

**UNIT 3 LEDGER POSTING AND TRIAL  
BALANCE  
MODULE - 1**

# UNIT 3      LEDGER POSTING AND TRIAL BALANCE

## NOTES

### Structure

- 3.0 Introduction
- 3.1 Unit Objectives
- 3.2 Ledger
- 3.3 Posting
- 3.4 Relationship between Journal and Ledger
- 3.5 Rules Regarding Posting
- 3.6 Trial Balance
- 3.7 Voucher System
- 3.8 Key Terms
- 3.9 Summary
- 3.10 Answers to 'Check Your Progress'
- 3.11 Questions and Exercises
- 3.12 Practical Problems
- 3.13 Further Reading

## 3.0 INTRODUCTION

It has already been explained in an earlier unit that accounting involves recording classifying and summarising the financial transactions. Recording is done in the Journal. This has already been explained in the preceding unit. Classifying of the recorded transactions is done in the Ledger. This is being explained in the present unit.

## 3.1 UNIT OBJECTIVES

After going through this unit, you will be able to:

- Understand the role of the Ledger in recording business transactions
- Understand the meaning and rules regarding posting
- Describe the meaning and the objects of preparing a trial balance
- Make a posting and prepare a trial balance

## 3.2 LEDGER

A ledger is a book which contains various accounts. In other words, a ledger is a set of accounts. It contains all accounts of the business enterprise whether Real, Nominal or Personal. It may be kept in any of the following two forms:

- (i) Bound Ledger, and      (ii) Loose Leaf Ledger.

It is common to keep the Ledger in the form of loose-leaf cards these days. This helps in posting transactions particularly when a mechanised system of accounting is used.

## 3.3 POSTING

The term 'Posting' means transferring the debit and credit items from the Journal to their respective accounts in the Ledger. It should be noted that the exact names of accounts used in the Journal should be carried to the Ledger. For example, if in the Journal, Expenses Account has been debited, it would not be correct to debit the Office Expenses Account in the Ledger. Though, in the Journal, it might have been indicated clearly in the narration that it is an item of office expenses. The correct

## NOTES

course would have been to record the amount to the Office Expenses Account in the Journal as well as in the Ledger.

Posting may be done at any time. However, it should be completed before the financial statements are prepared. It is advisable to keep the more active accounts posted to date. The examples of such accounts are the cash account, personal accounts of various parties etc.

The posting may be done by the bookkeeper from the Journal to the Ledger by any of the following methods:

- (i) He may take a particular side first. For example, he may take the debits first and make the complete postings of all debits from the Journal to the Ledger.
- (ii) He may take a particular account and post all debits and credits relating to that account appearing on one particular page of the Journal. He may then take some other accounts and follow the same procedure.
- (iii) He may complete postings of each journal entry before proceeding to the next journal entry.

It is advisable to follow the last method. One should post each debit and credit item as it appears in the Journal.

The Ledger Folio (L.F.) column in the Journal is used at the time when debits and credits are posted to the Ledger. The page number of the Ledger on which the posting has been done is mentioned in the L.F. column of the Journal. Similarly, a folio column in the Ledger can also be kept where the page from which posting has been done from the Journal may be mentioned. Thus, there are cross references in both the Journal and the Ledger.

A proper index should be maintained in the Ledger giving the names of the accounts and the page numbers.

### 3.4 RELATIONSHIP BETWEEN JOURNAL AND LEDGER

Both the Journal and the Ledger are the most important books used under the Double Entry System of bookkeeping. Their relationship can be expressed as follows:

- (i) The transactions are recorded first of all in the Journal and then they are posted in the Ledger. Thus, the Journal is the book of first or original entry, while the Ledger is the book of second entry.
- (ii) The journal records transactions in a chronological order, while the Ledger records transactions in an analytical order.
- (iii) The journal is more reliable as compared to the Ledger since it is the book in which the entry is passed first of all.
- (iv) The process of recording transactions is termed as 'Journalising' while the process of recording transactions in the Ledger is called 'Posting'.

### 3.5 RULES REGARDING POSTING

The following rules should be observed while posting transactions in the Ledger from the Journal:

- (i) Separate accounts should be opened in the Ledger for posting transactions relating to different accounts recorded in the Journal. For example, separate accounts may be opened for sales, purchases, sales returns, purchases returns, salaries, rent, cash, etc.
- (ii) The concerned account which has been debited in the Journal should also be debited in the Ledger. However, a reference should be made of the other account which has been credited in the Journal. For example, for salaries paid, the salaries account should be debited in the Ledger, but reference should be given of the Cash Account which was been credited in the Journal.

- (iii) The concerned account, which has been credited in the Journal should also be credited in the Ledger, but reference should be given of the account, which has been debited in the Journal. For example, for salaries paid, Cash Account has been credited in the Journal. It will be credited in the Ledger also, but reference will be given of the Salaries Account in the Ledger.

Thus, it may be concluded that while making a posting in the Ledger, the concerned account which has been debited or credited in the Journal should also be debited or credited in the Ledger, but reference has to be given of the other account which has been credited or debited in the Journal, as the case may be. This will be clear with the following example.

Suppose salaries of Rs 10,000 have been paid in cash, the following entry will be passed in the Journal:

Salaries Account	(i)	Dr.	10,000	
To Cash Account	(ii)			10,000

In the Ledger two accounts will be opened (i) Salaries Account, and (ii) Cash Account. Since Salaries Accounts has been debited in the Journal, it will also be debited in the Ledger. Similarly Cash Account has been credited in the Journal and, therefore, it will also be credited in the Ledger, but reference will be given of the other account involved. Thus the accounts will appear as follows in the Ledger:

Dr. SALARIES ACCOUNT Cr.			
Particulars	Rs	Particulars	
Cash A/c (ii)	10,000		

  

CASH ACCOUNT			
Particulars	Rs	Particulars	Rs
		Salaries A/c (i)	10,000

### Use of the words 'To' and 'By'

It is customary to use words 'To' and 'By' while making a posting in the Ledger. The word 'To' is used with the accounts which appear on the debit side of a Ledger Account. For example, in the Salaries Account, instead of writing only 'Cash' as shown above, the words 'To Cash' will appear on the debit side of the account. Similarly, the word 'By' is used with accounts which appear on the credit side of a Ledger Account. For example, in the above case, the words 'By Salaries A/c' will appear on the credit side of the Cash Account instead of only 'Salaries A/c'. The words 'To' and 'By' do not have any specific meanings. Modern accountants are, therefore, ignoring the use of these words.

The procedure of posting from the Journal to the Ledger will be clear with the help of the illustrations given in the following pages:

**Illustration 3.1.** Journalise the following transactions and post them into the Ledger:

- Ram started business with a capital of Rs 10,000.
- He purchased furniture for cash Rs 4,000.
- He purchased goods from Mohan on credit Rs 2,000.
- He paid cash to Mohan Rs 1,000.

### JOURNAL

Date	Particulars	L.F.	Debit Rs	Credit Rs	
1 →	Cash Account Dr.		10,000		
	To Capital Account			10,000	← 5
2 →	Furniture Account Dr.		4,000		
	To Cash Account			4,000	← 6
3 →	Purchases Account Dr.		2,000		
	To Mohan			2,000	← 7
4 →	Mohan Dr.		1,000		
	To Cash Account			1,000	← 8

## NOTES

## NOTES

Ledger						
CASH ACCOUNT						
1	→	To Capital A/c	10,000	By Furniture A/c	4,000	6
				By Mohan	<u>1,000</u>	8
CAPITAL ACCOUNT						
				By Cash A/c	<u>10,000</u>	5
FURNITURE ACCOUNT						
2	→	To Cash A/c	<u>4,000</u>			
PURCHASES ACCOUNT						
3	→	To Mohan	<u>2,000</u>			
MOHAN						
4	→	To Cash A/c	<u>1,000</u>	By Purchases A/c	<u>2,000</u>	7

### Balancing of An Account

In business, there may be several transactions relating to one particular account. In a Journal, these transactions appear on different pages in a chronological order while they appear in a classified form under that particular account in the Ledger. At the end of a period (say a month, a quarter or a year), the businessman will be interested in knowing the position of a particular account. This means, he should total the debits and credits of the account separately and find out the net balance. This technique of finding out the net balance of an account, after considering the totals of both debits and credits appearing in the account is known as 'Balancing the Account'. The balance is put on the side of the account which is smaller and a reference is given that it has been carried forward or carried down (*c/f* or *c/d*) to the next period. On the other hand, in the next period a reference is given that the opening has been brought the forward or brought down (*b/f* or *b/d*) from the previous period. This will be clear with the help of the following illustration.

**Illustration 3.2.** Journalise the following transactions, post them in the Ledger and balance the accounts on 31 January.

1. Ram started business with a capital of Rs 10,000.
2. He purchased goods from Mohan on credit Rs 2,000.
3. He paid cash to Mohan Rs 1,000.
4. He sold goods to Suresh Rs 2,000.
5. He received cash from Suresh Rs 3,000.
6. He further purchased goods from Mohan Rs 2,000.
7. He paid cash to Mohan Rs 1,000.
8. He further sold goods to Suresh Rs 2,000.
9. He received cash from Suresh Rs 1,000.

### Solution:

JOURNAL			
Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
Cash Account Dr. To Capital Account (Being commencement of business)		10,000	10,000
Purchases Account Dr. To Mohan (Being purchase of goods on credit)		2,000	2,000

(Contd.)

<i>Particulars</i>	<i>L.F.</i>	<i>Debit Amount Rs</i>	<i>Credit Amount Rs</i>
Mohan To Cash (Being payment of cash to Mohan)	Dr.	1,000	1,000
Suresh To Sales (Being goods sold to Suresh)	Dr.	2,000	2,000
Cash Account To Mohan (Being cash received from Suresh)	Dr.	3,000	3,000
Purchases Account To Mohan (Being purchase of goods from Mohan)	Dr.	2,000	2,000
Mohan To Cash Account (Being payment of cash to Mohan)	Dr.	1,000	1,000
Suresh To Sales Account (Being goods sold to Suresh)	Dr.	2,000	2,000
Cash Account To Suresh (Being cash received from Suresh)	Dr.	1,000	1,000
Total		<u>24,000</u>	<u>24,000</u>

**Ledger**

Dr. CASH ACCOUNT Cr.

<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>
	To Capital A/c	10,000		By Mohan	1,000
	To Suresh	3,000		By Mohan	1,000
	To Suresh	1,000	Jan. 31	By Balance c/d	12,000
		<u>14,000</u>			<u>14,000</u>
Feb. 1	To Balance b/d	12,000			

Dr. CAPITAL ACCOUNT Cr.

<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>
Jan. 31	To Balance c/d	10,000		By Cash A/c	10,000
		<u>10,000</u>			<u>10,000</u>
			Feb. 1	By Balance b/d	10,000

**PURCHASES ACCOUNT**

<i>Date</i>	<i>Particulars</i>	<i>Rs</i>	<i>Date</i>	<i>Particulars</i>	<i>Rs</i>
	To Mohan	2,000	Jan. 31	By Balance c/d	4,000
	To Mohan	2,000			
		<u>4,000</u>			<u>4,000</u>
Feb. 1	To Balance b/d	4,000			

**MOHAN**

<i>Date</i>	<i>Particulars</i>	<i>Rs</i>	<i>Date</i>	<i>Particulars</i>	<i>Rs</i>
	To Cash	1,000		By Purchases	2,000
	To Cash	1,000		By Purchases	2,000
	To Balance c/d	2,000			
		<u>4,000</u>			<u>4,000</u>
			Feb. 1	By Balance b/d	2,000

**NOTES**

**Check Your Progress**

- State whether each of the following statements is True or False:
  - The 'Posting' is done in the Journal.
  - Ledger is a set of accounts.
  - Transactions are recorded first of all in the Ledger.
  - Journal records transactions in a chronological order.
  - Ledger records transactions in an analytical order.
  - While posting transactions in the ledger, if the account is debited in the Journal, it will be credited in the Ledger.
  - The word 'To' is used with the accounts which appear on the Debit side of a ledger account.
  - Trial Balance helps in knowing the arithmetical accuracy of the accounting entries.

# NOTES

## SURESH

Date	Particulars	Rs	Date	Particulars	Rs
	To Sales	2,000		By Cash A/c	3,000
	To Sales	2,000		By Cash A/c	1,000
		<u>4,000</u>			<u>4,000</u>

## SALES ACCOUNT

Date	Particulars	Rs	Date	Particulars	Rs
Jan. 31	To Balance c/d	4,000		By Suresh	2,000
		<u>4,000</u>		By Suresh	2,000
					<u>4,000</u>
			Feb. 1	By Balance b/d	4,000

It is to be noted the balance of an account is always known by the side which is greater. For example, in the above illustration, the debit side of the Cash Account is greater than the credit side by Rs 12,000. It will be, therefore, said that Cash Account is showing a debit balance of Rs 12,000. Similarly, the credit side of the Capital Account is greater than debit side by Rs 10,000. It will be, therefore, said that the Capital Account is showing a credit balance of Rs 10,000.

**Illustration 3.3.** Journalise the following transactions and post them into Ledger:

2006

- Sept. 1 Started business with Rs. 50,000 out of which paid into Bank Rs. 20,000.
- „ 2 Bought furniture for Rs. 5,000 and machinery for Rs. 10,000.
- „ 3 Purchased goods for Rs. 14,000.
- „ 6 Sold goods for Rs. 8,000.
- „ 8 Purchased goods from Malhotra and Co. Rs. 11,000.
- „ 10 Paid telephone rent for the year by cheque Rs. 500.
- „ 11 Bought one typewriter for Rs. 2,100 from Universal Typewriter Co. on credit.
- „ 15 Sold goods to Keshav Ram for Rs. 12,000.
- „ 17 Sold goods to Rajesh Kumar for Rs. 2,000 for cash.
- „ 19 Amount withdrawn from bank for personal use Rs. 1,500.
- „ 21 Received cash from Keshav Ram Rs. 11,900 discount allowed Rs. 100.
- „ 22 Paid into bank Rs. 5,800.
- „ 23 Bought 50 shares in *X Y & Co. Ltd.* at Rs. 60 per share, brokerage paid Rs. 20.
- „ 25 Goods worth Rs. 1,000 found defective were returned to Malhotra & Co. and the balance of the amount due to them settled by issuing a cheque in their favour.
- „ 28 Sold 20 shares of *XY & Co. Ltd.* at Rs. 65 per share, brokerage paid Rs. 20.
- „ 28 Bought goods worth Rs. 2,100 from Ramesh and supplied them to Suresh at Rs. 3,000.
- „ 30 Suresh returned goods worth Rs. 100, which in turn were sent to Ramesh.
- „ 30 Issued a cheque for Rs. 1,000 in favour of the landlord for rent for September.
- „ 30 Paid salaries to staff Rs. 1,500 and received from travelling salesman Rs. 2,000 for goods sold by him, after deducting the travelling expenses Rs. 100.
- „ 30 Paid for :
- |            |         |
|------------|---------|
| Charity    | Rs. 101 |
| Stationery | Rs. 450 |
| Postage    | Rs. 249 |

**Solution:**

## JOURNAL

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2006 Sept. 1	Cash A/c Dr. Bank A/c Dr. To Capital A/c (Being commencement of business)		30,000 20,000	50,000
„ 2	Furniture A/c Dr. Machinery A/c Dr. To Cash A/c (Being purchase of furniture and machinery)		5,000 10,000	15,000
„ 3	Purchases A/c Dr. To Cash A/c (Being purchase of goods)		14,000	14,000
„ 6	Cash A/c Dr. To Sales A/c (Being goods sold)	8,000		8,000
„ 8	Purchases A/c Dr. To Malhotra & Co. (Being purchase of goods from Malhotra & Co.)		11,000	11,000
„ 10	Telephone Rent A/c Dr. To Bank (By payment of telephone rent)		500	500
„ 11	Typewriter A/c Dr. To Universal Typewriter Co. (Being purchase of typewriter)		2,100	2,100
„ 15	Keshav Ram Dr. To Sales A/c (Sold goods to Keshav Ram)		12,000	12,000
„ 17	Cash A/c Dr. To Sales A/c (Sold goods for cash to Rajesh Kumar)	2,000		2,000
„ 19	Drawings A/c Dr. To Bank A/c (Withdrawn for personal use)		1,500	1,500
„ 21	Cash A/c Dr. Discount A/c Dr. To Keshav Ram (Cash recd. from Keshav Ram)	11,900	100	12,000
„ 22	Bank A/c Dr. To Cash A/c (Paid into bank)	5,800		5,800
23	Investments A/c Dr. To Bank A/c (Purchase of shares for Rs. 3,000 and brokerage Rs. 20)		3,020	3,020
„ 25	Malhotra & Co. Dr. To Purchase Returns A/c (Defective goods returned to Malhotra & Co.)		1,000	1,000
„ 25	Malhotra & Co. Dr. To Bank A/c (Being settlement of account of Malhotra & Co.)		10,000	10,000

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# NOTES

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
„ 28	Cash A/c Dr. To Investments A/c To Profit on sale of Investments A/c (Sold shares in XY & Co. Ltd. @ Rs. 60 per share brokerage Rs. 20)		1,280	1,208 72
„ 28	Purchases A/c Dr. To Ramesh (Purchase of goods)		2,100	2,100
„ 28	Suresh Dr. To Sales A/c (Goods sold to Suresh)		3,000	3,000
„ 30	Sales Return A/c Dr. To Suresh (Goods returned by Suresh)		100	100
„ 30	Ramesh Dr. To Purchases Returns (Goods returned by Suresh sent to Suresh at cost : 100 × 21/30 = Rs. 70)		70	70
„ 30	Rent A/c Dr. To Bank A/c (Rent paid to landlord)		1,000	1,000
„ 30	Salaries A/c Dr. To Cash (Salaries paid)		1,500	1,500
	Cash A/c Dr. To Sales A/c (Cash sales by travelling salesmen)		2,000	2,000
	Travelling Expenses A/c Dr. To Cash (Travelling expenses paid)		100	100
„ 30	Charity A/c Dr. Stationery A/c Dr. Postage A/c Dr. To Cash A/c (Paid for charity, stationery, postage etc.)		101 450 249	800

## Ledger

### CASH ACCOUNT

Dr.  
Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2006			2006		
Sept. 1	To Capital A/c	30,000	Sept. 2	By Furniture A/c	5,000
„ 6	To Sales A/c	8,000		By Machinery A/c	10,000
„ 17	To Sales A/c	2,000	„ 3	By Purchases A/c	14,000
„ 21	To Keshav Ram	11,900	„ 22	By Bank A/c	5,800
„ 28	To Investments A/c	1,208	„ 30	By Salaries A/c	1,500
	To Profit on sale of Investments A/c	72	„ 30	By Travelling Expenses	100
„ 30	To Sales A/c	2,000		By Charity A/c	101
			„ 30	By Stationery A/c	450
				By Postage A/c	249
				By Balance c/d	17,980
		<u>55,180</u>			<u>55,180</u>

# NOTES

## BANK ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 1	To Capital A/c	20,000	Sept. 10	By Telephone Rent	500
„ 22	To Cash A/c	5,800	„ 19	By Drawing A/c	1,500
			„ 23	By Investments A/c	3,020
			„ 25	By Malhotra & Co.	10,000
			„ 30	By Rent A/c	1,000
			„ 30	By Balance c/d	9,780
		<u>25,800</u>			<u>25,800</u>

## CAPITAL ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 30	To Balance c/d	50,000	Sept. 1	By Cash A/c	30,000
				By Bank A/c	20,000
		<u>50,000</u>			<u>50,000</u>

## FURNITURE ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 2	To Cash A/c	5,000	Sept. 30	By Balance c/d	5,000
		<u>5,000</u>			<u>5,000</u>

## MACHINERY ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 2	To Cash A/c	10,000	Sept. 30	By Balance c/d	10,000
		<u>10,000</u>			<u>10,000</u>

## Dr. PURCHASES ACCOUNT Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 3	To Cash A/c	14,000	Sept. 30	By Balance c/d	27,100
„ 8	To Malhotra & Co.	11,000			
„ 28	To Ramesh	2,100			
		<u>27,100</u>			<u>27,100</u>

## SALES ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 30	To Balance c/d	27,000	Sept. 6	By Cash A/c	8,000
			„ 15	By Keshav Ram	12,000
			„ 17	By Cash A/c	2,000
			„ 28	By Suresh 3,000	
			„ 30	By Cash A/c	2,000
		<u>27,000</u>			<u>27,000</u>

## MALHOTRA & CO.

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 25	To Purchase Returns	1,000	Sept. 8	By Purchases A/c	11,000
„ 25	To Bank A/c	10,000			
		<u>11,000</u>			<u>11,000</u>

# NOTES

## TELEPHONE RENT ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 10	To Bank	500	Sept. 30	By Balance c/d	500
		<u>500</u>			<u>500</u>

## TYPEWRITER ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 11	To Universal Typewriter Co.	2,100	Sept. 30	By Balance c/d	2,100
		<u>2,100</u>			<u>2,100</u>

## UNIVERSAL TYPEWRITER CO.

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 30	To Balance c/d	2,100	Sept. 11	By Typewriter A/c	2,100
		<u>2,100</u>			<u>2,100</u>

Dr. KESHAV RAM Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 15	To Sales A/c	12,000	Sept. 30	By Cash A/c	11,900
		<u>12,000</u>		By Discount A/c	100
					<u>12,000</u>

## DRAWINGS ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 19	To Bank A/c	1,500	Sept. 30	By Balance c/d	1,500
		<u>1,500</u>			<u>1,500</u>

## DISCOUNT ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 21	To Keshav Ram	100	Sept. 30	By Balance c/d	100
		<u>100</u>			<u>100</u>

## INVESTMENTS ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 23	To Bank A/c	3,020	Sept. 28	By Cash 1,208	
		<u>3,020</u>		By Balance c/d	1,812
					<u>3,020</u>

## PRUCHASES RETURNS ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 30	To Balance c/d	1,070	Jan. 25	By Malhotra & Co.	1,000
		<u>1,070</u>	Sept. 30	By Ramesh 70	
					<u>1,070</u>

(Contd.)

## NOTES

### PROFIT ON SALES ON INVESTMENTS ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 30	To Balance c/d	72	Sept. 30	By Cash A/c	72
		<u>72</u>			<u>72</u>

### RAMESH

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 30	To Purchases Returns	70	Sept. 28	By Purchases	2,100
" 30	To Balance c/d	2,030			
		<u>2,100</u>			<u>2,100</u>

### Dr. SURESH Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 30	To Sales A/c	3,000	Sept. 30	By Sales Returns A/c	100
			" 30	By Balance c/d	2,900
		<u>3,000</u>			<u>3,000</u>

### SALES RETURNS ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 30	To Suresh	100	Sept. 30	By Balance c/d	100
		<u>100</u>			<u>100</u>

### RENT ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 30	To Bank A/c	1,000	Sept. 30	By Balance c/d	1,000
		<u>1,000</u>			<u>1,000</u>

### SALARIES ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 30	To Cash A/c	1,500	Sept. 30	By Balance c/d	1,500
		<u>1,500</u>			<u>1,500</u>

### TRAVELLING EXPENSES ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 30	To Cash A/c	100		By Balance c/d	100
		<u>100</u>			<u>100</u>

### CHARITY ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 30	To Cash A/c	101	Sept. 30	By Balance c/d	101
		<u>101</u>			<u>101</u>

### STATIONERY ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Sept. 30	To Cash A/c	450	Sept. 30	By Balance c/d	450
		<u>450</u>			<u>450</u>

## NOTES

Dr.			POSTAGE ACCOUNT			Cr.		
Date	Particulars	Rs.	Date	Particulars	Rs.			
Sept. 30	To Cash A/c	249	Sept. 30	By Balance c/d	249			
		249			249			

### 3.6 TRIAL BALANCE

In case, the various debit balances and the credit balances of the different accounts are taken down in a statement, the statement so prepared is termed as a Trial Balance. In other words, Trial Balance is a statement containing the various ledger balances on a particular date. For example, with the balances of the ledger accounts prepared in Illustration 3.2, the Trial Balance can be prepared as follows:

TRIAL BALANCE as on 31st January		
Particulars	Debit Rs	Credit Rs
Cash Account	12,000	
Capital Account		10,000
Purchases Account	4,000	
Mohan		2,000
Sales Account		4,000
	16,000	16,000

Thus, the two sides of the Trial Balance tally. It means the books of accounts are arithmetically accurate.

#### Objects of Preparing A Trial Balance

1. *Checking of the arithmetical accuracy of the accounting entries.* As indicated above, the Trial Balance helps in knowing the arithmetical accuracy of the accounting entries. This is because according to the dual aspect concept for every debit, there must be an equivalent credit. Trial Balance represents a summary of all ledger balances and, therefore, if the two sides of the Trial Balance tally, it is an indication of this fact that the books of account are arithmetically accurate. Of course, there may be certain errors in the books of account in spite of an agreed Trial Balance. For example, if a transaction has been completely omitted from the books of account, the two sides of the Trial Balance will tally, in spite of the books of account being wrong. This has been discussed in detail later in a separate unit.
2. *Basis for financial statements.* Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarised form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements as stated above to know the profit or loss made by the business during a particular period or its financial position on a particular date.

3. *Summarised ledger.* It has already been stated that a Trial Balance contains the ledger balances on a particular date. Thus, the entire ledger is summarised in the form of a Trial Balance. The position of a particular account can be judged simply by looking at the Trial Balance. The Ledger may be seen only when details regarding the accounts are required.

**Methods of preparing Trial Balance.** A trial balance may be prepared according to any of the two methods:

(a) *Totals method.* In case of this method, the totals of debit and credit of the accounts are shown in the trial balance. Trial balance is prepared before ledger accounts are balanced. The totals of the debit and credit columns of the trial balance must be equal. This method is not popular.

(b) *Balance method.* In case of this method, the balances of the ledger accounts are shown in the respective debit and credit columns of the trial balance. The total of the balance of the debit column must be equal to the total balance of credit column. This is the most common method of preparing a trial balance.

**Illustration 3.4.** Prepare the Ledger Accounts and the Trial Balance on the basis of transactions given in Illustration 3.6.

**Solution:**

Dr.				CASH ACCOUNT				Cr.			
Date		Particulars		L.F.	Amount Rs	Date		Particulars		L.F.	Amount Rs
1989						1989					
Jan.	1	To Balance b/d			8,000	Jan.	1	By Purchases A/c			3,800
Jan.	4	To Vijay			1,980	Jan.	8	By Plant A/c			300
Jan.	15	To Rahim			300	Jan.	20	By Salary A/c			2,000
Jan.	18	To Sales A/c			1,000	Jan.	21	By Anand			4,800
Jan.	26	To Interest A/c			200	Jan.	28	By Interest on Loan A/c			500
Jan.	31	To Sales A/c			500	Jan.	31	By Balance c/d			580
					<u>11,980</u>						<u>11,980</u>
Feb.	1	To Balance b/d			580						

INTEREST ACCOUNT

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
Jan. 31	To Balance c/d	200	Jan. 26	By Cash A/c	200
		<u>200</u>			<u>200</u>
			Feb. 1	By Balance b/d	200

BANK ACCOUNT

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
Jan. 1	To Balance b/d	25,000	Jan. 31	By Balance c/d	25,000
		<u>25,000</u>			<u>25,000</u>
Feb. 1	To Balance b/d	25,000			

NOTES

# NOTES

## STOCK ACCOUNT

<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>
Jan. 1	To Balance b/d	20,000	Jan. 31	By Balance c/d	20,000
		<u>20,000</u>			<u>20,000</u>
Feb. 1	To Balance b/d	20,000			

## FURNITURE ACCOUNT

<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>
Jan. 1	To Balance b/d	2,000	Jan. 31	By Balance c/d	2,000
		<u>2,000</u>			<u>2,000</u>
Feb. 1	To Balance b/d	2,000			

## BUILDING ACCOUNT

<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>
Jan. 1	To Balance b/d	10,000	Jan. 31	By Balance c/d	10,000
		<u>10,000</u>			<u>10,000</u>
Feb. 1	To Balance b/d	10,000			

## VIJAY

<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>
Jan. 1	To Balance b/d	2,000	Jan. 4	By Cash A/c	1,980
				By Discount A/c	20
		<u>2,000</u>			<u>2,000</u>

## ANIL

<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>
Jan. 1	To Balance b/d	1,000	Jan. 31	By Balance c/d	1,000
		<u>1,000</u>			<u>1,000</u>
Feb. 1	To Balance b/d	1,000			

## MADHU

<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>
Jan. 1	To Balance b/d	2,000	Jan. 31	By Balance c/d	2,000
		<u>2,000</u>			<u>2,000</u>
Feb. 1	To Balance b/d	2,000			

## ANAND

<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>
Jan. 21	To Cash A/c	4,800	Jan. 1	By Balance b/d	5,000
Jan. 21	To Discount A/c	200			
		<u>5,000</u>			<u>5,000</u>

## CAPITAL ACCOUNT

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
Jan. 31	To Balance c/d	55,000	Jan. 1	By Balance b/d	55,000
		<u>55,000</u>			<u>55,000</u>
			Feb. 1	By Balance b/d	55,000

## BABU'S LOAN ACCOUNT

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
Jan. 31	To Balance c/d	10,000	Jan. 1	By Balance b/d	10,000
		<u>10,000</u>			<u>10,000</u>
			Feb. 1	By Balance b/d	10,000

## PURCHASES ACCOUNT

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
Jan. 1	To Cash A/c	3,800	Jan. 31	By Drawings A/c	200
Jan. 1	To Discount A/c	200	Jan. 31	By Balance c/d	8,800
Jan. 6	To Bharat	5,000			<u>9,000</u>
		<u>9,000</u>			<u>9,000</u>
Feb. 1	To Balance b/d	8,800			

## DISCOUNT ACCOUNT

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
Jan. 4	To Vijay	20	Jan. 1	By Purchases A/c	200
Jan. 31	To Balance c/d	380	Jan. 21	By Anand	200
		<u>400</u>			<u>400</u>
			Feb. 1	By Balance b/d	380

## BHARAT

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
Jan. 31	To Balance c/d	5,000	Jan. 6	By Purchases A/c	5,000
		<u>5,000</u>			<u>5,000</u>
			Feb. 1	By Balance b/d	5,000

## PLANT ACCOUNT

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
Jan. 8	To Mukesh	5,000	Jan. 31	By Balance c/d	5,300
Jan. 8	To Cash A/c	300			<u>5,300</u>
		<u>5,300</u>			<u>5,300</u>
Feb. 1	To Balance b/d	5,300			

## INTEREST ON LOAN ACCOUNT

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
Jan. 28	To Cash A/c	500	Jan. 31	By Balance c/d	500
		<u>500</u>			<u>500</u>
Feb. 1	To Balance b/d	500			

## NOTES



NOTES

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
Jan. 31	To Balance c/d	5,000	Jan. 8	By Plant A/c	5,000
		<u>5,000</u>			<u>5,000</u>
			Feb. 1	By Balance d/d	5,000

SALES ACCOUNT

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
Jan. 31	To Balance c/d	2,100	Jan. 21	By Rahim	600
			Jan. 18	By Cash A/c	1,000
			Jan. 31	By Cash A/c	500
		<u>2,100</u>			<u>2,100</u>
			Feb. 1	By Balance b/d	2,100

Dr.

RAHIM

Cr.

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
Jan. 12	To Sales A/c	600	Jan. 15	By Cash A/c	300
			Jan. 15	By Bad Debts A/c	300
		<u>600</u>			<u>600</u>

BAD DEBTS ACCOUNT

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
Jan. 15	To Rahim	300	Jan. 31	By Balance c/d	300
		<u>300</u>			<u>300</u>
Feb. 1	To Balance b/d	300			

SALARY ACCOUNT

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
Jan. 20	To Cash A/c	2,000	Jan. 31	By Balance c/d	2,000
		<u>2,000</u>			<u>2,000</u>
Feb. 1	To Balance b/d	2,000			

DRAWINGS ACCOUNT

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
Jan. 31	To Purchases A/c	200	Jan. 31	By Balance c/d	200
		<u>200</u>			<u>200</u>
Feb. 1	To Balance b/d	200			

TRIAL BALANCE

(as on 31st January, 1999)

Particulars	Debit Rs	Credit Rs
Cash Account	580	
Interest		200
Bank Account	25,000	
Stock Account	20,000	
Furniture Account	2,000	

Building Account	10,000	
Anil	1,000	
Madhu	2,000	
Capital Account		55,000
Babu's Loan Account		10,000
Purchases Account	8,800	
Discount Account		380
Bharat		5,000
Plant Account	5,300	
Interest on Loan Account	500	
Mukesh		5,000
Sales Account		2,100
Bad Debts Account	300	
Salary Account	2,000	
Drawings Account	200	
	<u>77,680</u>	<u>77,680</u>

*Ledger Posting and Trial Balance*

## NOTES

**Illustration 3.5.** On 1st January, 2006, the following were the ledger balances of Rajan & Co.: Cash in hand Rs. 900; Cash at bank Rs. 21,000; Soni (Cr.) Rs. 3,000; Zahir (Dr.) Rs. 2,400; Stock Rs. 12,000; Prasad (Cr.) Rs. 6,000; Sharma (Dr.) Rs. 4,500; Lall (Cr.) Rs. 2,700; Ascertain capital. Transactions during the month were:

Date	Particulars	Rs.
2006		
Jan. 2	Bought goods of Prasad	2,700
„ 3	Sold to Sharma	3,000
„ 5	Bought goods of Lall for cash payment made by cheque	3,600
„ 7	Took goods for personal use	200
„ 13	Received from Zahir in full settlement	2,350
„ 17	Paid to Soni in full settlement	2,920
„ 22	Paid cash for stationery	50
„ 29	Paid to Prasad by cheque	2,650
	Discount allowed by him	50
„ 30	Provide interest on capital	100
„ 30	Rent due to landlord	200

Journalise the above transactions and post to the Ledger and prepare a Trial Balance.

### Solution:

#### JOURNAL

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2006				
Jan. 1	Cash A/c Dr.		900	
	Bank A/c Dr.		21,000	
	Zahir Dr.		2,400	
	Stock Dr.		12,000	
	Sharma Dr.		4,500	
	To Soni			3,000
	To Prasad			6,000
	To Lall			2,700
	To Capital A/c			29,100
	(Balances brought forward from last year)			
„ 2	Purchases A/c Dr.		2,700	
	To Prasad			2,700
	(Purchase of goods)			

(Contd.)

# NOTES

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
„ 3	Sharma To Sales A/c (Sold goods to Sharma)	Dr.	3,000	3,000
„ 5	Purchases A/c To Bank A/c (Bought goods from Lall for cash, paid by cheque)	Dr.	3,600	3,600
„ 7	Drawings A/c To Purchases A/c (Took goods for personal use)	Dr.	200	200
Jan. 13	Cash A/c Discount A/c To Zahir (Received in full settlement)	Dr. Dr.	2,350 50	2,400
„ 17	Soni To Cash A/c To Discount A/c (Paid in full settlement and earned discount)	Dr.	3,000	2,920 80
„ 22	Stationery A/c To Cash A/c (Paid for stationery)	Dr.	50	50
„ 30	Interest on Capital A/c To Capital A/c (Interest on capital provided)	Dr.	100	100
„ 30	Rent A/c To Outstanding Rent A/c (Rent due to landlord)	Dr.	200	200

## Ledger

Dr. CASH ACCOUNT Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2006			2006		
Jan. 1	To Balance b/d	900	Jan. 5	By Soni	2,920
„ 13	To Zahir	2,350	„ 22	By Stationery A/c	50
			„ 31	By Balance c/d	280
		<u>3,250</u>			<u>3,250</u>

## BANK ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 1	To Balance c/d	21,000	Jan. 5	By Purchases	3,600
			„ 29	By Prasad	2,650
			„ 31	By Balance c/d	14,750
		<u>21,000</u>			<u>21,000</u>

Dr. ZAHIR Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 1	To Balance b/d	2,400	Jan. 13	By Cash A/c	2,350
			„ 13	By Discount A/c	50
		<u>2,400</u>			<u>2,400</u>

(Contd.)

Dr.

## STOCK ACCOUNT

Cr.

Ledger Posting and Trial Balance

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 1	To Balance b/d	12,000	Jan. 31	By Balance c/d	12,000
		<u>12,000</u>			<u>12,000</u>

## SHARMA

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 1	To Balance b/d	4,500	Jan. 31	By Balance c/d	7,500
" 3	To Sales A/c	3,000			
		<u>7,500</u>			<u>7,500</u>

## SONI

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 17	To Cash A/c	2,920	Jan. 1	By Balance b/d	3,000
	To Discount A/c	80			
		<u>3,000</u>			<u>3,000</u>

## PRASAD

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 29	To Bank A/c	2,650	Jan. 1	By Balance b/d	6,000
" 29	To Discount A/c	50	" 2	By Purchase A/c	2,700
" 31	To Balance c/d	6,000			
		<u>8,700</u>			<u>8,700</u>

## LALL

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 31	To Balance c/d	2,700	Jan. 1	By Balance b/d	2,700
		<u>2,700</u>			<u>2,700</u>

## CAPITAL ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 31	To Balance c/d	29,200	Jan. 1	By Balance b/d	29,100
			" 30	By Interest on Capital A/c	100
		<u>29,200</u>			<u>29,200</u>

Dr.

## PURCHASES ACCOUNT

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 2	To Prasad	2,700	Jan. 7	By Drawings A/c	200
" 5	To Bank A/c	3,600	" 31	By Balance c/d	6,100
		<u>6,300</u>			<u>6,300</u>

## SALES ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 31	To Balance c/d	3,000	Jan. 3	By Sharma	3,000
		<u>3,000</u>			<u>3,000</u>

## NOTES

## NOTES

### DRAWINGS ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 7	To Purchases A/c	200	Jan. 31	By Balance c/d	200
		<u>200</u>			<u>200</u>

### DISCOUNT RECEIVED ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 31	To Balance c/d	130	Jan. 17	By Soni	80
		<u>130</u>		By Prasad	50
					<u>130</u>

### DISCOUNT ALLOWED ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 13	To Zahir	50	Jan. 31	By Balance c/d	50
		<u>50</u>			<u>50</u>

### STATIONERY ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 22	To Cash A/c	50	Jan. 31	By Balance c/d	50
		<u>50</u>			<u>50</u>

### INTEREST ON CAPITAL ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 30	To Capital A/c	100	Jan. 31	By Balance c/d	100
		<u>100</u>			<u>100</u>

### Dr. RENT ACCOUNT Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 30	To Outstanding Rent A/c	200		By Balance c/d	200
		<u>200</u>			<u>200</u>

### OUTSTANDING RENT ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 31	To Balance c/d	200	Jan. 30	By Rent A/c	200
		<u>200</u>			<u>200</u>

### TRIAL BALANCE

(as on 31st January, 1996)

Particulars	Dr. Rs.	Cr. Rs.
Cash Account	280	
Bank Account	14,750	
Stock Account	12,000	
Sharma	7,500	
Prasad		6,000
Lall		2,700
Capital Account		29,200
Purchases Account	6,100	

(Contd.)

Particulars	Dr. Rs.	Cr. Rs.
Sales Account		3,000
Drawings Account	200	
Discount Allowed Account	50	
Discount Received Account		130
Stationery Account	50	
Interest on Capital Account	100	
Rent Account	200	
Outstanding Rent Account		200
	<u>41,230</u>	<u>41,230</u>

## NOTES

**Illustration 3.6.** Journalise the following transactions, post them in the Ledger and prepare a Trial Balance:

January 1, 1996

**Assets :** Furniture Rs. 5,000; Machinery Rs. 10,000; Stock Rs. 4,000; Cash in Hand Rs. 550; Cash at Bank Rs. 7,450; Amount due from Ramesh & Co. Rs. 1,000 and Amount due from Suresh Rs. 2,000.

**Liabilities :** Amount due to Rama Rs. 4,500; Amount due to Ranjeet Rs. 2,000; and Amount due to Shyam Rs. 1,500.

1996	Particulars	Rs.
Jan. 1	Purchased goods from Ajay	4,500
„ 3	Sold goods for cash	1,500
„ 5	Paid to Himanshu by cheque	5,500
„ 10	Deposited in bank	2,800
„ 13	Sold goods on credit to Mukesh	1,700
„ 15	Paid for postage	100
„ 16	Received cash from Rakesh	2,200
„ 17	Paid telephone charges	250
„ 18	Cash Sales	1,500
„ 20	Purchased Govt. Securities	500
„ 22	Purchased goods worth Rs. 1,600 less 20% trade discount and 5% cash discount from Mahesh & Co. for cash and supplied them to Ramesh & Co. at list price less 10% trade discount	
„ 25	Cash Purchases	1,650
„ 27	Goods worth Rs. 500 were damaged in transit; a claim was made on the railway authorities for the same	
„ 28	Suresh is declared insolvent and a dividend of 50 paise in rupee is received from him in full settlement, by cheque.	
„ 28	Bought a horse for Rs. 2,600 and a carriage for Rs. 1,200 for delivering goods to customers	
„ 30	The horse bought on Jan. 28 dies, and carriage was sold for Rs. 1,000	
„ 31	Allowed interest on capital @ 10% p.a. for one month	
„ 31	Paid for:	
	Salaries	Rs. 150
	Rent	Rs. 60

**Solution:**

**NOTES**

JOURNAL				
Date	Particulars	L.F.	Debit Rs.	Credit Rs.
1996 Jan. 1	Furniture A/c Dr. Machinery A/c Dr. Stock A/c Dr. Cash A/c Dr. Bank A/c Dr. Ramesh & Co. Dr. Suresh Dr. To Rama To Ranjeet To Shyam To Capital A/c (Balance brought forward)		5,000 10,000 4,000 550 7,450 1,000 2,000	4,500 2,000 1,500 22,000
„ 1	Purchases A/c Dr. To Ajay (Purchase of goods)		4,500	4,500
„ 3	Cash A/c Dr. To Sales A/c (Cash Sales)		1,500	1,500
„ 5	Himanshu Dr. To Bank (Paid to Himanshu)		5,500	5,500
„ 10	Bank A/c Dr. To Cash A/c (Deposited in bank)		2,800	2,800
„ 13	Mukesh Dr. To Sales A/c (Sold goods)		1,700	1,700
„ 15	Postage A/c Dr. To Cash (Paid for postage)		100	100
Jan. 16	Cash A/c Dr. To Rakesh (Cash Received)		2,200	2,200
„ 17	Telephone Charges A/c Dr. To Cash A/c (Paid telephone charges)		250	250
„ 18	Cash A/c Dr. To Sales A/c (Cash sales)		1,500	1,500
„ 20	Investments A/c Dr. To Cash A/c (Purchased government securities)		500	500
„ 22	Purchases A/c Dr. To Cash A/c (Purchased goods worth Rs. 1,600 less 20% trade and 5% cash discount)		1,200	1,200
„ 22	Ramesh & Co. Dr. To Sales A/c (Sold goods for 1,600 less 10% trade Discount)		1,440	1,440

(Contd.)

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
„ 25	Purchases A/c Dr. To Cash A/c (Cash purchases)		1,650	1,650
„ 27	Loss in Transit A/c Dr. To Purchases A/c (Goods damaged in transit)		500	500
„ 28	Cash A/c Dr. Bad Debts Dr. To Suresh (Suresh pays 50 p. in rupee)		1,000 1,000	2,000
„ 28	Horse & Carriage A/c Dr. To Bank A/c (Purchase of a horse for Rs. 2,600 and carriage Rs. 1,200)		3,800	3,800
„ 30	Cash A/c Dr. Abnormal Loss A/c Dr. To Horse & Carriage A/c (Horse dies and carriage sold for Rs. 1,000)		1,000 2,800	3,800
„ 31	Interest on Capital A/c Dr. To Capital A/c (Allowed interest on capital for one month at 10% p.a.)		183	183
„ 31	Salaries A/c Dr. Rent A/c Dr. To Cash A/c (Paid for salaries and rent)		150 60	210

## NOTES

### Ledger

Dr. FURNITURE ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 1	Balance b/d	5,000	Jan. 31	By Balance c/d	5,000
		<u>5,000</u>			<u>5,000</u>

### MACHINERY ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 1	To Balance b/d	10,000	Jan. 31	By Balance c/d	10,000
		<u>10,000</u>			<u>10,000</u>

### STOCK ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 1	To Balance b/d	4,000	Jan. 31	By Balance c/d	4,000
		<u>4,000</u>			<u>4,000</u>

### CASH ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 1	To Balance b/d	550	Jan. 10	By Bank A/c	28,000
„ 3	To Sales A/c	1,500	„ 15	By Postage A/c	100
„ 16	To Rakesh A/c	2,200	„ 17	By Telephone Charges	250
„ 18	To Sales A/c	1,500	„ 20	By Investments A/c	500
„ 28	To Suresh	1,000	„ 22	By Purchases A/c	1,200
„ 30	To Horse & Carriage A/c	1,000	„ 25	By Purchases A/c	1,650
			„ 31	By Salaries A/c	150
			„ 31	By Rent A/c	60
			„ 31	By Balance c/d	1,040
		<u>7,750</u>			<u>7,750</u>



# NOTES

## BANK ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 1	To Balance b/d	7,450	Jan. 5	By Himanshu	5,500
„ 10	To Cash A/c	2,800	„ 28	By Horse & Carriage A/c	3,800
			„ 31	By Balance c/d	950
		<u>10,250</u>			<u>10,250</u>

## RAMESH & CO.

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 1	To Balance b/d	1,000	Jan. 31	By Balance c/d	2,440
„ 22	To Sales A/c	1,440			
		<u>2,440</u>			<u>2,440</u>

## SURESH

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 1	To Balance b/d	2,000	Jan. 28	By Cash A/c	1,000
				By Bad Debts A/c	1,000
		<u>2,000</u>			<u>2,000</u>

## RAMA

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 31	To Balance c/d	4,500	Jan. 1	By Balance c/d	4,500
		<u>4,500</u>			<u>4,500</u>

## RANJEET

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 31	To Balance c/d	2,000	Jan. 1	By Balance b/d	2,000
		<u>2,000</u>			<u>2,000</u>

## SHYAM

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 31	To Balance c/d	1,500	Jan. 1	By Balance b/d	1,500
		<u>1,500</u>			<u>1,500</u>

## Dr. CAPITAL ACCOUNT

## Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 31	To Balance c/d	22,183	Jan. 1	By Balance b/d	22,000
			„ 31	By Interest on Capital	183
		<u>22,183</u>			<u>22,183</u>

## PURCHASES ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 1	To Ajay	4,500	Jan. 27	By Loss-in transit	500
„ 22	To Cash A/c	1,200	„ 31	By Balance c/d	6,850
„ 25	To Cash A/c	1,650			
		<u>7,350</u>			<u>7,350</u>

(Contd.)

## AJAY

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 1	To Balance c/d	4,500	Jan. 1	By Purchases A/c	4,500
		<u>4,500</u>			<u>4,500</u>

## SALES ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 31	To Balance c/d	6,140	Jan. 3	By Cash A/c	1,500
			„ 13	By Mukesh	1,700
			„ 18	By Cash A/c	1,500
			„ 22	By Ramesh & Co.	1,440
		<u>6,140</u>			<u>6,140</u>

## HIMANSHU

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 5	To Bank A/c	5,550		By Balance c/d	5,550
		<u>5,550</u>			<u>5,550</u>

## POSTAGE ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 15	To Cash A/c	100	Jan. 31	By Balance c/d	100
		<u>100</u>			<u>100</u>

## RAKESH

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 31	To Balance c/d	2,200	Jan. 16	By Cash A/c	2,200
		<u>2,200</u>			<u>2,200</u>

## Dr. TELEPHONE CHARGES ACCOUNT Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 17	To Cash A/c	250	Jan. 31	By Balance c/d	250
		<u>250</u>			<u>250</u>

## INVESTMENTS ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 20	To Cash A/c	500		By Balance c/d	500
		<u>500</u>			<u>500</u>

## LOSS IN TRANSIT ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 27	To Purchases A/c	500	Jan. 31	By Balance c/d	500
		<u>500</u>			<u>500</u>

## BAD DEBTS ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 28	To Suresh	1,000	Jan. 31	By Balance c/d	1,000
		<u>1,000</u>			<u>1,000</u>

## NOTES

# NOTES

## HORSE & CARRIAGE ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 28	To Bank A/c	3,800	Jan. 30	By Cash A/c	1,000
				By Abnormal Loss A/c	2,800
		<u>3,800</u>			<u>3,800</u>

## ABNORMAL LOSS ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 30	To Horse & Carriage A/c	2,800	Jan. 31	By Balance c/d	2,800
		<u>2,800</u>			<u>2,800</u>

## INTEREST ON CAPITAL ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 31	To Capital A/c	183	Jan. 31	By Balance c/d	183
		<u>183</u>			<u>183</u>

## SALARIES ACCOUNT

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 31	To Cash A/c	150	Jan. 31	By Balance c/d	150
		<u>150</u>			<u>150</u>

## Dr. RENT ACCOUNT Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
Jan. 31	To Cash A/c	60	Jan. 31	By Balance c/d	60
		<u>60</u>			<u>60</u>

## TRIAL BALANCE

(as on Jan. 31, 2006)

Particulars	Dr. Rs.	Cr. Rs.
Furniture Account	5,000	
Machinery Account	10,000	
Stock Account	4,000	
Cash Account	1,040	
Bank Account	950	
Ramesh & Co.	2,440	
Rama		4,500
Ranjeet		2,000
Shyam		1,500
Capital Account		22,183
Purchases Account	6,850	
Ajay		4,500
Sales Account		6,140
Himanshu	5,500	
Mukesh	1,700	
Postage Account	100	
Rakesh		2,200
Telephone Charges Account	250	
Investment Account	500	
Loss-in-Transit Account	500	
Bad Debts Account	1,000	
Abnormal Loss Account	2,800	
Interest on Capital Account	183	
Salaries Account	150	
Rent Account	60	
	<u>43,023</u>	<u>43,023</u>

**Illustration 3.7.** Record the following transactions in various subsidiary books and post them into Ledger and prepare a Trial Balance:

*Ledger Posting and Trial Balance*

2000

- June 1 Cash in hand Rs 15,700, Cash at Bank Rs. 25,400 and Capital Account Rs. 41,100.
- June 3 Bought goods for cash Rs. 4,100.
- June 4 Purchased goods from Mahesh & Co. for Rs. 5,800 less 10% trade discount.
- June 7 Sold goods to Bindia & Co. for Rs. 8,900 less 20% trade discount.
- June 9 Withdrew Rs. 500 from Bank for private use.
- June 12 Sold goods to Amjad for Rs. 6,400.
- June 15 Rs. 5,000 paid to Mukesh & Co. in full settlement of their account.
- June 18 Goods worth Rs. 400 returned by Amjad.
- June 20 Received Rs. 4,000 from Amjad.
- June 21 Purchased goods from Shiv & Co. for Rs. 8,700.
- June 23 Rs. 6,000 paid to Shiv & Co. by cheque; discount allowed Rs. 300.
- June 24 Purchased furniture for Rs. 800 from Surjeet Furniture House on credit.
- June 26 Paid into Bank Rs. 2,200.
- June 28 Amjad declared insolvent; a first and final dividend of 50 paise in a rupee is received from him.
- June 29 Goods worth Rs. 600 returned to Shiv & Co.
- June 30 Interest on capital provided Rs. 411.
- June 30 Goods worth Rs. 400 taken by the proprietor for his personal use.
- June 30 Paid salaries to staff Rs. 1,800.
- June 30 Paid into Bank Rs. 20,000.
- June 30 Cash sales Rs. 21,800
- June 30 Brought 100 shares in Hind Mills Ltd. at Rs. 11 per share brokerage paid Rs. 25.
- June 30 Received Rs. 5,900 from Bindia & Co.; discount allowed Rs. 100.

**Solution:**

**JOURNAL PROPER**

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Debit</i>	<i>Credit</i>
2000			<i>Rs.</i>	<i>Rs.</i>
June 24	Furniture Account Dr. To Surjeet Furniture House (Being furniture purchased on credit)		800	800
June 28	Bad Debts Account Dr. To Amjad (Being 50% amount the written off as bad debt on Amjad becoming insolvent)		1,000	1,000
June 30	Interest on Capital Account Dr. To Capital Account (Being interest on Capital provided)		411	411
June 30	Drawings Account Dr. To Purchases Account (Being goods taken for personal use of the proprietor)		400	400
June 30	Capital Account Dr. To Drawings Account (Being transfer of balance of Drawings Account)		900	900
			3,511	3,511

**NOTES**

# NOTES

## SALES BOOK

Date	Particulars	L.F.	Debit	Credit
2000			Rs.	Rs.
June 7	Bindia & Co. Goods sold		8,900	
	Less: 20% Trade discount		1,780	7,120
June 12	Amjad			6,400
June 30	Sales Account Cr.			13,520

## PURCHASE BOOK

Date	Particulars	L.F.	Debit	Credit
2000			Rs.	Rs.
June 4	Mahesh & Co. Goods Purchased		5,800	
	Less: 10% Trade discount		580	5,220
June 21	Amjad			8,700
June 30	Purchases Account Dr.			13,920

## SALES RETURNS BOOK

Date	Particulars	L.F.	Debit	Credit
2000			Rs.	Rs.
June 28	Amjad		400	
June 30	Sales Returns Account Cr.			400

## PURCHASE RETURNS BOOK

Date	Particulars	L.F.	Debit	Credit
2000			Rs.	Rs.
June 29	Shiv & Co.			600
June 30	Purchase Returns Account Cr.			600

## Ledger

Dr.			CAPITAL ACCOUNT			Cr.		
Date	Particulars	Amount	Date	Particulars	Amount			
2000		Rs.			Rs.			
June 30	To Drawings A/c	900	June 1	By Balance b/d	41,000			
June 30	To Balance c/d	40,611	June 30	By Interest on Capital	411			
		<u>41,511</u>			<u>41,511</u>			
			July 1	By Balance b/d	40,611			

## FURNITURE ACCOUNT

2000		Rs.			Rs.
June 24	To Surjeet Furniture House	800	June 30	By Balance b/d	800
		<u>800</u>			<u>800</u>
June 1	To Balance b/d	800			

## SURJEET FURNITURE HOUSE

2000		Rs.			Rs.
June 30	To Balance c/d	800	June 24	By Furniture A/c	800
		<u>800</u>			<u>800</u>
			July 1	By Balance b/d	800

Dr. BAD DEBITS ACCOUNT Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2000		Rs.			Rs.
June 28	To Amjad	1,000	June 30	By Balance c/d	1,000
		<u>1,000</u>			<u>1,000</u>
July 1	To Balance b/d	1,000			

Dr. AMJAD Cr.

2000		Rs.			Rs.
June 12	To Sales A/c	6,400	June 18	By Sales Returns A/c	400
			June 20	By Cash A/c	4,000
			June 28	By Cash A/c	1,000
			June 28	By Bad Debts A/c	1,000
		<u>6,400</u>			<u>6,400</u>

#### INTEREST ON CAPITAL ACCOUNT

2000		Rs.			Rs.
June 30	To Capital A/c	411	June 30	By Balance c/d	411
		<u>411</u>			<u>411</u>
July 1	To Balance b/d	411			

#### DRAWINGS ACCOUNT

2000		Rs.			Rs.
June 9	To Bank A/c	500	June 30	By Capital A/c	900
June 30	To Purchase A/c	400			
		<u>900</u>			<u>900</u>

#### PURCHASE ACCOUNT

2000		Rs.			Rs.
June 4	To Cash A/c	4,100	June 30	By Drawings	400
June 30	To Sundries (as per Purchases Book)	13,920	June 10	By Balance c/d	17,620
		<u>18,020</u>			<u>18,020</u>
July 1	To Balance b/d	17,620			

#### BINDIA & CO.

2000		Rs.			Rs.
June 7	To Sales A/c	7,120	June 30	By Cash A/c	5,900
			June 30	By Discount A/c	100
			June 30	By Balance c/d	1,120
		<u>7,120</u>			<u>7,120</u>
July 1	To Balance b/d	7,120			

#### SALES ACCOUNT

2000		Rs.			Rs.
June 30	To Balance c/d	35,320	June 30	By Sundries (amount as per Sales Book)	13,520
			June 30	By Cash A/c	21,800
		<u>35,320</u>			<u>35,320</u>
			July 1	By Balance b/d	35,320

Ledger Posting and Trial Balance

## NOTES

## NOTES

<i>Dr.</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Discount</i>	<i>Cash</i>	<i>Bank</i>	<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Amount</i>	<i>Cash</i>	<i>Bank</i>	<i>Cr.</i>
2000			<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	2000			<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	
June 1	To Balance b/d			15,700	25,400	June 3	By Purchases A/c			4,100		
June 20	To Amjad		4,000		June 9	By Drawings A/c					500	
June 26	To Cash	C			2,200	June 15	By Mahesh & Co.		220	5,00		
June 28	To Amjad		1,000		June 23	By Shiv @ Co.			300		6,000	
June 30	To Sales A/c			21,800		June 26	By Bank	C		2,200		
June 30	To Cash	C			20,000	June 30	By advertisement				500	
June 30	To Bindia & Co.		100	5,900		June 30	By Salaries A/c			1,800		
						June 30	By Bank	C		20,000		
							By Investment in Shares A/c			1,125		
						June 30	by Balance c/d			14,175	40,600	
July 1	To Balance b/d		100	48,400	47,600				520	48,400	47,600	
				14,175	40,600							

MUKESH & CO.

Ledger Posting and Trial Balance

Date	Particulars	Amount	Date	Particulars	Amount
2000		Rs.			Rs.
June 4	To Purchase A/c	5,220	June 15	By Cash A/c	5,000
			June 15	By Discount A/c	220
		<u>5,220</u>			<u>5,220</u>

SHIV & CO.

2000		Rs.			Rs.
June 23	To Bank A/c	6,000	June 21	By Purchases A/c	8,700
June 23	To Discount A/c	300			
June 29	To Purchases Returns A/c	600			
June 30	To Balance c/d	1,800			
		<u>8,700</u>			<u>8,700</u>
			July 1	By Balance b/d	1,800

Dr. SALES RETURNS ACCOUNT Cr.

2000		Rs.			Rs.
June 30	To Sundries (amount as per Returns Book)	400	June 30	By Balance c/d	400
		<u>400</u>			<u>400</u>
July 1	To Balance b/d	400			

PURCHASES RETURNS ACCOUNT

2000		Rs.			Rs.
June 30	To Balance c/d	600	June 30	By Sundries (amount as per Purchases Returns Books)	600
		<u>600</u>			<u>600</u>
			July 1	By Balance b/d	600

ADVERTISEMENT ACCOUNT

2000		Rs.			Rs.
June 30	To Bank A/c	500	June 30	By Balance c/d	500
		<u>500</u>			<u>500</u>
July 1	To Balance b/d	500			

SALARIES ACCOUNT

2000		Rs.			Rs.
June 30	To Cash A/c	1,800	June 30	By Balance b/d	1,800
		<u>1,800</u>			<u>1,800</u>
July 1	To Balance b/d	1,800			

INVESTMENT IN SHARES ACCOUNT

2000		Rs.			Rs.
June 30	To Cash A/c	1,125	June 30	By Balance b/d	1,125
		<u>1,125</u>			<u>1,125</u>
July 1	To Balance b/d	1,125			

NOTES



# NOTES

## DISCOUNT ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
2000		Rs.			Rs.
June 30	To Sundries (Amount as per (Cash Book)	100	June 30	By Sundries (Amount as per Cash Book)	520
June 30	By Balance c/d	420			
		<u>520</u>			<u>520</u>
			July 1	By Balance b/d	420

**Illustration 3.8.** Mr. Sanjay has two sons namely Ranjan and Ramesh. The elder son Ranjan had taken a B.Sc. degree in Computer Science from Delhi University while Ramesh had done B.Com. (Pass) through correspondence. Mr. Sanjay has retired from a government job and got a sum of Rs. 5,00,000 as his Provident Fund Money. Ranjan had started working with a computer firm on a salary of Rs. 5,000 per month while Ramesh got a job as a clerk in a small business house for Rs. 4,000 per month. Mr. Sanjay was not satisfied with the progress of his sons and wished that they should start some business of their own. In view of the fact that his elder son Ranjan had experience in the computer firm, Mr. Sanjay thought of computer business for his sons and asked them to make out a project for the same. The two sons suggested or setting up a Computer Centre with the name ‘Young Informatics’ providing the following services:

- Short-term courses for different age groups;
- Internet access facility at the prevailing market rates through VSNL;
- Computer games for small children
- Typing and printing of documents on computer;
- Selling of computer stationary.

Mr. Sanjay agreed with the proposal and the following arrangements were agreed upon:

- Ranjan and Ramesh each would put Rs. 20,000 as their capitals from their savings made by them during their employment.
- Mr. Sanjay would provide a loan of Rs. 1,00,000 to the firm on nominal rate of interest of 5% p.a.
- The ground floor of the house would be used as shop for the computer centre. The business would be charged a rent of Rs. 1,000 per month.
- A bank loan of Rs 2,00,000 would be arranged to finance the purchase of computer and peripherals. The total bank loan amount including interest of Rs. 50,000 would be returned in annual instalments as under:
  - At the end of 1st Year      Principal Rs. 50,000 + Interest Rs.    20,000
  - At the end of 2nd Year      Principal Rs. 50,000 + Interest Rs.    15,000
  - At the end of 3rd Year      Principal Rs. 50,000 + Interest Rs.    10,000
  - At the end of 4th Year      Principal Rs. 50,000 + Interest Rs.    5,000

The two sons finally started their business on 1st January, 2002. All transactions were to be made through bank except petty expenses for which Rs. 5,000 were kept in the business and the balance Rs. 1,35,000 were deposited in the bank (comprising of capitals and loan from Mr. Sanjay).

The following transactions took place during the year ending 31st December, 2002:

	Rs.
1. Furniture & Fixtures for the shop	20,000
2. Purchase of Computers	2,00,000

3. Deposit with VSNL	15,000
4. Deposit with Electricity Board	2,000
5. Deposit with MTNL	1,000
6. Collection of fees from students	30,000
7. Purchase of Computer Stationary	1,00,000
8. Total Revenue from sale of computer stationary	3,00,000
9. Telephone Charges	6,000
10. Electricity Charges	4,000
11. Petty Expenses	3,000
12. Entertainment Expenses	2,000
13. Computer Maintenance Expenses	3,000
14. Salaries of employees	12,000

## NOTES

The two partners paid for rent and interest to their father. They also paid bank loan instalment. A sum of Rs. 1,000 p.m. was withdrawn by each one of them for their personal expenses. All payments were made by cheques and all collections were deposited in the bank the same day.

Mr. Sanjay wants to know about the progress made by his sons and to decide whether to go for further expansion of the business.

You are required to journalise the above transactions, post them in the ledger, prepare a trial balance after changing depreciation @ 20% on computers and 10% on furniture and fixtures.

### Solution:

#### Young Informatics JOURNAL ENTRIES

Date	Particulars	Debit	Credit
1.1.2002		Rs.	Rs.
	Cash A/c Dr.	40,000	
	To Ranjan's Capital A/c		20,000
	To Ramesh's Capital A/c		20,000
	(Being capital's brought in by Ranjan and Ramesh)		
	Cash A/c Dr.	1,00,000	
	To Sanjay's Loan A/c		1,00,000
	(Being loan received from Mrs. Sanjay)		
	Bank A/c Dr.	1,35,000	
	To Cash A/c		1,35,000
	(Being cash deposited in bank)		
	Bank A/c Dr.	2,00,000	
	To Bank Loan A/c		2,00,000
	(Being loan taken from bank)		
31.12.02	Furniture and Fixtures A/c Dr.	20,000	
	To Bank A/c		20,000
	(Being furniture and fixtures purchases)		
	Computers A/c Dr.	2,00,000	
	To Bank A/c		2,00,000
	(Being computers purchased)		
	Deposit with VSNL Dr.	15,000	
	To Bank A/c		15,000
	(Being sum deposited with VSNL)		
	Deposit with Electricity Board A/c Dr.	2,000	
	To Bank A/c		2,000
	(Being money deposited with Electricity Board)		

(Contd.)

## NOTES

Deposit and MTNL To Bank A/c (Being sum deposited with MTNL)	Dr.	1,000	1,000
Bank A/c To Students' Fees A/c (Being fees collected from students)	Dr.	30,000	30,000
Purchases A/c To Bank A/c (Being purchase of computer stationary)	Dr.	1,00,000	1,00,000
Bank A/c To Sales A/c (Being sale of computer stationary)	Dr.	3,00,000	3,00,000
Telephone Charges A/c To Bank A/c (Being telephone charges paid)	Dr.	6,000	6,000
Electricity Charges A/c To Bank A/c (Being electricity charges paid)	Dr.	4,000	4,000
Petty Expenses A/c To Cash A/c (Being petty expenses paid)	Dr.	3,000	3,000
Entertainment A/c To Bank A/c (Being entertainment expense paid)	Dr.	2,000	2,000
Computer Maintenance A/c To Bank A/c (Being computer maintenance expenses paid)	Dr.	3,000	3,000
Salaries A/c To Bank A/c (Being salaries paid to the employees)	Dr.	12,000	12,000
Rent A/c To Bank A/c (Being rent paid)	Dr.	12,000	12,000
Interest on Sanjay's Loan A/c To Sanjay's Loan A/c (Being interest due on loan from Mr. Sanjay)	Dr.	5,000	5,000
Sanjay's Loan A/c To Bank A/c (Being payment of interest of Sanjay's Loan)	Dr.	5,000	5,000
Interest on Bank Loan A/c To Bank Loan A/c (Being interest due on bank loan)	Dr.	20,000	20,000
Bank Loan A/c To Bank A/c (Being payment of bank loan instalment)	Dr.	70,000	70,000
Ranjan's Drawings A/c Ramesh's Drawings A/c To Bank A/c (Being drawings made)	Dr. Dr.	12,000 12,000	24,000
Depreciation A/c To Computers A/c To Furniture & Fixtures A/c (Being depreciation on computers and furniture & fixtures written off)	Dr.	42,000	40,000 2,000

PURCHASES ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Bank	1,00,000		By Balance A/c	1,00,000
		<u>1,00,000</u>			<u>1,00,000</u>

SALES ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Balance c/d	3,00,000		By Bank	3,00,000
		<u>3,00,000</u>			<u>3,00,000</u>

TELEPHONE CHARGES ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Bank	6,000		By Balanced c/d	6,000
		<u>6,000</u>			<u>6,000</u>

ELECTRICITY CHARGES ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Bank	4,000		By Balanced c/d	4,000
		<u>4,000</u>			<u>4,000</u>

ENTERTAINMENT EXPENSES ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Bank	2,000		By Balanced c/d	2,000
		<u>2,000</u>			<u>2,000</u>

MAINTENANCE OF COMPUTER ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Bank	3,000		By Balanced c/d	3,000
		<u>3,000</u>			<u>3,000</u>

SALARIES ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Bank	12,000		By Balanced c/d	12,000
		<u>12,000</u>			<u>12,000</u>

PETTY EXPENSES ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Cash	3,000		By Balanced c/d	3,000
		<u>3,000</u>			<u>3,000</u>

NOTES

# NOTES

## RENT ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Bank	12,000		By Balanced c/d	12,000
		<u>12,000</u>			<u>12,000</u>

## BANK ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Cash A/c	1,35,000		By Furniture & Fixtures A/c	20,000
	To Bank Loan A/c	2,00,000		By Bank Loan	70,000
	To Students Fees A/c	30,000		By Computers A/c	2,00,000
	To Sales A/c	3,00,000		By Deposit with VSNL A/c	15,000
				By Deposit with Electricity Board A/c	2,000
				By Deposit with MTNL A/c	1,000
				By Purchases A/c	1,00,000
				By Telephone Charges A/c	6,000
				By Electricity Charges A/c	4,000
				By Entertainment A/c	2,000
				By Computer Maintenance A/c	3,000
				By Salaries A/c	12,000
				By Rent A/c	12,000
				By Sanjay's Loan A/c	5,000
				By Ranjan's Drawings A/c	12,000
				By Ramesh's Drawings A/c	12,000
				By Balanced c/d	1,89,000
		<u>6,65,000</u>			<u>6,65,000</u>

## DEPRECIATION ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Computers A/c	40,000		By Balanced c/d	42,000
	To Furniture & Fixture	2,000			
		<u>42,000</u>			<u>42,000</u>

COMPUTERS ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
	To Bank	Rs. 2,00,000		By Depreciation A/c	Rs. 40,000
				By Balanced c/d	1,60,000
		<u>2,00,000</u>			<u>2,00,000</u>

DEPOSIT WITH VSNL ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
	To Bank	Rs. 15,000		By Balanced c/d	Rs. 15,000
		<u>15,000</u>			<u>15,000</u>

DEPOSIT WITH ELECTRICITY BOARD ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
	To Bank	Rs. 2,000		By Balanced c/d	Rs. 2,000
		<u>2,000</u>			<u>2,000</u>

DEPOSIT WITH MTNL ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
	To Bank	Rs. 1,000		By Balanced c/d	Rs. 1,000
		<u>1,000</u>			<u>1,000</u>

STUDENT FEES ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
	To Bank	Rs. 30,000		By Bank	Rs. 30,000
		<u>30,000</u>			<u>30,000</u>

INTEREST ON SANJAY'S LOAN ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
	To Sanjay's Loan A/c	Rs. 5,000		By Balanced c/d	Rs. 5,000
		<u>5,000</u>			<u>5,000</u>

RANJAN'S DRAWINGS ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
	To Bank	Rs. 12,000		By Balanced c/d	Rs. 12,000
		<u>12,000</u>			<u>12,000</u>

NOTES

RAMESH'S DRAWINGS ACCOUNT

NOTES

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
	To Bank	12,000		By Balanced c/d	12,000
		<u>12,000</u>			<u>12,000</u>

Young Informatics

TRIAL BALANCE

(As on 31st December, 2002)

Particulars	Debit	Credit
	Rs.	Rs.
Bank A/c	1,89,000	
Cash A/c	2,000	
Ranjan's Capital A/c		20,000
Ramesh's Capital A/c		20,000
Sanjay's Loan A/c		1,00,000
Bank Loan A/c		1,50,000
Furniture & Fixture A/c	18,000	
Interest on Bank Loan A/c	20,000	
Depreciation A/c	42,000	
Computers A/c	1,60,000	
Deposit with VSNL A/c	15,000	
Deposit with Electricity Board A/c	2,000	
Deposit with MTNL A/c	1,000	
Student Fee A/c		30,000
Purchase A/c	1,00,000	
Sales A/c		3,00,000
Telephone Charges A/c	6,000	
Electricity Charges A/c	4,000	
Entertainment Expenses A/c	2,000	
Maintenance of Computers A/c	3,000	
Salary A/c	12,000	
Petty Expenses A/c	3,000	
Rent A/c	12,000	
Interest on Sanjay's Loan A/c	5,000	
Ranjan's Drawing A/c	12,000	
Ramesh's Drawings A/c	12,000	
Total	<u>6,20,000</u>	<u>6,20,000</u>

## 3.7 VOUCHER SYSTEM

In a small organisation, it is possible for the proprietor to supervise personally all important matters. However, in case of large organisations, delegation of authority is required and therefore, it is necessary to have a proper internal check system for prevention of errors and frauds in recording the transactions and receiving or making final cash payments. The chances of frauds in case of cash payments are all the more. It is almost impossible for the disbursing official to have all information regarding the goods and services in respect of which he is required to make payments. This is because even in case of organisations of moderate size, the responsibility for issuing purchase orders, inspecting commodities received, verifying contractual and arithmetical details of invoices is divided among the employees of the various departments. The disbursing official should have, therefore, assurance of all concerned officials before making payments that the terms of the contract have been complied with and he is paying the exact amount of obligation. This is possible only when all the activities mentioned above are properly coordinated and linked with ultimate issuance of cheques to the creditors. One of the most effective systems employed for this purpose is termed as Voucher System.

The Voucher System may therefore be defined as 'a plan and method of procedure for the verification, recording and payment of all items (other than items to be paid from petty cash) which require the disbursement of cash.' As a matter of fact, it is mainly a plan of internal check for all cash disbursement items. There are three basic requirements of the Voucher System:

- (a) A Voucher is to be prepared for each item of expenditure.
- (b) No payment shall be made without a properly verified and authorised voucher.
- (c) Development of a proper and efficient system for determining the amount to be paid on each day. This helps the disbursing official in determining the amount to be paid and the management in conveniently and continuously forecasting the amount of the cash required to meet maturing obligations.

The following documents are used in the Voucher System:

1. **Vouchers.** In general terms, a Voucher means a documentary evidence in support a business transaction. It is a documentary evidence by which the accuracy of an entry made in the books of account can be substantiated. It may be a receipt, a counterfoil of a receipt book, an invoice or even correspondence with the concerned parties. The term Voucher has a narrower meaning when applied to the Voucher System. It is a special form on which pertinent data about a liability and the particulars of its payments are recorded.

Vouchers are generally prepared by the accounting department on the basis of invoices or returns that serve as the evidence of expenditure. This is done after the following comparisons and verifications have been completed and noted on the invoices:

- (i) Comparison with the copy of Purchase Order to verify the quantities, prices and terms.
- (ii) Comparison with the Goods Received Returns to determine the receipt of items recorded in the invoices.
- (iii) Verification of the arithmetical accuracy of the invoices.

After making the above verifications and comparisons, the invoices or other supporting evidence is attached to the voucher and is presented to the concerned official for his final approval.

2. **Voucher Register.** The Voucher Register is a columnar journal giving the details about the Voucher Nos., and different items of expenses in respect of which payments have to be made. A pro forma of a Voucher Register is given later.

The Vouchers are recorded in a numerical sequence. The credit is given to the accounts payable while debit is given to the account or accounts to be charged for

## NOTES

### Check Your Progress

2. Fill in the blanks:
  - (a) The process of transferring the debit and credit items from a Journal to their respective accounts in the Ledger is termed as.....
  - (b) Journal is the book of.....entry, while Ledger is the book of.....entry.
  - (c) The word 'By' is used with an account while making posting on the.....side of an account.
  - (d) The technique of finding the net balance of an account after considering the totals of both debits and credits appearing in the account is known as.....
  - (e) The statement containing various ledger balances on a particular date is known as.....
  - (f) If the two sides of the trial balance tally, it is an indication of the fact that the books of accounts are.....accurate.



## NOTES

expenditure. On making payment, the date of payment and the no. of cheques are inserted in the appropriate columns in the Voucher Register. The objective of such a recording is to provide ready information about determining the amount of individual unpaid vouchers. The total outstanding liability on account of vouchers unpaid at a particular date can be found out by adding up the individual amount of the unpaid vouchers as shown in the Voucher Register.

3. **Unpaid Voucher File.** After the vouchers have been prepared and recorded in the Voucher Register, they are filed in an Unpaid Voucher File. They remain there till they are paid. The amount due on each Voucher represents the credit balance of an account payable. Each Voucher in itself is comparable to an individual account in the Creditors Ledger. Hence, no separate Creditors Ledger is necessary.

4. **Cheque Register.** The payment of a Voucher is recorded in a Cheque Register, the pro forma of which is given below:

VOUCHER REGISTER

Date	Payee	Voucher No.	Paid		Credit	Debit					
			Date	Cheque No.	Voucher Payable	Purchases	Wages	Salaries	Office Expenses	Selling Expenses	Sundries
1995					Rs	Rs	Rs	Rs	Rs	Rs	Rs
May 1	Mohan	501	May 5	430	250	250					
May 8	Kishan	502	—	—	300	300					
May 15	David	503	May 20	431	500	—	500				
					1,050	550	500				

CHEQUE REGISTER

Date	Cheque No.	Payee	Voucher No.	Accounts Payable Dr.	Discount Cr.	Bank Cr.
May 5	430	Mohan	501	250	10	240
May 15	431	David	503	500	5	495
				750	15	735

The Cheque Register is a modified form of Cash Payment Journal and it is so called because it is a complete record of all cheques issued. It is customary to record all cheques in a Cheque Register in the order of their sequence to avoid any mistake in their recording.

When a Voucher is to be paid, it is removed from the Unpaid Voucher File. On issue of a cheque, the date, the number of cheque and amount are listed on the back of the Voucher. This helps in recording the payments in the Cheque Register. The paid vouchers and the supporting documents are cancelled through a cancelling stamp to prevent their accidental or intentional reuse.

5. **Paid Voucher File.** After payments, vouchers are generally filed in numerical sequence in the Paid Voucher File. They are then readily available for examination by employees or independent auditors who may require information about a specific expenditure. The paid vouchers are finally destroyed in accordance with the firm's policy concerning the retention of records.

6. **Vouchers Payable Account.** The Vouchers Payable Account is similar to the Total Creditors Account. It is credited with the total amount payable on account of different vouchers and is debited with the amount of payments made. The balance of the Vouchers Payable account should agree with the total of the Unpaid Vouchers File and also with the sum of unpaid vouchers as shown in the Voucher Register. A pro forma of a Vouchers Payable Account is given below:

### VOUCHERS PAYABLE ACCOUNT

*Ledger Posting and Trial Balance*

<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount Rs</i>
1986 May 31	To Cheque Register	735	1986 May 31	By Voucher Register	1,050
	To Discount	15			
	To Balance c/d	300			
		<u>1,050</u>			<u>1,050</u>

### NOTES

#### Advantages of the Voucher System

The Voucher System offers the following advantages:

(i) *Safeguards cash disbursements.* Voucher System provides for a Systematic plan for the verification and approval of all invoices, bills and other items requiring disbursement of cash. Thus, it safeguards all cash disbursements.

(ii) *Reduces bookkeeping work.* Voucher System considerably reduces the book-keeping work. The voucher itself works as an account of the creditor and total amount due to the creditors can be found out with the help of the Unpaid Vouchers File.

(iii) *Recording of all current liabilities.* The Voucher System provides for the immediate recording of all current liabilities. It is generally found in case of firms which do not use the Voucher System and fail to record bills for items such services and expenses till they are actually paid. As a matter of fact, it is desirable to show all liabilities in the books of the business from the time they are incurred.

(iv) *Strengthening of internal check system.* The placing of responsibilities for verification and approvals strengthens the system of internal check.

(v) *Planning future cash requirements.* Voucher System provides continuous information for planning the future cash requirements. This enables the management to make maximum use of cash resources. Invoices in respect of which cash discounts are allowed can be paid within the discount period. Other invoices can be paid in accordance with the credit items. This helps in minimising cost and maintaining a favourable credit standard. Moreover, seasonal borrowings for working capital can also be planned more effectively, resulting in saving interest cost.

#### Limitations of the Voucher System

Voucher System has the following limitations:

(i) *Unsuitable for small concerns.* Voucher System is neither suitable nor necessary for small business enterprises, particularly those with a high degree of proprietary supervision and control.

(ii) *Proper personnel and finances required.* Voucher System requires sufficient personnel as well as finances for its successful operation. It will be a cumbersome exercise especially for an enterprise which is not well organised. If an enterprise which uses Voucher System does not have sufficient cash and is not in a position to pay the approved vouchers according to schedule, it may develop an unwieldy file of approved unpaid vouchers.

(iii) *Fails to provide overall creditor's account position.* The system does not provide for giving an overall position of a creditor's account.

(iv) *Difficulties in case of partial payments, returns etc.* The system proves a hindrance rather than a help in case of concerns which have many returns of goods and other corrections after approving and recording of purchase invoices. Such concerns have to make many partial payments of approved vouchers. In some cases, they have to defer payments too.

From the above, it may be concluded that Voucher System is suitable only for an enterprise which is well equipped both in respect of personnel and finances. It is not suitable for small concerns. Moreover, suitable modifications may have also to be made in the operation of the system as to meet the specific needs of a particular enterprise.

#### Check Your Progress

3. State the difference between journal and ledger.
4. Furniture Account will indicate a ..... balance.

## NOTES

### 3.8 KEY TERMS

- **Ledger:** A book containing different accounts of an entity.
- **Posting:** Transferring the debit and credit items from the Journal to the respective accounts in the Ledger.
- **Trial Balance:** A statement containing the various ledger balances on a particular date.
- **Voucher System:** A plan and method of procedure for the verifications, recording and payment of all items (other than items to be paid from petty cash) which require disbursement of cash.

### 3.9 SUMMARY

In this unit, you have learned that:

- Ledger posting involves clarification of recorded transactions under appropriate accounting heading.
- Trial Balance is a summary of various ledger balances. It helps in checking arithmetical accuracy of the accounting entries.
- Voucher system ensures that no payment, except that from petty cash is made without a properly made and authorized voucher.
- Voucher system reduces the possibility of unauthorized payments by strengthening the internal check system.

### 3.10 ANSWERS TO 'CHECK YOUR PROGRESS'

1. (a) F, (b) T, (c) F, (d) T, (e) T, (f) F, (g) T, (h) T
2. (a) posting, (b) first, second, (c) credit, (d) balancing of an account, (e) trial balance, (f) arithmetically
3. (a) Journal is the book of first or original entry while the ledger is the book of second entry.  
(b) A journal records transactions in chronological order while the ledger records transactions in an analytical order.  
(c) The journal is more reliable as compared to the ledger.  
(d) The process of recording transactions is termed as "Journalizing" while the process of recording transactions in the ledger is called "posting".
4. Debit.

### 3.11 QUESTIONS AND EXERCISES

1. Explain the rules regarding posting of transactions into the Ledger.
2. What is a trial balance? Explain its objectives.

### 3.12 PRACTICAL PROBLEMS

1. Journalise the following transaction and post them into the Ledger.

		Rs
1999		
Jan. 1	Surendra started business with cash	5,000
Jan. 2	Goods purchased from Prasad on credit	200
Jan. 3	Goods sold to Prem	500
Jan. 4	Good purchased from Sohan for cash	400
Jan. 5	Paid for wages	50
Jan. 15	Goods purchased from Prem	100
Jan. 17	Goods sold to Om	50
Jan. 21	Goods purchased from Charanjit	300

### Ledger Posting and Trial Balance

## NOTES

		By Cash	<u>1,500</u>	
--	--	---------	--------------	--

To A	<u>2,000</u>		
------	--------------	--	--

To Bank	<u>20</u>		
---------	-----------	--	--

To Cash	<u>1,200</u>		
---------	--------------	--	--

To Cash	20,000		
To Manohar	40,000		

		By Cash	54,000	
		By Naresh	37,000	

1999

4. On 1st January, 1999, the following were the ledger balances of Rajan & Co.: Cash in hand Rs 900; Cash at Bank Rs 21,000; Soni (Cr.) Rs 3,000; Zahir (Dr.) Rs 2,400; Stock Rs 12,000; Prasad (Cr.) Rs 6,000, Sharma (Dr.) Rs 4,500; Lall (Cr.) Rs 2,700; Ascertain Capital. Transactions during the month were:

## NOTES

	1999		Rs
Jan.	2	Bought goods of Prasad	2,700
Jan.	3	Sold to Sharma	3,000
Jan.	5	Bought goods of Lall for cash, paid by cheque	3,600
Jan.	7	Took goods for personal use	200
Jan.	13	Received from Zahir in full settlement	2,350
Jan.	17	Paid to Soni in full settlement	2,920
Jan.	22	Paid cash for stationery	50
Jan.	29	Paid to Prasad by cheque	2,650
		Discount allowed by him	50
Jan.	30	Provided interest on capital	100
		Rent due to landlord	200

Journalise the above transactions and post to the ledger and prepare a Trial Balance.

5. Journalise the following transactions, post them in the ledger and prepare a Trial Balance:

January 1, 1999

*Assets:* Furniture Rs 5,000; Machinery Rs 10,000; Stock Rs 4,000; Cash in hand Rs 550; Cash at bank Rs 7,450; Amount due from Ramesh & Co. Rs 1,000 and amount due from Suresh Rs 2,000.

*Liabilities:* Amount due to Rama Rs 4,500; Amount due to Ranjeet Rs 2,000; and amount due to Shyam Rs 1,500.

	1999		Rs
Jan.	1	Purchased goods from Ajay	4,500
Jan.	3	Sold goods for cash	1,500
Jan.	5	Paid to Himanshu by cheque	5,500
Jan.	10	Deposited in bank	2,800
Jan.	13	Sold goods on credit to Mukesh	1,700
Jan.	15	Paid for postage	100
Jan.	16	Received cash from Rakesh	2,200
Jan.	17	Paid telephone charges	250
Jan.	18	Cash sales	1,500
Jan.	20	Purchased Govt. Securities	500
Jan.	22	Purchased goods worth Rs 1,600 less 20% trade discount and 5% cash discount from Mahesh and Co. for cash and supplied them to Ramesh and Co. at list price less trade discount <sup>1</sup>	
Jan.	25	Cash purchases	16,500
Jan.	27	Goods worth Rs 500 were damaged in transit; a claim was made on the railway authorities for the same <sup>2</sup>	
Jan.	28	Suresh is declared insolvent and a dividend of 50 paise in the rupee is received from him in full settlement	
Jan.	28	Bought a horse for Rs 2,600 and a carriage for Rs 1,200 for delivering goods to customers. Paid by cheque	
Jan.	30	The horse bought on Jan. 29, dies and the carriage was sold for Rs 1,000	
Jan.	31	Allowed interest on capital @ 10% p.a. for one month	
Jan.	31	Paid for: Salaries Rs 150, Rent Rs 60	

### 3.13 FURTHER READING

1. Maheshwari, S.N. and S.K. Maheshwari, *An Introduction to Accountancy*.
2. Maheshwari, S.N. and S.K. Maheshwari, *A Text Book for Accounting for Management*.

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