,80,625	02-May-21	By Advertisement Expense A/c	10,000
12-Feb-22	To Sales A/c	1,85,000	19-May-21	By Van Heusen A/c	2,47,500
20-Feb-22	To Sales A/c	94,500	31-May-21	By Purchases A/c	1,77,750

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31-Mar-22	To Sales A/c	36,84,250	31-May-21	By Carriage Inward A/c	6,000
			01-Jun-21	By Rent A/c	70,000
			20-Jun-21	By Van Heusen A/c	2,09,925
			20-Jun-21	By Purchases A/c	3,65,000
			25-Jun-21	By Purchases A/c	1,26,875
			30-Jun-21	By Salary Expense A/c	45,000
			01-Jul-21	By Rent A/c	70,000
			01-Jul-21	By Sewing Machine (Asset) A/c	55,000
			05-Jul-21	By Van Heusen A/c	3,00,000
			31-Jul-21	By Salary Expense A/c	53,000
			01-Aug-21	By Rent A/c	70,000
			10-Aug-21	By Allen Solly (Creditor) A/c	3,65,000
			10-Aug-21	By Interest Expense A/c	1,530
			18-Aug-21	By Van Heusen A/c	3,80,625
			31-Aug-21	By Salary Expense A/c	53,000
			01-Sep-21	By Rent A/c	70,000
			01-Sep-21	By Purchases A/c	4,00,750
			20-Sep-21	By Allen Solly (Creditor) A/c	1,82,500
			25-Sep-21	By Van Heusen A/c	2,70,000
			26-Sep-21	By Carriage Outward A/c	4,000
			30-Sep-21	By Salary Expense A/c	53,000
			01-Oct-21	By Rent A/c	70,000

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
			05-Oct-21	By Van Heusen A/c	3,54,750
			31-Oct-21	By Salary Expense A/c	53,000
			01-Nov-21	By Rent A/c	70,000
			28-Nov-21	By Purchases A/c	4,70,812.50
			30-Nov-21	By Salary Expense A/c	53,000
			01-Dec-21	By Rent A/c	70,000
			29-Dec-21	By Allen Solly (Creditor) A/c	6,07,500
			31-Dec-21	By Salary Expense A/c	53,000
			01-Jan-22	By Rent A/c	70,000
			10-Jan-22	By Van Heusen A/c	8,04,937.50
			15-Jan-22	By Van Heusen A/c	1,46,000
			31-Jan-22	By Salary Expense A/c	53,000
			01-Feb-22	By Rent A/c	70,000
			15-Feb-22	By Sales Return A/c	1,500
			28-Feb-22	By Purchases A/c	11,05,275
			28-Feb-22	By Salary Expense A/c	53,000
			01-Mar-22	By Rent A/c	70,000
			12-Mar-22	By Allen Solly (Creditor) A/c	1,85,500
			12-Mar-22	By Van Heusen A/c	2,84,375
			31-Mar-22	By Salary Expense A/c	53,000
			31-Mar-22	By Prepaid Rent A/c	70,000
			31-Mar-22	By Balance c/d	33,29,426
		1,21,55,531			1,21,55,531

Capital A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31-	By Balance c/d	25,00,000	10-Apr-21	By Bank A/c	25,00,000
		25,00,000			25,00,000

Carriage Inward A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
20-Apr-21	To Bank A/c	5,000			
31-May-21	To Bank A/c	6,000			
28-Nov-21	To Cash A/c	7,500			
28-Feb-22	To Cash A/c	6,500		By Balance c/d	25,000
		25,000			25,000

Carriage Outward A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
26-Sep-21	To Bank A/c	4,000			
20-Feb-22	To Cash A/c	7,000	31-Mar-22	By Balance c/d	11,000
		11,000			11,000

Cash A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
30-Apr-21	To Sales A/c	11,000	03-Nov-21	By Sales Return A/c	12,700
31-May-21	To Sales A/c	70,000	22-Nov-21	By Repairs and Maintenance A/c	5,000
31-Jan-22	To Sales A/c	3,65,250	22-Nov-21	By Other Materials Expenses A/c	6,400
			28-Nov-21	By Carriage Inward A/c	7,500
			20-Feb-22	By Carriage Outward A/c	7,000

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
			28-Feb-22	By Carriage Inward A/c	6,500
			31-Mar-22	By Balance c/d	4,01,150
		4,46,250			4,46,250

Depreciation A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31-Mar-22	To Furniture A/c	10,312.50			
31-Mar-22	To Sewing Machine A/c	4,125	31-Mar-22	By Balance c/d	14,437.50
		14,437.5			14,437.50

Discount Allowed A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31-Jan-22	To Sales A/c	72,255	31-Mar-22	By Balance c/d	72,255
		72,255			72,255

Discount Received A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
			19-May-21	By Van Heusen A/c	27,500
			20-Jun-21	By Van Heusen A/c	23,325
			25-Sep-21	By Van Heusen A/c	30,000
			12-Mar-22	By Van Heusen A/c	40,625
31-Mar-22	To Balance c/d	1,47,950	12-Mar-22	By Allen Solly A/c	26,500
		1,47,950			1,47,950

Furniture A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01-May-21	To Bank A/c	75,000	31-Mar-22	By Depreciation A/c	10,312.50

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
			31-Mar-22	By Balance c/d	64,687.50
		75,000			75,000

Interest Expense A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
10-Aug-21	To Bank A/c	1,530	31-Mar-22	By Balance c/d	1,530
		1,530			1,530

Other Income A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31-Mar-22	To Balance c/d	10,000	28-Dec-21	By Van Heusen (Creditor) A/c	10,000
		10,000			10,000

Other Materials Expenses A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
22-Nov-21	To Cash A/c	6,400	31-Mar-22	By Balance c/d	6,400
		6,400			6,400

Prepaid Rent A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31-Mar-22	To Bank A/c	70,000	31-Mar-22	By Balance c/d	70,000
		70,000			70,000

Purchases A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
20-Apr-21	To Bank A/c	2,75,000			
20-Apr-21	To Van Heusen (Creditor) A/c	2,75,000			
31-May-21	To Bank A/c	1,77,750			

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31-May-21	To Van Heusen (Creditor) A/c	5,33,250			
20-Jun-21	To Bank A/c	3,65,000			
20-Jun-21	To Allen Solly (Creditor) A/c	3,65,000			
25-Jun-21	To Bank A/c	1,26,875			
25-Jun-21	To Van Heusen (Creditor) A/c	3,80,625			
01-Sep-21	To Bank A/c	4,00,750			
01-Sep-21	To Van Heusen (Creditor) A/c	6,54,750			
01-Sep-21	To Allen Solly (Creditor) A/c	1,82,500			
28-Nov-21	To Bank A/c	4,70,812.50			
28-Nov-21	To Van Heusen (Creditor) A/c	8,04,937.50			
28-Nov-21	To Allen Solly (Creditor) A/c	6,07,500			
28-Dec-21	To Van Heusen (Creditor) A/c	1,56,000			
28-Feb-22	To Bank A/c	11,05,275			
28-Feb-22	To Van Heusen (Creditor) A/c	16,59,000			
28-Feb-22	To Allen Solly (Creditor) A/c	9,19,975		By Balance c/d	94,60,000
		94,60,000			94,60,000

Purchase Return A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31-Mar-22	To Balance c/d	1,200	15-Feb-22	By Van Heusen (Creditor) A/c	1,200
		1,200			1,200

Rent A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
16-Apr-21	To Bank A/c	35,000			
01-May-21	To Bank A/c	70,000			
01-Jun-21	To Bank A/c	70,000			
01-Jul-21	To Bank A/c	70,000			
01-Aug-21	To Bank A/c	70,000			
01-Sep-21	To Bank A/c	70,000			
01-Oct-21	To Bank A/c	70,000			
01-Nov-21	To Bank A/c	70,000			
01-Dec-21	To Bank A/c	70,000			
01-Jan-22	To Bank A/c	70,000			
01-Feb-22	To Bank A/c	70,000			
01-Mar-22	To Bank A/c	70,000	31-Mar-22	By Balance c/d	8,05,000
		8,05,000			8,05,000

Repairs and Maintenance A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
			01-May-21	By Bank A/c	5,750
31-	To Balance c/d	10,750	22-Nov-21	By Cash A/c	5,000
		10,750			10,750

Salary Expense A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
30-Jun-21	To Bank A/c	45,000			
31-Jul-21	To Bank A/c	53,000			
31-Aug-21	To Bank A/c	53,000			
30-Sep-21	To Bank A/c	53,000			
31-Oct-21	To Bank A/c	53,000			
30-Nov-21	To Bank A/c	53,000			
31-Dec-21	To Bank A/c	53,000			
31-Jan-22	To Bank A/c	53,000			
28-Feb-22	To Bank A/c	53,000			

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31-Mar-22	To Bank A/c	53,000	31-Mar-22	By Balance c/d	5,22,000
		5,22,000			5,22,000

Sales A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
			30-Apr-21	By Cash A/c	11,000
			31-May-21	By Cash A/c	70,000
			31-May-21	By Bank A/c	2,10,000
			30-Jun-21	By Bank A/c	8,01,000
			31-Aug-21	By Bank A/c	8,87,500
			26-Sep-21	By Bank A/c	88,704
			26-Sep-21	By AX Restaurants A/c	2,06,976
			31-Oct-21	By Bank A/c	15,10,000
			31-Jan-22	By Cash A/c	3,65,250
			31-Jan-22	By Bank A/c	17,80,625
			31-Jan-22	Discount Allowed A/c	72,255
			12-Feb-22	By Bank A/c	1,85,000
			20-Feb-22	By Bank A/c	94,500
			20-Feb-22	By AX Restaurants A/c	2,20,500
31-Mar-22	To Balance c/d	1,01,87,560	31-Mar-22	By Bank A/c	36,84,250
		1,01,87,560			1,01,87,560

Sales Return A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
03-Nov-21	To Cash A/c	12,700			
15-Feb-22	To Bank A/c	1,500	31-Mar-22	By Balance c/d	14,200
		14,200			14,200

Sewing Machine (Asset) A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01-Jul-21	To Bank A/c	55,000	31-Mar-21	By Depreciation A/c	4,125
			31-Mar-21	By Balance c/d	50,875
		55,000			55,000

Stationery Expense A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
20-Apr-21	To Bank A/c	5,250	31-Mar-22	By Balance c/d	5,250
		5,250			5,250

Van Heusen (Creditor) A/c

Dr

Cr

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
19-May-21	To Bank A/c	2,47,500	20-Apr-21	By Purchases A/c	2,75,000
19-May-21	To Discount Received A/c	27,500	31-May-21	By Purchases A/c	5,33,250
20-Jun-21	To Bank A/c	2,09,925	25-Jun-21	By Purchases A/c	3,80,625
20-Jun-21	To Discount Received A/c	23,325	01-Sep-21	By Purchases A/c	6,54,750
05-Jul-21	To Bank A/c	3,00,000	28-Nov-21	By Purchases A/c	8,04,938
18-Aug-21	To Bank A/c	3,80,625	28-Dec-21	By Purchases A/c	1,56,000
25-Sep-21	To Bank A/c	2,70,000	28-Feb-22	By Purchases A/c	16,59,000
25-Sep-21	To Discount Received A/c	30,000			
05-Oct-21	To Bank A/c	3,54,750			
28-Dec-21	To Other Income A/c	10,000			
10-Jan-22	To Bank A/c	8,18,349			
15-Jan-22	To Bank A/c	1,46,000			
15-Feb-22	To Purchase Return A/c	1,200			
12-Mar-22	To Bank A/c	2,84,375			

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
12-Mar-22	To Discount Received A/c	40,625			
31-Mar-22	To Balance c/d	13,19,389			
		44,63,562.50			44,63,562.50

Preparation of Trial Balance

Closing/Balancing and Summarising the Books of Accounts

Upon preparation of the ledgers and closing the books on the last day of the accounting year, we prepare the trial balance containing closing balances of all the accounts. This is shown below:

Account	Nature	Debit (₹)	Credit (₹)
Capital A/c	Capital		25,00,000
Bank A/c	Asset	33,29,426	
Rent A/c	Expense (P&L)	8,05,000	
Purchases A/c	Expense (Trading)	94,60,000	
Van Heusen (Creditor) A/c	Current Liabilities		13,19,388.5
Carriage Inward A/c	Expense (Trading)	25,000	
Stationery Expense A/c	Expense (P&L)	5,250	
Cash A/c	Current Assets	4,01,150	
Sales A/c	Income (Trading)		1,01,87,560
Furniture A/c	Non-Current Asset	64,687.50	
Repairs and Maintenance	Expense (P&L)	10,750	
Advertisement Expense	Expense (P&L)	10,000	
Discount Received	Income (P&L)		1,47,950
Allen Solly (Creditor) A/c	Current Liabilities		7,34,475
Salary Expense	Expense (P&L)	5,22,000	
Sewing Machine	Non-Current Asset	50,875	
Interest Expense	Expense (P&L)	1,530	
AX Restaurants A/c	Current Assets - Debtor	2,20,500	
Carriage Outward	Expense (P&L)	11,000	
Sales Return	Expense (Trading)	14,200	

Account	Nature	Debit (₹)	Credit (₹)
Closing Stock	Current Asset (Inventory)	18,11,575	
Other Materials Expense	Expense (P&L)	6,400	
Other Income	Income (P&L)		10,000
Discount Allowed	Expense (P&L)	72,255	
Purchase Return A/c	Income (Trading)		1,200
Depreciation	Expense (P&L)	14,437.50	
Net Profit			20,05,462.50
Prepaid Rent	Current Assets	70,000	
		1,69,06,036.00	1,69,06,036.00

Final Accounts and Reporting

Preparation of Final Accounts

Trading and Profit and Loss Account

The trading and profit and loss account gives a summary of financial performance of the business in terms of main business activity and the other incomes and expenses for the financial year. The following is the trading and profit and loss account of the business for the year ended 31st March 2022.

Trading and Profit and Loss A/c

Dr			Cr		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01-Apr-21	To Opening Stock	-	31-Mar-22	By Sales	1,01,73,360
31-Mar-22	To Purchases	94,58,800	31-Mar-22	By Closing Stock	18,11,575
31-Mar-22	To Carriage Inward	25,000			
31-Mar-22	To Gross Profit c/d	25,01,135			
		1,19,84,935			1,19,84,935
31-Mar-22	To Stationery Expense	5,250	31-Mar-22	By Gross Profit b/d	25,01,135
31-Mar-22	To Repairs and Maintenance	10,750	31-Mar-22	By Other Income	10,000
31-Mar-22	To Advertisement Expense	10,000	31-Mar-22	By Discount Received	1,47,950
31-Mar-22	To Salary	5,22,000			

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31-Mar-22	To Interest	1,530			
31-Mar-22	To Carriage Outward	11,000			
31-Mar-22	To Other Material	6,400			
31-Mar-22	To Discount Allowed	72,255			
31-Mar-22	To Depreciation	14,437.5			
31-Mar-22	To Net Profit	20,05,462.5			
		26,59,085			26,59,085

Balance Sheet

The Balance Sheet states the financial position of the business as on the last day of the accounting year. It lists all the assets owned by the business and the liabilities owed by the business. The following is the Balance Sheet of the business as at 31st March 2022.

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	25,00,000.00	Non-Current Assets	
Profit	20,05,462.50	Furniture	64,687.50
		Sewing Machine	50,875.00
Current Liabilities		Current Assets	
Creditors	14,42,751.00	Closing Stock	18,11,575.00
		Debtors	2,20,500.00
		Bank Balance	33,29,426.00
		Cash	4,01,150.00
		Prepaid Rent	70,000.00
	59,48,213.50		59,48,213.50