Accounting and Financial Management

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UNIT 1

Business:

The main object of a business is to earn profits, for this business man buys and sales goods. For this purpose of starting business man requires capital, assets like furniture , building , machinery etc.

Book keeping:

Book keeping is the art and the science of recording , classifying business transactions in a set of books.

Book keeping includes recording business transactions in journal, posting into ledger and balanced the accounts all the records(trail balence) before the preparation of final accounts , is the whole subject matter of book keeping.

Meaning of ACCOUNTING

- Accounting is the process of recording financial transactions pertaining to a business. The accounting process includes summarizing, analyzing and reporting these transactions to oversight agencies, regulators and tax collection entities.
- Accounting or Accountancy is the measurement, processing, and communication of financial and non financial information about economic entities such as businesses and corporations.
- Accounting is one of the key functions for almost any business. It may be handled by a bookkeeper or an accountant at a small firm, or by sizable finance departments with dozens of employees at larger companies. The reports generated by various streams of accounting, such as cost accounting and managerial accounting, are invaluable in helping management make informed business decisions.

Significance of accounting or objectives of accounting:

The following are the main objectives of accountancy.

- To record the business transactions in a systematic manner.
- To find out the profit or loss for the accounting period.
- To know the financial position of a firm at the end of the financial year, by way of preparing balance sheet.
- To have important information for legal and tax purpose..
- To provide necessary information to different parties like owners, creditors, employees, government etc….

Systems of accounting:

There are two systems of accountancy that may be followed for recording business transactions. they are

1. Single entry system
2. Double entry system

Single entry system: the system which does not follow the principles of double entry system will be called as single entry system. In single entry system a cash book is maintained which show the receipts and payments of cash. In this system only one aspect for one transaction is recorded. Hence single entry system is incomplete and unscientific and inaccurate system. This system is followed by those firms whose transactions are limited.

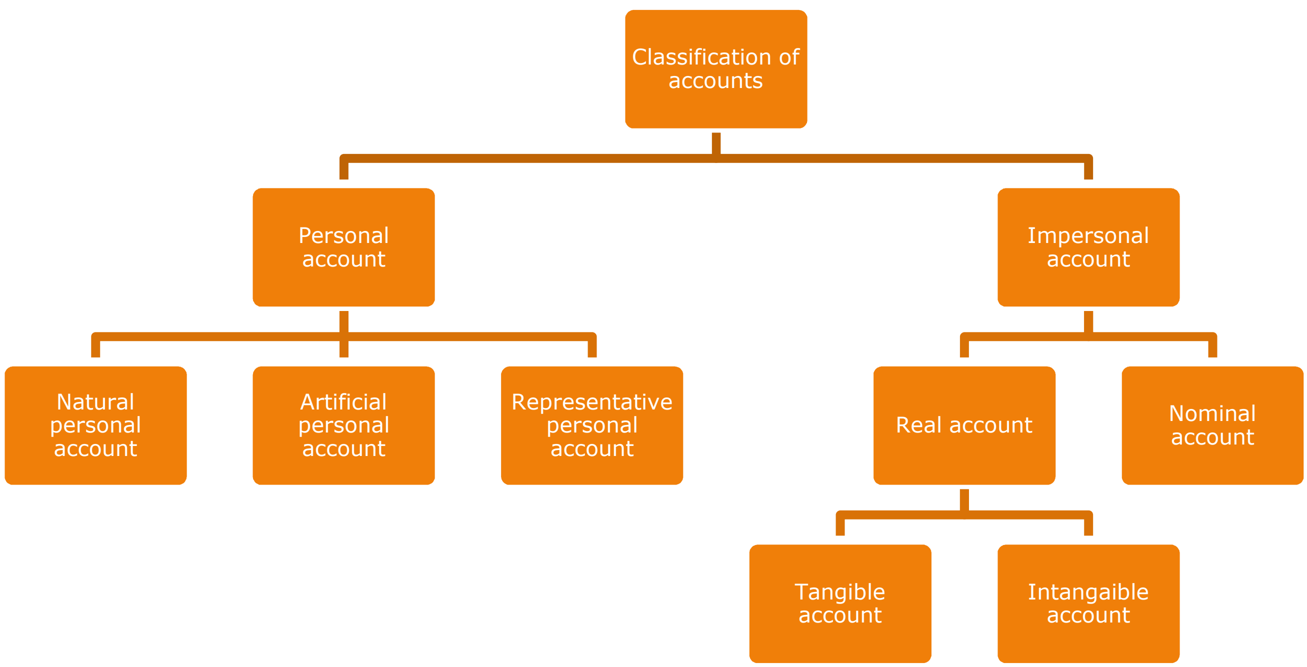
Double entry system: in every business these will be a number of transactions. Every business have two aspects, “giving aspect and receiving aspect”. These two aspects of transactions are popularly called as debit and credit. Receiving aspect as called debit aspect and giving aspect is called credit aspect .so there will be two parties to every business transactions, thus that is giver and receiver. there can’t be a receiver without giver and giver without receiver.

Example:

If goods are purchased for cash the same will effect to two accounts like purchase account and cash account . as per double entry system here purchase account should be debited and cash account should be credited.

The system in which both debit and credit aspect are recorded is known as double entry system. The main principle of these systems is for every debit. There must be corresponding and equalant credit and every credit there must a corresponding debit.

Classification of accounts



Personal account:

These accounts show the transactions with customers, suppliers, Money lenders, the banks and the owner.

For example: Mohan's A/c, Rajesh's A/c, M/s XY and Co. Reliance Industries Ltd., Apna Bazar Co-operative Society Ltd., Mumbai University, Dena Bank etc. Shinde A/c, Anil's A/c, Sunil's A/c, Bank A/c, University, School, Company Firm etc.

Golden Rule for personal account:

Debit the receiver ,

Credit the giver

Real Accounts:

Real accounts may be the following types.

a) Tangible real Accounts: These are accounts of such things which are tangible i.e. which can be seen touched or felt physically.

Example: Land, Building, Furniture, Cash etc.

b) Intangible real Accounts: These accounts represent such things which cannot be touched, seen or felt physically.

Example: Goodwill, Trade marks, Patent right etc.

Golden Rule for real account:

Debit what comes in,

Credit what goes out

Nominal Accounts:

Nominal Accounts includes accounts of all expenses, losses, incomes and gains. Nominal Accounts represent only services or uses.

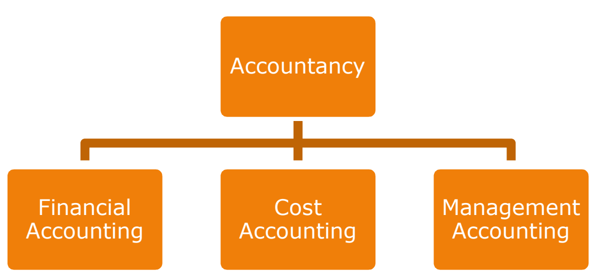
Examples: Salaries A/c, Rent A/c, Commission A/c, Discount A/c etc.

Golden Rule for nominal account:

Debit the all expenses losses,

Credit all incomes and gains

BRANCHES OF ACCOUNTING



Financial Accounting : It is concerned with record keeping directed towards the preparation of Trial balance, profit and loss account and balance sheet.

Cost Accounting : Cost Accounting is the process of accounting for costs. It shows classification and analysis of cost on the basis of functions process, products etc. It also deals with cost computation, cost saving, cost reduction etc. In cost accounting cost per unit of output produced or services rendered is ascertained. It helps management in the control of cost of output or services rendered.

Management Accounting : It deals with the processing of data sentenced in financial accounting and cost accounting for managerial decision making. It also deals with application of managerial economic concepts for decision making for the efficient running of the business and thus in maximising profits.

Accounting concepts: Following are the important accounting concepts.

- Business entity concept
- Going concern concepts
- Money measurement concept
- Cost concept
- Accounting period concept
- Dual aspect concept
- Realization /accrual concept
- Matching concept

Business entity concept:

It specifies limits of accumulation and communication of the firm's information. The business records need to be separated from those of the owners so that we can ascertain the financial performance of the business at any point of time.

Going concern concept:

It is assumed that every business firm continuous forever and it has a perpetual life. It is not going to be liquidated or closed down in the near future.

Because of these assumption the current market price of the assert become irrelevant

Money measurement concept:

The transaction should be recorded in monitory aspect only. We should not record the transactions in kilograms, quintals, meters, liters etc.

Cost concept: According to the cost concept the asserts are recorded at the cost at which they are acquired. Therefore all the transactions will be recorded at cost in the books. It means detected depreciation from the assets early.

Accounting period concept:

Accounting information becomes more meaningful . if it is presented for a specific period of time. Accounts are to be prepared periodically at least once in a year (12 months) to find out the profit and losses for the given period or income tax purpose.

<u>Dual aspect concept:</u>

According to double entry system the accounting equation (assets = equity) always holds well.

<u>Realization or accrual concept:</u>

If the revenue is recognized too early or too late the company couldn't project the right financial position. So that it is necessary that the revenue is to be recognized before cash is received.

<u>Matching concept:</u>

It states that the expenses of a given period must be related to the revenues of the particular period only.

<u>Accounting Conventions:</u> The term 'Convention' denotes customs or traditions or practice based on general agreement between the accounting bodies which guide the accountant while preparing the financial statements.

a. Disclosure According to convention of full disclosure, accounting must disclose all the material facts and informations so that interested parties after reading such accounting report can get a clear view of the state of affairs of the business. All information which are of

material interest to proprietors, creditors and investors should be disclosed in accounting statement.

The Companies Act makes various provisions for disclosure of essential information that their is no chance of any material information being left out.

b. Materiality The term material means "relative importance", Accounting to the convention of materiality. Materiality will differ or changed with nature, size and tradition of the business.

c. Consistency This accounting convention state that ones a particular accounting practice, method or policy is adopted to prepare accounts, statements and Reports. It should be continued for years together and should not charge unless it is forced to change it. Accounting practices should remain the same from one year to another.

d. Conservatism Financial Statements are usually drawn up on a conservative basis. Their are two principles which stem directly from conservatism.

a) The accountant should not anticipate income and should provide all possible losses…..

b) Faced with the choice between two methods of valuing an asset the accountant should choose a method which leads to the lesser value.

Classify the following accounts into Personal, Real, Nominal accounts.

Drawings accounts	Personal account
S B I account	Personal account
Discount account	Nominal account
Patents account	Real account
Cash account	Real account
Suguna industries limited	Personal account
Goodwill	Real account
Salaries	Nominal account
Bad debts	Nominal account
Capital account	Personal account
Machinery account	Real account
Stock account	Real account
Prepaid salaries	Real account
Bank over draft	Personal account
Purchases	Real account
Bills receivable account	Real account
Bills payable account	Personal account
Reserved for discount on creditors account	Nominal account
Provision for bad & doubtful debts account	Personal account
Depreciation	Nominal account
Loan	Personal account
Furniture	Real account
Fright	Nominal account
General expenses	Nominal account
Interest	Nominal account
Carriage out ward	Nominal account

Interest on loan	Nominal account
Free- hold property	Real account
interest on capital	Personal account
Postage	Nominal account
Drawings account	Personal account
Depreciation	Nominal account
Micellancous expencess	Nominal account
Cash	Real account

Carriage	Nominal account
Prepaid expenses	Personal account
Capital	Personal /real account
Patents	Real account
Land and buildings	Real account
Investments	Real account

Profit and loss account	Nominal account
Motive power account	Nominal account
Discount on bills accounts	Nominal account
Drawings account	Personal account
Rent received account	Nominal account
Outstanding expenses account	Personal account
Bills receivable account	Personal account
Trade marks	Real account
Commission	Nominal account
Capital	Personal account
Fire insurance	Nominal account
Plant account	Real account
Super spinning mills L T D	Personal account
Goodwill	Real account
Land and buildings	Real account
Accrved income	Personal account
Debtors	Personal account
Carriage	Nominal account
Rent received	Nominal account
Cash in hand	Real account
Drawings	Personal account
Profit and loss	Nominal account
Doubtful debts	Personal account
Lose tools	Real account
Motar vans account	Real account
Patents account	Real account
Outstanding expenses	Personal account
Employees trade union	Personal account
Salaries account	Nominal account
Bills payable account	Personal account
Devident received	Nominal account
Capital account	Personal account
Trading account	Nominal account
Bad debts	Nominal account
Investments	Real account
Cash at bank	Real account

Creditors	Personal account
Wages	Nominal account
Bank over draft	Nominal account
Drawings	Personal account
Bills receivable	Personal account
Manufacturing account	Nominal account
Works co-operative socity	Personal account
Land and machinery	Real account
Trade marks	Real account
Prepaid expenses	Personal account
Interest receive	Nominal account
Work in progress	Real account

Journal entries:

Journal is derived from the French word “jour” which means “a day” . there fore means a daily record of business transactions. Journal is a book of original entry because transaction is first written in the journal which is posted to the ledger accounts.

Performa of journal

Date	Particulars	L/F	Debit Rs/-	Credit Rs/-

Steps to write journal entries:

1. Identify the two accounts
2. The identified accounts should be classified as to personal ,real, nominal account .
3. Find out the rules of debit and credit
4. Identify which account is to be debited and which account is credited.

1. From the following transactions you are required to draw journal entries.

1/1/10 started business with 50,000 rupees
2/1/10 purchased furniture for 1000/- rupees on credit from neelkamal company
3/1/10 goods purchased for cash 20,000/-
4/1/10 goods sold to ram for 5000/-on credit
5/1/10 paid salaries to staff 1800/-
6/1/10 goods worth 500/- returned by ram.
7/1/10 commission received 1000/-
8/1/10 discount allowed to nanda kumar 1000/-

9/1/10 land and building purchased for cash 50,000/-
20/1/10 rent paid to owner 2000/-
25/1/10 electricity charges 500/-
31/1/10 cash received from ram 2500/-

Solution: Journal entries

Date	Particulars	L/F	Debit	Credit
1/1/10	Cash a/c Dr To capital account (being capital business started)		50,000 -	- 50,000
2/1/10	Furniture a/c Dr To neel kamal account (being purchased furniture on credit)		1000 -	- 1000
3/1/10	Purchase a/c Dr To cash a/c (being goods purchased)		20,000 -	- 20,000
4/1/10	Ram a/c Dr To sales a/c (being goods sold on credit)		5000 -	- 5000
5/1/10	Salary a/c Dr To cash a/c (being salaries paid)		1800 -	- 1800
6/1/10	Sales return a/c Dr To ram a/c (being goods return)		500 -	- 500
7/1/10	Cash a/c Dr To commission a/c (being commission recieved)		1000 -	- 1000
8/1/10	Discount a/c Dr To cash a/c (being discount allowed)		1000 -	- 1000
9/1/10	Land and building Dr To cash a/c (being land and building purchase)		50,000 -	- 50,000
20/1/10	Rent a/c Dr To cash a/c (being rent paid)		2000 -	- 2000
25/1/10	Electricity charges a/c Dr To cash a/c (being electricity charges paid)		500 -	- 500
31/1/10	Cash a/c Dr To ram a/c (being cash received)		2500 -	- 2500

2. journal entries for the following transactions.

1/10/2010 bought goods for cash 4000/-
2/10/2010 sold goods for cash 3000/-
3/10/2010 sold goods to kumar 2000/-
5/10/2010 received cash from kumar 1500/-
8/10/2010 purchase furniture from ramesh 2500/-
10/10/2010 purchase goods from raju 3500/-
12/10/2010 cash paid to sasi 1500/-
13/10/2010 bought goods from mohan 5000/-
16/10/2010 sold goods for cash 8000/-
19/10/2010 cash paid to murali 2000/-
23/10/2010 sold goods to vamsi 5000/-
24/10/2010 cash received from Mahesh 4000/-

Solution: Journal entries

Date	Particulars	L/F	Debit	Credit
1/10/2010	Purchase a/c Dr To cash a/c (being goods purchase by cash)		4000 -	- 4000
2/10/2010	Cash a/c Dr To sales a/c (being sold goods for cash)		3000 -	- 3000
3/10/2010	Kumar a/c Dr To sales a/c (being goods sold on credit)		2000 -	- 2000
5/10/2010	Cash a/c Dr To kumar a/c (being cash received)		1500 -	- 1500
8/10/2010	Furniture a/c Dr To ramesh a/c (being furniture purchased on credit)		2500 -	- 2500
10/10/2010	Purchase a/c Dr To raju a/c (being goods purchase on credit)		3500 -	- 3500
12/10/2010	Sasi a/c Dr To cash a/c (being cash paid)		1500 -	- 1500
13/10/2010	Purchase a/c Dr To mohan a/c (being goods purchased on credit)		5000 -	- 5000
16/10/2010	Cash a/c Dr To sales a/c		8000 -	- 8000

	(being goods sells for cash)			
19/10/2010	Murali a/c Dr To cash a/c (being cash paid)		2000 -	- 2000
23/10/2010	Vamsi a/c Dr To sales a/c (being goods sold for credit)		5000 -	- 5000
24/10/2010	Cash a/c Dr To Mahesh a/c (being cash recieved)		4000 -	- 4000

3. journalize the following transactions

1/1/06 purchase goods for cash 50,000/-
4/1/06 sold goods for cash 80,000/-
5/1/06 purchase goods from ajay 20,000/-
8/1/06 sold goods to Deepak 30,000/-
9/1/06 cash paid to ajay 16,000/-
10/1/06 received cash from Deepak 25,000/-
13/1/06 sold goods to ram for cash 18,000/-
14/1/06 purchased goods from gopal for cash 12,000/-
17/1/06 paid rent 4,000/-
19/1/06 received interest 2,000/-
22/1/06 received commission 1,000/-
24/1/06 goods returned to ajay 2,000/-
25/1/06 goods returned to Deepak 1,500/-
29/1/06 purchased furniture from usha and com 15,000/-
31/1/06 paid salaries 18,000/-

Solution:Journal entries

Date	Particulars	L/F	Debit	Credit
1/1/06	Purchase a/c Dr To cash a/c (being goods purchased for cash)		50,000 -	- 50,000
4/1/06	Cash a/c Dr To sales a/c (being goods sold for cash)		80,000 -	- 80,000
5/1/06	Purchase a/c Dr To ajay a/c (being purchase goods from ajay)		20,000 -	- 20,000
8/1/06	Deepak a/c Dr To sales a/c		30,000 -	- 30,000

	(being sold goods to deepak)			
9/1/06	Ajay a/c Dr To cash a/c (being cash paid to ajay)		16,000 -	- 16,000
10/1/06	Cash a/c Dr To Deepak a/c (being cash received from deepak)		25,000 -	- 25,000
13/1/06	Cash a/c Dr To sales a/c (being sold goods to ram for cash)		18,000 -	- 18,000
14/1/06	Purchase a/c Dr To cash a/c (being goods purchased for cash)		12,000 -	- 12,000
17/1/06	Rent a/c Dr To cash a/c (being rent paid)		4,000 -	- 4,000
19/1/06	Cash a/c Dr To interest a/c (being rent received)		2,000 -	- 2,000
22/1/06	Cash a/c Dr To commission (being commission received)		1,000 -	- 1,000
24/1/06	Ajay a/c Dr To purchase returns a/c (being goods return)		2,000 -	- 2,000
25/1/06	Deepak a/c Dr To purchase returns a/c (being goods return)		1,500 -	- 1,500
29/1/06	Furniture a/c Dr To usha and company (being furniture purchase)		15,000 -	- 15,000
31/1/06	Salary a/c Dr To cash a/c (being salary paid)		18,000 -	- 18,000

4. Journalise the following transactions in the books of “Ketan”. 2009

Jan. 1 Purchased goods from Nalini on Credit Rs. 1000/-.

Jan. 2 Sold goods to Mr. Sharma on credit Rs. 2,500/

Jan. 3 Purchased furniture for cash Rs. 10,000/

Jan. 4 Received interest Rs. 800

Jan. 5 Paid salaries Rs. 3,500/

After deciding the accounts to be debited and accounts to be credited the Journal Entries are passed as shown below.

Solution: **In the Books of Ketan Journal Entreis**

Date	Particulars	L/F	Debit	Credit
2009 Jan 1	Purchases A/c Dr. To Nalini's A/c (Being goods purchased on credit from Nalini)		1,000 -	- 1,000
Jan 2	Mr. Sharma's A/c Dr. To Sales A/c (Being goods sold on credit to Mr. Sharma)		2,500 -	- 2,500
Jan 3	Furniture A/c Dr. To Cash A/c (Being furniture purchased for Cash)		10,000 -	- 10,000
Jan 4	Cash A/c Dr. To Interest A/c (Being interest received)		800 -	- 800
Jan 5	Salaries A/c Dr. To Cash A/c (Being Salaries paid)		3,500 -	- 3,500

5. Analyze the following transaction and find out the two accounts involved . how do you treat them and why?

1/01/2002	Ganesh started his business with cash10,000
3/01/2002	barrowed from Rao 3000
5/01/2002	purchased machinery 25000
5/01/2002	purchased furniture from raj on credit 5000
8/01/2002	purchased goods for cash 3500
12/01/2002	purchased goods from Vijay on credit 2000
15/01/2002	sold goods for cash 3000
18/01/2002	sold goods to Gupta on credit 5000
20/01/2002	received cash from Gupta 3000
22/01/2002	paid cash to Vijay 10,000

Solution:

Date	Particulars	L/F	Debit	Credit
1/01/2002	Cash a/c Dr To capital a/c (being business started with cash)		10,000 -	- 10,000
3/01/2002	Cash a/c Dr To Rao a/c (being barrowed cash from Rao)		3000 -	- 3000

5/01/2002	Machinery a/c Dr To cash a/c (being purchased machinery)		25,000 -	- 25,000
5/01/2002	Furniture a/c Dr To Raj a/c (being furniture purchased from raj)		5000 -	- 5000
8/01/2002	Purchas a/c Dr To cash a/c (being purchased goods for cash)		3500 -	- 3500
12/01/2002	Purchase a/c Dr To vijay a/c (being purchased furniture from vijay)		2000 -	- 2000
15/01/2002	Cash a/c Dr To sales a/c (being sold goods for cash)		3000 -	- 3000
18/01/2002	Gupta a/c Dr To sales a/c (being soled goods to gupta)		5000 -	- 5000
20/01/2002	Cash a/c Dr To Gupta a/c (being cash received from Gupta)		3000 -	- 3000
22/01/2002	Vijay a/c Dr To cash a/c (being paid cash to vijay)		10,000 -	- 10,000

Ledger

The ledger is the principal book of accounts relating to a particular person or property or revenue or expenses are recorded in summarized form. It is a set of accounts. It contains all accounts of the business enterprise whether real, nominal or personal. The main function of a ledger is to classify or sort out all items appearing in the journal or other subsidiary books under their appropriate accounts & that at the end of the accounting period each account will contain the entire information of all the transactions relating to in a summarized or condensed form. All the transactions are recorded first in the journal and then from the journal they are posted in the respective accounts in the ledger. Ledger is a book where in all the transactions would ultimately find their place under the respective heads of accounts. Ledger is a book of final entry.

<u>Features of ledger:</u>

A ledger may be defined as a summary statement of all the transactions relating to a person , asset, expense or income, which have taken place during a given period of time.

- Ledger contains all the accounts-personal , real and nominal
- It is a permanent record of business transactions;

- ❖ It provides a mean of easy reference;
- ❖ It provides final balance of accounts.

Ledger is the principle book of accounts because it helps us in achieving the objectives of accounting. It gives answers to the following pertinent questions. Thus

- ❖ How much amount is due to others to the business.
- ❖ How much amount is owed to others
- ❖ What are the total sales to an individual customer and what are the total purchases from an individual supplier?

Each account in the ledger is divided into two equal parts by a vertical line. The left hand side of the account is known as debit and right hand side of the account is known as credit. Each of the four columns.

Dr. Cr.

Date	Particulars	F	Amount	Date	Particulars	F	Amount

1. Mr. Ramu has the following transactions in the month of July.
Record them into the journal and show postings in the ledger and balance the accounts.

July 1st	Ramu started business with a capital of 75,000
1st	Purchased goods from Manu on credit 25,000
2nd	Sold goods to Sonu 20,000
3rd	Purchased goods from Meenu 15,000
4th	Sold goods to Tanu for cash 16,000
5th	Goods retuned to Manu 2,000
6th	Bought furniture for 15,000
7th	Bought goods from Zenu 12,000
8th	Cash paid to Manu 10,000
9th	Sold goods to Jane 13,500
10th	Goods returned from Sonu 3,000
11th	Cash received from Jane 5,500
12th	Goods taken by Ramu for domestic use 3,000

13th	Returned Goods to Zenu 1,000
14th	Cash received from Sonu 12,000
15th	Bought machinery for 18,000
16th	Sold part of the furniture for 1,000
17th	Cash paid for the purchase of bicycle for Ramu's son 1,500
19th	Cash sales 15,000
20th	Cash purchases 13,500

Date	Particulars	L/F	Amount (Dr)	Amount (Cr)
July 1st	Cash a/c Dr	–	75,000	
	To Capital a/c	–		75,000
	[Being the amount received from Mr. Ramu, the proprietor as his capital contribution]			
July 1st	Goods/stock a/c Dr	–	25,000	
	To Manu a/c	–		25,000
	[Being the value of stock purchased from Mr. Manu]			
July 2nd	Sonu a/c Dr	–	20,000	
	To Goods/stock a/c	–		20,000
	[Being the value of stock sold to Mr.Sonu]			
July 3rd	Goods/stock a/c Dr	–	15,000	
	To Meenu a/c	–		15,000
	[Being the value of stock purchased from Mr.Meenu on credit]			
July 4th	Cash a/c Dr	–	16,000	
	To Goods/stock a/c	–		16,000
	[Being the value of stock sold to Mr. Tanu for cash]			

July 5th	Manu a/c Dr To Goods/stock a/c [Being the value of stock returned to Mr. Manu]	– –	2,000	 2,000
July 6th	Furniture a/c Dr To Cash a/c [Being the value of furniture purchased from M/s]	– –	15,000	 15,000
July 7th	Goods/stock a/c Dr To Zenu a/c [Being the value of stock Purchased from Mr. Zenu]	– –	12,000	 12,000
July 8th	Manu a/c Dr To Cash a/c [Being the amount paid to Mr. Manu]	– –	10,000	 10,000
July 9th	Jane a/c Dr To Goods/stock a/c [Being the value of stock Sold to Ms.Zane]	– –	13,500	 13,500
July 10th	Goods/stock a/c Dr To Sonu a/c [Being the value of stock returned from Mr. Sonu]	– –	3,000	 3,000
July 11th	Cash a/c Dr To Jane a/c [Being the amount of cash received from Ms. Jane]	– –	5,500	 5,500
July 12th	Drawings a/c Dr To Goods/stock a/c [Being the amount of stock taken by Ramu for domestic use]	– –	3,000	 3,000
July 13th	Zenu a/c Dr To Goods/stock a/c	– –	1,000	 1,000

	[Being the amount of stock returned to Mr. Zenu]			
July 14th	Cash a/c Dr To Sonu a/c [Being the amount of cash received from Mr. Sonu]	– –	12,000	 12,000
July 15th	Machinery a/c Dr To Cash a/c [Being the amount paid for machinery purchased to M/s]	– –	18,000	 18,000
July 16th	Cash a/c Dr To Furniture a/c [Being the amount received on sale of furniture]	– –	1,000	 1,000
July 17th	Drawings a/c Dr To Cash a/c [Being the amount of cash paid for bicycle purchases for proprietor's son]	– –	15,000	 15,000
July 19th	Cash a/c Dr To Goods/stock a/c [Being the value of stock sold for cash]	– –	15,000	 15,000
July 20th	Goods/stock a/c Dr To Cash a/c [Being the value of stock Purchased]	– –	13,500	 13,500

General Ledger

[Books of Mr. Ramu]

Cash a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
01/10/_5 04/10/_5 11/10/_5 14/10/_5 16/10/_5 19/10/_5	To Capital a/c To Goods/stock a/c To Jane a/c To Sonu a/c To Furniture a/c To Goods/stock a/c	– – – – – –	75,000 16,000 5,500 12,000 1,000 15,000	06/10/_5 08/10/_5 15/10/_5 17/10/_5 20/10/_5 30/07/_5	By Furniture a/c By Manu a/c By Machinery a/c By Drawings a/c By Goods/stock a/c By Balance c/d	– – – – – –	15,000 10,000 18,000 15,000 13,500 53,000
	tl		1,24,500		Tl		1,24,500
31/07/_5	To Balance b/d	–	53,000				

Capital a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
30/07/_5	To Balance c/d	–	75,000	01/10/_5	By Cash a/c	–	75,000
	tl		75,000		Tl		75,000
				31/07/_5	By Balance b/d	–	75,000

Goods/stock a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
01/10/_5	To Manu a/c	–	25,000	02/10/_5	By Sonu a/c	–	20,000
03/10/_5	To Meenu a/c	–	15,000	04/10/_5	By Cash a/c	–	16,000
07/10/_5	To Zenu a/c	–	12,000	05/10/_5	By Manu a/c	–	2,000
10/10/_5	To Sonu a/c	–	3,000	09/10/_5	By Jane a/c	–	13,500
20/10/_5	To Cash a/c	–	13,500	12/10/_5	By Drawings a/c	–	3,000
30/07/_5	To Balance c/d	–	2,000	13/10/_5	By Zenu a/c	–	1,000
				19/10/_5	By Cash a/c	–	15,000
	tl		70,500		Tl		70,500
				31/07/_5	By Balance b/d	–	2,000

Dr Manu a/c Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
05/10/_5	To Goods/stock a/c	–	2,000	01/10/_5	By Goods/stock a/c	–	25,000
08/10/_5	To Cash a/c	–	10,000				
30/07/_5	To Balance c/d	–	13,000				
	Tl		25,000		Tl		25,000
				31/07/_5	By Balance b/d	–	13,000

Sonu a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
02/10/_5	To Goods/stock a/c	–	20,000	10/10/_5 14/10/_5 30/07/_5	By Goods/stock a/c By Cash a/c By Balance c/d	– – –	3,000 12,000 5,000
	tl		20,000		Tl		20,000
31/07/_5	To Balance b/d	–	5,000				

Meenu a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
30/07/_5	To Balance c/d	–	15,000	03/10/_5	By Goods/stock a/c	–	15,000
	tl		15,000		Tl		15,000
				31/07/_5	By Balance b/d	–	15,000

Furniture a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
06/10/_5	To Cash a/c	–	15,000	16/10/_5 30/07/_5	By Cash a/c By Balance c/d	– –	1,000 14,000
	tl		15,000		Tl		15,000
31/07/_5	To Balance b/d	–	14,000				

Zenu a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
13/10/_5 30/07/_5	To Goods/stock a/c To Balance c/d	– –	1,000 11,000	07/10/_5	By Goods/stock a/c	–	12,000
	tl		12,000		Tl		12,000
				31/07/_5	By Balance b/d	–	11,000

Jane a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
09/10/_5	To Goods/stock a/c	–	13,500	11/10/_5 30/07/_5	By Cash a/c By Balance c/d	– –	5,500 8,000
	Tl		13,500		Tl		13,500
31/07/_5	To Balance b/d	–	8,000				

Drawings a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
12/10/_5 17/10/_5	To Goods/stock a/c To Cash a/c	– –	3,000 15,000	30/07/_5	By Balance c/d	–	18,000
	tl		18,000		Tl		18,000
31/07/_5	To Balance b/d	–	18,000				

Machinery a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
15/10/_5	To Cash a/c	–	18,000	30/07/_5	By Balance c/d	–	18,000
	tl		18,000		Tl		18,000
31/07/_5	To Balance b/d	–	18,000				

2. Journalise the following transactions in the books of Moon and post them into the ledger for the month of August

Aug 10th : Moon commenced business with a capital of 1,50,000

11th : Cash deposited into bank 50,000

12th : Bought equipment for 15,000

13th : Bought goods worth 20,000 from Star and payment made by cheque

14th : Sold goods to Sun for 15,000 and payment received through cheque

16th : Paid rent by cheque 5,000

17th : Took loan from Mr. Storm 25,000

18th : Received commission from Mr. Air by cheque 5,000

19th : Wages paid 15,000

20th : Withdrew from bank for personal use 3,000

21st : Withdrew from bank for office use 10,000

22nd : Bought goods for 25,000

23rd : Cash paid into bank 30,000

24th : Interest paid through cheque 2,000

25th : Gave loan to Mr.Wind 10,000

26th : Amount paid to Mr. Storm on loan account 15,000

27th : Salary paid to Manager Mr. Liquid 5,000

28th : Postage paid 1,000

29th : Received cheque from Mr. Wind on loan account 3,000

30th : Sold part of the equipment for 2,000

Date	Particulars	L/F	Amount (Dr)	Amount (Cr)
August 10th	Cash a/c Dr To Capital a/c [Being the amount received from Mr. Moon, the proprietor as his capital contribution]	– –	1,50,000	 1,50,000
11th	Bank a/c Dr To Cash a/c [Being the amount of cash deposited into bank]	– –	50,000	 50,000
12th	Equipment a/c Dr To Cash a/c [Being the value of equipment purchased from M/s___ for cash]	– –	15,000	 15,000
13th	Goods/stock a/c Dr	–	20,000	

Date	Particulars	L/F	Amount (Dr)	Amount (Cr)
	To Bank a/c [Being the payment made for stock purchased]	–		20,000
14th	Bank a/c Dr To Goods/stock a/c [Being the amount received for stock sold to Mr. Sun]	– –	15,000	 15,000
16th	Rent a/c Dr To Bank a/c [Being the amount paid for rent]	– –	5,000	 5,000
17th	Cash a/c Dr To Loan from Storm a/c [Being the cash received from Mr. Storm as loan]	– –	25,000	 25,000
18th	Bank a/c Dr To Commission a/c [Being the amount received for commission]	– –	5,000	 5,000
19th	Wages a/c Dr To Cash a/c [Being the amount paid for wages]	– –	15,000	 15,000

Date	Particulars	L/F	Amount (Dr)	Amount (Cr)
20th	Drawings a/c Dr To Bank a/c [Being the amount withdrawn from bank for personal use]	– –	3,000	3,000
21st	Cash a/c Dr To Bank a/c [Being the amount withdrawn from bank for office purpose]	– –	10,000	10,000
22nd	Goods/stock a/c Dr To Cash a/c [Being the amount of cash paid for stock purchases]	– –	25,000	25,000
23rd	Bank a/c Dr To Cash a/c [Being the amount deposited into bank]	– –	30,000	30,000
24th	Interest a/c Dr To Bank a/c [Being the amount of interest paid]	– –	2,000	2,000
25th	Loan to Mr. Wind a/c Dr	–	10,000	

Date	Particulars	L/F	Amount (Dr)	Amount (Cr)
	To Cash a/c [Being the amount of cash given to Mr. Wind as loan]	–		10,000
26th	Loan from Strom a/c Dr To Cash a/c [Being the amount paid to Mr. Storm for repayment of loan]	– –	15,000	 15,000
27th	Salary a/c Dr To Cash a/c [Being the amount paid for salary to Mr. Liquid]	– –	5,000	 5,000
28th	Postage a/c Dr To Cash a/c [Being the amount paid for purchase of postage]	– –	1,000	 1,000
29th	Bank a/c Dr To Loan to Mr. wind a/c [Being the Cheque received from Mr. Wind]	– –	3,000	 3,000
30th	Cash a/c Dr To Equipment a/c [Being the amount received on sale of equipment]	– –	2,000	 2,000

General Ledger
[Books of M/s Rama & Sons]

Cash a/c

Dr | Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
10/10/_5	To Capital a/c	–	1,50,000	11/10/_5	By Bank a/c	–	50,000
17/10/_5	To Loan from	–	25,000	12/10/_5	By Equipment a/c	–	15,000
21/10/_5	Storm a/c	–	10,000	19/10/_5	By Wages a/c	–	15,000
30/10/_5	To Bank a/c	–	2,000	22/10/_5	By Goods/stock	–	25,000
	To Equipment a/c			23/10/_5	a/c	–	30,000
				25/10/_5	By Bank a/c	–	10,000
				26/10/_5	By Loan to Mr.	–	15,000
				27/10/_5	Wind a/c	–	5,000
				28/10/_5	By Loan from	–	1,000
				31/08/_5	Strom a/c	–	21,000
					By Salary a/c		
					By Postage a/c		
					By Balance c/d		
	tl		1,87,000		Tl		1,87,000
01/09/_5	To Balance b/d	–	21,000				

Capital a/c

Dr | Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/08/_5	To Balance c/d	–	1,50,000	10/10/_5	By Cash a/c	–	1,50,000

Capital a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
	tl		1,50,000		TI		1,50,000
				01/09/_5	By Balance b/d	–	1,50,000

Bank a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
11/10/_5 14/10/_5 18/10/_5 23/10/_5 29/10/_5	To Cash a/c To Goods/stock a/c To Commission a/c To Cash a/c To Loan to Mr. wind a/c	– – – – –	50,000 15,000 5,000 30,000 3,000	13/10/_5 16/10/_5 20/10/_5 21/10/_5 24/10/_5 31/08/_5	By Goods/stock a/c By Rent a/c By Drawings a/c By Cash a/c By Interest a/c By Balance c/d	– – – – – –	20,000 5,000 3,000 10,000 2,000 63,000
	tl		1,03,000		TI		1,03,000
01/09/_5	To Balance b/d	–	63,000				

Equipment a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount

Equipment a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
12/10/_5	To Cash a/c	–	15,000	30/10/_5 31/08/_5	By Cash a/c By Balance c/d	– –	2,000 13,000
	tl		15,000		Tl		15,000
01/09/_5	To Balance b/d	–	13,000				

Goods/stock a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
13/10/_5 22/10/_5	To Bank a/c To Cash a/c	– –	20,000 25,000	14/10/_5 31/08/_5	By Bank a/c By Balance c/d	– –	15,000 30,000
	tl		45,000		Tl		45,000
01/09/_5	To Balance b/d	–	30,000				

Rent a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
16/10/_5	To Bank a/c	–	5,000	31/08/_5	By Balance c/d	–	5,000
	tl		5,000		Tl		5,000

Rent a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
01/09/_5	To Balance b/d	–	5,000				

Loan from Storm a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/08/_5	To Balance c/d	–	25,000	17/10/_5	By Cash a/c	–	25,000
	tl		25,000		Tl		25,000
				01/09/_5	By Balance b/d	–	25,000

Commission a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/08/_5	To Balance c/d	–	5,000	18/10/_5	By Bank a/c	–	5,000
	tl		5,000		Tl		5,000
				01/09/_5	By Balance b/d	–	5,000

Wages a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
19/10/_5	To Cash a/c	–	15,000	31/08/_5	By Balance c/d	–	15,000
	tl		15,000		Tl		15,000
01/09/_5	To Balance b/d	–	15,000				

Drawings a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
20/10/_5	To Bank a/c	–	3,000	31/08/_5	By Balance c/d	–	3,000
	tl		3,000		Tl		3,000
01/09/_5	To Balance b/d	–	3,000				

Interest a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
24/10/_5	To Bank a/c	–	2,000	31/08/_5	By Balance c/d	–	2,000
	tl		2,000		Tl		2,000
01/09/_5	To Balance b/d	–	2,000				

Loan to Mr. Wind a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
25/10/_5	To Cash a/c	–	10,000	31/08/_5	By Balance c/d	–	10,000
	tl		10,000		Tl		10,000
01/09/_5	To Balance b/d	–	10,000				

Loan from Strom a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
26/10/_5	To Cash a/c	–	15,000	31/08/_5	By Balance c/d	–	15,000
	tl		15,000		Tl		15,000
01/09/_5	To Balance b/d	–	15,000				

Salary a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
27/10/_5	To Cash a/c	–	5,000	31/08/_5	By Balance c/d	–	5,000

Salary a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
	tl		5,000		Tl		5,000
01/09/_5	To Balance b/d	–	5,000				

Postage a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
28/10/_5	To Cash a/c	–	1,000	31/08/_5	By Balance c/d	–	1,000
	tl		1,000		Tl		1,000
01/09/_5	To Balance b/d	–	1,000				

Loan to Mr. wind a/c

Dr Cr

Date	Particulars	J/F	Amount	Date	Particulars	J/F	Amount
31/08/_5	To Balance c/d	–	3,000	29/10/_5	By Bank a/c	–	3,000
	tl		3,000		Tl		3,000
				01/09/_5	By Balance b/d	–	3,000

Trail Balance

A **trial balance** is a list of all the general ledger accounts (both revenue and capital) contained in the ledger of a business. This list will contain the name of each nominal ledger account and the value of that nominal ledger balance. Each nominal ledger account will hold either a debit balance or a credit balance. The debit balance values will be listed in the debit column of the trial balance and the credit value balance will be listed in the credit column. The trading profit and loss statement and balance sheet and other financial reports can then be produced using the ledger accounts listed on the same balance.

RULES OF TRIAL BALANCE

- All assets must be put on the debit side
- All liabilities must be put on the credit side
- All income or gain must be recorded on the credit side
- All expenses must be recorded on the debit side

Limitations of Trial Balance

As we saw the trial balance is an important account for bookkeepers. But there are some limitations of a trial balance as well. One main limitation is that it does not point out all types of errors. This means that even if we have a fully balanced trial balance it will not assure 100% accuracy of the accounts. There are many types of errors a trial balance does not draw attention too. Some such errors are

- A transaction that is completely missing, was not even journalized
- When the wrong amount was written in both the accounts
- If a posting was done in the wrong account but in the right amount
- An entry that was never posted in the ledger altogether
- Double posting of entry by mistake

Importance of trail balance:

1. Checking Arithmetical Accuracy: It means that trial balance is used to verify the actual amount entered on the right side of the current account while migrating the figures from various ledger books like purchase books, sales books, cash books, etc. Trial Balance

aside from general ledger accounts is also useful to check the accuracy of special-purpose accounting books.

2. Assist in Preparing Financial Statements: Profit and Loss Account, Balance Sheet, and Cash Flow Statement need to be prepared at the end of each accounting year. The balances of all the ledger accounts used to prepare financial statements are already available in the trial balance. Hence, it makes the preparation and analysis of financial statements easier.
3. Assist in Rectifying errors: The debit total of the trial balance must equal to credit total of trial balance. This checks the arithmetical accuracy of ledger postings. If this does not happen, it will make the accountant find and rectify the error. Accountants, therefore, feel relieved when the trial balance debit totals and credit totals match.
4. Assist in Adjustments: Adjustment accounts like prepaid expenses, outstanding liabilities, closing stock, etc needs to be prepared during the preparation of trial balance. This assists in making adjustments only relevant to the current accounting year. Businesses prepare adjustment accounts generally at the end of the accounting year. However, there is no restriction to open these adjustment accounts as they occur.
5. Assist in Comparative Analysis: Preparation of Trial Balance helps to compare balances of the current year with past year balances along with peer analysis. This helps the business to make important decisions regarding income, expenses, production costs, etc. It helps to recognize the trend in the business and take action wherever necessary.
6. Assist in preparation of Audit Reports: Trial Balance helps the auditors to locate the entries in the original books of accounts. Basically, the audit trail is what auditors need to audit, and this is what trial balance provides. Auditors are then able to comment on the preparation of financial statements in their audit report.
7. Assist in Decision Making regarding budget: As we have seen above, trial balance helps in comparison of ledger balances with the past balances.
8. Such comparison helps the management to create a trend regarding the performance of the business. After analyzing the comparisons, the financial budget can be prepared for the upcoming accounting periods to assist the management.

Trail balance profarma :

Particulars	Debit	Credit

1. Prepare the trial balance of ABC Inc. from the available balances as on date 31.03.2019, which as follows:

Particulars	Amount
Business loans and advances	500000
Reserve and surplus	2,250,000
Profit and loss balance	1125000
Goodwill	1000000
Trade receivable	62,500
Telephone charges	50,000
Tangible assets	1250000
Investments	500000

Solution : Now, the trial balance of ABC Inc. as on 31.03.2019 is as follows:

Particulars	Debit	Credit
Business loans and advances	-	5,00,000
Reserve and surplus	-	2,250,000
Profit and loss balance	-	1,12,500
Goodwill	10,00,000	-
Trade receivable	62,500	-
Telephone charges	50,000	-
Tangible assets	12,50,000	-
Investments	5,00,000	-
Total	28,62,500	28,62,500

The main thing to notice here is the total of debit and credit side of the trial balance is equal.

2. Prepare the trial balance of an NBFC having following ledger balances as on date 31.03.2019 which as follows:

Particulars	Amount
Loans	270,000
Salary paid	12,500
Profit and loss balance	25,5000
Provision for bad debts	40,000
Installments receivables	4,72,500

Solution : Now, the trial balance of NBFC as on 31.03.2019 is as follows:

Particulars	Debit	Credit
Loans	-	270,000
Salary paid	12,500	-
Profit and loss balance	-	25,5000
Provision for bad debts	40,000	-
Installments receivables	4,72,500	-
Total	**5,25,000**	**5,25,000**

3. Example of NSBHandicraft. We will prepare the trial balance as per the transactions shown in below table for the firm on March 31st, 2019

Particulars	Amount
Bill payable	5,000
insurance charge	5,000
Owner investments	80,000
Unearned revenue	4,000
Bank loan	25,000
Marketable security	10,000
Accrued depreciation equipment	14,000
depression expenses equipment	3,000
Rent	15,000
Outstanding salaries	5,000
Machinery	30,000
Prepaid rent	4,000
Sundry debtors	15,000
Accrued revenue	20,000
Unexpired insurance	10,000

Vendor payable	4,000
Drawings	2,000
Equipment	20,000
Maintenance expenses	3,000
Accrued expenses	1,000
Mics expenses	2,000
Sales	42,250
Purchase	30,000
Taxes	11,250

Solution : As per the transactions are shown above, now we will prepare Trial Balance for NSBHandicraft as on March 31st, 2019.

Particulars	**Debit**	**Credit**
Bill payable	-	5,000
insurance charge	5,000	-
Owner investments	-	80,000
Unearned revenue	-	4,000
Bank loan	-	25,000
Marketable security	10,000	-
Accrued depreciation equipment	-	14,000
depression expenses equipment	3,000	-
Rent	15,000	-
Outstanding salaries	-	5,000
Machinery	30,000	-
Prepaid rent	4,000	-
Sundry debtors	15,000	-
Accrued revenue	20,000	-
Unexpired insurance	10,000	-
Vendor payable	-	4,000

Drawings	2,000	-
Equipment	20,000	-
Maintenance expenses	3,000	-
Accrued expenses	-	1,000
Mics expenses	2,000	
Sales	-	42,250
Purchase	30,000	-
Taxes	11,250	-
Total	**1,80,250**	**1,80,250**

4. prepare trail balance

Particulars	**Amount**
Capital	7,63,050
Furniture & Fixture	40,000
Land & Building	4,03,000
Plant & Machinery	2,00,000
Drawings	60,000
Patents	20,000
Stock	4,00,000
Purchases	9,50,000
Wages	50,000
Salaries	72,000
Sundry Debtors	3,50,000
Sales	13,20,000
Sales Returns	61,000
Purchases Returns	10,000
Loan from Ketan	4,00,000
Rent, Rates & Taxes	48,000
Bad Debts	4,000
Sundry Creditors	2,24,000

Discount received	9,000
Trade Expense	700
Interest on Loan	4,500
Insurance	6,500
Traveling Expenses	3,000
Cash in Hand	2,100
Cash at Bank	51,250

Solution:

Particulars	**Debit**	**Credit**
Capital	-	7,63,050
Furniture & Fixture	40,000	-
Land & Building	4,03,000	-
Plant & Machinery	2,00,000	-
Drawings	60,000	-
Patents	20,000	-
Stock	4,00,000	-
Purchases	9,50,000	-
Wages	50,000	-
Salaries	72,000	-
Sundry Debtors	3,50,000	-
Sales	-	13,20,000
Sales Returns	61,000	-
Purchases Returns	-	10,000
Loan from Ketan	-	4,00,000
Rent, Rates & Taxes	48,000	-
Bad Debts	4,000	-
Sundry Creditors	-	2,24,000

Discount received	-	9,000
Trade Expense	700	-
Interest on Loan	4,500	-
Insurance	6,500	-
Traveling Expenses	3,000	-
Cash in Hand	2,100	-
Cash at Bank	51,250	-

Subsidiary books

Subsidiary Books are books of Original Entry. They are also known as Day Book or special journals. We record transactions of similar nature are in Subsidiary Books. They are helpful in overcoming the limitations of journal book or journal entries. The following are the subsidiary books a company will generally maintain while writing their accounts,

- **Cash Book-** It is a book which records the receipts and payment of cash transaction.

Format of Cash Book

Date	Particulars	L.F.	Cash	Bank	Discount Allowed	Date	Particulars	L.F.	Cash	Bank	Discount Received

- **Purchase Book-** It is a book which records all the credit purchases of goods of the company.

Purchase Book Format

Date	Name of the Supplier and details of purchases	Invoice ref.	L.F.	Amount (₹)	Remarks

- **Purchase Return Book-** It is a book which records all the return of credit purchases of goods of the company.

Purchase Return Book

Date	Particulars	Debit Note No.	L.F.	Details	Totals	Remarks

- **Sales Book-** It is a book which records all the credit sales of goods of the company.

Sales Book Format

Date	Particulars	Invoice ref.	L.F.	Amount (₹)	Remarks

- **Sales Return Book-** It is a book which records all the return of credit sales of goods of the company.

Sales Return Book

Date	Particulars	Outward invoice	L.F.	Details	Totals	Remarks

- **Bills Receivable Book-** It is a book which records all the bills receivable.

Bills Receivable Book Format

No. of bills	Daye of receipt	From whom	Name of the receiver	Name of the drawer	Name of acceptor	Date of bill	Due date	L.F.	Amount of bill	How disposed off

- **Bills Payable Book-** It is a book which records all the bills payable.

Bills payable Book Format

No. of bills	Daye of acceptance	To whom	Name of drawer	Name of the payee	Where payable	Date of bill	Term	Due date	L.F.	Amount of bill how disposed of

- **Journal Proper-** All the transactions which are not recorded in the above books are recorded here.

Final accounts

The accounts which are prepared at the final stage of the accounting cycle to know the profit or loss and financial position of a business concern are called **Final Accounts**.

These transactions are then summarized and arithmetical accuracy is checked by means of a “Trial Balance”. After the preparation of “Trial Balance”, the next step is the preparation of “Final Accounts”. The accounting cycle begins with the recording of transactions in the books of original entry and ends with the preparation of “Final Accounts”. As these accounts are prepared at the final stage of the accounting cycle that’s why these are called “Final Accounts”. These accounts consist of the followings:

1. Trading Account
2. Profit and Loss Account
3. Balance Sheet.

Study of Debit side of Trading Account

- **Opening Stock** − Unsold closing stock of the last financial year is appeared on the debit side of the Trading Account as “To Opening Stock“ of the current financial year.
- **Purchases** − Total purchases (net of purchase return) including cash purchase and credit purchase of traded goods during the current financial year appeared as “To Purchases” in the debit side of the Trading Account.
- **Direct Expenses** − Expenses incurred to bring traded goods at business premises/warehouse called direct expenses. Freight charges, cartage or carriage charges, custom and import duty in case of import, gas, electricity fuel, water, packing material, wages, and any other expenses incurred in this regards comes under the debit side of Trading Account and appeared as “To Particular Name of the Expenses”.
- **Sales Account** − Total Sale of the traded goods including cash and credit sales will appear in the outer column of the credit side of the Trading Account as “By Sales.” Sales should be on net releasable value excluding Central Sales Tax, Vat, Custom, and Excise Duty.
- **Closing Stock** − Total Value of the unsold stock of the current financial year is called closing stock and will appear on the credit side of the Trading Account.
  closing Stock = Opening Stock + Net Purchases – Net Sale

- **Gross Profit** − Gross profit is the difference between revenue and the cost of providing services or making products. However, it is calculated before deducting payroll, taxation, overhead, and other interest payments. Gross Margin is used in US English and carries the same meaning as the Gross Profit.
  Gross Profit = Sales – Cost of Goods Sold

- **Operating Profit** − Operating profit is the difference in revenue and the costs generated by ordinary operations. However, it is calculated before deducting taxes, interest payments, investment gains/losses, and any other non-recurring items.
  Operating Profit = Gross Profit – Total Operating Expenses

- **Net Profit** − Net profit is the difference in total revenue and the total expenses of the company. It is also known as net income or net earnings.

It is a part of the final accounts of the entity. In other words, the trading account gives details of total sales, total purchases, and direct expenses relating to purchase and sales. The trading account format for the year contains Particulars, Amount, Dr., Cr., Purchases, Sales, etc

Steps in the preparation of final accounts:

1. Read the list of Trial Balance items and adjustments carefully

2. Record all the debit items given in the Trial Balance on either expenses side of Trading-P&L Account or Asset Side of Balancesheet

3. Record all the credit items given in the Trial Balance on either Income side of Trading-P&L Account or Liabilities Side of Balancesheet

4. Remember to post all the trial balance items only once, but all the adjustments items twice (one debit effect and one credit effect)

5. Balance your trading-P&L a/c first and determine profit/loss

6. Add this profit obtained with the Capital, on the liabilities side of the balance sheet

7. Take the total of the balance sheet.

Remember every debit has a corresponding credit.

Trading account :

The first step in the presentation of final account is the preparation of the trading account. The main purpose of preparing of a trading account is:

1. to ascertain gross profit and gross loss as a result of buying and selling of goods.

2. to enable management to make a comparison of gross profit or gross loss of the current year with that of previous years.

Proforma of trading account:

Trading account of …………for the year ended…………

Particulars		**Amount (in Rs)**	**Particulars**		**Amount (in Rs)**
To opening stock		Xxx	By sales	Xxx	
To purchases	Xxx		(-)sales returns	Xxx	
(-)purchase returns	Xxx				Xxx
		Xxx			
To local taxes		Xxx			
To import duty		Xxx	By closing stock		Xxx
To wages		Xxx			
To coal, gas ,water		Xxx			
To fuel and power		Xxx			
To manufacturing expenses		Xxx			
To carriage inwords		Xxx			
To gross profit trand		Xxx			
To peanull a/c		Xxx			

Profit and loss amount:

The business man is always interested in knowing this net income or net profit. Net profit represents the excess of gross profit plus other revenve incomes over sales expenses including sales cost and other expenses.

The objectives of preparing profit and loss account are !

1. to provide information about net profit.
2. to compare of current year income with that of the previous years.
3. to take concentrate steps to increase the net profit in future through analysis of expenses .
4. to allocate net profits among parners.

Proforma of profit and loss a/c:

Profit and Loss Account

(For the period ended . . . .)

Dr. Cr.

Particulars	**Amount**	**Particulars**	**Amount**
To Gross loss b/d		By Gross profit b/d	
To Salaries		By Interest received	
To Rent		By Commission received	
To Commission		By Discount received	
To Advertisements			
To Bad debts			
To Discount			
To Net profit transferred to Capital Account		To Net loss transferred to Capital Account	
Total		Total	

- **Gross loss**: It is transferred from the Trading account.
- **Salaries**: It refers to the amount paid to the employees as their salaries.
- **Interest paid**: It refers to the amount paid as interest on loans.
- **Commission paid**: It refers to the amount paid as commission to the agents.

- **Trade expenses**: It refers to the amount spent on various number of small but important expenses related to business.
- **Printing and stationary**: It refers to the amount spent on printing of bills, invoices, registers, files and letter heads.
- **Advertisements**: It refers to the amount spent for attracting customers to buy the products.
- **Bad debts**: It refers to the amount, which is not paid by the debtors to whom the goods were sold on credit.
- **Discount**: It refers to the amount, which is reduced from the list price of goods.
- **Gross profit**: It is transferred from the Trading account.
- **Interest received**: It refers to the amount received as interest on investments.
- **Commission received**: It refers to the commission earned by the business for giving business to others.

Balance Sheet

- It is a financial statement that states the financial position of the business.
- It lists the assets and liabilities of a business on a particular date.
- The assets and liabilities on a Balance Sheet are listed in either of the following two orders:
  - Liquidity order
  - Permanency order

Format of Balance Sheet:

Balance Sheet

(As on . . . .)

Liabilities	**Amount**	**Assets**	**Amount**
Bank overdraft		Cash in Hand	
Outstanding expenses		Cash at bank	
Bills payable		Prepaid expenses	
Sundry creditors		Bills receivables	
Long-terms loans		Sundry debtors	
Capital		Closing stock	
		Raw materials	

		Work-in-progress	
		Finished goods	
		Plant and machinery	
Total		Total	

1. The following is the list of balances extracted from its books on 31st December, 2004:

	Rs.	
Wages	84,865	
Calls-in-arrears	7,500	
Premises	3,00,000	
Plant and Machinery	3,30,000	
Interim Dividend paid on 1st August, 2004	37,500	
Stock, 1st January, 2004	75,000	
Fixtures	7,200	
Sundry Debtors	87,000	
Goodwill	25,000	
Cash in hand	750	
Cash at Bank	39,900	
Purchases	1,85,000	
Preliminary Expenses	5,000	
General Expenses	16,835	
Freight and Carriage	13,115	
Salaries	14,500	
Director's Fees	5,725	
Bad Debts	2,110	
Debenture Interest paid	9,000	
Subscribed and fully called-up capital	4,00,000	
6% Debentures	3,00,000	
Profit and Loss Account (Cr. Balance)	14,500	
Bills Payable	38,000	
Sundry Creditors	50,000	
Sales	4,15,000	
General Reserve	25,000	
Bad Debts Reserve 1st January, 2004	3,500	

Prepare Trading and Profit and Loss Account and Balance Sheet in proper form after making the following adjustments:

Depreciate Plant and Machinery by 10%. Write off Rs 500 from Preliminary Expenses. Provide half year's Debenture interest due. Leave Bad and Doubtful Debts Reserve at 5% on Sundry Debtors. Stock on 31st December, 2004, was Rs. 95,000.

SOLUTION :

The Alpha Manufacturing Company Ltd.
Trading and Profit and Loss Account
for the year ended 31st Dec., 2004

	Rs.		*Rs.*
To Opening Stock	75,000	By Sales	4,15,000
To Purchases	1,85,000	By Closing Stock	95,000
To Wages	84,865		
To Freight and Cartage	13,115		
To Gross Profit c/d	1,52,020		
	5,10,000		5,10,000

To Salaries		14,500	By Gross Profit b/d	1,52,020
To Interest on Deb.	9,000			
Add Outstanding	9,000	18,000		
To General Expenses		16,835		
To Preliminary Expenses		500		
To Directors' Fees		5,725		
To Provision for Bad Debts :				
Required	4,350			
Add Bad Debts	2,110			
	6,460			
Less Existing Provision	3,500	2,960		
To Depreciation on Plant and Machinery		33,000		
To Net Profit		60,500		
		1,52,020		1,52,020

Profit and Loss Appropriation Account

	Rs.		Rs.
To Interim Dividend	37,500	By Balance b/d	14,500
To Balance c/d	37,500	By Net Profit	60,500
	75,000		75,000

The Alpha Manufacturing Company Ltd.
Balance Sheet as on 31st December 2004

Liabilities		*Rs.*	*Assets*		*Rs.*
Share Capital			Fixed Assets :		
Authorised			Goodwill		25,000
60,000 Equity Shares of			Premises		3,00,000
Rs 10 each		6,00,000	Plant and Machinery	3,30,000	
Subscribed :			*Less* Depreciation	33,000	2,97,000
40,000 Equity Shares of			Fixtures		7,200
Rs 10 each fully called up	4,00,000		Investments, Current Assets,		
Less Calls-in arrears	7,500	3,92,500	Loans and Advances :		
Reserve and Surplus			Stock		95,000
General Reserve		25,000	Debtors	87,000	
Profit and Loss Account		37,500	Less Provision	4,350	82,650
Secured Loans			Cash in hand		750
6% Debentures		3,00,000	Cash at Bank		39,900
Unsecured Loans, Current Liabilities			Miscellaneous Expenditure :		
and Provisions :			Preliminary Expenses		4,500
Bills Payable		38,000			
Sundry Creditors		50,000			
Interest on Debentures		9,000			
		8,52,000			8,52,000

Problem 2:

The authorised capital of Inter-State Distributors Ltd. is Rs 7, 50,000 consisting of 3,000 6% cumulative preference shares of Rs 100 each.

The following is the trial balance drawn up on 31st December 2004:

	Dr. Rs.	Cr. Rs.
Paid-up Capital :		
3,000 6% cumulative preference shares	–	3,00,000
3,000 equity shares (Rs 75 per share called up)	–	2,25,000
Goodwill	1,00,000	–
5% first mortgage debentures		
(secured on freehold properties)	–	2,10,000
Trade Debtors and Creditors	1,67,500	1,25,520
Freehold properties at cost	3,90,000	–
Stock on 1st January 2004	2,41,500	–
General Reserve	–	82,725
Salaries	1,03,500	–
Profit and Loss Account	–	58,500
Reserve for taxation	–	8,800
Delivery expenses	1,02,000	–
Rent and rates	38,250	–
General expenses	21,000	–
Furniture at cost	75,000	–
Sales	–	9,18,600
Purchases	4,76,500	–
Bills Receivable	6,000	–
Freight and carriage inward	3,750	–
Investments :		
600 shares of Rs 100 each in Sunrise Ltd.	60,000	–
Debenture interest (half year to June 2004)	5,250	–
Final Dividend for 2003	20,250	–
Preference dividend (half year to 30th june 2004)	9,000	–
Balance at bank in Current A/c	97,500	–
Cash in hand	14,145	–
Share Forfeited Account	–	2,000
	19,31,145	19,31,145

(a) The value of stock on 31st December 2004 was Rs 2, 15,000.

(b) Depreciation on freehold properties is to be provided at 2 ½ A% and on furniture at 6%.

(c) The directors propose to pay the second half year's dividend on preference shares and a 10% dividend on equity shares.

(d) Shares have been forfeited on non-payment of Rs. 35 per share. You are required to prepare final accounts of the company.

Solution:

Profit and Loss Account
for the year ended 31st December 2004

Dr.	Rs.		Cr Rs.
To Opening Stock	2,41,500	By Sales	9,18,600
To Purchases	4,76,500	By Closing Stock	2,15,000
To Freight and Carriage	3,750		
To Gross Profit	4,11,850		
	11,33,600		11,33,600
To Salaries	1,03,500	By Gross Profit	4,11,850
To Delivery Expenses	1,02,000		
To Rent and Rates	38,250		
To General Expenses	21,000		
To Debenture Interest	10,500		
To Depreciation :			
Freehold property	9,750		
Furniture	4,500		
To Net Profit	1,22,350		
	4,11,850		4,11,850

Profit and Loss Appropriation Account
for the year ended 31st December 2004

	Rs.		Rs.	
To Preference Share Dividend, half year	9,000	By Profit (2003)	58,500	
To Preference Share Dividend, Final	9,000	*Less* : Dividend	20,250	38,250
To Equity Dividend, proposed	22,500	By Profit (2004)		1,22,350
To Balance b/d	1,20,100			
	1,60,600			1,60,600

Balance Sheet
as on 31st December 2004

Liabilities	*Amount* Rs.	*Assets*		*Amount* Rs.
Share Capital :		Fixed Assets :		
Authorised Capital :		Goodwill		1,00,000
7,500 shares of Rs 100 each	7,50,000	Freehold Property	3,90,000	
Issued Capital :		*Less* : Depreciation	9,750	3,80,250
3,000 6% Cumulative Preference		Furniture	75,000	
Shares of Rs 100 each	3,00,000	*Less* : Depreciation	4,500	70,500

* 3,050 Equity Shares of Rs. 100 each	3,05,000	Investment at cost ; 600 shares of Rs 100 each (Sunrise Ltd.)	60,000
Subscribed Capital :		Current Assets and Loans and Advances :	
3,000 6% Cumulative Preference Shares of Rs. 100 each	3,00,000	Current Assets :	
3,000 Equity Shares of Rs 100 Rs 75 paid up	2,25,000	Stock-in-trade	2,15,000
Forfeited Shares	2,000	Trade Debtors	1,67,500
Reserves and Surplus :		Cash in hand	14,145
General Reserve	82,725	Cash at Bank	97,500
Profit and Loss A/c	1,20,100	Loans and Advances :	
Secured Loans :		Bills Receivable	6,000
5% first mortgage debentures (secured on freehold properties)	2,10,000		
Interest outstanding	5,250		
Current Liabilities and Provisions :			
Current Liabilities :			
Trade Creditors	1,25,520		
Provisions :			
Provision for tax	8,800		
Proposed Dividend (Preference Shares)	9,000		
Proposed Dividend (Equity Shares)	22,500		
	11,10,895		11,10,895

* Called up Rs 75 per share
Non-payment Rs 35 per share
∴ Paid up = Rs 40 per share

Forfeited shares = $\frac{2000}{40}$ = 50 shares

3. Sunshine Limited was incorporated on 1st April 2004 to take over from 1st January 2004 the existing business of the Moon-light and Company, a partnership firm. Under the takeover agreement all profits made from 1st January are to belong to the Company. The purchase consideration was Rs 10, 00,000. The vendors were allotted 5,000 shares of Rs 100 each at a premium of Rs 10 per share in part payment of the purchase price and balance was paid on 1st July 2004 together with an interest at 10% per year.

The following balances appear in the Company's stock as on 31st December 2004:

	Rs.		Rs.
Share Capital :		Cash in hand	3,500
6,500 shares of Rs 100 each fully		Bank Balance	59,000
paid, including Vendor's shares	6,50,000	Preliminary Expenses	8,500
Security Premium A/c	65,000	Rates and Taxes	9,000
Bank Overdraft (secured by stock)	1,50,000	Buildings at Cost	2,60,000
Fixed Deposits from Outsiders	22,500	Furniture and Fixtures at Cost	22,000
Sundry Creditors	65,000	Transport vehicles at Cost	45,000
Freehold land at cost	1,00,000	Salaries and Wages	55,000
Stock as on 1st January 2004 at		Rent Received	16,000
lower cost and market values	5,20,000	Audit Fees	5,000
Book Debts: Rs 1,44,000 unsecured		Miscellaneous Expenses	
17,000			
but considered good, Rs 10,000		Purchases	7,60,000
doubtful	1,54,000	Repairs to Buildings	4,500
		Director's Fees	3,500
		Sales	10,80,000

4. The stock-in-trade as on 31st December 2004, at lower cost and market value, amounted to Rs 5, 06,000. Bad debts amounting to Rs 1,500, out of which Rs 750 related to the book debts taken over by the company, have to be written off, and a provision of Rs 6,000 has to be made for doubtful debts as on 31st December 2004.

Depreciation has to be written off: Buildings at 7.5%, Furniture and Fixtures at 10%, Transport vehicles at 15%.

Vehicles include one Tempo (second-hand) purchased on 1st July 2004 at Rs 15,000. The business is seasonal to some extent, the sales in the second half of the year being twice the sales in the first half, but sales during the two seasons are spread evenly. Preliminary expenses are to be wholly written off.

Prepare the Profit and Loss Account of the Company for the year ended 31 st December 2004 and the Balance Sheet as at that date in accordance with the requirements of the Companies Act, 1956.

SOLUTION :

Sunshine Ltd.
Profit and Loss Account
for the year ended 31st December 2004

	Rs.		Rs.
To Stock	5,20,000	By Sales	10,80,000
To Purchases	7,60,000	By Closing Stock	5,06,000
To Gross Profit	3,06,000		
	15,86,000		15,86,000

	Prior to Incorporation Rs.	Post-Incorporation Rs.		Prior to Incorporation Rs.	Post-Incorporation Rs.
To Salaries & Wages	13,750	41,250	By Gross Profit	51,000	2,55,000
To Rate & Taxes	2,250	6,750	By Rent	4,000	12,000
To Audit Fees	1,250	3,750			
To Misc. Expenses	4,250	12,750			
To Repairs	1,125	3,375			
To Bad Debts	750	750			
To Provision for B.D	–	6,000			
To Directors' Fees	–	3,500			
To Depreciation :					
Buildings	4,875	14,625			
Furniture	550	1,650			
Vehicles	1,125	3,375			
New Vehicles	–	1,125			
To Interest paid to Vendors	–	22,500			
To Prel. Expenses	–	8,500			
To Capital Reserve	25,075	–			
To Net Profit	–	1,37,100			
	55,000	2,67,000		55,000	2,67,000

Balance Sheet as on 31st December 2004

Liabilities	*Rs*	*Assets*		*Rs*
Share Capital :		Fixed Assets :		
Authorised, Issued & Subscribed :		Freehold Land		1,00,000
6,500 Equity Shares of Rs 100		Buildings	2,60,000	
each fully paid up	6,50,000	*Less* Depreciation	19,500	2,40,500
(Including 5,000 shares issued		Furniture	22,000	
to Vendors)		*Less* Depreciation	2,200	19,800
Reserves & Surplus :		Vehicles	45,000	
Capital Reserve (Profit Prior to		*Less* Depreciation	5,625	39,375
Incorporation)	25,075	Current Assets :		
Security Premium Account	65,000	Stock in Trade		
Profit & Loss A/c	1,37,100	(lower of Cost & Market Values)		5,06,000
Secured Loans :		Sundry Debtors :		
Bank Overdraft	1,50,000	Good	1,44,000	
(Secured by Hypothecation of stock)		Doubtful	10,000	

Unsecured Loans :			1,54,000	
Fixed Deposits	22,500	Less Bad Debts	1,500	
Current Liabilities :		Less Bad Debts Provision	6,000	1,46,500
Sundry creditors	65,000	Cash in hand		3,500
		Cash at Bank		59,000
	11,14,675			11,14,675