

**NEW SYLLABUS
CBCS PATTERN**

B.B.A.
(Computer Applications)
Semester-II

FINANCIAL ACCOUNTING

Dr. SUHAS MAHAJAN

Dr. MAHESH KULKARNI



A Book Of

FINANCIAL ACCOUNTING

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As Per Savitribai Phule Pune University New Syllabus
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Preface ...

There are a number of books on the subject of Financial Accounting available in the learners market but they do not meet the basic requirements of BBA-CA students of Savitribai Phule Pune University. This book is written as per the revised syllabus prescribed for FYBBA-CA-Sem.-II - CBCS - Pattern 2019 students of the Savitribai Phule Pune University from November, 2019. We do hope that this book will definitely help to meet the growing requirements of the students of BBA-CA-Sem.-II from the Faculty of Commerce and Management. This book adopts a modern and novel approach towards the study of Financial Accounting in view of the specific requirements of the readers and practitioners of this subject.

All the topics included in the syllabus are explained in simple but apt language. Equal stress is also given for necessary accounting theories and a wide variety of practical problems. We have taken appropriate care to incorporate basic accounting concepts, accounting standards and, tabular and graphical representation of classified financial statements. Proper emphasis is also given on charts and graphs to simplify the complicated accounting theories and practices. This book has been designed to serve as a self sufficient text for BBA : CA - Semester II students. It will definitely add to our satisfaction if this book would be more useful as a guide and reference for practising accountants, professional managers, dynamic entrepreneurs and enthusiastic teachers of the subject.

We sincerely thank the senior faculty members from various Colleges, Management Institutes and Accounting Associations for guiding and constantly encouraging us in our enterprise and the ever challenging student community who inspired us to write this book as per their requirement.

We are grateful to Shri. Dineshbhai Furia and Shri. Jigneshbhai Furia, Mr. Malik Shaikh, Mr. Prasad Chintakind, Mrs. Anjali Muley and the entire staff of Nirali Prakashan, Pune for their earnest help in bringing out this book with vigour and accuracy. We have taken maximum efforts to make the text error free. Nevertheless, we do not rule out the possibility of certain shortcomings or misprints still remaining. We will be grateful to the reader if such errors are being pointed out from time to time. We must concede that this book would never have been written without the support, encouragement and inspiration of our beloved family members. Many, many thanks to them!

Any criticism or valuable suggestions for further improvement of this book will be gratefully acknowledged and highly appreciated.

15th December, 2019
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Syllabus ...

FY BBA-CA - Semester - II : Financial Accounting

Course Code 202

Credit - 3

Depth of the syllabus reasonable working knowledge

Program Objectives:

- To develop right understanding regarding role and importance of monetary and financial transactions in business.
- To cultivate right approach towards classification of different transactions and their implications.
- To develop proficiency in preparation of basic financial statements as to how to write basic accounting statements - Trading and Profit and Loss Account.

Unit No.	Unit Title	Contents	Purpose and Skills to be developed
1.	Financial Accounting	Definition and Scope, Objectives, Accounting Concepts, Principles and Conventions.	To understand role and importance of accounting in Business and how accounting concepts can be implemented in business and computation ability in business, ability to distinguish between various accounting concepts and practices.
2.	Accounting Transactions and Final Accounts	Problems on Voucher System, Accounting Process, Journals, Ledger, Cash Book, Subsidiary Books, Trial Balance, Preparation of Final Accounts of Sole Proprietorship (Trading and Profit and Loss Account and Balance Sheet).	To understand how to record different financial transactions and their financial implications. Ability to write different accounting transactions and prepare basic financial statements.
3.	Bank Reconciliation Statement	Meaning, Importance and Preparation of Bank Reconciliation Statement	To understand the kind of accounting relationship between customer and bank. Ability to write necessary set of entries in books of accounts and in cash book and compare them with bank statement to understand their implications and effects.
4.	Computerised Accounting	Role of Computers and Financial Applications, Accounting Software Packages.	Ability to understand growing importance of software and to know how to use software and to write books of accounts and ability to use software like tally for writing of accounts.

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Chapter 1 ...

Financial Accounting

Synopsis ...

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Accounting may be described as "the language of business" that can provide a partial history of activities of a particular business house – a history in which the recorded facts are generally expressed in terms of monetary units. Accounting is the art and science of recording and summarising business transactions and of interpreting their effects on the affairs and activities of an economic unit. Accounting is an important service activity in business and is concerned with the collecting, recording, evaluating and communicating the results of past events. Like any other functional management in a business concern, such as marketing, production, etc., "finance" is a vital functional organ of the business. If finance department does not operate well the whole organisational activity will be ruined. Hence, it is essential that the finance function should be well organised in a firm.

Accounting concerns that part of accounting which is meant to serve all parties external and internal to the operating responsibility of the firm e.g. creditors, investors, debtors, employees, regulatory bodies and general public. At the introductory stage Accounting deals with the basic subject of "Book-keeping, Accounting and Accountancy".

Book-keeping, Accounting and Accountancy

A) Book-keeping :

It deals with the basic question of how to keep record of financial transactions. Book-keeping is a part of accounting and is concerned with record keeping or maintenance of books of account which is often routine and clerical in nature. It covers the following four activities :

- i) identifying the business transactions and events, of financial nature.
- ii) measuring the identified transactions and events in a common measuring unit.
- iii) recording the identified and measured transactions and events in original books of accounts.
- iv) classifying the recorded transactions and events in ledger and their sub-division.

B) Accounting :

It refers to the actual process of preparing and presenting the accounts. It is the art of putting the academic knowledge of accountancy into practice. It covers all the above mentioned activities of book-keeping alongwith the following **four more activities :**

- i) summarising the classified transactions and events in the form of income statement and financial position statement.
- ii) analysing the summarised results.
- iii) interpreting the analysed results.
- iv) communicating the interpreted information to the interested parties.

C) Accountancy :

It refers to a systematic knowledge of accounting. It explains "why to do" and "how to do" of various aspects of accounting. It indicates the business houses **why and how to keep the books** of accounts and how to summarise the accounting information and communicate it to the interested parties.

Distinction between Book-keeping and Accounting

Though Book-keeping is part of accounting it differs from Accounting in the following respects :

Sr. No.	Basis of Distinction	Book-keeping	Accounting
i)	Scope	It involves, identifying the transactions, measuring the identified transactions, recording the measured transactions, and classifying the recorded transactions and events in the books of accounts	Accounting in addition to Book-keeping involves – summarising the classified transactions, analysing the summarised results, interpreting the analysed results and communicating the interpreted information to the interested parties in the society.
ii)	Stage	It is primary stage, the first stage of accountancy.	It is the secondary stage which starts where book-keeping ends. It is a next stage to Book-keeping.
iii)	Main Objective	The main objective is to maintain systematic records of financial transactions which helps the businessman to know the financial results of the business.	The main objective is to ascertain net results of operations and financial position and to communicate information to the interested parties in the society.
iv)	Performers	This work is performed by junior staff. (Now we can do it with the help of computers).	This work is performed by senior and qualified staff.

Sr. No.	Basis of Distinction	Book-keeping	Accounting
v)	Knowledge Level	The book-keeper is not required to have only basic knowledge.	The accountant is required to have higher level of knowledge than that of book-keeper.
vi)	Analytical Skill	The book-keeper may or may not possess analytical skill.	An accountant is required to possess analytical skill.
vii)	Nature of Job	The job of a book-keeper is often routine and clerical in nature.	The job of an accountant is analytical in nature.
viii)	Designing of Accounting System	It does not cover designing of accounting.	It covers designing of accounting system.
ix)	Supervision and Controlling	The book-keeper does not supervise and check the work of an accountant.	An accountant supervises and checks the work of a book-keeper.
x)	Relationship	It is a part of Accounting.	Accounting is a part of Accountancy.
xi)	Treatment to transaction	It collects the information of financial transactions.	It analyses the financial transactions in a systematic manner.

Development of Accounting

Accounting has evolved and emerged, to help medicine, law, and most other fields of human activity, in response to the social and economic needs of society. Book-keeping and Accounting evolved not as a chance phenomenon, but distinctly in response to a world need.

It is observed by social scientists, that the end of the nineteenth century was marked by the most extraordinary expansion of the "business". Company form of organisation, a phenomenon common in the business world today, grew at a great speed. Books about business transactions were written, conventions were followed and accounting was recognised as a system of analysing and maintaining record of business transactions. In short, the new significance of accounting gained recognition because of separation of ownership and control and also due to diversification in ownership. The increased reliance on capital as a factor of production necessitated extensive record keeping but, finally, in the nineteenth century, a theoretical framework began to develop. This framework or methodology provided a technical means to measure, evaluate, and communicate information of economic and financial nature.

The history of accounting indicates the evolutionary pattern which focuses changing socio-economic conditions and enlarged purposes to which accounting is applied. In the present situation nine phases in the evolution of accounting can be distinguished viz. Stewardship Accounting, Financial Accounting, Cost Accounting, Management Accounting, Environmental Accounting, Social Responsibility Accounting, Inflation Accounting, Human Resource Accounting, Taxation Accounting and National Accounting.

		10 -NA National Accounting	It is a method of calculating the economic activity of a country with an ultimate aim to summarise the whole economic picture analytically. Accordingly, the markets interpret this data more systematically and scientifically as it often signals the overall direction of an economy and thus provide buy and sell signals for different industries or portfolio strategies.
	9 -TA Taxation Accounting	It is a branch of accounting which is primarily related to the statutory tax provisions such as income tax, customs duties, excise duties, value added tax (VAT). Tax accounting matter and processes concern that these taxes should be in conformity with the existing tax legislations with up-to-date amendments made therein.	
	8 -HRA Human Resource Accounting	It is accounting for people as organisational resource, (i.e. measurement of the cost and value of people for the organisation.)	
	7 -IA Inflation Accounting	Inflation Accounting is concerned with the adjustment in the value of assets (current and fixed) and of profit in the light of changes in the general price level.	
	6 -SRA Social Responsibility Accounting	Social Responsibility Accounting widens the scope of accounting by considering the social effects of business decisions in addition to the economic effects. Social responsibility accounting is a new phase in the development of accounting.	
	5 -EA Environmental Accounting	Environmental Accounting focuses on cost structure and environmental performance of a company. It describes the reporting of quantitative and detailed environmental data within the non-financial sections of the annual report or in separate environmental reports. Such report may account for pollution, emissions, resources used or wild life habitat damaged or re-established.	
	4 -MA Management Accounting	Management Accounting is a segment of accounting that deals specifically with the accounting and reporting of information to management regarding the detailed operations of the company in order for decision to be taken in various areas of business. Management Accounting has a vital role to play in extending the horizons of modern business.	
	3 -CA Cost Accounting	Cost Accounting is concerned with the application of costing principles, methods and techniques for ascertaining the costs with a view to controlling them and assessing the profitability and efficiency of the enterprise. It helps management in planning and controlling costs relating to both production and distribution activities.	
	2 -FA Financial Accounting	Financial Accounting is a discipline, which is employed in industry and commerce to record, classify and summarise the mercantile transactions that occur in an organisation.	
	1 -SA Stewardship Accounting	In earlier times in history, rich people employed "stewards" to manage their properties. These stewards rendered an account of their stewardship to their owner periodically. Stewardship Accounting in a sense is associated with the need of business owners to keep records of their transactions.	

Phases in the Development of Accounting

1.1 FINANCIAL ACCOUNTING

Accounting plays a critical role in the efficient use of a firm's resources. Decision-makers operate in a complex economic environment that is constantly changing. Their information needs vary with the environment, and accounting must adapt to satisfy these varying needs. The importance of sound financial information has always been recognized, but, in the light of today's conditions, such information has become crucial to the survival of business and industry.

Basically, Accounting can be broadly classified into Financial Accounting, Cost Accounting and Management Accounting. These three cannot be put in water-tight compartments. Each one supplements the other. In fact, **Financial Accounting** provides the basis for **Cost Accounting** as well as **Management Accounting** and in the ultimate analysis management accounting includes part of cost accounting and financial accounting.

Meaning

Modern business has continuity, never-ending flow of economic activities. Therefore, accounting has grown to meet a social requirement and to guide the business and industry accordingly. **Financial Accounting** is moving away from its traditional procedural base, encompassing record keeping and such related work as the preparation of budgets and final accounts, towards the adoption of a role which emphasises its social importance.

Profit calculation, now, is no longer a simple comparison of financial values at the beginning and end of a transaction or series of transactions. It is now related to a complex set of allocations and valuations pertaining to the operational activities of a business enterprise. The concept of **Financial Accounting** is now broad enough to include the description of the recording, processing, classifying, evaluating, interpreting and supplying of economic-financial information for financial statement presentation and decision-making purposes. In its tasks, financial accounting has been successful, technically and methodologically.

As a study, accounting is never-ending. Capable scholars devote their lives and their intellectual energies to analysing its phenomena. Experienced professional accountants contribute their best thinking to the satisfactory solution of accounting problems. Periodic meetings of national accounting organisations discuss the pros and cons of various accounting practices.

Accounting is often called the language of business. The basic function of any language is to serve as a means of communication. In this context, the purpose of accounting is to communicate or report the results of business operations and its various aspects.

Accounting, thus, has gone through many phases : simple double entry book-keeping, enterprise, government, and cost and management accounting, recently towards social responsibility accounting and environmental accounting too. These phases have been largely a product of changing economic and social environment. As business and society have become more complex over the years, accounting has developed new concepts and techniques to meet the ever increasing needs for financial information. Without such information, many complex economic developments and social and economic programmes might never have been undertaken.

1.1.1 DEFINITIONS

Following are some of the important definitions given by certain eminent authorities on the subject concerned.

i) The American Institute of Certified Public Accountants (AICPA) :

"the art of recording, classifying and summarising in a significant manner and in terms of money transactions and events which are in part at least of a financial character and interpreting the results thereof."

ii) The American Accounting Association (AAA) :

"the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by the users of the information".

iii) The Chartered Institute of Management Accounting (U.K.) :

"the classification and recording of monetary transactions of an entity in accordance with established concepts, principles, accounting standards and legal requirements and their presentation by means of profit and loss accounts, balance sheet and cash flow statements during and at the end of an accounting period".

Financial Accounting is thus the language effectively employed to communicate the financial information of a business unit to various parties interested in its progress such as proprietors, creditors, investors, employees, consumers, and the government etc. Financial Accounting concerns that part of accounting which is meant to serve all parties external as well as internal to the operating responsibility of the firm, e.g. creditors, investors, employees, regulatory bodies and the general public.

Financial Accounting is a discipline which is employed in industry and commerce to record, classify and summarise the mercantile transactions that occur in an organisation. The American Accounting Association has defined accounting as the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information.

The systematic analysis of the above definitions brings the following **Features of Financial Accounting** to the light :

- i) Art of recording and classifying business transactions and events in a systematic manner;
- ii) Transactions to be recorded in monetary terms;
- iii) Summarising, analysing and interpreting the results of accounting information; and
- iv) Communicating and explaining the information to decision-makers.

Hence, the modern **financial accounting**, therefore, is not merely concerned with financial record keeping but also with a whole range of other correlated activities involving planning, control, decision-making, problem solving, performance measurement and evaluation, co-ordinating and directing, auditing, tax-determination and planning, cost and management accounting too.

1.1.2 SCOPE

Financial Accounting involves a series of activities linked with each other, beginning with the collecting, recording, analysing and evaluating the data, and finally communicating information to its users. Information has no meaning unless it is linked with a certain purpose. Financial Accounting as a social science can be viewed as an information system, since it has all the features of a system. Figure 1.1 shows the **Scope of Financial Accounting** as follows.

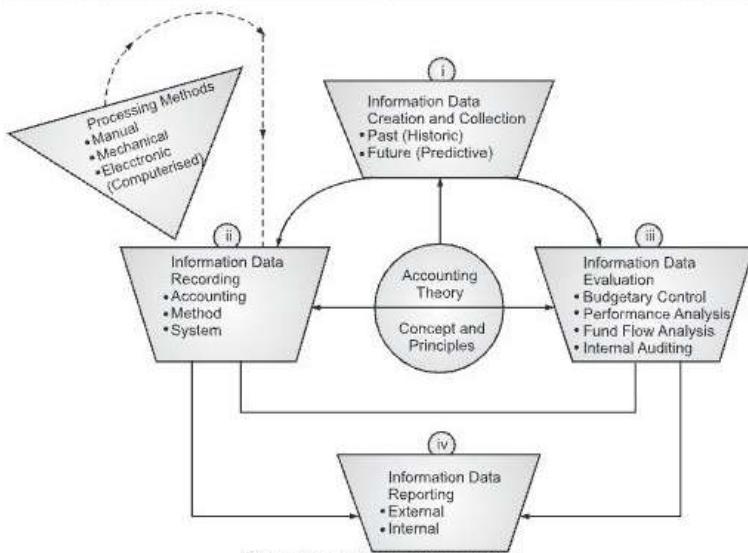


Fig. 1.1 : Scope of Financial Accounting

Accounting Theory is that branch of 'Accounting' which consists of the systematic statement of principles and methodology. However, accounting theory cannot be divorced from practice. The theory indicates clearly the practices to be followed and explains the procedures in a simplified manner. There is not and cannot be any basic contradiction between theory and facts. In fact, accounting theory consists of logical reasoning in the form of concepts and a set of broad principles that provide a general frame of reference by which accounting practice can be evaluated which also guides the development of new practices and procedures. Accounting theory has great amount of influence on accounting and reporting practices and thus serves the informational requirements of the external users. If a given theory does not act in practice and fails to produce the expected results, it is replaced by a new, better or more useful theory.

i) Information Data Creation and Collection :

Information data creation and collection is the area, which provides raw material for accounting. The data collected is 'historic' in the sense that it refers to events which have already taken place. It is a history of events. In modern accounting data can be predictive and to be prepared for future references.

ii) Information Data Recording :

After collection of historic data it is recorded as per the generally accepted accounting principles. Accounting principles are "the body of doctrines commonly associated with the theory and procedure of account serving as an explanation of current practices and as a guide for the selection of conventions or procedures where alternatives exist. The processing method employed for recording may be manual, mechanical or electronic. A computerised system can also be used for processing purposes.

iii) Information Data Evaluation :

Evaluation of data includes controlling the activities of business with the help of budgetary control, evaluating the performance of business with the help of different tools and techniques, analysing the flow of funds, and analysing the accounting information for decision-making purposes by selecting appropriate checking system. This data evaluation has another dimension and this can be known as audit work which is nothing but examination or verification of authentication of financial information. This work is done by public professional accountants.

iv) Information Data Reporting :

Reporting is a journey which starts from 'known to unknown'. The purpose of reporting is generalisation of data. This data reporting consists of two parts – external and internal. External reporting refers to the communication of financial information to outside parties, e.g. contributors, governmental and regulatory bodies. Internal reporting is concerned with the communication of results of financial affairs to the management for decision-making purposes.

The above mentioned are some of the activities of specification included within the ambit of Financial Accounting.

1.1.3 OBJECTIVES

The test of good financial accounting record is that it should supply the greatest amount of necessary information with the least possible trouble. Maximisation of profits and increase in the net wealth is the ultimate aim of every businessman. After every interval, businessman should get such information, which can throw the light on the attainment of this aim. Financial Accounting provides data for verifying the progress towards this aim. The important **Objectives of Financial Accounting** are summed up below in Figure 1.2.

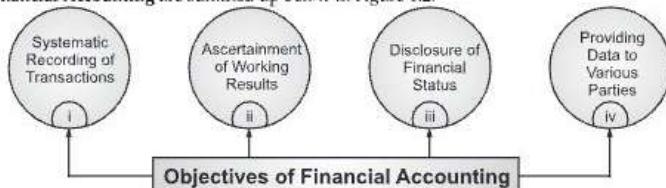


Fig. 1.2 : Objectives of Financial Accounting

i) Systematic Recording of Transactions :

A Business firm enters into number of transactions like purchases, sales, bank, cash, returns, damages etc. A proper record of all these transactions provides the information to the businessman for finding the profit or wealth position.

Written records are always better than oral records, since written records can be used by different persons for different decision-making purposes and serve as evidence of transactions. Nowadays, the volume of transactions is so large, a human memory cannot absorb each and every transaction. Accounting is done to keep a systematic record of financial transactions, assets and liabilities.

ii) Ascertainment of Working Results :

The working of business ultimately results into either a surplus or a deficit. The surplus does not necessarily mean cash surpluses or the deficit as cash shortages. Hence one cannot depend only on cash position to know the working results of his business. To measure the financial performance of an enterprise, the results of operations are ascertained by preparing an Income Statement (also called Profit and Loss Account) which shows the matching of current costs with

current revenues during a particular accounting period. A systematic record of incomes and expenses facilitates the preparation of the Income Statement.

iii) Disclosure of Financial Status :

The profits earned by a business firm generally leads to increase in the net worth of the firm. The net worth is nothing but the surplus of belongings over the owing or in other words surplus of assets over liabilities. This is the financial status of a business. Accounting data discloses at the end of every period, the financial status of the business.

To evaluate the financial strength and weakness of an enterprise, the financial position is ascertained by preparing a Position Statement (also called Balance Sheet) which shows resources (assets) owned by an enterprise and the sources of financing those resources. A businessman wants to know what the business owes to others and what it owns, and what happened to his capital whether the capital has increased, decreased or remained constant. A systematic record of various assets and liabilities facilitates the preparation of a Position Statement (also known as Balance Sheet) which answers all these important questions.

iv) Providing Data to Various Parties :

A number of persons, firms, companies or organisations are related to a business in different capacities like owners, employees, debtors, creditors, financers etc. Every one of them is interested in a particular type of information. e.g. a financer concentrates on the capacity of the business to pay the interest and to repay the loan and the security to the loan, whereas Government is interested in knowing the profits to recover the tax.

Accounting communicates information to internal users and external users. The internal users include all the organizational participants at all levels of management (i.e., top, middle and lower). The top level management requires information for planning and the middle level management requires information for controlling the operations. For internal use, the information is usually provided in the form of reports, e.g. Cash Budget Reports, Production Reports, Idle Time Reports, Feedback Reports, whether to Retain or Replace an Equipment Decision Reports, Project Appraisal Reports, and the like.

Since the external users (e.g., Banks, Creditors) do not have direct access to all the records of an enterprise, they have to rely on financial statements as the source of information. External users are basically interested in the solvency and profitability of an enterprise. Accounting provides all such information to the different parties involved.

Thus, a modern Financial Accounting has to accomplish the following objectives.

- i) To identify financial events and transactions that occur in an organisation,
- ii) To measure the value of these occurrences in terms of money,
- iii) To organise the accumulated financial data into meaningful information with the help of computer and
- iv) To analyse, interpret and communicate that information to a broad range of persons and groups, both within and outside the organisation.

ROLE AND IMPORTANCE OF ACCOUNTING IN BUSINESS

Accounting plays a vital role in running a business in the competitive market at the national and international level. It helps to track the incomes and the expenditures, ensures statutory compliance and provide the investors, management and state and central government with quantitative financial information which can be used in making business decisions, future planning and ultimate control.

Running a business successfully requires a summarised data about the company's assets, liabilities, profits and cash position. Accounting provides this crucial information in analytical manner. Accounting plays a significant role in evaluating the visibility of investments made.

Proper consideration of an investment demands a careful and critical analysis of costs and projections of expectations for future cash flows. The accounting process consists of measuring and summarizing business activities, interpreting financial information and communicating the results to the management and other decision makers in time.

Financial Accounting is very much helpful to the management for planning, decision-making and controlling. The role played by Financial Accounting in modern business organisation can be described as shown below in Figure 1.3.

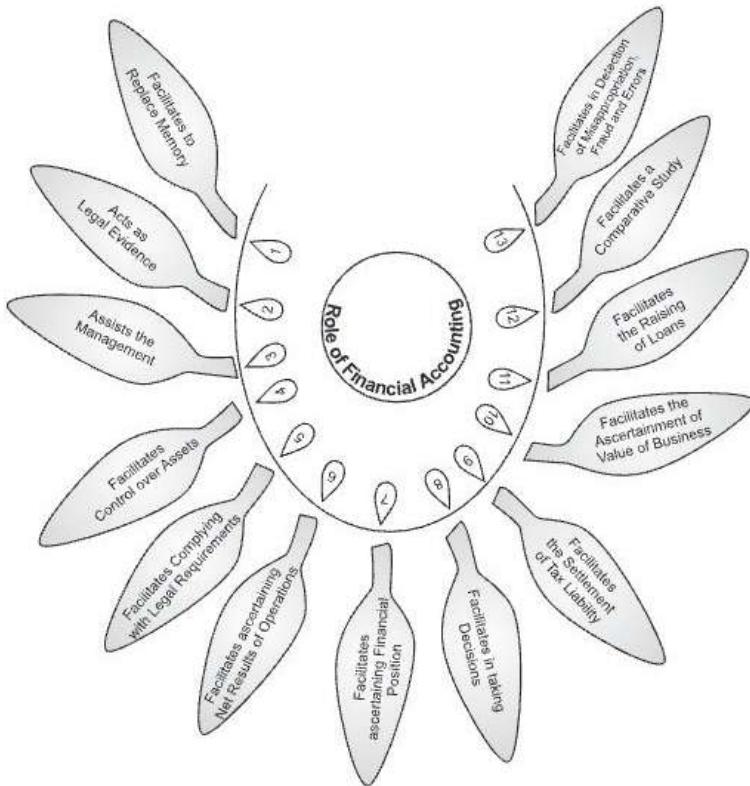


Fig. 1.3 : Role of Financial Accounting

i) Facilitates to Replace Memory :

It facilitates replacing human memory by maintaining complete record of financial transactions. Human memory is limited by its very nature. Accounting helps to overcome this limitation. The transactions being numerous, remembering all of them for all the times is almost an impossibility. Moreover in disputes memory may not be sufficient to establish the nature of the transaction. An accounting data provides a record of all transactions which can be preserved for long time. The businessman need not rely only on his memory.

ii) Acts as Legal Evidence :

Proper books of accounts maintained in systematic manner act as legal evidence in case of disputes. The proof of transactions may be the original documents like vouchers, bills etc. or the entries in the books of accounts made on the respective dates. The basic documents and the different books maintained by the organisations are useful for establishing a fact in case of a dispute.

iii) Assists the Management :

It assists the management in planning and controlling business activities and in taking decisions. e.g. Projected Cash Flow Statement facilitates the management to estimate future receipts and payments and to take decision regarding anticipated surplus or shortage of funds. The process of planning involves careful analysis of the past and logical thinking of the future, keeping in mind the objective of the business firm. In decision making one has to think of various alternatives, evaluate them and to select the best among them to fulfill the planned objectives. For both planning and decision making thus, record of the past is a must. Accounting creates record of all the past financial transactions, on the basis of which the management can perform the functions of planning and decision making.

iv) Facilitates Control over Assets :

It facilitates control over assets by providing information regarding Cash Balance, Bank Balance, Debtors, Fixed Assets, Stock etc. For control, the management has to set the targets, measure the actual performance, compare the actual with the targets, find the reasons for deviations and develop the remedial actions. The data for all these steps is provided by book-keeping which ultimately results into effective control. Co-ordination is the proper functioning of various departments, personnel, etc. in a business organisation. Book-keeping by keeping the record of all such related aspects, simplifies the process of co-ordination.

v) Facilitates complying with Legal Requirements :

It facilitates complying with the legal requirements which make it mandatory that an enterprise maintains books of accounts. e.g. Sec 209 of The Companies Act 1956, requires a company to maintain proper books of accounts on accrual basis, Sec 44AA of The Income Tax Act 1961 requires certain persons to maintain specified books of accounts.

vi) Facilitates ascertaining the Net Result of Operations :

It facilitates ascertaining the net results of operations by preparing Income Statement. In case of non-profit making organisations though profit making is not the main aim of such organisations, the perfect record of all their income and expenses, assets and liabilities is absolutely necessary. Such organizations are the clubs, trusts, educational institutes, hospital etc. Accounting provides such a record.

vii) Facilitates ascertaining Financial Position :

It facilitates ascertaining financial position by preparing Position Statement i.e. Balance Sheet, Cash Flow Statement, Fund Flow Statement, Working Capital Statement etc.

viii) Facilitates taking Decisions :

It facilitates (for Short-term Creditors, Long-term Creditors, Present Investors, Potential Investors, Employee groups, Management, General Public, Tax Authorities) taking decisions by communicating accounting information to them.

ix) Facilitates the Settlement of Tax Liability :

It facilitates the settlement of tax liability with the authorities by maintaining proper books of accounts in systematic manner. The business is liable to pay different taxes to the Government on fulfillment of certain conditions. e.g. Income-tax, Sales tax, Excise, Profession tax etc. The Government authorities can fix up the tax liabilities only on the basis of the transactions recorded in the books. The businessman can also support his calculations of tax liability on the basis of this accounting record.

x) Facilitates the Ascertainment of Value of Business :

Accounting facilitates the ascertainment of value of business in case of transfer of business to another entity. The business owns the assets and owes certain liabilities. The difference in the values of the two represents the net worth of the business i.e. the amount to which the owner is entitled. The Balance Sheet at the end of every year reveals such worth. The owner can find the increase or decrease in the net worth by comparing his Balance Sheets.

xi) Facilitates the Raising of Loans :

Accounting facilitates raising loans from lenders by providing them historical and projected financial statements.

xii) Facilitates a Comparative Study :

Accounting facilitates a **comparative study** in the following ways :

- Comparison of actual figures with standard or budgeted figures for the same period and the same firm;
- Comparison of actual figures of one period with those of another period for the same firm (i.e. Intra-firm Comparison);
- Comparison of actual figures of one firm with those of another standard firm belonging to the same industry (i.e., Inter-firm Comparison); and
- Comparison of actual figures of one firm with those of industry to which the firm belongs (i.e. Pattern Comparison).

The absolute figures always are misleading e.g. profit of Atlas Ltd. is ₹ 1,00,000 for 2019. This statement may be interpreted differently like Atlas Ltd. has earned very good profit or Atlas Ltd. profit is not satisfactory. But if it is said that Atlas Ltd. profit for 2019 is ₹ 1,00,000 as against their profits of ₹ 80,000 for 2018. This comparison throws light on their performance in 2019. The Financial Accounting by providing the comparative data helps the management to study the performance of the business.

xiii) Facilitates detection of Misappropriation, Fraud and Errors :

It is quite possible that during the course of business the events like misappropriation, frauds and errors occur. The happening of such events and their volume cannot be properly ascertained unless proper books of accounts are maintained.

Thus, **Financial Accounting** is mainly concerned with recording business transactions in the books of accounts for the purpose of presenting final accounts to board of directors, shareholders and tax authorities etc. The objective of Financial Accounting is to present a true and fair view of business income, financial position and funds at regular intervals.

LIMITATIONS

In the modern business world, business concerns need some methods and ways by which they can measure their performance. Financial Accounting cannot serve this purpose at all. The indications given by Profit and Loss Account and Balance Sheet are generally inadequate. It is just like thermometer which only indicates the temperature of human body. Judgements can be made only on the basis of such thermometer and a professional doctor will have a number of other checkups made in order to verify what the patient is suffering from. The profit shown by Profit and Loss Account should not be taken as a sign of success because there may be a loss on certain items which might have been compensated by the profit of certain other items. Information regarding wastages and losses is very difficult to get from Financial Accounting. Financial Accounting like any other branch of knowledge, is not without limitations. The fast changing conditions and environmental factors have brought the following major **Limitations of Financial Accounting** as shown below in Figure 1.4.

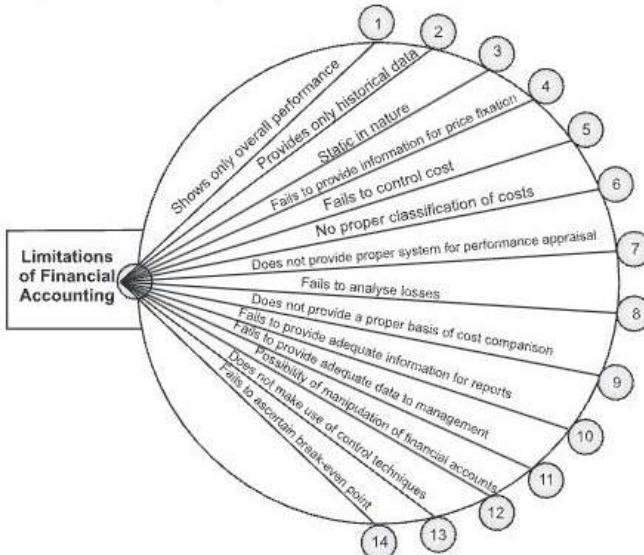


Fig. 1.4 : Limitations of Financial Accounting

i) Shows only overall performance :

Financial Accounting provides information about profit, loss, cost etc. of the collective activities of the business as a whole. It does not provide data for each and every product, process, department or operation separately.

ii) Provides only historical data :

Financial Accounting is historical in nature and it provides data of past activities. It does not provide current data which management requires for making effective plans for future. So it is rightly said that financial accounts provide only a post-mortem analysis of past activities.

iii) Static in nature :

Modern business is dynamic and not static. Financial Accounts do not incorporate the changes that take place within the business.

iv) Fails to provide information for price fixation :

In Financial Accounting, costs are not available by division, products, process etc. So price fixation becomes difficult and estimates cannot be prepared.

v) Fails to control cost :

Financial Accounts fail to exercise control over materials labour and other expenses incurred in a business enterprise. As a result, avoidable wastages and losses remain as it is under this system.

vi) No proper classification of costs :

In Financial Accounting, expenses are not classified into direct and indirect, fixed and variable and controllable and uncontrollable. These classifications have utility of their own.

vii) Does not provide proper system for performance appraisal :

In Financial Accounting there is no system of developing norms and standards to appraise the efficiency in the use of materials, labour and other costs by comparing the actual performance with what should have been accomplished during a given period of time.

viii) Fails to analyse losses :

Financial Accounting does not fully analyse the losses due to idle time, idle plant capacities, inefficient labour, sub-standard materials etc.

ix) Does not provide a basis of cost comparison :

Financial Accounting does not provide cost data regarding operations of the enterprise for the purpose of comparing such data with other periods of operations or other concerns in the industry.

x) Fails to provide adequate information for reports :

It does not provide adequate information for reports to outside agencies like banks, government, insurance companies and trade associations.

xi) Fails to provide adequate data to management :

Financial Accounting fails to supply useful data to management for taking various decisions like replacement of labour by machines, introduction of new products, make or buy decision, selection of the most profitable product mix etc.

xii) Possibility of manipulation of financial accounts :

Very often Financial Accounts are manipulated at the *whim* and *fancies* of the management so as to project better image in the minds of prospective investors. Financial Accounts may be manipulated by making under or overvaluation of machinery, excessive or inadequate provisions for depreciation, creation of secret reserves etc.

xiii) Does not make use of control techniques :

Financial Accounts fail to make use of certain important cost control techniques, such as Budgetary Control, Standard Costing, etc. Thus, financial accounts do not facilitate measuring the efficiency of the business with the help of control techniques.

xiv) Fails to ascertain break-even point :

Financial Accounting does not help in ascertaining the break-even point, i.e. the sale or output where the revenue equals the cost. Hence, the point of no profit-no loss cannot be found out under financial accounts.

However, the importance and utility of Financial Accounting system cannot be underrated, because, it provides voluminous data for cost books of accounts. Further, though Financial Accounting primarily aims at serving external parties and meeting legal requirements, it does not mean that financial reports are not useful to management. Management also utilises the financial reports for taking decisions but to a limited extent because, the approach and objective of financial accounting are different.

Thus, **Financial Accounting** is considered to be the most important branch of the science of accounting, as it plays a predominant role by assisting the management at different levels for **effective planning, timely decision making and absolute control** in organising the modern business in a competitive era.

Important Terms used in Financial Accounting

Accounting is the language of the business. As such, one is learning a new language while learning accounting. It becomes necessary therefore, to learn a few new terms meaning of which may not be in tune with the meaning that we use them within the normal course of conversation. Let us get familiar with the important basic accounting terms used in Financial Accounting.

1) Entity :

It means a separate economic unit that performs economic activities e.g. Rotex Ltd., Tata Motors Ltd., Texmo Ltd. etc.

2) Transaction :

A transaction means an exchange of goods and/or services for money or money's worth between/among two or more persons. In the context of the business, a transaction means transfer of goods or services or cash or any other benefit between the business and outsiders or between two accounts. For a transaction to be recorded in the books of accounts, it must affect the business results. Let us consider the following examples and identify whether it would constitute a transaction or not.

- | | |
|-------------------------------------|-------|
| • Purchased goods for sale | - Yes |
| • Placed an order for goods | - No |
| • Borrowed from the Bank | - Yes |
| • Distributed goods as free samples | - Yes |
| • Received a gift from a supplier | - No |

Hence, it is very important to note that only the financial transactions are recorded in the books of accounts.

Classification of Transactions :

Generally transactions are classified as Non-monetary Transactions and Monetary Transactions.

a) Non-monetary Transactions :

The transactions which do not involve an exchange of money or money's worth i.e. things, items or services directly or indirectly are known as **Non-monetary Transactions**.

b) Monetary Transactions :

A person's dealing in money or money's worth is termed as **Monetary Transaction**. It thus involves a transfer of money or its equivalent from one individual to another. Such dealings may be in exchange of cash, goods, services or debts.

In Book-keeping, we are concerned with **only monetary transactions** of the business and therefore, whenever we come across with the term 'business transactions', it means monetary transactions of the business, certain examples of such transactions are illustrated in the following chart.

Chart Showing General Classification of Transactions

Events	Monetary/Non-Monetary Transaction	Reasons
i) Ramesh gives his cycle to his friend Suresh for a single day use.	Non-Monetary Transaction	Here, Ramesh does not expect money or money's worth in return from Suresh as the use of cycle is allowed without any charge. Hence, this transaction is called Non-Monetary Transaction .
ii) Ramesh gives his cycle to his friend Suresh on hire basis for a day.	Monetary Transaction	It becomes a Monetary Transaction because Ramesh receives hire charges from Suresh in return for the use of his cycle.
iii) A mother gives her ornament to her daughter for the time being.	Non-Monetary Transaction	It becomes a Non-Monetary Transaction because the daughter is not expected to pay or give anything in return to the mother for the use of her ornament.
iv) Ramesh gives his bullock to Suresh in exchange of horse.	Monetary Transaction	It becomes a Monetary Transaction . Though exchange of money is not involved, money's worth is involved. One animal of certain value is exchanged for another animal of certain value.
v) Purchase of goods of ₹ 1,000 by Mahesh from Suresh on credit.	Monetary Transaction	It becomes a Monetary Transaction because Suresh has to receive money from Mahesh for supply of goods.
vi) Payment of wages of ₹ 500 to a worker, Dinesh.	Monetary Transaction	It becomes a Monetary Transaction because money is exchanged for the working hours spent by the worker, Dinesh.

The term "transaction" is applied in business for all dealings whether with any individual or individuals in goods or things or money involving exchange of money or money's worth. Hence, it is very important to note that **only monetary transactions are recorded** in the books of accounts. The monetary transactions may either be cash transactions, credit transactions or barter transactions.

a) Cash Transactions :

These are the transactions where one of the exchanged items is cash, including cheque and drafts. Thus, in **cash transactions** receipt or payment of cash or cheque, is basically involved at the time of effecting a transaction. e.g. purchased furniture from Deco-Home and paid by cheque, salary paid to office clerk in cash, sold goods to Anil for cash. Thus, cash transactions deal with cash, cheque or draft.

b) Credit Transactions :

These are the transactions where there is an exchange of goods or services but for a 'promise to pay' at a later date. Thus, in **credit transactions** cash, cheque or draft is not received or paid at

the time of effecting a transaction, but a period of credit is allowed for settlement in future e.g. bought goods from Suresh and promised to pay after one month, sold furniture to Naresh on credit etc.

c) Barter Transactions :

These are the transactions which do not involve exchange of money but involves money's worth, hence they are also recorded in the books of accounts. Thus, in **barter transactions** certain things or articles are sold or purchased in exchange of some other things or articles e.g. bought goods in exchange of old furniture, old machinery sold in exchange of a motor-cycle etc.

3) Event :

It means a happening of consequence to an entity. The economic activities are performed with the help of transactions and events. A business transaction is an economic event that relates to the entity. Transaction is a performance of an act whereas event is happening as a result of transactions.

Example,

A trader has purchased goods on 2nd May, 2019 for ₹ 15,000 and paid office rent for May, ₹ 2,000. He sold goods for ₹ 20,000 in May and goods of ₹ 4,000 are in stock. The calculation of profit or loss for May, 2019 will be as follows.

Particulars	Amount ₹	Amount ₹
Sale of Goods	20,000	24,000
Add : Stock of Goods in hand	(+)	4,000
Less : Expenses incurred for		17,000
i) Purchase of Goods	15,000	
ii) Office Rent	(-)	2,000
∴ Profit	(-)	7,000

From the above mentioned example it is very clear that business transactions transacted during May, 2019 are,

	₹
i) Purchase of Goods	15,000
ii) Payment of Office Rent	2,000
iii) Sale of Goods	20,000

whereas the events resulting from the transactions during May, 2019 are,

i) Earning of a Profit	7,000
ii) Stock of Goods on hand	4,000

Thus, Accounting is the science that helps to maintain a continuously updated record of such business transactions and the results therefrom i.e. an event.

4) Goods :

Every business organisation is dealing in some 'product'. This product may be tangible 'product' or a 'service'. Goods are those **tangible products** that are purchased or produced for the purpose of sale/resale. For Example,

- i) Raj, a businessman, buys Computer Parts, assembles them and sells the Computers. For him the Computer Parts and Computers would be goods. The Computer Parts would be his raw material and Computers would be finished goods.
- ii) Ram deals in Furniture, he buys ready made Furniture from a carpenter and sells it. For Ram, Furniture would be goods.
- iii) Rewankar is a goldsmith, he buys Gold bars and makes jewellery which he sells to his customers. For Rewankar, Gold in all its forms, would be goods.

- iv) Rahim has a spinning mill, he purchases raw cotton and spins them into yarns. For Rahim, both Raw Cotton and Yarns would be goods.
- v) Ramesh purchases Yarn from Rahim and weaves it into Cloth. For Ramesh, Yarn and Cloth would be goods, Yarn the raw material and Cloth the finished product.

Thus, Computers for Raj, Furniture for Ram, Gold for Rewankar, Raw Cotton and Yarn for Rahim, Yarn and Cloth for Ramesh would be the property. Hence, those tangible products that the business deals in would be termed as 'goods'.

What about the 'services' that a business may offer. This will be a 'product' which the business offers for which receives something in return. For Example,

- i) "Yashdeep" is a coaching class that trains students to take competitive examinations. Here, Yashdeep is offering a service in exchange for money.
- ii) Delta Travels offers railway and airway ticketing services.
- iii) 'Pug Marks' is an organisation that conducts camps for children.

5) Expenses :

It represents decrease in economic benefits during an accounting period, in the form of decrease of assets or increase of liabilities that results into decrease in internal equity.

6) Capital, Revenue and Deferred Revenue Expenditure :

a) Capital Expenditure :

The business organisation may purchase an asset that is meant for facilitating the business operations. As such, this asset will have its useful working life beyond one accounting year. So the benefits from this asset will also be received throughout its working life. Such expenditure is called capital expenditure. This would result in increasing the earning capacity of the business. For Example,

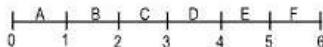
- i) Purchase of a long-term asset like Building, Machinery, Furniture, etc.
- ii) An expense incurred in connection with the purchase of an asset i.e., any amount spent on purchasing an asset (legal expenses incurred while purchasing a building), transporting it (transportation charges of machinery or furniture purchased) or making an asset usable (i.e. installation of machinery, computers, etc.) are all capital expenditure.
- iii) Expenditure on improvement of an asset which would result in better profit earning capacity.
- iv) Expenditure incurred to acquire the 'right' to carry on business such as the cost of a patent or copyright.

The following are not relevant for determining whether an expenditure is of capital nature.

- i) The amount small or big.
- ii) Manner of payment – lump sum or installments.
- iii) The source of payment – whether received in the form of profits or from sale of assets.

b) Revenue Expenditure :

Expenditure that is incurred on the day-to-day running of the business and chargeable to the revenue earned from the business are called revenue expenditure. These are expenses incurred for which the benefits are received during the current accounting year itself. To represent this diagrammatically.



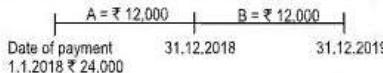
For Example,

- i) If the line above represents the working life of machinery purchased (i.e. 6 years) and if the total cost of the asset is ₹ 12,000, then at point 0, ₹ 12,000 would be treated as capital expenditure as it is an asset, meant to facilitate business and its working life extends beyond one accounting year.

At point 1, the business has already received the benefit of this machine for one year and hence this portion of the asset cost 'A' should be charged to the revenue of the business. This means, $\text{₹} 12,000 \div 6 = \text{₹} 2,000$, should be treated as revenue expense and the balance will be treated as the written down value of the asset i.e. $\text{₹} 10,000$ ($\text{₹} 12,000 - \text{₹} 2,000$). At the end of every year, i.e. at points 2, 3, 4, 5, 6 the asset value will keep reducing as a portion of the capital expenditure and would be treated as an expense and at point 6, the asset value would be reduced to zero after having expended the last $\text{₹} 2,000$ for year six.

ii) When a salary is paid to employee Ramesh for his services at $\text{₹} 5,000$ p.m., his entire salary for the year is a revenue expense (i.e. $\text{₹} 5,000 \times 12$ months = $\text{₹} 60,000$) as the benefits of Ramesh's service is received in that year itself.

iii) When on 1.1.2018 rent for the office space is paid for two years @ $\text{₹} 12,000$ p.a., at the end of the first year, only $\text{₹} 12,000$ is shown as an expense because only this pertains to the current accounting year. The remaining $\text{₹} 12,000$ will be carried forward as an asset and shown as an expense only at the end of the 2nd year i.e. 31.12.2019. Diagrammatically,



As on 31.12.2019, 'A' will be shown as an expense and 'B' will be shown as an Asset. As on 31.12.2019, 'B' will be shown as an expense.

The following are examples of Revenue Expenses :

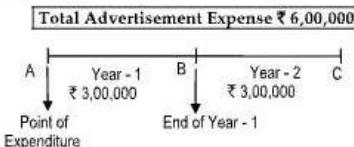
- i) Expenses incurred for day-to-day running of the business.
- ii) Expenses incurred for the upkeep of fixed assets.
- iii) Expenses incurred on purchase of stocks of materials and goods.
- iv) Depreciation on fixed assets.

c) Deferred Revenue Expenditure :

Some expenses are essentially revenue in nature but the benefits derived therefrom extend beyond one accounting period. Such expenses are known as '**Deferred Revenue Expenditure**'. Typically, such expenses are revenue expenses where the amounts involved are large. For Example,

i) While launching a new toothpaste, a company spends a large amount on advertising. Though this expenditure is revenue in nature, since the benefits will be received beyond this accounting year, the expenditure is divided and charged over two or three years. The portion that is not charged to the revenue, will be shown as an asset.

Assume, $\text{₹} 6,00,000$ has been spent on pre launch advertising and the company expects to receive the benefits over two years.



At point 'B' i.e. end of year 1, $\text{₹} 3,00,000$ will be charged to the revenue as an expense on advertising and the remaining $\text{₹} 3,00,000$ will be shown as an asset.

ii) Alterations and improvements that do not directly improve profit earning capacity – If a balcony is built in a cinema theatre to increase the seating capacity, it would be treated as 'Capital Expenditure'. However, making alterations to exits, making additional exits, conversion of ordinary screen to cinemascopic screen, etc. should be treated as Deferred Revenue Expenditure.

iii) Development expenditure incurred at the time of commencement of any project, preliminary expenses, incurred while floating a company (called 'Preliminary Expenses') is one such example.

7) Income :

It represents increase in economic benefits during an accounting period, in the form of increase of assets or decrease of liabilities, that result into increase in internal equity.

8) Entry :

It is a record of transactions into the original books of accounts on the basis of vouchers, that form the very basis for writing the books more systematically.

9) Voucher :

It is a source document which supports a payment made by the trader. It serves as an evidence of a transaction for the payment of certain amount to a specific person or for a specific purpose. It acts as an original document on the basis of which transaction is recorded systematically in the books of accounts.

10) Profit/Loss :

a) Profit :

Every business organisation aims at making a profit. What does profit mean. Lets understand this. A business organisation engages itself in an exchange activity i.e. exchanging goods or services for money or money's worth. If in this process the money equivalent of 'what it gives' is less than the money equivalent of 'what it gets' in return, the organisation has made a profit. In simple terms, if the organisation **earns** more than it has **spent**, it has made a profit. For Example,

i) Zeenith Engineering purchases raw materials worth ₹ 10,000, spends ₹ 5,000 in converting the raw material into finished goods and further spends ₹ 500 in packing the finished goods, if it sells all the finished goods to Rawal and Sons for ₹ 18,000 it has made a profit of ₹ 2,500. Goods of ₹ (10,000 + 5,000 + 500) = ₹ 15,500, are sold.

What it has received or will receive from Rawal and Sons is ₹ 18,000.

So it has given goods whose money equivalent is ₹ 15,500 and received/will receive ₹ 18,000. The difference of (₹ 18,000 – ₹ 15,500) = ₹ 2,500 is the profit.

ii) If Rawal and Sons sell all the goods to its customers for ₹ 25,000 then they have made a profit of ₹ 7,000 because they have given goods of ₹ 18,000 to their customers and in return have received or will receive ₹ 25,000. The difference of ₹ 25,000 – ₹ 18,000 = ₹ 7,000 will be their profit.

b) Loss :

A loss is suffered in two situations.

i) When the monetary equivalent of 'what we give' in an exchange is more than the monetary equivalent of 'what we get' in return. In the first example, above, if Zeenith Engineering had sold its finished goods for ₹ 14,000, then it would have suffered a loss of ₹ 1,500 because it has given goods whose monetary worth is ₹ 15,500 and in return, it would receive only ₹ 14,000.

ii) A loss may also be suffered when we received 'nothing in return'.

When goods are destroyed by fire or are lost by theft, we forcefully 'give' away goods for which we receive nothing in return. Such losses are not on account of operations but on account of accidents or thefts and are therefore, abnormal in nature.

11) Assets :

Assets are the items of property owned by the business. The following chart shown in Figure 1.5 gives you a better understanding about Creation of Assets.

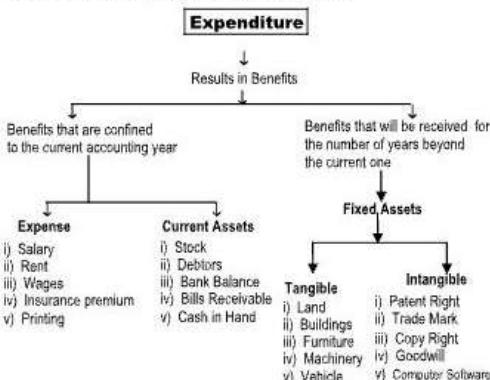


Fig. 1.5 : Creation of Assets

Assets facilitate business operations and are not meant for resale. In this context, please note that 'All forms of goods, raw material, work-in-progress, finished goods are assets. But all assets are not goods'.

12) Liabilities :

The amount that the business owes to outsiders is known as a liability. It represents the claim that outsiders have on the business assets. For Example,

Arjun's business has property worth ₹ 50,000 in various forms of assets. If the business owes the Bank ₹ 30,000 and the suppliers of goods ₹ 20,000 then the liability of the business would be ₹ 50,000 (₹ 30,000 + ₹ 20,000).

13) Contingent Liability :

Sometimes there may be certain items that are not liabilities at the time of assessing, the financial position of the business. They become liabilities on the happening of an event. A contingent liability is therefore, one that may or may not become a liability.

For Example,

Suppose a worker in a business organisation has met with an accident and has claimed compensation of ₹ 2,00,000. According to the agreement, he is entitled to ₹ 50,000 as compensation for this type of accident. But he has gone to Court of Law claiming ₹ 2,00,000. At this point, the amount of ₹ 50,000 is a liability, payable to the worker. The additional ₹ 1,50,000 is a contingent liability because it will become a liability (i.e. payable to the worker) only if the court decides in favour of the worker. So, here the liability is contingent on the court verdict. Contingent liability is always written as a foot note when the business organisation states its financial position.

14) Net Worth :

Net worth is calculated as the difference between the total assets and the amount due to outsiders.

$$\therefore \text{Total Assets} - \text{Liabilities} = \text{Net Worth}$$

Simply, it means the balance of the total assets that is left for the owner after paying off the liabilities. For Example,

Consider the same example given under the heading liabilities.

If the total property worth = ₹ 50,000 and liabilities (i.e. payable to outsiders) is ₹ 30,000. The balance of assets is normally available to the owner. So, ₹ 50,000 – ₹ 30,000 = ₹ 20,000 is the Net worth of the business. It is the sum total of capital and retained earnings.

15) Debtor :

A person who owes money to the business for the benefit he has received from the business - usually on account of credit sale of goods to him.

Example,

The business sold goods of ₹ 5,000 to Akram on credit. Akram is the receiver of benefit i.e. he has received the goods but he is yet to pay for it. So he is the debtor i.e. a person who owes money to the business.

16) Creditor :

A person to whom the business owes money is called a creditor - usually for goods purchased by the business on credit.

Example,

The business purchased materials worth ₹ 5,000 from Ramakant on credit. Here, the business has received the materials and owes ₹ 5,000 to Ramakant. Hence, Ramakant is the creditor of the business i.e. the person to whom the business owes money.

17) Capital :

The term capital can be understood as the amounts introduced by the owner to run the business. This may be introduced at the time of starting the business and thereafter whenever necessary. The capital introduced by a businessman will increase subsequently because of any one or more of the following reasons :

- i) Additional capital introduced.
- ii) Profits earned by the business that gets added on to capital.
- iii) Interest on capital.

Ultimately, it is the excess of assets over the liabilities.

18) Drawings :

Any withdrawals made by the owner from the business for his personal use are referred to as his drawings. When the owner withdraws either cash or goods from the business for his personal use, he is 'taking away' the resources of the business. Therefore, his capital will be reduced to the extent of his drawings.

Example,

- i) Rakesh who had a stationery business took home stationery worth ₹ 500 for his children.
- ii) Rajesh, a dealer in textiles, took home 10 metres of cloth for making curtains for his home.
- iii) Ritesh issued a cheque of ₹ 50,000 from the business account to pay his son's college fees.

When the owner withdraws resources in any form from the business, he owes it back to the business, hence, becomes a debtor of the business, to that extent.

19) Solvent :

A person or a business who/which is in a position to pay-off its liabilities is said to be **Solvent**. For this to happen the person or business must have assets whose saleable value is greater than or at least equal to the total liabilities.

For Example :

If Blue Shift Traders have assets whose saleable value is ₹ 50,000 and liabilities equal to ₹ 45,000, since they would be able to pay-off all their liabilities, they are termed as 'solvent business'. They would remain solvent till that point where their liabilities would be ₹ 50,000. Hence,

$$\text{Solvent} = \text{Assets} \geq \text{Liabilities}$$

20) Insolvent :

A person or a business who/which is not in a position to pay-off its liabilities is said to be **Insolvent** or **Bankrupt**. For this to happen the person or business must have assets whose saleable value is less than the total liabilities.

For Example :

If Blue Shift Traders have assets whose saleable value is ₹ 50,000 but if the liabilities rise to ₹ 61,000, they would not be able to pay-off their liabilities with ₹ 50,000. So they would become insolvent. Hence,

$$\text{Insolvent} = \text{Assets} < \text{Liabilities}$$

Distinction between Solvent and Insolvent :

The points of difference between Solvent and Insolvent are as follows :

Solvent	Insolvent
i) A solvent is a person or a business who is capable of paying his present and past debts fully from his business and personal property.	i) An insolvent is a person or a business who is not capable of paying his present and past debts from his business and personal property.
ii) A person or a business is solvent whose saleable value of total assets (i.e. private and business) is greater than or equals to his total liabilities (i.e. private and business).	ii) A person or a business is insolvent whose saleable value of total assets (i.e. private and business) is less than his total liabilities (i.e. private and business).
iii) His financial position is very strong and sound.	iii) His financial position is very weak and poor.
iv) Solvency position increases the goodwill in the competitive market.	iv) Insolvency position results in a loss of reputation in the competitive market.
v) Declaration of solvency status is not required as per the law.	v) Declaration of insolvency status is required as per the law.

21) Discount :

A discount is an allowance or benefit given by the seller or creditor to the buyer or debtor. It is usually of two types viz. trade discount and cash discount.

a) Trade Discount :

It is given or received at the time of selling or purchasing goods in bulk and is deducted from the price of the goods. It is the **net amount** at which the transaction is recorded. Since, it is subtracted from the gross amount, hence trade discount is **not recorded** in the books of accounts.

b) Cash Discount :

A **Cash Discount** is an incentive given to the debtor to encourage him to make prompt payment of the amount due from him. Every businessman sells goods on credit to increase his sales. Thereafter, he concentrates on making the debtors pay i.e. converting debtors into cash. To encourage this, they offer a discount called 'Cash Discount' for payment made within a decided period. Cash discount allowed is treated as an expense incurred for collection from debtors.

Distinction between Trade Discount and Cash Discount :

The points of difference between Trade Discount and Cash Discount are as follows :

Trade Discount	Cash Discount
i) It is a type of allowance which results in reduction in purchase price.	i) It is a type of allowance which is a motivation for making prompt payment.
ii) It is allowed by manufacturer to wholesaler or by wholesaler to retailer, to earn sufficient profit.	ii) It is allowed by the seller to the buyer, to recover the amount immediately.
iii) It is an allowance calculated on the gross price i.e. catalogue price, invoice price, printed price, or list price of goods.	iii) It is an incentive offered by the creditor to the debtor calculated on the net price i.e. after deduction of trade discount.
iv) The basic purpose of it is to promote sales and earn reasonable amount of profit.	iv) The basic purpose of it is to induce the debtor to settle his dues before the due date.
v) It is generally allowed when the seller and the buyer are the dealers in the same line of goods.	v) It is allowed by the seller to the buyer even though they are dealing in different lines of goods.
vi) It is always calculated on the catalogue price of the goods sold and directly deducted from the invoice, hence not recorded in the books of accounts separately.	vi) Since, it is allowed on cash payment and is allowed only if the cash is paid within the time limit, it is always recorded in the books of accounts. For the receiver of cash i.e. creditor, it is an expense termed as 'discount allowed' hence debited through cash book whereas for the giver of cash i.e. debtor, it is an income termed as 'discount received' hence credited through cash book.
vii) The percentage or the amount of trade discount varies from trade to trade or from commodity to commodity.	vii) The percentage or the amount of cash discount depends upon the amount due from debtors and period of time during which settlement is expected.
viii) It is offered (without any condition regarding payment) to the buyer to purchase large quantity of goods.	viii) It is offered conditionally i.e. on the payment of cash within a stipulated time.
ix) It is allowed on cash as well as on credit sales.	ix) It is allowed on the transactions of cash sales and cash payments.
x) Under the situation where both the discounts are offered trade discount is always to be calculated first.	x) Under the situation where both the discounts are offered the cash discount is always calculated after deducting the trade discount and that too only on the amount actually received or paid.

22) Goodwill :

It is the monetary value of the reputation or profit earning capacity of the business. It is intangible in nature and is a fixed asset. The reputation or profit earning capacity depends on a number of factors such as the location of the business, the quality of the product, the creditworthiness of the business etc.

23) Account :

It is a summarised record of business transactions relating to a person, a firm or a company, an asset or property, expense, loss, income or gain etc.

Financial Accounting in a broader sense, involves the simple process of accounting i.e. systematic recording of day-to-day business transactions in proper set of books as per Double Entry System of book-keeping. The very purpose of systematic recording of the books of account is to know the profitability of the business and the financial position, too. At the initial stage of business accounting, it is absolutely necessary to understand very clearly the basic concept termed as 'Account'. An **Account** means a separate ledger account opened in the principal book of account i.e., ledger. An **Account** is nothing but a summarised statement prepared, for grouping together the business transactions relating to individual or asset and property or expenditure and income etc. The summarised record, helps to make clear understanding about the position of a particular account. Hence, an account is a systematic record of business transactions relating to a person, firm or a company, asset or property, expense, loss, income or gain etc. **Accounts** can be prepared as per horizontal (T form) or vertical (statement form) format. Under the horizontal format, the account takes roughly the form of letter T and hence it is popularly known as T type of accounts. Under the vertical format, the account takes roughly the form of a statement and hence it is popularly known as statement type of accounts.

Specimen of Account

(Horizontal Form)

Title, Name or Heading of the Account

Dr. (Debit Side)				Cr. (Credit Side)			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹

(Vertical Form)

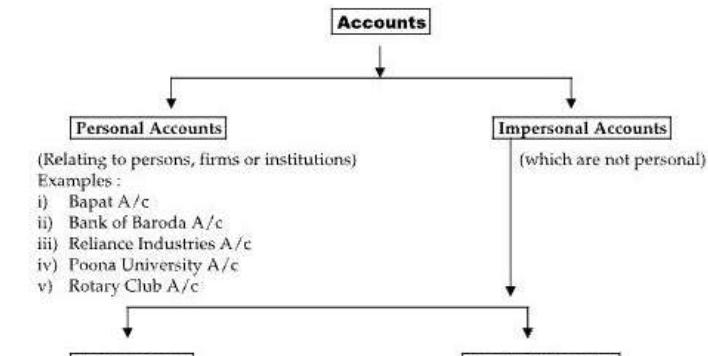
Title, Name or Heading of the Account

Date	Particulars	J.F.	Debit ₹	Credit ₹	Balance ₹

Generally in every business concern, a large number of related activities are undertaken, of which monetary activities i.e. financial transactions are recorded systematically into the primary books of accounts viz. journal. The accounts involved in the journal entries are then posted into the ledger separately. It becomes necessary to classify these accounts according to their nature so as to facilitate the ultimate work of preparation of financial statements to know the profitability and financial position of the business firms.

Hence, in order to keep a complete record of business transactions, the trader has to classify the accounts of persons, firms and company with whom they deal, the accounts of assets and liabilities, and the expenses, losses, incomes and gains related to the business.

The term '**Classification**' means an act or a system of arranging things in classes. The '**Classification of Accounts**' refers to the act of dividing various ledger accounts into certain well defined classes which can be shown as follows :

**i) Personal Accounts :**

These accounts relate to persons, firms and companies etc. Personal Accounts are further sub-classified as under :

i) Natural Personal :

These are the accounts relating to real persons i.e. human beings e.g. Suresh Account, Ramesh Account, Mahesh Account etc.

ii) Artificial Persons :

These are the accounts relating to corporate bodies which have legal existence e.g. Dinesh Bros. Account, Bata Co. Account, Dena Bank Account, Ness Wadia College Account, Naresh and Co. Account, etc.

iii) Representative Persons :

There are the accounts relating to group of persons or various parties e.g. Sundry Debtors Account, Sundry Creditors Account, Outstanding Salaries Account, Outstanding Commission Account, Prepaid Rent Account, Interest Received in Advance Account etc.

2) Real Accounts :

These accounts relate to asset, property etc. Real Accounts are further sub-classified as under :

i) Tangible Assets :

These are certain assets which are in physical form which can be touched, felt and measured e.g. Buildings, Furniture, Machinery, Vehicle etc.

ii) Intangible Assets :

These are certain assets which have no physical existence, which cannot be touched but can be measured in terms of money e.g. Goodwill, Trade Marks, Patents, Copy Rights, Computer Software etc.

3) Nominal Accounts :

These accounts relate to all expenses, losses, incomes and gains e.g. Salary, Rent, Taxes, Loss by Fire, Commission, Interest etc.

Thus, in conclusion the **Classification of Accounts** can be shown by way of a chart as indicated below in Figure 1.6.

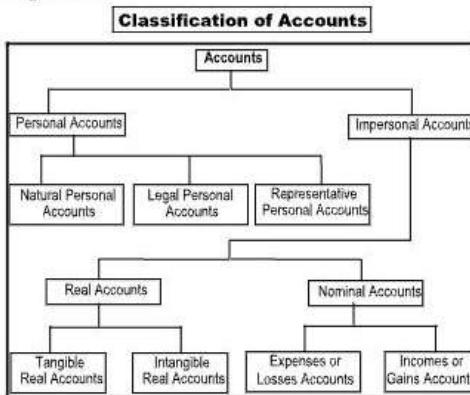


Fig. 1.6 : Classification of Accounts
Classification of Accounts with certain Typical Examples

A) Personal Accounts			B) Impersonal Accounts			
A.1) Natural Personal Accounts	A.2) Legal Personal Accounts	A.3) Representative Personal Accounts	B.1) Real Accounts		B.2) Nominal Accounts	
			B.1.1 Tangible Real Accounts	B.1.2 Intangible Real Accounts	B.2.1 Nominal Accounts (Expenses or Losses)	B.2.2 Nominal Accounts (Incomes or Gains)
Suresh A/c	Pune Municipal Corporation A/c	Outstanding Expenses A/c	Cash A/c	Goodwill A/c	Rent A/c	Interest on Investment A/c
Naresh A/c	Bharat Gas Agencies A/c	Outstanding Income A/c	Land and Buildings A/c	Patents A/c	Depreciation A/c	Bad Debt Recovery A/c
Ramesh A/c	Sudarshan Chemicals Ltd. A/c	Pre-paid Expenses A/c	Plant and Machinery A/c	Copyright A/c	Wages A/c	Bonus A/c
Mahesh A/c	State Bank of India A/c	Incomes Received in Advance A/c	Club House A/c	Trade Mark A/c	Electricity A/c	Profit on Sale of Furniture A/c
Dinesh A/c	Co-operative Society A/c	Debtors A/c	Furniture A/c	Computer Software A/c	Telephone A/c	Discount Received A/c
Rajesh A/c	H.M.T. Company A/c	Creditors A/c	Motor Car A/c		Loss by Fire A/c	Commission Earned A/c
Ps Capital A/c	Trimbak Mahavidyalaya A/c		Loose Tools A/c		Insurance Premium A/c	Locker Rent Received A/c
Ps Drawings A/c	Pune University A/c		Stock A/c		Salary A/c	Miscellaneous Income A/c

Now take a look at the accounts mentioned below and try to classify them on the basis of the above indications.

Example

Classify the following accounts into,

Personal A/c or Real A/c or Nominal A/c i.e. Expenses/Losses, Incomes/Gains.

1. Cash A/c	14. Cricket Club of India's A/c
2. Bank Overdraft A/c	15. Gavaskar A/c
3. Bank of India A/c	16. Bad Debts Recovered A/c
4. Salary A/c	17. Repairs and Maintenance A/c
5. Furniture A/c	18. Furniture A/c
6. P's Drawings A/c	19. Stock Destroyed A/c
7. Discount Received A/c	20. Bad Debts A/c
8. Interest on Bank Deposit A/c	21. Carriage Inward A/c
9. Printing and Stationery A/c	22. P's Capital A/c
10. Investment A/c	23. Commission Paid A/c
11. Salary A/c	24. Buildings A/c
12. Land and Buildings A/c	25. Interest Received A/c
13. Saraswati Educational Society A/c	26. Rent A/c

Answer

- A) Personal Accounts : 2, 3, 6, 13, 14, 15, 22.
- B) Real Accounts : 1, 5, 10, 12, 18, 24.
- C) Nominal Accounts :
 - i) Expenses / Losses : 4, 9, 11, 17, 19, 20, 21, 23, 26.
 - ii) Incomes / Gains : 7, 8, 16, 25.

Basic Accounting Elements :

From the above classification, the following five accounting elements emerge. These five accounting elements are put together to frame the Basic Accounting Rules for writing the books. These elements have been explained earlier which are as follows :

i) **Assets :**

Property owned by the business - utilization is expected to generate economic benefits in future.

ii) **Liabilities :**

These are claims the outsiders have on the business - it is the obligation of the enterprise and its settlement which will result in outflow of funds.

iii) **Income :**

When an organisation receives money for work done or services rendered etc, it is called income and if profit is made it is called gain.

iv) **Expense :**

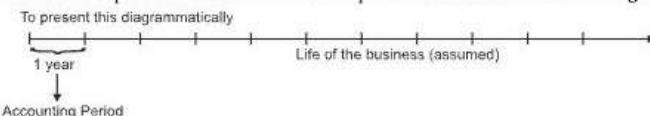
The money used up to pay for various benefits e.g. stationery, telephone, electricity etc. These reoccur for payment every month and are called recurring.

v) **Capital (Equity) :**

Amount introduced by the owner to start his business.

24) Accounting Year :

Business organisations have long lives or so is assumed. It is not possible for the interested parties to wait indefinitely to find out the final profits or losses that the business has earned or suffered. They need to know at frequent intervals 'how the business is performing'. This leads us to the accounting period concept. The entire life of the business is divided into smaller periods at the end of which the performance is reviewed and reported. This is called an **Accounting Period**.



For the purpose of reporting to outsiders, one year is usually the accounting period. Pacioli, the first author of an accounting text, wrote in 1494, "Books" should be closed each year, especially in a partnership, because frequent accounting makes for long friendship".

25) Trading Concerns and 'Not for Profit' Concerns :

a) Trading Concerns :

It refers to those organisations which are formed to carry out trading activities with the primary motive of earning profit. e.g. Manufacturing Co., Trading Organisations, Service Industries, etc.

b) 'Not for profit' Concerns :

It refers to those organisations which are formed for the purpose of promoting commerce, art, science, religion, charity or any other useful object with the primary motive of providing services and not earning profit, e.g. Public Libraries, Charitable Hospitals, Educational Institutions, Sports Clubs, Social Organisations etc.

1.2 ACCOUNTING CONCEPTS, PRINCIPLES AND CONVENTIONS

Accounting system is based on certain **concepts, principles and conventions**. Accountants all over the world would agree on certain basic rules and regulations on which the accounting theory and practice is based upon, being commonly referred to as **accounting, concepts, principles and conventions**. They are considered as a broad set of conventions that are meant to provide a basic framework for financial reporting. It is therefore essential for the understanding the interpretations and meaningful analysis of various financial statements based on these basic **Concepts, Assumptions, Principles and Conventions**. Accountants must therefore actively consider, whether the accounting treatments adopted are consistent with the accounting concepts, principles and conventions.

1.2.1 ACCOUNTING PRINCIPLES

Meaning

As accounting is a science it consists of some basic principles. The entire accounting process which involves in the preparation and presentation of financial statements is based on these scientific principles. The **Accounting Terminology** defines a Principle as, "a general law or rule of action or conduct, adopted or professed as a guide to action".

Definitions

The term **Accounting Principles** is a very wide term which includes all practices, procedures, methods, techniques, concepts and conventions in accounting. Following are some of the important definitions given by certain eminent authorities.

i) The American Institute of Certified Public Accountants (AICPA) :

"It is a general law or rule adopted or professed as a guide to action, it is a basis of conduct or practice".

ii) Paul Garday, an American well-known Author :

"They cannot be derived from or proved by the laws of nature, but that they are rather in the category of convention or rules developed by man from experience to fulfill the essential and useful needs and purposes in establishing reliable financial and operating information and control for business entities".

iii) The Canadian Institute of Chartered Accountants (CICA) :

"They are the body of doctrines commonly associated with the theory and procedures of accounting, they serve as an explanation of current practices and as a guide for selection of conventions or procedures where alternative exists".

Thus, **Accounting Principles** are the rules of action or conduct which are adopted by the practicing accountants universally while recording various accounting transactions into the books of accounts and preparing and presenting the financial statements therefrom.

Characteristics

The important **Characteristics of Accounting Principles** are as follows :

i) Utility :

The accounting principle should be very useful so that ultimate utility of accounting record is increased substantially i.e. accounting statements become more meaningful e.g. provision for bad and doubtful debts on sundry debtors is created for the purpose of utility only.

ii) Objectivity :

The financial statements should be reliable for decision-making on the basis of facts and figures shown in these statements, it means accounting principles should be objective so as to prepare the financial statements in a reliable manner.

iii) Flexibility :

The accounting principles should be flexible enough and not be so rigid (the accounting principles evolved by the Institute of Chartered Accountants of India (ICAI) are not rigid, as the institute is changing the principles from time to time depending upon the specific requirements and the changing circumstances).

iv) Feasibility :

The accounting principles should have more and more practicability e.g. fixed assets are to be shown at cost less depreciation, as it is not feasible every time to show the same at market value i.e. it is not practicable.

Thus, accounting principles are the body of doctrines commonly associated with the theory and procedure of accounting, serving and as an explanation of current practices and as a guide for the selection of conventions or procedures where alternatives exist. Rules governing the formation of accounting practices and the principles derived from them have arisen from common experiences, historical precedents, statements by individuals and professional bodies and regulations of government agencies.

Generally Accepted Accounting Principles (GAAP)

Generally Accepted Accounting Principles may be defined as those rules of action or conduct which are derived from experience and practice and when they prove useful, they become accepted as principles of accounting. According to the American Institute of Certified Public Accountants (AICPA), the principles which have substantial authoritative support become a part of the generally accepted accounting principles.

The general acceptance of the accounting principles or practices depends upon how well they meet the following important criteria :

i) Relevance :

A principle is relevant to the extent it results in information that is meaningful and useful to the user of the accounting information.

ii) Objectivity :

Objectivity connotes reliability and trustworthiness. A principle is objective to the extent the accounting information is not influenced by personal bias or judgement of those who provide it. It also implies verifiability which means that there is some way of ascertaining the correctness of the information reported.

iii) Feasibility :

A principle is feasible to the extent it can be implemented without much complexity or cost.

These criteria often conflict with each other, for instance, information about the value of a new product to the inventor is indeed relevant but the best estimate of the value of a new product made by the management is highly subjective. Accounting, therefore does not attempt to record such values. It sacrifices relevance in the interest of objectivity. In developing new principles, the essential problem is to achieve a trade-off between relevance on one hand and objectivity and feasibility on the other.

Basic Assumptions of Accounting :

The basic assumptions of accounting are the foundation pillars on which the structure of accounting is based. The four basic assumptions are accounting entity assumption, monetary unit assumption, accounting period assumption, and going concern assumption.

Basic Principles of Accounting

Basic principles of accounting are essentially, the general decision rules which govern the development of accounting techniques. These principles guide as to how transactions should be recorded and reported. On the basis of basic assumptions of accounting, the following principles of accounting have been developed :

i) Revenue Recognition Principle :

This principle is mainly concerned with the revenue being recognised in the Income Statement of an enterprise. Revenue is the gross inflow of cash, receivables or other considerations arising in the course of ordinary activities of an enterprise from the sale of goods, rendering of services and use of enterprise resources by others yielding interests, royalties and dividends.

ii) Historical Cost Principle :

According to this principle, an asset is ordinarily recorded in the accounting records at the price paid to acquire it at the time of its acquisition and the cost becomes the basis for the accounts during the period of acquisition and subsequent according periods.

iii) Matching Principle :

According to this principle, the expenses incurred in an accounting period should be matched with the revenues recognised in that period, that is, if revenue is recognised on all goods sold during a period, cost of those goods sold should also be charged to that period. It is wrong to

recognise revenue on all sales, but charge expenses only on such sales as are collected in cash till that period.

iv) Full Disclosure Principle :

According to this principle, the financial statements should act as means of conveying and not concealing. The financial statements must disclose all the relevant and reliable information which they purport to represent, so that the information maybe useful for the users.

v) Objectivity Principle :

According to this principle, the accounting data should be definite, verifiable and free from personal bias of the accountant. In other words, this principle requires that each recorded transaction/event in the books of accounts should have an adequate evidence to support it.

1.2.2 ACCOUNTING CONCEPTS AND CONVENTIONS

Figure 1.7 shows Accounting Concepts and Conventions as follows :

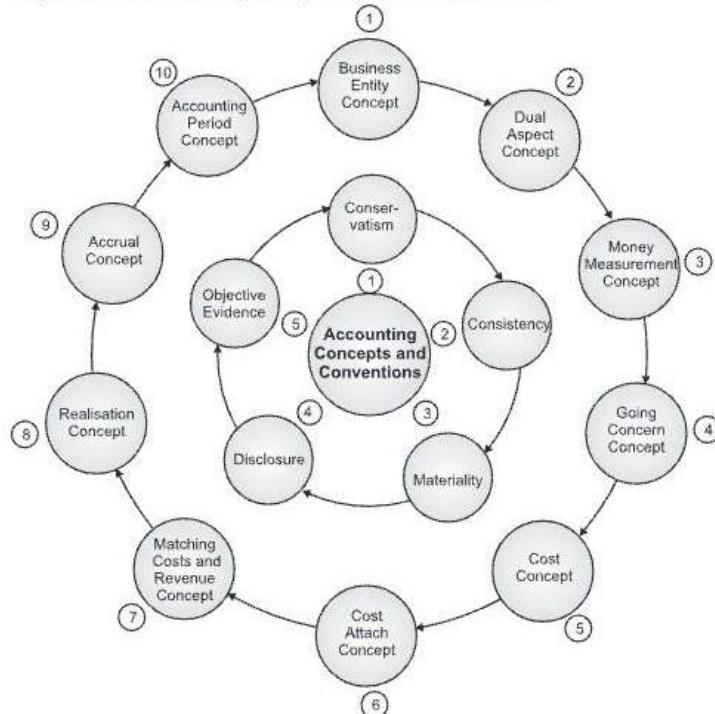


Fig. 1.7 : Accounting Concepts and Conventions

Accounting principles are usually the concepts and conventions which have been adopted as a general guide by the accountancy profession. There are in all ten concepts in accounting which are modified by five conventions.

A) Accounting Concepts :

A concept is a notion. The term 'concept' denotes the basic assumptions or propositions or predictions or conditions upon which accounting is based. Any abstract idea serving a systematised function may be termed as concept.

Accounting concepts are such ideas which are commonly associated with the theory and practice of accountancy. Concepts can be classified into four categories as follows :

- i) Natural, i.e. Matching cost with revenue is a natural concept.
- ii) Real, i.e. practical.
- iii) Ideal, i.e. theoretical.
- iv) Borrowed, i.e. concepts borrowed from other disciplines.

B) Accounting Conventions :

The term "Convention" denotes customs or traditions. Convention refers to "a statement or rule of practice which, by common consent, expressed or implied, is employed in the solution of a given class of problems or guides behaviour in a certain kind of situation. Conventions are established usages or rules or statement of practice. "Debit on left hand side and credit on right hand side of an account, liability on left hand side and assets on right hand side of Balance-Sheet, expenditure on left hand side and incomes on right hand side of Profit and Loss Account are the examples of convention.

1.2.2.1 ACCOUNTING CONCEPTS

The accounting principles, classified into concepts, which are certain basic assumptions and conditions upon which the entire accounting cycle is based, to ensure uniformity in recording and interpretation of information, are summarised as follows :

1) Business Entity Concept :

This concept is also called as "Separate Entity Concept." A firm or a business is regarded as separate and distinct from the owner. The business has its own entity and therefore its affairs are to be distinguished from the affairs of anybody else even the owners. All the transactions of a business are recorded separately without mixing the private transactions of the owner. Even the proprietor is considered as a creditor to the business and hence his capital is shown as liability in the Balance-Sheet.

The business accounts are of business only and are not mixed up with the owners. For example, if the proprietor draws some goods from the business for personal use, it is not treated as a sale but the value of those goods consumed by the proprietor is debited to his 'Drawings Account' and reduced from his Capital Account.

2) Dual Aspect Concept :

All business transactions are regarded as having a dual aspect. The balance-sheet shows the financial position of the business at one point of time. It's right hand side represents the assets being used by the business and left hand side represents the sources of these assets. The sources are of two types, owned sources i.e. capital and borrowed sources i.e. liabilities or the claims of outsiders on the assets. For example,

'X' the proprietor brings cash of ₹ 15,000 as his capital in the business. Here, the resource is X's capital and the form of resource is cash. Then the accounting equation will be as follows :

$$\begin{aligned}\text{Owners Capital} &= \text{Assets} - \text{Liabilities} \\ ₹ 15,000 &= \text{Cash of ₹ } 15,000 - \text{NIL}\end{aligned}$$

He borrowed ₹ 10,000 from A, and purchased machinery of ₹ 20,000, then the accounting equation will be as follows.

$$\begin{aligned}\text{Owners Capital} + \text{Liabilities} &= \text{Assets in use.} \\ ₹ 15,000 + ₹ 10,000 (\text{Loan from A}) &= \text{Machinery ₹ } 20,000 + \text{Cash ₹ } 5,000\end{aligned}$$

The assets are always equal to capital and liabilities. In this manner Balance Sheet should reconcile the amounts on both the sides. In other words one account is debited while the other account is credited with an equal amount. Every debit has a credit, i.e., for every debit there is a corresponding credit.

3) Money Measurement Concept :

All transactions are recorded in terms of money. Money has to act as a means of indicating the value of the commodity in exchange or prices. Money simplifies the business of calculating the rate at which one commodity can be exchanged for another commodity. Money makes smooth exchanges possible. Hence, money is used as the measuring unit for financial reporting. This concept makes accounting information more meaningful and useful for analysis of financial statements.

For example, a business house has 40 acres of land, 20,000 sq.ft. building, 10 horses, 1,000 goats, 1,000 tonnes of raw material, etc. This does not give us a clear idea about its property. The comprehensible meaning will follow only when each commodity is accounted or valued in terms of money.

However some other things cannot be measured in terms of money such as, efficiency of management, sales and pricing policy of management, working conditions etc. The limitation is that the qualitative aspects of the business cannot be recorded in terms of money.

4) Going Concern Concept :

This concept is also called as "The Concept of Permanency" or "Continuity Concept". It implies that accounting is made on the assumption that a business will continue in future and will use its property in operations rather than sell it. Therefore, the market values or realisable values are recorded in the books of accounts. Eric L. Kohler defines going concern as, "*a business enterprise is operation with the prospect of continuing operation in future, its assets, liabilities, revenues, operating costs, personnel, policies and prospects. a concept basic to accounting of importance in the valuation of intangible assets and the depreciation of tangible and intangible assets*".

Here, the assumption is that the business will continue trading over a long period of time. Accounting is to be done on the basis of this assumption or proposition and all transactions are entered at cost only. **Following are the important implications of this concept :**

- i) The assets acquired need not be sold and are not meant for resale.
- ii) The revenue income is compared with revenue expenditure to ascertain the result from business.
- iii) The expenditure is classified into Capital and Revenue.

- iv) The assets are recorded at cost and shown in the balance sheet at cost less depreciation.
- v) The principle of valuation of closing stock at cost or market price whichever is lower presumes that the concern is going to last for some more years.
- vi) Deferred revenue expenditure and unexpired costs are carried forward to the next year.
- vii) Estimated liabilities arising on future eventualities are also taken into account.
- viii) The fluctuations in the market rates are ignored.

When a machinery is purchased, proprietor has to presume or assume that machinery is going to last for a number of years and the business itself will continue. Therefore, on the basis of estimated life of the machinery, depreciation is to be calculated and debited to profit and loss account every year. If the continuity concept is not prevalent, the whole amount of asset would have been written off in the year in which the asset was purchased. However, the following are the exceptions to this concept :

- i) In the case of liquidation, a different approach to valuation is necessarily required and in such case market value which is realised may be taken into consideration.
- ii) In case of contractual commitments, i.e. in case of contracts of construction obtained for a specific period, the cost of equipment purchased is charged to that contract, even though the same equipment may be useful for a longer period.

5) Cost Concept :

This concept has been adopted for the purpose of convenience and feasibility. It implies that the resources of a business are to be recorded at their cost. Here, cost is the cash or the cash equivalent for an asset in a transaction.

The cost concept makes the accounting record objective because it does not allow transactions to be recorded at arbitrary values. It should not be recorded at market value. Similarly, all transactions should be entered at cost only. Due to this concept the accounts will become more realiable useful and comparable because the transactions are recorded at cost. The cost concept does not recognise the realisable value or the replacement value or the market value of an asset. According to this concept all assets and liabilities are recorded at their cost of acquisition.

Cost should be the basis for subsequent accounting also. It is shown at cost less depreciation. Even the intangible asset like goodwill is recorded at cost. If no amount is paid for an asset, it will not appear in the accounting records.

For example, A purchased a piece of Land for ₹ 50,000 the market price of which is ₹ 59,000. While recording the same in the books of account, the entry must be made with ₹ 50,000 only. Suppose subsequently the price of Land falls to ₹ 32,000 still in the books of account the Land will be shown at ₹ 50,000 only. Thus, the transactions are recorded in the books at cost only.

However, there are certain limitations to this concept,

- i) Price level changes are not reflected in the accounts and hence the current values of assets are ignored.
- ii) Depreciation is only an estimate. It cannot be calculated or ascertained accurately.
- iii) It ignores the true value of the asset to the business e.g. in many cases value of goodwill may be higher than the cost.
- iv) If the accounts are not converted at current values the inter firm comparison will be meaningless.

Even after considering the above limitations, it is recommended that one adheres to the cost concept only.

6) Cost Attach Concept :

According to Ryall,

"In practically all cases, a cost is the sum of three groups or components : i) the purchase or transfer of material, ii) the cost of hire of labour and iii) the value of other disbursement made or expenditure incurred in achieving the desired product or result".

Thus, the total cost is the sum of material, labour cost and overheads.

$$\therefore \boxed{\text{Total Cost} = \text{Material Cost} + \text{Labour Cost} + \text{Overhead Cost}}$$

When appropriate portion of material costs, labour costs and other overhead costs are added or merged together, product costs are obtained. Hence this concept is also known as "Cost merge concept". However the total cost of production does not necessarily reveal the actual cost of the product. In fact, actual value will be determined by sales price which may be higher or lower than the cost. Subsequently, while cost remains unchanged, value changes depending upon the sale price.

7) Matching Costs and Revenue Concept :

The term "matching" indicates the close relationship that exists between the cost and revenue. The matching concept requires that the revenue and the cost incurred to obtain that revenue should be properly matched. This concept states that accounts should be presented at fixed intervals regularly. This will be helpful in measuring the business performance periodically. This concept is based on the accounting period. Therefore, it is also known as "**the periodic matching with revenue concept**", e.g. if the total cost is more than the sales value, it will result into a loss. If the total cost is less than the sales value, it will result into a profit.

$$\therefore \boxed{\text{Profit} = \text{Sales Value} - \text{Total Cost and Loss} = \text{Total Cost} - \text{Sale Value}}$$

Thus, the matching of costs and revenue is required to measure the positive or negative result of business operations in a particular accounting period. The matching concept is related to accrual concept and realisation concept also.

8) Realisation Concept :

According to the realisation concept, the profit on sale is generally regarded as earned at the time when the goods or services are passed on to the purchaser and the purchaser incurs the liability for that. No profit is considered to have been earned till it is either realised in cash or the other party involved is legally liable to pay the amount for sale of goods.

The concept of realisation does not only mean the receipt of income in cash, but the income is also said to be realised as a right to receive the income gets created. The profit is to be credited only when it is actually realised.

For example,

- i) Cash Sales of ₹ 10,000, here the income is received in cash.
- ii) Credit Sales of ₹ 50,000 to Ramrao, here the seller creates a legal right to receive the income. Thus, in credit sales though the income is not received in cash, still it is said to be realised.

However the following are the exceptions to this concept,

- i) Anticipated or unrealised profit should not be taken into account whereas expected losses are taken into consideration.
- ii) Income like interest, rent etc. are credited to profit and loss account on accrual basis, though they are not realised.
- iii) In case of hire purchase sales, sales is said to have been made to the extent of cash received by way of instalment.
- iv) In case of assets, cost concept is adopted.

9) Accrual Concept :

The concept of accruing income and expenses is fundamental in modern accounting method. It is also known as "Mercantile System of Accounting". The essential of the accrual concept is that, profit is measured by operating transactions that affect owners equity. When revenue is recognised at the time of sale rather than at the time of collection of cash, this is referred to as accrual basis of accounting . Accrual accounting means the system of recording revenues whether they are received in cash or not and expenses whether they are paid in cash or not. In other words, the outstanding, prepaid, pre-received expenses and income are considered under this concept. Because of this concept the net profit or loss of any period cannot be equal to corresponding cash increase or decrease. For this purpose, the necessary entries will be passed at the end of accounting year in respect of following items :

- i) Income earned but not received.
- ii) Income received in advance.
- iii) Income received but pertaining to previous year.
- iv) Expenses due but not paid.
- b) Expenses paid but not related to the accounting period.

The American Accounting Association Committee rightly pointed out that

"Expense is the expired cost, directly or indirectly related to a given fiscal period of the flow of goods or services into the market and of related operations. Recognition of cost expiration is based either on a complete or partial decline in the usefulness of assets or on the appearance of liability without corresponding increase in assets".

10) Accounting Period Concept :

The term "periodicity" refers to segmentation of the existence of an organisation into time periods. This time period is called as "Accounting period". For the purpose of internal control, monthly, quarterly or half yearly accounts can be prepared. At the end of each such period the final accounts are drawn to find out the profit or loss during the period and the assets and liabilities at the end of the said period. Generally one year period of interval is accepted by the business concerns. This concept states that accounts should be presented regularly at fixed intervals.

Acceptance of this concept necessitates the closing of the books of accounts, particularly of revenue nature (i.e. incomes and expenses) for the accounting period and hence it requires the certain estimates, assumptions, or propositions which are mentioned below :

- i) Accounts should be maintained on accrual basis.
- ii) Unpaid incomes and expenses should be accounted for.
- iii) Expenses paid in advance and income received in advance should be carried forward to the next accounting year.
- iv) Estimate of useful life of asset for the purpose of depreciation.
- v) Rate of depreciation should be appropriate (proper method should be adopted).
- vi) The expenditure should be properly segregated into capital and revenue.
- vii) To accommodate the concept of realisation, assumptions should be made.

Implementation of Accounting Concept in Business

The following accounting concepts can be implemented in the business concerns for the maintenance of necessary books of accounts that results in the preparations of financial statements on a uniform basis :

Sr. No.	Concept	Meaning	Examples and Purpose
1)	Business Entity Concept	Business is regarded as unit or entity distinct from its owner. As business and businessman are two separate entities. (Distinction must be maintained between the proprietor and the firm).	Examples : i) Capital brought in by the owner is recorded as cash/asset coming in the business from the point of view of the business, whereas, it is cash/asset going out from the point of view of businessman. ii) The owner may be having three different activities like a grocery shop, a laundry and tea stall. The accountant must remember that these are three different entities and he should maintain three different sets of books of account. Purpose : This concept has led to good results. If the distinction is not recognised the personal and business transactions will get mixed and the accounting statements will become confusing.
2)	Money Measurement Concept	In accounting only those things which can be expressed in terms of money are recorded to give a meaningful information. As money is accepted not only as a medium of exchange but also a store of value.	Examples : i) Merely saying that a business unit has 4 acres of land, 25000 sq. metre building, 2000 kgs of material etc. will not give us clear idea about its assets. The real meaning will follow only when all these are measured in common unit which is money. ii) A team of dedicated managers, no doubt is an asset of the business but it cannot be measured in terms of money and hence is not to be recorded in the books of account. iii) The state of health of the Managing Director of a company who has been the key contributor to the success of business is not recorded in the books. Purpose : Accounting record is concerned with amounts in terms of money.
3)	Going Concern Concept	This principle indicates that accounting is made on the assumption that a business will continue in future and will use its assets in operations rather than sell them. [This assumption is not applicable to terminable venture, (time or object)] The main implications of this concepts are : i) The expenditure is categorised into Capital and Revenue. ii) The revenue income is compared with revenue expenditure to find the profit/gain.	Examples : i) Certain expenditure will give rise to benefits accruing over a long period, like expenditure on machinery and it must be distinguished from the expenditure whose benefit will be exhausted within the year. ii) If the life of the venture is known in advance, the record will be from the point of view of the period of the life. (If someone engaged in one short-term contract only lasting less than a year there will be no distinction between expenditure whose benefits accrue over a long period and those

Sr. No.	Concept	Meaning	Examples and Purpose
		iii) The capital expenditure (Assets) is shown at cost and not at market / realisable value iv) The fluctuations in the market rates are ignored.	whose benefits are for a short period only. iii) Depreciation (or amortisation) procedures rest up on this concept. Purpose : The concept holds that continuity of business activity is the reasonable expectation for the business unit for which accounting function is being performed.
4)	Cost Concept	It implies that the resources of a business are to be recorded at their cost. The market price, realisable, value etc. should not be considered while recording the transactions in the books. This means that the amount recorded should not depend on the wishes or whims of any particular individual, it should be based on objective evidence.	Examples : i) Purchased a plot for ₹ 80,000 the market price of which is ₹ 84,000 while recording it in the accounts, the entry must be made for ₹ 80,000 only. Suppose after few years the price of the plot falls to ₹ 70,000, still in the books the plot will show the amount of ₹ 80,000 only. Purpose : The most important purpose of this principle is to provide reliable, verifiable and definite accounting information. The cost concept meets all these basic criteria viz. relevance or objectivity and feasibility.
5)	Accrual Concept	In accrual concept the revenue is reckoned (counted) to the period during which it was realised (rather than received) and the cost applied to the period benefiting from the services (rather than when paid/billed). In other words - the outstanding or prepaid expenses and incomes are considered under this concept.	Examples : i) Salary outstanding, ii) Rent outstanding, iii) Insurance premium paid in advance, iv) Wages accrued due, v) Interest on loan unpaid, vi) Taxes paid in advance. Purpose : Because of this concept the net profit or loss of any period cannot be equal to corresponding cash increase or decrease. Outstanding Expenses = Liability Income received in Advance = Liability Outstanding Income = Asset Prepaid Expenses = Asset (Expenses paid in advance)
6)	Concept Conservatism	This concept is based on the assumption that the recording is to be done for the expected losses, but not for anticipated gains. (Too rosy a picture of the financial affairs should not be conveyed by the financial statement).	Examples : i) Provision in accounts is made for all losses though not yet suffered e.g. Provision for Bad and Doubtful Debts (RDD). ii) Profit is not credited unless it is realized e.g. the closing stock is valued at the market price or cost price whichever is less. iii) A customer has filed a suit for damages against the company in the court of law whether the judgement will be favourable or unfavourable to the company can not be determined for sure. Hence, it will be prudent to provide for likely loss in the final accounts. Purpose : This concept presents the accounting data correctly and avoid unwarranted optimism in preparing financial statement.
7)	Materiality Concept	Materiality concept holds that items of small significance need not give strict theoretically correct treatment. In other words the cost of accounting of a	Examples : i) While maintaining stock records, one can have one head as "consumable spare" covering all items of small hardware etc. There is no need to

Sr. No.	Concept	Meaning	Examples and Purpose
		transaction should not be more than the amount of transaction. (what is material and what is not, has to be decided on the basis of individual judgement and common sense.)	<p>make the entry of every screw purchased, nails purchased etc. under different heads.</p> <p>ii) Purchase of stationery is recorded as an expense. Unused stock of stationery is not recorded separately.</p> <p>Purpose : The concept refers to the significance of the transaction. It is not worthwhile to record every minute detail in accounting as it will be cumbersome and uneconomical.</p>
8)	Consistency Concept	There are different accounting policies and methods. Different business firms follow the different policies and methods or certain rules and assumptions. In order to make the result of one year comparable with those of other years, the basis should not be changed.	<p>Examples :</p> <ul style="list-style-type: none"> i) The method for charging depreciation should remain unchanged from year to year, otherwise the profit of one year cannot be compared with the profit of other years. ii) Valuation of material issues under FIFO LIFO or simple average or weighted average methods etc. should not be changed. <p>Purpose : The principle of consistency plays an important role, which says that once a method or policy is adopted by the business, it should be consistently followed.</p>
9)	Accounting Period Concept	According to this assumption, the life of an enterprise is divided into arbitrary period for preparing final accounts. (No businessman can wait for knowing the results of his business till its termination).	<p>Examples :</p> <ul style="list-style-type: none"> i) Nowadays management, creditors, investors and government need results of the business more frequently, these can be prepared monthly, quarterly, half yearly or annually. ii) Generally financial statements are prepared annually for 12 months period starting on the 1st April and ending on 31st March. <p>Purpose : This concept states that accounts should be presented at fixed intervals regularly.</p>

1.2.2.2 ACCOUNTING CONVENTIONS

The accounting principles, classified into conventions which are certain basic customs and traditions followed for years together that act as a guide for preparation of financial statements, are summarised below :

1) Conservatism :

The first convention is that, "anticipate no profit and provide for all possible losses". This indicate that think about and provide for all probable losses and expenses but do not credit any probable future profit. On this basis, closing stock is valued at cost or market price whichever is lower, creating a provision for doubtful debts, a provision against fluctuations in the prices of investments and the profit is not credited unless it is realised; these are all based on the conservatism. This affects the current assets only. This concept thus presents the accounting information correctly and avoids unwarranted optimism in preparing final accounts.

The following are the conservative accounting practices adopted in Accountancy :

- i) Fixed assets are shown at cost minus depreciation.
- ii) Adopting accelerated method of depreciation.
- iii) Current assets are shown at cost or market price whichever is lower.
- iv) Charging stock of medicines, stock of stationery to Profit and Loss Account.

- v) Showing joint life policies at surrender values instead of paid up values.
- vi) Amortising intangible assets.
- vii) Providing for doubtful debts and for discount of debtors.
- viii) Not providing for discount on creditors.

2) Consistency :

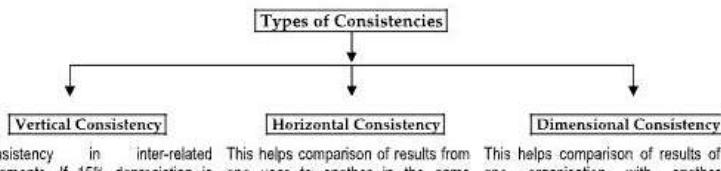
Accounting policies, methods, rules and practices should remain unchanged from one year to another year. Then only the results of a business concern can be compared from one year to another year. Consistency has to be followed in particular in respect of the following procedures : a) Calculation of depreciation, b) Valuation of material and c) Treatment of revenue and capital expenditure.

Different business houses follow different policies and methods.

- a) Valuation of raw material, work in progress, stores and spares and finished goods whether at cost or market price whichever is lower or any other method.
- b) Calculation of depreciation under straight line or reducing balance method etc.
- c) Valuation of material issued under FIFO, LIFO, simple average, weighted average methods etc.

A change in these methods and policies will mean a change in the amount of expenditure or income and the value of asset. Hence, the principle of consistency plays an important role, which says that, once a method or policy is adopted by the business it should be consistently followed. Consistency helps in making the results comparable.

Eric L. Kohler in his Dictionary for accountants explained three types of consistencies which are as follows :



Consistency in inter-related statements. If 15% depreciation is charged to profit and loss account, the same percentage should be shown in the balance sheet also.

This helps comparison of results from one year to another in the same organisation. In the same organisation there should be consistency in final accounts from one year to another year.

This helps comparison of results of one organisation with another organisation in the same industry. This refers to uniform accounting in the various organisations in the same type of industry.

3) Materiality :

Eric L. Kohler in his Dictionary for Accountants defines materiality as,

"the characteristic attaching to a statement, fact or item where by its disclosure or the method of giving its expression is likely to influence the judgement of a reasonable person".

Materiality means the relative importance and is related to the convention of disclosure. Disclosure is necessary in financial accounts only for material facts. Materiality is of two kinds – materiality of information and materiality of accounts. This principle refers to the significance of transactions. The cost of accounting of a transaction should not be more than the amount of transaction.

For example : While maintaining stock records there should be one head of account namely "Consumable stores" covering all items of small hardware etc. There is no need to make the entry for every screw, pin, or nails purchased etc. under different heads. Such separate individual entries are not material in business. Ultimately what is material and what is not, has to be decided on the basis of the individual's judgement. In other words, what is material in one accounting

period may not be material in the next accounting period and what is considered to be material for one business may not be material for another business. Materiality depends not only on the size of the amount spent but also on its nature.

4) Disclosure :

All the material facts should be disclosed in the final accounts. In fact, the Companies Act has made several provisions for disclosure of essential information in Final Accounts. The object of disclosure is to make the financial statements more useful and to give less scope for misinterpretation. Even significant events occurring after the end of accounting year but before the preparation of balance sheet are to be disclosed. This will help the readers of financial statements to understand the performance of the business correctly.

The important items requiring disclosure are as under :

- Abnormal items.
- Contingent liabilities
- Accounting methods and policies adopted by the company.
- Changes in method or policies of accounting and their consequential effect on the profit.
- Items of non-recording nature.
- Significant difference between the cost and market value of stock.
- Items pertaining to previous year i.e. prior period adjustments made in the current year.

5) Objective Evidence :

The convention of objective evidence means that each and every transaction recorded in accounts should be objective and variable. Unless some documentary evidence is obtained for business transaction no entry in the books is to be passed. The documents may be like voucher, bills, receipts, statements, bank pay in slip, contracts, cheques, correspondence etc. There is imperative need to make financial statements reliable and unbiased. In short, for every data furnished there should be a proper evidence and supported by objective documents, which can be verified by auditor at a later date. It is related to the evidence of each transaction necessary for accuracy and truth.

However, objective evidence may not be possible in the following cases :

- | | | |
|--------------------------------------|---|--|
| i) Depreciation | : | It is calculated on the basis of estimated useful life of the asset. |
| ii) Reserve for Doubtful Debts | : | It is also estimated by the proprietor |
| iii) Realisable value of Inventory | : | It is also estimated. |
| iv) Apportioning of Overheads | : | On the basis of estimates only. |
| v) Amortisation of Fictitious Assets | : | In this case objective evidence may not be possible. |

Accounting Concepts and Conventions are of vital importance as they provide a sound conceptual framework for an accurate financial accounting record and timely preparation of credible and reliable financial statements.

QUESTIONS FOR SELF-STUDY

I. Theory Questions :

- What is 'Financial Accounting'? Explain in brief the Scope of Financial Accounting.
- Define the term 'Financial Accounting'. Explain the scope and objectives of Financial Accounting.
- " Financial Accounting is the proper language of modern business". Comment.
- State the role and importance of Financial Accounting in business world.
- Define the term 'Accounting Principle'. State the important characteristics of accounting principles.

- vi) What are 'Accounting Concepts'? Briefly explain the following accounting concepts.
 a) Business Entity, b) Going Concern and c) Accrual.
- vii) What are 'Accounting Conventions'? Briefly explain the following accounting conventions :
 a) Materiality, b) Conservatism and consistency.
- viii) Define the concept 'Account'. Explain in brief the main classification of accounts.
- ix) What are 'Impersonal Accounts'? How they are classified?
- x) How accounts are classified? Give suitable examples to illustrate your accounts.
- xii) Write short notes on:
 a) Scope of Financial Accounting, b) Objectives of Financial Accounting, c) Transaction, d) Capital Expenditure, e) Deferred Revenue Expenditure, f) Contingent Liabilities, g) Debtor, h) Capital, i) Generally Accepted Accounting Principles (GAAP), j) Basic Principles of Accounting, k) Dual Aspect Concept, l) Money Measurement Concept, m) Matching Costs and Revenue Concept, n) Objective Evidence, o) Disclosure, p) Representative Personal Accounts, q) Real Accounts, r) Nominal Accounts.
- xii) Differentiate between:
 a) Book-keeping and Accounting, b) Capital Expenditure and Revenue Expenditure, c) Solvent and Insolvent, d) Trade Discount and Cash Discount, e) Accounting Concepts and Accounting Conventions, f) Personal Accounts and Impersonal Accounts.

II. Objective Questions :**1. Match the following pairs :**

Group 'A'	Group 'B'
1) Inflation Accounting	a) Recording of social effects of business decisions.
2) Cost Accounting	b) Accounting process for measurement of the cost and value of people.
3) Social Responsibility Accounting	c) Accounting for pollution emissions resources used.
4) Human Resource Accounting	d) Adjustment in the value of assets and of profit in the light of changes in the price levels.
5) Financial Accounting	e) Accounting and reporting of valuable information to decision makers.
6) Environment Accounting	f) Recording, classifying and summarising of the mercantile transactions.
7) Management Accounting	g) Ascertainment and control of the costs.

Ans : (1 – d), (2 – g), (3 – a), (4 – b), (5 – f), (6 – c), (7 – e).

2. Match the following pairs :

Group 'A'	Group 'B'
1) Business Entity Concept	a) Recording of business resources at cost only.
2) Dual Aspect Concept	b) Determination of the point of time when revenue is recognized.
3) Money Measurement Concept	c) Total Cost = Material Cost + Labour Cost + Overhead Cost
4) Going Concern Concept	d) Segmentation of the existence of an organisation into time periods.
5) Cost Concept	e) Measurement of profit from those operation transactions which affect owners equity.

Group 'A'	Group 'B'
6) Cost Attach Concept	f) Presentation of accounts regularly at fixed intervals.
7) Matching Costs and Revenue Concept	g) Separation between the business and its owner.
8) Realisation Concept	h) Permanancy nature of a business.
9) Accrual Concept	i) Recording of those business events which are expressed in monetary terms.
10) Accounting Period Concept	j) For every debit there is a corresponding credit.

Ans. : (1 - g), (2 - j), (3 - i), (4 - h), (5 - a), (6 - c), (7 - f), (8 - b), (9 - e), (10 - d).

3. Match the following pairs :

Group 'A'	Group 'B'
1) Assets	a) Owners funds
2) Liabilities	b) Position statement
3) Capital	c) Borrowed funds
4) Profit and Loss Account	d) Utilisation of funds
5) Balance Sheet	e) Income statement

Ans. : (1 - d), (2 - c), (3 - a), (4 - e), (5 - b).

4. Match the following pairs :

Group 'A'	Group 'B'
1) Business	a) Person whose assets equal or exceed his liabilities.
2) Debtor	b) Dealing between two persons involving exchange of goods or services for cash or credit.
3) Income	c) Undertaking of activities for earning profit.
4) Transaction	d) Excess of assets over liabilities.
5) Capital	e) Amount received in return for services.
6) Solvent	f) A person who owes money.

Ans. : (1 - c), (2 - f), (3 - e), (4 - b), (5 - d), (6 - a).

Chapter 2...

Accounting Transactions and Final Accounts

Synopsis ...

- 2.1 Voucher System
 - Questions for Self-Study
 - 2.2 Accounting Process
 - Illustrations
 - Questions for Self-Study
 - 2.3 Journal
 - Illustrations
 - Questions for Self-Study
 - 2.4 Subsidiary Books
 - Illustrations
 - Questions for Self-Study
 - 2.5 Cash Book
 - Illustrations
 - Questions for Self-Study
 - 2.6 Ledger
 - Illustrations
 - Questions for Self-Study
 - 2.7 Trial Balance
 - Illustrations
 - Questions for Self-Study
 - 2.8 Preparation of Final Accounts of Sole Proprietorship
 - 2.8.1 Trading Account
 - 2.8.2 Profit and Loss Account
 - 2.8.3 Balance Sheet
 - Illustrations
 - Questions for Self-Study
-

2.1 VOUCHER SYSTEM

The main purpose of book-keeping is to determine whether the business is profitable or not. Book-keeping is the recording branch of Accounting. Accounting is an act of recording, classifying and summarizing transactions of an enterprise and interpreting the result thereof. A businessman records the business transactions in different books. The number of books of accounts depends upon the size of the business and its needs. But important books of accounts which must be maintained by every businessman, are '**Journal and Ledger**'. **Journal** is a book of original entry or primary entry. Every transaction is originally recorded in the Journal and from Journal it is posted into the **Ledger**. **Cash Book** is a separate book or register maintained for recording receipts and payment of cash. On the close of a financial year or on any day when final accounts are prepared, all the accounts from the 'Ledger' are balanced. After balancing the Ledger accounts, an attempt is made to check the accuracy of the recording, posting and balancing by means of preparing schedule or list of debit and credit balances of all accounts known as "**Trial Balance**".

A business enterprise has numerous transaction's every day during an accounting period. Unless the transactions are analysed and recorded individually, it is not possible to determine the impact of each transaction in the financial statements. The purpose of accounting is to ascertain the cumulative effect of the transactions.

Each transaction is recorded in documents providing all the required information of the transaction. Since each transaction has an effect on the financial position of the business, there should be a **documentary evidence** to establish the monetary amounts at which transactions are recorded and also that the transactions are properly authorised.

The **documents that are generally used in Book-keeping** are shown below in Figure 2.1.



Fig. 2.1 : Documents used in Book-keeping

A Voucher is the documentary evidence for the transaction. It is used as supporting for ascertainment of profit of an organisation. The vouchers help the auditor to perform his duties efficiently and independently. A voucher is a common document generally as under :

1) A Payment Voucher:

Usually a voucher prepared on a printed standard form, is a record of payment. It is a document providing evidence of a transaction. When payment is made for an expense, generally a bill is prepared to record full particulars of the claim by the person or organisation receiving payment. From the bill, the accounting department prepares a voucher for each payment to be made, no matter whether the amount that is paid is for the goods purchased, or to pay employees salaries, or to pay for services or to pay for any other asset acquisition.

2) A Money Receipt:

It is a document which is issued against cash/cheque receipts. It may also be on a printed standard form. This document shows that a certain SUM of money was received from a person or organisation and also contains information of the purpose for which the money is received. It is signed by a responsible employee, authorised by the management to receive the money.

3) A Journal Voucher:

It is used to record the residuary transactions. An internal transaction or a transaction not involving any cash payment or cash receipt, is recorded in the journal voucher. Examples are : Goods purchased on credit, depreciation of assets, outstanding expenses, accrued income, etc.

The transaction recorded through document is analysed in order to show the effect of the transaction. The name used to convey information on transaction is called an '**Account**' or '**Account Head**'. Each transaction involves two or more accounts. For example, if goods are purchased for cash, the two accounts involved are Purchase Account and Cash Account. Likewise, when payment is made for purchase of buildings, partly by cash and partly by cheque. The accounts involved are Buildings Account, Cash Account and Bank Account.

Meaning

The accountant should confirm that for every entry to be made in the books, he has a **documentary proof** for the same. This document is the basis for entering the transactions into the books and also for verification of the entries made in the books. Such documents are called as **vouchers**.

The **vouchers** may be of different types for different transactions like cash expenses, purchases, sale etc. They are called as cash vouchers, petty cash vouchers, bank vouchers, purchase vouchers, sales vouchers etc.

The auditor can certify the books on the basis of the vouchers. The owners, managers and government authorities can believe in the books of accounts only when the books are supported by the **vouchers**.

A Voucher may be classified into Internal or an External as shown in Figure 2.2 as follows :

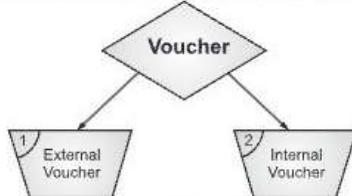


Fig. 2.2 : Classification of Vouchers

1) External Voucher :

A voucher may be an internal or an external one. An **external voucher** is a document received from an outside agency regarding the transaction. For example, on purchase of stationery we get a cash memo from the seller or for rent paid we get a rent receipt from the landlord or for electricity bill paid we get the receipt from M.S.E.D.C.L. Such cash memo or receipt from some party outside the business is an external voucher. A businessman should try to

obtain such **external voucher** for every transaction as far as possible so that the occurrence of the transaction and its amount is not suspiciously looked upon.

2) Internal Voucher :

In case of some expenses getting such external voucher becomes either impossible or difficult. For example Taxi fare, Rickshaw fare, Purchase of kerosene from the hawker, snacks and tea expenses, travelling expenses, postage etc. For such transactions it is necessary to create a documentary record by preparing a voucher within the organisation. It is called as an **internal voucher** i.e. a voucher created by the business itself and signed by the payee. This signature as far as possible should be of the outside agency. For example, Taxi driver, Rickshaw driver, hawker etc.

Voucher System

A systematic and scientific system of maintaining voucher is the basic need of every business enterprise. The vouchers should be segregated according to the nature of transactions i.e. cash voucher, bank voucher, purchase voucher etc and should be filed in separate files. The files should be named accordingly. For example purchase bill file, cash vouchers file etc. In the file the vouchers should be arranged date wise. The vouchers should be serially numbered. The files may be flat files, box files or paste files. Generally the vouchers are filed in such a way that the vouchers of the first date are at the bottom of the file and vouchers of the subsequent dates mount on them. Generally, two types of vouchers are prepared by the businessman i.e. Cash Voucher and Bank Payment Voucher.

When payments are made in cash, a **Cash Voucher** is prepared and when payments are made by cheques a documents is prepared by the businessman is called '**Bank Payment Voucher**'.

i) **Cash Payment Vouchers :**

For the amount spent in cash, one should prepare the cash voucher. If any document from the payee is obtained then that itself can be treated as a voucher or the internal voucher may be prepared for the payment and the external document may be attached to the same. The vouchers support the entry for cash payment in the Cash Book. It has the following contents.

- Name and address of the business organisation.
- Voucher Number.
- Date.
- Name of the Payee.
- Details of Payment (i.e. payment on what account).
- Account head.
This indicates the grouping of expenditure for example petrol, repairs, vehicle, tax, vehicle insurance etc. may be grouped under the account head - Vehicle maintenance.
- Amount in figures and words.
- Signature of the person preparing the voucher.
- Signature of the Payee.
- Signature of the person authorising the payment.

Generally these vouchers are pre printed. The date of payment is mentioned on the top, the serial number of the voucher is entered. Normally a cashier is supposed to prepare a voucher. The accountant or the head of the department is the sanctioning authority. If the amount of voucher is ₹ 5,000 more a revenue stamp of ₹ One is required to be affixed before getting the signature of the payee. If any external document is obtained for the payment made, it should be attached to the internal voucher prepared. The following is the specimen of a Cash Payment Voucher.

		M/s Shankar Deo and Sons M. G. Road, Nashik 422001.
CASH VOUCHER		
Voucher No.	Date : _____	
Pay to	_____	
on account of	_____	
Debit Account	_____	
Total ₹	_____	
Amount ₹ (₹)		
Prepared by	Passed by	Receiver's Sign.

ii) Bank Payment Voucher :

The payments are made by cheques many times during the course of business. Actually in modern business world majority of transactions are done through bank only. Naturally for the payments made by cheques, a document is prepared by the businessman, which is called as "Bank-Payment Voucher".

The payment may be made by cheques, drafts, mail transfers, telegraphic transfers etc. All these payments are said to be through bank. Sometimes the goods are received through bank, i.e. the documents for the consignment are sent to the bank which on payment to the bank on behalf of the supplier can be handed over to the purchaser. The payment made by the purchaser to the bank either by transferring the amount from the account by/or issuing a cheque in favour of bank also becomes a transaction through bank. The banks render services to the businessman according to the instructions given by him for which the charges are debited to his account. All such and similar transactions can be grouped under the heading bank expenses, for which "Bank payment Vouchers" are prepared.

Bank payment vouchers are more or less similar to Cash payment vouchers, with the exception that in bank vouchers reference is made to the following points.

- Name of the Bank and Branch from which payment is made
- Mode of payment i.e. cheque, draft, mail transfers etc.
- Date and number of such cheque, draft etc.

Bank payment vouchers also are in printed form. These vouchers are serially numbered and filed in a file called as "Bank Payment Voucher File". These vouchers are generally internal vouchers initially because the payments may be sent by post or the cheques may be handed over to the collecting agent of the payee. Hence one cannot expect the receipt from the payee immediately at the time of making the payment in many cases. In due course such receipts may be collected and attached to the internal vouchers prepared at the time of making the payments.

The following is the specimen of Bank Payment Voucher.

BANK VOUCHER	M/s Shankar Deo and Sons M. G. Road, Nashik - 422001
Voucher No.	
<hr/>	
Date : _____	
Pay to _____	
Rupees _____ (₹ _____)	
on account of _____	
Debit A/c _____	
Cheque No. _____	
Draft No. _____	
Drawn in favour of _____	
Prepared by _____	Proprietor _____ Receiver's Sign _____

Combination of Cash Payment Voucher and Bank Payment Voucher :

The businessman may prepare a voucher form which can be used for cash payments as well as bank payments. The specimen of which is given below.

CASH/BANK VOUCHER	M/s Shankar Deo and Sons M. G. Road, Nashik 422001.
Voucher No.	
<hr/>	
Date : _____	
Pay to _____	
Rupees in words _____	
On account of _____	
Debit A/c _____	
TOTAL	
Cash _____	
Cheque No. _____	
Draft No. _____ of _____ Bank	
Drawn in favour of _____	Dated : _____
Prepared by _____	Proprietor _____ Sanctioned by _____ Receiver's Sign _____

QUESTIONS FOR SELF-STUDY**I. Theory Questions :**

- i) What is a Cash Voucher ?
- ii) How a Cash Voucher is prepared ?
- iii) State the importance of a Cash Voucher.
- iv) What are the contents of a Cash Voucher ?
- v) Draw a format of a Cash Voucher.
- vi) When is a Bank Voucher is prepared ?
- vii) State the contents of a Bank Voucher.
- viii) Give the details of common documents that are generally used in book-keeping.
- ix) Prepare a Cash Voucher for the following transactions.
 - a) Transport charges paid to Manali Transport ₹ 150 for delivery of goods to Hevens Ltd.
 - b) Rent paid to the landlord for the month of March, 2019, ₹ 250.
 - c) Salary paid to X ₹ 2,500 for the month of March, 2019.
- x) How are the Cash Vouchers numbered ?
- xi) What is the "Account Head" ? How the mistake in the Account head will affect the correctness of books of accounts ?
- xii) Enter the following in the Bank Voucher.
 - a) Paid to X by cheque no. 12345 against bill no. 411 ₹ 5,130.
 - b) Bank Charges debited by bank ₹ 5.
 - c) Rent paid for March, 2019 ₹ 800 by cheque no. 12145.

2.2 ACCOUNTING PROCESS

Financial Accounting concerns that part of accounting which is meant to serve all parties externally to the operating responsibility of the firm e.g. creditors, investors, employees, regulatory bodies and general public. At the introductory stage financial accounting deals with the subject "Book-keeping and Accountancy". The art of Book-keeping deals with the question of how to keep a record of financial transactions. **Accounting process starts with journalising, ledger posting and planning of business transactions.**

Transactions

It is a dealing between two persons involving exchange of cash or credit for goods or services. It is an act of exchanging things, items or services between two parties. Generally transactions are classified as i) Non-monetary Transactions and ii) Monetary Transactions.

i) Non-monetary Transactions :

The transactions which do not involve an exchange of money or money's worth (i.e. things, items or services) directly or indirectly are known as Non-monetary transactions.

ii) Monetary Transactions :

A person's dealing in money or money's worth is termed as monetary transaction. It thus involves a transfer of money or its equivalent from one individual to another. Such dealings may be in exchange of cash, goods, services or debts.

In Book-keeping, we are concerned with only **monetary transactions** of the business and therefore, whenever we come across the term 'business transactions', it means monetary transactions of the business, certain examples of such transactions are illustrated in the following chart.

Chart Showing General Classification of Transactions

Transactions	Monetary or Non-monetary transaction	Why is it so ?
• Ramesh gives his cycle to his friend Suresh for a single day use.	Non-Monetary Transaction	Here, Ramesh does not expect money or money's worth in return from Suresh as the use of cycle is allowed without any charge. Hence, this transaction is called Non-Monetary Transaction .
• Ramesh gives his cycle to his friend Suresh on hire basis for a day.	Monetary Transaction	It becomes a Monetary Transaction because Ramesh receives hire charges from Suresh in return for the use of his cycle.
• A mother gives her ornament to her daughter for the time being.	Non-Monetary Transaction	It becomes a Non-Monetary Transaction because the daughter is not expected to pay or give anything in return to the mother for the use of her ornament.
• Shankar gives his bullock to Gopal in exchange of horse.	Monetary Transaction	It becomes a Monetary Transaction . Though exchange of money is not involved, money's worth is involved. One animal of value is exchanged for another value of animal.
• Purchase of goods of ₹ 1,000 by Manohar from Manikchand on credit.	Monetary Transaction	It becomes a Monetary Transaction because Manikchand has to receive money from Manohar for supply of goods.
• Payment of wages of ₹ 500 to a worker.	Monetary Transaction	It becomes a Monetary Transaction because money is exchanged for the working hours spent by the worker.

Thus, the term "transaction" is applied in business for all dealings whether with any individual or persons in goods or things or money, involving exchange of money or money's worth.

Accounting System

Generally speaking there are two systems of Book-keeping i.e. **Indian System and English System**. Indian merchants have a tradition of keeping their accounts in their regional language, e.g. in Gujarathi, Marathi, Urdu, Hindi etc. in special kinds of books called "bahis", hence the system is also called the "**Bahikhata System**". Indian Merchants have a conventional system for recording and maintaining the books of accounts. Before the introduction of Double Entry System, accounts used to be kept either on **Single Entry System or Cash System**.

i) Single Entry System :

There are many entrepreneurs having small scale business. Such small traders often deal exclusively in cash buying from wholesale markets and selling through local market stalls or hawking their products from house to house in vehicles adopted for the purpose. For such a trader there is really no need for written records, he conducts his entire affairs from his trouser's pocket. The records maintained are mainly regarding the cash transactions and personal accounts of debtors and creditors. Naturally, every entry has no double effects. The nominal accounts and the real accounts are not maintained. Since both the aspect of transactions are not kept in view, that system is called "**Single Entry System**" or "Incomplete Accounts". Under this system greater importance is given to personal accounts. At the best it may be known as a partial method of keeping the books of accounts.

ii) Cash System :

The **Cash System** of Book-keeping is generally adopted by such organisations where all transactions that take place are for cash only. In this system debtors and creditors accounts are maintained, therefore there is no need for keeping personal ledger accounts.

This system is used by institutions whose aim is not to create or earn profits. They generally prepare income and expenditure account with the help of cash book. This system is adopted by the institutions where the number of transactions are very limited in number.

Double Entry System of Book-keeping

Book-keeping is based on the principles of double entry. **Double Entry Book-keeping** is the most scientific method of recording business transactions. In India, most of the business concerns have adopted this system. However there is some misunderstanding amongst the Indian business community of its being rigid and difficult. Therefore they adopt the Single Entry System with some modifications. The Mahajani system is being practiced in India for a considerably long time. Now-a-days also the same Mahajani System is rarely used in India.

Book keeping is as old as the trade or business itself. In its crude form, it has existed since time immemorial. But it was in 1494 that the modern system of Book-keeping took its birth in Venice (Italy), for it was in that year that the first known work on Book-keeping was published by an Italian merchant named Lucas Pacioli. Thereafter this work was translated and published in English by Hugh Old Castle in 1543. A decade later, a work on "how to keep a perfect account of debtors and creditors" was published by James Pale. Thereafter a series of work were published. In 1795, Edward Jones, introduced the concept of Journal having two columns. Various other innovations were introduced later from time to time.

Nature

Double Entry System of Book-keeping denotes that every business transaction has two fold effect. There cannot be business transaction unless it has effect on at least two accounts or two parties. Whenever a specific type of business transaction is arranged, there are always two parties involved one is the 'giver' and another is the 'receiver'. Every part of business activity is called a transaction and millions of them occur every day. Every transaction must be recorded in two accounts one of which will be debited because it receives value. The other will be credited because it has given value.

Principles

The basic and fundamental principles of Double Entry Book-keeping are as under :

- i) Each transaction has two fold aspects and it affects two accounts.
- ii) In the two accounts affected, one account is the receiver of benefit under the transaction, and the other account is the giver of benefit under the same transaction of equal amount.

The rule for Double Entry is therefore as follows :

Debit the account that has received goods, or services or money,

Credit the account that has given goods, or services or money.

There are certain steps in recording any financial transactions :

- i) Confirm that the thing to be recorded is a business transaction and not only an event.
- ii) Decide which two accounts are affected under a given transaction.
- iii) Decide which account receives benefit and which account gives benefit under the same transaction.
- iv) Apply principles of debit and credit and record the transaction in the books of prime entry debiting one account and crediting the other account so affected.
- v) Deciding on the amounts to be debited or credited.

Example,

- i) ₹ 1,000 are paid to Naresh.

This is a business transaction. Here, the accounts affected are Cash A/c and Naresh A/c. Naresh A/c is the receiver of the benefit and Cash A/c have gone out. Thus, this transaction has two fold effect, and a complete record of both these effects can be kept only by recording the transaction in two accounts.

- ii) Sold goods on credit to Subhash ₹ 200.

This is a business transaction. In this transaction, the customer Mr. Subhash receives the benefit and the goods have gone out. This transaction affects the two accounts viz. Subhash A/c and the Goods A/c.

- iii) Paid ₹ 20 for stationery.

This is a business transaction. In this transaction cash goes out of business and therefore, cash position changes. On the other hand, this amount is spent on stationery. This transaction affects the two accounts viz. Stationary A/c and Cash A/c.

This method of writing every financial transaction in two accounts is called as Double Entry System of Book-keeping. This means for every debit accorded to any account, there is a corresponding credit to any other account.

It should, however be noted that some financial transactions may affect more than two accounts. But even then the total amount with which one or more accounts are debited and the total amount with which one or more accounts are credited would remain the same.

Naturally, the total of all the debits must agree with the total of all the credits. Therefore, this Double Entry Book-keeping system enables us to check the arithmetical accuracy of the accounts.

Advantages

Following are the advantages of Double Entry System :

- i) Under this system both personal and impersonal accounts are maintained, therefore a complete record of transaction is possible.
- ii) It ensures arithmetical accuracy of books of accounts. For every debit, there is a corresponding credit. As such total debits and total credit have to be equal. This is ascertained by means of a Trial Balance.
- iii) Full information is readily available on the following points :
 - Value of properties possessed by the proprietor.
 - The amount a trader owes to others or others owe to him.
 - Incomes, gains, expenses and losses from various items.
- iv) It affords an effective comparison of various items, such as purchases, sales, stocks, incomes, expenses, etc. of the current year with those of the past years to know whether there is any progress or not. This comparison tends to make substantial improvement in the nature of expenses to the benefit of business.
- v) As Nominal Accounts are maintained, it is possible to prepare the Profit and Loss Account at the end of each year.
- vi) A statement of assets and liabilities (i.e. Balance Sheet) can be prepared showing the financial position of the business.
- vii) Under this system any errors made in recording the transaction can be easily checked and corrected.
- viii) The possibility of fraud is reduced and if at all it is committed, the same can be easily detected. In short, the Double Entry Book-keeping system is a procedure, perfect in all respects and offers all possible advantages in keeping books of accounts.

Disadvantages

The Double Entry System though very scientific and accurate is not free from short-comings or limitations. This system does not provide any method of detecting errors of the following types.

- i) **Omission of an entry in the books of original entry :**
If any transaction is not recorded at all in the books of original entry, it may remain undiscovered.
- ii) **Recording wrong amount in the books of original entry :**
If the amount of a transaction is wrongly recorded in the books of original entry, the mistake may not be found out.
- iii) **Compensating errors :**
A compensating error may also remain undetected. These errors are of neutralising nature. One error is compensated by the other error or errors of opposite nature.
- iv) **Entry in wrong account :**
If a wrong account is debited or credited, this error will not be disclosed by the Trial Balance.

Rules for Debit and Credit :

Under the double entry system of accounting every business transaction has minimum two aspects and these aspects are known as debit aspect and credit aspect. It means that in every business transaction minimum one account is debited and one account is credited with the same amount.

Following are the fundamental rules for recording business transactions in journal.

- i) **Personal Accounts :**
 - Debit - the receiver
 - Credit - the giver
- ii) **Real Accounts :**
 - Debit - what comes in
 - Credit - what goes out
- iii) **Nominal Accounts :**
 - Debit - the expenses and losses
 - Credit - the incomes and gains.

Chart showing Rules for Debit and Credit are shown in Figure 2.3 as follows.

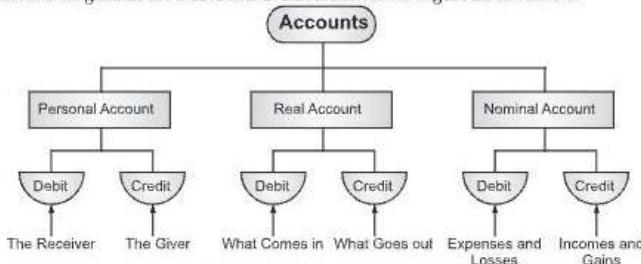


Fig. 2.3 : Rules for Debit and Credit

Process of Recording Transactions :

Following are the steps for recording the business transactions.

- Confirm that the thing to be recorded is a transaction.
- Identify the nature of transaction.
- Identify which two accounts are involved.
- Identify the class or type of each account.
- Find out how each aspect of account is affected.
- Find out the rule which is applicable for each aspect of transaction.
- Find out which account is to be debited and which account is to be credited.
- Confirm the amount to be debited and credited.

For Example : Purchased goods ₹ 500 from Ramrao on credit.

- This is a business transaction.
- These are Credit Purchases of goods.
- Here, Real A/c and Personal A/c are involved.
- Goods is a Real A/c and Ramrao is a Personal A./c.
- Goods comes in and Ramrao is the giver.
- Here rule for Real Account and Personal Account is applicable.
- Goods A/c will be debited because the goods come in and Ramrao A/c will be credited because he is the giver.
- Goods A/c will be debited for ₹ 500 and Ramrao A/c will be credited for ₹ 500.

For easy understanding students should carefully study the following procedure for debit and credit under Double Entry Book-keeping :

- Ascertain which accounts are affected !
- Determine the nature of these two accounts that are affected or which type of accounts are they !
- Apply the rules for different types of accounts !

ILLUSTRATIONS

ILLUSTRATION 1

Classify the following accounts :

- | | |
|----------------------------|------------------------|
| i) P's Capital A/c | ii) Nadkarni's A/c |
| iii) Bombay University A/c | iv) Goods A/c |
| v) Furniture A/c | vi) Salary A/c |
| vii) Postage A/c | viii) P's Drawings A/c |
| ix) Bank of Baroda A/c | x) Commission A/c |

SOLUTION

The above mentioned accounts can be classified respectively as follows :

- | | |
|-------------------|--------------------|
| i) Personal A/c | ii) Personal A/c |
| iii) Personal A/c | iv) Real A/c |
| v) Real A/c | vi) Nominal A/c |
| vii) Nominal A/c | viii) Personal A/c |
| ix) Personal A/c | x) Nominal A/c |

ILLUSTRATION 2

Prepare a table with different columns for Personal A/c, Real A/c, Nominal A/c, giving at least fifteen examples of each of the same.

SOLUTION

Statement showing various examples of Personal A/c, Real A/c and Nominal A/c

Sr. No.	Types of Accounts		
	Personal A/c	Real A/c	Nominal A/c
i)	Rajesh A/c	Machinery A/c	Commission A/c
ii)	Dinesh's Capital A/c	Land A/c	Rent A/c
iii)	Suresh's Drawing's A/c	Buildings A/c	Salary A/c
iv)	Mahesh's Loan A/c	Furniture A/c	Audit Fees A/c
v)	Kamlesh's Current A/c	Motor Vehicle A/c	Carriage A/c
vi)	Somesh and Co. A/c	Goodwill A/c	Wages A/c
vii)	M/s Danesh Bros. A/c	Patents A/c	Advertising A/c
viii)	Umesh Trading Co. A/c	Cash A/c	Postage A/c
ix)	Philips India Ltd. A/c	Loose Tools A/c	Printing A/c
x)	Godrej India Ltd. A/c	Investment A/c	Discount A/c
xi)	Texmo Co. A/c	Live Stock A/c	Brokerage A/c
xii)	Dena Bank A/c	Goods A/c	Electricity Charges A/c
xiii)	Sasoon Hospital A/c	Stores & Spare Parts A/c	Bad Debts A/c
xiv)	Ness Wadia College A/c	Typewriter A/c	Dividends A/c
xv)	Boat Club A/c	Stock of Stationery A/c	Motive Power A/c

ILLUSTRATION 3

Classify the following accounts into Personal A/c, Real A/c and Nominal A/c.

i) Government of India A/c	xvi) Coal and Coke A/c
ii) Petty Cash A/c	xvii) M/s Puneet and Co. A/c
iii) Fixtures A/c	xviii) Motor Van A/c
iv) Bank Interest A/c	xix) Property Tax A/c
v) Amit Trading Corporation A/c	xx) Copyrights A/c
vi) Freehold Premises A/c	xxi) Modern College A/c
vii) Jaihind Collections A/c	xxii) Royalty A/c
viii) Computer A/c	xxiii) Interest on Overdraft A/c
ix) Repairs to Motor Van A/c	xxiv) Bajaj Auto Ltd. A/c
x) Ruby Hospital A/c	xxv) Leasehold Premises A/c
xii) Stock-in-Trade A/c	xxvi) Vinit's Capital A/c
xiii) Carriage Outward A/c	xxvii) Stationery A/c
xiv) Sumit's Loan A/c	xxviii) Office Equipments A/c
xv) Electric Fittings A/c	xxix) Insurance A/c
xvi) Publicity Charges A/c	xxx) Bank Overdraft A/c

SOLUTION

- | | | |
|-----------------|---|---------------------------------------|
| a) Personal A/c | : | 1, 5, 7, 10, 13, 17, 21, 24, 26, 30. |
| b) Real A/c | : | 2, 3, 6, 8, 11, 14, 18, 20, 25, 28. |
| c) Nominal A/c | : | 4, 9, 12, 15, 16, 19, 22, 23, 27, 29. |

ILLUSTRATION 4

From the following transactions of Ajay for March, 2019, prepare a statement showing the accounts involved in each transaction, type of accounts affected, application rules of debit and credit, and the ultimate effect on debit and credit.

- 1st Started business with Machinery worth ₹ 10,000.
- 3rd Took a loan from Sujay ₹ 5,000.
- 5th Deposited ₹ 2,000 into Dena Bank.
- 6th Sold goods to Vijay ₹ 1,000 for cash.
- 9th Issued a cheque of ₹ 2,000 for payment of salary.
- 10th Received ₹ 500 as interest from bank.
- 12th Bought goods from Ramesh ₹ 1,200.
- 14th Invoiced goods to Dhanesh on credit ₹ 2,000.
- 16th Additional capital brought in by Ajay ₹ 20,000.
- 18th Paid to Ramesh ₹ 800 on account.
- 19th Bought furniture from Deco-Home ₹ 3,000 for cash.
- 20th Rent paid to Suresh ₹ 1,500.
- 22nd Cash Sales ₹ 1,500 with Ganesh.
- 24th Received Commission ₹ 800 from Dinesh.
- 25th Sujay's Loan repaid ₹ 5,000.
- 27th Paid ₹ 800 to Naresh for printing charges.
- 29th Defective goods of ₹ 100 returned to Ramesh.
- 31st Settled Ramesh Account by paying ₹ 300 on account.

SOLUTION**In the books of Ajay**

Statement showing Transaction Analysis for March, 2019

Date 2019 March	Accounts Involved in the Transaction		Type of Account Affected	Application Rules of Debit and Credit	Effect
1 st	Machinery A/c	A/c	Real	Machinery comes in	Debit
	A's Capital	A.c	Personal	Proprietor is the giver	Credit
3 rd	Cash	A/c	Real	Cash comes in	Debit
	S's Loan	A/c	Personal	S's Loan is the giver	Credit
5 th	Dena Bank	A/c	Personal	Dena Bank is the receiver	Debit
	Cash	A/c	Real	Cash goes out	Credit
6 th	Cash	A/c	Real	Cash comes in	Debit
	Goods	A/c	Real	Goods go out	Credit

9 th	Salary Bank	A/c A/c	Nominal Personal	Salary is expense Bank is the giver	Debit Credit
10 th	Cash Bank Interest	A/c A/c	Real Nominal	Cash comes in Bank Interest is an income	Debit Credit
12 th	Goods Ramesh	A/c A/c	Real Personal	Goods come in Ramesh is the giver	Debit Credit
14 th	Dhanesh Goods	A/c A/c	Personal Real	Dhanesh is the receiver Goods go out	Debit Credit
16 th	Cash A's Capital	A/c A/c	Real Personal	Cash comes in Proprietor is the giver	Debit Credit
18 th	Ramesh Cash	A/c A/c	Personal Real	Ramesh is the receiver Cash go out	Debit Credit
19 th	Furniture Cash	A/c A/c	Real Real	Furniture comes in Cash goes out	Debit Credit
20 th	Rent Cash	A/c A/c	Nominal Real	Rent is expense Cash go out	Debit Credit
22 nd	Cash Goods	A/c A/c	Real Real	Cash comes in Goods go out	Debit Credit
24 th	Cash Commission	A/c A/c	Real Nominal	Cash comes in Commission is an income	Debit Credit
25 th	S's Loan Cash	A/c A/c	Personal Real	S's loan is the receiver Cash go out	Debit Credit
27 th	Printing Cash	A/c A/c	Nominal Real	Printing is expense Cash go out	Debit Credit
29 th	Ramesh Goods	A/c A/c	Personal Real	Ramesh is the receiver Goods go out	Debit Credit
31 st	Ramesh Cash	A/c A/c	Personal Real	Ramesh is the receiver Cash go out	Debit Credit

ILLUSTRATION 5

State which account will be debited and credited for each of the following transactions from the options given in bracket against the same.

- Amit started business with a loan from Sumit ₹ 15,000.
(Cash A/c, A's Capital A/c, S's Loan A/c)
- Salary paid to Vinit a works manager ₹ 2,500.
(Salary A/c, Cash A/c, Wages A/c)
- Bought goods from Abhijeet ₹ 650 for cash.
(Goods A/c, Abhijeet A/c, Cash A/c)
- Commission received from Sujeet ₹ 250.
(Cash A/c, Commission A/c, Sujeet A/c)
- Goods sold to Paramjeet ₹ 800.
(Cash A/c, Goods A/c, Paramjeet A/c)
- Paid to Vishwajeet ₹ 900 for goods purchased during last month.
(Vishwajeet A/c, Goods A/c, Cash A/c)
- Residential quarter's rent of ₹ 650 paid to Karamjeet.
(Karamjeet A/c, Cash A/c, P's Drawings A/c)

- viii) Purchased Furniture from Sumit ₹ 4,800.
(Furniture A/c, Sumit A/c, Goods A/c)
- ix) Installation charges paid ₹ 1,200 on purchase of Machinery.
(Installation Charges A/c, Cash A/c, Machinery A/c)
- x) Paid to Vinit ₹ 500 on behalf of Sumit.
(Sumit A/c, Vinit A/c, Cash A/c)
- xi) Purchased a Horse for ₹ 8,500.
(Horse A/c, Cash A/c, Live-Stock A/c)
- xii) Sold old Typewriter for ₹ 3,000.
(Cash A/c, Goods A/c, Typewriter A/c)
- xiii) Purchased postal-stamps from City Post ₹ 50.
(Postage A/c, Cash A/c, City Post A/c)
- xiv) Reliance Industries Ltd. shares sold for ₹ 3,500.
(Goods A/c, Cash A/c, Investment A/c)
- xv) Paid ₹ 1,050 for Repairs to Buildings.
(Repairs to Buildings A/c, Cash A/c, Buildings A/c)

SOLUTION

No.	Accounts to be Debited	Accounts to be Credited
i)	Cash A/c	S's Loan A/c
ii)	Wages A/c	Cash A/c
iii)	Goods A/c	Cash A/c
iv)	Cash A/c	Commission A/c
v)	Paramjeet A/c	Goods A/c
vi)	Vishwajeet A/c	Cash A/c
vii)	P's Drawings A/c	Cash A/c
viii)	Furniture A/c	Sumit A/c
ix)	Machinery A/c	Cash A/c
(x)	Sumit A/c	Cash A/c
xi)	Live-Stock A/c	Cash A/c
xii)	Cash A/c	Typewriter A/c
xiii)	Postage A/c	Cash A/c
xiv)	Cash A/c	Investment A/c
xv)	Repairs to Buildings A/c	Cash A/c

ILLUSTRATION 6

State with reasons when each of the following accounts will be debited/credited.

A) Accounts to be Debited	B) Accounts to be Credited
i) P's Drawings A/c	i) P's Capital A/c
ii) Furniture A/c	ii) Machinery A/c
iii) Salary A/c	iii) Commission A/c
iv) Goods A/c	iv) Bank A/c
v) Bank A/c	v) Goods A/c

SOLUTION**A) Accounts to be Debited :****i) P's Drawings A/c :**

When proprietor receives a benefit or he takes away cash, goods or services from his business for personal use.

- ii) **Furniture A/c :**
When Furniture comes into the business i.e. when it is purchased and becomes a business asset.
- iii) **Salary A/c :**
When Salary is paid and becomes a business expense.
- iv) **Goods A/c :**
When the Goods comes into the business i.e. when goods are purchased or good sold earlier are returned by the customers.
- v) **Bank A/c :**
When the Bank receives a benefit or when Cash is deposited into the Bank.
- B) Accounts to be Credited :**
- i) **P's Capital A/c :**
When the proprietor gives a benefit to the business or he introduces assets into his business as capital.
 - ii) **Machinery A/c :**
When Machinery goes out of business i.e. when it is sold or discarded.
 - iii) **Commission A/c :**
When Commission is received and becomes a business income.
 - iv) **Bank A/c :**
When the Bank gives a benefit or when Cash is withdrawn from Bank.
 - v) **Goods A/c :**
When the Goods goes out of business i.e. when goods are sold or goods purchased earlier are returned to the suppliers.

QUESTIONS FOR SELF-STUDY

I. Theory Questions :

- i) Explain the principle of Double Entry System of Book-keeping.
- ii) Explain the statement, "Every debit has a corresponding credit".
- iii) State the advantages and disadvantages of Double Entry System.
- iv) Mention the classes into which ledger accounts are divided.
- v) Give three examples of Personal Account, Real Account and Nominal Account.
- vi) Distinguish between :
 - a) Single Entry System and Double Entry System.
 - b) Personal Account and Impersonal Account.
 - c) Real Account and Nominal Account.
- vii) Give rules for debiting and crediting the three accounts with suitable examples.

II. Practical Problems :

- i) State with the help of a table, which account will be debited and which account will be credited. Give reasons.
 - 1 Commenced business with ₹ 15,000.
 - 4 Purchased goods worth ₹ 1,000.
 - 5 Bought goods for cash ₹ 500 from Ramesh.

- 9 Paid rent to landlord ₹ 200.
14 Opened an account with Bank of Maharashtra ₹ 500.
16 Paid for office stationery ₹ 100.
19 Paid for insurance premium ₹ 200.
22 Paid ₹ 400 to Amit on account.
26 Cash Sales ₹ 800.
29 Discount received ₹ 100 from Mahesh.
- ii) Ajay has following transactions transacted during the month of January, 2019. Prepare an analytical statement showing the two accounts involved, and their types and also state the accounts to be debited and credited with appropriate reasons.
- Started business with Buildings worth ₹ 50,000.
 - Borrowed ₹ 20,000 from Canara Bank.
 - Purchased goods from Sanjay ₹ 1,200.
 - Salary paid to office staff ₹ 2,700.
 - Invoiced goods to Vijay ₹ 7,200 for cash.
 - Paid to Sanjay ₹ 800 on account.
 - Returned goods to Sanjay ₹ 120.
 - Paid to factory workers Wages of ₹ 3,200.
 - Withdrew from Bank ₹ 2,700 for office purpose.
 - Sold goods to Digvijay ₹ 5,000 on credit.
 - Received an order from Parajay for the supply of goods within a month ₹ 2,700.

2.3 JOURNAL

A businessman records the business transactions in different books. The number of books of accounts depends upon the size of the business and its needs. But important books of accounts which must be maintained by every businessman, are Journal and Ledger. The word 'Journal' is derived from the French word 'Jour', which means a day. Journal, therefore, means the daily record of transactions.

Meaning

Journal is a book of "Original Entry" or "Primary Entry". Every transaction is originally or primarily recorded in the Journal and from Journal it is posted into the Ledger. Journal is merely written to make the posting of entries into the Ledger and therefore Journal is a subsidiary book of accounts.

If the size of a business is larger, the Journal is sub-divided into different books called subsidiary books and then posting is done from these subsidiary books into the ledger.

To Journalise the transaction means to record the transaction in the journal by passing journal entry. While recording the transaction in Journal, we have to record two fold effects of every transaction in terms of debit and credit by applying rules of debit and credit of different types of accounts studied in previous unit.

The proforma of 'Journal' is as follows :

In the book of a

Journal

Date 2019	Particulars	L.F.	Debit ₹	Credit ₹
	∴ Total			

Features

Following are the **important features** of journal.

- The book in which the transaction is recorded for the first time is called Journal or book of Original Entry.
- The source of document, is required to record the transaction in the journal.
- In this book the transactions are recorded in the chronological order in which they take place.
- The process of recording transactions in the journal is called journalising.
- The journal provides datewise complete record of transactions alongwith the documentary evidence available to prove the occurrence of the transactions.

Columns

i) **Date Column :**

All the transactions are recorded in Journal in a chronological order i.e. date-wise. In this column, year is written in the beginning of the page. As long as same year is in continuation it is not necessary to write year for subsequent transactions. This column, is the sub-divided into two parts for writing month and date of the transaction.

ii) **Particulars Column :**

Before writing in this column, it is decided as to which account is to be debited and which account is to be credited. The entry is recorded according to the following steps.

- On the first line, name of the account which is to be debited is written with the word 'Dr' at the end of the line.
- On the second line, the name of the account which is to be credited is written. The word "To" is written before the account which is to be credited. (There is no need to write word "Cr" at the end of the line). The second line begins after leaving a small margin on the left.
- On the third line, a "narration" is written. It narrates the transaction. In other words, it explains the nature of the transaction in brief, beginning with the word "Being". Now there is no need to start the narration with the word "being" which was a practice earlier.
- On the fourth line, a horizontal line is drawn (in particular column only) to indicate that the entry of the transaction is completed.

ii) Ledger Folio :

Nothing is written in this column while recording the Journal entry. At the time of Ledger-posting, the page number of the Ledger, on which the respective account appears, is entered in this column. To distinguish these page numbers from the amounts entered in "Amounts", the page numbers are written in Red (different) ink.

iv) Debit Column :

The amount of transaction is written against the word "Dr" written in particular column (on the same line where account to be debited is written).

v) Credit Column :

The amount of the transaction is written on the same line where account to be credited is written.

Casting

At the end of each page of Journal, the debit and credit amount columns are totalled up to check the arithmetical accuracy of the transactions. The total of these two columns must be equal as the amount to be debited and amount to be credited are equal for every transaction. In particulars column, against these totals, the words "Total C/F" are written (C/F means carried forward to next page). These totals are written in the beginning of the next page in the respective amount columns and against them, in particulars column, the word "Total B/F" are written (B/F means brought forward from last page).

Advantages

Following are the **Advantages of Journal**.

- i) It provides detail information regarding all business transactions.
- ii) It provides chronological (date-wise) record in the sense that it records the transactions in the order in which they occur.
- iii) It provides an explanation by narration which gives a brief explanation of the transactions.
- iv) It helps to locate and prevent the errors.

Limitations

Following are the **Limitations of Journal**.

- i) It involves the repetitive journalising and posting labour.
- ii) It does not provide the information on prompt basis.
- iii) It does not facilitate the installation of internal check system.
- iv) The journal becomes bulky and voluminous.

Steps in Journalising

Following are the steps in **journalising**:

- Step 1 :** Ascertain what accounts are involved in a transaction.
- Step 2 :** Ascertain what is the nature of the accounts involved.
- Step 3 :** Ascertain which rule of debit and credit is applicable for each of the accounts involved.
- Step 4 :** Ascertain which account is to be debited and which account is to be credited.
- Step 5 :** Record the date of transaction in the 'Date Column'.

- Step 6 :** Write the name of the account to be debited very close to the left hand side (i.e. the line demarcating the 'Date Column' and the 'Particulars Column') alongwith the abbreviation 'Dr.' on the same line against the name of the account in the 'Particulars Column' and the amount to be debited in the 'Debit Amount Column' against the name of the account.
- Step 7 :** Write the name of the account to be credited in the next line preceded by the word 'To' at a few spaces towards right in the 'Particulars Column' and the amount to be credited in the 'Credit Amount Column' against the name of the account.
- Step 8 :** Write 'narration' (i.e. a brief description of the transaction) within brackets in the next line in the 'Particulars Column'.
- Step 9 :** Draw a line across the entire 'Particulars Column' to separate one journal entry from the other.

Accounting Cycle

We have studied so far as what is to be recorded and what effect is to be given to the accounts affected. These accounting effects are given in the books of accounts. To know the results from the books of accounts a trial balance is prepared at the end of the period (i.e. 6 months ended or year ended or any period as the case may be). Preparation of Final Accounts is the last step as far as accounting treatment is concerned. **Accounting Cycle** indicate the scope of accounting treatment. The **Accounting cycle** is shown below in Figure 2.4.

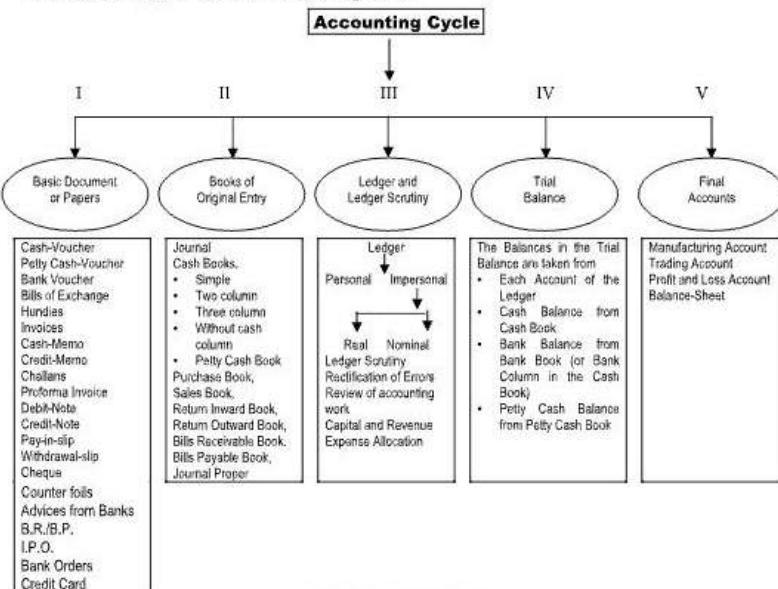


Fig. 2.4 : Accounting Cycle

Practical Hints

- i) All transactions are to be recorded from business point of view but not from the proprietor's point of view, as it is assumed that proprietor is different from the business.
- ii) Every journal entry should have a narration.
- iii) Trade discount is allowed for purchased in large quantities whereas cash discount is allowed as an incentive for prompt payment.
- iv) Trade discount does not appear in the books of accounts as it does not form part of the value of goods or of the dues.
- v) Trade discount is allowed on cash and credit transactions whereas cash discount is allowed only on cash transactions.
- vi) When both the discounts i.e. trade and cash are given in a particular transaction, trade discount is calculated first as a percentage on catalogue price whereas cash discount is calculated on the net price after deducting the trade discount.
- vii) After the execution of every order necessary entry must be recorded in journal.
- viii) Purchase and sale of Stocks, Shares, Securities, Debentures, Govt. Bonds, National Saving Certificates, Kisan Vikas Patra, Gold, Silver, Indira Vikas Patra etc. are to be recorded at the market value through Investment.
- ix) Brokerage paid on purchase of securities should be added to the purchase price whereas brokerage paid on sale of securities should be deducted from the selling price.
- x) Remuneration paid to factory staff is debited to Wages whereas remuneration paid to office staff is debited to Salary Account.
- xi) Transportation charges paid on purchase of goods is debited to Carriage Inward Account whereas transportation charges paid on selling of goods is debited to Carriage Outward Account.
- xii) All expenses incurred on purchase and installation of the asset increase the ultimate cost of the asset to the buyer hence carriage of purchases, installation charges, erection expenses, fixation charges, setting up expenses paid are to be debited to Asset.
- xiii) Wages paid to the workers for installation of new machinery purchased is debited to Machinery Account.
- xiv) Amount of debt written off as bad in the previous year is recovered in the current year is to be credited to Bad Debt Recovery Account.
- xv) The cost of goods distributed as free samples is to be debited to Advertisement.
- xvi) Profit or Loss on sale of asset is to be adjusted to Profit and Loss Account i.e. profit on sale of asset is to be credited to Profit and Loss whereas on sale of asset is to be debited to Profit and Loss Account.
- xvii) A loan taken by the proprietor for introduction of additional capital is to be credited to Loan Account.
- xviii) Expenses paid in advance is to be debited to Prepaid Expenses Account.

EXAMPLE 1

Journalise the following transactions in the books of Geeta for January, 2019.

- 1 Geeta started business with cash ₹ 50,000.
- 7 Deposited ₹ 25,000 into the Bank.
- 9 Purchased goods from Snehal ₹ 5,000.

- 11 Sold goods to Maya ₹ 3,000.
 15 Purchased Furniture for ₹ 3,000.
 19 Sold goods for cash ₹ 2,000.
 20 Paid Carriage ₹ 50.
 25 Received Commission ₹ 25.
 28 Paid Insurance premium ₹ 200.
 31 Received ₹ 2,000 from Maya on account.

ANSWER
**In the books of Geeta
Journal**

Date 2019 January	Particulars	L.F.	Debit ₹	Credit ₹
1 st	Cash A/c To Geeta's Capital A/c (Being started business with cash).	Dr. — —	50,000 50,000	
7 th	Bank A/c To Cash A/c (Being amount deposited into the Bank).	Dr. — —	25,000 25,000	
9 th	Goods A/c To Snehal A/c (Being goods purchased from Snehal on credit)	Dr. — —	5,000 5,000	
11 th	Maya A/c To Goods A/c (Being goods sold to Maya on credit)	Dr. — —	3,000 3,000	
15 th	Furniture A/c To Cash A/c (Being Furniture purchased for cash)	Dr. — —	3,000 3,000	
19 th	Cash A/c To Goods A/c (Being goods sold for cash)	Dr. — —	2,000 2,000	
20 th	Carriage A/c To Cash A/c (Being Carriage paid)	Dr. — —	50 50	
25 th	Cash A/c To Commission A/c (Being commission received)	Dr. — —	25 25	
28 th	Insurance A/c To Cash A/c (Being insurance paid)	Dr. — —	200 200	
31 st	Cash A/c To Maya A/c (Being cash received on account from Maya)	Dr. — —	2,000 2,000	
		Total	90,275	90,275

Chart Showing the Analysis of Transactions

Date 2019 January	Two aspects of Transaction	Name of Accounts	Classification of Accounts	Rule for Debit and (i.e. Dr. & Cr.)	Account to be debited with amount	Account to be credited with amount
1	Cash comes in Geeta is giver of Capital	Cash A/c Geeta Capital A/c	Real Personal	Dr. What comes in Cr. The Giver	Cash A/c –	50,000 –
7	Bank is Receiver Cash goes out	Bank A/c Cash A/c	Personal Real	Dr. The Receiver Cr. What goes out	Bank A/c –	25,000 25,000
9	Goods comes in Snehal is the Giver	Goods A/c Snehal A/c	Real Personal	Dr. What comes in Cr. The Giver	Goods A/c –	5,000 –
11	Maya is the Receiver Goods goes out	Maya A/c Goods A/c	Personal Real	Dr. The Receiver Cr. What goes out	Maya A/c –	3,000 –
15	Furniture comes in Cash goes out	Furniture A/c Cash A/c	Real Real	Dr. What comes in Cr. What goes out	Furniture A/c –	3,000 –
19	Cash comes in Goods goes out	Cash A/c Goods A/c	Real Real	Dr. What comes in Cr. What goes out	Cash A/c –	2,000 –
20	Carriage is the expense Cash goes out	Carriage A/c Cash A/c	Nominal Real	Dr. The Expenses Cr. The Income	Carriage A/c –	2,000 –
25	Cash comes in Commission is income	Cash A/c Commission A/c	Real Nominal	Dr. What comes in Cr. The Income	Cash A/c –	50 –
28	Insurance Premium is Expenses	Insurance A/c Cash A/c	Nominal Real	Dr. The Expenses Cr. What goes out	Insurance A/c –	200 –
31	Cash comes in Maya is the Giver	Cash A/c Maya A/c	Personal	Dr. What comes in Cr. The Giver	Cash A/c –	2,000 Maya A/c

Combined Entries

Sometimes, similar type of transactions take place simultaneously, in which, one account is common in them, which is to be debited or credited more than once. In such cases, only one debit is written equalising two or more debits or only one credit is written equalising two or more credits. This can be explained as follows :

- i) Paid Salary ₹ 8,000 and Rent ₹ 1,200.

The above transactions is, in reality, a combination of two transactions. We can write a separate Journal entry for each of them as follows :

- Paid Salary ₹ 8,000.

Salary A/c	Dr.	8,000
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To Cash A/c		8,000
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- Paid Rent ₹ 1,200.

Rent A/c	Dr.	1,200
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To Cash A/c		1,200
-------------	--	-------

In the above two transactions, Cash A/c is credited. Just for the sake of convenience, instead of writing two journal entries, a single combined journal entry can be passed as follows :

Salary A/c	Dr.	8,000
------------	-----	-------

Rent A/c	Dr.	1,200
----------	-----	-------

To Cash A/c		9,200
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(Being salary and rent paid).

- ii) Sunil started business with Cash ₹ 60,000, Goods ₹ 15,000, Furniture ₹ 8,000 and a Vehicle ₹ 30,000.

In these four transactions, Capital A/c is common, which is to be credited in all transactions and therefore, a combined entry can be passed as follows :

Cash A/c	Dr.	60,000
----------	-----	--------

Goods A/c	Dr.	15,000
-----------	-----	--------

Furniture A/c	Dr.	8,000
---------------	-----	-------

Vehicle A/c	Dr.	30,000
-------------	-----	--------

To Sunil's Capital A/c		1,13,000
------------------------	--	----------

(Being business started with cash, goods, furniture and vehicle).

- iii) Received ₹ 1,500 from Amar and ₹ 800 from Akbar.

In above two transactions, Cash A/c is common and is to be debited in both the transactions and therefore a combined entry can be passed as follows :

Cash A/c	Dr.	2,300
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To Amar A/c		1,500
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To Akbar A/c		800
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(Being cash received from Amar and Akbar).

Sub-Division of Goods Account :

Goods are trading commodities. Trade consists of buying, selling and returns of goods. So far, we have recorded these transactions in an account named as "Goods Account".

Goods Account, being a main account for a trader, is sub-divided in different accounts, according to the nature of transactions, e.g.

- 'Purchase A/c' is recorded for purchases of goods.
- 'Sales A/c' is recorded for sale of goods.
- 'Purchase Returns or Returns Outwards A/c' is recorded for damaged goods returned to suppliers.
- 'Sales Returns or Returns Inwards A/c' is recorded for damaged goods returned by customers, etc.

Therefore, Goods Account as such is recorded for transactions relating to goods other than above four circumstances. They are goods destroyed by fire, goods lost in transit, goods distributed as free sample, goods consumed by workers, goods used by proprietor etc.

Trade Discount :

Traders, who buy goods, in large quantities, from a manufacturer or a wholesaler, are generally given an allowance, on the list price of the goods. This is known as **Trade Discount**. In some cases, manufacturers recommend a retail selling price, invoice the goods at that price and allow retailer a trade discount to cover his expenses and margin of profit. The trade discount is a means of arriving the price to be paid. It is never entered in the Books of Accounts as it forms no part of the value of the goods or of the dues.

Cash Discount :

Cash Discount is the discount allowed by the 'creditor' to the 'debtor', if debtor pays his dues immediately or within a specified period. This discount is allowed as an incentive to debtor to make early payment. This discount is recorded in the books of accounts. Discount allowed is a loss and discount received or earned is a profit or gain. Cash discount is an incentive to the customer.

Example :

- i) Bought goods ₹ 15,000 from Kamat, less 20% Trade Discount.

Purchases A/c	Dr.	12,000
To Kamat A/c		12,000

(Being goods bought from Kamat).

- ii) Received from Ashok ₹ 980 and allowed him discount ₹ 20.

Cash A/c	Dr.	980
Discount Allowed A/c	Dr.	20
To Ashok A/c		1,000

(Being cash received from Ashok and discount allowed to him).

- (iii) Paid to Jadhav ₹ 5,000; less 2% Cash Discount.

Jadhav A/c	Dr.	5,000
To Cash A/c		4,900
To Discount Received A/c		100

(Being cash paid to Jadhav and discount received).

Sometimes, the buyer may get the benefit of both the discounts. In such a case, trade discount should be calculated on the gross value of goods, while cash discount should be calculated on the net value of goods after deducting trade discount.

Example :

- i) Purchased goods from Ashok ₹ 8,000; less 20% trade discount and paid cash in full, less $2\frac{1}{2}\%$ cash discount.

Purchases A/c	Dr.	6,400
To Cash A/c		6,240
To Discount Received A/c		160

(Being goods bought @ 20% trade discount and $2\frac{1}{2}\%$ cash discount).

- ii) Sold goods to Suresh ₹ 5,000; less 10% Trade Discount and 2% Cash Discount, received half the amount in cash.

Cash A/c	Dr.	2,205
Discount Allowed A/c	Dr.	45
Suresh A/c	Dr.	2,250
To Sales A/c		4,500

(Being goods sold @ 10% trade discount, 2% cash discount and half amount received in cash).

Miscellaneous Entries

i) Purchase of Investments :

When any stocks, shares or securities are purchased, the entry should be passed at the market value of securities and not at the nominal value. When we purchase investment, following journal entry should be passed.

Investment A/c	Dr.	
To Cash A/c		

Brokerage if any, paid on the purchase of investments should be added in the price before passing the entry.

ii) Sale of Investments :

When the securities are sold out, the entry should be passed at market value after deducting brokerage, if any, paid on them. Thus, when shares of ₹ 10 nominal value are sold at ₹ 9.40 @ 1/2% brokerage, the entry should be passed at ₹ 9.35 per share.

iii) Expenses on Purchase of Assets :

All expenses incurred on the purchase of an asset (other than goods) increase the ultimate cost of the asset to the buyer. These should, therefore, be debited to the particular Asset A/c and not to any Expenses A/c. Installation or erection or fixation charges of machinery should be debited to Machinery A/c.

- iv) **Premium on Life Policy and Income Tax :**
Premium paid on life insurance policy of the proprietor should be debited to Drawings A/c and not to Insurance A/c, as it is a personal expenditure of proprietor. Income Tax paid by the proprietor is his personal expenditure and not business one, therefore, it should be debited to Drawing A/c and not to Income Tax A/c as business expenditure.
- v) **Carriage paid on Buyer's Account :**
When goods are dispatched to the buyer and carriage or railway freight is paid on them on buyer's account, the same should be debited to the buyer's personal account and not to Carriage A/c or Railway Freight A/c.
- vi) **Loss of goods by fire, theft etc. :**
When goods are damaged or destroyed by fire, the loss should be debited to Loss by Fire A/c and Credited to Goods A/c. If any part of such loss is admitted by the Insurance company subsequently, such part should, then, be debited to Insurance Claim A/c and credited to Loss by Fire A/c.
- vii) **Bad Debts :**
When a customer is declared insolvent and the amount due from him is not recoverable, it should be transferred to Bad Debts A/c by debiting this account and crediting the Customer's A/c.
- viii) **Charge Depreciation on Assets :**
When depreciation charge on particular asset, depreciation on particular asset account should be debited and the asset on which a depreciation is charged should be credited with the amount of depreciation.
- ix) **Provide Interest on Capital :**
When interest on capital is provided, interest on capital account should be debited and the capital account should be credited.
- x) **Charge Interest on Drawing :**
When interest is charged on drawings, the capital account of a proprietor should be debited with interest amount, and interest on drawing should be credited.

EXAMPLE 2

Enter the following transactions in the journal of Raje for May, 2019.

- 1 Raje started business with Cash ₹ 28,000, Machinery ₹ 15,000 and Furniture ₹ 4,500.
- 2 Purchased Goods from Abhay ₹ 6,000 @ 10% trade discount.
- 4 Deposited in Bank of India ₹ 19,800.
- 6 Sold goods to Vinay ₹ 7,500 @ 5% trade discount.
- 7 Sold goods to Mahesh ₹ 4,000 @ 5% trade discount and 2% cash discount and the amount was received by cheque, which was deposited immediately.
- 9 Purchased Machinery of ₹ 3,300 for cash and spent ₹ 150 for transport for machinery.
- 11 Paid ₹ 800 as rent, out of which ₹ 600 were for office rent and remaining for house rent.
- 14 Paid electricity charges for office ₹ 125.
- 17 Received commission from Sudhir ₹ 270.

- 22 Paid for advertisement on behalf of Mane ₹ 275.
 24 Sold goods for cash ₹ 1,000.
 26 Withdraw ₹ 200 for personal use.
 27 Withdraw from Bank ₹ 500 for office use.
 29 Paid school fees of a son of Raje ₹ 385 by cheque.

ANSWER**In the Books of Raje****Journal**

Date 2019 May	Particulars	L.F.	Debit ₹	Credit ₹
1 st	Cash A/c Machinery A/c Furniture A/c To Raje's Capital A/c (Being business started with Cash, Machinery and Furniture)	Dr. Dr. Dr. Dr. -	28,000 15,000 4,500 47,500	
2 nd	Purchases A/c To Abhay A/c (Being goods purchased at 10% trade discount from Abhay)	Dr. Dr.	5,400 -	5,400
4 th	Bank A/c To Cash A/c (Being cash deposited into Bank)	Dr. Dr.	19,800 -	19,800
6 th	Vinay A/c To Sales A/c (Being goods sold @ 5% trade discount to Vinay)	Dr. Dr.	7,125 -	7,125
7 th	Bank A/c Discount Allowed A/c To Sales A/c (Being goods sold @ 5% Trade Discount and 2% Cash Discount)	Dr. Dr. Dr.	3,724 76 -	3,800
9 th	Machinery A/c To Cash A/c (Being Machinery purchased and Transport Charges paid)	Dr. Dr.	3,450 -	3,450

Date 2019 May	Particulars	L.F.	Debit ₹	Credit ₹
11 th	Rent A/c Raje's Drawings A/c To Cash A/c (Being rent paid for office and house of Raje)	Dr. Dr. - -	600 200 800	
14 th	Electricity Charges A/c To Cash A/c (Being electricity charges paid)	Dr. - -	125 125	
17 th	Cash A/c To Commission A/c (Being commission received from Sudhir)	Dr. - -	270 270	
22 nd	Mane A/c To Cash A/c (Being advertisement paid on behalf of Mane)	Dr. - -	275 275	
24 th	Cash A/c To Sales A/c (Being goods sold for cash)	Dr. - -	1,000 1,000	
26 th	R's Drawings A/c To Cash A/c (Being cash withdrawn for personal use)	Dr. - -	200 200	
27 th	Cash A/c To Bank A/c (Being cash withdrawn for office use from Bank)	Dr. - -	500 500	
29 th	Raje's Drawings A/c To Bank A/c (Being school fees of Raje's son paid by cheque)	Dr. - -	385 385	
		Total	90,630	90,630

EXAMPLE 3

Journalise the following transactions in the books of Sunil for July, 2019.

- 1 Purchased goods for cash ₹ 11,500.
- 3 Paid electricity charges ₹ 150.
- 5 Received commission ₹ 600.
- 7 Sold a scooter to Vikas for ₹ 9,100.
- 9 Received ₹ 1,000 from Vikas.
- 11 Paid transport charges ₹ 350 to Shankar.
- 13 Purchased machinery ₹ 7,200 from Ambani Bros.
- 15 Deposited ₹ 1,200 in Bank of Maharashtra.
- 17 Paid Fire Insurance Premium to Insurance company ₹ 300.
- 19 Received ₹ 100 from Mahesh as interest.

- 21 Received ₹ 1,000 from Aakash.
 23 Sold furniture ₹ 2,500 to Vinay for cash.
 25 Purchased machinery of ₹ 1,500 from Vijay Trading Company.
 27 Paid salary to Ashok ₹ 600.
 29 Received dividend ₹ 200 from Bharat Forge Co.

ANSWER**In the books of Sunil
Journal**

Date 2019 July	Particulars	L.F.	Debit ₹	Credit ₹
1 st	Purchases A/c To Cash A/c (Being goods purchased)	Dr.	— —	11,500 11,500
3 rd	Electricity Charges A/c To Cash A/c (Being electricity charges paid)	Dr.	— —	150 150
5 th	Cash A/c To Commission A/c (Being commission received)	Dr.	— —	600 600
7 th	Vikas A/c To Scooter A/c (Being scooter sold to Vikas)	Dr.	— —	9,100 9,100
9 th	Cash A/c To Vikas A/c (Being cash received from Vikas)	Dr.	— —	1,000 1,000
11 th	Transport Charges A/c To Cash A/c (Being transport charges paid)	Dr.	— —	350 350
13 th	Machinery A/c To Ambani Bros. A/c (Being machinery purchased from Ambani Bros.)	Dr.	— —	7,200 7,200
15 th	Bank A/c To Cash A/c (Being amount deposited in Bank of Maharashtra)	Dr.	— —	1,200 1,200
17 th	Fire Insurance A/c To Cash A/c (Being Fire Insurance paid)	Dr.	— —	300 300
19 th	Cash A/c To Interest A/c (Being interest received from Mahesh)	Dr.	— —	100 100

Date 2019 July	Particulars	L.F.	Debit ₹	Credit ₹
21 st	Cash A/c To Aakash A/c (Being cash received from Aakash)	Dr.	— —	1,000 1,000
23 rd	Cash A/c To Furniture A/c (Being furniture sold to Vinay for cash)	Dr.	— —	2,500 2,500
25 th	Machinery A/c To Vijay Trading Co. A/c (Being machinery purchased from Vijay Trading Co.)	Dr.	— —	1,500 1,500
27 th	Salary A/c To Cash A/c (Being salary paid to Ashok)	Dr.	— —	600 600
29 th	Cash A/c To Dividend A/c (Being dividend received from Bharat Forge Co.)	Dr.	— —	200 200
Total				37,300 37,300

EXAMPLE 4

Journalise the following transactions in books of Madhukar for December, 2019.

- Received ₹ 20,000 from mother as gift and deposited the same into the bank account of business.
- Borrowed from Swati @ 10% p.a. ₹ 5,000.
- Paid Rent to landlord in advance ₹ 750.
- Received Rent from sub-tenant Tare ₹ 100.
- Paid for postal stamps ₹ 20.
- Commission due from Gupta ₹ 55.
- Typewriter of ₹ 5,000 was stolen.
- Sent M.O. to Sudha ₹ 80, M.O. commission paid ₹ 10.
- Purchased securities ₹ 2,000 and paid for brokerage ₹ 80.
- Paid for New Health club bill ₹ 700.
- Gave for Charity ₹ 300.

- 22 Sold private car and invested into business ₹ 12,000.
- 24 Bought equity share of ITC Co. ₹ 1,900.
- 25 Took from Anil a currency note of hundred rupees and gave him change for it.
- 26 Invested in National Saving Certificate ₹ 1,000.
- 27 Paid ₹ 200 for carriage on machinery.
- 29 Paid Income Tax ₹ 200.

ANSWER**In the books of Madhukar****Journal**

Date 2019 December	Particulars	L.F.	Debit ₹	Credit ₹
1	Bank A/c To Madhukar's Capital A/c (Being, received gift and deposited into business bank account)	Dr. — —	20,000 20,000	
2	Cash A/c To S's Loan A/c (Being loan taken @ 10% p.a. from Swati)	Dr. — —	5,000 5,000	
4	Prepaid Rent A/c To Cash A/c (Being paid in advance to landlord for Rent)	Dr. — —	750 750	
8	Cash A/c To Rent A/c (Being rent received from sub tenant)	Dr. — —	100 100	
12	Postage A/c To Cash A/c (Being paid for postage)	Dr. — —	20 20	
13	Gupta A/c To Commission A/c (Being commission due from Gupta)	Dr. — —	55 55	
16	Loss by Theft A/c To Typewriter A/c (Being typewriter stolen away)	Dr. — —	5,000 5,000	

Date 2019 December	Particulars	L.F.	Debit ₹	Credit ₹
18	Sudha A/c Dr. Commission A/c Dr. To Cash A/c (Being sent M.O. to Sudha and postal commission paid)	- - -	80 10 90	
20	Investment A/c Dr. To Cash A/c (Being securities bought and paid brokerage on the same)	- -	2,080 2,080	
21	Madhukar's Drawing A/c Dr. To Cash A/c (Being paid for club bill)	- -	700 700	
22	Madhukar's Drawing A/c Dr. To Cash A/c (Being paid for charity)	- -	300 300	
22	Cash A/c Dr. To M's Capital A/c (Being private car sold and invested in business)	- -	12,000 12,000	
24	Investment A/c Dr. To Cash A/c (Being Equity Shares of ITC Co. purchased)	- -	1,900 1,900	
26	Investment A/c Dr. To Cash A/c (Being purchased N.S.C.)	- -	1,000 1,000	
27	Machinery A/c Dr. To Cash A/c (Being paid carriage on machinery)	- -	200 200	
29	Madhukar's Drawing A/c Dr. To Cash A/c (Being paid for Income Tax)	- -	200 200	
	Total		49,395	49,395

N.B. : 25th December, 2019 : To give a change does not affect on business position therefore not to be recorded in the books of accounts.

ILLUSTRATIONS**ILLUSTRATION 1**

Analyse the following transactions of Anand Bonde, Chandanpur for April 2019, and record the same into the journal.

- 1 Started business with ₹ 50,000.
- 4 Deposited into Bank ₹ 10,000.
- 9 Bought goods for cash ₹ 1,500 from Ashok.
- 12 Salary paid to Ashish ₹ 1,800.
- 15 Sold goods to Amar ₹ 2,200 on credit.
- 18 Received Commission from Anil ₹ 600.
- 20 Defective goods of ₹ 100 received from Amar.
- 21 Received on account from Amar ₹ 1,800.
- 23 Purchased Machinery from Ahmed and Co. ₹ 3,500.
- 26 Office Rent of ₹ 750 paid to Landlord, Arjun.
- 27 Returned goods to Ashok ₹ 50.
- 30 Withdraw ₹ 500 for domestic purposes.

SOLUTION**Analysis of Transactions**

Date 2019 April	Debit			Credit		
	Personal A/c ↓ Receiver	Real A/c ↓ Comes in	Nominal A/c ↓ Expenses and Losses	Personal A/c ↓ Giver	Real A/c ↓ Goes out	Nominal A/c ↓ Incomes and Gains
1 st		Cash A/c		A's Capital A/c		
4 th	Bank A/c				Cash A/c	
9 th		Goods A/c			Cash A/c	
12 th			Salary A/c		Cash A/c	
15 th	Amar A/c				Goods A/c	
18 th		Cash A/c				Commission A/c
20 th		Goods A/c		Amar A/c		
21 st		Cash A/c		Amar A/c		
23 rd		Machinery A/c		Ahmed and Co., A/c		
26 th			Rent A/c		Cash A/c	
27 th	Ashok A/c				Goods A/c	
30 th	A's Drawings A/c				Cash A/c	

**In the books of Anand Bonde, Chandanpur
Journal**

Date 2019 April	Particulars	L.F.	Debit ₹	Credit ₹
1 st	Cash A's A/c To Anand's Capital A/c (Being business started with cash).	Dr. — —	50,000 50,000	
4 th	Bank A/c To Cash A/c (Being cash deposited into Bank).	Dr. — —	10,000 10,000	
9 th	Purchases A/c To Cash A/c (Being goods purchased for cash from Ashok)	Dr. — —	1,500 1,500	
12 th	Salary A/c To Cash A/c (Being salary paid to Ashish)	Dr. — —	1,800 1,800	
15 th	Amar A/c To Sales A/c (Being goods sold to Amar on credit)	Dr. — —	2,200 2,200	
18 th	Cash A/c To Commission A/c (Being Commission received from Anil).	Dr. — —	600 600	
20 th	Returns Inward A/c To Amar A/c (Being defective goods received from Amar).	Dr. — —	100 100	
21 st	Cash A/c To Amar A/c (Being cash received from Amar).	Dr. — —	1,800 1,800	
23 rd	Machinery A/c To Ahmed and Co. A/c (Being Machinery purchased from Ahmed and Co.).	Dr. — —	3,500 3,500	
26 th	Rent A/c To Cash A/c (Being Office rent paid to Landlord, Arjun).	Dr. — —	750 750	
27 th	Ashok A/c To Returns Outward A/c (Being goods returned to Ashok)	Dr. — —	50 50	
30 th	Anand's Drawings A/c To Cash A/c (Being cash withdrawn for domestic purposes).	Dr. — —	500 500	
		Total	72,800	72,800

ILLUSTRATION 2

Anubhavi, a newly appointed book-keeper, has recorded the accounting entries for the business transactions of Romesh Sarin, Tarapur as follows. State whether they are correct, if not record the same correctly for March, 2019.

**In the books of Romesh Sarin, Tarapur
Journal**

Date 2019 March	Particulars	L.F.	Debit ₹	Credit ₹
1 st	Bank A/c To Romesh A/c (Being Romesh started business with Bank balance).	Dr. —	20,000	20,000
4 th	Purchases A/c To Rajesh A/c (Being cash purchases of goods made from Rajesh).	Dr. —	1,200	1,200
8 th	Raghav A/c To Interest A/c (Being interest paid to Raghav)	Dr. —	500	500
11 th	Ramesh A/c To Sales A/c (Being goods sold to Ramesh worth ₹ 1,800 @ 5% Trade Discount on credit).	Dr. —	1,800	1,800
14 th	Loan A/c To Ritesh A/c (Being loan taken from Ritesh)	Dr. —	15,000	15,000
16 th	Revenue Stamp A/c To City Post A/c (Being 25 Revenue Stamps purchased from City Post)	Dr. —	5	5
18 th	Capital A/c To Romesh A/c (Being additional capital introduced by Romesh in cash).	Dr. —	5,000	5,000
20 th	Insurance A/c To Cash A/c (Being Life Insurance Premium of Romesh's mother paid).	Dr. —	1,200	1,200
26 th	Cheque A/c To Ramesh A/c (Being crossed cheque of ₹ 1,670 received from Ramesh in full settlement and allowed a discount of ₹ 40).	Dr. —	1,670	1,670
31 st	Raj Transport Co. A/c To Cash A/c (Being Carriage on Sales paid to Raj Transport Co.).	Dr. —	250	250
	Total		46,625	46,625

SOLUTION

**In the books of Romesh Sarin, Tarapur
Journal**

Date 2019 March	Particulars	L.F.	Debit ₹	Credit ₹
1 st	Bank A/c To Romesh's Capital A/c (Being started business with Bank balance).	Dr. — —	20,000 20,000	
4 th	Purchases A/c To Cash A/c (Being goods purchased from Rajesh for cash).	Dr. — —	1,200 1,200	
8 th	Interest A/c To Cash A/c (Being interest paid to Raghav)	Dr. — —	500 500	
11 th	Ramesh A/c To Sales A/c (Being goods sold to Ramesh @ 5% Trade Discount on credit).	Dr. — —	1,710 1,710	
14 th	Cash A/c To Ritesh's Loan A/c (Being loan taken from Ritesh)	Dr. — —	15,000 15,000	
16 th	Postage A/c To Cash A/c (Being 25 Revenue Stamps @ ₹ 1 per stamp purchased from City Post)	Dr. — —	25 25	
18 th	Cash A/c To Romesh's Capital A/c (Being additional capital introduced in cash).	Dr. — —	5,000 5,000	
20 th	Romesh's Drawings A/c To Cash A/c (Being Life Insurance Premium of Romesh's mother paid).	Dr. — —	1,200 1,200	
26 th	Bank A/c Discount Allowed A/c To Ramesh A/c (Being crossed cheque received from Ramesh and discount allowed).	Dr. Dr. — —	1,670 40 1,710	
31 st	Carriage Outward A/c To Cash A/c (Being Carriage on Sales paid to Raj Transport Co.).	Dr. — —	250 250	
		Total	46,595	46,595

Working Notes :**i) Calculation of Discount Allowed to Ramesh on 26th March.**

Particulars	₹	₹
11 th : Sold goods to Ramesh ₹ 1,800 @ 5% Trade Discount on credit		1,710
26 th Less crossed cheque received in full settlement	(+)	1,670
∴ Balance amount i.e. Discount Allowed to Ramesh		40

[ILLUSTRATION 3]

Journalise the following transactions in the books of Sunil Tare, Ulhasnagar for January, 2019.

- 1 Started business with Buildings worth ₹ 1,00,000.
- 3 Sold goods to Samir ₹ 4,200 on credit.
- 5 Borrowed ₹ 25,000 from HDFC Bank.
- 7 Bought goods from Suresh ₹ 2,800.
- 10 Octroi Duty paid ₹ 350 to Sushil.
- 12 Received an order from Saurabh for ₹ 5,000 for supply of goods.
- 13 Remitted to Suresh ₹ 1,800 in part payment of his dues.
- 15 Received From Samir defective goods of ₹ 200.
- 17 Bought Stationery for Office use ₹ 350.
- 19 Distributed free samples worth ₹ 700.
- 20 Damaged goods returned to Suresh ₹ 120.
- 21 Samir paid ₹ 3,450 on account to us.
- 23 Cash purchases made ₹ 2,100 from Sudesh.
- 24 Paid to Suresh ₹ 840 and settled his account.
- 26 Invested ₹ 5,000 for purchase of Kisan Vikas Patra.
- 28 Received ₹ 510 from Samir in full settlement of his account.
- 29 Paid ₹ 480 as interest on HDFC Bank loan.
- 30 Introduced further capital of ₹ 10,000 in business.
- 31 Withdraw ₹ 1,020 from Bank of which ₹ 400 were given to Sunil's wife for household expenses.

SOLUTION

In the books of Sunil Tare, Ulhasnagar

Journal

Date 2019 January	Particulars	L.F.	Debit ₹	Credit ₹
1 st	Buildings A/c To Sunil's Capital A/c (Being started business with Buildings).	Dr. — —	1,00,000 1,00,000	
3 rd	Samir A/c To Sales A/c (Being goods sold to Samir on credit).	Dr. — —	4,200 4,200	
5 th	Cash A/c To HDFC Bank Loan A/c (Being loan taken from HDFC Bank).	Dr. — —	25,000 25,000	
7 th	Purchases A/c To Suresh A/c (Being goods purchased from Suresh).	Dr. — —	2,800 2,800	
10 th	Octroi Duty A/c To Cash A/c (Being octroi duty paid to Sushil).	Dr. — —	350 350	
13 th	Suresh A/c To Cash A/c (Being cash remitted to Suresh in part payment of his dues).	Dr. — —	1,800 1,800	
15 th	Returns Inward A/c To Samir A/c (Being defective goods received from Samir).	Dr. — —	200 200	
17 th	Stationery A/c To Cash A/c (Being Stationery purchased for office use).	Dr. — —	350 350	
19 th	Advertisement A/c To Goods A/c (Being free samples distributed).	Dr. — —	700 700	
20 th	Suresh A/c To Returns Outward A/c (Being damage goods returned to Suresh).	Dr. — —	120 120	

Date 2019 January	Particulars	L.F.	Debit ₹	Credit ₹
21 st	Cash A/c To Samir A/c (Being cash received from Samir)	Dr. —	3,450	3,450
23 rd	Purchases A/c To Cash A/c (Being cash purchases made from Sudesh).	Dr. —	2,100	2,100
24 th	Suresh A/c To Cash A/c To Discount Received A/c (Being cash paid to Suresh and discount received).	Dr. — — —	880 840 40	
26 th	Investment A/c To Cash A/c (Being Kisan Vikas Patra purchased as investment).	Dr. — —	5,000	5,000
28 th	Cash A/c Discount Allowed A/c To Samir A/c (Being cash received from Samir in full settlement of his account).	Dr. Dr. —	510 40 550	
29 th	Interest on HDFC Bank Loan A/c To Cash A/c (Being interest on HDFC Bank loan paid).	Dr. —	480	480
30 th	Cash A/c To S's Capital A/c (Being further capital introduced in business).	Dr. —	10,000	10,000
31 st	Cash A/c Sunil's Drawings A/c To Bank A/c (Being cash withdrawn from Bank for office and household purposes).	Dr. Dr. —	620 400 1,020	
	Total		1,59,000	1,59,000

Working Notes :

i) Calculation of Discount Received from Suresh on 24th January :

Particulars	₹	₹
7 th : Bought goods from Suresh		2,800
13 th : Less Cash remitted in part payment	1,800	
20 th : Less Damage goods returned	120	
24 th : Less Cash paid in settlement	(+) 840	(-) 2,760
∴ Balance amount i.e. Discount Received from Suresh		40

ii) Calculation of Discount Allowed to Samir on 28th January :

Particulars	₹	₹
3 rd : Goods sold to Samir		4,200
15 th : Less Defective goods received	200	
21 st : Less Cash received on account	3,450	
28 th : Less Cash received in full settlement	(+)	510
		(-) 4,160
∴ Balance amount i.e. Discount allowed to Samir		40

iii) Received an order from Saurabh on 12th for ₹ 5,000, is not a transaction, hence no accounting entry is recorded for the same.

ILLUSTRATION 4

Following is the summary of journal (without narration) maintained by the accountant Lekhpal, who resigned his job because of overwork. Mahipal Nagpal, Osmanabad, the trader is not aware of the method of accounting and hence he requests you to interpret the same and record simply the transactions for which they are passed during the month of April, 2019.

In the books of Mahipal Nagpal, Osmanabad**Journal**

Date 2019 April	Particulars	L.F.	Debit ₹	Credit ₹
1 st	Furniture A/c	Dr.	—	15,000
	Machinery A/c	Dr.	—	35,000
3 rd	To Mahipal's Capital A/c			50,000
	Cash A/c	Dr.	—	24,000
7 th	To Canara Bank Loan A/c		—	24,000
	Purchases A/c	Dr.	—	5,000
	To Cash A/c		—	4,900
10 th	To Discount Received A/c		—	100
	Manoj A/c	Dr.	—	6,200
	To Sales A/c		—	6,200
13 th	Live Stock A/c	Dr.	—	1,400
	To Cash A/c		—	1,400
17 th	Electricity Charges A/c	Dr.	—	750
	To Cash A/c		—	750
19 th	Cash A/c	Dr.	—	6,000
	Discount Allowed A/c	Dr.	—	200
	To Manoj A/c		—	6,200
22 nd	Insurance Premium A/c	Dr.	—	1,500
	Mahipal's Drawings A/c	Dr.	—	1,000
	To Cash A/c		—	2,500

Date 2019 April	Particulars	L.F.	Debit ₹	Credit ₹
25 th	Cash A/c To Interest on Investment A/c	Dr.	— —	500 500
28 th	Wages A/c To Bank A/c	Dr.	— —	3,200 3,200
30 th	Interest on Bank Loan A/c To Cash A/c	Dr.	— —	200 200
30 th	Typewriter A/c To Mahindra and Co. A/c	Dr.	— —	5,500 5,500
		Total		1,05,450 1,05,450

SOLUTION

Following were the transactions of Mahipal Nagpal, Osmanabad for April, 2019.

- 1 Started business with Furniture ₹ 15,000 and Machinery ₹ 35,000.
- 3 Borrowed from Canara Bank ₹ 24,000.
- 7 Bought goods ₹ 5,000 @ 2% Cash Discount.
- 10 Sold goods of ₹ 6,200 to Manoj on credit.
- 13 Purchased a watch dog for ₹ 1,400 to guard business property.
- 17 Paid electricity bill of ₹ 750.
- 19 Received from Manoj ₹ 6,000 in full settlement of his account of ₹ 6,200.
- 22 Paid insurance premium on business property ₹ 1,500 and for proprietor's life ₹ 1,000.
- 25 Received ₹ 500 as interest on investments.
- 28 Remuneration of ₹ 3,200 paid to factory employees by cheque.
- 30 Interest on Bank loan paid @ 10% p.a.
- 30 Purchased a Typewriter from Mahindra and Co. ₹ 5,500 on credit.

Working Notes :

- i) Animals purchased for business are to be debited to Live Stock Account. Hence, on 13th, it is assumed that watch dog is purchased to guard business property.

ILLUSTRATION 5

Enter the following transactions in the journal of Amar Traders, Ambejogai for the month of January, 2019.

1. Amar started business with Goods ₹ 10,000, Furniture ₹ 7,000, Machinery ₹ 20,000, Cash ₹ 16,000 of which ₹ 6,000 were borrowed from Andhra Bank.
3. Deposited ₹ 4,000 in Current Account with Andhra Bank.
4. Bought goods from Amrendra ₹ 1,200 @ 12% Trade Discount on two months credit.
7. Paid to Pune Telephones for telephone bill ₹ 1,300.
9. Sold goods for cash ₹ 4,500 @ 2% Cash Discount.
11. Municipal Taxes of ₹ 1,100 paid to Pune Municipal Corporation.

12. Defective goods returned to Amrendra ₹ 100 gross.
15. Purchased a Motor Cycle from Bajaj Auto Ltd. ₹ 25,000 for cash.
18. Paid Insurance Premium ₹ 470 by a crossed cheque.
20. Paid to Aashish ₹ 680 for goods purchased during last month.
22. Remitted to Amrendra in part payment ₹ 368.
24. A crossed cheque of ₹ 360 received for interest on investment.
28. Purchased goods from Ashok ₹ 900 for cash at a cash discount of ₹ 30.
29. Paid ₹ 290 to Amir for household expenses.
30. Advance salary paid to Abbas ₹ 1,240.
31. Remitted to Amrendra ₹ 560 in full settlement.

SOLUTION**In the books of Amar Traders, Ambejogai
Journal**

Date 2019 January	Particulars	L.F.	Debit ₹	Credit ₹
1 st	Goods A/c Furniture A/c Machinery A/c Cash A/c To Amar's Capital A/c To Andhra Bank Loan A/c (Being Amar started business with Goods, Furniture, Machinery, Cash and a Loan from Andhra Bank)	Dr. Dr. Dr. Dr. — — —	10,000 7,000 20,000 16,000 47,000 6,000	
3 rd	Bank A/c To Cash A/c (Being cash deposited into Andhra Bank Current A/c)	Dr. —	4,000 —	4,000
4 th	Purchases A/c To Amrendra A/c (Being goods purchased from Amrendra @ 12% Trade Discount)	Dr. —	1,056 —	1,056
7 th	Telephone Charges A/c To Cash A/c (Being Telephone Charges paid)	Dr. —	1,300 —	1,300
9 th	Cash A/c Discount Allowed A/c To Sales A/c (Being goods sold for cash @ 2% Cash Discount)	Dr. Dr. —	4,410 90 —	4,500
11 th	Municipal Taxes A/c To Cash A/c (Being Municipal Taxes paid)	Dr. —	1,100 —	1,100
12 th	Amrendra A/c To Returns Outward A/c (Being defective goods returned to Amrendra)	Dr. —	88 —	88

Date 2019 January	Particulars	L.F.	Debit ₹	Credit ₹
15 th	Motor Cycle A/c To Cash A/c (Being Motor Cycle purchased for cash)	Dr. — —	25,000 —	25,000 —
18 th	Insurance Premium A/c To Bank A/c (Being Insurance Premium paid)	Dr. — —	470 —	470 —
20 th	Aashish A/c To Cash A/c (Being cash paid to Aashish for goods purchased during last month)	Dr. — —	680 —	680 —
22 nd	Amrendra A/c To Cash (Being cash remitted to Amrendra in part payment)	Dr. — —	368 —	368 —
24 th	Bank A/c To Interest on Investment A/c (Being interest on investment received)	Dr. — —	360 —	360 —
28 th	Purchases A/c To Cash A/c To Discount Received A/c (Being goods purchased for cash at a cash discount)	Dr. — — —	900 — —	870 30 —
29 th	Amar's Drawings A/c To Cash A/c (Being household expenses paid to Amir)	Dr. — —	290 —	290 —
30 th	Prepaid Salary A/c To Cash A/c (Being advance salary paid to Abbas)	Dr. — —	1,240 —	1,240 —
31 st	Amrendra A/c To Cash A/c To Discount Received A/c (Being cash remitted to Amrendra and discount received)	Dr. — —	600 —	560 40 —
	Total		94,952	94,952

Working Notes :

i) Calculation of Discount Received from Amrendra on 31st January :

Particulars	₹	₹
4 th : Bought goods from Amrendra ₹ 1,200 @ 12% Trade Discount on two months credit		1,056
12 th : Less Defective goods returned ₹ 100 gross	88	
22 nd : Less Remittances in part payment	368	
31 st : Less cash remitted in full settlement	(+)	560 (-) 1,016
∴ Balance amount i.e. Discount Received from Amrendra		40

ILLUSTRATION 6

Journalise the following transactions in the books of Vijay for February, 2019.

1. Vijay started business with a Cash balance of ₹ 10,000, Bank balance of ₹ 20,000 and Machinery worth ₹ 25,000.
2. Bought goods ₹ 5,000 @ 12% Trade Discount.
4. Received ₹ 450 as dividend on shares from Bajaj Auto Ltd.
5. Goods supplied to Sanjay ₹ 600 on credit.
6. Purchased goods ₹ 800 from Ajay.
7. Salary paid to Sujay, a foreman ₹ 950.
9. Damage goods returned to Ajay ₹ 80.
12. Goods sold for cash ₹ 1,200 to Parajay.
14. Rent paid by cheque ₹ 500 to Jay.
17. Cash Sales ₹ 900.
21. Goods costing ₹ 350 distributed as free samples.
24. Borrowed ₹ 10,000 from Dena Bank.
25. Paid ₹ 700 as repairs to Motor Car.
27. Purchased a Horse from Digvijay for cash ₹ 3,500.
28. Remitted to Ajay ₹ 680 in full settlement of his account.
28. Sold private Motor-cycle for ₹ 18,000 and invested the same into the business.

SOLUTION

**In the books of Vijay
Journal**

Date 2019 February	Particulars	L.F.	Debit ₹	Credit ₹
1 st	Cash A/c Bank A/c Machinery A/c To Vijay's Capital A/c (Being started business with Cash, Bank Balance and Machinery)	Dr. Dr. Dr. —	10,000 20,000 25,000 55,000	
2 nd	Purchases A/c To Cash A/c (Being goods purchased @ 12% Trade Discount)	Dr. —	4,400 4,400	
4 th	Cash A/c To Dividend on Shares A/c (Being dividend on shares received from Bajaj Auto Ltd.).	Dr. —	450 450	
5 th	Sanjay A/c To Sales A/c (Being goods sold to Sanjay on credit)	Dr. —	600 600	
6 th	Purchases A/c To Ajay A/c (Being goods purchased from Ajay)	Dr. —	800 800	

Date 2019 February	Particulars	L.F.	Debit ₹	Credit ₹
7th	Wages A/c To Cash A/c (Being salary paid to Sujay, a foreman)	Dr.	— —	950 950
9th	Ajay A/c To Returns Outward A/c (Being damage goods returned to Ajay)	Dr.	— —	80 80
12th	Cash A/c To Sales A/c (Being goods sold for cash)	Dr.	— —	1,200 1,200
14th	Rent A/c To Bank A/c (Being Rent paid by cheque)	Dr.	— —	500 500
17th	Cash A/c To Sales A/c (Being cash sales made)	Dr.	— —	900 900
21st	Advertisement A/c To Goods A/c (Being goods distributed as free samples)	Dr.	— —	350 350
24th	Cash A/c To Dena Bank Loan A/c (Being loan taken from Dena Bank)	Dr.	— —	10,000 10,000
25th	Repairs to Motor Car A/c To Cash A/c (Being paid for repairs to Motor Car)	Dr.	— —	700 700
27th	Live-Stock A/c To Cash A/c (Being Horse purchased for cash)	Dr.	— —	3,500 3,500
28th	Ajay A/c To Cash A/c To Discount Received A/c (Being cash remitted to Ajay in full settlement)	Dr.	— — —	720 680 40
28th	Cash A/c To Vijay's Capital A/c (Being additional capital brought into the business)	Dr.	— —	18,000 18,000
		Total	98,150	98,150

Working Notes :

i) Calculation of Discount Received from Ajay on 28th February :

Particulars	₹	₹
6th Bought goods from Ajay		800
9th Less : Damaged goods returned	80	
28 th Less : Cash remitted in full settlement	(+) 680	(-) 760
∴ Balance amount i.e. Discount Received from Ajay		40

ILLUSTRATION 7

Show journal entries for the following transactions in the books of Amrendra for January, 2019.

1. Started business with ₹ 20,000 of which ₹ 12,000 were borrowed from Ms. Amrendra.
3. Bought goods from Surendra ₹ 1,000 @ 20% Trade Discount.
5. Sold Furniture for cash ₹ 1,700.
6. Withdrew ₹ 250 for personal use and ₹ 200 for office use from Bank.
7. Invoiced to Rajendra goods for ₹ 2,500 @ 20% Trade Discount and 8% Cash Discount for cash.
10. Purchased second hand goods from Narendra ₹ 700 for cash @ 30% Trade Discount.
14. Cash paid to Virendra ₹ 540 in full settlement of ₹ 570.
17. Inferior quality goods returned to Surendra ₹ 100 gross.
19. Remitted to Surendra ₹ 700 in full settlement of his account.
23. Spot purchases made ₹ 1,600.
25. Received ₹ 320 from Dharmendra as Commission.
28. Sold goods to Vijayendra ₹ 3,500 @ 10% Cash Discount on credit.
29. Paid to Bhagendra ₹ 780 for carriage on sales.
31. Remuneration paid to Office Manager, Raghavendra ₹ 2,400.

SOLUTION

**In the books of Amrendra
Journal**

Date 2019 January	Particulars	L.F.	Debit ₹	Credit ₹
1st	Cash A/c To Amrendra's Capital A/c To Ms. A's Loan A/c (Being started business with cash of his own and a loan from Ms. Amrendra)	Dr. — — —	20,000 8,000 12,000	
3rd	Purchases A/c To Surendra A/c (Being goods purchased from Surendra @ 20% Trade Discount)	Dr. — —	800 800	
5th	Cash A/c To Furniture A/c (Being Furniture sold)	Dr. — —	1,700 1,700	
6th	Amrendra's Drawing A/c Cash A/c To Bank A/c (Being withdrawn for personal use and office use from Bank)	Dr. Dr. — —	250 200 450	

Date 2019 January	Particulars	L.F.	Debit ₹	Credit ₹
7th	Cash A/c Discount Allowed A/c To Sales A/c (Being goods sold @ 20% Trade Discount and 8% Cash Discount for cash)	Dr. Dr. Dr.	1,840 160 -	2,000
10th	Purchases A/c To Cash A/c (Being second hand goods purchased @ 30% Trade Discount)	Dr. Dr.	490 490	
14th	Virendra A/c To Cash A/c To Discount Received A/c (Being cash paid to Virendra and discount received)	Dr. Dr. Dr.	570 540 30	
17th	Surendra A/c To Returns Outward A/c (Being inferior quality goods returned to Surendra)	Dr. Dr.	80 80	
19th	Surendra A/c To Cash A/c To Discount Received A/c (Being cash remitted to Surendra and discount received)	Dr. Dr. Dr.	720 700 20	
23rd	Purchases A/c To Cash A/c (Being spot purchases made)	Dr. Dr.	1,600 1,600	
25th	Cash A/c To Commission A/c (Being commission received)	Dr. Dr.	320 320	
28th	Vijayendra A/c To Sales A/c (Being goods sold to Vijayendra on credit)	Dr. Dr.	3,500 3,500	
29th	Carriage Outward A/c To Cash A/c (Being cash paid for carriage on sales)	Dr. Dr.	780 780	
31st	Salary A/c To Cash A/c (Being remuneration paid to office manager)	Dr. Dr.	2,400 2,400	
		Total	35,410	35,410

Working Notes :

i) Calculation of Discount Received from Surendra on 19th January :

Particulars	₹	₹
3rd : Bought goods from Surendra @ 20% Trade Discount		800
17 th : Less Inferior quality goods returned ₹ 100 Gross	80	
19 th : Less Cash remitted in full settlement (+)	700	(-) 780
∴ Balance amount i.e. Discount Received from Surendra		20

ILLUSTRATION 8

Enter the following transactions of Kumar Lalwani, Malegaon in the journal for March, 2019.

- 1 Kumar won lottery prize of ₹ 25,000 and invested the same into his business.
- 2 Bought Office Furniture from Karishma Furnitures for ₹ 7,000 in exchange of goods costing ₹ 4,200, cash of ₹ 2,000 and the balance on credit.
- 5 Second hand goods of ₹ 1,200 bought from Kunal for Cash @ 20% Trade Discount.
- 7 Private Motor car sold to Kishor ₹ 20,000 on credit.
- 8 Withdrawn from Bank ₹ 1,450 for payment of shop expenses ₹ 1,000 and ₹ 450 for household expenses.
- 10 Paid remuneration to Administrative Manager Kundan ₹ 5,800 for February, 2019.
- 14 Received a bearer cheque of ₹ 800 from Karim on behalf of Komal.
- 16 Paid consultation fees of ₹ 250 to Dr. Kasturi Kulkarni for medical problems of Ms. Kumar Lalwani.
- 19 Quarterly Taxes paid to Pune Municipal Corporation @ ₹ 2,200 p.a.
- 22 Invoiced goods to Kamalnath ₹ 5,000 @ 8% Cash Discount and received four fifth of the amount due.
- 24 Purchsed 10 shares of ₹ 100 each of Kotak Mahindra Co. @ ₹ 120 per share and paid brokerage @ 2% on Face Value.
- 26 Kalyani paid ₹ 450 to Kashmira on our behalf.
- 27 Sold 5 shares of ₹ 100 each of Kotak Mahindra Co. @ ₹ 130 per share and paid brokerage @ 2% on Face Value.
- 28 Festival advance paid to Kale ₹ 1,000 against his salary.
- 29 Received ₹ 1,500 as Rent from sub-tenant, Kamdar.
- 30 Withdrawn from Bank office ₹ 400 and Cash Office ₹ 100 for domestic purpose.
- 31 Loan taken in October, 2018 amounting to ₹ 5,000 from Central Bank @ 12% p.a. was discharged.

SOLUTION

**In the books of Kumar Lalwani, Malegaon
Journal**

Date 2019 March	Particulars	L.F.	Debit ₹	Credit ₹
1 st	Cash A/c To Kumar's Capital A/c (Being lottery prize money invested into business).	Dr.	— —	25,000 25,000
2 nd	Furniture A/c To Goods A/c To Cash A/c To Karishma Furnitures A/c (Being Furniture purchased from Karishma Furnitures in exchange of goods, cash and balance on credit).	Dr.	— — — —	7,000 4,200 2,000 800

Date 2019 March	Particulars	L.F.	Debit ₹	Credit ₹
5th	Purchases A/c To Cash A/c (Being second hand goods purchased for cash from Kunal @ 20% Trade Discount).	Dr. — —	960 960	
8th	Cash A/c Kumar's Drawings A/c To Bank A/c (Being cash withdrawn from Bank for payment of shop expenses and household expenses).	Dr. Dr. Dr. —	1,000 450 — 1,450	
10th	Salary A/c To Cash A/c (Being remuneration paid to administrative manager, Kundan for February, 2012)	Dr. Dr. —	5,800 5,800 —	
14th	Cash A/c To Komal A/c (Being a bearer cheque received from Karim on behalf of Komal).	Dr. Dr. —	800 800 —	
16th	Kumar's Drawing's A/c To Cash A/c (Being consultation fees paid for proprietor's wife).	Dr. Dr. —	250 250 —	
19th	Taxes A/c To Cash A/c (Being quarterly corporation taxes paid).	Dr. Dr. —	550 550 —	
22nd	Cash A/c Discount Allowed A/c Kamalnath A/c To Sales A/c (Being goods sold to Kamalnath @ 8% Cash Discount and received four fifth of the total amount due).	Dr. Dr. Dr. Dr. —	3,680 320 1,000 — 5,000	
24th	Investment A/c To Cash A/c (Being shares purchased from Kotak Mahindra Co. and brokerage paid @ 2% on Face Value).	Dr. Dr. —	1,220 1,220 —	
26th	Kashmira A/c To Kalyani A/c (Being amount paid by Kalyani to Kashmira on our behalf).	Dr. Dr. —	450 450 —	

Date 2019 March	Particulars	L.F.	Debit ₹	Credit ₹
27 th	Cash A/c To Investment A/c (Being Kotak Mahindra Co.'s shares sold and brokerage paid @ 2% on Face Value).	Dr. — —	640 640	
28 th	Prepaid Salary A/c To Cash A/c (Being festival advance paid to Kale against his salary).	Dr. — —	1,000 1,000	
29 th	Cash A/c To Rent A/c (Being Rent received from sub-tenant, Kamdar).	Dr. — —	1,500 1,500	
30 th	Kumar's Drawings A/c To Bank A/c To Cash A/c (Being cash withdrawn from Bank and Office for domestic purposes)	Dr. — — —	500 400 100	
31 st	Central Bank Loan A/c Interest on Central Bank Loan A/c To Cash A/c (Being loan from Central Bank discharged with interest @ 12% p.a.)	Dr. Dr. Dr. —	5,000 300 5,300	
		Total	57,420	57,420

Working Notes :

- i) Sale of private Motor Car to Kishor on credit on 7th, is a private transaction. Hence, no accounting entry is recorded for the same from business point of view.
- ii) Classification of Total Sales made on 22nd and calculation of discount allowed to Kamalnath.



- iii) Brokerage paid on purchase of shares on 24th, is to be calculated on the face value (2% of ₹ 1,000 i.e. ₹ 20) and added to the market value (i.e. ₹ 1,200) before passing the journal entry.
- iv) Brokerage paid on sale of shares on 27th, is to be calculated on the face value (2% of ₹ 500 i.e. ₹ 10) and deducted from the market value (i.e. ₹ 650) before passing the journal entry.

ILLUSTRATION 9

Enter the following transactions in the Journal of Sunil, passing one combined entry for each of the same for October, 2019.

1. Started business with ₹ 20,000 of which ₹ 12,000 were borrowed from Dena Bank.
4. Sold goods to Sanjay ₹ 5,200, 40% of which was for cash.
7. Withdrawn from Bank ₹ 400 for office and ₹ 300 for personal use.
10. Bought goods from Sujay ₹ 4,000, in exchange of Furniture ₹ 3,400 and balance in cash.
15. Received a bearer cheque of ₹ 1,800 and a crossed cheque of ₹ 2,200 from Somesh for sale of old Furniture.
18. Paid to Surya Transport Co. for transportation of goods ₹ 1,600 on purchases and ₹ 1,400 on sales.
22. Remuneration paid to factory staff ₹ 2,600 and office staff ₹ 2,400 by cheque.
25. Paid ₹ 2,700 as life insurance premium of Sunil and ₹ 2,300 as insurance premium of business premises.
28. Purchased goods ₹ 15,000 @ 20% Trade Discount and 15% Cash Discount from Sajesh and paid 25% of the amount due in cash.
30. ₹ 10,000 due from Saurabh who became insolvent, and a first and final dividend of 25 paise per rupee was recovered from his private estate.
31. Received ₹ 2,800 in full settlement of ₹ 2,850 from Satish for goods supplied to him during last month.
31. Salary paid to Sumangal ₹ 3,500 of which ₹ 2,900 was paid in cash and the balance in goods.

SOLUTION

**In the books of Sunil
Journal**

Date 2019 October	Particulars	L.F.	Debit ₹	Credit ₹
1.	Cash A/c To Sunil's Capital A/c To Dena Bank Loan A/c (Being started business with cash and loan from Dena Bank)	Dr. — — —	20,000 8,000 12,000	
4.	Cash A/c Sanjay A/c To Sales A/c (Being goods sold to Sanjay, 40% of which was for cash)	Dr. Dr. —	2,080 3,120 5,200	
7.	Drawings A/c Cash A/c To Bank A/c (Being cash withdrew from Bank for office and personal use)	Dr. Dr. —	300 400 700	
10.	Purchases A/c To Furniture A/c To Cash A/c (Being goods purchased from Sujay in exchange of furniture and balance in cash)	Dr. — —	4,000 3,400 600	

Date 2019 October	Particulars	L.F.	Debit ₹	Credit ₹
15.	Cash A/c Bank A/c To Furniture A/c (Being old furniture sold to Somesh and received a bearer and a crossed cheque)	Dr. Dr. -	1,800 2,200 -	4,000
18.	Carriage Inward A/c Carriage Outward A/c To Cash A/c (Being transportation charges paid to Surya Transport Co. for purchases and sale of goods)	Dr. Dr. -	1,600 1,400 -	3,000
22.	Wages A/c Salary A/c To Bank A/c (Being remuneration paid to factory and office staff by cheque)	Dr. Dr. -	2,600 2,400 -	5,000
25.	Sunil's Drawings A/c Insurance Premium A/c To Cash A/c (Being life insurance premium of Sunil and insurance premium of business premises paid)	Dr. Dr. -	2,700 2,300 -	5,000
28.	Purchases A/c To Sajesh A/c To Cash A/c To Discount Received A/c (Being goods purchased from Sajesh @ 20% Trade Discount and 15% Cash Discount, paying 25% amount due in cash)	Dr. - - -	12,000 9,000 2,550 450	
30.	Cash A/c Bad Debts A/c To Saurabh A/c (Being 25% amount due from Saurabh was recovered on his insolvency)	Dr. Dr. -	2,500 7,500 -	10,000
31.	Cash A/c Discount Allowed A/c To Satish A/c (Being cash received from Satish and discount allowed for goods sold during last month)	Dr. Dr. -	2,800 50 -	2,850
31.	Salary A/c To Cash A/c To Goods A/c (Being salary paid to Sumangal in cash and in goods)	Dr. - -	3,500 2,900 600	
		Total	75,250	75,250

ILLUSTRATION 10

- Journalise the following transactions in the books of Uday Phadke, Mulund for April, 2019.
- 1st Uday sold his private motor car for ₹ 65,000 and invested the proceeds into the business as capital, together with Machinery worth ₹ 35,000.
 - 2nd Opened a Bank Current Account by depositing cash ₹ 3,700, Bearer cheque ₹ 4,900 and crossed cheques ₹ 1,400.
 - 4th Bought goods from Adesh worth ₹ 15,000 less 5% Quantity Discount, 15% Trade Discount and paid cash full less 2½% Cash Discount.
 - 7th Paid to General Insurance Co. ₹ 2,500 for fire insurance premium and ₹ 1,500 for life insurance premium by cheque.
 - 9th Sent a telegram to Brijesh for supply of goods immediately costing ₹ 5,000 @ 4% Trade Discount and paid necessary charges to GPO ₹ 70.
 - 11th Dhanesh supplied goods to us costing ₹ 2,500 @ 4% Trade Discount and he paid ₹ 100 for carriage on our behalf.
 - 14th Invested ₹ 5,000 for purchase of Kisan Vikas Patra from GPO.
 - 17th Invoiced goods to Gunesh for ₹ 5,000 @ 20% Trade Discount and received full amount from him @ 20% Cash Discount.
 - 19th Bought additional machinery by borrowing ₹ 32,000 from Dena Bank and paid ₹ 3,000 to Gitesh for its installation.
 - 21st Sold goods to Ganesh costing ₹ 10,000 at a profit of 20% on sales, less 10% Trade Discount, 2% Cash Discount and charged VAT @ 12%, on credit terms.
 - 23rd Bank collected dividend of ₹ 1,800 on our investments amounting to 18,000 in Cipla Ltd.
 - 25th Received ₹ 7,910 consisting of ₹ 920 cash and ₹ 6,990 as cheque in return of, for sale of goods, of superior quality ₹ 3,470 and of inferior quality ₹ 4,530 to Hitesh, during last month in full settlement.
 - 27th Recovered ₹ 1,025 from a travelling salesman, Jayesh for goods supplied to him, after deducting ₹ 175 as travelling expenses.
 - 29th Ready money sales amounted to ₹ 5,100 received from Kamlesh.
 - 30th Lokesh, a credit customer paid ₹ 7,200 for our office rent.

SOLUTION**In the books of Uday Phadke, Mulund****Journal**

Date 2019 April	Particulars	L.F.	Debit ₹	Credit ₹
1 st	Cash A/c Machinery A/c To Uday's Capital A/c (Being Uday started business with Cash and Machinery)	Dr. Dr. Dr.	65,000 35,000 —	1,00,000
2 nd	Bank A/c To Cash A/c (Being cash, bearer cheque and crossed cheque deposited on opening of a Bank Current Account)	Dr. —	10,000 —	10,000

Date 2019 April	Particulars	L.F.	Debit ₹	Credit ₹
4 th	Purchases A/c To Cash A/c To Discount Received A/c (Being goods purchased from Adash @ 15% Trade Discount, 5% Quantity Discount and 2½ Cash Discount)	Dr. — — —	12,000 — —	11,700 300
7 th	Fire Insurance Premium A/c UP's Drawing A/c To Bank A/c (Being fire insurance premium and life insurance premium paid to General Insurance Co. by cheque)	Dr. Dr. —	2,500 1,500 —	4,000
9 th	Telegram Charges A/c To Cash A/c (Being telegram charges paid to GPO)	Dr. —	70 —	70
11 th	Purchases A/c Carriage Inward A/c To Dhanesh A/c (Bring goods purchased from Dhanesh @ 4% Trade Discount and carriage payable to him)	Dr. Dr. —	2,400 100 —	2,500
14 th	Investment A/c To Cash A/c (Being investments made in purchase of Kisan Vikas Patra from GPO)	Dr. —	5,000 —	5,000
17 th	Cash A/c Discount Allowed A/c To Sales A/c (Being goods sold to Gunesh @ 20% Trade Discount and 20% Cash Discount for cash)	Dr. Dr. —	3,200 800 —	4,000
19 th	Machinery A/c To Dena Bank's Loan A/c To Cash A/c (Being additional Machinery purchased by taking a loan from Dena Bank and paid for its installation to Gitesh)	Dr. — —	35,000 — —	32,000 3,000
21 st	Ganesh A/c To Sales A/c To VAT A/c (Being goods sold to Gunesh on credit terms @ 20% profit on sales, less 10% Trade Discount and VAT charged @ 12% on invoice price)	Dr. — —	12,600 — —	11,250 1,350

Date 2019 April	Particulars	L.F.	Debit ₹	Credit ₹
23 rd	Bank A/c To Dividend on Investment A/c (Being dividend collected by Bank on investments in Cipla Ltd.)	Dr. — —	1,800 1,800	
25 th	Cash A/c Discount Allowed A/c To Hitesh A/c (Being cash and cheque received from Hitesh for sale of goods during last month, in full settlement)	Dr. Dr. —	7,910 90 8,000	
27 th	Cash A/c Travelling Expenses A/c To Sales A/c (Being cash received from Jayesh for goods supplied after deducting travelling expenses)	Dr. Dr. —	1,025 175 1,200	
29 th	Cash A/c To Sales A/c (Bring cash sales made with Kamlesh)	Dr. —	5,100 5,100	
30 th	Rent A/c To Lokesh A/c (Being Office Rent paid by credit customer Lokesh)	Dr. —	7,200 7,200	
	Total		2,08,470	2,08,470

Working Notes :**4th April : Calculation of discount received from Adesh.**

Particulars	₹
Catalogue Price	15,000
Less : Trade Discount and Quantity Discount (20% - 15% of ₹ 15,000)	(-) 3,000
∴ Recordable Purchase Price	12,000
Less : Cash Discount 2 ¹ / ₂ % (2 ¹ / ₂ % of ₹ 12,000)	(-) 300
∴ Cash paid to Adesh	11,700

9th April : Sent a telegram to Brijesh for supply of goods immediately is not a transaction as there is no exchange of cash and goods, hence no accounting entry is recorded for the same.

21st April : Calculation of total invoice price

Particulars	₹
Cost Price	10,000
Add : Profit @ 20% on Sales i.e. 25% on cost	(+)
∴ Catalogue Price	12,500
Less : 10% Trade Discount	(-)
∴ Invoice Price	11,250
Add : VAT @ 12% on Invoice Price	(+)
∴ Total Invoice Price	12,600

(N.B.: Cash Discount will not be considered, as the sales are on credit terms).

ILLUSTRATION 11

Enter the following transactions of Tarun Bose, Navapur in the journal for April, 2019.

- 1st Tarun transferred ₹ 65,000 from his Private Bank Account to Business Bank Account.
- 3rd Sold old furniture to Yogesh for ₹ 3,000 and goods to Binesh for ₹ 7,000 both for cash at 5% discount on catalogue price.
- 5th Paid to Rakesh by cheque ₹ 1935 and he allowed a trade discount of ₹ 35, for purchase of goods from him.
- 8th Remuneration paid to Manish, a shop floor supervisor, ₹ 6,500 and a festival advance ₹ 3,500 by crossed cheque.
- 11th Received a cheque of ₹ 1,980 from Mahesh, in full settlement of ₹ 2,010 for goods supplied during last month.
- 13th Bought second hand chairs for ₹ 2,000 in exchange of goods of ₹ 2,500 @ 20% Trade Discount.
- 15th Received commission from Bhavesh ₹ 750 and interest from Bhagesh ₹ 450, both by crossed cheque.
- 18th Purchased goods from Bindesh @ 2% trade discount, ₹ 2,500 for cash and ₹ 7,500 on credit.
- 20th Invoiced goods to Nilesh ₹ 5,000 @ 2% cash discount and 6% trade discount and received half the amount in cash.
- 22nd Cash amounting to ₹ 750 was stolen away from the cash-box.
- 24th Bought goods worth ₹ 6,000 @ 6% trade discount and 5% cash discount from Nagesh for cash and supplied them immediately to Mangesh at list price less 6% trade discount.
- 25th Issued a cheque for payment of annual insurance premium of 8% on a fire insurance policy of ₹ 25,000 for goods costing ₹ 28,000.
- 26th Bought second hand tools worth ₹ 4,000 from Jogesh Traders and in part payment supplied quality goods of ₹ 3,500 @ 10% trade discount.
- 27th Supplied goods to Mayuresh ₹ 2,500 and issued invoice @ 20% above cost, allowing him 5% discount on catalogue price.
- 28th Paid ₹ 8,500 as rent of buildings to Ritesh the landlord, 40% of the premises used by the trader for domestic purpose.
- 30th Installed new machinery costing ₹ 27,000 supplied by Metro Co. and paid ₹ 3,000 to Garesh for its rejection by cheque.

SOLUTION**In the Books of Tarun Bose, Navapur
Journal**

Date 2019 April	Particulars	L.F.	Debit ₹	Credit ₹
1 st	Bank A/c To Tarun's Capital A/c (Being Tarun transferred from Private Bank Account to Business Bank Account)	Dr. — —	65,000 65,000	
3 rd	Cash A/c To Furniture A/c To Sales A/c (Being old furniture sold to Yogesh and goods to Dinesh @ 5% trade discount for cash)	Dr. — — —	9,500 2,850 6,650	
5 th	Purchases A/c To Bank A/c (Being goods purchased from Rakesh at a trade discount and paid by cheque)	Dr. — —	1,935 1,935	
8 th	Wages A/c Prepaid Wages A/c To Bank A/c (Being remuneration and festival advance paid to Manish, a shop floor supervisor by crossed cheque)	Dr. Dr. —	6,500 3,500 10,000	
11 th	Cash A/c Discount Allowed A/c To Mahesh A/c (Being cheque received from Mahesh in full settlement for goods supplied during last month)	Dr. Dr. —	1,980 30 2,010	
13 th	Furniture A/c To Sales A/c (Being second hand chairs purchased in exchange of goods @ 20% trade discount)	Dr. —	2,000 2,000	
15 th	Bank A/c To Commission A/c To Interest A/c (Being crossed cheque received, for commission from Bhavesh and for interest from Bhagesh)	Dr. — —	1,200 750 450	
18 th	Purchases A/c To Cash A/c To Bindesh A/c (Being goods purchased from Bindesh @ 2% trade discount for cash and on credit)	Dr. — —	9,800 2,450 7,350	

Date 2019 April	Particulars	L.F.	Debit ₹	Credit ₹
20 th	Cash A/c Discount Allowed A/c Nilesh A/c To Sales A/c (Being goods sold to Nilesh @ 6% trade discount and 2% cash discount, half the amount received in cash)	Dr. Dr. Dr. Dr. -	2,303 47 2,350 4,700	
22 nd	Loss by Theft A/c To Cash A/c (Being cash stolen away from the cash box)	Dr. Dr.	750 750	
24 th	i) Purchases A/c To Cash A/c To Discount Received A/c (Being goods purchased from Nagesh for cash @ 6% Trade Discount and 5% Cash discount)	Dr. Dr. Dr.	5,640 5,358 282	
	ii) Mangesh A/c To Sales A/c (Being goods sold to Mangesh on credit @ 6% trade Discount on list price)	Dr.	5,640	5,640
25 th	Fire Insurance Premium A/c To Bank A/c (Being fire insurance premium paid @ 8% p.a. to goods)	Dr. Dr.	2,000 2,000	
26 th	Loose Tools A/c To Sales A/c To Jogesh Traders A/c (Being second hand tools purchased from Jogesh Traders and in part payment supplied goods @ 10% Trade Discount)	Dr. Dr. Dr.	4,000 3,150 850	
27 th	Mayuresh A/c To Sales A/c (Being goods supplied to Mayuresh @ 20% above cost, allowing 5% Trade Discount Credit)	Dr. Dr.	2,850 2,850	
28 th	Rent A/c Tarun's Drawings A/c To Cash A/c (Being rent of Buildings paid to Ritesh, the landlord, 40% of premises used by the trader for domestic and 6% for office purpose.)	Dr. Dr. Dr.	5,100 3,400 8,500	

Date 2019 April	Particulars	L.F.	Debit ₹	Credit ₹
30 th	Machinery A/c	Dr.	—	30,000
	To Metro Co. A/c		—	27,000
	To Bank A/c		—	3,000
	(Being new machinery purchased from Metro Co. and rejection charges paid to Gauresh by Cheque)			
	Total		1,65,525	1,65,525

Working Notes :**20th April : Calculation of Discount Allowed to Nilesh**

Particulars	₹
Catalogue Price	5,000
Less 6% Trade Discount	(—) 300
∴ Recordable Selling Price	4,700
Less half of sales on credit	(—) 2,350
∴ Cash sales	2,350
Less 2% Cash Discount	(—) 47
∴ Cash received from Nilesh	2,303

24th April : Calculation of Discount Received from Nagesh and Discount Allowed to Mangesh

Particulars	₹
(i) Cash Purchases from Nagesh	
List Price	6,000
Less 6% Trade Discount	(—) 360
∴ Recordable Purchase Price	5,640
Less 5% Cash Discount	(—) 282
∴ Cash paid to Nagesh	5,358

(ii) Credit Sales to Mangesh

Particulars	₹
List Price	6,000
Less 6% Trade Discount	(—) 360
∴ Recordable Selling Price	5,640

27th April : Calculation of Discount Allowed to Mayuresh goods supplied at Cost

Particulars	₹
Goods supplied at cost	2,500
Add : Issuing invoice @ 20% above cost	(+) 500
∴ Catalogue price	3,000
Less 5% Trade Discount	(—) 150
∴ Recordable Selling Price	2,850

ILLUSTRATION 12

Record the following business transactions in the Journal of Amol and Vishal for September, 2019, separately.

- 2 Amol bought goods from Vishal ₹ 3,000 @ 10% Trade Discount
- 3 Amol returned goods to Vishal as defective at ₹ 500 Gross.
- 5 Amol paid ₹ 2,000 to Vishal less 2% Cash Discount on his account.
- 8 Vishal bought goods from Amol worth ₹ 500 for cash and he paid ₹ 20 for the transport.
- 12 Vishal paid for Advertisement ₹ 350.
- 13 Amol paid to his domestic servant's salary ₹ 350.
- 15 Amol sold goods to Vishal ₹ 1,200 and paid packing charges ₹ 50 on his account.
- 16 Vishal returned goods ₹ 100 to Amol who paid for them in cash.
- 21 Amol borrowed ₹ 10,000 from Vishal @ 18% p.a.
- 26 Vishal paid to Amol as Commission ₹ 285.

SOLUTION

Journal of Amol

Date 2019 Sept.	Particulars	L.F.	Debit ₹	Credit ₹
2nd	Purchases A/c To Vishal A/c (Being goods bought on credit @ 10% Trade Discount from Vishal)	Dr. — —	2,700 2,700	
3rd	Vishal A/c To Returns Outward A/c (Being defective goods returned to Vishal)	Dr. — —	450 450	
5th	Vishal A/c To Cash A/c To Discount Received A/c (Being cash paid to Vishal and discount received)	Dr. — — —	2,000 1,960 40	
8th	Cash A/c To Sales A/c (Being sold goods for cash)	Dr. — —	500 500	
13th	Amol's Drawing A/c To Cash A/c (Being salary paid to domestic servant)	Dr. — —	350 350	
15th	Vishal A/c To Sales A/c To Cash A/c (Being goods sold on credit to Vishal and paid packing charges on his account)	Dr. — — —	1,250 1,200 50	
16th	Returns Inward A/c To Cash A/c (Being goods returned and paid in cash)	Dr. — —	100 100	

Date 2019 Sept.	Particulars	L.F.	Debit ₹	Credit ₹
21 st	Cash A/c To Vishal's Loan A/c (Being amount borrowed @ 18% p.a. from Vishal)	Dr. — —	10,000 10,000	
26 th	Cash A/c To Commission A/c (Being received cash from Vishal as Commission)	Dr. — —	285 285	
		Total	17,635	17,635

Journal of Vishal

Date 2019 Sept.	Particulars	L.F.	Debit ₹	Credit ₹
2 nd	Amol A/c To Sales A/c (Being goods sold on credit @ 10% Trade Discount to Amol)	Dr. — —	2,700 2,700	
3 rd	Returns Inward A/c To Amol A/c (Being defective goods received from Amol)	Dr. — —	450 450	
5 th	Cash A/c Discount Allowed A/c To Amol A/c (Being cash received from Amol and discount allowed)	Dr. Dr. —	1,960 40 2,000	
8 th	Purchases A/c Transport Charges A/c To Cash A/c (Being bought goods for cash and paid transport charges)	Dr. Dr. —	500 20 520	
12 th	Advertisement A/c To Cash A/c (Being paid in cash for advertisement)	Dr. —	350 350	
15 th	Purchases A/c Packing Charges A/c To Amol A/c (Being goods bought on credit from Amol and he paid packing charges on our account)	Dr. Dr. —	1,200 50 1,250	
16 th	Cash A/c To Returns Outward A/c (Being goods returned and received cash)	Dr. —	100 100	
21 st	Amol's Loan A/c To Cash A/c (Being loan given to Amol @ 18% p.a.)	Dr. —	10,000 10,000	
26 th	Commission A/c To Cash A/c (Being paid to Amol in cash as commission)	Dr. —	285 285	
		Total	17,635	17,635

QUESTIONS FOR SELF-STUDY**I. Theory Questions :**

- What is Journal ? Explain its importance in Double Entry Book-keeping.
- Why is the Journal called as a book of prime entry ?
- Explain the significance of 'Narration' in a journal entry.
- Explain the advantages and limitations of Journal.
- What is the use of L.F. column in journal ?
- What important points you would keep in mind while recording journal entries ?
- Write short notes on :
 - Journal,
 - Journalising,
 - Narration,
 - Trade Discount,
 - Cash Discount
 - Combined Journal Entry,
 - Ledger Folio,
 - Importance of Journal in Double Entry Book-keeping.
- Differentiate between :
 - Trade Discount and Cash Discount
 - Simple journal entry and Combined journal entry

II. Practical Problems :

- Journalise the following transactions in the books of Rajesh, for January, 2019.
 - Started business with ₹ 15,000.
 - Deposited ₹ 5,000 into Bank Current Account.
 - Supplied goods to Ramesh ₹ 7,500.
 - Bought goods from Romesh ₹ 1,500 @ 2% Trade Discount.
 - Paid to Rahim ₹ 620 for commission on sales.
 - Damaged goods received from Ramesh ₹ 75.
 - Spot purchases made ₹ 690.
 - Purchased Furniture from Rao ₹ 6,000 for cash.
 - Salary paid to Ramakant, a factory worker ₹ 1,200.
 - Purchased Stationery from Rahul and Co. ₹ 350.
 - Second hand goods sold ₹ 1,300 @ a discount of ₹ 100.
 - Paid for carriage on sale ₹ 270.
 - Paid to Ritesh ₹ 320 for installation of new machinery.
 - Invoiced goods to Rajaram ₹ 4,100 for cash.
 - Paid to Romesh on account ₹ 500.
 - Received ₹ 600 for interest on investment.
- Journalise the following in the books of M/s Kirankumar and Sons for January, 2019.
 - Started business with cash of ₹ 25,000.
 - Purchased goods ₹ 8,000.
 - Sold goods for ₹ 6,000.
 - Purchased goods from X & Co. on credit for ₹ 4,000.
 - Paid to X & Co. ₹ 4,000.
 - Sold goods for ₹ 8,000 to Y & Co.
 - Received Cash from Y & Co. ₹ 2,000.
 - Paid Carriage ₹ 50.
 - Paid Rent ₹ 200 to landlord.
 - Interest of ₹ 600 received from Ramesh.

- iii) Journalise the following transactions in the books of Akshay Kumar.
1. Akshay Kumar commenced business with Cash ₹ 95,000, Furniture ₹ 5,000, Machinery ₹ 80,000. Of the Cash ₹ 8,000 was borrowed from Sumit.
 2. Purchased Machinery from Kent and Co. for ₹ 18,000 and it paid ₹ 800 as Freight on our account.
 3. Paid Wages on erection of Machinery ₹ 2,000.
 4. Received an order from M/s Pushpalata for goods ₹ 8,000.
 5. Cash of ₹ 200 was stolen by the cashier who is absconding.
 6. Purchased 20 shares of ₹ 100 each @ ₹ 90 by paying 2% brokerage.
 7. Executed Pushpalata's order and paid transport charges on her account ₹ 100.
 8. Goods worth ₹ 100 were distributed as free sample.
 9. Paid Income Tax ₹ 1,500.
 10. Mumbaiwala is declared insolvent and a dividend of ₹ 400 is received from him in full settlement of ₹ 1,000.

2.4 SUBSIDIARY BOOKS

In the normal course of action, when the size of the business becomes bigger, the number of transactions increases day-by-day. Maintaining one single journal to record the voluminous transactions becomes a very complicated job which results into delay in the work of preparation and presentation of financial statements. To ensure speed in the work of recording transactions, journal is sub-divided into eight journals with specific purposes, which are termed as '**Subsidiary Books**' or '**Books of Original Entries**'. Now, the transactions are recorded into various subsidiary books on the basis of their specific nature. The posting is done into the ledger and ultimately financial statements are prepared.

Generally, transactions are of two types : Cash and Credit. Cash receipts and payments can be grouped in one category whereas credit purchases of goods and credit sales of goods can be grouped in another category. In order to avoid repetition of entries, Journal is divided into different books. This subdivision of Journal is called "**Subsidiary Books**" or "**Books of Original Entry**".

Meaning

Subsidiary Books or day books are also known as special journals. Special journals refer to the journal meant for specific transactions of similar nature. To overcome the shortcomings of the use of the journal only as a book of original entry, the journal is sub divided into special journals. The journal is sub-divided in such a way that a separate book is used for each category of transactions which are repetitive in nature and are sufficiently large in number. These day books are called subsidiary books because they do not provide necessary information to prepare final accounts but they simply help to prepare classified ledger accounts.

Need for Maintaining Subsidiary Books

Earlier, we have seen that a Journal is the 'Book of Original Entry' where transactions are first recorded chronologically. In small scale organisations, where the number of transactions are not too many, it may be sufficient to have just one journal. The **sequence of accounting records in small scale organisations** is shown in Figure 2.5.

But when the number of transactions are too many, it becomes both inconvenient and time consuming to have just one journal. As the flow of recording transactions would slow down at this point, a bottleneck would hamper further records.

So, to ensure that financial transactions are recorded on a daily basis and without slowing down the procedure, they are classified on the basis of certain common characteristics and then recorded in a number of books each called a Subsidiary Book or a Journal. As such, Subsidiary books are also called 'Books of Original Entry or Journals'.

Following points illustrate the need of Subsidiary Books in accounting.

i) **Division of Work :**

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

ii) **Specialisation and Efficiency :**

When the same work is allotted to a particular clerk over a period of time, he acquires full skill and knowledge of it and becomes efficient in handling it.

iii) **Saving of Time :**

Various accounting process can be undertaken simultaneously because of the use of number of books. This will lead to the work being completed quickly.

iv) **Facility in checking :**

Internal check is made possible because of two or more than two checker or investigator can work at a time.

v) **Helps to locate and prevent the errors :**

In Subsidiary books, transactions are recorded in throughout order i.e. datewise, which prevents fraudulent entries in an account. Now look at the basis of classification of financial transactions and the **sequence of accounting records in large scale organisations** shown in Figure 2.6.

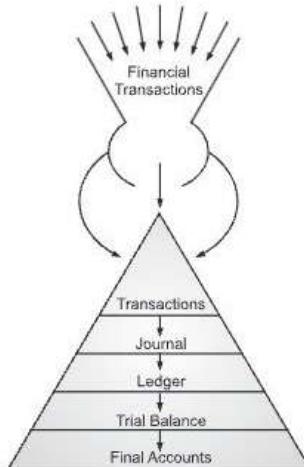


Fig. 2.5 : Sequence of Accounting Records in Small Scale Organisations

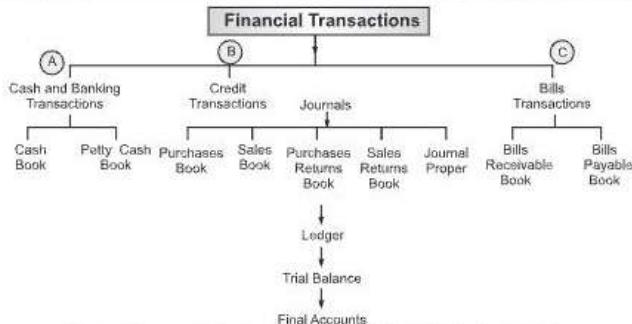


Fig. 2.6 : Sequence of Accounting Records in Large Scale Organisations

Different Subsidiary Books

The number of financial transactions of a modern business is sufficiently large in number and some of them are very much of repetitive in nature, the specific need arises to classify needs of competitive businesses. Hence, the main journal is sub-divided into different **types of subsidiary books** to achieve the basic purpose as clearly specified in Figure 2.7.

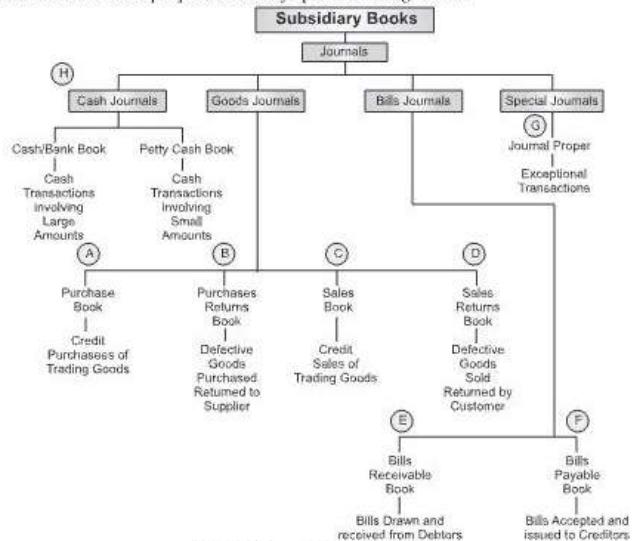


Fig. 2.7 : Types of Subsidiary Books

The books of accounts maintained by the business house other than the cash book may be classified into journal and ledgers. The journal is used as the book of original entry for all transactions which cannot be recorded in the cash book. In other words, all non-cash transactions should be recorded in the journal. For practical purposes the journal is maintained by using a number of books called the '**Subsidiary Books**'. They are also known as 'Primary Books'. In modern accounting method a businessman maintains a number of primary books which are as under :

- (A) Purchase Book.
- (B) Purchase Return Book i.e. Returns Outward Book
- (C) Sales Book
- (D) Sales Return Book i.e. Returns Inward Book
- (E) Bills Receivable Book
- (F) Bills Payable Book.
- (G) Journal Proper.
- (H) Cash Book.

(A) Purchase Book

This Book is used for recording only credit purchases of goods. This book strictly avoids recording of cash purchases of goods as well as cash and credit purchases of assets like Furniture and Fixtures, Plant and machinery, Investments etc., and also any expenses on purchases. The purchases Book is also called as the Invoice Book, Bought Book or Purchases Journal.

Invoice :

Entries in the Purchases Day Book are made from invoices which are known as Bills. Invoice is a business document or statement giving details of goods purchased, as to their price, quantities, weight, total value etc. On receipt of each invoice the quantities shown in it are checked with those of the order and also with actual quantities received. The particulars of the invoice such as the date, supplier's name, value of goods bought and the invoice number are then entered in the Purchase Book. Trade discount, if any, shown in the invoice is also carefully checked and then net amount is entered in the amount column.

Specimen of Purchase Book

Purchase Book of Mahaveer Enterprises

Date 2019 April	Name of Supplier	L.F.	Inward Invoice No.	Amount ₹
02	BYK Ltd.		426	20,740
14	Sangita Enterprises		1,407	2,100
17	Gadgil and Sons		1,607	4,800
18	Raghunath and Co.		2,701	17,500
			Total	45,140

Writing of Purchases Book :

The transactions of purchases of goods on credit are recorded in Purchases Book on the basis of invoice received from the seller. All incoming invoices are filed and given consecutive (chronological) numbers. They are recorded in a purchase book as shown above.

Date :

Date of purchase is written in this column in the same manner as what we write in Journal or Ledger.

Name of the Suppliers :

Names of the suppliers are recorded in this column. As all the transactions are regarding goods purchased on credit there is no need to write the narration for every transaction.

Ledger Folio :

Page number of Ledger, on which the posting is done, is recorded in this column.

Inward Invoice No. :

All inward invoices, having consecutive numbers, are recorded in this column.

Amount :

The net amount of purchases, after deducting the trade discount (if any), is recorded in this column.

EXAMPLE 1

Record the following transactions in **Purchases Book** for February, 2019.

- 1 Purchased goods from Ashok and Co. ₹ 2,500 as per Inward Invoice No. 9.
- 6 Bought goods from Suresh ₹ 1,000 less 10% Trade Discount as per Inward Invoice No. 10.
- 17 Bought goods for cash from Sunil worth ₹ 950.
- 18 Surinder invoiced goods to us ₹ 800 less 5% Trade Discount as per Inward Invoice No. 11.
- 25 Purchased Machinery from Bahu Co. ₹ 1,000 as per Invoice No. 20.

ANSWER**In the books of a Trader****Purchases Book**

Date 2019 February	Name of the Supplier	L.F.	Inward Invoice No.	Amount ₹
1	Ashok and Co.		9	2,500
6	Suresh (₹ 1,000 – ₹ 100)		10	900
18	Surinder (₹ 800 – ₹ 40)		11	760
Total				4,160

Note :

- Transaction dated 17th February, 2019 is not recorded in Purchases Book as it is a cash transaction.
- Transaction dated 25th February, 2019 is not recorded in Purchases Book as it is a Purchase of machinery as an asset and not of goods.

Posting of Purchase Book :

In every transaction, recorded in Purchases Book i.e. two accounts viz. Purchases Account and Supplier's Account are affected and posting in the ledger is done as follows :

i) Purchases Account :

Debit this account in ledger with total of the Purchases Book as "To Sundries as per Purchase Book".

ii) Supplier Account :

Credit the different personal account of suppliers with respective amount as "By Purchases Account".

Lets do the posting of the previous Example 1 recorded in Purchases Book.

LEDGER

Purchases Account				Cr.			
Dr.	Particulars	J.F.	Amount ₹	Date 2019 Feb.	Particulars	J.F.	Amount ₹
29	To Sundries as per Purchase Book		4,160				

Ashok and Co. Account				Cr.			
Dr.	Particulars	J.F.	Amount ₹	Date 2019 Feb.	Particulars	J.F.	Amount ₹
				1	By Purchases		2,500

Suresh Account				Cr.			
Dr.	Particulars	J.F.	Amount ₹	Date 2019 Feb.	Particulars	J.F.	Amount ₹
				6	By Purchases		900

Surender Account				Cr.			
Dr.	Particulars	J.F.	Amount ₹	Date 2019 Feb.	Particulars	J.F.	Amount ₹
				18	By Purchases		760

(B) Purchases Return Book or Returns Outward Book

The subsidiary book is used to record the goods purchased on credit and sent back to creditors or supplier because they do not conform to specifications or for some other reasons.

Sometimes goods purchased are returned to the supplier for different reasons such as :

- i) Goods are not according to the specification.
- ii) Goods are damaged in transit.
- iii) Goods are of inferior quality.
- iv) Goods are more (in number) than (required) ordered for.

Debit Note :

When a businessman purchases goods on credit, he gives credit to the supplier's account. When such goods are returned to the supplier, his (supplier's) credit must be reduced to that extent. To decrease supplier's credit, businessman debits his (supplier's) account with that amount and sends him a note informing that his account has been debited to that extent, such note is known as Debit Note.

All the entries regarding such returns are recorded in Purchase Returns Book. This Book is also known as "Returns Outward Book" as goods returned are outgoing goods. The names of the persons to whom the goods are returned are recorded in Purchase Returns Book. The original copy of Debit Note is sent to the supplier to whom the goods are returned and the carbon copy is kept for the office use.

PROFORMA OF A DEBIT NOTE

Debit Note. No. 80	Bharat Stores 110, Budhwari Peth, Pune - 411011.	Date : 12 th July, 2019
Maharashtra Stores 334, Shivaji Road, Pune - 411011.		
Reference	Particulars	Amount
		₹
Your Invoice No. 740 of 2 nd July, 2019	i) 5 Bales of clothes being in excess of our order ii) 1 Bale of clothes received in damaged condition	(+)
		4,500 900
		(-)
	Less : 10% Trade Discount	5,400 540
		4,860
E. & O.R. Place - Pune.	For Bharat Stores Sd/- S. G. Sharangpani Manager.	

Specimen of Purchase Return Book :**Purchase Return Book of Mahaveer Enterprises**

Date 2019 April	Name of the Supplier	L.F.	Debit Note No.	Amount ₹
20	Sangita Enterprises		21	700
27	Gadgil and Sons		22	900
			Total	1,600

Writing of Purchases Returns Book or Returns Outward Book :

The transactions of goods returned to the supplier are recorded on the basis of Debit Notes as follows :

Name of the Supplier's :

The names of suppliers or sellers to whom the goods are returned are recorded in this column.

Debit Note Number :

All debit note numbers are recorded in this column.

EXAMPLE 2

Enter the following transactions in **Purchases Return Book** for March, 2019.

- 6 Returned goods to Anil and Co. ₹ 5,000 as per Debit Note No. 18.
- 20 Sunil and Co. received goods returned by us ₹ 2,000 as per Debit Note No. 19.
- 26 Returned goods to Manish ₹ 500 as per Debit Note No. 20.

ANSWER**Purchases Return Book**

Date 2019 March	Name of the Supplier	L.F.	Debit Note No.	Amount ₹
6	Anil and Co.		18	5,000
20	Sunil and Co.		19	2,000
26	Manish		20	500
Total				7,500

Posting of Purchases Return Book :

In every transaction (recorded in Purchases Return Book) two accounts, viz. Purchases Return Account and Supplier's Account are affected and posting is done as follows :

i) Purchases Return Account :

Credit this account with the total of the Purchases Return Book as "By Sundries as per Purchases Return Book".

ii) Supplier Account :

Debit this account with respective amount as "To Purchases Return Account".

Let's do the posting of the previous Example 2 recorded in Purchases Return Book.

LEDGER

Purchases Return Account						Cr.	
Date 2019 March	Particulars	J.F.	Amount ₹	Date 2019 March	Particulars	J.F.	Amount ₹
				31	By Sundries as per Purchases Return Book		7,500

Anil and Co. Account						Cr.	
Date 2019 March	Particulars	J.F.	Amount ₹	Date 2019 March	Particulars	J.F.	Amount ₹
6	To Purchases Return		5,000				

Sunil and Co. Account						Cr.	
Date 2019 March	Particulars	J.F.	Amount ₹	Date 2019 March	Particulars	J.F.	Amount ₹
20	To Purchases Return		2,000				

Manish Account						Cr.	
Date 2019 March	Particulars	J.F.	Amount ₹	Date 2019 March	Particulars	J.F.	Amount ₹
26	To Purchases Return		500				

(C) Sales Book

The Sales Book is also known as the Sold Book or Sales Journal. The object of this book is to record credit sales. Cash sales are not entered in it. Cash sales are entered in the Cash Book. Similarly the sale of any asset, except goods is not entered in it.

It is written up on the basis of the invoices issued by the seller of the goods. Since these invoices refer to the goods which are sold or go out of the business they are called "Outward or Sales Invoices". (The same sales invoices would be an Inward or purchase invoices for the buyer and therefore he would write an Inward Invoice number of his own on it).

Specimen of Sales Book :

Sales Book of Mahaveer Enterprises

Date 2019 April	Name of the Customer	L.F.	Outward Invoice No.	Amount ₹
3	Bhalchandra Corporation		2001	14,700
8	Vinayak Enterprises		2002	13,835
16	Heraamba Traders		2003	15,700
20	Moreshwar and Co.		2012	13,100
			Total	57,335

Writing of Sales Book :

The transactions of sale of goods on credit are recorded in Sales Book, on the basis of invoices given to the customers. All the outgoing invoices have (chronological) consecutive numbers. They are recorded in this book as shown below :

Name of the customers :

Names of the customers (buyers) are recorded in this column. All the transactions are regarding goods sold on credit. So there is no need to write the narration for every transaction.

Outward Invoice Number :

All outgoing invoices, having consecutive numbers, are recorded in this column.

EXAMPLE 3

Enter the following transactions in **Sales Book** and make ledger posting of the same for January, 2019.

- 4 Sold goods to Madhav ₹ 5,400 @ 20% Trade Discount Invoice No. 13.
- 8 Sold machinery to Wani ₹ 10,000 @ 5% Trade Discount.
- 20 Sold goods for cash to Shriram ₹ 900.
- 25 Sold goods to Shridhar ₹ 950 Invoice No. 14.
- 29 Sold goods to Shridhar ₹ 860 Invoice No. 15.

ANSWER

In the books of a Trader

Sales Book

Date 2019 January	Name of the Customer	L.F.	Outward Invoice No.	Amount ₹
4	Jadhav (₹ 5,400 - ₹ 1,080)		13	4,320
25	Shridhar		14	950
29	Shridhar		15	860
			Total	6,130

Posting of Sales Book :

In every transaction (recorded in sales book) two accounts, namely Sales Account and Customer's account are affected and posting is done as follows :

i) Sales Account :

Credit this account, in Ledger, with the total of the Sales Book as "By Sundries as per Sales Book".

ii) Customer Account :

Debit the different personal accounts of customers with respective amount as "To Sales Account".

Let's do the posting of the previous Example 3 recorded in Sales Book.

LEDGER

Sales Account				Cr.			
Dr.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹
				31	By Sundries as per Sales Book		6,130

Madhav Account				Cr.			
Dr.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹
4	To Sales		4,320				

Shridhar Account				Cr.			
Dr.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹
25	To Sales		950				
29	To Sales		860				

Note :

- i) The transaction dated 8th January, 2019 is not recorded in Sales Book as it is a sale of machinery (asset) and not of goods.
- ii) The transaction dated 20th January, 2019 is not recorded as it is a cash transaction.

(D) Sales Return Book or Returns Inward Book

Goods sold to customers may be returned by them for the following reasons :

- i) Goods are not according to the specifications.
- ii) Goods are of inferior quality.
- iii) Goods are damaged in transit.
- iv) Goods are more (in number) than ordered for.

Credit Note :

When a businessman receives such goods from his customers alongwith the Debit Note a note (which is known as Credit Note) is sent to the customer. When a businessman sells goods on credit he gives debit to that customer's account. When such goods returned by the customers his (customer's) debit must be reduced to that extent. To decrease the customer's debit, the businessman credits his account with that amount and sends him a credit note informing that his account has been credited to that extent. This credit note is an answer given for the customer's debit note. All the entries regarding such returns (incoming) are recorded in Sales Returns Book. This book is also known as Returns Inward (incoming) Book.

The Ruling of Purchase Return Book and Sales Return Book is of the same type. Only difference is that the names of the persons by whom the goods are returned are recorded in Sales Return Book.

Writing of Sales Returns Book:

The transactions of goods returned by the customers are recorded on the basis of Credit Notes as given as follows :

Specimen of Sales Return Book :

Sales Return Book of Mahaveer Enterprises

Date 2019 April	Name of the Customer	L.F.	Credit Note No.	Amount ₹
11	Bhalachandra Corporation		09	670
23	Vinayak Enterprises		10	200
27	Heramba Traders		11	340
Total				1,210

i) Name of Customer :

The name of customers who have returned the goods are recorded in this column.

ii) Credit Note Number :

All credit note numbers are recorded in this column.

EXAMPLE 4

Enter the following transactions in Sales Return Book for June, 2019.

- 2 Mohan returned goods to us ₹ 1,000 as per Credit Note No. 103.
- 10 Gadgil and Sons returned goods to us ₹ 150 as per Credit Note No. 104.
- 15 Received goods ₹ 275 returned from Sharad and Co. as per Credit Note No. 105.

ANSWER

In the books of a Trader

Sales Return Book

Date 2019 June	Name of the Customer	L.F.	Credit Note No.	Amount ₹
2	Mohan		103	1,000
10	Gadgil and Sons		104	150
15	Sharad and Co.		105	275
Total				1,425

Posting of Sales Return Book :

Sales Returns Account and Customer's Account are opened in Ledger and posting is done as follows :

i) Sales Return Account :

Debit this account with the total returns as "To Sundries as per Sales Returns Book".

ii) Customer Account :

Credit the individual account with respective amount as "By Sales Returns Account".

Let's do the posting of the previous Example 4 recorded in Sales Returns Book.

Sales Return Account							
Date 2019 June	Particulars	J.F.	Amount ₹	Date 2019 June	Particulars	J.F.	Cr. Amount ₹
30	To Sundries as per Sales Returns Book		1,425				
Mohan Account							Cr.
Date 2019 June	Particulars	J.F.	Amount ₹	Date 2019 June	Particulars	J.F.	Cr. Amount ₹
				2	By Sales Returns		1,000
Gadgil and Sons Account							Cr.
Date 2019 June	Particulars	J.F.	Amount ₹	Date 2019 June	Particulars	J.F.	Cr. Amount ₹
				10	By Sales Return		150
Sharad and Co.'s Account							Cr.
Date 2019 June	Particulars	J.F.	Amount ₹	Date 2019 June	Particulars	J.F.	Cr. Amount ₹
				15	By Sales Return		275

(E) Bills Receivable Book

The bills receivable consist of all Bills of Exchange accepted by customers in respect of amount due from them. The Bills Receivable Book is used to record all Bills of Exchange accepted by the customers.

Specimen of Bills Receivable Book :

Bill Receivable Book of Mahaveer Enterprises

Sr. No.	Date 2019	From whom received	Name of the Acceptor	Date of Bill 2019	Term	Date of Maturity 2019 April	Where Payable	Amount ₹	How Disposed
1	April 24	Mahesh & Co.	Mahesh & Co.	April 20	90 Days	July 22	Bank of Baroda, Nashik	13,100	Discounted with Banker on 27.4.2012.
2	April 27	Shankar & Co.	Shankar & Co.	April 23	90 days	June 25	Bank of India	11,700	—
				Total				24,800	

(F) Bills Payable Book

The bills payable consist of all Bills of Exchange accepted by the business in respect of amounts owing to its suppliers. The Bills Payable Book is used to record all such Bills of Exchange accepted by the business.

Specimen of Bills Payable Book :

Bills Payable Book of Mahavir Enterprises

Sr. No.	Date 2019	Name of the Drawer	Payee	Date of Bill 2019	Term	Date of Maturity	Where Payable	Amount ₹	Remarks
1	April 20	Sangita Enterprises	Sangita Enterprises	April 20	90 days	July 22	Punjab National Bank (Sangli)	1,400	
2	April 20	Raghunath & Co.	Raghunath & Co.	April 18	90 days	July 20		17,500	
				Total				18,900	

Bill of Exchange

A bill of exchange is an order in writing by the creditor to the debtor to pay the amount specified there in, on the specified date called due date. Hence it is drawn by the creditor and accepted by the debtor.

(G) Journal Proper

This book is used to record all transactions which cannot be included in the cash book or any of the other subsidiary books. The transactions that will be recorded in journal proper are, purchase or sale of fixed assets and investments on credit. Journal proper is also used to record, Opening Entries, Transfer Entries, Closing Entries, Adjustment Entries, Entries related to dishonour of cheques and Bills of Exchange and Rectification of Errors etc. Journal proper is a book which is maintained in the usual journal form but it records only those transactions which cannot be recorded in the above subsidiary books. Generally transactions connected with assets such as purchase and sale of asset or major repair to asset are recorded in the journal proper.

The transactions recorded in the journal are, Opening Entries, Closing Entries, Transfer Entries, Rectification Entries, Adjusting Entries, Entries related to dishonour of cheques and entries related to dishonour of bills.

i) Opening Entries :

These are passed when a businessman starts his new business and at the starting of each financial year to bring into account the opening balance of various assets and liabilities.

For Example: Kamalakar commenced business with Cash ₹ 30,000, Goods ₹ 10,000, Machinery ₹ 15,000 and Furniture ₹ 5,000 on 1st January, 2019. The opening entry will be passed as given below :

In the books of Kamalakar
Journal Proper

Date 2019 January	Particulars	L.F.	Debit ₹	Credit ₹
1 st	Cash A/c	Dr.	—	30,000
	Goods A/c	Dr.	—	10,000
	Machinery A/c	Dr.	—	15,000
	Furniture A/c	Dr.	—	5,000
	To Kamalakar's Capital A/c (Being assets introduced into business).		—	60,000

When a businessman purchases an established business, the opening entry is passed as under.

For Example, Anil purchases the business on 1st January, 2019 by paying ₹ 80,000 to Sunil. The assets and liabilities taken over were as follows :

Machinery ₹ 40,000, Furniture ₹ 10,000, Stock ₹ 30,000, Loose-tools ₹ 5,000, Debtors ₹ 12,000, Cash ₹ 3,000 and Creditors ₹ 20,000. The opening entry for the same can be passed as follows :

**In the books of Anil
Journal Proper**

Date 2019 January	Particulars	L.F.	Debit ₹	Credit ₹
1.	Machinery A/c	Dr.	—	40,000
	Furniture A/c	Dr.	—	10,000
	Stock A/c	Dr.	—	30,000
	Debtors A/c	Dr.	—	12,000
	Cash A/c	Dr.	—	3,000
	Loose-tools A/c	Dr.	—	5,000
	To Creditors A/c		—	20,000
	To Anil's Capital A/c		—	80,000
(Being assets and liabilities taken over)				

Opening Entry is also passed at the beginning of every year to brought forward the balances of personal and real accounts appearing in the last year's Balance Sheet. For Example,

Balance Sheet of Vinay as at 31st March, 2019

Liabilities	₹	Assets	₹
V's Capital	60,000	Cash	1,000
Creditors	15,000	Stock	11,000
Bank Overdraft	5,000	Land and Buildings	40,000
		Debtors	4,000
		Plant and Machinery	20,000
		Furniture	4,000
	80,000		80,000

The opening entry for the same can be passed as follows :

**In the books of Vinay
Journal Proper**

Date 2019 April	Particulars	L.F.	Debit ₹	Credit ₹
1.	Cash A/c	Dr.	—	1,000
	Stock A/c	Dr.	—	11,000
	Land and Buildings A/c	Dr.	—	40,000
	Debtors A/c	Dr.	—	4,000
	Plant and Machinery A/c	Dr.	—	20,000
	Furniture A/c	Dr.	—	4,000
	To Vijay's Capital A/c		—	60,000
	To Creditors A/c		—	15,000
	To Bank Overdraft A/c		—	5,000
(Being last year's balances brought forward)				

ii) Closing Entries :

At the end of financial year final accounts are prepared viz. Trading Account, Profit and Loss Account and Balance Sheet. Accounts relating to goods such as opening stock, purchases, sales, return inward, return outward and direct expenses such as carriage inward, wages, power, coal and coke etc. are transferred to Trading Account by passing the closing entry. All nominal accounts indicating expenses and incomes are transferred to Profit and Loss Account and for this purpose a closing journal entry is necessary.

The following balances appeared in the ledger of Amol as on 31st March, 2019.

Particulars	Debit Balance ₹	Credit Balance ₹
Opening Stock	1,00,000	
Purchases	4,00,000	
Wages	1,50,000	
Manufacturing Expenses	50,000	
Sales		10,00,000
Administration Expenses	1,00,000	
Advertisement	50,000	

The Closing Entry for the same can be passed as follows :

In the books of Amol

Journal Proper

Date 2019 March	Particulars	L.F.	Debit ₹	Credit ₹
31.	Trading A/c To Opening Stock A/c To Purchases A/c To Wages A/c To Manufacturing Expenses A/c (Being the transfer of balances to Trading Account)	Dr, — — — — —	7,00,000 1,00,000 4,00,000 1,50,000 50,000	
31.	Sales A/c To Trading A/c (Being the transfer of Sales to Trading Account)	Dr, — —	10,00,000 10,00,000	
31.	Profit and Loss A/c To Administration Expenses A/c To Advertisement A/c (Being the transfer of balances to Profit and Loss Account)	Dr, — — —	1,50,000 1,00,000 50,000	

iii) Transfer Entries :

Transfer Entries are passed in the journal when balance of one account is to be transferred to some other account. For Example, A's Drawings of ₹ 5,000 transferred to A's Capital as on 31st March, 2019. The transfer entry for the same can be passed as follows :

In the books of Amar

Journal Proper

Date 2019 March	Particulars	L.F.	Debit ₹	Credit ₹
31*	Amar's Capital A/c To Amar's Drawings A/c (Being the transfer of A's Drawings to A's Capital)	Dr, —	5,000 5,000	

iv) Rectification Entry :

When an error is made while passing the journal entry and such error is to be eliminated, then a rectification entry is passed in the journal. Hence, these are the entries passed for corrections of errors and mistakes.

v) Adjustment Entries :

In order to arrive at the correct profit or loss at the end of year some adjustments are required to be made. Such adjustment are made by passing suitable journal entries.

vi) Entries related to dishonour of cheques :

If cheque is returned dishonoured, all entries passed in connection with it must be cancelled by means of a reverse entries. Discount allowed or received must also be cancelled i.e. cheque received from a customer entered in cash column is dishonoured a reverse entry is to be passed on payment side of cash book in the cash column debiting customer's account.

vii) Entries related to dishonour of bills :

When the bill is dishonoured by non-payment on maturity, all entries passed in connection with it must be cancelled by means of reverse entries. In the books of drawer. Drawee Account should be debited and Bills Receivable Account should be credited.

EXAMPLE 5

Pass the opening entry in the journal of Anil as on 1st April, 2019.

Cash in hand ₹ 11,000, Cash at Bank ₹ 5,000, Stock of ₹ 20,000, Land and Building ₹ 1,00,000, Plant and Machinery ₹ 50,000, Furniture and Fixtures ₹ 25,000, Owing from A Ltd. ₹ 12,500, Prepaid Insurance ₹ 500, Interest received in advance ₹ 250, Loan from B Ltd. ₹ 10,000, Owing to C Ltd. ₹ 3,750.

ANSWER**In the books of Anil****Journal Proper****Folio 1**

Date 2019 April	Particulars	L.F.	Debit ₹	Credit ₹
1.	Cash-in-hand A/c	Dr.	—	11,000
	Bank A/c	Dr.	—	5,000
	Stock A/c	Dr.	—	20,000
	Land and Buildings A/c	Dr.	—	1,00,000
	Plant and Machinery A/c	Dr.	—	50,000
	Furniture and Fixtures A/c	Dr.	—	25,000
	A Ltd. A/c (Owing From)	Dr.	—	12,500
	Prepaid Insurance A/c	Dr.	—	500
	To Interest received in advance A/c	—		250
	To Loan from B Ltd. A/c	—		10,000
	To C Ltd. A/c	—		3,750
	To Anil's Capital A/c *	—		2,10,000
	(Balancing figure)			
	(Being the balances brought forward from the last year)			

ILLUSTRATIONS**ILLUSTRATION 1**

Enter the following transactions in the proper subsidiary books of Amit Traders, Anand for March, 2019.

- Sold goods to Aakash ₹ 1,500 @ 20% Trade Discount.
- Bought goods ₹ 975 at a Trade Discount of ₹ 75 from Amar.
- Machinery costing ₹ 3,500 purchased from Akbar and Co.
- Purchased goods from Anthony ₹ 630 subject to a Trade Discount of ₹ 30.
- Damaged goods received from Aakash ₹ 150 gross.
- Invoiced second hand goods to Ashok ₹ 950 on credit basis.
- Defective goods of ₹ 100 net returned to Amar.
- Purchases made from Avinash ₹ 600 for credit.

20. Despatched goods to Anand ₹ 1,500 @ 12% Trade Discount.
21. Goods ₹ 60 were returned to Anthony, as of wrong size.
22. Received goods of ₹ 250 gross returned by Anand.
24. Arun sold goods to Amit ₹ 1,800 @ 25% Trade Discount.
27. Invoiced goods to Abhishek ₹ 480 on credit.
28. Inferior quality goods returned back to Arun ₹ 40 net.
29. Purchased goods ₹ 300 from Ashwin @ 50% Trade Discount.
30. Goods of ₹ 60 returned by Abhishek as they were not as per the order.
31. Furniture amounting to ₹ 3,000 was introduced as additional capital.

SOLUTION**In the books of Amit Traders, Anand**
Purchases Book

Date 2019 March	Name of the Supplier	L.F.	Inward Invoice No.	Amount ₹
5.	Amar	—		900
10.	Anthony	—		600
18.	Avinash	—		600
24.	Arun	—		1,350
29.	Ashwin	—		150
		Total		3,600

Returns Outward Book

Date 2019 March	Name of the Supplier	L.F.	Debit Note No.	Amount ₹
16.	Amar	—		100
21.	Anthony	—		60
28.	Arun	—		40
		Total		200

Sales Book

Date 2019 March	Name of the Customer	L.F.	Outward Invoice No.	Amount ₹
1.	Aakash	—		1,200
14.	Ashok	—		950
20.	Anand	—		1,320
27.	Abhishek	—		480
		Total		3,950

Returns Inward Book

Date 2019 March	Name of the Customer	L.F.	Credit Note No.	Amount ₹
11.	Aakash	—		120
22.	Anand	—		220
30.	Abhishek	—		60
		Total		400

Journal Proper

Date 2019 March	Particulars	L.F.	Debit ₹	Credit ₹
8	Machinery A/c To Akbar and Co. A/c (Being Machinery purchased from Akbar and Co.)	Dr.	— —	3,500 3,500
31.	Furniture A/c To Amit's Capital A/c (Being Furniture introduced as additional capital)	Dr.	— —	3,000 3,000
		Total		6,500 6,500

ILLUSTRATION 2

Record the following transactions of Navin Cloth Stores, Malegaon, into appropriate Subsidiary Books for June, 2019.

- 1 Bought 50 meters cloth @ ₹ 60 per meter from Manohar Trading @ 10% Trade Discount.
- 4 Returned 10 meters cloth to Manohar Trading.
- 8 Sold 20 shirts to Manik Corporation at ₹ 100 per shirt @ 15% Trade Discount.
- 10 Manik Corporation returned 5 defective shirts.
- 15 Bought 80 meters Silk @ ₹ 40 per meter and 20 meters suiting, @ ₹ 120 per meter @ 20% Trade Discount from Shanti Chamber.
- 18 Returned 20 meter Silk to Shanti Chamber.
- 21 Sold 50 pants at ₹ 60 per pant to Kamal Corner @ 5% Trade Discount.
- 24 Bought 100 shirts from Punekar Garments at ₹ 80 per shirt and sold 80 shirts to Manik Corporation @ 25% profit.
- 27 Bought Furniture for ₹ 2,000 from Ganesh Furniture Mart.
- 28 Sold 10 shirts and 5 pants at ₹ 60 and ₹ 75 respectively to Kamal Corner at list price.

SOLUTION**In the books of Navin Cloth Stores, Malegaon**
Purchases Book

Date 2019 June	Name of the Supplier	L.F.	Inward Invoice No.	Amount ₹
1	Manohar Trading	—		2,700
15	Shanti Chamber	—		4,480
24	Punekar Garments	—		8,000
	Total			15,180

Sales Book

Date 2019 June	Name of the Customer	L.F.	Outward Invoice No.	Amount ₹
8	Manik Corporation	—		1,700
21	Kamal Corner	—		2,850
24	Manik Corporation	—		8,000
28	Kamal Corner	—		975
	Total			13,525

Purchases Return Book

Date 2019 June	Name of the Supplier	L.F.	Debit Note No.	Amount ₹
4	Manohar Trading	—		540
18	Shanti Chamber	—		640
		Total		1,180

Sales Return Book

Date 2019 June	Name of the Customer	L.F.	Credit Note No.	Amount ₹
10	Manik Corporation	—		425
		Total		425

Journal Proper

Date 2019 June	Particulars	L.F.	Debit ₹	Credit ₹
27	Furniture A/c To Ganesh Furniture Mart A/c (Being Furniture bought on credit).	Dr. — —	2,000 2,000	
		Total	2,000	2,000

ILLUSTRATION 3

Enter the following transactions of Brijesh Traders, Borivali in the proper **subsidiary books** for May, 2019.

1. Brijesh started business with Machinery ₹ 10,000.
2. Sold to Bakul goods ₹ 450 @ 4% Trade Discount on credit.
3. Received an order from Birbal for supply of goods ₹ 800.
4. Bought goods from Baba ₹ 1,000 @ 20% Trade Discount.
5. Invoiced goods to Baban ₹ 800 @ 5% Trade Discount.
6. Goods of ₹ 300 purchased from Bhaskar @ 6% Trade Discount.
7. Returned defective goods to Baba ₹ 100 gross.
8. Received an invoice from Bhavesh for goods dispatched by him ₹ 600 @ 15% Trade Discount.
9. Bakul sent a Debit Note alongwith goods for ₹ 50 gross.
10. Bought goods from Babul for ₹ 400 and sold the same to Bipin @ 15% above cost.
11. Unproductive Machinery worth ₹ 800 was sold to Baban.
12. Bipin returned goods of wrong size ₹ 60.
13. Executed Birbal's order and allowed him a Trade Discount @ 9%.
14. Spoiled goods returned to Bhavesh ₹ 40 gross.

SOLUTION

In the books of Brijesh Traders, Borivali
Purchases Book

Date 2019 May	Name of the Supplier	L.F.	Inward Invoice No.	Amount ₹
4.	Baba	—		800
7.	Bhaskar	—		282
12.	Bhavesh	—		510
21.	Babul	—		400
		Total		1,992

Returns Outward Book

Date 2019 May	Name of the Supplier	L.F.	Debit Note No.	Amount ₹
9.	Baba	—		80
31.	Bhavesh	—		34
		Total		114

Sales Book

Date 2019 May	Name of the Customer	L.F.	Outward Invoice No.	Amount ₹
2.	Bakul	—		432
6.	Baban	—		760
21.	Bipin	—		460
30.	Birbal	—		728
		Total		2,380

Returns Inward Book

Date 2019 May	Name of the Customer	L.F.	Credit Note No.	Amount ₹
17.	Bakul	—		48
29.	Bipin	—		60
		Total		108

Journal Proper

Date 2019 May	Particulars	L.F.	Debit ₹	Credit ₹
1.	Machinery A/c To Brijesh's Capital A/c (Being started business with Machinery)	Dr. — —	10,000	10,000
4.	Baban A/c To Machinery A/c (Being unproductive Machinery sold to Baban)	Dr. — —	800	800
		Total	10,800	10,800

ILLUSTRATION 4

Enter the following transactions of Chandan Trading Corporation, Chennai for June, 2019 in proper subsidiary books.

1. Chandan started business with Buildings ₹ 25,000.
3. Purchased goods from Charan ₹ 500 @ 20% Trade Discount.
7. Chiman bought goods from Chandan ₹ 600 on credit and was allowed 15% Trade Discount.
11. Supplied goods to Charlie ₹ 900 on credit at no profit no loss price.
16. Returned goods to Charan ₹ 100 gross as they were damaged in transit.
19. Bought goods from Chinmay ₹ 800 @ 15% Trade Discount and dispatched the same to Chandrakant @ 15% above cost.
21. Defective goods returned by Chiman ₹ 60 gross.
22. Placed an order for supply of goods ₹ 400 with Chiranjeev, to be executed on 30th.
27. Bought goods ₹ 300 from Charan on credit.
30. Goods not according to specifications were returned to Chinmay ₹ 60 gross.

SOLUTION

In the books of Chandan Trading Corporation, Chennai
Purchases Book

Date 2019 June	Name of the Supplier	L.F.	Inward Invoice No.	Amount ₹
3.	Charan	—		400
19.	Chinmay	—		680
27.	Charan	—		300
30.	Chiranjeev	—		400
	Total			1,780

Returns Outward Book

Date 2019 June	Name of the Supplier	L.F.	Debit Note No.	Amount ₹
16.	Charan	—		80
30.	Chinmay	—		51
	Total			131

Sales Book

Date 2019 June	Name of the Customer	L.F.	Outward Invoice No.	Amount ₹
7.	Chiman	—		510
11.	Charlie	—		900
19.	Chandrakant	—		782
	Total			2,192

Returns Inward Book

Date 2019 June	Name of the Customer	L.F.	Credit Note No.	Amount ₹
21.	Chiman	—		51
		Total		51

Journal Proper

Date 2019 June	Particulars	L.F.	Debit ₹	Credit ₹
1.	Buildings A/c To Chandan's Capital A/c (Being Chandan started business with Buildings)	Dr. —	25,000 —	25,000
		Total	25,000	25,000

ILLUSTRATION 5

Enter the following transactions in the proper **subsidiary books** of Amit Traders, Anand for March, 2019.

1. Amit started business with ₹ 7,000.
3. Sold goods to Aakash ₹ 1,500 @ 20% Trade Discount.
5. Bought goods ₹ 975 at a Trade Discount of ₹ 75 from Amar.
8. Machinery costing ₹ 3,500 purchased from Akbar and Co.
10. Purchased goods from Anthony ₹ 630 subject to a Trade Discount of ₹ 30.
11. Damaged goods received from Aakash ₹ 150 gross.
14. Invoiced second hand goods to Ashok ₹ 950 on cash basis.
16. Defective goods of ₹ 100 net returned to Amar.
18. Spot purchases made from Avinash ₹ 600 for cash.
20. Despatched goods to Anand ₹ 1,500 @ 12% Trade Discount.
21. Goods ₹ 60 were returned to Anthony, as of wrong size.
22. Received goods of ₹ 250 gross returned by Anand.
24. Arun sold goods to Amit ₹ 1,800 @ 25% Trade Discount.
25. Paid ₹ 150 for domestic expenses.
27. Invoiced goods to Abhishek ₹ 480 on credit.
28. Inferior quality goods returned back to Arun ₹ 40 net.
29. Purchased goods ₹ 300 from Ashwin @ 50% Trade Discount.
30. Goods of ₹ 60 returned by Abhishek as they were not as per the order.
31. Furniture amounting to ₹ 3,000 was introduced as additional capital.

SOLUTION

In the books of Amit Traders, Anand
Purchases Book

Date 2019 March	Name of the Supplier	L.F.	Inward Invoice No.	Amount ₹
5.	Amar	—		900
10.	Anthony	—		600
24.	Arun	—		1,350
29.	Ashwin	—		150
		Total		3,000

Returns Outward Book

Date 2019 March	Name of the Supplier	L.F.	Debit Note No.	Amount ₹
16.	Amar	—		100
21.	Anthony	—		60
28.	Arun	—		40
		Total		200

Sales Book

Date 2019 March	Name of the Customer	L.F.	Outward Invoice No.	Amount ₹
3.	Aakash	—		1,200
20.	Anand	—		1,320
27.	Abhishek	—		480
		Total		3,000

Returns Inward Book

Date 2019 March	Name of the Customer	L.F.	Credit Note No.	Amount ₹
11.	Aakash	—		120
22.	Anand	—		220
30.	Abhishek	—		60
		Total		400

Simple Cash Book for March, 2019

Receipts Dr.					Payments Cr.				
Date 2019 March	Particulars	L.F.	Receipt No.	Amount ₹	Date 2019 March	Particulars	L.F.	Voucher No.	Amount ₹
1. 14.	To A's Capital To Sales			7,000 950	18. 25.	By Purchases By A's Drawings	- -		600 150
				7,950	31.	By Balance C/D	-		7,200 7,950
April 1.	To Balance B/D			7,200					

Journal Proper

Date 2019 March	Particulars	L.F.	Debit ₹	Credit ₹
8	Machinery A/c To Akbar and Co. A/c (Being Machinery purchased from Akbar and Co.)	Dr. - -	3,500	3,500
31.	Furniture A/c To Amit's Capital A/c (Being Furniture introduced as additional capital)	Dr. - -	3,000	3,000
	Total		6,500	6,500

ILLUSTRATION 6

Record the following transactions into appropriate **Subsidiary Books** and post them into Purchase Account, Sales Account, Purchases Returns Account and Sales Returns Account for June, 2019.

- 1 Bought 50 meters cloth @ ₹ 60 per meter from Manohar Trading @ 10% Trade Discount.
- 4 Returned 10 meters cloth to Manohar Trading.
- 8 Sold 20 shirts to Manik Corporation at ₹ 100 per shirt @ 15% Trade Discount.
- 10 Manik Corporation returned 5 defective shirts.
- 15 Bought 80 meters Silk @ ₹ 40 per meter and 20 meters suiting @ ₹ 120 per meter @ 20% Trade Discount from Shanti Chamber.
- 18 Returned 20 meter Silk to Shanti Chamber.
- 21 Sold 50 pants at ₹ 60 per pant to Kamal Corner @ 5% Trade Discount.
- 24 Bought 100 shirts from Punekar Garments at ₹ 80 per shirt and sold 80 shirts to Manik Corporation @ 25% profit.
- 27 Bought Furniture for ₹ 2,000 from Ganesh Furniture Mart.
- 28 Sold 10 shirts and 5 pants at ₹ 60 and ₹ 75 respectively to Kamal Corner at list price.

SOLUTION**In the books of a Trader****Purchases Book**

Date 2019 June	Name of the Supplier	L.F.	Inward Invoice No.	Amount ₹
1	Manohar Trading	-		2,700
15	Shanti Chamber	-		4,480
24	Punekar Garments	-		8,000
Total				15,180

Sales Book

Date 2019 June	Name of the Customer	L.F.	Outward Invoice No.	Amount ₹
8	Manik Corporation	-		1,700
21	Kamal Corner	-		2,850
24	Manik Corporation	-		8,000
28	Kamal Corner	-		975
Total				13,525

Purchases Return Book

Date 2019 June	Name of the Supplier	L.F.	Debit Note No.	Amount ₹
4	Manohar Trading	-		540
18	Shanti Chamber	-		640
Total				1,180

Sales Return Book

Date 2019 June	Name of the Customer	L.F.	Credit Note No.	Amount ₹
10	Manik Corporation	-		425
Total				425

Journal Proper

Date 2019 June	Particulars	L.F.	Debit ₹	Credit ₹
27	Furniture A/c To Ganesh Furniture Mart A/c (Being furniture bought on credit).	Dr.	2,000	2,000
			Total	2,000 2,000

Dr.				Purchases Account			Cr.	
Date 2019 June	Particulars	J.F.	Amount ₹	Date 2019 June	Particulars	J.F.	Amount ₹	
30	To Sundries as per Purchases Book		15,180	30	By Balance C/D		15,180	
			15,180				15,180	

Dr.				Sales Account			Cr.	
Date 2019 June	Particulars	J.F.	Amount ₹	Date 2019 June	Particulars	J.F.	Amount ₹	
30	To Balance C/D		13,525	30	By Sundries as per Sales Book		13,525	
			13,525				13,525	

Dr.				Purchases Return Account			Cr.	
Date 2019 June	Particulars	J.F.	Amount ₹	Date 2019 June	Particulars	J.F.	Amount ₹	
30	To Balance C/D		1,180	30	By Sundries as per Purchases Return Book		1,180	
			1,180				1,180	

Dr.				Sales Return Account			Cr.	
Date 2019 June	Particulars	J.F.	Amount ₹	Date 2019 June	Particulars	J.F.	Amount ₹	
30	To Sundries as per Sales Returns Book		425	30	By Balance C/D		425	
			425				425	

QUESTIONS FOR SELF-STUDY**I. Theory Questions :**

- i) What are Subsidiary Journals ? Explain the need of introducing the same in the business.
- ii) Explain the advantages and limitations of sub-division of journals.
- iii) What are the functions of Sales Day Book ?
- iv) Explain the uses of sub-divisions of journal.
- v) State the functions of Bought Book.
- vi) Why subsidiary books are known as books of original entry ?
- vii) What type of transactions are recorded in Returns Book ?
- viii) Give the specimen of a Sales Book and explain its contents in short.
- ix) State the ledger posting of Sales Day Book.
- x) Name the various journal entries that are recorded in journal proper.
- xi) Give the specimen of a Bought Book and explain its contents in short.
- xii) Enumerate the subsidiary books and explain why they are called as books of original entry.
- xiii) State the double entry of Returns Inward Book and Returns Outward Book.
- xiv) Differentiate between :
 - a) Debit Note and Credit Note
 - b) Inward Invoice and Outward Invoice
 - c) Purchase Book and Sales Book
 - d) Opening Entries and Closing Entries.

II. Practical Problems :

- i) Record the following transactions in Purchases Book and Purchases Returns Book and post into the ledger for September, 2019.
 - 1 Purchased goods from Vishwanath and Co. ₹ 1,500.
 - 8 Purchased goods for cash ₹ 1,350.
 - 10 Purchased goods from Vijay Trading Co. ₹ 2,500 less 5% Trade Discount.
 - 14 Returned goods ₹ 1,150 to Vishwanath and Co.
 - 20 Purchased a Cupboard for ₹ 1,120.
 - 22 Purchased goods from Shahade and Co. ₹ 2,450
 - 28 Send a debit note to Shahade and Co. alongwith the goods of ₹ 2,250.
- ii) Record the following transactions in the Purchase Book, Sales Book, Purchase Returns Book and Sales Returns Book and post them into ledger for July, 2019.
 - 1 Purchased goods from Avinash ₹ 28,000 less 15% Trade Discount.
 - 5 Sold goods to Mrinal ₹ 15,000 less 10% Trade Discount.
 - 9 Prabhakar invoiced us goods of ₹ 20,000 less 10% Trade Discount.
 - 15 Mrinal returned us goods of net amount ₹ 1,450.
 - 18 Purchased a machine for ₹ 8,000 less 5% Trade Discount.
 - 20 Cash Purchases ₹ 2,400.

- 22 Sold goods to Diwakar ₹ 23,000 less 5% Trade Discount.
25 Sold goods to Sumit ₹ 500.
28 Sumit returned goods worth ₹ 200.
30 Returned goods to Avinash ₹ 800.
- iii) Record the following transactions in the proper subsidiary books and post them into the ledger for May, 2019.
- 1 Sold goods to Sunil ₹ 8,500 less 10% Trade Discount.
4 Sold goods to Madhav ₹ 4,800 less 20% Trade Discount.
8 Sunil returned us goods worth ₹ 1,600.
10 Sold goods to Sudhakar ₹ 1,400.
15 Madhav returned us goods of net amount ₹ 320.
- iv) Record the following transaction in Purchases Book and Sales Book for August, 2019.
- 1 Purchased goods for cash from Shinde and Sons ₹ 1000.
5 Purchased goods from Shinde and Sons ₹ 2,400.
8 Paid to Shinde & Sons ₹ 2,000.
10 Sold goods to Shivangi Traders ₹ 540 less 10% Trade Discount.
15 Purchased goods from Soman and Bros. ₹ 6,680.
18 Purchased a Typewriter for ₹ 4,800.
20 Sold goods to Sudhirkumar ₹ 1,800.
25 Cash Sales ₹ 2,500.
31 Sold goods to Sushil ₹ 200 less 5% Trade Discount.
- v) Enter the following transactions in the proper subsidiary books of Mahesh who deals in goods, for the month of January, 2019.
- 1 Opening Balance of Cash in hand ₹ 10,000.
2 Mahesh brought into business additional Cash of ₹ 3,000, Building of ₹ 25,000 and Furniture of ₹ 5,000 as Capital.
4 Purchased goods from Ramesh ₹ 8,000 @ Trade Discount of 10%, Inward Invoice No. 28.
5 Returned goods to Ramesh ₹ 1,500 gross (Invoice price) as they were not of the required quality, Debit Note No. 2.
7 Sold goods to Dinesh ₹ 12,000 @ Trade Discount of 7%, Outward Invoice No. 27.
10 Dinesh returned goods of ₹ 1,000 gross as they were damaged in transit. Sent Credit Note No. 1.
12 Sold goods to Suresh ₹ 7,000, Outward Invoice No. 28.
18 Sold furniture at no profit no loss price ₹ 720.
20 Suresh returned goods ₹ 800, sent a Credit Note No. 2.
22 Mahesh withdrew for his personal use Cash ₹ 2,000 and Goods ₹ 1,500.
25 Distributed goods as free sample ₹ 1,000.
30 Purchased goods from Sham ₹ 5,000.
- vi) Enter the following transactions in the proper subsidiary books of Nilesh for March, 2019, post them in ledger, balance the accounts and prepare a Trial Balance as on that date.
- 1 Started business with Cash ₹ 15,000 of which ₹ 9,000 were taken from Central Bank as a loan.

- 2 Bought goods from Narendra ₹ 600 @ 12% Trade Discount.
- 5 Invoiced goods for ₹ 800 @ 10% Trade Discount.
- 7 Sold second hand goods by Nitin ₹ 1,000 to Nilesh for credit.
- 10 Returned goods to Narendra ₹ 60 gross.
- 11 Purchased Furniture from Godrej Co. ₹ 8,500.
- 15 Nitin received defective goods of ₹ 250.
- 18 Paid to Narayan ₹ 700 for purchases of goods from him during last month.
- 21 Dispatched goods to Navin ₹ 1,500 @ 18% Trade Discount.
- 24 Cash purchases of goods ₹ 450 from Nishchal.
- 28 Nilesh took goods of ₹ 240 for personal use.
- 31 Goods costing ₹ 900 purchased from Nupur @ 7% Trade Discount and supplied the same to Nadira at a profit of 20% above cost.

2.5 CASH BOOK

While recording the books of accounts it is very important to make a systematic record of Cash Account in which all receipts of cash are entered on its debit side and payments of cash on its credit side. The preparation of Cash Account from different journal entries is very much laborious. But it is possible to prepare the Cash Book straightway without journal entries and preparing ledger accounts. Therefore, when **Cash Book** is maintained there is no need of a separate Cash Account in the Ledger.

Meaning

A **Cash Book** is a specific journal which is used for recording all cash receipts and cash payments. In actual practice, businessman prepares Cash Book without passing journal entries. Such system of maintaining books of accounts is called practical system of Book-keeping. The Cash Book is a book of original entry since transactions are recorded for the first time from the source of documents. The Cash Book is a ledger in sense, that it is designed in the form of Cash Account and records cash receipts on the debit side and cash payment on the credit side. Thus, Cash Book is both a journal and a ledger.

Importance

Following are the points that indicates the **importance of Cash Book**.

- i) To journalise every transaction and then post them into ledger accounts involve 'heavy' clerical labour. It is possible to prepare ledger accounts without passing journal entries by recording one class of transactions in a separate book like Cash Book, which cover great majority of transactions.
- ii) It enables the businessman to know balance of cash with him on a particular date.
- iii) It saves the time and labour involved in making journal entry for each cash transaction. It is also not necessary to maintain Cash Account for debit and credit posting in the Ledger.

- iv) Cash Account is not opened in the ledger since the "Cash Column" in the Cash Book serves the purpose of Cash Account.
 - v) In case of a Cash Book with Bank Column, Bank Account is not opened in the ledger since the 'Bank Column' in the Cash Book serves the purpose of a Bank Account.
 - vi) Cash Book records cash as well as banking transactions.

Different Types of Cash Registers/Cash Books

According to the needs of business concerns, different types of Cash Books are used. Generally following types of Cash Books are maintained by the business concerns.

- A) Single column Cash Book or Simple Cash Book.
B) Two column Cash Book or Cash Book with Cash and Bank Column.
C) Cash Book without Cash Column/Cash Book with only Bank Column.
D) Petty Cash Book.
E) Conventional Cash Book.

(A) Single Column Cash Book or Simple Cash Book or Cash Register

The Cash Register is the book of original entry for recording all cash transactions. The Cash Register is a very important controlling and recording device, especially for retail business. Most of the simple Cash Register atleast accumulate individual sales and total the sales for the day. Where bills are paid in cash, the Cash Register becomes more important. In those instances, both sales and purchases should be recorded in the Cash Register. At the end of the day, the balance in the register's record will give you the position of cash in hand on that day. The Cash Register is a control device, in that it functions as a check against missing sales receipts if used every time a sale is made. To carry out that control function properly, only the owner or the manager should have the key to register and be able to clear its totals. The Cash Book is divided into two main parts, left hand side for cash receipts and right hand side for cash payments.

Contents of a Simple Cash Book :

Following are the contents of a Cash Book :

- | | |
|------------------------------|--------------------------------|
| i) Debit side (Receipt side) | ii) Credit side (Payment side) |
| • Date | • Date |
| • Receipt Number | • Voucher Number |
| • Particulars | • Particulars |
| • Ledger Folio | • Ledger Folio |
| • Amount | • Amount |

Specimen of Cash Book/Cash Register :

Receipts		Simple Cash Book for				Payments			
Dr.						Cr.			
Date	Receipt No.	Particulars	L.F.	Amount ₹	Date	Voucher No.	Particulars	L.F.	Amount ₹
		Total						Total	

EXAMPLE 1

The following are the transactions to be entered in the Cash Book with cash column; for March 2019. Opening Balance on 1st was ₹ 12,000.

1. Drawings by the proprietor Ramesh ₹ 2,000.
2. Received from Yashwant a debtor ₹ 3,920 against bill No. 195.
3. Rent paid ₹ 1,000 to the landlord Anand for Feb. 2012.
4. Salary paid to workers for Feb. 2012 ₹ 4,500.
5. Cash withdrawn from Bank of Maharashtra ₹ 4,000.
6. Received interest on Securities ₹ 700.
7. Cash sales during the day ₹ 3,540.
8. Paid to Pandurang a creditor ₹ 1,120.
9. Telephone bill paid ₹ 400.

ANSWER

In the books of Ramesh
Simple Cash Book for March, 2019

Receipts Dr.							Payments Cr.		
Date 2019 March	Receipt No.	Particulars	L.F.	Amount ₹	Date 2019 March	Voucher No.	Particulars	L.F.	Amount ₹
01	—	To Balance B/D		12,000	01	—	By R's Drawings	—	2,000
01	01	To Yashwant (Against Bill No. 195)		3,920	01	01	Withdrawals (By Proprietor Ramesh)		
02		To Bank of Maharashtra (Withdrawn from Bank)		4,000	03	02	By Rent (Paid for Feb. 2019)		1,000
06	02	To Interest on Security (Received interest on security)		700	04	03	By Wages (Paid to workers for Feb. 2019)		4,500
07	—	To Sales (Cash sales as per cash Memo No. to)		3,540	09	04	By Panduranga (Paid against Bill No....)		1,120
					10	05	By Telephone (Paid Bill No.... for)		400
					* 10	—	By Balance C/D		15,140
Total				24,160	Total				24,160

* Generally the balancing of the Cash Book is made either daily or monthly. In the above the details were given upto 10th of March, 2019, hence balancing is made on that date only.

Important Points :

While studying a simple Cash Book one can find the following :

- In the simple Cash Book only the cash receipts and cash payments are recorded.
- Total of the debit side will always be more than the total of the credit side of the Cash Book since the payments cannot exceed the available cash.
- It is like an ordinary account.
- It shows how much money the business has received and how much money it has paid away.
- It shows how much money should be in balance in cash box at any given time.
- For every entry in the Cash Book on the receipt side as well as on the payment side, reference number of the supporting documents must be given for which a separate small column is provided on both the sides.
- It provides a check on the cashier in that the businessman can compare the Cash Book balance.

(B) Two Column Cash Book**Importance :**

In the modern business, banking services have become essential for the business. A firm normally keeps the excess of its funds at a bank; money can be deposited and withdrawn at will, if it is a current account. Probably payments into and out of the bank will be more numerous than strict cash transactions. There is only a little difference between cash in hand and money at bank. Therefore, it is very convenient if in the Cash Book on each side another column is added to record money deposited at bank and payment made by the bank. This book is the "book of original entry" for all receipts and payments, whether in cash or through bank (cheques).

Contents of the Cash book with Cash and Bank Columns :

Following are the contents of a Cash Book with two columns :

- | | |
|---------------------------------|--------------------------------|
| i) Debit side - (Receipts side) | ii) Credit Side (Payment side) |
| • Date | • Date |
| • Receipt Number | • Voucher Number |
| • Particulars | • Particulars |
| • Ledger Folio | • Ledger Folio |
| • Cash column | • Cash column |
| • Bank column | • Bank column |

If there are more than one bank accounts in the Cash Book there may be more than one bank columns for recording bank transactions.

Specimen of Cash Book with Cash and Bank Columns :

Receipts			Two Column Cash Book for.....						Payments			
Dr.	Date	Receipt No.	Particulars	L.F.	Amount		Date	Voucher No.	Particulars	L.F.	Amount	
					Cash	Bank					Cr.	₹
			Total						Total			₹
												₹

EXAMPLE 2

Enter the following transactions in the Cash Book of Dinesh having **Cash Book with Cash and Bank Columns** for March 2019,

- 1 Cash in hand ₹ 400 and at Bank ₹ 1,000.
- 2 Sold goods to Suresh and Co. for ₹ 600 and received cash of ₹ 400 in part payment.
- 3 Purchased goods from Patel for ₹ 784 and paid the amount by issue of a cheque.
- 5 Transferred ₹ 500 from Private Bank Account to Business Bank Account.
- 10 Issued a cheque of ₹ 200 to Bharat Furniture Works for the Furniture purchased in the month of February, 2012.
- 12 Withdrew for personal use from Bank ₹ 100.
- 14 Issued a cheque to petty cashier for ₹ 175.
- 15 Withdrew for office use ₹ 500.
- 18 Suresh and Co. informed that they paid directly into our Bank Account the remaining balance i.e. ₹ 200.

- 19 Bank collected interest on investments and credited to our account ₹ 200. Bank charged 1% commission.
- 20 Insured goods against fire for ₹ 40,000 and paid Insurance premium 2% by cheque.
- 21 For cash sales received a cheque from M/s Manik and Sons for ₹ 500 and deposited into the Bank A/c immediately.
- 23 Cheque received from M/s Manik and Sons was dishonoured.
- 25 Paid salary by cheque ₹ 300.
- 30 Purchased Govt. Securities of ₹ 800 @ 98%.

ANSWER**In the books of Dinesh**

Receipts Dr.		Cash Book with Cash and Bank Columns for March, 2019						Payments Cr.			
Date 2019 March	Rec eipt No.	Particulars	L. F.	Bank ₹	Cash ₹	Date 2019 March	Vouc her No.	Particulars	L. F.	Bank ₹	Cash ₹
1	-	To Balance B/D		1,000	400	3	1	By Purchase (Issued cheque for purchases)		784	-
2	1	To Sales (Cash Sales)		-	400			By Bharat Furniture Works (Issued cheque on A/c)		200	-
5	2	To D's Capital (Cash brought into business)		500	-	10	2	By D's Drawing (Withdraw for personal use)		100	-
15	3	To Bank (Withdraw for office use)	C	-	500	12	3	By Petty Cash (Issued a cheque to Petty cashier)		175	-
18	4	To Suresh and Co. (Direct deposit into bank)		200	-	14	4	By Cash A/c (Withdraw for office use)		800	-
19	5	To Interest on Investment (Collection by the bank)		200	-	15	5	By Bank Charges A/c (Commission charged by the Bank @ 1%)		500	-
21	6	To Sales (Cash Sales)		500	-	19		By Fire Insurance (Premium on Insurance of goods)		02	-
						20	6	By Manik and Sons (Cheque of the party is dishonoured)		500	-
						23	7	By Salary (Paid by cheque)		300	-
						25	8	By Investments A/c (Purchase of Govt. Securities)		-	784
						30	9	By Balance C/D		516	-
31		To Balance C/D		961	-	31		Total		3,361	1,300
April 1		Total		3,361	1,300			By Balance B/D		961	-
		To Balance B/D		-	516	April 1					

Important Points :

While studying of Cash Book with bank column one can see the following :

- If a cheque is received by the proprietor, it is treated as cash and Cash Account is debited.
- If a cheque received by the proprietor is paid into the bank on the day of receipt, Bank Account is debited as Bank is receiver.

- If a cheque is dishonored the other accounts to be debited or credited is generally the account of the party who issued a cheque. However, if a cheque received or issued for a certain nominal account, such as interest, commission etc. is dishonoured instead of party's account, that nominal account should be debited/credited.
- If a cheque received by the proprietor and endorsed to other party is dishonoured, no entry is to be passed in Cash Book. A journal entry will be passed in the journal or a reverse entry may be passed for cancelling the effect of the original entry.
- If cash is paid into bank, Cash Account is credited and Bank Account is debited. When cash is withdrawn from bank for office use, Cash A/c is debited and the Bank Account is credited. As the Cash Account and the bank account are on the same page of the Cash Book the double entry of these transactions is effected on the same page on opposite sides. Therefore such entries are called **Contra Entries**. To show that it is a contra entry letter "C" is written in the L.F. column against such entry.
- Cash is a real account and Bank is a personal account. Therefore Cash A/c is debited when cash is received and it is credited when cash is paid. Bank A/c is debited when bank is receiver and it is credited when bank is the giver.

(C) Cash Book with Bank Column only or Cash Book without Cash Column

When a businessman deposits all cash receipts in the bank and makes all payments by cheques only then he keeps a Cash Book having Bank column. In such a case payments of petty expenses are made in cash which are entered in a separate book known as "Petty Cash Book".

In Cash Book without cash column type of Cash Book, a Bank column is provided on both sides. All sum received either in cash or by cheques are immediately banked and entered on the receipt side of the Cash Book. All payments are entered on the payment side of the Cash Book.

Contents of the Cash Book with Bank Column only :

- | | |
|--|--|
| I. Debit side - (Receipt side) <ul style="list-style-type: none"> Date Receipt Number Particulars Ledger Folio Bank column | II. Credit side - (Payment side) <ul style="list-style-type: none"> Date Voucher Number Particulars Ledger Folio Bank column |
|--|--|

Specimen of Cash Book with Bank Column or Cash Book without Cash Column :

Receipts Dr.			Cash Book with Bank Column for					Payments Cr.		
Date	Receipt No.	Particulars	L.F.	Bank ₹	Date	Voucher No.	Particulars	L.F.	Bank ₹	
		Total							Total	

- Receipt Side :** The amount entered in the bank column against each account head are to be individually credited to their respective ledger accounts.

- Payment side :** The amounts entered in the bank column against each account head are to be individually debited to their respective ledger account.
- The bank columns are to be balanced exactly like the cash columns at the end of a fixed period.

EXAMPLE 3

From the following particulars given below, prepare a Cash Book of Dinesh with Bank column for May, 2019.

		₹
1	Balance at Bank	10,500
3	Received from Suresh on account	825
5	Purchased goods for cash and paid by cheque	1,000
8	Sold goods to Avinash and Co. for cash	2,000
10	Cash Sales to Anil	560
13	Paid advance to Kulkarni	300
18	Paid to Ramesh by cheque	390
21	Bank charges	5
27	Paid to petty cashier	200
29	Paid Salary	450
30	Paid for Stationery by cheque	50

ANSWER

In the books of Dinesh									
Receipts Dr.				Cash Book with Bank Columns for May, 2019			Payments Cr.		
Date 2019 May	Receipt No.	Particulars	L.F.	Bank ₹	Date 2019 May	Voucher No.	Particulars	L.F.	Bank ₹
1		To Balance B/D		10,500	5		By Purchases (Cash purchases paid by cheque)		1,000
3		To Suresh (Received cash from Suresh)		825					
8		To Sales (Being cash sales)		2,000	13		By Advance (Advance paid to Kulkarni)		300
10		To Sales (Made cash sales)		560	18		By Ramesh (Paid Ramesh on account)		390
					21		By Bank Charges (Amount charged by the bank)		5
					27		By Petty Cash (Paid to petty cashier)		200
					29		By Salary (Paid for Salary)		450
					30		By Stationery (Paid for stationery)		50
					31		By Balance C/D		11,490
Total				13,885			Total		13,885
June 1		To Balance B/D		11,490					

(D) Petty Cash Book

A businessman who deposits all receipts into the bank and makes all payments by means of issuing cheque generally maintains a Petty Cash Book. These minor cash payment are termed as "petty cash payments or petty expenses".

The word "petty" means small and these payments are certainly small in amount. Petty cash payments are small but numerous. If all these payments are to be recorded by the main cashier in the Cash Book, it will result in two main disadvantages. i.e. i) The cashier will be over burdened and ii) the Cash Book size will become inconveniently bulky with the record of all these petty cash payments. Petty Cash Book is a simple solution to this problem.

Types of Petty Cash Book :

Following are the three types of Petty Cash Book.

- Simple Petty Cash Book.
- Analytical or Columnar Petty Cash Book.
- Imprest System of Petty Cash Book

i) Simple Petty Cash Book

A simple Petty Cash Book is identical to Cash Book. Hence its format is also like that of a Cash Book. Whenever cash is received from the cashier, it is recorded on the receipt side and payments are recorded on the payment side; in order of their occurrence. All expense accounts are individually debited in the ledger.

Format of a Simple Petty Cash Book :

In the books of

Simple Petty Cash Book for

Receipts ₹	Cash Book Folio	Date	Particulars	Voucher No.	Ledger Folio	Payments ₹
			Total			

EXAMPLE 4

Enter the following transactions in a Simple Petty Cash Book of Gauresh for April, 2019.

- Received cheque of ₹ 200 from the head cashier
- Paid postage ₹ 10
- Paid taxi fare ₹ 15
- Paid wages is ₹ 25
- Paid for purchase of stationery ₹ 35
- Paid for coolie charges ₹ 70
- Purchased revenue stamps ₹ 30

ANSWER

In the books of Garesh
Simple Petty Cash Book for April, 2019

Receipts ₹	Cash Book Folio	Date 2019 April	Particulars	Voucher No.	L.F.	Payments ₹	
200	1	1	To Bank	—	—	—	
		4	By Postage	1	—	10	
		8	By Taxi Fare	2	—	15	
		10	By Wages	3	—	25	
		22	By Stationery	4	—	35	
		26	By Coolie Charges	5	—	70	
		30	By Revenue Stamps	6	—	30	
		30	By Balance C/D	—	—	15	
		Total				200	
		May					
15		1	To Balance B/D				

ii) Analytical or Columnar Petty Cash Book :

In this type of Cash Book each transaction is recorded separately in the respective columns. The columnar total is posted to the ledger account at the end of the accounting period. When a business is large petty cash payment of similar nature will be more in number. If these payments are recorded in the simple Petty Cash Book it will become bulky. The burden of posting into ledger will also be increased and the whole purpose of having Petty Cash Book will be defeated.

Such Petty Cash Book contains individual columns for recording different expenses. The ruling of Analytical Petty Cash Book is shown as follows.

In the books of

Analytical Petty Cash Book for

Generally, the majority of patients can be managed in ambulatory groups mentioned

(B) Printing and Stationery

POLYMER LETTERS EDITION

- Postal stamps, revenue stamps, post card, hand letter, telegram, telephone charges, cable charges, bank teller charges, telephone charges, reversal fees for telegraphic addressees, postage on charges, S.D.C. charges.

paper, *newspaper*

<p>(F) Freight : Expenses incurred for carrying the goods i.e. Freight, Cartage, Cartage, Octroi, Duties, Customs, Charging charges, Dock charges, Forwarding charges, Loading and unloading charges, Coffe charges, Transporation, Hire of carts.</p> <p>(A) Advertisement : Advertisement expenses, Publicity charges, Advertising service charges, Free samples, Sales promotion charges, Expenses incurred for participating in industrial exhibition, Posters, Designing of advertising boards, Expenses for arranging press-conferences.</p> <p>(S) Sundry Expenses : Sundry / General / Other / Miscellaneous expenses. Tips to office boys, Subscriptions for Newspapers, Magazines etc., Donation to antislavery, Gift and charity, Repairs to door locks, Lunch and refreshment charges, Cleaners wages, Repairs to Typewriters, Furniture etc., Office Cleaning charges, Marriages present to office staff, Entertainment expenses.</p> <p>(T) Travelling Expenses : Expenses incurred for travelling of working staff e.g. Bus fare, Rickshaw charges, Taxi-fare, Convoyation, Railway fares, ST fare, Travelling allowance to Traveling salesmen, Taxi fare, Tonga charges, Train fare.</p> <p>Ledger Accounts : Expenses incurred (on behalf) of Personal e.g. P's Drawings , Advance to Photo, etc.</p>

iii) Imprest System of Petty Cash Book :

It is convenient to entrust a definite sum of money to the petty cashier in the beginning of a period and to reimburse him for payments made at the end of the period. Thus, he will again have a fixed amount in the beginning of the new period. Such a system is known as the Imprest System of Petty Cash. This system is very useful specially if an Analytical Petty Cash Book is used. The book will have one column to record receipts of cash and other columns to record payments of various types. The total of the various columns will show why payments have been made and then the relevant accounts can be debited.

EXAMPLE 5

Prepare an **Analytical Petty Cash Book on the Imprest System** of Manohar Traders, Mumbai from the following petty transactions for 2019, January.

Date 2019 January	Particulars	₹	
1	Received for petty cash	100	00
4	Bus fare	4	50
6	Cartage	5	50
7	Postage and Telephone	8	00
9	Wages for casual labours	6	00
12	Stationery	4	00
14	Tonga charges	7	00
17	Repairs to chairs	9	00
18	Free samples	9	00
19	Carriage	4	00
22	Telegrams	7	00
24	Conveyance	8	00
26	Coolie charges	3	00
29	Typing charges	6	00
31	Refreshment to Manohar	9	00

Also pass the necessary journal entries for the same.

In the books of Manohar Traders, Mumbai

Analytical Petty Cash Book on Imprest System for January, 2019

Date 2019	Particulars	L.F.	Debit ₹	Credit ₹
1 st Jan.	Petty Cash A/c To Cash A/c (Being the imprest amount received for petty cash)	Dr. — —	100.00 100.00	
1 st Feb.	Petty Cash A/c To Cash A/c (Being the imprest amount received for petty cash)	Dr. — —	90.00 90.00	
31 st Jan.	Printing and Stationery A/c Postage and Telegram A/c Freight A/c Advertisement A/c Sundry Expenses A/c Travelling Expenses A/c Manohar's Drawings A/c To Petty Cash A/c (Being the analysis of the Petty Cash Book for the month ending 31 st January, 2019)	Dr. Dr. Dr. Dr. Dr. Dr. Dr. Dr.	10.00 15.00 12.50 9.00 15.00 19.50 9.00 —	90.00
	Total		280.00	280.00

Important Points

- The amount fixed for petty cash should be sufficient for the likely small payments of a relatively short accounting period, say, for a week, or a fortnight or a month.
- The reimbursement should be made only when the petty cashier prepares a statement showing total payments supported by vouchers i.e. documentary evidence and should be limited to the amount of actual disbursement.
- No payment should be made without proper authorization. Also payments above a certain specific limit should be made only by the head cashier.
- The petty cashier should not be allowed to receive any cash except for reimbursement.
- The vouchers should be filed in a serial order by the petty cashier.
- A journal entry may first be passed on the basis of the petty cash book, debiting the accounts, shown by the various analysis column and crediting the total of the payments to the Petty Cash A/c.

(E) Conventional Cash Book

Even today the Cash Book of conventional nature is maintained by the businessmen on a very large scale; particularly by the traders, retailers, wholesalers, professionals, etc. The Conventional Cash Book is the only primary book maintained in this method of accounting. Hence this Cash Book includes not only transactions of cash but also other transactions like credit sales, credit purchases, cheques issued, cheques received, bank transactions, return inward, return outward, opening entries and adjustment entries. It means that any transaction will find a place in Conventional Cash Book and every transaction will be entered in the Conventional Cash Book. This method of maintaining the accounts is adopted generally by Gujarathi's, Marathi's, Marwadi's, etc.

Contents of Conventional Cash Book :

In this method the Cash Book is divided into two main parts – left hand side is called debit side and the right hand side is called credit side. Cash receipts are recorded on the left hand side and payments are recorded on the right side.

The opening balance is taken as the first item to the receipt side and the closing balance is taken to the credit side of the Cash Book. The book is generally printed with the details at the top of each page regarding the day, date and the year as per English and Indian calendars.

Each side of the Cash Book is further divided into four small equal parts (or fold). The first part from the left is used for writing the amounts of receipts and the second one is used for showing the totals if any and remaining two are for writing the particulars of the transaction. In the similar way the right hand side of the Cash Book i.e. the payment side is written. There are no separate columns for date and ledger folio as are in modern Cash Book. The date is printed at the top and the ledger folio is written below the entry in circle. In this method of Cash Book as one page is separately provided for one day, the cash balance is made every day. A Conventional Cash Book is shown as follows :

रविवार दिनांक 31 मार्च, 2019 चैक शुल्क रशमी, शके 1940					
₹ 540	00	आरभ शिल्पक	₹ 400	00	श्री. मालखरेंदी खाने (श्री. रमेश याच्याकडून रोग्यपाती क्र. प्रमाणे गेंध उरेंदी)
₹ 100	00	श्री. शक्ति गाडवळ खाने	₹ 440	00	श्री. अभय खाने (बिल क्र. प्रमाणे उभार विक्री)
₹ 200	00	श्री. मालखरेंदी खाने (ऐच्याकडी क्र. प्रमाणे गेंध जाता)	₹ 840	00	
₹ 840	00		₹ 840	00	

EXAMPLE 6

Enter the following transactions in **Conventional Cash Book** of Shankar on 31st March 2019 (Friday) in Marathi.

	Particulars	₹	Ps.
1.	Opening Balance	540	00
2.	Cash contributed by Shankar	100	00
3.	Cash sales	200	00
4.	Cash purchases from Ramesh	300	00
5.	Credit sales to Abhay	250	00
6.	Credit purchases from Narayanrao	370	00
7.	Cash deposited into the Bank	500	00
8.	Cash withdrawn from the Bank	20	00
9.	Cheque received from Bajaranga and deposited into the Bank	50	00
10.	Cheque issued to Chandrakant a Creditor	300	00
11.	Salary paid to Deshpande for March 2019	50	00
12.	Commission received from Kashinath	10	00
13.	Bank Interest credited by the Bank	25	00
14.	Bank Charges debited by the Bank	1	50
15.	Goods returned by Abhay	50	00
16.	Cheque received from Bajarang dishonoured	50	00
17.	Depreciation on furniture to be charged	50	00

ANSWER**Conventional Cash Book of Shankar****रविवार दिनांक 31 मार्च, 2019 फाल्गुन कृ. एकादशी शके 1940**

540	00	श्री. आरेंग शिल्लक श्री. शंकर भाटबन स्थाने	300	00	श्री. मालखडेही स्थाने (श्री. समेत योच्याकडून रोपवाकती क्र. प्रमाणे रोप स्थाने)
100	00	श्री. मालखडेही स्थाने			
200	00	(रोपवाकती क्र. प्रमाणे सेवा जाता)			
250	00	श्री. मालखडेही स्थाने (बिल क्र. प्रमाणे श्री. अभय यांत्र उधार विक्री)	250	00	श्री. अभय स्थाने (बिल क्र. प्रमाणे उधार विक्री.)
370	00	श्री. नारायणराव स्थाने (बिल क्र. प्रमाणे उधार वरेदी)	370	00	श्री. मालखडेही स्थाने (श्री. नारायणराव योच्याकडून बिल नं. प्रमाणे उधार वरेदी)
20	00	श्री. बैक स्थाने (घनावेश क्र. प्रमाणे रोप काढणे)	500	00	श्री. बैक स्थाने (व ५०० चा रोप घनावेश केला)
50	00	श्री. बजरंग स्थाने (बिल क्र. प्रमाणे घनावेश क्र. ने जमा)	50	00	श्री. बजरंग योच्याकडून जमा झालेला घनावेश क्र. बैकेत भरला)
300	00	श्री. बैक स्थाने (घनावेश क्र. ने श्री. चंद्रकांत यांस बिल नं. पोटी दिले,	300	00	श्री. चंद्रकांत स्थाने (घनावेश क्र. ने बिल नं. पोटी दिले)
10	00	श्री. कमिशन स्थाने (श्री. कमिशन योच्याकडून कमिशन पोटी जमा)	50	00	श्री. नोकटनार खर्च स्थाने (श्री. वेशपोडे यांना मार्च १० चा प्रमार दिना)
25	00	श्री. बैक व्याज स्थाने (मुदती खाल्यावरील व्याज बैकेत जमा केल्याने)	25	00	श्री. बैक स्थाने (मुदती खाल्यावरील व्याज बैकेत जमा)
1	50	श्री. बैक स्थाने (बैकेचे कमिशन नावे टाकल्याने)	1	50	श्री. बैक कमिशन स्थाने (बैकेचे कमिशन नावे टाकल्याने)
50	00	श्री. अभय स्थाने (त्योच्याकडून माल परत आल्याने)	50	00	श्री. विकी माल परत स्थाने (श्री. अभय योच्याकडून माल परत आल्याने)
50	00	श्री. बैक स्थाने (श्री. बजरंग योच्याकडून जमा झालेला बैक न वर्टल्याने)	50	00	श्री. बजरंग स्थाने (श्री. बजरंग योच्या जमा झालेला बैक न वर्टल्याने)
50	00	श्री. कर्निचर स्थाने (इन माठी फर्निचर वर दराने पसाला आकारणी.)	50	00	प्रमाण स्थाने (रु. कर्निचर वर दराने इन) साठी घमाण आकारणी
			20	00	श्री. अखेरची शिल्लक
२०३६	५०		२०३६	५०	

Conventional Cash Book Method has following points of importance which are also to be considered very carefully :

- This method of Cash Book is simple to understand and easy to operate. As we have seen in illustration shown above this Cash Book includes all transactions, it is the only record in which the businessman has to refer for any entry and he need not see a number of books for reference.
- A small trader has a simple style of working like purchasing goods for cash and selling them again for cash. In such a case complications of business transactions are less and hence maintaining other primary books may not be essential.
- In this method the businessman maintains only two books i.e. Cash Book and a Ledger.
- As all transactions are entered in one book only, the Cash Book becomes bulky and finding the entries in the same may become difficult. There is no provision for writing voucher numbers in the Cash Book and as such finding the documents for a particular transaction may be difficult.
- The method increases the clerical work for it involves two entries in this Cash Book for many transactions and their portings also i.e. duplication of work.

Practical Hints

A) Accounting treatment of Banking Transactions in a two column Cash Book :

i) Receipt of a Bearer cheque :

- A cheque which is received but not deposited into the Bank should be recorded on the receipt side in Cash Column.
- A cheque which is received and deposited into the Bank on the same day should be recorded on the receipt side in Bank Column.
- A cheque received previously now deposited into the Bank should be recorded as a contra entry. It will appear in the Cash Book on the receipt side as "To Cash A/c" in Bank column and on the payment side as "By Bank A/c" in Cash Column.

ii) Receipt of a Crossed cheque :

A crossed cheque received should be recorded on the receipt side in Bank Column.

(N.B. – A type of cheque whether bearer or crossed if not specified, it is assumed to be a bearer cheque always).

iii) Payment by issuing a cheque :

A payment made by issue of a cheque should be recorded on the payment side in Bank Column.

iv) Endorsement of a cheque :

An endorsement of a cheque refers to an act of signing a cheque by its holder on its back with a view to transfer it to someone else. A cheque endorsed in favour of the creditor in settlement of his account should be recorded on the payment side in Cash or Bank Column as the case may be.

v) Dishonour of a cheque :

A cheque is said to be dishonoured when Bank refuses to pay cash on it. A cheque received from the customer or issued to the supplier may be dishonoured, in which case reverse the entry originally passed togetherwith discount for cancellation of the same.

vi) Pass Book Entries :

The pass book is a copy of the customers account as it appears in the books of the bank. Pass book entries are certain recordings made by the Bank as per our standing instructions. On receiving the advice from the Bank these are to be recorded in the Cash Book in Bank column as follows :

a) Receipt Entries :

- Direct deposit by customers.
- Collection of interest on investment.
- Bank interest collected.
- Collection of dividend on shares.

b) Payment Entries :

- Payment of insurance premium.
- Payment of interest on loan.
- Payment of share call money.
- Bank charges and bank commission charged.
- Interest on Bank Overdraft charged.

vii) Transfer Entries :

Transfer of necessary balances from one account to another in banking operations is a usual feature. The different types of Bank Accounts are :

- **A Bank Savings A/c** is a bank account in which there are no restrictions on deposit of cash but there are certain restrictions on withdrawals of cash from Bank, which is termed as Savings A/c in the books of accounts.
- **A Bank Current A/c** is a Bank Account in which there are no restrictions on deposit of cash and withdrawal of cash from bank, which is termed as Bank A/c in the books of accounts.
- **A Fixed Deposit A/c** is a Bank Account in which certain fixed amount is deposited into the bank for a specific period of time to earn an income in the form of interest, which is termed as Fixed Deposit A/c in the books of accounts.

Hence transfer of balance from Bank Savings A/c to Bank Current A/c is to be debited to Bank A/c and credited to Savings A/c.

viii) Contra Entries :

These are the entries that are made on both the sides of the Cash Book writing "C" mark in 'L.F' column e.g.

- Cash or cheque deposited into the Bank in which Bank A/c is debited and Cash A/c is credited.
- Cash withdrawn from Bank for office use in which Cash A/c is debited and Bank A/c is credited.

B) Balancing of Cash Book :

- i) The Cash A/c normally shows a debit balance or a nil balance of cash. It cannot show a credit balance at all, because the payments can never exceed the availability of cash.
- ii) The Bank columns in the Cash Book imply Bank Current A/c which shows a debit balance or a credit balance. A debit balance to Bank A/c indicates a Bank Balance i.e. excess of Bank receipts over the Bank payments. A credit balance to Bank A/c indicates a Bank Overdraft i.e. excess of Bank payments over the Bank receipts.
- C) Entries for cash and discount in the Cash Book go hand in hand. It means that if Cash A/c is debited, Discount Allowed A/c should also be debited and if Cash A/c is credited, Discount Received A/c is also to be credited.

D) Imprest System of Petty Cash Book :

In this method of maintaining a Petty Cash Book a petty cashier is given with an estimated amount at the beginning of the accounting period to cover the petty cash expenses in full for that period. Generally, this amount equals to the actual amount spent by him during the last accounting period.

ILLUSTRATIONS**ILLUSTRATION 1**

Enter the following transactions in a **Simple Cash Book** of Ramesh Traders, Ratlam and balance the same for March, 2019.

1. Opening cash balance ₹ 10,000.
3. Sold goods to Ramesh ₹ 2,600 for cash.
9. Paid to Ritesh ₹ 1,400 for Rent.
10. Rakesh invoiced goods to Ramesh ₹ 800 for cash.
14. Old Furniture sold ₹ 1,400.
17. Salary paid to Raman a factor foreman ₹ 2,300.
19. Commission of ₹ 1,100 received from Ram.
21. Borrowed ₹ 5,000 from Dena Bank.
24. Paid to MSEB ₹ 1,700 for Electricity Bill.
25. Paid to Rajyog Transporters ₹ 800 for carriage on purchases.
27. Cash of ₹ 4,000 paid into Dena Bank Current Account.
28. Withdrew from Bank ₹ 600 for office use.
29. Received ₹ 100 as interest on investment.
31. Withdrew ₹ 800 for personal use.

SOLUTION

Receipts Dr.				In the books of Ramesh Traders, Ratlam Simple Cash Book for March, 2019				Payments Cr.		
Date 2019 March	Particulars	Receipt No.	L.F.	Amount ₹	Date 2019 March	Particulars	Voucher No.	L.F.	Amount ₹	
1.	To Balance B/D			10,000	9.	By Rent (Being Rent paid to Ritesh)			1,400	
3.	To Sales (Being goods sold to Ramesh for Cash)			2,600	10.	By Purchases (Being goods purchased from Rakesh for cash)			800	
14.	To Furniture (Being old furniture sold)			1,400	17.	By Wages (Being salary paid to Raman a factory foreman)			2,300	
19.	To Commission (Being commission received from Ram)			1,100	24.	By Electricity (Being electricity bill paid to MSEB)			1,700	
21.	To Dena Bank Loan (Being loan taken from Dena Bank)			5,000	25.	By Carriage Inward (Being carriage on purchases paid to Rajyog Transporters)			800	
28.	To Bank (Being cash withdrawn from Bank for office use)			600	27.	By Bank (Being cash paid into Dena Bank Current A/c)			4,000	
29.	To Interest on Investment (Being interest on investment received)			100	31.	By R's Drawings (Being cash withdrawn for personal use)			800	
	Total			20,800	31.	By Balance C/D Total			9,000	
April 1.	To Balance B/D			9,000					20,800	

ILLUSTRATION 2

Naresh Trading Corporation, Nainital deposits its daily collection of cash and cheque into the bank on the same day and makes all payments by cheque. Write up the **Cash Book** from the following cash and bank transactions for May, 2019.

1. Bank Balance ₹ 5,000.
3. Received from Narayan ₹ 1,200 in full settlement of ₹ 1,240 for sale of office equipment.
6. Borrowed ₹ 10,000 from Ms. Naresh @ 10% p.a.
8. Paid to Nabab ₹ 800 by cheque and received a discount of ₹ 20.
11. Supplied to Naman goods of ₹ 1,800 as per his order and allowed a cash discount for ₹ 60, for cash.
14. Bought Office Typewriter for ₹ 2,750 and received a discount of ₹ 50, balance paid by cheque.
16. Withdraw ₹ 500 from Bank for domestic purposes.
19. Transferred ₹ 2,000 from Bank Current A/c to Bank Savings A/c.
22. Drew ₹ 1,000 for Petty Cash.
24. Paid Salary ₹ 1,200 by cash and ₹ 800 by cheque.
26. Received a cheque of ₹ 370 from Nakul in full settlement of ₹ 400 and endorsed to Nupur in full settlement of ₹ 420.
28. Received instructions from Bank for direct deposit of ₹ 640 by our customer, Navin.
31. Bank Charges of ₹ 80 debited by Bank in Pass Book.

SOLUTION

In the books of Naresh Trading Corporation, Nainital
Cash Book with Bank and Discount Columns for May, 2019

Receipts Dr.	Date 2019 May	Particulars	Receipt No.	L.F.	Bank ₹	Discount Allowed ₹	Date 2019 May	Particulars	Payments Cr.		
									Voucher No.	L.F. ₹	Bank ₹
1. To Balance B/D				5,000			8.	By Nabab (Being cheque issued to Nabab and Discount Received)		800	20
3. To Office Equipment (Being Office Equipment sold to Naresh and Discount Allowed)				1,200		40	14.	By Typewriter (Being Office Typewriter purchased and received a discount)		2,700	50
6. To Ms. N's Loan (Being loan taken from Ms. Naresh @ 10% p.a.)				10,000			16.	By Ms. Drawing (Being withdrawal from Bank for domestic purposes)		500	
11. To Sales (Being goods sold to Naman and allowed a Cash Discount)				1,740		60	19.	By Bank Savings (Being amount transferred from Bank Current to Bank Savings.)		2,000	
26. To Naku (Being cheque received from Naku and Discount Allowed)				370		30	22.	By Petty Cash (Being cash withdrawn from Bank for Petty Cash).		1,000	
28. To Nawn (Being direct deposit made by Nawin into our Bank)						640	24.	By Salary (Being salary paid)		2,000	
							26.	By Nurur (Being cheque endorsed to Nurur and Discount Received)		370	50
							31.	By Bank Charges (Being Bank charges paid by Bank adjusted)		80	
							31.	By Balance Cr.D		9,560	
								Total		18,950	120
June 1. To Balance B/D						9,500					

ILLUSTRATION 3

Enter the following transactions in the **Cash Book with Cash and Bank Columns** only of Pramod Enterprises, Pune and balance the same for June, 2019.

1. Cash in hand ₹ 8,000 and Cash at Bank ₹ 17,000.
3. Issued a cheque to the Petty Cashier ₹ 500.
5. Despatched goods to Prakash ₹ 850 in Cash and ₹ 1,150 by cheque.
7. Received Commission ₹ 700 by cheque which was deposited into Bank immediately.
8. Withdrawn from Bank ₹ 400 for office expenses.
10. Paid by cheque ₹ 650 for Professional Tax.
12. Insurance premium paid by Bank ₹ 800 debited in Pass Book.
15. Received cash ₹ 150 from Prafulla.
18. Paid into Bank cheque received on 5th.
20. Bought goods from Pritam ₹ 1,500 @ 20% Trade Discount and paid one third of the same in cash.
24. Salary paid to Pravin, a factory foreman ₹ 1,200.
27. Remitted to Poonam ₹ 1,300 by cheque and cash of ₹ 700 for purchase of old furniture.
29. Pawan paid ₹ 600 by cheque to Pramod in part payment of ₹ 620, which was deposited into Bank immediately.
30. Paid into Bank cash in excess of ₹ 5,000.

SOLUTION

Financial Accounting

In the books of Pramod Enterprises, Pune
Cash Book with Cash and Bank Columns for June, 2019

Receipts

Dr.

Date 2019 June	Particulars	Receipt No.	L.F.	Cash ₹	Bank ₹	Date 2019 June	Particulars	Voucher No.	L.F.	Cash ₹	Bank ₹
1. To Balarama B/D				8,000	17,000	3.	By Petty Cash (Being cheque issued for Petty cash)				500
5. To Sales (Being goods sold for cash to Prakash)				2,000		8.	By Cash (Being the contra entry for cash withdrawn from Bank for office expenses)				800
7. To Commission (Being commission received by cheque and deposited into Bank)						700	10.	By Professional Tax (Being cheque issued for payment of Professional Tax)			650
8. To Bank (Being the contra entry for cash with- drawn from Bank for office expenses)		C	800				12.	By Insurance Premium (Being insurance premium paid by Bank, adjusted)			800
15. To Pratilla (Being cash received from Pratilla)						150	18.	By Bank (Being the contra entry for cheque deposited into Bank)			1,150
18. To Cash (Being the contra entry for cheque deposited into Bank)		C				1,150	20.	By Purchases (Being goods purchased from Pritam @ 20% Trade Discount)			450
23. To Pawan (Being cheque received from Pawan and deposited into Bank)						600	24.	By Wages (Being salary paid to Prawin, a factory foreman)			1,200
30. To Cash (Being the contra entry for cash paid into Bank)		C				2,500	27.	By Furniture (Being Furniture purchased from Pawan and paid by cheque and cash)			700
							30.	By Bank (Being the contra entry for cash paid into Bank)			2,500
										5,000	17,900
								Total			10,950
								By Balance C/D			21,950
July 1. To Balance B/D											

2.115

Accounting Transactions and Final Accounts

ILLUSTRATION 4

Enter the following transactions of Onil and Co., Osmanabad in **Cash Book with Cash, Bank and Discount Columns** and balance the same for July, 2019.

1. Cash A/c (Dr.) : ₹ 10,000, Bank A/c (Dr.) ₹ 20,000.
3. Bought goods from Omkar ₹ 2,000 @ 5% Trade Discount and the amount was paid by cheque.
5. Received from Omprakash ₹ 570 by cheque in full settlement of his account for ₹ 590.
6. Paid to Om ₹ 945 and discount received ₹ 15 for purchase of Tools.
8. Banked the cheque received from Omprakash.
10. Oswal remitted ₹ 2,250 net to Onil by cheque, discount allowed to him @ 10% and the cheque was deposited into Bank.
12. Paid ₹ 700 for petty expenses to petty cashier.
16. Invoiced goods to Opel to ₹ 3,000, off 7% for Trade Discount for cash.
19. Purchased Stationery for ₹ 400 from Onida Bros. for cash.
23. Settled Orpe's A/c for ₹ 800 by cheque after deducting 2.5% for Cash Discount.
25. Withdrew ₹ 400 for office use and ₹ 600 for personal use.
29. Paid Salary ₹ 1,200 in cash and ₹ 800 for wages by cheque.
31. Old Equipments sold to Osaram for cash ₹ 800, received half the amount in cash and half by crossed cheque.

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In the books of Onil and Co., Osmanabad
Cash Book with Cash, Bank and Discount Columns for the year 2019

Receipts

ILLUSTRATION 5

Enter the following transactions in the **three columns Cash Book** of Suresh Bros., Surat for August, 2019.

1. Balance of Cash in Hand ₹ 5,000 and Bank Overdraft ₹ 10,000.
2. Introduced additional capital of ₹ 10,000 of which ₹ 3,000 were borrowed from Canara Bank.
3. Received ₹ 1,500 from Somesh and allowed him discount of ₹ 50 for despatch of second hand goods.
4. Transferred from Fixed Deposit A/c after its maturity to Current A/c ₹ 25,000.
5. Paid to Sunil ₹ 400 in cash and ₹ 500 by cheque both after deducting 10% as Cash Discount.
6. Withdraw ₹ 1,000 for office use.
7. Earned a discount of ₹ 40 on payment to Sachin by cheque in full settlement of ₹ 740.
8. Bought goods from Sadashiv ₹ 850 for cash.
9. Received ₹ 900 by cheque for Commission from Someshwar and deposited into Bank.
10. Bank paid ₹ 550 as interest on overdraft as per the standing instructions from Suresh.
11. Received ₹ 1,400 as dividend on shares by cheque.
12. Canara Bank Loan was settled by cheque togetherwith interest of ₹ 150.
13. Cheque received for dividend deposited into Bank.

SOLUTION

In the books of Suresh Bros., Surat
Three Columns Cash Book for August, 2019

Receipts Dr.							Payments Cr.							
Date 2019 Aug.	Particulars	Recd Int No.	L.F.	Discount Allowed ₹	Cash ₹	Bank ₹	Date 2019 Aug.	Particulars	Vouch er No.	L.F.	Discount Received ₹	Cash ₹	Bank ₹	
1.	To Balance B/D				5,000		1.	By Balance B/D					10,000	
1.	To S's Capital (Being cash introduced as additional capital)				7,000		9.	By Sunil (Being cash and cheque given to Sunil and discount received)			100	400	500	
1.	To Canara Bank Loan (Being loan taken from Canara Bank)				3,000		12.	By Cash (Being the contra entry for cash withdrawn for office use)					1,000	
4.	To Sales (Being record, hand goods sold to Somesh and discount allowed)		50	1,500			15.	By Sachin (Being cheque issued to Sachin and earned a discount)			40		700	
6.	To Fixed Deposit (Being Fixed Deposit A/c transferred to Current A/c after its maturity)					25,000	16.	By Purchases (Being goods purchased from Sadashiv for cash)				650		
12.	To Bank (Being contra entry for cash withdrawal for office use)		G		1,000		24.	By Interest on Overdraft (Being interest on overdraft paid)					550	
21.	To Commission (Being cheque received from Someshwar for commission and deposited into Bank)					900	27.	By Canara Bank Loan (Being Canara Bank Loan settled by cheques)					3,000	
26.	To Dividend on Shares (Being dividend on shares received by cheque)				1,400		27.	By Interest on Canara Bank Loan A/c (Being interest on Canara Bank Loan paid by cheque)					150	
31.	To Cash (Being contra entry for cheque received for dividend deposited into Bank)		C			1,400	31.	By Bank (Being the contra entry for cheque received for dividend deposited into Bank)				1,400		
	Total			50	18,900	27,300		Total				16,250	11,400	
Sept.	1.	To Balance B/D				16,250	11,400					140	18,900	27,300

ILLUSTRATION 6

Enter the following transactions of Tanmay Enterprises, Tarapur in the **Cash Book with Cash, Bank and Discount Columns** for September, 2019 and balance the Cash Book.

1. Opening Balances :

Cash (Dr).	₹ 5,000
Bank (Cr.)	₹ 3,000
2. Sold goods to Tukaram for cash ₹ 1,500 @ 4% Cash Discount.
4. Quarterly rent paid to Todkar by cheque @ ₹ 3,400 p.a.
7. Old Furniture costing ₹ 6,260 was sold at a profit of ₹ 740 to Tarun Kumar and received a cheque.
9. Remitted to Tapaswi our creditor ₹ 380 in full settlement of ₹ 410.
11. Tarun Kumar's cheque was deposited into the Bank.
12. Bank has credited our account with ₹ 420 as interest on investment.
14. Bought goods from Tolaram ₹ 1,600 @ 5% Cash Discount and paid by cheque.
16. Withdrew ₹ 600 for office purposes.
18. Bank informs that cheque issued to Tolaram returns dishonoured because of overscratching.
21. Tejas, our debtor for ₹ 1,800 declared bankrupt and 40% final dividend is received from his estate by crossed cheque.
25. Purchased Machinery from Telco Ltd. for ₹ 6,000 on credit and paid 10% for its installation.
27. Remuneration paid to Tungare, a factory assistant ₹ 1,200 by cheque and to Tikone, an office assistant ₹ 1,100 in cash.
29. Purchased shares of Telco Ltd. for ₹ 2,000 and paid by cheque.
30. It is a practice to maintain a cash balance of ₹ 4,000 at the end of every month, excess or shortage, if any, be adjusted by either depositing or withdrawing the cash from bank.

SOLUTION

In the books of Tanmay Enterprises, Tarapur											Payments Cr.				
Cash Book with Cash, Bank and Discount Columns for September, 2019															
Receipts Dr.	Particulars	Recd pt No.	L.F.	Discount Allowed	Cash	Bank	Date 2019 Sept.	Particulars	Vou cher No.	L.F.	Discount Received ₹	Cash	Bank		
1. Sept.	To Balance B.D.				5,000		1.	By Balance B.D.					3,000		
2.	To Sales (Being goods sold to Tukaram for cash @ 4% Cash Discount)			50	1,440		4.	By Rent (Being quarterly rent paid to Tukaram by cheque)					650		
7.	To Furniture (Being old furniture sold to Tarunkumar and received a cheque)				7,000		9.	By Tapaswi (Being cash paid to Tapaswi, a creditor and discount received)					380		
11.	To Cash (Being the contra entry for Tarunkumar's cheque deposited into the Bank)		C			7,000	11.	By Bank (Being the contra entry for Tarunkumar's cheque deposited into the Bank)		C			7,000		
12.	To Interest on Investment (Being interest on investment collected by Bank, adjusted)					420	14.	By Purchases (Being goods purchased from Tolaram @ 5% Cash Discount and paid by cheque)					80	1,520	
16.	To Bank (Being the contra entry for cash withdrawn from Bank for office purposes)		C		600		16.	By Cash (Being the contra entry for cash withdrawn from Bank for office purposes)		C				600	
18.	To Tolaram (Being cheques issued to Tolaram returned dishonoured and cancellation of discount received from them)				80	1,520	25.	By Machinery (Being installation charges paid on purchase of machinery from Telco Ltd. on credit)						600	
21.	To Tiges (Being 40% of final dividend received from Tiges after his bankruptcy by crossed cheque)					720	27.	By Wages (Being remuneration paid to Tuges as a factory assistant)						1,200	
30.	To Cash (Being the contra entry for excess cash paid into Bank)		C			960	27.	By Salary (Being remuneration paid to Tikes as an office assistant)						1,100	
							29.	By Investment (Being shares of Telco Ltd. purchased and paid by cheque)						2,000	
							30.	By Bank (Being the contra entry for excess cash paid into Bank)		C				960	
	Total				140	14,040	10,620						4,000	1,450	
Oct. 1	To Balance B.D.					4,000	1,450	Total					110	14,040	10,620

ILLUSTRATION 7

Enter the following transactions of Yogesh Traders, Yeola in the Cash Book with Cash, Bank and Discount Columns and balance the same for October, 2019.

1. Commenced business with Cash ₹ 10,000 and Bank ₹ 15,000 by Yogesh.
4. Bought office chairs for ₹ 800 from Deco Home for domestic purposes.
6. Sold to Yatin goods costing ₹ 800 @ 25% profit on cost, @ 20% Trade Discount and 10% Cash Discount but only 80% of the amount due was received in cash.
8. Issued a crossed cheque of ₹ 1,890 net to Yogiraj after deducting 10% Cash Discount for purchase of goods.
11. Received a cheque of ₹ 920 and cash of ₹ 200 from Yasin in full settlement of ₹ 1,150.
13. Deposited Yasin's cheque into Bank Current Account.
14. Paid by cheque to Yogeshwar ₹ 1,300 for payment of Salary ₹ 900 and Travelling Expenses ₹ 400.
15. Bank informs that Yasin's cheque is returned dishonoured.
17. Purchased 100 revenue stamps from G.P.O.
19. Bank has credited our account with Dividend of ₹ 500.
21. Received a crossed cheque of ₹ 570 from Yasmin in full settlement of ₹ 610.
23. Endorsed Yasmin's cheque to Yamini in part payment of ₹ 600.
25. Transferred ₹ 1,000 from Bank Savings Account to Bank Current Account.
27. Purchased a Cash Box of ₹ 2,500 from Godrej Furnitures for cash.
29. Yogendranath paid ₹ 1,200 directly into our Bank Account.
31. Entire cash balance paid into Bank.

SOLUTION

Receipts Dr.		In the books of Yogesh Traders, Yeola Cash Book with Cash, Bank and Discount Columns for October, 2019								Payments Cr.			
Date 2019 Oct.	Particulars	Recd pt No.	L.F.	Discount Allowed ₹	Cash ₹	Bank ₹	Date 2019 Oct.	Particulars	Vouch her No.	L.F.	Discount Received ₹	Cash ₹	Bank ₹
1.	To Y's Capital (Being commenced business with cash and bank)				10,000	15,000	4.	By Y's Drawing (Being office chairs purchased from Daco Home for domestic purposes)				800	
6.	To Sales (Being goods sold to Yatin @ 25% profit on cost, @ 20% Trade Discount and 10% Cash Discount, but 80% amount was received in cash)		64	576			8.	By Purchases (Being goods purchased from Yogen) @ 10% Cash Discount and paid by cheque)			210		1,800
11.	To Yasir (Being cash and cheque received from Yasir and discount allowed)			30	1,120		13.	By Bank (Being the contra entry for Yasir's cheque deposited into the Bank Current)	C			920	
13.	To Cash (Being the contra entry for Yasir's cheque deposited into the Bank Current)		C			920	14.	By Salary (Being salary paid by cheque)				800	
19.	To Dividend (Being dividend collected by Bank, adjusted)					500	14.	By Travelling Expenses (Being travelling expenses paid by cheque)				400	
21.	To Yasmin (Being crossed cheque received from Yasmin and discount allowed)			40		570	15.	By Yasir (Being cheque received from Yasir returns dishonoured and cancellation of discount allowed to them)			30	820	
25.	To Savings (Being amount transferred from Bank Savings to Bank Current)					1,000	17.	By Postage (Being 100 revenue stamps purchased from GPO)				100	
29.	To Yogenbhanth (Being Yogenbhanth directly paid into our Bank)					1,200	23.	By Yasmin (Being Yasmin's cheque endorsed to Yasmin in part payment)				570	
31.	To Cash (Being the contra entry for entire cash balance paid into Bank)		C			7,376	27.	By Cash Box (Being Cash box purchased from Govdi Furniture for cash)				2,500	
Total					134	11,696	26,566	31.	By Bank (Being the contra entry for entire cash balance paid into Bank)	C		7,376	
Nov. 1.	To Balance B/D					21,696		Total	By Balance C/D			21,696	
											240	11,696	26,566

ILLUSTRATION 8

Enter the following transactions of Avishkar Traders, Agra in the **Cash Book with Cash, Bank and Discount Columns** for March, 2019 and balance the Cash Book.

1. Opening Balances : Cash (Dr.) ₹ 15,130, Bank (Dr.) ₹ 43,395.
3. Received from Paresh by cheque ₹ 8,425 and deposited the same into the Bank.
5. Paid to Kalpesh ₹ 6,500 and received a discount of ₹ 200 for purchase of old furniture.
9. Bought goods from Haresh ₹ 18,000 at 5% trade discount and paid by cheque.
12. Sold goods to Jayesh ₹ 4,625 on credit basis and ₹ 5,375 on cash basis.
16. Received from Prathamesh ₹ 6,000 by crossed cheque in full settlement of ₹ 6,300.
18. Paid to Modern Printers ₹ 2,100 by cheque for printing charges.
22. Paid to Godrej Co. ₹ 20,000 by cheque for purchase of new machinery and paid ₹ 1,000 in cash for its installation.
24. Deposited ₹ 2,500 into Bank.
25. Purchased goods from Dinesh ₹ 4,250 and paid by a bearer cheque.
26. Received from Suresh a cheque of ₹ 2,675 in full settlement of ₹ 2,775.
28. Office salaries paid ₹ 7,500 in cash.
29. Paid for life insurance premium ₹ 2,505.
30. Suresh's cheque deposited into Bank.
31. Paid by cheque to Yogesh ₹ 14,345 in part payment of ₹ 14,500.

SOLUTION

Receipts Dr.		Cash Book with Cash, Bank and Discount Columns for March, 2019										Payments Cr.	
Date 2019 March	Particulars	Recd. pt No.	L.F.	Discount Allowed ₹	Cash ₹	Bank ₹	Date 2019 March	Particulars	Vouc her No.	L.F.	Discount Received ₹	Cash ₹	Bank ₹
1 st	To Balance B/D	-	-	-	15,155	43,396	5 th	By Furniture (Being old furniture purchased from Kalpesh and discount received).	-	-	200	6,500	-
9 th	To Parresh (Being cheque received from Parresh and deposited into the Bank)	-	-	-	-	8,420	9 th	By Purchases (Being goods purchased from Harish @ 5% trade discount and paid by cheque).	-	-	-	-	17,100
12 th	To Sales (Being goods sold to Jayesh on cash basis).	-	-	-	5,375	-	16 th	By Printing charges (Being paid to Modern Printers for printing charges by cheque).	-	-	-	-	2,100
16 th	To Prathmesh (Being crossed cheque received from Prathmesh and discount allowed).	-	-	300	-	6,000	22 nd	By Machinery (Being paid to Godrej Co. by cheque for purchase of new machinery and cash for its installation).	-	-	-	1,000	20,000
24 th	To Cash (Being the contra entry for cash paid into Bank)	-	C	-	-	2,500	24 th	By Bank (Being the contra entry for cash paid into Bank)	-	C	-	2,500	-
26 th	To Suresh (Being cheque received from Suresh and discount allowed).	-	-	100	2,675	-	25 th	By Purchases (Being goods purchased from Dinesh and paid by a bearer cheque).	-	-	-	-	4,250
30 th	To Cash (Being the contra entry for Suresh's cheque deposited into the Bank)	-	C	-	-	2,675	28 th	By Salaries (Being office salaries paid in cash)	-	-	-	7,500	-
							29 th	By P'sn Drawings (Being paid for life insurance premium)	-	-	-	2,505	-
							30 th	By Bank (Being the contra entry for Suresh's cheque deposited into the Bank)	-	C	-	2,675	-
							31 st	By Yopesh (Being paid to Yopesh by cheque in part payment).	-	-	-	-	14,345
							31 st	By Balance C/D	-	-	500	5,200	
April 1 st	Total			400	23,190	62,095		Total			200	23,190	62,095
	To Balance B/D	-	-	-	500	5,200							

ILLUSTRATION 9

From the following particulars relating to Bansilal Enterprises, Bandra prepare a **Cash Book with Cash, Bank and Discount Columns** for March, 2019 and balance the same.

1. Cash Balance ₹ 10,200 and Bank Overdraft ₹ 1,250.
3. Sold goods to Anil ₹ 2,500 at 4% trade discount and 10% cash discount, for cash.
5. Received a crossed cheque from Sunil ₹ 10,000 in full settlement of total dues ₹ 10,100.
9. Made cash sales ₹ 12,500 and cash purchases ₹ 1,600 at a cash discount of 4% and 5% respectively.
10. Deposited ₹ 5,000 into Bank.
13. Issued a cheque in favour of Brijesh for ₹ 1,950 in part payment of ₹ 2,000, for goods purchased during last month.
16. Paid office rent ₹ 1,500 in cash and house rent ₹ 2,500 by cheque.
19. Direct deposit by a credit customer, Ramlal amounts to ₹ 3,000.
23. Withdraw ₹ 2,000 from Bank for office purposes.
26. The bank has paid ₹ 2,300 on account of insurance premium.
28. Received ₹ 460 from Bhavesh as commission.
31. Paid remuneration to workshop supervisor ₹ 3,000.

SOLUTION

Receipts Dr.		Cash Book with Cash, Bank and Discount Columns for March, 2019										Payments Cr.	
Date 2019 March	Particulars	Recd pt No.	L.F.	Discount Allowed	Cash	Bank	Date 2019 March	Particulars	Vouch er No.	L.F.	Discount Received	Cash	Bank
1 st	To Balance B/D	-	-	-	10,200	-	1 st	By Balance B/D	-	-	-	-	1,200
3 rd	To Sales (Being goods sold to Arnil @ 4% trade discount and 10% cash discount for cash).	-	-	240	2,160	-	9 th	By Purchases (Being goods purchased @ 5% cash discount)	-	-	80	1,520	-
5 th	To Sunil (Being a crossed cheque received from Sunil and discount allowed).	-	-	100	-	10,000	10 th	By Bank (Being the contra entry for cash deposited into Bank)	-	C	-	5,000	-
9 th	To Sales (Being goods sold to cash @ 4% cash discount)	-	-	500	12,000	-	13 th	By Brishesh (Being paid to Brishesh by cheque for goods purchased during last month).	-	-	-	-	1,560
10 th	To Cash (Being the contra entry for cash deposited into Bank).	-	C	-	-	5,000	16 th	By Office Rent (Being office rent paid in cash).	-	-	-	1,300	-
15 th	To Ramil (Being direct deposit made by Ramil).	-	-	-	-	3,000	16 th	By B's Drawings (Being house rent paid by cheque)	-	-	-	-	2,500
23 rd	To Bank (Being the contra entry for cash withdrawn from Bank for office purposes).	-	C	-	2,000	-	23 rd	By Cash (Being the contra entry for cash withdrawn from Bank for office purposes).	-	C	-	-	2,000
28 th	To Commission (Being commission received from Bravesh).	-	-	-	460	-	26 th	By Insurance Premium (Being insurance premium paid through Bank).	-	-	-	-	2,300
							31 st	By Wages (Being remuneration paid to workshop supervisor)	-	-	-	3,000	-
							31 st	By Balance C/D	-	-	-	18,000	8,000
April	Total			840	26,820	16,000		Total			80	26,820	16,000
1 st	To Balance B/D	-	-	-	16,000	8,000							

ILLUSTRATION 10

Enter the following cash and bank transactions of Chandak Bros. Chennai in Cash Book with **Cash, Bank and Discount Columns** and balance the same for January, 2019.

1. Balance of Cash in Hand ₹ 7,500 and a Bank Balance of ₹ 15,000.
2. Additional capital brought in by Chandak ₹ 10,000.
5. Purchased Office Equipments from Sarada Traders ₹ 1,650 and received a cash discount of ₹ 100 and a trade discount of ₹ 50, amount paid by cheque.
8. Received ₹ 200 from Bansilal as Commission.
9. Invoiced goods to Ramlal for cash ₹ 400 and for a cheque ₹ 1,600.
11. Remitted to Bakelal ₹ 2,500 by cheque in part payment of dues ₹ 2,550.
14. Ramlal's cheque deposited into Bank.
17. Bought second hand goods costing ₹ 2,800 at 5% cash discount.
19. Drawn by cheque for office use ₹ 2,000 and ₹ 1,000 for personal use.
22. Received from Keshavlal ₹ 2,300 in full settlement of our dues ₹ 2,400.
25. Paid ₹ 1,740 to Gendalal for urgent repairs of old machinery.
28. Bank collected ₹ 2,400 as interest on investments on our behalf.
29. Issued a cheque of ₹ 1,800 to Roshanlal, a petty cashier.
31. Bank charges as per pass Book ₹ 200, still to be entered in Cash Book.

SOLUTION

In the books of Chandak Bros. Chennai

ILLUSTRATION 11

Prepare a **Cash Book with Cash, Bank and Discount Columns** for July, 2019 from the following transactions of Dorabjee and Company, Dombivali.

1. Started business with Cash ₹ 10,000, Bank Balance ₹ 15,000 and Machinery worth ₹ 20,000.
3. Bought goods from Suresh ₹ 600 at 5% cash discount for cash.
6. Ramesh directly deposited ₹ 2,000 into our Bank Account.
8. Despatch goods to Dinesh ₹ 950 and received ₹ 900 in full settlement of his account.
10. Insured goods worth ₹ 7,500 and paid 4% by cheque as insurance premium.
11. Paid life insurance premium ₹ 1,230.
14. Bought office furniture from Deco-Home ₹ 4,500 and paid by crossed cheque.
16. Received from Mahesh Cash ₹ 1,800 and a cheque of ₹ 2,100 in full settlement of his account for ₹ 4,000.
18. Bought second hand goods from Yogesh ₹ 5,000 at 6% cash discount and 10% trade discount and paid in cash.
20. Cheque received from Mahesh, deposited into Bank.
24. Received from Haresh a cheque for ₹ 1,600 in full settlement of ₹ 1,700.
25. Haresh's cheque endorsed to Hitesh in full settlement of his account ₹ 1,650.
28. Paid salaries ₹ 1,670 in advance.
30. Paid Wages ₹ 4,300 by cheque.
31. Deposited cash in excess of ₹ 1,000 into Bank.

SOLUTION

In the books of Dorabjee and Company, Dombivali

Cash Book with Cash, Bank and Discount Columns for July, 2019											Payments Cr.			
Date 2019 July	Particulars	Recd (pt No.)	L.F.	Discount Allowed ₹	Cash ₹	Bank ₹	Date 2019 July	Particulars	Voucher No.	L.F.	Discount Received ₹	Cash ₹	Bank ₹	
1 st	To D's Capital (Being started business with Cash and balances with Bank)	-	-	-	10,000	15,000	3 rd	By Purchases (Being goods purchased from Sunil @ 5% cash discount)	-	-	30	570	-	
8 th	To Ramesh (Being direct deposit made by Ramesh into our Bank Account)	-	-	-	-	2,000	10 th	By Insurance Premium (Being insurance premium paid @ 4% on goods insured by cheque)	-	-	-	-	300	
8 th	To Sales (Being goods sold to Dinesh and discount allowed)	-	-	50	900	-	11 th	By D's Drawings (Being life insurance premium paid)	-	-	-	1,230	-	
16 th	To Mahesh (Being cash and cheque received from Mahesh and discount allowed)	-	-	100	3,900	-	14 th	By Furniture (Being office furniture purchased from Deep Home and paid by crossed cheque)	-	-	-	-	4,500	
20 th	To Cash (Being the contra entry for Mahesh's cheque deposited into Bank)	-	C	-	-	2,100	18 th	By Purchases (Being second hand goods purchased from Yogesh for cash at 10% Trade Discount and 5% Cash Discount)	-	-	270	4,230	-	
24 th	To Hareesh (Being cheque received from Hareesh and discount allowed)	-	-	100	1,600	-	20 th	By Bank (Being the contra entry for Mahesh's cheque deposited into Bank)	-	C	-	2,100	-	
31 st	To Cash (Being the contra entry for cash in excess of ₹ 1,000 deposited into Bank)	-	C	-	-	4,000	25 th	By Hareesh (Being Hareesh's cheque endorsed to Hitesh and discount received)	-	-	50	1,600	-	
							28 th	By Prepaid Salaries (Being salaries paid in advance)	-	-	-	1,570	-	
							30 th	By Wages (Being wages paid by cheque)	-	-	-	-	4,300	
							31 st	By Bank (Being the contra entry for cash in excess of ₹ 1,000 deposited into Bank)	-	-	-	4,000	-	
Aug.	Total			250	16,400	23,100	31 st	By Balance C/D	-	-	-	1,800	14,800	
1 st	To Balance B.D	-	-	-	1,000	14,000		Total				350	16,400	23,100

ILLUSTRATION 12

From the following particulars prepare an **Analytical Petty Cash Book on Imprest System** of Rajesh Traders, Pune for March, 2019.

1. Received cash from head cashier ₹ 300.
2. Bought five postal stamps of ₹ 5 each.
4. Paid ₹ 10 to Raja for coolie charges.
7. Carriage on purchases of ₹ 12 paid on behalf of Ramesh.
10. Taxi fare to Accountant, Rakesh ₹ 27.
14. Paid to 'Daily Sakal' ₹ 45 for advertisement.
17. Purchased U-clips from Sapre Bros. ₹ 9.
19. Gave a marriage present to office clerk Ritesh, ₹ 25.
21. Paid to Prabhat Printers for printing charges ₹ 39.
24. Paid Railway fare to Secretary ₹ 37.
25. Refreshment to visitors ₹ 33.
28. Paid to Rupesh on account ₹ 20.
31. Bought ten revenue stamps from City Post.

In the books of Rajesh Traders, Pune

Analytical Petty Cash Book on Imprest System for March, 2019

ILLUSTRATION 13

Dinesh Trading Co., Daund maintains a columnar Petty Cash Book on Imprest System, where imprest amount is ₹ 300. From the following transactions prepare the **Analytical Petty Cash Book** on Imprest System for May, 2019.

1.	Petty cash opening Balance	23.00
1.	Received a cheque of required amount from Chief cashier to cover the imprest	
1.	Gift to workers for 'Kamgar Din'	41.00
3.	Purchased from Bombay Stationery Mart Ink pots, Files, Labels, Tixo Tapes, etc.	16.70
5.	Paid for repairs to door-locks.	4.40
7.	Telgram to Sangli office	6.35
10.	Cyclostyling charges	3.90
12.	Advance to Danesh, a office boy	50.00
15.	Subscription for Shivjayanti Utsav	25.00
17.	Loading charges to Dhiraaj Transporters	14.20
19.	Paid to Padma Advertisers for advertisement of goods	35.60
22.	ST fare paid to Accounts Clerk, Dugad	12.50
24.	Octroi Duty paid at Daund octroi naka	37.15
27.	Cold drinks to suppliers	20.00
29.	Old newspapers sold	19.60
31.	Rickshaw charges to Accountant, Durani	21.80

SOLUTION

In the books of Dinesh Trading Co., Daund
Analytical Petty Cash Book on Imprest System for May, 2019

ILLUSTRATION 14

From the following transactions of Chaugule Enterprises, Chalisgaon for July, 2019 prepare an **Analytical Petty Cash Book on Imprest System**.

1.	Drew from Bank for Petty Cash	400.00
3.	Purchased Gum Bottles and Plastic Tray	37.00
6.	STD call to Kalyan Office	23.50
8.	Paid for carriage on purchase of goods	11.70
10.	Tea and lunch to staff	42.10
12.	Travelling allowance paid to Manager	24.60
15.	Paid for washing charges to Peon	17.30
18.	Sales promotion charges paid	29.20
19.	Tips to waiters	15.00
20.	Purchased cinema tickets for Chaugule family	65.00
22.	Subscription for Ganesh Utsav	25.00
24.	Typewriting Ribbons	14.40
26.	Collections made from private calls	21.00
28.	Telegram to Auditors	8.20
30.	Paid for customs charges	38.00

Also pass necessary journal entries to record the above mentioned petty cash transactions separately into the journal.

SOLUTIONS

In the books of Chaugule Enterprises, Chalisgaon
Analytical Party Cash Book on Imprint System for July 2019

Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
1 st July	Petty Cash A/c To Bank A/c (Being the imprest amount withdrawn from Bank for petty cash)	Dr. – –	400.00 400.00	
31 st July	Printing and Stationary A/c Postage and Telegram A/c Freight A/c Advertisement A/c Sundry Expenses A/c Travelling Expenses A/c C's Drawing's A/c To Collection from Private Calls A/c To Petty Cash A/c (Being the analysis of payments and receipts for July incorporated in the Petty Cash Book)	Dr. Dr. Dr. Dr. Dr. Dr. Dr. – –	51.40 31.70 49.70 29.20 99.40 24.60 65.00 21.00 330.00	
1 st August	Petty Cash A/c To Bank A/c (Being the imprest amount withdrawn from Bank for Petty Cash)	Dr. – –	330.00 330.00	
		Total	1,081	1,081

QUESTIONS FOR SELF-STUDY**I. Theory Questions :**

- What is Cash Book ? Explain the different types of Cash Book.
- "Cash Book is both a Journal as well as a Ledger". Explain.
- Define a Cash Book. State the advantages of Cash Book.
- Why does Cash Account never represents a credit balance ?
- Explain the necessity of two columns Cash Book.
- State the importance of Cash Book with Cash, Bank and Discount columns.
- What is Petty Cash Book ? Why it is prepared in addition to the Cash Book ?
- Explain in brief the Imprest System of Petty Cash Book.
- State the advantages of Imprest System of Petty Cash Book.
- What purposes does an Analytical Petty Cash Book serve ?

xii) Write short notes on :

- Advantages of Three Column Cash Book
- Dishonour of a cheque
- Imprest System of Petty Cash Book
- Contra Entries
- Balancing of Three Column Cash Book

xiii) Differentiate between :

- Bearer Cheque and Crossed Cheque
- Contra Entries and Transfer Entries
- Bank Balance and Bank Overdraft
- Cash Discount and Trade Discount
- Modern Cash Book and Conventional Cash Book.

II. Practical Problems :

i) Enter the following transactions in Cash Book with Cash and Discount Columns for June, 2019.

		₹
1	Cash in hand	1,500
5	Paid to Ramrao and	300
	Discount allowed by him	10
8	Purchased goods	400
9	Received from Gopal and	980
	Discount allowed to him	20
16	Sold goods	400
21	Paid to Shankar and	275
	Discount received	5
25	Paid wages	50
30	Paid to Narayan in full settlement of his account which shows a credit balance of ₹ 400	390

ii) Prepare a simple Cash Book from the following transaction of Ramachandra for June, 2019.

		₹
1	Ramchandra commenced business with cash	8,000
2	He bought goods for cash	5,000
3	Sold goods for cash	100
6	Received cash from Mohan Kumar	360
8	Allowed him discount	20
10	Paid into Bank	3,000
15	Paid cash to Mr. Harikishan	215
15	Discount allowed	10
17	Sold goods for cash	1,500
19	Paid for stationery	35
22	Paid for purchase of office furniture	185
24	Received from Kailashchand and allowed him discount	680
25	Paid for Advertisement	90
26	Purchased postal stamps	8
29	Paid electricity charges	115

- iii) Enter the following transaction in a Two Column Cash Book for June, 2019.

		₹
1	Started business with cash	20,000
2	Opened Current Account with Bank of Maharashtra	8,000
3	Bought goods by cheque	150
4	Received cheque from Ram	200
4	Allowed him discount	10
5	Sold goods for Cash	40
7	Paid into Bank Cash	300
10	Paid to Shamrao by cheque	345
	Discount received	5
12	Paid carriage by cheque	180
15	Drew from Bank for office use	200
30	Paid wages by cheque	600

- iv) Make the following entries in Two Column Cash Book for June, 2019.

		₹	Ps.
1	Cash in Hand	3,151	20
1	Cash at Bank	91,401	10
2	Discounted a bill for ₹ 1,000 @ 1% through bank		
5	Bought goods for ₹ 2,000 paid cheque for them and discount allowed @ 1%		
7	Paid trade expenses	120	00
17	Paid Sales Tax	400	00
19	Paid insurance charges	100	00
25	Sold goods for ₹ 12,500 received cheque and discount allowed @ 1%		
27	Received cheque from Joshi and Co.	6000	00
30	Purchased 100 articles of ₹ 100 each at ₹ 75 each and paid for them by cheque	7,500	00

- v) Insert the following transactions in Tabular Petty Cash Book the imprest is ₹ 40 for February, 2019.

		₹	Ps.
1	Chawkidar's wages	15	00
2	Pencils	5	25
4	Railway Freight on account of books	2	30
12	Postal Stamps	1	25
14	Telegrams	6	00
15	Sundry Expenses	0	80

- vi) From the undermentioned particulars, write out Petty Cash Book on the Imprest System. On 1st Jan. 2019, a cheque was drawn of ₹ 75 for Petty Cash. On 2nd Jan., Postal stamps valued at ₹ 10.50 were purchased. On 3rd Jan. a telegram was sent at a cost of ₹ 5.10 and stationary bought for ₹ 8.25 auto charges paid ₹ 10.50 and ink purchased ₹ 4.00. On 4th Jan. ₹ 2.50 paid for Auto and ₹ 1.50 for carriage. On 5th Jan. carriage on goods sold paid ₹ 5.00 and on 6th Jan. printing amounting to ₹ 7.25 were paid.
- vii) Enter the following transactions in Conventional Cash Book for June, 2019,

1	Opening Balance	2,500
2	Cash Sales	2,000
3	Cash purchases from Diwan	2,000
5	Credit sales to Amar	2,500
7	Credit purchases from Abhijeet	3,700
9	Cash withdrawn from Bank	700
10	Goods return by Amar	500
11	Cheque received from Amar	2,000
16	Salary paid to Deshpande	500
17	Commission received from Kumbhojker	1,500
18	Bank charges debited by Bank	15

2.6 LEDGER

Ledger is the main book of accounts. It is also called as the "Principal Book of Accounts". Actually, Journal is written only for posting entries into the Ledger. Every entry, recorded in Journal, must be posted into the **Ledger** in the respective ledger accounts. A Journal records the business transactions but it cannot provide information regarding any particular person, particular asset, income or expense, collectively, because the transactions in Journal, are recorded datewise and not accountwise. We get such collective information in account, which records the transactions relating to that particular account head only. e.g. in Madhav's Account, we get all the information of dealings with Madhav. In Cash Account, we get all information about incoming cash and outgoing cash. For each person, each asset, each head of expenditure, and each head of income, a separate account is opened and a book containing all such accounts is called **Ledger**. After recording the transactions in the journal, the next stage is the transfer of transactions in the respective accounts opened in the ledger.

Meaning

A **ledger** is a principal book which contains all the accounts i.e. Assets, Liabilities, Capital, Revenue, Expenses, to which the transactions recorded in the books of original entry are transferred. As the ledger is the ultimate destination of all transactions, the ledger is called the '**Book of Final Entry**'. It is considered a permanent record and is more frequently referred to. It may be noted that an account is a formal record of all transactions relating to change in a particular item.

Definition

- i) The definition of the term 'Ledger' given by eminent authors and the prominent organizations in the field of Financial Accounting are summarised as follows :

"A group of accounts is known as a Ledger. The General Ledger is the main book of accounts, it contains an account for each asset, liability, proprietorship, revenue and expense account. The Ledger contains the same information as the Journal. However, in the Journal, each transaction is completely recorded as a unit. The entire effect of the transaction is completely recorded in one place in the Journal. Periodically, the same information is posted to the Ledger where it is accumulated according to the individual items. The Ledger includes all the basic accounts needed for the preparation of the financial statements".

- ii) S. P. Jain and K. L. Narang,

"A ledger account may be defined as a summary, statement of all the transactions relating to persons, assets, expenses or incomes which have taken place during a given period of time and shows their net effect".

- iii) Oxford Dictionary:

"Main record of accounts of a business, traditionally a ledger was a large book with separate pages for each account. In modern systems, ledger may consist of separate cards or computer records".

Form of the Ledger

A ledger may be kept in the form of bound books, loose leaf sheets, floppy diskettes or CDs or RCDs or DBDs in case computer is used, or any other like device. Ledger is a bound book containing different accounts on different pages. These pages are called folios, and are consecutively numbered. For each account a separate page is provided. If entries exceed one page, new page is allotted to that account and the number of that page is shown at the end of the old page.

An index is written at the beginning of the Ledger. The page number on which a particular account appears is shown against the name of the account in the index.

Format of a Ledger Account

A ledger account can be prepared in any one of the following two forms shown below.

Form 1 : Account Format

(Name of the Account)

Ledger Folio No.

Dr.	Particulars	Journal Folio	Amount ₹	Date	Particulars	Journal Folio	Amount ₹	Cr.
	Total					Total		

Form 2 : Statement Format

(Name of the Account)

Ledger Folio No.

Date	Particulars	Journal Folio	Debit Amount ₹	Credit Amount ₹	Balance Amount ₹	Dr./Cr.
	Total					

Every account has "head of account" i.e. "name of account" recorded at the top of the account. Each ledger account is divided into two sides.

- Left hand side which is known as Debit side (word "Dr" is written to denote Debit side).
- Right hand side which is known as Credit side (word "Cr" is written to denote Credit side).

Each side has four columns viz., Date, Particulars, Journal Folio and Amount.

i) **Date Column :**

In this column, date of the transaction is written (the same as in Journal).

ii) **Particulars Column :**

Following is the procedure for writing entries in this column.

Every transaction involves two accounts :

- Write on debit side of an account which is debited in Journal, the name of account which is credited.
- Write on credit side of an account which is credited in Journal, the name of account which is debited.
- For every entry appearing on debit side of an account, begin with the word "To" and
- For every entry appearing on credit side of an account, begin with the word "By".

iii) **Journal Folio Column :**

In this column, Journal Folio or page number of Journal on which the respective journal entry is recorded, is written.

iv) **Amount Column :**

The amount of the transaction is written in this column.

Ledger Posting

The act of recording the transaction from Journal into the Ledger is known as ledger posting. Therefore ledger posting would be correct only if the journal entries are correct. Ledger posting can be illustrated as follows :

June 20, 2019 : Bought goods from Prashant ₹ 20,000 on credit.

The Ledger posting to be made is as follows :

- Purchases A/c is debited by ₹ 20,000, and "To Prashant A/c" is written in particular column.
- Prashant A/c is credited by ₹ 20,000 and "By Purchases A/c" is written in particular column.

Journal (Page No. 44)

Date 2019 June	Particulars	L.F.	Debit ₹	Credit ₹
20.	Purchases A/c To Prashant A/c (Being goods purchased from Prashant)	Dr. 34 52	20,000	20,000

Ledger

Dr. **Purchases Account (Page No. 34)** **Cr.**

Date 2019 June	Particulars	J.F.	Amount ₹	Date 2019 June	Particulars	J.F.	Amount ₹
20.	To Prashant	44	20,000				

Dr. **Prashant Account (Page No. 52)** **Cr.**

Date 2019 June	Particulars	J.F.	Amount ₹	Date 2019 June	Particulars	J.F.	Amount ₹
				20.	By Purchases	44	20,000

Rule for Posting to Ledger

DEBIT ENTRIES IN JOURNAL – TO DEBIT IN LEDGER ACCOUNT
CREDIT ENTRIES IN JOURNAL – TO CREDIT IN LEDGER ACCOUNT

Procedure of Posting

The procedure of posting is given as follows:

Procedure of Posting for an Account, which has been Debited in a Transaction

- Step 1 : With the help of an Index, open that page on which the concerned account appears.
- Step 2 : Enter the date of the transaction, in the 'Date column' on the debit side.
- Step 3 : Record the name of the account credited in the journal, in the 'Particulars column' on the debit side as "To ... (name of the account credited)...".
- Step 4 : Record the page number of the Journal in the 'Folio column' on the debit side and in the journal, write the page number of the ledger on which a particular account appears in the 'Ledger Folio column'.
- Step 5 : Enter the relevant amount in the 'Amount column' on the debit side.

Procedure of Posting for an Account which has been Credited in a Transaction

- Step 1 : With the help of an Index, open that page on which the concerned account appears.
- Step 2 : Enter the date of the transaction, in the 'Date column' on the credit side.
- Step 3 : Record the name of the account debited in the journal, in the 'Particulars column' on the credit side as "By ... (name of the account debited)...".
- Step 4 : Record the page number of the Journal in the 'Folio column' on the credit side and in the journal, write the page number of the ledger on which a particular account appears in the 'Ledger Folio column'.
- Step 5 : Enter the relevant amount in the 'Amount column' on the credit side.

Balancing of Accounts

After posting into the ledger, the next stage is to ascertain the net effect of all transaction posted to an account i.e. balancing of Ledger Account.

Balance of an Account :

Balance of an account is the difference between the total of debits and total of credits appearing in an account. It signifies the net effect of all transactions posted to that account during a given period. It may be a debit balance or a credit balance or a nil balance depending upon whether the debit or the credit side total is higher.

Types of Accounts that are Balanced :

Normally, Personal Accounts and Real Accounts are balanced. Nominal Accounts are not usually balanced but are closed by the transfer to Trading Account and Profit and Loss Account.

Significance of Balancing :

Balancing an account is necessary to ascertain the net effect of all transactions posted to the account during a given period.

Procedure for Balancing :

The procedure for balancing a ledger account is given below :

At the end of a particular period (normally at the end of each month or year) the accounts are balanced. The steps taken for balancing are as follows :

- Step 1** : Take totals of both the sides of the account on rough paper.
- Step 2** : Work out the difference between the totals of both the sides.
- Step 3** : Enter this difference in amount column of lighter (lesser) side and make the totals of two sides equal. This difference will be a balance of that account.
- Step 4** : Write, in particulars column against this balance amount, words 'To Balance C/D' or 'By Balance C/D' as the case may be (C/D means carried down for next period).
- Step 5** : Now total of two sides will tally. See that these totals appear on the same line.
- Step 6** : Draw a line before writing such totals and draw double lines after writing such totals in amount columns only.
- Step 7** : Bring down the balance for the next period or month on the opposite side of that account with the words "To Balance B/D" (brought down) or "By Balance B/D" as the case may be.

Example showing balancing of Cash Account is given below :

Dr.	Cash Account					Cr.
	Date 2019 June	Particulars	J.F.	Amount ₹	Date 2019 June	
01	To Capital			40,000	5	By Mohan
18	To Sales			5,000	10	By Purchases
					28	By Rent
					29	By Salary
					31	By Balance C/D
				45,000		
July 1.	To Balance B/D			38,000		
						45,000

Types of Balances :

There are three types of balances :

i) Debit Balance :

When the debit side of an account is larger in amount than the credit side, it has a Debit Balance.

ii) Credit Balance :

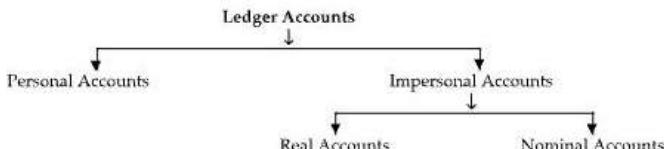
When the credit side of an account is larger in amount than the debit side, it has a Credit Balance.

iii) Nil Balance :

When the totals of debits and credits are equal, it has a Nil Balance which occurs rarely.

Classification of Ledger

Ledger is a chief book of accounts, and it is in this book that all business transactions would ultimately find their place under their respective accounts in a duly classified form.



i) Personal Account :

If personal Account has a debit balance, it shows the total dues from him i.e. Debtors Account. If it has a credit balance it shows amount payable to him i.e. Creditors Account.

ii) Real Account :

All real accounts always have debit balances which are treated as properties and assets.

iii) Nominal Account :

All expenses and losses have debit balances and all gains and incomes have credit balances.

Preparation of Trial Balance

After completion of ledger posting to respective accounts they are balanced and their ledger balances are found out. To test the arithmetical accuracy of the books of accounts and to verify whether double entry principles are strictly followed, a statement is prepared known as Trial Balance. It shows the list of accounts showing debit balances and credit balances separately, the total of which must agree at the end. The Trial Balance is prepared as follows :

In the books of Trial Balance as on					
Sr. No.	Head of Account	L.F.	Debit ₹	Credit ₹	
i)	Personal Accounts : • Showing Debit Balances (i.e. amount due from) • Showing Credit Balances (i.e. amount due to)		***	***	
ii)	Real Accounts : • Showing Debit Balances only (i.e. assets)		***		
iii)	Nominal Accounts : • Showing Debit Balances (i.e. expenses/loss) • Showing Credit Balances (i.e. incomes/gain)	Total	***	**	

Sub-division of Ledger

Generally, all ledger accounts are put into five categories, viz.

- | | | |
|-----------------|---|----------------------------|
| i) Assets | } | known as Permanent Account |
| ii) Liabilities | | |
| iii) Capital | | |
| iv) Revenues | | |
| v) Expenses | } | known as Temporary Account |

All permanent accounts are balanced and carried forward to the next accounting period. The temporary accounts are closed at the end of accounting period by transfer to the Trading A/c and Profit and Loss Account. All permanent accounts will appear in the Balance Sheet. Thus, all assets, liabilities and capital nature accounts are permanent accounts and all revenues and expenses accounts are temporary accounts. This sub-division is also useful in preparing financial statements.

Distinction between Journal and Ledger

Journal differs from the Ledger in the following respects :

Basis of Distinction	Journal	Ledger
i) Nature of book	It is book of original prime entry .	It is book of final or secondary entry . Ledger may be Personal, Real and Nominal in nature.
ii) Basis for preparation	It is prepared on the basis of source documents of transactions	It is prepared on the basis of journal and subsidiary books.
iii) Stage of recording	Recording in the journal is the first stage of accounting.	Recording in the ledger is the second stage of accounting.
iv) Object	It is prepared to record all transactions in chronological order .	It is prepared to know the net effect of various transactions affecting a particular account.
v) Format	In journal, there are five columns : • Date • Particulars • Ledger Folio • Debit Amount • Credit Amount	In ledger, there are identical four columns on debit side and credit side. • Date • Particulars • Journal Folio • Amount
vi) Balancing	Journal is not balanced . But total of debit and credit amount is always equal.	All ledger accounts (except nominal account) are balanced in the ledger.
vii) Narration	Narration is written for each entry	No narration is given
viii) Name of the process of recording entries	The process of recording in journal is called ' Journalising '.	The process of recording in the ledger is called ' Ledger Posting '.
ix) Basis for preparation of final accounts	Journal does not serve as basis for the preparation of final accounts.	Ledger serves the basis for the preparations of final accounts.
x) Promptness of information	Journal does not provide the information on prompt basis.	Ledger provide the information of each individual account on prompt basis after posting the entries.

Utility of the Ledger

The main utilities of a ledger are summarised as follows :

- It provides complete information about all accounts in one book.
- It enables to ascertain what the main items of revenues are.
- It enables to ascertain what the main items of expenses are.
- It enables to ascertain what the assets are and of what values.
- It enables to ascertain what the liabilities are and of what amounts.
- It facilitates the preparation of Trial Balance and Final Accounts.
- It enables to ascertain the relationship of the firm in respect of particular accounts on a given date.
- It enables to ascertain which accounts are used for decision-making.

Practical Hints

- i) If the debit side of an account is heavier than its credit side the balance is called a **debit balance** which indicates that,
 - Personal Accounts Sundry Debtors.
 - Real Accounts Value of Assets or Properties.
 - Nominal Accounts Business Expenses and Losses.
- ii) If the credit side of an account is heavier than its debit side the balance is called a **credit balance** which indicates that,
 - Personal Accounts Sundry Creditors.
 - Real Accounts xxx.
 - Nominal Accounts Business Incomes and Gains.
- iii) If the debit side of an account is equals to the credit side, it is called a **nil balance** which occurs very rarely.

ILLUSTRATIONS**ILLUSTRATION 1**

On 22nd April, 2019 Mohan, a customer, paid cash ₹ 980 in full settlement of his account of ₹ 1,000. Journalise and post it into the ledger.

SOLUTION

Date 2019 April	Particulars	Journal		Page No. 9	
		L.F.	Debit ₹	Credit ₹	
22.	Cash A/c Discount Allowed A/c To Mohan A/c (Being the cash received from Mohan in full settlement).	Dr. Dr. 8	1 4 8	980 20 1,000	

Dr.	Ledger Cash Account				Page No. 1 Cr.			
	Date 2019 April	Particulars	J.F.	Amount ₹	Date 2019 April	Particulars	J.F.	Amount ₹
22.	To Mohan	9	980					

Dr. Discount Allowed Account							Page No. 4 Cr.	
Date 2019 April	Particulars	J.F.	Amount ₹	Date 2019 April	Particulars	J.F.	Amount ₹	
22.	To Mohan	9	20					

Dr. Mohan Account							Page No. 8 Cr.	
Date 2019 April	Particulars	J.F.	Amount ₹	Date 2019 April	Particulars	J.F.	Amount ₹	
				22. 22.	By Cash By Discount Allowed	9 9	980 20	

ILLUSTRATION 2

Journalise the following transactions in the books of Madhav, post them into the ledger and balance the account for January, 2019 and also prepare a Trial Balance as on 31st January, 2019.

- 1 Madhav started business with ₹ 15,000.
- 8 Bought goods ₹ 2,100 from Atul on credit.
- 12 Withdraw cash ₹ 200 for personal use.
- 15 Paid ₹ 1,500 to Atul on his account.
- 24 Bought goods ₹ 800 for cash.
- 28 Brought additional capital ₹ 1,200.
- 30 Bought goods ₹ 1,000 from Atul on credit.

SOLUTION

In the Books of Madhav Journal					Page No. 1	
Date 2019 January	Particulars			L.F.	Debit ₹	Credit ₹
1 st	Cash A/c To Madhav's Capital A/c (Being business started with cash)		Dr.	3 1	15,000	15,000
8 th	Purchases A/c To Atul A/c (Being goods brought on credit)		Dr.	4 5	2,100	2,100
12 th	Madhav's Drawing's A/c To Cash A/c (Being cash withdrawn for personal use)		Dr.	2 3	200	200

Date 2019 January	Particulars	L.F.	Debit ₹	Credit ₹
15 th	Atul's A/c To Cash A/c (Being paid on account)	Dr. 5 3	1,500	1,500
24 th	Purchases A/c To Cash A/c (Being cash purchases made)	Dr. 4 3	800	800
28 th	Cash A/c To M's Capital A/c (Being additional capital brought)	Dr. 3 1	1,200	1,200
30 th	Purchases A/c To Atul A/c (Being goods brought on credit)	Dr. 4 5	1,000	1,000
Total			21,800	21,800

Ledger

Page No. 1

Dr.	Madhav's Capital Account					Cr.	
Date 2019 Jan.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹
31	To Balance C/D		16,200	1 28 Feb. 1	By Cash By Cash By Balance B/D	1 1	15,000 1,200 16,200 16,200

Page No. 2

Dr.	Madhav's Drawing Account					Cr.	
Date 2019 Jan.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹
12 Feb. 1	To Cash To Balance B/D	1 1	200 200 200	31	By Balance C/D		200 200 200

Page No. 3

Dr.	Cash Account					Cr.	
Date 2019 Jan.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹
1 28 Feb. 1	To M's Capital To M's Capital To Balance B/D	1 1 1	15,000 1,200 13,700	12 15 24 31	By M's Drawing By Atul By Purchases By Balance C/D	1 1 1 1	200 1,500 800 13,700 16,200

Dr.	Purchases Account						Page No. 4 Cr.	
	Date 2019 Jan.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹
8	To Atul		1	2,100	31	By Balance C/D		3,900
24	To Cash		1	800				
30	To Atul		1	1,000				
Feb.				3,900				
1	To Balance B/D			3,900				3,900

Dr.	Atul Account						Page No. 5 Cr.	
	Date 2019 Jan.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹
15	To Cash		1	1,500	5	By Purchases	1	2,100
31	To Balance C/D			1,600	30	By Purchases	1	1,000
				3,100	Feb.			3,100
					1	By Balance B/D		1,600

With the help of above ledger balances, the Trial Balance is prepared at the end of every month which can be shown in the following manner.

Trial Balance as on 31st January 2019

Sr. No.	Head of Account	L.F.	Debit ₹	Credit ₹
i)	Madhav's Capital	1		16,200
ii)	Madhav's Drawing	2	200	
iii)	Cash	3	13,700	
iv)	Purchases	4	3,900	
v)	Atul	5		1,600
	Total		17,800	17,800

ILLUSTRATION 3

Prepare necessary ledger accounts from the following transactions in the books of Ram Bandhu and balance the same for January, 2019.

- 1 Started business with Cash ₹ 18,500.
- 2 Opened an account with Bank of Baroda depositing ₹ 6,000.
- 4 Purchased stationery ₹ 25.
- 8 Purchased goods on credit from Meera Sales Corporation ₹ 1,500.
- 12 Purchased Machinery from Vishal Engineering Co. Ltd. for cash ₹ 750.
- 15 Sold goods for cash ₹ 550.
- 20 Paid Salary to Menon ₹ 250.
- 22 Deposited into Bank of India ₹ 500.
- 26 Received Commission from Mahesh ₹ 100.
- 28 Withdraw cash ₹ 100 for personal use.
- 29 Paid to Meera Sales Corporation ₹ 1,000 by cheque.

SOLUTION

**In the books of Ram Bandhu
Ledger**

Cash Account				Cr.			
Date 2019 Jan.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹
1	To Ram's Capital		18,500	2	By Bank of Baroda		6,000
15	To Sales		550	4	By Stationery		25
26	To Commission		100	12	By Machinery		750
				20	By Salary		250
				22	By Bank of Baroda		500
				28	By R's Drawings		100
				31	By Balance C/D		11,525
			19,150				19,150
Feb. 1	To Balance B/D		11,525				

Ram's Capital Account				Cr.			
Date 2019 Jan.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹
31	To Balance C/D		18,500	1	By Cash		18,500
			18,500	Feb.			18,500
				1	By Balance B/D		18,500

Bank of Baroda Account				Cr.			
Date 2019 Jan.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹
2	To Cash		6000	29	By Meera Sales		
22	To Cash		500		Corporation		1,000
				31	By Balance C/D		5,500
							6,500
Feb. 1	To Balance B/D		6,500				
			5,500				

Sales Account				Cr.			
Date 2019 Jan.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹
31	To Balance C/D		550	15	By Cash		550
			550	Feb.			550
				1	By Balance B/D		550

Dr.				Stationery Account			Cr.	
Date 2019 Jan.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹	
4	To Cash		25	31	By Balance C/D		25	
Feb.			25				25	
1	To Balance B/D		25					

Dr.				Purchases Account			Cr.	
Date 2019 Jan.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹	
8	To Meera Sales Corporation		1,500	31	By Balance C/D		1,500	
Feb.			1,500				1,500	
1	To Balance B/D		1,500					

Dr.				Meera Sales Corporation Account			Cr.	
Date 2019 Jan.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹	
29	To Bank of Baroda		1,000	8	By Purchases		1,500	
	To Balance C/D		500				1,500	
31			1,500				500	
				Feb.				
				1	By Balance B/D			

Dr.				Machinery Account			Cr.	
Date 2019 Jan.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹	
12	To Cash		750	31	By Balance C/D		750	
Feb.			750				750	
1	To Balance B/D		750					

Dr.				Salary Account			Cr.	
Date 2019 Jan.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹	
20	To Cash		250	31	By Balance C/D		250	
Feb.			250				250	
1	To Balance B/D		250					

Commission Account				Cr.			
Date 2019 Jan.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹
31	To Balance C/D		100	26	By Cash		100
			100	Feb.			100
				1	By Balance B/D		100

R's Drawings Account				Cr.			
Date 2019 Jan.	Particulars	J.F.	Amount ₹	Date 2019 Jan.	Particulars	J.F.	Amount ₹
28	To Cash		100	31	By Balance C/D		100
			100				100
			100				

ILLUSTRATION 4

Journalise the following transactions of Akbar, post them into the necessary ledger accounts and balance the same for March, 2019. Also prepare a Trial Balance for the test of accuracy.

1. Started business with ₹ 10,000.
4. Bought goods from Babar ₹ 2,000 @ 5% Trade Discount.
7. Paid to Chandar ₹ 450 for rent of factory premises.
10. Invoiced goods to Kadar ₹ 6,000.
14. Paid to Babar on account ₹ 600.
17. Commission received from Surinder ₹ 150.
21. Received from Kadar ₹ 1,000 on account.
24. Spot purchases made ₹ 700.
27. Machinery worth ₹ 15,000 brought into the business.
31. Cash Sales ₹ 3,000 @ 20% Trade Discount.

SOLUTION

In the books of Akbar
Journal

Date 2019 March	Particulars	L.F.	Debit ₹	Credit ₹
1st	Cash A/c To Akbar's Capital A/c (Being started business with cash)	Dr. — —	10,000 10,000	
4th	Purchases A/c To Babar A/c (Being goods purchased from Babar @ 5% Trade Discount)	Dr. — —	1,900 1,900	

Date 2019 March	Particulars	L.F.	Debit ₹	Credit ₹
7th	Rent A/c To Cash A/c (Being rent paid for factory premises to Chandar)	Dr.	— 450	450
10th	Kadar A/c To Sales A/c (Being goods sold to Kadar)	Dr.	— 6,000	6,000
14th	Babar A/c To Cash A/c (Being cash paid to Babar on account)	Dr.	— 600	600
17th	Cash A/c To Commission A/c (Being commission received from Surinder)	Dr.	— 150	150
21st	Cash A/c To Kadar A/c (Being cash received from Kadar on account)	Dr.	— 1,000	1,000
24th	Purchases A/c To Cash A/c (Being spot purchases made)	Dr.	— 700	700
27th	Machinery A/c To Akbar's Capital A/c (Being Machinery brought into business)	Dr.	— 15,000	15,000
31st	Cash A/c To Sales A/c (Being cash sales made @ 20% Trade Discount).	Dr.	— 2,400	2,400
		Total	38,200	38,200

Dr. Date 2019 March	Cash Account					Cr. J.F. Amount ₹
	Particulars	J.F.	Amount ₹	Date 2019 March	Particulars	J.F. Amount ₹
1	To A's Capital		10,000	7	By Rent	450
17	To Commission		150	14	By Babar	600
21	To Kadar		1,000	24	By Purchases	700
31	To Sales		2,400	31	By Balance C/D	11,800
			13,550			13,550
April 1	To Balance B/D		11,800			

Akbar's Capital Account							
Date 2019 March	Particulars	J.F.	Amount ₹	Date 2019 March	Particulars	J.F.	Cr. Amount ₹
31	To Balance C/D		25,000	1	By Cash		10,000
				27	By Machinery		15,000
			25,000	April			25,000
				1	By Balance B/D		25,000

Purchases Account							
Date 2019 March	Particulars	J.F.	Amount ₹	Date 2019 March	Particulars	J.F.	Cr. Amount ₹
4 24	To Babar		1,900	31	By Balance C/D		2,600
			700				
			2,600				2,600
			2,600				
April 1	To Balance B/D						

Babar Account							
Date 2019 March	Particulars	J.F.	Amount ₹	Date 2019 March	Particulars	J.F.	Cr. Amount ₹
14 31	To Cash		600	4	By Purchases		1,900
			1,300				1,900
			1,900	April			1,900
				1		By Balance B/D	1,300

Rent Account							
Date 2019 March	Particulars	J.F.	Amount ₹	Date 2019 March	Particulars	J.F.	Cr. Amount ₹
7 April 1	To Cash		450	31	By Balance C/D		450
			450				450
			450				
1	To Balance B/D						

Kadar Account							
Date 2019 March	Particulars	J.F.	Amount ₹	Date 2019 March	Particulars	J.F.	Cr. Amount ₹
10 April 1	To Sales		6,000	31	By Cash A/c By Balance C/D		1,000
				31			5,000
			6,000				6,000
1	To Balance B/D		5,000				

Dr.				Sales Account			Cr.
Date 2019 March	Particulars	J.F.	Amount ₹	Date 2019 March	Particulars	J.F.	Amount ₹
31	To Balance C/D		8,400	10	By Kadar		6,000
				31	By Cash		2,400
			8,400	April			8,400
				1	By Balance B/D		8,400

Dr.				Commission Account			Cr.
Date 2019 March	Particulars	J.F.	Amount ₹	Date 2019 March	Particulars	J.F.	Amount ₹
31	To Balance C/D		150	17	By Cash		150
			150	April			150
				1	By Balance B/D		150

Dr.				Machinery Account			Cr.
Date 2019 March	Particulars	J.F.	Amount ₹	Date 2019 March	Particulars	J.F.	Amount ₹
27 April 1	To A's Capital		15,000	31	By Balance C/D		15,000
			15,000				15,000
			15,000				
	To Balance B/D						

Trial Balance as on 31st March, 2019

Sr. No.	Head of Account	L.F.	Debit ₹	Credit ₹
i)	Cash		11,800	
ii)	Akbar's Capital			25,000
iii)	Purchases		2,600	
iv)	Babar			1,300
v)	Rent		450	
vi)	Kadar		5,000	
vii)	Sales			8,400
viii)	Commission			150
ix)	Machinery		15,000	
	Total		34,850	34,850

ILLUSTRATION 5

Following ledger balances appear in the books of Mohan as on 1st May, 2019.

Debit Balances	₹	Credit Balances	₹
Machinery	95,000	M's Capital	65,000
Cash	25,000	Bank	5,000
Mahesh	19,000	Manoj	12,000
Purchase	36,000	Sales	92,000
Returns Inward	1,000	Returns Outward	2,000
Total	1,76,000	Total	1,76,000

His transactions during the month were as follows :

2. Introduced ₹ 15,000 as additional capital.
5. Sold goods to Mahesh ₹ 4,000 @ 5% Trade Discount.
9. Deposited into Bank ₹ 10,000.
12. Bought goods from Manoj ₹ 1,000 @ 10% Trade Discount.
15. Salary paid to works assistant – Manik ₹ 1,200.
16. Invoiced goods to Milind ₹ 6,000 for cash @ 15% Cash Discount.
18. Defective goods received from Mahesh ₹ 400 gross.
22. Machinery costing ₹ 4,000 purchased from Mangesh and paid by cheque.
24. Damaged goods returned to Manoj ₹ 100 net.
29. Paid to Manoj ₹ 4,300 on account.
30. Unproductive Machinery sold for ₹ 5,000 to Mayur for cash.
31. Withdrawn from Bank ₹ 500 for office use.

You are required to pass necessary journal entries, post them in ledger accounts, balance the same and prepare a Trial Balance.

SOLUTION

**In the books of Mohan
Journal**

Date 2019 May	Particulars	L.F.	Debit ₹	Credit ₹
2 nd	Cash A/c To Mohan's Capital A/c (Being cash introduced by Mohan as additional capital)	Dr. – –	15,000 15,000	
5 th	Mahesh A/c To Sales A/c (Being goods sold to Mahesh @ 5% Trade Discount)	Dr. – –	3,800 3,800	
9 th	Bank A/c To Cash A/c (Being cash deposited into Bank)	Dr. – –	10,000 10,000	

Date 2019 May	Particulars	L.F.	Debit ₹	Credit ₹
12 th	Purchases A/c To Manoj A/c (Being goods purchased from Manoj @ 10% Trade Discount)	Dr. — —	900 900	
15 th	Wages A/c To Cash A/c (Being wages paid to works assistant, Manik)	Dr. — —	1,200 1,200	
16 th	Cash A/c Discount Allowed A/c To Sales A/c (Being goods sold to Milind @ 15% Cash Discount for cash)	Dr. Dr. —	5,100 900 6,000	
18 th	Returns Inward A/c To Mahesh A/c (Being defective goods received from Mahesh)	Dr. — —	380 380	
22 nd	Machinery A/c To Bank A/c (Being Machinery purchased from Mangesh and paid by cheque)	Dr. — —	4,000 4,000	
24 th	Manoj A/c To Returns Outward A/c (Being damaged goods returned to Manoj)	Dr. — —	100 100	
29 th	Manoj A/c To Cash A/c (Being cash paid to Manoj on account)	Dr. — —	4,300 4,300	
30 th	Cash A/c To Machinery A/c (Being unproductive Machinery sold for cash)	Dr. — —	5,000 5,000	
31 st	Cash A/c To Bank A/c (Being cash withdrawn from Bank for office use)	Dr. — —	500 500	
	Total		51,180	51,180

Ledger								
Dr.	Cash Account			Cr.				
Date 2019 May	Particulars	J.F.	Amount ₹	Date 2019 May	Particulars	J.F.	Amount ₹	
1	To Balance B/D		25,000	9	By Bank		10,000	
2	To M's Capital		15,000	15	By Wages		1,200	
16	To Sales		5,100	29	By Manoj		4,300	
30	To Machinery		5,000	31	By Balance C/D		35,100	
31	To Bank		500					
June			50,600				50,600	
	1	To Balance B/D	35,100					
Mohan's Capital Account							Cr.	
Dr.								
Date 2019 May	Particulars	J.F.	Amount ₹	Date 2019 May	Particulars	J.F.	Amount ₹	
31	To Balance C/D		80,000	1	By Balance B/D		65,000	
			80,000	2	By Cash		15,000	
				June			80,000	
					1	By Balance B/D	80,000	
Mahesh Account							Cr.	
Dr.								
Date 2019 May	Particulars	J.F.	Amount ₹	Date 2019 May	Particulars	J.F.	Amount ₹	
1	To Balance B/D		19,000	18	By Returns Inward		380	
5	To Sales		3,800	31	By Balance C/D		22,420	
June			22,800				22,800	
			22,420					
Sales Account							Cr.	
Dr.								
Date 2019 May	Particulars	J.F.	Amount ₹	Date 2019 May	Particulars	J.F.	Amount ₹	
31	To Balance C/D		1,01,800	1	By Balance B/D		92,000	
				5	By Mahesh		3,800	
				16	By Cash		5,100	
				16	By Discount Allowed		900	
			1,01,800	June			1,01,800	
					1	By Balance B/D	1,01,800	

Bank Account				Cr.					
Date 2019 May	Particulars	J.F.	Amount ₹	Date 2019 May	Particulars	J.F.	Amount ₹		
9	To Cash		10,000	1	By Balance B/D		5,000		
				22	By Machinery		4,000		
				31	By Cash		500		
				31	By Balance C/D		500		
June			10,000				10,000		
			500						
1	To Balance B/D								

Purchases Account				Cr.			
Date 2019 May	Particulars	J.F.	Amount ₹	Date 2019 May	Particulars	J.F.	Amount ₹
1	To Balance B/D To Manoj		36,000 900 36,900 36,900	31	By Balance C/D		36,900
							36,900
1	To Balance B/D						

Manoj Account				Cr.			
Date 2019 May	Particulars	J.F.	Amount ₹	Date 2019 May	Particulars	J.F.	Amount ₹
24	To Returns Outward 29 To Cash 31 To Balance C/D		100 4,300 8,500 12,900 1	1	By Balance B/D By Purchases		12,000
				12			900
				June			12,900
				1	By Balance B/D		8,500

Wages Account				Cr.					
Date 2019 May	Particulars	J.F.	Amount ₹	Date 2019 May	Particulars	J.F.	Amount ₹		
15	To Cash		1,200	31	By Balance C/D		1,200		
							1,200		
June			1,200						
			1,200						
1	To Balance B/D								

Dr.				Discount Allowed Account			Cr.
Date 2019 May	Particulars	J.F.	Amount ₹	Date 2019 May	Particulars	J.F.	Amount ₹
16	To Sales		900	31	By Balance C/D		900
June			900				900
1			900				

Dr.				Returns Inward Account			Cr.
Date 2019 May	Particulars	J.F.	Amount ₹	Date 2019 May	Particulars	J.F.	Amount ₹
1	To Balance B/D To Mahesh		1,000	31	By Balance C/D		1,380
18			380				1,380
June			1,380				1,380
1	To Balance B/D		1,380				

Dr.				Machinery Account			Cr.
Date 2019 May	Particulars	J.F.	Amount ₹	Date 2019 May	Particulars	J.F.	Amount ₹
1	To Balance B/D To Bank		95,000	30	By Cash By Balance C/D		5,000
22			4,000				94,000
June			99,000				99,000
1	To Balance B/D		94,000				

Dr.				Returns Outward Account			Cr.
Date 2019 May	Particulars	J.F.	Amount ₹	Date 2019 May	Particulars	J.F.	Amount ₹
31	To Balance C/D		2,100	1 24 June 1	By Balance B/D By Manoj		2,000
			2,100				100
							2,100
					By Balance B/D		2,100

Trial Balance as on 31st May, 2019

Sr. No.	Head of Account	L.F.	Debit ₹	Credit ₹
i)	Cash		35,100	
ii)	Mohan's Capital			80,000
iii)	Mahesh		22,420	
iv)	Sales			1,01,800
v)	Bank		500	
vi)	Purchases		36,900	
vii)	Manoj			8,500
viii)	Wages		1,200	
ix)	Discount Allowed		900	
x)	Returns Inward		1,380	
xi)	Machinery		94,000	
xii)	Returns Outward	Total	1,92,400	1,92,400

QUESTIONS FOR SELF-STUDY**I. Theory Questions :**

- i) What is Ledger ? State the importance of Ledger in Double Entry Book-keeping.
- ii) Explain the term 'Posting'. State the procedure of posting.
- iii) Give the specimen form of Ledger. Explain the use of Ledger in Accounting.
- iv) What is meant by 'Balancing of Account' ? Explain the procedure for balancing of a ledger account.
- v) What do you mean by an Account ? What are the different types of accounts ?
- vi) What do you mean by a Debit Balance and a Credit Balance of an account ?
- vii) Explain the significance of ledger balances in various types of account.
- viii) Differentiate between : a) Debit Balance and Credit Balance, b) Journal and Ledger, c) J. F. and L.F., d) Journalising and Ledger Posting.

II. Practical Problems :

- i) Journalise the following transactions of Manmohan Singh and post them into their respective ledger accounts for April, 2019.
 - 1 Manmohan brought in cash ₹ 85,000 to start a business, out of which he borrowed ₹ 5,000 from his friend Deedar Singh @ 10% p.a.
 - 4 Placed an order for purchase of goods worth ₹ 6,000 for which advance of ₹ 1,000 was given to Mohan Singh, the supplier.
 - 8 Purchased stationery for office use ₹ 950.
 - 9 Bought Furniture worth ₹ 3,800 from Pawan and paid him cash ₹ 800 on the spot.
 - 10 Received goods from Mohan as per our order dated 4th April and settled his account in cash.
 - 12 Paid cartage on goods ₹ 150.
 - 14 Goods distributed as free samples costing ₹ 200.
 - 16 Sold goods worth ₹ 8,000 to Deochand @ 25% Trade Discount, 50% of which on credit.
 - 17 Paid Freight ₹ 200 on behalf of Deochand.
 - 22 Sold goods for Cash ₹ 5,600 net @ 10% Cash Discount.
 - 24 Bought goods on two months credit from Sadashiv with instructions to send them to Sadanand. Worth ₹ 5,000 @ 20% Trade Discount.
 - 26 Sent to Sadanand our invoice for goods supplied by Sadashiv at list price.
- ii) You are asked to prepare Anil Account in the book of Sunil for May, 2019.
 - 1 Anil purchased goods from Sunil worth ₹ 20,000 @ 10% Trade Discount.
 - 7 Returned goods to Sunil ₹ 1,000 (Gross).
 - 11 Anil sold goods worth ₹ 6,000 @ 10% Trade Discount to Sunil.
 - 15 Sunil returned goods to Anil ₹ 500 (net).
 - 19 Anil paid ₹ 8,000 to Sunil.

- 21 Sunil paid ₹ 3,000 to Anil.
25 Anil placed an order with Sunil worth ₹ 200.
28 Sunil executed Anil's order of ₹ 200 on 25th.
- (iii) Journalise the following transactions, post them into Ledger for February, 2019.
- 1 Anil started business with goods ₹ 20,000 and cash ₹ 5,000 which were borrowed from Sushil.
 - 5 Bought goods worth ₹ 5,000 from Parag.
 - 6 Paid cash ₹ 150 to Deccan Queen Transport Co. for the carriage of goods.
 - 7 Sold goods ₹ 2,000 to Mira by cash.
 - 9 Bought goods from Anivash for ₹ 2,000.
 - 11 ₹ 4,000 deposited into Bank of Maharashtra.
 - 15 Paid ₹ 1,000 to Avinash on account.
 - 18 Sold goods for cash ₹ 3,000.
 - 19 Paid commission ₹ 50 by cheque to Mira.
 - 21 Paid telephone charges ₹ 150.
 - 25 Cash Purchases ₹ 2,000.
 - 28 Purchased a Cash counter from Happy Home for ₹ 1,500.

2.7 TRIAL BALANCE

In Double Entry System, for every transaction, equal amounts of debit and credit are recorded in the books of accounts. If all the transactions have been recorded perfectly, we can say that the total of the debits should be equal to the total of the credits. Similarly if all the ledger accounts have been correctly posted and balanced, the total of the accounts with the debit balances must be equal to the total of the accounts with credit balances.

On close of a financial year or on any day when final accounts are prepared, all the accounts from the ledger are balanced. After balancing the ledger accounts, an attempt is made to check the accuracy of the recording, posting and balancing by means of preparing schedule (list) of debit and credit balances of all accounts - known as - **Trial Balance**.

Under Double Entry Book-keeping system every debit has a corresponding credit. If various accounting entries are recorded correctly in various accounting books, a total of all debit balances of different accounts on a particular date must be equal to the total of all the credit balances of different accounts. Before preparing a **Trial Balance** all ledger accounts must be totalled or balanced properly.

A **Trial Balance** is usually prepared on loose sheets of ruled papers. It is just like a page of the journal or ledger. Generally there are four columns. Particulars, Ledger Folio, Debit Balance and Credit Balance. Date column is not necessary as the date on which the trial balance is prepared can be stated at the top of the sheet as Trial Balance as on The name of each account is entered in the particular column and the balance shown by it is entered against it in the appropriate column. i.e. Debit Balance in the Debit Column and Credit Balance in the Credit Column. Against each account, in ledger folio column, the folio of the ledger from which the balance is taken is mentioned.

The Cash and Bank Balance shown by Cash Book with Cash and Bank columns must also be included in the Trial Balance. Lists of Debtors and Creditors are prepared from the ledger and they are recorded as *Sundry Debtors* and *Sundry Creditors*. The value of stock of goods on hand, at the end of the year should not be included in **Trial Balance**. It may, however, be shown as a separate note at the end.

If transactions are correctly recorded, posted in the respective ledger accounts and if all the ledger accounts are balanced correctly, the total of debit and credit columns of **Trial Balance** should agree. Hence, Trial Balance proves arithmetical accuracy of the books of accounts.

For every transaction in the Double Entry System, equal rupee amounts of debits and credits are recorded in the books of accounts. If all the transactions have been recorded perfectly, we can say that the total of the debits should be equal to the total of the credits. Similarly, if all the accounts have been correctly balanced, the total of the accounts with debit balances, must be equal to the total of the accounts with credit balances.

Balance of account is the *difference* between the total of the debit side and that of the credit side of the same account. If the debit side total is higher, it is called a 'debit' balance and similarly, if the credit side total is greater, it is called a 'credit' balance.

The account balances are used to prepare the final accounts. An attempt is made to check the accuracy of the recording and posting of each transaction as well as the correct balancing of an account by means of preparing a schedule of balances of all accounts known as **Trial Balance**. A Trial Balance is simply a list of the names and balances of all the accounts in the ledger and cash book and listed in the order in which they appear in the ledger.

Thus, **Trial Balance** is a statement which shows either the balance or total amounts of debit balances and credit balances of all ledger accounts and cash and bank balances. It is a statement and not an account which is prepared on a particular date but not for particular period, with the important object of providing an arithmetical accuracy of ledger accounts.

Definitions

The accounting concept of Trial Balance is defined by various accounting professionals and eminent authors as follows :

i) **Eric L. Kohler :**

"It is a list of abstract of the balances or of totals debits and total credits of the accounts in a ledger, the purpose being to determine the equality of posted debits and credits and to establish a basic summary for financial statements".

ii) **Carter :**

"It is a schedule or list of those debit and credit balances which are extracted from various accounts in the ledger and balances of cash in hand and at bank as shown by the Cash Book are also included in it".

iii) **Rolland :**

"It is the final list of balances, totalled and combined".

Features

The analysis of the above definitions brings out the following important **features of Trial Balance**.

- It is a list of balances of all ledger accounts and Cash Book.

- ii) It is not a part of the Double-Entry System of Book-keeping, it is just a working paper.
- iii) It can be prepared any time during the accounting period.
- iv) It serves as an instrument for carrying out the job of checking and testing.
- v) Arithmetical accuracy of posting of entries from journal to ledger can be ensured.
- vi) Some errors are not revealed by the Trial Balance, for example, errors of principle, compensating errors, etc.
- vii) An aggregation of Trial Balance is not a conclusive proof that there is no fraud or mistake.

Purpose

A Trial Balance is a statement or list of debit and credit balances of all ledger accounts which serves the following **purposes**.

- i) It facilitates the preparation of the Trading, Profit and Loss Account and the Balance Sheet by making available the balances of all the accounts at one place.
- ii) It also ensures that the balance of each account, whether debit or credit, has been transferred properly to the respective columns of the Trial Balance and that the Trial Balance has been correctly added.
- iii) Some of the errors of the books of account can be detected by the Trial Balance and they can be rectified before the preparation of the final accounts.
- iv) It ensures that all transactions have been recorded with identical debit and credit amounts and the balance of each account has been computed correctly.
- v) It serves as an instrument for verifying books of accounts and ledger posting.
- vi) It helps in ascertaining the nature and value of assets of a business.
- vii) It helps to find out the financial solvency of an enterprise.
- viii) It helps in ascertaining the nature and value of liabilities of a business.

Advantages

The preparation of a Trial Balance is **advantageous** to the business concern in the following manner.

- i) From the tallied Trial Balance, it can be assumed that Book-keeping is done correctly.
- ii) Trial Balance records all balances of the ledger accounts that is in short the Trial Balance is a concise or short form of ledger.
- iii) From the tallied Trial Balance final accounts i.e. Trading and Profit and Loss and the Balance Sheet are prepared.
- iv) If the Trial Balance does not agree then it means that certain errors are committed while writing the accounts. Such errors are to be found out and rectified before preparing the final account, whereby these errors will not affect the accuracy of the final accounts.

Limitations

A Trial Balance has certain **limitations** as an agreed Trial Balance does not prove that,

- i) All transactions have been correctly analysed and recorded in the proper accounts. If, for example, the wages paid for the installation of plant had been erroneously recorded by debiting the wages account in place of the plant account, the Trial Balance would still agree.
- ii) All transactions have been recorded in the books of original entry. If, for example, a purchase bill were to be completely omitted from being recorded in the purchase book, the error would not be disclosed in the Trial Balance.

In short, a Trial Balance should not, therefore, be regarded as a conclusive proof for the correctness of the books of account.

Precautions to be taken while preparing Trial Balance

- i) Bank Balance as per cash book should be taken in Trial Balance (not bank balance as per pass book).
- ii) Closing Stock is generally not included in the Trial Balance if it is not recorded in the books of accounts through Journal Proper.
- iii) Total Debtors and Total Creditors are to be taken from the list of Total Debtors and Total Creditors prepared from ledger book.

Preparation of Trial Balance

A **Trial Balance** is a statement of debit and credit balances of all the ledger accounts as on a given date which is usually prepared on loose sheets of ruled papers. It is just like a page of the journal or ledger. Generally there are four columns. Particulars, Ledger Folio, Debit Balance and Credit Balance. Date column is not necessary as the date on which the trial balance is prepared can be stated at the top of the sheet as 'Trial Balance as on The name of each account is entered in the particular column and the balance shown by it is entered against it in the appropriate column. i.e. Debit Balance in the Debit Column and Credit Balance in the Credit Column.

For the purpose of preparing the Trial Balance from a given list of ledger balances, the following rules should be followed :

- i) The balances of all accounts relating to, Assets, Expenses, Losses, P's Drawings, and Debtors, should be placed in the Debit Column of the Trial Balance.
- ii) The balances of all accounts relating to, Sundry Liabilities, Income and Revenue, Gain and Profit, Creditors, P's Capital, etc. should be placed in the Credit Column of the Trial Balance.

Treatment of Closing Stock in Trial Balance :

Generally, Closing Stock does not appear in the Trial Balance because a separate account for this is not opened in the general ledger. Closing Stock represents the balance of goods unsold, out of opening stock and purchases. When goods are purchased, the double-entry is completed with Purchases Account and Cash or Creditor Account.

The Closing Stock appears in the Trial Balance only when it is adjusted against purchase by the entry :

Closing Stock A/c	Dr.
To Purchases A/c	

Specimen of Trial Balance

If all the transactions are correctly recorded in the ledger accounts and if the balances of the accounts have also been struck correctly, the debit and credit columns of the Trial Balance should agree. Therefore, a **Trial Balance** essentially proves the arithmetical accuracy of the books of accounts. A Trial Balance is prepared at regular intervals, such as monthly, half-yearly or yearly, as desired.

i) Journal Form :

In this method a Trial Balance is prepared in a usual Journal Form. It will have a column for serial numbers, heads of account, ledger folio, debit balance amount and credit balance amount, etc. The specimen of Journal Form of Trial Balance is as follows.

In the books of Sham Bros., Rahuri

Trial Balance as on 31st March, 2019

Sr. No.	Heads of Account	L.F.	Debit Balance ₹	Credit Balance ₹
i)	Cash in Hand	—	10,000	
ii)	Cash at Bank of Maharashtra	—	30,000	
iii)	Purchases	—	2,00,000	
iv)	Wages	—	25,000	
v)	Rent	—	15,000	
vi)	Sales	—		2,20,000
vii)	P's Capital	—		50,000
viii)	Loan from Bank	—		10,000
Total			2,80,000	2,80,000

ii) Ledger Form :

In this method, a Trial Balance is prepared in a usual ledger account form. Each side of a Trial Balance will have a column for serial number, heads of account, folio and balance amount etc. The specimen of Ledger Form of Trial Balance is as under :

In the books of Sham Bros., Rahuri

Trial Balance as on 31st March, 2019

Dr.	Heads of Account	L.F.	Amount ₹	Sr. No.	Heads of Accounts	L.F.	Amount ₹	Cr
i)	Cash in Hand	—	10,000	i)	Sales	—	2,20,000	
ii)	Cash at Bank of Maharashtra	—	30,000	ii)	P's Capital	—	50,000	
iii)	Purchases	—	2,00,000	iii)	Loan from Bank	—	10,000	
iv)	Wages	—	25,000					
v)	Rent	—	15,000					
Total			2,80,000			Total	2,80,000	

Methods of Constructing a Trial Balance

There are three methods of constructing a Trial Balance viz. i) Trial Balance with balances; ii) Trial Balance with totals and iii) Trial Balance with balances and totals which are shown below in Figure 2.8.

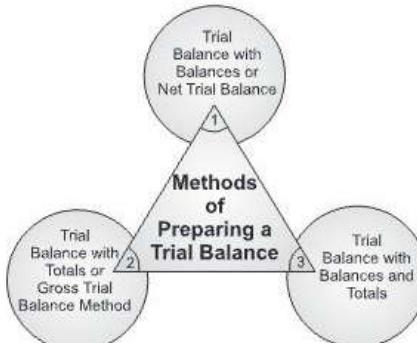


Fig. 2.8 : Methods of Preparing a Trial Balance

1) Trial Balance with Balances or Balance Method or Net Trial Balance :

Under this method, the Trial Balance can be prepared with the net balances of ledger accounts on a loose sheet that may have five columns viz. Serial Numbers, Heads of Account, Ledger Folio (L.F.), Debit Balance, and Credit Balance. For the preparation of a Trial Balance, the following steps are followed :

Step 1: Calculate the balances of the Cash Book and all ledger accounts.

Step 2: Write down the heading – 'Trial Balance' of as on 'at the top of the loose sheet.

Step 3: Write down : a) Serial number of the accounts in the 1st column; b) Names of the accounts in the 2nd column, c) L.F. number in the 3rd column and d) the balances in the respective columns.

Step 4: Add both the debit and credit columns to see whether they agree.

EXAMPLE 1

Enter the following transactions in the ledger of Amit Traders, Amaravati.

Date 2019 Jan.	Particulars	Amount ₹
1	Started business with cash	8,000
4	Bought goods for resale	500
7	Bought Stationery	50
10	Bought goods for resale	750
12	Paid Wages	100
15	Sold goods for Cash	350
16	Sold goods for Cash	300
17	Paid Electricity Bill	70

19	Sold goods for Cash	350
20	Bought Stationery	80
21	Paid Wages	100
23	Bought goods for resale	200
24	Sold goods for Cash	600
25	Paid Postage	80
26	Paid for Advertisement	30
31	Sold goods for Cash	700
31	Paid Wages	150

You are required to extract a **Trial Balance** as on 31st January, 2019.

ANSWER

In the books of Amit Traders, Amaravati

Dr.		Cash Account			Cr.
Date 2019 Jan.	Particulars	Amount ₹	Date 2019 Jan.	Particulars	Amount ₹
1	To Amit's Capital	8,000	4	By Purchases	500
15	To Sales	350	7	By Stationery	50
16	To Sales	300	10	By Purchases	750
19	To Sales	350	12	By Wages	100
24	To Sales	600	17	By Electricity Charges	70
31	To Sales	700	20	By Stationery	80
			21	By Wages	100
			23	By Purchases	200
			25	By Postage	80
			26	By Advertisement	30
			31	By Wages	150
			31	By Balance C/D	8,190
		10,300			10,300

Dr.		Purchases Account			Cr.
Date 2019 Jan.	Particulars	Amount ₹	Date 2019 Jan.	Particulars	Amount ₹
4	To Cash	500	31	By Balance C/D	1,450
10	To Cash	750			
23	To Cash	200			
		1,450			1,450

Dr.			Sales Account			Cr.
Date 2019 Jan.	Particulars	Amount ₹	Date 2019 Jan.	Particulars	Amount ₹	
31	To Balance C/D	2,300	15	By Cash	350	
			16	By Cash	300	
			19	By Cash	350	
			24	By Cash	600	
			31	By Cash	700	
		2,300				2,300

Dr.			Amit's Capital Account			Cr.
Date 2019 Jan.	Particulars	Amount ₹	Date 2019 Jan.	Particulars	Amount ₹	
31	To Balance C/D	8,000	1	By Cash	8,000	
		8,000				8,000

Dr.			Stationery Account			Cr.
Date 2019 Jan.	Particulars	Amount ₹	Date 2019 Jan.	Particulars	Amount ₹	
7	To Cash	50	31	By Balance C/D	130	
20	To Cash	80				130
		130				

Dr.			Wages Account			Cr.
Date 2019 Jan.	Particulars	Amount ₹	Date 2019 Jan.	Particulars	Amount ₹	
12	To Cash	100	31	By Balance C/D	350	
21	To Cash	100				350
31	To Cash	150				
		350				

Dr.			Electricity Charges Account			Cr.
Date 2019 Jan.	Particulars	Amount ₹	Date 2019 Jan.	Particulars	Amount ₹	
17	To Cash	70	31	By Balance C/D	70	
		70				70

Dr.			Postage Account			Cr.
Date 2019 Jan.	Particulars	Amount ₹	Date 2019 Jan.	Particulars	Amount ₹	
25	To Cash	80	31	By Balance C/D	80	
		80				80

Dr.			Advertisement Account			Cr.
Date 2019 Jan.	Particulars	Amount ₹	Date 2019 Jan.	Particulars	Amount ₹	
26	To Cash	30	31	By Balance C/D	30	
		30			30	

In the books of Amit Traders, Amaravati

Net Trial Balance as on 31st January, 2019

Sr. No.	Heads of Account	L.F.	Debit Balance ₹	Credit Balance ₹
i)	Cash	—	8,190	
ii)	Purchases	—	1,450	
iii)	Sales	—		2,300
iv)	Amit's Capital	—		8,000
v)	Stationery	—	130	
vi)	Wages	—	350	
vii)	Electricity Charges	—	70	
viii)	Postage	—	80	
ix)	Advertisement	—	30	
Total			10,300	10,300

2) Trial Balance with Totals or Total Amount Method or Gross Trial Balance :

Under this method, the Trial Balance is prepared by the total of each side of the accounts without balancing the accounts. This method of preparing a Trial Balance is not commonly used because it cannot help in the preparation of Trading Account and Profit and Loss Account and the Balance Sheet.

This method of preparing a Trial Balance is similar to Trial Balance with balances method, except that the debit balance and credit balance columns are replaced by debit total and credit total columns respectively. The following specimen will clarify this method.

In the books of Ram-Sham Bros., Rahuri

Gross Trial Balance as on

Sr. No.	Heads of Account	L.F.	Debit Total ₹	Credit Total ₹
i)	Cash	—	xx	xx
ii)	Purchases	—	xx	
iii)	Sales	—		xx
iv)	P's Capital	—	xx	xx
v)	Stationery	—	xx	
vi)	Wages	—	xx	
vii)	Electricity Charges	—	xx	
viii)	Postage	—	xx	
ix)	Advertisement	—	xx	
Total			xx	xx

3) Trial Balance with balances and totals or Combined Method or Compound Trial Balance :

Under this method, the Trial Balance is prepared by combining the first and second methods. In this method, there are columns for debit balance and credit balance alongwith columns for debit total and credit total. The following specimen will clarify this method.

In the books of Sham Bros, Rahuri

Compound Trial Balance as on

Sr. No.	Heads of Account	L.F.	Debit Balance ₹	Credit Balance ₹	Debit Total ₹	Credit Total ₹
i)	Cash	—				
ii)	Purchases	—				
iii)	Sales	—				
iv)	P's Capital	—				
v)	Stationery	—				
vi)	Wages	—				
vii)	Electricity Charges	—				
viii)	Postage	—				
ix)	Advertisement	—				

Utility

Thus, a Trial Balance is very much useful to the trader as –

- i) it ensures that all business transactions have been recorded and posted with equal debit and credit amounts and balance of each account has been computed correctly.
- ii) it also ensures that debit or credit balance from ledger has been correctly transferred to the respective columns of the Trial Balance.
- iii) some of the errors in the books of accounts can be detected (when it does not agree) and can be rectified before preparation of Final Accounts.
- iv) if facilitates preparation of the Final Accounts i.e. Trading Account, Profit and Loss Account and Balance Sheet.

Panchsutri of Trial Balance

The Trial Balance contains all of the account balances from the ledger. It includes assets, liabilities, expenses, income, capital and drawings. One should remember the following points i.e. Panchsutri of Trial Balance.

- i) Debit balances usually represent either assets, expenses or drawings and these are always shown in the left hand column of the Trial Balance.
- ii) Credit balances are usually either income, liabilities or capital and these are always shown in the right hand column of the Trial Balance.
- iii) The expenses and income are shown in the Trading Account and Profit and Loss Account.
- iv) Assets, liabilities, capital and drawings are shown in the Balance Sheet.
- v) Additional information given by way of a note have not been recorded in the Ledger Accounts and consequently will require both a debit and a credit entry (which is usually effected by entering them in both the Trading and Profit and Loss Account and the Balance Sheet). Accounts appearing in the Trial Balance will be shown in the Trading Account or Profit and Loss Account or Balance Sheet. No double entry is required for these Account.

Points to Remember

- A debit balance of the ledger account should be transferred to debit column and a credit balance to credit column of the Trial Balance.
- While preparing the Trial Balance following indications of various ledger balances should be noted very clearly.

Trial Balance as on

Head of Accounts	Debit Balance ₹	Credit Balance ₹
• Personal Accounts	Assets and Properties	Capital and Liabilities
• Real Accounts	Assets and Properties	xxx
• Nominal Accounts	Expenses and Losses	Incomes and Gains

- All Nominal Accounts, if not specified, should be considered as items of expenses having debit balances e.g. Rent, Discount Account, Commission Account, Interest Account, etc.
- Usually Stock which is given in the Trial Balance should be taken as Opening Stock.
- The following summary list of ledger balances showing debit and credit balances should be remembered very well.

Summary List of Ledger Balances

Debit Balances	Credit Balances
1. P's Drawings	1. P's Capital
2. Purchases	2. Sales
3. Returns Inward	3. Returns Outward
4. Bank Balance	4. Bank Overdraft
5. Discount Allowed	5. Discount Received
6. Sundry Debtors	6. Sundry Creditors
7. Interest on Capital	7. Interest on Drawings
8. Bills Receivable	8. Bills Payable
9. Loan Given to	9. Loan Taken from
10. Interest on Loan Taken	10. Interest on Loan Given
11. Rent to Landlord	11. Rent from Tenant
12. Commission Paid	12. Commission Received
13. Bad Debts	13. Bad Debts Recovery
14. Prepaid Expenses	14. Outstanding Expenses
15. Outstanding Income	15. Pre-received Income
16. Deposit Given	16. Deposit Received
17. Opening Stock	17. Interest on Investment
18. Land and Buildings	18. Sundry Income
19. Plant and Machinery	19. Other Income
20. Furniture and Fixtures	20. General Income
21. Loose Tools	21. Miscellaneous Income
22. Patents and Copyrights	22. Sale of Scrap
23. Goodwill	23. Bank Interest
24. Live-stock	24. General Reserve
25. Salary	25. Reserve Fund

ILLUSTRATIONS**ILLUSTRATION 1**

From the following Ledger Balances of Abhinav Traders, Borivali, you are required to prepare a Trial Balance as on 31st March, 2019.

Particulars	₹	Particulars	₹
Capital	2,70,000	Purchases	5,13,000
Drawings	8,100	Sales	8,20,800
Stock as on 1 st April, 2018	1,23,660	Returns Inward	19,980
Wages	91,800	Salaries	3,240
Sundry Creditors	1,73,340	Sundry Debtors	1,90,080
Rent and Rates	3,240	Insurance	4,320
Discount Received	540	Cash in Hand	26,460
Machinery	2,16,000	Furniture	64,800

SOLUTION**In the books of Abhinav Traders, Borivali****Trial Balance as on 31st March, 2019**

Sr. No.	Heads of Account	L.F.	Debit ₹	Credit ₹
i)	Capital	—		2,70,000
ii)	Drawings	—	8,100	—
iii)	Stock as on 1 st April, 2018	—	1,23,660	—
iv)	Wages	—	91,800	—
v)	Sundry Creditors	—	—	1,73,340
vi)	Rent and Rates	—	3,240	—
vii)	Discount Received	—	—	540
viii)	Machinery	—	2,16,000	—
ix)	Purchases	—	5,13,000	—
x)	Sales	—	—	8,20,800
xi)	Returns Inward	—	19,980	—
xii)	Salaries	—	3,240	—
xiii)	Sundry Debtors	—	1,90,080	—
xiv)	Insurance	—	4,320	—
xv)	Cash in Hand	—	26,460	—
xvi)	Furniture	—	64,800	—
Total			12,64,680	12,64,680

ILLUSTRATION 2

From the following balances prepare the Trial Balance of Amar Enterprises, Agra as on 31st March, 2019, as per Net Trial Balance Method.

Particulars	₹
Premises	85,000
Stock on 1 st April, 2018	12,000
Purchases	28,000
Cash in hand	900
Bills Payable	17,300
Loan from B	25,000
A's Capital	1,25,000
Furniture and Fittings	12,000
Salaries	9,000
Interest Received	2,800
Investment	28,000
Sales	89,200
Creditors	36,400
Discount Allowed	1,300
Wages	20,400
Plant and Machinery	38,500
Debtors	41,300
Bills Receivables	11,200
Advertisement	8,100

SOLUTION

In the books of Amar Enterprises, Agra
Trial Balance as on 31st March, 2019

Sr. No.	Heads of Account	L.F.	Debit ₹	Credit ₹
i)	Premises	-	85,000	
ii)	Stock as on 1 st April, 2018	-	12,000	
iii)	Purchases	-	28,000	
iv)	Cash in hand	-	900	
v)	Bills Payable	-		17,300
vi)	Loan from B	-		25,000
vii)	A's Capital	-		1,25,000
viii)	Furniture and Fittings	-	12,000	
ix)	Salaries	-	9,000	
x)	Interest Received	-		2,800
xi)	Investment	-	28,000	
xii)	Sales	-		89,200
xiii)	Creditors	-		36,400
xiv)	Discount Allowed	-	1,300	
xv)	Wages	-	20,400	
xvi)	Plant and Machinery	-	38,500	
xvii)	Debtors	-	41,300	
xviii)	Bills Receivable	-	11,200	
xix)	Advertisement	-	8,100	
	Total		2,95,700	2,95,700

ILLUSTRATION 3

Following are the debit and credit totals of accounts taken from the ledger of Balaji Traders, Badlapur as on 31st March, 2019, prepare Net Trial Balance.

Particulars	Debit ₹	Credit ₹
Debtors	56,000	30,000
Creditors	18,000	26,000
Salaries	12,000	
B's Capital		1,80,000
Sales		1,22,000
Cash in Hand	12,300	9,100
Opening Stock	21,000	
Advertisement	6,900	
Rent and Taxes	14,300	
Purchases	38,900	
Wages	21,500	
Cash at Bank	44,900	32,600
Reserve for Doubtful Debts		1,300
Returns Inward	1,800	
Returns Outward		2,700
Carriage Inward	2,800	
Carriage Outward	3,100	
Furniture	32,400	8,700
Machinery	68,300	13,300
Goodwill	32,000	
Telephone Charges	8,500	
Office Expenses	7,200	
Vehicles	26,900	
Bills Payable		3,100
Total	4,28,800	4,28,800

SOLUTION

In the books of Balaji Traders, Badlapur
Trial Balance as on 31st March, 2019

Sr. No.	Heads of Account	L.F.	Debit ₹	Credit ₹
i)	Debtors	—	26,000	
ii)	Creditors	—		8,000
iii)	Salaries	—	12,000	
iv)	B's Capital	—		1,80,000
v)	Sales	—		1,22,000
vi)	Cash in Hand	—	3,200	
vii)	Opening Stock	—	21,000	
viii)	Advertisement	—	6,900	
ix)	Rent and Taxes	—	14,300	
x)	Purchases	—	38,900	
xi)	Wages	—	21,500	
xii)	Cash at Bank	—	12,300	

Sr. No.	Heads of Account	L.F.	Debit ₹	Credit ₹
xiii)	Reserve for Doubtful Debts	—		1,300
xiv)	Returns Inward	—	1,800	
xv)	Returns Outward	—		2,700
xvi)	Carriage Inward	—	2,800	
xvii)	Carriage Outwards	—	3,100	
xviii)	Furniture	—	23,700	
xix)	Machinery	—	55,000	
xx)	Goodwill	—	32,000	
xxi)	Telephone Charges	—	8,500	
xxii)	Office Expenses	—	7,200	
xxiii)	Vehicles	—	26,900	
xiv)	Bills Payable	—		3,100
Total			3,17,100	3,17,100

ILLUSTRATION 4

From the following ledger balance of Chandan Trading Co., Chalisgaon, prepare the Trial Balance as on 31st March, 2019.

Particulars	₹
C's Capital	4,05,000
C's Drawings	32,600
Patents and Trade Marks	18,000
Opening Stock	37,800
Salaries and Wages	47,300
Furniture	22,000
Purchases	1,33,200
Sales	2,78,300
Plant and Machinery	2,25,700
Returns Inward	5,100
Returns Outward	4,700
Loan from B	85,000
Printing and Stationery	12,400
Land and Buildings	2,37,000
Debtors	41,200
Creditors	55,700
Bad Debts	3,800
Discount Received	2,500
Interest paid on B's Loan	10,300
Insurance	4,200
Sundry Expenses	600

SOLUTION

In the books of Chandan Trading Co. Chalisgaon

Trial Balance as on 31st March, 2019

Sr. No.	Heads of Account	L.F.	Debit ₹	Credit ₹
i)	C's Capital	—		4,05,000
ii)	C's Drawing	—	32,600	
iii)	Patents and Trade Marks	—	18,000	
iv)	Opening Stock	—	37,800	
v)	Salaries and Wages	—	47,300	
vi)	Furniture	—	22,000	
vii)	Purchases	—	1,33,200	
viii)	Sales	—		2,78,300
ix)	Plant and Machinery	—	2,25,700	
x)	Returns Inward	—	5,100	
xi)	Returns Outward	—		4,700
xii)	Loan from B	—		85,000
xiii)	Printing and Stationery	—	12,400	
xiv)	Land and Buildings	—	2,37,000	
xv)	Debtors	—	41,200	
xvi)	Creditors	—		55,700
xvii)	Bad Debts	—	3,800	
xviii)	Discount Received	—		2,500
xix)	Interest paid on B's Loan	—	10,300	
xx)	Insurance	—	4,200	
xxi)	Sundry Expenses	—	600	
Total			8,31,200	8,31,200

ILLUSTRATION 5

Following is the Trial Balance as on 31st March, 2019 prepared by the accountant of Dorabjee Bros., Delhi. However, as the Trial Balance is not tallied, you are required to prepare the Trial Balance accurately.

Trial Balance as on 31st March, 2019

Heads of Account	Debit ₹	Credit ₹
Plant and Machinery	32,000	
Debtors		22,000
Creditors		40,700
Goodwill	30,600	
Discount Received	1,800	
Discount Allowed		2,700
Furniture	14,300	
Sales		2,30,000

Heads of Account	Debit ₹	Credit ₹
Purchases	1,17,000	
Purchase Returns	1,800	
Sales Returns		3,100
Wages	22,400	
Salaries		10,200
Carriage Inward	1,400	
Carriage Outward		2,300
Loan to B		20,000
Printing and Stationery	3,500	
Advertising		4,800
Cash in Hand	970	
Cash at Bank		1,230
Bank Overdraft	11,500	
D's Capital		1,00,000
Land and Buildings	97,300	
Total	3,34,570	4,37,030

SOLUTION

In the books of Dorabjee Bros., Delhi
Net Trial Balance as on 31st March, 2019

Sr. No.	Heads of Account	L.F.	Debit ₹	Credit ₹
i)	Plant and Machinery	-	32,000	
ii)	Debtors	-	22,000	
iii)	Creditors	-		40,700
iv)	Goodwill	-	30,600	
v)	Discount Received	-		1,800
vi)	Discount Allowed	-	2,700	
vii)	Furniture	-	14,300	
viii)	Sales	-		2,30,000
ix)	Purchases	-	1,17,000	
x)	Purchase Returns	-		1,800
xi)	Sales Returns	-	3,100	
xi)	Wages	-	22,400	
xiii)	Salaries	-	10,200	
xiv)	Carriage Inward	-	1,400	
xv)	Carriage Outward	-	2,300	
xvi)	Loan to B	-	20,000	
xvii)	Printing and Stationery	-	3,500	
xviii)	Advertising	-	4,800	
xix)	Cash in Hand	-	970	
xx)	Cash at Bark	-	1,230	
xxi)	Bank Overdraft	-		11,500
xxii)	D's Capital	-		1,00,000
xxiii)	Land and Buildings	-	97,300	
	Total		3,85,800	3,85,800

ILLUSTRATION 6

From the following Ledger Balances of Balaji Enterprises, Chennai, prepare a Trial balance as on 31st March, 2019.

Particulars	₹	Particulars	₹
Purchases	1,37,000	Commission Earned	5,000
Prepaid Salaries	3,000	Capital	2,04,000
Stock as on 1 st April, 2018	1,18,000	Investment	20,000
Primary Packing	2,000	Bank Loan (Long Term)	48,000
Wages	10,000	Printing	500
Trade Expenses	6,000	Sales	2,00,000
Purchases Returns	8,000	Carriage on Sales	6,000
Bank Overdraft	85,000	Outstanding Rent	8,000
Bills Payable	15,000	Premises	2,00,000
Sundry Creditors	24,000	Sundry Debtors	1,12,000
Carriage on Purchases	5,000	Interest on Investment	2,000
Secondary Packing	3,000	Loan from Anil	60,000
Discount Received	15,000	Salaries	50,000
Sales Return	10,000	Sundry Income	20,000
Interest on Bank Loan	12,000	Postage and Telegram	100
Dividend Received	1,000	Discount Allowed	400

SOLUTION

In the books of Bajali Enterprises, Chennai

Trial Balance as on 31st March, 2019

Sr. No.	Heads of Account	L.F.	Debit ₹	Credit ₹
i)	Purchases	-	1,37,000	-
ii)	Prepaid Salaries	-	3,000	-
iii)	Stock as on 1 st April, 2018	-	1,18,000	-
iv)	Primary Packing	-	2,000	-
v)	Wages	-	10,000	-
vi)	Trade Expenses	-	6,000	-
vii)	Purchases Returns	-	-	8,000
viii)	Bank Overdraft	-	-	85,000
ix)	Bills Payable	-	-	15,000
x)	Sundry Creditors	-	-	24,000
xi)	Carriage on Purchases	-	5,000	-
xii)	Secondary Packing	-	3,000	-
xiii)	Discount Received	-	-	15,000
xiv)	Sales Return	-	10,000	-
xv)	Interest on Bank Loan	-	12,000	-
xvi)	Dividend Received	-	-	1,000
xvii)	Commission Earned	-	-	5,000
xviii)	Capital	-	-	2,04,000
xix)	Investment	-	20,000	-
xx)	Bank Loan (Long-term)	-	-	48,000
xxi)	Printing	-	500	-
xxii)	Sales	-	-	2,00,000
xxiii)	Carriage on Sales	-	6,000	-
xxiv)	Outstanding Rent	-	-	8,000
xxv)	Premises	-	2,00,000	-
xxvi)	Sundry Debtors	-	1,12,000	-
xxvii)	Interest on Investment	-	-	2,000
xxviii)	Loan from Anil	-	-	60,000
xxix)	Salaries	-	50,000	-
xxx)	Sundry Income	-	-	20,000
xxxi)	Postage and Telegram	-	100	-
xxxii)	Discount Allowed	-	400	-
		Total	6,95,000	6,95,000

QUESTIONS FOR SELF-STUDY**I. Theory Questions :**

- What is a 'Trial Balance'? Explain the importance of Trial Balance.
- Define the accounting term 'Trial Balance'. What are the different types of Trial Balance?
- In what way a Trial Balance can be useful to a trader?
- "Agreement of the Trial Balance does not necessarily mean that the accounts are accurate". Comment.
- Prepare a Trial Balance with imaginary figures of ledger balances and tally the same.
- "Trial Balance is not a conclusive evidence as to the absolute accuracy of accounts". Discuss.
- What does an untallied Trial Balance hint at?
- "A tallied Trial Balance does not assure correctness of transactions recorded". Do you agree?
- Explain the concept 'Trial Balance'? What are the basic purposes of a Trial Balance?

II. Practical Problems :

- From the following particulars prepare Trial Balance of Apte as on 31st March, 2019.

Particulars	₹
Opening Stock	20,400
Freehold Premises	89,000
Bank Overdraft	13,700
A's Capital	2,07,000
Additional Capital	25,000
A's Drawing	48,000
Purchases	95,000
Sales	1,85,200
Carriage	4,700
Power Charges	8,900
Printing and Stationery	3,600
Telephone Charges	1,900
Advertisement	4,300
Return Inward	6,200
Return Outward	2,100
Debtors	38,400
Creditors	31,700
Goodwill	1,00,000
Vehicles	40,000
Vehicles Expenses	4,300

- Following are the ledger balances taken from the books of Bedekar, prepare his Trial Balance as on 31st March, 2019.

Particulars	₹
Reserve for Doubtful Debts	1,300
B's Capital	85,200
B's Drawings	12,000
General Reserve	20,500
Fixtures	12,400
Purchases	40,000
Bad Debts	1,400
Debtors	33,200
Furniture and Fittings	14,300
Sales	75,200

Creditors	28,200
Wages	10,800
Salaries	12,200
Opening Stock	24,300
Cash in Hand	600
Loan from Amar	20,000
Selling Expenses	4,780
Cash at Bank	7,400
Administration Expenses	8,500
Interest paid	3,000
Land and Buildings	45,300

- iii) Prepare a Trial Balance from the following ledger balances extracted from the books of Kapur as on 30th June, 2019.

Particulars	₹
Salaries	40,500
Freight	6,625
Commission paid	12,650
Printing and Stationery	6,300
Furniture and Fixtures	11,900
Rent, Rates and Taxes	35,150
Telephone charges	3,615
Postage and Telegrams	6,180
Office expenses	9,555
Kapur's Capital	3,08,760
Kapur's Drawing	28,900
Insurance charges	1,100
Purchases	7,91,900
Sales	6,39,900
Debtors	99,900
Creditors	1,79,900
Bad Debts	5,900
Bank Loan	12,000
Cash in hand	7,575
Cash at Bank	15,835
Motor Car	20,400
Depreciation	7,575

- iv) Prepare a Trial Balance as on 31st March, 2019 from the following ledger balances of Suresh and Co., Sion.

Particulars	₹
Goodwill	18,000
Buildings	76,000
S's Capital	46,000
Cash in Hand	2,100
Sales Returns	2,400
S's Drawings	10,000
Purchase Returns	1,300
Furniture	23,000
Sales	85,600
Purchases	29,200
Debtors	19,100
Plant and Machinery	34,500
Bank Overdraft	14,900
Creditors	42,200
Opening Stock	15,800
Salaries	18,700
Bills Receivables	10,400
Loan from Suresh	40,000
Bills Payables	29,200

- v) Prepare a Trial Balance as on 31st March, 2019 from the following ledger balances of Ramesh and Co., Raipur.

Particulars	₹
R's Capital	35,200
Sales	38,920
Wages	2,130
Cash in Hand	140
Sales Returns	810
Labour Advance	1,590
Salaries	4,170
Purchases Returns	430
Cash at Bank	2,160
Discount Received	610
Reserve for Doubtful Debts	460
Rent (Cr.)	3,200
Purchases	10,400
Furniture	12,000
Commission on Sales	1,200
Opening Stock	8,750
Bad Debts	530
Carriage Inward	890
Machinery	24,300
Debtors	12,300
Creditors	8,950

2.8 PREPARATION OF FINAL ACCOUNTS OF SOLE PROPRIETORSHIP

Final Accounts are prepared by the businessman at the end of the accounting year. These accounts show the final results of the business carried out. **Final Accounts** are prepared to find out the profit earned or loss suffered by the businessman and his financial position as on a particular date. Usually, it consists of Income Statement such as **Trading Account and Profit and Loss Account** and position statements such as **Balance Sheet**.

2.8.1 TRADING ACCOUNT

Trading Account a part of income statement, is prepared to find out Gross Profit or Gross Loss in the business done during the financial period. It is prepared to ascertain the profit or loss arising out of buying and selling transactions. It is debited with opening stock, purchases less return outwards, all the expenses relating to purchases and manufacturing. On the credit side sales less return inward closing stock is recorded. The Form of Trading Account is as follows :

Dr.		Trading Account for the period ended	
Particulars	₹	Particulars	₹
To Opening Stock	By Sales	
To Purchases	Less : Returns Inwards or	
Less : Returns Outward or		Sales Returns
Purchase Returns	By Closing Stock
To Direct Expenses	By Direct Incomes
To Freight		
To Carriage Inward		
To Wages		
To Octroi Duty		
To Customs Duty		
To Motive Power		
To Fuel, Gas and Water		
To Factory Rent and Taxes		
To Royalty		
To Gross Profit C/D *	OR	By Gross Loss C/D *

After transferring all the above items to Trading Account, it is closed. If the total on the credit side of Trading Account is heavier than the debit side there is a Gross Profit. If the total on the debit side is heavier there is a Gross Loss. Gross Profit is transferred to the credit side of Profit and Loss Account and Gross Loss is transferred to the debit side of Profit and Loss Account.

EXAMPLE 1

From the following particulars relating to Akash Traders, Akola, prepare Trading Account for the year ended 31st March, 2019.

Particulars	₹
Opening Stock	50,000
Purchases	2,20,000
Carriage Inward	12,000
Freight	17,000
Returns Outward	20,000
Sales	5,17,000
Customs Duty	20,000
Returns Inward	7,000
Closing Stock	53,000

ANSWER**In the books of Akash Traders, Akola**

Dr.	Trading Account for the year ended 31 st March, 2019				Cr.
Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		50,000	By Sales	5,17,000	
To Purchases	2,20,000		Less : Returns Inward (-)	7,000	5,10,000
Less : Returns Outward (-)	20,000	2,00,000	By Closing Stock		53,000
To Carriage Inward		12,000			
To Freight		17,000			
To Customs Duty		20,000			
To Gross Profit C/D *		2,64,000			
		5,63,000			5,63,000

2.8.2 PROFIT AND LOSS ACCOUNT

Profit and Loss Account is prepared to ascertain Net Profit earned or Net Loss suffered by a trader during the financial period. At the end of the year all the nominal accounts are closed by transferring their balances to Profit and Loss Account. On the Debit side of Profit and Loss Account all the expenses and losses are recorded and on the credit side all the incomes and gains are recorded. After transferring these items to Profit and Loss Account the account is closed. If the total on credit side of Profit and Loss Account is more than the total on debit side it shows net profit. If the total on debit side is more than the total on credit side there is net loss. The net profit is added in the capital on the liability side of Balance Sheet and if there is net loss it is deducted from capital. The Form of Profit and Loss Account is as follows :

Dr.	Profit and Loss Account for the period ended				Cr.
Particulars	₹	Particulars	₹		
To Gross Loss B/D	By Gross Profit B/D			
To Office Salaries	By Discount Received			
To Office Rent	By Interest Received			
To Office Rates and Taxes	By Commission Received			
To Insurance	By Rent Received			
To Printing and Stationery	By Sundry Income			
To Postage and Telegram	By Interest on Drawings			
To Repairs and Maintenance	By R.D.D.			
To Audit Fees	(Old Reserve > New Reserve)			
To Carriage Outward				
To Advertisement				
To Bad Debts				
To R.D.D.				
(New Reserve > Old Reserve)				
To Depreciation on Assets				
To Travelling Expenses				
To Interest on Capital				
To Discount Allowed				
To Net Profit C/D *	OR	By Net Loss C/D *			
				

EXAMPLE 2

From the following particulars relating to Chandan Enterprises, Churchgate, prepare Trading and Profit and Loss Account for the year ended 31st March, 2019.

Particulars	₹	Particulars	₹
Opening Stock	2,00,000	Sales	12,00,000
Wages	2,00,000	Sales Return	60,000
Salaries	2,50,000	Interest (Dr.)	20,000
Carriage Inward	30,000	Rent (Dr.)	10,000
Carriage Outward	40,000	Discount Received	25,000
Purchases	6,00,000	Printing and Stationery	70,000
Purchases Return	30,000	Travelling Expenses	10,000
		Closing Stock	5,00,000

ANSWER

In the books of Chandan Enterprises, Churchgate
Dr. Trading Account for the year ended 31st March, 2019. Cr.

Particulars	₹	Particulars	₹
To Opening Stock	2,00,000	By Sales	12,00,000
To Purchases	6,00,000	Less : Sales Return (-)	60,000
Less : Purchase Return (-)	30,000		
To Wages	2,00,000	By Closing Stock	5,00,000
To Carriage Inward	30,000		
To Gross Profit C/D*	6,40,000		
	16,40,000		16,40,000

Dr. Profit and Loss Account for the year ended 31st March, 2019. Cr.

Particulars	₹	Particulars	₹
To Salaries	2,50,000	By Gross Profit B/D	6,40,000
To Carriage Outward	40,000	By Discount Received	25,000
To Interest	20,000		
To Rent	10,000		
To Printing and Stationery	70,000		
To Travelling Expenses	10,000		
To Net Profit C/D*	2,65,000		
	6,65,000		6,65,000

EXAMPLE 3

From the following particulars relating to Doxi and Company, Dombivali prepare Profit and Loss Account for the year ended 31st March, 2019.

Particulars	₹	Particulars	₹
Gross Profit	22,00,000	Carriage Outward	50,000
Travelling Expenses	1,70,000	Advertisement	2,70,000
Bad Debts	1,00,000	Commission Received	1,80,000
Salary	3,00,000	Insurance	2,10,000
Rent	2,00,000	Printing and Stationery	1,10,000

ANSWER

In the books of Doxi and Company, Dombivali

Dr. Profit and Loss Account for the year ended 31st March, 2019. Cr.

Particulars	₹	Particulars	₹
To Salary	3,00,000	By Gross Profit B/D	22,00,000
To Rent	2,00,000	By Discount Received	1,80,000
To Carriage Outward	50,000		
To Advertisement	2,70,000		
To Insurance	2,10,000		
To Printing and Stationery	1,10,000		
To Travelling Expenses	1,70,000		
To Bad Debts	1,00,000		
To Net Profit C/D*	9,70,000		
	23,80,000		23,80,000

2.8.3 BALANCE SHEET

Balance Sheet is a statement of financial position of a business at a given date. Balance Sheet shows the financial position of a business at a particular date. Balance Sheet is a statement of assets and liabilities of the business. Balance Sheet is divided into two parts. The left hand side is called the Liability Side. All liabilities are recorded on the liability side. All the Assets are recorded on the right hand side of the Balance Sheet, so the right hand side is the Asset Side. At the end of the year all the ledger balances of personal and real accounts are transferred to the Balance Sheet. If all the transactions are correctly recorded in the books Balance Sheet must tally automatically. The total of Assets and Liabilities must agree with each other. The Form of Balance Sheet is given below.

Balance Sheet as at

Liabilities	₹	Assets	₹
P's Capital		Goodwill
(+) Net Profit	Or	Land and Buildings
(-) Net Loss		Plant and Machinery
(-) P's Drawings	Furniture and Fixtures
Sundry Creditors	Investments
Bills Payable	Cash in Hand
Loans Taken	Cash at Bank
Bank Overdraft	Bills Receivable
Outstanding Expenses	Sundry Debtors
Pre-received Incomes	Prepaid Expenses
		Stock in Trade
		Outstanding Incomes

EXAMPLE 4

From the following particulars, relating to Eagle Bros. Edalabad prepare Balance Sheet as on 31st March, 2019.

Particulars	₹	Particulars	₹
Plant and Machinery	50,00,000	Closing Stock	5,50,000
Cash in Hand	10,00,000	Sundry Creditors	10,00,000
Bills Receivable	12,50,000	Bank Overdraft	20,00,000
Debtors	25,00,000	P's Capital	81,00,000
Investments	7,00,000	P's Drawings	1,00,000

ANSWER**In the books of Eagle Bros., Edalabad****Balance Sheet as on 31st March, 2019**

Liabilities	₹	₹	Assets	₹	₹
P's Capital	81,00,000	80,00,000	Cash in Hand		10,00,000
Add : Net Profit (+)	Nil		Bills Receivable		12,50,000
	81,00,000		Sundry Debtors		25,00,000
Less : P's Drawings (-)	1,00,000		Investments		7,00,000
Bank Overdraft		20,00,000	Plant and Machinery		50,00,000
Sundry Creditors		10,00,000	Stock-in-Trade		5,50,000
					1,10,00,000

Adjustments

The business transactions which are related to the accounting period from which financial statements are to be prepared but not considered at all while preparing the trial balance are of the category of **unrecorded transactions**, are usually termed as '**adjustments**' in accounting language. Hence, adjustments are certain unrecorded transactions which do not get incorporated in the trial balance prepared for the same period. As well as there can also be some **recorded transactions** which get incorporated in the trial balance but do not relate to the accounting period for which

final accounts are to be prepared. Actually, final accounts are expected to show true and fair views of the financial position of the business concern and hence all expenses and incomes of the current financial period are only to be recorded into the books of accounts to ascertain the exact position of profitability for the same period. Hence, while preparing the final accounts of sole proprietary firm these adjustments are required to be made more appropriately by giving two effects into the books as per double entry system i.e. i) in Trading or Profit and Loss Account as well as, ii) in Balance Sheet.

Following is the **Summary Chart** of usual adjustments with their synonymous terms, the adjusting entry to be passed, double effect to be given togetherwith important points to remember.

SUMMARY CHART

Sr. No.	Adjustments	Synonymous Terms	Adjusting Entry	Effects T/A/c = Trading Account P & L A/c = Profit and Loss Account B/S = Balance Sheet	Points to Remember TB = Trial Balance
1.	Closing Stock of Goods	a) Stock of unsold goods as on the closing date of current accounting period.	Closing Stock A/c To Trading A/c	Dr. Dr.) B/S - Asset Side as Current Asset Cr.) T A/c - Credit Side	a) It is valued at cost price or market price whichever is less. b) If appears in TB (a Debit Balance) only to be shown on the asset side of B/S.
2.	Depreciation on Assets	a) Reduction in the book value of a Tangible Fixed Asset (Wasting nature)	Depreciation A/c To Asset A/c	Dr. Dr.) P & L A/c - Debit Side Cr.) B/S - Asset Side - deducted from concerned fixed asset.	a) If appears in TB (a Debit Balance) only to be shown on the debit side of P & L A/c. b) To be calculated on the basis of timely principle. c) The rate of depreciation is fixed up as per Income Tax Act. d) Depreciation = $\frac{\text{Cost} - (\text{Installation} + \text{Scrap Price}) \times \text{Charges}}{\text{Estimated Life of Asset}}$ e) On Land, depreciation is never provided. f) It is a non-cash expense.
3.	Outstanding Expenses	a) Expenses due but not paid. b) Expenses incurred but not paid. c) Expenses Payable d) Accrued Expenses e) Unpaid Expenses	Expenses A/c Dr. To Outstanding Expense A/c	Dr.) T A/c / P & L A/c - Debit side - added to concerned item of expenses. Cr.) B/S - Liability side as Current Liability.	a) Outstanding Expense A/c is a Representative Personal Account. b) If appears in TB (a Credit Balance) only to be shown on the liability side of B/S.
4.	Outstanding Income	a) Income due but not received b) Income Earned c) Income receivable but not received d) Accrued Income e) Income Acquired but not received	Outstanding Income A/c To Income A/c	Dr. Dr.) B/S - Asset side as Current Asset. Cr.) T A/c / P & L A/c - Credit side added to concerned item of income.	a) Outstanding Income A/c is a Representative Personal Account. b) If appears in TB (a Debit Balance) only to be shown on the asset side of B/S.
5.	Prepaid Expenses	a) Expenses paid but not due b) Expenses paid in advance c) Unexpired Expenses d) Expenses Carried Forward	Prepaid Expenses A/c To Expense A/c	Dr. Dr.) B/S - Asset side as Current Asset. Cr.) T A/c / P & L A/c - Debit side deducted from concerned item of expenses	a) Prepaid Expenses A/c is a Representative Personal Account. b) If appears in TB (a Debit Balance) only to be shown on the asset side of B/S.

Sr. No.	Adjustments	Synonymous Terms	Adjusting Entry	Effects T A/c = Trading Account P & L A/c = Profit and Loss Account B/S = Balance Sheet	Points to Remember TB = Trial Balance
6.	Pre-received Income	a) Income received but not accrued b) Income received in advance c) Unaccrued Income d) Unearned Income e) Income earned forward	Income A/c Dr. To Pre-received Income A/c	Dr. T A/c / P & L A/c - Credit side deducted from concerned item of income Cr. B/S - Liability side as Current Liability	a) Pre-received Income A/c is a Representative Personal Account b) If appears in TB (a Credit Balance) only to be shown on the liability side of B/S.
7.	Interest on Capital		Interest on Capital A/c Dr. To P's Capital A/c	Dr. P & L A/c - Debit side Cr. B/S - Liability side added to P's Capital	a) To be calculated on the basis of timely principle.
8.	Interest on Drawings		P's Capital A/c Dr. To Interest on Drawings A/c	Dr. B/S - Liability side deducted from P's Capital Cr. P & L A/c - Credit side	
9.	Bad Debts	a) Irrecoverable Debts b) Book Debts becoming bad c) Bad Debts written off d) Account Receivable includes a sum due from credit customer who became bankrupt.	Bad Debts A/c Dr. To Sundry Debtors A/c	Dr. P & L A/c - Debit side Cr. B/S - Asset side deducted from Sundry Debtors.	a) If appears in TB (a Debit Balance) only to be shown on the debit side of P & L A/c.
10.	Provision or Reserve for Bad and Doubtful Debts (RBDD)	a) Reserve for Doubtful Debts (RDD).	Profit and Loss A/c Dr. To Reserve for Bad and Doubtful Debts A/c	Dr. If NR > OR P & L A/c - Debit side To RDD New Reserve Less: Old Reserve If OR > NR P & L A/c - Credit side By RDD Old Reserve Less: New Reserve Or. B/S - Asset side deducted from Sundry Debtors only new reserve NR: New Reserve i.e. RBDD calculated as per adjustment. OR: Old Reserve i.e. RBDD given in TB	a) If appears in TB (a Credit Balance) only to be shown on the credit side of P & L A/c.
11.	Provision or Reserve for Discount on Debtors	a) Reserve for Discount allowed to Debtors	Profit and Loss A/c Dr. To Reserve for Discount on Debtors A/c	Dr. P & L A/c - Debit Side Cr. B/S - Asset side deducted from Sundry Debtors	a) If appears in TB (a Debit Balance) only to be shown on the debit side of P & L A/c b) Preferential order for recording of various adjustments on Sundry Debtors A/c i) Stock Adjustments ii) Bad Debts iii) Reserve for Bad and Doubtful Debts iv) Reserve for Discount on Debtors
12.	Provision or Reserve for Discount on Creditors	a) Reserve for Discount Received from Creditors	Reserve for Discount on Creditors A/c Dr. To Profit and Loss A/c	Dr. B/S - Liability side deducted from Sundry Creditors	a) If appears in TB (a Credit Balance) only to be shown on the credit side of P & L A/c.
13.	Goodwill Written Off		Profit and Loss A/c Dr. To Goodwill A/c	Dr. P & L A/c - Debit side Cr. B/S - Asset side deducted from Goodwill	a) Intangible Assets are to be written off.

Sr. No.	Adjustments	Synonymous Terms	Adjusting Entry	Effects T A/c = Trading Account P & L A/c = Profit and Loss Account B/S = Balance Sheet	Points to Remember TB = Trial Balance
14.	Adjustments for Stock-in-trade	a) Stock Adjustments:			a) The unusual adjustments which have one effect on stock of goods are termed as 'Stock Adjustments'.
i)	Goods destroyed by fire and Insurance company admitted part of the claim	a) Goods Lost by Fire	Loss by Fire A/c Insurance Company A/c To Goods A/c	Dr. Dr. Dr.) P & L - Debit side - total value of uncovered loss by fire. Dr.) B/S - Asset side - outstanding claim with Insurance Company Cr.) T A/c - Credit side - total value of goods destroyed by fire.	
ii)	Goods withdrawn / used / taken by the proprietor for personal use		P's Drawings A/c To Goods A/c	Dr. Dr.) B/S - Liability side deducted from P's Capital Cr.) T A/c - Debit side - deducted from Purchases.	
iii)	Goods distributed as free samples		Advertisement A/c To Goods A/c	Dr. Dr.) P & L A/c - Debit side Cr.) T A/c - Debit side - deducted from Purchases.	
iv)	Goods stolen away		Loss by Theft A/c To Goods A/c	Dr. Dr.) P & L A/c - Debit side Cr.) T A/c - Credit side	
v)	Goods used for making an asset		Asset A/c To Goods A/c	Dr. Dr.) B/S - Asset side - added to particular asset made. Cr.) T A/c - Credit side	
vi)	Bills Receivable includes a dishonoured bill		Sundry Debtors A/c To Bills Receivable A/c	Dr. Dr.) B/S - Asset side added to Sundry Debtors. Cr.) B/S - Asset side deducted from Bills Receivable	
vii)	Unrecorded Purchases	a) Credit purchase invoices omitted from the books. b) Failure to record credit purchases	Goods A/c To Sundry Creditors A/c	Dr. Dr.) T A/c - Debit side added to Purchases Cr.) B/S - Liability side added to Sundry Creditors.	
viii)	Unrecorded Sales	a) Credit sale invoice omitted from the books. b) Failure to record credit sales.	Sundry Debtors A/c To Goods A/c	Dr. Dr.) B/S - Asset side added to Sundry Debtors. Cr.) T A/c - Credit side added to sales.	
ix)	Goods sold on approval basis not yet approved by the customers	a) Sale or Return b) Sales on Approval Basis	1) Cancellation of credit sales with Selling Price Goods A/c To Sundry Debtors A/c Additions to Closing Stock of Goods with Cost Price or Selling Price whichever is less (Closing) Stock A/c To Trading A/c	Dr. Dr.) T A/c - Credit side deducted from Sales Cr.) B/S - Asset side deducted from Sundry Debtors. Dr.) B/S - Asset side - added to stock-in-trade Cr.) T A/c - Credit side - added to Closing Stock.	

Financial Accounting

2.192

Accounting Transactions and Final Accounts

Sr. No.	Adjustments	Synonymous Terms	Adjusting Entry	Effects T A/c = Trading Account P & L A/c = Profit and Loss Account B/S = Balance Sheet	Points to Remember TB = Trial Balance
x)	Included in Debts are the amounts due from a credit customer and included in Creditors are the amounts due to a credit supplier	a) Mutual Indebtedness	Sundry Creditors A/c To Sundry Debtors A/c	Dr. Dr.) B/S - Liability side - deducted from Sundry Creditors Cr.) B/S - Asset side deducted from Sundry Debtors	a) Common amount is to be deducted simultaneously from Sundry Debtors and Sundry Creditors.
15.	Adjustments for Rectification of Errors				a) The unusual adjustments which requires necessary corrections to be made in respect of transactions recorded wrongly.
i)	Insurance Premium includes proprietors life insurance premium.		P's Drawings A/c To Insurance A/c	Dr. Dr.) B/S - Liability side - deducted from P's Capital. Cr.) P & L A/c - Debit side - deducted from Insurance.	a) Proprietor's life insurance premium is a personal expenditure hence to be debited to P's Drawings A/c.
ii)	Erection charges includes erection of new machinery.	a) Capital expenditure treated as revenue expenditure	Machinery A/c To Erection Charges A/c	Dr. Dr.) B/S - Asset side - added to Machinery. Cr.) P & L A/c - Debit side deducted from erection charges.	a) Erection charges of new machinery must be debited to Machinery A/c.
iii)	Turnover includes sales tax payable		Sales A/c To Sales Tax Outstanding A/c	Dr. Dr.) T A/c - Credit side - deducted from sales. Cr.) B/S - Liability side - Sales Tax Outstanding.	a) Sales Tax Outstanding is a current liability, it should not be included in Sales A/c.
iv)	Purchases of new furniture wrongly entered in Purchases Journal		Furniture A/c To Purchases A/c	Dr. Dr.) B/S - Asset side - added to Furniture Cr.) T A/c - Debit side - deducted from Purchases.	a) Purchases of new furniture must be added to Furniture A/c.
v)	Primary packing includes secondary packing.		Secondary Packing A/c To Primary Packing A/c	Dr. Dr.) P & L A/c - Debit side - added to Packing charges Cr.) T A/c - Debit side deducted from Purchases	a) Primary Packing is a direct (purchase) expenditure whereas secondary packing is an indirect (selling and distribution) expenditure.
vi)	Repairs to Building stands debited to Building A/c		Repairs A/c To Buildings A/c	Dr. Dr.) P & L A/c - Debit side added to Repairs. Cr.) B/S - Asset side - deducted from Buildings.	a) Repairs to Buildings must be debited to Repairs A/c.
vii)	Wages paid for manufacture of Loose Tools were debited to Wages A/c		Loose-Tools A/c To Wages A/c	Dr. Dr.) B/S - Asset side added to Loose-Tool Cr.) T A/c - Debit side - deducted from wages.	a) Wages paid for manufacture of Loose Tools must be debited to Loose Tools A/c.
viii)	A sale of old furniture was passed through the Sales Book		Sales A/c To Furniture A/c	Dr. Dr.) T A/c - Credit side - deducted from sales. Cr.) B/S - Asset side - deducted from Furniture.	a) Sale of old furniture must be credited to Furniture A/c.

EXAMPLE 5

From the following Trial Balance of Amit Apte, Akola as on 31st March, 2019, prepare Trading Account and Profit and Loss Account for the year ended 31st March, 2019 and Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

Debit Balances	Amount ₹	Credit Balances	Amount ₹
Stock as on 1 st April, 2018	25,000	Creditors	25,000
Machinery	1,64,000	Bills Payable	25,000
Office Rent	20,000	A A's Capital	3,25,000
Returns Inward	2,000	Sales	4,00,000
Salaries	30,000	Returns Outward	3,000
Wages	20,000	Commission	2,000
Discount allowed	3,000		
Carriage Inward	2,000		
Carriage Outward	3,000		
Factory Rent	5,000		
Purchases	2,25,000		
Insurance	1,000		
Furniture	80,000		
Debtors	2,00,000		
Total	7,80,000		
		Total	7,80,000

Additional Information:

- On 31st March, 2019 stock was valued ₹ 25,000 as per market value and ₹ 20,000 as per book value.
- Depreciate Furniture by ₹ 8,000 and Machinery by ₹ 4,000.
- Outstanding Wages amounted to ₹ 5,000.
- Insurance Premium of ₹ 200 is prepaid.
- Provide for bad and doubtful debts @ 10% on Sundry Debtors.

ANSWER

In the books of Amit Apte, Akola

Dr.	Trading and Profit and Loss Account for the year ended 31 st March, 2019	Cr.			
Particulars	₹	₹	Particulars	₹	₹
To Stock as on 1 st April, 2018		25,000	By Sales	4,00,000	3,98,000
To Purchases	2,25,000	2,22,000	Less : Returns Inward (-)	2,000	
Less Returns Outward (-)	3,000		By Closing Stock		20,000
To Wages	20,000	25,000			
Add: Outstanding Wages (+)	5,000				
To Carriage Inward		2,000			
To Factory Rent		5,000			
To Gross Profit C/D*		1,39,000			
		4,18,000			4,18,000
To Office Rent		20,000	By Gross Profit B/D		1,39,000
To Salaries		30,000	By Commission		2,000
To Discount Allowed		3,000			
To Carriage Outward		3,000			
To Insurance	1,000	800			
Less: Prepaid Insurance (-)	200				
To Depreciation		12,000			
i) Furniture		8,000			
ii) Machinery (+)	4,000				
To Reserve for Bad and Doubtful Debts		20,000			
New Reserve	20,000				
Less: Old Reserve (-)	NIL				
To Net Profit C/D*		52,200			
		1,41,000			1,41,000

Balance Sheet as on 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹
A A's Capital	3,25,000	3,77,200	Machinery	1,64,000	1,60,000
Add: Net Profit (+)	52,200		Less: Depreciation (-)	4,000	
Creditors		25,000	Furniture	80,000	72,000
Bills Payable		25,000	Less: Depreciation (-)	8,000	
Outstanding Wages		5,000	Debtors	2,00,000	1,80,000
			Less: Reserve for Bad and Doubtful Debts @ 10% (-)	20,000	
			Stock-in-Trade		20,000
			Prepaid Insurance		200
		4,32,200			4,32,200

Working Notes:

- i) Closing Stock is always to be valued at cost price or market price whichever is less. therefore value of closing stock is taken as ₹ 20,000.

ILLUSTRATIONS**ILLUSTRATION 1**

From the following Trial Balance of Bharat Bhushan, Baroda, prepare the Final Accounts as on 31st March, 2019.

Particulars	Debit	Credit
	₹	₹
B's Capital	—	2,00,000
Land and Buildings	87,000	—
Plant and Machinery	17,500	—
Goodwill	20,000	—
B's Drawings	22,600	—
Cash in Hand	1,795	—
Stock on 1 st April, 2018	27,000	—
Wages	10,000	—
Purchases Less Returns	69,000	—
Carriage Inward	600	—
Traveller's Commission	6,000	—
Insurance	2,000	—
Motor Car	3,000	—
Carriage Outward	1,400	—
Sales Less Returns	—	94,000
Salaries	15,000	—
Bank Charges	105	—
Reserve for Doubtful Debts	—	1,500
Debtors	20,000	—
Creditors	—	7,500
Total	3,03,000	3,03,000

The following adjustments are to be considered :

- On 31st March 2019, the Stock was valued at ₹ 46,000.
- Insurance Premium amounting to ₹ 800 is prepaid.
- Outstanding Salaries amounted to ₹ 1,000.
- Depreciate Plant and Machinery @ 10% p.a. and Motor Car @ 20% p.a.
- Create a Reserve for Doubtful Debts @ 10% on Debtors.

SOLUTION

In the books of Bharat Bhushan, Baroda

Dr. Trading and Profit and Loss Account for the year ended 31 st March, 2019				Cr.	
Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		27,000	By Sales Less Returns		94,000
To Wages		10,000	By Closing Stock		46,000
To Purchases Less Returns		69,000			
To Carriage Inward		600			
To Gross Profit C/D*		33,400			
		1,40,000			1,40,000
To Salary	15,000	16,000	By Gross Profit B/D		33,400
Add : Outstanding Salary (+)	1,000				
To Reserve for Doubtful Debts					
New Reserve	2,000	500			
Less : Old Reserve (-)	1,500				
To Traveller's Commission					
To Insurance	2,000	6,000			
Less : Prepaid Insurance (-)	800	1,200			
To Carriage Outward					
To Bank Charges		1,400			
To Depreciation		105			
(i) Plant and Machinery @ 10% p.a.	1,750	2,350			
(ii) Motor Car @ 20% p.a. (+)	600				
To Net Profit C/D*		5,845			
		33,400			33,400

Balance Sheet as on 31st March, 2019

Liabilities	₹	₹	Assets	₹
B's Capital	2,00,000		Cash in Hand	1,795
Add : Net Profit (+)	5,845		Land and Buildings	87,000
	2,05,845		Plant and Machinery	17,500
Less : B's Drawings (-)	22,600	1,83,245	Less : Depre. @ 10% p.a. (-)	1,750
Outstanding Salaries		1,000		15,750
Creditors		7,500	Goodwill	20,000
			Motor Car	3,000
			Less : Depre. @ 20% p.a. (-)	600
				2,400
			Debtors	20,000
			Less : R.D.D. @ 10% (-)	2,000
				18,000
			Stock-in-Trade	46,000
			Prepaid Insurance	800
				1,91,745

ILLUSTRATION 2

The following balances were extracted from the books of Deepali Deshpande, Dombivali as on 30th June 2019. Prepare Trading and Profit and Loss Account for the year ended 30th June, 2019 and the Balance Sheet as on that date after taking into account the following adjustments :

Trial Balance as on 30th June, 2019

Particulars	Debit ₹	Credit ₹
D's Capital		3,30,000
D's Drawings	24,450	
Opening Stock	2,00,000	
Bills Receivable	25,000	
Purchases	2,75,000	
Sales		4,20,000
Bills Payable		60,000
Returns Outward		4,500
Returns Inward	5,000	
Plant and Machinery	1,00,000	
Loose Tools	25,000	
Patents	25,000	
Sundry Debtors	1,25,000	
Sundry Creditors		1,40,000
Cash at Bank	77,550	
Salaries and Wages	50,000	
Repairs and Renewals	7,500	
Insurance	3,000	
Power and Fuel	3,500	
Printing and, Stationery	2,000	
Miscellaneous Expenses	6,500	
Total	9,54,500	9,54,500

Adjustments :

- a) Closing Stock was ₹ 1,30,000 as on 30th June, 2019.
- c) Depreciate Plant and Machinery @ 5% p.a. and Patents @ 15% p.a.
- c) Revalue Tools at ₹ 20,000.
- d) Provide for Bad and Doubtful Debts @ 5% on Debtors.
- e) Outstanding Salary amounted to ₹ 3,500.
- f) Insurance was paid in advance to the extent of ₹ 750.

SOLUTION

In the Books of Deepali Deshpande, Dombivali

Dr. Trading and Profit and Loss Account for the year ended 30th June, 2019 Cr.

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		2,00,000	By Sales	4,20,000	
To Purchases	2,75,000		Less : Returns Inward (-)	5,000	4,15,000
Less : Returns Outward (-)	4,500	2,70,500	By Closing Stock		1,30,000
To Power and Fuel		3,500			
To Gross Profit C/D*		71,000			
		5,45,000			5,45,000
To Salary and Wages	50,000		By Gross Profit B/D		71,000
Add : Outstanding Salary (+)	3,500	53,500			
To Repairs and Renewals		7,500	By Net Loss C/D*		20,750
To Insurance	3,000				
Less : Prepaid Insurance (-)	750	2,250			
To Miscellaneous Expenses		6,500			
To Printing and Stationery		2,000			
To Provision for Bad and Doubtful Debts		6,250			
New Reserve	6,250				
Less : Old Reserve	NIL				
To Depreciation :		13,750			
i) Plant and Machinery @ 5% p.a.	5,000				
ii) Patents @ 15% p.a.	3,750				
iii) Tools (+)	5,000				
	91,750				91,750

Balance Sheet as on 30th June, 2019

Liabilities	₹	₹	Assets	₹	₹
D's Capital	3,30,000	2,84,800	Cash at Bank		77,550
Less : D's Drawings	(-) 24,450		Plant and Machinery	1,00,000	
	3,05,550		Less : Depre. @ 5% p.a. (-)	5,000	95,000
Less : Net Loss	(-) 20,750		Loose Tools	25,000	
Bills Payable		60,000	Less : Depreciation (-)	5,000	20,000
Sundry Creditors		1,40,000	Patents	25,000	
Outstanding Salary		3,500	Less : Depre. @ 15% p.a. (-)	3,750	21,250
			Sundry Debtors	1,25,000	
			Less : Provision for B.D.		
			Debts @ 5% (-)	6,250	1,18,750
			Bills Receivable		25,000
			Stock-in-Trade		1,30,000
			Prepaid Insurance		750
		4,88,300			4,88,300

ILLUSTRATION 3

The Trial Balance of Manish Mahashabde, Matunga as on 30th September 2019 was as follows :

Trial Balance as on 30th September, 2019

Particulars	Debit ₹	Credit ₹
M's Capital		2,50,000
M's Drawings	7,500	
Investment	1,00,000	
Motor Vehicles	80,000	
Office Furniture	20,000	
Office Equipment	60,000	
Cash in Hand	5,500	
Purchases	4,75,000	
Sales		7,55,000
Returns	15,000	10,000
Carriage	3,500	
Opening Stock	1,40,000	
Rent	30,000	
Debtors	1,76,000	
Salaries	25,000	
Trade Expenses	3,000	
General Expenses	6,000	
Bad Debts	2,500	
Reserve for Bad Debts		7,500
Discount	1,000	500
Creditors		1,26,000
Prepaid Insurance	1,000	
Outstanding Salaries		2,000
Total	11,51,000	11,51,000

Adjustments :

- Closing Stock was valued at ₹ 80,000, as on 30th September, 2019.
- Depreciation on Motor Vehicle and Office Furniture @ 5% p.a. and Office Equipment @ 10% p.a. was to be provided.
- Create 5% for Reserve for Doubtful Debts on Debtors.
- Goods costing ₹ 1,000 was taken for personal use by Mahashabde and it was included in Debtors.
- Goods worth ₹ 10,000 were destroyed by fire and the Insurance Co. admitted the claim for ₹ 8,000.

SOLUTION

In the Books of Manish Mahashabde, Matunga

Dr.	Trading and Profit and Loss Account for the year ended 30 th September 2019		Cr.		
Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		1,40,000	By Sales	7,55,000	
To Purchases	4,75,000		Less : Returns Outward	(-) 15,000	7,40,000
Less : Returns Inward	(-) 10,000	4,65,000	By Closing Stock	80,000	
To Carriage		3,500	By Goods destroyed by Fire	10,000	
To Trade Expenses		3,000			
To Gross Profit C/D*		2,18,500			
		8,30,000			8,30,000
To Salaries		25,000	By Gross Profit B/D	2,18,500	
To Rent		30,000	By Discount Received	500	
To General Expenses		6,000			
To Bad Debts		2,500			
To Discount Allowed		1,000			
To Reserve for Doubtful Debts		1,250			
New Reserve	8,750				
Less : Old Reserve	(-) 7,500				
To Depreciation		11,000			
i) Motor Vehicle @ 5% p.a.	4,000				
ii) Office Furniture @ 5% p.a.	1,000				
iii) Office Equipment @ 10% p.a.	(+) 6,000				
To Loss by Fire		2,000			
To Net Profit C/D*		140,250			
		2,19,000			2,19,000

Balance Sheet as on 30th September, 2019

Liabilities	₹	₹	Assets	₹	₹
M's Capital	2,50,000	3,81,750	Cash in Hand		5,500
Less : M's Drawings	(-) 8,500		Motor Vehicles	80,000	
i) Cash	7,500		Less : Depre. @ 5% p.a.	(-) 4,000	76,000
ii) Goods	(+) 1,000		Investment		1,00,000
Add : Net Profit	(+) 140,250		Office Furniture	20,000	
			Less : Depre. @ 5% p.a.	(-) 1,000	19,000
Outstanding Salaries		2,000	Prepaid Insurance	1,000	
Creditors		1,26,000	Stock-in-Trade		80,000
			Office Equipments	60,000	
			Less : Depre. @ 10% p.a.	(-) 6,000	54,000
			Outstanding Claim with		
			Insurance Co.		8,000
			Debtors	1,76,000	
			Less : D's Drawings		
			(Goods taken)	(-) 1,000	
				1,75,000	
			Less : Reserve for Doubtful		
			Debts @ 5%	(-) 8,750	1,66,250
		5,09,750			5,09,750

Working Notes :

- Effect of various adjustments on Sundry Debtors Account is to be recorded in the following preferential order i.e. a) Goods taken for personal use wrongly included in debtors, b) Reserve for doubtful debts.

ILLUSTRATION 4

Following is the Trial Balance of Anupam Traders, Ambarnath for the year ended 31st March, 2019. Prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and the Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Credit ₹
Rent		10,000
Sales		5,12,000
Creditors		56,600
Bank Overdraft		1,40,000
Bills Payable		23,000
A's Capital		4,05,000
Opening Stock	72,000	
Purchases	2,20,000	
Carriage Inward	8,000	
Wages	80,000	
Goodwill	30,000	
Freehold Land	60,000	
Leasehold Land	1,00,000	
Building	2,20,000	
Plant and Machinery	1,80,000	
Vehicles	70,000	
Furniture	20,000	
Advertising	10,000	
Salaries	38,000	
Stationery	8,300	
Office Expenses	4,100	
Bank Charges	100	
Carriage Outward	3,700	
Cash in Hand	400	
Debtors	12,000	
Interest on Bank Overdraft	10,000	
Total	11,46,600	11,46,600

Adjustments :

- Lease to run for 10 years from 1st April, 2018.
- Depreciate Plant and Machinery @ 15% p.a., Vehicles @ 20% p.a. and Furniture @ 10% p.a.
- Stock on 31st March, 2019 is valued @ ₹ 58,000.
- Outstanding wages are ₹ 3,800 and Outstanding salaries are ₹ 4,500.
- Interest of Bank Overdraft, for the last quarter of the year ₹ 4,600 is not recorded so far.
- Provide 5% on debtors for doubtful debts.

SOLUTION

In the books of Anupum Traders, Ambarnath

Dr.	Trading Account and Profit and Loss Account for the year ended 31 st March, 2019	Cr.			
Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		72,000	By Sales		51,200
To Purchases		2,20,000	By Closing Stock		58,000
To Carriage Inward		8,000			
To Wages	80,000				
Add : Outstanding Wages	(+)	<u>3,800</u>	83,800		
To Gross Profit C/D*		1,86,200			
		5,70,000			5,70,000
To Advertisement		10,000	By Gross Profit B/D		1,86,200
To Salaries	38,000		By Rent:		10,000
Add : Outstanding Salaries	(+)	<u>4,600</u>	42,500		
To Stationery		8,300			
To Office Expenses		4,100			
To Bank Charges		100			
To Carriage Outward		3,700			
To Interest on Bank Overdraft	10,000				
Add : Outstanding Interest	(+)	<u>4,600</u>	14,600		
To Depreciation :					
i) Leasehold Land (1/10)	10,000				
ii) Plant and Machinery @ 15% p.a.	27,000				
iii) Vehicles @ 20% p.a.	14,000				
iv) Furniture @ 15% p.a.	(+)	<u>2,000</u>	53,000		
To Reserve for Doubtful Debts		600	600		
New Reserve		600			
Less : Old Reserve	(-)	<u>NIL</u>	59,300		
To Net Profit C/D*		1,96,200			1,96,200

Balance Sheet as on 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹
A's Capital	4,05,000		Cash in Hand		400
Add : Net Profit	(+)	<u>59,300</u>	Stock-in-Trade		58,000
Outstanding Wages		3,800	Debtors	12,000	
Outstanding Salaries		4,500	Less : Reserve for Doubtful Debts@ 5%	(-)	600
Bills Payable		23,000	Debts@ 5%		11,400
Creditors		56,600	Vehicles	70,000	
Bank Overdraft	1,40,000		Less : Depre. @ 20% p.a.	(-)	14,000
Add : Outstanding Interest	(+)	<u>4,600</u>	Depre. @ 20% p.a.		56,000
		1,44,600	Furniture	20,000	
			Less : Depre. @ 10% p.a.	(-)	2,000
			Depre. @ 10% p.a.		18,000
			Plant and Machinery	1,80,000	
			Less : Depre. @ 15% p.a.	(-)	27,000
			Depre. @ 15% p.a.		1,53,000
			Leasehold Land	1,00,000	
			Less : Depre. (1/10)	(-)	10,000
			Depre. (1/10)		90,000
			Buildings		2,20,000
			Freehold Land		60,000
			Goodwill		30,000
		6,96,800			6,96,800

ILLUSTRATION 5

Following is the Trial Balance of Ashok Amarnath, Ajmer for the year ended 31st March, 2019, prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Credit ₹
Purchases	98,000	
Wages	21,000	
Stock on 1 st April, 2018	25,000	
Printing and Stationery	17,000	
Insurance (paid for one year from 1 st October 2018 to 30 th Sept. 2019)	2,200	
Salaries	32,000	
Sales		2,12,000
Carriage Inward	10,000	
Carriage Outward	12,000	
Advertising	14,000	
A's Capital		1,10,000
Land and Buildings	35,000	
Machinery	60,000	
Debtors and Creditors	30,000	35,000
Returns Inward and Returns Outward	2,000	2,300
Cash	2,300	
Loan from Bhagwan (taken on 1 st December, 2018 @ 12% p.a.)		18,000
Patents	20,000	
Rent received		3,200
Total	3,80,500	3,80,500

Adjustments :

- Closing Stock is valued at cost price ₹ 32,000 and at market price ₹ 26,000.
- Depreciate Machinery @ 10% p.a. and Patents are revalued on 31st March, 2019 at ₹ 18,200.
- A part of the Buildings is let out @ ₹ 1,000 per month from 1st December, 2018.
- Printing bill of ₹ 1,200; Wages of ₹ 1,800 and Salaries of ₹ 3,800 are outstanding.

SOLUTION

In the books of Ashok Amarnath, Ajmer
Trading and Profit and Loss Account for the year ended 31st March, 2019

Dr.	₹	₹	Cr.
Particulars			
To Opening Stock	25,000		
To Purchases	98,000		
Less : Returns Outward	(–) 2,300	95,700	
To Wages	21,000		
Add : Outstanding Wages	(+)	1,800	22,800
To Carriage Inward		10,000	
To Gross Profit C/D*		82,500	
		2,36,000	2,36,000
To Printing and Stationery	17,000	18,200	
Add : Outstanding Printing	(+)	1,200	By Gross Profit B/D 82,500
To Insurance	2,200		
Less : Prepaid Insurance	(–)	1,100	By Rent Received 3,200
To Salaries	32,000	1,100	Add: Outstanding Rent on Buildings (+) 800 4,000
Add : Outstanding Salaries	(+)	3,800	By Net Loss C/D* 3,120
To Carriage Outward		12,000	
To Advertising		14,000	
To Outstanding Interest on			
B's Loan @ 12% p.a.		720	
To Depreciation :			
i) Machinery @ 10% p.a.	6,000		
ii) Patents	(+)	1,800	7,800
		89,620	89,620

Balance Sheet as on 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹
A's Capital	1,10,000		Cash in Hand		2,300
Less : Net Loss	(–)	3,120	Outstanding Rent on Buildings		800
Outstanding Expenses :			Prepaid Insurance		1,100
i) Printing	1,200		Stock-in-Trade		26,000
ii) Wages	1,800		Debtors		30,000
iii) Salaries	(+)	3,800	Patents	20,000	
Creditors		35,000	Less : Written off	(–)	1,800 18,200
B's Loan	18,000		Machinery	60,000	
Add : Outstanding Interest			Less : Depre. @ 10% p.a.	(–)	6,000 54,000
@ 12% p.a.	(+)	720	Land and Buildings		35,000
		18,720			1,67,400

Working Notes :

- i) Closing Stock is valued at cost price or market price whichever is less. Therefore value of Closing Stock is taken as ₹ 26,000.
- ii) Insurance is paid for one year upto 30th September, 2019 out of which from 1st April, 2019 to 30th September, 2019 i.e. for 6 months, which is prepaid.

- iii) Loan is taken on 1st December, 2018 i.e. from 1st December, 2018 to 31st March, 2019 i.e. for 4 months interest is outstanding on it.
- iv) Rent receivable on Buildings from 1st December, 2018 to 31st March, 2019 for 4 months @ ₹ 1,000 per month is ₹ 4,000, out of which ₹ 3,200 is already received and therefore, ₹ 800 is outstanding.

ILLUSTRATION 6

From the following Trial Balance of Brijesh Chandra, Dombivali as on 31st March, 2019, prepare Trading Account, Profit and Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Credit ₹
Stock as on 1 st April, 2018	20,000	
Purchases and Sales	2,20,000	3,50,000
Bills Receivable	5,000	
Returns	10,000	5,000
Carriage Inward	5,000	
Debtors and Creditors	20,000	40,000
Carriage Outward	4,000	
Discounts	500	500
Salaries and Wages	22,000	
Insurance	6,000	
Rent	6,000	
Wages and Salaries	8,000	
Bad Debts	1,000	
Furniture	40,000	
Brijesh's Capital		50,000
Brijesh's Drawings	7,000	
Loose Tools	10,000	
Printing and Stationery	3,000	
Advertisement	5,000	
Cash in Hand	4,500	
Cash at Bank	20,000	
Petty Cash	500	
Machinery	30,000	
Commission	1,000	3,000
Total	4,48,500	4,48,500

Adjustments :

- Stock as on 31st March, 2019 was valued as follows :
Cost Price ₹ 42,000, Market Price ₹ 40,000.
- Depreciate Furniture @ 10% p.a. and Machinery @ 20% p.a. as per Reducing Balance Method.
- Rent of ₹ 500 was paid in advance.
- Salaries and Wages due but not paid amounted to ₹ 3,000.
- Create a Reserve for Bad and Doubtful Debts @ 5% on Book Debts.
- Interest on Capital @ 6% p.a. was also to be provided but not on Drawings.

SOLUTION

In the books of Brijesh Chandra, Dombivali

Dr.	Trading Account for the year ended 31 st March, 2019			Cr.	
Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		20,000	By Sales	3,50,000	3,40,000
To Purchases	2,20,000	2,15,000	Less : Returns Inward	(-) 10,000	
Less : Returns Outward	(-)	5,000	By Closing Stock		40,000
To Carriage Inward		5,000			
To Wages and Salaries		8,000			
To Gross Profit C/D*		1,32,000			
		3,80,000			3,80,000

Dr.	Profit and Loss Account for the year ended 31 st March, 2019			Cr.	
Particulars	₹	₹	Particulars	₹	₹
To Carriage Outward		4,000	By Gross Profit B/D		1,32,000
To Discount Allowed		500	By Discount Received		500
To Salaries and Wages	22,000	25,000	By Commission		3,000
Add : Outstanding Salaries and Wages (+)	3,000	6,000			
To Insurance		6,000			
To Rent		6,000			
Less : Prepaid Rent	(-)	500			
To Bad Debts		1,000			
To Printing and Stationery		3,000			
To Advertisement		5,000			
To Commission		1,000			
To Depreciation :					
i) Furniture @ 10% p.a.	4,000				
ii) Machinery @ 20% p.a.	(+) 6,000	10,000			
To Reserve for Bad and Doubtful Debts		1,000			
New Reserve	1,000				
Less : Old Reserve	(-)	NIL			
To Interest on B's Capital @ 6% p.a.		3,000			
To Net Profit C/D*		70,500			
		1,35,500			1,35,500

Balance Sheet as on 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹
Brijesh's Capital	50,000	1,16,500	Bills Receivable		5,000
Add : Interest on Capital @ 6% p.a. (+)	3,000		Debtors	20,000	19,000
Add : Net Profit	(+)	70,500	Less : Reserve for Doubtful Debts @ 5%	(-)	1,000
			Furniture	40,000	36,000
Less : B's Drawings	(-)	7,000	Less : Depre. @ 10% p.a.	(-)	4,000
Creditors			Loose Tools		10,000
Outstanding Salaries and Wages			Cash in Hand		4,500
			Cash at Bank		20,000
			Petty Cash		500
			Machinery	30,000	
			Less : Depre. 20% p.a.	(-)	8,000
			Stock in Trade		24,000
			Prepaid Rent		40,000
					500
					1,59,500

Working Notes :

- Closing Stock is valued at market price as it is less than the cost price.
- Returns with debit balance represents returns inward which gets deducted from sales, whereas returns with credit balance represents returns outward which gets deducted from Purchases, through Trading Account.
- Discounts with debit balance represents discount allowed to a customer which is debited to Profit and Loss Account, whereas discounts with credit balance represents discount received from supplier which is credited to Profit and Loss Account.
- Commission with debit balance represents commission paid which is debited to Profit and Loss Account, whereas commission with credit balance represents commission received which is credited to Profit and Loss Account.
- When the balance of an item given in Trial Balance covers two accounts, the name of the account which appears first represents majority of amount given as balance. Hence, the head which contains majority of the amount becomes the main head of the item. e.g. Wages and Salaries Account are debited to Trading Account but Salaries and Wages Account are debited to Profit and Loss Account.

ILLUSTRATION 7

From the following Trial Balance of Chiman Deo, Ernakulam for the year 31st March, 2019, prepare Trading Account and Profit and Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Credit ₹
Sales		1,31,000
Bank (Cr.)		20,000
Commission		2,000
Bills Payable		7,000
Pre-received Commission		2,000
Sundry Creditors		39,000
Loan from Canara Bank		55,000
Purchases Returns		1,000
C's Capital		1,30,000
Sales Returns	1,000	
Carriage Inward	6,000	
Salary	25,000	
Import Duty	6,000	
Property Tax	4,000	
Stock as on 1 st April, 2018	40,000	
Prepaid Salary	1,000	
Purchases	82,600	
Wages	4,800	
Cash on Hand	12,000	
Live Stock	20,000	
Miscellaneous Expenses	7,100	
Advertising	7,600	
Discount Allowed	300	
Interest on Loan from Canara Bank	2,800	
Sundry Debtors	41,000	
Buildings	80,000	
Vehicles	40,000	
Bad Debts	1,800	
Carriage Outward	4,000	
Total	3,87,000	3,87,000

Adjustments :

- Unsold stock of goods in hand on 31st March, 2019 amounted to ₹ 30,000 at cost.
- Goods of ₹ 3,400 were purchased and received on 30th March, 2019 and are included in the Closing Stock but the entry is not recorded in Bought Book.
- Outstanding Wages amounted to ₹ 1,200.
- Provide 5% on Sundry Debtors for Bad and Doubtful Debts.
- Goods of ₹ 1,400 are distributed as free samples.
- Depreciate Buildings @ 10% p.a.
- ₹ 1,000 is to be written off as bad debts.

SOLUTION**In the books of Chiman Deo, Ernakulam**

Dr.	Trading Account for the year ended 31 st March, 2019			Cr.		
	Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		40,000		By Sales	1,31,000	1,30,000
To Purchases	82,600	85,000		Less : Sales Returns (-)	1,000	
Less : Purchases Returns (-)	1,000	81,600		By Closing Stock		30,000
Add : Unrecorded Purchases (+)	3,400			By Goods distributed as free samples		1,400
To Carriage Inward		6,000				
To Import Duty		6,000				
To Wages	4,800					
Add : Outstanding Wages (+)	1,200	6,000				
To Gross Profit C/D*		18,400				
		1,61,400				1,61,400

Dr.	Profit and Loss Account for the year ended 31 st March, 2019			Cr.		
	Particulars	₹	₹	Particulars	₹	₹
To Salary		25,000		By Gross Profit B/D		18,400
To Property Tax		4,000		By Commission		2,000
To Miscellaneous Expenses		7,100				
To Advertising	7,600					
Add : Goods distributed as free samples (+)	1,400	9,000				
To Discount Allowed		300				
To Interest on Loan from Canara Bank		2,800				
To Bad Debts	1,800					
Add : New Bad Debts (+)	1,000	2,800				
To Carriage Outward		4,000				
To Reserve for Bad and Doubtful Debts		2,000				
New Reserve	2,000					
Less : Old Reserve (-)	NIL	8,000				
To Depreciation on Buildings @ 10% p.a.				By Net Loss C/D*		44,600
		65,000				65,000

Balance Sheet as on 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹
C's Capital	1,30,000		Prepaid Salary		1,000
Less : Net Loss	(-) 44,600	85,400	Cash on Hand		12,000
Bank (Cr.)		20,000	Live Stock		20,000
Bills Payable		7,000	Sundry Debtors	41,000	
Pre-received Commission		2,000	Less : Bad Debts	(-) 1,000	
Sundry Creditors	39,000				40,000
Add : Unrecorded Purchases	(+) 3,400	42,400	Less : RDD @ 5%	(-) 2,000	38,000
Loan from Canara Bank		55,000	Buildings		80,000
Outstanding Wages		1,200	Less : Dep. @ 10% p.a.	(-) 8,000	72,000
			Vehicles		40,000
			Stock in Trade		30,000
		2,13,000			2,13,000

Working Notes :

- Bank Account, credit balance indicates Bank Overdraft, hence it is shown on the liability side of the Balance Sheet.
- Pre-received Commission Account (i.e. Liability) and Prepaid Salary Account (i.e. Asset) are the items shown only in the Balance Sheet as they are given in the Trial Balance.
- Goods purchased and received included in Closing Stock but not recorded in Bought Book i.e. unrecorded purchases, are to be added to Sundry Creditors Account on the liability side of the Balance Sheet and also added to Purchases Account on the debit side of a Trading Account.
- Effect of various adjustments on Sundry Debtors Account is to be recorded in the following preferential order i.e. a) Bad Debts written off and b) Provision for Bad and Doubtful Debts.
- Goods distributed as free samples are for advertisement purpose, hence is to be debited to Profit and Loss Account and credited to Trading Account.

ILLUSTRATION 8

From the following Trial Balance of Dinesh More, Agra as on 31st March, 2019 and the adjustments given below, you are required to prepare Trading Account and Profit and Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Credit ₹
D's Drawings	5,000	
Plant and Machinery	50,000	
Goodwill	10,000	
Purchases	90,000	
Returns Inward	3,000	
Patents	14,000	
Freight and Duty	1,800	
Opening Stock	23,000	
Sales Promotion Charges	1,000	
Printing and Stationery	1,700	
Insurance for 14 months upto 31 st May, 2019	1,400	
Sundry Debtors	41,000	
Furniture	10,000	
Bills Receivable	7,300	
Rent and Taxes	5,500	
Bad Debts	1,300	
Wages	7,200	
Cash in Hand	2,000	
Petty Cash	600	
Salary	6,700	
D's Capital		1,04,000
Returns Outward		2,000
Reserve for Bad Debts (1 st April, 2018)		2,000
Sundry Creditors		12,400
Bills Payable		8,900
Sales		1,53,000
Discount Received		200
Total	2,82,500	2,82,500

Adjustments :

- Stock at the close on 31st March, 2019 amounted to ₹ 22,000.
- Bills Receivable includes a dishonoured bill of ₹ 300.
- Provide depreciation on Plant and Machinery @ 20% p.a. and Patents are revalued on 31st March, 2019 at ₹ 12,000.
- Create a Reserve for Bad and Doubtful Debts @ 5% on Sundry Debtors.
- Stationery of ₹ 200 is on hand on 31st March, 2019.
- Write off ₹ 1,300 as further Bad Debts.
- Wages payable amounted to ₹ 800.

SOLUTION

In the books of Dinesh More, Agra

Dr. Trading Account for the year ended 31 st March, 2019			Cr.	
Particulars	₹	₹	Particulars	₹
To Opening Stock		23,000	By Sales	1,53,000
To Purchases	90,000	88,000	Less : Returns Inward	(-) 3,000
Less : Returns Outward (-) 2,000			By Closing Stock	
		1,800		22,000
To Freight and Duty				
To Wages	7,200			
Add : Wages Payable (+) 800		8,000		
To Gross Profit C/D*		51,200		
		1,72,000		1,72,000

Dr.	Profit and Loss Account for the year ended 31 st March, 2019			Cr.		
	Particulars	₹	₹	Particulars	₹	₹
To Sales Promotion Charges		1,000		By Gross Profit B/D		51,200
To Printing and Stationery		1,700		By Discount Received		200
Less : Stock of Stationery	(-)	200	1,500			
To Insurance		1,400				
Less : Prepaid Insurance	(-)	200	1,200			
To Rent and Taxes			5,500			
To Bad Debts		1,300				
Add : New Bad Debts	(+)	1,300	2,600			
To Salary			6,700			
To Depreciation :						
i) Plant and Machinery @ 20% p.a.		10,000				
ii) Patents written off	(+)	2,000	12,000			
To Reserve for Bad and Doubtful Debts			NIL			
New Reserve		2,000				
Less : Old Reserve	(-)	2,000				
To Net Profit C/D*			20,900			
		51,400				51,400

Balance Sheet as on 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹
D's Capital	1,04,000	1,19,900	Plant and Machinery	50,000	
Add : Net Profit	(+)	20,900	Less : Depre. @ 20% p.a.	(-)	10,000
		1,24,900	Goodwill		10,000
Less : D's Drawings	(-)	5,000	Patents	14,000	
Sundry Creditors			Less : Written off	(-)	2,000
Bills Payable			Sundry Debtors	41,000	
Wages Payable			Add : Bills Receivable dishonoured	(+)	300
					41,300
			Less : Bad Debts	(-)	1,300
					40,000
			Less : RDD @ 5%	(-)	2,000
			Furniture		38,000
			Bills Receivable	7,300	
			Less : Bills Receivable dishonoured	(-)	300
			Cash in Hand		7,000
			Petty Cash		2,000
			Stock-in-Trade		600
			Stock of Stationery		22,000
			Prepaid Insurance		200
					200
		1,42,000			1,42,000

Working Notes :

- Insurance paid in current year for the two months (i.e. ₹ 200) of the next year, is to be treated as Prepaid Insurance.
- Bills receivable dishonoured decreases the balance of Bills Receivable Account whereas increases the balance of Sundry Debtors Account, hence it is to be deducted from Bills Receivable Account and added to Sundry Debtors Account, both on the Asset side of the Balance Sheet.
- Effect of various adjustments on Sundry Debtors Account is to be recorded in the following preferential order i.e. a) Bills Receivable dishonoured, b) Bad Debts written off and c) Provision for Bad and Doubtful Debts.

ILLUSTRATION 9

From the following balances extracted from the books of Chandan Chavan, Chennai, prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date.

Particulars	₹
Stock on 1 st April, 2018	10,000
Purchases Less Returns	49,000
Wages	15,000
Loan from Andhra Bank	1,50,000
Capital	60,000
Sundry Debtors	42,700
Provision for Bad Debts on 1 st April, 2018	2,800
Rent and Taxes	1,000
Salaries	8,000
General Expenses	900
Discount Allowed	500
Sundry Creditors	20,000
Sales	1,28,600
Plant and Machinery	1,50,000
Furniture	18,000
Cash	2,300
Drawings	6,000
Returns Inward	2,000
Cost of Lease on 1 st April, 2018	56,000

Adjustments :

- The Closing Stock amounted to ₹ 9,800.
- Write off 10% on Plant and 5% on Furniture as depreciation.
- Write off ₹ 700 as Bad Debts and maintain a Reserve for Bad Debts at 6% on Sundry Debtors.
- Write off ₹ 6,000 in the current year from the Cost of Lease.

SOLUTION**In the books of Chandan Chavan, Chennai**

Dr.	Trading and Profit and Loss Account for the year ended 31 st March, 2019	Cr.
Particulars	₹	₹
To Opening Stock	10,000	
To Purchases	49,000	49,000
Less : Returns Outward (-)	NIL	
To Wages	15,000	
To Gross Profit C/D*	62,400	
	1,36,400	
To Rent and Taxes	1,000	
To Salaries	8,000	
To General Expenses	900	
To Discount Allowed	500	
To Depreciation :		
i) Plant and Machinery @ 10% p.a.	15,000	
ii) Furniture @ 5% p.a.	(+) 900	
To Lease written off		6,000
To Bad Debts		700
To Net Profit C/D*		29,680
	62,680	
		62,680
By Sales	1,28,600	1,26,600
Less : Returns Inward (-)	2,000	
By Closing Stock		9,800
		1,36,400
By Gross Profit B/D		62,400
By Reserve for Bad Debts :		280
Old Reserve	2,800	
Less : New Reserve (-)	2,520	

Balance Sheet as on 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹
Capital	60,000	83,680	Sundry Debtors	42,700	39,480
Add : Net Profit (+)	29,680		Less : Bad Debts (-)	700	
	89,680			42,000	
Less : Drawings (-)	6,000		Less : RDD @ 6% p.a. (-)	2,520	
Loan from Andhra Bank		1,50,000	Plant and Machinery	1,50,000	1,35,000
Sundry Creditors		20,000	Less : Dep. @ 10% p.a. (-)	15,000	
			Furniture	18,000	17,100
			Less : Dep. @ 5% p.a. (-)	900	
			Cash	2,300	
			Lease	56,000	50,000
			Less : Written off (-)	6,000	
			Stock in Trade	9,800	
		2,53,680			2,53,680

ILLUSTRATION 10

From the following Trial Balance of Girish Gupta, Gondia, prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date after considering following adjustments.

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Credit ₹
Machinery	90,000	
Buildings	40,000	
Stock as on 1 st April, 2018	20,200	
Purchases	1,10,800	
Wages and Salaries	17,000	
Carriage Outward	3,000	
Sundry Debtors	35,000	
General Expenses	9,100	
Rent	1,700	
Bad Debts	650	
Business Tax	300	
Legal Charges	400	
Prepaid Rent	200	
Loan to Gopal @ 10% p.a.	10,000	
Goodwill	7,000	
Drawings	4,300	
Cash in Hand	1,350	
Cash at Bank	9,750	

Particulars	Debit ₹	Credit ₹
Capital		1,15,200
Sundry Creditors		45,000
Bills Payable		4,000
Returns Outward		1,500
Interest on Gopal's Loan		900
Outstanding Salaries		1,150
Sales		1,90,500
Reserve for Bad and Doubtful Debts		2,500
Total	3,60,750	3,60,750

Adjustments :

- i) Stock as on 31st March, 2019 was valued at cost ₹ 20,900 and at market price ₹ 24,000.
- ii) Depreciate Machinery @ 10% p.a. and Buildings @ 5% p.a.
- iii) The Reserve for Bad and Doubtful Debts is to be maintained at ₹ 1,000.
- iv) Provide for Reserve for discount on Creditors at 2%.

SOLUTION**In the books of Girish Gupta, Gondia**

Dr.	Trading and Profit and Loss Account for the year ended 31 st March, 2019			Cr		
	Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		20,200		By Sales	1,90,500	1,90,500
To Purchases	1,10,800	1,09,300		Less : Returns Inward (-)	<u>NIL</u>	
Less : Returns Outward (-)	1,500			By Closing Stock		20,900
To Wages and Salaries		17,000				
To Gross Profit C/D*		64,900				
		2,11,400				2,11,400
To Carriage Outward		3,000		By Gross Profit B/D		64,900
To General Expenses		9,100		By Interest on G's Loan	900	1,000
To Rent		1,700		Add : Outstanding Interest		
To Bad Debts		650		on G's Loan @ 10% p.a. (+)	100	
To Business Tax		300		By Reserve for Bad and		
To Legal Charges		400		Doubtful Debts :		1,500
To Depreciation :		11,000		Old Reserve	2,500	
i) Machinery @ 10% p.a.	9,000			Less : New Reserve (-)	<u>1,000</u>	
ii) Buildings @ 5% p.a. (+)	<u>2,000</u>			By Reserve for Discount on		
To Net Profit C/D*		42,150		Creditors @ 2%		900
		68,300				68,300

Balance Sheet as on 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹
Capital	1,15,200	1,53,050	Machinery	90,000	81,000
Add : Net Profit (+)	42,150		Less : Dep. @ 10% p.a. (-)	9,000	
		1,57,350			
Less : Drawings (-)	4,300		Buildings	40,000	38,000
Sundry Creditors	45,000	44,100	Less : Dep. @ 5% p.a. (-)	2,000	
Less : Reserve for Discount on Creditors @ 2% (-)	900		Sundry Debtors	35,000	34,000
Bills Payable		4,000	Less : RDD (-)	1,000	
Outstanding Salaries		1,150	Prepaid Rent		200
			Gopal's Loan	10,000	10,100
			Add : Outstanding Interest @ 10% p.a. (+)	100	
			Goodwill		7,000
			Cash in Hand		1,350
			Cash at Bank		9,750
			Stock-in-Trade		20,900
		2,02,300			2,02,300

Working Notes :

- i) Loan given to Gopal @ 10% p.a. amounted to ₹ 10,000. At the end of the year ₹ 1,000 interest will be outstanding. But actually interest on G's loan is received only for ₹ 900, hence ₹ 100 is to be treated as outstanding income and adjusted accordingly.

ILLUSTRATION 11

Following is the Trial Balance of Kumar Kale, Kanpur as on 31st March, 2019.

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Credit ₹
Stock as on 1 st April, 2018	30,400	
12% Investments purchased on 1 st October, 2018	35,000	
Purchases	98,700	
Sales		2,07,600
Carriage Inward	2,900	
Carriage Outward	5,600	
Salaries	19,600	
Vehicle Expenses	8,400	
Printing and Stationery	6,870	
Plant and Machinery	70,000	
Furniture and Fixtures	18,000	
Vehicles	25,000	
Debtors	36,000	
Creditors		46,700

Particulars	Debit ₹	Credit ₹
Capital		1,25,000
Commission		5,400
Loan from Dena Bank		16,000
Insurance on Plant and Machinery	8,420	
Rent	12,000	
Cash in Hand	2,500	
Cast at Bank	24,000	
Interest on Bank Balance		2,690
Total	4,03,390	4,03,390

Adjustments :

a) Closing stock is valued at ₹ 22,420. b) Depreciation is to be provided on Plant and Machinery @ 10% p.a., Vehicle @ 5% p.a. and Furniture and Fixtures @ 2.5% p.a. c) Provide 5% on Sundry Debtors for Doubtful Debts. d) Salaries due but not paid amounted to ₹ 4,800.

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date.

SOLUTION**In the books of Kumar Kale, Kanpur**

Dr. Trading and Profit and Loss Account for the year ended 31 st March, 2019			Cr		
Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		30,400	By Sales	2,07,600	2,07,600
To Purchases	98,700		Less : Returns Inward (-)	NIL	
Less : Returns Outward (-)	<u>NIL</u>		By Closing Stock		22,420
To Carriage Inward		2,900			
To Gross Profit C/D*		98,020			
		2,30,020			2,30,020
To Carriage Outward		5,600	By Gross Profit B/D	98,020	
To Salaries	19,600		By Commission	5,400	
Add : Salaries due but not paid	(+)	<u>4,800</u>	By Interest on Bank Balance	2,690	
To Vehicle Expenses		8,400	By Outstanding Interest on Investments @ 12% p.a.	2,100	
To Printing and Stationery		6,870			
To Insurance on Plant and Machinery		8,420			
To Rent		12,000			
To Depreciation :		8,700			
i) Plant and Machinery @ 10% p.a.		7,000			
ii) Vehicles @ 5% p.a.		1,250			
iii) Furniture and Fixtures @ 2.5% p.a.	(+)	<u>450</u>			
To Provision for Doubtful Debts		1,800			
New Reserve	1,800				
Less : Old Reserve (-)	<u>NIL</u>				
To Net Profit C/D*		32,020			
		1,08,210			1,08,210

Balance Sheet as on 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹
Capital	1,25,000	1,57,020	12% Investments (Purchases on 1 st Oct. 2018)	35,000	37,100
Add : Net Profit (+)	32,020		Add : Outstanding Interest @ 12% p.a. for 6 months (+)	2,100	
Creditors		46,700			
Loan from Dena Bank		16,000			
Salaries due but not paid		4,800	Plant and Machinery	70,000	63,000
			Less : Dep. @ 10% p.a. (-)	7,000	
			Furniture and Fixtures	18,000	17,550
			Less : Dep. @ 2.5% p.a. (-)	450	
			Vehicles	25,000	23,750
			Less : Dep. @ 5% p.a. (-)	1,250	
			Debtors	36,000	34,200
			Less : RDD @ 5% (-)	1,800	
			Cash in Hand		2,500
			Cash at Bank		24,000
			Stock-in-Trade		22,420
		2,24,520			2,24,520

Working Notes :

- i) As 12% Investments are purchased on 1st October, 2018, six months interest thereon is a outstanding income, hence adjusted accordingly.

ILLUSTRATION 12

Following are the ledger balances extracted from the books of Lokesh Limaye, Lasalgao as on 31st March, 2019.

Particulars	Debit ₹	Particulars	Credit ₹
Purchases	1,65,600	Returns Outward	3,100
Returns Inward	4,200	Sales	2,56,600
Debtors	41,200	Creditors	25,500
Stock as on 1 st April, 2018	26,700	Capital	40,000
Productive Wages	20,100	Commission	5,200
Salary	8,500	Bills Payable	8,900
Insurance	3,200	Discount Received	700
Furniture on 1 st April, 2018	6,000		
Furniture purchases on 31 st March, 2019	600		
Premises	25,000		
Publicity Charges	1,000		
Trade Expenses	1,300		
Factory Taxes	3,600		
Bad Debts	400		
Machinery	15,000		
Cash on Hand	700		
Cast at Bank	4,800		
Petty Cash	200		
Sundry Expenses	500		
Bills Receivable	4,000		
Drawings	7,000		
Discount Allowed	400		
Total	3,40,000	Total	3,40,000

After taking into account the following adjustments, you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date.

- Provide for Bad and Doubtful Debts @ 5% on Debtors.
- Charge depreciation @ 10% p.a. on Furniture and Machinery.
- Stock on 31st March, 2019 was valued at market price ₹ 44,000 which is 10% more than cost price.
- Insurance is paid for the year ended 30th June, 2019.
- Commission received in advance amounted to ₹ 900.
- Factory Taxes were paid for three quarters only.
- Write off further Bad Debts ₹ 200.

SOLUTION

In the books of Lokesh Limaye, Lasalgaoon

Dr.	Trading and Profit and Loss Account for the year ended 31 st March, 2019			Credit
Particulars	₹	₹	Particulars	₹
To Stock as on 1 st April, 2018		26,700	By Sales	2,56,600
To Purchases	1,65,600	1,62,500	Less : Returns Inward (-)	4,200
Less : Returns Outward (-)	3,100		By Closing Stock	40,000
To Productive Wages		20,100		
To Trade Expenses		1,300		
To Factory Taxes	3,600	4,800		
Add : Outstanding Factory Taxes (+)	1,200			
To Gross Profit C/D*		77,000		
		2,92,400		2,92,400
To Salary		8,500	By Gross Profit B/D	77,000
To Insurance	3,200	2,400	By Commission	5,200
Less : Prepaid Insurance (-)	800		Less : Pre-received Commission (-)	900
To Publicity Charges		1,000		4,300
To Bad Debts	400	1,600	By Discount Received	700
Add : New Bad Debts (+)	1,200			
To Sundry Expenses		500		
To Discount Allowed		400		
To Depreciation :		2,100		
i) Furniture @ 10% p.a.	600			
ii) Machinery @ 10% p.a. (+)	1,500			
To Provision for Bad and Doubtful Debts :		2,000		
New Reserve	2,000			
Less : Old Reserve (-)	NIL			
To Net Profit C/D*		63,500		
		82,000		82,000

Balance Sheet as on 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹
Capital	40,000	96,500	Debtors	41,200	38,000
Add : Net Profit (+)	63,500		Less : Bad Debts (-)	1,200	
		1,03,500		40,000	
Less : Drawings (-)	7,000		Less : RDD @ 5% (-)	2,000	
Creditors		25,500	Furniture	6,000	6,000
Bills Payable		8,900	Add : Purchases on 31 st March, 2019 (+)	600	
Pre-received Commission		900		6,600	
Outstanding Factory Taxes		1,200	Less : Dep. @ 10% p.a. (-)	600	
			Premises		25,000
			Machinery	15,000	13,500
			Less : Dep. @ 10% p.a. (-)	1,500	
			Cash on Hand		700
			Cast at Bank		4,800
			Petty Cash		200
			Bills Receivable		4,000
			Stock-in-Trade		40,000
			Prepaid Insurance		800
		1,33,000			1,33,000

Working Notes :

- i) Additional Furniture is purchased on the last day of the financial year (i.e. on 31st March, 2019), hence no depreciation is charged on the same.
- ii) Closing Stock was valued at market price ₹ 44,000 which is 10% more than the cost price, hence the cost price of the Closing Stock will be calculated as follows :

$$\begin{array}{rcl} \text{Market Price} & = & \text{Cost Price} + 10\% \text{ More} \\ 110 & = & 100 + 10 \\ \text{₹ } 44,000 & = & ? \end{array}$$

If 110 M.P. = 100 C.P.

$$\begin{aligned} \text{₹ } 44,000 &= ? \\ &= \frac{\text{₹ } 44,000 \times 100}{110} \\ &= \text{₹ } 40,000 \end{aligned}$$

Thus, the cost price of Closing Stock will be ₹ 40,000. But Closing Stock is always to be valued at cost price or market price whichever is less. Hence, Closing Stock is valued at cost price (₹ 40,000) as it is less than the market price (₹ 44,000).

- iii) Insurance paid in current year for the three months (i.e. ₹ 800) of next year, is to be treated as prepaid insurance and hence adjusted accordingly.
- iv) Factory Taxes of the current year for one quarter i.e. ₹ 1,200 not paid so far, are to be treated as outstanding factory taxes and hence adjusted accordingly.
- v) Effect of various adjustments on Sundry Debtors are to be recorded in the following preferential order.
- i) Further Bad Debts to be written off ₹ 1,200.
 - ii) Provision for Bad Debts and Doubtful Debts @ 5%.
- vi) Since, Trade Expenses and Sundry Expenses are given separately, Trade Expenses Account is debited to Trading Account and Sundry Expenses Account is debited to Profit and Loss Account.

ILLUSTRATION 13

The following Trial Balance was extracted from the books of Firoz Frammy, Faridabad as on 31st March, 2019.

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Credit ₹
Capital as on 1 st April, 2018		80,000
Machinery	78,800	
Sales		1,25,000
Loose-Tools	7,000	
Purchases	50,000	
Returns	1,000	750
Fixtures	2,000	
Opening Stock	28,000	
Bills of Exchange	5,000	15,000
Carriage on Purchases	2,000	
Installation Charges on purchase of Machinery	1,200	
Discount	425	800
Debtors and Creditors	40,000	10,000
Commission	1,000	1,000
Additional Capital on 30 th September, 2018		20,000
Salaries	7,000	
Prepaid Salaries	550	
Wages	10,000	
Outstanding Wages		1,000
Carriage on Sales	1,000	
Bad Debts	200	
Provision for Bad Debts		525
Rent for Residential Quarters	5,000	
Rent for Office Premises	5,000	
Advertisement	2,000	
Cash in Hand	6,600	
Petty Cash	300	
Total	2,54,075	2,54,075

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date after taking into account the following adjustments :

- a) Closing Stock was valued at ₹ 34,220. b) Allow interest on capital @ 10% p.a. c) Depreciate Machinery @ 10% p.a. d) Provision for Bad Debts is to be made @ 5% on Debtors. e) Firoz has taken goods worth ₹ 5,000 for personal use and distributed goods worth ₹ 1,000 as free samples.

SOLUTION

In the books of Firoz Frammy, Faridabad

Dr.	Trading and Profit and Loss Account for the year ended 31 st March, 2019	Credit
Particulars	₹	₹
To Opening Stock	28,000	
To Purchases	50,000	44,250
Less : Returns Outward (-)	750	
	49,250	
Less : Goods taken for personal use (-)	5,000	
To Carriage on Purchases		2,000
To Wages		10,000
To Gross Profit C/D*		74,970
		1,59,220
To Discount Allowed		425
To Commission Allowed		1,000
To Salaries		7,000
To Carriage on Sales		1,000
To Bad Debts		200
To Provision for Bad Debts :		
New Reserve	2,000	
Less : Old Reserve (-)	525	
To Rent for Office Premises		5,000
To Advertisement		2,000
Add : Goods distributed as free samples (+)	1,000	
To Interest on Capital @ 10% p.a.		9,000
To Dep. on Machinery %, 10% p.a.		8,000
To Net Profit C/D*		40,670
		76,770
Balance Sheet as on 31 st March, 2019		

Liabilities	₹	Assets	₹
Capital as on 1 st April, 2018	80,000	Machinery	78,800
Add : Additional Capital as on 30 th Sept. 2018 (+)	20,000	Add : Installation Charges (+)	1,200
	1,00,000		80,000
Add : Interest on Capital @ 10% p.a. (+)	9,000	Less : Dep. @ 10% p.a. (-)	8,000
	1,09,000	Loose Tools	7,000
Add : Net Profit (+)	40,670	Fixtures	2,000
	1,49,670	Bills Receivable	5,000
Less : Drawings (-)	10,000	Debtors	40,000
i) Goods taken for personal use	5,000	Less : RDD @ 5% (-)	2,000
ii) Rent for residential quarters (+) 5,000		Prepaid Salaries	550
Bills Payable	15,000	Cash in Hand	6,600
Creditors	10,000	Petty Cash	300
Outstanding Wages	1,000	Stock-in-Trade	34,220
	1,65,670		
			1,65,670

Working Notes :

- i) Calculation of Interest on Capital @ 10% p.a. on
 i) Capital as on 1st April, 2018
 (10% of ₹ 80,000 for 12 months) 8,000
- ii) Additional capital as on 30th September, 2018
 (10% of ₹ 20,000 for 6 months) (+) 1,000
 ∴ Total 9,000
- ii) Goods taken for personal use i.e. drawings, are to be deducted from Capital Account on the liability side of Balance Sheet and also to be deducted from Purchases Account on the debit side of Trading Account.
- iii) Goods distributed as free samples are for advertisement purpose, hence are to be debited to Profit and Loss Account and credited to Trading Account.

ILLUSTRATION 14

From the following Trial Balance extracted from the books of Chandan Chopade, Chembur, prepare Trading Account, Profit and Loss Account for the year ended 31st March, 2019 and the Balance Sheet as on that date after referring to the adjustments given below.

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Credit ₹
Plant and Machinery	80,000	
Furniture and Fixtures	30,000	
Purchases	60,000	
Opening Stock	30,000	
Sundry Debtors	1,45,000	
Wages to workers	10,000	
Postage and Telegram	1,200	
Salary to Office Staff	8,000	
Discount Allowed to Debtors	1,800	
Sales Returns	3,000	
Cash	12,000	
Publicity Charges	2,000	
Bills Receivable	8,000	
Rent and Taxes	2,000	
Freight Inward	5,000	
Sales Commission	2,000	
CC's Capital		2,00,000
Sales		1,47,000
Purchases Returns		2,000
Discount Received from Creditors		1,000
Provision for Bad Debts		2,000
Sundry Creditors		30,000
Bills Payable		15,000
Taxes Payable		3,000
Total	4,00,000	4,00,000

Adjustments:

- a) Stock as on 31st March, 2019 was valued at ₹ 20,000. b) Chandan has taken goods worth ₹ 5,000 for personal use, which were included in Debtors. c) Interest on Capital is to be allowed at 4% p.a. d) Depreciate Plant and Machinery @ 5% p.a. and Furniture and Fixtures @ 10% p.a. e) Additional Provision for Bad Debts are to be made on Sundry Debtors @ 2%. f) Outstanding Wages amounted to ₹ 1000.

SOLUTION**In the books of Chandan Chopade, Chembur**

Dr.	Trading Account for the year ended 31 st March, 2019			Cr.	
Particulars	₹	₹	Particulars	₹	₹
To Opening Stock		30,000	By Sales	1,47,000	1,44,000
To Purchases	60,000	58,000	Less: Sales Returns	(-) 3,000	
Less: Purchases Returns	(-) 2,000		By Closing Stock		20,000
To Wages to Workers	10,000	11,000			
Add: Outstanding Wages	(+)	1,000			
To Freight Inward		5,000			
To Gross Profit C/D*		60,000			
		1,64,000			1,64,000

Dr.	Profit and Loss Account for the year ended 31 st March, 2019			Cr.	
Particulars	₹	₹	Particulars	₹	₹
To Postage and Telegram		1,200	By Gross Profit B/D		60,000
To Salary to Office Staff		8,000	By Discount Received from		
To Discount Allowed to Debtors		1,800	Creditors		1,000
To Publicity Charges		2,000			
To Rent and Taxes		2,000			
To Sales Commission		2,000			
To Provision for Bad Debts		800			
New Reserve	2,800				
Less: Old Reserve	(-)	2,000			
To Interest on Capital @ 4% p.a.		8,000			
To Depreciation		7,000			
i) Plant and Machinery @ 5% p.a.	4,000				
ii) Furniture and Fixtures @ 10% p.a.	(+)	3,000			
To Net Profit C/D*		28,200			
		61,000			61,000

Balance Sheet as on 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹
CC's Capital	2,00,000	2,31,200	Plant and Machinery	80,000	76,000
Add: Interest on Capital @ 4% p.a.	(+)	8,000	Less: Depreciation @ 5% p.a. (-)	4,000	
Add: Net Profit	(+)	28,200	Furniture and Fixtures	30,000	27,000
		2,36,200	Less Dep. @ 10% p.a.	(-)	3,000
Less: CC's Drawings	(-)	5,000	Sundry Debtors	1,45,000	1,37,200
Sundry Creditors		30,000	Less: CC's Drawings	(-)	5,000
Bills Payable		15,000	1,40,000		
Taxes Payable		3,000	Less: RDD @ 2% p.a.	(-)	2,800
Outstanding Wages		1,000	Cash		12,000
			Bills Receivable		8,000
			Stock-in-Trade		20,000
					2,80,200

Working Notes:

- i) Effect of various adjustments on Sundry Debtors Account is to be recorded in the following preferential order i.e. a) Stock Adjustments e.g. Goods taken for personal use wrongly included in debtors, b) Additional provision for bad debts.

ILLUSTRATION 15

The following ledger balances were extracted from the books of Bhavesh Bose, Baramati as on 31st March, 2019. You are required to prepare Trading Account, Profit and Loss Account for the

year ended 31st March, 2019 and the Balance Sheet as on that date after taking into account the following adjustments.

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Credit ₹
Stock as on 1 st April, 2018	15,000	
Machinery	1,92,500	
Insurance	1,000	
Printing and Stationery	4,200	
Commission	800	
Telephone Charges	500	
Machinery Installation charges	7,500	
Wages and Salary	20,000	
Freight Inward	5,000	
Advertising paid upto 30 th June, 2019	15,000	
Purchases	1,00,000	
Returns Inward	1,000	
Motor Car	25,000	
Bills Receivable	5,000	
Sundry Debtors	1,51,000	
Motive Power	5,500	
4% Bank Loan as on 1 st October, 2018		50,000
BB's Capital		2,70,000
Bills Payable		4,000
Discount Received		1,000
Sundry Creditors		34,000
Commission		1,000
Sales		1,86,500
Purchases Returns		1,500
Reserve for Bad and Doubtful Debts		1,000
Total	5,49,000	5,49,000

Adjustments:

- a) Stock as on 31st March, 2019 was valued at ₹ 5,000.
- b) Provide 1% on Book Debts for bad and doubtful debts.
- c) Depreciate Machinery @ 10% p.a.
- d) Wages of ₹ 4,000 were due but not paid.
- e) ₹ 1,000 of Debtors to be written as bad.

SOLUTION

In the Books of Bhavesh Bose, Baramati

Dr.	Trading Account for the year ended 31 st March, 2019			Cr.
Particulars	₹	₹	Particulars	₹
To Stock as on 1 st April, 2018	15,000		By Sales	1,86,500
To Purchases	1,00,000	98,500	Less: Returns Inward	1,000
Less: Purchases Returns (-)	1,500		By Closing Stock	5,000
To Wages and Salary	20,000	24,000		
Add: Wages due but not paid (+)	4,000			
To Freight Inward		5,000		
To Motive Power		5,500		
To Gross Profit C/D*		42,500		
		1,90,500		1,90,500

Dr.	Profit and Loss Account for the year ended 31 st March, 2019			Credit	
Particulars	₹	₹	Particulars	₹	₹
To Insurance		1,000	By Gross Profit B/D		42,500
To Printing and Stationery		4,200	By Discount Received		1,000
To Commission		800	By Commission		1,000
To Telephone Charges		500			
To Advertising	15,000	12,000			
Less: Prepaid Advertising	(-) 3,000				
To Reserve for Bad and Doubtful Debts		500			
New Reserve	1,500				
Less: Old Reserve	(-) 1,000				
To Bad Debts Written off		1,000			
To Depreciation on Machinery @ 10% p.a.		20,000			
To Outstanding Interest on Bank Loan @ 4% p.a. for 6 months		1,000			
To Net Profit C/D*		3,500			
		44,500			44,500

Balance Sheet as on 31st March, 2019

Particulars	₹	₹	Particulars	₹	₹
BB's Capital	2,70,000	2,73,500	Machinery	1,92,500	1,80,000
Add: Net Profit	(+)	3,500	Add: Machinery Installation Charges	(+)	7,500
4% Bank Loan as on 1 st Oct. 2018	50,000	51,000		2,00,000	
Add: Outstanding Interest (+) (4% of ₹ 50,000 for 6 months)	1,000		Less: Dep. @ 10% p.a. (-)	20,000	
Bills Payable		4,000	Motor Car		25,000
Sundry Creditors		34,000	Bills Receivable		5,000
Wages due but not paid		4,000	Sundry Debtors	1,51,000	1,48,500
			Less: Bad Debts written off (-)	1,000	
				1,50,000	
			Less: Reserve for Bad and Doubtful Debts @ 1% (-)	1,500	
			Stock-in-Trade		5,000
			Prepaid Advertisement		3,000
		3,66,500			3,66,500

Working Notes:

- Machinery Installation Charges is a Capital Expenditure hence added to the Cost of Machinery.
- Effect of various adjustments on Sundry Debtors Account is to be recorded in the following preferential order i.e. a) Bad debts written off and b) Provision on Book Debts for Bad and Doubtful Debts.
- Advertisement is paid upto 30th June, 2019 to 30th June, 2019 i.e. for 15 months hence from 1st April, 2019 to 30th June, 2019 i.e. for 3 months is prepaid = ₹ 3,000.

$$\text{If 15 months} = ₹ 15,000 = \frac{3 \text{ months} \times ₹ 15,000}{15 \text{ months}}$$

$$\therefore 3 \text{ months} = ?$$

$$= ₹ 3,000.$$
- 4% Bank Loan is taken on 1st October, 2018 hence from 1st Oct. 2018 to 31st March, 2019 i.e. for 6 months interest is outstanding.

QUESTIONS FOR SELF-STUDY**I. Theory Questions :**

- What are 'financial statements'? Explain in brief the objectives and importance of financial statements.
- Explain in brief the steps involved in the preparation of final accounts of sole proprietary firm.
- What is a Trading Account? Explain the need and importance of preparing a Trading Account.
- What is a Profit and Loss Account? How and why it is to be prepared?
- What is a Balance Sheet? "Balance Sheet is a statement but not an account". Explain.
- How the financial decisions are taken on the basis of financial statement.
- Write short notes on :**
 - Objectives of financial statements,
 - Importance of financial statements,
 - Trading Account,
 - Net Loss,
 - Income received but not earned.
- Differentiate between :**
 - Trading Account and Profit and Loss Account,
 - Gross Profit and Net Profit,
 - Outstanding Expenses and Outstanding Incomes.

II. Practical Problems :

- Following are the Ledger Balances extracted from the books of M/s. M. G. Corporation Nashik, as on 31st March, 2019.

Particulars	Debit ₹	Credit ₹
Stock on 1 st April, 2018	35,000	
Purchases	70,000	
Drawings	11,000	
Returns from customers	2,700	
Trade expenses	675	
Wages	3,500	
Salaries	5,600	
Carriage Inward	660	
Advertising	420	
Rent, Rates and Insurance	2,800	
Discount	300	
Interest and Commission (includes interest on loan upto 30 th June, 2018)	215	
Bad Debts	400	
Lease (for six years commencing from 1 st April, 2018)	600	
Machinery	10,000	
Furniture	5,000	
Sundry Debtors	46,000	
Cash in hand	1,030	
Cash at Bank	5,400	
Capital	35,000	
Sales	1,25,000	
Return to Creditors	1,300	
Creditors	30,000	
Loan @ 6% p.a.	10,000	
Total	2,01,300	2,01,300

After taking into account the following adjustments you are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and the Balance Sheet as on that date.

- a) Stock on 31st March, 2019 was valued at ₹ 45,000.
 - b) Rent for the last quarter ₹ 250 was not paid.
 - c) Salaries ₹ 350 were paid in advance.
 - d) Write off ₹ 400 as further Bad Debts and provide for Doubtful Debts @ 5% on debtors.
 - e) Depreciate Machinery @ 7.5%.
 - f) Goods worth ₹ 500 distributed as free sample.
- ii) Following is the Trial Balance of Balaji Barve, Badalapur as on 31st March, 2019.

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Credit ₹
Plant and Machinery	1,00,000	
Business Premises	40,000	
Opening Stock as on 1 st April, 2018	12,000	
Purchases	1,10,000	
Productive Wages	16,000	
Carriage Outward	4,000	
Book Debts	30,000	
Salary	10,000	
Rent	1,000	
Bad Debts	1,000	
Law Charges	1,500	
Loan to Chandan	15,000	
B's Drawings	6,000	
Cash on Hand	2,500	
Cash at Bank	15,000	
B's Capital		1,20,000
Sundry Creditors		40,000
Bills Payable		9,000
Commission Received		1,000
Returns Outward		2,000
Interest Earned		500
Cash Sales		1,80,000
Credit Sales		10,000
Miscellaneous Income		100
Interest on Loan		1,400
Total	3,64,000	3,64,000

Adjustments :

- a) Closing Stock as on 31st March, 2019 was ₹ 18,000.
- b) Depreciate Business Premises @ 10% p.a.
- c) Write off ₹ 2,000 as further bad debts.
- d) Provision for discount on creditors to be made @ 5%.
- e) Commission received includes ₹ 400 for the next year.
- f) Outstanding Salary was ₹ 2,000.

You are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date after considering the above mentioned adjustments.

- iii) Following is the Trial Balance of Chandan Chaudhari, Chalisgaon from which you are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date after considering the adjustments given as follows.

Trial Balance as on 31st March, 2019

Debit Balances	₹	Credit Balances	₹
Insurance	800	C's Capital	60,000
Publicity	4,000	Sundry Creditors	40,000
Cash in Hand	400	Provision for Bad Debts	2,000
Petty Cash	100	Sales	1,23,300
Cash at bank	4,000	Discount Received	1,000
C's Drawings	5,000	Interest on Investments	1,700
Land and Buildings	40,000	Outstanding Wages	2,000
Debtors	40,000		
Plant and Machinery	30,000		
Purchases	52,000		
Stock as on 1 st April, 2018	5,000		
Wages	30,000		
Royalties	2,000		
Carriage Inward	1,000		
Freight Outward	800		
Sundry Expenses	400		
Bad Debts	1,200		
Furniture Fixtures	5,000		
Investments	8,300		
Total	2,30,000	Total	2,30,000

Adjustments :

- a) Closing Stock as on 31st March, 2019, was Cost Price - ₹ 8,200 and Market Price - ₹ 8,000.
 - b) Depreciate Land and Buildings by 10% p.a. and Plant and Machinery by 5% p.a.
 - c) Insurance is paid for the year ended 30th June, 2019.
 - d) Provision for bad debts to be made on Sundry Debtors @ 10% and also create a reserve for discount on debtors @ 5%.
 - e) Outstanding commission amounted to ₹ 500.
 - f) Make a provision for discount on creditors @ 5% on Sundry Creditors.
- iv) A Trial Balance of Dinesh Dongare, Dombivali as on 31st March, 2019 was as follows.

Trial Balance as on 31st March, 2019

Debit Balances	₹	Credit Balances	₹
D's Drawings	5,000	D's Capital	50,000
Furniture	3,000	Purchase Returns	1,000
Purchases	36,000	Sales	80,000
Coal and Coke	1,500	Bills Payable	15,000
Petty Cash	1,000	Sundry Creditors	20,000
Wages	7,600	Discount earned	1,300
Patents	10,000	Bank Overdraft	12,000
Travelling Expenses	2,000	Commission	700
Sales Returns	2,000		
Advertisement	2,500		
Machinery	20,000		
Stock on 1 st April, 2018	9,000		
Sundry Debtors	42,000		
Commission	1,000		
Audit Fees	5,000		
Bills Receivable	20,000		
Cash in Hand	2,400		
Goodwill	10,000		
Total	1,80,000	Total	1,80,000

Adjustments :

- a) Stock as on 31st March, 2019 was valued at ₹ 12,000.
- b) Patents were revalued at ₹ 8,000.
- c) Commission received in advance was ₹ 100.
- d) Depreciate Machinery by 10% p.a. and Furniture by 10% p.a.
- e) Write off ₹ 2,000 as further bad debts and provide 5% on debtors for doubtful debts. Also provide 2% for discount on debtors.
- v) From the following Trial Balance as on 31st March, 2019, prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that of Ezaz Enamke, Edalabad.

Trial Balance as on 31st March, 2019

Debit Balances	₹	Credit Balances	₹
E's Drawings	10,000	E's Capital	1,20,000
Plant and Machinery	32,000	Loan @ 6% Account	20,000
Sundry Debtors	61,000	Sales	3,52,800
Wages, manufacturing	40,000	Purchases Returns	2,000
Returns Inward	2,800	Commission	5,600
Purchases	2,78,000	Sundry Creditors	52,000
Sales Commission	10,000	Interest on Investments	2,600
Rent and Taxes	22,000		
Stock on 1 st April, 2018	32,000		
Salaries and Wages	13,000		
Manager's Travelling	1,800		
Insurance Premium	400		
Cast at Bank	8,900		
Repairs and Renewals	3,200		
Interest and Discount	4,800		
Bad Debts	3,500		
Furniture	31,000		
Corporation Taxes	600		
Total	5,55,000	Total	5,55,000

Adjustments :

- a) Stock on hand on 31st March, 2019 was ₹ 45,000.
- b) Write off further bad debts of ₹ 1,000 and create a reserve @ 5% on Sundry Debtors.
- c) Depreciate Plant and Machinery @ 5% p.a.
- d) Commission receivable amounts to ₹ 1,400.
- v) The following is the Trial Balance of Frami Firodiya, Faizpur as on 31st March, 2019. You are required to prepare Trading and Profit and Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date, considering the adjustments given below.

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Credit ₹
F's Drawings and F's Capital	12,000	1,60,000
Stock as on 1 st April, 2018	32,000	
Returns Inward and Sales	8,600	2,88,600
Purchases and Purchases Returns	2,10,300	10,300
Freight and Carriage	19,000	
Rent and Taxes	4,800	
Salary and Wages	5,300	
Sundry Debtors and Sundry Creditors	20,000	14,000
Bank Loan @ 10%		20,000
Wages and Salaries	9,400	
Interest on Bank Loan	1,500	
Advertisement and Publicity	15,000	
Cash at Bank	24,000	

Discount	1,100	1,600
Office Furniture	13,000	
Audit Fees	900	
Brokerage	700	
Cash in Hand	2,200	
Freehold Premises	1,10,000	
Bills Receivable and Bills Payable	9,700	5,000
Total	4,99,500	4,99,500

Adjustments :

- a) Stock on 31st March, 2019 was valued at ₹ 42,000. Market price and ₹ 38,000 Cost Price.
- b) Provide 5% for discount on debtors and create a bad debts provision @ 10% on Sundry Debtors.
- c) Depreciate Freehold Premises by ₹ 10,000.
- d) Wages and Salary owing ₹ 600.
- e) Audit Fees of ₹ 600 are payable.
- f) Rent of ₹ 800 was paid in advance.
- vii) From the following Trial Balances of Ganesh Godbole, Gulbarga as on 31st March, 2019 prepare a Trading and Profit and Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date. Also consider the following adjustments while preparing the same.
- Adjustments :
- a) Closing Stock is valued at ₹ 7,800.
 - b) Depreciate Plant and Machinery @ 10% p.a. and Business Premises @ 20% p.a.
 - c) Commission of ₹ 700 is received for the next year.
 - d) Write off ₹ 1,000 as further bad debts and provide 5% on debtors for bad and doubtful debts.
 - e) Interest on Investment of ₹ 600 is yet to be received.
 - f) Wages of ₹ 2,000 are still outstanding.

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Credit ₹
G's Capital	80,000	
Creditors	30,000	
Sales	95,250	
Commission Earned	1,700	
Sundry Income	50	
Bills Payable	9,100	
Bank Overdraft	3,900	
Office Expenses	1,800	
G's Drawings	3,700	
Business Premises	65,000	
Plant and Machinery	46,000	
Stock as on 1 st April, 2018	4,800	
Power and Fuel	2,150	
Insurance and Taxes	2,130	
Wages	10,000	
Sundry Debtors	21,000	
Irrecoverable Debts	1,100	
Primary Packing Charges	600	
Purchases	31,100	
Returns Inward	3,250	
Motor Vehicles	8,500	
Petty Cash	150	
Loose Tools	8,400	
Investments	7,000	
Goodwill	3,000	
Secondary Packing Charges	320	
Total	2,20,000	2,20,000

viii) Following is the Trial Balance of Harish Hinge, Himmatpur as on 31st March, 2019.

Trial Balance as on 31st March, 2019

Particulars	Debit ₹	Credit ₹
H's Capital		1,10,000
Returns Outward		1,500
Sundry Creditors		30,000
Sales		2,01,200
Bank Loan		20,000
Bills Payable		3,300
Rent Received		3,100
Discount Earned		900
Furniture and Fixtures	15,000	
Returns Inward	1,200	
Bills Receivable	7,000	
Purchases	81,500	
Wages	11,500	
H's Drawings	6,000	
Land	50,000	
Carriage on Purchases	1,300	
Stock as on 1 st April, 2018	4,800	
Tools and Equipments	14,600	
Salary	8,200	
Administrative Expenses	11,100	
Buildings	40,000	
Sundry Debtors	30,000	
Plant and Machinery	80,000	
Cash in Hand	2,800	
Cash at Bank	5,000	
Total	3,70,000	3,70,000

Adjustments :

- a) Stock as on 31st March, 2019 is valued at ₹ 11,200.
 - b) Administrative Expenses of ₹ 550 are still outstanding.
 - c) Rent received amounting to ₹ 100 is related to the next year.
 - d) Provide for discount on debtors and creditors @ 4%.
 - e) Depreciate Buildings @ 5% p.a. and Plant and Machinery @ 10% p.a.
 - f) Wages of ₹ 1,500 are paid in advance.
- Prepare a Trading and Profit and Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date after considering the above adjustments.
- ix) The following is the Trial Balance of Ishwar Ingale, Ichalkaranji, as on 31st March, 2019. You are required to prepare a Trading and Profit and Loss Account for the year ended 31st March, 2019 and a Balance Sheet as on that date.

Trial Balance as on 31st March, 2019

Debit Balances	₹	Credit Balances	₹
Stock as on 1 st April, 2018	5,500	Returns Outward	1,200
Land and Buildings	40,000	Sales	2,06,500
Plant and Machinery	50,000	Loan from Bank	
Purchases	1,34,400	@ 12% p.a.	25,000
Salaries for 11 months	11,000	Sundry Creditors	10,000
Rent for 13 months	3,900	Reserve for Bad Debts	1,200
Management Expenses	4,200	General Reserve	6,000
Postage and Telegram	1,300	Commission	100
Printing and Stationery	1,600	I's Capital	70,000
Wages	21,000		

Debit Balances	₹	Credit Balances	₹
Freight on Raw Material Purchases	1,900		
Technical Directors Fees	3,000		
Repairs to Machinery	3,500		
Bad Debts	1,750		
Sundry Debtors	30,000		
Discount Debtors	450		
Returns Inward	6,500		
Total	3,20,000		
		Total	3,20,000

Additional Information :

- a) Stock on 31st March, 2019 is valued at ₹ 7,200.
- b) The provision for bad debts is to be made @ 5% on Sundry Debtors.
- c) Depreciate Land and Buildings @ 10% p.a. and Plant and Machinery @ 20% p.a.
- d) Provision for discount on creditors is to be made @ 3%.
- x) Following is the Trial Balance of Jatin Joshi, Janner as on 31st March, 2019.

Trial Balance as on 31st March, 2019

Debit Balances	₹	Credit Balances	₹
Patents and Copyrights	11,000	Returns Outward	4,600
Trade Expenses	2,800	J's Capital	90,000
Salaries	12,000	Reserve for Bad Debts	1,400
J's Drawings	3,700	Bills Payable	20,000
Furniture	8,000	Sundry Creditors	24,500
Freehold Premises	80,000	Sales	1,82,000
Stock as on 1 st April, 2018	8,500	General Expenses Payable	400
Cash at Bank	12,000	Commission	3,400
Fixed Deposit	5,000		
Bad Debts	1,300		
General Expenses	1,200		
Purchases	1,29,600		
Sundry Debtors	41,000		
Carriage Inward	3,100		
Rent for Factory	2,900		
Depreciation on Furniture	200		
Investment	4,000		
Total	3,26,300		
		Total	3,26,300

Adjustments :

- a) Closing Stock as on 31st March, 2019 is valued at ₹ 13,000.
- b) Salary outstanding amounted to ₹ 1,500.
- c) Commission of ₹ 200 was received in advance.
- d) Patents and Copyrights are to be revalued at ₹ 10,000.
- e) Further Bad Debts amounted to ₹ 1,000. Make Provision for Bad and Doubtful Debts @ 5% on Sundry Debtors.
- f) Depreciate Freehold Premises by 10% p.a.

You are required to prepare a Trading Account and Profit and Loss Account for the year ended 31st March, 2019 and a Balance-Sheet as on that date.

Chapter 3...

Bank Reconciliation Statement

Synopsis ...

- 3.1 Bank Reconciliation Statement
 - 3.1.1 Meaning
 - 3.1.2 Importance
 - 3.1.3 Preparation
 - Illustrations
 - Questions for Self-Study

3.1 BANK RECONCILIATION STATEMENT

The word 'reconcile' means 'to make compatible'. It frequently happens in business that two sets of figures which should agree, for some reason do not. For example, we might estimate that a certain profit should be made in a given period, but in fact we fail to achieve this expected profit. A good accountant would seek to reconcile the two sets of figures, examining the reasons for the discrepancy. Perhaps the most common of all such situations is the **reconciliation** of the Bank Account, as shown in **our ledger**, with the Bank Account in **the Bank's ledger**, as shown by the Bank through *Bank Statement*.

By reconciliation, the Cash-Book balance can be verified by comparing it with the Bank Statement. Bank Reconciliation is an important part of the internal control system over cash balance lying with the Bank. At present, the major Indian Banks are in the process of switching to a computerized system which is changing the way in which bank statements are rendered to customers. However, this is unlikely to affect the need for **Bank Reconciliation Statement**.

3.1.1 MEANING

When a Bank agrees to permit a customer to open a **current account** by paying in an initial sum of money, and gives him a **cheque book** so that he may make any payments through the cheque system, it does not undertake to correspond with the customer every time a transaction takes place. Some Banks hardly ever write to their customers at all, except when the customer fails to keep enough funds in his account to ensure that the Bank will always be able to honour any cheques presented for payment. Similarly, the customer never writes to the Bank to tell it that he is making out a cheque. Every now and then the customer may ask for a **bank statement**, or the Bank, feeling that a sufficiently large collection of paid cheques has accumulated on its files, will render a statement to the customer. Since the banker is the trustee of the customers' money, the bank provides to its customer a *Bank Statement* at regular intervals generally during the first

week of each month, which summarises payments as well as deposits and other charges for the period. In fact, **Bank Statement** is a copy of the customer's account in the Bank's Ledger.

There are several reasons why the Bank Statement may differ from the Bank Account in our three-column Cash-Book, and in practice it will rarely be the case that the two accounts show the same balance. The differences are always due to a lack of knowledge of what the other person has been doing.

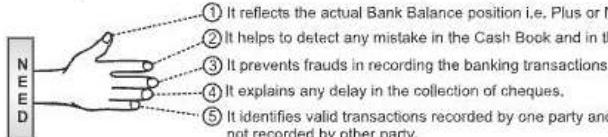
To ascertain the Bank Balance, a concern has two sources of information viz. Bank Column of the Cash-Book, and Bank Statement or Pass-Book

In principle, the two balances should be *equal and opposite* on a stated date. But usually these two balances do not agree. The main reason for the difference in balances is owing to the fact that no party intimates the other every time a transaction takes place. It is interesting to know that many of the transactions of the customer are intimated to the banker by a third party for instance, when a cheque is presented. Disagreement in balances may also arise owing to mistake or mistakes in the Cash-Book or Bank Statement. Since the two balances are different, if all the facts are brought together, it should be possible for them to be reconciled by means of a **Bank Reconciliation Statement**.

Hence, **Bank Reconciliation Statement** is a statement which contains a complete and satisfactory explanation of the differences in balances as per the Cash-Book and Bank Statement. The preparation of Bank Reconciliation Statement is not a part of the Double Entry Book-keeping System. It is just a simple procedure to verify the Cash-Book balance. It should be noted that,

- a Bank Reconciliation Statement is to be prepared whenever a Bank Statement is received; and
- it is prepared on a stated day.

In short, the need for **Bank Reconciliation Statement** can be stated as follows.



3.1.2 IMPORTANCE

As a prudent policy, **Bank Reconciliation** should be done by a person who is not in charge of the Cash-Book. The two functions viz. Bank Reconciliation and maintaining cash-book are separated from each other. With this separation of functions, the system of check automatically operates and chances of pilferage or embezzlement are reduced. The employees cannot prepare unauthorised cheques, and get them encashed, without entering the transaction in the account. If they want to, they should enter into collusion with each other, which is more circuitous and, therefore, difficult than when both the jobs are entrusted to the same person. Therefore, cash recording and in dealing with the books should be in separate hands. This helps the management in controlling cash.

Bank Reconciliation is an important mechanism of internal control or internal check of cash inflow and outflow. Both of them must tally as per Cash-Book and with the Bank Pass-Book (or Bank Statement). This brings into focus the errors and irregularities in the business. Therefore, preparation of Bank Reconciliation Statement is a usual practice of almost all business houses. The process of reconciliation helps in finding out the reasons for the difference in the balance (i.e. bank balance shown by the Cash-Book and balance shown by Bank Pass-Book).

Reasons for difference in Bank Balance as per Cash-Book and balance as per Pass-Book

The reasons may be divided into three groups :

- Differences arising from the bank's actions, about which we have not been notified.
- Differences arising from the time-lag which is inevitable whenever cheques are sent in payment of debts, or are received and paid into the Bank for clearing through the bankers' clearing house.
- Errors, either by bank, or by our own cashier.

Such errors are unlikely to occur frequently, because the bank's usually institute careful checks on their figures, and a cashier is usually a responsible member of the staff. Inevitably though, mistakes do occur from time to time. The same reasons are presented in different manner by the professionals as follows :

The differences in the two balances arise from the following three causes :

- No intimation of Bank's Actions.
- Time-lag.
- Errors by either of the parties

The causes of differences in the two Bank Balances is shown below in Figure 3.1.

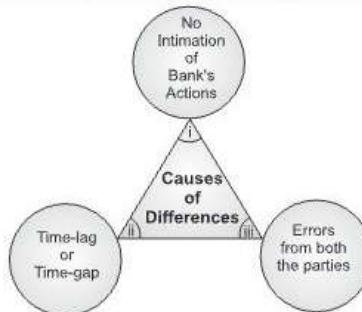


Fig. 3.1 : Causes of Differences in the two Bank Balances

i) No intimation of Bank's Actions :

For some transactions, the Bank has earlier knowledge and it adjusts its records before the business. Some differences may arise from the bank's actions that have not been intimated to the customer. For example, interest credited by the Bank or bank charges debited by the Bank. The customer comes to know of these transactions only when he receives the Bank Statement or duly updated Bank Pass-Book.

ii) Time lag :

There may be a time gap between recording transactions in the customer's book and bank's book. For example, when a cheque is issued to a party, it is recorded immediately in the customer's book, but the bank will record it only when it makes payment against that cheque.

Similarly, when a cheque is deposited, it is recorded in the Cash-Book immediately, but the Bank will record it only when it collects money in respect of that cheque.

iii) Errors by either of the parties :

Some differences in balance may arise owing to errors committed by the Bank or by the person responsible for preparing the Cash-Book. For this reason, the books are to be properly rectified.

Common Items that Frequently Cause a Difference

There are some common items which frequently cause a difference in the two balances.

i) Cheques deposited but not credited by the Bank :

Whenever a person receives a cheque from a third person and deposits it, he debits Bank Account in his own books, and credits the account of the person from whom the cheque has been received. His bank balance, therefore, is increased. The Bank, however takes some time in collecting the cheque; and it would credit the customer's account only when the amount has been realised. Until the cheque has been collected, the balance appearing in the Pass-Book would be less than the balance appearing in the Bank Account or Cash-Book.

ii) Cheques issued but not presented for payment :

When a cheque is issued to a supplier or a third party, it is immediately entered in the Cash-Book by crediting the Bank and this has the effect of reducing the bank balance in the depositor's book. But the receiving party may not present the cheque to the Bank for payment immediately. The Bank debits the customer's account only when the cheque has been presented and paid for. So long as it is not presented, the balance shown in the Pass-Book or Bank Statement is more than the balance shown by the depositor's Cash-Book.

iii) Standing Order :

A standing order is an instruction to a Bank by a customer to make a fixed payment regularly on stated days to some third party (ies). When a business unit requires to make regular payments for an item like salaries, the business unit may save itself the trouble of remembering to write several cheques and hand these over to the employees each month by making a standing order at the Bank to pay salaries to its employees. The Bank will then automatically pay the employees the same amount of money each month until further notice is received from the business unit. Since the business unit does not prepare cheques for its employees each month, these will be unrecorded in the Cash-Book. When the business unit receives the Bank Statement, it will check that salaries have been paid in accordance with standing orders and then make the necessary double entries in the book of account.

Most of the people remember to deduct these sums from the Bank Account if they are monthly payments, for example mortgage payments or payments for rates. The less regular ones

may be overlooked, such as annual contributions to bodies like the Automobile Association, Trade Associations, Chambers of Commerce or to professional bodies.

iv) Interest credited by Bank not entered in the Cash-Book :

When the Bank allows interest to a customer, it credits the customer's account and his bank balance would increase. But the customer comes to know about it only at the end of the month, and then he would pass an appropriate entry. Until then, the bank balance as per the Pass-Book would be more than the balance as per the Cash-Book.

v) Bank Charges debited by the bank but not recorded in the Cash-Book :

The bank charges some amount for each customer by way of incidental charges, collection charges, and the like and debits his account for the reason from time to time. As soon as these charges, are made, the bank debits the customer's account in its own books and this reduces the bank balance. But the customer learns about these charges only, when he receives the Bank Statement or Pass-Book and then he credits Bank Account in his own books. Until then, the bank balance as per the Pass-Book would be less than the bank balance as per the Cash-Book.

vi) Amount Directly Deposited into Bank by Debtors :

When any amount is directly deposited by a debtor into the Bank Account of the depositor, the Bank would credit its customer's account immediately but the customer would know about it only after receiving advice from his Bank. Until then, the bank balance, as per the Pass-Book would be more than the balance as per the Cash-Book.

vii) Credit Transfer :

The receipt of sums by credit transfer, either from debtors or more usually, from investments. For example, the ICICI Bank, which manages the dividend yield security market on behalf of the investor, prefers to pay interest on securities directly into the investor's bank account, rather than to send him a cheque for the amount due. This credit transfer will appear on the Bank Statement as a deposit, increasing the balance on the account.

When the bank collects dividends, it would credit the customer's account and his bank balance will increase. But the customer would know about it only after receiving advice from the Bank. Until then, the bank balance as per the Pass-Book would be more than the balance as per the Cash-Book.

viii) Direct Debit :

Direct debit is an instruction given to a bank by its customer to allow charges to be debited periodically to the account at the instance of some third party. Therefore, a direct debit is also a standing order with the exception that the payer can alter the date or the amount of payment.

Payment through **standing order or direct debit** will lead to difference between the balance as per Cash-Book and Pass-Book. For example, when the Bank pays insurance premium on behalf of its customer, it would debit the customer's account and his bank balance would decrease. But the customer will know about it only after receiving the advice from the Bank. Until then, the bank balance as per the Pass-Book will be less than the balance as per the Cash-Book.

ix) Errors and Omissions :

Errors and omissions either in the Cash-Book or in the Pass-Book may lead to differences between the bank balance as per the Pass-Book and the Cash-Book. Mostly, totalling and balancing mistakes in the Cash-Book and in the Pass-Book lead to difference between bank balance as per Cash-Book and Pass-Book.

Format

The specimen of Bank Reconciliation Statement is as under :

In the books of

Bank Reconciliation Statement as on

Particulars	₹	₹
Bank Balance as per Cash-Book		xxx
Add : i) Cheques issued but not yet debited by the Bank	xxx	
ii) Interest credited by the Bank but not yet entered in the Cash-Book.	xxx	
iii) Cheque or cash directly deposited by the party into the Bank account but not yet entered in the Cash-Book (e.g. dividend, bills collected by the Bank).	xxx	
iv) Cheque issued by us but cancelled or dishonoured subsequently and the cancellation or dishonour not yet recorded in the cash-book	xxx	
v) Excess balance shown by the bank due to mistake in totalling or balancing.	(+)	xxx (+) xxxx xxxx
Less : i) Cheques deposited but not yet credited by the Bank in the Pass-Book.		
ii) Cheque deposited into the Bank and dishonoured by the party but the dishonour not yet recorded in the cash-book	xxx	
iii) Interest charged by the Bank but not yet entered in the Cash-Book.	xxx	
iv) Bank charges or commission or postage debited by the Bank but not yet entered in the Cash-Book.	xxx	
v) Direct payments made by the Bank (i.e. insurance premium etc.) but not yet entered in the Cash-Book.	xxx	
vi) Less balance shown by the Bank due to mistake in totalling or balancing.	(+)	xxx (-) xxxx
Bank Balance as per Pass-Book		xxxx

One can start with the bank balance as per Bank Pass-Book and reach to the balance as per Cash-Book also. In this process the items mentioned above naturally would have reverse effects i.e. the items shown under the heading "Add" will come under the heading "Less" and vice-versa. If bank account is overdrawn and the balance at the end is overdraft balance, again the reverse effects to the above items are necessary.

It could be seen from the above items that some of them are nullified in due course automatically. For example, cheque issued but not yet debited by the bank or cheque deposited but not yet credited by the bank.

3.1.3 PREPARATION

Before preparing the **Bank Reconciliation Statement**, the following steps may be taken into consideration.

Steps in Reconciliation :

The following steps may be taken for such a reconciliation.

- Step I Confirm that the opening bank balance tallies with opening balance shown in the Pass-Book. If it does not tally with the Pass-Book the items of reconciliation of the previous period should be carried forward.
- Step II Check the balancing of bank column of Cash-Book.
- Step III Check the balancing of bank Pass-Book.
- Step IV Compare each item of the payments side of bank column in the Cash-Book with the payment side i.e. withdrawal column of the Pass-Book.
- Step V Compare every item on the debit side of the bank column in the Cash-Book with the deposit column of bank Pass-Book.
- Step VI The comparison of the items as shown in step number IV and V will reveal some entries which are entered only in either of the two or there may be difference in the amounts entered.
- Step VII Such differences or omissions should be enlisted on a piece of paper.
- Step VIII Prepare the Bank Reconciliation Statement.

Bank Reconciliation Statement is nothing but a systematic presentation of the reasons with amounts that have caused the difference in the two balances. This statement starts with the bank balance either as per Cash-Book or as per Pass-Book. The reasons for difference as pointed out in step VI and VII above are either added or deducted as per their nature to the balance taken; so that the resultant figure tallies with the balance as per Cash-Book or Bank Book. The decision whether to add or deduct a particular amount depends on simple logic.

For example, Cash-Book shows bank balance of ₹ 1,000 and in the Pass-Book a cheque deposited of ₹ 200 is not credited. If we start the reconciliation by taking balance as per Cash-Book of ₹ 1,000, the omission of ₹ 200 in the Pass-Book means less balance shown by the Bank, it must be deducted from the balance of ₹ 1,000 to find balance as per Pass-Book. If a cheque of ₹ 500 issued by us is not debited by the Bank, it will mean that the Bank has not deducted ₹ 500 from the balance in our account. In other words bank balance must be more in the Pass-Book. Hence it is required to be added to our balance of ₹ 1,000 to find the balance as per Pass-Book. Similarly interest credited by Bank in the Pass-Book of ₹ 30 is not entered by us in our books. This means that the balance as per Cash-Book is less than the balance as per Pass-Book by ₹ 30. Hence ₹ 30 should be added to the balance of ₹ 1,000 to reach the balance as per Pass-Book.

Such a logic can be applied for different reasons found in VI and VII above. The specimen of such Bank Reconciliation Statement is given above.

These debits and credits may be given in the next period because some time is required for cheque clearance. Hence for such items no entries are required to be made in the books of accounts.

Some other items are such that for them entry must be made in the Cash-Book to nullify the difference in the two balances.

Such items may be :

- Direct credits to the bank accounts.
- Direct payment made by the Bank from the account.
- Bank interest debited or credited by the Bank.
- Bank charges debited by the Bank.
- Cheque issued, dishonoured or cancelled.
- Cheque deposited subsequently dishonoured.

Unless the entries for the above items are passed in the Cash-Book there is not much use of preparing the Reconciliation Statement, because otherwise the balances of different accounts to that extent will not show the correct position. For example, in case of a cheque dishonoured by the party not but cancelled by passing an entry in the Cash-Book, the party's balance shall be incorrect. After passing these entries only shall remain in the Reconciliation Statement :

- Cheque issued which is debited by the Bank in the next period.
- Cheque deposited which is credited by the Bank in the next period.
- Totalling or balancing mistake in the Bank Pass-Book.

In the trial balance such rectified bank balance as per the Cash-Book (by passing the entries for the above items) should be taken, so that the Profit and Loss Account and the Balance Sheet will show a true and fair picture of the business.

Summary Chart to be used in solving the problems

Following **summary chart** should be referred while solving the practical problems. In the examples there are four possibilities.

- (A) Bank Balance as per Cash-Book is given and to calculate Bank Balance as per Pass-Book.
- (B) Bank Balance as per Pass-Book is given and to calculate Bank Balance as per Cash-Book.
- (C) Overdraft Balance as per Cash-Book is given and to calculate Overdraft as per Pass-Book.
- (D) Overdraft Balance as per Pass-Book is given and to calculate Overdraft as per Cash-Book.
- (E) When abstracts from the Cash-Book and the Pass-Book are given separately.

Summary Chart

Reasons	When Bank Balance is given as per Cash-Book	When Bank Balance is given as per Pass-Book	When Overdraft Balance is given as per Cash-Book	When Overdraft Balance is given as per Pass-Book	(E) When abstracts from the Cash-Book and the Pass-Book are given separately.
	(A)	(B)	(C)	(D)	
Nature of Balance : Dr./Cr.	Dr.	Cr.	Cr.	Dr.	
i) Cheque deposited into Bank but not yet credited.	(-)	(+)	(+)	(-)	
ii) Cheque issued but not yet presented for payment.	(+)	(-)	(-)	(+)	
iii) Bank Charges debited in Pass-Book only.	(-)	(+)	(+)	(-)	
iv) Interest credited in Pass-Book only.	(+)	(-)	(-)	(+)	
v) Interest debited in Pass-Book only.	(-)	(+)	(+)	(-)	
vi) Payments made by Bank recorded in Pass-Book only.	(-)	(+)	(+)	(-)	
vii) Direct payment by customers in Bank recorded in Pass-Book only.	(+)	(-)	(-)	(+)	
viii) Bills Receivable discounted with Bank being dishonoured, recorded in Pass-Book only.	(-)	(+)	(+)	(-)	
ix) Cheque deposited into Bank being dishonoured, not recorded in Cash-Book.	(-)	(+)	(+)	(-)	

ILLUSTRATIONS**(A) When Bank Balance is given as per Cash Book****ILLUSTRATION 1**

On 31st March, 2019 the Cash-Book of Aadesh showed a debit balance of ₹ 6,490. On comparing his Cash-Book with the Pass-Book he finds that,

- Out of three cheques totalling to ₹ 2,100 issued on 29th March, 2019 only a cheque of ₹ 1,200 has been presented and encashed upto 31st March, 2019.
- Two cheques of ₹ 1,000 and ₹ 2,635 respectively were deposited into bank but only a cheque of ₹ 1,000 was credited before 31st March, 2019.
- Bank charges of ₹ 15 and Bank Interest of ₹ 400 appearing in the Pass-Book are not yet recorded in the Cash-Book.
- A standing order for payment of Life Insurance Premium amounting to ₹ 175 has not been entered in the Cash-Book.
- A cheque of ₹ 150 deposited and credited by Bank was entered as ₹ 115 in the Cash-Book.

Prepare a Bank Reconciliation Statement to find out the balance as per the Pass-Book on 31st March, 2019.

SOLUTION

In the books of Aadesh
Bank Reconciliation Statement as on 31st March, 2019

Particulars	Amount ₹	Amount ₹
Bank Balance as per the Cash-Book		6,490
Add :		1,335
i) Cheque issued but not yet presented and cashed	900	
ii) Bank Interest credited in Pass-Book	400	
iii) Cheque deposited and credited by Bank was entered with wrong amount in Cash-Book	(+)	35
		(+) 7,825
Less :		2,825
i) Cheques deposited but not yet credited	2,635	
ii) Bank charges debited in Pass-Book	15	
iii) Payment of Life Insurance Premium debited in Pass-Book	(-)	175
		(-) 5,000
∴ Bank Balance as per Pass-Book		5,000

ILLUSTRATION 2

On 31st December, 2019 Bank column of Cash-Book of Brijesh showed a balance of ₹ 17,800. From the following particulars prepare a Bank Reconciliation Statement showing the balance as per Pass-Book on 31st December, 2019.

- i) Cheques deposited into the Bank but not cleared and credited before 31st December, 2019 amounted to ₹ 18,550.
- ii) Cheques issued on 28th December, 2019 but presented for payment on 6th January, 2020 amounted to ₹ 6,750.
- iii) Purchases of Government Securities of ₹ 4,000 by the Bank on behalf of Brijesh appeared in the Pass-Book only.
- iv) Bank Interest of ₹ 95 was credited in the Pass-Book but was debited in the Cash-Book as ₹ 59.
- v) Bank charges of ₹ 36 were recorded in the Pass-Book only, but no corresponding entry was made in the Cash-Book.

SOLUTION

In the books of Brijesh
Bank Reconciliation Statement as on 31st December, 2019

Particulars	Amount ₹	Amount ₹
Bank Balance as per Cash-Book		17,800
Add :		6,786
i) Cheque issued but not yet presented for payment	6,750	
ii) Bank Interest credited in Pass-Book but debited with a wrong amount in Cash-Book	(+)	36
		(+) 24,586

Particulars	Amount ₹	Amount ₹
Less :		22,586
i) Cheques deposited but not yet cleared and credited in Pass-Book	18,550	
ii) Purchases of Government Securities by Bank debited in Pass-Book but not yet entered in Cash-Book	4,000	
iii) Bank charges debited in Pass-Book but not yet entered in Cash-Book (+)	36	
	(-)	
∴ Bank Balance as per Pass-Book		2,000

ILLUSTRATION 3

The Cash-Book of Chandresh showed a debit balance of ₹ 5,400 on 31st March 2019. But the Bank Pass-Book showed altogether a different balance and on comparing his Cash-Book and Pass-Book you find the following issues :

- i) Cheques amounting to ₹ 3,200 issued but not presented for payment before 31st March, 2019.
- ii) Cheques paid into Bank but not collected and credited before 31st March, 2019 amounted to ₹ 1,700.
- iii) Bank Charges ₹ 20 debited in the Pass-Book, did not appear in Cash-Book till 31st March, 2019.
- iv) Interest credited by Bank ₹ 350 did not appear in Cash-Book till 31st March, 2019.

You are requested to prepare a Bank Reconciliation Statement so as to show bank balance as per Bank Pass-Book as on 31st March, 2019.

SOLUTION**In the books of Chandresh****Bank Reconciliation Statement as on 31st March, 2019**

Particulars	Amount ₹	Amount ₹
Bank Balance as per Cash-Book		5,400
Add :		3,550
i) Cheques issued but not yet presented for payment	3,200	
ii) Bank Interest credited by Bank but not yet entered in Cash-Book	(+) 350	
	(+)	8,950
Less :		1,720
i) Cheques paid into Bank but not yet collected and credited by the bank	1,700	
ii) Bank Charges debited in the Pass-Book but not yet entered in the Cash-Book	(+) 20	
	(-)	
∴ Bank Balance as per Pass-Book		7,230

ILLUSTRATION 4

On 31st December, 2019 Bank column of Cash-Book of Dinesh showed a debit balance of ₹ 10,000. From the following particulars prepare a Bank Reconciliation Statement showing the position as per Pass-Book on 31st December, 2019.

- i) Cheques deposited into the Bank but not credited before 31st December, 2019 amounted to ₹ 10,500.
- ii) Purchases of Shares from Tata Motors Ltd., of ₹ 2,000 by the Bank appeared in the Pass-Book only.
- iii) Direct deposit by the customers into the Bank ₹ 1,650 was recorded in the Pass-Book only.
- iv) Cheques issued on 29th December, 2019, and presented for payment on 5th January, 2020 amounted to ₹ 4,000.
- v) Bank charges of ₹ 50 and Interest on Investment of ₹ 900, were recorded only in the Bank Pass-Book.

SOLUTION

In the books of Dinesh
Bank Reconciliation Statement as on 31st December, 2019

Particulars	Amount ₹	Amount ₹
Bank Balance as per Cash-Book		10,000
Add :		6,550
i) Direct Deposit by the customer into the Bank credited in Pass-Book only	1,650	
ii) Cheques issued but not yet presented for payment	4,000	
iii) Interest on Investment credited in Pass-Book	(+) 900	
		(+)
		16,550
Less :		12,550
i) Cheques paid into the Bank but not credited by the Bank	10,500	
ii) Purchases of Shares from Tata Motors Ltd. by the Bank debited in Pass-Book but not yet entered in the Cash-Book	2,000	
iii) Bank charges debited in Pass-Book but not yet entered in the Cash-Book	(+) 50	
		(-)
∴ Bank Balance as per Pass-Book		4,000

ILLUSTRATION 5

The Cash-Book of Dhanesh showed a Bank balance of ₹ 1,600 on 31st March, 2019. His Pass-Book showed totally a different result.

- On comparison the following discrepancies are traced out.
- i) Cheques issued but not presented for payments prior to 31st March, 2019 amounted to ₹ 2,500.
 - ii) A cheque of ₹ 6,200 deposited into the Bank on 30th March, 2019 is credited by Bank on 4th April, 2019.
 - iii) A customer paid ₹ 2,000 directly into bank account which was not entered in Cash-Book.

- iv) A cheque of ₹ 2,100 deposited and credited by Bank was recorded as ₹ 1,200 in the Cash-Book.
 v) A payment of Insurance Premium of ₹ 900 made by Bank was not recorded in Cash-Book.

SOLUTION

In the books of Dhanesh
Bank Reconciliation Statement as on 31st March, 2019

Particulars	Amount ₹	Amount ₹
Bank Balance as per Cash-Book		1,600
Add :		5,400
i) Cheques issued but not yet presented for payment	2,500	
ii) Direct deposit by the customer into the Bank credited in Pass-Book but not yet recorded in the Cash-Book	2,000	
iii) Cheque deposited and credited by Bank was recorded with a wrong amount in Cash-Book	(+) 900	
		(+)
		7,000
Less :		7,100
i) Cheque deposited into the Bank but not yet credited in Pass-Book	6,200	
ii) Payment of Insurance Premium made by the Bank and debited in Pass-Book but not yet recorded in the Cash-Book	(+) 900	
		(-)
∴ Bank Overdraft as per Pass-Book		100

Working Notes :

- i) Since the final answer is negative, (Starting from the Bank Balance as per Cash-Book),
 the answer is Bank Overdraft as per Pass-Book.

(B) When Bank Balance is given as per Pass Book**ILLUSTRATION 1**

Prepare a Bank Reconciliation Statement of Haresh from the following details as on 31st December, 2018.

- i) Bank Balance as per Pass-Book as 31st December, 2018 ₹ 7,500.
- ii) Cheques amounting to ₹ 7,400 were deposited into the Bank, but out of these cheques of ₹ 1,700 were only collected by the Bank till 31st December, 2018.
- iii) Sale of shares of Philips Ltd. for ₹ 3,750 by the Bank was credited in Pass-Book only.
- iv) Cheques amounting to ₹ 2,800, ₹ 2,000 and ₹ 1,000 were issued to creditors but were not paid by the Bank till 31st December, 2018.
- v) A cheque of ₹ 750 was deposited into the bank on 29th December, 2018 and credited by Bank, but it was not entered in Cash-Book till 31st December, 2018.
- vi) Bank had charged ₹ 50 for other charges and ₹ 50 for commission, for which there was no entry in the Cash-Book.
- vii) Receipt side of the Bank column of Cash-Book was undercast by ₹ 1,000.

SOLUTION

In the books of Haresh

Bank Reconciliation Statement as on 31st December, 2018

Particulars	Amount ₹	Amount ₹
Bank Balance as per Pass-Book		7,500
Add :		5,800
i) Cheques deposited into the Bank but not yet collected	5,700	
ii) Other Charges charged by Bank debited in Pass-Book but not yet entered in the Cash-Book	50	
iii) Commission charged by Bank debited in Pass-Book but not yet entered in the Cash-Book	(+) 50	
		(+)
Less :		
i) Sale of shares of Philips Ltd. by Bank credited in Pass-Book only	3,750	
ii) Cheques issued to creditors but not yet paid by the Bank (₹ 2,800 + ₹ 2,000 + ₹ 1,000)	5,800	
iii) Cheque deposited into the Bank and credited was not yet entered in the Cash-Book	750	
iv) Receipt side of the Bank column of the Cash-Book was undercast (+)	1,000	
		(-)
. Bank Balance as per Cash-Book		2,000

ILLUSTRATION 2

Bank Pass-Book of Ganesh showed a credit balance of ₹ 9,750 on 31st May, 2019. From the following particulars prepare of Bank Reconciliation Statement showing the balance as per Cash-Book as on 31st May, 2019.

- Out of the cheques of ₹ 4,200 deposited into bank till 31st May, 2019, cheques worth ₹ 1,500 only were realised upto 31st May, 2019.
- Cheques issued prior to 31st May, 2019 but presented after that date amounted to ₹ 3,700.
- Pass-Book shows that a Bill Receivable of ₹ 3,000 has been collected by Bank for which no entry appears in the Cash-Book.
- Bank paid ₹ 250 for Chamber of Commerce subscription for the year, for which no entry is recorded in the Cash-Book.
- Bank Charges of ₹ 30 were wrongly recorded as ₹ 300 in the Cash-Book.
- Interest credited by Bank ₹ 730 does not appear in the Cash-Book.

SOLUTION

In the books of Ganesh

Bank Reconciliation Statement as on 31st May, 2019

Particulars	Amount ₹	Amount ₹
Bank Balance as per Pass Book		9,750
Add :		2,950
i) Cheques deposited into Bank but not yet collected and credited	2,700	
ii) Chamber of Commerce subscription paid by Bank debited in Pass-Book but not yet recorded in the Cash-Book	(+) 250	
		(+) 12,700
Less :		7,700
i) Cheques issued but not yet presented for payment	3,700	
ii) Bill Receivable collected and credited by the Bank not yet entered in the Cash-Book	3,000	
iii) Bank charges credited with a wrong amount in Cash-Book	270	
iv) Interest credited by Bank recorded in the Pass-Book but not yet recorded in the Cash-Book	(+) 730	
v) Bank Balance as per Cash-Book		(-) 5,000

ILLUSTRATION 3

On 31st December, 2019 Bank Pass-Book of Jayesh showed a credit balance of ₹ 4,800. From the following particulars prepare a Bank Reconciliation Statement showing the bank balance as per Cash-Book as on that date.

- i) Cheques deposited into the Bank but not cleared and credited before 31st December, 2019 amounted to ₹ 3,900.
- ii) Cheques issued on 31st December, 2019 but presented for payment on 5th January, 2020 amounted to ₹ 6,650.
- iii) Payment of Taxes by Bank ₹ 1,000 on behalf of Jayesh appeared in the Pass-Book only.
- iv) Bank Interest of ₹ 165 was credited in the Pass-Book but was entered in the Cash-Book as ₹ 65 only.
- v) Payment side of Pass-Book was overcast by ₹ 50.

SOLUTION

In the books of Jayesh

Bank Reconciliation Statement as on 31st December, 2019

Particulars	Amount ₹	Amount ₹
Bank Balance as per Pass-Book		4,800
Add :		4,950
i) Cheques deposited into the Bank but not yet cleared and credited	3,900	
ii) Payment of Taxes by Bank debited in Pass-Book only	1,000	
iii) Payment side of Pass-Book was overcast	(+) 50	
		(+)
		9,750
Less :		6,750
i) Cheques issued but not yet presented for payment	6,650	
ii) Bank Interest credited in Pass-Book entered with a wrong amount in the Cash-Book	(+) 100	
		(-)
A. Bank Balance as per Cash-Book		3,000

ILLUSTRATION 4

Prepare a Bank Reconciliation Statement of Gitesh for the month of June, 2019 from the following information.

- Balance as per Pass-Book ₹ 1,000.
- Cheques paid into Bank credited in Pass-Book amounted to ₹ 250 but the necessary entry was not passed in the Cash-Book.
- Cheques received and recorded in the Cash-Book but not sent to the bank for collection amounted to ₹ 1,000.
- Payment side bank column of Cash-Book was undercast by ₹ 100.
- Cheque issued but returned on technical grounds ₹ 150.
- Bills directly collected by Bank ₹ 5,200 but it was not entered in the Cash-Book.
- Cheque received entered twice in Cash-Book ₹ 500.
- Bills discounted dishonoured amounts to ₹ 4,000 was not recorded in the Cash-Book.
- Bank met a bills payable on behalf of Kanchan for ₹ 2,000 on 30th June, 2019, but the advice was sent to him on 4th July, 2019.

SOLUTION

In the books of Gitesh

Bank Reconciliation Statement as on 30th June, 2019

Particulars	Amount ₹	Amount ₹
Bank Balance as per Pass-Book		1,000
Add :		7,600
i) Cheques received and recorded in Cash-Book but not sent to the Bank for collection	1,000	
ii) Payment side bank column of Cash-Book undercast	100	
iii) Cheques received entered twice in Cash-Book	500	
iv) Bills discounted dishonoured debited in Pass-Book only	4,000	
v) Bills Payable met by the bank debited in Pass-Book only	(+) 2,000	
		(+)
		8,600
Less :		5,600
i) Cheques paid into Bank credited in Pass-Book	250	
ii) Cheques issued but returned on technical grounds	150	
iii) Bills directly collected by Bank credited in Pass-Book	(+) 5,200	
		(-)
v. Bank Balance as per Cash-Book		3,000

ILLUSTRATION 5

A Pass-Book of Lokesh showed a Bank Balance of ₹ 2,500 on 31st December, 2019. Prepare a Bank Reconciliation Statement and show the Bank Balance as it would appear in the Cash-Book as on that date from the following information furnished to you.

- The cheques and drafts sent to the Bank but not collected and credited amounted to ₹ 1,650.
- Three cheques of ₹ 1,160, ₹ 1,560 and ₹ 1,750 respectively were issued to suppliers but not presented for payment till 13th January, 2020.
- The Bank charged ₹ 60 as its commission for collecting outstation cheques and has allowed interest of ₹ 130 on Bank Balances.
- A cheque of ₹ 2,100 collected and credited by the Bank was wrongly recorded twice in the Cash-Book on the receipt side.
- The Bank has paid ₹ 1,000 on the due date of a bill but it has not been entered in the Cash-Book.

- vi) The Bill Receivable of ₹ 290 which was discounted with the Bank was dishonoured by the drawee on the due date.

SOLUTION

In the books of Lokesh

Bank Reconciliation Statement as on 31st December, 2019

Particulars	Amount ₹	Amount ₹
Bank Balance as per Pass-Book		2,500
Add :		5,100
i) Cheques and drafts sent to the Bank but not yet collected and credited by the Bank	1,650	
ii) Commission charged by the Bank for collecting outstation cheques debited in the Pass-Book but not yet recorded in the Cash-Book	60	
iii) Cheques collected and credited by the Bank wrongly recorded twice in the Cash-Book	2,100	
iv) Payment of a bill on the due date debited in the Pass-Book but not yet recorded in the Cash-Book	1,000	
v) Dishonoured bill dishonoured by the drawee on the due date debited in the Pass-Book but not yet recorded in the Cash-Book (+)	290	
	(+)	7,600
		4,600
Less :		
i) Cheques issued to the suppliers but not yet presented for payment (₹ 1,160 + ₹ 1,560 + ₹ 1,750)	4,470	
ii) Interest on Bank Balances credited in the Pass-Book (+)	130	
	(-)	
∴ Bank Balance as per Cash-Book		3,000

ILLUSTRATION 6

A Pass-Book of Manish showed a credit balance of ₹ 9,750 as on 31st March, 2019. From the following particulars prepare a Bank Reconciliation Statement showing the position as per the Cash-Book as on that date.

- i) Out of the cheques of ₹ 4,000 deposited into Bank till 31st March, 2019, cheques worth ₹ 1,300 were realised upto 31st March, 2019.
- ii) Cheques issued prior to 31st March, 2019 but presented after that date amounted to ₹ 9,700.

- iii) The Pass-Book shows that a bill of ₹ 3,000 has been collected by the Bank, for which no entry appears in the Cash-Book.
- iv) The Bank paid ₹ 250 for annual subscription of Bharat Vikas Parishad, for which no entry appears in the Cash-Book.
- v) The Bank Charges of ₹ 30 were wrongly recorded in the cash column of the Cash-Book.
- vi) Dividend on Shares collected and credited by Bank ₹ 1,030 does not appear in the Cash-Book.

SOLUTION

In the books of Manish

Bank Reconciliation Statement as on 31st March, 2019

Particulars	Amount ₹	Amount ₹
Bank Balance as per Pass-Book		9,750
Add :		2,980
i) Cheques deposited into the Bank but not yet realised	2,700	
ii) Payment of annual subscription of Bharat Vikas Parishad by the Bank debited in the Pass-Book but not yet recorded in the Cash-Book	250	
iii) Bank charges debited in the Pass-Book wrongly recorded in the cash column of the Cash-Book	(+) 30	
		(+)
		12,730
Less :		13,730
i) Cheques issued but not yet presented for payment	9,700	
ii) Collection of bill by the Bank credited in Pass-Book but not yet recorded in the Cash-Book	3,000	
iii) Dividend on Shares collected and credited by the Bank in the Pass-Book but not yet recorded in the Cash-Book	1,030	
	(+)	(-)
iv) Bank Overdraft as per Cash-Book		1,000

Working Notes :

- i) Since the final answer is negative (starting from the Bank Balance as per the Pass-Book), the answer is Bank Overdraft as per Cash-Book.

(C) When Overdraft Balance is given as per Cash Book**ILLUSTRATION 1**

From the following information prepare a Bank Reconciliation Statement of Naresh as on 31st December, 2019.

- i) Bank Overdraft as per Cash-Book on 31st December, 2019 was ₹ 2,580.
- ii) Commission of ₹ 500 collected by the Bank on behalf of Naresh was not recorded in the Cash-Book.

- iii) A cheque of ₹ 1,000 was paid into the Bank was cleared during December, 2019, but was entered twice in the Cash-Book.
- iv) A standing order for payment of office rent amounting to ₹ 1,050 had not been entered in the Cash-Book.
- v) Three cheques of ₹ 750, ₹ 400 and ₹ 300 were deposited into the Bank on 27th December, 2019. Out of these, a cheque of ₹ 750 was cleared on 29th December, 2019, a cheque of ₹ 400 was cleared on 4th January, 2020 but the cheque of ₹ 300 is not yet cleared.
- vi) Cheques of ₹ 9,300 were issued on 28th December, 2019. Out of these, cheques of ₹ 7,300 were presented before 31st December, 2019.
- vii) Bank paid ₹ 500 to the supplier on our behalf was not recorded in the Cash-Book.
- viii) Interest on Fixed Deposit of ₹ 330 was credited in the Pass-Book but was credited in Cash-Book as ₹ 130 in Cash Column.

SOLUTION**In the books of Naresh****Bank Reconciliation Statement as on 31st December, 2019**

Particulars	Amount ₹	Amount ₹
Bank Overdraft as per Cash-Book		2,580
Add :		3,250
i) Cheque paid into the Bank and cleared, wrongly entered twice in the Cash-Book	1,000	
ii) Payment of office rent as per standing order debited in the Pass-Book but not yet recorded in the Cash-Book	1,050	
iii) Cheques deposited but not yet cleared (₹ 400 + ₹ 300)	700	
iv) Payment to supplier on our behalf debited in the Pass-Book but not yet recorded in the Cash-Book	(+) 500	
	(+)	5,830
Less :		2,830
i) Commission collected by the Bank on our behalf credited in the Pass-Book but not yet recorded in the Cash-Book	500	
ii) Cheques issued but not yet presented for payment	2,000	
iii) Interest on Fixed Deposit credited in the Pass-Book but not yet recorded in the Cash-Book	(+) 330	
	(-)	
∴ Bank Overdraft as per Pass-Book		3,000

[ILLUSTRATION 2]

From the following particulars, prepare a Bank Reconciliation Statement showing the balance that would appear in the Pass-Book of Yogesh as on 31st March, 2019.

- i) The Overdraft as per the Cash-Book on 31st March, 2019 was ₹ 8,450.
- ii) Interest on overdraft for six months ending 31st March, 2019 ₹ 370, did not appear in the Cash-Book.
- iii) Bank Charges ₹ 70 for the above period debited in the Pass-Book were not yet recorded in the Cash-Book.
- iv) Cheques issued but not presented for payment before 31st March, 2019 amounted to ₹ 3,230.
- v) A bill for ₹ 1,000 discounted at the Bank appears in Cash-Book with full amount, whereas the Bank has deducted discounting charges of ₹ 40.
- vi) Cheques amounting to ₹ 5,500 deposited into the Bank but only a cheque of ₹ 1,200 was collected and credited before 31st March, 2019.
- vii) Bank has paid final call on 100 shares of Henley Ltd. at ₹ 20 per share according to standing instructions to them which is not entered in the Cash-Book.

[SOLUTION]**In the books of Yogesh****Bank Reconciliation Statement as on 31st March, 2019**

Particulars	Amount ₹	Amount ₹
Bank Overdraft as per Cash-Book		8,450
Add :		6,780
i) Interest on overdraft debited in the Pass-Book but not yet recorded in the Cash-Book	370	
ii) Bank Charges debited in the Pass-Book	70	
iii) Discount on Bills Receivable debited in the Pass-Book but not yet considered in the Cash-Book.	40	
iv) Cheques deposited into bank but not yet collected and credited by the Bank	4,300	
v) Final Call on shares paid by the bank debited in the Pass-Book (₹ 20 Final Call × 100 Shares)	(+) 2,000	
	(+)	15,230
Less :		3,230
i) Cheques issued but not yet presented for payment	3,230	
ii. Bank Overdraft as per Pass-Book	(-)	12,000

ILLUSTRATION 3

The Cash-Book of Mayuresh showed an Overdraft of ₹ 4,000 as on 31st December, 2019. On comparing his Cash-Book and Pass-Book you find the following with :

- Cheques issued to creditors but not presented for payment till 31st December, 2019 amounts to ₹ 2,700, ₹ 1,500 and ₹ 1,200.
- Cheques deposited into the Bank amounting to ₹ 900 and ₹ 200, of which cheque of ₹ 200 only was credited by Bank till 31st December, 2019.
- Collection from Debtors of ₹ 3,500 by the Bank was entered in the Pass-Book but not in the Cash-Book.
- Cheque received for sale of old furniture ₹ 2,000 was paid into the Bank, but the same was not credited by Bank till 3rd January, 2020.
- Cheque of ₹ 70 received for dividend on shares was deposited and credited by the Bank, but the same was recorded wrongly in the cash column of the Cash-Book.
- Interest on Bank Overdraft amounted to ₹ 170 appears in the Pass-Book only.
- Receipt side of the Pass-Book has been overcast by ₹ 100.

Prepare a Bank Reconciliation Statement showing the position as per the Pass-Book as on 31st December, 2019.

SOLUTION

In the books of Mayuresh
Bank Reconciliation Statement as on 31st December, 2019

Particulars	Amount ₹	Amount ₹
Bank Overdraft as per the Cash-Book		4,000
Add :		3,070
i) Cheques deposited into the Bank but not yet credited by the Bank	900	
ii) Receipt of cheque for sale of old furniture paid into the Bank, debited in Cash-Book only	2,000	
iii) Interest on Bank Overdraft debited in Pass-Book only	(+)	170
		(+) 7,070
Less :		9,070
i) Cheques issued to creditors but not yet presented for payment (₹ 2,700 + ₹ 1,500 + ₹ 1,200)	5,400	
ii) Collection from Debtors by the Bank credited in the Pass-Book only	3,500	
iii) Cheque received for dividend on shares was deposited and credited in the Pass-Book was wrongly recorded in the Cash column of Cash-Book	70	
iv) Receipt side of Pass-Book has been undercast	(+)	100
		(-) 2,000
∴ Bank Balance as per Pass-Book		2,000

Working Notes :

- Since the final answer is negative, (starting from the Bank Overdraft as per Cash-Book) the answer is Bank Balance as per Pass-Book.

ILLUSTRATION 4

The Cash-Book of Rajesh showed an overdraft of ₹ 4,890 as on 31st March, 2019 on comparing his Cash-Book with Pass-Book you find the following.

- Cheque issued to suppliers but not presented for payment till 31st March, 2019 are of ₹ 1,200, ₹ 700 and ₹ 3,500.
- Cheques of ₹ 1,200 deposited into the bank was collected and credited by the bank but was entered in the Cash-Book as ₹ 2,100.
- An amount of ₹ 3,540 directly paid into bank account by our customer was not entered in the Cash-Book.
- Bill Receivable of ₹ 1,000 due on 30th March, 2019 was sent to bank for collection on 28th March, 2019 it was entered in the Cash-Book immediately but the proceeds were not credited by bank till 3rd April, 2019.
- Bank Charges of ₹ 60 debited in the Pass-Book were entered as ₹ 90 in the Cash-Book.
- Interest on overdraft for six months ending 31st March, 2019, amounted to ₹ 280 appears in the Pass-Book only.
- The debit side of the Cash-Book had been undercast by ₹ 100.

Prepare a Bank Reconciliation Statement showing the bank balance as per the Pass-Book as on 31st March, 2019.

SOLUTION**In the Books of Rajesh****Bank Reconciliation Statement as on 31st March, 2019**

Particulars	Amount ₹	Amount ₹
Bank Overdraft as per Cash-Book		4,890
Add :		2,180
i) Cheque deposited and credited by the bank entered with a wrong amount in the Cash-Book.	900	
ii) Bill Receivable sent for collection not credited by Bank.	1,000	
iii) Interest on Overdraft debited in the Pass-Book but not yet entered in the Cash-Book.	(+)	280
	(+)	7,070
		9,070
Less :		
i) Cheques issued but not yet presented for payment (₹ 1,200 + ₹ 700 + ₹ 3,500)	5,400	
ii) Amount directly deposited by our customer but not entered in the Cash-Book.	3,540	
iii) Bank Charges entered with a wrong amount in the Cash-Book	30	
iv) Debit side of Cash-Book is undercast.	(+)	100
v. Bank Balance as per Pass-Book	(-)	2,000

Working Notes :

- Since the final answer is negative, (starting from the Bank Overdraft as per Cash-Book) the answer is Bank Balance as per Pass-Book.

(D) When Overdraft Balance is given as per Pass Book**ILLUSTRATION 1**

From the following particulars relating to Prathamesh prepare a Bank Reconciliation Statement as on 31st December, 2019.

- Bank Overdraft as per the Pass-Book ₹ 2,000.
- A cheque of ₹ 1,500 deposited into the Bank on 27th December, 2019 but was collected on 7th January, 2020.
- A cheque issued for payment ₹ 200 was wrongly entered twice in the Cash-Book.
- During December, 2019 total cheques issued amounted to ₹ 3,000 out of which cheques of ₹ 1,000 were not presented to the Bank for payment till 31st December, 2019.
- The Bank Pass-Book shows a debit of ₹ 870 for payment of corporation taxes and a credit of ₹ 170 for collection of interest on investment, for which no corresponding entries were made in the Cash-Book.

SOLUTION**In the books of Prathamesh****Bank Reconciliation Statement as on 31st December, 2019**

Particulars	Amount ₹	Amount ₹
Bank Overdraft as per Pass-Book		2,000
Add :		1,370
i) A cheque issued for payment wrongly entered twice in the Cash-Book	200	
ii) Cheques issued but not yet presented for payment	1,000	
iii) Collection of interest on investment by Bank credited in the Pass-Book but not yet recorded in the Cash-Book	(+) 170	
	(+)	3,370
Less :		2,370
i) Cheque deposited into the Bank but not yet collected	1,500	
ii) Payment of corporation taxes debited in the Pass-Book but not yet recorded in the Cash-Book	(+) 870	
	(-)	
∴ Bank Overdraft as per Cash-Book		1,000

[ILLUSTRATION 2]

The Bank Pass-Book of Sandesh showed an Overdraft as on 30th June, 2019 of ₹ 2,000. This balance did not agree with the Cash-Book balance, on enquiry, the following information was made available.

- Cheques of ₹ 2,000 paid into the Bank have not been cleared till 30th June, 2019.
- Cheques issued on 28th June, 2019 amounted to ₹ 1,000 and ₹ 1,400 but not encashed before 30th June, 2019.
- Bank Charges of ₹ 100 recorded twice in Cash-Book.
- Interest on Bank Overdraft ₹ 800 debited in the Pass-Book only.
- Interest on Fixed Deposit amounting to ₹ 1,000 collected by the Bank was recorded in the Pass-Book only.
- Direct deposit by the customer into the Bank ₹ 1,500 stands credited in the Pass-Book only.
- Debit side of the Cash-Book was overcast by ₹ 200.

[SOLUTION]

In the books of Sandesh
Bank Reconciliation Statement as on 30th June, 2019

Particulars	Amount ₹	Amount ₹
Bank Overdraft as per Pass-Book		2,000
Add :		5,000
i) Cheques issued but not yet presented for payment (₹ 1,000 + ₹ 1,400)	2,400	
ii) Bank Charges recorded twice in the Cash-Book	100	
iii) Interest on Fixed Deposit collected by Bank was credited in the Pass-Book only	1,000	
iv) Direct Deposit by the customer into the Bank stands credited in the Pass-Book only	(+) 1,500	
	(+)	7,000
Less :		3,000
i) Cheques paid into the Bank but not yet cleared and credited by the Bank	2,000	
ii) Interest on Bank Overdraft debited in the Pass-Book only	800	
iii) Debit side of the Cash-Book overcast	(+) 200	
	(-)	4,000
∴ Bank Overdraft as per Cash-Book		

[ILLUSTRATION 3]

Prepare the Bank Reconciliation Statement of Rakesh as on 31st May, 2019, from the following data.

- i) Balance as per the Pass-Book on 31st May 2019 (debit) ₹ 12,100.
- ii) Cheques drawn on 31st May 2019 but not cleared till 5th June, 2019 ₹ 7,450, ₹ 9,500 and ₹ 14,200.
- iii) Cheques received on 29th May 2019, entered in the Cash-Book but not deposited in the bank till 30th June, ₹ 34,000.
- iv) A periodic payment of ₹ 1,500 by bank under standing instructions not entered in the Cash-Book.
- v) There was a debit in the Pass-Book ₹ 100 for bank charges and ₹ 1,500 for interest on overdraft which was not entered in the Cash-Book.
- vi) Cheques of ₹ 15,000 deposited in the bank and finally dishonoured was not entered in the Cash-Book.
- vii) Bankers have made a mistake in balancing by showing overdrawn balance in excess by ₹ 1,150 on 31st May 2019.

[SOLUTION]**In the Books of Rakesh****Bank Reconciliation Statement as on 31st May, 2019**

Particulars	Amount ₹	Amount ₹
Bank Overdraft as per Pass-Book		12,100
Add :		31,150
i) Cheques drawn but not yet cleared (₹ 7,450 + ₹ 9,500 + ₹ 14,200)	(+)	31,150
	(+)	43,250
Less :		53,250
i) Cheques received and entered in the Cash-Book is not yet deposited into Bank		34,000
ii) Periodic payment by bank debited in the Pass-Book only		1,500
iii) Bank Charges debited in the Pass-Book only		100
iv) Interest on Overdraft debited in the Pass-Book only		1,500
v) Cheques deposited into the bank and dishonoured debited in the Pass-Book		15,000
vi) Bankers mistake in balancing by showing overdraft balance in excess.	(+)	1,150
vii. Bank Balance as per the Cash-Book	(-)	10,000

Working Notes :

- i) Since the final answer is negative, (starting from Bank Overdraft as the per Pass-Book) the answer is Bank Balance as per Cash-Book.

(E) When abstracts from the Cash-Book and the Pass-Book are given separately :

In such a case, the following points should be noted very carefully, where there can be two situations :

i) When the abstracts relate to the same period :

In such a case such transactions should be found which are not common in both the abstracts. These constitute the causes of difference.

ii) When the Pass-Book relates to the succeeding period :

In such a case locate those transactions which are common in both the abstracts. These constitute causes of difference.

ILLUSTRATION 1

The following are the Cash-Book and Bank Pass-Book of Ritesh for the month of April, 2019.

Receipts Dr.	Cash-Book (Bank Column) for April, 2019	Payments Cr.
-----------------	---	-----------------

Date 2019 April	Particulars	₹	Date 2019 April	Particulars	₹
1	To Balance B/D	12,500	1	By Salaries (Ch. No. 183)	4,000
4	To Sales	8,000	6	By Purchases (Ch. No. 184)	3,200
8	To Parimal	1,500	11	By Machinery (Ch. No. 185)	6,000
13	To Mahim	3,400	15	By Om Prakash (Ch. No. 186)	1,000
18	To Kamal	4,600	19	By M's Drawing (Ch. No. 187)	800
21	To Furniture	1,200	23	By Kishore (Ch. No. 188)	2,000
25	To Sales	3,800	27	By Suresh (Ch. No. 189)	1,000
30	To Firoz	3,000	30	By Printing (Ch. No. 190)	500
			30	By Balance C/D	19,500
		38,000			38,000

Bank Pass-Book for April, 2019

Date 2019 April	Particulars	Deposits ₹	Withdrawals ₹	Balance ₹
1	Balance			12,500
2	Cheque 183		4,000	8,500
6	Cash	8,000		16,500
6	Cheque 184		3,200	13,300
10	Cheque	1,500		14,800
16	Cheque	3,400		18,200
17	Cheque 187		800	17,400
20	Cheque	4,600		22,000
24	Cheque	3,800		25,800

Date 2019 April	Particulars	Deposits ₹	Withdrawals ₹	Balance ₹
28	Cheque 185		6,000	19,800
28	Cheque 189		1,000	18,800
30	Interest	100		18,900
30	Deposit (Firoz)	3,000		21,900
30	Charges		100	21,800

You are required to prepare a Bank Reconciliation Statement as on 30th April, 2019.

SOLUTION

In the books of Ritesh

Bank Reconciliation Statement as on 30th April, 2018

Particulars	Amount ₹	Amount ₹
Bank Balance as per Cash-Book		19,500 3,600
Add :		
i) Cheques issued but not yet presented for payment	₹ 3,500	
• Cheque No. 186 to Om Prakash	1,000	
• Cheque No. 188 to Kishore	2,000	
• Cheque No. 190 for Printing	500	
ii) Bank Interest credited in the Pass-Book only	(+)	100 (+)
Less :		
i) Bank Charges debited in Pass-Book only	100	23,100 1,300
ii) Cheque deposited but not yet credited by the Bank	(+)	1,200 (-)
∴ Bank Balance as per Pass-Book		21,800

ILLUSTRATION 2

Given below are the extracts of Cash-Book and Bank Pass-Book of Umesh for the month of March 2019. Prepare a Bank Reconciliation Statement as on 31st March 2019.

Date 2019 March	Particulars	₹	Date 2019 March	Particulars	₹
1	To Balance B/D	2,000	5	By Soni	700
5	To Shah	1,000	10	By Patel	900
8	To Patil	700	17	By Kate	300
11	To Murthy	3,000	23	By Tambe	900
27	To Shah	1,000	24	By Purchases	2,000
29	To Patil	300	30	By Patel	500
			31	By Balance C/D	2,700
		8,000			8,000
April 1	To Balance B/D	2,700			

Payments

Receipts

Dr.

Bank Pass-Book for March, 2019

Cr.

Date 2019 March	Particulars	₹	Date 2019 March	Particulars	₹
7	To Soni	700	1	By Balance B/D	2,000
12	To Patel	900	9	By Shah	1,000
19	To Kate	300	12	By Patil	700
24	To Purchases	2,000	17	By Murthy	3,000
25	To Bank Charges	30	31	By Bank Interest	300
31	To Balance C/D	3,070			
		7,000			7,000
			April		
			1	By Balance B/D	3,070

SOLUTION

In the books of Umesh

Bank Reconciliation Statement as on 31st March, 2019

Particulars	Amount ₹	Amount ₹
Bank Balance as per Cash-Book		2,700
Add :		1,700
i) Cheques issued but not yet presented for payment	1,400	
i) Tambe	900	
ii) Patel	(+) 500	
ii) Interest credited by Bank in Pass-Book only	(+)	300
	(+)	4,400
Less :		1,330
i) Cheques deposited into the Bank but not yet collected	1,300	
i) Shah	1,000	
ii) Patil	(+) 300	
ii) Bank Charges debited in Pass-Book only	(+)	30
∴ Bank Balance as per Pass-Book	(-)	3,070

[ILLUSTRATION 3]

From the following entries in the Bank column of the Cash-Book of Bhavesh and the corresponding Bank Pass-Book, prepare Bank Reconciliation Statement as on 31st March, 2019.

Cash-Book (Bank Column Only) for March, 2019

Receipts			Payments		
Dr.		Cr.			
Date 2019 March	Particulars	₹	Date 2019 March	Particulars	₹
1	To Balance B/D	3,400	7	By B's Drawing	1,500
10	To Madan	500	8	By Salary	2,200
13	To Jignesh	4,000	15	By Lokesh	3,000
18	To Ramesh	1,200	28	By Brijesh	1,550
28	To Dinesh	2,200	29	By Rakesh	800
29	To Suresh	5,700	30	By Rajesh	400
31	To Mahesh	3,425	31	By Jayesh	1,600
			31	By Balance C/D	9,375
		20,425			20,425

Bank Pass-Book for April, 2019

Payments			Receipts		
Dr.		Cr.			
Date 2019 April	Particulars	₹	Date 2019 April	Particulars	₹
1	To Balance B/F	750	2	By Dividends	500
2	To Rakesh	800	2	By Dinesh	2,200
4	To Rajesh	400	2	By Harish	200
8	To Salary	2,300	3	By Suresh	5,700
10	To B's Drawings	500	3	By Mahesh	3,425
10	To Mahesh (Cheque dishonoured)	3,425	5	By Ritesh	170
30	To Balance C/D	4,020			
		12,195			12,195

SOLUTION

In the books of Bhavesh

Bank Reconciliation Statement as on 31st March, 2019

Particulars	Amount ₹	Amount ₹
Bank Balance as per Cash-Book		9,375
Add :		1,200
i) Cheques issued but not yet presented for payment		
• Rakesh	800	
• Rajesh	(+) 400	
		(+)
		10,575
Less :		11,325
i) Cheques deposited into the Bank but not yet credited by Bank		
• Dinesh	2,200	
• Suresh	5,700	
• Mahesh	(+) 3,425	(-)
ii) Bank Overdraft as per Pass-Book		750

Working Note :

- i) Since the final answer is negative (starting from the Bank Balance as per Cash-Book), the answer is Bank Overdraft as per Pass-Book.

QUESTIONS FOR SELF-STUDY**I. Theory Questions :**

- i) What is a Bank Reconciliation Statement ? Why is it to be prepared ?
- ii) Explain the importance of Bank Reconciliation Statement.
- iii) State the reasons for disagreement between the Cash-Book balance and the Pass-Book balance.
- iv) Explain the need and importance of Bank Reconciliation Statement.
- v) What is a Bank Reconciliation Statement ? How is it prepared ?
- vi) Why does the Bank balance as per Cash-Book differ from the Pass-Book ?

II. Practical Problems :

- i) From the following particulars prepare a Bank Reconciliation Statement as on 30th June, 2019.
 - a) Bank balance as per the Cash-Book of Deepak on 30th June 2019, ₹ 7,800.

- b) Two cheques for ₹ 360 and ₹ 700 issued in favour of Ashok and Shekhar respectively have not been presented for payment till 30th June, 2019.
 - c) Two cheques for ₹ 950 and ₹ 1,420 received from Satish and Suresh respectively paid into the bank on 28th June, 2019 have not been credited till the end of the month.
 - d) Cheque for ₹ 950 are issued during the month was presented for payment and was entered as ₹ 50 in the Cash-Book.
 - e) The bank has paid a bill payable amounting to ₹ 800, but it has not been entered in the Cash-Book.
 - f) An amount of ₹ 300 has been credited by the bank for half yearly interest.
- ii) On 31st March, 2019 the Cash-Book of Desai showed a Balance of ₹ 7,570. On checking it with the bank statement the following differences were disclosed.
- a) Cheques issued for ₹ 1,500 were not presented to the bank till the 5th April, 2019 following.
 - b) Cheques amounting to ₹ 2300 were deposited into the bank but were not collected.
 - c) As per our instructions, bank paid ₹ 120 as fire insurance premium but no entry has been made in the Cash-Book.
 - d) ₹ 1,000 being proceeds of a bill receivable collected, appear in the Pass-Book but not in the Cash-Book.
 - e) Bank charges ₹ 12 not entered in the Cash-Book.
 - f) Interest of ₹ 145 credited by the bank was not entered in the Cash-Book.

You are requested to prepare a Bank Reconciliation Statement showing Bank Balance as per the Pass-Book.

- iii) Ranjan's Cash-Book showed a Debit Balance of ₹ 2,700 on 31st March, 2019 on comparison of his Cash-Book with Pass-Book, you have found out the following causes.
- a) Three cheques of ₹ 1,500, ₹ 5,200 and ₹ 700 were deposited in the bank, in the last week of March 2019 of these, only one cheque of ₹ 1,500 was collected and credited by the bank before 30th June, 2019.
 - b) Cheques drawn in favour of creditors ₹ 5,200 were not presented for payment before 30th June, 2019.
 - c) A cheque of ₹ 250 deposited into the bank was collected and credited by the bank but was omitted to be recorded in the Cash-Book.
 - d) There was a debit of ₹ 30 for bank charges and credit of ₹ 35 for interest in the Pass-Book only.
 - e) A customer has paid ₹ 1,000 into the bank account directly which is not entered in the Cash-Book.

Prepare a Bank Reconciliation Statement showing the balance as per Pass-Book.

- iv) The Cash-Book of Paresh, showed a Debit Balance of ₹ 1,230 on 31st March 2019. On an examination of the Cash-Book and Bank Statement you find that :
- Several Cheques were drawn in the last week of March, totalling ₹ 21,000 of these, cheques totalling only to ₹ 7,200 were cashed before 31st March, 2019.
 - Similarly several cheques totalling ₹ 12,500 were sent for collection of these, cheques of ₹ 5,700 were credited in April, 2019.
 - There was a debit of ₹ 20 for bank charges and a credit of ₹ 95 for interest in the Pass-Book only.
 - Cheque of Rs 1,500 issued and presented for payment was omitted to be recorded in the Cash-Book.
 - Chamber of Commerce subscription of ₹ 300 was paid by the bank according to standing instructions but was not recorded in the Cash-Book.
- You are requested to prepare a Bank Reconciliation Statement showing balance as per the Pass-Book.
- v) From the following extracts of the Cash-Book and the Pass-Book given to you, prepare a Bank Reconciliation Statement as on 31st March 2019.

Cash-Book (Bank Columns Only) for March, 2019

Receipts Dr.		Payments Cr.			
Date 2019 March	Particulars	₹	Date 2019 March	Particulars	₹
3	To Balance B/F	9,850	3	By Swami	480
7	To Sales	2,900	7	By Salaries	1,000
10	To Sagar	870	12	By Sameer	500
15	To Interest	200	18	By Girish	940
19	To Ganesh	950	25	By Sangam	470
28	To Harish	500	30	By Navin	590
30	To Paresh	760	31	By Balance C/F	12,050
		16,030			16,030

Pass-Book for April, 2019

Payments Dr.		Receipts Cr.			
Date 2019 April	Particulars	₹	Date 2019 April	Particulars	₹
4	To Cash	500	1	By Balance B/F	11,850
7	To Navin	590	2	By Cash	1,000
9	To Sangam	470	3	By Harish	500
12	To Drawings	300	5	By Paresh	760
15	To Mahesh	300	10	By Suresh	1,000

- vi) On 31st March, 2019 the Pass-Book of Ruchira showed a Credit Balance of ₹ 1,230. But their Cash-Book showed a different balance. Hence, they have collected the following facts.
- Out of cheques totalling to ₹ 15,000 paid into the bank in March 2019, cheques totalling ₹ 9,500 were credited by the bank in May, 2019.
 - Out of cheques totalling to ₹ 29,000 issued to creditors, only cheques of ₹ 13,700 were presented for payment before 31st March, 2019.
 - Interest credited ₹ 35 and bank charges debited ₹ 10 by the bank were not entered in the Cash-Book.
 - Bank paid ₹ 320 on account of life insurance premium according to the standing instruction but it is not considered in the Cash-Book till 31st March, 2019.
 - The Bank column on the receipt sides of the Cash-Book was undercasted by ₹ 50.

Prepare a Bank Reconciliation Statement showing the bank balance as per Cash-Book as on 31st March, 2019.

Chapter 4...

Computerised Accounting

Synopsis ...

- 4.1 Role of Computers
- 4.2 Computers and Financial Application
- 4.3 Accounting Software Packages
 - Questions for Self-Study

4.1 ROLE OF COMPUTERS

Computer Technology and its usage have registered a tremendous development during the last three decades. Historically, computers have been used effectively in science and technology to solve complex computational and logical problems. They also have been used for carrying out economic planning and forecasting processes. Recently, in modern days **Computers** have made their presence felt in business and industry. The most important impact of computers is on the manner in which data is stored and processed within an organization. Although manual data processing for Management Information System (MIS) used to be common in the past, modern MIS would be nearly impossible without the use of computer systems.

Today's computers come in a variety of shapes, sizes and at different costs. Huge general purpose computers are used by many large corporations, universities, hospitals and government agencies to carry out sophisticated scientific and business calculations.

Accounting is a routine activity in business firms. It is one of the earliest applications to be computerized in business firms. Computers take the drudgery out of accounting. In **Computerised Accounting**, the human involvement is in creation of a company, creation of ledgers and voucher entry. Once the voucher entry is completed, accounting package is ready to generate statements and reports that normally take months together in manual environment. Still the accounts and statements may not be accurate when done manually.

Business transactions are evidenced by source documents like sales invoices, cheques, receipts, credit notes, debit notes, sales order etc. **Computerised Accounting** requires transaction data to be entered into the accounting package. The source of these data is the source documents that evidence the transactions. Thus, computers are playing a predominant role in the development of corporate business world.

Computers and Accounting Information System (CAIS)

The complexity of **Accounting Information** systems may vary, but common to all of them are the following important characteristics :

- Purpose to provide information.
- Structured use of human and computer resources.
- Processes use of accounting methods.

When the structure consists of only human beings, it is called **Manual CAIS**. When the structure consists only of computer resources, it is called **Computerised CAIS**. If it consists of both human beings and computers it is called computer-based CAIS.

Data Processing Cycle :

Data processing involves the technique of collecting, sorting, relating, interpreting and computing data in such a manner as to provide meaningful and useful information for decision-making. The necessary steps involved in data processing cycle are data capturing, processing and making information available to the user. Data processing cycle, when thought of in the context of accounting, requires a series of steps as given below :

i) Source Documents :

The first step is to prepare a document, called voucher, to express and document an accounting transaction. The relevant accounting data is set-out in this source document, called voucher. These documents are so designed so as to permit the recording of accounting data in a systematic manner.

ii) Input of Data :

The accounting data contained in vouchers is to be entered. This can be achieved by pre-designed data entry form. This data entry form is designed in such a manner that it is similar to physical voucher document. An entry form is designed using a software and it is made to appear on the computer monitor so that the data is entered.

iii) Data Storage :

A suitable data storage structure is required to provide for a blank data record as shown below :

Code	Name	Type

The above blank record is used for storing such input of data as shown below :

Code	Name	Type
100001	Capital Account	4

Such data storage structures are created as a part of the database design for accounting.

iv) Manipulation of Data :

The stored data is manipulated for necessary transformation to generate final reports. Such transformed data may be separately stored and subsequently used for generating final reports. Alternatively, the transformed data can be directly presented in the form of a report.

v) Output of Data :

The accounting reports such as ledger, trial balance, etc. are obtained in a pre-designed format by accessing the transformed data.

4.2 COMPUTERS AND FINANCIAL APPLICATION

Nowadays, computers are used in almost all aspects of financial accounting. The most common **financial applications of a computer in accounting** covers the following important areas.

i) Transaction Recording :

Computers can be used for maintaining the records of day-to-day transactions up-to-date. As the number of transactions increases, it becomes difficult to keep the records of all the transactions up-to-date manually. The required information is readily available and can be used by the management for planning, decision-making or control purposes.

One of the major activities in the accounting process is the **recording of transactions** that take place with a business enterprise. This must be done regularly to keep the accounting information up to date. Manual accounting requires the use of voluminous registers for recording the transactions. With the increase in the number of transactions, maintaining the accuracy of these records becomes a difficult task and delays also occur in posting of the transactions to the various accounts. Thus, the accounts may not be up-to-date and the required accounting information may not be available to the management on time. These limitations of manual accounting can be removed by the use of computers. In case of accounting through computers, once a transaction is recorded in the book of original entry, the posting of the transaction to the various accounts is done automatically. This ensures that the ledger contains up-to-date information at all times. Some of the accounting packages of computer programme also permit printing of bills, preparation of cheques, etc. Once such a document (bill or cheque) is prepared through the computer, the transaction is automatically recorded, classified, and summarized to form part of accounting reports. Accounting through computers reduces the use of paper work and the space required for storage of accounting records.

ii) Debtors Accounting :

Computers can be used for maintaining the records of debtors up-to-date debtors' ledger, statement of account, collection list, analysis of debtors, outstanding by age and credit limit can be prepared and maintained up-to-date. Often, large customer outstandings result in a financial crisis for business enterprises, due to the occurrence of bad debts. The low rate of realization from debtors may be due to poor monitoring of debtors' accounts.

Much of the delay in recovering outstanding amounts from debtors can be avoided if accurate and up-to-date statement of accounts of all the debtors are available to the management promptly. Computers can be used not only for maintaining customers' accounts but also for preparing statements of outstanding balances and for printing periodic reminders to be sent to the debtors.

iii) Stores Accounting :

Computer can be used for maintaining the store records up-to-date stores ledger, material cost analysis by cost centres and cost units. Stores Accounting is concerned with maintenance of records of receipts and issues of various items in the stores. It provides information about the stock in hand of each item. It should also assist the management in maintaining different stock levels viz., minimum and maximum stock level and determination of economic order quantity. Proper Accounting of receipts and issues of store items is essential for efficient business operations. There is a need to know in advance the requirement for the purchase of each item and its current stock position. This information should be accurate and must be made available to the management on time. It becomes very difficult to keep the stores accounts up-to-date manually as the number of items in the store increases.

Computerised stores accounting enables the management to not only keep a proper record of receipts and issues of items, but also provides information in respect of the following :

- Daily Stock Position.
- Value of Stock or Inventory.
- Economic Order Quantity (EOQ).
- Requirement for Purchase.
- Re-ordering Levels, Danger Level, etc.

iv) Payroll Accounting :

Computer can be used for maintaining the payroll records up-to-date. Payroll and Pay slips, Income-Tax, ESI and Provident Fund Deduction Statements, Annual Provident Fund Statements, Employee's Loan Accounts, Wages Analysis by cost centres, cost units can be prepared and maintained up-to-date.

Every business enterprise has to work out periodically the amount payable to its employees in the form of salaries and wages, bonus and other benefits. It has also to calculate the amount of various deductions to be made from the salary of an employee like deductions for contribution to Provident Fund, Income Tax, etc. Correctness and promptness in making such calculations and accounting, becomes all the more difficult in case of large business enterprises employing hundreds and thousands of employees. Accuracy, uniformity in applying rules and promptness are the three important aspects of **Payroll Accounting**. Computerized accounting can ensure accuracy, uniformity and promptness in proper calculation and accounting of payrolls for a business enterprise.

v) **Financial Accounting :**

- Computer facilitates the preparation of;
- Vouchers-Cash, Non-Cash, Transfers
 - Cash Memos and Credit Invoices
 - Books of Accounts viz. Cash Book, Purchases Book, Sales Book, Sales Returns Book, Purchase Returns Book, Bills Receivable Book, Bills Payable Book, Journal Proper.
 - Ledger Accounts i.e. Personal, Real, and Nominal Accounts.
 - Trial Balance.
 - Income Statement i.e. Trading and Profit and Loss Account or Income and Expenditure Account.
 - Position Statement i.e. Balance Sheet.
 - Chart showing various Ratios and Trend Analysis.
 - Loan Repayment Schedules and Debt redemption schedules.

Computer helps the financial accounting department to make the primary and secondary record of the books of accounts more systematically and scientifically. On the basis of the same data various income statements and position statements are prepared analytically to disclose the financial performance and financial position of the enterprise. The informative financial statements are ultimately communicated to the interested parties – internal and external.

vi) **Cost Accounting :**

Computer facilitates the preparation of various cost statements viz. Cost Reports, Cost Sheet, Tenders, Quotations, etc.

vii) **Budgetary Control :**

Computerised Accounting System facilitates exercising budgetary control efficiently. It facilitates the quick preparation of several budgets i.e. Sales Budget, Production Budget, Purchase Budget, Expenses Budget, Cash Budget and several Budget Reports showing control ratios etc.

viii) **Standard Costing :**

Computerised accounting system facilitates the use of standard costing in efficient manner. It can calculate the variances (i.e., analysing Standard Data and Actual Data) and can give analysis of variances.

ix) **Sensitivity Analysis :**

Computerised Accounting facilitates sensitivity analysis i.e. analysing the effects under various situations of changed conditions) with a view to ascertain the most sensitive factors.

x) **Break Even Analysis - P/V Ratios, Margin of Safety etc.**

xi) **Evaluation of Capital Budgeting Options**

xii) **Evaluation of Capital Structure Options.**

xiii) **Evaluation of Dividend Policy Options.**

xiv) **Evaluation of Working Capital Management Policies.**

xv) **Evaluation of Project Reports.**

Drawbacks of Manual Accounting System :

The manual accounting system suffers from the following drawbacks :

- It increases unnecessary duplication of work.
- It is a labourious task resulting in wastage of time.
- It is expensive due to payment of overtime to staff and stationery expenses incurred.
- It decreases speed of work and accuracy due to duplication of work.
- The detection and rectification of errors become difficult.

To overcome the above drawbacks of manual accounting, the **computerised accounting system** came into existence, in modern days. Computerised Accounting System is an economical and time saving system.

History of Computers

In 1942, the world's first large scale calculator viz. ENIC (Electronic Numeric Integrator and Calculator) was built with the aid of 18000 vacuum tubes. The ENIC weighed 30 tons and took 15,000 sq. ft. of space. At the same time, the world's first digital computer was manufactured by IBM (International Business Machine) and was known as IBM's automatic sequence control calculator. All such computers were bulky equipments, requiring large space and made by using vacuum tubes. With the advent of transistors, IBM in 1959, came out with its first fully transistorised computer, which operated in micro seconds (one millionth of a second). This was the second generation of computers.

About ten years later, with the development of semiconductors, various storage methods and integrated circuits, the third generation of computers could be developed. In the early 1980's with the manufacturing of various microprocessors and silicon "chips", considerable progress was made in the computer industry, and this led to what is now the fourth generation of computers.

The fifth generation of computers is currently in its evolving stages. Highly advanced computing machines are now being designed with the help of artificial intelligence and NLP (Natural Language Processors).

Capabilities of a Computer

All digital computers, regardless of their size, are only electronic devices which help in handling and storing information (data). Computers basically deal with two types of data: numeric and character. Numeric data is used in scientific and technical applications, whereas, character data is normally used in business applications, along with numeric data. Besides these there are many "word processors" which handle only character data.

In order to work on data, a proper set of instructions, called a program, are given to a computer. These instructions are entered and stored in a location on the computer called its **memory**.

When any such stored program is executed, the following happens.

- Input data is read to the computer.
- This is then processed or worked on to get the output data.
- The output data is either printed on a paper or displayed on a monitor or stored in the storage memory for retrieval and further use.

The above steps may be repeated any number of times, to process large amounts of information. These steps may however be very lengthy and complicated.

Features of a Computer System

A computer system possesses salient features which in comparison to human beings turn out to be its capabilities. These are briefly discussed as under :

i) Speed :

Speed refers to the amount of time a computer takes in accomplishing a task or complete an operation. Computers require far less time than human beings in performing a task. Normally human beings take into account a second or minute as unit of time. But computers have such a robust operating capability that the relevant unit of time is fraction of a second. Most of the modern computers are capable of performing a 100 million calculations per second and that is why the industry has developed Million Instructions Per Second (MIPS) as the criterion to classify different computers according to speed.

ii) Accuracy :

Computer is a 100% accurate machine. The accuracy of the computer depends upon the quality of the input and instructions. Thus, computer is as accurate as the input and instructions are. Accuracy refers to the degree of exactness with which computations are made and operations are performed. One might spend years in detecting errors in computer calculations or updating a wrong record. Most of the errors in Computer Based Information System (CBIS) occur because of bad programming, erroneous data and deviation from procedures. These errors are caused by human beings. Errors attributable to hardware are normally detected and corrected by the computer system itself. The computers rarely commit errors and perform all types of complex operations accurately.

iii) Storage

Computer can store huge data, information and software i.e., programme files, in its storage space depending upon the capacity of hard disk installed. The unit which is used to store the programs and data is known as storage unit or main memory. The main memory of a computer is divided into various cells. Each cell holds certain amount of information depending on the word length which may be 8 bits, or 16 bits or 32 bits depending on the technical structure of the computer. The memory is usually a multiple of 4.096 which represents 64 × 64 core array. Commercially thousand bytes are designated by K and the capacity of 4.096 is taken roughly as 4K.

Units of Storage Capability :

8 Bits	=	1 Byte
1024 Bytes	=	1 Kilo Byte (KB)
1024 Kilo Bytes	=	1 Mega Byte (MB)
1024 Mega Bytes	=	1 Giga Byte (GB)

Nowadays, hard disks of the capacities of 10 GB, 20 GB, 40 GB and 80 GB are available.

iv) Reliability :

Reliability refers to the ability with which the computers remain functional to serve the user. Computer systems are well-adapted to performing repetitive operations. They are immune to tiredness, boredom or fatigue. Therefore, they are fairly reliable than human beings. Yet there can be failures of computer system due to internal and external reasons. Any failure of the computer in a highly automated industry is unacceptable. Therefore, the companies in such situations provide for back-up facility to swiftly take over operations without loss of time.

v) Consistency :

Computer gives the same results without any variations on consistent basis irrespective of the number of times the programme is run. This property of repeating the same results without variation is known as consistency.

vi) Versatility :

A computer can perform almost any task given to it, provided it is reduced to a series of logical steps.

Versatility refers to the ability of computers to perform a variety of tasks simple as well as complex. Computers are usually versatile unless designed for a specific application.

A general purpose computer is capable of being used in any area of application business, industry, scientific, statistical, technological, communications and so on. A general purpose computer, when installed in an organization, can take over the jobs of several specialists because of its versatility. This further ensures fuller utilization of its capability.

vii) **No I.Q :**

A computer has **no intelligence** of its own i.e. it cannot take its own decisions. It only does what it is told to do and in what sequence. For this the instructions to the computer have to be precise and to the point.

Growing Importance of Software

Accounting is a wasteful activity when we look at it from a productivity angle. The function does not contribute even a single rupee to the revenue of a company. But without it is difficult to know how efficiently the business firm is managed. Hence accounting is a necessary evil. **Software Accounting** saves a lot of labour and tedious work involved in routine book keeping and accounting activities. The **growing importance of Software in Business Accounting** can be summarised as follows :

i) **No annual ritual of Book Closures :**

In a manual system of accounting, every year fresh set of books of accounts has to be opened after closing the account books of the previous year. Computerised accounting avoids this annual ritual of year-end closing and new year opening of accounts. It saves lot of labour and stationery, office space which otherwise is taken up by books of accounts of the current year and previous years.

ii) **High Efficiency of Computerised Accounting :**

The computer software classifies accounting data and posts them to respective ledger accounts. It is perhaps the most important source of efficiency of operations. Once the voucher is entered, the rest of the work is automatic. Thus, there is no manual efforts required for posting, balancing, preparing trial balance and other accounting procedures.

iii) **Easy Correction of Errors :**

Any error in voucher entry, ledger classification etc. can be easily corrected. No rectification entries are needed. The voucher itself is available for correction or modification.

iv) **No Delay in generation of accounts and reports :**

Voucher entry completes the accounting work. Rest of the work is computer managed. Instant reports, income statements, Balance Sheet etc. can be generated.

v) **Quick Generation of customised reports :**

The report can be customised to meet the requirements of each user. They can be generated by a few key strokes.

vi) **Facility to Analyse performance of departments :**

The accounting data in a computerised environment can be traced to cost centres etc. without any duplicate effort at voucher entry time. This facilitates comparison of performance of departments.

vii) **Querying Facility for real time information :**

In computerised accounting, queries can be run to get updated status information. For example, how much of the sales target of a particular cost centre was achieved at the end of a period. The query can provide the response immediately without any manual digging up of data.

viii) **Company wide Availability of accounting information :**

The accounting information is available company wide. It no longer is a preserve of a few persons who exercise tight control over access to such information.

ix) Uniformity of Accounting Policies can be ensured :

Since the software package captures the accounting rules and procedures, the software can be customized to take care of accounting policies of the company. Once the software is modified to effect changes in accounting principles, the software automatically employs the rules etc. ensuring consistency and uniformity of policies across departments in the company.

x) Better Security of Data :

Centralised control over access to accounting data ensures better security of data. Security systems like password protection, access rights, encryption etc. ensure better security of accounting data.

4.3 ACCOUNTING SOFTWARE PACKAGES

Software is the general name given to all programmes and routines associated with the effective use of hardware resources. The commonly used operating systems are WINDOWS, MS-DOS and UNIX.

Types of Accounting Software :

Standard Accounting system can be of two types i.e. General Purpose Software and "Tailor-made" Software.

General purpose software has a certain amount of flexibility. It can be used by various customers by adjusting their requirements according to software. A "Tailor-made" software is developed according to the specifications of particular customer or organisation.

Development of Accounting Program :

A computer works under the control of a program given to it by the user. Therefore, the effective use of a computer depends upon the availability of good programs. A program is an ordered set of instructions for the computers. In other words a program contains the steps to be performed by the computer to produce the desired output.

Package Programs :

Accounting systems are provided by software houses to customers directly or through dealers. If provided directly the software consist of a pack of disk (s) and manuals along with the instructions for its installation and use. If provided through the dealer, he installs the software for the client and also gives training for its use.

Integrated Accounting :

Most of the standard accounting system offer same form of integration of accounting modules. It means that the information entered in one part of the system is automatically transferred to another part without the need for re-entering the data. The major benefits of this system results in increase in speed of processing and reduction in number of errors arising out of duplication of recording, e.g. when an invoice is posted to customer's account in sales ledger automatically up-dates are made in the sales control total in other ledger. The accounting software has the accounting procedures embedded in it. The rules of debit and credit, capital and revenue expenditure classification etc. are captured and coded into the package. This saves lot of labour for companies as the computer applies these rules and procedures. The accounting software forces the user to organise the accounts meaningfully. Proper classification of ledger and into account groups facilitate detailed analysis of accounting data and generation of useful information reports. Figure 4.1 shown below specifies the **integration between different modules of an accounting system**.

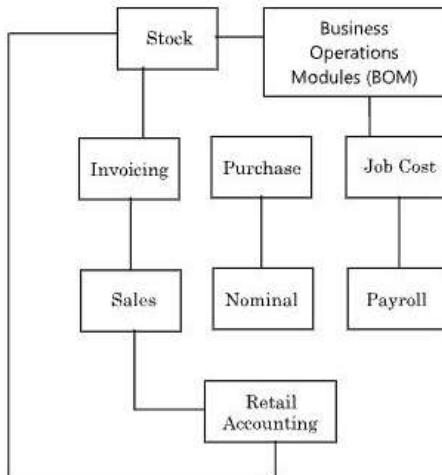


Fig. 4.1 : Integrated Accounting Modules

Features of Accounting Software Packages :

Accounting can be computerised using custom-built accounting software or off-the-shelf accounting packages like EX-NGN and Tally. The custom-built software is specifically developed for a firm after detailed study of its accounting and financial information requirements. The custom-made software exactly fits in the requirements. Ideally, it does not require further modifications if it is systematically developed and implemented. But such custom-made accounting software has high risks. The time, effort and money involved in such projects are very high. Most firms cannot afford to develop such accounting software for them. Software companies develop the off-the-shelf accounting software packages after studying the general requirements of business firms. They contain a large number of features that can be used for configuring and customizing the package for any particular firm. The features may vary from package to package. Yet they all seem to have more or less the same core. Some of the **general features** of off-the-shelf accounting software packages are given below :

- Off-the-shelf packages are less expensive than custom-built packages.
- They take less time for implementation as the system is described in detail and the implementation steps are clearly laid down in the manual supplied to the firms.
- Detailed system documentation available with the package makes it user-friendly.
- The packages have been subjected to detailed checks by the vendors to ensure reasonable quality and reliability of the software package. If the packages have been in use for some time, user feedback will be available. The company can use the feedback from existing customers of the package to make an informed choice before buying and implementing a package.

- v) Generally off-the-shelf packages are more efficient in terms of speed, accuracy and memory requirements. The accounting packages minimize manual input. They need only voucher entry. This improves efficiency, speed and accuracy of the accounting activities.

Disadvantages of Off-the-shelf Software Packages :

The disadvantages of off-the-shelf packages are as follows :

- i) Very limited customisation is possible with these packages. Except for the built-in options, program modification is difficult, as normally the source code is not supplied with the packages.
- ii) Though the cost of off-the-shelf packages is falling, the packages get upgraded too frequently. As the new versions offer more efficient processing and user-friendliness, the users are tempted to buy newer versions. Many a time, such new versions may need upgrading of hardware systems. Eventually, it causes large investment on hardware and software. Very few users are bothered about productivity of these investments.
- iii) They are not available for unique processing needs of individual users or user-organisations. Hence, they may have to develop software for such applications.
- iv) Security risk is another factor to be considered in implementing off-the-shelf packages in large organisations.
- v) There is also a possibility of bugs lying undetected in software packages sourced from outside. These bugs might develop anytime and might cause system failure or malfunctioning.

Selection of Accounting Software Package and Customising it :

There are plenty of accounting software packages commercially available. They may be having more or less the same core but differ in terms of features, functionalities etc. The company may not have the staff with required expertise to know which accounting software package is the best for its requirements.

Most of the commercial accounting software packages are expensive for a business firm. In addition to the accounting software, the company needs to acquire hardware, network the computer systems, install adequate security of accounting data etc. It is an expensive proposition for most of the small firms.

The accounting software contain innumerable features. Many of these features are not needed by many individual companies. Yet, the software package may lack the ability to meet particular accounting needs of a company. A large firm will have very complex accounting practices carried over from the past. It may find it difficult to adapt the software to meet its specific accounting and information practices.

Computerised accounting saves a lot of monotonous labour. It is more efficient in the sense that it needs fewer people and the output is available instantly. It can also ensure very high degree of accuracy of accounting and financial information. It is not bound by annual book closures. It continues to record transactions as they are entered into the package. It helps in generating information-rich reports as and when they are needed.

COMPUTER TERMS

i) Data :

The word 'data' is the plural of 'datum' though "data" is commonly used as both in the singular and plural forms. Data can be defined as any fact, observation, assumption or occurrence. Data can take the form of numerical or alphabetical characters or special symbols viz., =, +, ₹ 96, etc.

ii) Digit :

The term 'digit' refers to a numeric character e.g., 0, 1, 2, 3, 9.

iii) Character :

The term 'character' refers to any single alphabetic, numeric or special symbol e.g., 0, 1, 2...9, A, B, C,...Z, =, %, ₹

iv) Data Item (or Field) :

Data item is a set of characters which are used together to represent a specific data element e.g., RAM, 1008.

v) Record :

Record is a group of data items related to an object of data processing e.g., a sale-invoice contains such data fields as Name of customer, Quantity of goods, Description of goods, Rate per unit, Total amount, Discount, Net amount, etc.

vi) Data File :

Data file is a compilation of related data records maintained in some prearranged order e.g., customers files may be arranged by customer's names.

vii) Information :

Information is organised or classified data so that it has some surprise value to the receiver.

viii) Data Processing :

Data processing is the recording, restructuring or manipulating of data by people or machines to increase their usefulness and value for some particular purpose. Data processing can be performed manually (with paper, pencil, etc.) or electromechanically (with unit record machines, etc.) or electronically (with computer). Every type of data processing requires the following fundamental operations.

- **Recording :** Recording is the transcribing of data in a permanent form.
- **Classifying :** Classifying involves grouping of items/transactions on the basis of similarity.
- **Sorting :** Sorting involves the arranging of data or transactions in a sequential manner.
- **Calculating :** Calculating involves adding, subtracting, multiplying, dividing the data to produce usable results. Advanced calculations such as square roots are also included.
- **Summarising :** Summarising involves the consolidation of data emphasizing the key points and tendencies.
- **Reporting :** The summarised data constitutes information and is presented to the management in the form of reports.

ix) System :

A system can be defined as a group of interrelated components that seeks the attainment of a common goal by accepting inputs and processing them into output in an organised process.

x) Data Processing System :

A data processing system can be viewed as a system that accepts data as input and processes it into information as output. Manual data processing systems utilise men, and simple tools such as paper, pencil, pens, etc. Mechanical data processing systems utilise such mechanical devices as typewriters, calculating machines, book-keeping machines. Automatic data processing implies the use of machines for data processing. It could either be performed electromechanically by a unit record machines or electronically by a computer.

xii) Management Information System (MIS) :

The management information system may be defined as an integrated man-machine system for providing necessary information to the managers and supervisors at various levels to enable them to discharge their functions of organising, planning, control and decision-making. It may be noted that the data processing system is a sub-system of management information system.

xiii) Database :

Database can be defined as a 'super file' which consolidates data records formerly stored in many separate data files. The data in database is organised in such a way that access to the data is improved and redundancy is minimised. The other important characteristics of database are as follows :

- It is user oriented.
- It acts as common data source to various users and thus avoids duplication in storage and retrieval data and information.
- It can be used by any person/program having the right to use it.
- It is controlled by a separate authority established for the purpose.

In other words, Database is simply collections of data on a particular subject. For example, if roll number, names, marks in different subjects, maximum marks, maximum passing percentage are stored as database file in computer, such data can be manipulated to get alphabetical list, overall passing list, merit list, subject-wise list, etc. Thus, the database allows us to work on facts and figures so as to store and manipulate the data in any desired way.

xiv) Database Management System (DBMS) :

DBMS permits the creation, updation and use of databases in an organisation. DBMS softwares facilitate the creation of databases, addition of more data to the existing database, edition of data, manipulation of data etc.

xv) Hardware :

A computer hardware configuration is the complete collection of physical equipment in a computer system. The elements in a computer hardware configuration are :

- devices involved in data preparation,
- devices involved in input of data to computers,
- the central processing unit,
- devices providing backing or secondary storage, and
- devices involved in the output of data from a computer.

xvi) Software :

Software consists of computer programs which control and support the computer system and its data processing activities. The computer software may be classified in three broad categories viz. Programming Languages, Application Software, and System Software.

xvii) Word Processor :

Word Processor is basically a typing software with more facilities than those available on a typewriter. Using this package, words are processed. The processing includes creating, viewing, editing, manipulating, storing, retrieving, moving words, line or para and printing. The advantages of word processor as compared to a typewriter are as under :

- Fast setting of line width, tables used in the text, page size and so on.
- Facility to correct typing errors before printing.
- Facility to copy a line/para/page at some other place.
- Facility to insert a fresh text between two paras already entered before printing.
- Facility to delete any part of word, line or para before printing.
- Facility to find a particular word appearing on any page, e.g., find the word 'ACCOUNTANT'.
- Facility to replace a particular word with new word e.g., replace 'ACCOUNT' with 'A/c', at the desired/all the places.

xvii) Mail Merge :

Mail merge is usually used to include individual names and addresses in a standard letter. For example if invitations to several persons are to be sent, several copies of the same text with different names and addresses can be printed using mail merge facility.

xviii) Spreadsheet :

Spreadsheet is a long matrix that can accommodate values and their relationship with other values. These values may be number or formulae. These values are entered in different cells. If any change is made in the value of any cell, the output is modified by the computer automatically. There are four steps in using a spreadsheet-planning the layout, entering the labels and formulae, entering the data and producing the output.

QUESTIONS FOR SELF-STUDY**I. Theory Questions :**

- i) What is 'Computerised Accounting System'? State the important characteristics of Computers and Accounting Information System (CAIS).
- ii) Explain the term 'Data Processing Cycle'. Explain the necessary steps involved in data processing cycle in relation to accounting.
- iii) What is a 'Computer'? Explain in brief the financial application of computers in accounting.
- iv) "Computerised Accounting requires transactions data to be entered into the accounting package". Discuss.
- v) Explain in brief how computer can be used in a) Transaction recording, b) Debtors accounting and c) Stores accounting.
- vi) What are 'Accounting Software Packages'? Explain the general features of Off-the-Shelf Accounting Software Packages.

- vii) Explain in brief the drawbacks of manual accounting system that have resulted in introduction of computerised accounting system.
- viii) What is 'Computerised Accounting'? State the important features of a computer system.
- xi) Define the term 'Computerised Accounting System'. Explain in brief the significance of Computerised Accounting System.
- x) "A computer system possesses salient features which in comparison to human beings turn out to be its capabilities". Discuss.
- xi) Write short notes on:
 - a) Computerised Accounting System, b) History of Computers, c) Significance of Computerised Accounting System, d) Selection of Accounting Software Package, e) Computers and Accounting Information System (CAIS), f) Data Processing Cycle, g) Use of Computers in Payroll Accounting, h) Computerised Stores Accounting.

AT A GLANCE

GLOSSARY

DIFFICULT TERMS WITH SIMPLE EXPLANATIONS

- **Account** : It is the summarised record of business transactions relating to persons, firms or companies, assets, properties, expenses, losses, incomes, gains etc.
- **Accountancy** : It is a systematic knowledge of accounting which explains why and how to prepare the books of accounts and how to summarise the accounting information and communicate it to the interested parties.
- **Accounting** : It is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are in part at least, of a financial character and interpreting the results thereof.
- **Accounting Concepts** : These are certain basic assumptions or propositions or predictions or conditions upon which accounting is based. These assumptions provide a strong support to the science of accounting.
- **Accounting Conventions** : These are certain traditions which are followed years together to prepare accounting records of the business concern. These are certain methods widely followed by accountants for the preparation of financial statements.
- **Accounting Cycle** : It is a complete sequence beginning with the recording of transactions and ending with the preparation of the final accounts.
- **Accounting Equation** : It is a statement of equality between the resources and the sources which finance the resources i.e. Assets = Capital + Liabilities.
- **Accounting Period Concept** : The economic life of an enterprise is artificially split into periodic intervals viz. accounting periods, at the end of which an income statement and position statement are to be prepared to show the performance and financial position.
- **Accounting Policies** : These are specific accounting principles and the methods of applying those principles adopted by an enterprise in the preparation and presentation of financial statements.
- **Accounting Principles** : They are body of doctrines commonly associated with the theory and procedure of accounting which serves as an explanation of current practices and as a guide for selection of conventions or procedures where alternative exists.
- **Accounting Standards** : It is a selected set of accounting policies or broad guidelines regarding the principles and methods to be chosen out of several alternatives.
- **Accounting Standards Board of India** : The Institute of Chartered Accountants of India, recognising the need to harmonise the diverse accounting policies and practices at present in use in India, constituted an Accounting Standards Board (ASB) on April 21, 1977, the main function of which is to formulate accounting standards so that such standards may be established by the Council of the Institute of India.
- **Accounting Year** : It is a period of twelve months for which the books of accounts are maintained and closed to find out final profits or losses that the business has earned or suffered. The Income-Tax Act has now made it compulsory to follow 1st April to 31st March as the accounting year.
- **Accrual Basis of Accounting** : It is a method of recording transactions by which revenue, cost, assets and liabilities are reflected in the accounts for the period in which they accrue. According to the Indian Companies Act, 1956, all companies registered therein, are required to maintain their books of accounts according to accrual basis of accounting.

- **Accrual Concept :** To find out the correct profit or loss only those revenues and expenses are to be considered which relate to the period under consideration, irrespective of the fact that revenues are received in cash or not and expenses are paid in cash or not.
- **Accuracy :** It refers to the degree of exactness with which computations are made and operations are performed through the computer.
- **Amortisation :** It refers to economic deterioration by the expiration of intangible assets.
- **Assets :** These are the items of property possessed by the trader having realizable value.
- **Attention - Directing :** It is nothing but the process of giving a signal to the use of accounting information about the necessity to take a decision.
- **Bad and Doubtful Debts :** These are the debts whose recovery is doubtful .
- **Bad Debts :** These are the debts which can not be recovered from sundry debtors due to their insolvency, which is a loss to the business.
- **Bad Debts Recovery :** These are the amount received from debtors against their dues which have been written off as bad.
- **Balance :** It is the difference between the total of the two sides of an account.
- **Balance-Sheet :** It is one of the position statements which show the financial position of a business concern in the form of assets and liabilities at a given date.
- **Bank Payment Voucher :** It is a document prepared when payments are made by cheque.
- **Bank Reconciliation Statement :** A statement prepared by the customer to reconcile bank balance as per cash book with the balance as per pass book showing clearly with all causes of a differences between the two and to take the necessary follow-up action.
- **Barter Transactions :** These are transactions in which goods or services are exchanged for other goods or services.
- **Book-keeping :** It is a part of accounting and is concerned with record keeping or maintenance of books of accounting which is often routine and clerical in nature.
- **Business Entity Concept :** A business is regarded as separate and distinct from the businessman.
- **Capital :** It is the total amount introduced by the owner to run the business.
- **Capital Expenditure :** Expenses incurred for purchase of such an asset which is meant for facilitating the business operations, which have a useful working life beyond one accounting year and the benefits from which will be received throughout its working life. E.g. purchase of plant and machinery, land and buildings etc.
- **Cash Basis of Accounting :** It is a method of recording transactions by which revenue, cost, assets and liabilities are reflected in the accounts for the period in which actual receipts or actual payments are made.
- **Cash Book :** It is one of the important subsidiary books of accounts, which is used by a trader for recording cash transactions of the business.
- **Cash Discount :** It is an allowance given on cash sales by the seller to the buyer on sales price to encourage prompt payment in cash, which is always recorded in the books of accounts.
- **Cash Payment Voucher :** It is a document prepared when payments are made in cash.
- **Cash Transactions :** These are transactions in which goods or services are directly exchanged for cash.
- **Cheque :** It is a document which consists of a written unconditional order given by the account holder to the bank to pay a specific amount.
- **Classification :** It is the process of grouping like facts under a common designation on the basis of similarities of nature, attributes or relations.
- **Combined/Compound Journal Entries :** The entries for transactions affecting more than one debit and/or more than one credit.
- **Computer :** It is an electronic device which is capable of performing a variety of operations as directed by a set of instructions.

- **Computerised Accounting :** It is an accounting system where one or more computers of any type or size are involved in the processing of financial information i.e. recording of transactions to preparation and analysis of financial structure.
- **Consistency :** It refers to the feature of repeating the same results without variations by the computers.
- **Consumable Stores :** These are certain materials which are meant for consumption in the business and not for resale e.g. lubricants, oil, grease, dyes, fuel, cotton and waste etc. which are treated as current assets of the business.
- **Contingent Assets :** Those assets, the existence value and ownership of which depend upon the occurrence or non-occurrence of a specific event or upon the performance or non-performance of a specified act.
- **Contingent Liabilities :** Those liabilities, which comes into existence on the happening of uncertain event. If the event takes place it materialies into an actual liability there is no liability if the event does not occur e.g. bills discounted with bankers, legal matters pending in the court of law.
- **Contra Entry :** A debit as well as credit aspects of a transaction are recorded in the cash-book only; e.g. withdrawal of cash from Bank for office use and cash paid into Bank.
- **Convention of Conservation :** Anticipating no profits and providing for all possible losses which means in the books of accounts transactions are to be recorded in such a way that all probable losses and likely expenses will be recognised completely but likely gains will not be considered at all.
- **Convention of Consistency :** Same accounting policies, methods, rules and practices should be consistent i.e. continuously followed from year to year so that accounting results of a business concern will be comparable with any other accounting period.
- **Convention of Disclosure :** To understand the performance and status of a business correctly, the financial reports should fully and fairly disclose all material information they intend to represent, hence to make the statements more useful and to give less scope for misinterpretation.
- **Convention of Materiality :** Financial statements should be prepared by the accountants taking into consideration the time, effort and cost of accounting in relation to the usefulness of the data generated, the cost of accounting of a transaction should not be more than the amount of transaction.
- **Convention of Objective Evidence :** Each and every transaction recorded in the books of accounts should have proper evidence supported by objective documents, which can be verified by the auditor at a later date. Thus, evidence of every transaction is necessary for total accuracy and absolute truth.
- **Copy Rights :** It is an exclusive right to produce or reproduce a book or an article in case of a lecture, to deliver the work or any part thereof in public, which are treated as fixed assets of the business.
- **Copyright Royalty :** Where an author, artist or designer gives exclusive rights to another to copy the work, the royalty is based on sales.
- **Cost Attach Concept :** In practically all cases, a cost is the sum of three groups or components i.e. the purchase or transfer of material, the cost of hire of labour and the value of other disbursement made or expenditure incurred in achieving the desired product or result. Hence, the total cost is the sum of material, labour cost and overheads.
- **Cost Benefit Principle :** The cost of applying an accounting principle should not be more than its benefits.
- **Cost Concept :** Resources of a business are to be recorded in the books of accounts at their cost i.e. the price paid to acquire the same; this cost is the basis for all subsequent accounting for the resources.

- **Credit Note** : When goods are returned by the customers out of the total goods sold to them, a note is sent to them informing that their account is credited with the value of goods returned by them.
- **Credit Transactions** : These are transactions in which goods or services are exchanged for certain value to be received in future.
- **Creditor** : A person to whom someone owes money.
- **Crossed Cheque** : It is a type of cheque on which two parallel transverse lines are drawn on the face of the cheque at the left hand corner with or without some words.
- **Current Assets** : Those assets which are held in the business for a very short period of time and are generally used for maintaining liquidity of business e.g. cash in hand, stock of goods etc.
- **Current/Short Term Liabilities** : Those debts or obligations which are payable within a short period of time i.e. within one year (e.g. Bank overdraft, Sundry creditors, Bills payable).
- **Customised Accounting Software** : It is one where the software is developed on the basis of requirement specifications provided by the organisation.
- **Data** : Any fact, observation, assumption or occurrence.
- **Data Base** : It is a super file which consolidates data records formerly stored in many separate data files.
- **Data File** : It is a compilation of related data records maintained in a prearranged order.
- **Data Processing** : It involves the technique of collecting, sorting relating, interpreting and computing data items in such a manner so as to provide meaningful and useful information for decision making.
- **Database Management System** : These are the softwares which facilitates the creation of data bases, addition of data to the existing data base, edition of data, manipulation of data etc.
- **Debit Note** : When goods are returned to the supplier out of the total goods purchased from them, a note is sent to them informing that their account is debited with the value of goods returned to them.
- **Debtor** : A person who owes money to others.
- **Deferred Revenue Expenditure** : Expenses which are essentially revenue in nature large in amounts but the benefits or advantage of such expenses is derived by the business for a number of years in future and not for the current year only. E.g. payment of heavy advertisement expenses at the time of launching a new product in the market, development expenses incurred at the time of commencement of any project etc.
- **Depreciation** : It is a permanent, continuing and gradual shrinkage in the book value of a fixed asset.
- **Discount** : It is an allowance or deduction in the price of goods or in the amount of hard cash, given by the seller to the buyer or by creditor to the debtor.
- **Double Entry System** : It refers to a system of accounting under which the two fold aspect i.e. debit or credit, of every business transaction are recorded in the accounts involved.
- **Doubtful Debts** : These are the debts whose recovery is doubtful.
- **Drawings** : These are the withdrawals made by the proprietor from his business, in the form of cash or goods, for personal use (e.g. payment of college fees, residential quarters rent, life insurance premium).
- **Dual Aspect Concept** : Under this concept, every business transaction has a twofold effect and, for every debit there must be a corresponding credit of equal amount.

- **Endorsement of Cheque :** It refers to an act of signing on the back of a cheque by its holder to transfer it to another person.
- **Enterprise Resource Planning Package :** It is an integrated software package that manages the business process across the entire enterprise.
- **Entity :** A separate economic unit that performs economic activities.
- **Environmental Accounting :** It is accounting which focuses on cost structure and environmental performance of a company. It describes the reporting of quantitative and detailed environmental data within the non-financial sections of the annual report or in separate environmental reports.
- **Event :** A happening of consequence to an entity.
- **Expense :** When the economic benefits of an out flow of resources is received and matched against a revenue.
- **Expenses :** These are the expenses incurred for providing various services to an undertaking and the notional cost of the use of owned assets or costs other than material and labour.
- **External Voucher :** It is a document received from an outside agency regarding a transaction.
- **Fictitious Assets :** Those intangible assets which are not represented by anything concrete (e.g. preliminary expenses, underwriting commission, deferred revenue expenses).
- **Final Accounts :** These are certain financial statements prepared to know the financial position and financial performance of business operations during an accounting period.
- **Financial Accounting :** It is a discipline, which is employed in industry and commerce to record, classify and summarise the mercantile transactions that occur in an organisation.
- **Fittings :** A non-movable fixed asset which is fitted on the building wall e.g. electric fittings, electric wirings and electric fans etc.
- **Fixed Assets :** Those assets which are held in the business for a long period of time, with huge amount of investment and are generally used for manufacturing goods and rendering of services e.g. plant and machinery, land and buildings etc.
- **Fixed/Long Term Liabilities :** Those debts or obligations which are payable after a long period of time, i.e. after one year (e.g. long term loan, debentures).
- **Fixtures :** A non-movable fixed assets which is tightly fixed up to the ground permanently and can not be removed e.g. chairs in cinema hall, practical table in science laboratory etc.
- **Full Disclosure Principle :** The financial statements must disclose all the relevant and reliable information which they purport to represent, so that the information may be useful for the users.
- **Furniture :** A movable fixed asset which can easily be removed from one place to another e.g. table, chair, rack, cupboard etc.
- **Generally Accepted Accounting Principles (GAAP) :** Those rules of action or conduct which are derived from experience and practice and when they prove useful, they become accepted as principles of accounting.
- **Going Concern Concept :** Accounting is done on the assumption that a business will continue in future for an indefinite period of time and will use its property in operations rather than sell it, hence all the resources of the organisation will have to be valued at the current resale values or market values or realisable values.
- **Goods :** These are certain tangible produces which are purchased or produced for the purpose of resale.
- **Goodwill :** It is the monetary valuation of the reputation or profit earning capacity of the business which is intangible in nature and is a fixed asset.

- **Gross Trial Balance :** It is a type of trial balance which is prepared on the basis of the totals of debit sides and of credit sides of various ledger accounts.
- **Hardware :** It is the complete collection of physical equipment in a computer system.
- **Historical Cost Principle :** An asset is ordinarily recorded in the accounting records at the price paid to acquire it at the time of acquisition and the cost becomes the basis for the accounts during the period of acquisition and subsequent accounting periods.
- **Honouring of Cheque :** A cheque is said to be honoured if drawee bank pays the entire amount of cheque to its holder on presentation of cheque before the bank.
- **Human Resource Accounting :** It is accounting of people as organisational resources, i.e. measurement of the cost and value of people for the organisation.
- **Humanware :** These are the people who operate and maintain the computer.
- **Income :** It is an amount which is received in return of rendering a particular service.
- **Inflation Accounting :** It is concerned with the adjustment in the value of assets and of profit in the light of changes in the price level.
- **Insolvent :** A person who is financially weak/sick/unwell and is not in a position to pay off his total debts, as his assets are less than the liabilities, is required to be declared as insolvent/bankrupt by the court.
- **Intangible Assets :** Those fixed assets which cannot be seen, touched and difficult to value (e.g. goodwill, patents, trade marks, copyrights, services of doctors, bankers, teachers etc.).
- **Internal Voucher :** It is a document created by the business itself and signed by the payee. It is used very often in case of those expenses where a external voucher is impossible to get e.g. rickshaw/taxi fare, postage etc.
- **Investments :** The amount invested in the purchase of profitable securities e.g. shares, debentures, govt. securities, govt. bonds, units, National Savings Certificate, Indira Vikas Patra, Kisan Vikas Patra, gold, silver etc.
- **Invoice :** A business document sent by a seller to a purchase giving details of goods supplied as to their price, quantity, weight, total value etc.
- **Inward Invoice :** A business document received from the supplier on purchases of goods the invoice is received by the purchaser, hence he calls it as 'Inward Invoice'.
- **Journal Entry :** A summarised record of business transaction.
- **Journal Folio :** A serially arranged page number of journal where a transaction is posted.
- **Journal Proper :** A general journal is used for the purpose of recording those transactions which cannot be recorded in any other subsidiary book such as purchase book, purchase returns book, sales book, sales returns book, cash book, bills receivable book and bills payable book.
- **Journalising :** The systematic process of recording the transactions into journal.
- **Ledger :** It is a principal book which contains all the accounts to which the transactions recorded in the books of original entry are transferred.
- **Ledger folio :** A serially arranged page number of ledger.
- **Legal Personal Accounts :** These are the accounts relating to artificial persons or body of persons or institutions or body corporates or set up under statute or under law e.g. Pune University Account, Bajaj Auto Co. Ltd. Account, Kirloskar Bros. Account etc.
- **Liabilities :** These are debts which a trader is under obligation to repay, in future.
- **Loan Creditors :** The term refers collectively to all persons from whom loan has been taken.
- **Loan Debtors :** The term refers collectively to all persons to whom a loan has been given.

- **Loose Tools** : The current assets of the business in the nature of aids to manufacture particular in enterprises of an engineering nature e.g. small tools, moulds etc.
- **Loss** : In the exchange of goods or services for money or money's worth, the money equivalent of 'what is given' is more than the money equivalent of 'what it gets' in return, is termed as loss.
- **Matching Cost and Revenue Concept** : In order to find out true profits made by a business during an accounting period, it is absolutely necessary that revenues i.e. incomes, of that period should be properly matched with the costs i.e. expenses, of that period, hence statements should be presented at fixed intervals regularly.
- **Matching Principle** : The expenses incurred in an accounting period should be matched with the revenues recognised in that period.
- **Monetary/Financial Transactions** : These are transactions in which goods or services having money or money's worth are directly exchanged for cash or on credit.
- **Money Measurement Concept** : Those business transactions which are expressed in monetary terms are only to be recorded in the books of accounts.
- **Narration** : A brief explanation of journal entry written in bracket under the entry.
- **Natural Personal Accounts** : These are accounts relating to persons or individuals e.g. Suresh Account, Mahesh Account, Nilesh Account etc.
- **Net Trial Balance** : It is a type of trial balance which is prepared on the basis of debit and credit balances of various ledger accounts.
- **Net Worth** : It is the difference between the total assets and the amount due to outsiders.
- **Nominal Accounts** : These are accounts relating to expenses, losses, incomes and gains e.g. Salary Account, Rent Account, Commission Account etc.
- **Non-cash Transactions** : These are transactions involving indirect monetary relations which are also to be recorded in the books of accounts (e.g. loss by fire).
- **Non-monetary/Non-financial Transaction** : These are transactions which do not involve an exchange of money or money's worth. As they do not involve any direct or indirect monetary relations, they are not be recorded in the books of accounts (e.g. submission of loan application, placing an order for supply of goods, borrowing a book from your friend).
- **Non-wasting Assets** : Those assets which do not lose their value by wear and tear, or by passage of time or through being worked (e.g. freehold land).
- **Not for Profit/Non-Trading Concerns** : There are some concerns formed for the purpose of promoting commerce, art, science, religion, charity or any other useful object with the primary motive to provide services to the society and not to earn profit e.g. Public Libraries, Charitable Hospitals, Educational Institutions, Sports Clubs, Missionary Organisations, Trade Unions, Literary Societies etc.
- **Objectivity Principle** : The accounting data should be definite, verifiable and free from personal bias of the accountant.
- **Outstanding Income** : These are certain incomes yet to be received for the services already rendered.
- **Outward Invoice** : A business document sent to the buyer on sale of goods. The invoice is given by the seller, hence he calls it as 'Outward Invoice'.
- **Pass Book** : A book maintained by the banker to record banking transactions between the banker and the customer.
- **Patents** : These are certain conferring right, title etc. especially sole right for a team to make use or sell, some inventions made which are acquired either by purchase or by research and development, are treated as fixed assets of the business.

- **Payables** : These are the total amounts due, both to the trade creditors and bills payable.
- **Personal Accounts** : These are the accounts relating to persons, firms, companies with whom a businessman deals.
- **Petty Cash Book** : An account book in which records of small payment transactions large in number are maintained.
- **Posting** : It is the process of transferring entries from journal into ledger.
- **Prepaid Expenses** : These are certain expenses paid in the accounting year, which are related to the next accounting year.
- **Principles** : A general law or rule of action or conduct adopted or professed as a guide to action.
- **Profit** : In the exchange of goods or services for money or money's worth, the money equivalent of 'what it gives' is less than the money equivalent of 'what it gets' in return, is termed as profit.
- **Profit and Loss Account** : It is one of the income statements which show the financial performance of business operations during an accounting period.
- **Profit Making/Trading Concerns** : These are business concerns formed to carry out trading activities i.e. manufacturing, trading, service rendering etc. with the primary motive to earn and maximize profits.
- **Program** : It is a set of explicit instructions given to the computer.
- **Purchase Book** : An invoice or bought journal which is used for the purpose of recording the purchase of merchandise i.e. the goods in which the enterprise deals in, on credit.
- **Real Accounts** : These are the accounts relating to various types of properties and assets e.g. Furniture Account, Goods Account, Cash Account etc.
- **Realisation Concept** : The profit on sale is generally considered as earned at the time when goods or services are passed on to the purchaser and the purchaser incurs the liability for that.
- **Receivables** : These are the total amounts due, both from the trade debtors and bills receivable.
- **Recurring Deposit Account** : It is a type of bank account in which the account holder is required to deposit a fixed sum of money after a fixed interval for a specific period of time.
- **Reliability** : It refers to the ability with which the computers remain functional to serve the user.
- **Representative Personal Accounts** : These are the accounts relating to group of persons or individuals, whose individual identity is not known e.g. outstanding Salary Account, Prepaid Insurance Account etc.
- **Returns Outward Book** : A purchase returns book is used for the purpose of recording the returns of merchandise purchased on credit.
- **Revenue Expenditure** : Expenses incurred on the day-to-day running of the business, chargeable to the revenue earned from the business and for which the benefits are received during the current accounting year itself. E.g. expenses paid for maintaining fixed assets in good working conditions like repairs to buildings, maintenance of machinery etc.
- **Revenue Recognition Principle** : Revenue is recognised in the income statement, in the period in which it is earned irrespective of the fact whether it is received or not during that period.
- **Royalty** : It is a periodical payment made by the lessee to the lessor for the use of certain asset or right like mine, copyright or patent.

- **Sales Book** : A day book or sales journal is used for the purpose of recording the sale of merchandise i.e. the goods in which the enterprise deals in, on credit.
- **Secondary Memory** : It is that memory which is outside the computer but can be fed into it when required.
- **Simple Journal Entries** : The entries for transactions affecting only two accounts, one debit and one credit.
- **Social Responsibility Accounting** : It widens the scope of accounting by considering the social effects of business decisions in addition to the economic effects.
- **Software** : It consists of computer programs which control and support the computer system and its data processing activities.
- **Solvent** : A person who is financially strong/healthy/sound and is in a position to pay-off all his debts as and when necessary, as his assets are more than or equal to his liabilities.
- **Source Document** : A source document is a document which becomes the basis for recording a transaction in the books of accounts.
- **Spare Parts** : These are certain parts of machinery which are preserved to maintain the machinery in proper order or condition or part for substitution in machine e.g. a fan belt is a spare part for motor vehicle, these are treated as current assets of the business.
- **Speed** : It refers to the amount of time a computer takes in accomplishing a task or complete an operation.
- **Spread Sheet** : It is a long matrix that can accommodate values and their relationship with other values.
- **Spreadsheet Software** : These are certain softwares used as accounting tool, that allow grouping and regrouping of accounts, replication of cell contents, setting formula, macros, graphical presentations, calculation and other functions which help in the maintenance of accounts.
- **Stewardship Accounting** : It is accounting associated with the need of business owners to keep records of their day-to-day transactions to manage their properties.
- **Subsidiary Books** : A subdivision of journal into special journals which are meant for recording specific transactions of similar nature which are repetitive in nature and are sufficiently large in number.
- **Sundry Creditors** : The term refers collectively to all trade creditors of a business from whom goods have been purchased on credit and the amount is still due to all of them.
- **Sundry Debtors** : The term refers collectively to all trade debtors of a business to whom goods have been sold on credit and the amount is still due from all of them.
- **Tangible Assets** : Those fixed assets which can be seen, touched and valued easily (e.g. plant and machinery).
- **Tangible Real Accounts** : These are the accounts relating to properties and assets which can be seen, touched, measured, purchased and sold e.g. Plant Account, Machinery Account, Buildings Account etc.
- **Taxation Accounting** : It is primarily related to the statutory tax provisions such as income tax, customs duties, excise duties, value added tax (VAT). Its matter and processes concerns with these taxes should be in conformity with the existing tax legislations with up-to-date amendments made therein.
- **Trade Creditor** : A person to whom the amounts are due for goods purchased or services rendered on credit basis.

- **Trade Debtor :** A person who owes money for goods sold or services rendered on credit basis.
- **Trade Discount :** It is an allowance given on catalogue price of goods by the wholesaler to the retailer and is deducted from the price of goods, which is not recorded in the books of accounts.
- **Trade Marks :** These are certain names, descriptions or device stamped or placed upon different types of articles by the manufacturer so as to distinguish his make from the articles of same class by other manufacturers are treated as fixed assets of the business.
- **Trading Account :** It is one of the income statements which show the result of buying and selling of goods and/or services during an accounting period.
- **Transaction :** It is a dealing between two or more persons involving exchange of goods or services for cash or credit.
- **Trial Balance :** It is a statement of all ledger accounts taken together with their respective debit or credit balances on a particular date to check the arithmetical accuracy of the books of accounts.
- **Versatility :** It refers to the ability of computers to perform a variety of tasks simple as well as complex.
- **Voucher :** A document which serves as an evidence of the disbursement of cash or of the authority to disburse cash is known as a voucher.
- **Voucher :** It is a documentary evidence for a transaction.
- **Word Processor :** It is basically a typing software with maximum facilities available than in a typewriter.

OBJECTIVE QUESTIONS

TRUE OR FALSE STATEMENTS

State with reasons whether the following statements are True or False :

1. Accounting is a process of communication.
2. Financial Accounting information is intended primarily to serve internal users.
3. Score-keeping function of accounting information deals with the financial health of the business.
4. The new significance of accounting gained recognition because of separation between ownership and control.
5. The basic objective of financial accounting is to make systematic recording of business transactions for finding the profit or wealth position.
6. A systematic record of income and expenses of a business facilitates the preparation of position statement.
7. The financial performance of an enterprise is to be measured by preparing income statement.
8. The financial strength and weakness of an enterprise is to be evaluated by preparing position statement.
9. The tax authorities need accounting information to assess the overall liabilities of an enterprise.
10. Labour unions are very well interested in accounting information to know the stability and profitability of the organisation.
11. Accounting assists the management in planning and controlling business activities and in taking decisions.
12. It is easy to know the behaviour of costs in financial accounting.
13. In financial accounting expenses cannot be classified as controllable and uncontrollable.
14. Financial accounting help management in taking decision about expansion of business.
15. Change in the economic conditions of the country have direct impact on the business position of an organisation.
16. Book keeping covers recording of the identified and measured transactions and events in proper books of accounts.
17. Accounting covers interpretation and analysis of business results.
18. Accounting is the language of business.
19. Accounting involves only the recording of business transactions.
20. The job of a book-keeper is often routine and clerical in nature.
21. An accountant is required to possess analytical skills.
22. In cash transaction certain goods or services are exchanged for other goods or services.
23. Net profit increases owners' equity.
24. Net loss decreases owners' equity.

25. The capital of the proprietor is increased by the amount of drawings during the year.
26. The commodities in which a trader deals are known as consumable stores.
27. Cash discount is a motivation for making prompt payment.
28. Payment for purchase of a permanent asset is a capital expenditure.
29. Book-keeping helps to decide tax liability more accurately.
30. A creditor is a person to whom an amount is owed.
31. Payment of office rent is a capital expenditure.
32. The loss weakens the financial status of the business.
33. Contribution to capital should always be in the form of cash.
34. Accounting year of a joint stock company must start on 1st April.
35. 'Not for profit' concerns are mostly engaged in trading activities.
36. Principles which have substantial support become a part of the generally accepted accounting principles.
37. Personal transactions are distinguished from business transactions in accordance with the Accounting Entity assumption.
38. Materiality Principle is an exception to the Full Disclosure Principle.
39. Accounting practices should be followed on horizontal basis from one accounting period to another period in accordance with the consistency principle.
40. Relevance and reliability are the two primary qualities that make accounting information useful for decision-making.
41. According to money measurement concept, accounting records only business transactions.
42. In accounting, business is considered to be a separate entity from the businessman.
43. As per cost concept, current assets are recorded at their cost at the time of purchase.
44. Book-keeping is basically concerned with recording of business transactions in a set of books.
45. The private transactions of the trader only are recorded in the books of trading concern.
46. Net worth is the surplus belonging to the owner.
47. The solvency is the total inability of a businessman to pay off his dues.
48. The accounting concepts are different ideas for providing a strong support to the system of accounting.
49. The going concern concept assumes that the life of a business is always limited.
50. The relatively insignificant data can be very well omitted from the books of accounts.
51. The dual aspect of every business transaction is the basis of double entry system of Book-keeping.
52. The setting of accounting standards is an economic decision.
53. Accrual concept implies accounting on cash and credit basis.
54. A principle is a general law or rule of action or conduct adopted or professed as a guide to action.

55. Generally finished goods are valued at cost or market value whichever is higher.
56. Raw materials are normally valued at cost or market price whichever is lower.
57. Cost concept creates a lot of confusion in an inflationary situation.
58. Cash or cheque deposited into the Bank is a deposit entry.
59. Accounting facilitates to comply with legal requirements.
60. The effect of contra entries are made on both the sides of Cash Book.
61. An increase in assets is not necessarily due to profits.
62. Double entry Book-keeping ensures arithmetical accuracy of the books of accounts.
63. Wages paid to Dinesh for erection of machinery shall be debited to wages account.
64. Credit means decrease in asset and increase in a liability.
65. Commission Receivable Account in a nominal account.
66. Bank loan is a Real Account.
67. When old furniture is sold to Rakesh on credit, sales account is credited.
68. Single entry system is an unscientific method of recording books of accounts.
69. In some of the transactions there may be more than one debit or one credit.
70. Cash discount is allowed on catalogue price at the time of purchase or sale of goods.
71. At least two parties are necessary if a transaction is to take place.
72. Double entry system involves less clerical work.
73. Wadia College Building Account is a personal account.
74. Journal is called as a book of original entry.
75. Trade discount is allowed on cash sales and credit sales also.
76. A narration is not required for those entries that occur frequently.
77. In credit transaction, one account recorded is always a party's name concerned.
78. Life Insurance Premium paid should be debited to insurance premium account.
79. Quantity discount allowed on large purchases of goods should be debited to Quantity Discount Account.
80. Normally personal accounts and real accounts are balanced.
81. Bills of exchange and promissory notes sent to creditors are recorded in Bills Payable Book.
82. When goods are returned to suppliers a debit note is issued.
83. Depreciation charged on machinery is recorded in cash book.
84. Ledger facilitates the preparation of final accounts.
85. Ledger is the book of prime entry.
86. Bank Account may show either debit balance or credit balance.
87. Every business transaction is first recorded in ledger.
88. Balancing of an account is necessary to ascertain the net effect of all transactions posted to that account during a given period.

89. The balance of nominal accounts at the end of the year are not carried down but are transferred to Profit and Loss Account.
90. The periodical total of the invoice book is posted to the debit of sales account.
91. Cash Book is both a journal and a ledger.
92. Bank column of the Cash Book shows only a debit balance.
93. Trade discount received from supplier is recorded on the credit side of three column cash book.
94. The actual total of the discount column on the debit side of cash book is posted to the debit of discount allowed account.
95. Opening entries are passed in journal proper.
96. Cash withdrawn from Bank for office purposes will be recorded in Cash Book as a contra entry.
97. Discount allowed by supplier is recorded on the credit side of the Cash Book.
98. Cash account and discount account go hand in hand.
99. In case of crossed cheque, bank makes immediate cash payment to possessor of cheque on its presentation.
100. Bank Current Account is more useful businessman.
101. Contra entry does not appear on both the sides of the cash book.
102. A cash discount is always given by creditor to debtor with an intention of immediate recovery of cash.
103. A bank column in the cashbook records the operation of a businessman with Bank Recurring Account.
104. Bank Reconciliation statement is not compulsory.
105. Credit Balance in Pass Book means Bank Overdraft.
106. Bank reconciliation statement is prepared to reconcile the bank balance as per cash book with bank balance as per pass book.
107. Debit balance in Cash Book means Bank Overdraft.
108. Interest on Bank Overdraft charged by the Bank will be recorded on the debit side of the pass book.
109. Direct deposit by customers appears on the Credit side of Cash Book.
110. Generally, closing stock also appears in a Trial Balance.
111. Trial Balance is not the conclusive proof of the accuracy of the books of accounts.
112. If the ledger accounts are wrongly totaled or posted, the trial balance will disagree.
113. Wrong balancing of a ledger account will not affect the trial balance.
114. If trial balance does not agree, there is a need to open and operate a suspense account.
115. The trial balance can agree inspite of some errors.
116. The rule of journalising transactions of nominal account is debit what comes in and credit what goes out.

117. The rule of journalising transactions of personal account is debit the receiver and credit the giver.
118. The double entry system of book-keeping is based on the fact that every business transaction has a two fold aspects.
119. Book-keeping is the art of recording business transaction in a set of books.
120. Profit is the excess of revenue over expenses during a particular accounting period.
121. Tangible assets can be seen, touched and felt.
122. Land is the type of wasting asset.
123. All cash transactions are to be recorded in Cash Book.
124. Patents and Copyrights are the tangible assets of a profit-making business.
125. Fixed assets of the business are expected to be used for a short period of time.
126. A liability is an obligation of financial nature.
127. A person who owes something is called a debtor.
128. The cost incurred on purchase of motor vehicle is an example of revenue expenditure.
129. Balance-sheet is a statement of financial position and not an account.
130. Trial Balance is a part of final accounts.
131. The left hand side of Balance-Sheet indicates capital and liabilities.
132. Profit and Loss Account is prepared to ascertain net results of a business.
133. Unsold stock of goods are always valued at cost price or market price whichever is higher.
134. In the preparation of final accounts all indirect expenses are debited to Trading Account.
135. Profit and Loss Account is a real account.
136. Expenses due but not paid is a liability whereas expenses paid in advance is an asset.
137. Discount allowed to credit customers is a gain to the business.
138. Errors of principle are not disclosed by trial balance.
139. Capital is increased by interest on capital and is decreased by interest on drawings.
140. Net loss is reflected in lower net worth.
141. A tallied trial balance will not reveal compensating errors.
142. Every item of adjustment is given with two effects in the final accounts.
143. Total of assets and liabilities must agree in Balance-Sheet.
144. A manufacturing account is prepared to find out factory cost of finished products.
145. Provision for taxation is a charge against the profit whereas proposed dividend is an appropriation out of profit.
146. The directors can declare the dividend unless it is approved and sanctioned in the Annual General Meeting.
147. The payment of dividend out of capital is not allowed as per the Companies Act.
148. Computerised stores accounting enables the management to keep a proper record of receipts and issues of stock.
149. The speed of computers is determined by the rate of executing operations per second.

150. The memory is a storage unit capable of storing large amount of information which is easily accessible when required.
151. The loss which is suffered on account of non collection of business debts is known as doubtful debts.
152. A trade whose private assets are less than business liabilities is known as insolvent.
153. Expenses payable are fixed liabilities of business.
154. Prepaid expenses are the expenses paid after its due date.
155. The solvency of a traders enables him to discharge his total liabilities in full.
156. The corporate accounting year always starts on 1st April only.
157. The insolvent persons liabilities are always more than his assets.
158. All public hospitals are the examples of trading concerns.
159. A bad debt is a type of book debt which can be recovered in future.
160. A cash book is that type of subsidiary book which records only non-cash transactions.
161. A business unit having goodwill has the potential to strengthen its hold on the competitive market.
162. The Board for Control on Cricket in India (BCCI) is an example of not for profit concern.
163. Closing Stock is always valued at market price.
164. Payment of rent of office premises is a revenue expenditure.
165. Sale of old machinery should be credited to Machinery Account.
166. Cash purchases are recorded in Purchase Book.
167. Trade Discount is not recorded in the books of accounts.
168. Capital is the excess of assets over liabilities.
169. Direct expenses are always recorded in Profit and Loss Account.
170. Cash discount is an incentive offered by the creditor to the debtor.
171. Repainting cost incurred on second hand furniture purchased, is a capital expenditure.
172. Dena Bank Account is a Personal Account.
173. Secondary Packing charges are recorded in Trading Account.
174. Quantity Discount is recorded in the books of accounts.
175. Book keeping is much wider concept than Accounting.
176. Drawings are private consumptions of the owner.
177. There is an element of uncertainty in contingent liabilities.
178. The private transactions are recorded in the business books of accounts.
179. Computerised accounting is an economical and time saving method.
180. Off-the-shelf packages are more expensive than custom built packages.
181. Computerised accounting saves labour and tedium involved in routine book-keeping and accounting activities.
182. A computer is an electric device.

183. A computer is an electronic machine which operates on given instructions and processes the input data, to convert it into some output information.
184. The computer is a faithful, never tiring but a foolish servant.
185. Consistency refers to the ability of computers to perform a variety of tasks, simple as well as complex.
186. Computer is the most utilitarian, versatile and complex creation of modern civilisation.
187. The idea of computers was first conceived by Charles P. Babbage in 1833.
188. The memory is a storage unit, capable of storing large amount of information in computer, which is easily accessible when required.
189. Software, refers to the physical devices of a computer system.
190. The software and hardware of a computer must work together to produce useful input.
191. Programmers are the people who write up the programmes to implement the data processing system design.
192. A modern computer is a fast moving calculating machine.
193. A computer sometime is also termed as 'electronic brain'.
194. For a modern commercial office, computer has become an important office automation tool.

ANSWERS**True :**

1, 3, 4, 5, 7, 8, 10, 11, 13, 15, 16, 17, 18, 20, 21, 23, 24, 27, 28, 29, 30, 32, 34, 36, 37, 38, 39, 40, 42, 44, 46, 48, 50, 51, 53, 54, 57, 59, 60, 61, 62, 64, 68, 69, 71, 74, 75, 77, 80, 81, 82, 84, 86, 88, 89, 91, 94, 95, 96, 97, 98, 100, 102, 104, 106, 108, 111, 112, 114, 115, 117, 118, 119, 120, 121, 123, 126, 127, 129, 131, 132, 136, 138, 139, 140, 141, 142, 143, 144, 145, 147, 148, 149, 150, 152, 155, 156, 157, 161, 162, 164, 165, 167, 168, 170, 171, 172, 176, 177, 179, 181, 183, 184, 186, 187, 188, 191, 193, 194.

False :

2 - external, 6 - income, 9 - tax liabilities, 12 - difficult to know, 14 - does not help, 19 - recording, interpretation analysis of business transactions, 22 - barter transaction, 25 - decreased by the amount, 26 - goods, 31 - revenue expenditure, 33 - in the form of cash, assets or liabilities also, 35 - non-trading activities, 41 - monetary transactions, 43 - fixed assets, 45 - are not recorded, 47 - insolvency, 49 - unlimited, 52 - social decision, 55 - lower, 56 - at cost, 58 - is a contra entry, 63 - machinery account, 65 - personal account, 66 - personal account, 67 - furniture account, 70 - trade discount, 72 - more, 73 - real account, 76 - absolutely required, 78 - drawings account, 79 - should not be recorded at all, 83 - journal proper, 85 - secondary entry, 87 - in journal, 90 - debit of purchases account, 92 - debit or credit balance, 93 - not recorded, 99 - bearer cheque, 101 - appears on both the sides, 103 - Bank Current Account, 105 - Bank

Balance, 107 - Bank Balance, 109 - Debit side of Cash Book, 110 - does not appear, 113 - will affect, 116 - is debit all expenses and losses, and credit incomes and gains, 122 - type of non-wasting asset, 124 - intangible assets, 125 - for a long period of time, 128 - an example of capital expenditure, 130 - is not a part of final accounts, 133 - whichever is lower, 134 - debited to Profit and Loss Account, 135 - nominal account, 137 - loss, 146 - cannot, 151 - bad debts, 153 - current liabilities, 154 - before its due date, 158 - examples of non-trading concerns, 159 - which can not be recovered, 160 - only cash transactions, 163 - valued at market price or cost price whichever is less, 166 - cash book, 169 - in Trading Account, 173 - recorded in profit and loss account, 174 - is not recorded, 175 - accounting is much wider concept, 178 - are not recorded, 180 - less expensive, 182 - an electronic device, 185 - versatility, 189 - hardware, 190 - output, 192 - electronic machine.

FILL IN THE BLANKS

1. Accounting is a activity.
2. Accounting is often called as the language of
3. Accounting is the measurement and communication of and data.
4. Accounting is concerned with providing information to users.
5. The end product of the business accounting process are the that communicate useful information to decision-makers.
6. The two primary financial statements for a profit making entity in India are statement and statement.
7. Accounting information, in its problem solving role, enables of the different alternative solutions, their relative pros and cons.
8. The profits earned by a business firm generally leads to in the net worth of the firm.
9. The statement shows the matching of current costs with current revenues during a particular accounting period.
10. External users of accounting information are basically interested in the and of an enterprise.
11. The main concern of the is focused on the creditworthiness of the firm and its ability to meet the financial obligations.
12. Accounting facilitates to replace human by maintaining upto date record of financial transactions.
13. The Companies Act, 1956 requires a company to maintain proper books of accounts on basis.
14. Accounting facilitates to ascertain net results of operations by preparing statement.
15. The business the assets and certain liabilities.
16. Financial Accounting contains cost information which is accumulated at the end of the accounting period.
17. Accounting is a science.
18. Book-keeping is a part of
19. Book-keeping is not only a but also an
20. In transaction, goods or services are exchanged for certain value to be received in future.
21. is increase in economic benefits during an accounting period in the form of inflow of assets.
22. Expenses are in economic benefits during an accounting period in the form of outflow of assets.
23. facilitates business operations and are not meant for resale.

24. Capital is the excess of over liabilities.
25. The asset that can be seen and touched is asset.
26. If the business suffers a loss, the of the proprietor decreases.
27. A trader who can not repay his debt is called as
28. A customer has sued the company for damages that have arisen on the happening of a certain event and the court has declared the payment of compensation, such a liability is known as liability.
29. The liabilities of a person are always less than his assets.
30. Borrowing from Dena Bank for a longer period is a liability.
31. are private consumption made by the trader.
32. There must be at least persons to a transaction.
33. Assets are always equal to liabilities plus
34. Short-term liabilities are payable one year.
35. Loss incurred due to non-collection of business debts is termed as
36. Accounting are the basic assumptions or conditions upon which accounting is based.
37. The concept assumes that the business will continue its operations indefinitely.
38. According to dual aspect concept, every business transaction has a fold effect.
39. The customs or traditions, which guide the accountant while preparing the accounting statements, are called accounting
40. On account of the convention of a provision is made for bad debts, out of current years profit.
41. According to the convention of accounting practices should be continuously observed and applied.
42. The system of double-entry book-keeping is based on concept.
43. The incidence of profit depends upon the measurement of
44. The science of Book-keeping helps to decide liability more accurately.
45. All business transactions are to be recorded in terms of only.
46. Every business has an life.
47. According to accrual concept, rent, salary, interest etc. for the accounting year should be calculated on basis.
48. Cost concept of accounting is very closely related to concept.
49. Fixed assets are always to be valued at cost less
50. The element of is always their in contingent liabilities.
51. Anticipated must be provided for.
52. When defective goods are returned by the customer a is issued to him.
53. Accounting of a small calculator as an expense and not as an asset is in accordance with principle.
54. means increase in asset and decrease in liability.

55. Bank overdraft is a of the business.
56. Double-entry system of Book-keeping is a method of recording fold effect of business transaction in proper set of books.
57. Generally accounts are classified into two broad categories viz. Personal Accounts and Accounts.
58. Outstanding Salary Account is a Account.
59. Rent Receivable Account is neither a Account or a Account.
60. Debit the receiver and credit the giver is the rule of Account.
61. Benefit receiving aspect of a transaction is termed as
62. Bank Account is a Account.
63. Journal is a book of entry.
64. When goods are purchased for a cash a is prepared.
65. The word journal is derived from the French word '.....' which means a day.
66. is a brief explanation of the journal entry passed in the book of original entry.
67. In case of all types of credit transactions, one of the account must be a Account.
68. On receipt of a cheque account is debited.
69. The rate of trade discount changes as per the of purchases made by the buyer.
70. is the source document on the basis of which every journal entry is recorded systematically in journal.
71. Goods distributed as free samples should be debited to Account.
72. A discount is a to the buyer and a to the seller of goods.
73. If the catalogue price of goods purchased is ₹. 7,500 with a cash discount of 6% and a trade discount of 4%, the net amount payable would be ₹.
74. Purchases of shares from Tata Co. should debited to Account.
75. Payment of carriage to Roadways Transport Co. for bringing a costly machine to factory workshop should be debited to Account.
76. Purchase Journal is used to record all purchases of goods only.
77. Purchase of furniture on credit is recorded in
78. As and when transaction occurs, they are first recorded in and subsequently posted to
79. Bills of exchange and promissory notes received from debtors are recorded in book.
80. When damaged goods are received back from customer a note is issued in his favour.
81. As the ledger is the ultimate destination of all transactions, it is called the
82. Ledger is prepared on the basis
83. balance of nominal account shows incomes or gains.

84. Tangible Real Accounts always have a balance.
85. When credit side total exceeds debit side, it is called as a balance.
86. Payment of income-tax by the trader is debited to account.
87. Book Debts Account always shows a balance.
88. If the balance carried down appears on the debit side of an account it is said to be a balance.
89. Ledger is a book of entry.
90. Trade discount is normally shown by way of deduction from the
91. is maintained for recording all adjusting entries.
92. Cash Book is both and a
93. Cash Account never has a balance.
94. Ready money sales are recorded on the side of cash book.
95. A trader generally prefers to open account with the Bank.
96. system is the best method of recording Analytical Petty Cash Book.
97. Interest on Bank Overdraft represents for the Bank.
98. Credit side total of discount column of the Cash Book is posted to the credit side of account.
99. A Cash Book serves the purpose of a account.
100. High rate of interest is given by the bank on account.
101. A is more safe than any other cheque.
102. There is no restriction on the operation of a Bank Account.
103. Bank Reconciliation statement is prepared by the bank
104. Pass Book is prepared by the
105. Bank Reconciliation is a statement indicating the causes of between the two balances.
106. A Bank Account holder is permitted to overdraw his account.
107. A Bank overdraft is a balance of Bank Account in the Cash Book.
108. A credit entry in the pass book means a entry in the cash book.
109. A is an extract of customers account in the main ledger of a bank.
110. Trial Balance can be prepared only in those concerns where of accounting is adopted.
111. Total of debit balances must be to the total of credit balances.
112. The trial balance shows only accuracy.
113. assets are not acquired for resale but are taken for use of the business.
114. Tallying a is not a conclusive proof of accuracy of the books of accounts.
115. Trial balance is prepared at the end of
116. ensures arithmetical accuracy.

117. Preparation of trial balance helps in
118. trial balance is not generally used.
119. Balance in trial balance is temporarily transferred to account.
120. Trial balance is prepared preparation of final accounts.
121. Balance Sheet is a but not an account.
122. In Book-keeping only transactions are recorded.
123. The asset that can be seen and touched is termed as asset.
124. If a business suffers a loss the of the proprietor decreases.
125. Sales book is used to record all
126. Sales – Gross Profit =
127. Nominal Account balances shows incomes or gains.
128. A is a book debt which cannot be recovered.
129. Cash Book never records discount.
130. Purchases Returns appearing in trial balance are to be deducted from
131. Credit balance of trading account indicates
132. Balance-sheet is not an but it is a
133. Outstanding income is whereas pre-received income is a
134. Carriage on purchases is debited to account whereas carriage on sales is debited to account.
135. Gross Profit or Gross Loss is transferred to Account.
136. Net loss is adjusted to Account.
137. Trading Account is prepared on the basis of expenses and incomes.
138. Account presents the results of operations of business enterprise for a period of time.
139. Balance-sheet shows the of a business on a certain date.
140. Profit and Loss Account contains items of expenses incurred by the business in producing
141. Every of a company shall give a true and fair view of the state of affairs of the company as at the end of the financial year.
142. Every Profit and Loss Account of a company shall give view of the profit and loss of the company for the financial year.
143. A Manufacturing Account is prepared in order to establish the products.
144. A asset is that which takes substantial period of time to get ready for its intended use or sale.
145. Government have now permitted the companies to prepare Balance-Sheet either in the or form.
146. Computerised Accounting requires transaction data to be entered into the
147. Accounting through reduces the use of paperwork and the space required for storage of accounting records.

148. General purpose software has a certain amount of
149. Accounting is an economical and time saving device.
150. The central processing unit is the of the computer.
151. A cash benefit given by the receiver to the giver is termed as
152. Short term liabilities are payable one year.
153. Narration is the simple of any journal entry.
154. Capital is the of the owner.
155. Liabilities are always equal to assets capital.
156. The cost which is incurred or sacrifice made, to run the business is known as
157. Originally ledger accounts are classified into personal and accounts.
158. Salary payable account is basically a account.
159. Credit suppliers account always shows a balance.
160. Depreciation is the in the value of fixed assets due to passage of time.
161. Returns from debtors are always to be deducted from sales.
162. In non-cash transactions, a buyer is given a facility.
163. The net worth of a business is nothing but excess of over.
164. A person who owes something to others is called
165. A cash discount is given by to
166. A bankrupt person is unable to discharge his in full.
167. Computer software is an asset.
168. The accounting principles should have more
169. The accounting concept under which one can sell goods to himself is called
170. Historical cost concept is closely related to concept.
171. The basic function of financial accounting is to record all transactions relating to the business.
172. A transaction is an economic event that involves transfer of money or money's worth.
173. The main emphasis in concept is on earning capacity in judging the overall business performance.
174. The amount of time a computer takes in accomplishing a task or complete an operation is termed as of computer.
175. The degree of exactness with which computations are made and operations are performed is referred to as
176. The ability with which the computers remain functional to serve the user is termed as
177. Repeating the same results without any variations irrespective of the number of times the program is run, is know as

178. The ability of computers to perform a variety of tasks, simple as well as complex, is known as
179. Centralized control over access to accounting data ensures better of data.
180. accounting system saves a lot of monotonous labour.
181. Computer is as the input and instructions are.
182. A computer has no of its own.
183. People interacting with the computers are called of the computer system.
184. Connectivity is acknowledged as a element of the computer system.
185. If the inaccurate data is not fed into the computer, the resultant output will always be
186. Control unit works as a of the computer.
187. Manual accounting system increases unnecessary of work.
188. Computer is a cent percent machine.

ANSWERS

1 - service, 2 - business, 3 - financial - economic, 4 - external, 5 - financial statements, 6 - income - position, 7 - quantification, 8 - increase, 9 - income, 10 - solvency - profitability, 11 - creditors, 12 - memory, 13 - accrual, 14 - income, 15 - owns - owes, 16 - historical, 17 - social, 18 - accounting, 19 - science - art, 20 - credit, 21 - income, 22 - decrease, 23 - assets, 24 - assets, 25 - tangible, 26 - capital, 27 - insolvent, 28 - contingent, 29 - solvent, 30 - fixed, 31 - drawings, 32 - two, 33 - capital, 34 - within, 35 - bad debts, 36 - concepts, 37 - going concern, 38 - two, 39 - conventions, 40 - conservation, 41 - consistency, 42 - dual aspect, 43 - revenue, 44 - tax, 45 - money, 46 - indefinite, 47 - accrual, 48 - going concern, 49 - depreciation, 50 - uncertainty, 51 - losses and expenses, 52 - credit note, 53 - materiality, 54 - debit, 55 - liability, 56 - two, 57 - impersonal, 58 - personal, 59 - real - nominal, 60 - personal, 61 - debit, 62 - personal, 63 - original, 64 - cash memo, 65 - 'Jour', 66 - narration, 67 - personal, 68 cash, 69 - quantity, 70 - voucher, 71 - advertisement, 72 - gain - loss, 73 - ₹. 6,768, 74 - investment, 75 - machinery, 76 - credit, 77 - Journal Proper, 78 - journal - ledger, 79 - bills receivable, 80 - credit, 81 - book of final entry, 82 - journal, 83 - credit, 84 - debit, 85 - credit, 86 - drawings, 87 - debit, 88 - credit, 89 - final, 90 - sales invoice, 91 - journal proper, 92 - journal - ledger, 93 - credit, 94 - receipt, 95 - current, 96 - imprest, 97 - income, 98 - discount received, 99 cash, 100 - fixed deposit, 101 - crossed cheque, 102 - current, 103 - customer, 104 - Bank, 105 - disagreement, 106 - current, 107 - credit, 108 - debit, 109 - Pass Book, 110 - double entry system, 111 - equal, 112 - arithmetical, 113 - fixed, 114 - trial balance, 115 - accounting year, 116 - trial balance, 117 - detection of errors, 118 - gross, 119 - suspense, 120 - before, 121 - statement, 122 - financial, 123 - tangible, 124 - capital, 125 - credit sales of trading goods transactions, 126 - cost of sales, 127 - credit, 128 - bad debt, 129 - trade, 130 - total purchases, 131 - gross profit, 132 - account - statement, 133 - asset - liability, 134 - trading - profit and loss, 135 - Profit and Loss, 136 - capital, 137 - direct, 138 - Profit and Loss, 139 - Financial Position, 140 - revenue, 141 - Balance Sheet, 142 - true and

fair, 143 - factor cost of finished, 144 - qualifying, 145 - horizontal - vertical, 146 - accounting package, 147 - computers, 148 - flexibility, 149 - computerized, 150 - heart, 151 - cash discount, 152 - within, 153 - explanation, 154 - asset, 155 - minus, 156 - expense, 157 - impersonal, 158 - personal, 159 - credit, 160 - reduction, 161 - gross, 162 - credit, 163 - assets over liabilities, 164 - debtor, 165 - creditor to debtor, 166 - liabilities, 167 - intangible, 168 - practicability, 169 - business entity, 170 - going concern, 171 - financial, 172 - financial , 173 - going concern, 174 - speed, 175 - accuracy, 176 - reliability, 177 - consistency, 178 - versatility, 179 - security, 180 - computerised, 181 - accurate, 182 - intelligence, 183 - human ware, 184 - sixth, 185 - accurate, 186 - brain, 187 - duplication, 188 - accurate.

WORD, TERM OR PHRASE

Write the word, term or phrase which can substitute each of the following :

1. An economic unit that performs economic activities.
2. A happening of consequence to all entity.
3. Exchange of goods or services for cash only.
4. Excess of revenue over expense.
5. Excess of expense over revenue.
6. Profit on sale of marketable securities.
7. Profit on sale of fixed assets.
8. Losses on writing of bad debts.
9. Losses on foreign currency devaluations.
10. The amount charged for the goods sold or services rendered.
11. The tangible objects or intangible rights of an enterprise which carry probable future benefits.
12. Any asset acquired for retention by an entity for the purpose of providing a service to the business and not held for resale in the normal course of trading.
13. Any asset which loses their value by wear and tear or by passage of time or through being worked.
14. Any asset which do not lose their value by wear and tear or by passage of time or through being worked.
15. The asset of the proprietor and on the contrary a liability of the business.
16. The benefit of advertisement expenditure on television that would last for a long period.
17. A discount given on the catalogue price of goods sold.
18. Amount which is irrecoverable from book debts.
19. The assets which have no physical existence.
20. Properties that can realize money or discharge liabilities.
21. A person whose assets are less than his liabilities.
22. An exchange of goods or services between two or more parties for certain value to be payable in future.
23. An allowance off the amount due.
24. Liabilities, which become due for payment within a year.
25. The liabilities, which depend on something that may or may not happen.
26. Value of reputation and creditworthiness of business.
27. Things or commodities in which a trader deals.
28. Cash or goods withdrawn by proprietor for personal use.
29. Expenditure incurred for purchasing long term assets.
30. Organisations aim at earning profits through trading activities.

Financial Accounting	0.2	Word, Term or Phrase
31.	The cost incurred or sacrifice made to run the business.	
32.	The accounting concept, which implies that the business will continue for a fairly long period of time to come.	
33.	The accounting concept, under which one can sell goods to himself.	
34.	The accounting concept under which death of a professional manager does not have an impact on financial accounts of a business concern.	
35.	The accounting convention, which implies that accounts must be honestly prepared and all material information must be disclosed therein.	
36.	The accounting convention, which implies that the accounting practices should remain unchanged from one period to another.	
37.	The accounting convention, which states that the accountant should consider only significant data and ignore insignificant data.	
38.	The accounting concept, which implies that every business transaction has a two fold effect of equal amounts.	
39.	The accounting concept, which states that any income is to be recorded only when it is realized.	
40.	The accounting concept, which states that the assets should be recorded at their cost at the time of purchase of the same.	
41.	The financial statements must disclose all the relevant and the reliable information as per the principle.	
42.	The accounting concept, which classifies the assets as fixed and current.	
43.	The accounting concept under which the economic life of an enterprise is artificially split into periodic intervals.	
44.	Expenses due but not paid.	
45.	Expenses paid for transportation of finished goods from the store-house to the market.	
46.	Different types of tools and equipment kept in the production shop for daily use.	
47.	Irrecoverable debts from sundry debtors.	
48.	Certain percentage of revenue from sale of number of books, payable to the author.	
49.	Expenses paid for carriage on purchases.	
50.	Total amount receivable from credit customers of goods.	
51.	Expenses incurred on bus/rickshaw/taxi-fare within the city for office work.	
52.	Payment to insurance company for taking the insurance policy for loss of fire.	
53.	A summarized record of business transactions relating to persons, firms or companies, assets and properties, expenses, losses, incomes and gains.	
54.	Benefit giving aspect of a transaction.	
55.	The absolute right given to an author by law in respect of the book written by him.	
56.	A qualified person who does the work of checking the books of accounts.	
57.	Expenses paid in advance.	

58. The financial institution dealing in money transactions.
59. The absolute right given to the researcher by law in respect of innovations made.
60. A book of prime entry in which all business transaction are recorded first.
61. A simple explanation of journal entry written in brief under the entry in journal.
62. The process of recording business transactions into the journal.
63. An allowance or concession in the price of the goods given by the seller to the buyer.
64. The French word from which the term journal is derived.
65. The order in which the transactions are recorded in the journal.
66. The type of journal entry which is passed to record two or more transactions of the same nature on the same day.
67. The type of journal entry which is passed to record a transaction in which one account is debited and one account is credited.
68. One column in journal which is not filled at the time of journalizing.
69. An account to which goods destroyed by fire are debited.
70. The goods in which the enterprise deals in.
71. Statement showing all the particulars of goods sold.
72. A subsidiary book in which only credit purchases of goods are recorded.
73. A subsidiary book in which returns of goods purchased on credit are recorded.
74. A subsidiary book in which only credit sales of goods are recorded.
75. A subsidiary book in which returns of goods sold on credit are recorded.
76. A note prepared by buyer while returning defective goods to supplier.
77. A note prepared by supplier on receipt of defective goods from customer.
78. Accounting entries which are recorded in journal proper for rectification of errors committed in the books of accounts.
79. The process of recording a transaction from the journal to ledger.
80. Excess of the credit total of an account over its debit total.
81. A book of secondary entry.
82. The difference between the totals of the two sides of an account.
83. The process of extracting the balance and recording it on lesser side of an account.
84. The accounts which never shows credit balances.
85. Equal totals of debit and credits of an account.
86. An account to be debited for payment of remuneration to workshop supervisor.
87. A final books of account which keeps individual records of persons, assets, liabilities etc.
88. Excess of the debit total of an account over its credit total.
89. Refusal by the Bank to make the payment on presentation of the cheque.
90. Source document for writing invoice book.
91. The entries passed for withdrawal of cash from bank for office use and cash paid into bank.

Financial Accounting	0.4	Word, Term or Phrase
92.	A Bank Account which the trader prefers to open with the Bank.	
93.	Excess of bank withdrawals over bank deposits.	
94.	A type of Cash Book in which only cash and discount transactions are recorded.	
95.	Documents used for depositing cash and cheque into the Bank.	
96.	Signing on the back of the cheque to transfer its ownership.	
97.	A type of cheque where the holder is paid with the amount across the counter of the Bank.	
98.	A Bank account used for investing idle money for a long period of time.	
99.	The most useful book to all types of organisations to record day-to-day cash bearing transactions.	
100.	A Bank Account in which there are restrictions imposed on withdrawals of cash.	
101.	A type of Bank Account in which overdraft facility is given to the account holder.	
102.	A bank statement showing the copy of the customers account in the books of a bank.	
103.	A statement showing the causes of disagreement between the balance of cash book and pass book.	
104.	Document used to withdraw cash from bank other than a cheque.	
105.	A favourable balance as per pass book.	
106.	A list of abstract of the balances or of total debits and total credits of the accounts in a ledger, the purpose being to determine the equality of posted debits and credits and to establish a basic summary for financial statements.	
107.	A Trial Balance prepared with the balance of each account.	
108.	A Trial Balance prepared with the gross totals of the debit and credit sides of each ledger account.	
109.	A provision made for loss likely to be caused due to non-recovery of debts.	
110.	The account to which difference in trial balance is transferred temporarily.	
111.	A continuous, gradual and permanent reduction in the value of a fixed asset.	
112.	The amount that a fixed asset is expected to realise on its disposal.	
113.	The method of depreciation in which the total depreciation is equally spread over the life of the assets.	
114.	The method of depreciation in which the rate of depreciation fixed but the amount reduces year after year.	
115.	The type of asset on which depreciation is charged.	
116.	Expenses incurred for bringing the new asset into working condition.	
117.	Excess of selling price of fixed assets over its written down value.	
118.	Name of the account to which the amount of depreciation is transferred.	
119.	Additional information provided together with the trial balance for preparing final accounts.	
120.	Account prepared to ascertain gross results of a business.	

Financial Accounting	0.5	Word, Term or Phrase
121.	Excess of net sales over the cost of goods sold.	
122.	Indication of debit balance to trading account.	
123.	Assets held for immediate conversion into money.	
124.	The statement which shows the financial position of an enterprise at a particular point of time.	
125.	The statement which shows the financial performance of business operations during an accounting period.	
126.	Expenses incurred to keep the machine in working condition.	
127.	Expenditure intended to benefit the current period.	
128.	Account prepared to find out net profit or net loss.	
129.	The financial statements prepared at the end of accounting period to disclose the financial status and financial performance of an enterprise.	
130.	The organised summarises of detailed information about the financial position and performance of an enterprise.	
131.	It refers to the ability with which the computers remain functional to serve the user.	
132.	The property of computer of repeating the same results without variation.	
133.	It refers to the ability of computers to perform variety of tasks simple as well as complex.	
134.	The programmes and routines associated with the effective use of hardware resources.	
135.	A software which is developed according to the specification of a particular customer/ organisation.	
136.	It is the interface between the user of computer and the machine.	
137.	A process which involves observing of activities and selection of those that are considered to be the evidence of economic activity.	
138.	The quantification of business transactions into financial terms by using monetary unit i.e. rupee and paise, as a measuring unit.	
139.	A document received from an outside agency regarding a business transaction.	
140.	A documentary record created by the business itself and signed by the payee.	
141.	A document prepared by the business for the payments made by cheque.	
142.	A document evidence for a business transaction.	
143.	A system of Book-Keeping that records both aspects of every transaction.	
144.	A list of accounts of expenses, losses, incomes and gains.	
145.	A discount which does not appear in the books of accounts as it forms no part of the value of goods or of the dues.	
146.	Amount of debt written off as bad debt in the previous year but recovered in the current year.	
147.	A subsidiary book meant for recording bills of exchange or promissory note accepted by customers in respect of amount due from them.	
148.	A subsidiary book meant for recording bills of exchange or promissory note accepted by the business in respect of amounts due to their suppliers.	

149. An order in writing by the creditor to the debtor to pay the amount specified therein, on the due date.
150. The entries passed in the journal proper to transfer the balance of one account to other account.

ANSWERS

1 - Entity, 2 - Event, 3 - Cash Transactions, 4 - Profit, 5 - Loss, 6 - Operating Gain , 7 - Non-operating Gain, 8 - Operating loss, 9 - Non-operating loss, 10 - Revenue, 11 - Assets, 12 - Fixed Assets, 13 - Wasting Assets, 14 - Non-Wasting Assets, 15 - capital, 16 - Deferred Revenue Expenditure, 17 - Trade Discount, 18 - Bad Debts, 19 - Intangible Assets, 20 - Assets, 21 - Insolvent, 22 - Credit Transaction, 23 - Cash Discount, 24 - Current Liabilities, 25 - Contingent Liabilities, 26 - Goodwill, 27 - Goods, 28 - Drawings, 29 - Capital Expenditure, 30 - Trading Concerns, 31 - Expense, 32 - Going Concern Concept, 33 - Business Entity Concept, 34 - Money Measurement Concept, 35 - Convention of Disclosure, 36 - Convention of Consistency, 37 - Convention of Materiality, 38 - Dual Aspect Concept, 39 - Realisation Concept, 40 - Cost Concept, 41 - Full Disclosure Principle 42 - Going Concern Concept, 43 - Accounting Period Concept, 44 - Outstanding Expenses, 45 - Carriage Outward, 46 - Loose-Tools, 47 - Bad Debts, 48 - Royalty, 49 - Carriage Inward, 50 - Sundry Debtors, 51 - Conveyance, 52 - Insurance Premium, 53 - Account, 54 - Credit, 55 - Copyright, 56 - Auditor, 57 - Prepaid expenses, 58 - Bank, 59 - Patents, 60 - Journal, 61 - Narration, 62 - Journalising, 63 - Discount, 64 - Jour, 65 - Chronological, 66 - Combined Journal Entry, 67 - Simple Journal Entry, 68 - Ledger Folio, 69 - Loss by Fire Account, 70 - Merchandise, 71 - Invoice, 72 - Purchase Book, 73 - Purchase Returns Book, 74 - Sales Book, 75 - Sales Returns Book, 76 - Debit Note, 77 - Credit Note, 78 - Rectifying Entries, 79 - Posting, 80 Credit Balance, 81 - Ledger, 82 - Balance, 83 - Balancing, 84 - Real Accounts, 85 - Nil Balance, 86 - Wages Account, 87 - Ledger, 88 - Debit Balance, 89 - Dishonour of cheque, 90 - Inward Invoice, 91 - Contra Entries, 92 - Bank Current Account, 93 - Bank Overdraft, 94 - Cash Book with Cash and Discount Columns, 95 - Pay-in-slip, 96 - Endorsement, 97 - Bearer cheque, 98 - Fixed Deposit Account, 99 - Cash Book, 100 - Bank Savings Account, 101 - Bank Current Account, 102 - Bank Pass Book, 103 - Bank Reconciliation Statement, 104 - Withdrawal slip, 105 - Credit Balance, 106 - Trial Balance, 107 - Net Trial Balance, 108 - Gross Trial Balance, 109 - Provision for Doubtful Debts, 110 - Suspense Account, 111 - Depreciation, 112 - Scrap Value, 113 Fixed Installment Method, 114 - Reducing Balance Method, 115 - Fixed Assets, 116 - Installation Charges, 117 - Profit on sale of Asset, 118 - Profit and Loss Account, 119 - Adjustments, 120 - Trading Account, 121 - Gross Profit, 122 - Gross Loss, 123 - Current Assets, 124 - Position Statement i.e. Balance Sheet, 125 - Income Statement i.e. Trading and Profit and Loss Account, 126 - Capital Expenditure, 127 - Revenue Expenditure, 128 - Profit and Loss Account, 129 - Final Accounts, 130 - Financial Statements, 131 - Reliability, 132 - Consistency, 133 - Versatility, 134 - Software, 135 - Tailor-made Software, 136 - Input Device, 137 - Identification, 138 - Measurement, 139 - External Voucher, 140 - Internal Voucher, 141 - Bank Payment Voucher, 142 - Voucher, 143 - Double Entry System, 144 - Nominal Accounts, 145 - Trade Discount, 146 - Bad Debts Recovery, 147 - Bills Receivable Book, 148 - Bills Payable Book, 149 - Bill of Exchange, 150 - Transfer Entries.

FORMULAE

1. **Net Worth :** Total Assets (-) Total Liabilities.
2. **Capital :** Assets (-) Liabilities
3. **Solvent :** Assets (>) Liabilities or Assets = Liabilities
4. **Insolvent :** Assets (<) Liabilities.
5. **Amount of Depreciation :**
$$\frac{\text{Original Cost of Asset} (+) \text{Initial Expenses on Purchase of Asset} (-) \text{Estimated Scrap Value}}{\text{Estimated Life of Asset}}$$
6. **Rate of Depreciation :**
$$\frac{\text{Amount of Depreciation}}{\text{Original Cost}} \times 100$$
7. **Net Purchases :** Total Purchases (-) Purchases Returns
8. **Net Sales :** Total Turnover (-) Sales Returns.
9. **Total Turnover :** Credit Sales (+) Cash Sales.
10. **Total Assets :** Fixed Assets (+) Current Assets.
11. **Book Value of Asset on the Date of Sale :** Original cost of asset (-) Total depreciation on asset till the date of sale.
12. **Profit on Sale of Asset :** Sale Proceeds (-) Book value as on the date of sale.
13. **Loss on Sale of Asset :** Book value as on the date of sale (-) sale proceeds.
14. **Managerial Commission before Charging Method :**
$$\text{Net Profit} \times \frac{\text{Rate of Commission}}{100}.$$
15. **Managerial Commission after Charging Method :**
$$\text{Net Profit} \times \frac{\text{Rate of Commission}}{100 + \text{Rate of Commission}}$$
16. **Accounting Equation :**
Capital + Liabilities = Assets
17. **Inventories :**
= Finished Goods (+) Work-in-Progress (+) Raw Materials (+) Consumable Stores (+)
Loose Tools which are held for resale or consumption.
18. **Cost of Inventories :**
= Cost of Purchase (+) Cost of Conversion (+) Other Cost incurred to bring the inventory to its present location and condition.

(F.1)

SYNONYMOUS TERMS

- 1. Sundry Debtors :**
Book Debts, Accounts Receivable, Trade Debtors.
- 2. Sundry Creditors :**
Accounts Payable, Trade Creditors.
- 3. Solvent :**
Financially Strong
- 4. Merchandise :**
Goods
- 5. Assets :**
Properties
- 6. Fixed Assets :**
Long Term Assets
- 7. Current Assets :**
Short-Term Assets
- 8. Fixed Liabilities :**
Long-Term Liabilities
- 9. Current Liabilities :**
Short-Term Liabilities
- 10. Liabilities :**
Debts
- 11. Drawings :**
Personal Withdrawals
- 12. Monetary Transactions :**
Financial Transactions
- 13. Non-Monetary Transactions :**
Non-Financial Transactions
- 14. Discount :**
Allowance, Concession
- 15. Insolvent :**
Bankrupt, Financially Weak
- 16. Profit Making Concerns :**
Trading concerns
- 17. Not for Profit Concerns :**
Non-Trading concerns
- 18. Combined Journal Entry :**
Compound Journal Entry

Financial Accounting	S.2	Synonymous Terms
19. Purchase Book :		
Bought Journal, Invoice Book.		
20. Sales Book :		
Sold Book, Sales Journal.		
21. Purchase Returns Book :		
Returns Outward Journal		
22. Sales Returns Book :		
Returns Inward Journal		
23. Bank Balance :		
Excess of Bank Receipts over Payments, Debit Balance as per Cash Book, Credit Balance as per Pass Book, Bank Account (Debit).		
24. Bank Overdraft :		
Excess of Bank Payments over Receipts, Credit Balance as per Cash Book, Debit Balance as per Pass Book, Bank Account (Credit).		
25. Straight Line Method of Depreciation (SLM) :		
Fixed Installment method, Original Cost Method, Equal Installment Method, Fixed Percentage Method.		
26. Written Down Value Method of Depreciation (WDVM) :		
Reducing Balance Method, Diminishing Balance Method.		
27. Bad Debts :		
Irrecoverable Debts.		
28. Outstanding Expenses :		
Expenses Payable, Expenses Due but not Paid, Accrued Expenses.		
29. Prepaid Expenses :		
Expenses paid in Advance, Unexpired Expenses, Expenses Carried Forward, Expenses paid but not accrued.		
30. Outstanding Income :		
Income Receivable, Income due but not received, Accrued income.		
31. Pre-received Income :		
Income received in Advance, Unearned Income, Income Carried Forward, Income received but not accrued.		
32. Subsidiary Books :		
Day Books, Special Journals.		
33. Written Down Value :		
Net Book Value		
34. Scrap Value of Asset :		
Residual value, Realisable value.		

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